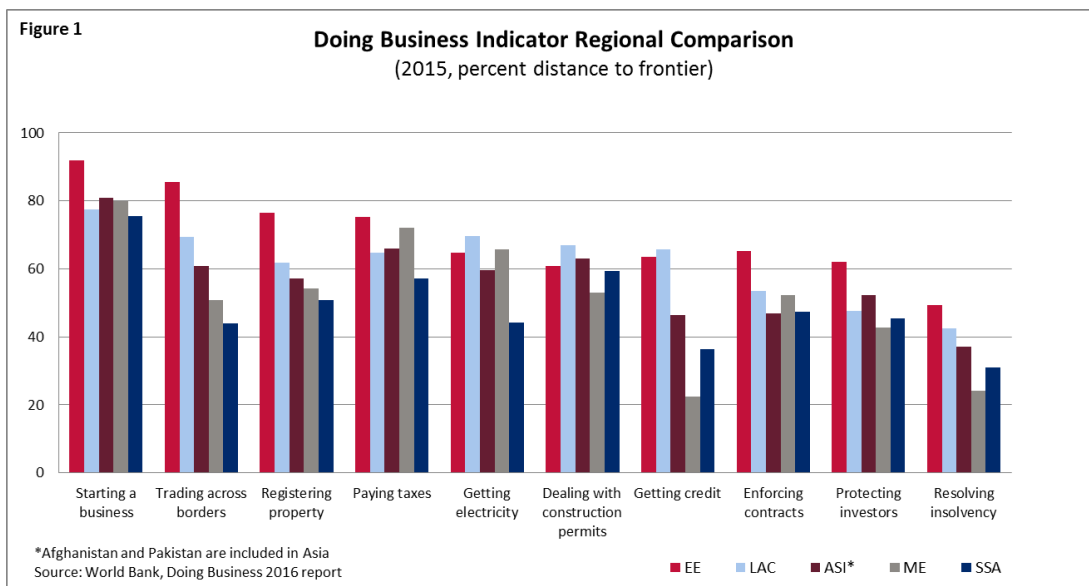


Doing Business 2016: Measuring Regulatory Quality and Efficiency

Since 2003, the Doing Business report has measured the ease of doing business in global economies, focusing on efficiency of and compliance with regulations. The 2016 report covers ten topics of business regulation, from trading across borders to building permits, in 189 economies. Over the last two years the report’s methodology has expanded from measuring regulatory efficiency and costs of compliance to including measures of regulatory quality.

Unless otherwise noted, this snapshot focuses on countries that received at least \$2 million in USAID assistance in fiscal year 2014 and are not classified as ‘high income’ by the World Bank. The snapshot often references ‘distance to frontier’ scores. The ‘frontier’ in these measures represents the best performance on each topic across all economies in the Doing Business sample since 2005. A higher percentage indicates an economy is closer to the frontier for that specific topic.

Performance by Region



Economies in Europe and Eurasia (EE) performed better than other USAID regions in seven out of ten Doing Business indicators; Latin American and Caribbean (LAC) economies performed best on the remaining three: dealing with construction permits, getting credit, and getting electricity. All USAID regions performed relatively high on starting a business, with Sub-Saharan Africa (SSA) at the farthest distance (76 percent) from the frontier. However, there were some topics in which all regions performed relatively poorly. Resolving insolvency was an area concern for all USAID regions, with no region performing higher than an average of 50 percent from the frontier. Getting credit also saw



generally low scores, particularly amongst economies in the Middle East (ME) and SSA, indicating that access to finance could be a target area for future development projects in these regions.

USAID-assisted Most and Least Improved

Table 1: USAID-assisted Country Progress on Doing Business Overall Distance to Frontier (DTF)			
Country	2014 DTF	2015 DTF	% Change
<i>Most Improved USAID-assisted Countries</i>			
Burma (Myanmar)	40.09	45.27	12.9%
Mauritania	40.41	44.74	10.7%
Congo (Kinshasa)	34.79	38.14	9.6%
Uganda	51.8	56.64	9.3%
Kenya	53.6	58.24	8.7%
Costa Rica	63.59	68.55	7.8%
<i>Least Improved USAID-assisted Countries</i>			
Albania	66.77	60.5	-9.4%
South Sudan	35.56	34.78	-2.2%
Rwanda	68.88	68.12	-1.1%
Libya	31.99	31.77	-0.7%
Zambia	60.69	60.5	-0.3%
Lebanon	56.5	56.39	-0.2%

Source: World Bank, Doing Business 2016 report

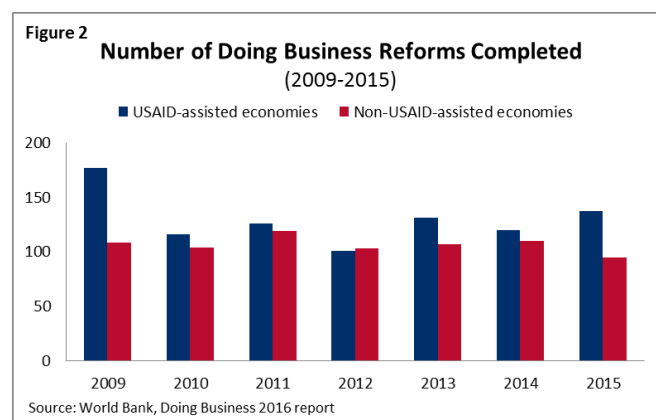
This snapshot also ranks USAID-assisted countries on their progress in their overall distance to frontier score since 2014. Burma, which has made significant economic and political reforms in recent years, made the largest improvement in the overall distance to the frontier score in the last year. It moved 13 percent closer to the frontier, but still scores at 45 percent to the overall frontier. Burma improved its position by eliminating minimum capital requirements for local companies and reducing the number of approvals required to obtain an electric connection. Additionally, Mauritania, Congo (Kinshasa), Uganda, and Kenya ranked in the top six most improved USAID-assisted countries, illuminating significant progress in SSA.

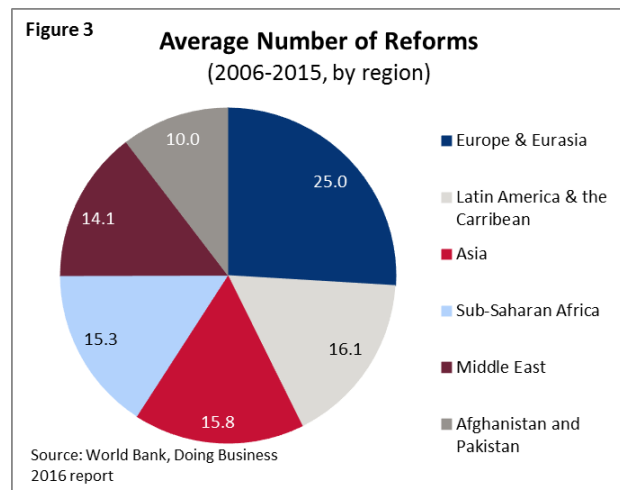
Albania regressed the most of any USAID country, moving 9 percent farther away from the frontier and falling 35 places in the Doing Business ranking to 97th of 189 economies. Albania's change was driven mostly by lower performance on the obtaining construction

permits indicator after it suspended the issuance of building permits. Although eleven other USAID-assisted countries also moved farther from the frontier over the last year, the magnitudes of these shifts were much smaller than in Albania.

USAID-assisted Country Reforms

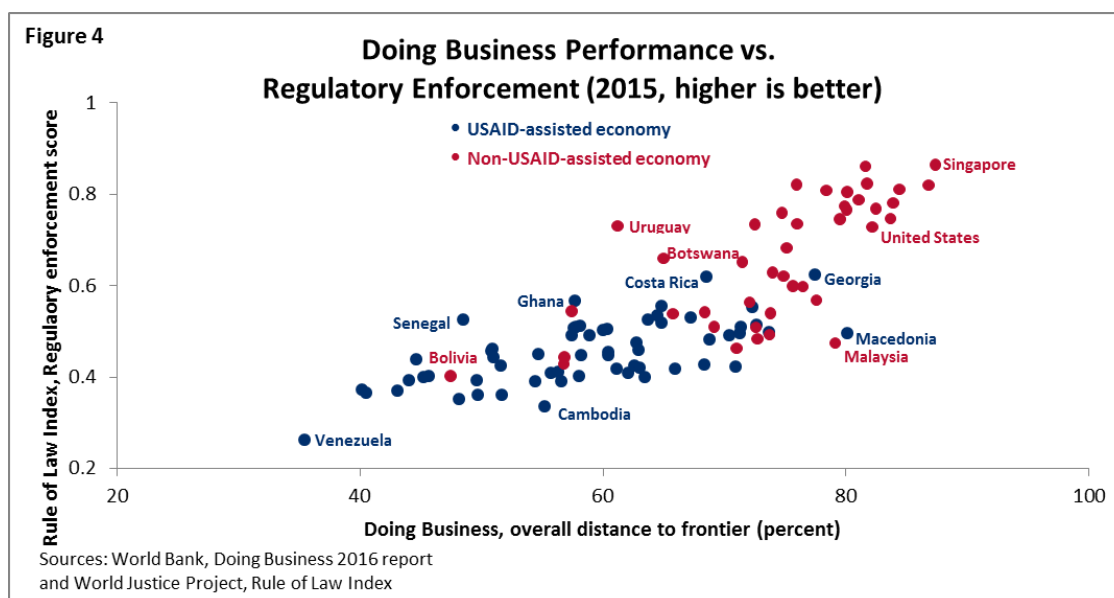
Doing Business also tracks reforms which make business processes easier in the economies covered by the report. USAID-assisted economies generally implement greater numbers of reforms than economies that do not receive USAID assistance. In 2015, USAID economies implemented 44 percent more reforms than their non-USAID counterparts, the highest number since 2009. Since 2006, USAID economies in EE have instituted the greatest average number of reforms. Most USAID-assisted countries in other regions, such as LAC, ASI, and SSA, instituted fewer reforms, averaging about 16. Afghanistan and Pakistan have the lowest average number of reforms, at 10.





The greatest number of reforms since 2006 for USAID-assisted economies occurred in the starting a business indicator. This is reflected by the relatively strong performance across all USAID economies on this topic. The fewest number of reforms have been made in the getting electricity indicator set. Only 64 reforms, or about 5 percent of all reforms made by USAID-assisted countries since 2006, have been made towards resolving insolvency, a topic in which most USAID regions have historically performed relatively poorly.

Focus on Regulatory Quality and Efficiency



While Doing Business has always sought to quantify regulatory efficiency, more indicators of regulatory quality were introduced over the previous two years in order to provide a more holistic picture of the regulatory environment in different economies. For example, the current report adds indicators such as the quality of building regulation and land administration system and the reliability of electricity supply to attempt to measure regulatory quality. These measures complement the Rule of Law Index, published by the World Justice Project, which also seeks to measure regulatory quality through the ability of economies to enforce and implement regulations.

Figure 4 compares economies’ distance to the overall Doing Business frontier to their performance on the regulatory enforcement factor of the Rule of Law Index. The chart shows that non-USAID-assisted economies tend to perform better on both measures than USAID-assisted economies. However, it also

demonstrates that there is a strong correlation (correlation coefficient¹: 0.8) between the two scores: countries that perform better on the Doing Business report tend to also receive higher regulatory enforcement scores on the Rule of Law Index. This finding suggests that the efficiency and quality of regulations, as measured by Doing Business, are closely related to the effective enforcement of these regulations.

Of USAID-assisted economies, Georgia performed highest on the regulatory enforcement score and is among the top three closest economies to the overall Doing Business frontier. Costa Rica and Ghana also scored strongly on the regulatory enforcement factor in the Rule of Law Index, though they did not perform as strongly on the Doing Business distance to frontier. Although Macedonia placed closest to the overall Doing Business distance to frontier of any USAID-assisted country, it scored near the middle of USAID countries on the regulatory enforcement factor. This indicates that measures of regulatory quality and efficiency do not necessarily always correspond to estimates of regulatory enforcement.

Spotlight on Trade

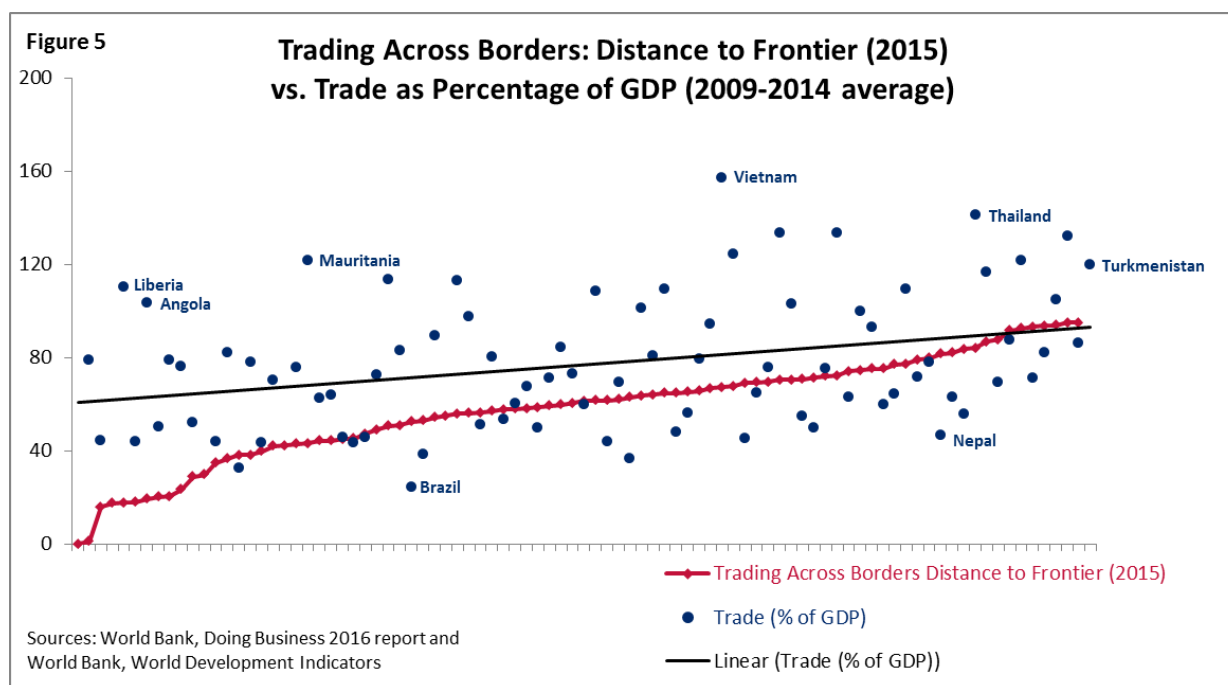


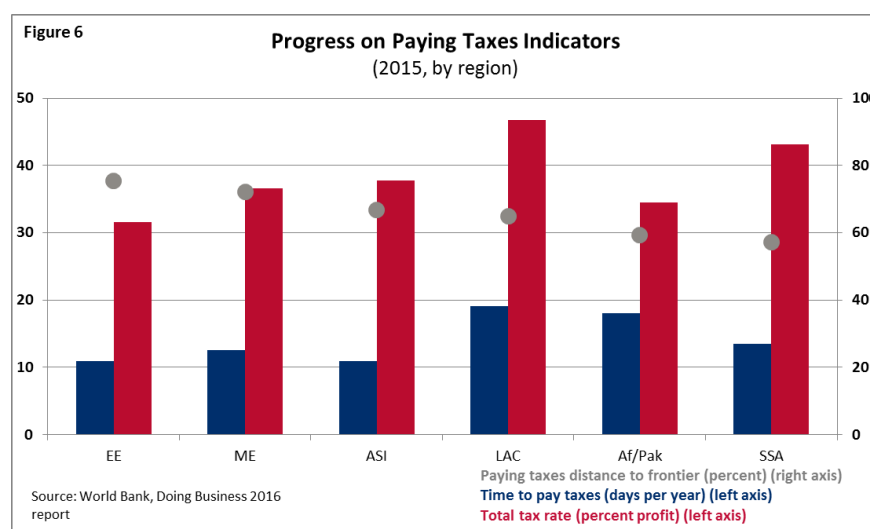
Figure 5 shows the relationship between an economy's trading across borders distance to frontier score and trade as a percentage of its GDP. As the trade-to-GDP linear trend line shows, countries that perform better on the trading across borders topic tend to have higher trade-to-GDP ratios. Certain countries stand out as outliers in the chart. For example, Brazil is relatively far from the frontier, at 52 percent, but trade only makes up 24 percent of its GDP. However, Mauritania shows similar performance on the trading across borders topic, at 43 percent to the frontier, but relies on trade for a much greater share of its GDP (122 percent). Liberia and Angola also stand out as outliers: both

¹ A correlation coefficient measures the strength and direction of a linear relationship between two variables. A coefficient of +1 indicates a perfect positive relationship, 0 represents no relationship, and -1 is a perfect negative relationship.

economies performed farther than 20 percent to the overall Doing Business frontier, but rely on trade for more than 100 percent of their GDP. In the case of Angola, the high trade-to-GDP ratio is led by a large volume of petroleum exports, whereas in Liberia it is driven by high import values.

The relationship between a country's performance on trading across borders and its reliance on trade can help guide policy on which countries should be targeted for trade capacity building assistance. Countries that perform well on the trading across borders topic but have low trade-to-GDP ratios would likely not benefit from a trade program as much as an economy like Mauritania, which is relatively far from the trading across borders frontier but depends on trade for a substantial amount of its economy.

Spotlight on Taxes



The Doing Business report includes data on the efficiency of paying taxes in each economy, an area of particular interest to USAID due to the rising importance of domestic resource mobilization. EE performs best on the overall distance to the paying taxes frontier, with the least amount of time to pay taxes (11 days per year) and the lowest average total tax rate (32 percent).

LAC, although not the farthest region from the frontier, requires the greatest average amount of time to pay taxes (19 days) and the highest total average tax rate (47 percent). SSA economies rank farthest from the frontier on average, averaging only 57 percent from the paying taxes frontier. This suggests that LAC and SSA economies could benefit from creating more efficient tax systems in order to enhance domestic resource mobilization.

Additional Information

For questions or more information, please contact the author, Ryan Whalen, at rwhalen@usaid.gov. To access the complete country Doing Business dataset, visit the International Development and Economic Analysis (IDEA) website at <https://idea.usaid.gov>.

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