EADS Snapshot on
Doing Business 2013

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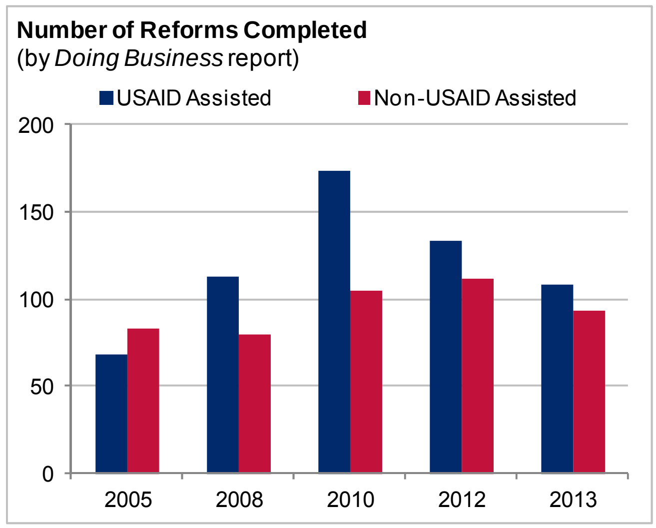
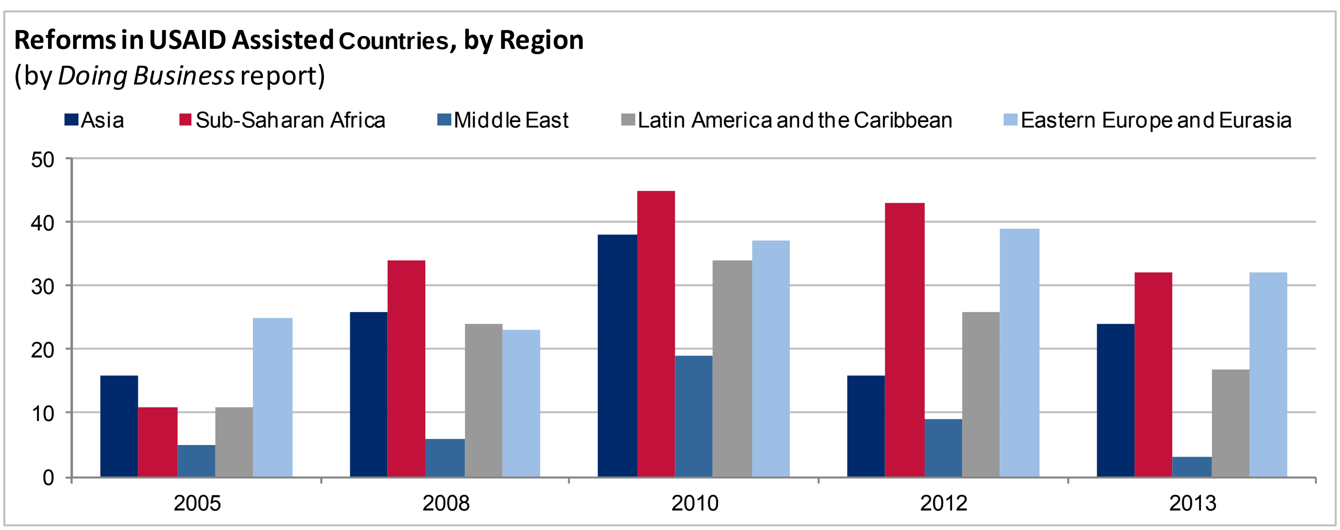
Smarter Regulations for Small and Medium-Size Enterprises

The World Bank's *Doing Business 2013* report highlights the 201 improvements in business regulations made in 185 economies. The 2013 report is the 10th edition of *Doing Business* and specifically notes the improvements in low-income countries in fostering positive business environments since the report's inception. Regulation practices have been converging over the past ten editions and the gap between the poor-performing economies and the well-performing economies has narrowed. The report found that the largest area of convergence has been in reducing the cost and complexity of regulatory processes.

In both the *Doing Business 2012* and *2013* reports, countries receiving at least $2 million in USAID assistance in fiscal year 2010 passed more positive doing business reforms than non-assisted countries. However, the largest gap was in the *Doing Business 2010* report when USAID-assisted countries passed over 60 percent of the reforms in that report. The reforms pursued by USAID-assisted countries have also generally been evenly spread among the USAID regions. The Middle East 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 Africa economies enacted the greatest number of reforms. Sub-Saharan Africa accounted for approximately 30 percent of all USAID-assisted country reforms in the 2012 and 2013 reports. The region also had the most countries with at least a single reform in the previous two reports. The 2013 report highlights the success



of Rwanda as it improved its doing business ranking and successfully implemented reforms across doing business categories.

Asia and Eastern Europe and Eurasia have also been pursuing business reforms aggressively. Asia was the only region to see its number of reforms increase between the 2012 and 2013 reports, with most of the 2013 reforms clustered in Sri Lanka, Uzbekistan, Mongolia, and Kazakhstan. Eastern Europe and Eurasia had the same number of reforms as Sub-Saharan Africa in 2013 and also saw an increase in the number of economies with at least one reform.

Most Improved and Top USAID-Assisted Countries

USAID-assisted countries have seen impressive improvements since last year's *Doing Business* report. Kosovo saw the greatest progress, moving up 28 spots to 98th overall. Kosovo made two significant reforms to improve its ranking: simplifying and streamlining business registrations and increasing protections for investors. Armenia also improved significantly in the 2013 report, moving up 18 spots. Armenia's reforms also made it the fourth highest ranked USAID-assisted country in *Doing Business 2013*.

The top USAID-assisted country in the 2013 report was Georgia, ranked as the 9th best economy for doing business. Georgia's rank increased by seven spots from the 2012 report and was highlighted as an economy that had done the most to improve the ease of doing business since 2005. Georgia has implemented 35 reforms since 2005 and improved in six of the *Doing Business* categories between the 2012 and 2013 report. Most top performers actually declined slightly in their ranking in the 2013 report, but Armenia, Cyprus, and Chile all saw improvements in their doing business rankings.

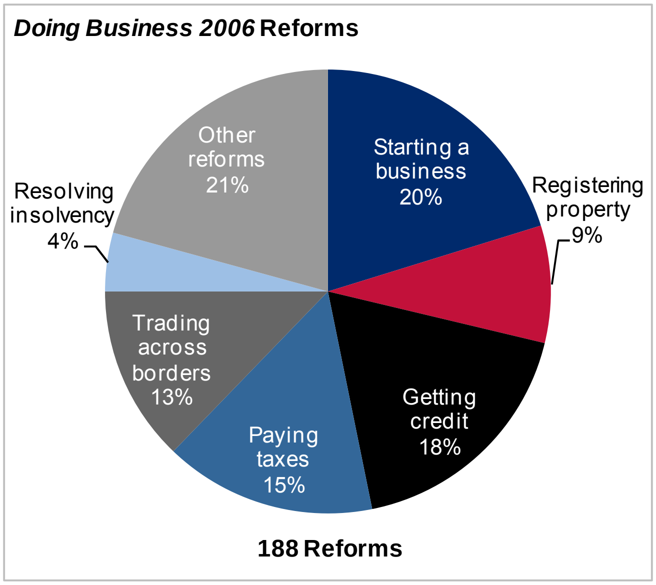
Most Improved USAID-Assisted Countries

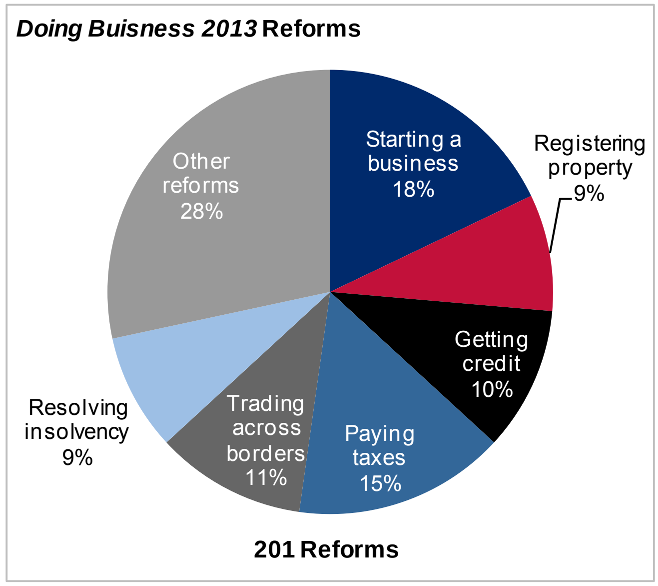
Country	Income Category	Number of Reforms	2012 Rank	2013 Rank	Change in Rank
Kosovo	Lower Middle	2	126	98	↑28
Armenia	Lower Middle	2	50	32	↑18
Sri Lanka	Lower Middle	4	96	81	↑15
Ukraine	Lower Middle	3	152	137	↑15
Uzbekistan	Lower Middle	4	168	154	↑14
Burundi	Low	4	172	159	↑13
Mongolia	Lower Middle	3	88	76	↑12
Costa Rica	Upper Middle	4	122	110	↑12
Serbia	Upper Middle	3	95	86	↑9
Sierra Leone	Low	2	148	140	↑8

Pattern of Reforms: 2006–2013

Since the *Doing Business 2006* report, the number and distribution of reforms has shifted among the covered economies. In the 2006 report, 188 reforms were completed and in the 2013 report, this number had increased to 201. Of these 201 reforms, 44 percent focused on making it easier to start a new business, increased the efficiency of paying taxes and made trading across borders easier. This percentage is a slight decline from 2006, where 48 percent of the 188 reforms focused on the same areas. The areas with the greatest change between 2006 and 2013 were getting credit and resolving insolvency. Getting credit saw fewer reforms in 2013, but resolving insolvency saw its number of reforms more than double. The other reforms group also expanded, however this sector includes reforms that were not accounted for in the 2006 report. In the 2013 report, 58 percent of the economies implemented at least one reform to improve the business environment and

23 economies undertook three or more reforms. Of these 23 economies, 13 received USAID assistance, including top performer Georgia.





Rwanda and Colombia: Fostering and Sustaining Reform

Two USAID-assisted countries were highlighted in the *Doing Business 2013* report for their commitment to fostering and sustaining business-friendly reforms. Both countries focused on reforms and policies that would ease business restrictions and promote firm growth. Colombia followed a path that focused on first reducing barriers to starting a business and then sustaining those reforms at the local level and with macro policies. Once Colombia had laid the ground work for making starting a business easier, it re-focused on efforts to strengthen legal institutions, notably bankruptcy and investor protections. These efforts have moved Colombia from being ranked 79 out of 175 economies in 2006 to 45 out of 185 economies in 2012.

Rwanda has been on the path of reforming its business environment for over a decade. The key to Rwanda's success was that it created a clear and effective pipeline for business reforms starting in 2000. The Rwandan government established the Doing Business Unit in 2001 and learned best practices from top countries like Singapore. These methods were combined with a persistent commitment to improve doing business in Rwanda to start, establish and continue the necessary reforms. Since 2005, Rwanda has enacted 26 business reforms, almost three times the Sub-Saharan Africa average.

Limits to the Ease of *Doing Business* Rankings

The *Doing Business 2013* report outlines five limitations of the Ease of Doing Business Rankings:

1. Collected data refer to businesses in the economy's largest city.
2. Data focus on a specific business form, generally a limited liability company.
3. Transactions scenarios refer to a specific set of issues.
4. Measures of time involve an element of judgment by the expert respondents.

5. The methodology assumes that a business has full information of requirements and does not waste time when completing procedures.

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 185 countries are then ranked by their average percentile score, generating values from 1 (highest) to 185 (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.

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

How are the Top Reformers Identified?

First, potential top reformer economies are limited to those which implemented regulatory reforms making it easier to do business in three of the ten topics included in this year's *Doing Business* report during 2011/12. This selection is intended to highlight economies with ongoing, broad-based reform programs. These economies are then ranked by the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

What is the Distance to Frontier Measure?

For the 2013 report, the World Bank introduced a new measure 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 and getting electricity are excluded). The distance to frontier is calculated in two steps:

1. The indictor scores are normalized using the formula (max – *y*)/(max – min), for each indicator *y* with the min value being the frontier.
2. These scores are then averaged to create a single distance to frontier score from 0 to 100, with 100 being the frontier.

The distance to frontier scores were calculated for 174 economies from 2005 through 2012. 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.

Georgia and Rwanda narrowed their distance to the frontier the most since 2005. Georgia narrowed its distance by 31.6 percentage points and Rwanda by 26.5. Getting credit was the area where both countries saw the greatest improvements and is also the area where both countries are closest to the frontier. Georgia improved 63 percentage points to a score of 94 between 2005 and 2012 and Rwanda improved by 56 percentage points to a score of 81.

How did the World Bank Change the Report This Year?

The methodology for paying taxes was changed slightly in the 2013 report and a new indicator was added for resolving insolvency.

- **Paying taxes**—The threshold for the total tax rate introduced in the 2012 report was updated. All economies with a total tax rate below the threshold receive the same total tax rate indicator ranking.
- **Resolving insolvency**—A new indicator was added to address the outcome of the insolvency process. Outcome is 1 if the business survives insolvency as a going concern or creditors can recover 100 cents on the dollar. Outcome is 0 if the business is sold piecemeal or creditors recover less than 100 cents on the dollar.

Additional Information
For questions or more information, please contact the author, Matt Gyory, at mgyory@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, US 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.