A World Bank Group Flagship Report

WORLD BANK GROUP · 15TH YEAR · DOING BUSINESS ·

Doing Business 2018

Reforming to Create Jobs

WORLD BANK GROUP

Comparing Business Regulation for Domestic Firms in 190 Economies

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15TH EDITION

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Doing Business 2018

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- *Doing Business 2018* is the 15th in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulation and the protection of property rights that can be compared across 190 economies—from Afghanistan to Zimbabwe—and over time.
- *Doing Business* measures aspects of regulation affecting 11 areas of the life of a business. Ten of these areas are included in this year's ranking on the ease of doing business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also measures features of labor market regulation, which is not included in this year's ranking.
- Data in *Doing Business 2018* are current as of June 1, 2017. The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why.

Foreword

In its 14 years of publication, *Doing Business* has come a long way. At a recent international forum, I heard the leaders of India and the Russian Federation talking about how important it is for their countries to improve their *Doing Business* rankings and create more jobs for young workers.

When the first edition was published in September 2003, little data was available on regulation affecting business activity. *Doing Business* created a new approach to policy reform—one informed by hard data and focused on domestic companies. The objectives of *Doing Business* are as clear as they are ambitious: to inform the design of reforms and motivate these reforms through country benchmarking. Behind each set of indicators lies rigorous academic analysis, done in cooperation with leading scholars. For example, the indicators on efficient insolvency systems were created with the help of Professor Oliver Hart from Harvard University, the 2016 Nobel Prize winner in economics.[1] In the years since the start of the project, over 3,000 peer-reviewed academic papers and another 7,000 working papers have been written using the *Doing Business* data. Their findings improve our knowledge of how economic policy works.

Since its inception—when *Doing Business* covered 145 economies—the scope of the report has expanded to 190 economies worldwide. The regulatory areas measured by the report have also been expanded to include more aspects that are relevant to the daily operations of domestic small and medium-size firms. For eight of the 11 *Doing Business* indicator sets, the report's traditional focus on efficiency—defined as the time, cost and number of interactions necessary to incorporate a new business or connect a warehouse to the electrical grid—has been complemented with a new focus on regulatory quality. *Doing Business* data shows that efficiency and quality go hand in hand, reinforcing each other.

Despite these additions and improvements, one aspect of *Doing Business* has remained unchanged: its focus on promoting regulatory reform that strengthens the ability of the private sector to create jobs, lift people out of poverty and create more opportunities for the economy to prosper. The notion that the private sector has substantial economic, social and development impact is now universally recognized. Responsible for an estimated 90% of employment in developing economies, the private sector

1. Djankov and others 2008.

is ideally placed to alleviate poverty by providing the opportunities to secure a good and sustainable standard of living.

Policy reforms catalyze private investment. Promoting a well-functioning private sector is a major undertaking for any government. It requires long-term policies of removing administrative barriers and strengthening laws that promote entrepreneurship.

Hard data helps do that. It gives a voice to the people to demand improved public services. It also increases government accountability. Over the past decade, more than 60 economies have established regulatory reform committees that use the *Doing Business* indicators. As a result, governments have reported more than 3,180 regulatory reforms, including about 920 reforms that have been inspired by *Doing Business*. This is true impact.

Kristalina Georgieva
Chief Executive Officer
The World Bank
Washington, DC

Overview

This year marks the 15th *Doing Business* report. Since the inception of the project in 2003, the global business regulatory environment has changed dramatically. Governments around the world have embraced and nurtured advances in information technology to reduce bureaucratic hurdles and increase transparency. Today, in 65 of the 190 economies covered by *Doing Business*, entrepreneurs can complete at least one business incorporation procedure online, compared with only nine of the 145 economies measured in *Doing Business 2004*. Furthermore, in 31 economies it is now possible to initiate a commercial dispute online. This kind of progress can also be observed in the other areas measured by *Doing Business*.

Doing Business measures aspects of business regulation and their implications for firm establishment and operations. It does not include all the issues that are relevant for businesses' decisions, but it does cover important areas that are under the control of policy makers. Governments worldwide recognize the economic and political benefits of improved business regulation. In fact, 119 of the 190 economies measured by *Doing Business 2018* enacted at least one business regulation reform in 2016/17. Of these, 79.8% implemented at least one reform for a second consecutive year and 64.7% for a third.

Business regulation can enable new ideas to come to life. When a software engineer realizes that she can develop a better and less-expensive product than is currently available, she may choose to start her own company to develop the idea. She will be more likely to become an entrepreneur in an economy where the rules governing start-ups are accessible, transparent and predictable. Conversely, in an economy where business regulation is cumbersome or ambiguous, she may be less willing to start her own company. In this case, the economy forfeits a new entrepreneur—as well as the associated capital investment and job creation. In turn, consumers have fewer, lower quality and more expensive product choices. Such a scenario highlights the way in which cumbersome regulation can distort resource allocation by stifling entrepreneurial endeavors in favor of maintaining a less optimal status quo.

Consider the case of the potential software entrepreneur. If she were a national of Canada, it would take just two procedures, one and a half days and less than 1% of income per capita to start her business in Toronto. First, she would need to file for federal incorporation and provincial registration online via Industry Canada's Electronic Filing Centre; this costs 200 Canadian dollars ($159) and is completed within a day. Second, she would need to

- *Doing Business* uses 11 indicator sets to measure aspects of business regulation that matter for entrepreneurship.
- Although good regulatory practices can be found around the world, they are most common in OECD high-income economies and the economies of Europe and Central Asia.
- Sub-Saharan Africa has the widest variation in performance among the areas measured by *Doing Business*, with Mauritius standing at 25 in the ranking and Somalia at 190.
- South Asia is the only region not represented in the top 50 ranking for ease of doing business. However, India stands out this year as one of the 10 economies that improved the most in the areas measured by *Doing Business*.
- The regions with the highest share of reforming economies in *Doing Business 2018* are Europe and Central Asia, South Asia and Sub-Saharan Africa.
- Crises are opportunities for reform; economies are more likely to implement regulatory reforms in the areas measured by *Doing Business* when there is fiscal distress. Evidence shows that an economic crisis creates a stronger motivation for reform than a change of government.
- Better performance in *Doing Business* is associated with lower levels of unemployment and poverty.

register online for value added tax; this costs nothing and is completed within half a day. She can perform these steps online from the comfort of her home. As her business expands and becomes profitable, she would be expected to pay 20.9% of her commercial profits in taxes and contributions annually. However, if the same entrepreneur were a national of the Philippines, living in Quezon City, the business incorporation process would require 16 procedures, take 28 days and cost around 16% of income per capita. She would need to make 20 different tax and contribution payments and visit multiple agencies in person. Furthermore, her business would be expected to pay 42.9% of its commercial profits in taxes and contributions annually. Cumbersome business regulatory structures such as these constrain the ability of entrepreneurs to transform their ideas into viable businesses.

Doing Business measures the processes for starting a business, obtaining a building permit, getting an electricity connection, transferring property, paying taxes, taking a commercial dispute to court, and resolving an insolvency case, as well as credit and equity market regulations and logistics of importing and exporting goods (figure 1.1). There are many other factors that influence firm decisions—such as the availability of skilled labor or market size—that are not captured in *Doing Business*. But *Doing Business* focuses on key areas of interaction between the government and entrepreneurs, where policy makers and regulators can directly influence procedures to facilitate these interactions. For more information on what is measured and what is not, see the chapter About *Doing Business*.

WHAT ARE THE BENEFITS OF IMPROVED BUSINESS REGULATION?

The 11 *Doing Business* indicator sets capture the effectiveness and quality of business regulation. Research findings substantiate the economic relevance of the aspects of business regulation measured by *Doing Business*. Recent research, for example, examines the impact of improving business regulation. One study finds that high start-up costs can result in lower overall productivity. Specifically, incumbent firms are more likely to continue operating despite poor productivity because there is little competition from new, more productive firms. In the absence of effective regulation, firms are also less inclined to leave the informal sector.[1]

In addition, *Doing Business* measures the coverage, scope and quality of credit information available from credit registries and bureaus. When functioning well, these institutions form an essential element of an economy's financial infrastructure by strengthening access to financial services, particularly credit. By collecting and sharing credit information, such agencies reduce information asymmetries, increase access to credit for small firms, lower interest rates, improve borrower discipline and strengthen bank supervision and credit risk monitoring. Indeed, a study of a credit bureau serving the equipment finance industry in the United States found that better exchange of information between lenders results in improved repayment behavior by firms, including lower incidences of delinquencies and defaults. This impact was stronger for firms that typically lack

FIGURE 1.1 What is measured in *Doing Business*?

Source: Doing Business database.
Note: Labor market regulation is not included in the ease of doing business ranking.

informational transparency, such as small and young firms.[2]

Doing Business places emphasis on the quality of legal infrastructure and the strength of legal institutions. The protecting minority investors indicator set, for example, measures the protection of minority shareholders. For businesses to secure equity finance, legal mechanisms are needed to prevent the use of corporate assets by company insiders for personal gain—especially during financial crises or times of market distress. Research has shown that during the 2008 global financial crisis, for example, companies in economies with better investor protections and stronger corporate governance experienced a smaller decrease in their market value. Conversely, firms in economies with weak legal structures saw a more significant decline in value.[3]

The *Doing Business* indicators on resolving insolvency provide evidence of a strong relationship between regulatory quality and efficient outcomes. The indicator set measures the quality of regulation as the recovery rate for secured creditors and the extent to which domestic law has incorporated certain internationally-accepted principles on liquidation and reorganization proceedings. Efficient outcomes occur when viable businesses are given a chance to survive, while loss-prone, inefficient firms exit the market, putting resources to better use elsewhere in the economy. In the absence of strong legal bankruptcy legislation, however, the balance between firm survival and efficient exit is distorted. This distortion was highlighted by research using data from Hungary, where the majority of firms in bankruptcy were preserved and allowed to continue operating as going concerns—despite generating substantial operating losses and resulting in low recovery rates for creditors. The main cause of this distortion was the inadequate allocation of control rights between secured and unsecured creditors, which decreased the recovery value by not allowing creditors to take important decisions related to the company assets during insolvency procedures. Another cause was the establishment of a compensation scheme for agents managing bankruptcy proceedings based on assets sold and operating revenues of a firm, which created a significant increase in the cost of bankruptcy procedures and reduced creditors' recovery rate.[4]

In the area of cross-border trade, *Doing Business* measures the effectiveness of trade logistics. Several studies have underscored the importance of port automation and efficiency for both trade facilitation and regional economic development. These studies have found that ports that are more automated require less maintenance, are more cost-effective and ensure better worker safety. Furthermore, a study of the determinants of shipping costs from Latin America to the United States found that—for most exporting economies—high transportation costs pose even greater barriers to trade than import tariffs, and that port inefficiencies significantly add to these costs. One of the most striking findings is that by improving port efficiency from the 25th to the 75th percentile, shipping costs are lowered by 12%, substantially increasing the volume of bilateral trade.[5] One of the principal causes of port inefficiency is excessive regulation—precisely what *Doing Business* advocates to curb.

WHERE IS BUSINESS REGULATION BETTER?

The overall measure of the ease of doing business gives an indication of where it is easier for domestic small and medium-size firms to do business. Although the economies with the most business-friendly regulation in this year's ease of doing business ranking are relatively diverse, the economies within the top 20 share some common features. Fourteen of the top 20 are OECD high-income economies; three are from Europe and Central Asia and three from East Asia and the Pacific. Eighteen of the top 20 are classified as high-income economies. The top 5 performers are New Zealand, Singapore, Denmark, the Republic of Korea and Hong Kong SAR, China. The former Yugoslav Republic of Macedonia is the only upper-middle-income economy on the list, while Georgia is the only lower-middle-income one (table 1.1). To date, no low-income economy has reached the top 20 group. However, being wealthy does not guarantee a front-runner position in the ease of doing business ranking; many high-income economies still have room for progress. Having few bureaucratic hurdles, robust legal institutions and laws and regulations that are based on international good practices is what matters most for a good performance in the ease of doing business ranking.

Among the top 20 economies, Georgia, with a ranking of 9, has implemented the highest number of business regulation reforms since the launch of *Doing Business* in 2003—a total of 47. With 41, FYR Macedonia has carried out the second highest number of reforms among the top 20. During the same period, Latvia and Lithuania have also actively reformed their business regulatory environments, with 28 and 31 reforms respectively. Among other reforms, Lithuania has made six reforms to its business incorporation processes, five reforms to bankruptcy proceedings and four reforms to its taxation system. Many other top-ranked economies have followed this pattern of continuous reform, demonstrating that comprehensive reform efforts can lead to considerable improvements in an economy's regulatory and business environment. Another feature that the top 20 economies have in common—albeit not measured by *Doing Business*—is that on average they have higher labor force participation rates and lower levels of income inequality. Indeed, the average Gini coefficient[6] of the top 20 economies is 0.3 (with 0 representing perfect equality and 1 representing perfect inequality), compared to 0.4 for the lowest 20.[7]

TABLE 1.1 Ease of doing business ranking

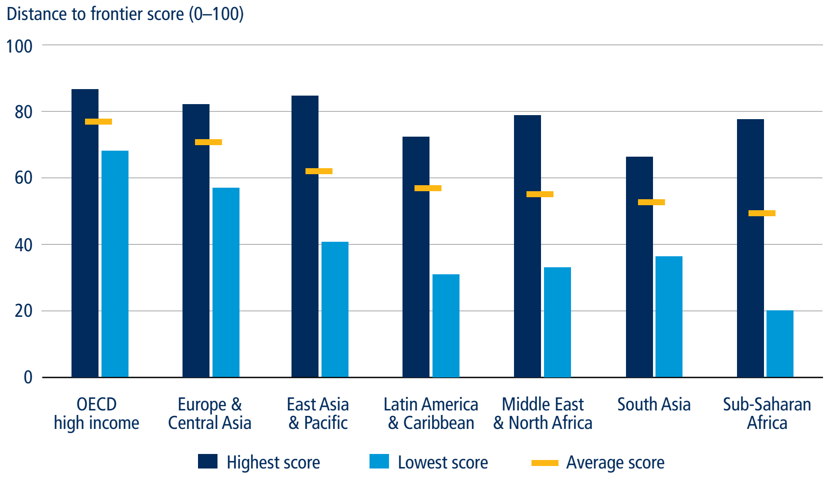
DB 2018 Rank	Economy	DTF score	DTF change	DB 2018 Rank	Economy	DTF score	DTF change	DB 2018 Rank	Economy	DTF score	DTF change
1	New Zealand	86.55	-0.18	65	Albania	68.70	+ 0.96	129	St. Vincent and the Grenadines	55.72	+0.01
2	Singapore	84.57	+0.04	66	Bahrain	68.13	+0.01	130	Palau	55.58	+0.46
3	Denmark	84.06	-0.01	67	Greece	68.02	+0.01	131	Nicaragua	55.39	+0.09
4	Korea, Rep.	83.92	0.00	68	Vietnam	67.93	+2.85	132	Barbados	55.20	-0.09
5	Hong Kong SAR, China	83.44	+0.29	69	Morocco	67.91	-0.03	133	Lebanon	54.67	-0.10
6	United States	82.54	-0.01	70	Jamaica	67.27	+0.57	134	St. Kitts and Nevis	54.52	+0.18
7	United Kingdom	82.22	-0.12	71	Oman	67.20	+0.08	135	Cambodia	54.47	+0.23
8	Norway	82.16	-0.25	72	Indonesia	66.47	+2.25	136	Maldives	54.42	+0.64
9	Georgia	82.04	+2.12	73	El Salvador	66.42	+3.54	137	Tanzania	54.04	+0.11
10	Sweden	81.27	+0.03	74	Uzbekistan	66.33	+4.46	138	Mozambique	54.00	+0.97
11	Macedonia, FYR	81.18	-0.21	75	Bhutan	66.27	+1.06	139	Côte d'Ivoire	53.71	+2.04
12	Estonia	80.80	+0.05	76	Ukraine	65.75	+1.90	140	Senegal	53.06	+3.75
13	Finland	80.37	-0.11	77	Kyrgyz Republic	65.70	+0.54	141	Lao PDR	53.01	+0.43
14	Australia	80.14	0.00	78	China	65.29	+0.40	142	Grenada	52.94	-0.11
15	Taiwan, China	80.07	+0.41	79	Panama	65.27	+1.25	143	Mali	52.92	+0.30
16	Lithuania	79.87	+1.05	80	Kenya	65.15	+2.59	144	Niger	52.34	+2.26
17	Ireland	79.51	-0.19	81	Botswana	64.94	+0.07	145	Nigeria	52.03	+3.85
18	Canada	79.29	-0.09	82	South Africa	64.89	-0.08	146	Gambia, The	51.92	-0.01
19	Latvia	79.26	-0.79	83	Qatar	64.86	+0.61	147	Pakistan	51.65	+0.71
20	Germany	79.00	-0.19	84	Malta	64.72	+0.43	148	Burkina Faso	51.54	+0.20
21	United Arab Emirates	78.73	+1.87	85	Zambia	64.50	+3.92	149	Marshall Islands	51.45	+0.03
22	Austria	78.54	-0.15	86	Bosnia and Herzegovina	64.20	+0.42	150	Mauritania	50.88	+1.56
23	Iceland	78.50	+0.01	87	Samoa	63.89	+2.06	151	Benin	50.47	+1.85
24	Malaysia	78.43	+0.96	88	Tunisia	63.58	-0.20	152	Bolivia	50.18	+0.32
25	Mauritius	77.54	+2.09	89	Tonga	63.43	+0.50	153	Guinea	49.80	+0.32
26	Thailand	77.44	+5.68	90	Vanuatu	63.08	+0.02	154	Djibouti	49.58	+3.99
27	Poland	77.30	+0.18	91	St. Lucia	62.88	+0.01	155	Micronesia, Fed. Sts.	48.99	+0.01
28	Spain	77.02	0.00	92	Saudi Arabia	62.50	+2.92	156	Togo	48.88	+0.64
29	Portugal	76.84	-0.14	93	San Marino	62.47	-0.03	157	Kiribati	48.74	-0.31
30	Czech Republic	76.27	+0.03	94	Uruguay	61.99	+0.35	158	Comoros	48.52	+0.47
31	France	76.13	-0.06	95	Seychelles	61.41	+1.01	159	Zimbabwe	48.47	+0.80
32	Netherlands	76.03	+0.51	96	Kuwait	61.23	+1.52	160	Sierra Leone	48.18	-0.06
33	Switzerland	75.92	+0.19	97	Guatemala	61.18	-0.43	161	Ethiopia	47.77	+2.08
34	Japan	75.68	+0.07	98	Dominica	60.96	+0.34	162	Madagascar	47.67	+3.05
35	Russian Federation	75.50	+0.81	99	Dominican Republic	60.93	+2.52	163	Cameroon	47.23	+2.18
36	Kazakhstan	75.44	+1.06	100	India	60.76	+4.71	164	Burundi	46.92	+0.06
37	Slovenia	75.42	+0.99	101	Fiji	60.74	+0.04	165	Suriname	46.87	+0.11
38	Belarus	75.06	+0.55	102	Trinidad and Tobago	60.68	-0.19	166	Algeria	46.71	-0.01
39	Slovak Republic	74.90	-0.25	103	Jordan	60.58	+2.38	167	Gabon	46.19	+1.33
40	Kosovo	73.49	+4.98	104	Lesotho	60.42	+0.54	168	Iraq	44.87	+0.48
41	Rwanda	73.40	+3.21	105	Nepal	59.95	+2.35	169	São Tomé and Príncipe	44.84	+0.39
42	Montenegro	73.18	+1.64	106	Namibia	59.94	+0.54	170	Sudan	44.46	+0.17
43	Serbia	73.13	+0.26	107	Antigua and Barbuda	59.63	+0.98	171	Myanmar	44.21	+0.30
44	Moldova	73.00	+0.20	108	Paraguay	59.18	+0.06	172	Liberia	43.55	+3.10
45	Romania	72.87	+0.17	109	Papua New Guinea	59.04	+0.17	173	Equatorial Guinea	41.66	+1.77
46	Italy	72.70	+1.15	110	Malawi	58.94	+6.33	174	Syrian Arab Republic	41.55	+0.08
47	Armenia	72.51	+0.59	111	Sri Lanka	58.86	+0.13	175	Angola	41.49	+1.38
48	Hungary	72.39	+0.26	112	Swaziland	58.82	+0.25	176	Guinea-Bissau	41.45	+0.23
49	Mexico	72.27	+0.18	113	Philippines	58.74	+0.42	177	Bangladesh	40.99	+0.15
50	Bulgaria	71.91	+0.10	114	West Bank and Gaza	58.68	+3.80	178	Timor-Leste	40.62	-0.07
51	Croatia	71.70	+0.05	115	Honduras	58.46	-0.07	179	Congo, Rep.	39.57	-0.52
52	Belgium	71.69	-0.23	116	Solomon Islands	58.13	-0.01	180	Chad	38.30	-0.28
53	Cyprus	71.63	-0.49	117	Argentina	58.11	+0.07	181	Haiti	38.24	+0.01
54	Israel	71.42	+0.05	118	Ecuador	57.83	-0.01	182	Congo, Dem. Rep.	37.65	+0.22
55	Chile	71.22	+0.37	119	Bahamas, The	57.47	+0.82	183	Afghanistan	36.19	-1.80
56	Brunei Darussalam	70.60	+5.83	120	Ghana	57.24	+0.34	184	Central African Republic	34.86	+0.78
57	Azerbaijan	70.19	+3.12	121	Belize	57.11	+0.03	185	Libya	33.21	+0.03
58	Peru	69.45	+0.01	122	Uganda	56.94	+0.42	186	Yemen, Rep.	33.00	+0.06
59	Colombia	69.41	-0.11	123	Tajikistan	56.86	+0.93	187	South Sudan	32.86	-0.33
60	Turkey	69.14	+1.16	124	Iran, Islamic Rep.	56.48	+0.26	188	Venezuela, RB	30.87	-0.79
61	Costa Rica	69.13	+1.23	125	Brazil	56.45	+0.38	189	Eritrea	22.87	+0.42
62	Mongolia	69.03	+1.27	126	Guyana	56.28	+0.39	190	Somalia	19.98	-0.31
63	Luxembourg	69.01	+0.35	127	Cabo Verde	56.24	+0.42				
64	Puerto Rico (U.S.)	68.85	+0.05	128	Egypt, Arab Rep.	56.22	+0.10				

Source: Doing Business database.

Note: The DB 2018 rankings are benchmarked to June 2017 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in the aggregate ranking. For the economies for which the data cover two cities, scores are a population-weighted average for the two cities. A positive change indicates an improvement in the score between 2016 and 2017 (and therefore an improvement in the overall business environment as measured by Doing Business), while a negative change indicates a deterioration and 0.00 indicates no change in the score.

What can the *Doing Business 2018* data tell us about global patterns? Good regulatory practices are present in almost all of the world's regions. Aside from 28 OECD high-income economies, the 50 highest-ranked economies include 13 from Europe and Central Asia, five from East Asia and the Pacific, two from Sub-Saharan Africa and one each from the regions of Latin America and the Caribbean and the Middle East and North Africa. Each region also has a relatively wide spectrum of strong and weak performers. Economies are ranked based on the distance to frontier score. This measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the *Doing Business* sample (box 1.1). In OECD high-income economies, for example, New Zealand, Denmark and Korea have the highest overall distance to frontier scores at 86.55, 84.06 and 83.92, respectively. Conversely, Greece, Luxembourg and Chile have the lowest scores in this group, at 68.02, 69.01 and 71.22. However, the OECD high-income group has the smallest gap between the highest and the lowest scores, of only 18.53 percentage points (figure 1.2). Sub-Saharan Africa has the widest gap (57.56 percentage points), with a regional average score of only 50.43—the lowest across all regions. Among the economies of Sub-Saharan Africa, Mauritius has the highest distance to frontier score (77.54), while Somalia the lowest (19.98).

FIGURE 1.2 Where it is easier to do business and where it is more difficult



Source: Doing Business database.

Regional rankings across different *Doing Business* indicator sets also show large variations. South Asia, for example—the only region not represented in the top 50 list—scores comparatively well for starting a business, with an average distance to frontier score of 83.27. In contrast, South Asia's regional average score for resolving insolvency is only 33.04. Indeed, *Doing Business* data show considerable variation in performance between economies within the same region and within the same regulatory area. Within South Asia, India has the highest score (80) for protecting minority investors compared to Afghanistan's score of 10. Similarly, there is a substantial difference in scores between economies in the Middle East and North Africa region. Malta, for example, has a distance to frontier score for trading across borders of 91.01, while Algeria only scores 24.15. Interestingly, all regions have at least one economy in the top 20 ranking on the protecting minority investors indicators and all regions—except the OECD high-income group—have at least one economy in the bottom 20 ranking on the protecting minority investors indicators. These patterns indicate that there is further room for improvement across all regions and at all income levels.

BOX 1.1 What is the distance to frontier score?

Doing Business measures many different dimensions of business regulation. To combine measures with different units such as the number of days to obtain a construction permit and the number of procedures to start a business into a single score, *Doing Business* computes the distance to frontier score. The distance to frontier score captures the gap between an economy's current performance and the best practice across the entire sample of 41 indicators across 10 *Doing Business* indicator sets. For example, according to the *Doing Business* database across all economies and over time, the least time to start a business is 0.5 days while in the worst 5% of cases it takes more than 100 days to incorporate a company. Half a day is, therefore, considered the frontier of best performance, while 100 days is the worst. Higher distance to frontier scores show absolute better ease of doing business (as the frontier is set at 100 percentage points), while lower scores show absolute poorer ease of doing business (the worst performance is set at 0 percentage points). The percentage point distance to frontier scores of an economy on different indicators are averaged to obtain an overall distance to frontier score. For more details, see the chapter on the distance to frontier and ease of doing business ranking.

WHICH ECONOMIES IMPROVED THE MOST IN *DOING BUSINESS 2018*?

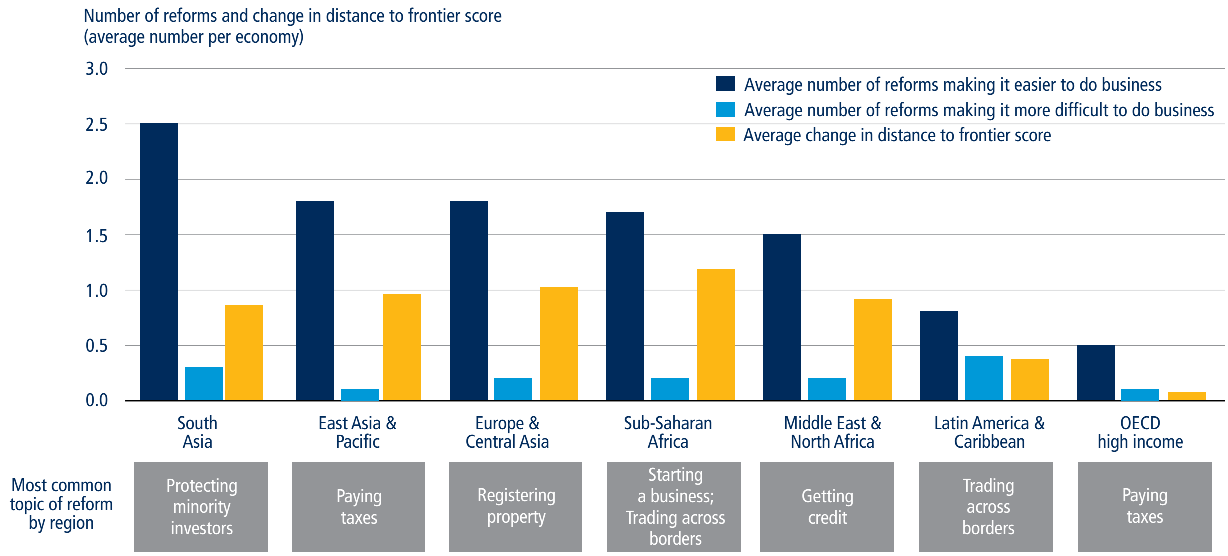
Doing Business 2018 captures 264 business regulation reforms across the 10 measured indicator sets. As in previous years, Sub-Saharan Africa is the region with the highest number of reforms (83 in total), followed by East Asia and the Pacific (45) and Europe and Central Asia (44). The regions with the highest share of reforming economies are Europe and Central Asia (79%), South Asia (75%) and Sub-Saharan Africa (79%), while the OECD high-income group has the lowest share (46%). The indicator sets for starting a business and getting credit record the highest number of reforms (38 each) in 2016/17. They are closely followed by the trading across borders indicator set with 33 reforms. The least-reformed areas as captured by *Doing Business* continue to be the indicators with a legal focus—for example, resolving insolvency (13 reforms) and enforcing contracts (20). Legal reforms are typically slow to advance, mainly because they require long-term political commitments, substantial resources and close collaboration between multiple regulatory agencies and rulemaking institutions.

It is important to look at both the number of reforms and their impact on the distance to frontier score because they provide different information. The number of reforms indicates *how many* areas an economy chose to target for improvement, while the change in the distance to frontier score indicates *the size* of the impact those changes had on the *Doing Business* data. Across all economies, the average distance to frontier score increase is 0.76 percentage points, with the highest regional increase in Sub-Saharan Africa (1.18), although this region does not have the highest percentage of economies implementing at least one business regulatory reform. Nevertheless, there is a strong correlation between the number of reforms and the actual improvement in the distance to frontier score.[8] *Doing Business* data show that it has become easier for small and medium-size enterprises to do business in 62.6% of economies worldwide (or 119 of the 190 economies measured by *Doing Business*).

While economies in the Sub-Saharan Africa region show the highest average increase in the distance to frontier score, economies in the OECD high-income group have the lowest average increase (0.11 percentage points). This is not surprising as most OECD high-income economies are already near to global good practices. The *Doing Business* indicator sets capturing the most business regulation reforms across regions in 2016/17 are paying taxes and trading across borders. Indeed, the reform agendas of OECD high-income and East Asia and the Pacific economies appear to be dominated by regulatory changes captured by the paying taxes indicator set (figure 1.3). Lower-middle-income economies have the highest average reform count at 1.9 reforms each; low-income economies are second highest at 1.3 reforms. Unsurprisingly, high-income economies recorded the lowest average reform count (1).

Of the 10 economies showing the most improvement in performance on the *Doing Business* indicators, three are from Sub-Saharan Africa, two from East Asia and the Pacific, two from Europe and Central Asia, one from Latin America and the Caribbean, one from the Middle East and North Africa and one from South Asia. Brunei Darussalam, the only high-income economy on the list of top 10 improvers, showed the largest advance toward the global good practice frontier after implementing eight reforms in 2016/17; it joins this list for the second year in a

FIGURE 1.3 The average number of reforms per economy is highest in South Asia but the average impact is biggest in Sub-Saharan Africa



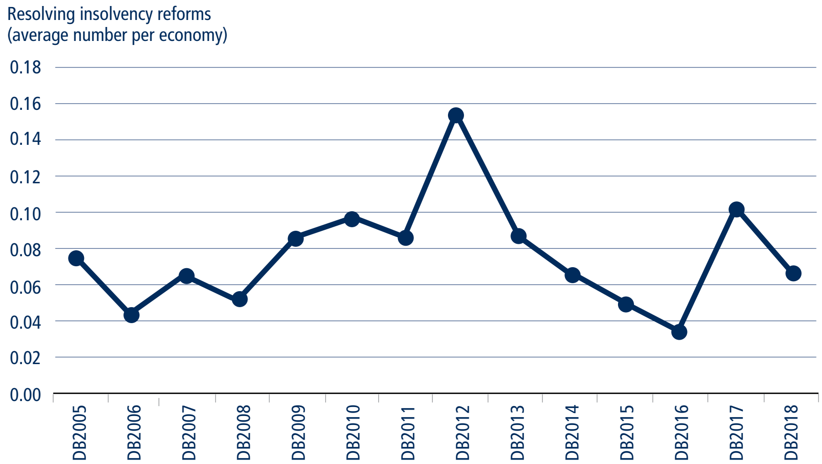
Source: Doing Business database.
Note: The average change in the distance to frontier score shows the change between *Doing Business 2018* and *Doing Business 2017*.

row. El Salvador, India, Malawi, Nigeria and Thailand also made impressive strides and joined the 10 top improvers for the first time. Among top improvers, Brunei Darussalam, India and Thailand implemented the highest number of business regulation reforms in 2016/17, with eight reforms each. The remaining four economies in the list of top improvers are: Kosovo, Uzbekistan, Zambia and Djibouti. For details on the reforms these countries undertook, see the chapter on reforming the business environment in 2016/17.

The database of *Doing Business* reforms indicates differences in reform momentum, both within topics and across regions. Why are reforms more common in some years than others? When do economies tend to reform in the areas covered in *Doing Business*? Two main theories explain the timing of regulatory reform. The first suggests that economies reform when they must—that is, when there is no choice but to implement a regulatory change. In this case, an increase in reforms would be more likely during crises.[9] A second theory argues that economies reform when they can—that is, when governments are recently elected and are in the "honeymoon period."[10]

Doing Business data can be used to explore which theory is more likely to hold true in practice. Recent research shows that governments are more likely to reform business regulation when their economy is experiencing a fiscal crisis.[11] This is particularly true for regulation concerning resolving insolvency, which showed a spike in reform activity in 2010/11,[12] a couple of years after the 2008/09 financial crisis. The reason is that these kinds of reforms take time to be implemented and captured by *Doing Business* (figure 1.4). However, the effect of fiscal crises on reform intensity is less robust when public debt is lower. When a fiscal crisis can be solved—albeit temporarily—by increasing borrowing, the need for reform becomes less urgent. In contrast, the "honeymoon" theory of reforms has less evidence to support it. In general, political change is not associated with more reform unless the political change takes place after the fiscal crisis. Indeed, economies tend to reform when they must, rather than when they can.

FIGURE 1.4 Reform intensity tends to rise in response to crises



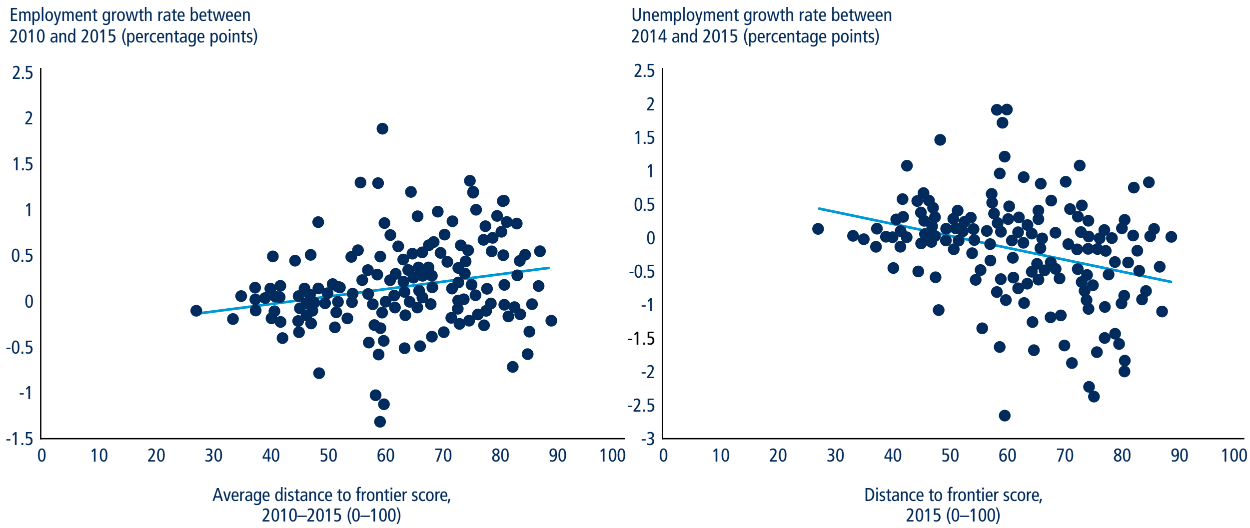
Source: Djankov, Georgieva and Ramalho 2017a.

WHAT IMPACT DOES BUSINESS REGULATION HAVE ON EMPLOYMENT AND POVERTY?

Many factors explain poverty. These can include vulnerability to natural disasters, remoteness, quality of governance, property rights, availability of infrastructure and services, proximity to markets, social relationships, the gender of the head of household, employment status, hours worked, property owned and educational attainment.[13] Several of these factors have a direct link to the areas measured in *Doing Business* since the *Doing Business* indicators measure factors such as the quality of governance and property rights. Furthermore, *Doing Business* can have an indirect link to these factors as improvements to business regulation can drive additional job creation. And ultimately, as a reliable source of income, employment can lift people out of poverty.

Reforming in the areas measured by *Doing Business* can be particularly beneficial to employment creation when those reforms take place in the areas of starting a business and labor market regulation.[14] Such an assertion, however, is made with some caveats from other research exploring causal relationships between business entry regulation and job creation.[15] Nonetheless, one of the mechanisms through which business regulation can impact employment directly is the simplification of business start-up regulations. Across economies there is a significant positive association between employment growth and the distance to frontier score (figure 1.5). While this result shows an association, and cannot be interpreted in a causal fashion, it is reassuring to see that economies with better business regulation, as measured by *Doing Business*, also tend to be the economies that are creating more job opportunities.[16] When it comes to unemployment, the expected opposite result is evident. Economies with less streamlined business regulation are those with higher levels of unemployment on average. In fact, a one-point improvement in the distance to frontier score is associated with a 0.02 percentage point decline in unemployment growth rate.[17]

FIGURE 1.5 Better business regulation is associated with employment growth and poorer regulation with higher unemployment



Sources: Doing Business database; International Labor Organization data (http://www.ilo.org/ilostat).

Note: The relationships are significant at the 1% level after controlling for income per capita. The left-hand side relationship also holds when using employment growth rate and distance to frontier average score between 2010 and 2015.

Doing Business 2017 reported that there is a negative association between the Gini index, which measures income inequality within an economy, and the distance to frontier score. Economies with poor quality business regulation have higher levels of income inequality on average. This relationship can be partially explained by the strong association between measures of poverty and the distance to frontier score. When business regulation is overly cumbersome, entrepreneurs and workers are pushed out of the formal sector and must resort to operating in the informal sector.[18, 19] The informal sector is characterized by a lack of regulation, minimal social protection and increased levels of poverty.[20] Individuals living in poverty are likely to gain the most from smarter and more streamlined business regulation. When bureaucratic hurdles are high, only the most privileged members of society can get things done, either through hiring third parties or paying bribes. In economies with complex company incorporation processes, for example, entrepreneurs tend to hire lawyers to assist with the process of registering their businesses.

The data support this interpretation as there is a strong association between inequality, poverty and business regulation. In fact, economies with better business regulation have lower levels of poverty on average. Indeed, a 10 percentage point improvement in the distance to frontier is associated with a 2 percentage point reduction in the poverty rate, measured as the percentage of people earning less than $1.90 a day.[21] Fragility is also a factor linked to poverty. However, even fragile economies can improve in areas that ultimately reduce poverty levels. Despite their fragile status, several economies implemented reforms as captured by *Doing Business 2018* (box 1.2).

WHAT IS NEW IN THIS YEAR'S REPORT?

This year's report presents four case studies, two of which focus on transparency. The case study on starting a business analyzes new data about the information available at business registries. It finds that economies with more transparent and accessible information have lower levels of corruption on average. The case study on registering property analyzes the transparency of information as captured by the quality of land administration index and shows that transparent land administration systems are associated with a lower incidence of bribery.

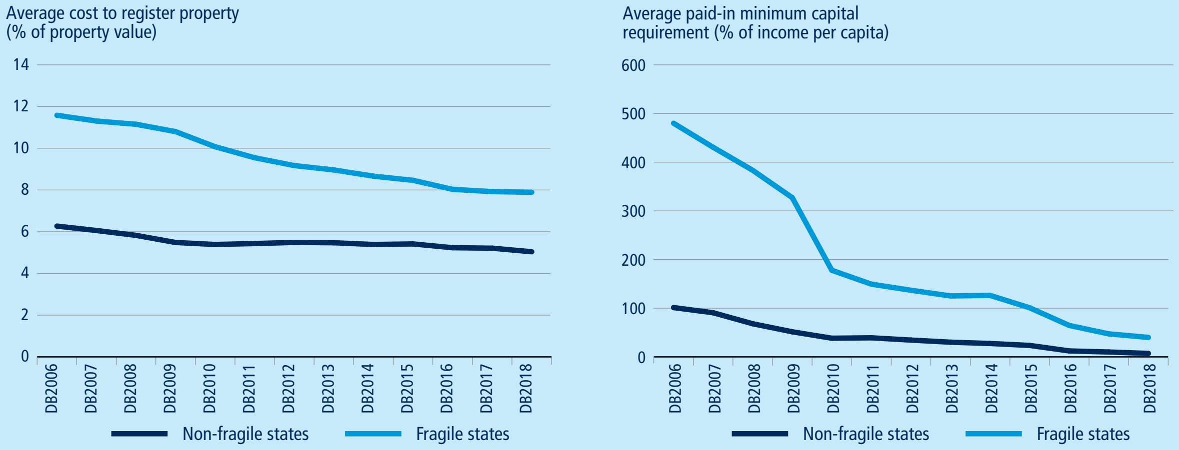
The case study on dealing with construction permits analyzes private sector participation in construction regulation. It demonstrates that economies which employ some form of private sector involvement in construction regulation tend to have more efficient processes and better quality controls. However, they also exhibit higher costs and a propensity for conflicts of interest. Finally, the case study on resolving insolvency discusses three successful insolvency reforms—in France, Slovenia and Thailand—and the lessons learned that are transferable to other economies.

BOX 1.2 Crises as opportunities?

Fragile states, often characterized by weak governance, residual violence, concentrated poverty and inequality, face myriad development and humanitarian challenges. Depleted human capital, minimal rule of law and violence all contribute to significant—and often extreme—rates of poverty in fragile states.[a] While fragile states are not home to the majority of the world's poor, the poor are disproportionately located in fragile states,[b] underscoring the need to address poverty in these economies. In poor and fragile states, the private sector is often constrained by a lack of infrastructure, political instability, high rates of informality and poor business skills. Private sector job creation is one of the factors that can diminish the incentives to engage in violence, thereby reducing both fragility and poverty.[c]

Doing Business data show that fragile economies are reforming and approaching crises as opportunities for better business regulations. As a result, the gap with non-fragile economies in some areas of business regulation has been narrowing over time (see figure). In 2016/17, of the 34 economies classified as most vulnerable by the World Bank Group's 2017 Harmonized List of Fragile Situations,[d] 14 implemented at least one business regulation reform and six economies implemented two reforms or more. Getting credit was the most reformed area of business regulation, accounting for eight of the 24 reforms implemented by this group. Djibouti recorded five reforms, the highest number among all fragile states. Djibouti reduced the fees associated with starting a business and construction inspections, implemented decennial liability for all professionals involved in construction projects, increased the transparency of its land administration system and established a new credit information system. As a result of these reforms, Djibouti's distance to frontier score improved by 3.79 percentage points.

Fragile states are converging with non-fragile states on the cost to register property and start a business



Source: Doing Business database.
Note: Fragile states are classified based on the World Bank Group's Harmonized List of Fragile Situations for fiscal year 2017. The sample includes 174 economies where data is available back to *Doing Business 2006*.

Kosovo, the second most-reformed country in the fragile states group, implemented three business regulation reforms. Iraq, Madagascar, Myanmar, and Sierra Leone made two reforms each in 2016/17. Iraq simplified the process of starting a business by combining multiple registration procedures and reducing the time to register a company. It also launched a new credit registry, improving access to credit information. Similarly, Myanmar adopted a regulation that allows the creation of credit bureaus, while Madagascar increased the coverage of its credit registry. Kosovo and Liberia undertook reforms in the area of resolving insolvency in 2016/17. Both of these economies introduced a legal framework for corporate insolvency, making liquidation and reorganization procedures available to debtors and creditors.

a. World Bank 2011.
b. Burt, Hughes and Milante 2014.
c. Collier and Hoeffler 2004.
d. The harmonized list also includes Tuvalu, the only economy from the list that is not measured by *Doing Business*.

NOTES

1. Moscoso Boedo and Mukoyama 2012.
2. Doblas-Madrid and Minetti 2013.
3. Enikolopov, Petrova and Stepanov 2014.
4. Franks and Loranth 2014.
5. Clark, Dollar and Micco 2004.
6. The Gini coefficient, the most commonly-used measure of inequality, is a measure of statistical dispersion intended to represent the income or wealth distribution of an economy's residents.
7. The relationship is significant at the 1% level after controlling for income per capita.
8. The correlation between the number of reforms and the actual improvement in the distance to frontier score is 0.57.
9. Drazen and Grilli 1993; Ranciere and Tornell 2015.
10. Haggard and Williamson 1994.
11. Djankov, Georgieva and Ramalho 2017a.
12. The second peak is explained by substantial business regulation reforms undertaken by the 17 member states of the Organization for the Harmonization of Business Law in Africa, known by its French acronym OHADA. The organization adopted a revised Uniform Act Organizing Collective Proceedings for Wiping Off Debts in 2015, which introduced a simplified preventive settlement procedure for small companies and a new reconciliation procedure for companies facing financial difficulties, encouraging an agreement between a debtor and its main creditors. The OHADA Uniform Act also introduced provisions on cross-border insolvency that were implemented in all 17 OHADA member states.
13. Kraay and McKenzie 2014; Banerjee and Duflo 2011; Rodrick, Subramanian and Trebbi 2004; Buvinic and Gupta 1997.
14. Bruhn 2011; Bruhn 2013; Branstetter and others 2014.
15. Bruhn 2013; Fajnzylber, Maloney and Montes-Rojas 2011; Kaplan, Piedra and Seira 2011.
16. The relationship is significant at the 1% level after controlling for income per capita.
17. The relationship is significant at the 1% level after controlling for income per capita and population size; it is shown in figure 1.5.
18. De Soto 1989.
19. Dabla-Norris, Gradstein, and Inchauste 2008.
20. Loayza and Serven 2010.
21. Djankov, Georgieva and Ramalho 2017b. This association is significant when using the following indicator sets individually: starting a business, dealing with construction permits, getting credit and enforcing contracts. The relationship holds after controlling for income per capita and government expenditure.