

# Doing Business 2016

## Measuring Regulatory Quality and Efficiency



# Doing Business 2016



**WORLD BANK GROUP**

Development Economics Vice Presidency

Augusto Lopez-Claros, Director, Global Indicators Group  
*Doing Business* in Israel: An International Perspective  
 The Aaron Institute for Economic Policy Annual Conference

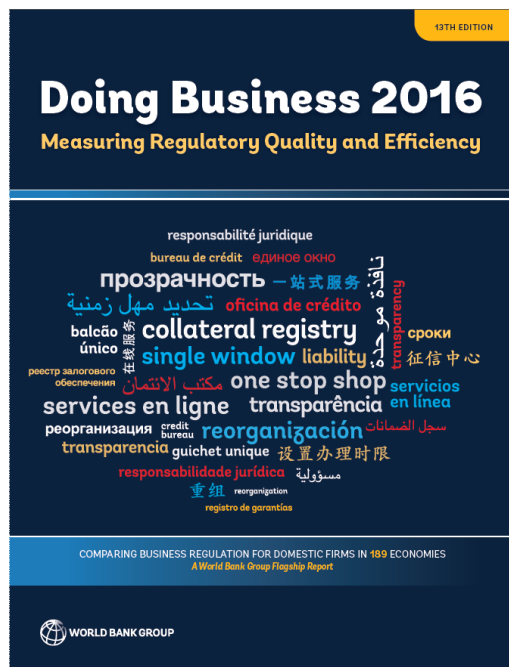
June 20, 2016

- I. About the *Doing Business* report
- II. Findings of the research
- III. Israel in *Doing Business 2016*



**WORLD BANK GROUP**

# What does *Doing Business* measure?

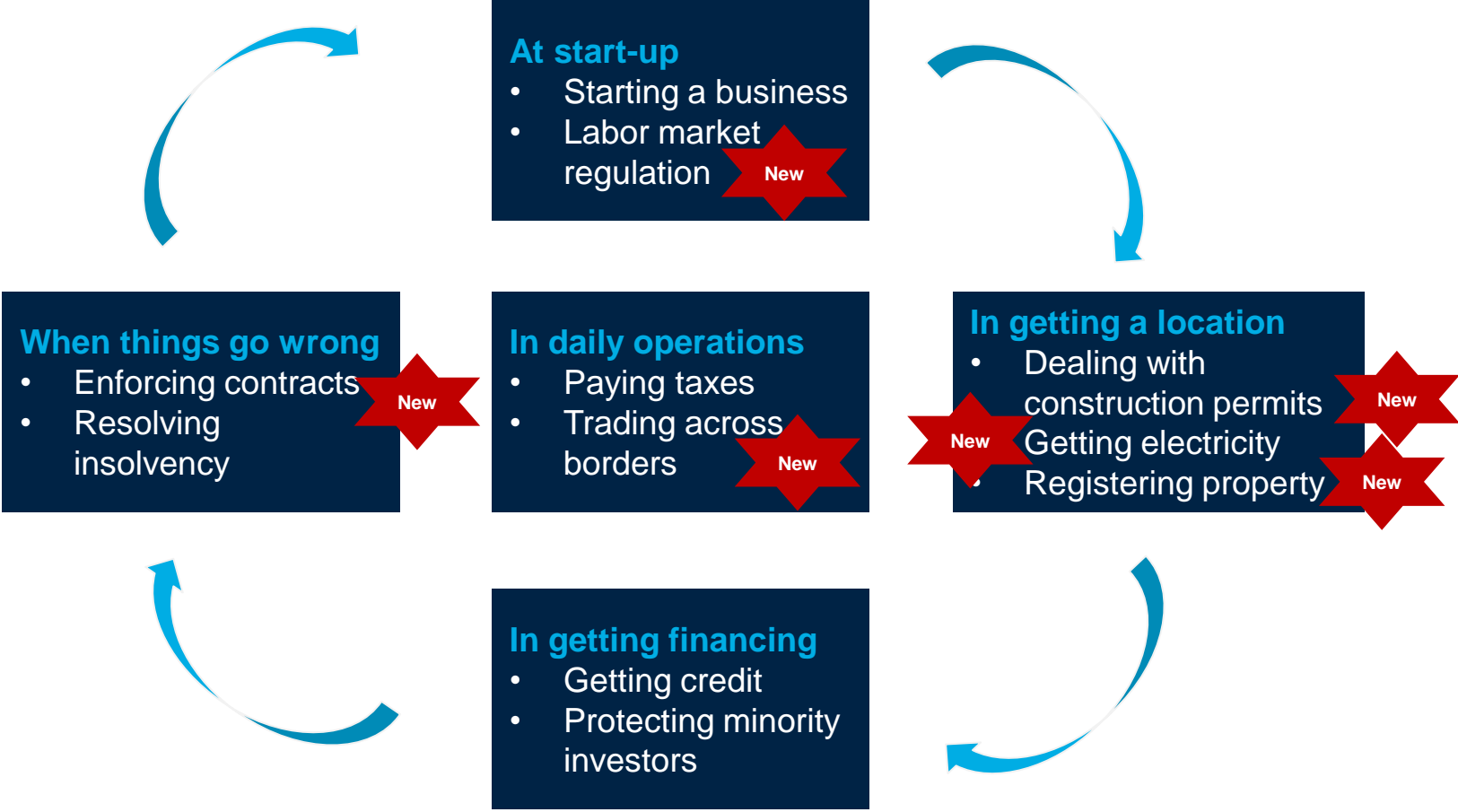


## *Doing Business* indicators:

- ✓ Focus on regulations relevant to the life cycle of a small to medium-sized domestic business.
- ✓ Are built on standardized case scenarios.
- ✓ Are measured for the most populous city in each country, and the second largest business city in countries with more than 100 million inhabitants.
- ✓ Are focused on the formal sector.

**DO NOT** measure all aspects of the business environment such as security, macroeconomic stability, prevalence of bribery and corruption, level of training and skills of the labor force, proximity to markets, regulations specific to foreign investment or the state of the financial system.

# The 11 areas of business regulation measured by *Doing Business* affect firms throughout their life cycle



## Legal sources of information for the *Doing Business* indicators

- **Civil Code**: property rights, contractual obligations, pledge regimes.
- **Commercial Code**: company creation procedures, minimum paid-in capital requirements, shareholder rights, winding-up provisions.
- **Tax Code**: applicable taxes and contributions.
- **Secured Transactions Law**: creation and publicity of security interest, collateral regime.
- **Civil Procedure Code**: litigation and courts system, judicial enforcement of a commercial dispute.
- **Insolvency Law**: bankruptcy, insolvency, reorganization and liquidation procedures, priority rules.
- **Labor Code**: hiring and redundancy of workers, definition of working hours.

The *Doing Business* Law Library is the largest free online collection of business laws and regulations. More than 3,926 business regulatory references can be found at:

<http://www.doingbusiness.org/law-library>

# Time and motion indicators focus on the process

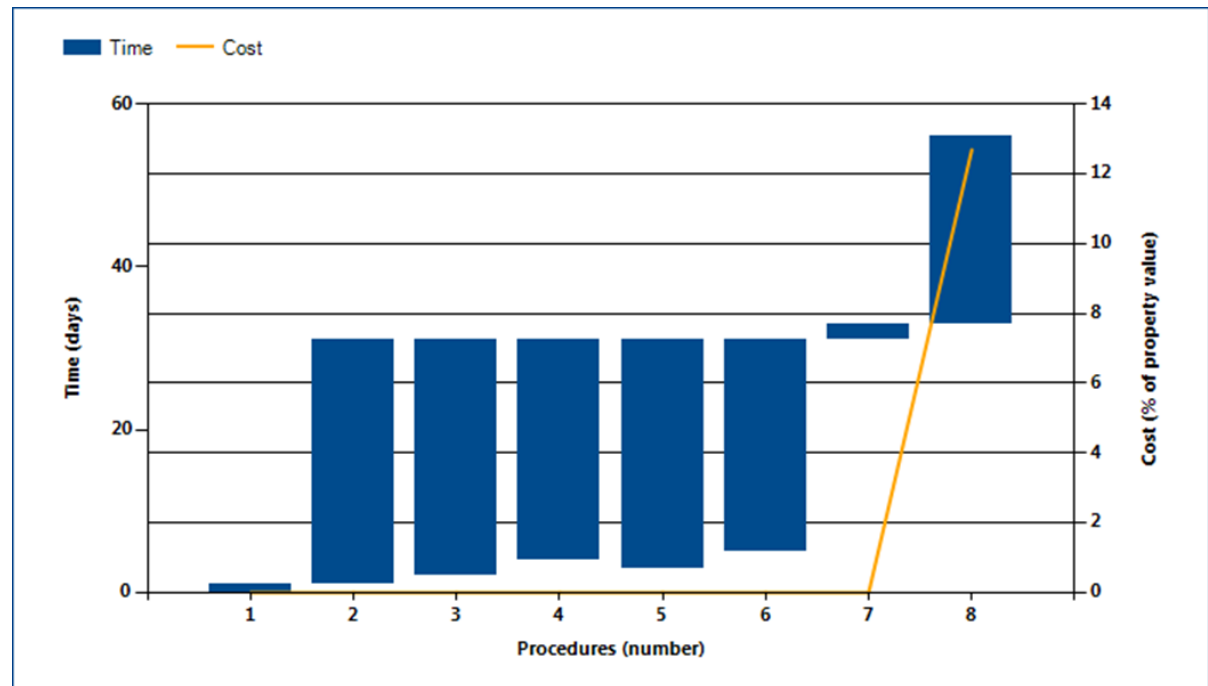
*Example: The complexity and time it takes to register property varies significantly among economies*

## Time and motion indicators

Follow the entrepreneur from the beginning to the end of a basic transaction and measure procedural efficiency of the regulatory process by recording every step of the process and the associated time and cost. They also gather all the relevant laws, regulations, decrees and fee schedules.

Income per capita in Belgium: US\$ 47,030

- Registering property in **Belgium** requires 8 procedures, takes 56 days and costs 12.7% of the property value.
- Meanwhile, **Belgium** scores 23 out of 30 points on the quality of the land administration index.



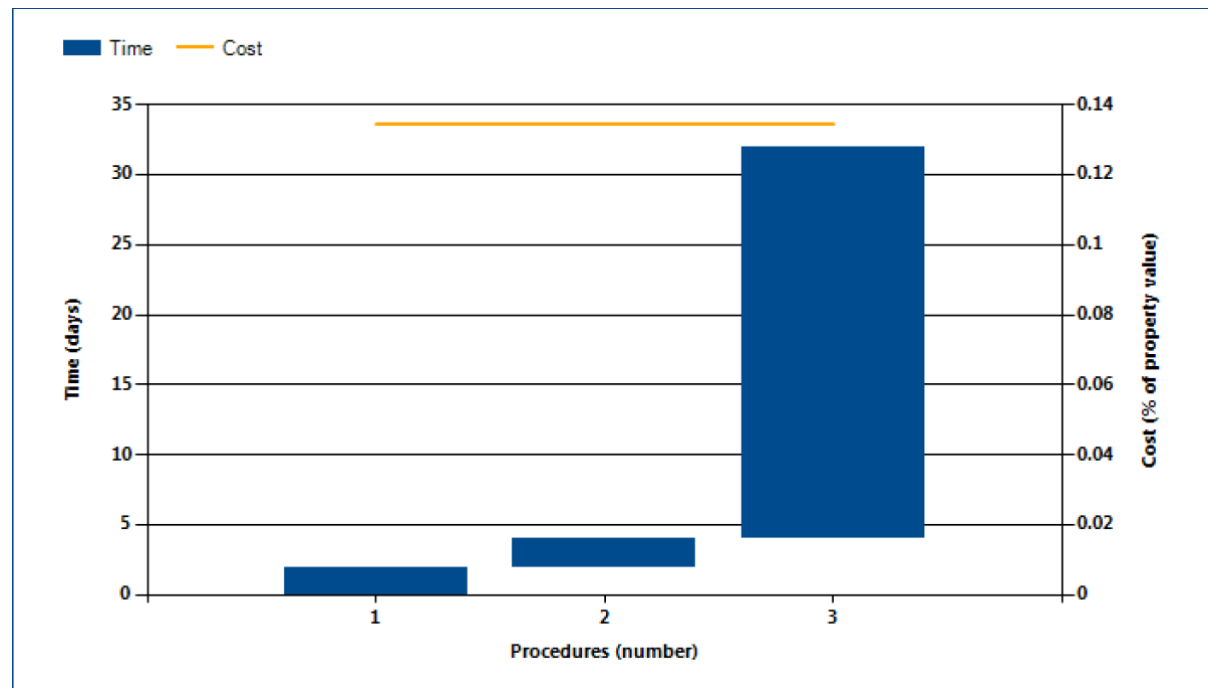
Source: Doing Business database.

# Time and motion indicators focus on the process

Example: The complexity and time it takes to register property varies significantly among economies

- Registering property in **Rwanda** requires 3 procedures, takes 32 days and costs 0.1% of the property value.
- Meanwhile, **Rwanda** scores 25 out of 30 points on the quality of the land administration index.

## Income per capita in Rwanda: US\$ 650



Source: Doing Business database.

- I. About the *Doing Business* report
- II. Findings of the research**
- III. Israel in *Doing Business 2016*

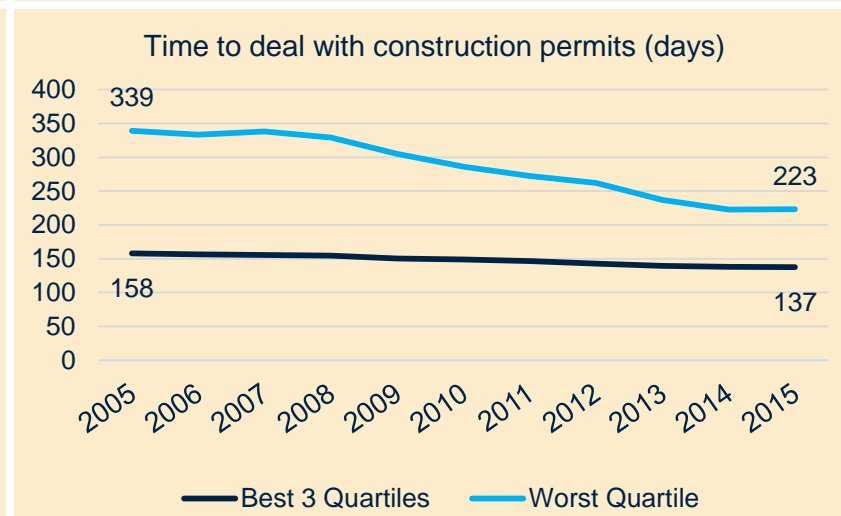
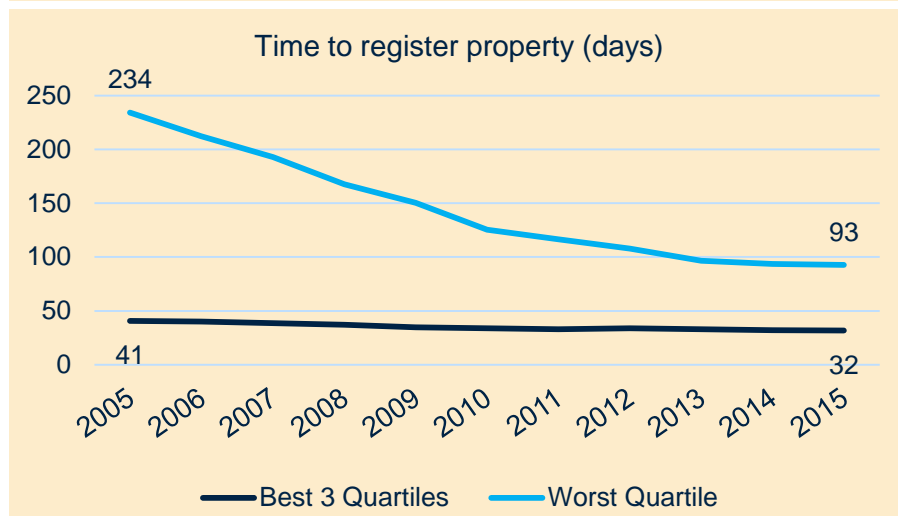
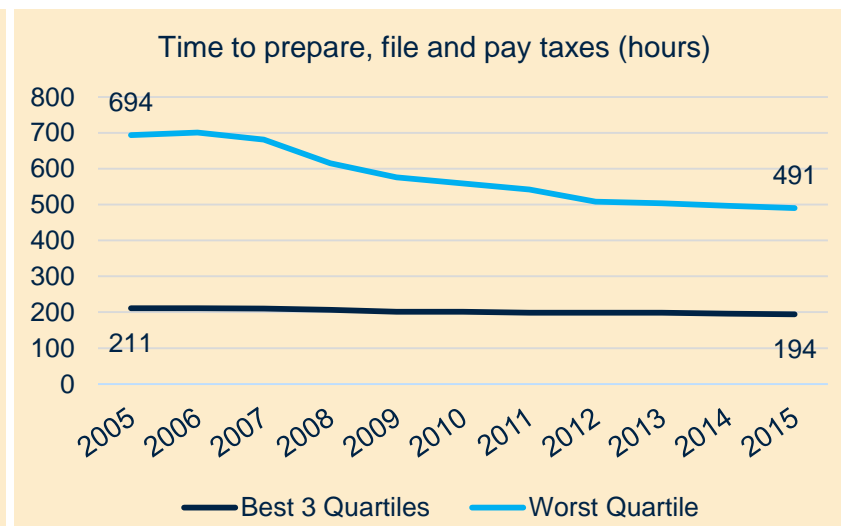
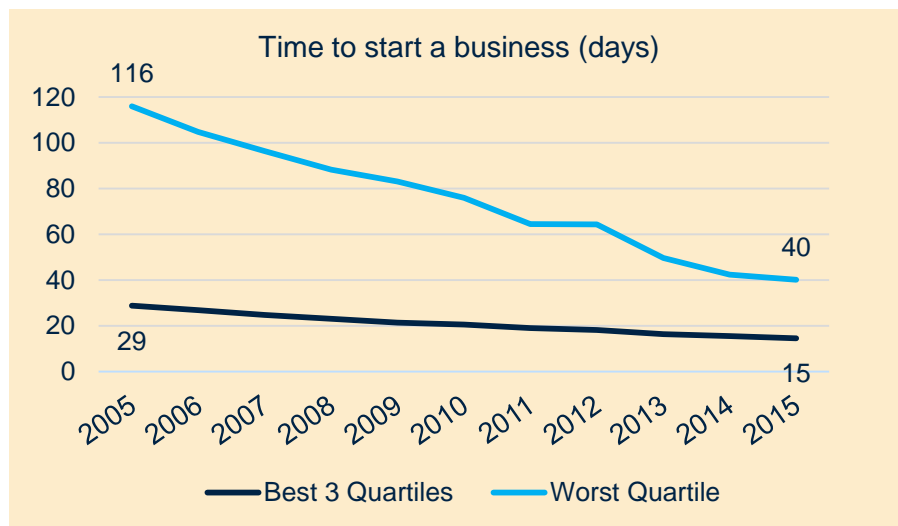


**WORLD BANK GROUP**



# Strong convergence across economies since 2005

## Average by region



# Reforms making it easier to start a business show results over time in reduced delays

## 2005

It was possible to start a business in less than 20 days in only 41 economies\*, mostly in North America and Northern and Central Europe. In the **OECD high-income region**, entrepreneurs in only 17 economies could incorporate a company in under 20 days.

## 2015

Now, the time to start a business is less than 20 days for entrepreneurs in 132 economies\* worldwide. In the **OECD high-income region**, 30 out of 32 economies have lowered time to start a business to below 20 days.

### ➤ **Development impact:**

Countries that regulate entry more heavily have greater corruption and larger unofficial economies, but not better quality of public or private goods.

(Djankov, La Porta, Lopez de Silanes, Shleifer, February 2002, Quarterly Journal of Economics.)

Note: Based on samples of 174 economies in *Doing Business 2006* and 189 economies in *Doing Business 2016*.



## Top 50 performers in *Doing Business* 2016

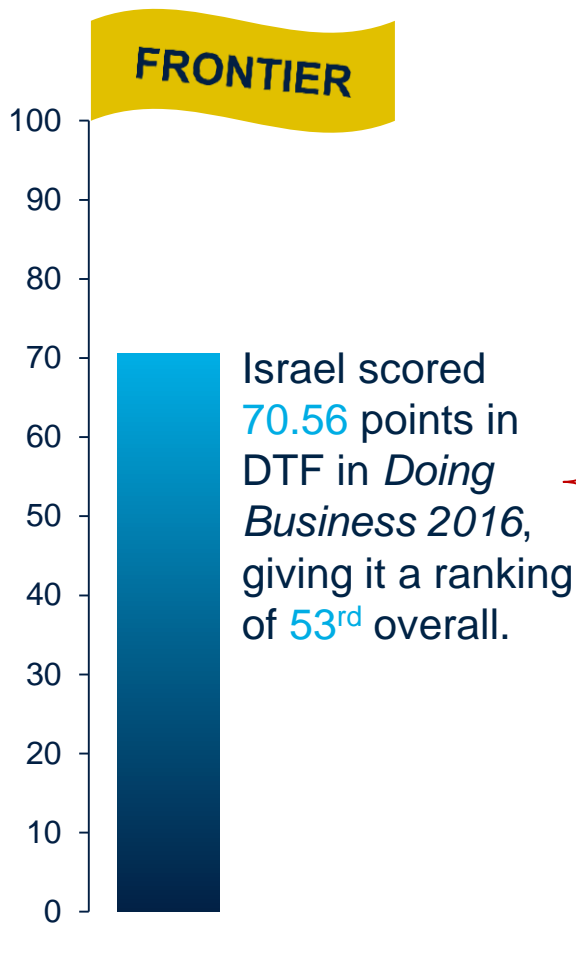
Rank	Economy	DTF score		Rank	Economy	DTF score	
1	Singapore	87.34		26	Switzerland	76.04	↑
2	New Zealand	86.79	↑	27	France	75.96	↑
3	Denmark	84.40	↑	28	Netherlands	75.94	
4	Korea, Rep.	83.88		29	Slovak Republic	75.62	↑
5	Hong Kong SAR, China	83.67	↑	29	Slovenia	75.62	↑
6	United Kingdom	82.46	↑	31	United Arab Emirates	75.10	↑
7	United States	82.15		32	Mauritius	75.05	↑
8	Sweden	81.72	↑	33	Spain	74.86	↑
9	Norway	81.61	↑	34	Japan	74.72	
10	Finland	81.05	↑	35	Armenia	74.22	↑
11	Taiwan, China	80.55	↑	36	Czech Republic	73.95	↑
12	Macedonia, FYR	80.18		37	Romania	73.78	↑
13	Australia	80.08	↑	38	Bulgaria	73.72	↑
14	Canada	80.07	↑	38	Mexico	73.72	↑
15	Germany	79.87	↑	40	Croatia	72.71	↑
16	Estonia	79.49	↑	41	Kazakhstan	72.68	↑
17	Ireland	79.15	↑	42	Hungary	72.57	↑
18	Malaysia	79.13	↑	43	Belgium	72.50	↑
19	Iceland	78.93	↑	44	Belarus	72.33	↑
20	Lithuania	78.88	↑	45	Italy	72.07	↑
21	Austria	78.38	↑	46	Montenegro	71.85	↑
22	Latvia	78.06	↑	47	Cyprus	71.78	↑
23	Portugal	77.57	↑	48	Chile	71.49	↑
24	Georgia	77.45	↑	49	Thailand	71.42	↑
25	Poland	76.45	↑	50	Peru	71.33	

- I. About the *Doing Business* report
- II. Findings of the research
- III. **Israel in *Doing Business* 2016**



**WORLD BANK GROUP**

# Israel scores close to the frontier on the Starting a Business and Trading Across Borders indicators



## Results on individual indicators



Source: *Doing Business* database.

## Israel currently ranks 53<sup>rd</sup> overall on the ease of doing business

Rankings on *Doing Business* topics – Israel  
(Scale: Rank 189 center, Rank 1 outer edge)

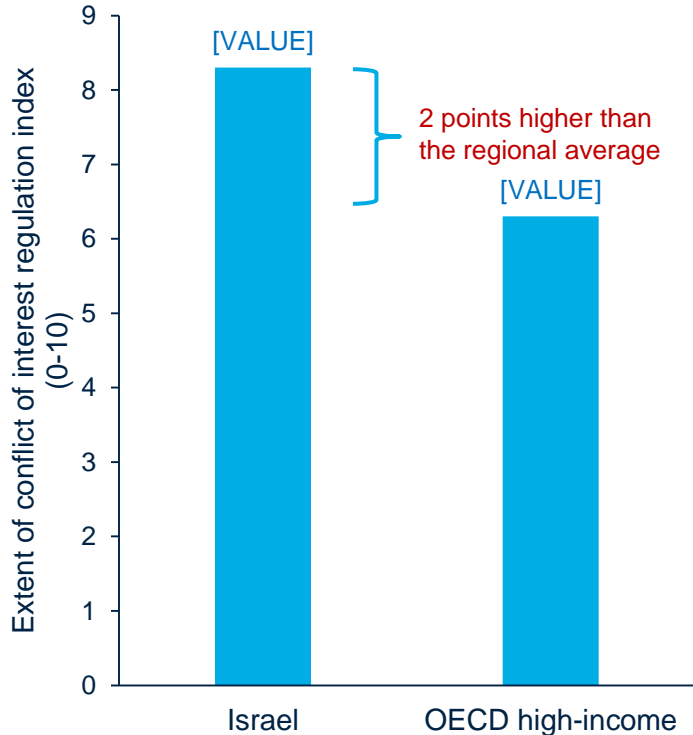


Source: *Doing Business* database.

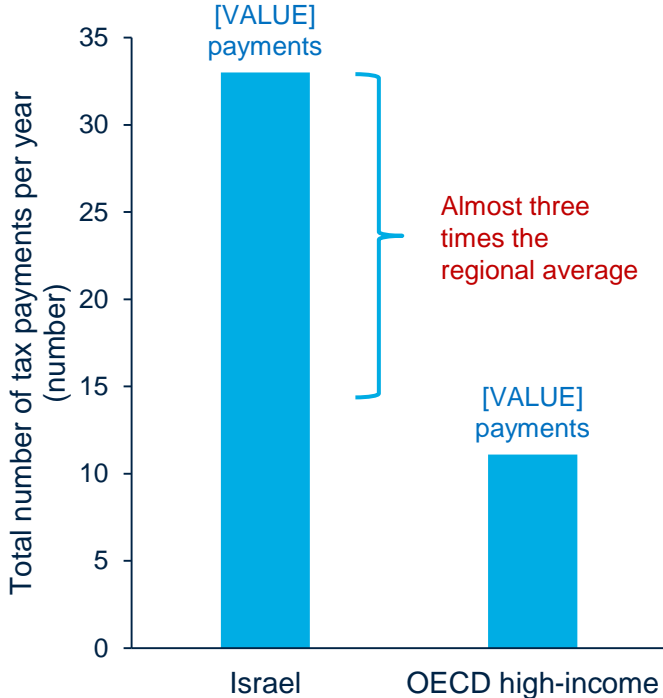
# Strengths in Israel's business regulations and opportunities to improve



Israel offers better protection of shareholders from conflicts of interest...



...but requires more tax payments.



## How has **Israel** improved its business environment in recent years?



**Starting a Business:** Reduced the time required for registration at the Income Tax Department and the National Insurance Institute in 2012/13.



**Registering Property:** Shortened time limits for tax authorities to process capital gains self-assessments on property transfers in 2011/12.



**Trading Across Borders:** Expanded its electronic data interchange system and developed a single-window framework, allowing easier assembly of documents required by different authorities and reducing the time to trade in 2009/10.



**Resolving Insolvency:** Passed an amendment to its company law allowing the assumption or rejection of executory contracts and granting maximum priority to post-commencement credit in 2012/13 and amended its courts law to establish specialized courts for dealing with economic matters in 2010/11.



# Israel can improve the process of registering property by reducing the property transfer tax rate



Israel ranks **127<sup>th</sup>** on the ease of registering property.

Registering Property	Estonia	Poland	OECD high-income regional average	Israel
Procedures (number)	3	6	4.7	6
Time (days)	17.5	33	21.8	81
Cost (% of property value)	0.5	0.3	4.2	8.3
Quality of the land administration index (0-30)	27.5	18.5	22.7	14.0
Rank	4	41	43	127

Source: Doing Business database.

## How can Israel improve the process of registering property?

- ✓ **Set time limits for various procedures**
  - The Russian Federation, for example, has successfully reduced the time to transfer a property by passing a new law to set up effective time limits for the property transfer procedures.
- ✓ **Digitize all or part of the process**
  - Poland made transferring property easier by introducing online procedures and reducing notary fees.
- ✓ **Reduce taxes or fees**
  - Spain made transferring property easier by reducing the property transfer tax rate.

# Israel can improve the process of dealing with construction permits by introducing an online system for obtaining a building permit



Israel ranks **96<sup>th</sup>** on the ease of dealing with construction permits.

Dealing with Construction Permits	Sweden	OECD high-income regional average	Netherlands	Israel
Procedures (number)	7	12.4	13	15
Time (days)	116	152.1	161	209
Cost (% of warehouse value)	2.2	1.7	3.7	1.6
Building quality control index (0-15)	10.0	11.4	10.0	11.0
Rank	19	48	85	96

Source: Doing Business database.

## How can Israel improve the process of dealing with construction permits?

- ✓ **Implement an online system for obtaining a building permit**
  - The successful implementation of an online system begins with a mapping exercise, designed to identify all steps involved in the process of obtaining a permit. Then, all steps can be transferred to an online system.
- ✓ **Require the review by a licensed engineer or architect of the building plans submitted for a permit**
  - Countries such as the United Kingdom and Australia, which have successfully implemented this good practice, require a private firm to review the plans submitted for a permit and take full responsibility in the event of future faults.
- ✓ **Implement a risk-based system for inspections**
  - Since not all buildings present the same risks, Israel could greatly benefit from implementing a system for conducting inspections that is based on a risk-assessment. This allows for more detailed inspections of complex environments.

# Israel can improve the process of getting electricity by reducing the time length to complete the external works



Israel ranks **91<sup>st</sup>** on the ease of getting electricity.

Getting Electricity	Slovenia	OECD high-income regional average	Lithuania	Israel
Procedures (number)	5	4.8	6	6
Time (days)	38	77.7	95	102
Cost (% of income per capita)	113.2	65.1	52.8	11.6
Reliability of supply and transparency of tariff index (0-8)	6.0	7.2	8.0	5.0
Rank	35	37	54	91

Source: Doing Business database.

## How can Israel improve the process of getting electricity?

- ✓ **Eliminate the internal wiring inspection carried out by the Israel Electric Corporation (IEC)**
  - The utility in Delhi, India, made the process for getting an electricity connection simpler and faster by eliminating the internal wiring inspection carried out by the Electrical Inspectorate.
- ✓ **Reduce the time necessary to complete the external works by the Israel Electric Corporation (IEC)**
  - It currently takes 60 calendar days to await completion of external works by Israel Electric Corporation.
  - The utility in Lithuania has reduced the time of the connection works by enforcing the legal time limit to perform the external connection works.

# Israel can improve the process of paying taxes by encouraging the usage of online portals for VAT and social security contributions



Israel ranks **103<sup>rd</sup>** on the ease of paying taxes.

Paying Taxes	Ireland	OECD high-income regional average	Spain	Israel
Payments (number per year)	9.0	11.1	9.0	33.0
Time (hours per year)	82	176.6	158	235
Total tax rate (% of profit)	25.9	41.2	50.0	30.6
Profit tax (% of profit)	12.4	14.9	13.3	23.6
Labor tax and contributions (% of profit)	12.1	24.1	35.9	5.6
Other taxes (% of profit)	1.4	1.7	0.8	1.4
Rank	6	52	60	103

Source: *Doing Business* database.

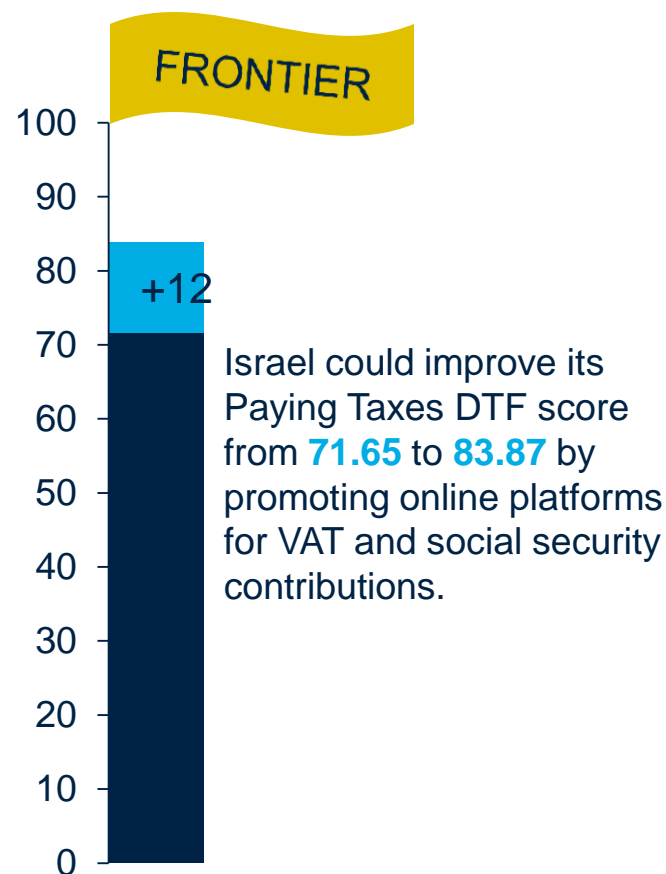
## How can Israel improve the process of paying taxes?

- ✓ Introduce incentives to encourage the usage of online platforms for filing and paying VAT and social security contributions
  - *Doing Business* does not yet count the online filing systems for VAT and social security contributions because the majority of business entrepreneurs do not use these electronic portals.
  - If the majority of business entrepreneurs used online platforms, the total number of payments for Israel would drop from **33** to **11**.
  - In 2015, Poland, the Slovak Republic and Spain were among the economies that introduced or enhanced online systems for filing and paying taxes.
- ✓ Give companies the option of paying the municipal tax once a year rather than by installments every 2 months
  - This would reduce number of municipal tax payments from **6** to **2**.

## The high number of tax payments in **Israel** is linked to the scarce usage of online platforms for filing VAT and social security

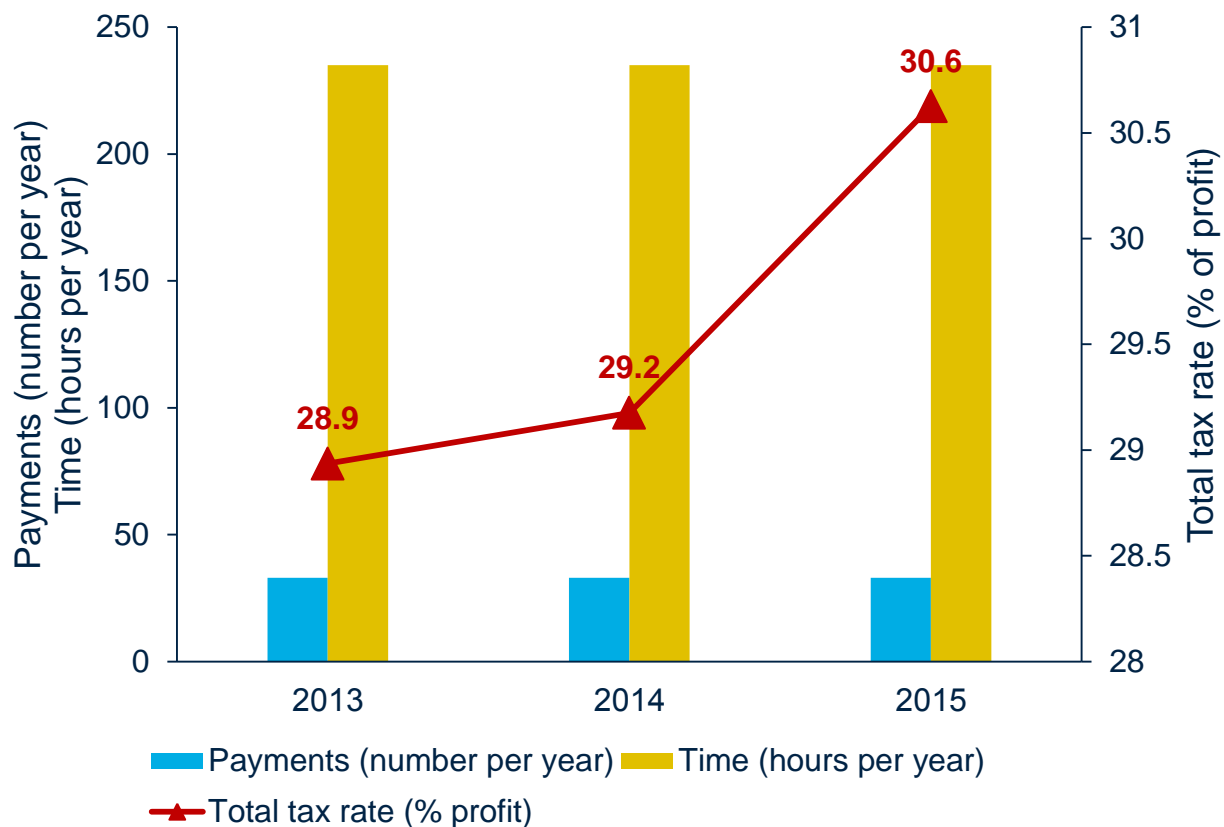
By encouraging businesses to use online platforms to file and pay VAT and social security contributions, Israel's total number of payments would decrease from **33** to **11**.

- ✓ Israel's DTF score on the ease of paying taxes would increase from **71.65** to **83.87**.
- ✓ All else being equal, Israel's ranking on the ease of paying taxes would increase from **103<sup>rd</sup>** to **34<sup>th</sup>**.
- ✓ All else being equal, Israel's overall ranking on the ease of doing business would increase from **53<sup>rd</sup>** to **47<sup>th</sup>**.



Source: Doing Business database.

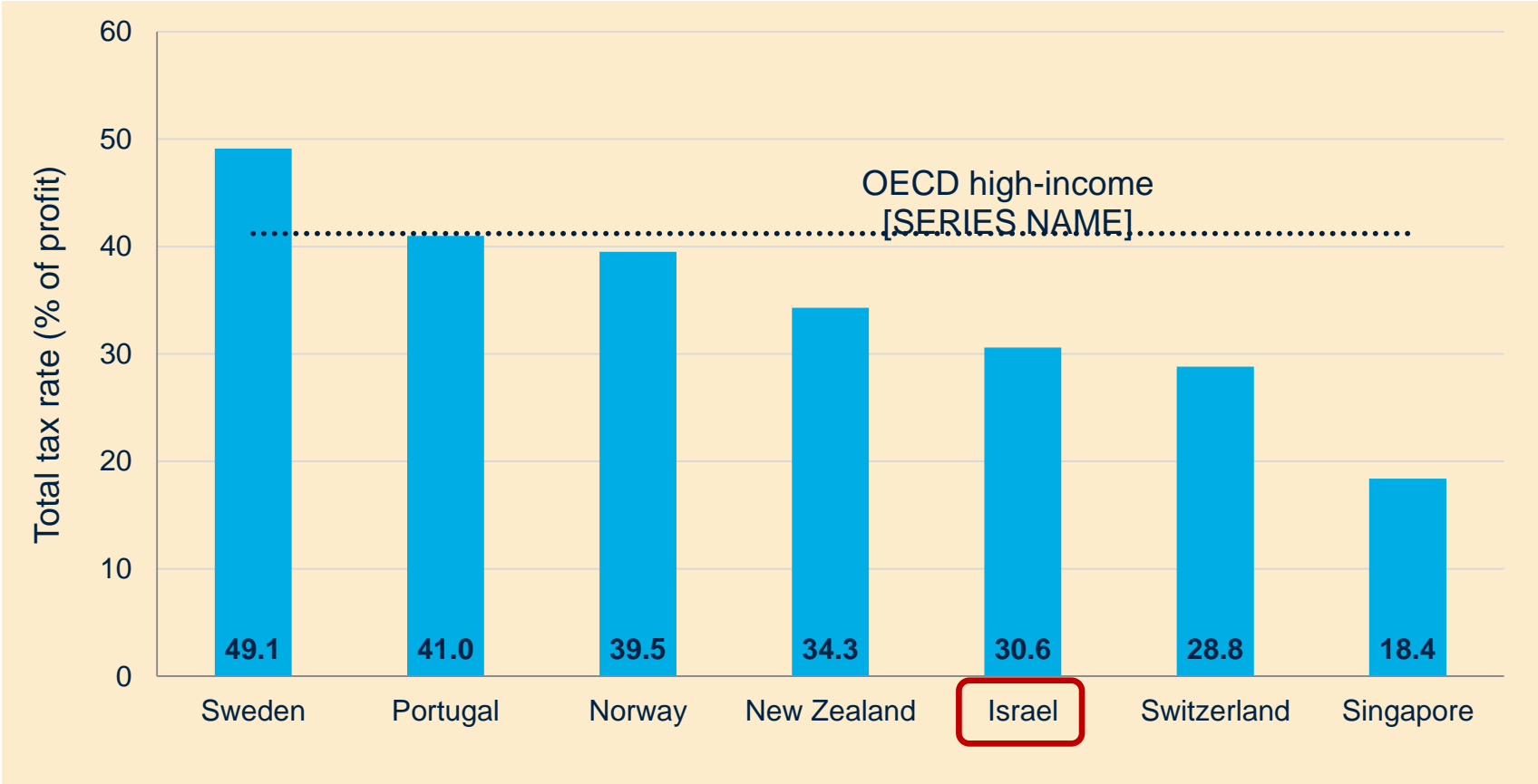
## In recent years, Israel made paying taxes more costly



Source: Doing Business database.

- In 2014/15, Israel made paying taxes more costly for companies by increasing the corporate income tax rate, the rate for social security contributions paid by employers for the upper wage bracket and municipal taxes.
- In 2013/14, Israel made paying taxes more costly by increasing the profit tax rate.

# Israel is among the economies with a total tax rate below the regional average

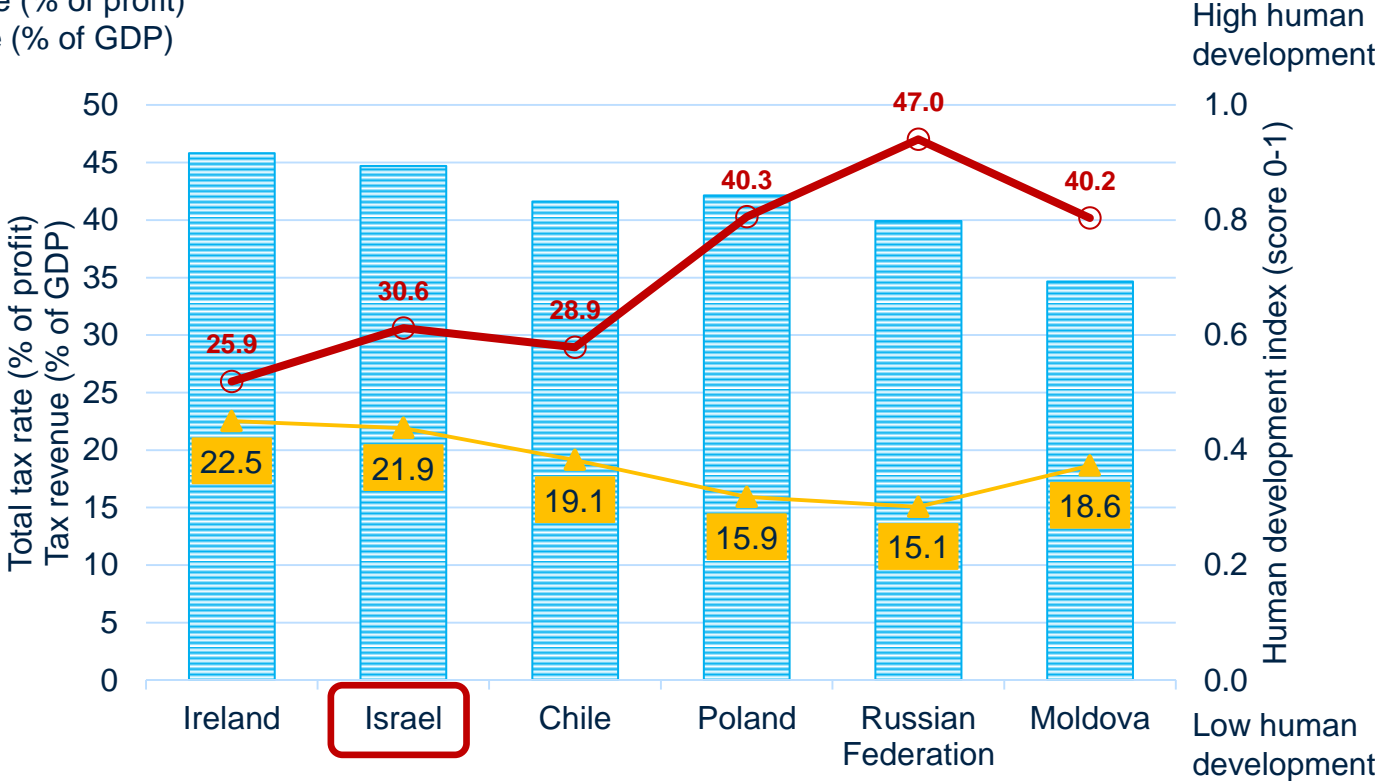


Source: Doing Business database.

Israel has the 8<sup>th</sup> lowest total tax rate among OECD high-income economies.

# Higher tax rates do not always lead to higher tax revenue or better welfare

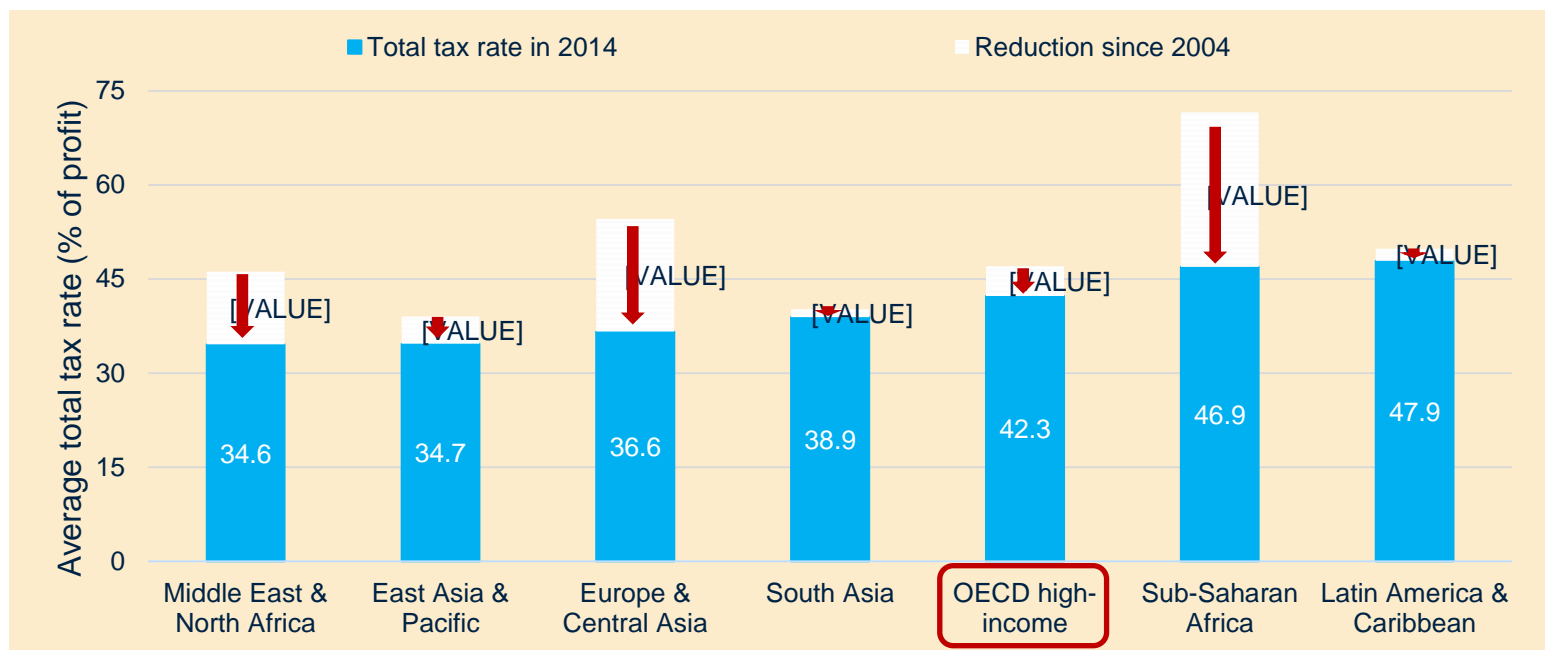
- Human development index (HDI)
- Total tax rate (% of profit)
- Tax revenue (% of GDP)



Source: *Doing Business 2016*, World Development Indicators (WDI) database, Human Development Report (HDR) 2014.  
 Note: Data on tax revenues from the WDI database refer to calendar year 2012. Data on Human Development Index (HDI) refer to calendar year 2013.



# OECD high-income economies have reduced the total tax rate paid by businesses by nearly 5% of their profits between 2004 and 2014



## ➤ Development impact:

Higher tax rates are associated with fewer formal businesses and lower private investment. A 10 percentage point increase in the effective corporate income tax rate is associated with a reduction in the ratio of investment to GDP of up to 2 percentage points and a decrease in the business entry rate of about 1 percentage point.

(Djankov, Ganser, McLiesh, Ramalho and Shleifer, 2010, "The Effect of Corporate Taxes on Investment and Entrepreneurship", American Economic Journal: Macroeconomics.)

Note: This figure is based on samples of 174 economies in both *Doing Business 2006* and *Doing Business 2016*. Total tax rate includes profit tax, labor taxes and social contributions, consumption taxes and other taxes borne by businesses.

# THANK YOU!

## Questions



## www.doingbusiness.org

The screenshot shows the homepage of the World Bank Group's Doing Business website. At the top, it features the World Bank Group logo and navigation links for 'DATA', 'RANKINGS', 'REPORTS', 'METHODOLOGY', 'RESEARCH', 'BUSINESS REFORMS', and 'LAW LIBRARY'. The main content area highlights the 'Doing Business 2016' report, with a sub-header 'Singapore is first on ease of doing business'. Below this, there are sections for 'RECENT PUBLICATIONS' (including 'How Innovations in Land Administration Reform Improve on Doing Business'), 'SUBNATIONAL REPORTS' (437 locations benchmarked in 65 economies since 2005), and 'METHODOLOGY EXPANSION'. On the right side, there is a section for 'EXPLORE ECONOMY DATA' with dropdown menus for 'Select an economy' and 'Select a topic', and a 'DISTANCE TO FRONTIER CALCULATOR'.



# WORLD BANK GROUP

# Doing Business