

Doing business in 2004

Understanding Regulation

Andrea Goldstein

Private Sector Development Vice Presidency

World Bank Group

(based on work by Monitoring and Analysis Unit)

May 2004



Doingbusiness indicators

2004



2005



2006

- Regulation of Entry
- Labor Regulations
- Contract Enforcement
- Credit Markets
 - Credit information
 - Collateral
- Bankruptcy

- Bureaucratic Hassle
 - Business licenses
 - Inspections
- Corporate Governance
- Property titling

- Taxation
- Law and Order
- Trade Infrastructure
 - Customs

Products: Report, academic papers, country summaries, website database
rru.worldbank.org/doingbusiness

Example of the methodology

Starting a business

Case Study

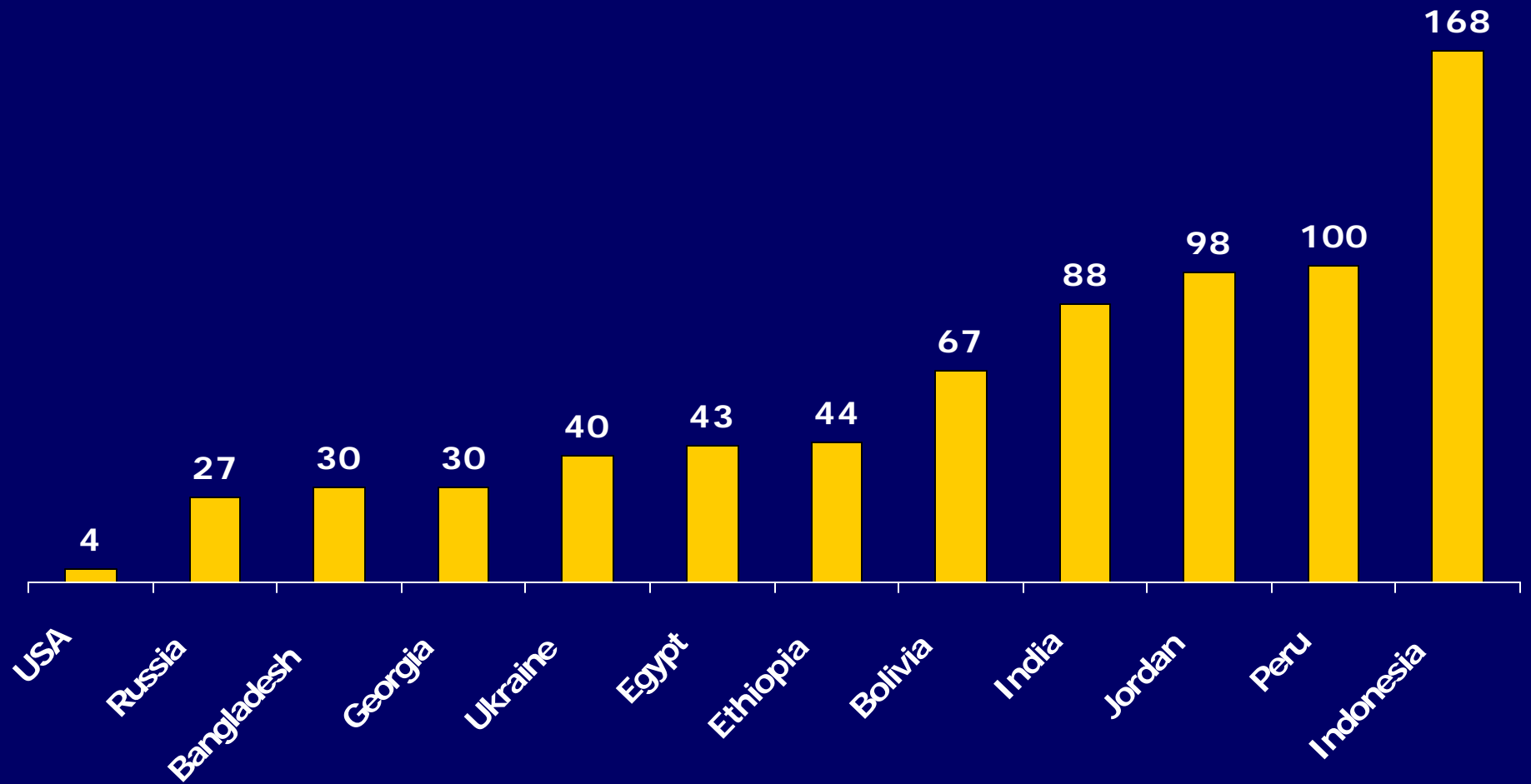
- Limited liability company
- Domestic SME
- Largest city
- General commercial activity
- Capital = 10 x GNI per capita
- Turnover = 10 x capital

- How to enter?

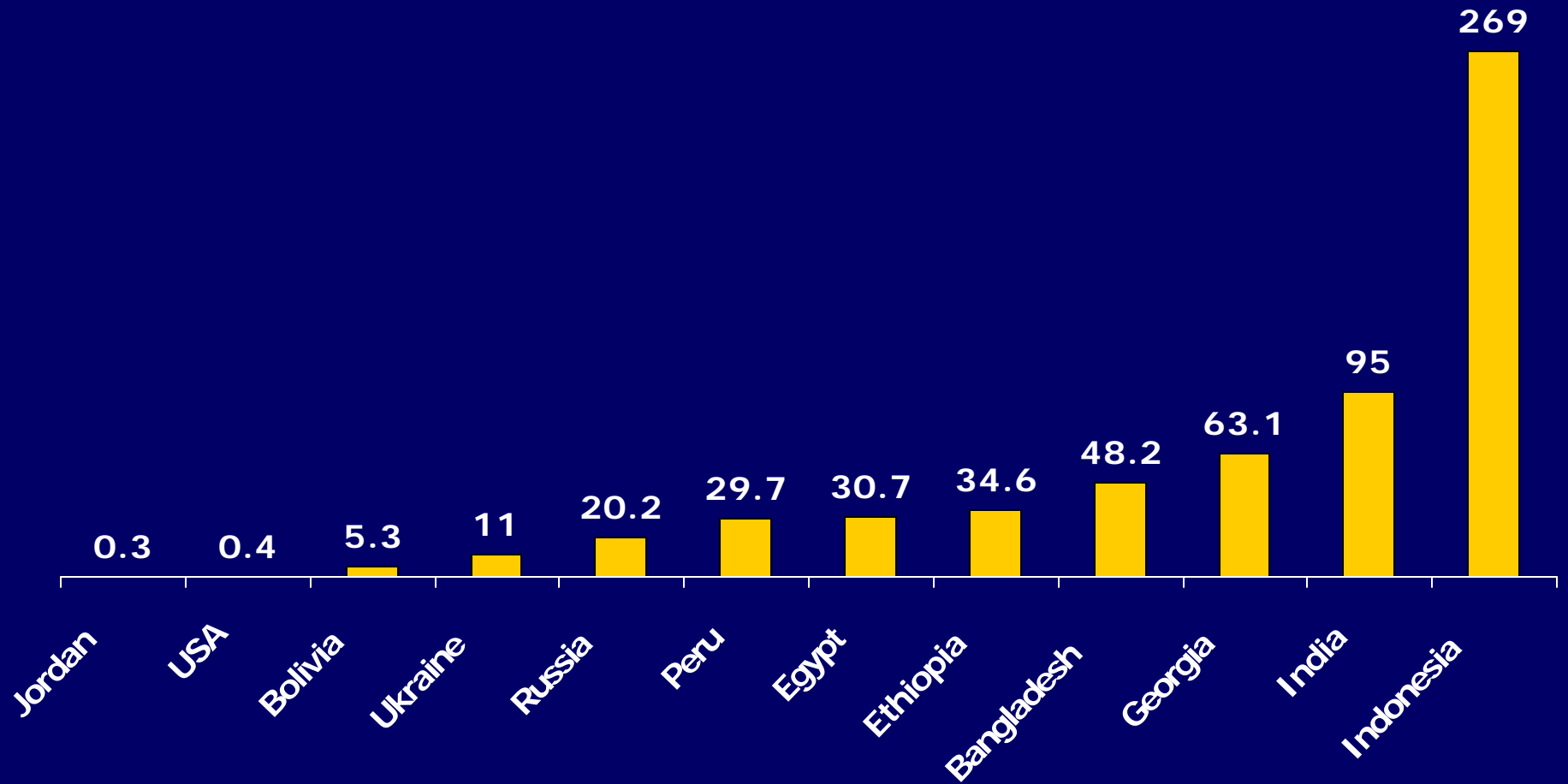
Indicators

- Procedures
- Time
- Cost (% GNI per capita)
- Minimum Capital

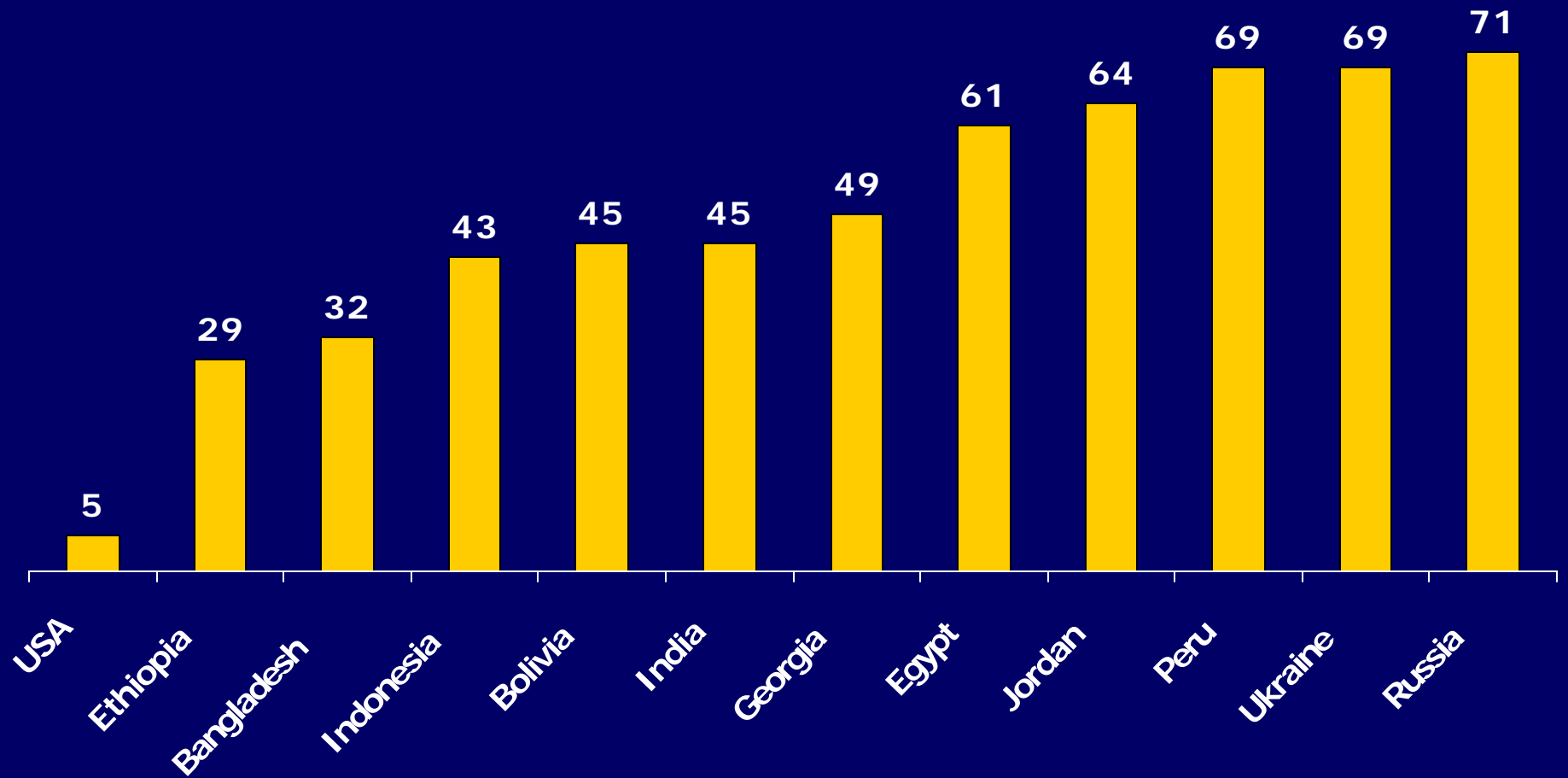
Days to start a business



Cost to enforce a contract



Flexibility of firing



Finding #1

Poor countries regulate business the most

- Because checks and balances in government are the weakest ...
- making it possible to use regulation to harass entrepreneurs and extract bribes is the highest

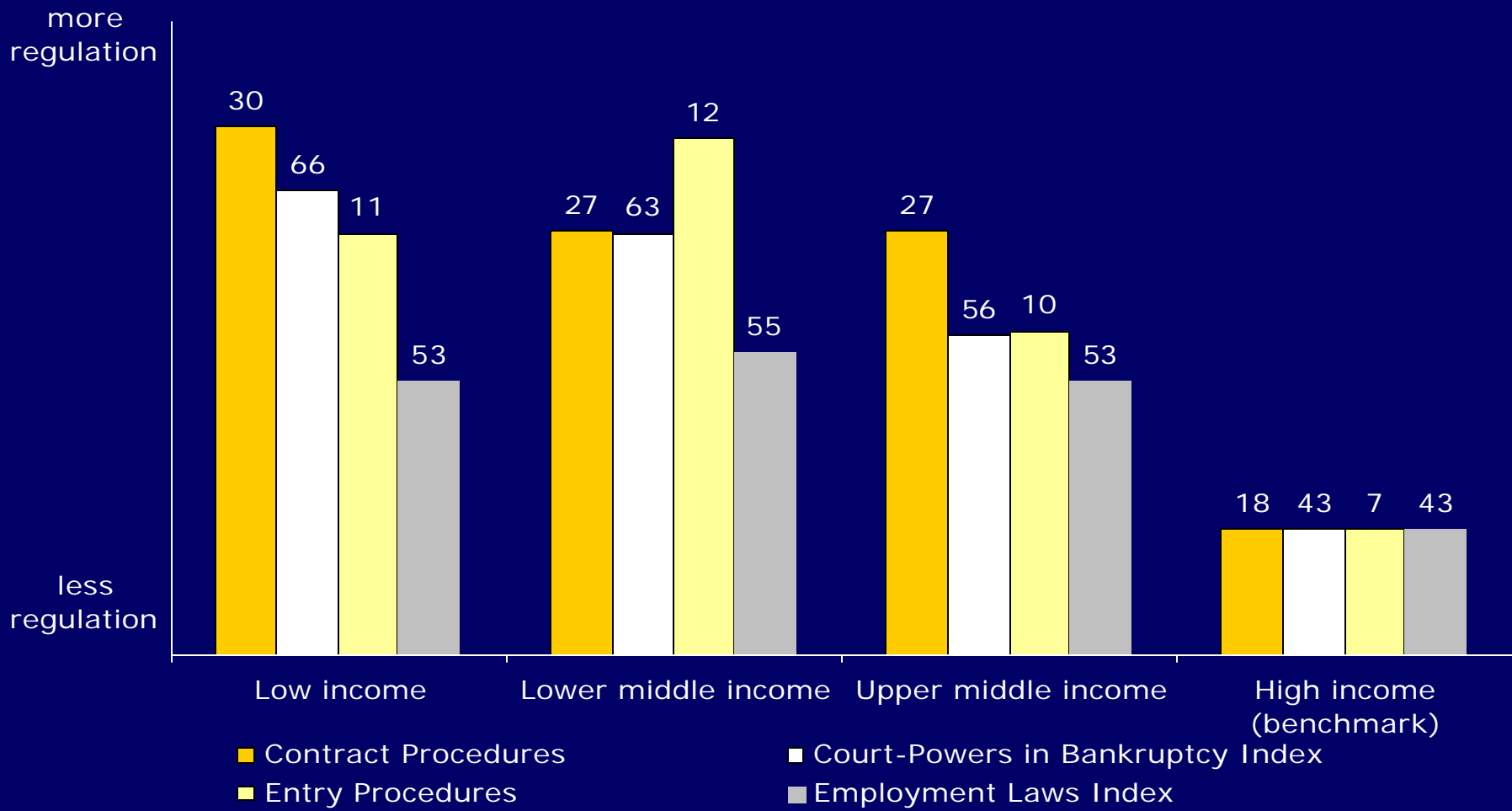
Countries that regulate business the most

- Bolivia
- Burkina Faso
- Chad
- Costa Rica
- Guatemala
- Mali
- Mozambique
- Paraguay
- The Philippines
- Venezuela

Countries that regulate business the least

- Australia
- Canada
- Denmark
- Hong Kong (China)
- Jamaica
- The Netherlands
- New Zealand
- Singapore
- Sweden
- United Kingdom

Who regulates more?

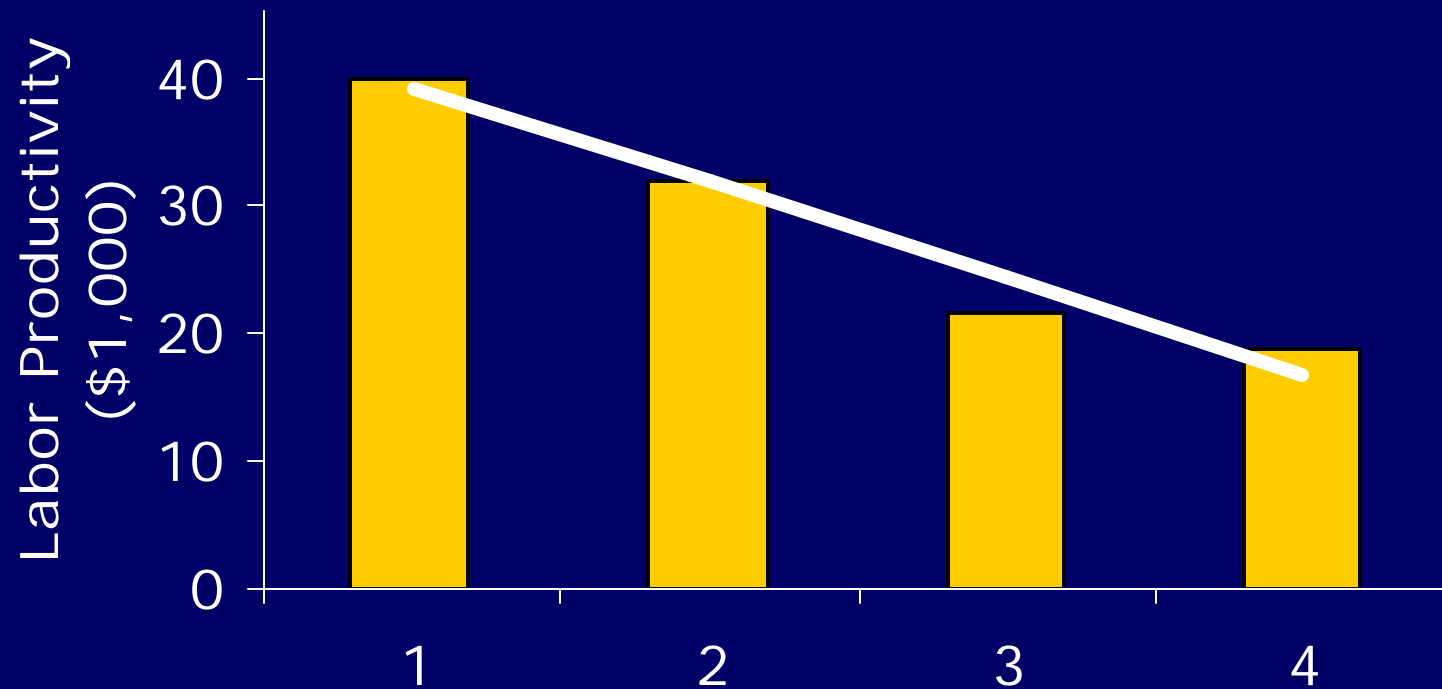


Finding #2

Heavier regulation generally brings bad economic and social outcomes

- Longer delays
- Higher cost of public services with no improvement in quality
- Fewer jobs created
- Lower productivity and investment
- Higher corruption → disadvantaged groups suffer the most

More procedures, less productivity

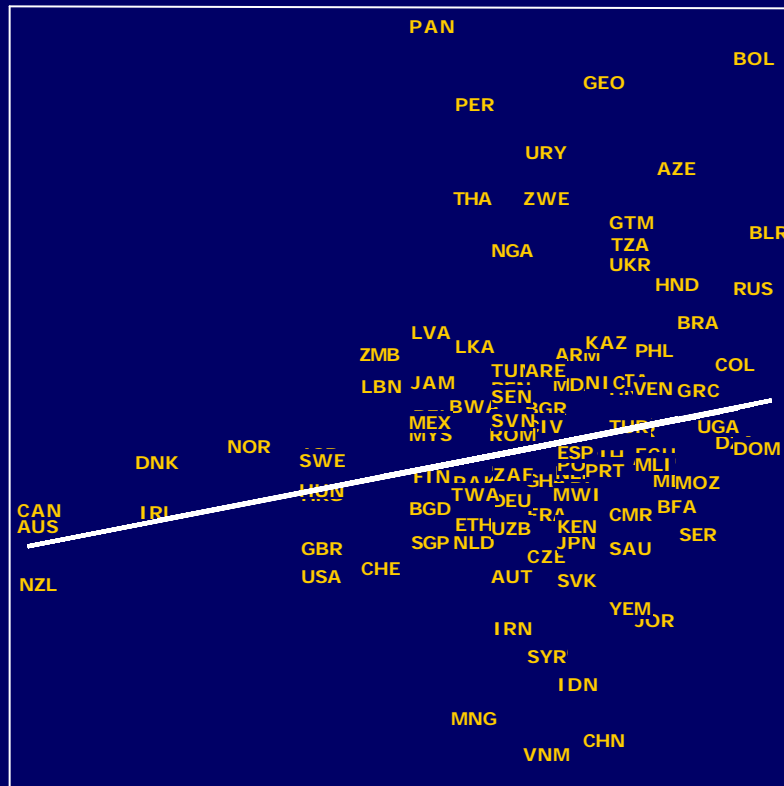


Countries ranked by procedures to start a business (quartile)

Who loses? The poor and the disadvantaged

A Larger Informal Sector

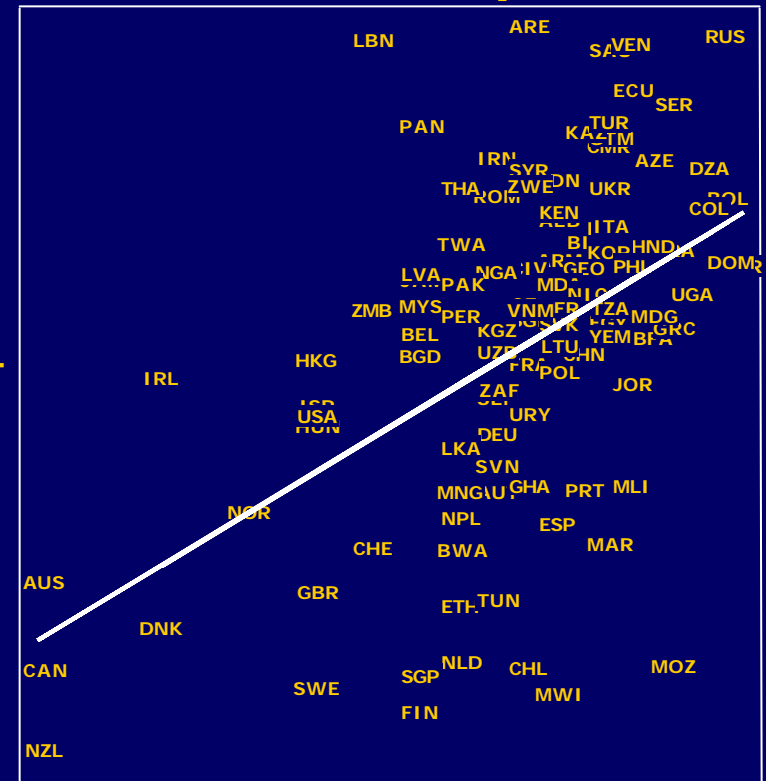
Informal Employment



Procedures to Start a Business

More Corruption

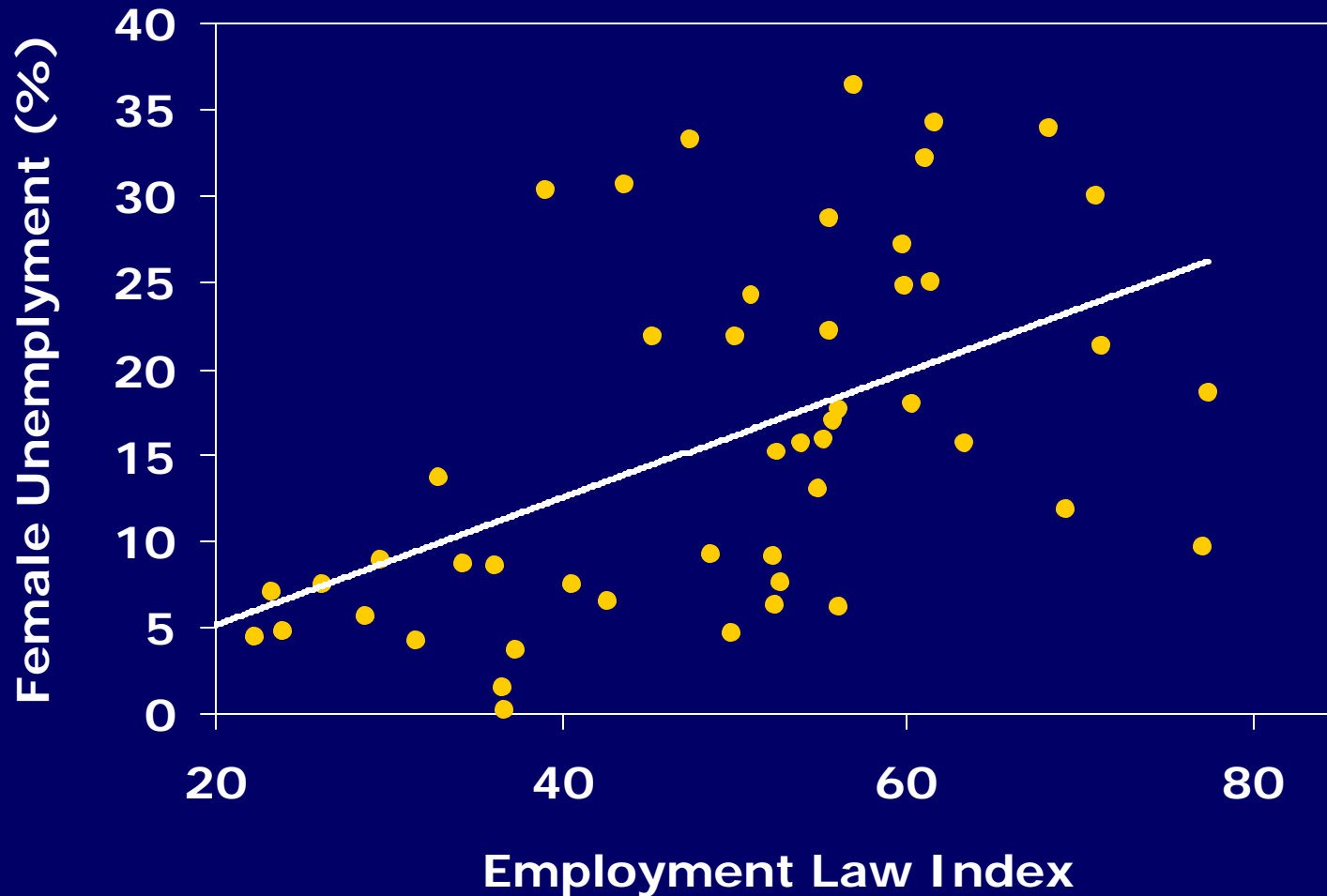
Corruption



Procedures to Start a Business

Partial scatter-plots controlling for income per capita. Relationships statistically significant at 5% level.

One example: Female unemployment



Partial scatter-plots controlling for income per capita. Relationships statistically significant at 5% level.

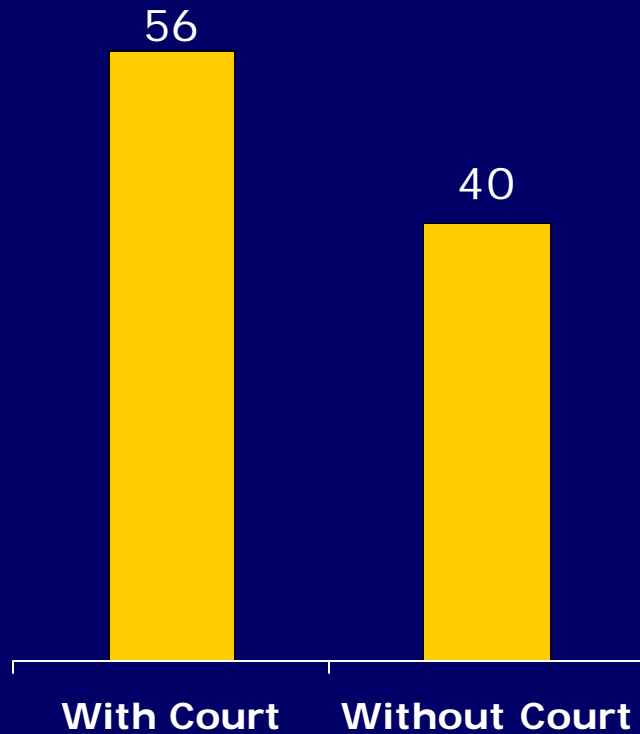
Finding #3

One size often fits all – in the manner of business regulation

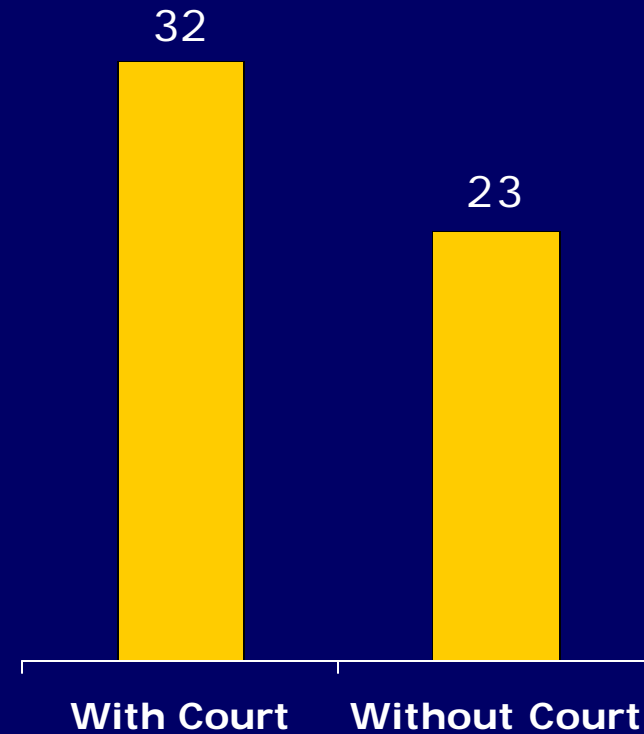
- Good practices exist in poor countries
- Good practices can be transferred from one country to another

A lesson for everyone: Don't use courts in company registration

Days to Register

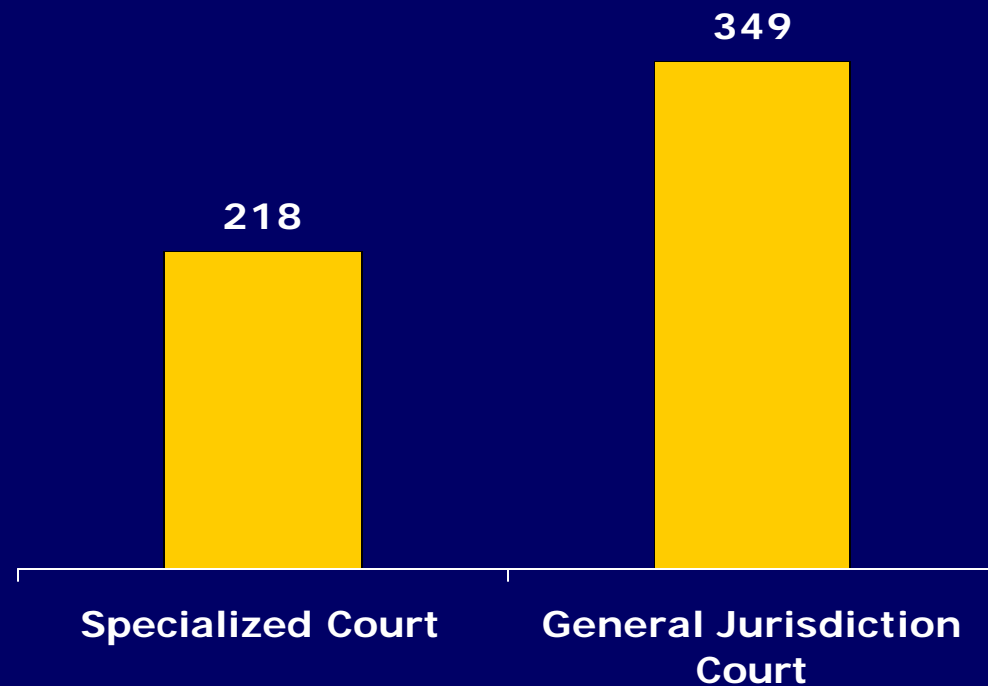


Cost to Register



Good reform practices: specialized courts

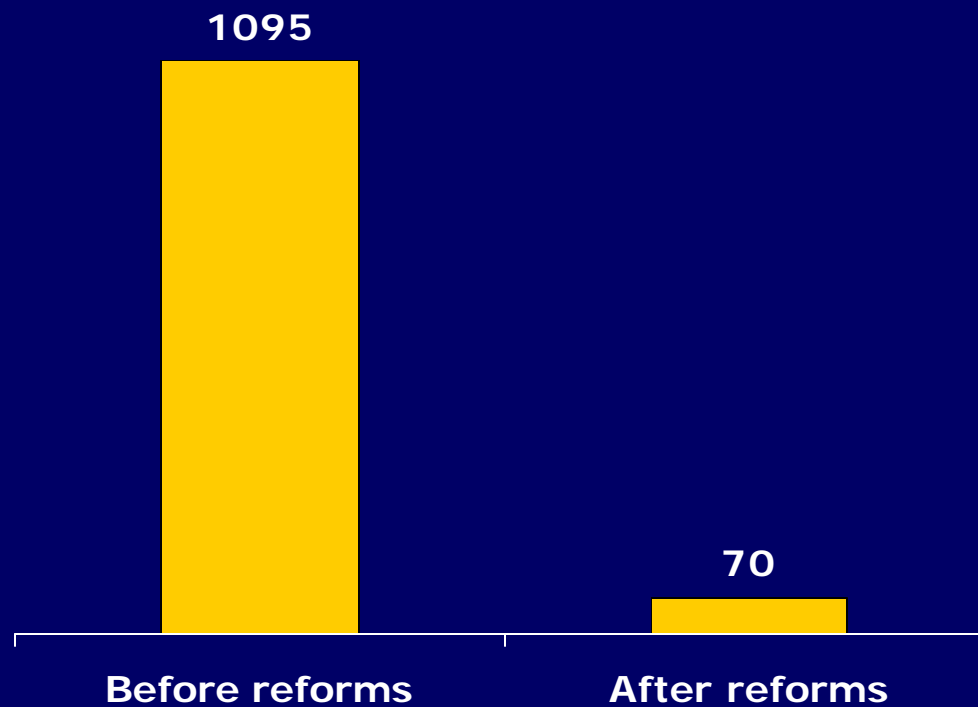
Time to Enforce a Contract



Good reform practices: summary judgments in collateral enforcement

Example: Moldova

Days to recover collateral



Benefits are large

Example: Starting a business

- Sri Lanka is at the 25th percentile of IDA countries
 - 8 procedures, 45 days, 11% income per capita
- If all 81 IDA eligible countries reach this level:

\$5.5 billion additional annual economic growth

Equivalent to almost 50% USAID budget resources