

WORLD BANK DOING BUSINESS RANKINGS HIGHLIGHT NEED TO IMPROVE REGULATORY ENVIRONMENT FOR ENTERPRISE

- Ireland is ranked 17th out of 189 locations in terms of the ease of doing business, an improvement of 2 places from 2015; Ireland is ranked 4th amongst the euro area countries
- Ireland performs well in terms of paying taxes (ranked 6th), protecting minority investors (8th), and resolving insolvency (20th)
- Weaknesses are evident in relation to enforcing contracts (93rd), trading across borders (48th), and registering property (39th)

EASE OF DOING BUSINESS REPORT

The World Bank's Doing Business 2016 report provides an assessment of a range of regulations affecting SMEs throughout their life cycle¹. In the latest report, **Ireland is ranked 17th** - an **improvement of 2 places** from last year.

BACKGROUND

Doing Business starts with the premise that economic activity requires sensible rules that encourage firm startup and growth, and that avoid creating distortions in the marketplace.

Doing Business presents indicators on business regulation that can be compared across 189 economies. It measures 11 different aspects of regulation. Ten of these areas are used to calculate an "ease of doing business" ranking. These are: starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting minority investors; paying taxes; trading across borders; enforcing contracts; and resolving insolvency².

A "distance to frontier" score (measured out of 100³) is also calculated. Essentially, this shows the distance of each economy to the "frontier," represented by the best performing economy for each of the indicators included in Doing Business. This measure reflects the absolute level of regulatory performance and is more illustrative of performance than the overall ranking.

¹ The World Bank's Doing Business Report looks at domestic enterprises, predominantly SMEs, and measures national regulations applying to them through their life cycle. The Report's methodology is based on standardised case studies, chosen to be illustrative of the business regulatory environment, and presents quantitative indicators on selected regulations that can be compared across the 189 sample economies.

² Doing Business also collects data on labour-market regulation but this is not used to calculate the ranking.

³ The closer the distance to frontier score is to 100, the closer a country is to the leading performer. This also can mean that it is more difficult to close the gap further and improve the overall ranking.

CURRENT POLICY CONTEXT

Easing the administrative burden that regulations impose on firms can improve the business environment by reducing costs, minimising the time businesses spend fulfilling regulatory requirements, increasing productivity, and supporting job creation.

The World Bank analysis is particularly relevant given the ongoing **formulation of the Action Plan for Jobs 2016**. In the past, the APJ has explicitly focused on actions designed to enhance the regulatory environment for business startup, survival and scaling. Doing Business provides a strong rationale for continuing this focus in 2016. For Ireland, this year's report emphasises the significant progress that is required if we are to improve our global ranking.

HOW IRELAND PERFORMS

While overall Ireland is ranked 17th, within the euro area we are ranked 4th (behind Finland, Germany and Estonia, but ahead of many comparators including Austria, the Netherlands and Belgium), and 7th in the EU. The top ten countries, their distance to the frontier, and the change in ranking since 2015 are summarised below.

Doing Business Top Ten Locations & Distance to Frontier, 2016

1 Singapore	87.34 (-)
2 New Zealand	86.79 (-)
3 Denmark	84.40 (-)
4 Korea Rep	83.88 (-)
5 Hong Kong	83.67 (-)
6 United Kingdom	82.46 (-)
7 United States	82.15 (-)
8 Sweden	81.72 (↑1)
9 Norway	81.61 (↓1)
10 Finland	81.05 (-)
17 Ireland	79.15 (↑2)

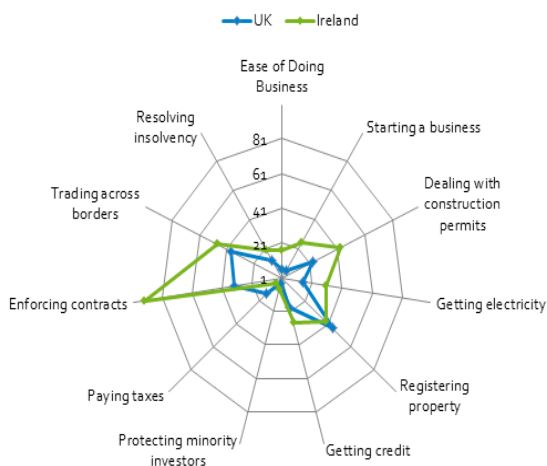
Source: World Bank

FACTORS DRIVING IRELAND'S PERFORMANCE

Ireland's top 20 ranking shows that relative to many euro area countries, Ireland has comparatively simple administrative procedures, a low burden of regulation, a straightforward licensing system and an enterprise environment conducive to doing business. Since 2011 a range of structural reforms have been introduced to improve the ease of doing business.

The report, however, highlights a number of areas in which there is continued room for improvement, particularly, in relation to the UK, which is ranked 6th. Ireland particularly lags the leaders in enforcing contracts (93rd)⁴, dealing with construction permits (43rd), and registering property (39th). Ireland is a top 30 performer in getting electricity (30th), getting credit⁵ (28th), and starting a business (25th).

Figure 1: Ireland and UK Doing Business Ranking



Source: World Bank

In terms of Ireland's weakest score, the 'enforcing contracts' data focuses primarily on the efficiency of the commercial court system, measuring the procedures, time and cost to resolve a commercial dispute between two firms. Ireland's 'distance to frontier' score (57.88) emphasises just how far behind the leading performers we are, and this partially reflects the extremely long length of time it takes to resolve a dispute here (650 days compared with an OECD average of 538 days, and 395 days in Australia).

⁴ The enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court. In addition, this year it introduces a new measure, the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the commercial court system.

⁵ Getting Credit measures movable collateral laws and credit information systems, not the supply of credit or demand for credit.

The enactment the Legal Services Bill and competition-enhancing and cost-reducing provisions of the planned regulatory framework to be issued by the Legal Services Regulatory Authority will not be sufficient to improve Ireland's ranking. The Council has previously recommended that a range of procedural reforms be implemented to reduce cost and expedite processes – specifically, that the outstanding procedural reforms outlined by the Legal Cost Working Group be reviewed, and that those recommendations which remain relevant and feasible should be implemented.

TANGIBLE IMPROVEMENTS TO SUPPORT ENTERPRISE

The international competitiveness of our enterprise sector provides the engine for economic growth. To secure the recovery underway, our internationally trading firms must be able to win business in increasingly competitive international markets, while domestically we must grow a cadre of firms of sufficient scale and capability to make the leap into such markets. At present, Irish enterprise continues to benefit from a range of external factors including a weakened euro, low international energy prices and interest rates, and a degree of economic recovery in some of our key markets. Such favourable factors could be quickly reversed. There is a continuing and urgent need, therefore, to enhance the regulatory environment for SMEs, to enable them to trade successfully in increasingly competitive global markets. Improving the regulatory environment for firms is essential in this regard.

To improve Ireland's Doing Business ranking, a formal, coordinated process should be established to review the administrative and regulatory procedures associated with the index, and to identify actions that can be taken to improve the ease of doing business in Ireland.

The issues raised by the World Bank reflect many of the issues highlighted in the Council's *Competitiveness Scorecard 2015*. The immediate challenge is to sustain the recovery underway by remaining competitive. We must continue to aggressively deliver the structural reforms required to support competitiveness, productivity and growth. The Council will shortly set out recommendations to enhance competitiveness in the *Competitiveness Challenge* and in a *Submission to the Action Plan for Jobs 2016*.

Further Reading: *Ireland's Competitiveness Challenge* report will be available from www.competitiveness.ie later this year.

Ireland's National Competitiveness Council reports to the Taoiseach (Prime Minister) on key competitiveness issues. This Bulletin is issued by the NCC Chair and Secretariat.