



# The business environment in the eurozone

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Why it is worth paying attention to the details

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The quality of the business environment is a key driver of countries' economic development. "Good rules" foster market functioning, increase efficiency, and encourage entrepreneurial activity. The quality of the business environment affects firms' activities and success. It also matters for economies' competitiveness, their attractiveness for investments and ultimately growth (prospects).

Measuring the quality of the business environment is not an easy task. The concept is complex, and collecting data involves considerable effort and expense. The World Bank's Ease of Doing Business index represents one approach to measure the concept. The index has regularly analysed the quality of the business environment for a large number of countries since 2003. The index consists of ten components that are relevant across the life cycle of a company and measures the extent to which existing conditions, regulations and processes are conducive to business activity. The analysis also includes information on reforms. Country comparison on this basis allows identifying potential for reform as well as "best practices".

The eurozone performs well by international comparison. The differences are in the details. At the moment, all eurozone member states are in the top half of the international ranking comprising 189 countries. While only one country is ranked among the top ten (FI), a total of twelve countries in the eurozone are among the top 30. Considerable differences are found among the individual doing business components, particularly in terms of insolvency rules and credit markets.

In recent years, several countries have recorded significant improvements in terms of their business environment, such as Portugal, Slovenia and Latvia. Though at a comparatively high level, Germany is among those countries with less positive momentum in this regard. France also recorded low positive dynamics recently. In contrast, several Southern European countries have adopted a larger number of reforms, though the full effect of some changes may not be felt immediately.

On its own, the index does not provide direct recommendations for action. Nevertheless, looking at the business environment can contribute to the ongoing debate about reforms in Europe. While current discussions about reforms are broader, also including the role of investment and fiscal consolidation, focusing on the business environment adds a specific aspect. The quality of the business environment matters per se but also interacts with the other areas. After all, a good business environment should be conducive to increase investment, such as for instance through the EFSI.

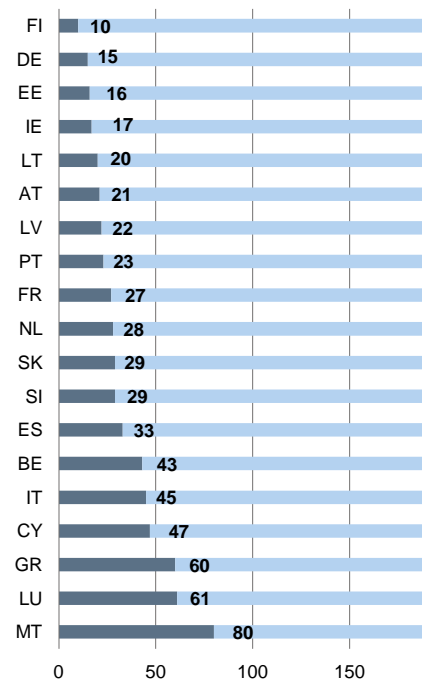


## The business environment in the eurozone

### The quality of the institutional environment as a success factor for companies and economies

#### Eurozone countries in the top half of the rankings 1

Rankings on the Ease of Doing Business Index (2016 Edt.), total of 189 economies



Sources: World Bank (2015), Deutsche Bank Research

A good quality environment for doing business contributes to the growth of companies and economies. There are many facets to a conducive environment: How time-consuming and costly is it to start a business? How easy is it to obtain financing? How straightforward is the tax system, for example, and – last but not least – how efficient is the design of insolvency regulations?

To measure the quality of the business environment, indices are frequently used which include information on various aspects. One of these is the World Bank's Ease of Doing Business Index (EDB), which has been compiled since 2003 and analyses a total of 189 countries. Standardised aggregate measurements provide the opportunity to draw comparisons between countries and over time. They can help identify drawbacks in certain areas, reveal changes and trends and occasionally provide pointers on best practices.

In light of the financial and debt crises, the competitiveness of European member states has come increasingly into the spotlight. Macroeconomic imbalances within the eurozone are also getting greater attention. As a result, joint macroeconomic imbalance procedures for monitoring these imbalances were established in order to identify undesirable developments at an earlier stage and take countermeasures, if necessary. Macroeconomic indicators, such as unemployment, current account surpluses, changes in housing prices and the level of indebtedness in the private sector, are taken into consideration.<sup>1</sup> However, the causes of imbalances are often found upstream. High operating costs affect the competitiveness of companies, for example, and ultimately the current account balance. Similarly, efficient registration and approval procedures can help to improve the functioning of real estate markets thereby impacting on price developments.

The debate about the need for and the ability to reform in Europe remains strongly geared towards fiscal policy. While there are general calls to reform certain policy areas (e.g. the tax system or labour market), more specific identification of gaps and suggestions on how things could be improved are often lacking. Against this background a detailed examination of the business environment can help uncover areas that harbour reform potential.

Due to its many different aspects, a rather complex factor such as the business environment often gets less attention. Nevertheless it is a key component to ensure the functioning of economies. Finally, a good business environment can help to increase the effectiveness of fiscal and monetary policy measures.

This study examines the quality of the business environment for eurozone countries based on the World Bank's Ease of Doing Business Index. The first part provides an overview of the index's methodology as well as previous research. This is followed by a more in-depth analysis of the eurozone, which sheds light on developments in terms of countries as well as individual aspects of the business environment. The final section then addresses the extent to which it is possible to draw on the index against the backdrop of the ongoing debate over reforms in the eurozone.

<sup>1</sup> For additional information on the macroeconomic imbalance procedure and a list of the indicators used in the scoreboard, see [http://ec.europa.eu/economy\\_finance/economic\\_governance/macroeconomic\\_imbalance\\_procedure/mip\\_scoreboard/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_scoreboard/index_en.htm).



## The business environment in the eurozone

Overview of the ten topics in the EDB index

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1. **Starting a business:** Measures the number, cost and duration of necessary procedures and the paid-in minimum capital requirement.
2. **Dealing with construction permits:** Number, duration and cost of necessary procedures for building a warehouse. Additional indicators for building (regulation) quality since 2015.
3. **Getting electricity<sup>2</sup>:** Number, duration and cost of procedures required to get connected to the electrical grid and quality components.
4. **Registering property:** Procedures, time and costs to transfer a property and the quality of the land administration system.
5. **Getting credit:** Movable collateral laws and credit information systems.
6. **Protecting minority investors:** Measures minority shareholders' rights in related party transactions and in corporate governance.
7. **Paying taxes:** Payments, time and total tax rate for a firm to comply with all tax regulations.
8. **Trading across borders:** Time, cost and number of documents associated with importing or exporting specified cargo.
9. **Enforcing contracts:** Time and cost of the necessary procedures for resolving a commercial dispute as well as the quality of judicial processes.
10. **Resolving insolvency:** Time, cost, outcome, and recovery rate for commercial insolvency and the strength of the legal framework for insolvency.

For more information as well as adjustments to the index, see World Bank at [www.doingbusiness.org](http://www.doingbusiness.org).

### How to measure the quality of the business environment?

There are a number of approaches for measuring concepts such as competitiveness, innovative capability, attractiveness of a location and the quality of institutions. Indices aim to capture them in one figure by including various pieces of information that are relevant to the underlying concept while at the same time allowing comparison of a large set of countries. Typically, indices are then used to develop country rankings.

Indices usually feature several categories that each reflect individual aspects of the underlying concept they seek to capture. For instance, the quality of a country's infrastructure can be considered as one component of competitiveness. The individual aspects, e.g. communications and information infrastructure, are then operationalised through specific variables, such as telephone connection, internet or broadband coverage. With regard to the data used, indices can include both fact-based figures as well as perception-based information.

The World Bank's EDB-index focuses on assessing key aspects of the regulatory environment for companies. Looking at a set of selected areas, the index seeks to capture the efficiency and, increasingly, the quality of regulations and administrative processes that are relevant across the life cycle of a company. A total of ten areas are considered, which range from starting to closing a business (insolvency rules).<sup>3</sup>

In principle, various approaches are possible for evaluating regulatory quality. First, researchers can examine how well the process of formulating regulation works, e.g. how quickly rules are decided and how stakeholders are involved as part of the process. Second, researchers can compare the content of existing regulation, related requirements and how well they are being implemented. Third, it is possible to examine the extent of compliance with regulation. And finally, regulation can be assessed with regards to its (economic) impact, for instance to what extent it affects growth, employment or investment. The assessment conducted by the World Bank focuses on the second category. However, it has also informed research that seeks to assess the impact of regulation on other economic (outcome) variables.

The EDB index is not a survey-based measure asking companies to evaluate the business environment and regulatory framework from their perspective. Rather, the index is based on considering the case of a "standard" company in a scenario. Experts in the respective countries are then asked to give their assessment for different scenarios, such as how time-consuming and costly it would be to register property or engage in trade across borders (see the box to the left on information collected). Typically, the scenarios focus on:

- A a domestic firm;
- Established as a limited liability company (or its legal equivalent);
- That employs between ten and 60 people;
- And Operates in the country's biggest business location.<sup>4</sup>

In addition to considering the expert assessments, the World Bank also performs a country-by-country analysis of the statutory regulations that are key to the various categories and attempts to identify recent changes. As a result, a number of sources are included in the final index values and analysis.

<sup>2</sup> Reported separately only since 2009.

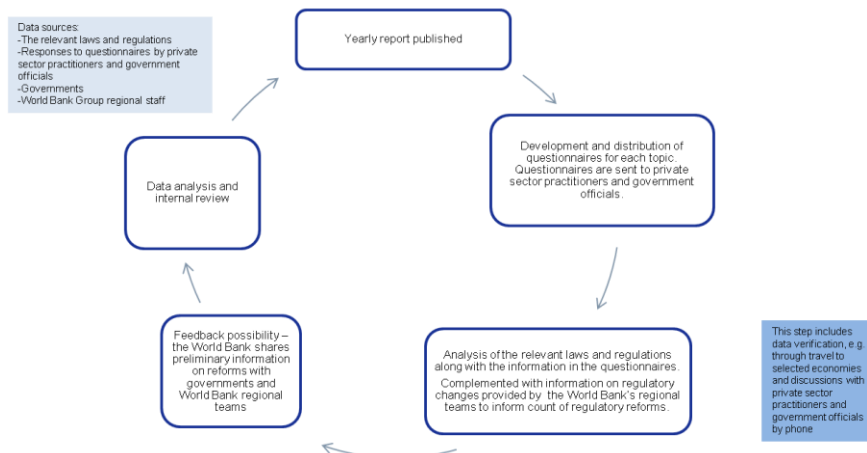
<sup>3</sup> Information on the regulation of the labour market is also collected, though it is not part of the overall index. See World Bank (2015).

<sup>4</sup> In its annual reports, the World Bank presents a detailed description of its assumptions for the individual categories. See World Bank (2015) for the current scenarios.



How is data collected and which sources are included?

3



Sources: World Bank (2015), Deutsche Bank Research

Based on the information collected, values are calculated for the subcategories. The overall index is the unweighted arithmetic mean of the individual categories. In addition to the economy rankings, the World Bank also calculates another measure, i.e. the distance to frontier (DTF) score. The DTF specifies the gap between a particular economy and best practices across the entire sample.<sup>5</sup> Higher values indicate a smaller gap and are therefore better. While the economy rankings draw on the DTF scores, the latter measure has the advantage that it provides more information about the precise distances between countries. This is especially relevant if many countries are separated by only a small margin and comparatively minor changes consequently lead to major jumps in the rankings. Hence, it is worthwhile to look beyond the ranking list.

Changes to the index and comparison over time

4

In recent years, the EDB index has undergone a comprehensive evaluation process (see Panel Review of the Doing Business Report 2013 as well as annual World Bank reports for changes). The methodology of the index was expanded within this context. One objective is to better capture regulatory quality in addition to regulatory efficiency (such as time and cost).

Adjustments to the methodology of the index are made as part of an ongoing process, i.e. variables are adapted gradually and new ones are added. At the same time, of course, the aim is to preserve the comparability of the index across time.

These changes are generally less problematic when looking at aggregates. However, changes to measurement may carry greater weight for specific economies or components of the index. Hence, changes observed in specific cases require careful assessment, to the extent that they can reflect both actual changes in a country's regulatory environment as well as changes in measurement and methodology.

Source: Deutsche Bank Research

An index cannot measure everything – but it does provide important information

The EDB index differs from other indices in that it focuses on measuring the quality of the business environment with a particular focus on the regulatory framework. A range of other factors, e.g. political and macroeconomic stability or market size, are deliberately omitted. With the emphasis on the regulatory environment, the index maps an area that, on the one hand, directly affects how companies (can) do business – regardless of the industry. On the other hand, it also examines an aspect that can be changed by political decision-makers.

The use of standardised cases and the focus on selected areas means, of course, that several factors which could be very relevant in practice and for companies in particular are not taken into account. However, the method provides the opportunity to analyse reasonably comparable data over a certain period of time. It also allows for a comparison of individual categories within the index to potentially identify areas warranting particular attention or action.

Caution should be exercised not to read too much into the index. As a standalone measure it cannot fully explain aggregate economic parameters, such as investment or growth. However, a series of analyses reveals that the quality of the business environment – both as a whole and in individual areas – impacts on outcomes.

<sup>5</sup> The benchmark is defined as the best result in each category across all economies since 2005 or since the third year in which the data for the respective area was collected. The data is first normalised for the calculation of the DTF (worst – y value)/(worst – frontier value). The maximum and minimum values are adjusted every five years. For further explanations on the calculation method, see World Bank (2015) p.163 ff.



## The business environment in the eurozone

Europe in global comparison		5
EDB-overall score (DTF)	2015	
<b>Minimum</b>		
RoW	27.6 (Eritrea)	
Euro19	63.7 (Malta)	
EU28	63.7 (Malta)	
Total OECD	68.3 (Luxembourg)	
<b>Average</b>		
RoW	61.1	
Euro19	75.1	
EU28	75.7	
Total OECD	77.5	
<b>Maximum</b>		
RoW	87.3 (Singapore)	
Euro19	81.1 (Finland)	
EU28	84.4 (Denmark)	
Total OECD	86.8 (New Zealand)	
Unweighted means		

Sources: World Bank (2015), Deutsche Bank Research

- Economies with a better business environment grow faster on average (Djankov et al., 2006). While the effect of marginal improvements is more difficult to establish, more recent analyses estimate that significant improvements in the business environment could result in additional growth of some 0.8 percentage points p.a. (Divanbeigi and Ramalho, 2015).<sup>6</sup>
- Greater obstacles to starting a business decrease the competitive pressure on established companies and are associated with lower productivity, for example due to fewer incentives to use new technology. (Klapper et al., 2006; Poschke, 2010; Klapper and Love, 2011).
- Complicated tax systems and higher tax ratios can negatively impact foreign direct investment (Djankov et al., 2010; Lawless, 2013).<sup>7</sup> And regardless of the level of taxation, complicated tax systems can also inhibit competition by making it difficult for new companies to enter the market (Djankov et al., 2010; Braunerhjelm and Eklund, 2014).
- The quality of the judicial system and better contract enforcement, on the other hand, mean a higher degree of legal certainty for companies. That can encourage investment and, in turn, economic growth. However, poor contract enforcement poses a problem for businesses; because it is accompanied by increased levels of default in payment, which can lead to company insolvency and to higher unemployment as a result (Esposito et al., 2014). Better contract enforcement can also influence trade patterns and prove to be beneficial in the export of more-complex exports (Berkowitz et al., 2006).
- Well-designed insolvency law recognises at an early stage when businesses are in economic straits and prevents liquidations, if possible. This increases the share of invested money that creditors can recover and thereby encourages lending. With poorly devised insolvency proceedings, assets go unused for a longer period of time and remain thus unproductive. This makes economies less dynamic and it takes longer to overcome recessions (Djankov et al., 2008; Menezes et al., 2014). Finally, the design of insolvency proceedings is related to opportunities and incentives for starting businesses. In this regard, the cycle comes full circle, as it were, from a business perspective as well as within the scope of the World Bank's measurement.

## The business environment in the eurozone<sup>8</sup>

### Economies by comparison

Eurozone countries are ranked above the global average in terms of the quality of the business environment. While only one member state (FI) is ranked among the top ten currently, a total of twelve eurozone countries are among the top 30. All eurozone member states are in the top half of the rankings. The distance between the eurozone and the frontier has decreased slightly year on year.<sup>9</sup> In particular, Spain, Slovenia and Cyprus have recorded considerable improvements. By comparison with other industrialised countries, the eurozone is, on

<sup>6</sup> The estimate refers to a simulated effect if an economy succeeded in moving from the lowest quartile to the top group.

<sup>7</sup> The link between foreign direct investment and tax systems is the topic of an extensive body of literature that suggests differentiated effects. For an overview, see Feld and Heckemeyer (2008).

<sup>8</sup> While the EDB index has been compiled since 2003, it should be noted when considering a multi-year comparison that the methodology of the index has been adjusted and expanded over time on several occasions (see also Box 4).

<sup>9</sup> Unweighted arithmetic mean based on the new calculation method for the overall value.

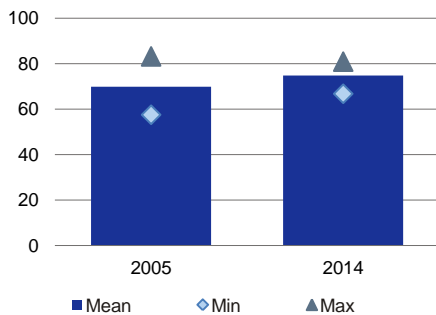


## The business environment in the eurozone

### Smaller differences in the eurozone

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Total DTF values for EA member states



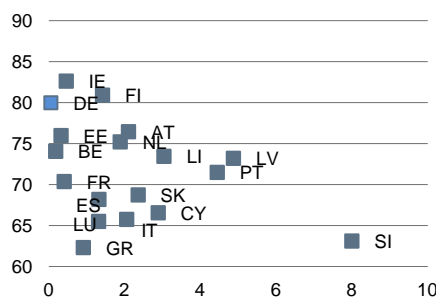
Scores for EA 16 without MT, CY and LU. Own calculations for DTF 2005.

Sources: World Bank (2015), Deutsche Bank Research

### Slovenia with biggest improvements in multi-year comparison

7

X-axis: Changes to DTF 2009-2013.  
Y-axis: values 2009



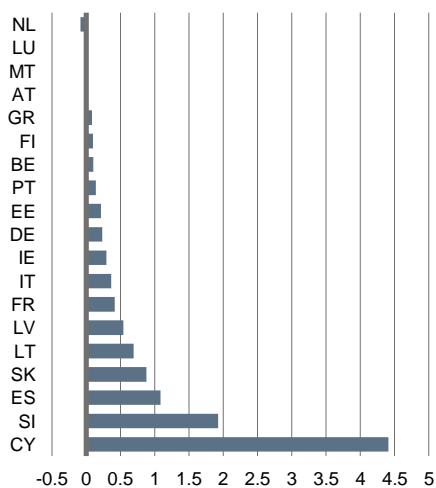
Calculated based on pre 2015 methodology, not considering MT and CY due to missing data.

Sources: World Bank, Deutsche Bank Research

### Cyprus currently with greatest improvements

8

Change in overall 2015 DTF compared to 2014 (new methodology)



Sources: World Bank (2015), Deutsche Bank Research

average, approximately on par with Japan. The scores of the United States and Canada are higher (82.2 and 80.1 respectively).

Not surprisingly, the differences in the business environment are smaller within the eurozone than they are worldwide. However, the eurozone is also more homogeneous than other regions where differences are more pronounced, for instance Latin America and the Caribbean or East Asia.

When considered over a longer period of time, it is possible to observe convergence in two respects. First, many economies – especially those with comparatively poor business environment ratings – have done reforms causing their distance to the frontier to shrink. This global convergence trend between economies with low per capita income and industrialised countries also means that, in relative terms, other regions have made up ground against the eurozone.<sup>10</sup>

Second, a convergence trend can also be seen to a certain extent within the eurozone. In the medium term, the differences between countries diminished from 2009 to 2014, as the range and standard deviation decreased by 0.5.<sup>11</sup> This trend is continuing, and in a year-on-year comparison, the differences are smaller.<sup>12</sup> A longer-term view also reflects this pattern (see Figure 6), though a direct comparison is somewhat more difficult due to methodological adjustments.

According to the World Bank, Ireland had the best business environment in the eurozone until 2011. Finland has since taken the lead spot, currently followed by Germany and Estonia (see Figure 1). In 2005, Greece rounded out the bottom of the pack respectively, currently it is Malta.

In recent years, the business environment in the eurozone has improved on the whole. Slovenia, Portugal and Latvia in particular have reduced their distance to frontier as compared to 2009 (see Figure 7). By contrast, Germany demonstrated the least amount of momentum in a comparison over several years, even if it is at a level that continues to be above the eurozone average.

In a direct year-on-year comparison, Slovenia, Spain and Cyprus in particular were the countries that the World Bank found had improved the business environment most notably. Even though it is still below the eurozone average, Cyprus is the only member of the eurozone that ranks among those countries worldwide which saw the most significant improvements last year.<sup>13</sup>

In addition to the index, the World Bank has also published information since 2006 on the reforms taken in the areas that are relevant to the index. The World Bank distinguishes between changes that improve and worsen the business environment. As an alternative to the rankings and the distance to frontier, a consideration of reform activities provides the opportunity to understand changes to the quality of the business environment.

<sup>10</sup> Causes and effects have been frequently debated. Sometimes benchmarking itself can serve as a trigger for reforms, as poor ratings in an international comparison such as EDB increase the pressure to act, e.g. because investors use rankings to inform their decisions. At the same time, there is also the opportunity to implement targeted reforms with a view to improve the index and send positive signals.

<sup>11</sup> Medium-term comparison without Malta due to missing values. As Malta is currently at the lower end of the eurozone, including it has an impact on the range within the eurozone.

<sup>12</sup> This also applies to the EA 19 using the adjusted calculation method.

<sup>13</sup> See also World Bank (2015).

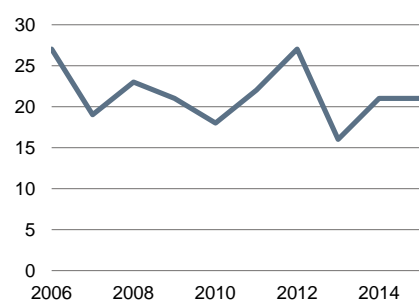


## The business environment in the eurozone

Reform activity in the eurozone rather constant overall ...

9

Count of recent reforms (net)



CY, LU and MT only partially available.

Sources: World Bank, Deutsche Bank Research

In the multi-year view, Portugal, Latvia and Lithuania saw the most significant net reform activities,<sup>14</sup> followed by Greece and Spain. Bringing up the rear are Austria, Finland, Belgium and Ireland.<sup>15</sup> Finland and Ireland in particular have enjoyed comparatively high rankings since 2006 and may consequently have had less need for potential reforms in the areas under consideration.

On the whole, the number of net reforms within the eurozone per year has remained rather stable over time, i.e. the euro crisis does not seem to have led to increased activity.<sup>16</sup> However, different patterns emerge for the individual countries.

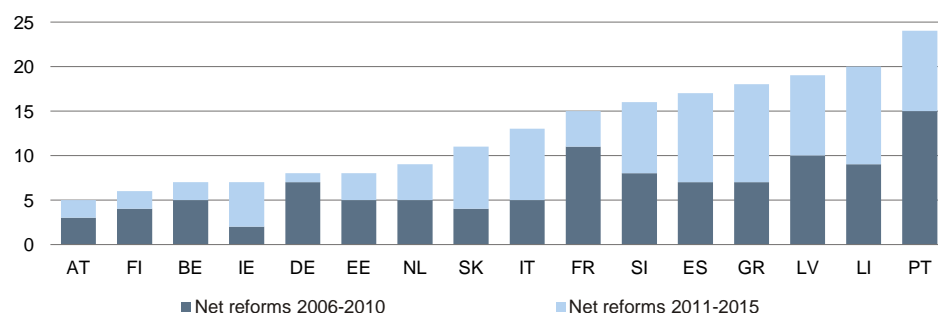
In particular, several eurozone countries hit especially hard by the euro crisis have seen higher levels of reform activity in recent years, such as Greece, Spain, Italy and Cyprus.<sup>17</sup> In Portugal, the level of activity was comparatively high during both periods. Germany and France have experienced the opposite development, i.e. there have been fewer positive reforms recently than there were prior to 2010.

A high level of (positive) reform activity does not automatically mean improvements across the board or pronounced effects. First, the focus is solely on reforms in the areas under consideration. Second, it is only possible to discern the direction (positive or negative impact on the business environment), but not the reach or effectiveness of reforms as based on their number. Third, it is not evident from the overall activity whether specific areas with weaknesses were targeted and the need for reform is potentially greater as a result.

... but the level of reform activities has differed for countries in recent years

10

Number of net reforms



Not considering labour market reforms which do not form part of the total index

Sources: World Bank, Deutsche Bank Research

### From starting a business to resolving insolvency: a look at the individual topics of the index

If we look at the individual topics that comprise the index, the eurozone achieves better scores for each one than the rest of the world on average. The biggest gap between the eurozone and the rest of the world is found in terms of trade – Europe does significantly better in this regard and even represents the best global performance – and in the design of insolvency processes. With regard to the latter, however, the eurozone average is also considerably below the global best practice.

<sup>14</sup> Information on the net reform activities refers to the number of positive reforms listed by the World Bank minus the negative reforms.

<sup>15</sup> This also applies for the entire period with and without Malta, Cyprus and Luxembourg, for which only limited data is available.

<sup>16</sup> This is the case, even though data is available for Malta, Cyprus and Luxembourg in later years.

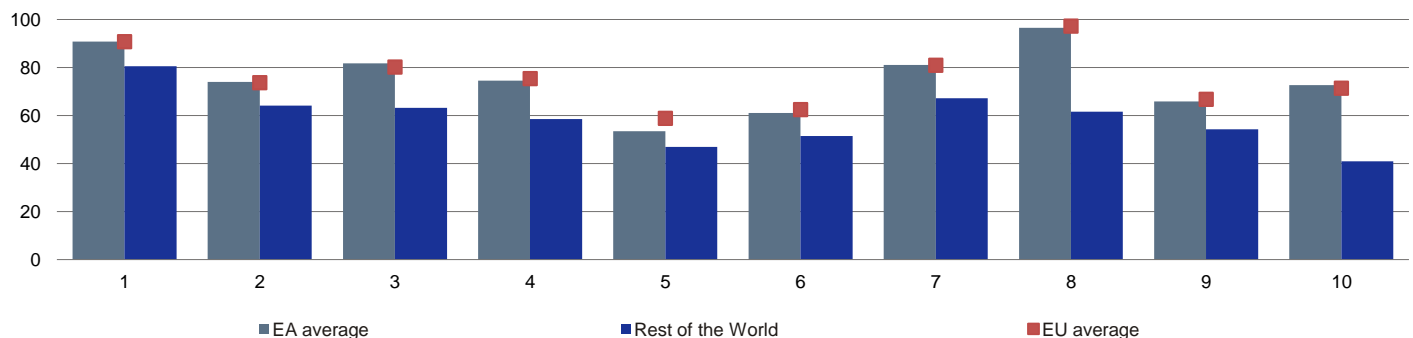
<sup>17</sup> Cyprus is not represented, as data is only available for a shorter period of comparison.



## The business environment in the eurozone

Europe as compared by individual categories

11



Categories: 1. Starting a business, 2. Construction, 3. Electricity, 4. Property transfer, 5. Access to credit, 6. Investor protection, 7. Taxes, 8. Trade, 9. Contract enforcement, 10. Insolvency. For further information on categories see box 2 and World Bank.

Sources: World Bank (2015), Deutsche Bank Research

The eurozone faces the biggest distances to frontier, on average, when it comes to protecting minority investors and getting credit. It is worth taking a look at the measurement, as the influence of cyclical economic drivers is not reflected in the latter category. Instead, the World Bank considers structural factors, such as the quality of and access to credit information systems, as well as the legal rights of lenders and borrowers in the secured lending business.<sup>18</sup> The basic idea is that these structural factors affect how credit markets function and thereby the availability of loans, which are a key factor especially for small and medium-sized enterprises – regardless of interest rates or other factors that the financial markets specify in the respective countries. Better availability of information on borrower creditworthiness, for example, can reduce information asymmetry problems, in turn structurally facilitating the granting of credit.

In its measurement, the World Bank focuses on what is known as the functional approach to secured transactions. Within the OECD (and therefore in large parts of Europe), relatively few countries on the whole have established this approach. At the same time, the World Bank notes that this is not necessarily accompanied by problems in industrialised countries.<sup>19</sup> A number of other measurements indicate that industrialised countries – and Europe as a part of this group – rank relatively high in a global comparison of the depth and efficiency of financial markets.<sup>20</sup> Differences in the outcome therefore also reflect different approaches concerning measurement concepts and operationalisation. As part of the World Bank's measurement, factors such as the existence and availability of credit information, including the existence of credit bureaus or public credit registries, among others, are accorded a comparatively high level of importance.

The most significant reform activity at the moment concerns the tax component of the index. In total, seven eurozone countries have adopted measures in the past year which aim to make it easier for companies and businesses to pay taxes. This includes changes to the tax rates as well as the increased use of electronic systems to simplify the process.<sup>21</sup> At the same time, however, the World Bank noted developments that pointed in the opposite direction for several eurozone countries (NL, IE, LV). In addition, a number of member states (EE, DE, SK and LI) have taken steps to facilitate starting a business.

<sup>18</sup> The measurement focuses on the protection of the legal rights of lenders and borrowers by collateral security law, the legal rights of lenders in the secured lending business, coverage, scope and access to credit information systems (credit registries and credit bureaus) as well as the coverage of credit bureaus or agencies. For more information, see <http://www.doingbusiness.org/methodology/getting-credit>.

<sup>19</sup> See World Bank (2014), p. 68.

<sup>20</sup> See Cihak et al. (2012).

<sup>21</sup> See World Bank (2015), p. 51.



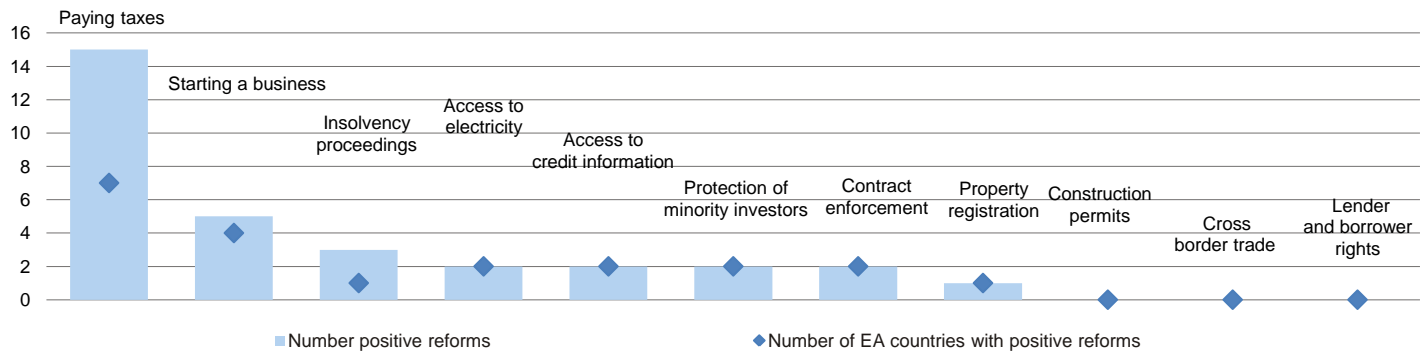


## The business environment in the eurozone

### Focus on taxes - recent reforms to improve the business environment in the eurozone

12

Positive reforms 2014/5, i.e. processes have been simplified and improved



The credit category includes information on the legal rights of lenders and borrowers as well as the possibility to access credit information. See World Bank (2015), pp. 137–38.

Sources: World Bank (2015), Deutsche Bank Research

### Intra- und extra-EU trade

13

	Average time it takes to fulfil documentation requirements (hours)	Average time for border procedures (hours)
Intra-EU	0.8	3.5
EU member exports to a non-EU MS	2.0	19.9

Source: World Bank (2015)

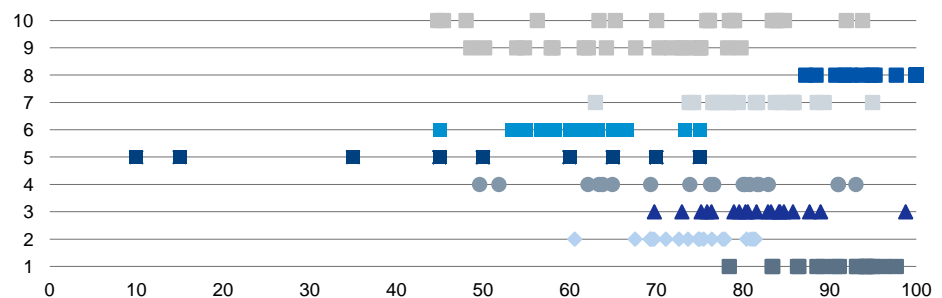
Ultimately, it pays to delve into the differences between countries within the individual categories. Trading across borders – which is particularly good and homogeneous – is one notable category, as is getting credit. For the latter category, the rather moderate average encompasses a wide range, or several outliers. In terms of resolving insolvency, the conditions for businesses within the eurozone can differ markedly in some cases.

The minor differences and good scores with respect to trade is likely due to a combination of comparatively good infrastructure, limited geographical barriers and therefore easy transport, as well as the common internal market, which serves to reduce the effort and expense businesses face to engage in trade across borders.

### Where are there differences within the eurozone?

14

Distance to frontier by category for 2015 (new calculation method)



Categories: 1. Starting a business, 2. Construction permits, 3. Electricity, 4. Property, 5. Credit, 6. Protecting investors, 7. Taxes, 8. Trade, 9. Enforcing contracts, 10. Insolvency. For more information, see Box 2 and the World Bank.

Sources: World Bank, Deutsche Bank Research

In particular, the categories of resolving insolvency and getting credit, which are marked by a high degree of heterogeneity, also point to differences caused by structures that have evolved over time in member states' credits markets and legal frameworks. Among others, this concerns different legal traditions that deal with movable collateral as well as the existence and functioning of credit bureaus and registries. For example, some member states have both public credit registries as well as (private) credit bureaus, while others have only one or the other. Differences in terms of credit registries may also be caused by the impact of different legal traditions. In some countries with a history of common law, for example, rights over movable property is often recorded in separate



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collateral registers, for incorporated and non-incorporated entities.<sup>22</sup> In countries rooted within the civil law tradition of continental Europe, the registration of collateral can for instance take place at the local court or is regulated by the right of lien. As regards credit bureaus, coverage is the result of the size of the (private) providers, their market position and connection with the banking system, as well as the amount of time they have been doing business in the respective markets. The structures that have developed in each member state are quite specific on this matter, which, in turn, impedes comparability. As a result, credit bureaus collect data on the population as a whole or on lenders from different sources, and they do so to varying degrees.<sup>23</sup> An indicator that aims to achieve the greatest possible coverage in global terms is unable to fully reflect these distinctions.

Beyond the assessment of the systems in the individual member states, the differences raise another matter, namely the extent to which heterogeneity in Europe could prove problematic in certain areas. For example, such differences could impede pan-European projects, such as the creation of a Capital Markets Union in which structural differences in the organisation of credit markets and insolvency law also ultimately play a role that should not be neglected.<sup>24</sup>

In the final analysis, the spread seen in the individual categories suggests that there are obstacles or that the starting conditions differ in the respective member states across a wide range of areas in some cases. This poses a challenge for formulating common policies on certain matters. At the same time, identifying where there is potential for improvement remains closely linked to the measurement, as it may be the case that specific indicators only partially reflect the local market conditions or that there are very specific reasons why regulations were set up differently in individual cases.

### How helpful is the index in the current reform debate?

An index like the EDB can provide useful information that points to certain weaknesses – and thereby possible areas which harbour potential for improvement. On its own, however, it does not prescribe taking certain actions. By providing examples of specific reforms and describing trends, though, it can provide information on best practices and suggestions for specific measures, such as the digitisation of administrative processes.

The World Bank has recently made a greater effort to better capture the quality of the business environment by including factors that go beyond efficiency as for instance measured by the number or duration of processes. While this is a sensible move, it nevertheless remains useful to look at several of the comparatively simple indicators. Sometimes they tend to raise questions rather than provide immediate answers, though. For example, within the eurozone, it may take from several days to more than one month to start a business. This however can be due the regulatory requirements as well as differences in administrative efficiency.

The World Bank's regular analysis and comparison of different economies help to identify reforms that have been made as well as remaining potential for reform. However, if the problem is that reforms are not occurring, it does not offer an analysis why these are lacking. Arguably, reasons for a lack of reforms are often due to the institutional and political frameworks, e.g. required majorities for amending laws or the possibility to block legislation. At the same

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<sup>22</sup> See World Bank (2014).

<sup>23</sup> For an overview of credit bureaus in Europe, see Rothmund and Gerhardt (2011) as well as CEPS (2013), among others.

<sup>24</sup> See Kaya (2015).



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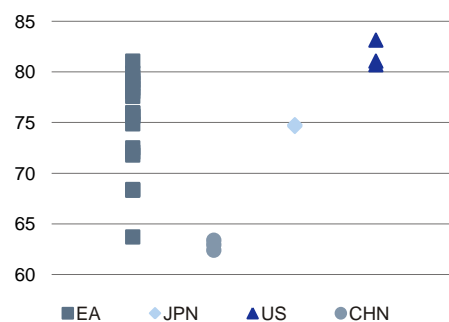
time, what the regular comparison can provide though is the impetus for tackling difficulties in certain areas.

By focusing on the business environment and the relevant regulatory framework, the indicator (deliberately) omits other areas that currently play an important role in the debate over reforms in the eurozone, such as investment and fiscal consolidation. As a result, it does not provide any information regarding how different areas are to be weighted or to what extent reforms, investments and fiscal discipline should occur as part of a chronological sequence. However, previous analyses suggest interactions, e.g. a good business environment might very well be conducive to increase levels of investment, as for instance targeted by the European Fund for Strategic Investments (EFSI). To that extent, looking at the business environment provides an important cornerstone in the current reform debate.

The global comparison reveals, on the one hand, that the business environment in the eurozone as a whole is not bad. On the other hand, the smaller range requires a closer look to determine where there are differences, whether they are specific to a certain country or policy area and what precisely the causes are. While the index can serve to break up an often general debate over reform, it also makes the discussion more fragmented.

Differences across and within countries 15

DTF score for EA member states (2015) and subnational indices for selected countries



Sources: World Bank, Deutsche Bank Research

The country comparison approach shifts the focus to differences between member states. These differences are apparent in several areas. However, there are also differences within other countries. While these may be less pronounced due to uniform national regulations in many areas, domestic differences nevertheless exist because processes are done differently at the local and regional levels, for example, or because other conditions vary. There is typically less information available on these domestic differences in other major economies, though. Viewed as a whole, the eurozone is comparatively complicated in light of its diverse regulations and idiosyncratic structures. However, it may be somewhat more transparent than other major economic areas when it comes to information about internal differences.

Finally, there is the question as to what extent other factors such as the qualification of the labour force, the conditions for innovation and the use of new technologies should be taken into account to determine the quality of the business environment, especially in industrialised countries. A global comparison of economies necessarily involves a high degree of standardisation and a narrow selection of the indicators. However, this fact does not make the index any less relevant or less suited to the eurozone. On the one hand, taking a look at the supposed basics can sometimes reveal surprises. On the other hand, measurement implicitly contains, in part, factors such as the use of digital technologies, in that they shorten processes and reduce costs. There are a number of other indices – some of which with a different emphasis – that can be used to complement information from EDB or to compare performance across different indices. Last but not least, looking beyond the eurozone can occasionally be worthwhile as a means of providing impetus for reforms within Europe.

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