

World Bank Enterprise Survey Data Highlight Obstacles in the Business Landscape

The World Bank has collected firm-level surveys, or Enterprise Surveys, since 2002 to benchmark the quality of business environments around the world. The Enterprise Surveys are complementary to the World Bank Doing Business reports but use a distinct methodology and approach. For example, Doing Business surveys are administered annually to local experts on business transactions and regulations while the Enterprise Surveys collect data from business owners and top managers in emerging economies once every three years. A complete description of the differences between the Enterprise Survey and Doing Business methodologies is available at <https://www.enterprisesurveys.org/Methodology/Enterprise-Surveys-versus-Doing-Business>.

Enterprise Survey data are based on responses from more than 130,000 firms in 135 developing countries and emerging markets. The surveys cover a comprehensive range of business environment characteristics, including access to finance, competition, corruption, crime, infrastructure, and taxes. The result of this fieldwork by the World Bank is intended to be a representative sample of a country's nonagricultural economy. The data facilitate the prioritization of potential reforms by benchmarking the quality of the investment climate and business environment in countries.

Surveys are not repeated annually in each country, but generally every few years. The latest data for each country in the database will vary by year, with a small number of countries currently having data no more recent than 2006. Nearly a third of the countries in the database, however, have survey data from either 2010 or 2011. For this most recent release of Enterprise Survey data, the Bank added new surveys from 2011, most notably for Iraq. An earlier version of this database had coverage for China, but that data has been dropped. However, the World Bank is currently (as of summer 2012) conducting surveys in China and projects that new data for 2012 will be added to the Enterprise Surveys around the start of 2013.

Firms in the surveys are asked to identify the major obstacles to doing business in their country, as well as to select the single biggest obstacle, from the following list of fifteen typical problems:

- Access to finance
- Access to land
- Business licensing and permits
- Corruption
- Courts
- Crime, theft and disorder
- Customs and trade regulations
- Electricity
- Inadequately educated workforce
- Labor regulations
- Political instability
- Practices of the informal sector
- Tax administration
- Tax rates
- Transportation



The next section will highlight the factors which are seen most frequently as being the biggest obstacle to doing business. All graphs in this snapshot are taken from the World Bank's Enterprise Survey database.

Access to Finance, Electricity Supply, and Political Instability Bedevil Doing Business

Worldwide, difficulties in gaining access to finance are cited as the single biggest obstacle to doing business by the firms in the survey. The problem is most acute in Sub-Saharan Africa, where more than 20 percent of firms cited it as the biggest obstacle.

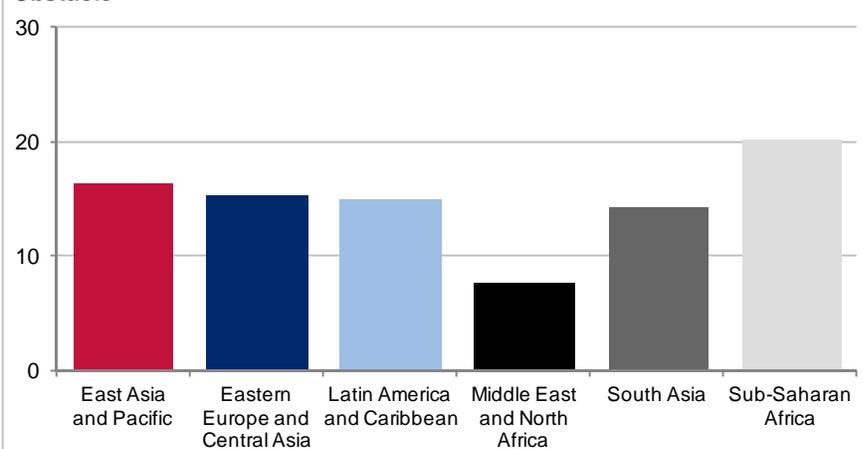
Only in the Middle East and North Africa (MENA) is access to finance not a leading obstacle to doing business. Less than eight percent of MENA business firms cited access to finance as the biggest obstacle and four other obstacles were cited more often in the region.

The clamor for reforms to improve access to finance is greatest in the Democratic Republic of the Congo, with 54 percent of the firm citing it as the biggest obstacle. Other countries where firms are extremely concerned about this factor include Indonesia (48 percent), Zimbabwe (47 percent), Malawi (46 percent), and Côte d'Ivoire (45 percent).

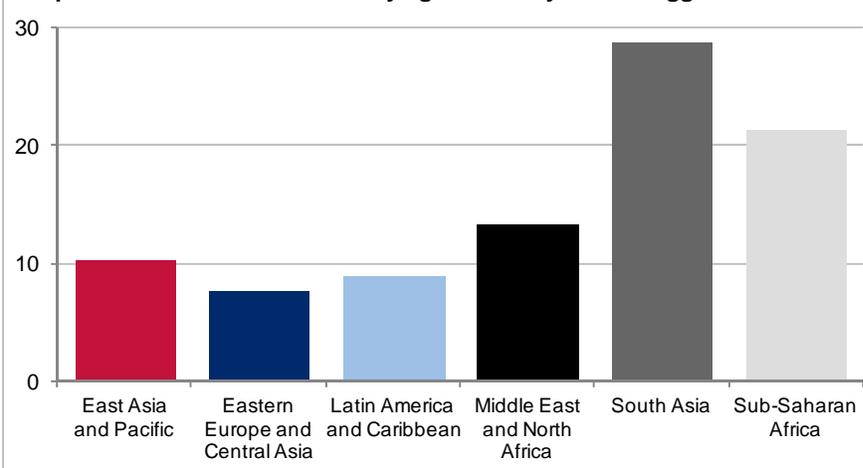
The second most often cited biggest obstacle is electricity supply, but the prevalence of this factor in South Asia and Sub-Saharan Africa push up the worldwide average. Nearly thirty percent of South Asian firms cite this as the biggest obstacle, while more than twenty percent do in Sub-Saharan Africa.

Tanzania and Pakistan are countries with overwhelming demand for reliable electricity for doing business. Just under three-quarters of all firms in Tanzania cite it as the biggest obstacle, while two-thirds of Pakistani firms do so.

Graph 1. Percent of Firms Identifying Access to Finance as the Biggest Obstacle



Graph 2. Percent of Firms Identifying Electricity as the Biggest Obstacle



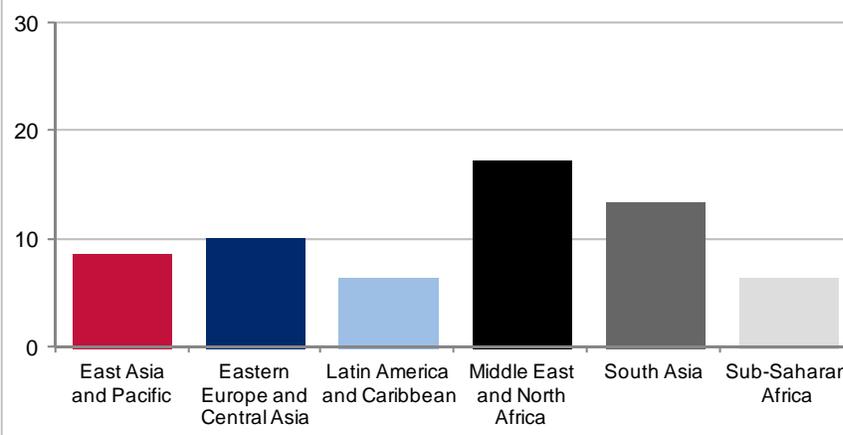
Political instability ranks only fifth among the obstacles when measured worldwide, but it is the leading obstacle cited by firms in the MENA region (17 percent). This is only partly a reflection of the Arab Spring, as most of the survey data for MENA are from 2009 and earlier.

The country where political instability is the biggest obstacle by the widest margin is not in MENA, but in South Asia. In Nepal, 62 percent of the firms cited political instability as the biggest obstacle. With electricity taking up another 27 percent in Nepalese survey data, the priorities for reform are unusually clear.

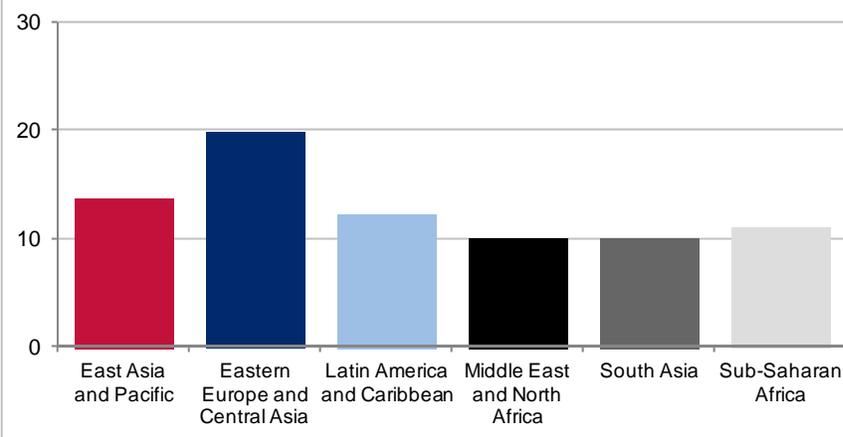
Enterprise Survey data treat “Tax Rates” and “Tax Administration” as separate obstacles to doing business. As a starting point for designing reforms, that is an important distinction. To get a measure of the role of taxes as a deterrent to business growth, however, Graph 4 combines the two indicators.

The combined obstacles of tax rates and tax administration are more pressing in Eastern Europe and Central Asia, with just under one-fifth of firms citing one of the two factors. The two factors were cited by more than half the Hungarian firms and by more than forty percent of Brazilian, Jamaican, and Lithuanian firms. In all four of those countries, the bigger problem by a large margin was seen with tax rates rather than tax administration.

Graph 3. Percent of Firms Identifying Political Instability as the Biggest Obstacle



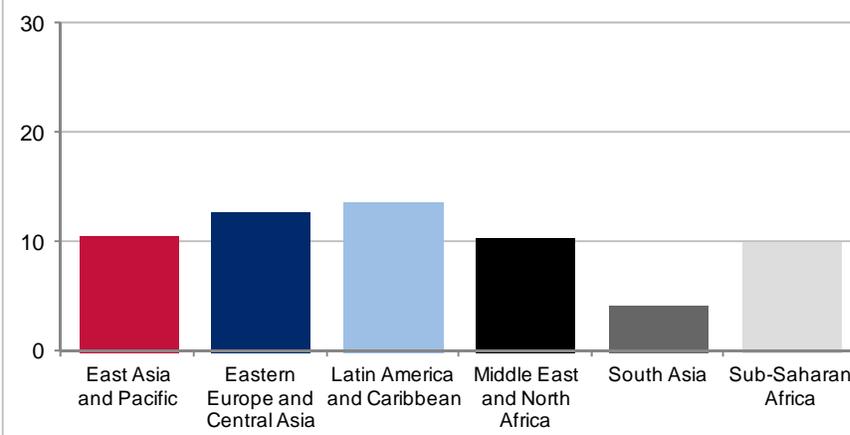
Graph 4. Percent of Firms Identifying Tax Rates or Tax Administration as the Biggest Obstacle



The fourth largest obstacle cited by firms is the practices of the informal sector. This is not a leading obstacle in South Asia, but in all other regions between ten and fourteen percent of firms cited it as the biggest obstacle. The problem of having to compete with the informal sector is particularly acute in Bolivia (38 percent of firm cited it as the biggest obstacle) and Macedonia (31 percent).

To better understand the utility of Enterprise Survey data, it is helpful to examine indicators from the database where a statistical relationship would be reasonably expected. The next two sections of this snapshot turn to that task.

Graph 5. Percent of Firms Identifying Practices of the Informal Sector as the Biggest Obstacle



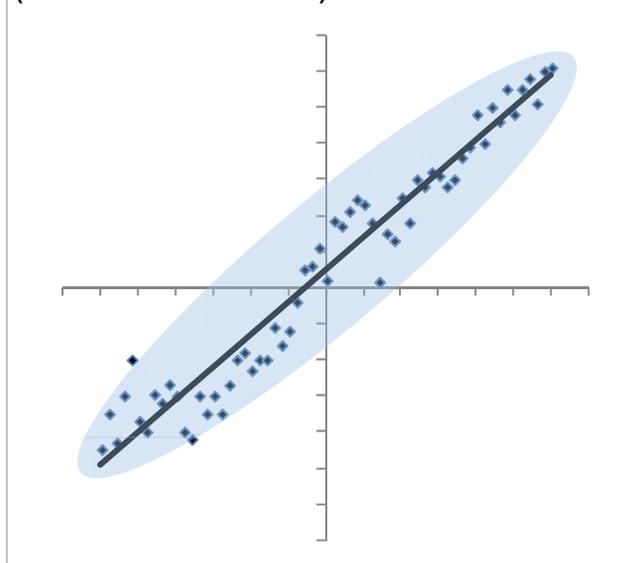
Licensing and Permitting Hamper Business in Country-Specific Ways

Survey data generates indicators of how many days are typically needed to acquire operating licenses, construction permits, and import licenses. The data also generates an indication of whether the time for getting permits and licenses is a major obstacle to doing business, as well as if it is the biggest obstacle. It is reasonable to expect that in countries where the average number of days needed to acquire permits and licenses are higher, the percent of firms that identify the process as a constraint would also be higher.

A graph showing the two indicators, in the case where the two indicators have a high degree of correlation, would look like the sample graph on this page. Most of the observations would lie clustered around a trend line.

To estimate a single indicator for all three types of licenses and permits in the database, the data were averaged for each country. Graph 6 (next page) shows the average number of days for licenses and permits expressed as the difference for each country from the world average of 40 days, plotted against the percent of firms identifying this factor as a major constraint expressed as the difference from the world average of 16 percent.

Typical Pattern for Two Indicators With High Correlation (Correlation Coefficient = 0.97)



With firms from the MENA region having identified business licensing and permits as the single biggest obstacle more often than in any other region, Graph 6 highlights the data observations for those countries. As would be expected, MENA firms are more typically found identifying the process as a major constraint when compared to the world average.

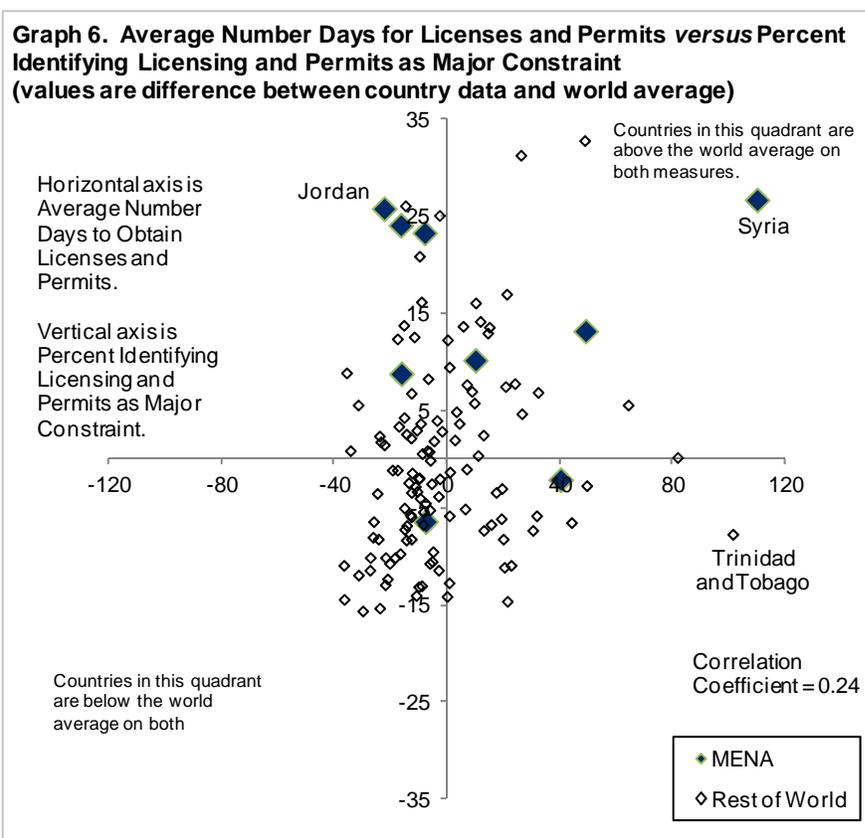
But the correlation between these two indicators is low at 0.24. The average number of days to obtain licenses and permits in a country is not a reliable indicator that businesses will identify the process as a major constraint.

Consider the cases of Syria and Trinidad and Tobago. Both countries report extremely long periods to obtain licenses and permits, well above the world average. Yet while Syrian businesses are also well above the world average in the percentage identifying this factor as a major constraint, businesses in Trinidad and Tobago are below the average. The licensing and permitting process in Trinidad and Tobago is among the most protracted in the world, but for some reason is not seen as a major constraint on business. Businesses in that island economy are much more hampered by an inadequately educated workforce and by crime, theft, and disorder.

Another interesting contrast is Syria and Jordan. Businesses in both countries are similarly likely to identify licenses and permits as a major constraint, but the average number of days needed in Syria is extremely high, while the number of days in Jordan is among the lowest in the world.

Taking the “Average Number of Days to Obtain a License or Permit” as an indicator of where reforms are most urgently needed would be misleading. The great value of the Enterprise Survey data is the added indicators where businesses identify the factors actually constraining them.

Of course, obstacles to doing business and reforms are a dynamic process. In countries where the process is lengthy but not often cited as a constraint, reforms over a few years might alleviate other obstacles. Enterprise survey data in later years could easily show that licensing and permitting are then seen as a major constraint.



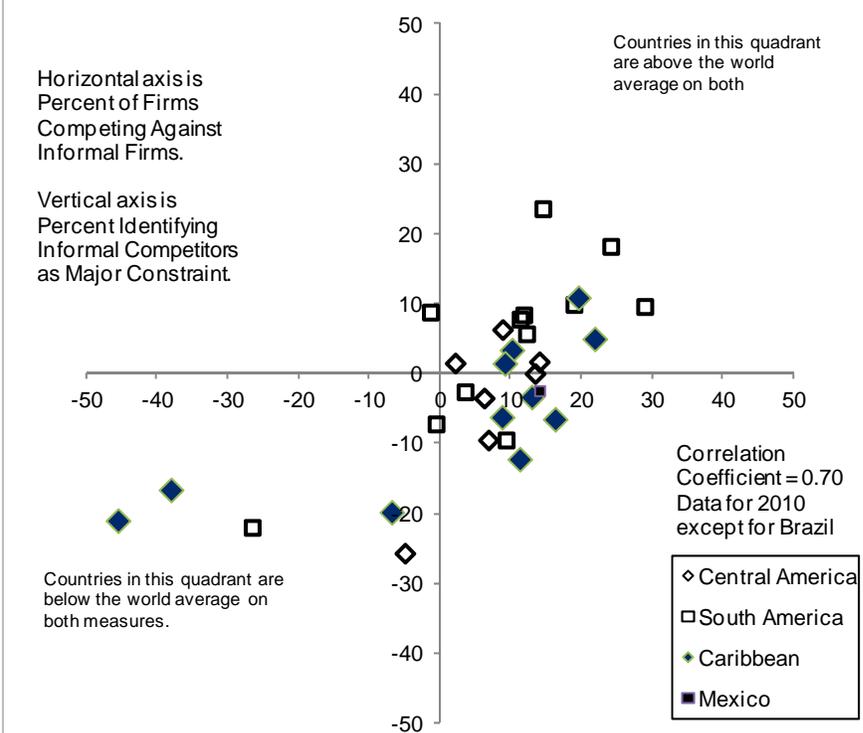
Informal Sector Practices Curb Latin American and Caribbean Business Growth Differently at Sub-Region Level

In the Latin America and Caribbean region as a whole, businesses are more likely to identify the practices of the informal sector as the single biggest constraint than in any other region of the world. As is reasonable to expect, there is some correlation between the percent of firms competing with the informal sector and the percent of firms citing the practices of the informal sector as a major constraint.

Sorting the data observations by sub-region shows that the problem of the informal sector is relatively more prevalent in South America than elsewhere. By contrast, businesses in the Caribbean are relatively more likely to not cite practices of the informal sector as a major constraint. That remains true even in Caribbean countries where percentage of firms competing against informal firms is above the world average.

Obviously, relying on regional averages for the Enterprise Survey data indicator can obscure differences at the country level. But it can also obscure trends at the sub-regional level. In the Caribbean, the informal sector is typically less prevalent than it is in South America. In addition, in Caribbean countries where it is just as prevalent as in South America, it is typically less of a constraint.

Graph 7. Percent of Latin American and Caribbean Firms Competing with Informal Firms versus Percent Identifying Informal Sector as Major Constraint (values are difference between country data and world average)



Additional Information

For questions or more information, please contact the author, Michael Shea, at mshea@devtechsys.com. To access data from the World Bank's Enterprise Surveys, visit the Economic and Social Database (ESDB) at <http://esdb.eads.usaidallnet.gov/>. The ESDB website offers related datasets from World Bank, IMF, 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.