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How Businesses See Government

Responses from Private Sector

Surveys in 69 Countries

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Foreword

This discussion paper draws on a survey of private sector businesses conducted in preparation for the World Bank's *World Development Report 1997* and on parallel surveys in OECD countries. Earlier World Bank publications by the same authors based on these surveys took a regional approach and dealt with up to 25 subject matters included in the survey. This discussion paper focuses on only one of the subject matters in the survey: perceived government-related obstacles to doing business, and reports business responses by groupings of three or four countries (down to two in the case of some OECD countries), thereby breaking new ground.

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Abstract

In preparation for the *World Development Report 1997* we conducted a world-wide private sector survey which included a part on government-related obstacles to doing business. Entrepreneurs were asked to rate a list of 15 obstacles for their seriousness. This paper presents the results of almost 4000 entrepreneurs' responses in 69 countries using a detailed regional breakup into 22 regions. Four of these regions encompass OECD countries, six regions transition countries and the remaining twelve developing countries. The paper presents the results while respecting confidentiality, in that no individual country ratings are shown. Country groups are based mostly on geographical proximity. Such groupings are somewhat arbitrary, yet many clear and relevant patterns emerge, which may be of interest to governments, businesspeople, and agencies involved in policy dialogue.

I. Introduction

All over the world entrepreneurs complain about governments. In preparing for this study we conducted interviews with entrepreneurs in many countries and one certain common element in all of them was that governments created a considerable variety of obstacles to their business operations. Certainly, the nature of the obstacles differed. In some countries macroeconomic instability would be at center stage, in others political instability and yet in others bureaucratic inefficiencies, delays and arbitrariness.

When listening to entrepreneurs it would often seem that obstacles to doing business are high everywhere. Nevertheless, some countries without doubt have more favorable business environments than others, which leads to two questions:

- (1) *How serious are the obstacles to doing business?*
- (2) *How do they differ across regions?*

This paper uses results of a large scale private sector survey in order to answer these questions in a comparative regional perspective. The surveys were conducted in preparation for the *World Development Report 1997* in 69 countries around the world using the same questionnaire in order to obtain comparative and quantifiable data. The paper is part of a larger research effort which aims at evaluating institutional quality across countries. The heart of the research has focused on the questions of how uncertainties in the rules of the game affect investment and growth patterns across countries.¹

In this paper we examine the results of one question in the questionnaire while giving as much regional detail as possible. This question was the broadest of the survey. It was entitled “Obstacles for Doing Business” and asked entrepreneurs to rate 15 possible obstacles by their seriousness. Questions similar to this one have been used in World Bank private sector assessments, however they tended to be even broader by focusing on all kinds of obstacles—government related or not. We were only interested in obstacles that were related to government action. Our aim was not to gain an overall assessment of the business environment but an assessment of the quality of the institutional environment.

The paper is organized as follows. Section I discusses briefly the categories of obstacles and the design of the question. Section III presents statistics on the firms that participated in the survey. Section IV presents an overall rating of obstacles and section V concludes with a summary of the main results. The detailed region by region results are presented in annex I.

¹ The survey methodology was described in detail in Brunetti, Kisunko, Weder (1997a). Brunetti, Kisunko, Weder (1997b) presents results of the relationship between uncertainty indicators and investment and growth across countries and Brunetti, Kisunko, Weder (1997c) shows a more extended analysis including the effects on foreign direct investment for a subsample of transition economies.

II. How Business Interacts with Government

Obviously government and business interact daily on many different levels. These range from direct contacts, such as issuance of business licenses, to much more indirect channels of government actions, e.g. the effect of loose fiscal and monetary policies on prices and wages. Of course the nature of interaction also differs from country to country. Our challenge then in designing the questionnaire was to derive a list of obstacles which would be general enough to be relevant for entrepreneurs in different countries and at the same time specific enough to be meaningful and relevant for policy dialog. In early versions of the questionnaire we tested up to 30 individual obstacles. Finally we settled on a list of 15 obstacles.

The List of 15 Obstacles

Below, is the setup of the question on obstacles. Entrepreneurs were asked to rate (table 1) the following list from 1 (no obstacle) to 6 (very strong obstacle). In order to obtain a ranking within obstacles and counter a possible bias of an “angry entrepreneur “ they were asked not to select the maximum (6) for more than 5 obstacles.

Table 1 The Multiple Choice Question on Obstacles

Obstacles		No		Moderate		Very strong	
a.	Regulations for starting business/new operations	1	2	3	4	5	6
b.	Price controls	1	2	3	4	5	6
c.	Regulations on foreign trade (exports, imports)	1	2	3	4	5	6
d.	Financing	1	2	3	4	5	6
e.	Labor regulations	1	2	3	4	5	6
f.	Foreign currency regulations	1	2	3	4	5	6
g.	Tax regulations and/or high taxes	1	2	3	4	5	6
h.	Inadequate supply of infrastructure	1	2	3	4	5	6
i.	Policy instability	1	2	3	4	5	6
j.	Safety or environmental regulations	1	2	3	4	5	6
k.	Inflation	1	2	3	4	5	6
l.	General uncertainty on costs of regulations	1	2	3	4	5	6
m.	Crime and theft	1	2	3	4	5	6
n.	Corruption	1	2	3	4	5	6
o.	Terrorism	1	2	3	4	5	6

Categories of Obstacles

The obstacles were intentionally listed in no particular order. However, they can be classified into six categories.

1. *Regulations*: Some of the most frequent regulations of concern to business are labor and price regulations, but also safety and environmental regulations (Questions j, b and e). Entrepreneurs are concerned both about the nature of the regulations and about the unpredictability of their implementation and/or changes. For new businesses the regulations for setting up businesses or new operations are important (Question a).

2. *Trade and exchange rate policies*: The entire area of foreign trade is highly sensitive for many businesses. Some of the most frequent complaints in interviews concerned red tape in getting import licenses, arbitrary customs procedures, and awkward foreign currency regulations. Two questions, (c) and (f), address these issues.

3. *Inflation and financing*: Two questions relate to monetary policies in the broadest sense. High and volatile inflation (question k) can hurt business because of unpredictable changes in prices and induced changes in wages and because of the cost of constantly adapting business strategies. Many aspects of monetary policy affect the possibility of firms to find financing for their investment projects (question d).

4. *Public revenue and expenditure policies*: Fiscal policies affect business both on the revenue and on the expenditure side. Question (g) relates to the burden that is imposed on business by high taxes and/or cumbersome tax regulations. On the expenditure side we focus on one of the most direct interaction channels: deficiencies in the supply of infrastructure (question h).

5. *Uncertainty*: Many entrepreneurs stressed that uncertainty about rules was often more troublesome than inefficiency of rules. Therefore we included two questions that directly ask about uncertainty. The first (l) asks about uncertainty on cost of regulations and the second one (i) asks about policy instability.

6. *Corruption and crime*: Corruption (question n), crime and theft (m), and terrorism (o) can be important obstacles for business when the government fails to implement law and order and tolerates criminal action and extortion.

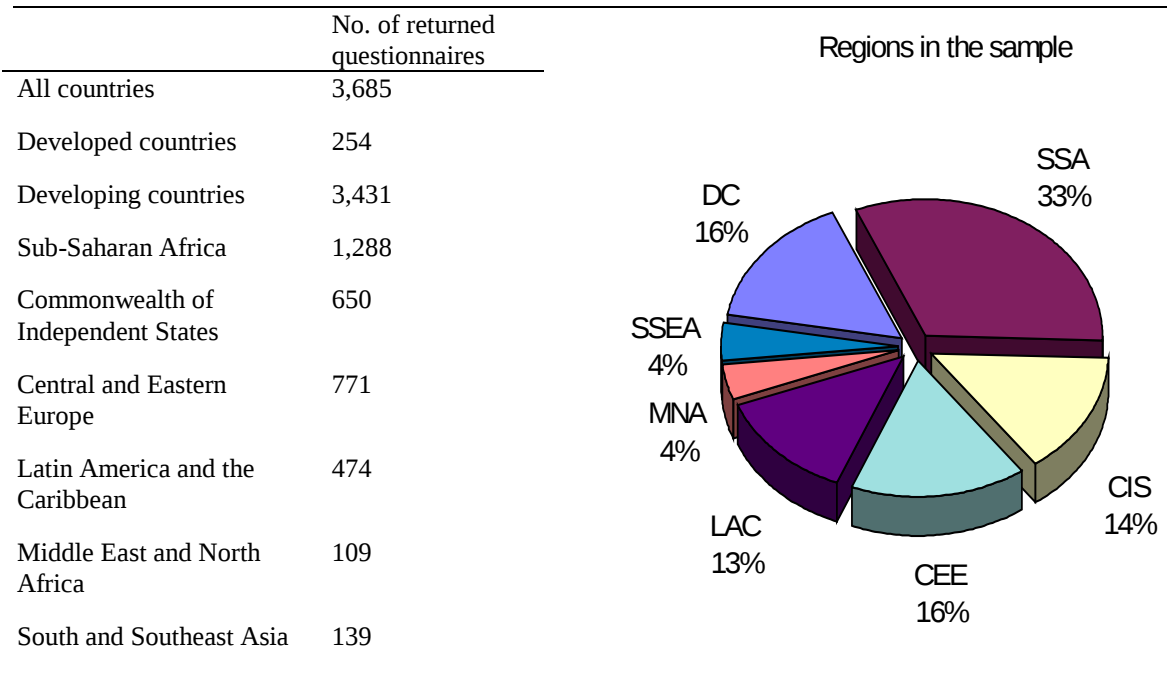
III. The Survey—Firm Characteristics and Sample Composition

The survey was administered by a mailed questionnaire to a stratified sample of companies. The aim was to have a sizable representation of purely local companies,² of companies of all sizes and both in the capital city as well as outside of the capital. The next section presents summary statistics on the survey results.³

Distribution of the Responses by Region

Figure 1 shows a summary of the number of questionnaires returned and the regional distribution of countries covered in the survey.⁴

Figure 1 Distribution of the Responses by Region



The first part of Figure 1 gives an overview of the number of returned questionnaires in 69 countries and shows the numbers for individual regions. Of the 3,685 returned questionnaires, 3,431 came from developing countries. Figure 1 shows

² Certainly, another way of gaining a comparative perspective would have been to ask only companies which are represented in many countries and make investment decisions in which they comparatively evaluate the costs and benefits of alternative business locations. (We are pursuing this line in a related research effort). However, the multinational companies are only a small part of the entrepreneurial base of any country.

³ The following section is reprinted from Brunetti, Kisunko, Weder (1997a).

⁴ A list of countries in each category is in annex II.

the percentage regional distribution of the countries in the data set. Sub-Saharan African countries constitute the largest percentage (33%) of participating regions. Equal shares of the countries are in the following four regions: Developed countries (16%), Central and Eastern Europe (16%), Commonwealth of Independent States (14%) and Latin America (13%). The regions of South Asia, Southeast Asia, and Middle East and Northern Africa are underrepresented with only 4% of total countries each.⁵

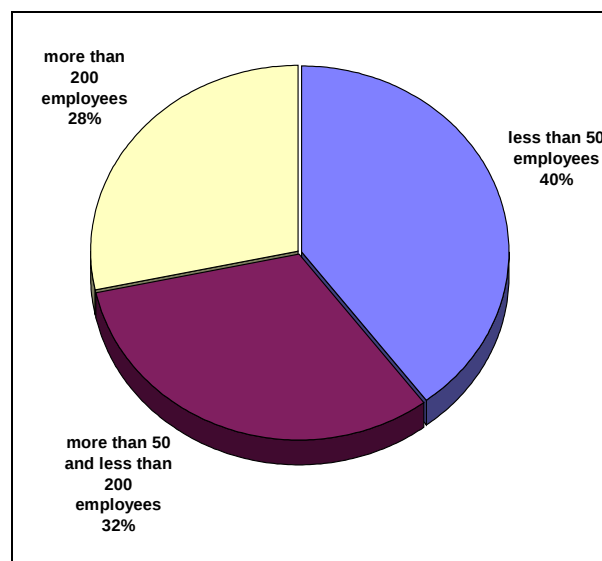
Characteristics of Responding Firms

This section deals with the type of firm covered in the survey. The following figures demonstrate the range of sampled firms according to company size, industry, location of management, foreign participation and internationalization of business.

Figure 2 presents the distribution of company size. Almost one half of the firms were small (less than 50 employees). The other two categories of larger firms have more or less an equal share. The sample, therefore, is reasonably diversified according to this criterion.

The regional decomposition shows considerable regional variation in the percentage of firm size. This reflects differences in economic development and in the development of the private sector itself. For example, the countries of the former Soviet Union are dominated by small (less than 50 employees) firms—55% of the responding companies. This clearly reflects the FSU’s “transitional” status and less developed private sector in comparison to the developed countries where the respective share is 26% in this category.

Figure 2 Distribution of Responses by Company Size



Another important characteristic was the location of company management. The survey intended that the companies represent a variety of geographical locations within each country. Figure 3 shows that this aim was at least partially achieved.

⁵ Country coverage was more or less driven by budgetary and institutional constraints. Surveys in OECD countries are much more expensive and—even more problematic—the response rate tends to be much smaller than in LDCs. This explains the relatively small number of OECD countries covered. The governments in a (small) number of large LDCs declined to participate in the research. East Asia is somewhat underrepresented due to difficulties in organizing the survey in short time in some of these countries.

Capital city firms constitute about one half of the surveyed firms. It is remarkable for a survey such as this one that was organized in capital cities, that one half of the respondents are not located there. In particular, it is encouraging that almost one quarter of the firms had their management located in a small city or on the countryside. The aggregate results of Figure 3, however, hide strong variations within individual countries. The share of firms located in the capital city varies between 100% and 0% for individual countries. Such a bias and variation can be explained by the distribution of private businesses over country territory. In some former republics of the Soviet Union, more than 50% of registered businesses are situated in the capital city. Still in other surveyed countries the socioeconomic and political situation limited access to the remote parts. Or in some countries the mail system was simply unreliable, making it infeasible to distribute questionnaires in such remote places and have them returned in a timely manner.

Figure 3 Location of Management of the Surveyed Firms

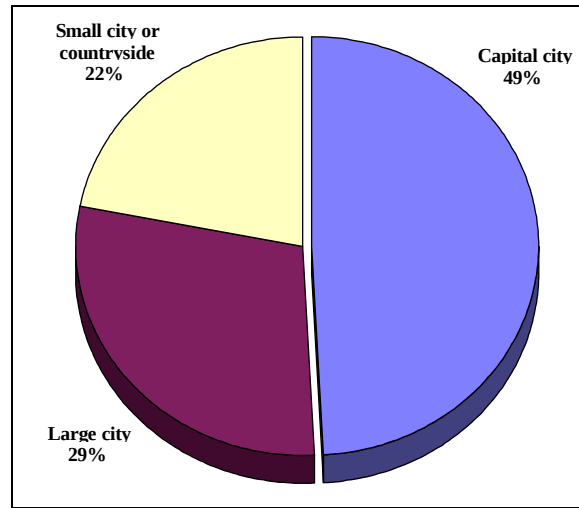
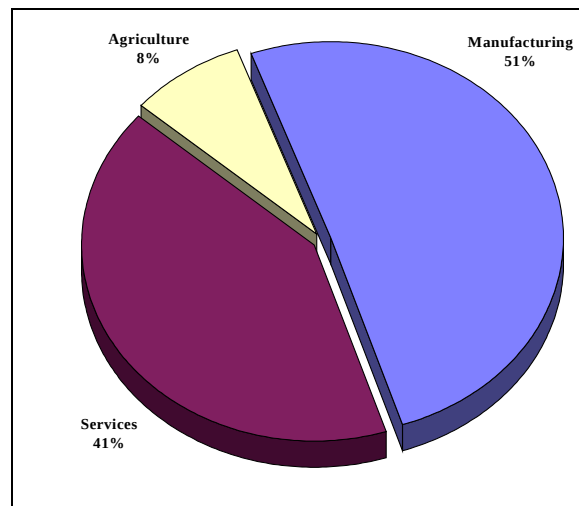


Figure 4 shows the break down of surveyed firms according to their line of business: manufacturing, services or agriculture.

Figure 4 Breakdown of Responses by Branch of Economy



While services and manufacturing are represented equally, there appears to be a strong bias against agriculture. This bias can be explained by geographic distribution. As more than three quarters of the surveyed firms have their headquarters in the capital city or a large city, chances of surveying agricultural firms are greatly reduced.

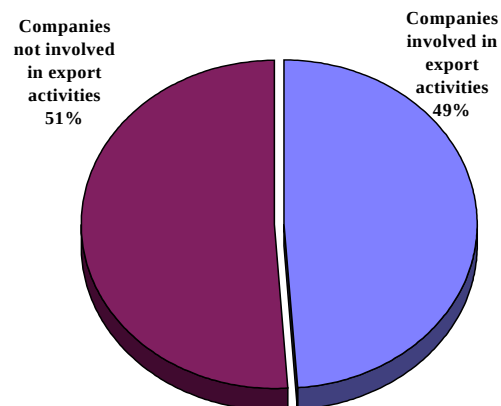
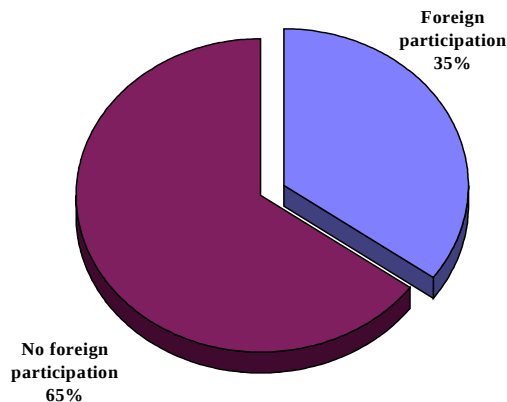
The last two categories balanced the sample of companies with regard to their origin of capital (local versus foreign) and their access to foreign markets. Figures 5 and 6 show the aggregate results.

Figure 5 Capital Origin of the Surveyed

Figure 6 Access to Foreign Markets of the

Companies

Surveyed Companies



Firms were evenly distributed in these categories. In particular two thirds of the surveyed companies do not have any foreign participation—they are purely local. This contrasts with other earlier attempts of subjective measurement of investment climate that concentrate entirely on the perceptions of multinational firms.⁶

Possible Limitations of the Sample

The survey instrument has many advantages for gaining information about conditions for private sector development. Most importantly, it allows entrepreneurs themselves to express their opinions instead of relying on experts' opinions. However, the survey data may also be subject to some limitations which we discuss below.

One possible problem is a selection bias which would arise if only a certain type of entrepreneurs answered the questionnaire. For instance entrepreneurs which have a lot of problems with the government might take the opportunity to vent their feelings while entrepreneurs who feel reasonably happy might choose not to answer the survey. In this case the bias would be that all obstacles were valued too seriously. The other possibility is that only entrepreneurs who have not given up completely on the government would answer. In this case all obstacles would be rated too low. Overall, these two possibilities might balance out. To help respondents who have extreme negative views regarding government regulations to differentiate among obstacles imposed by the government, the survey limits to 5 the number of times a respondent can select the worst rating for the obstacles listed.

Another possible limitation of the data concerns the comparison of responses across countries. A local entrepreneur with little experience of the situation in other countries might perceive an obstacle as “very serious” although in comparison with the

⁶ For a discussion of the differences between the approach of this survey and such “business indicators” based on expert opinion see Brunetti, Kisunko and Weder (1997b).

situation in another country it might not be serious at all. Of course, if a local entrepreneur perceives a certain obstacle as being serious this is affecting his investment behavior and is valuable information per se. However, the value of comparisons of obstacles across countries would be limited. We feel fairly confident that this problem is not overwhelming for the following reason. We have used other parts of the same questionnaire to gain cross country indicators of the “credibility” of government which we related to economic performance across countries.⁷ If the problem of cross country comparison had been serious we would have expected that the results would only be “noise.” In other words, in that case we would not find any significant relationship between credibility and economic performance across countries. In fact, we find a close credibility-performance relationship. This strengthens the case for using perceptions in cross-country analysis, even if the respondents themselves may lack the ability to make cross-country comparisons.

⁷ See Brunetti, Kisunko and Weder (1997b).

IV. Obstacles to Doing Business—An Overall Assessment

In this section we want to gain an idea of how different regions compare broadly in terms of government imposed obstacles to doing business. The table below shows the ranking of all regions by the sum of overall obstacles as well as the overall rating which is the unweighted sum of all 15 obstacles. The first entry in the list is the region where entrepreneurs feel least harassed by governments. The last entry is the region with the highest overall level of obstacles to doing business.⁸

Table 2 Ranking of Regions from Lowest to Highest: Total Obstacles

Rank	Region	Countries in Region	Rating
1	Northeastern Europe	<i>Ireland and United Kingdom</i>	41.9
2	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>	42.6
3	North America	<i>Canada and United States</i>	46.4
4	Southern Europe	<i>Italy, Portugal, and Spain</i>	50.1
5	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>	50.2
6	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>	51.0
7	Asia	<i>Fiji, India, and Malaysia</i>	52.3
8	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>	52.6
9	Western South America	<i>Bolivia, Paraguay, and Peru</i>	53.0
10	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>	53.4
11	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>	53.6
12	Middle-Income Africa	<i>South Africa and Mauritius</i>	54.7
13	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>	55.3
14	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>	56.2
15	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>	56.3
16	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>	56.3
17	Central Africa	<i>Cameroon, Chad, and Congo</i>	56.6
18	Central America	<i>Costa Rica, Jamaica, and Mexico</i>	57.1
19	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>	57.4
20	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>	57.5
21	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>	58.3
22	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>	61.5

The group composed of the United Kingdom and Ireland wins the overall best rating, followed by Central Western Europe, North America and Southern Europe. In the first two regions the sum of all 15 obstacles is about the same. The worst ratings were received by the group composed of Colombia, Ecuador and Venezuela, behind the Slavic

⁸ The ranking of the regions could be somewhat biased at the lower end of the list because we had asked entrepreneurs not to mark more than five obstacles with the worst option (i.e. 6). This puts an upper bound on how high the total sum of obstacles can go.

Republics of the FSU and Moldova. However at the bottom of the list the differences in absolute terms are not very large: all five regions get very similar ratings.

Regulation related obstacles include labor, price and environmental regulations as well as regulations for starting a business. Table 3 shows the ranking from the “best” to the “worst” region.⁹

Table 3 Ranking of Regions from Lowest to Highest: Regulation Related Obstacles

Rank	Region	Countries in Region
1	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>
2	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>
3	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>
4	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>
5	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>
6	Northeastern Europe	<i>Ireland and United Kingdom</i>
7	Western South America	<i>Bolivia, Paraguay, and Peru</i>
8	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>
9	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>
10	Central Africa	<i>Cameroon, Chad, and Congo</i>
11	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>
12	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>
13	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>
14	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>
15	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>
16	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>
17	North America	<i>Canada and United States</i>
18	Central America	<i>Costa Rica, Jamaica, and Mexico</i>
19	Asia	<i>Fiji, India, and Malaysia</i>
20	Southern Europe	<i>Italy, Portugal, and Spain</i>
21	Middle-Income Africa	<i>South Africa and Mauritius</i>
22	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>

The transition countries head the ranking: regulation related obstacles are not perceived as severe in these countries. Possibly the reason is that transition economies are still busy building the institutions that control and enforce these kinds of regulations. The ranks 9 to 15 are occupied by African countries.

Regulation related obstacles seem to be somewhat of a “rich country’s illness.” North America is 17th in the list right after the group composed of Austria, France, Germany and Switzerland. Southern Europe makes it into the bottom 3, meaning that regulations related obstacles are perceived among the highest in the world. The exception

⁹ In this and the following tables we do not display the individual rating for each region.

to this rule is the group composed of the United Kingdom and Ireland: they occupy rank 6, just after five groups of transition economies.

Inflation and financing related obstacles refer to inflation and the availability of financing. Table 4 shows the ranking from the “best” to the “worst” region in this dimension:

Table 4 Ranking of Regions from Lowest to Highest: Inflation and Financing Related Obstacles

Rank	Region	Countries in Region
1	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>
2	Northeastern Europe	<i>Ireland and United Kingdom</i>
3	North America	<i>Canada and United States</i>
4	Southern Europe	<i>Italy, Portugal, and Spain</i>
5	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>
6	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>
7	Western South America	<i>Bolivia, Paraguay, and Peru</i>
8	Asia	<i>Fiji, India, and Malaysia</i>
9	Middle-Income Africa	<i>South Africa and Mauritius</i>
10	Central Africa	<i>Cameroon, Chad, and Congo</i>
11	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>
12	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>
13	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>
14	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>
15	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>
16	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>
17	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>
18	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>
19	Central America	<i>Costa Rica, Jamaica, and Mexico</i>
20	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>
21	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>
22	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>

The Europeans and North Americans are the winners in this dimension: all four regions head the ranking. However, the two first regions—Austria, France, Germany and Switzerland and Ireland and the United Kingdom—have markedly better ratios than North America and Southern Europe.

At the bottom of the list we find both African and Latin American regions: Southern and Eastern Africa received the worst scores. The transition economies occupy the lower middle ground, with the exception of the Baltic Republics and the Caucasus which are markedly better rated.

Trade related obstacles include regulations that control exports and imports such as licenses, customs etc. but also foreign currency regulations. Table 5 shows the ranking from the region with the least to the region with the most obstacles:

Table 5 Ranking of Regions from Lowest to Highest: Trade Related Obstacles

Rank	Region	Countries in Region
1	Northeastern Europe	<i>Ireland and United Kingdom</i>
2	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>
3	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>
4	Southern Europe	<i>Italy, Portugal, and Spain</i>
5	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>
6	North America	<i>Canada and United States</i>
7	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>
8	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>
9	Western South America	<i>Bolivia, Paraguay, and Peru</i>
10	Central America	<i>Costa Rica, Jamaica, and Mexico</i>
11	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>
12	Middle-Income Africa	<i>South Africa and Mauritius</i>
13	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>
14	Asia	<i>Fiji, India, and Malaysia</i>
15	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>
16	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>
17	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>
18	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>
19	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>
20	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>
21	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>
22	Central Africa	<i>Cameroon, Chad, and Congo</i>

The least obstacles related to trade are found in the United Kingdom and Ireland, and in Central Western Europe. Somewhat surprisingly, Eastern Africa is third ahead of Southern Europe and the Baltic Republics come in ahead of North America.

There is no clear pattern in the middle ground and the lower end of the list. Central Asia and the group composed of Belarus, Moldova, Russia and Ukraine are on ranks 20 and 21. The worst marks were received by the group composed of Cameroon, Chad and Congo.

Public revenue and expenditure policies related obstacles include two questions, one on the revenue and one on the expenditure side. On the revenue side the question relates to high taxes and tax regulations as important obstacles. On the expenditure side entrepreneurs were asked whether inadequate supply of infrastructure presented obstacles for their business. Table 6 shows the ranking from best to worst.

Table 6 Ranking of Regions from Lowest to Highest: Public Revenue and Expenditure Policies Related Obstacles

Rank	Region	Countries in Region
1	Northeastern Europe	<i>Ireland and United Kingdom</i>
2	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>
3	North America	<i>Canada and United States</i>
4	Middle-Income Africa	<i>South Africa and Mauritius</i>
5	Asia	<i>Fiji, India, and Malaysia</i>
6	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>
7	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>
8	Southern Europe	<i>Italy, Portugal, and Spain</i>
9	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>
10	Western South America	<i>Bolivia, Paraguay, and Peru</i>
11	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>
12	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>
13	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>
14	Central America	<i>Costa Rica, Jamaica, and Mexico</i>
15	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>
16	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>
17	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>
18	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>
19	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>
20	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>
21	Central Africa	<i>Cameroon, Chad, and Congo</i>
22	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>

In absolute terms, public revenue and expenditure policies are the number one obstacle in almost every region. However, there are significant differences among regions in the seriousness of this obstacle. The tax side dominates the problem of infrastructure with very few exceptions.¹⁰ The first three regions (Northeastern Europe, Central Western Europe, and North America) have the best and quite similar ratings. The group composed of South Africa and Mauritius follows, albeit with a markedly lower rating. The worst regions are Central and Eastern Africa.

Uncertainty related obstacles include two questions. The first asks about policy instability as an obstacle to doing business. The second about uncertainty on costs of regulations. The idea behind the second one was to separate the efficiency aspect of regulations from uncertainty in implementation and enforcement. Table 7 gives the regional rankings from best to worst.

¹⁰ See annex I with the detailed regional breakup for these comparisons.

Table 7 Ranking of Regions from Lowest to Highest: Uncertainty Related Obstacles

Rank	Region	Countries in Region
1	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>
2	Northeastern Europe	<i>Ireland and United Kingdom</i>
3	North America	<i>Canada and United States</i>
4	Southern Europe	<i>Italy, Portugal, and Spain</i>
5	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>
6	Asia	<i>Fiji, India, and Malaysia</i>
7	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>
8	Middle-Income Africa	<i>South Africa and Mauritius</i>
9	Central Africa	<i>Cameroon, Chad, and Congo</i>
10	Western South America	<i>Bolivia, Paraguay, and Peru</i>
11	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>
12	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>
13	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>
14	Central America	<i>Costa Rica, Jamaica, and Mexico</i>
15	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>
16	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>
17	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>
18	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>
19	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>
20	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>
21	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>
22	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>

In this dimension there are sharp differences between regions. The first two (Central Western Europe and Northeastern Europe) received markedly better ratios than all of the following regions.

In the middle ground, from about rank 7 to 17, the ratings are in the same ballpark. Another jump is at rank 19; the last three regions were rated significantly worse than the preceding ones. Because of the inherent problems of transition, one may have expected to find these countries at the bottom of the list. In fact they tend to occupy the lower ranks, including the two bottom ones. However, the group composed of Colombia, Ecuador and Venezuela also receives bad marks.

Crime related obstacles include, crime and theft, corruption and terrorism. Table 8 has the rankings.

Table 8 Ranking of Regions from Lowest to Highest: Crime Related Obstacles

Rank	Region	Countries in Region
1	Central Western Europe	<i>Austria, France, Germany, and Switzerland</i>
2	Northeastern Europe	<i>Ireland and United Kingdom</i>
3	North America	<i>Canada and United States</i>
4	Middle East and North Africa	<i>Jordan, Morocco, and West Bank and Gaza Strip</i>
5	Southern Europe	<i>Italy, Portugal, and Spain</i>
6	Asia	<i>Fiji, India, and Malaysia</i>
7	Western Central Africa	<i>Côte d'Ivoire, Ghana, and Togo</i>
8	Visegrad	<i>Czech Republic, Hungary, Poland, and Slovak Republic</i>
9	Baltic Republics	<i>Estonia, Latvia, and Lithuania</i>
10	Western Africa	<i>Guinea, Guinea-Bissau, and Senegal</i>
11	Caucasus	<i>Armenia, Azerbaijan, and Georgia</i>
12	Western South America	<i>Bolivia, Paraguay, and Peru</i>
13	Middle-Income Africa	<i>South Africa and Mauritius</i>
14	Central Asia	<i>Kazakhstan, Kyrgyz Republic, and Uzbekistan</i>
15	Central Africa	<i>Cameroon, Chad, and Congo</i>
16	Southern Africa	<i>Madagascar, Malawi, Mozambique, and Zimbabwe</i>
17	Central America	<i>Costa Rica, Jamaica, and Mexico</i>
18	Slavic Republics and Moldova	<i>Belarus, Moldova, Russia, and Ukraine</i>
19	Black Sea and Balkan	<i>Albania, Bulgaria, FYR Macedonia, and Turkey</i>
20	Eastern Africa	<i>Kenya, Tanzania, Uganda, and Zambia</i>
21	Western and Central Africa	<i>Benin, Mali, and Nigeria</i>
22	Northwestern South America	<i>Colombia, Ecuador, and Venezuela</i>

Central Western Europe has clearly the best rating in this dimension. The two following ones, Ireland and the United Kingdom and Canada and the United States have quite similar ratings. The next position might be somewhat surprising but it seems that crime related issues are not perceived as important obstacles to doing business in our group of countries from the Middle East and North Africa. Of course this does not mean that there are no crime, corruption etc. It merely says that entrepreneurs don't think they are large obstacles. The same appears to be true for Southern Europe and our selection of Asian countries.

The region where crime related obstacles are most serious is the group composed of Colombia, Ecuador and Venezuela. The rating of this region is significantly worse than the preceding ones. In Africa the group composed of Côte d'Ivoire, Ghana and Togo ranks best (rank 7) and in the transitions economies, the Visegrad (rank 8) countries receive the best ranking, closely followed by the Baltic Republics.

V. Summary of Regional Results

The annex shows detailed regional results for obstacles to doing business.

The following highlights a number of particularly interesting findings:

- *Corruption is perceived to be among the three most important obstacles in all regions of LDCs with the exception of the Asian countries and one transition region.*

It is the number one obstacle in 6 of the regions considered. We can find a clear difference between high-income countries and less developed ones. In all high-income countries corruption is not among the five top obstacles and in most cases it is near the bottom of the list. In all African regions corruption is among the three top obstacles and the same is true for all but one of the former Communist regions. It is important to note that this question does not measure the level of corruption but whether it is an obstacle. There may well be a lot of corruption that is not perceived as a major obstacle for example in the Asian countries.

- *Crime and theft is a major obstacle in all LDCs with the exception of the Asian countries and the three countries in the region of Middle East and Northern Africa.*

In all OECD countries entrepreneurs do not report problems with crime and theft; only United Kingdom and Ireland receive a marginally less favorable rating. In the region consisting of Costa Rica, Jamaica, and Mexico crime and theft is considered to be the top obstacle and in one African region, one other Latin American region, and the region with Russia, Ukraine, Belarus and Moldova, it is among the top three obstacles.

- *Tax regulations and/or high taxes are among the four top obstacles in 20 out of 22 regions.*

In 13 regions they are the number one obstacle. The difference in perceptions across regions is rather small. There is no clear pattern that distinguishes rich and poor country groups as this obstacle is perceived as number one in most OECD countries but in many LDCs as well. To a large degree this is certainly due to the fact that the obstacle is defined very broadly encompassing not only high taxes, but all factors related to tax bureaucracies including tedious tax regulations, unclear tax laws and probably corrupt tax officials as well.

- *Labor regulations and safety and environmental regulations tend to be perceived as larger obstacles in industrial countries than in LDCs.*

This result seems to confirm the idea that these sort of regulations are more likely to be strictly enforced when a country reaches a certain level of development. Labor regulation is the number two obstacle in all three European OECD regions and in North America. In Central Europe and North America safety and environmental regulations are the number three obstacle, in Ireland and United Kingdom number four and in Southern Europe number seven. By contrast in all regions of the former Soviet Union safety and environmental regulations figure among the two least severe obstacles probably indicating that they do not yet exist at a significant level and/or that they are poorly enforced.

- *Inadequate supply of infrastructure is in the middle of the ranking of obstacles in most regions.*

Exceptions are the Middle East and Northern Africa where it is the top obstacle. In two Latin American regions, Asia and the Black Sea and Balkan and Southern Europe it is number two and in Southern Europe it is number three.

- *Obstacles related to monetary policies are highest in some African and Latin American regions.*

Even though they all had high inflation experiences, the transition economies occupy the lower middle ground, with the exception of the Baltic Republics and the Caucasus which are markedly better rated. The best rated regions in this respect are clearly the European and North American regions.

- *Policy instability is not among the top obstacles in any region except for some transitional regions and Latin America.*

In all developed countries, with the partial exception of Southern Europe, policy instability is not perceived to be a problem at all. Interestingly, this applies—on a less favorable level—for the African regions as well which have better ratings with respect to policy instability than the Latin American regions. Not surprisingly the problem is more important in all transition regions though in only two of the regions is it ranked among the top three obstacles.

- *Price controls and terrorism seem to be problems of the past.*

In all regions they are towards the bottom of the list of obstacles.

- *Overall, the richest countries are also the ones which have the overall best marks from entrepreneurs.*

A summary rating of all obstacles to doing business presented in the main text shows the European and North American regions ahead. Entrepreneurs awarded the best scores (i.e. least obstacles) to a group encompassing the United Kingdom and Ireland, followed by a group composed of Austria, France, Germany and Switzerland. At the bottom of the list there is no clear geographical pattern. The worst marks were given to a region in Latin America (composed of Colombia, Ecuador and Venezuela) and the second last was a group composed of Russia, Ukraine, Belarus and Moldova. All Sub-Saharan African regions are in the less favorable half of the ranking.

Obstacles to Doing Business—Region by Region Results

Organization of Presentation

This section presents detailed results for each of the 22 sub-regions.¹ To allow easy comparison between regions the presentation is standardized. For each region, the results are discussed on a single page. Each of these regional pages contains three graphs and a short verbal summary of the most prominent points.

The top two graphs of the region-page rank the obstacles from worst to best. The first of these graphs shows of the average value the respective obstacle ranging from 1 (no obstacle) to 6 (very strong obstacle).

The second graph on the upper part presents the percentage of firms that considered the respective obstacle to be important (i.e. ticked 4, 5 or 6). To give a sense whether the obstacle was considered to be really strong the graph also displays the percentage of firms who ticked 5 or 6.

The bottom graph on each region-page compares the ratings for each of the obstacles with the ratings for the four G7-countries with the highest per capita GDP in the sample. These countries are the United States, Germany, the United Kingdom and Canada. In order to make direct comparisons, the differences between the comparator country group and the respective region is normalized between 1 and -1. For instance a positive value of 0.1 means that the respondents in the region thought that the respective obstacle 10 percent less severe than in the four comparator countries. Similarly, a negative value of -0.1 means that the obstacles is rated 10 percent more severely in the region than in the comparator countries.² The presentation of the regions is divided into seven sections. Section 1 presents the results for 4 regions of high income OECD countries, section 2 one Asian region, section 3 one region of Middle East and Northern Africa, section 4 three regions of Central and Eastern Europe, section 5 three regions from the Commonwealth of Independent States (Former Soviet Union), section 6 three Latin American regions and section 7 seven African regions. For each section containing more than one region we always present a survey chart comparing the average ratings for the regions in the respective section.

¹ A table with the composition of each of these 22 regions can be found in annex II.

² The normalization was done the following way. An overall rating for obstacle i was calculated for the comparator group resulting in a value C_i . Then the average value for the respective region was calculated, i.e. A_i . The normalization was then done by calculating the index $(C_i - A_i) / C_i$. This index is displayed in the third graph on each region-page.

High Income—OECD Countries

This region was broken into four sub-regions:

1. Northeastern Europe

Ireland
United Kingdom

2. North America

Canada
United States

3. Central Western Europe

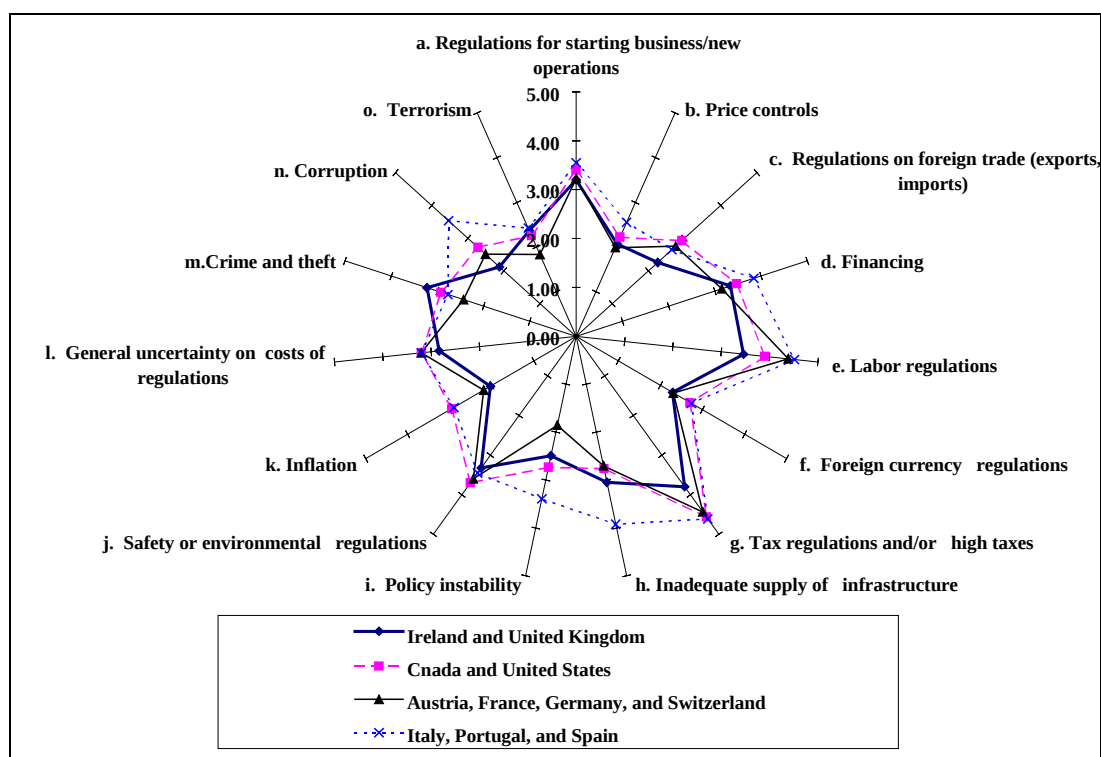
Austria
France
Germany
Switzerland

4. Southern Europe

Italy
Portugal
Spain

The chart below presents a comparative picture of different obstacles to doing business in these regions. It can be seen, for example, Southern Europe scored worst (higher scores reflect worst obstacles) on almost all *regulation related obstacles*, on *infrastructure*, *police instability*, and on *corruption*.

Chart 1 Comparison of Obstacles in the Sub-Region

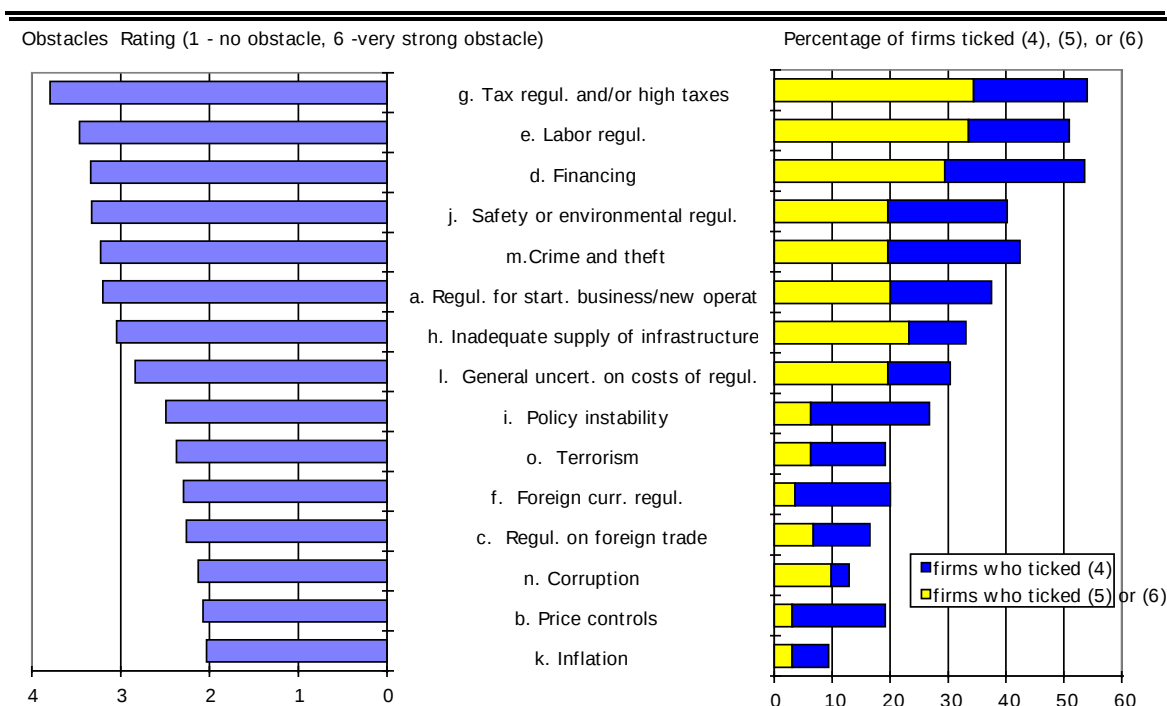


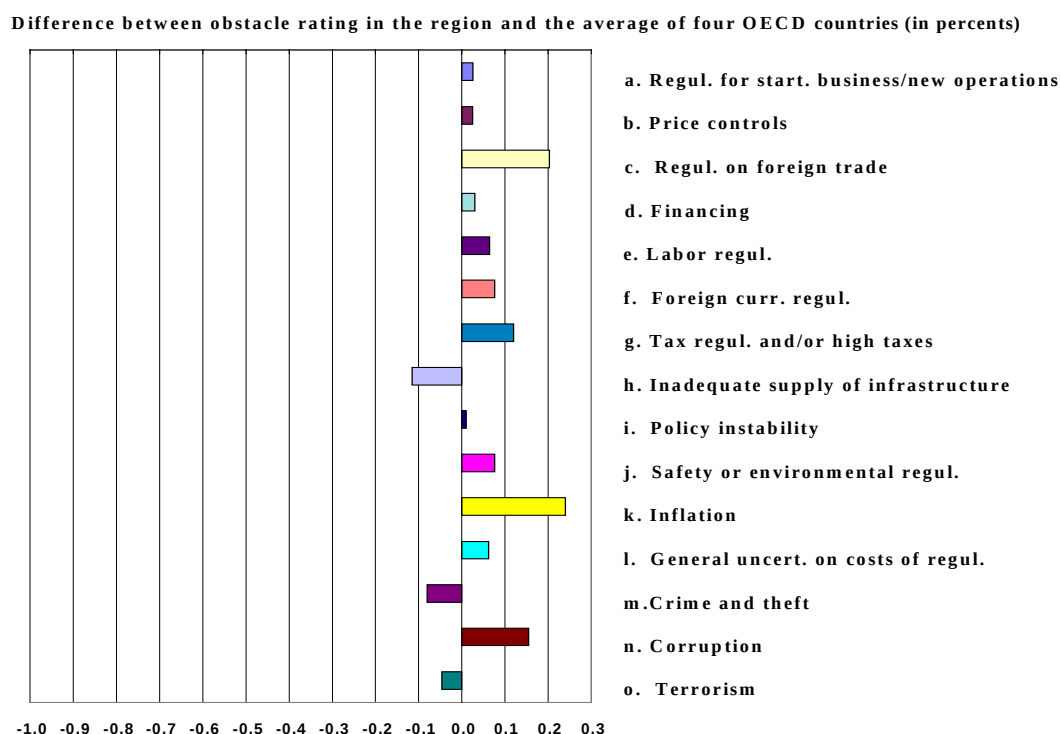
Northern Europe scored worst on *crime and theft*, but at the same time has one of the best *regulatory climates*, and the second highest ranking on *policy stability*, after Central Western Europe.

1. Northeastern Europe — Ireland and United Kingdom

Northeastern Europe *taxes* are the highest obstacle to doing business. This is also true for all other developed regions under consideration. *Labor regulations* were the second highest reported obstacle, followed by *financing*. The lowest scores received were *corruption*, *price controls* and *inflation*. It also can be seen from the charts that the score for *inflation* was more than 20 percent better than in the group of comparators. The score for *inadequate supply of infrastructure* was about 11 percent worse than in the group of comparators.

Another fact to be noticed is that although *corruption* was ranked as the third lowest obstacle, it was considered as a very strong obstacle (scores 5 and 6 in the questionnaire) by 10 percent of surveyed businessmen. Thus in terms of the “strength” of the problem corruption should be measured as 9th out of 15 obstacles rather than 13th. The same observation is true about the *inadequate supply of infrastructure*, which overall was ranked as seventh strongest obstacle. About 22 percent of respondents thought that infrastructure was a very strong obstacle, which is higher than for obstacles ranked 4th to 6th.





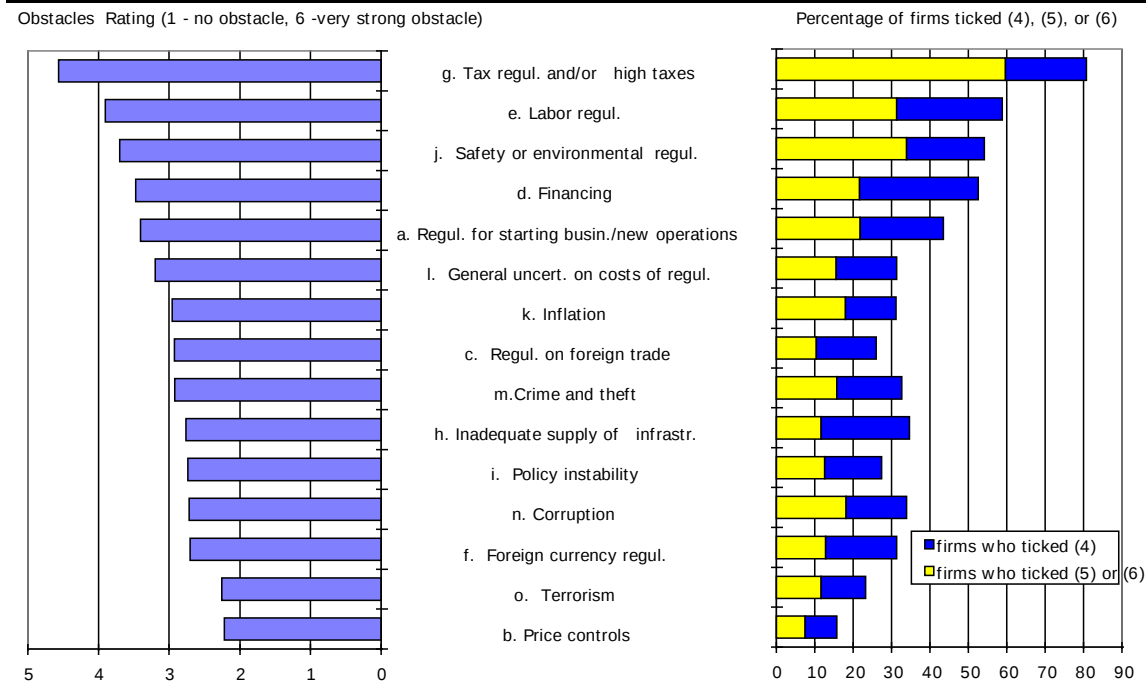
Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

2. North America — *Canada and United States*

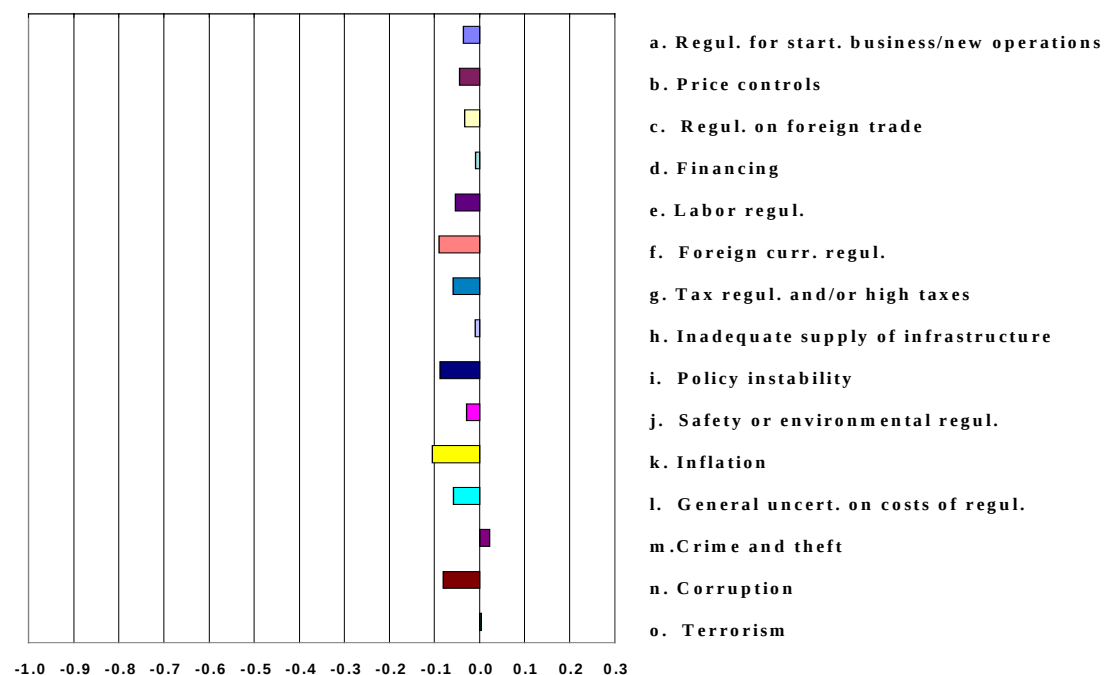
The worst obstacle to doing business in the North America sub-region was *tax regulation and/or high taxes*. Second was *labor regulations* and third—*environmental regulations*. However, the share of businessmen who considered *environmental regulations* a strong obstacle was higher than the same share for *labor regulations*.

Corruption was ranked as the forth lowest obstacle followed by *foreign currency regulations*, *terrorism*, and *price controls*. At the same time, in terms of “strength” of the obstacle (percentage of businessmen ticked (5) or (6)) *corruption* is the 6th worst obstacle.

The bottom chart shows that the scores for the North American sub-region are close to those of the comparator group, of which it is a part, but usually worse. The region scored only slightly better on *crime and theft* and on *terrorism*. It was 10 percent below the comparators on *inflation*, and almost 10 percent below on *policy instability* and on *foreign currency regulations*.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

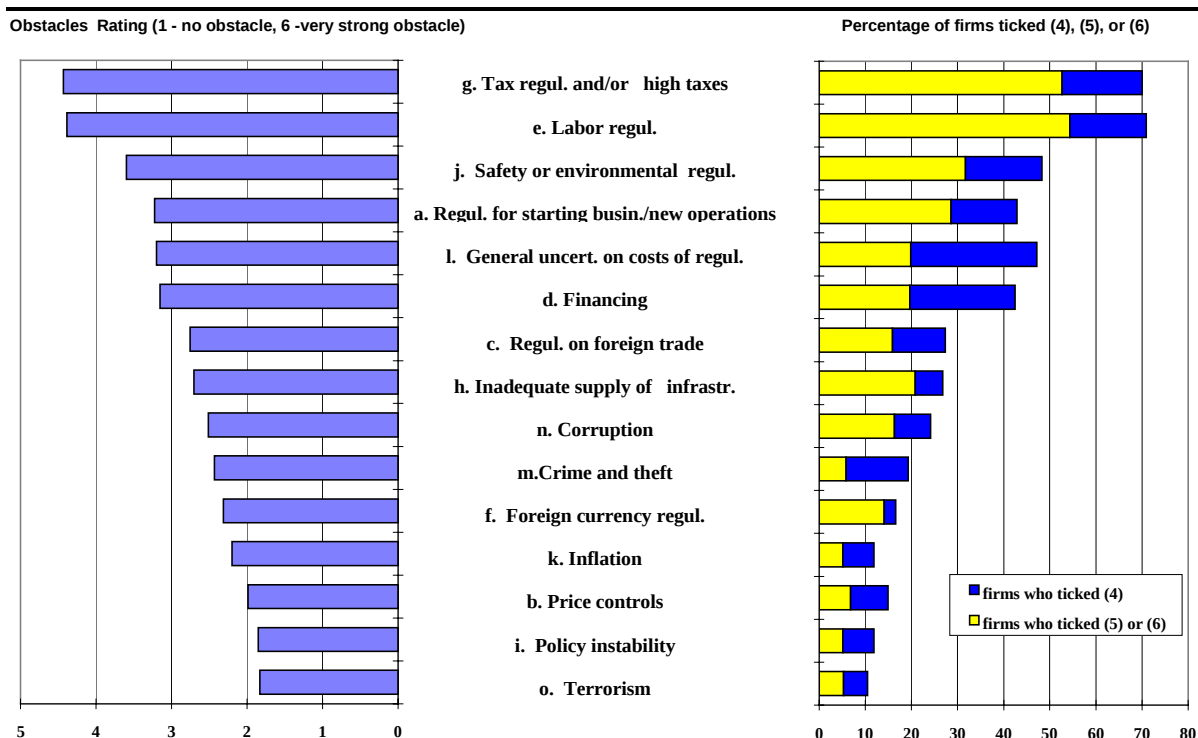


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

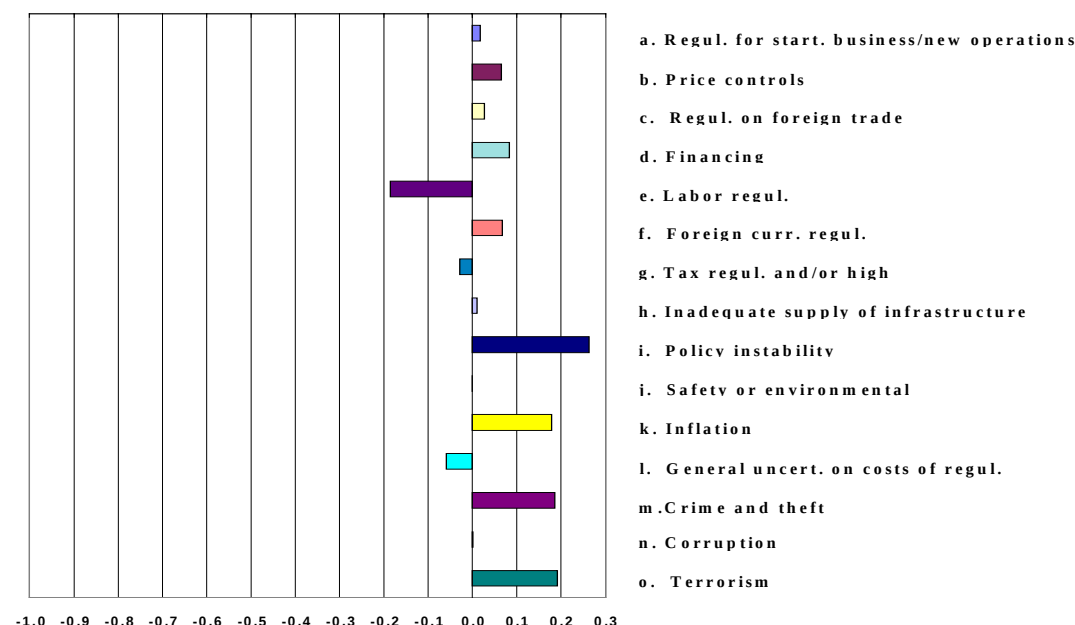
3. Central Western Europe — *Austria, France, Germany, and Switzerland*

The obstacle ranked worst in this sub-region was *tax regulations*. The share of respondents ranked the second worst obstacle—*labor regulations* followed by *safety and environmental regulations* and *regulation for starting new business/new operations* followed by *general uncertainty on costs of regulations*. An obstacle ranked 8th—*inadequate supply of infrastructure* received the fifth highest share of very strong obstacle scores (21 percent). *Price controls*, *policy instability*, and *terrorism* are not a problem.

The index for *labor regulations* in this group of countries was almost 20 percent worse than for the comparators. At the same time businessmen in these countries think that they have *less policy instability* (about 25 percent less than the comparator group), and consider *inflation*, *crime and theft* and *terrorism* substantially better than in the comparator group.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

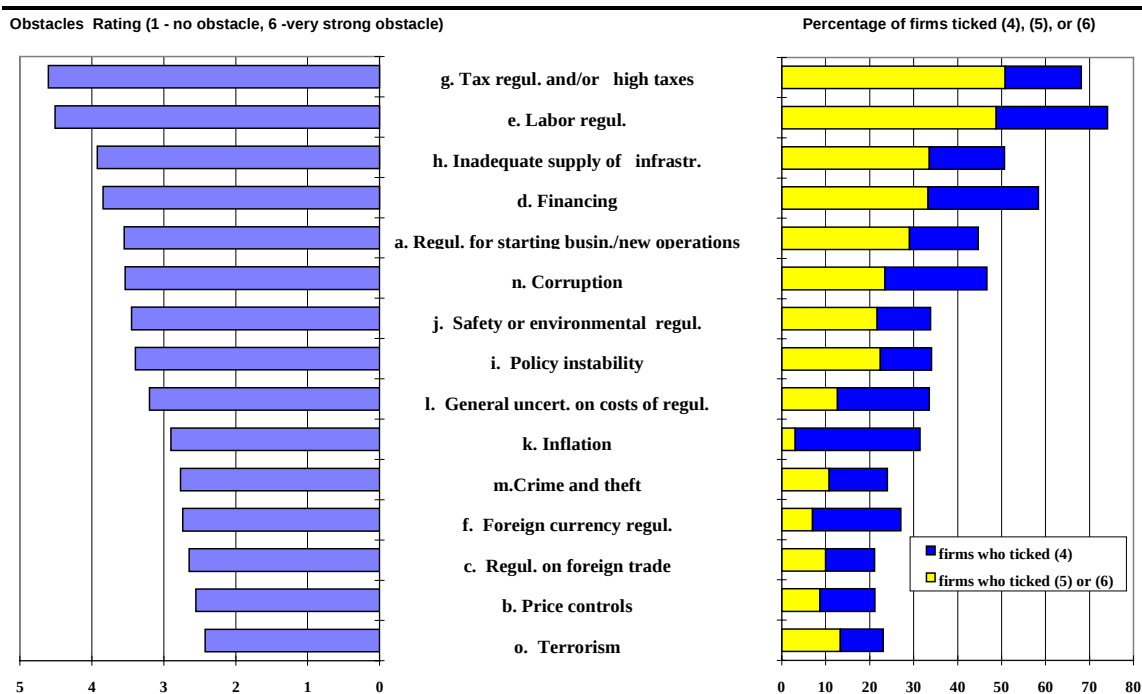


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

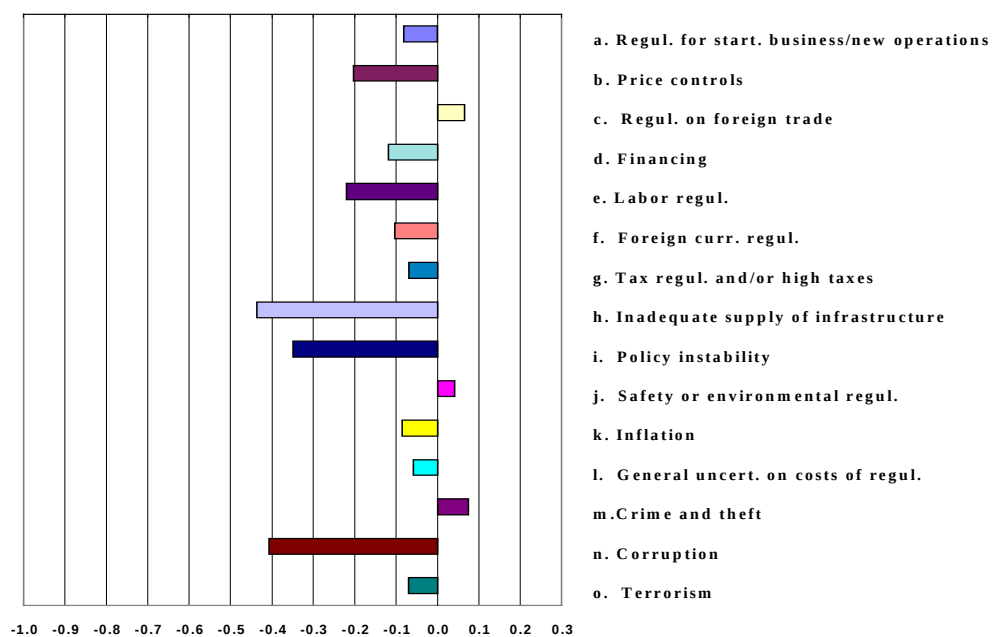
4. Southern Europe — Italy, Portugal, and Spain

The top obstacles in the Southern Europe sub-region are the same as in other sub-regions of high income OECD group with one important exception—*inadequate supply of infrastructure*, which was ranked the third worst obstacle in the sub-region. The lowest ranking received *foreign currency regulations*, *regulations of foreign trade*, *price controls*, and *terrorism*. In terms of “strength” of obstacles, *terrorism* received much higher scores. More than 13 percent of respondents in this group said that it is a very strong obstacle. This share is 9th highest (out of 15). An opposite situation is with *inflation*, which was ranked 10th worst obstacle, at the same time it has the lowest share of respondents ticked (5) and (6), only 3 percent.

The comparative indexes for this sub-region are the worst among the four high income OECD sub-regions, i.e., it has the most deviation downward from the comparator group. *Supply of infrastructure* and *corruption* indexes are more than 40 percent worse than for the comparators, *policy instability* is about 35 percent worse, *labor regulations* and *price controls* are about 20 percent worse.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

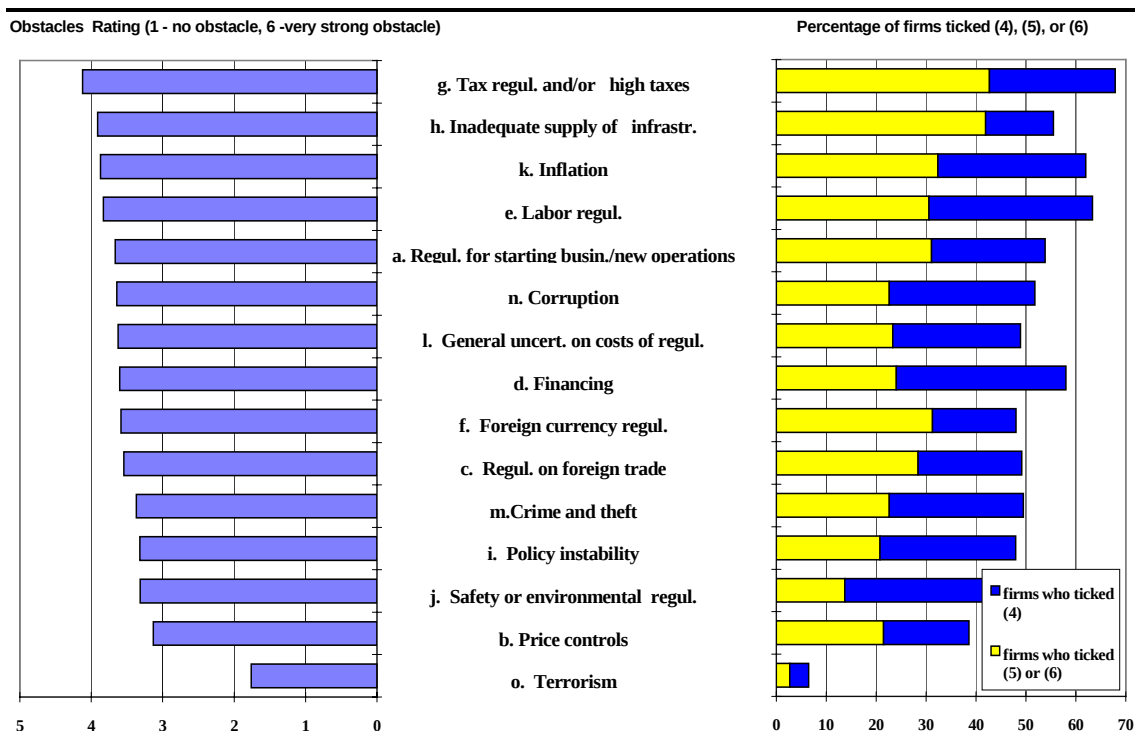


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

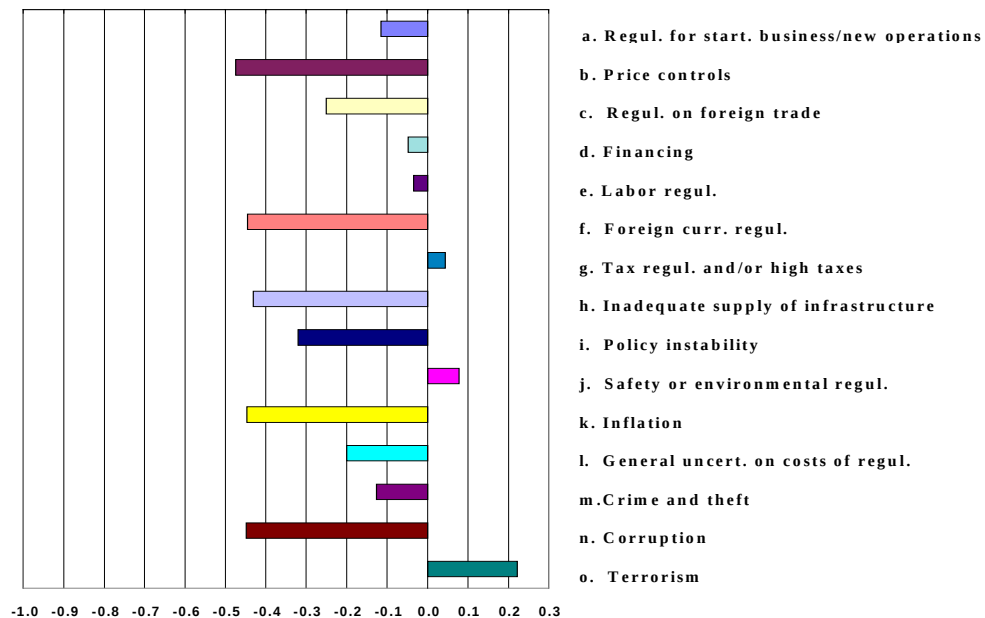
Asia

Fiji, India, and Malaysia

The worst obstacles in Asia are tax regulations, followed by inadequate supply of infrastructure, inflation, labor regulations, and regulations for starting new business/new operations. All are remarkably equal, there is little difference between obstacles. In terms of intensity of obstacles the ranking of obstacles changes somewhat, e.g. foreign currency regulations becomes the fourth (31.3 percent of respondents consider it a very strong obstacle). At the same time corruption was considered as a very strong obstacle only by 22.6 percent of respondents (less than for crime and theft with 22.7 score). In these terms corruption drops from the 6th rank to the 10th rank of. The lowest ranked obstacles included policy instability, safety or environmental regulations, price controls, and terrorism. A comparison of Asian countries in the survey and the group of the best performers shows that the level of a third of the obstacles were 40 or more percent worse in Asia than in the group of comparators. Only one indicator proved to be significantly better. Terrorism was 20 percent better for Asia than for the group of comparators.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

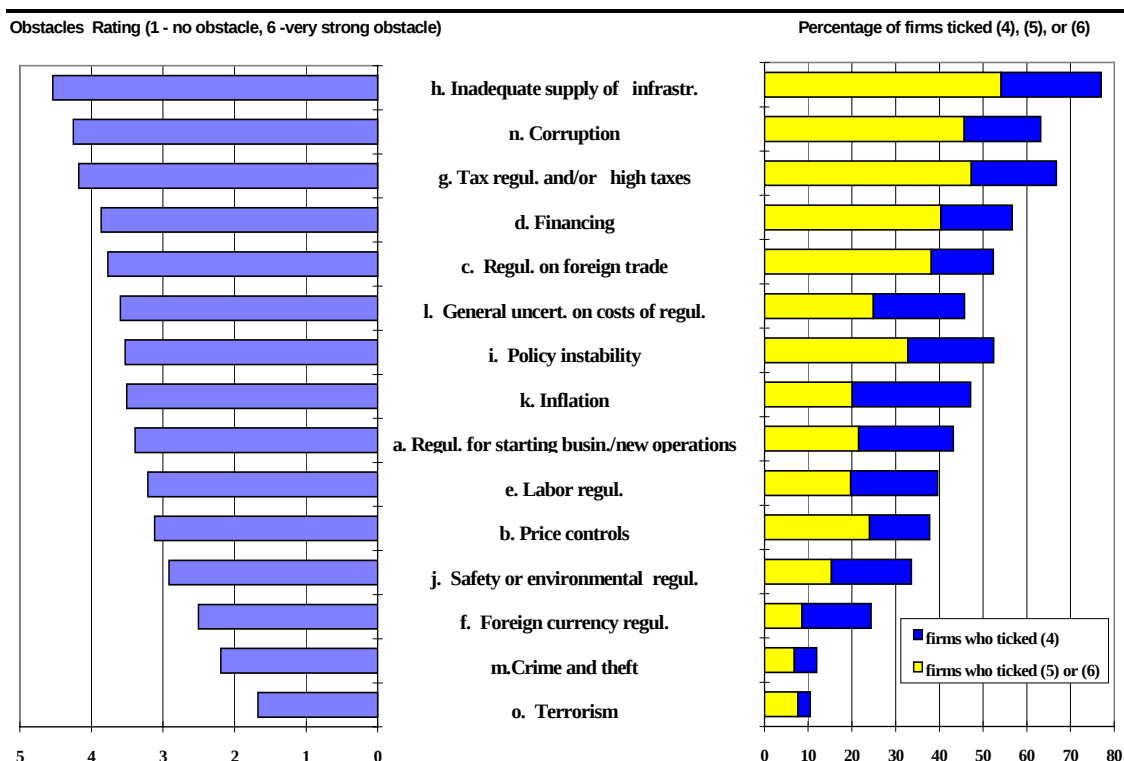


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

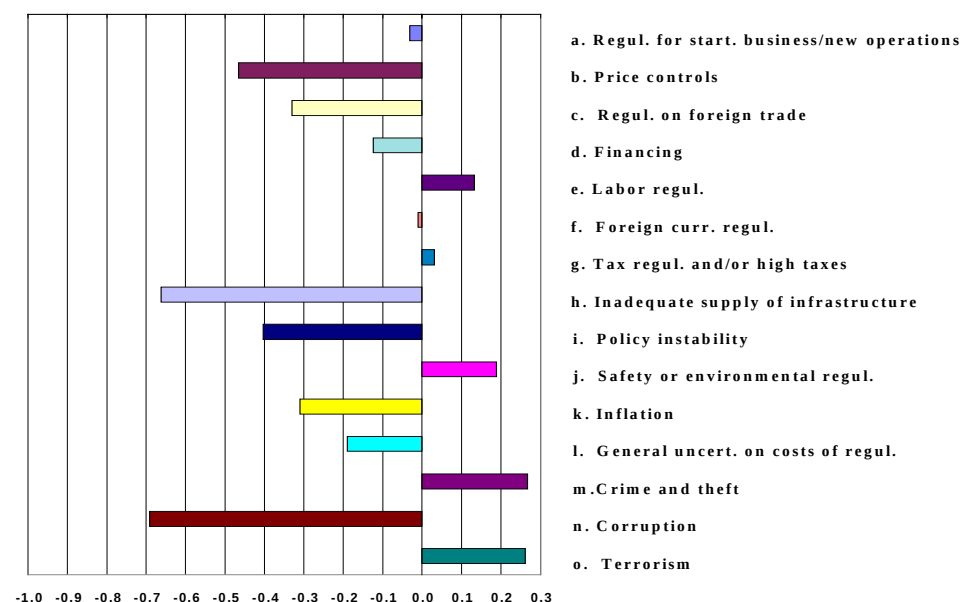
Middle East and North Africa

Jordan, Morocco, and West Bank and Gaza Strip

Inadequate supply of infrastructure is the top obstacle to doing business in the Middle East and North Africa (MNA) region followed by *corruption*, *tax regulations*, and *financing*. In terms of how strong the businessmen in the MNA region feel about these obstacles, *tax regulation* is more harmful for business than *corruption* (45.7 percent of surveyed businessmen ticked (5) or (6) for *corruption*, when 47.3 ticked (5) and (6) for *tax regulations*). The same observation is true for *policy instability*—it ranked *below general uncertainty on costs of regulations*, at the same time the share of businessmen who ticked (5) and (6) for policy obstacle is 8 percentage points higher than for *general uncertainty*.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

It can be seen from the bottom chart that the MNA region has severe problems with *corruption*, *infrastructure*, *policy instability*, *price controls*, *regulations of foreign trade*, and *inflation*. Corruption is 70 percent worse than in the comparator group while *crime and theft* and *terrorism* are somewhat better than in the comparator group.

Central and Eastern Europe

This region was broken into three sub-regions:

1. Black Sea and Balkan

Albania
Bulgaria
FYR Macedonia
Turkey

2. Visegrad

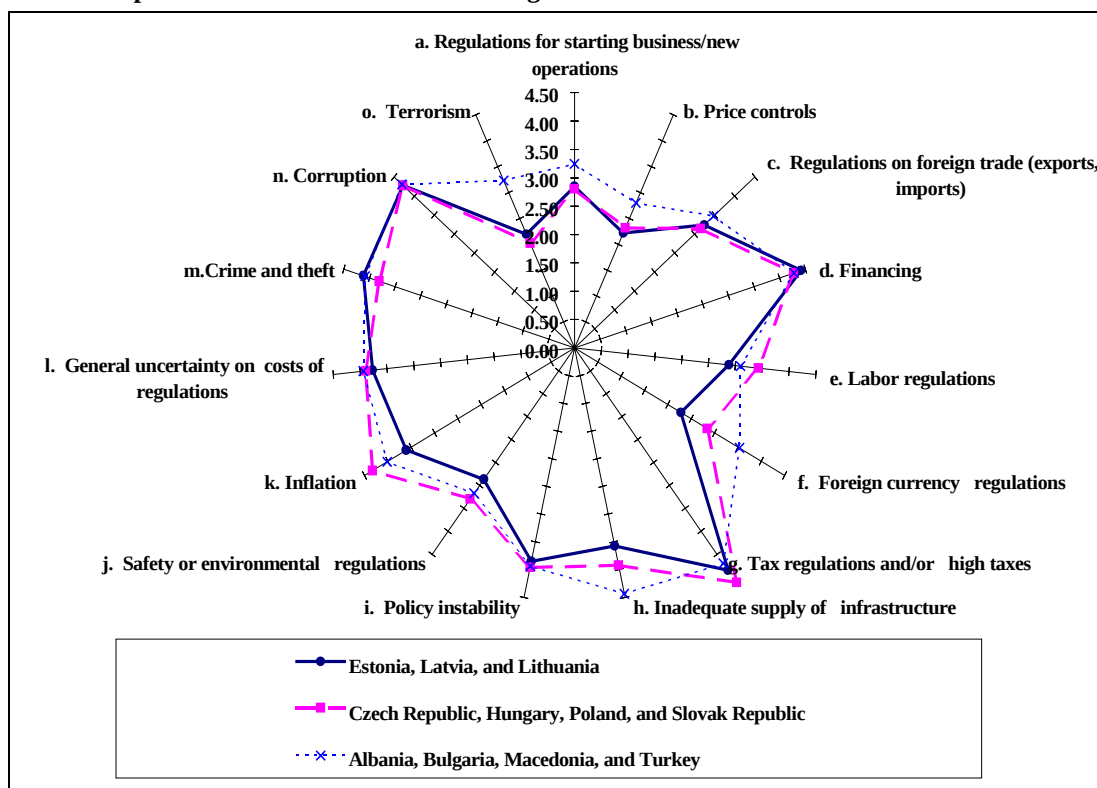
Czech Republic
Hungary
Poland
Slovak Republic

3. Baltics

Estonia
Latvia
Lithuania

The following chart shows that the list of obstacles is dominated by *tax regulations and /or high taxes*, *financing*, and *corruption*, where all three sub-regions scored almost equally high.

Chart 2 Comparison of Obstacles in the Sub-Region

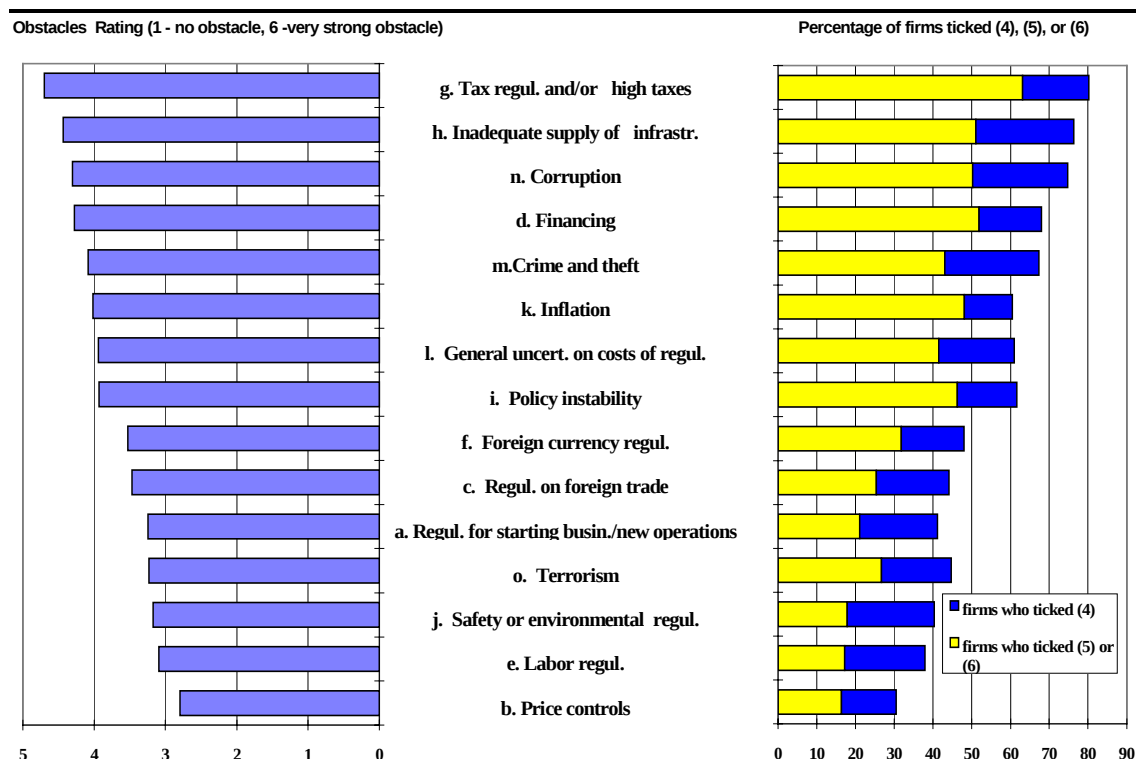


Of the three sub-regions the Baltic sub-region is notably better off in terms of *infrastructure, inflation*, and has relatively soft *safety and environmental regulations*. Businessmen in the countries of the Black Sea and Balkan sub-region reported that *inadequate supply of infrastructure* is a very strong obstacle to doing business compared to their colleagues from other sub-regions of Central and Eastern Europe.

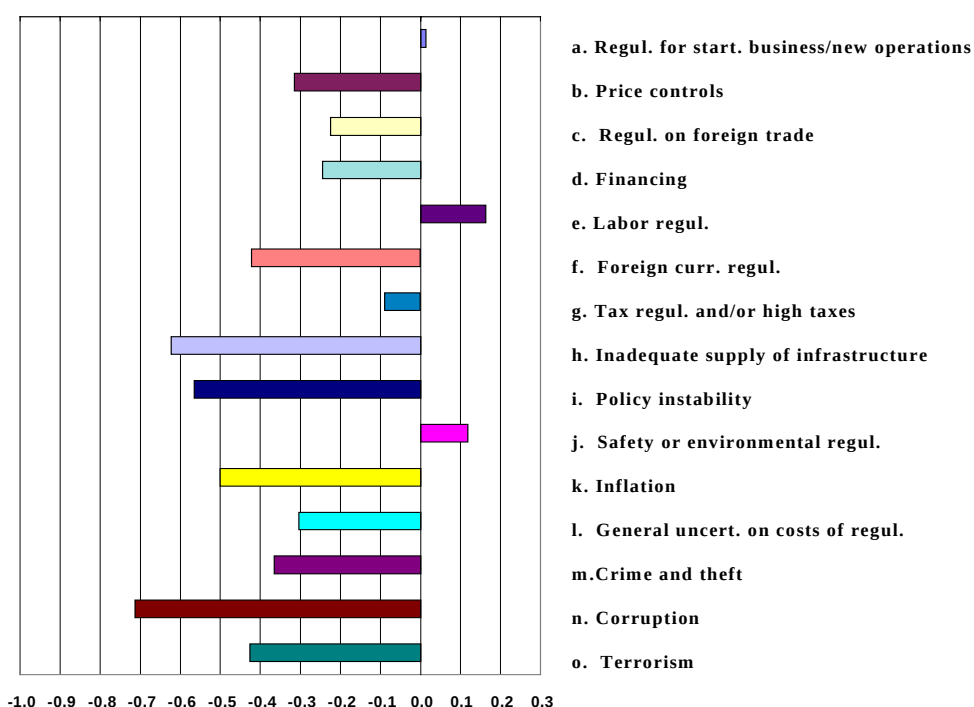
1. Black Sea and Balkan — Albania, Bulgaria, FYR Macedonia, and Turkey

On the top of the list of obstacles to doing business in the Black Sea and Balkan sub-region are *taxes, inadequate supply of infrastructure, corruption, and financing*. The latter one has a higher share of respondents ticked (5) and (6), than *corruption* and *lack of infrastructure*. At the bottom of the list are *terrorism, safety or environmental regulations, labor regulations, and price controls*.

Comparing this sub-region with the group of comparators reveals, that *corruption* is more than 70 percent worse in the Black Sea and Balkan sub-region of CEE, the supply of *infrastructure* is more than 60 percent worse. At the same time *tax regulations and high taxes* is just slightly a bigger problem than in the comparator countries, and it is easier to *start a new business or new operations* in this sub-region, than in more developed countries.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

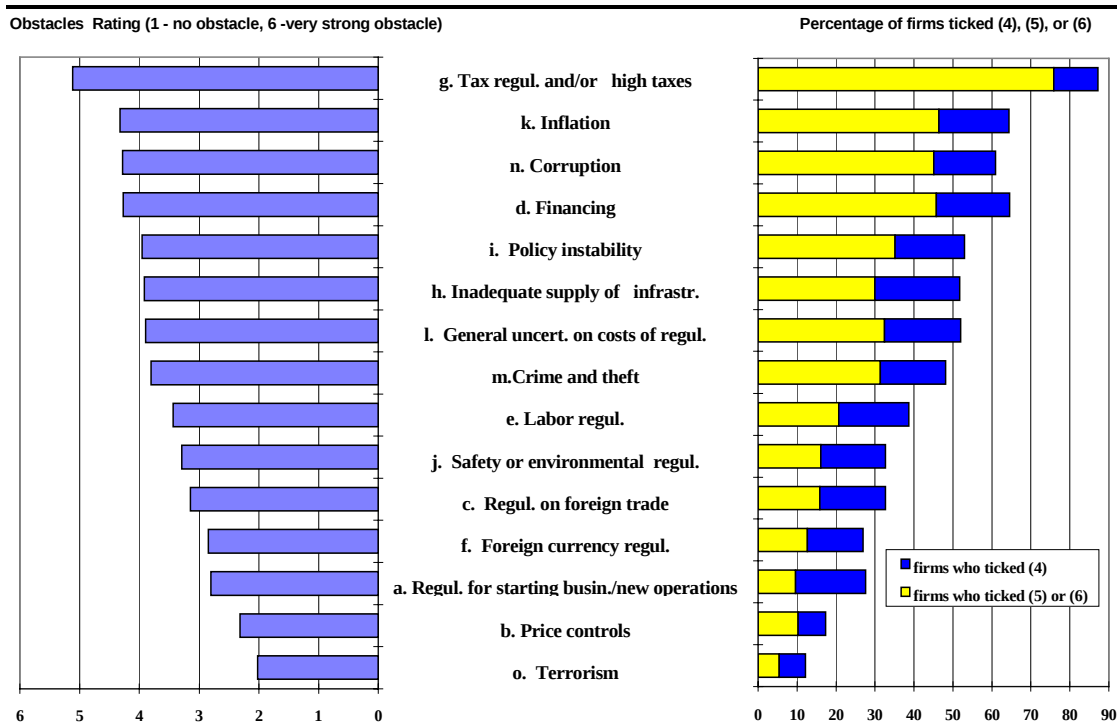


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

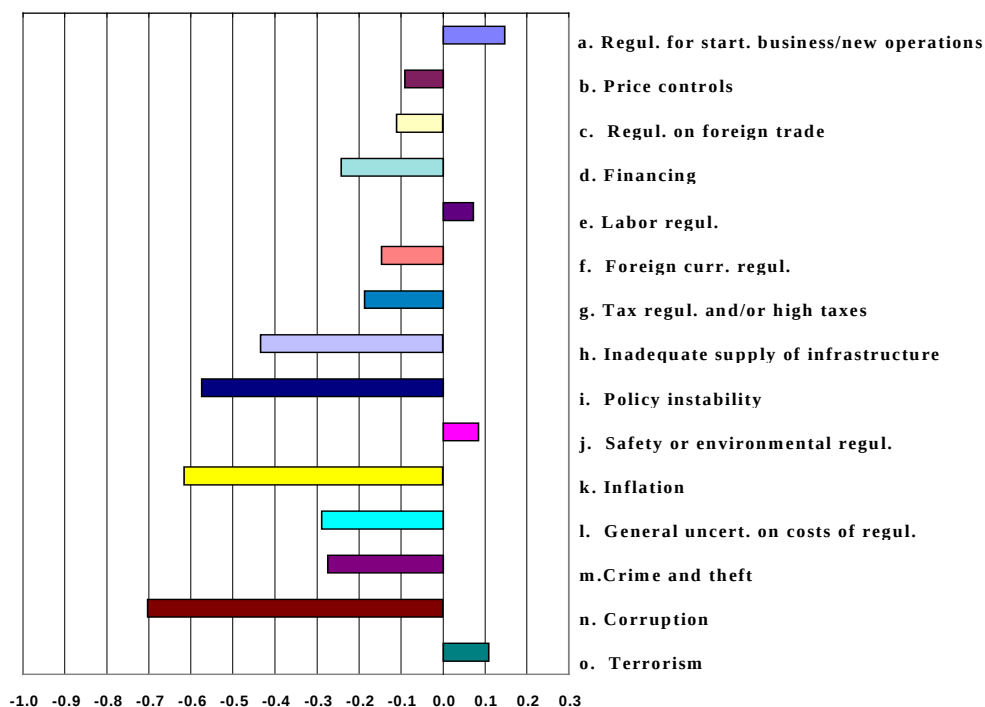
2. Visegrad — Czech Republic, Hungary, Poland, and Slovak Republic

The highest obstacle according to businessmen in the Visegrad region is *tax regulations and high taxes*. This obstacle was considered as a very strong one by 76 percent of the respondents, compared to 46 percent for *inflation*, the obstacle ranked second. *Corruption* was ranked third followed by *financing*. The lowest ranks received obstacles such as *foreign currency regulations*, *regulations for starting new business/new operations*, *price controls*, and *terrorism*.

The Visegrad looks very weak when compared to the comparator group on corruption, inflation, policy instability, and on infrastructure. On the positive side, it is easier to open a new business in the Visegrad countries than in the countries in the comparator group, and terrorism is viewed as less of an obstacle. A better rating of labor and safety regulations indexes, which is common for all transitional economies, can probably be attributed to lack of regulations, and not to a better performance in itself.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

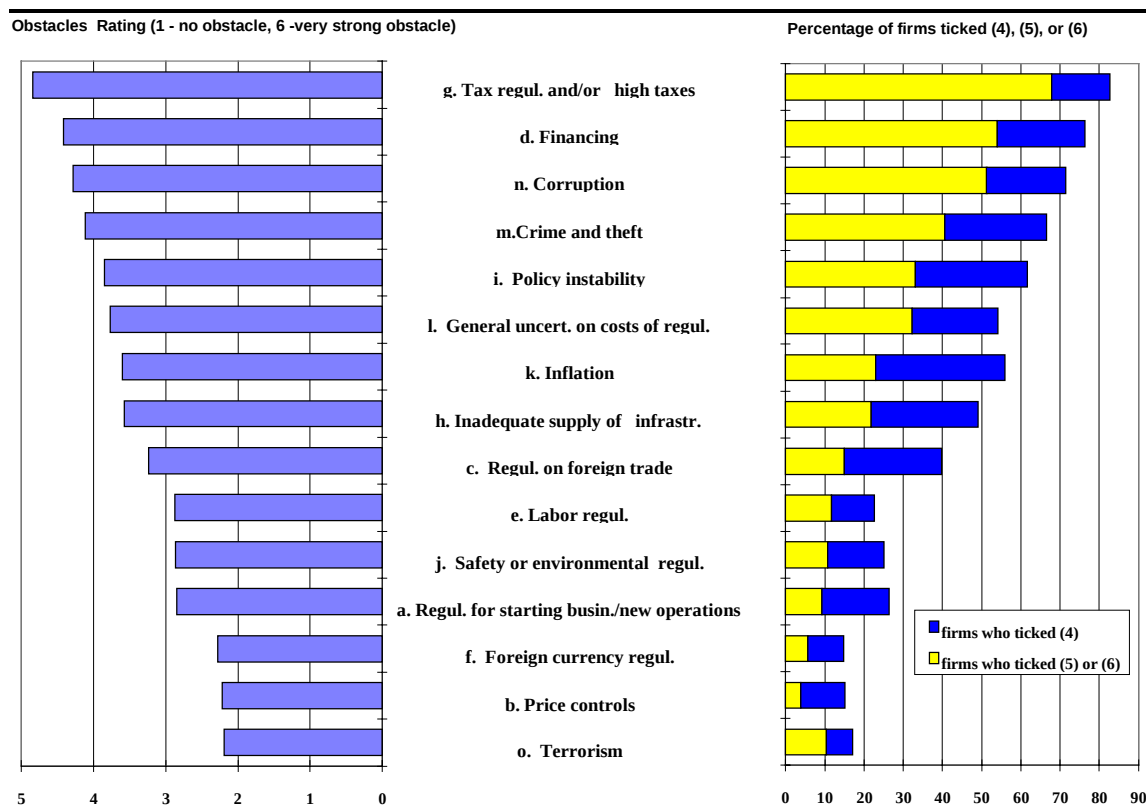


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

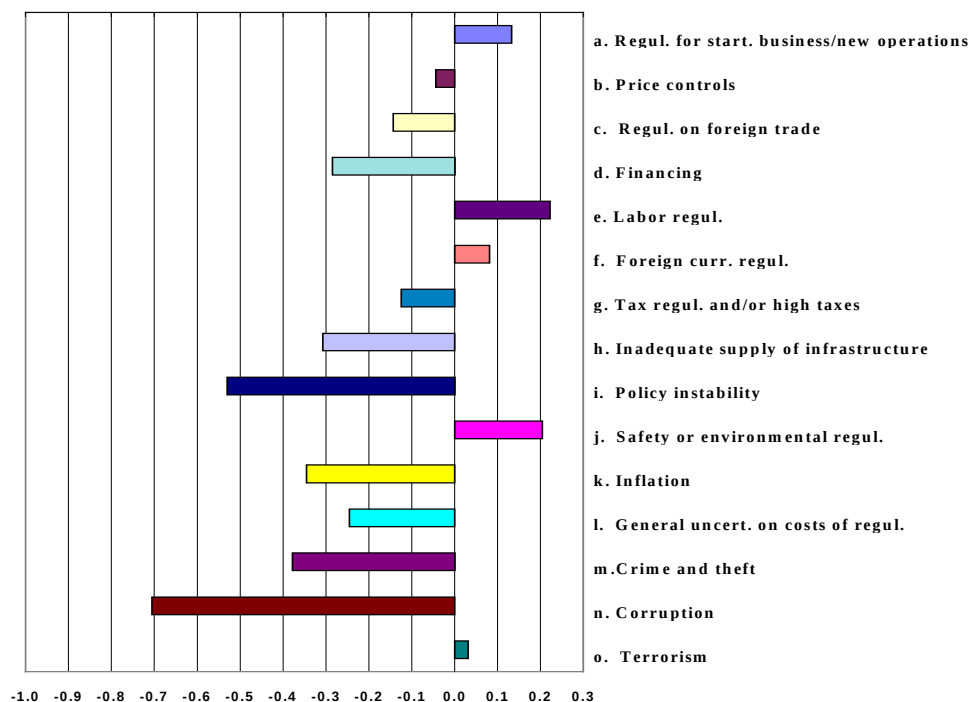
3. Baltic Republics — *Estonia, Latvia, and Lithuania*

For the Baltics Republics the worst obstacle was tax regulations, high taxes, followed by financing, corruption, crime and theft. At the bottom of the list were regulations for starting new business, foreign currency regulations, price controls, and terrorism. The effects of the transition are reflected clearly, e.g. price controls are no longer a serious problem for 96 percent of respondents.

Compared to the group of comparator Republics the Baltics performs worst on corruption, on policy instability. The overall situation is comparable to the one in the Visegrad with one addition—the index for foreign currency regulations is better for the Baltics than for the comparator group.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

Commonwealth of Independent States (CIS)

This region was broken into three sub-regions:

1. Caucasus

Armenia
Azerbaijan
Georgia

2. Central Asia

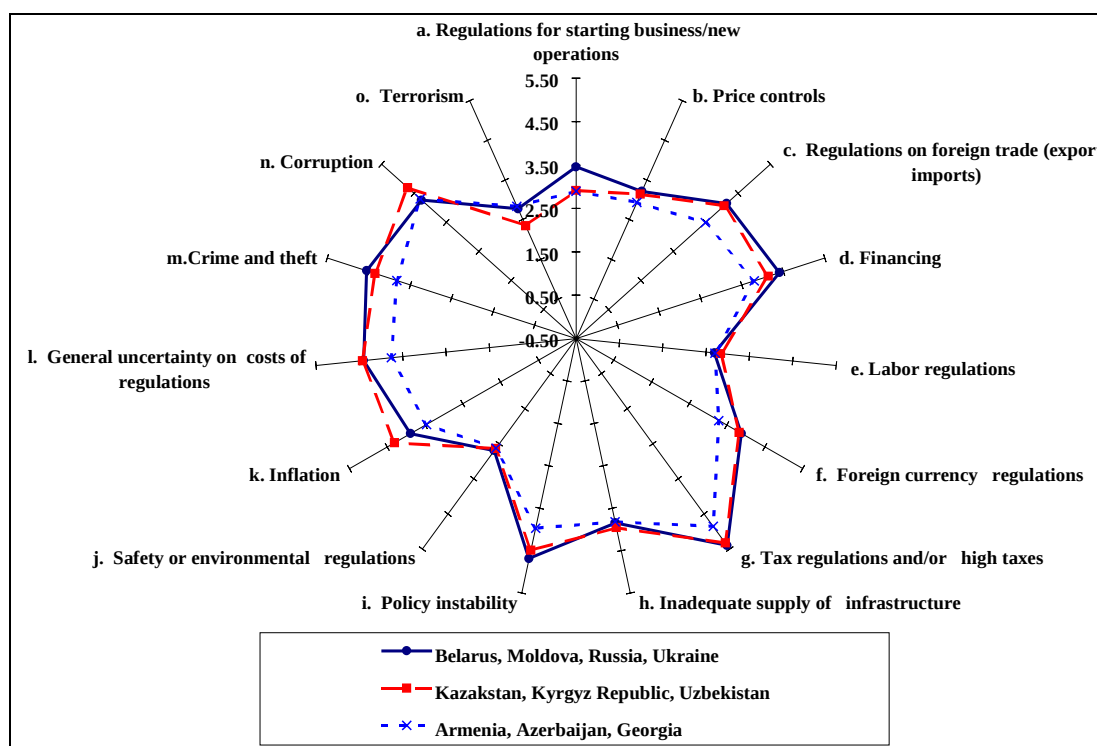
Kazakhstan
Kyrgyz Republic
Uzbekistan

3. Slavic Republics of the FSU and Moldova

Belarus
Moldova
Russia
Ukraine

The following chart shows a comparative picture of different obstacles to doing business in the sub-regions of CIS. Overall the level of obstacles is quite high and that there are few differences between sub-regions.

Chart 3 Comparison of Obstacles in the Sub-Region

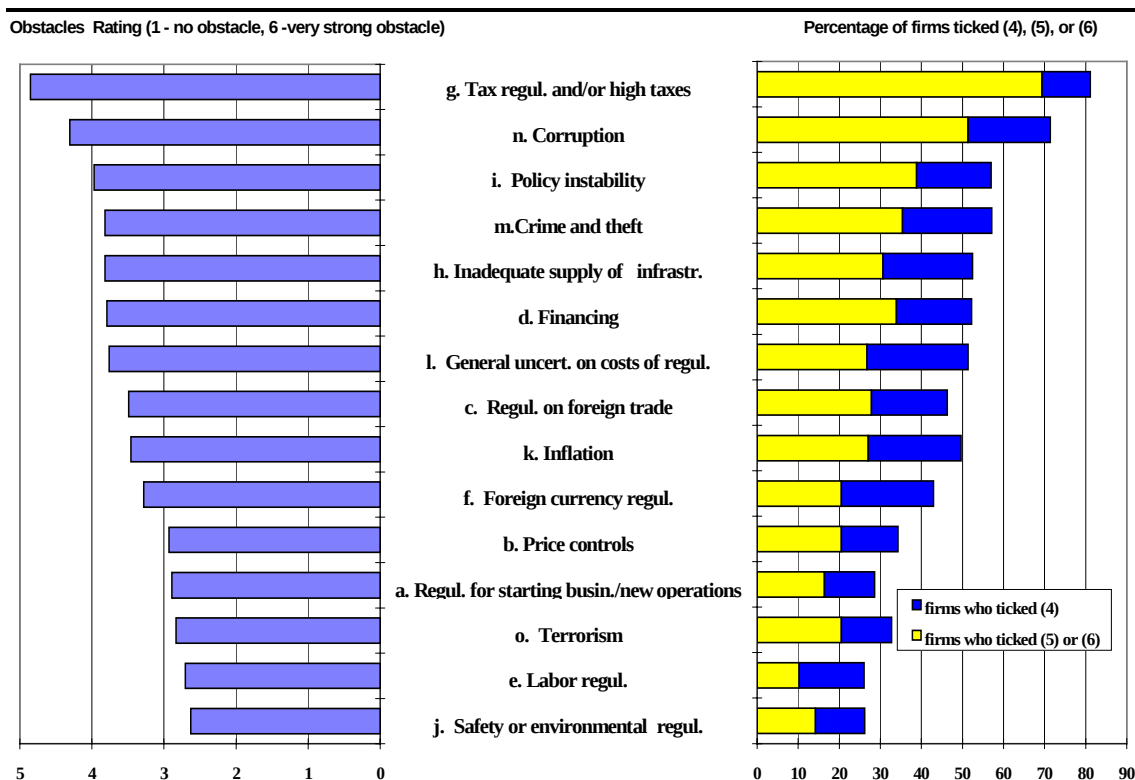


As can be seen from the picture, with the exception of terrorism, the Caucasus sub-region performs better or at least on the same level as other sub-regions of the CIS region. It is also clear that in all sub-regions of the CIS tax regulations and high taxes were seen as the highest obstacle to doing business.

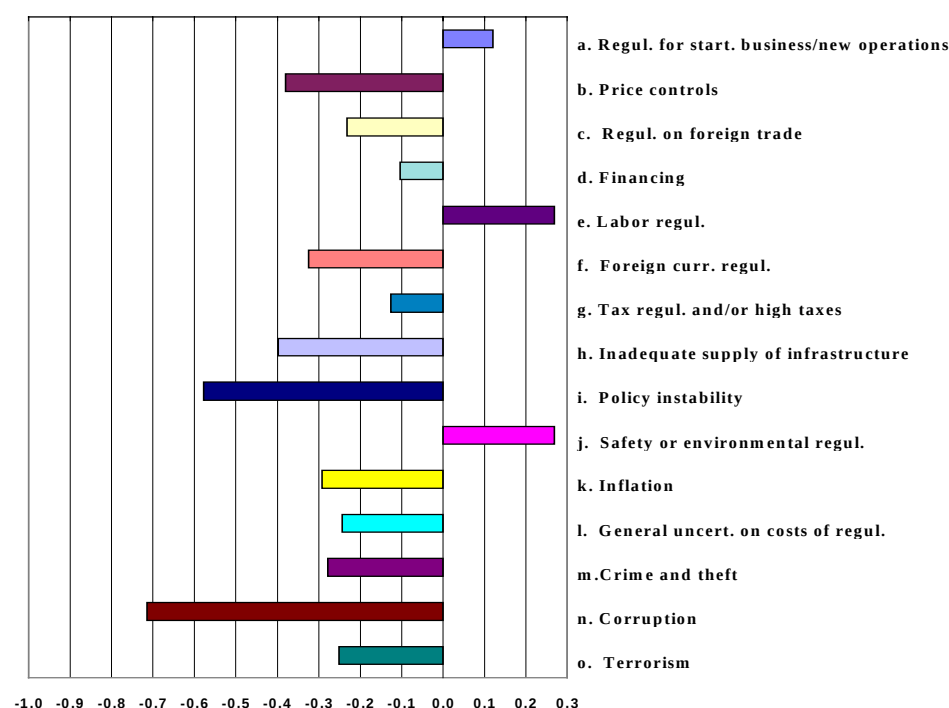
1. Caucasus — Armenia, Azerbaijan, and Georgia

Tax regulations and high taxes were ranked as the top obstacle to doing business in the Caucasus states. These were followed by *corruption*, *policy instability*, and *crime and theft*. At the bottom of the list were *price controls*, *regulations for starting new business*, *terrorism*, *labor regulations*, and *safety or environmental regulations*.

Compared to the group of best performers the Caucasus sub-region performs especially poor on *corruption*, *policy instability*, *inadequate supply of infrastructure*, and *price controls*. But as in all transitional regions (except Slavic Republics and Moldova) *regulations for starting a new business* is considered to be less of an obstacle than in the developed countries included in the comparator group. Positive values for *labor and safety or environmental regulations* are likely to be due to lack of such regulations.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

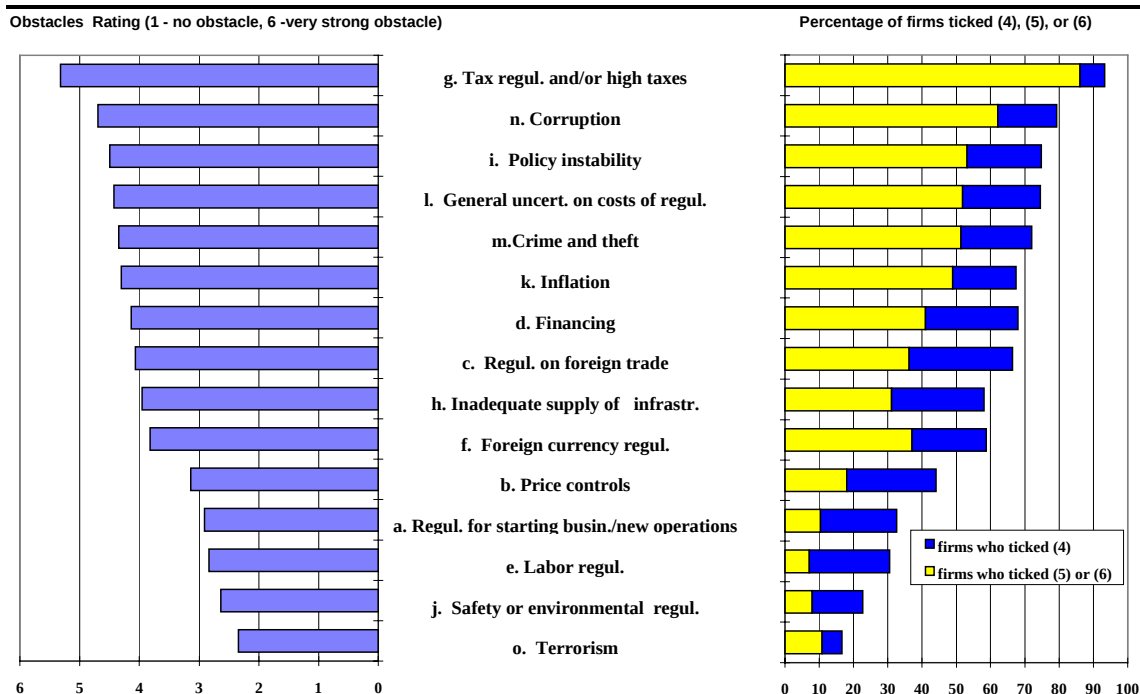


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

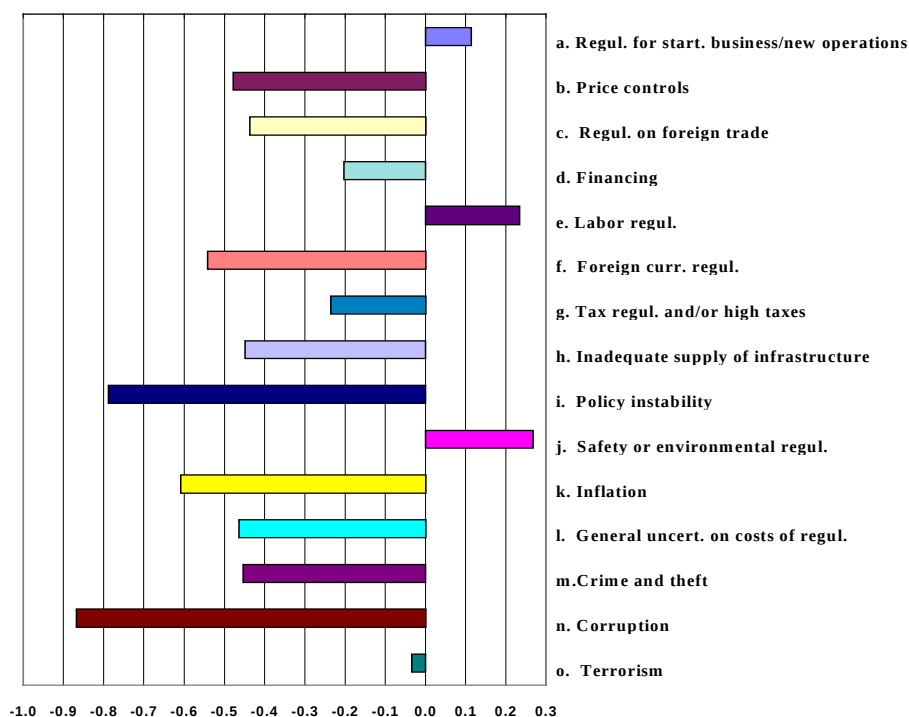
2. Central Asia — *Kazakhstan, Kyrgyz Republic, and Uzbekistan*

Tax regulations and high taxes are the top obstacles to doing business as perceived by entrepreneurs from Central Asia countries. Taxes were followed by different measures of political uncertainty as *corruption*, *policy instability*, *general uncertainty on costs of regulations*, and *crime and theft*. At the bottom of the list were *regulations for starting new business*, *labor regulations*, *safety regulations*, and *terrorism*.

Compared to the group of best performers *corruption* is very high in Central Asia, the highest among transition economies. Policy instability is also very high. The index for *policy instability* is 79 percent higher than the one for the comparator group. This is the third worst value for all 22 sub-regions under consideration. Indexes for *inflation* and *foreign currency regulations* are 61 and 54 percent worse than the ones for the comparators.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

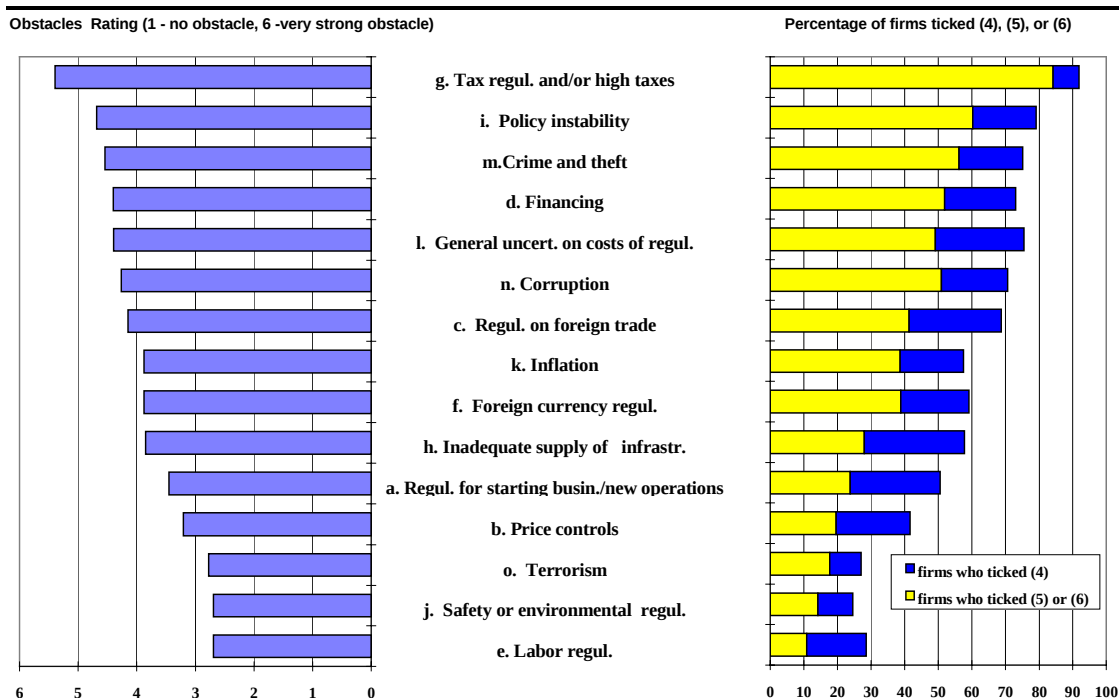


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

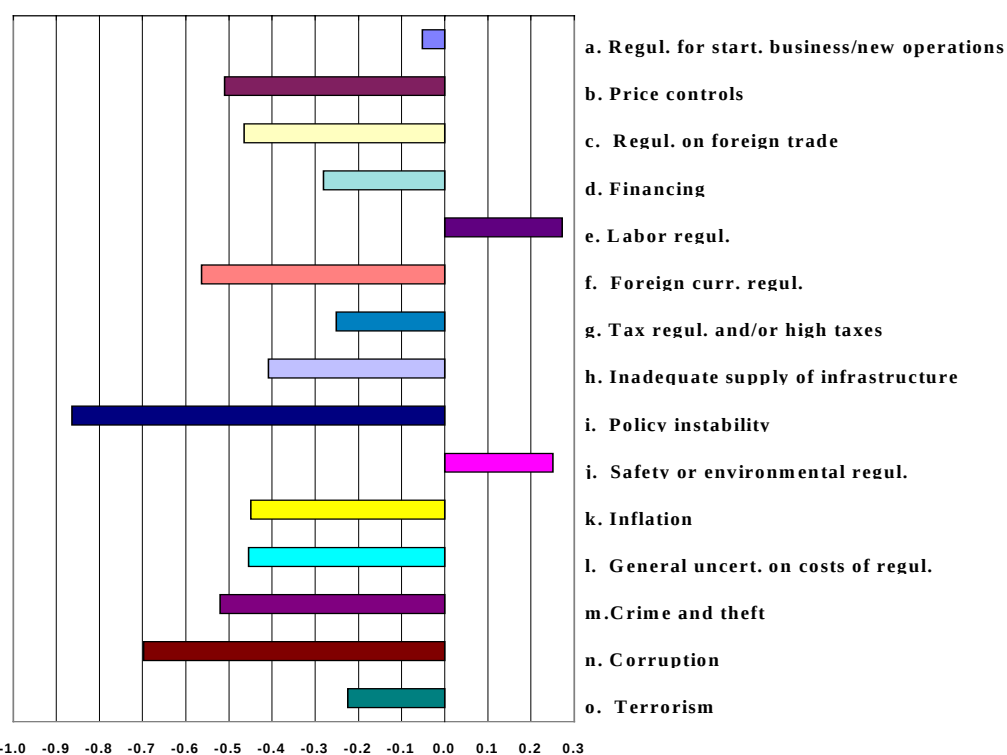
3. Slavic Republics of the FSU and Moldova — *Belarus, Moldova, Russia, and Ukraine*

Tax regulations and high taxes are the worst obstacles in the group of countries which includes the Slavic Republics of the FSU and Moldova. It is followed by *policy instability, crime and theft, and financing*. Taxes were rated as a very strong obstacle by 84 percent of respondents, corruption by 60 percent, crime and theft by 56, and financing by 52 percent of respondents. The lowest obstacles for this region were *price controls, terrorism, safety regulations, and labor regulations*.

The group of Slavic Republics of the FSU and Moldova compared very unfavorably to the group of best performers. It has second highest index of *policy instability*. It is the only group of transitional countries in which opening a new business is considered to be a higher obstacle than in the group of developed countries used for comparison.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

Latin America and the Caribbean

This region was broken into three sub-regions:

1. Central America

Costa Rica
Jamaica
Mexico

2. Northwestern South America

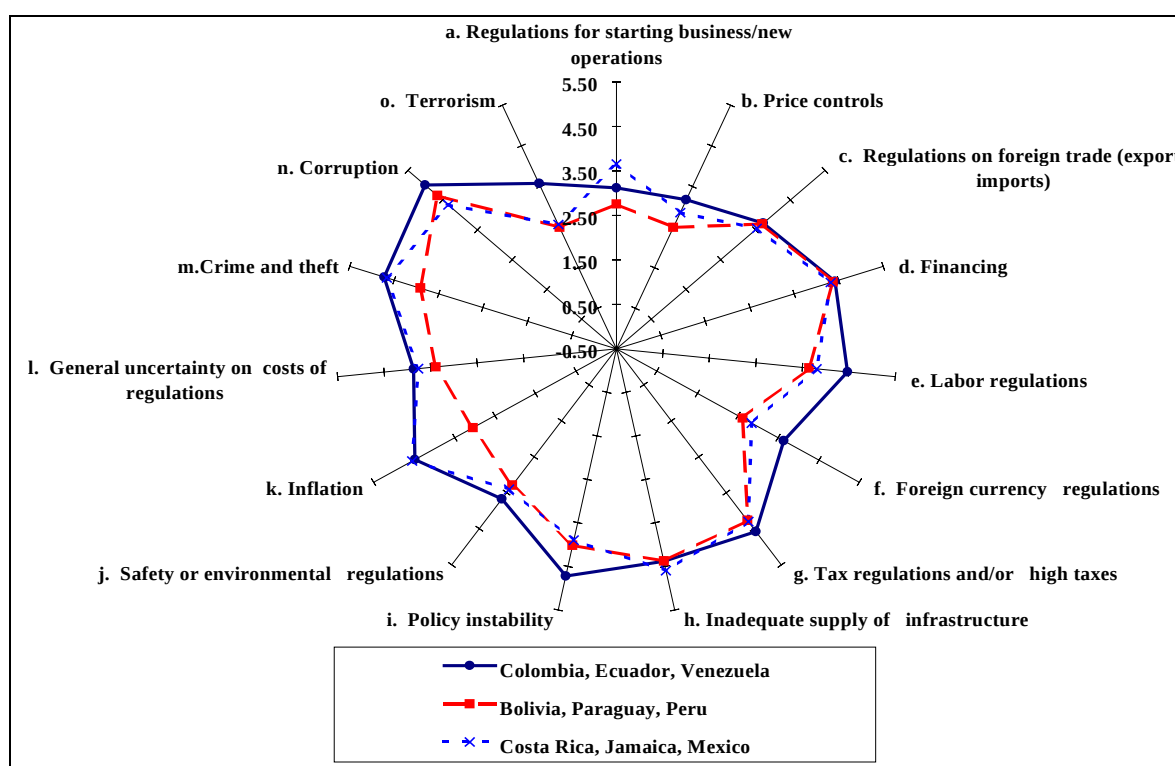
Colombia
Ecuador
Venezuela

3. Western South America

Bolivia
Paraguay
Peru

The following chart shows that with the exception of corruption Western South America had at worst the same level of obstacles as the other two groups and was much better than the others in terms of inflation as an obstacle to doing business.

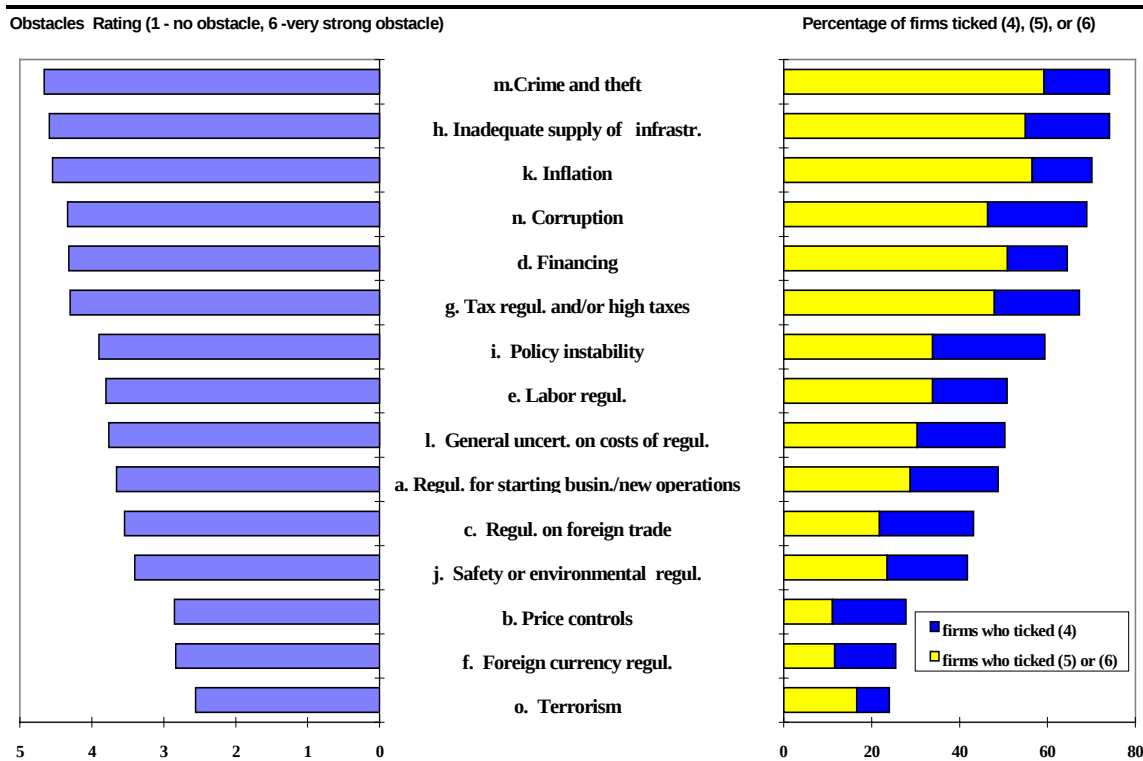
Chart 4 Comparison of Obstacles in the Sub-Region



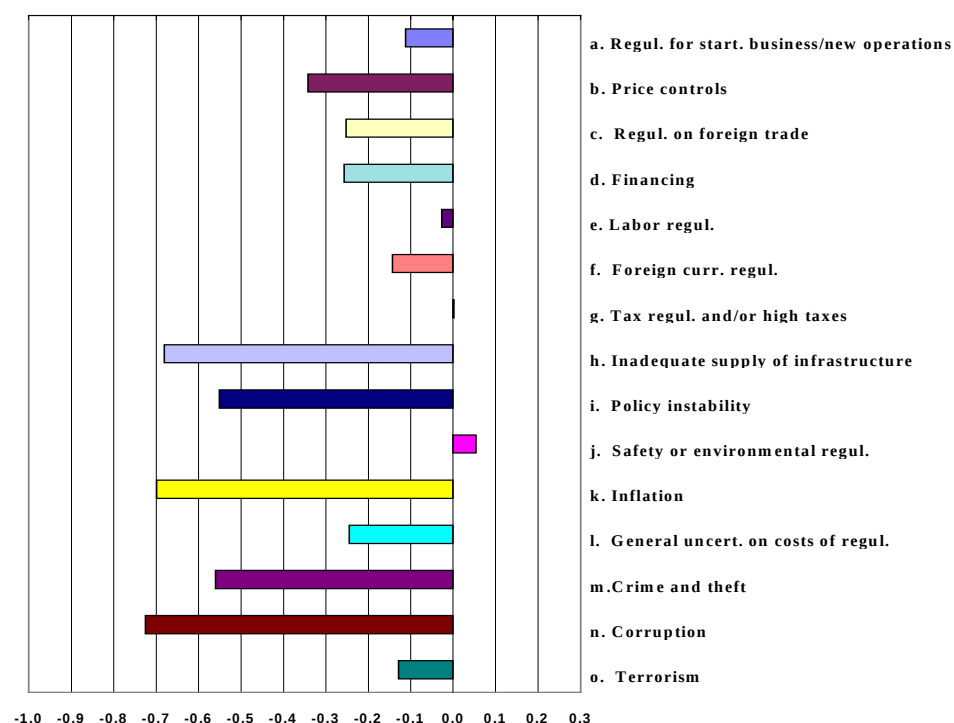
The group of Central American countries has the least friendly environment for opening a new business/starting new operations among the three Latin American sub-regions.

1. Central America — *Costa Rica, Jamaica, and Mexico*

The highest ranked obstacle in the Central America sub-region was *crime and theft*. This is the only region where the respondents ranked this obstacle at the very top. It was followed by *inadequate supply of infrastructure, inflation, corruption, and financing*. The lowest ranked obstacle is *terrorism*. But with respect to the percentage of businessmen who thought about it as a very strong obstacle, *terrorism* is more of an obstacle than *price controls* and *foreign currency regulations*. Compared to the best performing countries in the comparators the sub-region is 70 percent worse on three dimensions—*corruption, inflation, and inadequate supply of infrastructure*—and about 55 percent worse with respect to *crime and theft* and *policy instability*.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

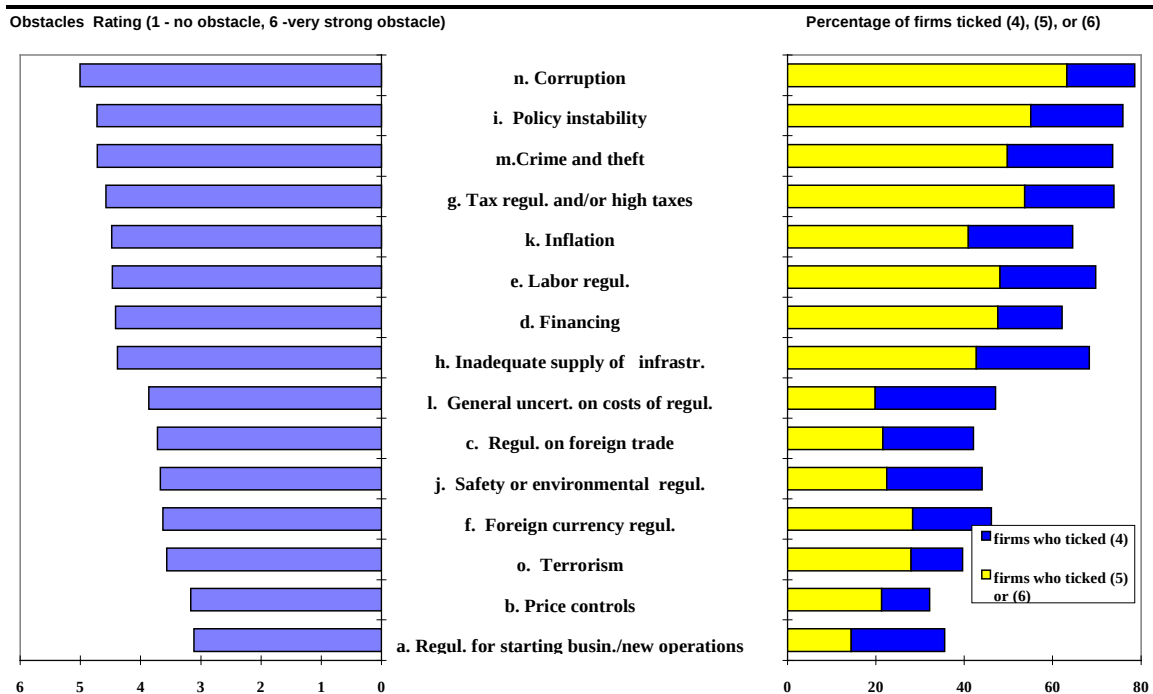


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

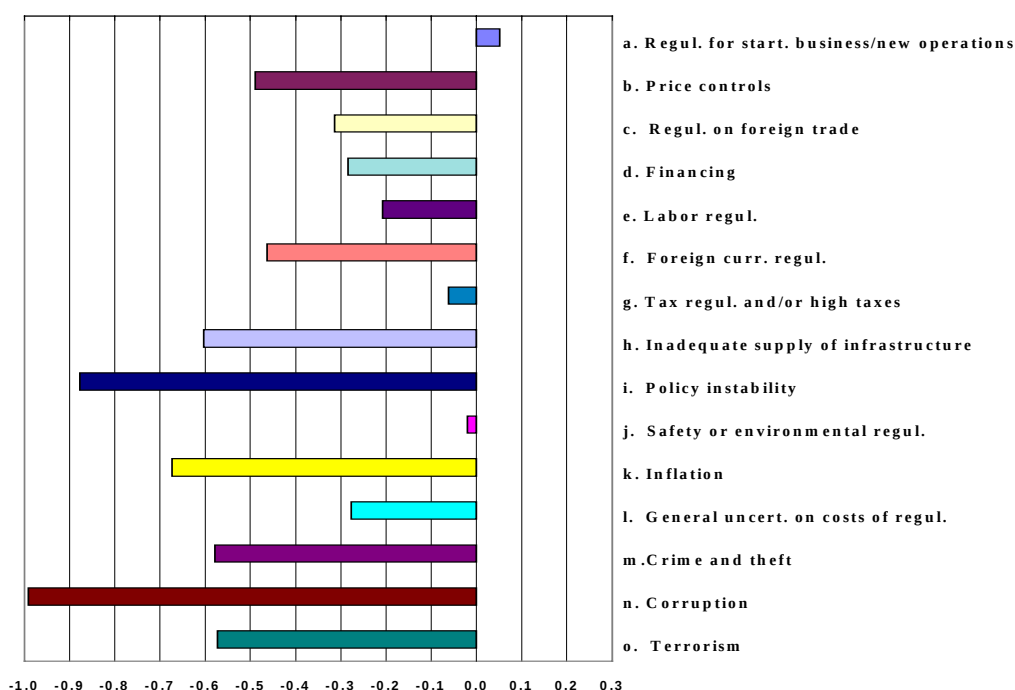
2. Northwestern South America — Colombia, Ecuador, and Venezuela

Corruption was ranked as the worst obstacle to doing business in this sub-region. More than 63 percent of respondents said that this is a very strong obstacle—the highest share outside of Africa. This obstacle was followed by *policy instability*, *crime and theft*, *tax regulations*, and *inflation*. The share of businessmen, who thought *inflation* to be a very strong obstacle is lower than for *labor regulations*, *financing*, and *inadequate supply of infrastructure*. *General uncertainty on costs of regulations*, ranked ninth, was considered a very strong obstacle by only 20 percent of the respondents, which is the second lowest percentage share, above only the one for *regulations for starting a new business*. Other obstacles ranked low were *terrorism* and *price controls*.

This region has the worst (among all regions) comparative indexes for *corruption* and *policy instability*.



Difference between obstacle rating in the region and the average of four OECD countries (in %)

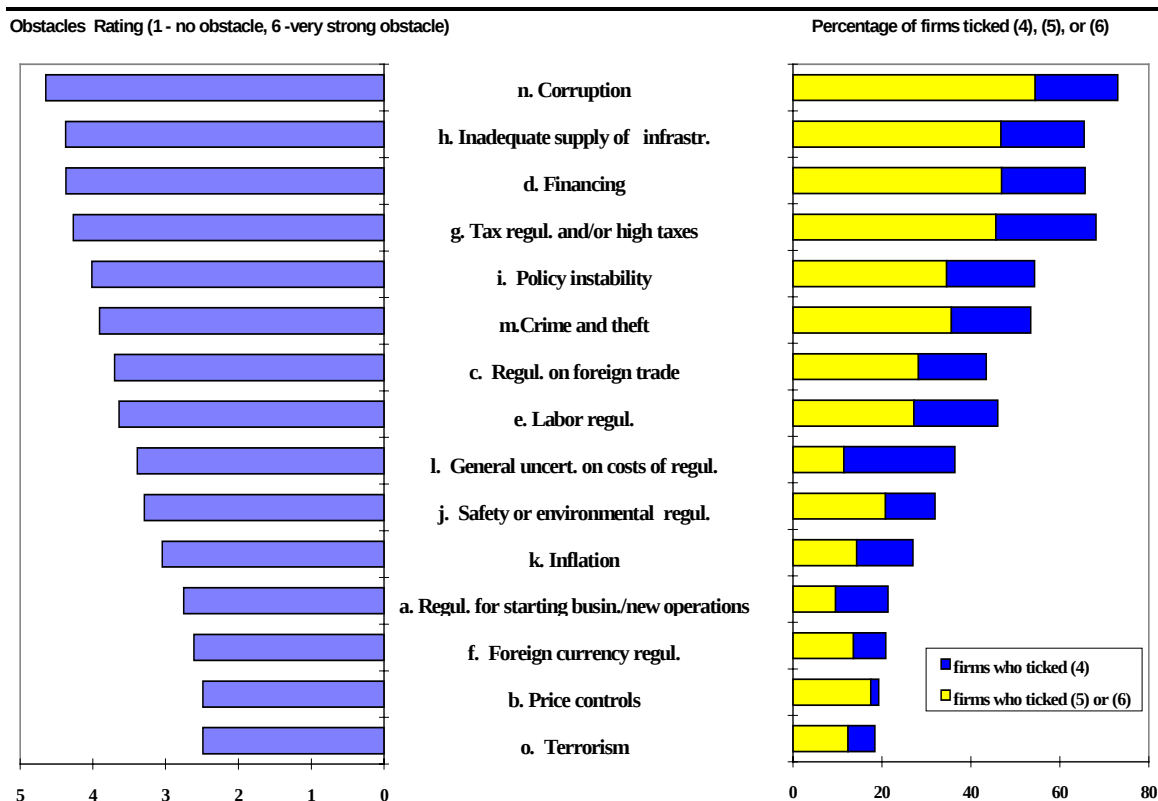


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

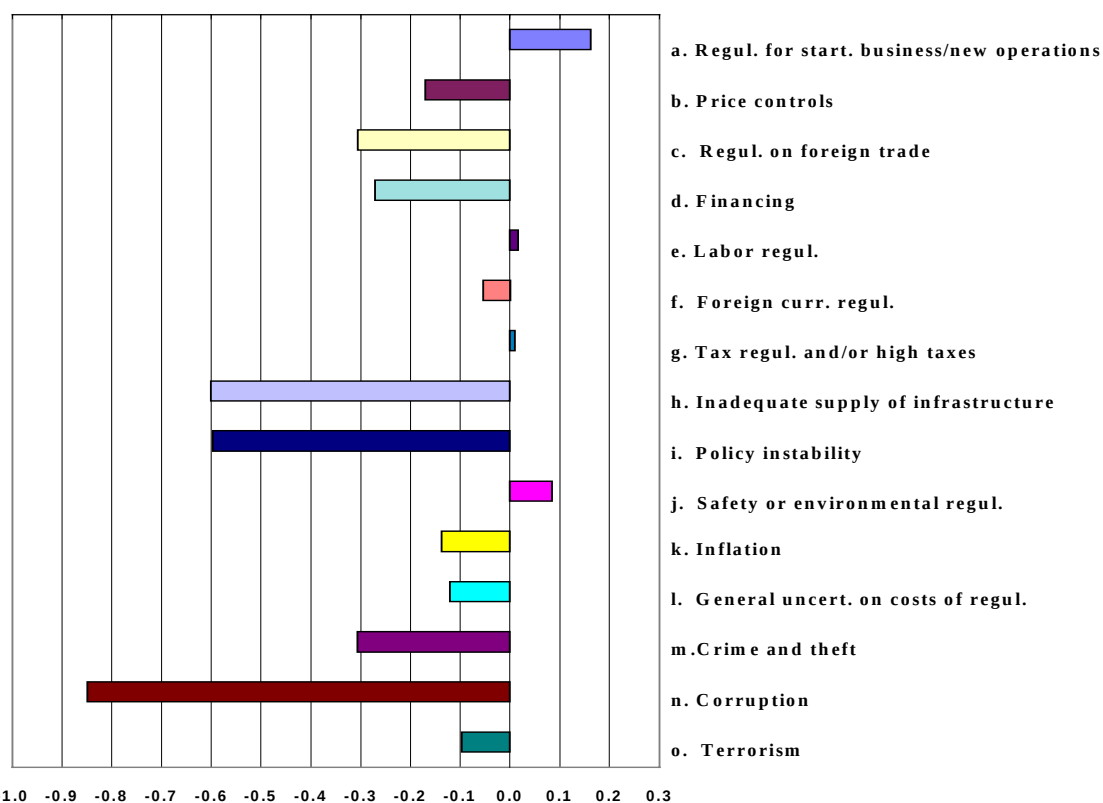
3. Western South America — *Bolivia, Paraguay, and Peru*

Corruption was ranked as the top obstacle to doing business in this region. It was followed by *inadequate supply of infrastructure*, *inadequate financing*, *tax regulations*, and *policy instability*. *General uncertainty of costs of regulations*, which was ranked ninth, was considered a very strong obstacle by only 11 percent of the respondents, which is the second lowest percentage share, above only the one for *regulations for starting a new business*. Other obstacles ranked low were *terrorism*, *price controls*, and *foreign currency regulations*.

The countries in this sub-region proved to have better than comparator group indexes for *regulations for starting new business* and *tax regulations*.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

Sub-Saharan Africa

This region was broken into seven sub-regions:

- | | |
|---|---|
| 1. Middle-Income African Countries
<i>Mauritius</i>
<i>South Africa</i> | 2. Western Central Africa
<i>Côte d'Ivoire</i>
<i>Ghana</i>
<i>Togo</i> |
| 3. Western Africa
<i>Guinea</i>
<i>Guinea-Bissau</i>
<i>Senegal</i> | 4. Western and Central Africa
<i>Benin</i>
<i>Mali</i>
<i>Nigeria</i> |
| 5. Southern Africa
<i>Madagascar</i>
<i>Malawi</i>
<i>Mozambique</i>
<i>Zimbabwe</i> | 6. Central Africa
<i>Cameroon</i>
<i>Chad</i>
<i>Congo</i> |
| 7. Eastern Africa
<i>Kenya</i>
<i>Tanzania</i>
<i>Uganda</i>
<i>Zambia</i> | |

For comparison purposes we divided the seven African sub-regions into two groups of four sub-regions each (including South Africa and Mauritius as a “reference point” in both groups). The two graphs show the overall “continental” patterns for Sub-Saharan Africa.

One can clearly see that taxes, inflation, and corruption are ultimately the worst obstacles in Sub-Saharan Africa, that lack of infrastructure ranked the lowest in the middle-income African countries, and labor regulations in the latter group received the highest ranking among the sub-regions of the Sub-Saharan Africa.

Chart 5 Comparison of Obstacles in the Sub-Region

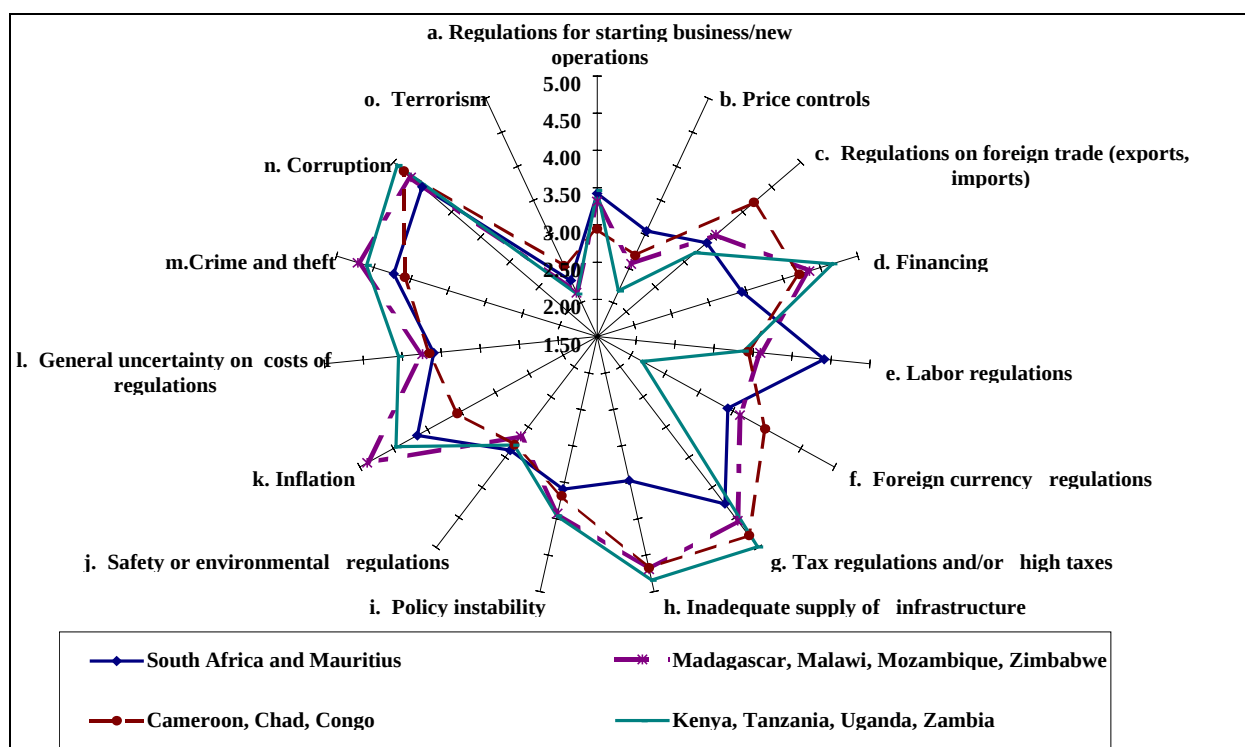
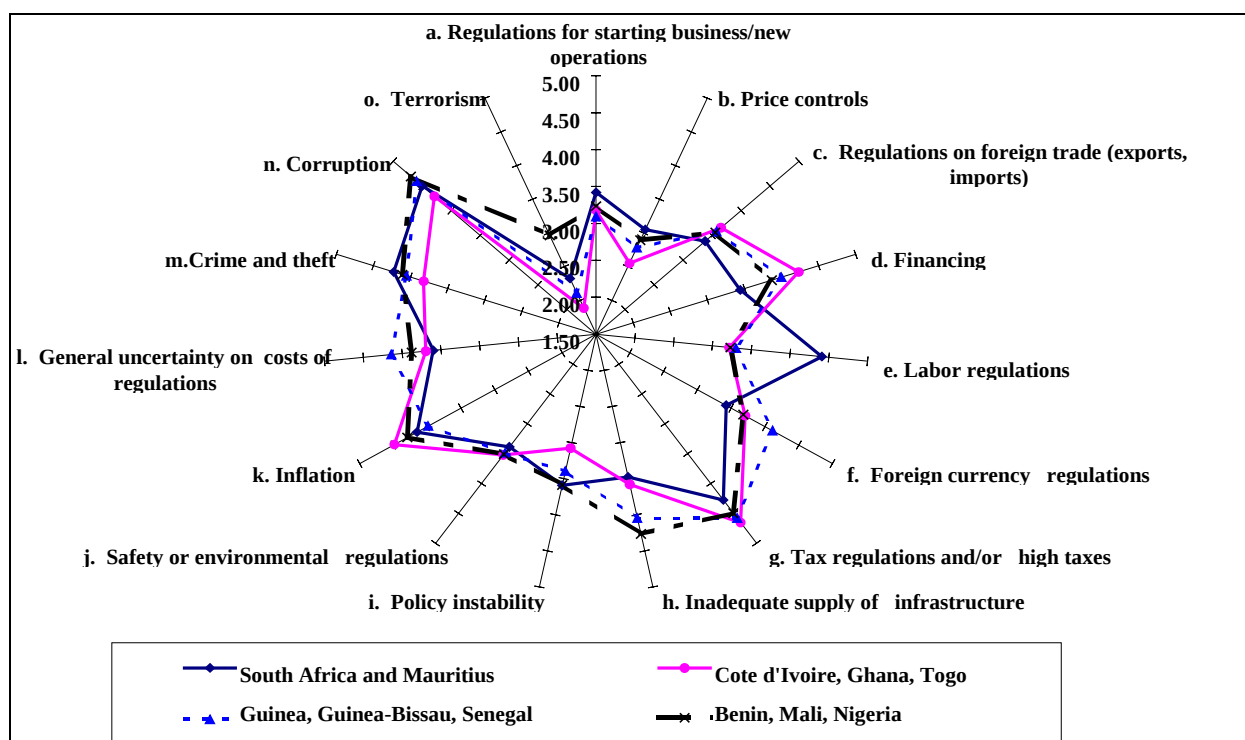


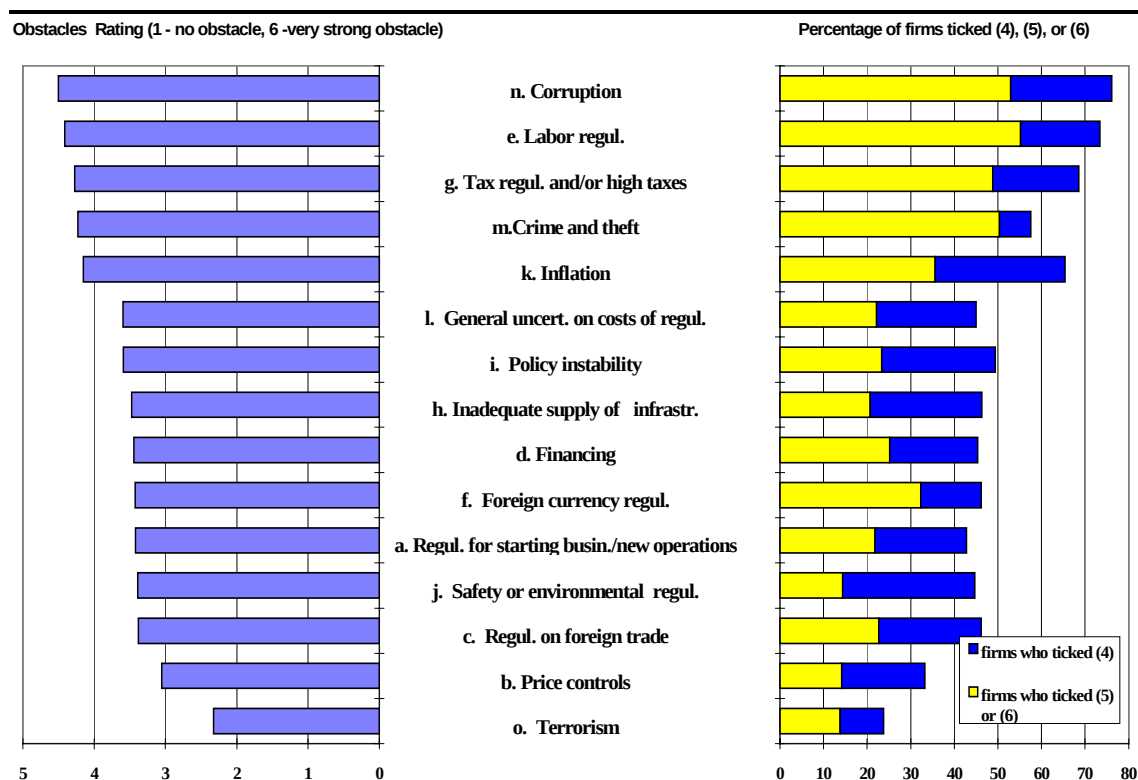
Chart 6 Comparison of Obstacles in the Sub-Region



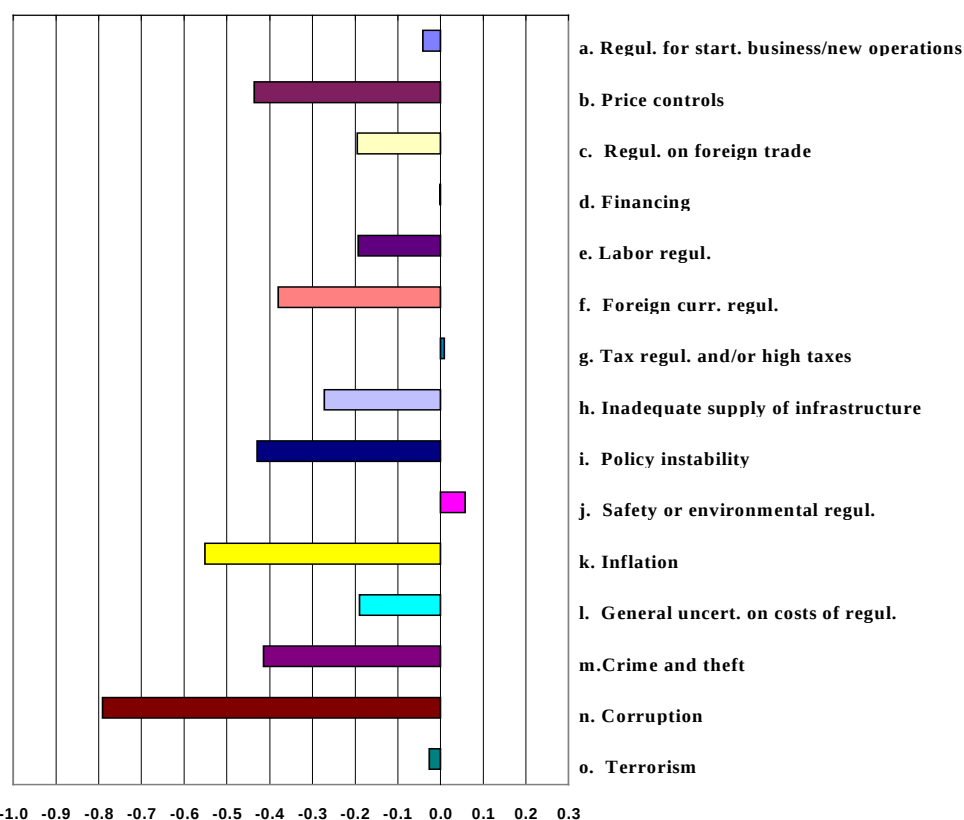
1. Middle-Income African Countries — *South Africa and Mauritius*

Corruption was ranked as the worst obstacle to doing business in this region. But the percentage share of those who thought it is a very strong obstacle was higher for *labor regulations*, which was overall ranked second followed by *tax regulations*, *crime and theft*, and *inflation*. *Foreign currency regulations* which was overall ranked tenth was found to be a very strong obstacle by 32 percent of respondents.

Although the comparative index for *corruption* was almost 80 percent worse than for the group of the best performers, and the *inflation* index was about 55 percent worse, indexes for availability of *financing*, *tax regulations*, and *regulations for starting a new business* were at almost the same level as in the comparator group. Four other indexes were about forty percent worse than in the comparator group (*price controls*, *foreign trade regulations*, *policy instability*, and *crime and theft*).



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

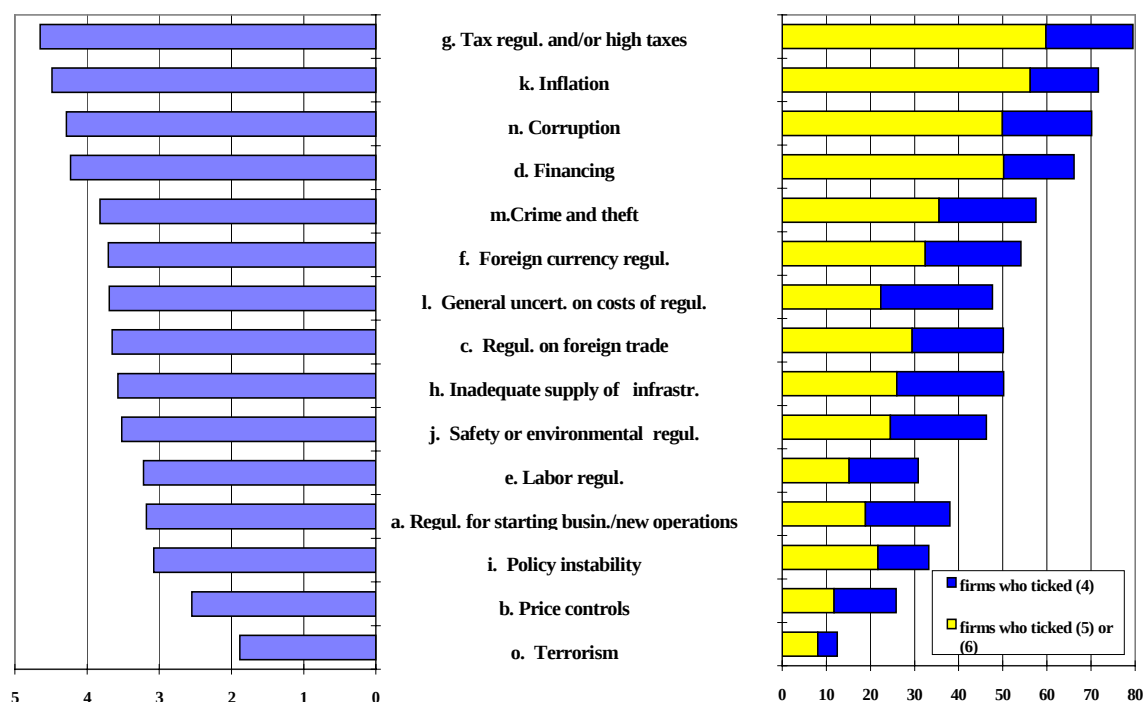
2. Western Central Africa — Côte d'Ivoire, Ghana, and Togo

Tax regulations was ranked as the worst obstacle by the businessmen in the Western Central Africa region, followed by *inflation*, *corruption*, *financing*, and *theft and crime*. The obstacle ranked seventh—*general uncertainty of costs of regulations* was considered as a very strong one only by 22 percent of respondents—the tenth highest percentage share. The least severe obstacles are *terrorism*, *price controls*, *policy instability*, and *regulations for starting business*.

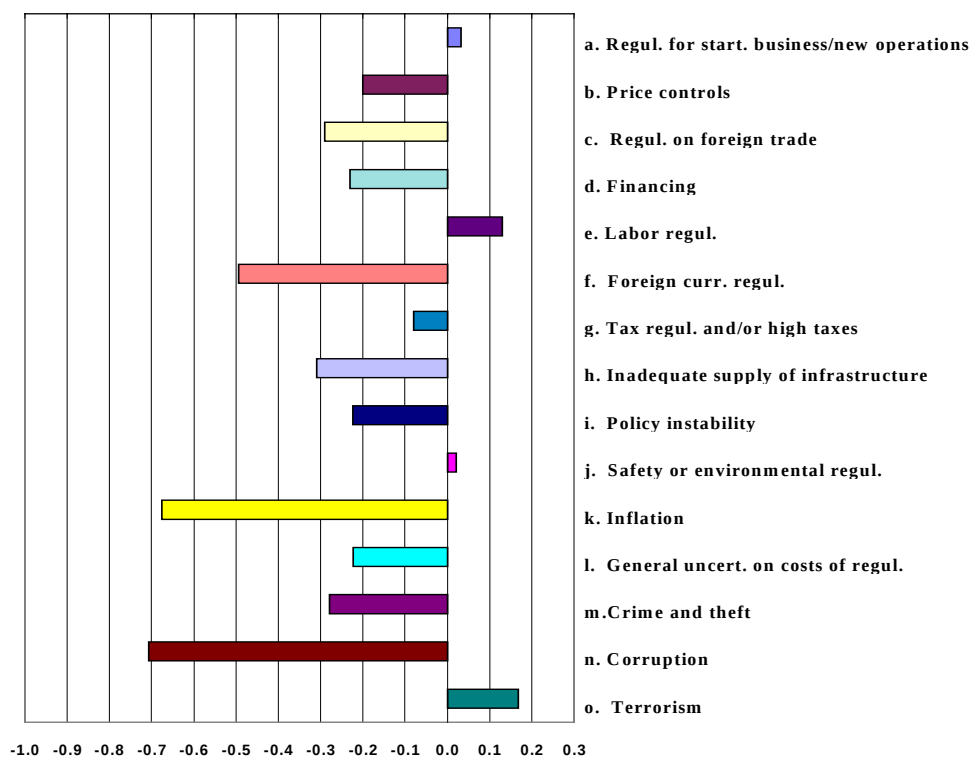
Although the comparative indexes on *corruption* and *inflation* are 70 percent worse than in the group of comparator and the one for *foreign currency regulations* is 50 percent worse, the index for *terrorism* is better than in the comparator group, and the fourth best among all the sub-regions.

Obstacles Rating (1 - no obstacle, 6 -very strong obstacle)

Percentage of firms ticked (4), (5), or (6)



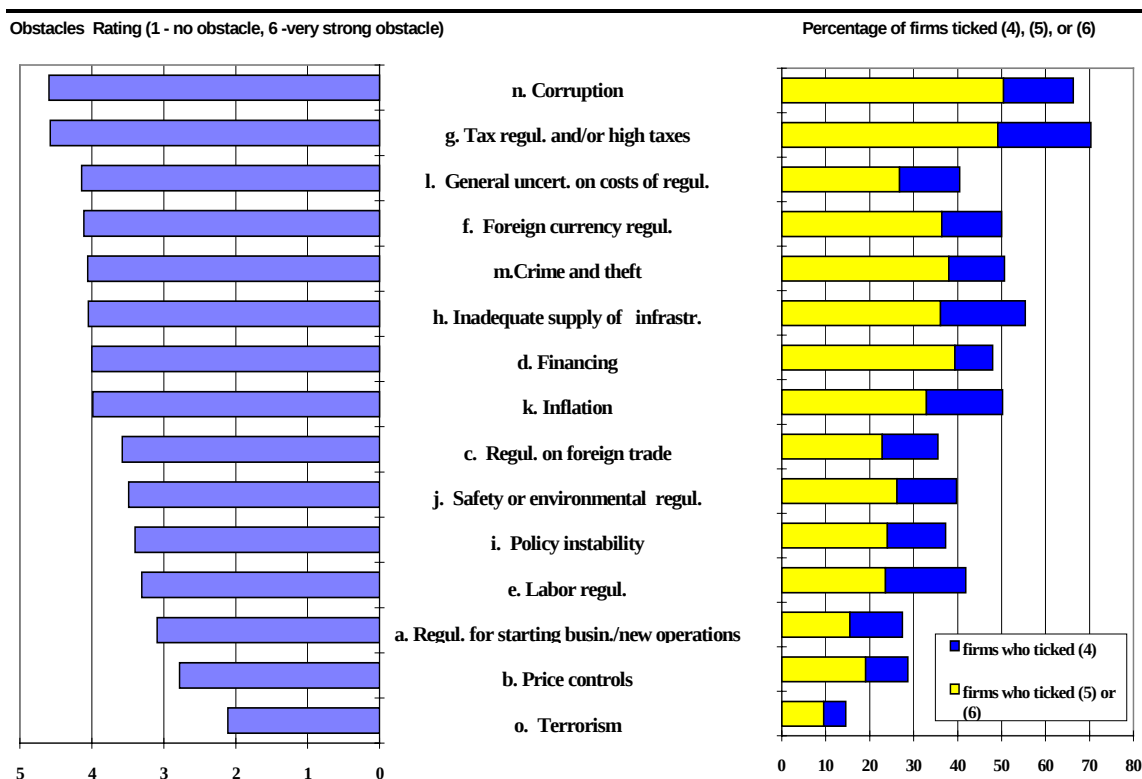
Difference between obstacle rating in the region and the average of four OECD countries (in %)



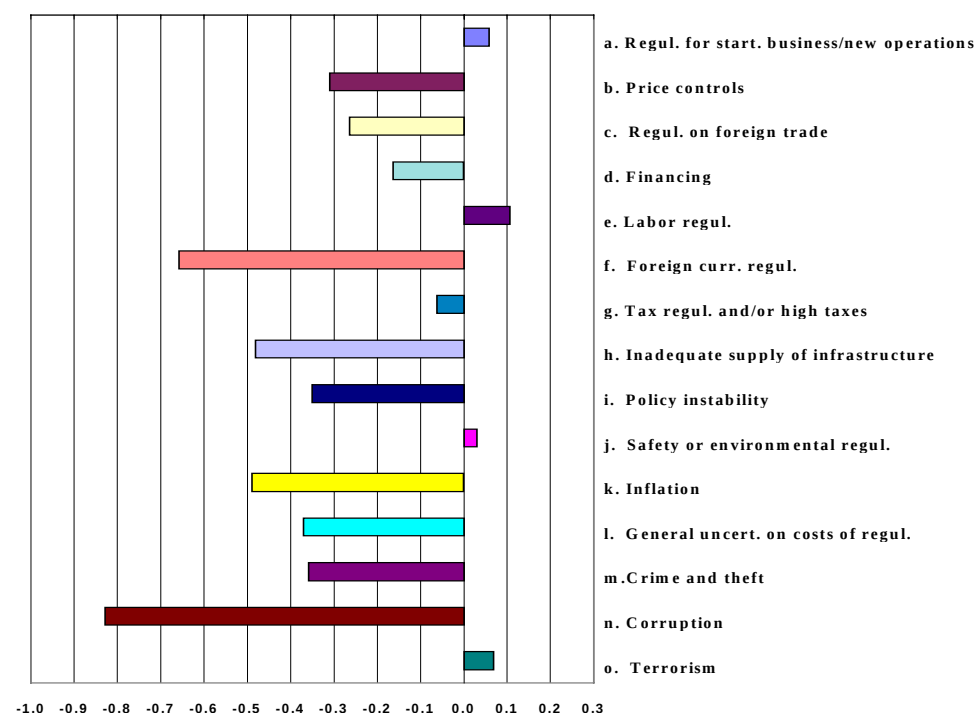
Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

3. Western Africa — *Guinea, Guinea-Bissau, and Senegal*

The worst obstacles in the Western Africa sub-region were *corruption* and *tax regulations*, followed with some margin by *general uncertainty of cost of regulations*, *foreign currency regulations*, and *crime and theft*. In terms of strength of the obstacles measured by a percentage share of businessmen ticked (5) and (6) for any particular obstacle, the obstacle ranked overall third—*general uncertainty of costs of regulations* was considered as a very strong by 27—the ninth highest percentage share. *Financing* ranked seventh, but has the third highest percentage share of firms who ticked 5 or 6—39 percent, followed by *crime and theft* with 38 percent. The comparative index for *foreign currency regulations* for this region is the worst among all the sub-regions under consideration and 66 percent worse than the one for the comparator group.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



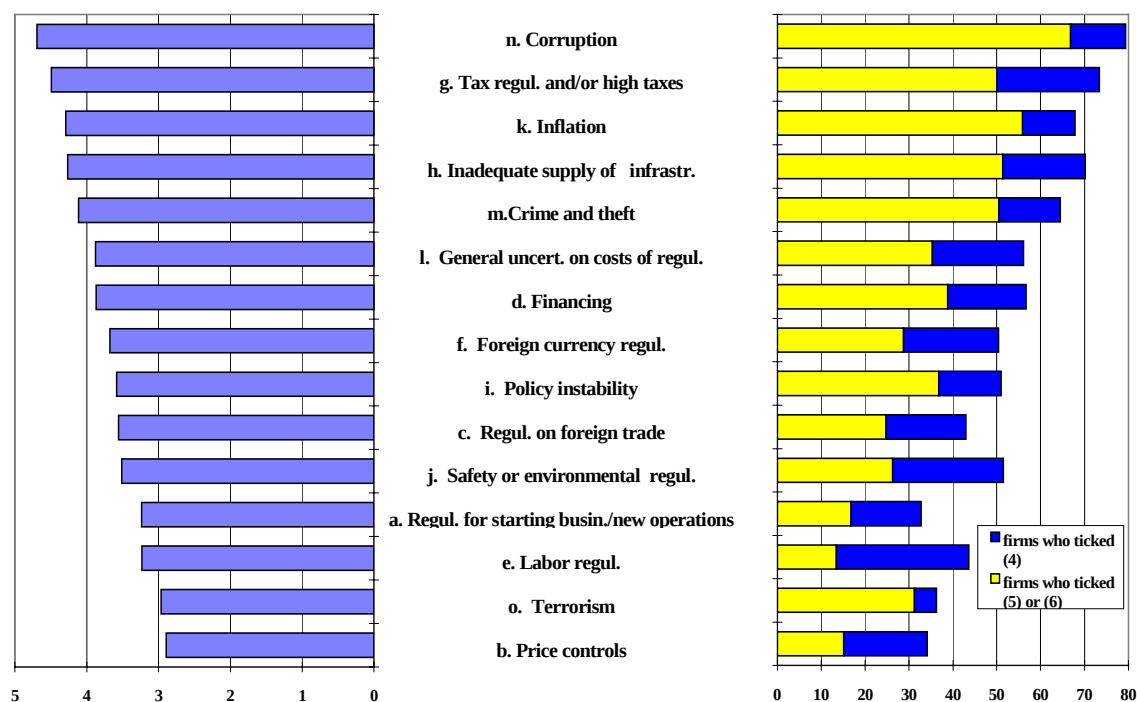
Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

4. Western and Central Africa — *Benin, Mali, and Nigeria*

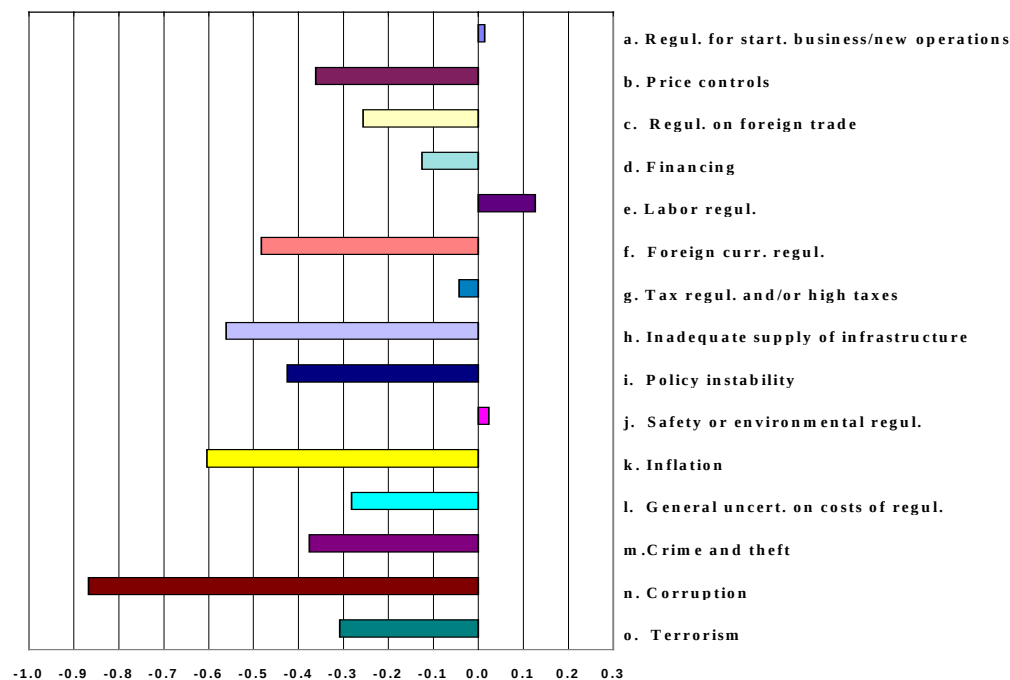
The worst obstacle in the Western and Central Africa region was *corruption*. The second worst overall ranking was *tax regulations*, preceded by *inflation*, *inadequate supply of infrastructure* and *crime and theft*. The least significant obstacles were found to be *price controls*, *terrorism*, *labor regulations*, and *regulations for starting new business*. The share of entrepreneurs who thought about *terrorism* as a strong obstacle was 31 percent of all respondents—the highest share among all sub-regions under consideration. The comparative indexes for many of the obstacles in this region are high, but none of them can be considered as highest overall, even the bad ones for *terrorism* and *corruption*.

Obstacles Rating (1 - no obstacle, 6 - very strong obstacle)

Percentage of firms ticked (4), (5), or (6)



Difference between obstacle rating in the region and the average of four OECD countries (in %)

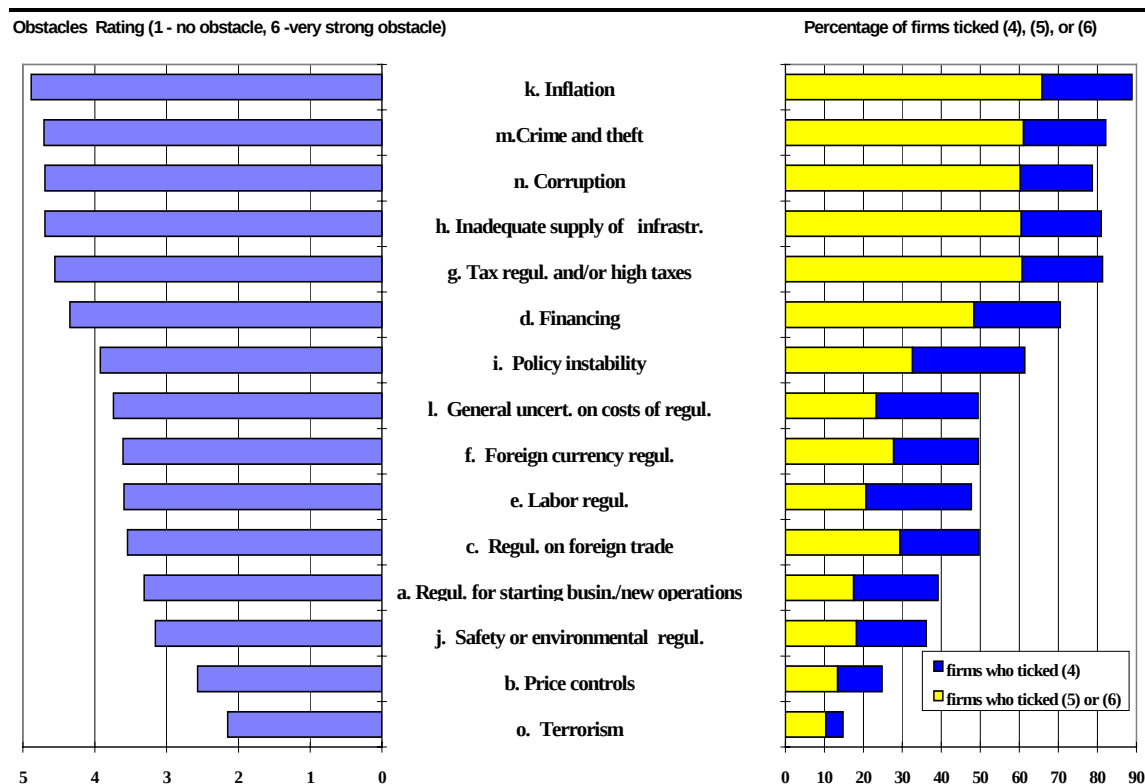


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

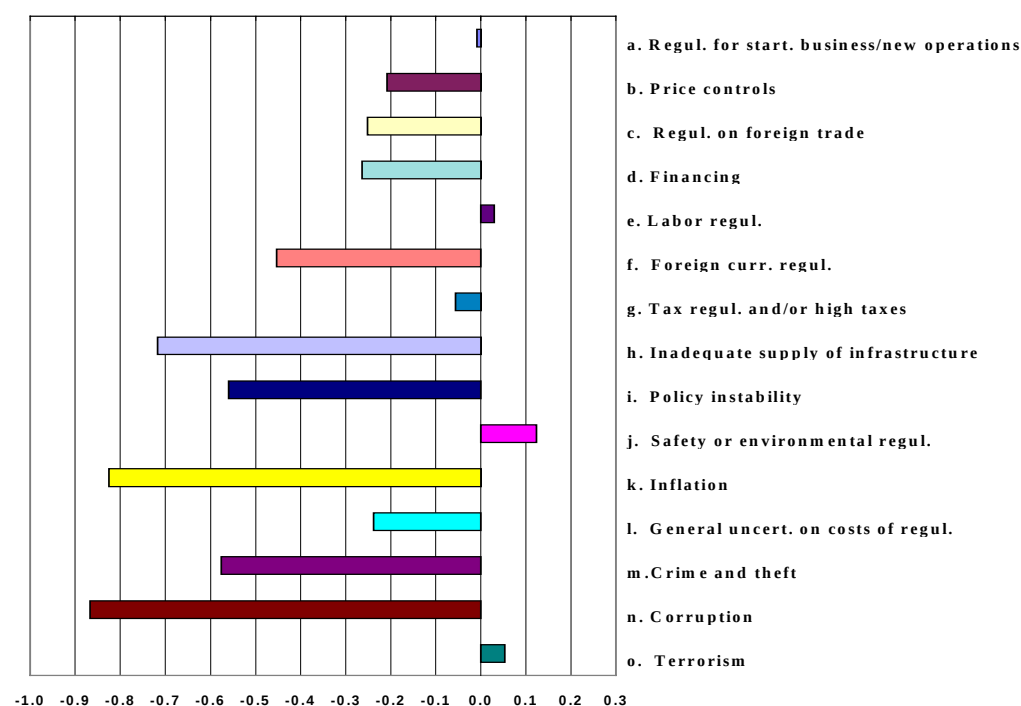
5. Southern Africa — Madagascar, Malawi, Mozambique, Zimbabwe

Inflation was ranked as the worst obstacle in this sub-region (66 percent of respondents ticked (5) or (6) which is the highest percentage among all sub-regions) and was followed by *crime and theft*, *corruption*, *inadequate supply of infrastructure*, and *tax regulations*. The least important were *terrorism*, *price controls*, *safety or environmental regulations*, *regulations for starting a new business*, and *regulations on foreign trade*.

The comparative index for inflation in this sub-region is the worst among all the sub-regions under consideration and 82 percent worse than the one for the comparator group. Two other comparative indexes are the second worst among all regions: inadequate supply of infrastructure (second to Eastern Africa only), and crime and theft (second to Northwestern South America). At the same time the index for terrorism is even better than in the comparator group.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

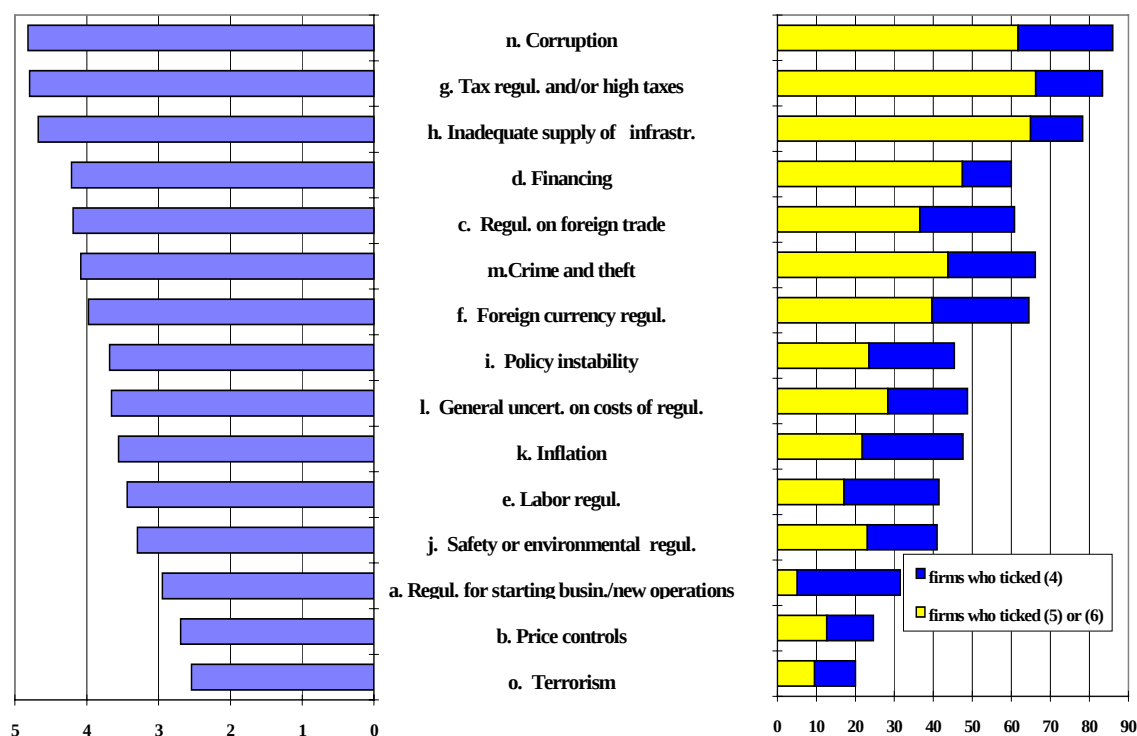
6. Central Africa — *Cameroon, Chad, and Congo*

The worst obstacles to doing business in this sub-region were *corruption* (the third in terms of share of respondents who ticked (5) or (6)), *tax regulations*, *inadequate supply of infrastructure*, and *financing*. The least important obstacles were *terrorism*, *price controls*, and *regulations for starting new business*. Only 5 percent of respondents thought that regulations for starting a business was a strong obstacle—the lowest percentage share among all sub-regions.

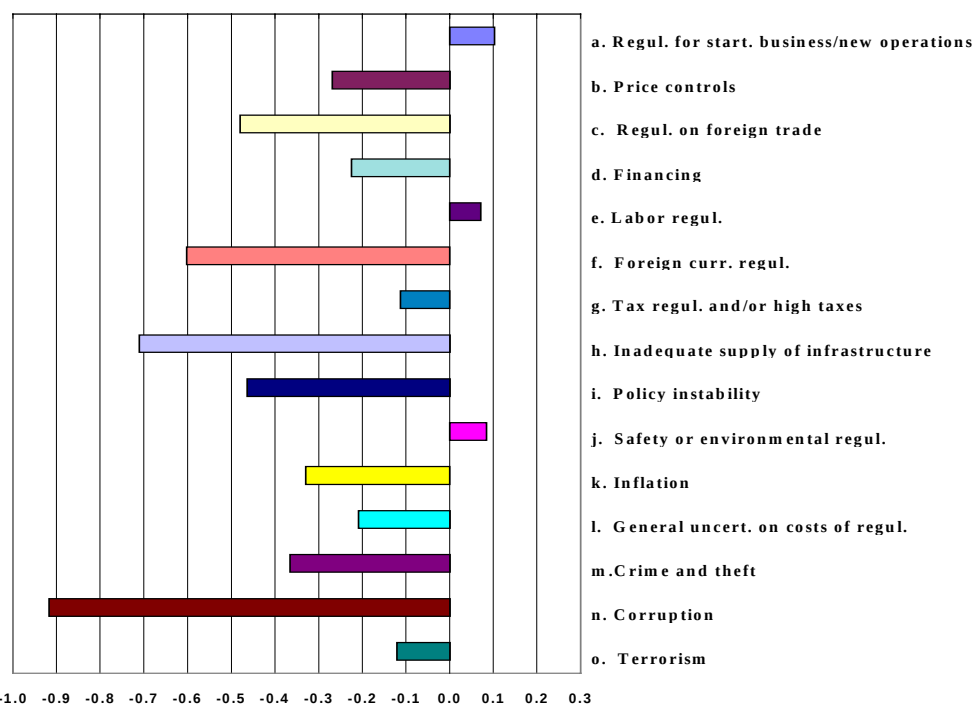
The comparative index for regulations on foreign trade is the worst among all the sub-regions under consideration. The comparative index for foreign currency regulations was the second worst among all sub-regions (second to Western Africa), and the one on corruption was the third worst among all the sub-regions.

Obstacles Rating (1 - no obstacle, 6 -very strong obstacle)

Percentage of firms ticked (4), (5), or (6)



Difference between obstacle rating in the region and the average of four OECD countries (in %)

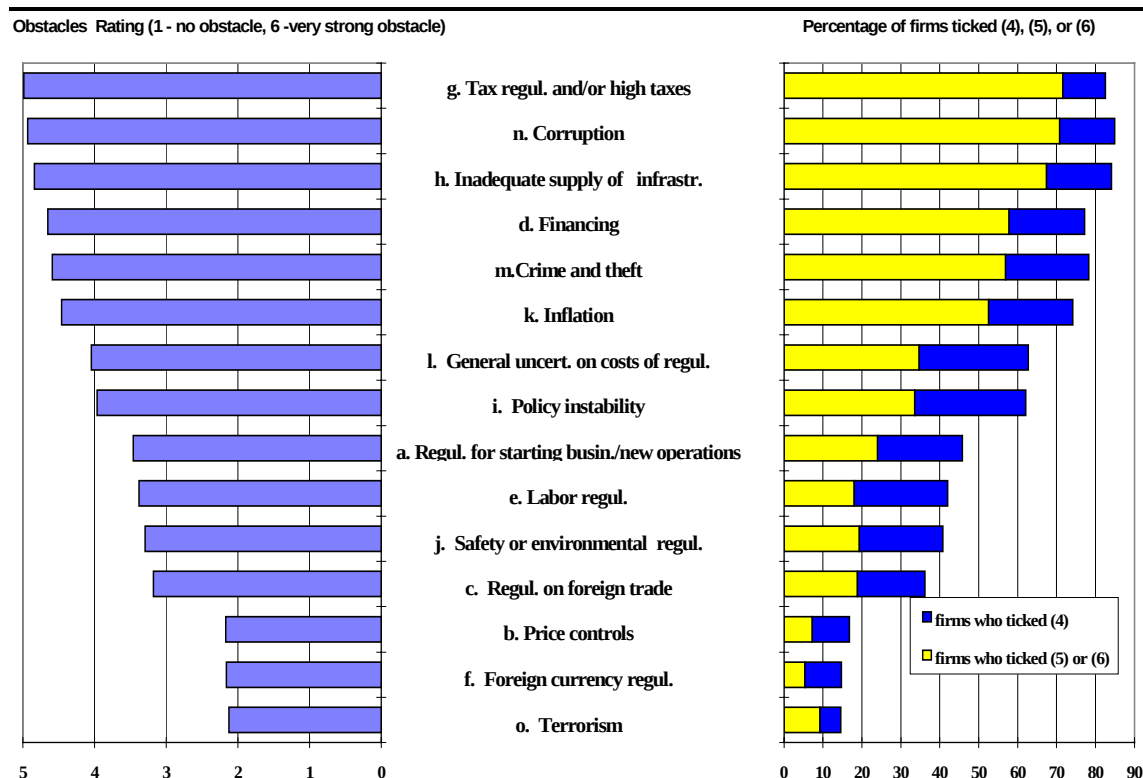


Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

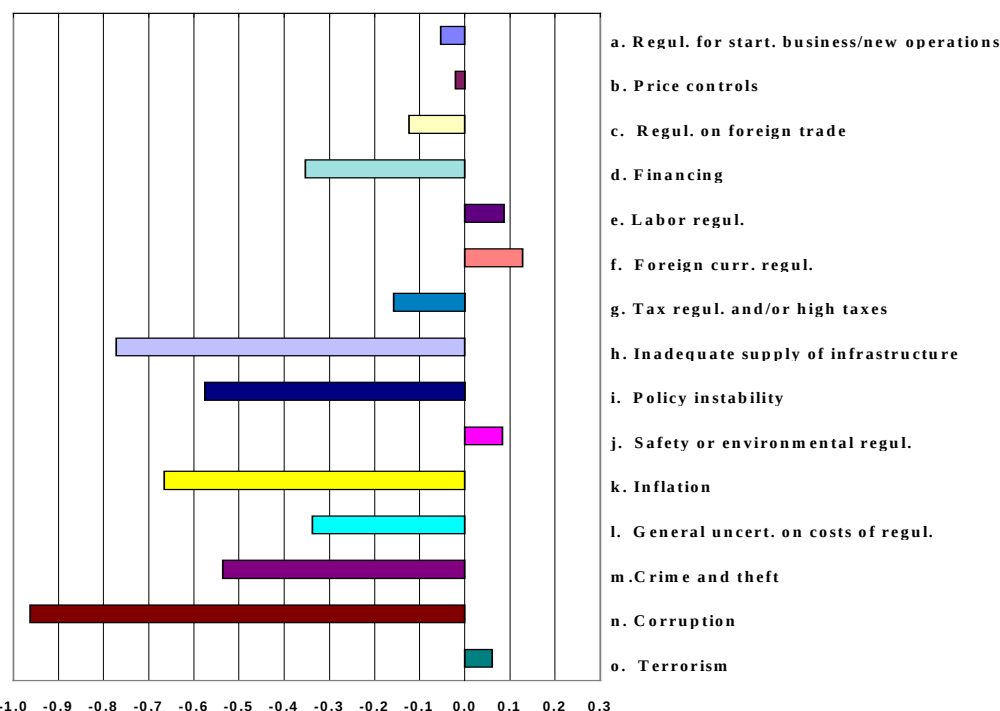
7. Eastern Africa — Kenya, Tanzania, Uganda, and Zambia

The worst obstacle in the Eastern Africa sub-region was tax regulations, followed by corruption, inadequate supply of infrastructure, financing, and crime and theft. The least important obstacles to doing business in Eastern Africa were terrorism, foreign currency regulations, price controls, and regulations of foreign trade.

The comparative index for inadequate supply of infrastructure is the worst among all the sub-regions under consideration and 77 percent worse than the one for the comparator group. The comparative indexes for corruption and inflation were the second worst among all sub-regions (second to Northwestern South America). At the same time the index for foreign currency regulations was the best among all the sub-regions and 13 percent better than for the comparator group. The comparative index for price controls was the best among all developing regions.



Difference between obstacle rating in the region and the average of four OECD countries (in %)



Note: Example: A value of -0.1 means that the obstacle is considered 10 percent more serious than in a comparator group consisting of United States, Germany, United Kingdom, and Canada.

Additional analysis of the data set compiled for the *World Development Report 1997* can be found in our background papers for this report (available to the public from the Public Information Center, located in the Bank's Infoshop). All three papers have a different focus than this one:

Brunetti, Aymo, Gregory Kisunko and Beatrice Weder (1997a): "Institutional Obstacles to Doing Business: Region-by-Region Results from a Worldwide Survey of the Private Sector," *World Bank Policy Research Working Paper No. 1759* Washington DC: The World Bank.

Brunetti, Aymo, Gregory Kisunko and Beatrice Weder (1997b): "Credibility of Rules and Economic Growth: Evidence from a Worldwide Survey of the Private Sector," *World Bank Policy Research Working Paper No. 1760*, Washington DC: The World Bank.

Brunetti, Aymo, Gregory Kisunko and Beatrice Weder (1997c): "Institutions in Transition: Reliability of Rules and Economic Performance in Former Socialist Countries," *World Bank Policy Research Working Paper No. 1809*, Washington DC: The World Bank.

Countries in the 22 Regions

HIGH INCOME — OECD COUNTRIES

1. Northeastern Europe

Ireland
United Kingdom

2. North America

Canada
United States

3. Central-Western Europe

Austria
France
Germany
Switzerland

4. Southern Europe

Italy
Portugal
Spain

ASIA

Fiji
India
Malaysia

MIDDLE EAST AND NORTH AFRICA

Jordan
Morocco
West Bank and Gaza Strip

CENTRAL AND EASTERN EUROPE

1. Black Sea and Balkan

Albania
Bulgaria
FYR Macedonia
Turkey

2. Visegrad

Czech Republic
Hungary
Poland
Slovak Republic

3. Baltic Republics

Estonia
Latvia
Lithuania

COMMONWEALTH OF INDEPENDENT STATES

1. Caucasus

Armenia
Azerbaijan
Georgia

2. Central Asia

Kazakhstan
Kyrgyz Republic
Uzbekistan

3. Slavic Republics of the FSU and

Moldova

Belarus
Moldova
Russia
Ukraine

LATIN AMERICA AND THE CARIBBEAN

1. Central America

Costa Rica
Jamaica
Mexico

2. Northwestern South America

Colombia
Ecuador
Venezuela

3. Western South America

Bolivia
Paraguay
Peru

SUB-SAHARAN AFRICA

1. Middle Income Africa

Mauritius

South Africa

2. Western Central Africa

Côte d'Ivoire

Ghana

Togo

3. Western Africa

Guinea

Guinea-Bissau

Senegal

4. Western and Central Africa

Benin

Mali

Nigeria

5. Southern Africa

Madagascar

Malawi

Mozambique

Zimbabwe

6. Central Africa

Cameroon

Chad

Congo

7. Eastern Africa

Kenya

Tanzania

Uganda

Zambia