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EADS Snapshot on

Doing Business 2014

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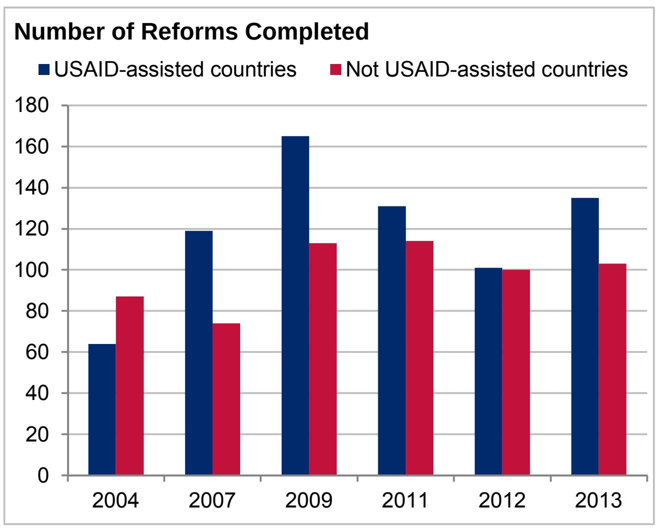
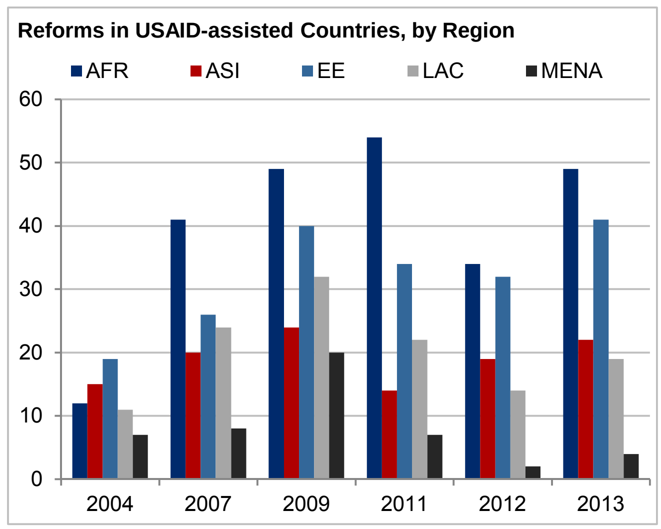
Understanding Regulations for Small and Medium-Size Enterprises

The World Bank's *Doing Business 2014* report is the 11th in a series of annual reports that presents quantitative indicators on 11 areas of business regulation for 189 economies. Four new countries have been added in the 2014 report—Libya, Myanmar, South Sudan, and San Marino. The report highlights that 114 economies implemented 238 regulatory reforms making it easier to do business (18 percent more reforms than last year). Moreover, the report notes improvements in removing some of the biggest bureaucratic obstacles to private sector activity. Lastly, the report indicates that low-income economies have improved their business regulations at twice the rate that high-income economies have.

This snapshot's focus is on the 86 countries that received at least $2 million in USAID assistance in fiscal year 2011 and are not considered high income countries using World Bank GNI per capita data for 2012, hereto referred to as USAID-assisted countries.





In both the *Doing Business 2013* and *2014* reports, countries passed more positive reforms than non-USAID-assisted countries. The reforms pursued by USAID-assisted countries have also generally been evenly spread among the USAID regions. The Middle East and North Africa (MENA) is the exception to this trend, but it also has the fewest economies and has been grappling with political unrest. For most years, *Doing Business* found that Sub-Saharan African (SSA) economies enacted the greatest number of reforms. Sub-Saharan Africa accounted for approximately 35 percent of all USAID-assisted country reforms in the 2013 and 2014 reports. Eastern Europe and Eurasia (EE) and Latin America and the Caribbean (LAC) have also been pursuing business reforms aggressively.

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Most/Least Improved and Top/Bottom USAID-assisted Countries

The top USAID-assisted country in the 2014 report was Georgia, ranked as the 8th best economy for doing business. However, Georgia's rank only increased by one spot from the 2013 report, scoring the best in registering property. Other USAID-assisted countries have seen impressive improvements since last year's *Doing Business* report. Ukraine, Philippines, and Rwanda saw the greatest progress, moving up 28, 25, and 22 spots respectively. These countries had significant reforms to improve their rankings, mainly in:

- dealing with construction permits,
- getting credit, and
- paying taxes.

Ukraine was the top improver, ranked 112th overall, after implementing reforms in 8 of the 10 areas measured by *Doing Business*. For example, it made it easier to deal with construction permits by introducing a risk based approval system that streamlines procedures for simpler buildings with fewer risk factors. The Philippines, ranked 108th, enriched credit information sharing by assuring borrowers' right to access their data in the country's largest credit bureau. Lastly, Rwanda ranked 32nd, reduced property tax rates and business trading license fees to make paying taxes less costly.

Malawi, Tanzania, and Nigeria saw the least improvement in their *Doing Business* general ranks, moving down 10, 9, and 9 spots respectively. Malawi, ranked 171st, improved only in one of the ten areas measured by *Doing Business*, and scored poorly in the following areas: getting electricity (183/189), trading across borders (176/189), and dealing with construction permits (173/189). Similarly, Lebanon, ranked 111th, dropped in nine of the ten areas measured by *Doing Business*, and scored poorly in the following areas: dealing with construction permits (179/189), enforcing contracts (126/189), and starting a business (120/189).

Most Improved USAID-assisted Countries

Country	Region	2013 Rank	2014 Rank	Change in Rank
Ukraine	EE	140	112	↑ 28
Philippines	ASI	133	108	↑ 25
Rwanda	AFR	54	32	↑ 22
Burundi	AFR	157	140	↑ 17
Guatemala	LAC	93	79	↑ 14
Djibouti	AFR	172	160	↑ 12
Macedonia	EE	36	25	↑ 11
Uzbekistan	ASI	156	146	↑ 10
Kosovo	EE	96	86	↑ 10
Moldova	EE	86	78	↑ 8

Least Improved USAID-assisted Countries

Country	Region	2013 Rank	2014 Rank	Change in Rank
Malawi	AFR	161	171	↓ 10
Tanzania	AFR	136	145	↓ 9
Nigeria	AFR	138	147	↓ 9
Albania	EE	82	90	↓ 8
Kenya	AFR	122	129	↓ 7
Lebanon	ME	105	111	↓ 6
Serbia	EE	87	93	↓ 6
Uganda	AFR	126	132	↓ 6
Dominican Republic	LAC	112	117	↓ 5
Timor-Leste	ASI	167	172	↓ 5

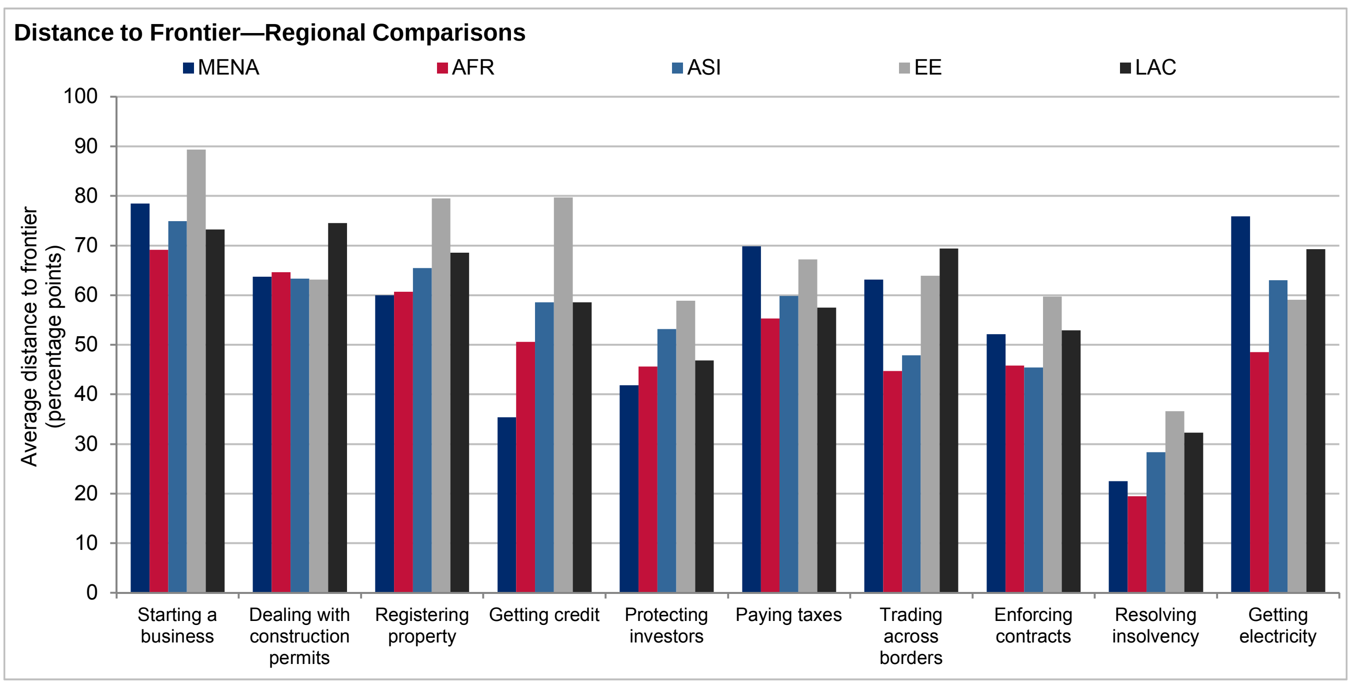
What is the Distance to Frontier Measure?

Distance to frontier is a new measure, introduced in the 2013 report, to gauge how successful an economy has been at creating a business friendly environment. The Ease of Doing Business rank is a method of measuring performance compared to other countries, but does not provide information on the quality of that performance or how large the gaps are between countries. The distance to frontier measure is meant to address these shortcomings.

The frontier score is derived from the highest performing economy in nine of the *Doing Business* categories (employing workers is excluded). A score closer to 100 is interpreted as being closer to the frontier and therefore an indicator that an economy has created a business-friendly environment. These scores can be compared between economies in the same year or for economies across the years.

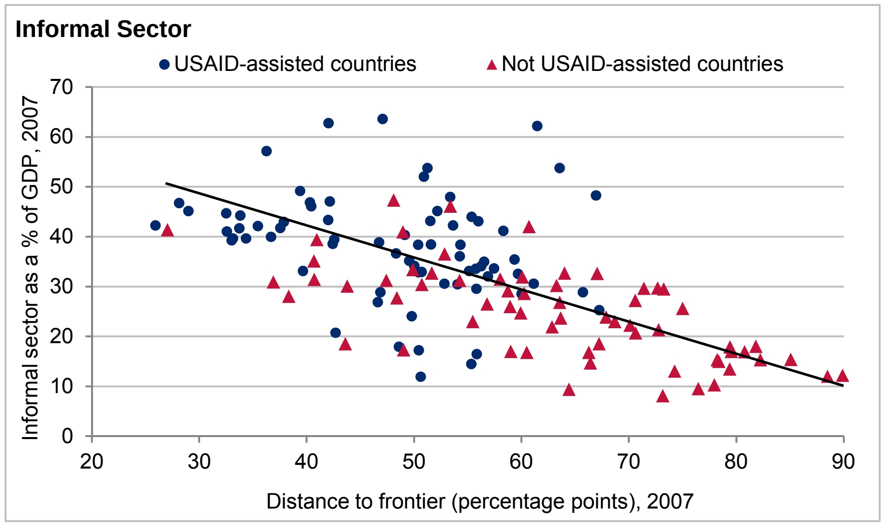
Regional Comparison

All regions have scored high on the starting a business on the distance to frontier measure; EE was the closest to the frontier. Alternatively, regions were furthest from the frontier in resolving insolvency measure, with MENA as the farthest. However, MENA region had a very diverse performance; they were the closest to the frontier on the getting electricity and paying taxes measures. SSA region was furthest from the frontier on average in five of the ten areas measured by *Doing Business*: starting a business, paying taxes, trading across borders, resolving insolvency, and getting electricity. EE region had the best performance in six of the ten areas, but performed the worst in dealing with construction permits. Asia (ASI) and LAC regions had a performance similar to each other's except in trading across borders.

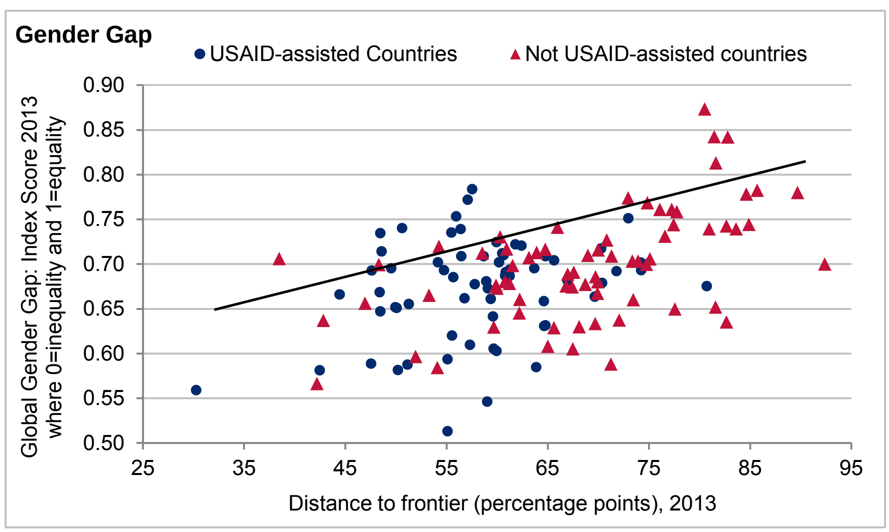


Doing Business 2014 Highlights: Informal Sector and Gender Equality

According to the *Doing Business 2014* report, smaller informal sectors and greater gender equality tend to characterize all the good performers on *Doing Business* indicators. Countries that have the majority of their people working in the formal sector can benefit from workplace regulations and social protections. Furthermore, the report elaborated that greater gender equality will increase women's productivity in the economy.



Large informal economies, mainly caused by overregulated labor markets, increase barriers to formal employment and make markets too rigid to adjust to changing conditions in an economy. Countries with large informal sectors have poorly functioning regulatory business environments which undermine entrepreneurship and the economic performance of firms and economies. These malfunctioning business environments tend to foster greater unemployment and make trading, accessing credit markets, and resolving legal issues more expensive for businesses. According to the latest report, high corporate tax rates are negatively correlated with levels of corporate investment and entrepreneurship. In addition, the report stated that economies with high and complicated tax rates tend to have large informal sectors. Compared with the formal sector, informal businesses grow slower, have low access to credit, and employ fewer workers.



Many economies implementing reforms in areas measured by *Doing Business* are also putting in place measures to improve gender equality. As we notice in the chart above, the majority of the countries that scored high on Global Gender Gap index were scoring high on the Distance to Frontier measure. In general, having keener business regulations will nurture a conductive environment that leads to greater economic inclusion.

How are the World Bank's *Doing Business* Rankings Calculated?

The index is based on ten sub-indices, which cover different reform areas. Each factor in the sub-index is assigned a percentile rank and those percentiles are calculated as a simple average. The ten sub-index percentile ranks, in turn, are then calculated as a simple average or score. All 189 countries are then ranked by their average percentile score, generating values from 1 (highest) to 189 (lowest). While this year's report assessed 11 areas of the life of a business, the employing workers data are not included in this year's ease of doing business ranking.

***Doing Business* Ranking Components**

Sub-Index	Factors Used
Starting a business	Procedures, time, cost, and minimum capital to open a new business
Dealing with construction permits	Procedures, time, and cost to complete construction of a warehouse
Getting electricity	Procedures, time, and cost to obtain an electricity connection
Registering property	Procedures, time, and cost to legally transfer title on immovable property
Getting credit	Strength of legal rights of creditors and borrowers, depth of credit information available, public credit registry coverage, and private credit bureau coverage
Protecting investors	Disclosure requirements, extent of director liability, ease of shareholder suits, and the strength of investor protection
Paying taxes	Tax payments for a manufacturing company, time required to comply with 3 major taxes and the total tax rate
Trading across borders	Documents, time, and cost required to export and import
Enforcing contracts	Procedures to enforce a contract through the courts, time and cost to complete procedures
Resolving insolvency	Time and cost required to recover debt, recovery rate for creditors, outcome
Employing workers (not included this year)	Rigidity of employment such as redundancy cost

Additional Information

For questions or more information, please contact the author, Georges Fadel, at gfadel@devtechsys.com.

To access the complete country *Doing Business* dataset, visit the Economic and Social Database (ESDB) at http://esdb.eads.usaidallnet.gov/. The ESDB website offers related datasets from the IMF, World Bank, U.S. government agencies and other sources. Through the ESDB website, you can also access standard country profiles, utilize analytical tools such as the Financial Sector Analysis Tool, and generate customized tables and graphs.