



What is changing in *Doing Business*?

Good practices in business regulation have evolved since the *Doing Business* indicators were first developed in 2003. Some changes have come, for example, as new technologies have transformed the ways governments interact with citizens and the business community. The new developments have created a need to expand and update the *Doing Business* methodology. In addition, the original *Doing Business* indicators are by nature limited in scope, and expanding the methodology allows opportunities to reduce the limitations. While the *Doing Business* report has introduced changes in methodology of varying degrees every year, this year's report and last year's have implemented more substantive improvements. These changes reflect consultations that have taken place over the years with World Bank Group staff, country governments and the private sector and are being implemented against the background of the findings presented in 2013 by the Independent Panel on *Doing Business*.¹

As part of these changes, 8 of 10 sets of *Doing Business* indicators are being improved over a two-year period (table 3.1). The improvements are aimed at addressing two main concerns. First, in indicator sets that primarily measure the efficiency of a transaction or service provided by a government agency (such as registering property), the focus is being expanded to also cover aspects of the quality of that service. And second, in indicator sets that already measure some aspects of the quality of regulation (such as protecting minority investors),

the focus is being expanded to include additional good practices in the areas covered. In addition, some changes are aimed at increasing the relevance of indicators (such as the trading across borders indicators).

INTRODUCING NEW MEASURES OF QUALITY

Efficiency in regulatory transactions is important. Many research papers have highlighted the positive effect of efficiency improvements in areas measured by *Doing Business* on such economic outcomes as firm or job creation.² But increasing efficiency may have little impact if the service provided is of poor quality. For example, the ability to complete a property transfer quickly and inexpensively is important, but if the land

- This year's report introduces improvements in 5 of 10 *Doing Business* indicator sets. Part of an effort begun in last year's report, the changes have two main goals. The first is to expand the focus of indicator sets that primarily measure the efficiency of a transaction or service to also cover aspects of the quality of that service. The second is to expand the focus of indicator sets that already measure some aspects of the quality of regulation to include recent good practices in the areas covered.
- This year's report adds indicators of quality to four indicator sets: registering property, dealing with construction permits, getting electricity and enforcing contracts.
- In addition, the trading across borders indicators have been revised to increase their relevance. The underlying case study now focuses on the top export product for each economy, on auto parts as its import product and on its largest trading partner for the export and import products.

TABLE 3.1 Timeline of the changes in *Doing Business*

Doing Business 2015

Broadening the scope of indicator sets

- Getting credit
- Protecting minority investors
- Resolving insolvency

Doing Business 2016

Broadening the scope of indicator sets

- Registering property
- Dealing with construction permits
- Getting electricity
- Enforcing contracts

Increasing the relevance of indicator sets

- Trading across borders

records are unreliable or other features of the property rights regime are flawed, the property title will have little value.

Yet measures of the quality of business regulation at the micro level are scarce. By expanding its focus on regulatory quality, *Doing Business* will thus open a new area for research. The aim is to help develop greater understanding of the importance of the quality of business regulation and its link to regulatory efficiency and economic outcomes.

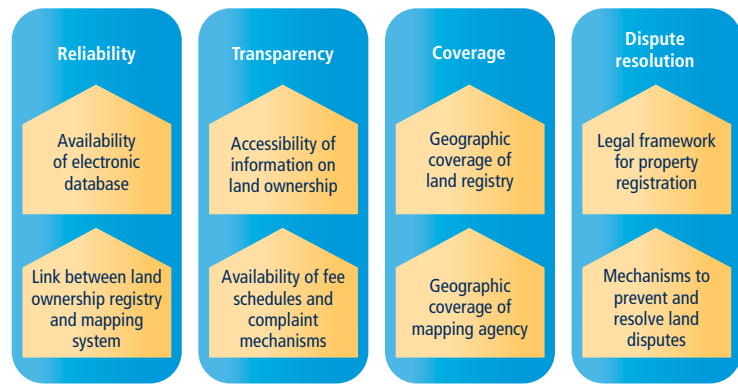
In this year's report four indicator sets are being expanded to also measure regulatory quality: registering property, dealing with construction permits, getting electricity, and enforcing contracts. A similar expansion for the paying taxes indicator set is being considered for next year. The new indicators being introduced emphasize the importance of having the right type of regulation. In general, economies with less regulation or none at all will have a lower score on the new indicators.

Registering property

The registering property indicator set assesses the efficiency of land administration systems by measuring the procedures, time and cost to transfer a property from one company to another. This year's report adds a new indicator to also encompass aspects of the quality of these systems. The quality of land administration index measures the reliability, transparency and geographic coverage of land administration systems as well as aspects of dispute resolution for land issues (figure 3.1). This new indicator is included in the distance to frontier score and therefore affects the ease of doing business ranking.

Ensuring the reliability of information on property titles is a crucial function of land administration systems. To measure how well these systems are performing this function, data for the quality of land administration index record the practices used in collecting, recording, storing and

FIGURE 3.1 What is being added to registering property



processing information on land parcels and property titles. Higher scores are given for practices that support data reliability, such as unifying, standardizing and synchronizing records across different sources and putting in place the necessary infrastructure to reduce the risk of errors.

The indicator also measures the transparency of information in land administration systems around the world. New data record whether land-related information is made publicly available, whether procedures and property transactions are transparent and whether information on fees for public services is easily accessible.

In addition, the indicator measures the coverage levels attained by land registration and mapping systems. A land administration system that does not cover the country's entire territory is unable to guarantee the protection of property rights in areas that lack institutionalized information on land. The result is a dual system, with both formal and informal land markets. To be enforceable, all transactions need to be publicly verified and authenticated at the land registry.

Finally, the indicator allows comparative analysis of land dispute resolution across economies. It measures the accessibility of conflict resolution mechanisms and the extent of liability for the entities or agents recording land transactions.

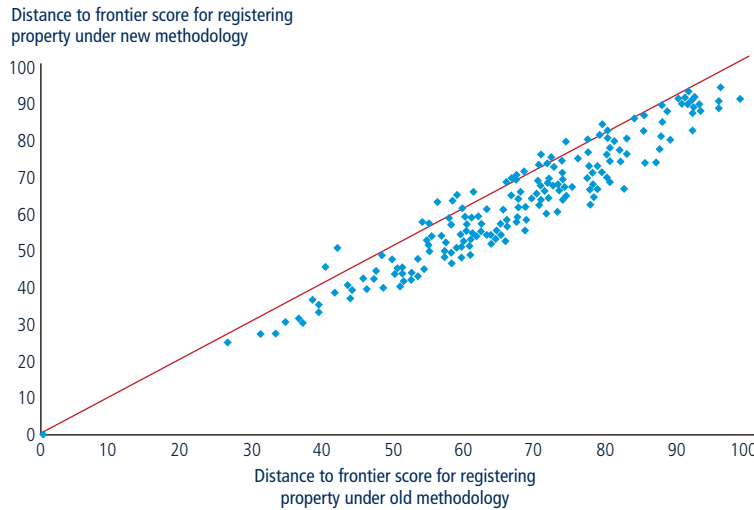
The quality of land administration index accounts for a quarter of the distance to frontier score for registering property, and the distance to frontier scores under the old and new methodologies are significantly correlated (figure 3.2). For a complete discussion of the methodology for the registering property indicators, see the data notes. For an analysis of the data for the indicators, see the case study on registering property.

Dealing with construction permits

The indicator set on dealing with construction permits measures the procedures, time and cost to comply with the formalities to build a warehouse—including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections. A new indicator added to the set in this year's report—the building quality control index—expands the coverage to also encompass good practices in construction regulation (figure 3.3). This new indicator is part of the distance to frontier score and therefore affects the ease of doing business ranking.

The building quality control index looks at important issues facing the building community. One is the need for clarity in the rules, to ensure that regulation of construction can fulfill the vital function of helping to protect the public from faulty building practices. To assess this

FIGURE 3.2 Comparing the distance to frontier scores for registering property under the old and new methodologies



Source: *Doing Business* database.

Note: Both distance to frontier scores are based on data for 2014. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the two scores is 0.96.

characteristic, the indicator examines how clearly the building code or building regulations specify the requirements for obtaining a building permit and how easily accessible the regulations are.

Beyond measuring the clarity and accessibility of regulations, the building quality control index assesses the effectiveness of inspection systems. Good inspection systems are critical to ensuring public safety. They can ensure that buildings comply with proper safety standards, reducing the chances of structural faults. And requirements that technical experts review the proposed plans before construction even begins can reduce the risk

of structural failures later on. The indicator covers quality control at three stages: before, during and after construction.

A measure of quality control before construction looks at one point: whether a licensed engineer or architect must verify that the architectural plans and drawings comply with the building regulations. Measures of quality control during construction examine two points: what types of inspections (if any) are required by law during construction; and whether inspections required by law are actually carried out (or, if not required by law, commonly occur in practice). Measures of quality control after construction also examine

two points: whether a final inspection is required by law to verify that the building was built in accordance with the approved plans and the building regulations; and whether the final inspection required by law is actually carried out (or, if not required by law, commonly occurs in practice).

The professionals who conduct the inspections play a vital part in ensuring that buildings meet safety standards. So it is important that these professionals be certified and that they have the necessary technical qualifications. And if safety violations or construction flaws occur despite their efforts, it is important to have a well-defined liability and insurance structure to cover losses resulting from any structural faults.

The building quality control index covers several points relating to these issues: what the qualification requirements are for the professionals responsible for reviewing and approving the architectural plans and for those authorized to supervise or inspect the construction; which parties are held legally liable for construction flaws or problems affecting the structural safety of the building once occupied; and which parties are required by law to obtain an insurance policy to cover possible flaws or problems affecting the structural safety of the building once occupied.

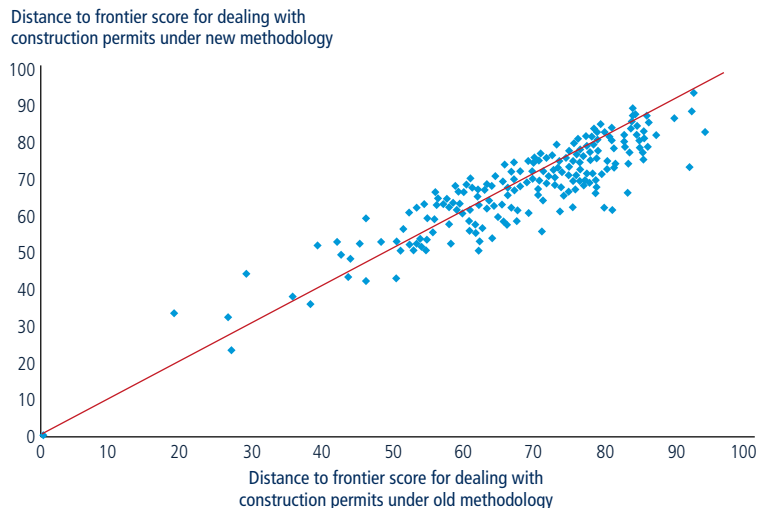
The new index accounts for a quarter of the distance to frontier score for dealing with construction permits, and the distance to frontier scores under the old and new methodologies are significantly correlated (figure 3.4). For a complete discussion of the methodology for the indicators on dealing with construction permits, see the data notes. For a fuller discussion of the new indicator and an analysis of the associated data, see the case study on dealing with construction permits.

FIGURE 3.3 What is being added to dealing with construction permits



- Clarity and accessibility of regulations
- Quality control before construction
- Quality control during construction
- Quality control after construction
- Liability and insurance regimes
- Professional certification requirements

FIGURE 3.4 Comparing the distance to frontier scores for dealing with construction permits under the old and new methodologies



Source: *Doing Business* database.

Note: Both distance to frontier scores are based on data for 2014. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the two scores is 0.92.

Getting electricity

The indicator set on getting electricity measures the efficiency of the process for obtaining an electricity connection for a standardized warehouse—as reflected in the procedures, time and cost required. While the efficiency of the connection process has proved to be a useful proxy for the overall efficiency of the electricity sector, these measures cover only a small part of the sector's performance. Beyond the complexity and high cost of getting an electricity connection, inadequate or unreliable power supply and the price of electricity consumption are

also perceived as important constraints on business activity, particularly in the developing world. To offer a more complete view of the electricity distribution sector, this year's report adds two new indicators, the reliability of supply and transparency of tariffs index and the price of electricity (figure 3.5). While the first indicator is included in the distance to frontier score and ease of doing business ranking, the second one is not.

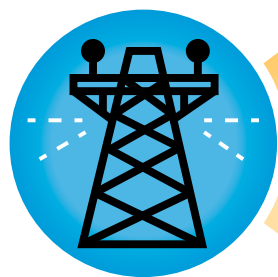
To assess the reliability of the electricity supply, *Doing Business* measures both the duration and the frequency of

power outages. To do so, it uses the system average interruption duration index (SAIDI) and the system average interruption frequency index (SAIFI). SAIDI measures the average total duration of outages, and SAIFI the average number of outages, experienced by a customer over the course of a year. These two measures are typically recorded by utility companies, but collecting the data can be challenging because their availability and quality depend on the utilities' ability (and resources) to collect the underlying information.

The SAIDI and SAIFI measures are used to highlight extreme cases of power outages (as measured against a threshold defined by *Doing Business*). For economies where power outages are not extreme, the quality of monitoring and the role of the monitoring agency or regulator become the crucial factors being measured. Data for the reliability of supply and transparency of tariffs index record the methods used by electricity distribution companies to monitor power outages and restore power supply and the role of the regulator in monitoring outages. Data also record the existence of financial deterrents to limit outages.

Beyond a reliable electricity supply, transparency around tariffs is also important for customers, to enable them to forecast the cost of their energy consumption and deal effectively with future price increases. Thus the new index also measures the accessibility of tariffs to customers and the level of transparency around changes in tariff rates.

FIGURE 3.5 What is being added to getting electricity



- Duration and frequency of power outages
- Tools to monitor power outages
- Tools to restore power supply
- Regulatory monitoring of utilities' performance
- Financial deterrents aimed at limiting outages
- Transparency and accessibility of tariffs
- Price of electricity consumption

To measure the price of electricity consumption, *Doing Business* records the total monthly electricity bill for a standardized warehouse that stores goods and operates in the largest business city of the economy (in 11 economies it also collects data for the second largest business city). The price of electricity is presented in cents per kilowatt-hour. (The data on the price of electricity are available on the

FIGURE 3.6 Comparing the distance to frontier scores for getting electricity under the old and new methodologies



Source: *Doing Business* database.

Note: Both distance to frontier scores are based on data for 2014. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the two scores is 0.88.

Doing Business website, at <http://www.doingbusiness.org>.)

The reliability of supply and transparency of tariffs index accounts for a quarter of the distance to frontier score for getting electricity, and the distance to frontier scores under the old and new methodologies are significantly correlated (figure 3.6). For a detailed discussion of the methodology for the getting electricity indicators, see the data notes. For a comprehensive presentation of the new indicators and an analysis of the data, see the case study on getting electricity.

Enforcing contracts

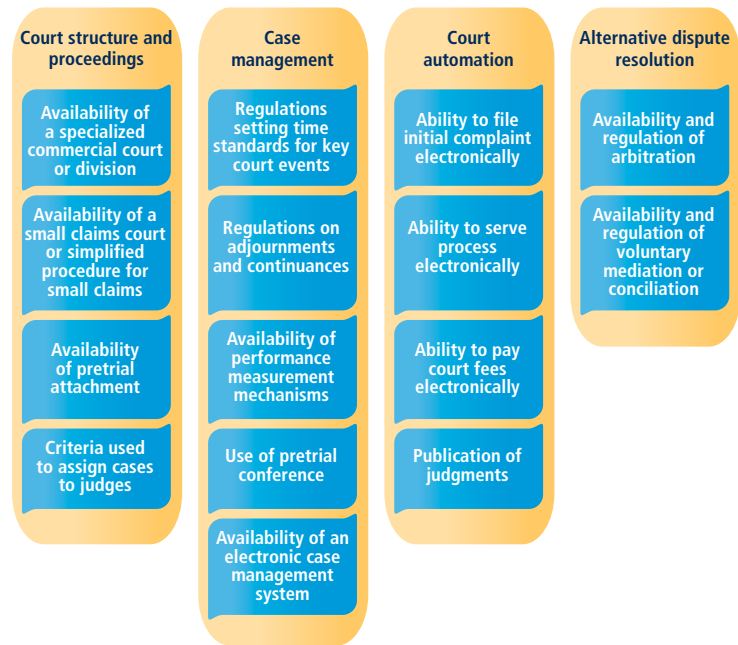
The enforcing contracts indicators have focused on the efficiency of the commercial court system, measuring the procedures, time and cost to resolve a commercial dispute between two firms. This year's report expands the indicator set to also cover aspects of the quality of judicial processes, focusing on well-established good practices that promote quality and efficiency in the court system (figure 3.7).

The aim is to capture new and more actionable aspects of the judicial system in each economy, providing a picture of

judicial efficiency that goes beyond the time and cost associated with resolving a dispute. Advances in technology and in mechanisms for alternative dispute resolution have changed the face of judiciaries worldwide and led to the evolution of new good practices. Expanding the scope of the enforcing contracts indicators to cover the use of such practices ensures the continued relevance of these indicators.

A new indicator, the quality of judicial processes index, measures whether an economy has adopted a series of good practices across four main areas: court structure and proceedings, case management, court automation and alternative dispute resolution. For court structure and proceedings the indicator records several aspects, including whether there is a specialized commercial court or division and whether a small claims court or simplified procedure for small claims is available. For case management the indicator records, for example, whether there are regulations setting time standards for

FIGURE 3.7 What is being added to enforcing contracts



key court events and whether electronic case management is available.

For court automation the indicator covers such aspects as whether the initial complaint can be filed electronically, whether process can be served electronically and whether the court fees can be paid electronically. And for alternative dispute resolution the indicator records the availability of arbitration and voluntary mediation or conciliation and aspects of the regulation of these methods of dispute resolution.

The quality of judicial processes index, which replaces the indicator on the number of procedures to enforce a contract, accounts for a third of the distance to frontier score for enforcing contracts. Analysis shows significant correlation between the distance to frontier scores under the old and new methodologies (figure 3.8). The data notes provide a detailed discussion of the methodology for the enforcing contracts indicators, while the case study on enforcing contracts provides a more complete

discussion of the new indicator and an analysis of the underlying data.

INCREASING THE RELEVANCE OF INDICATORS

Using feedback from academics, policy makers and other data users, *Doing Business* continually improves its indicators with the aim of maintaining their relevance. This year's report introduces substantial changes to the trading across borders indicators to increase their usefulness for policy and research.

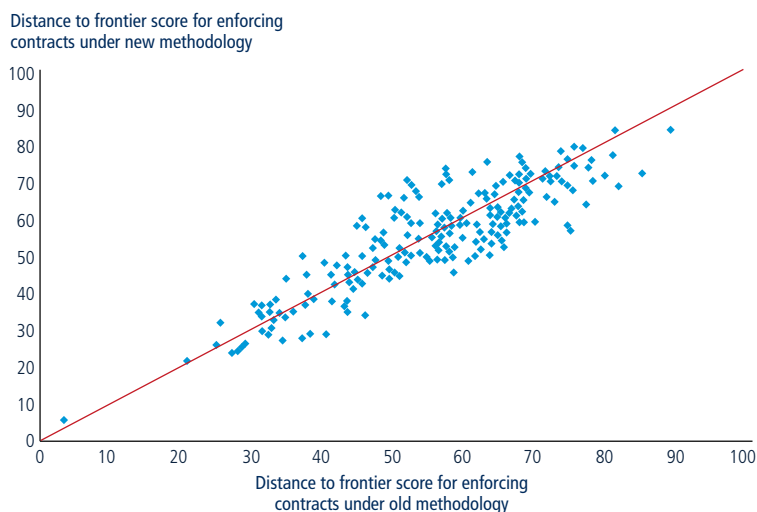
The trading across borders indicators measure the time and cost (excluding tariffs) associated with exporting and importing a shipment of goods to and from the economy's main trading partner. In past years' reports the standardized case study assumed that the goods were one of six preselected products. This represented an important shortcoming, especially for the export process: while economies tend to import a bit of everything, they export only products of comparative advantage.

To increase the relevance of the trading across borders indicators, this year's report changes the standardized case study to assume different traded products for the import and export process. In the new case study each economy imports a shipment of 15 metric tons of containerized auto parts from its natural import partner—the economy from which it imports the largest value (price times quantity) of auto parts. And each economy exports the product of its comparative advantage (defined by the largest export value) to its natural export partner—the economy that is the largest purchaser of this product. To identify the trading partners and export product for each economy, *Doing Business* collected data on trade flows for the most recent four-year period from international databases such as the United Nations Commodity Trade Statistics Database (UN Comtrade).

The new case study also reflects new assumptions about the mode of transport used in trading across borders. In the previous case study, trade was assumed to be conducted by sea, with the implication that calculations of time and cost for landlocked economies included those associated with border processes in transit economies. In the new case study, natural trading partners may be neighboring economies that can be accessed by land. Thus trade is assumed to be conducted by the most widely used mode of transport (whether sea, land, air or some combination of these), and any time and cost attributed to an economy are those incurred while the shipment is within that economy's geographic borders.

Because the new methodology also allows for regional trade, it emphasizes the importance of customs unions. One economy receiving a better score under the new methodology is Croatia, which is part of the European Union (figure 3.9). In the new case study Croatia both exports to a fellow EU member (Austria) and imports from one (Germany), and documentary and border compliance therefore take very little time and cost

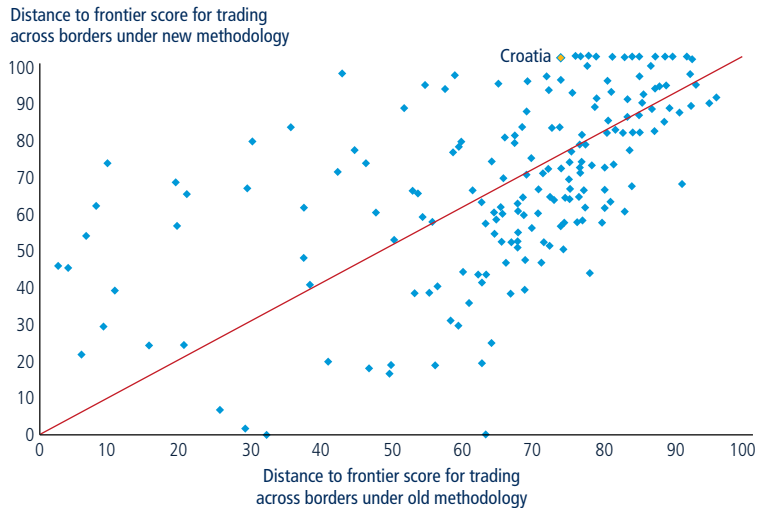
FIGURE 3.8 Comparing the distance to frontier scores for enforcing contracts under the old and new methodologies



Source: *Doing Business* database.

Note: Both distance to frontier scores are based on data for 2014. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the two scores is 0.87.

FIGURE 3.9 Comparing the distance to frontier scores for trading across borders under the old and new methodologies



Source: *Doing Business* database.

Note: Both distance to frontier scores are based on data for 2014. The 45-degree line shows where the scores under the old and new methodologies are equal. The correlation between the two scores is 0.56.

as measured by *Doing Business*. In the old case study, by contrast, Croatia's export and import partners were outside the European Union, resulting in much greater measures of the time and cost for documentary and border compliance.

This year's report also introduces two other changes for the trading across borders indicators. First, it is no longer assumed that payment is made through a letter of credit. And second, while data on the documents needed to export and import are still collected, these data are no longer included when calculating the ranking on the ease of trading across borders—because for traders, what matters in the end is the time and cost to trade.

The time and cost for documentary and border compliance to export and import are part of the distance to frontier score and therefore affect the ease of doing business ranking. The time and cost for domestic transport to export and import are not included in the distance to frontier score, though the data for these indicators are published in this year's report. For a fuller discussion of the methodology for

the trading across borders indicators, see the data notes. For an analysis of the data for the indicators, see the case study on trading across borders.

CHANGES UNDER CONSIDERATION

The paying taxes indicators measure the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. The indicators now measure only the administrative burden associated with preparing, filing and paying three major types of taxes (profit taxes, consumption taxes and labor taxes). But the postfiling process—involving tax audits, tax refunds and tax appeals—can also impose a substantial administrative burden on firms. An expansion of the paying taxes indicator set to include measures of the postfiling process is under consideration for next year's report.

A new indicator would capture the process and time related to auditing tax

returns for correctness, which may involve desk audits, field audits or inspections; the process and time involved in claiming refunds of value added taxes; and the administrative process and time related to the first level of the tax appeal process.

For a complete discussion of the methodology for the paying taxes indicators, see the data notes.

NOTES

1. For more information on the Independent Panel on *Doing Business* and its work, see its website at <http://www.dbrpanel.org>.
2. For more details, see the chapter in *Doing Business 2014* on research on the effects of business regulations.