

How transparent is business regulation around the world?

2007 2012 2011
2005 2004
2008 2006 2013

Nobel Prize-winning economist Amartya Sen wrote in 2009 that lack of transparency in the global financial system was among the main factors contributing to the financial crisis that began in 2008.¹ Had there been greater disclosure of information, regulatory authorities could have more effectively monitored the explosive growth of increasingly sophisticated and opaque financial instruments—and the crisis might have been less severe.

An institutional environment characterized by openness and transparency is of central importance not only for private markets but also for the effective and efficient management of public resources.² Lack of transparency around the decisions made by policy makers and government officials can lead to resource misallocation as funds, rather than being directed toward their most productive ends, are instead captured for private gain. Lack of transparency can also undermine the credibility of those who are perceived as being its beneficiaries and thus sharply limit their ability to gain public support for economic and other reforms.

Access to information can empower citizens to monitor the quality of government services and the use of public resources. Because government markets are usually monopolistic, the consumers of public services have no “exit” option—they cannot “vote with their feet” by going to a competitor for better services. Access to information is therefore critical if citizens are to exercise their “voice” in demanding greater accountability from public servants.³ The government of Uganda demonstrated this by having

newspapers publish data on monthly transfers of school grants to local governments. By improving the ability of schools and parents to monitor how local officials handled the grants, the program reduced the share of grant funding lost to corruption from 80% to 20%.⁴ With more information, people can better evaluate different options and manage risks more effectively.⁵

How much can transparency and access to information affect the quality of the government services relevant for businesses? A sizable body of literature already attests to the importance of information in ensuring the quality of public services in such areas as health, sanitation and education.⁶ But thus far little attention has been paid to this role of information in the administrative branches of government that implement business regulation, such as company and property registries, building departments and power distribution utilities.

Yet the World Bank Enterprise Surveys suggest that there is much room for improvement in service quality and accountability in business regulation. The companies surveyed report that in a typical week their senior managers spend on average 11% of their time dealing with government regulations. More than 50% of them disagree with the notion that regulations are implemented consistently and predictably. And what’s worse, companies often have to pay a bribe to get things done. Worldwide, 19% of firms report having had to pay bribes in connection with their application for an operating license or electricity connection.⁷

- **It is in OECD high-income economies that businesses can expect the most consistently easy access to regulatory information through websites or printed brochures.**
- **Access to fee schedules for regulatory processes is most limited in Sub-Saharan Africa and the Middle East and North Africa, where it is more common to have to meet with an official to obtain this information.**
- **The accessibility of regulatory information varies with income level and internet penetration, but resources are not the only explanation.**
- **Access to regulatory information is easier in economies that are characterized by greater political accountability and that guarantee greater political and civil rights.**
- **Economies providing greater access to regulatory information tend to have more efficient regulatory processes and lower regulatory compliance costs.**

About two-thirds of these are small or medium-size firms.

This year's report presents new data that speak to the efforts at transparency made by government agencies tasked with implementing business regulation. The data capture how governments make basic regulatory information such as fee schedules available to businesses. Because agencies in many developing economies may be unable to rely on online solutions, the data also consider other ways of making information available, such as brochures and notice boards (see box 8.1 for a description of the new data and the *Doing Business* website for detailed data at the economy level).⁸

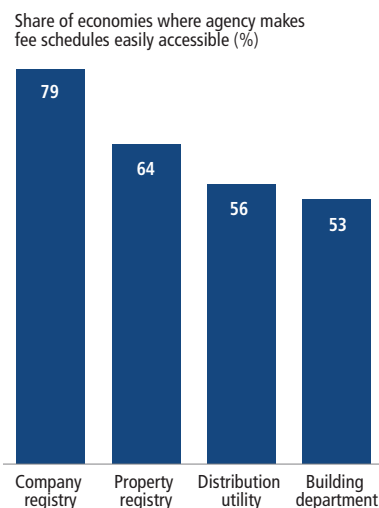
HOW TRANSPARENT IS BUSINESS REGULATION?

Company registries, property registries, building departments and power distribution utilities in too many economies make it difficult to access basic information

such as fee schedules for their services. In only 25% of economies do all 4 agencies make fee schedules easily accessible through their websites or through brochures or notice boards. These are mostly higher-income economies, but they also include low- and lower-middle-income economies such as Armenia, Burkina Faso, El Salvador, Georgia and Tanzania. Around the world company registries are most likely to make information available online or through brochures or notice boards, and building departments least likely to do so (figure 8.1). On the brighter side, in only 7 of 176 economies do all 4 of these agencies require that customers meet with an official to obtain fee schedules.

Access to fee schedules is most limited in Sub-Saharan Africa and the Middle East and North Africa. Of the 7 economies globally where fee schedules cannot be obtained from any of the agencies surveyed without meeting with an official, 6

FIGURE 8.1 Which agencies are more likely to make information accessible?



Source: *Doing Business* database.

are in Sub-Saharan Africa and the other in the Middle East and North Africa.⁹ On average in these regions businesses are unable to find fee schedules online or in a brochure for 2 of the 4 agencies. But there are notable exceptions. In Sub-Saharan Africa, Burkina Faso, Mauritius, South Africa and Tanzania guarantee easy access to information in all 4 regulatory areas. In the Middle East and North Africa, Oman and the United Arab Emirates provide the easiest access: in both these countries 3 of the 4 agencies provide information without a need for a meeting with an official.

Businesses can expect consistently easy access to information in OECD high-income economies. More than 60% of these economies make it easy to access information in all 4 regulatory areas covered by the new data. In Australia, Belgium, Denmark, Finland, Sweden and the United States, for example, company registries, property registries, building departments and power distribution utilities all make fee schedules associated with their services available on the internet or through brochures. Greece, Hungary and Luxembourg are the only OECD high-income economies where businesses still have to meet with an official at 2 of the 4 agencies to get this information.

BOX 8.1 HOW IS THE ACCESSIBILITY OF REGULATORY INFORMATION MEASURED?

The new data on the accessibility of regulatory information, collected between January and August 2012, measure how easy it is to access fee schedules for 4 regulatory processes in the largest business city of an economy: incorporating a new company, obtaining a building permit, connecting a business to electricity and transferring property. Fee schedules are considered easily accessible if they can be obtained either through the website of the relevant agency or through public notices (brochures or notice boards) available at that agency or a related one, without a need to meet with an official. They are considered not easily accessible if they can be obtained only by meeting with an official.

For incorporation fees the relevant agency is the company registry; for building permit fees, the building department; for electricity connection fees, the distribution utility or electricity regulator; and for property transfer fees, the property registry.

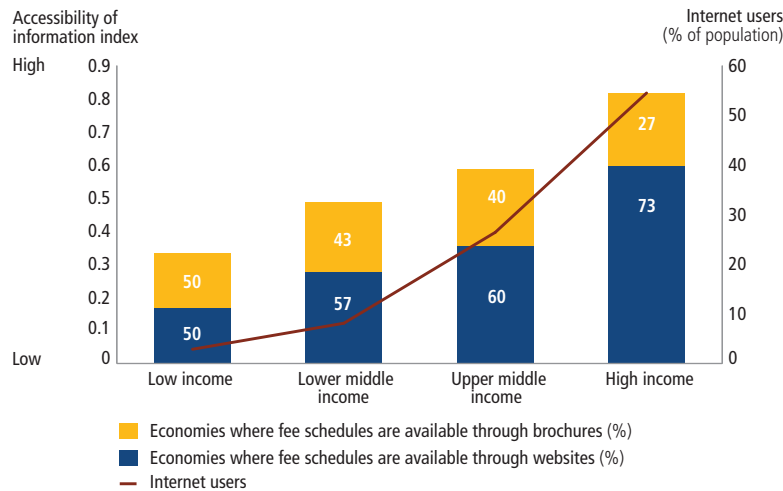
For each regulatory area, economies where information is easily accessible are assigned a score of 1; those where information is not easily accessible are assigned a score of 0.

Computed as a simple average of the scores for these 4 areas, an aggregate accessibility of information index is constructed for a sample of 176 economies for which the data are available for all 4 (see table). The index illustrates how consistent governments are in their transparency efforts across different agencies and branches of government.

Sample sizes for accessibility of information data

Measure	Sample
Accessibility of information on incorporation fees	185 economies
Accessibility of information on building permit fees	176 economies
Accessibility of information on electricity connection fees	185 economies
Accessibility of information on property transfer fees	185 economies
Accessibility of information index	176 economies

FIGURE 8.2 Accessibility of regulatory information varies with economies' income level and internet penetration



Note: For an explanation of the accessibility of information index, see box 8.1. Relationships are significant at the 5% level after controlling for income per capita.

Source: *Doing Business* database; World Bank, World Development Indicators database (2008 data).

WHO MAKES REGULATORY INFORMATION EASY TO ACCESS?

The accessibility of regulatory information varies with income level and internet penetration: low-income economies have the least regulatory transparency on average, and high-income economies the most (figure 8.2). In OECD high-income economies the accessibility of regulatory information as measured by *Doing Business* is 38% higher than the average for the sample. Is the reason simply that richer economies have more resources to invest in online solutions and in other ways to make information easily accessible to the public?

Variation within income groups suggests that making information easily accessible may not be entirely a question of resources; for many governments it may also be a question of choice. Tanzania, a low-income economy, makes more information easily accessible than such high-income economies as Greece, Kuwait and the United Arab Emirates. Cape Verde and Georgia, two lower-middle-income economies, also have higher accessibility levels than some richer economies. Moreover, as figure 8.2 illustrates, there

are multiple ways in which governments can share information with the public. Where internet access might be difficult, for example, information can be distributed through brochures and notice boards. Low-income economies such as Burkina Faso and Tanzania show that brochures can be an effective means of creating more transparency around regulatory information.

The new data show that even when differences in income per capita are

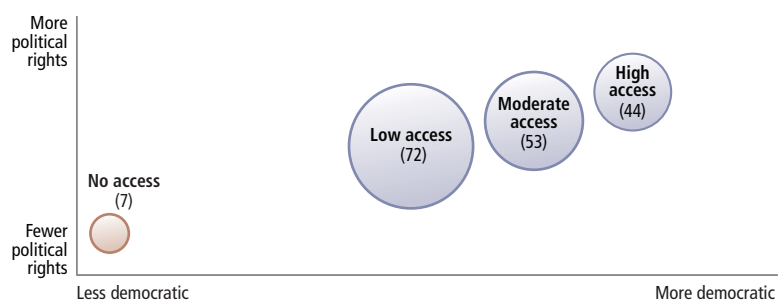
taken into account, economies with easy access to regulatory information are more likely to be democratic, to be generally more transparent and to guarantee greater political and civil rights (figure 8.3). Governments that provide greater transparency in their business regulatory environment are also more transparent in other areas. To take 2 examples, they disclose more budgetary information (as measured by the Open Budget Index of the International Budget Partnership), and they make greater efforts to publicize laws and make them comprehensible to the wider public (as measured by the Rule of Law Index of the World Justice Project).¹⁰

MORE INFORMATION, BETTER BUSINESS REGULATION?

Greater access to regulatory information is also associated with more efficient regulatory processes. Economies that make fee schedules consistently easy to access rank higher on the ease of doing business—and they keep regulatory compliance costs for firms significantly lower.

Take the cost of starting a business. The global average is a significant 31% of income per capita. Entrepreneurs in lower-income economies face even higher costs, reaching 87% of income per capita in Sub-Saharan Africa. But regardless of income levels, official incorporation fees

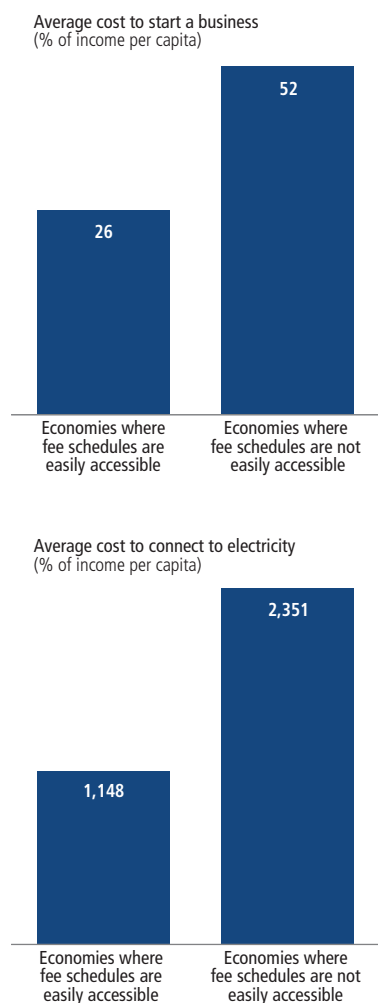
FIGURE 8.3 Access to regulatory information is greater where democracy and political rights are greater



Note: The 176 economies in the sample are divided into 4 groups based on the accessibility of information index, and averages are taken for the economies in each group on institutionalized democracy ratings (for 2012) and political rights ratings (for 2010). Numbers in parentheses are the number of economies in each group. Relationships are significant at the 5% level after controlling for income per capita.

Source: Freedom House 2012; Center for Systemic Peace, Integrated Network for Societal Conflict Research; *Doing Business* database.

FIGURE 8.4 Incorporation and electricity connection fees are lower in economies with greater disclosure of fee schedules and structures

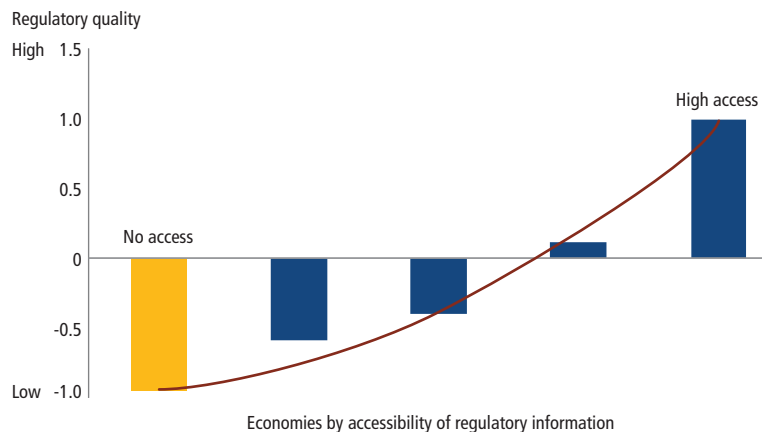


Note: Fee schedules are considered easily accessible if they can be obtained through the website of the relevant authority or another government agency or through public notices, without a need for a meeting with an official. The data sample includes 185 economies. Relationships are significant at the 5% level after controlling for income per capita.

Source: Doing Business database.

tend to be significantly lower in economies where fee schedules are easily accessible (figure 8.4).¹¹ Starting a business costs 26% of income per capita on average in economies where fee schedules are publicly available, but 52% where they are not. Similarly, getting a new electricity connection costs more than twice as much in economies where information on the connection fees is more difficult to

FIGURE 8.5 Greater access to regulatory information is associated with greater trust in regulatory quality



Note: The 176 economies in the sample are divided into 5 groups based on the accessibility of information index, and averages are taken for the economies in each group on the Regulatory Quality Index ranking of the Worldwide Governance Indicators for 2009. The Regulatory Quality Index, ranging from -2.5 (weak) to 2.5 (strong), measures public perception of government's ability to formulate and implement sound policies. Relationships are significant at the 5% level after controlling for income per capita.

Source: World Bank, Worldwide Governance Indicators; Doing Business database.

access. Similar results were found for the fees to register property and to obtain a construction permit.

Moreover, access to basic regulatory information is also positively associated with the trust the public places in its government. Where regulatory information is more consistently accessible, businesses perceive their government as being better able to formulate and implement sound policies and regulations that permit and promote private sector development (figure 8.5).

CONCLUSION

A growing body of empirical research suggests that while transparency alone might not be enough to increase government accountability, it is certainly necessary.¹² A study of Brazilian municipalities shows that mayors are less corrupt where citizens can gain access to municipal budget reports, but only in the municipalities where electoral rules stipulate the possibility for reelection of a mayor. Where mayors cannot be reelected, access to budgetary information has no effect in reducing corruption.¹³ Similarly, a study in India found evidence that local governments' responsiveness

to newspaper reports on drops in food production and flood damage to crops is more pronounced where elections loom close, political competition is strong and voter turnout high.¹⁴ In short, information is more powerful when it is complemented by incentives that hold officials accountable.

The data and analysis presented here suggest that easier access to regulatory information such as fee schedules is associated with greater regulatory efficiency, lower compliance costs and better regulatory quality for businesses. This seems to confirm the findings of others who have shown that more transparency and better-quality government tend to go hand in hand.¹⁵

The correlations cannot answer the question whether greater transparency might lead to better governments or whether better governments might also simply be more transparent. Yet it seems that improving transparency could at least be a good start in increasing the accountability of public agencies charged with implementing regulations. Only when citizens have access to information do they also have a chance to act on the

information and use it to pressure for greater accountability of public agents. The effort appears to be worth making, and as the data here show, it need not always be costly. Sometimes printing a simple brochure might be enough.

NOTES

This case study was written by Carolin Geginat.

1. Amartya Sen, "Adam Smith's Market Never Stood Alone," *Financial Times*, March 11, 2009, <http://www.ft.com/>.
2. Hirschman 1970; Paul 1992; Stiglitz 2003; Kaufmann 2003.
3. *Exit and voice* are terms introduced by Hirschman (1970) in his discussion on how consumers can respond to poor-quality provision of goods and services.
4. Reinikka and Svensson 2005.
5. Akerlof 1970; Stiglitz and Weiss 1981; Hirshleifer 1980; Stigler 1971.
6. See, for example, World Bank (2004); Reinikka and Svensson (2005); Deininger and Mpuga (2005); and Besley and Burgess (2002).
7. In addition, research suggests that enterprise surveys in corrupt countries tend to understate the gravity of the corruption problem. Jensen, Li and Rahman (2010) find that enterprises in countries with less press freedom are more likely to provide no responses or false responses on the issue of corruption. Corruption is understated in such countries.
8. Fee schedules are generally made available by implementing agencies and are not part of national legislation. The accessibility of this type of regulatory information therefore speaks directly to the openness and transparency efforts of particular government agencies.
9. These economies are Botswana, the Republic of Congo, Equatorial Guinea, Eritrea, Gabon and Mauritania in Sub-Saharan Africa and Iraq in the Middle East and North Africa.
10. Geginat, Gonzalez and Saltane 2012.
11. The correlations were calculated on the basis of official regulatory compliance costs only. Bribes that might have to be paid as well in some economies are not captured by the cost estimates.
12. See Olken (2007); Besley and Burgess (2002); and Ferraz and Finan (2011).
13. Ferraz and Finan 2011.
14. Besley and Burgess 2002.
15. See, for example, Islam (2006); and Williams (2009). Islam (2006) finds that governments that are timelier in releasing important political and macroeconomic data also rank better on various measures of good governance. Using Granger causality regressions, Williams (2009) shows that the release of information by governments has a positive short-term effect on the quality of bureaucracy. The analysis uses data similar to those employed by Islam (2006) as well as measures of corruption, the size of government and education, along with trade variables as control variables.