

Doing Business



Doing business in **The East African Community 2012**


COMPARING REGULATION FOR DOMESTIC FIRMS IN THE EAC AND WITH 183 ECONOMIES



Doing Business in the East African Community 2012

COMPARING REGULATION FOR DOMESTIC FIRMS IN THE EAC AND WITH 183 ECONOMIES

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Doing Business in the East Africa Community 2012 is a regional report drawing on the global *Doing Business* project and its database, as well as the findings of *Doing Business 2012*, the ninth in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulation and the protection of property rights that can be compared across 183 economies—from Afghanistan to Zimbabwe—and over time.

Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency (formerly closing a business) and employing workers. The employing workers data are not included in this year's ranking on the ease of doing business.

Data in *Doing Business 2012* are current as of June 1, 2011. The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why. Chapters exploring these issues for each of the 11 *Doing Business* topics—as well as showing global trends—are being published online this year. The chapters are available on the *Doing Business* website at <http://www.doingbusiness.org>.

The methodology for the dealing with construction permits, getting credit and paying taxes indicators changed for *Doing Business 2012*. See the data notes for details.

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Foreword

In recent years, *Doing Business* has helped put business regulatory reform on the agenda of many countries—rich as well as poor. This project is premised on the belief that good business regulation is of the utmost importance in spurring economic growth, creating jobs and opportunities, and ultimately lifting people out of poverty.

The East African Community Investment Climate Program and its partner in the publication of this report, multi-donor trust TradeMark East Africa, are committed to helping countries in the East African Community make regulation more efficient, transparent and predictable. Creating an environment which enables the growth of small and medium-sized enterprises is an integral part of the development agenda, with the ultimate goal to lift the standards of human development in the East African region.

With this in mind, we are pleased to present this report on *Doing Business* in the five economies of the East African Community, the third report in this series. Rapid integration presents an opportunity to boost competitiveness in each of the countries and the trading bloc. We hope the report will be helpful for governments, the private sector and civil society to unleash the potential of the private sector and regional integration in the fight against poverty.



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Executive summary

Over the past year, all 5 economies making up the East African Community (EAC) instituted regulatory reforms—that is, Burundi, Kenya, Rwanda, Tanzania and Uganda. The EAC saw its 5 governments implement a total of 10 regulatory reforms last year to improve the business environment for local businesses and encourage entrepreneurship in the region. That means 100% of the region's economies implemented reforms last year, compared with an average of 80% of the region's economies implementing reforms over each of the previous 6 years (figure 1.1.)

In 2010/11, a record number of governments in Sub-Saharan Africa changed their economy's regulatory environment to make it easier for new businesses to start up and operate. In a region where relatively little attention was paid to the regulatory environment only 8 years ago, regulatory reforms have rapidly picked up pace in recent years. In fact, between June 2010 and May 2011, 36 of 46 economies in Sub-Saharan Africa (including the 5 East African economies) made it easier to do business by implementing reforms.

EAC governments recognize the role that entrepreneurs play in creating economic opportunities for themselves and for others. Investments in infrastructure—ports, roads, telecommunications—are seen as vital ingredients for private sector development. The Northern Corridor and Central Corridor rehabilitation projects – both multi-modal infrastructure investments connecting the 5 East African economies' transport systems are examples of vital undertakings by the region for the development of its private sector.

Another effective way for policy makers to encourage entrepreneurship is by creating a regulatory environment conducive to the creation and growth of businesses—one that promotes rather than inhibits competition. And governments in the East African Community recognize that. Over the past 7 years, all 5 EAC economies implemented a total of 62 regulatory reforms improving the business environment for local entrepreneurs.

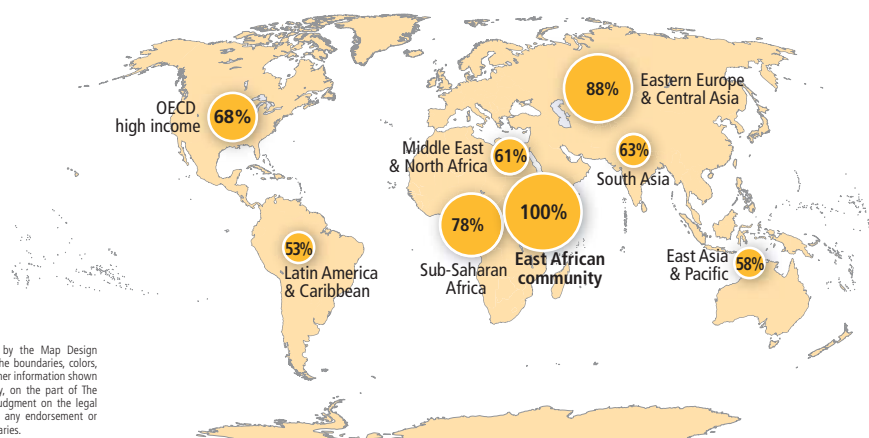
In addition, deeper regional integration is already advancing across the EAC bloc. The 5 East African economies signed a common

market protocol in November 2009, which entered into force in July 2010. This protocol is aimed at establishing a common market with free movement of people, goods, services and capital. The protocol has also spurred the desire to create a framework of common and improved legal and regulatory standards across the region. The EAC partner states have embarked on a harmonization of commercial laws program. This has the potential of not only creating a predictable and facilitative legal environment for businesses at a regional level; it will also trigger several domestic regulatory and legal reforms in the partner states when implemented.

Through indicators benchmarking 183 economies, *Doing Business* measures and tracks changes in the regulations applying to domestic companies in 11 areas in their life cycle (box 1.1). Economic activity requires good rules that are transparent and accessible to all. Such regulations should be efficient, striking a balance between safeguarding some important aspects of the business environment and avoiding distortions that impose unreasonable costs on businesses. Where business regulation is

FIGURE 1.1 A large number of economies in Sub-Saharan Africa reformed business regulation in 2010/11

Share of economies with at least one *Doing Business* reform making it easier to do business (%)



This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

Source: *Doing Business* database.

BOX 1.1 Measuring regulation through the life cycle of a local business

This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting 10 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also looks at regulations on employing workers, which are not included in this year's aggregate ranking.

Doing Business encompasses 2 types of data and indicators. One set of indicators focuses on the strength of property rights and investor protections as measured by the treatment of a case scenario according to the laws and regulations on the books. *Doing Business* gives higher scores for stronger property rights and investor protections, such as stricter disclosure requirements in related-party transactions. The second set of indicators focuses on the cost and efficiency of regulatory processes such as starting a business, registering property and dealing with construction permits. Based on time-and-motion case studies from the perspective of the business, these indicators measure the procedures, time and cost required to complete a transaction in accordance with all relevant regulations. Any interaction of the company with external parties such as government agencies counts as 1 procedure. Cost estimates are recorded from official fee schedules where these apply. For a detailed explanation of the *Doing Business* methodology, see the data notes and the chapter "About *Doing Business*: measuring for impact."

other end of the spectrum, economies in Sub-Saharan Africa are most likely to have weaker legal institutions and more complex regulatory processes, as measured by *Doing Business*.

Entrepreneurs in the East African Community tend to face both weaker legal institutions and more complex and costly regulatory processes, compared to global averages and more developed economies. Yet, institutions and legal processes specifically related to enforcing a contract, protecting investors, and resolving insolvency are stronger among the EAC economies, compared to the broader Sub-Saharan Africa region and South Asia. Furthermore, the EAC's regulatory processes are less complex and less costly than both regions' averages (figure 1.2). Over the past 7 years, policy-makers in the majority of the EAC economies focused on simplifying business start-up processes, strengthening the courts, improving credit information sharing, and enhancing customs processes to facilitate trading.

burdensome and competition limited, success depends more on whom you know than on what you can do. But where regulations are relatively easy to comply with and accessible to all who need to use them, anyone with talent and a good idea should be able to start and grow a business in the formal sector.

several others (starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders). OECD high-income economies, by a large margin, have the world's most business-friendly environment on both counts. At the

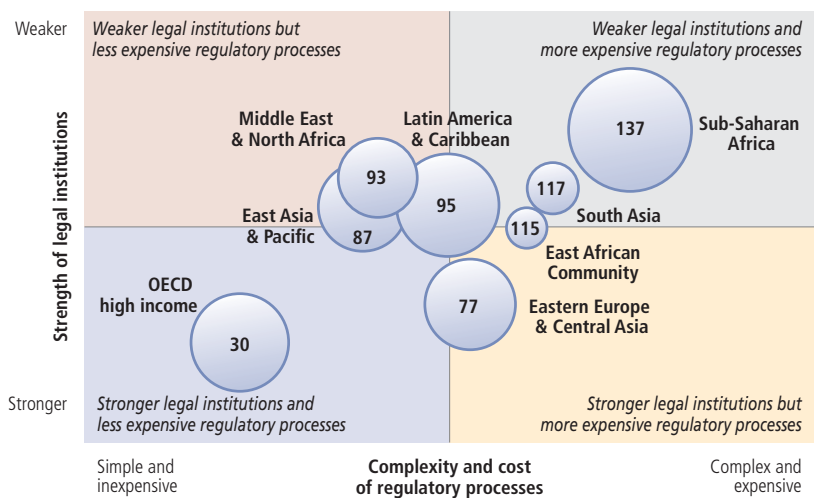
TRENDS IN BUSINESS REGULATION REFORM IN THE EAST AFRICAN COMMUNITY

In 2010/11, the average economy in the East African Community would have ranked 115th in

Across regions, entrepreneurs in developing economies face regulatory environments that are, on average, less business-friendly than those in OECD high-income economies. This means costlier and more bureaucratic procedures to start a business, deal with construction permits, register property, pay taxes and trade across borders. But the problem is not just cost or red tape. A less business-friendly regulatory environment also means weaker legal protections for minority shareholders, weaker collateral laws and weaker institutions—such as courts, credit bureaus and collateral registries.

Globally, more efficient regulatory processes often go hand in hand with stronger legal institutions and property rights protections. There is an association between the strength of legal institutions and property rights protections in an economy—as captured by several sets of *Doing Business* indicators (getting credit, protecting investors, enforcing contracts and resolving insolvency)—and the complexity and cost of regulatory processes—as captured by

FIGURE 1.2 Stronger legal institutions and property rights protections are associated with more efficient regulatory processes
Average ranking on sets of *Doing Business* indicators



Note: Strength of legal institutions refers to the average ranking in getting credit, protecting investors, enforcing contracts and resolving insolvency. Complexity and cost of regulatory processes refers to the average ranking in starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. The size of the bubble reflects the number of economies in each region and the number is the average ranking on the ease of doing business for the region. Correlation results for individual economies are significant at the 1% level after controlling for income per capita.

Source: *Doing Business* database.

the world in the ease of doing business same as previous year's average. Yearly movements in rankings provide some indication of changes in an economy's regulatory environment for firms, but they are always relative. The fact that the EAC's global ranking remained the same as the previous year is an indication that critical obstacles to entrepreneurial activity remain and that other regions have picked up the pace with improvements in their business regulation globally. Compared to other regional blocs, the EAC ranks better than the Common Market for Eastern and Southern Africa (126th) and Organization for the Harmonization of Business Law in Africa (167th) but slightly falls behind the Southern Africa Development Community (114th). Yet, performances across the EAC economies vary. Rwanda is ranked 45th globally in the ease of doing business, followed by Kenya (109th), Uganda (123rd), Tanzania (127th), and Burundi (169th).

Although EAC member states are at different stages of regulatory reforms, the possibility of getting closer to the best performers in the areas covered by *Doing Business* is not lost on the East African countries. The 5 EAC economies could benefit from sharing good practices in business regulation and linking reform initiatives on a regional basis. This will help establish benchmarks and create a framework for exchanging information on challenges encountered and good practices achieved. Rwanda is among the fastest places to start a business. Kenya has some of the most business-friendly regulations for dealing with construction permits. Ugandan courts resolve insolvency relatively efficiently.

Worldwide, 125 economies implemented 245 reforms making it easier to do business in 2010/11. In the EAC, all 5 economies implemented a combined 10 regulatory reforms in 2010/11 making it easier to do business. Thanks to regulatory reforms over the years, many good practices can be found in the region.

Recent regulatory reforms in the EAC have focused on simplifying regulatory processes—such as trading across borders and starting a business—as well as strengthening some legal institutions—such as improving the judicial systems. In the past 6 years, economies in the EAC implemented 11 trade facilitation reforms in areas such as the electronic submission of

documents, risk management systems for inspections and joint border cooperation. A popular trade facilitation reform among the EAC economies has been implementing electronic systems for customs declaration. In 2005, Kenya replaced its old customs paper-based system (Boffin) with a new customs electronic data interface (EDI) system (Simba). Traders can now electronically submit their customs declaration and pay their customs duties directly through the new system. Similarly, in 2005, Tanzania introduced a new EDI system (ASYCUDA++) allowing traders, inspection agents and shippers to submit information directly to customs. Today, thanks to ASYCUDA, customs agents are able to begin the clearance process even before goods arrive at the port. That same year, Tanzania also introduced a risk management system under which physical inspections have been limited to the most risky consignments.

Implementing these reforms has helped facilitate trade between the EAC economies and the rest of the world, especially in a region where 3 out of the 5 economies are landlocked. Export time in the region dropped from 40 days, on average, in 2006 to 29 days in 2011. Meanwhile, import time was cut nearly in half—from 60 days in 2006 to 33 days in 2011. Documentation requirements were also streamlined during this period.

To start a business in the EAC now requires an average of 10 procedures and costs an average of 55% of income per capita—compared to 12 procedures and a cost of 140% of income per capita 7 years ago, in 2005. Regulatory reforms—such as the computerization of business registries in Kenya and Tanzania, the consolidation of different registration processes into 1 single point in Rwanda and Kenya and the transferring of business registrations from a legal process to an administrative one in Uganda—all attributed to the simplification of the registration process in the EAC region.

To further improve the business start-up process in the region, the Common Market Protocol on the Right of Establishment provides that business registration in one of the EAC countries should allow operation in the other four economies without further burden of registration procedures. However there is currently no mechanism in place, such as a regional electronic registry, that allows business information to be shared quickly and safely.

Regional integration at the level of business registration requirements would spur reforms in business registration procedures in each of the 5 East African countries.

Economies in the EAC have lagged behind in implementing institutional reforms to improve collateral laws and insolvency regimes. As a positive trend, reforms to improve the judicial systems have been high on the agenda of policy-makers in the region in recent years. Today, the average time to resolve a commercial dispute through the courts in the region is 496 days compared to 525 in OECD high income economies. In 2004, Burundi introduced a new code of civil procedure implementing summary proceedings for uncontested claims. The deadline to appeal a judgment was reduced from 60 days to 30 days after notification of the judgment. Uganda, through its ongoing "Justice Law and Order Sector" (JLOS) project, has promoted alternative dispute-resolution mechanisms, reducing the cost of accessing JLOS services. The establishment of a mediation registry coupled with an update of the commercial court's competence threshold and other related reforms in the commercial division of the high court also reduced the backlog of cases in Uganda. Specifically, case backlog fell from 44% of cases in 2009 to 34% in 2010.¹ As a result of these reforms, Uganda sped up contract enforcement in its courts—from taking an average of 535 days in 2005 to 490 days in 2010. Meanwhile, Kenya introduced a "case track" system in 2010/11, categorizing cases as "small claims," "fast track" or "multi-track" and started allocating its resources strategically to avoid delays in commercial disputes. In August 2011, Rwanda launched a new electronic filing system. While still in pilot mode, Rwanda's new filing system is part of an ambitious electronic records management overhaul—along with a new case management module and a digital court recording system.

Besides judicial reforms at the national level, judicial regional integration has been as well on the agenda of the EAC governments. A business environment supportive of cross-border investments in the East African region is on the rise. Since the establishment of the EAC Customs Union in 2005, trade within the bloc has expanded. Yet this is not accompanied by a facilitative regional judicial system. Firms doing cross-boundary trade and investment are

TABLE 1.1 All 5 EAC economies reformed their business regulation in 2010/11

DB2012 EAC rank	DB2012 rank	DB2011 rank ^a	Economy	DB2012 reforms	DB2012 EAC rank	DB2012 rank	DB2011 rank ^a	Economy	DB2012 reforms	DB2012 EAC rank	DB2012 rank	DB2011 rank ^a	Economy	DB2012 reforms
	1	1	Singapore	0		62	59	Poland	2	3	123	119	Uganda	1
	2	2	Hong Kong SAR, China	2		63	60	Ghana	0		124	123	Swaziland	1
	3	3	New Zealand	1		64	70	Czech Republic	2		125	127	Bosnia and Herzegovina	2
	4	4	United States	0		65	64	Dominica	0		126	120	Brazil	1
	5	5	Denmark	1		66	69	Azerbaijan	0	4	127	125	Tanzania	1
	6	7	Norway	0		67	71	Kuwait	0		128	130	Honduras	2
	7	6	United Kingdom	1		68	76	Trinidad and Tobago	0		129	126	Indonesia	1
	8	15	Korea, Rep.	3		69	91	Belarus	3		130	131	Ecuador	0
	9	13	Iceland	2		70	67	Kyrgyz Republic	0		131	128	West Bank and Gaza	0
	10	8	Ireland	0		71	73	Turkey	2		132	139	India	1
	11	14	Finland	1		72	65	Romania	2		133	133	Nigeria	0
	12	10	Saudi Arabia	1		73	68	Grenada	0		134	136	Syrian Arab Republic	1
	13	12	Canada	1		74	81	Solomon Islands	4		135	135	Sudan	0
	14	9	Sweden	0		75	66	St. Vincent and the Grenadines	0		136	134	Philippines	1
	15	11	Australia	1		76	75	Vanuatu	3		137	144	Madagascar	2
	16	17	Georgia	4		77	72	Fiji	0		138	138	Cambodia	1
	17	16	Thailand	1		78	74	Namibia	1		139	132	Mozambique	0
	18	23	Malaysia	3		79	78	Maldives	0		140	137	Micronesia, Fed. Sts.	0
	19	19	Germany	0		80	79	Croatia	1		141	150	Sierra Leone	4
	20	20	Japan	0		81	99	Moldova	4		142	146	Bhutan	2
	21	31	Latvia	4		82	77	Albania	1		143	142	Lesotho	1
	22	34	Macedonia, FYR	4		83	86	Brunei Darussalam	1		144	140	Iran, Islamic Rep.	0
	23	21	Mauritius	0		84	80	Zambia	0		145	141	Malawi	2
	24	18	Estonia	0		85	82	Bahamas, The	0		146	148	Mali	2
	25	24	Taiwan, China	2		86	89	Mongolia	1		147	152	Tajikistan	1
	26	22	Switzerland	2		87	83	Italy	1		148	143	Algeria	1
	27	25	Lithuania	2		88	85	Jamaica	0		149	145	Gambia, The	3
	28	27	Belgium	2		89	98	Sri Lanka	2		150	151	Burkina Faso	3
	29	26	France	1		90	107	Uruguay	2		151	155	Liberia	3
	30	30	Portugal	2		91	87	China	0		152	149	Ukraine	4
	31	29	Netherlands	0		92	88	Serbia	2		153	147	Bolivia	0
	32	28	Austria	1		93	92	Belize	1		154	157	Senegal	4
	33	35	United Arab Emirates	2		94	115	Morocco	3		155	161	Equatorial Guinea	1
	34	32	Israel	2		95	84	St. Kitts and Nevis	1		156	160	Gabon	1
	35	36	South Africa	3		96	95	Jordan	2		157	156	Comoros	1
	36	38	Qatar	2		97	93	Guatemala	0		158	153	Suriname	0
	37	37	Slovenia	3		98	90	Vietnam	1		159	162	Mauritania	1
	38	33	Bahrain	0		99	94	Yemen, Rep.	1		160	154	Afghanistan	1
	39	41	Chile	3		100	101	Greece	2		161	165	Cameroon	2
	40	49	Cyprus	1		101	97	Papua New Guinea	0		162	158	Togo	2
	41	39	Peru	3		102	100	Paraguay	2		163	174	São Tomé and Príncipe	4
	42	47	Colombia	3		103	109	Seychelles	2		164	159	Iraq	0
	43	42	Puerto Rico (U.S.)	2		104	103	Lebanon	1		165	163	Lao PDR	0
	44	45	Spain	1		105	96	Pakistan	0		166	164	Uzbekistan	1
1	45	50	Rwanda	3		106	102	Marshall Islands	0		167	170	Côte d'Ivoire	3
	46	40	Tunisia	0		107	110	Nepal	1		168	169	Timor-Leste	2
	47	58	Kazakhstan	1		108	105	Dominican Republic	1	5	169	177	Burundi	4
	48	43	Slovak Republic	1	2	109	106	Kenya	1		170	167	Djibouti	1
	49	53	Oman	3		110	108	Egypt, Arab Rep.	0		171	168	Zimbabwe	0
	50	44	Luxembourg	0		111	104	Ethiopia	0		172	171	Angola	2
	51	46	Hungary	0		112	112	El Salvador	1		173	172	Niger	1
	52	48	St. Lucia	0		113	114	Argentina	0		174	166	Haiti	0
	53	54	Mexico	3		114	113	Guyana	1		175	173	Benin	2
	54	52	Botswana	0		115	111	Kiribati	0		176	181	Guinea-Bissau	2
	55	61	Armenia	5		116	116	Palau	0		177	175	Venezuela, RB	0
	56	56	Montenegro	3		117	117	Kosovo	0		178	176	Congo, Dem. Rep.	3
	57	51	Antigua and Barbuda	0		118	122	Nicaragua	3		179	179	Guinea	1
	58	62	Tonga	3		119	129	Cape Verde	3		180	178	Eritrea	0
	59	57	Bulgaria	2		120	124	Russian Federation	4		181	180	Congo, Rep.	1
	60	55	Samoa	0		121	121	Costa Rica	2		182	183	Central African Republic	3
	61	63	Panama	1		122	118	Bangladesh	0		183	182	Chad	2

Note: The rankings for all economies are benchmarked to June 2011 and reported in the country tables. This year's rankings on the ease of doing business are the average of the economy's rankings on the 10 topics included in this year's aggregate ranking. The number of reforms excludes those making it more difficult to do business. a. Last year's rankings, shown in italics, are adjusted: they are based on 10 topics and reflect data corrections.

Source: Doing Business database.

subject to much higher legal unpredictability. A strengthened East African Court of Justice could play an important role in enhancing the regional legal environment for local businesses.

The economies in the EAC have also implemented reforms to enhance credit information sharing systems over the past few years. For example, Uganda established its first credit bureau and only credit information service provider (Compuscan CRB Ltd) in 2009. The bureau collects and distributes positive and negative credit information on individuals and firms—including all loan sizes. Today, a total of 23 commercial banks and 3 regulated microfinance institutions in Uganda provide information to the bureau. Similarly, Rwanda's first private credit bureau, CRB Africa, started operations in May 2010.

Furthermore, both Kenya and Rwanda expanded the range of information distributed by their credit bureaus by including credit information from retailers and utility companies, such as electricity providers and mobile phone companies. Since April 2011, of Rwanda's mobile phone companies (MTN and Tigo) as well as its electricity and gas company (EWSA) have been providing credit information to Rwanda's private credit bureau, resulting in a 2% increase in the number of individuals and firms registered in the database.⁴

OPPORTUNITIES FOR GREATER ACCESS TO INFORMATION IN BUSINESS REGULATION

Institutions play a major role in private sector development. Courts, registries, tax agencies and credit information bureaus are essential to make markets work. How efficient and transparent they are matters greatly to business. To improve the efficiency of processes and institutions, governments around the world—regardless of national income level—are making greater use of technology. More than 100 of the 183 economies covered by *Doing Business* use electronic systems for services ranging from business registration to customs clearance to court filings.² This saves time and money for business and government alike. It also provides new opportunities to increase transparency as well as to facilitate access to information and compliance with regulations. But not all economies take advantage of the opportunities for openness provided by new technologies. And at times fiscal constraints and budgetary priorities have prevented faster adoption of the latest technologies to improve the quality of public services.

This year *Doing Business* researched how businesses can access information essential for complying with regulations and formalities—such as documentation requirements for trade or fee schedules for business start-up, construction permitting or electricity connections.

Because some economies lack fully developed information technology infrastructure, the research also explored whether economies used other means to make such information easily accessible, such as posting fee schedules at the relevant agency or disseminating them through public notices.

The findings are encouraging. In the majority of the EAC economies obtaining information about incorporation license fees does not require a meeting with an official. The incorporation fees are either published on the internet or available at the business registry office. However, in the majority of the economies in the EAC fee schedules for electricity connection and for building permits as well as documentation requirements for building permits are still not publicly available. This follows the general trend in Sub-Saharan Africa. In only about 40% of economies in the Sub-Saharan Africa region, documentation requirements for building permits are available online or through public notices.

Beyond information that businesses need to comply with regulation, institutions (such as courts) provide information that helps increase transparency in the marketplace. Efficient and fair courts are essential for creating the trust needed for businesses to build new relationships and expand their markets—and for investors to invest. But it is not only their role in efficient enforcement that matters. *Doing Business* finds that in close to 75% of a sample of 151 economies—and in the majority of the 5 EAC economies—courts are required by law to publicize the initiation of insolvency proceedings.

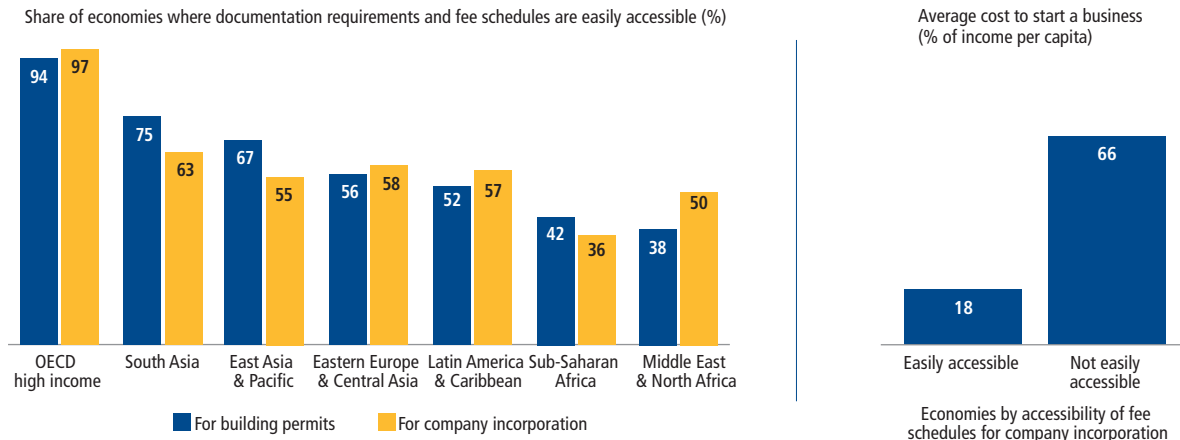
HOW DO EAST AFRICAN ECONOMIES RANK GLOBALLY?

As recorded in *Doing Business 2012*, Rwanda jumped 5 places in the rankings on the ease of doing business (from 50 in the previous year to 45). Burundi, which featured among the top 10 economies that improved the most on the ease of doing business, moved up 8 places in the global ranking (from 177 to 169). On the other hand, Uganda dropped 4 places (from 119 to 123), Kenya dropped 3 places (from 106 to 109) and Tanzania dropped 2 places (from 125 to 127) (table 1.1). If each East African country were to adopt the region's best practice for each area (table 1.2) measured by *Doing Business* indicator, East Africa would rank 19 on the

BOX 1.2 Key findings in *Doing Business in the East African Community 2012*

- All 5 East African Community economies implemented a combined 10 regulatory reforms making it easier to do business in 2010/11—25% more than in the previous year. The reforms were spread across 9 different areas of regulatory processes, as measured by *Doing Business*. Meanwhile, 125 economies worldwide implemented 245 reforms making it easier to do business in 2010/11—13% more than in the previous year.
- The regulatory environment varies across economies in the region. The average ranking of the EAC economies on the ease of doing business index stands at 115th (out of 183). However, there is great variation within the region—from Rwanda, ranked at 45th globally, to Burundi, which stands at 169th. If each country were to adopt the region's best practice for each area measured by *Doing Business* indicator, East Africa would rank 19 on the ease of doing business, comparable to Germany, rather than 115.
- Although the region has improved over the past 6 years in absolute terms, there is an observable gradual decline in the region's potential best practice ranking relative to the other economies worldwide from 12th (2010), to 18th (2011) and to 19th in the past year. The global average ranking of the EAC is static, with a ranking this year of 115 (116 in 2010, and 117 in 2011). This points for the need to intensify peer learning of the region's best practices, in order to increase the region's competitiveness.
- Burundi was among the most active economies in the world implementing regulatory reforms across several areas in 2010/11. Burundi implemented policy changes in 4 areas measured by *Doing Business*: dealing with construction permits, paying taxes, protecting investors and resolving insolvency.

FIGURE 1.3 Access to documentation requirements for building permits and to fee schedules for company incorporation easiest in OECD high-income



Note: Documentation requirements and 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 an appointment with an official. The data sample for building permits includes 159 economies and that for incorporation includes 174 economies. Differences in the second panel are statistically significant at the 5% level after controlling for income per capita.

Source: *Doing Business* database.

ease of doing business rather than 115. In other words, if the best of East African regulations and procedures were implemented across the board, the business regulatory environment in East Africa, as measured by *Doing Business*, would be comparable to that in Germany.

Globally, the top 3 economies with the most business-friendly regulations, as reflected in their ranking on the ease of doing business, are (in order, from the top): Singapore; Hong

Kong SAR, China and New Zealand (table 1.3). An economy's ranking on the ease of doing business does not tell the whole story about its business environment. The underlying indicators do not account for all factors important to doing business—such as macroeconomic conditions, market size, workforce skills and security. But they do capture some key aspects of the regulatory and institutional environment that matter for firms. These 3 economies have implemented effective yet streamlined

procedures for regulatory processes—such as starting a business and dealing with construction permits—as well as strong legal protections of property rights. They also periodically review and update business regulations as part of a broader competitiveness agenda and take advantage of new technologies through e-government initiatives.

DIFFERENCES IN PERFORMANCE ACROSS AREAS OF BUSINESS REGULATION

The economies making ongoing efforts, often over decades, tend to perform well across all 10 areas of business regulation included in this year's ease of doing business ranking. In many other economies, by contrast, the degree to which regulations and institutions are business-friendly varies fairly widely across different areas of regulation.³

This pattern shows up in comparisons of an economy's 3 highest rankings on *Doing Business* topics with its 3 lowest rankings (figure 1.4). For example, Rwanda's top 3 rankings (on starting a business, getting credit and paying taxes) average 12, while its lowest 3 (on dealing with construction permits, trading across borders and resolving insolvency) average 135.

For some economies, this variance is due, in part, to the rapid pace of reform in some areas of business regulation. One such area is business entry: more than 80% of the 183 economies covered by *Doing Business* (including

TABLE 1.2 Best Practices from Across the EAC Region

Topic	Top performer in the EAC	Best practice highlight
Starting a business	Rwanda (8)	In 2009, Rwanda revamped its business start-up process by establishing a one-stop shop for business registration.
Dealing with Construction Permits	Kenya (37)	Kenya has unified building rules allowing regulations to be organized and applied coherently.
Getting Electricity	Rwanda (49)	The wait time for estimates and inspections is considerably shorter in Rwanda.
Registering Property	Rwanda (61)	Rwanda offers flat rate transfer taxes and fees. In 2008, Rwanda abolished its variable registration fee of 6% of the property value and introduced a flat rate of RWF 20,000 (\$34).
Getting Credit	Kenya, Rwanda (8)	Kenya offers out-of-court enforcement of security rights and allows general description of collateral.
Protecting Investors	Rwanda (29)	Rwanda stands out for having the strictest rules on disclosure of related-party transactions—both before and after the conclusion of the transaction.
Paying Taxes	Rwanda (19)	In 2010 Rwanda reduced the number of required VAT filings from monthly to quarterly.
Trading Across Borders	Tanzania (91)	Tanzania introduced risk management systems for incoming cargo allowing for more targeted inspections and expedited clearance of goods.
Enforcing Contracts	Tanzania (36)	Tanzania has specialized commercial courts that accept only cases with a value of at least 75 times income per capita.
Resolving Insolvency	Uganda (63)	Uganda's insolvency procedure has a going concern outcome

Source: *Doing Business* database

BOX 1.3 Who reformed business regulations in the EAC in 2010/11?

In the EAC, reform efforts continue to focus on making regulatory processes more efficient and strengthening some legal institutions.

Two EAC economies eased the administrative burden of paying taxes between June 2010 and May 2011. Rwanda reduced the frequency of value added tax (VAT) filings by companies from monthly to quarterly. Similarly, Burundi reduced the payment frequency for social security contributions from monthly to quarterly.

Furthermore, Burundi strengthened investor protections by enacting a New Company Law which addressed the approval, disclosure requirements and director liability of transactions between interested parties. In addition, Burundi amended its Commercial Code to establish foreclosure procedures. And Burundi's National Laboratory for Building Construction and Public Works changed its fee structure, reducing the cost to obtain a geotechnical study.

Rwanda was among the economies in 2010/11 to implement reforms in 3 areas of regulatory process as measured by *Doing Business*. In addition to making it easier to pay taxes, Rwanda enhanced its credit information sharing system. Its private credit bureau started collecting and distributing information from utility companies as well as distributing more than 2 years of historical information. Rwanda also made it easier to start a business by reducing registration fees.

Kenya was the only EAC economy that enhanced its judicial system in 2010/11. It introduced a case management system to help increase the efficiency and cost-effectiveness of commercial dispute resolution.

Tanzania and Uganda each implemented reforms in 1 area covered by *Doing Business*—Tanzania in trading across borders and Uganda in registering property.

Kenya, Rwanda, Tanzania and Uganda from the EAC) have made it easier to start a business since 2003. In Rwanda, for example, starting a business is straightforward, thanks to legal reforms and the implementation of an online one-stop shop. But dealing with construction permits still takes about 6 months, and enforcing a contract through the courts takes about 8 months, on average.

Differences across areas of business regulation provide an opportunity for policy makers interested in regulatory reform. Not surprisingly, different areas of business regulation interact. Some research suggests that business regulation reforms have greater impact if combined with effective regulation in other areas. For example, when India dismantled a strict licensing regime controlling business entry and production, the benefits were greater in states that had more flexible labor regulations. These states saw real output gains 17.8% larger than those in other states with less flexible labor markets.⁴ In Mexico researchers found that a municipal license reform across states increased new firm registrations by 5% and employment by 2.2%.⁵ The effect was greater in states with less corruption and better governance.⁶

CLOSING THE GAP—A GLOBAL TREND TOWARD BUSINESS-FRIENDLY REGULATION

Policy makers often keep an eye on relative rankings that compare economies at a point in time. But they increasingly recognize the importance of improvements within economies over time. And results from recent years are encouraging. In the past 6 years, policy makers in 163 economies globally (including all 5 EAC economies in the sample) made domestic regulations more business-friendly (figure 1.5). They lowered barriers to entry, operation and exit and strengthened protections of property and investor rights. Only a few economies moved in the opposite direction.

Some developing economies have gone particularly far in closing the gap with the regulatory systems of top-performing economies—such as Singapore, New Zealand and the Northern European economies (figure 1.6). Many of these developing economies started off with relatively high levels of bureaucracy and weak protections of property rights, as measured by *Doing Business*. In narrowing the gap, all these economies are moving closer to the frontier—a synthetic measure based on the most efficient practice or highest score observed for each

indicator. For starting a business, for example, the bar is set by New Zealand on the time (1 day), Canada and New Zealand on the number of procedures (1), Denmark and Slovenia on the cost (0). Georgia, Norway, Portugal, Sweden and the United Arab Emirates set the bar on the number of procedures for registering property (1), France on the documents required to export (2), Singapore on the time to enforce contracts (150 days). The frontier is thus a proxy for global good practice across all indicators.

WHO ADVANCED THE MOST IN CLOSING THE GAP TO THE FRONTIER?

In the East African Community, Rwanda made the most progress in closing the gap to the frontier. In fact, Rwanda made the second most progress in closing the gap to the frontier out of 163 economies globally (figure 1.6). Rwanda has been able to accomplish so much thanks to a comprehensive and broad regulatory reform programs covering multiple areas of regulation and embedded in a long-term competitiveness strategy (see figure 1.7 on Rwanda). It has implemented 22 reforms making it easier to do business across 9 areas of regulation measured by *Doing Business* in the years since 2005—more areas than any other EAC economy. The economy has undertaken ambitious land and judicial reforms, often years in the making. Since 2001, Rwanda has introduced new corporate, insolvency, civil procedure and secured transactions laws. And it has streamlined and remodeled institutions and processes for starting a business, registering property, trading across borders and enforcing a contract through the courts.

Rwanda's broad regulatory reform program also required high level of coordination and commitment to regulatory reforms; which most developing and emerging market economies making the greatest strides in creating a more business-friendly regulatory environment did. More than 2 dozen economies have put in place regulatory reform committees, often reporting directly to the president or prime minister—as in Colombia, Malaysia and Rwanda.

More economies are taking this broad approach. In 2010/11, 35 economies globally (including Burundi and Rwanda) implemented reforms making it easier to do business in 3 or more areas measured by *Doing Business*—12 of them

in 4 or more areas. Four years before, only 10 reformed in 3 or more areas.

That more and more developing economies are serious about business regulation reform is encouraging. Such broad thinking is good news for entrepreneurs and governments alike.

WHO IMPROVED THE MOST IN THE EASE OF DOING BUSINESS IN 2010/11?

Among the 12 economies improving the most in the ease of doing business in 2010/11, two-thirds are low- or lower-middle-income economies. All implemented regulatory reforms making it easier to do business in 3 or more of the 10 areas included in this year's aggregate ranking (table 1.3).

Burundi is among the top 10 most improved economies in 2010/11 worldwide. In May 2011, Burundi adopted a new company law introducing new requirements for the approval of transactions between interested parties. Specifically, the new law required greater corporate disclosure to the board of directors and in the annual report and made it easier to sue directors in cases of prejudicial transactions between interested parties. In addition, Burundi amended its commercial code to establish foreclosure procedures. Burundi also eased the administrative burden of paying taxes for firms by reducing the required payment frequency for social security contributions from monthly to quarterly. Furthermore, it reduced the cost to obtain a geotechnical study which is required for obtaining a building permit. As a result of these reforms, Burundi moved up 8 places in the ease of doing business ranking. The economy is also working on improving its business start-up process. The new 2011 company law modified the conditions to incorporate a company by eliminating some requirements whose impact on the business start-up process is yet to be seen.

relationships between public officials and suppliers.

3. This pattern of relatively large variation across indicator sets is not specific to *Doing Business*. A similar pattern can be discerned in, for example, the World Economic Forum's Global Competitiveness Index, a broader measure capturing such factors as macroeconomic stability, the soundness of public institutions, aspects of human capital and the sophistication of the business community. The United States and Japan, as leaders in technology, score extremely well on measures of innovation. But with large budget deficits and high levels of public debt, they do less well on measures of macroeconomic stability.
4. Aghion and others 2008.
5. Bruhn 2011.
6. Kaplan, Piedra and Seira 2007.
7. Eifert 2009.

NOTES

1. The Republic of Uganda, January 2012, The Third Sector Strategic Plan (SIP III) for the Justice Law and Order Sector 2012.13-2016/17, available on line at http://jlos.go.ug/uploads/JLOS_SIPIII_Jan2012_final_draft.pdf.
2. Public procurement, while not covered by any of the *Doing Business* indicators, is another area in which a growing number of governments are using electronic platforms. The aim is to increase transparency in the

FIGURE 1.4 An economy's regulatory environment may be business-friendly in some areas, less so in others
Within-economy variation in rankings across *Doing Business* topics

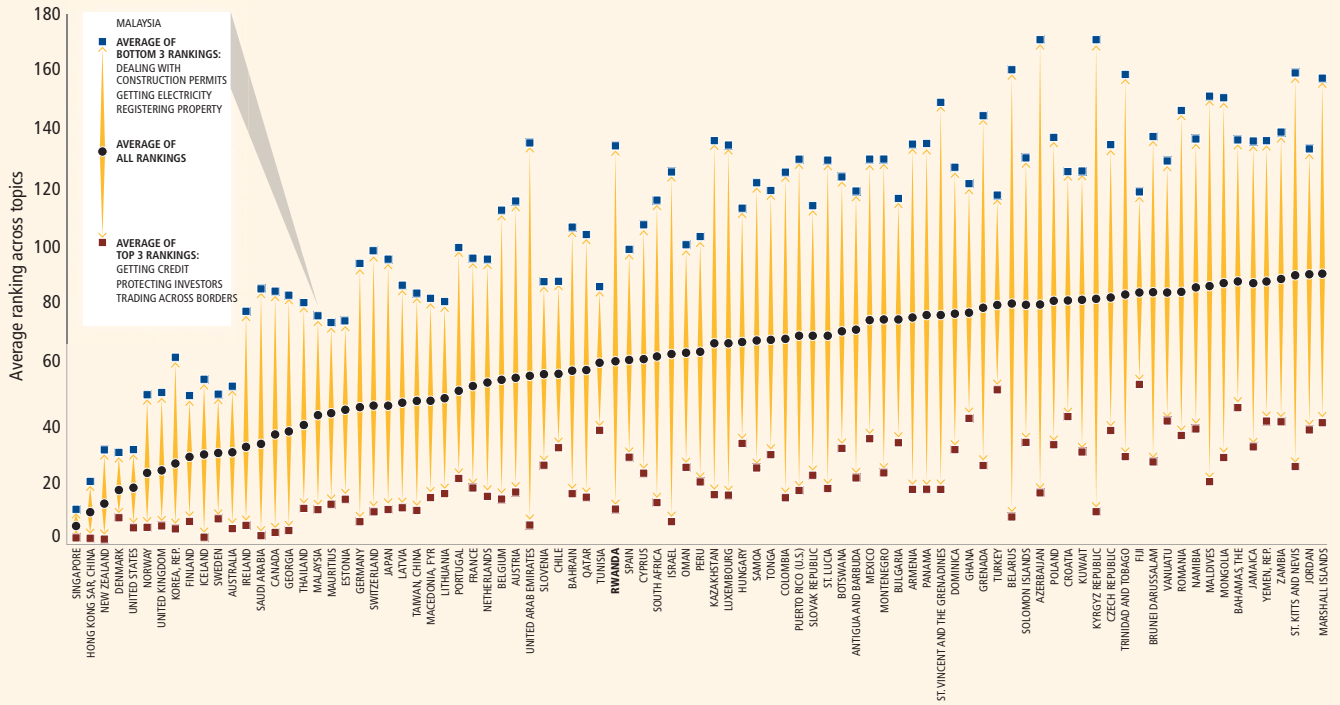
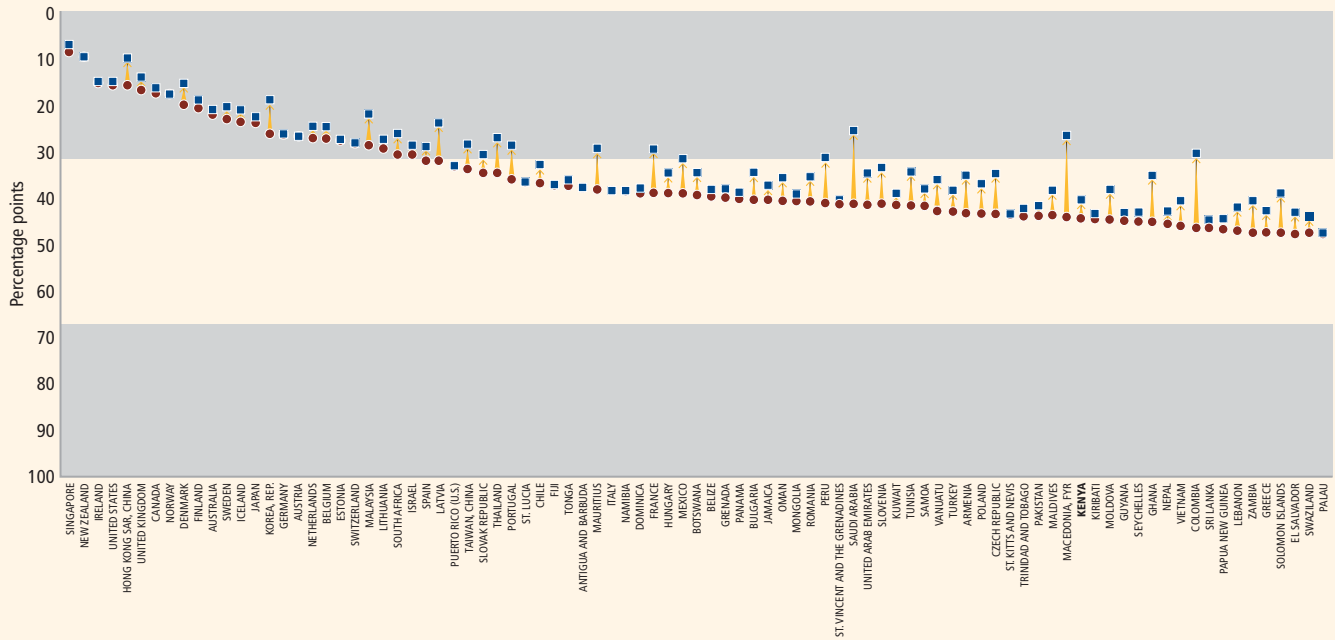
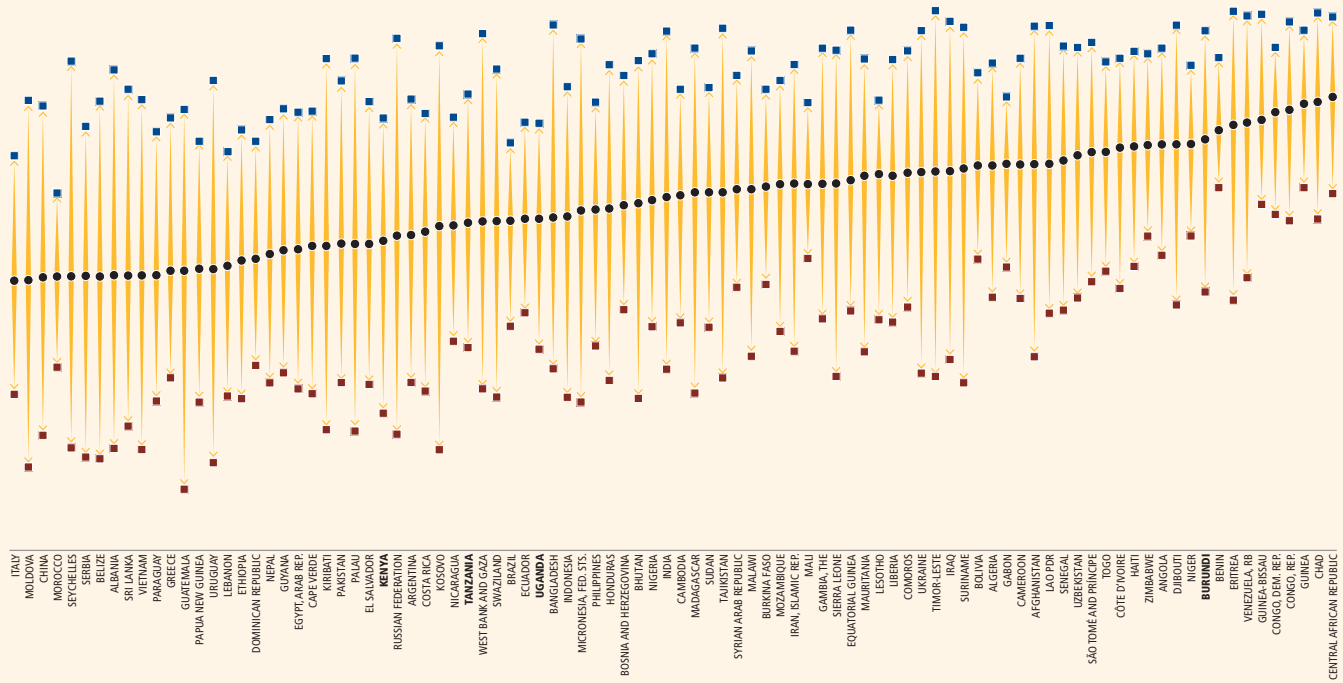
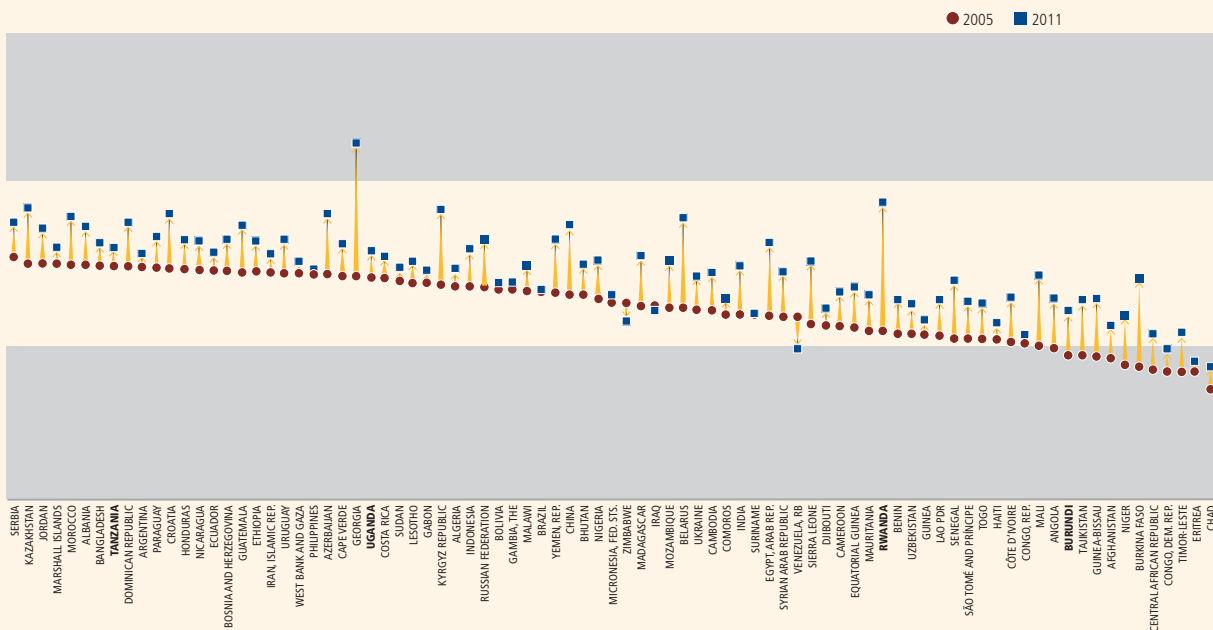


FIGURE 1.5 In the past 6 years 163 economies moved closer to the frontier in regulatory practice
Distance to frontier, 2005 and 2011

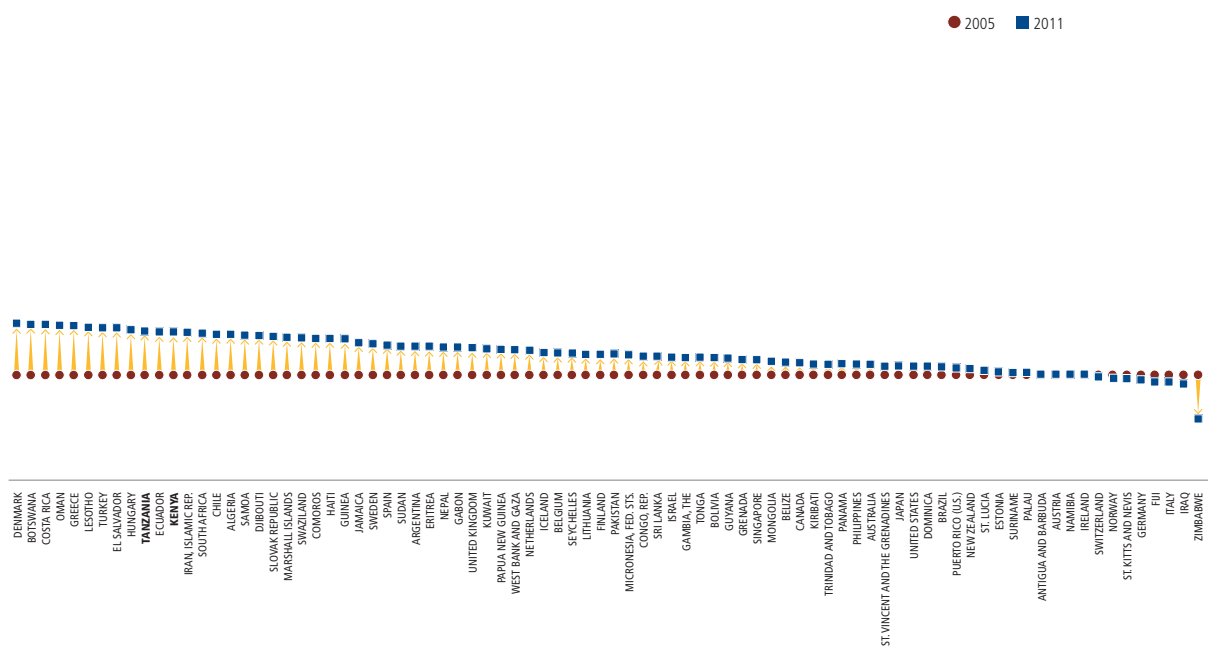




Note: Figure illustrates the variability in the degree to which an economy's regulatory environment is business-friendly compared with other economies across different areas of regulation. The vertical bars show the distance between the average of the highest 3 topic rankings and the average of the lowest 3 for each of 183 economies across the 10 topics included in this year's aggregate ranking. Source: Doing Business database.



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based on the most efficient practice or highest score achieved by any economy on each of the indicators in 9 Doing Business indicator sets (excluding the employing workers and getting electricity indicators) since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). The data refer to the 174 economies included in Doing Business 2006 (2005). Additional economies were added in subsequent years. Source: Doing Business database.



1.3 Economies that improved the most across 3 or more areas measured by *Doing Business* in 2010/11

		Ease of doing business rank			Reforms making it easier to do business								
		DB2012	DB2011	Improvement	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts
1	Morocco	94	115	-21		✓				✓	✓		
2	Moldova	81	99	-18	✓				✓			✓	✓
3	Macedonia, FYR	22	34	-12		✓		✓	✓				✓
4	São Tomé and Príncipe	163	174	-11	✓	✓		✓			✓		
5	Latvia	21	31	-10	✓		✓	✓					✓
	Cape Verde	119	129	-10				✓	✓				✓
6	Sierra Leone	141	150	-9					✓		✓	✓	✓
7	Burundi	169	177	-8		✓				✓	✓		✓
8	Solomon Islands	74	81	-7	✓			✓		✓			✓
	Korea, Rep.	8	15	-7	✓						✓	✓	
9	Armenia	55	61	-6	✓	✓			✓		✓		✓
10	Colombia	42	47	-5	✓						✓		✓

Note: Economies are ranked on the number of their net reforms and on how much they improved in the ease of doing business ranking. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate ranking (see box 1.1). Regulatory reforms making it more difficult to do business are subtracted from the number of those making it easier to do business. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings. The larger the improvement, the higher the ranking as the most improved.

Source: *Doing Business* database.

About *Doing Business*: measuring for impact

A vibrant private sector—with firms making investments, creating jobs and improving productivity—promotes growth and expands opportunities for poor people. To foster a vibrant private sector, governments around the world have implemented wide-ranging reforms, including price liberalization and macroeconomic stabilization programs. But governments committed to the economic health of their country and opportunities for its citizens focus on more than macroeconomic conditions. They also pay attention to the quality of laws, regulations and institutional arrangements that shape daily economic activity.

Until 10 years ago, however, there were no globally available indicator sets for monitoring such microeconomic factors and analyzing their relevance. The first efforts to address this gap, in the 1980s, drew on perceptions data from expert or business surveys that capture often one-time experiences of businesses. Such surveys can be useful gauges of economic and policy conditions. But few perception surveys provide indicators with a global coverage that are updated annually.

The *Doing Business* project takes a different approach from perception surveys. It looks at domestic, primarily small and medium-size companies and measures the regulations applying to them through their life cycle. Based on standardized case studies, it presents quantitative indicators on business regulation that can be compared across 183 economies and over time. This approach complements the perception surveys in exploring the major constraints for businesses, as experienced by the businesses themselves and as set out in the regulations that apply to them.

Rules and regulations are under the direct control of policy makers—and policy

makers intending to change the experience and behavior of businesses will often start by changing rules and regulations that affect them. *Doing Business* goes beyond identifying that a problem exists and points to specific regulations or regulatory procedures that may lend themselves to reform (table 2.1). And its quantitative measures of business regulation enable research on how specific regulations affect firm behavior and economic outcomes.

The first *Doing Business* report, published in 2003, covered 5 indicator sets and 133 economies. This year's report covers 11 indicator sets and 183 economies. Ten topics are included in the aggregate ranking on the ease of doing business and other summary measures.¹ The project has benefited from feedback from governments, academics, practitioners and reviewers.² The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

WHAT DOING BUSINESS COVERS

An entrepreneur's willingness to try a new idea may be influenced by many factors, including perceptions of how easy (or difficult) it will be to deal with the array of rules that

define and underpin the business environment. Whether the entrepreneur decides to move forward with the idea, to abandon it or to take it elsewhere might depend in large part on how simple it is to comply with the requirements for opening a new business or getting a construction permit and how efficient the mechanisms are for resolving commercial disputes or dealing with insolvency. *Doing Business* provides quantitative measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency—as they apply to domestic small and medium-size enterprises.³ It also looks at regulations on employing workers.

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the cost of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be simple and efficient in implementation and accessible

TABLE 2.1 *Doing Business* methodology allows an objective but limited global comparison

Advantages	Limitations
<i>Transparent, based on factual information about laws and regulations (with an element of judgment on time estimates)</i>	<i>Limited in scope: focuses on 11 areas of regulation affecting local businesses; does not measure all aspects of business environment or all areas of regulation</i>
<i>Comparison and benchmarking valid thanks to standard assumptions</i>	<i>Based on standardized case: transactions described in case scenario refer to specific set of issues and type of company</i>
<i>Inexpensive and easily replicable</i>	<i>Focuses on formal sector</i>
<i>Actionable: data highlight extent of specific obstacles, identify source, point to what might be changed</i>	<i>Only reforms related to indicators can be tracked</i>
<i>Multiple interactions with local respondents to clarify potential misinterpretation</i>	<i>Assumes that business has full information on what is required and does not waste time when completing procedures</i>
<i>Nearly complete coverage of world's economies</i>	<i>Part of data obtained refer to an economy's largest business city only</i>

to all who need to use them. Accordingly, some *Doing Business* indicators give a higher score for more regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

The *Doing Business* project encompasses 2 types of data. The first come from readings of laws and regulations by both the local expert respondents and *Doing Business*. The second are time-and-motion indicators that measure the efficiency in achieving a regulatory goal (such as granting the legal identity of a business). Within the time-and-motion indicators, cost estimates are recorded from official fee schedules where applicable. A regulatory process such as starting a business or registering property is broken down into clearly defined steps and procedures. The time estimates for each procedure are based on the informed judgment of expert respondents who routinely administer or advise on the relevant regulations.⁴ Here, *Doing Business* builds on Hernando de Soto's pioneering work in applying the time-and-motion approach first used by Frederick Taylor to revolutionize the production of the Model T Ford. De Soto used the approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.⁵

WHAT DOING BUSINESS DOES NOT COVER

Just as important as knowing what *Doing Business* does is to know what it does not do—to understand what limitations must be kept in mind in interpreting the data.

Limited in scope

Doing Business focuses on 11 topics, with the specific aim of measuring the regulation relevant to the life cycle of a domestic firm (table 2.2). Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, corruption, market size, macroeconomic stability, the state of the financial system, the labor skills of the population or all aspects of the quality of infrastructure. Nor does it focus on regulations specific to foreign investment.
- While *Doing Business* focuses on the quality of the regulatory framework, it is not all-inclusive; it does not cover all regulations in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws (*acquis*) has now grown to no fewer than 14,500 rule sets. *Doing Business*

covers 11 areas of a company's life cycle, through 11 specific sets of indicators. These indicator sets do not cover all aspects of regulation in the area of focus. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all areas of labor regulation. The current set of indicators does not, for example, include measures of regulations addressing safety at work or the right of collective bargaining.

- *Doing Business* also does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. The paying taxes indicators, for example, measure the total tax rate, which is a cost to business. The indicators do not measure, nor are they intended to measure, the social and economic programs funded through tax revenues. Measuring business laws and regulations provides one input into the debate on the regulatory burden associated with achieving regulatory objectives. Those objectives can differ across economies.

Based on standardized case scenarios

Doing Business indicators are built on the basis of standardized case scenarios with specific assumptions, such as the business being located in the largest business city of the economy. Economic indicators commonly make limiting assumptions of this kind. Inflation statistics, for example, are often based on prices of a set of consumer goods in a few urban areas.

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. *Doing Business* recognizes the limitations of including data on only the largest business city. Business regulation and its enforcement, particularly in federal states and large economies, may differ across the country. Recognizing governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in a range of economies (box 2.1). This year *Doing Business* also conducted a pilot study on the second largest city in 3 large economies to assess within-country variations.

Start-up	Expansion	Operations	Insolvency
<ul style="list-style-type: none"> • Starting a business Minimum capital requirement Procedures, time and cost 	<ul style="list-style-type: none"> • Registering property Procedures, time and cost • Getting credit Credit information systems Movable collateral laws • Protecting investors Disclosure and liability in related-party transactions • Enforcing contracts Procedures, time and cost to resolve a commercial dispute 	<ul style="list-style-type: none"> • Dealing with construction permits Procedures, time and cost • Getting electricity Procedures, time and cost • Paying taxes Payments, time and total tax rate • Trading across borders Documents, time and cost • Employing workers 	<ul style="list-style-type: none"> • Resolving insolvency Time, cost and recovery rate

In areas where regulation is complex and highly differentiated, the standardized case used to construct the *Doing Business* indicator needs to be carefully defined. Where relevant, the standardized case assumes a limited liability company or its legal equivalent. This choice is in part empirical: private, limited liability companies are the most prevalent business form in many economies around the world. The choice also reflects one focus of *Doing Business*: expanding opportunities for entrepreneurship. Investors are encouraged to venture into business when potential losses are limited to their capital participation.

Focused on the formal sector

In constructing the indicators, *Doing Business* assumes that entrepreneurs are knowledgeable about all regulations in place and comply with them. In practice, entrepreneurs may spend considerable time finding out where to go and what documents to submit. Or they may avoid legally required procedures altogether—by not registering for social security, for example.

Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their workers remain outside the protections of labor law.⁶ All this may be even more so for female-owned businesses, according to country-specific research.⁷ Firms in the informal sector are also less likely to pay taxes. *Doing Business* measures one set of factors that help explain the occurrence of informality and give policy makers insights into potential areas of regulatory reform. Gaining a fuller understanding of the broader business environment, and a broader perspective on policy challenges, requires combining insights from *Doing Business* with data from other sources, such as the World Bank Enterprise Surveys.⁸

WHY THIS FOCUS

Doing Business functions as a kind of cholesterol test for the regulatory environment for domestic businesses. A cholesterol test does not tell us everything about the state of

our health. But it does measure something important for our health. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating but also our overall health.

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. Closest to *Doing Business* in what it measures is the set of indicators on product market regulation compiled by the Organisation for Economic Co-operation and Development (OECD). These indicators are designed to help assess the extent to which the regulatory environment promotes or inhibits competition. They include measures of the extent of price controls, the licensing and permit system, the degree of simplification of rules and procedures, the administrative burdens and legal and regulatory barriers, the prevalence of discriminatory procedures and the degree of government control over business enterprises.⁹ The rankings on these indicators—for the 39 countries that are

BOX 2.1 Comparing regulation within economies: subnational *Doing Business* indicators and a multicity pilot study

Subnational *Doing Business* studies are conducted at the request of a government and capture differences in business regulation across cities within the same economy or region. They build local capacity by involving government partners and local think tanks. Since 2005 subnational *Doing Business* reports have compared business regulation in states and cities within such economies as Brazil, China, Colombia, Egypt, India, Indonesia, Kenya, Mexico, Morocco, Nigeria, Pakistan and the Philippines.¹

Subnational studies increasingly are being periodically updated to measure progress over time or to expand geographic coverage to additional cities. This year that is the case for the subnational studies in the Philippines; the regional report in Southeast Europe; the ongoing studies in Italy, Kenya and the United Arab Emirates; and the projects implemented jointly with local think tanks in Indonesia, Mexico and the Russian Federation.

In 2011 *Doing Business* published subnational indicators for the Philippines and a regional report for 7 economies in Southeast Europe (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Moldova, Montenegro and Serbia) that covers 22 cities. It also published a city profile for Juba, in the Republic of South Sudan.

To further explore variations in business regulation within economies, *Doing Business* this year collected data on all 10 indicator sets included in the ease of doing business ranking in an additional city in 3 large economies: in Rio de Janeiro in Brazil (in addition to São Paulo), Beijing in China (in addition to Shanghai) and St. Petersburg in the Russian Federation (in addition to Moscow). Subnational studies usually cover only a subset of indicators.

The results show no variation between cities within each economy in areas governed by laws or regulations such as the civil procedure code, listing rules for companies and incorporation rules. For rules governing secured transactions, for example, entrepreneurs in Brazil all refer to the Civil Code of 2002, those in China to the Property Rights Law of 2007 and those in Russia to the Civil Code of 1994 and Law on Pledge of 1992.

But the efficiency of regulatory processes—such as starting a business or dealing with construction permits—and that of institutions do differ across cities, because of differences either in local regulations or in the capacity of institutions to respond to business demand. In Russia, dealing with construction permits is more complex in Moscow than in St. Petersburg. In Brazil, starting a business, dealing with construction permits and getting electricity take less time in Rio de Janeiro than in the larger São Paulo. But property registration is slightly more efficient in São Paulo than in Rio de Janeiro. This is thanks to São Paulo's digitized cadastre.

In all 3 economies the number of taxes and contributions varies between cities. In China businesses in both cities have to comply with 3 state-administered taxes (value added tax, corporate tax and business tax). But while companies in Beijing need to comply with 6 locally administered taxes, those in Shanghai must comply with 7. Distance to the port plays a role in the time to import and export. The cities housing a main port—Rio de Janeiro, Shanghai and St. Petersburg—have faster and cheaper inland transport than those where entrepreneurs need to hire someone to go to another city to ship or receive their cargo—São Paulo (to Santos), Beijing (to Tianjin) and Moscow (to St. Petersburg).

1. Subnational reports are available on the *Doing Business* website at <http://www.doingbusiness.org/reports/subnational-reports>.

covered, several of them large emerging markets—are highly correlated with those on the ease of doing business (the correlation here is 0.72; figure 2.1).

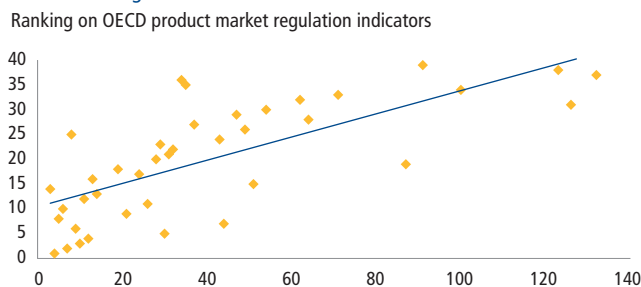
Similarly, there is a high correlation (0.82) between the rankings on the ease of doing business and those on the World Economic Forum's Global Competitiveness Index, a much broader measure capturing such factors as macroeconomic stability, aspects of human capital, the soundness of public institutions and the sophistication of the business community (figure 2.2).¹⁰ Economies that do well on the *Doing Business* indicators tend to do well on the OECD market regulation indicators and the Global Competitiveness Index and vice versa.

A bigger question is whether the issues on which *Doing Business* focuses matter for development and poverty reduction. The World Bank study *Voices of the Poor* asked 60,000 poor people around the world how they thought they might escape poverty.¹¹ The answers were unequivocal: women and men alike pin their hopes above all on income from their own business or wages earned in employment. Enabling growth—and ensuring that poor people can participate in its benefits—requires an environment where new entrants with drive and good ideas, regardless of their gender or ethnic origin, can get started in business and where good firms can invest and grow, generating more jobs.

Small and medium-size enterprises are key drivers of competition, growth and job creation, particularly in developing economies. But in these economies up to 80% of economic activity takes place in the informal sector. Firms may be prevented from entering the formal sector by excessive bureaucracy and regulation. Even firms operating in the formal sector might not have equal access to transparent rules and regulations affecting their ability to compete, innovate and grow.

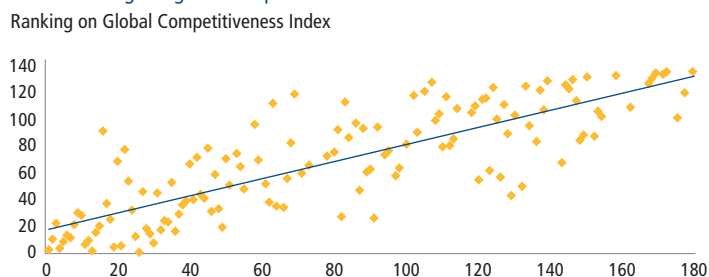
Where regulation is burdensome and competition limited, success tends to depend more on whom you know than on what you can do.¹² But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any aspiring entrepreneurs, regardless of their connections, to

FIGURE 2.1 A strong correlation between *Doing Business* rankings and OECD rankings on product market regulation



Note: Correlation is significant at the 5% level when controlling for income per capita.
Source: *Doing Business* database; OECD data.

FIGURE 2.2 A similarly strong correlation between *Doing Business* rankings and World Economic Forum rankings on global competitiveness



Note: Correlation is significant at the 5% level when controlling for income per capita.
Source: *Doing Business* database; WEF 2010.

operate within the rule of law and to benefit from the opportunities and protections that the law provides. Not surprisingly, higher rankings on the ease of doing business—based on 10 areas of business regulation measured by *Doing Business*—are correlated with better governance and lower levels of perceived corruption.¹³

In this sense *Doing Business* values good rules as a key to social inclusion. It also provides a basis for studying effects of regulations and their application. For example, *Doing Business 2004* found that faster contract enforcement was associated with perceptions of greater judicial fairness—suggesting that justice delayed is justice denied.¹⁴

DOING BUSINESS AS A BENCHMARKING EXERCISE

Doing Business, in capturing some key dimensions of regulatory regimes, has been found useful for benchmarking—an aspect allowing decision makers to make more

considered judgments on the policy options available, enhancing the ability to assess progress over time and make meaningful international comparisons, and contributing to public debate and the promotion of greater accountability.

Since 2006 *Doing Business* has provided 2 takes on the data it collects: it presents “absolute” indicators for each economy for each of the 11 regulatory topics it addresses, and it provides rankings of economies for 10 topics, both by topic and in aggregate.¹⁵ In addition, as noted in the executive summary, this year's report introduces a new measure—the distance to frontier measure—that illustrates how an economy's regulatory environment has changed over time.¹⁶ Judgment is required in interpreting all these measures for any economy and in determining a sensible and politically feasible path for regulatory reform.

Reviewing the *Doing Business* rankings in isolation may reveal unexpected results. Some economies may rank unexpectedly high on

some topics. And some economies that have had rapid growth or attracted a great deal of investment may rank lower than others that appear to be less dynamic.

As economies develop, they strengthen and add to regulations to protect investor and property rights. Meanwhile, they find more efficient ways to implement existing regulations and cut outdated ones. One finding of *Doing Business*: dynamic and growing economies continually reform and update their business regulations and their way of implementing them, while many poor economies still work with regulatory systems dating to the late 1800s.

For reform-minded governments, how much the regulatory environment for local entrepreneurs improves in absolute terms matters more than their economy's relative ranking on the overall ease of doing business. The distance to frontier measure aids in assessing such improvements over time by showing the distance of each economy to the "frontier," which represents the highest performance observed on each of the *Doing Business* indicators across all economies and years included since 2005. Comparing the measure for an economy at 2 points in time allows users to assess how much the economy's regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in the areas covered by *Doing Business*. The distance to frontier measure complements the yearly ease of doing business rankings that compare economies with one another at a point in time.

Each indicator set covered by *Doing Business* measures a different aspect of the business regulatory environment. The rankings of each economy vary, sometimes significantly, across the indicator sets. A quick way to assess the variability of an economy's regulatory performance across the different areas of business regulation is to look at the topic rankings (see the country tables). Korea, for example, stands at 8 in the overall ease of doing business ranking. Its ranking is 2 on the ease of enforcing contracts, 4 on the ease of trading across borders and 8 on the ease of getting credit. At the same time, it

has a ranking of 24 on the ease of starting a business, 26 on the ease of dealing with construction permits, 38 on the ease of paying taxes and 71 on the ease of registering property. Variation in performance across the indicator sets reflects the different priorities that governments give to particular areas of business regulation as well as economy-specific circumstances that may allow a faster pace of reform in some areas than in others.

WHAT RESEARCH SHOWS ON THE EFFECTS OF BUSINESS REGULATION

Nine years of *Doing Business* data, together with other data sets, have enabled a growing body of research on how specific areas of business regulation—and regulatory reforms in those areas—relate to social and economic outcomes. Some 873 articles have been published in peer-reviewed academic journals, and about 2,332 working papers are available through Google Scholar.¹⁷

Much attention has been given to exploring links to microeconomic outcomes, such as firm creation and employment. Recent research focuses on how business regulations affect the behavior of firms by creating incentives (or disincentives) to register and operate formally, to create jobs, to innovate and to increase productivity.¹⁸ Many studies have also looked at the role played by courts, credit bureaus, and insolvency and collateral laws in providing incentives for creditors and investors to increase access to credit. The literature has produced a range of findings.

Lower costs for business registration encourage entrepreneurship and enhance firm productivity. Economies with efficient business registration have a higher entry rate by new firms as well as greater business density.¹⁹ Economies where registering a new business takes less time have seen more businesses register in industries where the potential for growth is greatest, such as those that have experienced expansionary shifts in global demand or technology.²⁰ Reforms making it easier to start a business tend to have a significant positive effect on investment in product market industries such as transport, communications and utilities, which are often sheltered from competition.²¹ There is also evidence that more efficient business entry

regulations improve firm productivity and macroeconomic performance.²²

Simpler business registration translates into greater employment opportunities in the formal sector. Reducing start-up costs for new firms was found to result in higher take-up rates for education, higher rates of job creation for high-skilled labor and higher average productivity because new firms are often set up by high-skilled workers.²³ Lowering entry costs can boost legal certainty: businesses entering the formal sector gain access to the legal system, to the benefit of both themselves and their customers and suppliers.²⁴

Assessing the impact of policy reforms poses challenges. While cross-country correlations can appear strong, it is difficult to isolate the effect of regulations given all the other potential factors that vary at the country level. Generally, cross-country correlations do not show whether a specific outcome is caused by a specific regulation or whether it coincides with other factors, such as a more positive economic situation. So how do we know whether things would have been different without a specific regulatory reform? Some studies have been able to test this by investigating variations within an economy over time. Other studies have investigated policy changes that affected only certain firms or groups. Several country-specific impact studies conclude that simpler entry regulations encourage the establishment of more new firms:

- In Mexico one study found that a program that simplified municipal licensing led to a 5% increase in the number of registered businesses and a 2.2% increase in wage employment, while competition from new entrants lowered prices by 0.6% and the income of incumbent businesses by 3.2%.²⁵ Other research found that the same licensing reform directly led to a 4% increase in new start-ups and that the program was more effective in municipalities with less corruption and cheaper additional registration procedures.²⁶
- In India the progressive elimination of the "license raj" led to a 6% increase in new firm registrations, and highly productive firms entering the market saw larger increases in real output than less productive firms.²⁷ Simpler entry regulation and

labor market flexibility were found to be complementary. States with more flexible employment regulations saw a 25% larger decrease in informal firms and 17.8% larger gains in real output than states with less flexible labor regulations.²⁸ The same licensing reform led to an aggregate productivity improvement of around 22% for firms affected by the reform.²⁹

- In Colombia new firm registrations increased by 5.2% after the creation of a one-stop shop for businesses.³⁰
- In Portugal the introduction of a one-stop shop for businesses led to a 17% increase in new firm registrations and 7 new jobs for every 100,000 inhabitants compared with economies that did not implement the reform.³¹

A sound regulatory environment leads to stronger trade performance. Efforts to streamline the institutional environment for trade (such as by increasing the efficiency of customs) have been shown to have positive effects on trade volumes.³² One study found that an inefficient trade environment was among the main factors in poor trade performance in Sub-Saharan African countries.³³ Similarly, another study identified the government's ability to formulate and implement sound policies and regulations that promote private sector development, customs efficiency, quality of infrastructure and access to finance as important factors in improving trade performance.³⁴ The same study found that economies with more constrained access to foreign markets benefit more from improvements in the investment climate than those with easier access.

Research also shows that an economy's ability to enforce contracts is an important determinant of its comparative advantage in the global economy: among comparable economies, those with good contract enforcement tend to produce and export more customized products than those with poor contract enforcement.³⁵ Another study shows that in many developing economies production of high-quality output is a precondition for firms to become exporters: institutional reforms that lower the cost of high-quality production increase the positive effect that trade facilitation can have on income.³⁶ Research shows that removing

barriers to trade needs to be accompanied by other reforms, such as making labor markets more flexible, to achieve higher productivity and growth.³⁷

Regulations and institutions that form part of the financial market infrastructure—including courts, credit information systems, and collateral, creditor and insolvency laws—play a role in easing access to credit. Enterprise surveys conducted by the World Bank show that access to credit is a major constraint to businesses around the world.³⁸ Good credit information systems and strong collateral laws can help alleviate financing constraints. Analysis in 12 transition economies found that reforms strengthening collateral laws increased the supply of bank loans by 13.7% on average.³⁹ Creditor rights and the existence of credit registries, whether public or private, are both associated with a higher ratio of private credit to GDP.⁴⁰ And greater information sharing through credit bureaus is associated with higher bank profitability and lower bank risk.⁴¹

Country-specific research assessed the effect of efficient debt recovery and exit processes in determining conditions of credit and in ensuring that less productive firms are either restructured or exit the market:

- The establishment of specialized debt recovery tribunals in India sped up the resolution of debt recovery claims and allowed lenders to seize more collateral on defaulting loans. It also increased the probability of repayment by 28% and lowered interest rates on loans by 1–2 percentage points.⁴²
- Following a broad bankruptcy reform in Brazil in 2005 that, among other things, improved the protection of creditors, the cost of debt fell by 22% and the aggregate level of credit rose by 39%.⁴³
- The introduction of improved insolvency regimes that streamlined mechanisms for reorganization reduced the number of liquidations by 8.4% in Belgium and by 13.6% in Colombia as more viable firms opted for reorganization instead.⁴⁴ In Colombia the new law better distinguished viable from nonviable firms, making survival more likely for financially distressed but viable firms.

HOW GOVERNMENTS USE DOING BUSINESS

Quantitative data and benchmarking can be useful in stimulating debate about policy, both by exposing potential challenges and by identifying where policy makers might look for lessons and good practices. For governments, a common first reaction to the *Doing Business* data is to ask questions about the quality and relevance of the data and about how the results are calculated. Yet the debate typically proceeds to a deeper discussion exploring the relevance of the data to the economy and areas where business regulation reform might make sense.

Most reformers start out by seeking examples, and *Doing Business* helps in this (boxes 2.2 and 2.3). For example, Saudi Arabia used the company law of France as a model for revising its own. Many countries in Africa look to Mauritius—the region's strongest performer on *Doing Business* indicators—as a source of good practices for business regulation reform. In the words of Luis Guillermo Plata, the former minister of commerce, industry and tourism of Colombia,

It's not like baking a cake where you follow the recipe. No. We are all different. But we can take certain things, certain key lessons, and apply those lessons and see how they work in our environment.

Over the past 9 years there has been much activity by governments in reforming the regulatory environment for domestic businesses. Most reforms relating to *Doing Business* topics have been nested in broader programs of reform aimed at enhancing economic competitiveness, as in Colombia, Kenya and Liberia, for example. In structuring their reform programs for the business environment, governments use multiple data sources and indicators.⁴⁵ And reformers respond to many stakeholders and interest groups, all of whom bring important issues and concerns to the reform debate. World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving *Doing Business* rankings and encouraging broad-based reforms that enhance the investment climate. The World

BOX 2.2 How economies have used *Doing Business* in regulatory reform programs

To ensure the coordination of efforts across agencies, such economies as Colombia and Rwanda have formed regulatory reform committees, reporting directly to the president, that use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 25 other economies have formed such committees at the interministerial level. These include economies across regions: In East and South Asia, India; Malaysia; Sri Lanka; Taiwan, China; Thailand; and Vietnam. In the Middle East and North Africa, Egypt; Morocco; Saudi Arabia; the United Arab Emirates; and the Republic of Yemen. In Eastern Europe and Central Asia, Georgia; Kazakhstan; the Kyrgyz Republic; Moldova; and Tajikistan. In Sub-Saharan Africa, Botswana; Burundi; the Central African Republic; the Comoros; the Democratic Republic of Congo; Kenya; Liberia; Malawi; Mali; and Zambia. And in Latin America, Guatemala; Mexico; and Peru. Governments have reported more than 300 regulatory reforms that have been informed by *Doing Business* since 2003.

BOX 2.3 How a regional economic forum uses *Doing Business*

The Asia-Pacific Economic Cooperation (APEC) organization uses *Doing Business* to identify potential areas of regulatory reform, to champion economies that can help others improve and to set measurable targets. In 2009 APEC launched the Ease of *Doing Business* Action Plan with the goal of making it 25% cheaper, faster and easier to do business in the region by 2015.¹ The action plan sets specific targets, such as making it 25% faster to start a business by reducing the average time by 1 week.

Drawing on a firm survey, planners identified 5 priority areas: starting a business, getting credit, enforcing contracts, trading across borders and dealing with construction permits. APEC economies then selected 6 “champion economies” for the priority areas: New Zealand and the United States (starting a business), Japan (getting credit), Korea (enforcing contracts), Singapore (trading across borders) and Hong Kong SAR, China (dealing with construction permits). In 2010 and 2011 several of the champion economies organized workshops to develop programs for building capacity in their area of expertise.

1. APEC 2010.

Bank Group uses a vast range of indicators and analytics in this policy dialogue, including its Global Poverty Monitoring indicators, World Development Indicators, Logistics Performance Indicators and many others. With the open data initiative, all indicators and data are available to the public at <http://data.worldbank.org>.

METHODOLOGY AND DATA

Doing Business covers 183 economies—including small economies and some of the poorest economies, for which little or no data are available in other data sets. The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. (For a detailed explanation of the *Doing Business* methodology, see the data notes.)

Information sources for the data

Most of the *Doing Business* indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. *Doing Business* respondents both fill out written questionnaires and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance. Having representative samples of respondents is not an issue, as the texts of the relevant laws and regulations are collected and answers checked for accuracy.

For some indicators—for example, those on dealing with construction permits, enforcing contracts and resolving insolvency—the time component and part of the cost component (where fee schedules are lacking) are based on actual practice rather than the law on the books. This introduces a degree of judgment. The *Doing Business* approach has therefore been to work with legal practitioners or professionals who regularly undertake the transactions involved. Following the standard methodological approach for time-and-motion studies, *Doing Business* breaks down each process or transaction, such as starting and legally operating a business, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

The *Doing Business* approach to data collection contrasts with that of firm surveys, which capture often one-time perceptions and experiences of businesses. A corporate lawyer registering 100–150 businesses a year will be more familiar with the process than an entrepreneur, who will register a business only once or maybe twice. A bankruptcy attorney or judge dealing with dozens of cases a year will have more insight into bankruptcy than a manager of a company who may have never undergone the process.

Doing Business respondents

Over the past 9 years more than 12,000 professionals in 183 economies have assisted in providing the data that inform the *Doing Business* indicators. This year’s report draws on the inputs of more than 9,000 professionals. Table 4.1 in the data notes lists the number of respondents for each indicator set. The *Doing Business* website indicates the number of respondents for each economy and each indicator. Respondents are professionals or government officials who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. They are selected on the basis of their expertise in the specific areas covered by *Doing Business*. Because of the focus on legal and regulatory arrangements, most of the respondents are legal professionals such as lawyers, judges or notaries. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

Development of the methodology

The methodology for calculating each indicator is transparent, objective and easily replicable. Leading academics collaborated in the development of the indicators, ensuring academic rigor. Eight of the background papers underlying the indicators have been published in leading economic journals.⁴⁶

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components.⁴⁷ They turn out to yield results nearly identical

to those of simple averaging. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.⁴⁸

Inclusion of getting electricity indicators

This year's ease of doing business ranking includes getting electricity as a new topic. The getting electricity indicators were introduced as a pilot in *Doing Business 2010* and *Doing Business 2011*, which presented the results in an annex. During the pilot phase the methodology was reviewed by experts, and data on the time, cost and procedures to obtain an electricity connection were collected for the full set of 183 economies. To avoid double counting, procedures related to getting an electricity connection have been removed from the dealing with construction permits indicators.⁴⁹

Improvements to the methodology

The methodology has undergone continual improvement over the years.⁵⁰ Changes have been made mainly in response to suggestions providing new insights. For enforcing contracts, for example, the amount of the disputed claim in the case study was increased from 50% to 200% of income per capita after the first year of data collection, as it became clear that smaller claims were unlikely to go to court.

Another change relates to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. Initially *Doing Business* measured the required minimum capital regardless of whether it had to be paid up front or not. In many economies only part of the minimum capital has to be paid up front. To reflect the actual potential barrier to entry, the paid-in minimum capital has been used rather than the required minimum capital.

This year's report includes improvements in the methodology for the employing workers indicators and the getting credit (legal rights) indicators, in addition to the removal of the procedures related to getting an electricity connection from the dealing with construction permits indicators. It also

includes changes in the ranking methodology for paying taxes.

Employing workers methodology. With the aim of better capturing the balance between worker protection and efficient employment regulation that favors job creation, *Doing Business* has made a series of amendments to the methodology for the employing workers indicators over the past 4 years.

In addition, the World Bank Group has been working with a consultative group—including labor lawyers, employer and employee representatives, and experts from civil society, the private sector, the International Labour Organization (ILO) and the OECD—to review the methodology and explore future areas of research.⁵¹ The consultative group completed its work this year, and its guidance has provided the basis for several changes in methodology (see also the data notes). A full report with the conclusions of the consultative group is available on the *Doing Business* website.⁵²

Follow-on work is continuing to explore the measurement of worker protection to complement the measurement of the cost to employers of labor regulations. The data on worker protection will serve as a basis for the development of a joint analysis of worker protection by the World Bank Group and the ILO.

Pending further progress on research in this area, this year's report does not present rankings of economies on the employing workers indicators or include the topic in the aggregate ranking on the ease of doing business. It does present the data on the employing workers indicators. Additional data on labor regulations collected in 183 economies are available on the *Doing Business* website.⁵³

Paying taxes methodology. *Doing Business* has benefited from dialogue with external stakeholders, including participants in the International Tax Dialogue, on the survey instrument and methodology for the paying taxes indicators. As a result of these consultations, this year's report introduces a threshold for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. All economies with a total tax rate below the threshold (which

will be calculated and adjusted on a yearly basis) will now receive the same ranking on the total tax rate indicator. Since the total tax rate is 1 of 32 indicators included in the ranking on the overall ease of doing business, this change has minimal effects on the overall rankings. The correlation between rankings on the ease of paying taxes with and without this threshold is 99%.

The threshold is not based on any underlying theory. Instead, it is meant to emphasize the purpose of the indicator: to highlight economies where the tax burden on business is high relative to the tax burden in other economies. Giving the same ranking to all economies whose total tax rate is below the threshold avoids awarding economies in the scoring for having an unusually low total tax rate, often for reasons unrelated to government policies toward enterprises. For example, economies that are very small or that are rich in natural resources do not need to levy broad-based taxes. For more details on the calculation of the threshold, see the data notes.

In addition, this year *Doing Business* collected data on labor taxes and social security contributions paid by employees as well as employers. These data will be made available on the *Doing Business* website to enable analysis of the distribution of these contributions between employers and employees.

Getting credit methodology. The strength of legal rights index measures certain rights of borrowers and lenders with respect to secured transactions. The index describes how well collateral and bankruptcy laws facilitate lending by measuring 10 aspects of these laws.

One aspect of collateral law that is measured relates to whether secured creditors can continue individual court actions after a debtor starts a court-supervised reorganization procedure or whether they are subject to an automatic stay or a moratorium. Previously only economies where secured creditors can continue a court action in these circumstances were rewarded in the scoring for the strength of legal rights index. Now economies where secured creditors must stop individual court actions but their rights remain protected through other means are

also rewarded (see the data notes for more details). The change aligns the methodology for this indicator with guidelines of the United Nations Commission on International Trade Law (UNCITRAL) and the World Bank Group.

Data adjustments

All changes in methodology are explained in the data notes as well as on the *Doing Business* website. In addition, data time series for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections. The data set is not back-calculated for year-to-year changes in income per capita. The website also makes available all original data sets used for background papers.

Information on data corrections is provided in the data notes and on the website. A transparent complaint procedure allows anyone to challenge the data. If errors are confirmed after a data verification process, they are expeditiously corrected.

NOTES

1. For more details on how the aggregate rankings are created, see the chapter on the ease of doing business and distance to frontier.
2. This has included a review by the World Bank Independent Evaluation Group (2008) as well as ongoing input from the International Tax Dialogue.
3. The resolving insolvency indicators measure the time, cost and outcome of insolvency proceedings involving domestic entities. In previous reports this indicator set was referred to as closing a business. *Resolving insolvency* more accurately reflects the outcomes that are measured: a judicial procedure aimed at reorganization or rehabilitation, a judicial procedure aimed at liquidation or winding up, and debt enforcement or foreclosure (in or outside the courts).
4. Local experts in 183 economies are surveyed annually to collect and update the data. The local experts for each economy are listed on the *Doing Business* website (<http://www.doingbusiness.org>).
5. De Soto 2000.
6. Schneider 2005; La Porta and Shleifer 2008.
7. Amin 2011.
8. <http://www.enterprisesurveys.org>.
9. OECD, "Indicators of Product Market Regulation," <http://www.oecd.org/>. The measures are aggregated into 3 broad families that capture state control, barriers to entrepreneurship and barriers to international trade and investment. The 39 countries included in the OECD market regulation indicators are Australia, Austria, Belgium, Brazil, Canada, Chile, China, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Russia, the Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.
10. The World Economic Forum's *Global Competitiveness Report* uses *Doing Business* data sets on starting a business, employing workers, protecting investors and getting credit (legal rights), representing 7 of a total of 113 different indicators (or 6.2%).
11. Narayan and others 2000.
12. Hallward-Driemeier, Khun-Jush and Pritchett (2010) analyze data from World Bank Enterprise Surveys for Sub-Saharan Africa and show that broadly de jure measures such as *Doing Business* indicators are not correlated with ex post firm-level responses. While countries that do better according to *Doing Business* generally perform better on enterprise surveys, for the majority of economies in the sample there is no correlation. Further, the authors find that the gap between de jure and de facto conditions grows with the formal regulatory burden. This suggests that more burdensome processes in Africa open up more space for making deals and that firms may not incur the official costs of compliance, but they still pay to avoid them. A few differences in the underlying methodologies should be kept in mind. The *Doing Business* methodology focuses on the main business city, while enterprise surveys typically cover the entire country. *Doing Business* gathers the considered views of experts who examine the laws and rules underlying the business regulatory framework in a narrow set of areas; enterprise surveys collect the views of enterprise managers and the question posed to the manager is seldom identical to the one being addressed by *Doing Business* contributors, which is in reference to a particular standardized case. World Bank Enterprise Surveys, available at <http://www.enterprisesurveys.org>, collect business data on more than 100,000 firms in 125 economies, covering a broad range of business environment topics.
13. The correlation coefficient between the ease of doing business ranking and the ranking on the Control of Corruption Index is 0.62, and that between the ease of doing business ranking and the ranking on the Transparency International Corruption Perceptions Index 0.77. The positive correlation is statistically significant at the 5% level.
14. World Bank 2003.
15. This year's report does not present rankings of economies on the employing workers indicators. Nor does it include this topic in the aggregate ranking on the ease of doing business.
16. For further details on the construction of the indicators, the aggregate rankings and the distance to frontier measure, see the data notes and the chapter on the ease of doing business and distance to frontier.
17. According to searches on Google Scholar (<http://scholar.google.com>) and the Social Science Citation Index.
18. Djankov and others 2002; Alesina and others 2005; Perotti and Volpin 2005; Klapper, Laeven and Rajan 2006; Fisman and Sarria-Allende 2010; Antunes and Cavalcanti 2007; Barseghyan 2008; Eifert 2009; Klapper, Lewin and Quesada Delgado 2009; Djankov, Freund and Pham 2010; Klapper and Love 2011; Chari 2011; Bruhn 2011.
19. Klapper, Lewin and Quesada Delgado 2009. *Entry rate* refers to newly registered firms as a percentage of total registered firms. *Business density* is defined as the total number of businesses as a percentage of the working-age population (ages 18-65).
20. Ciccone and Papaioannou 2007.
21. Alesina and others 2005.
22. Loayza, Oviedo and Srven 2005; Barseghyan 2008.
23. Dulleck, Frijters and Winter-Ebmer 2006; Calderon, Chong and Leon 2007; Micco and Pags 2006.
24. Masatlioglu and Rigolini 2008; Djankov 2009.
25. Bruhn 2011.
26. Kaplan, Piedra and Seira 2007.
27. Aghion and others 2008.
28. Sharma 2009.
29. Chari 2011.
30. Cardenas and Rozo 2009.
31. Branstetter and others 2010.
32. Djankov, Freund and Pham 2010.
33. Iwanow and Kirkpatrick 2009.
34. Seker 2011.
35. Nunn 2007.
36. Rauch 2010.
37. Chang, Kaltani and Loayza 2009; Cuat and Melitz 2007.
38. <http://www.enterprisesurveys.org>.

39. Haselmann, Pistor and Vig 2010. The countries studied were Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, Slovenia and Ukraine.
40. Djankov, McLiesh and Shleifer 2007; Houston and others 2010.
41. Djankov, McLiesh and Shleifer 2007; Houston and others 2010.
42. Visaria 2009.
43. Funchal 2008.
44. Dewaelheyns and Van Hulle (2008) on Belgium; Giné and Love (2010) on Colombia.
45. One recent study using *Doing Business* indicators illustrates the difficulties in using highly disaggregated indicators to identify reform priorities (Kraay and Tawara 2011).
46. All background papers are available on the *Doing Business* website (<http://www.doingbusiness.org>).
47. For more details, see the chapter on the ease of doing business and distance to frontier.
48. A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (<http://www.doingbusiness.org>).
49. Previous years' data on dealing with construction permits are adjusted to reflect this change. They are made available on the *Doing Business* website under "historical data" (<http://www.doingbusiness.org>).
50. All changes in methodology are explained in the data notes in this year's report and in previous years' reports back to *Doing Business 2007* (data notes and previous years' reports are available at <http://www.doingbusiness.org>).
51. For the terms of reference and composition of the consultative group, see World Bank, "Doing Business Employing Workers Indicator Consultative Group," <http://www.doingbusiness.org>.
52. <http://www.doingbusiness.org/methodology/employing-workers>.
53. <http://www.doingbusiness.org>.

Starting a business

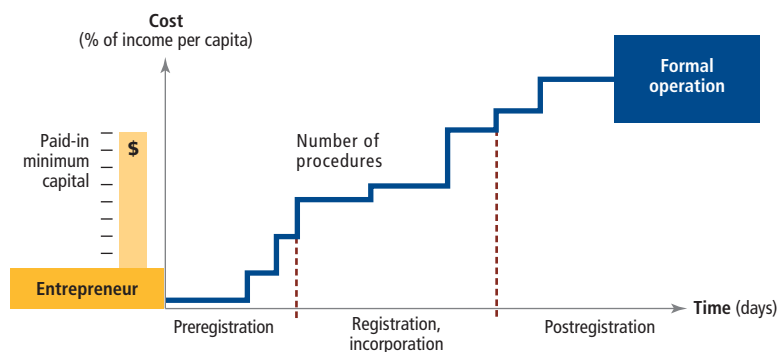
Imagine Sebavive, a young Rwandan entrepreneur who wants to start a small business. He has always dreamed of opening a small retail shop in his hometown of Kigali. If Sebavive had sought to start that business in Rwanda's capital city 7 years ago, he would have had to go through 9 procedures, wait for 18 days and pay the equivalent of 2 years' worth of his annual income (if he were earning at the national average rate¹). With such high barriers to entry, Sebavive might have given up or simply started operating his business informally. Young entrepreneurs like Sebavive now have it easier. Reforms in Rwanda have streamlined business start-up in the past 2 years. Today, entrepreneurs can start a business going through only 2 procedures, waiting only 3 days and registering their companies online, free of charge.

Rich or poor, men and women around the world seek to run and profit from their own businesses. But these entrepreneurs will not have the same experiences establishing new companies. Regulations governing business start-up vary greatly across economies—in some cases making the cost of formal business registration nearly prohibitive.

The formal incorporation of companies boasts several benefits. First, legal entities can outlive their founders. Resources are pulled together as shareholders join forces to establish a company's capital. Also, formally registered companies enjoy access to services and institutions—from courts to banks to new markets—benefits that are not available to unregistered firms. And where firms are formally registered, their employees can also benefit from protections provided by the law.

Easing the process of business incorporation also benefits the broader economy, empirical research has found. In fact, using data collected from company registries in 100

FIGURE 3.1 What are the time, cost, paid-in minimum capital and number of procedures to get a local, limited liability company up and running?



economies over 8 years, analysis found that simple business start-up is critical for fostering formal entrepreneurship. On the flip side, cumbersome regulations and administrative procedures for starting a business are found to be associated with a smaller number of legally registered firms, a smaller tax base, greater informality—a finding particularly relevant for many developing economies—and more opportunities for corruption.²

In addition, a recent study finds that barriers to starting a business are significantly and negatively correlated with business density—calculated as the total number of businesses registered as a percentage of the economically active population (ages 15–64). For example, the fewer the procedures required to start a business, the greater the number of registered firms. There is also a significant relationship between the cost of starting a business (as a percentage of gross national income per capita) and business density. For every 10-percentage-points decrease in entry costs, density increased by about 1 percentage point.³

Doing Business measures the procedures, time and cost for a small to medium-size limited liability company to start up and operate formally (figure 3.1). To make the data comparable across 183 economies, *Doing Business* uses a standardized business that is 100% domestically owned, has start-up capital equivalent to 10 times income per capita, engages in general industrial or commercial activities and employs between 10 and 50 people.

In the 5 countries that make up the East African Community (EAC), entrepreneurs go through an average of 10 procedures to start a business. This process takes an average time of 23 days—making the EAC faster than the Common Market for Eastern and Southern Africa (COMESA),⁴ the Southern Africa Development Community (SADC)⁵ and Sub-Saharan Africa, as a broader region. Globally, the fastest group is the OECD high-income economies, where it just takes 5 days for business start-up.

The cost to start a business in the EAC remains fairly high—55% of income per capita, on average. None of the EAC economies require entrepreneurs to put up a set amount

TABLE 3.1 Where is starting a business easy—and where not?

Procedures (number)	
Rwanda	Fewest 2
Burundi	9
Kenya	11
Tanzania	12
Uganda	Most 16
Time (days)	
Rwanda	Fastest 3
Burundi	14
Tanzania	29
Kenya	33
Uganda	Slowest 34
Cost (% of income per capita)	
Rwanda	Least 4.7
Tanzania	28.8
Kenya	37.8
Uganda	84.5
Burundi	Most 116.8

Note: All 5 EAC economies have no paid-in minimum capital requirement

Source: *Doing Business* database.

of capital before starting registration formalities. Yet there is still considerable regional variation in costs. In Rwanda, the cost is less than 5% of income per capita. In Burundi, the cost is almost 117% of income per capita.

The number of procedures and time required to start a business also vary considerably within the EAC. In Rwanda, an entrepreneur can start up with only 2 steps. First, the entrepreneur checks the company name, submits the registration application and pays the registration fee—all at once, online. The applicant then picks up the registration certificate at the Registrar General. This 2-step process takes Rwanda's entrepreneurs only 3 days—requiring interaction with 1 single governmental agency. Meanwhile, in Uganda, the same process requires 16 procedures and interactions with various agencies—such as the Office of Registrar, the Uganda Registration Services and the Uganda Revenue. It takes Ugandan entrepreneurs an average of 34 days—including up to 10 days in order to obtain the trade license alone. In Kenya, the process also takes more than a month (33 days, on average)—including 2 weeks to file the deed with the Registrar of Companies (Table 3.1).

WHO REFORMED IN 2010/2011?

Doing Business has been tracking reforms in business registration since 2003. At that time European and other OECD high-income economies were the most active in making business entry easier. Since 2008 regulatory reforms making entry easier have picked up among low- and lower-middle-income economies, particularly in the Sub-Saharan Africa region and Eastern Europe and Central Asia. Several reforms have been supported by international and bilateral donors—including the introduction of the one-stop shop in Rwanda. Sub-Saharan Africa has seen accelerating change. In 2005, only 1 economy in Sub-Saharan Africa made it easier to start a business. In 2010/11, 15 did so.

Since 2005, 4 out of 5 economies in the East African Community—Rwanda, Kenya, Tanzania and Uganda—have made it easier to start a business by implementing 9 reforms (figure 3.2). These 9 reforms have cut the average number of procedures to start a business from 12 to 10, the average time from 30 to 23 days and the start-up costs from 140% to 55% income per capita (figure 3.3).

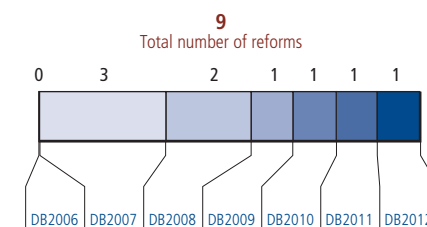
In 2010/2011, only 1 economy within the EAC introduced reforms to facilitate business start-up. Rwanda made online company registration free of charge and reduced the fee for paper-based company registration from FRW 25,000 (US\$ 41) to FRW 15,000 (US\$ 24).

Meanwhile, Uganda increased the time to start a business from 25 to 34 days by changing its business-licensing system. Yet it eliminated 2 procedures by simplifying registration for a tax identification number (TIN) and by introducing an online system for value added tax (VAT).

Burundi—the only EAC economy that has not recorded any business start-up reforms since 2005—is now working on improving its start-up process. In May 2011 the Burundi government passed a new Company Law that modifies the conditions to incorporate a company by eliminating some requirements to make the process faster and cheaper going forward.

FIGURE 3.2 Reform efforts in the EAC still to be picked up

Number of reforms easing the process of starting a business per year of *Doing Business* report



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year.

Source: *Doing Business* database.

WHAT HAS WORKED?

Policy makers can encourage entrepreneurs by making business start-up fast, easy and inexpensive. Many good practices have emerged over time—including the establishment of one-stop shops, the abolishment of paid-in minimum capital requirements, fixed registration fees, standard registration forms, unique company identification (ID) numbers and technology that facilitates the delivery of start-up services.

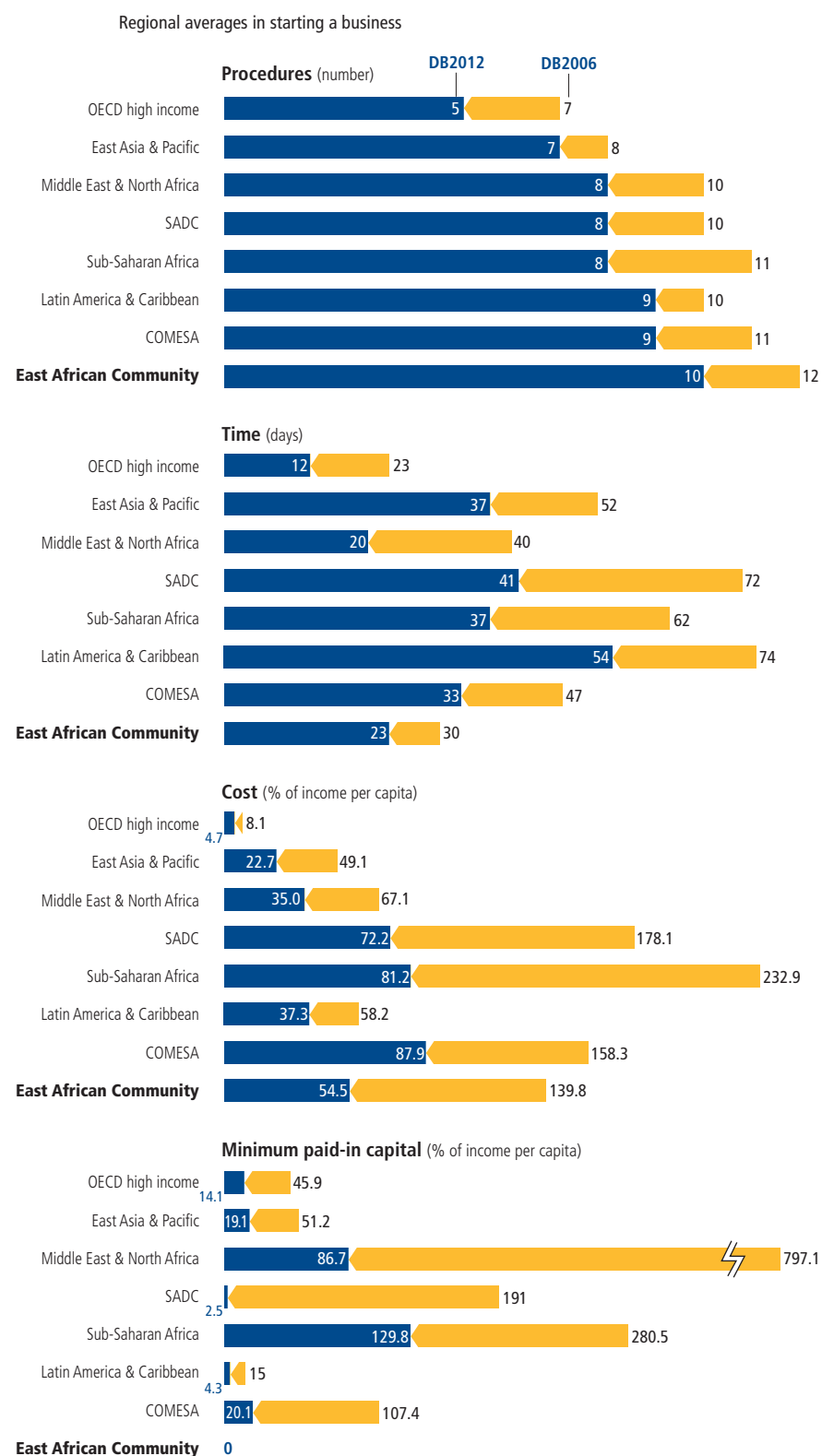
Establishing a one-stop shop

A single interface for business start-up not only saves time and money, it also makes requirements more transparent and accessible. Models vary. While some one-stop shops are solely for business registration, others may carry out many integrated functions—including post-registration formalities with tax authorities or municipalities. While some one-stop shops are virtual (online), others are physical—with one or more windows in a government office. While some one-stop shops automatically forward information from the company registry to the licensing authority, others may include separate desks with representatives from different agencies.

Today, 83 economies around the world have some kind of one-stop shop for business registration—of those, 53 economies established or improved their one-stop shops within the past 8 years. Only 1 EAC economy has a one-stop shop: Rwanda.

Evidence from Rwanda suggests that the cost of incorporating a limited liability company

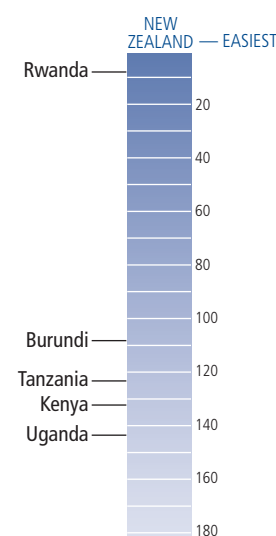
FIGURE 3.3 EAC performs better than other regional blocs in Africa in time and cost



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and South Sudan. Zimbabwe is not included in the samples due to the impact of inflation on the average cost estimates.

Source: Doing Business database.

FIGURE 3.4 How do East African Community economies rank on the ease of starting a business?



Source: Doing Business database.

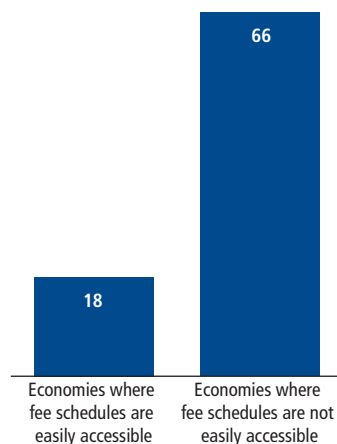
matters when entrepreneurs choose the legal form for their new companies. In 2008, number of newly registered limited liability companies was about the same as the number of newly registered sole proprietorships. In 2009, Rwanda revamped its business start-up process, making it easier and cheaper to set up a limited liability company by establishing a one-stop shop and cutting the cost from about \$350 to only \$45. By 2010, almost 4 of every 5 newly registered enterprises were limited liability companies. Rwanda’s reforms also reduced number of procedures required from 9 in 2005 to 2 in 2009, the time required from 18 to 3 days and the average cost from 200% to just 10.1% of income per capita. Furthermore, in the past 2 years, Rwanda has continued to reduce the registration costs of the one-stop shop. Today, Rwanda ranks the first in the EAC region on the ease of doing business (figure 3.4).

Using information and communication technology

Electronic registration is possible in more than 80% of high-income economies but only about 30% of low-income ones. Several of the economies with the fastest business start-up offer electronic registration—including New Zealand, Australia, Singapore, Canada, Portugal, Denmark and Estonia.

FIGURE 3.5 The cost to start a business is lower where information on the fees is easily accessible

Average cost to start a business (% of income per capita)



Note: Relationships are significant at the 5% level after controlling for income per capita. Fee schedules are considered easily accessible if they can be obtained through the website of a government agency or through public notices, without a need for an appointment with an official. The data sample includes 174 economies.

Source: *Doing Business* database.

Today, 110 economies use information and communication technology for services ranging from name search to full business registration. More than 40 offer registration services online.

Over the past 8 years, 58 economies around the globe introduced information and communication technology in their business start-up processes—saving time and effort for businesses and governments alike. Four of these 58 are EAC economies: Kenya, Uganda, Rwanda and Tanzania.

Rwanda offers an integrated system for company registration online. In 2010/2011, in order to encourage companies to register through the online system, Rwanda made it free of charge, whereas the paper-based company registration costs US\$ 24 (FRW 15,000). This year Uganda introduced an online system that allows entrepreneurs to apply for corporate tax identification numbers and for value added tax (VAT) at the same time, merging these procedures. Back in 2006/2007, Tanzania's Companies Registry was centralized and both its registry and the Social Security Institute (NSSF) started to undergo computerization. As a result, name clearances are processed faster.

A first step in introducing technology in the business start-up process is making registration records electronic. This not only improves security and prevents potential losses of data, it also aids transparency and information sharing. Finally, having electronic records makes it easier to introduce additional online services later on.

Having no minimum capital requirement

There are no paid-in minimum capital requirements in the EAC. This makes it easier to start a business in the region.

With its origins in the 18th century, the minimum capital requirement was initially intended to protect investors and creditors. But in economies around the world, the deposited capital is often withdrawn immediately after registration. In fact, recent research has found that recovery rates in bankruptcy are no higher in economies with minimum capital requirements than in those without.⁶ Furthermore, research shows that minimum capital requirements can result in lower entrepreneurship rates in an economy.⁷

Not surprisingly, the economies that originally introduced the minimum capital requirement have long since removed it. And since 2005, 57 economies have reduced or eliminated their requirement—lowering the average paid-in minimum capital requirement globally from 184% of income per capita in 2005 to 49% in 2011. Today, 101 economies still require entrepreneurs to put up a set amount of capital before starting registration formalities—including 25 out of 46 economies in the Sub-Saharan Africa region. They might learn from their EAC neighbors and eliminate this barrier to business start-up.

Making forms and fee schedules more accessible

As a general rule, the easier it is for businesses to access fee schedules and documentation requirements for regulations, the easier it is to comply with them. Accessibility not only saves businesses time, it also makes the application of regulations and fee schedules more predictable.

This year *Doing Business* collected additional information in a sample of 174 economies

regarding the ways in which governments and agencies make regulatory information accessible. The survey found that in more than 90% of OECD high-income economies fee schedules for company incorporation could be obtained directly through the relevant agency's website or through public notices (such as notice boards and brochures).

In 3 EAC economies—Rwanda, Tanzania and Uganda—official fees for registration are available online, making them more accessible to the general public. However, in Burundi and Kenya, official fees are not accessible online and entrepreneurs still need to go in person to the registry to obtain information on the fee schedules and documentation requirements.

Globally, the cost to start a business averages 36% of income per capita. Entrepreneurs in lower-income economies tend to face higher relative costs—for example, an average of 81% of income per capita in the Sub-Saharan Africa region. Regardless of income levels, incorporation fees tend to be lower in economies where fee schedules are easily accessible (figure 3.5). This is positive for entrepreneurs. As a result, all EAC economies ought to make forms and fee schedules more accessible, in order to both increase transparency and lower start-up costs.

NOTES

1. That is, 200% of the gross national income (GNI) per capita.
2. Audretsch, Keilbach and Lehmann 2006.
3. Klapper, Amit and Guillen 2010.
4. Current members of COMESA are: Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, South Sudan, Swaziland, Uganda, Zambia and Zimbabwe.
5. Current members of SADC are: Angola, Botswana, Congo Democratic Rep, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
6. Djankov, Hart and others 2008.
7. Van Stel, Storey and Thurik 2007.

Dealing with construction permits

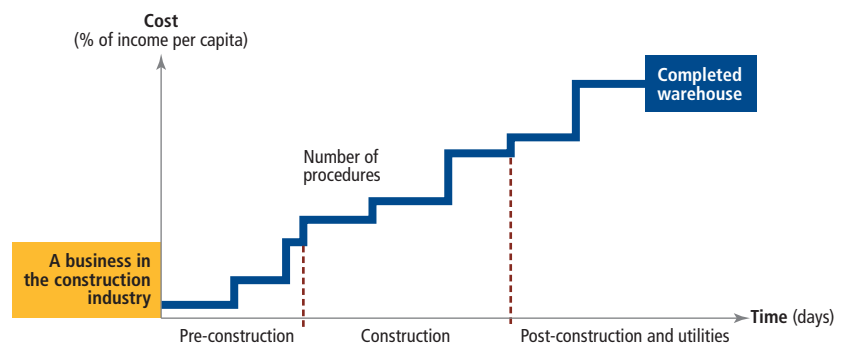
Good construction regulation matters for public safety. It also matters for the health of the building sector and the economy as a whole. According to a recent study, the construction industry accounts for an average of 6.5% of GDP in OECD high-income economies.¹ It is estimated that for every 10 jobs directly related to a construction project, another 8 jobs may be created in the local economy. Small domestic firms account for most of the sector's output and most of its jobs.²

Striking the right balance between protection and efficiency is a challenge when it comes to construction permitting. Good regulations ensure the safety standards that protect the public while making the permitting process efficient, transparent and affordable—for both the building authorities and for the private professionals who use it. If procedures are overly complicated or costly, builders tend to proceed without a permit.³ By some estimates, 60% to 80% of building projects in developing economies are undertaken without the proper permits and approvals.

Where informal construction is rampant, the public can suffer. Take the case of Nigeria, which lacks an approved building code that sets the standards for construction. Many of the buildings erected do not comply with proper safety standards. Without clear rules, enforcing even basic standards is a daunting task. Structural incidents have multiplied. According to the Nigerian Institute of Building, 84 buildings collapsed in the past 20 years, killing more than 400 people.⁴

Overly complicated construction rules also can increase opportunities for corruption. Analysis of World Bank Enterprise Survey data shows that the share of firms expecting to give gifts in exchange for construction

FIGURE 4.1 What are the time, cost and number of procedures to comply with formalities to build a warehouse?



approvals is correlated with the level of complexity and cost of dealing with construction permits. In Tanzania for example, 32% of firms are expected to give gifts in order to obtain a building permit.⁵

To measure the ease of dealing with construction permits, *Doing Business* records the procedures, time and cost required for a small to medium-size business to obtain all the necessary approvals to build a simple commercial warehouse and connect it to water, sewerage and a fixed telephone line (figure 4.1). The case study includes all types of inspections and certificates needed before, during and after construction of the warehouse. To make the data comparable across 183 economies, the case study assumes that the warehouse is located in the periurban area of the largest business city, is not in a special economic or industrial zone and will be used for general storage activities.

In the East African Community (EAC), entrepreneurs go through 15 procedures, on average, to complete all formalities required to build a simple warehouse. In Kenya there are the fewest: 8 procedures. In Burundi the most: 22 procedures. Most of the required

steps in Burundi are related to obtaining pre-building authorizations and utility connections.

The process of dealing with construction permits takes 170 days, on average, in the EAC— compared to 185 days in the Common Market for Eastern and Southern Africa (COMESA), 238 days in the Southern African Development Community (SADC) and 211 days in the Sub-Saharan Africa region. Worldwide, the fastest regions are the Middle East and North Africa and the OECD high-income economies, where it takes 141 days and 152 days, respectively.

Within the EAC, the economies that deal with construction permits the fastest are Kenya and Uganda, both with 125 days. Meanwhile, Tanzania is the slowest with 303 days. In the past 7 years, authorities in Kenya's capital and largest city, Nairobi, have been implementing several measures to streamline business licenses, including those related to building permits. In 2006/07, for example, authorities launched a "guillotine" process to eliminate redundant licenses and permits. Although both Kenya and Uganda perform well when compared to regional

TABLE 4.1 Where is dealing with construction permits easy—and where not?

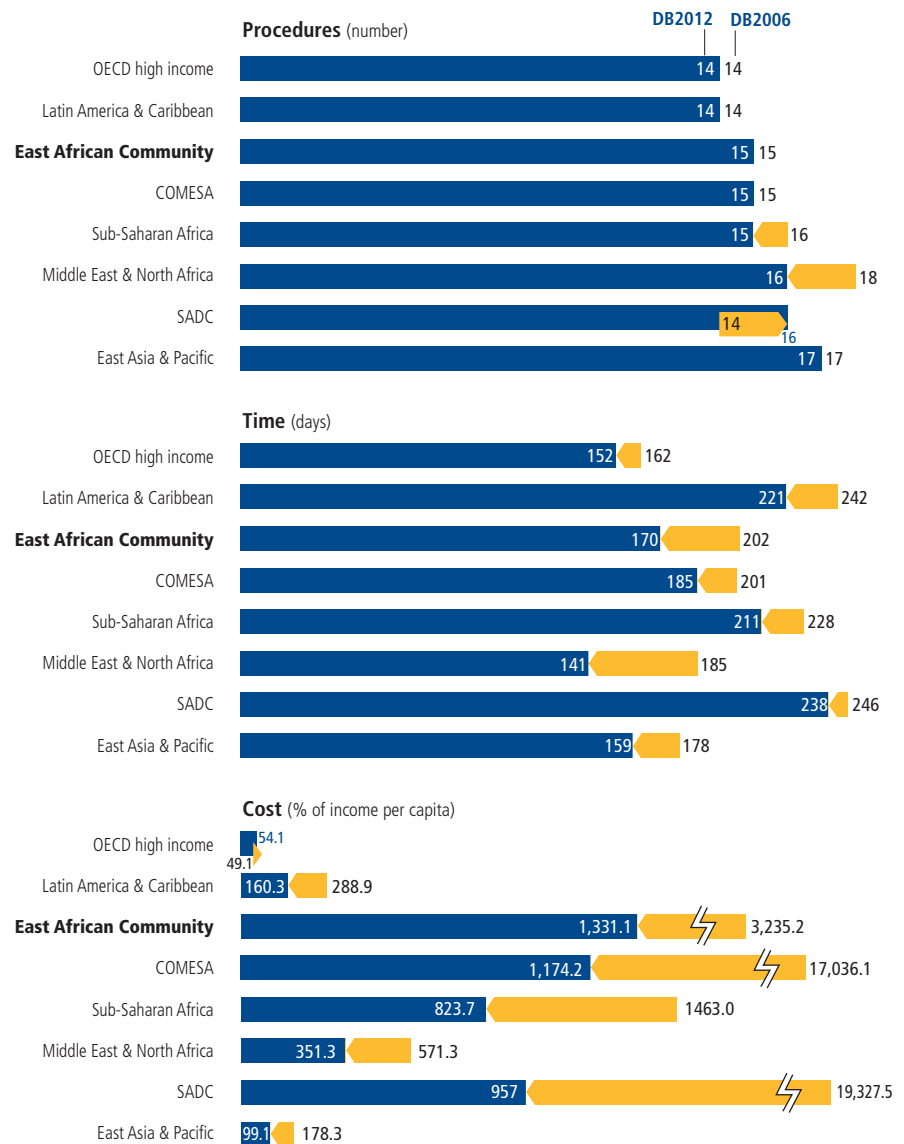
Procedures (number)	
Kenya	Fewest 8
Rwanda	12
Uganda	15
Tanzania	19
Burundi	Most 22
Time (days)	
Kenya	Fastest 125
Uganda	125
Burundi	135
Rwanda	164
Tanzania	Slowest 303
Cost (% of income per capita)	
Kenya	Least 160.9
Rwanda	312.0
Uganda	946.8
Tanzania	1,170.0
Burundi	Most 4,065.7

Source: Doing Business database.

averages, both economies still have the potential to further improve and emulate global top performers like Korea, where only 30 days are needed to complete this process. In Tanzania, the biggest delay is due to a lengthy wait at the City Council in Dar es Salaam (the largest city) to obtain the building permit. The time to complete this single procedure (not including other approvals/authorizations or utility connections) is 180 days—compared to 14 days in Burundi, 30 in Kenya, 45 in Rwanda and 40 in Uganda.

The average cost in the region remains fairly high—1,331% of income per capita. Taxes and fees for approvals in the pre-construction stage are the main drivers of higher costs in the EAC. Yet, there are big differences within the EAC's economies. The cost for an entrepreneur to complete all the requirements to deal with construction permits in Burundi is equal to 4,066% of income per capita (table 4.1), compared to 1,170% in Tanzania, 947% in Uganda, 312% in Rwanda and 161% in Kenya. Burundi is one of the most expensive places in the world to deal with construction permits.

FIGURE 4.2 Still very costly to deal with construction permits in the East African Community
Regional averages in dealing with construction permits



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and South Sudan. Zimbabwe is not included in the samples due to the impact of inflation on the average cost estimates.

Source: Doing Business database.

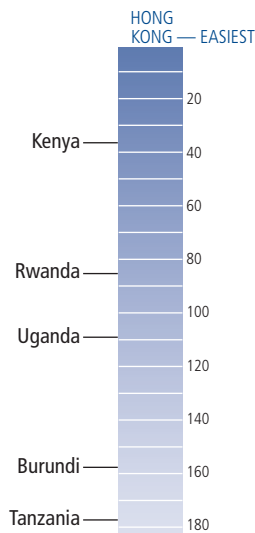
WHO REFORMED IN 2010/11?

Looking back to 2005,⁶ 4 of the 5 economies in the EAC—Burundi, Kenya, Rwanda and Tanzania—have since made it easier to deal with construction permits by implementing a total of 8 reforms. Kenya and Rwanda, both with a total of 3 reforms implemented over the past 7 years, have improved the most in this area. As a result of regulatory changes, the total time to deal with construction permits was reduced from 163 days to 125

days in Kenya and from 307 days to 164 days in Rwanda over this 7-year period (figure 4.2). Over the same period of time, Burundi reduced the cost to deal with construction permits from 13,205% to 4,066% of income per capita.

In 2010/11, Burundi was the only economy in the EAC that introduced reforms in construction permitting. Starting in May 2011, Burundi's National Laboratory for Building Construction and Public Works (*Laboratoire*

FIGURE 4.3 How do East African Community economies rank on the ease of dealing with construction permits?



Source: *Doing Business* database.

National Du Bâtiment et des Travaux Publics) changed its fee structure. As a result, the cost to obtain a geotechnical study was reduced by almost 40%. Kenyan authorities are currently working on a new set of regulatory improvements. For example, the Nairobi City Council is piloting an electronic permitting system that could considerably improve the efficiency and transparency of pre-construction procedures—including the adoption of online applications and electronic payments. Kenya is the highest ranked economy in the EAC for its ease in dealing with construction permits—at position 37 in the global ranking—followed by Rwanda, at 85th (figure 4.3).

WHAT HAS WORKED?

Smart regulation ensures that standards are met while making compliance easy and accessible to all. Coherent and transparent rules, efficient processes and adequate allocation of resources are especially important in sectors where safety is at stake. Construction is one of them.

Setting clear, coherent rules

Efficient regulation starts with a uniform building code—and its uniform implementation. Most commonly, a central authority outlines the rules and local authorities

implement them. When regulations are not organized and applied coherently, builders and authorities can become confused about how to proceed. This often leads to delays, uncertainty and disputes. In the EAC, Kenya, Tanzania and Uganda currently have unified building rules. Rwanda and Burundi do not.

Building rules also have to be adaptable so that they can keep up with economic and technological change—particularly important in the light of growing environmental concerns. New Zealand chose an effective approach: performance-focused building codes set targets and overall technical standards but do not regulate how to achieve those standards. This allows room for innovation in building techniques.

Using one-stop shops to improve coordination

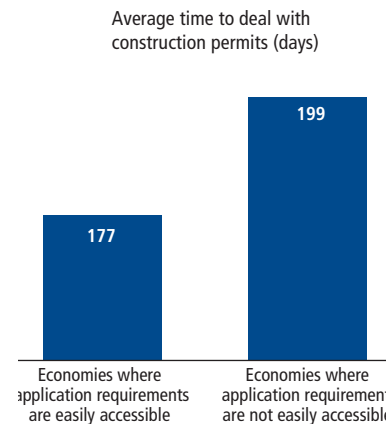
Before a building plan is approved, appropriate clearances are needed to ensure quality and safety. Often several agencies are involved. To prevent overlap and ensure efficiency, many economies have opted to put the agencies in one location. These one-stop shops improve the organization of the review process—not by reducing the number of checks needed but by better coordinating the efforts of different agencies. That way, more resources can be devoted to safety checks rather than to paperwork. In the EAC, only Rwanda has introduced a one-stop shop for dealing with construction permits. With the implementation of the one-stop shop in Rwanda's capital and largest city, Kigali, utility inspections that were previously done separately have been merged into 1 single procedure. Its location clearance and building permit were also consolidated in 1 single form.

Differentiating projects by risk

Not all buildings involve the same social, cultural, economic or environmental impacts. A hospital or skyscraper cannot be compared with a 2-story commercial warehouse. Efficient governments have implemented rigorous yet differentiated construction permitting processes to treat buildings according to their risk level and location.

Simple or low-risk buildings should require less documentation than more complex

FIGURE 4.4 Easier access to application requirements for building permits is associated with faster approval processes



Note: Relationship is significant at the 5% level after controlling for income per capita. Application requirements for building permits are considered easily accessible if they can be obtained through the website of the building authority or another agency or through public notices, without a need for an appointment with an official. The data sample includes 159 economies.

Source: *Doing Business* database.

structures and should be approved faster. This saves time for both entrepreneurs and authorities—allowing them to direct their efforts and resources more efficiently. In the EAC, Burundi and Tanzania have risk-based systems in place. The number of inspections during the construction stage depends on the complexity of the project in both economies. The other 3 economies of the EAC—Kenya, Rwanda and Uganda—could follow suit.

Allowing easy access to information

Easy access to building authorities' required documentation and fees can make compliance with regulations easier and reduce transactions costs for businesses. This year *Doing Business* collected additional data in 159 economies on the different ways in which building authorities and related agencies make such information accessible.

In the majority of the 159 economies covered, understanding which documents are needed to apply for a building permit and obtaining necessary forms requires a personal meeting with a public official. Yet this was not the case in most OECD high-income economies. OECD economies tend to make it easier on entrepreneurs by posting information via the internet, in printed brochures or on posters displayed at the building authority (or a

related agency)—reducing the need to interact with public officials for this information. Economies with easily accessible information tend to have faster building permits approvals (figure 4.4). In the EAC, for example, information on both fees and documents is easily and openly available to the public in Kenya.

NOTES

1. OECD 2010.
2. PricewaterhouseCoopers 2005.
3. Moullier 2009.
4. Agence France Presse, "Nigeria Approves Building Code," *News24.com*, August 3, 2006, <http://www.news24.com/>. Because many cases go unreported, the actual figure is probably higher.
5. World Bank 2009.
6. Covered by *Doing Business 2006*.

Getting electricity

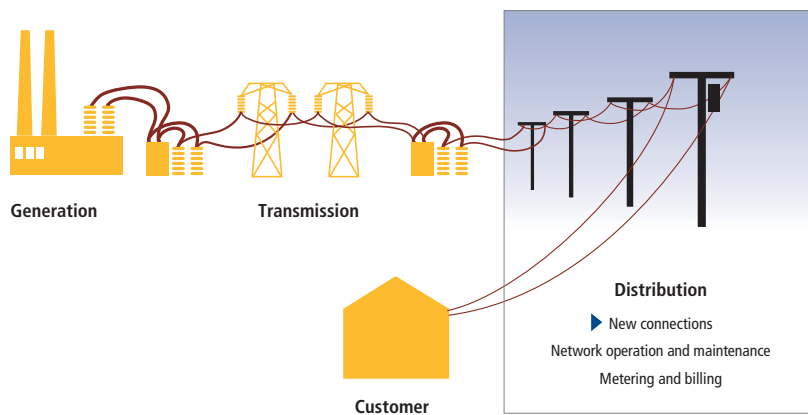
Imagine a young entrepreneur manufacturing home furnishings in Kigobe (Burundi) is working hard to expand her business by setting up a new warehouse. She negotiated financing with the bank, spent weeks getting building and operating permits and invested in new machinery as well as a new building. She has employees lined up and is ready to get started. But the young entrepreneur has to wait. She needs to obtain a new electricity connection for the warehouse. In Kigobe, getting an electricity connection requires 4 procedures that take 6 months and cost more than 300 times Burundi's average income per capita.

Compare the experience of a similar entrepreneur in Gikondo in Kigali (Rwanda) who is also constructing a warehouse. His warehouse is hooked up to electricity in about 1 month. The process also involves 4 procedures but it costs about 47 times Rwanda's income per capita.

Infrastructure services, particularly electricity, are a concern for businesses around the world. World Bank Enterprise Surveys show that managers in 109 economies—71 of them low- or lower-middle-income economies—consider electricity as one of the biggest constraints to their businesses. In addition, managers' estimated losses due to power outages average 5.1% of annual sales.¹ Studies have shown that poor electricity supply adversely affects the productivity of firms and the investments they make in their productive capacity.² For example, researchers estimate that eliminating the electricity outages in the Eastern Europe and Central Asia region would increase GDP by 0.5%.³ It is, therefore, essential for businesses to have reliable, good-quality electricity supply.

Whether electricity is reliably available or not, the first step for a business is to obtain a

FIGURE 5.1 *Getting Electricity* measures the connection process at the level of distribution utilities



connection. It is this step that *Doing Business* aims to measure through a new set of indicators. Introduced in *Doing Business 2010* with data for an initial 140 economies, the getting electricity indicators measure the procedures, time and cost for obtaining a new connection. Note that the data set covers only a small part of overall electricity service (figure 5.1). Yet it provides information on a number of issues not previously covered for such a large number of economies.

Doing Business measures the procedures, time and cost for a small to medium-size business to get a new electricity connection for a standardized warehouse with standardized electricity needs.⁴ The warehouse is assumed to be located in the largest business city, in an area where electricity is most easily available. Around the world, electricity connections are provided by distribution utilities that often retain monopolistic positions even in otherwise liberalized electricity markets. Businesses and other customers have little choice.

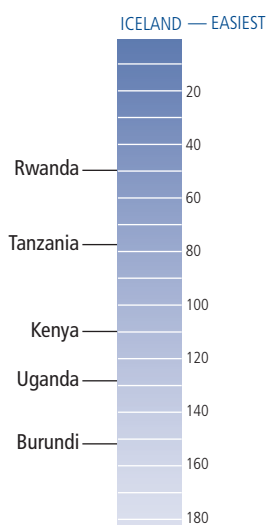
The connection process is governed by many laws and regulations covering quality of

TABLE 5.1 Where is getting electricity easy—and where not?

Procedures (number)	
Burundi	Fewest 4
Kenya	4
Rwanda	4
Tanzania	4
Uganda	Most 5
Time (days)	
Rwanda	Fastest 30
Uganda	91
Tanzania	109
Kenya	163
Burundi	Slowest 188
Cost (% of income per capita)	
Tanzania	Least 1,040.5
Kenya	1,419.2
Rwanda	4,696.8
Uganda	5,130.1
Burundi	Most 34,477.0

Source: *Doing Business* database.

FIGURE 5.2 How do East African Community economies rank on the ease of Getting Electricity



Note: The rank is the simple average of an economy's percentile rank on procedures, time and cost to get an electricity connection. See the data notes for details.

Source: *Doing Business* database.

service, general safety, technical standards, procurement practices and internal wiring installations. And it involves various institutions—including utilities, municipalities, testing agencies, transport agencies, regulatory agencies and agencies responsible for safety controls. *Doing Business* gives insights into the regulatory aspects surrounding electricity connections and measures how such regulations and institutions affect businesses when getting a new connection. *Doing Business* can help identify the bottlenecks in a connection process. What policy makers and regulators can do is facilitate this first step.

In the East African Community (EAC), it takes, on average, 4 procedures, 116 days and \$24,450 to get a new electricity connection for a warehouse (table 5.1). Expressed as percentage of income per capita—9,353%—the EAC's electricity costs are among the highest in the world. Costs are even higher than in other parts of the Sub-Saharan Africa region. For example, in the economies that make up the Southern Africa Development Community (SADC), electricity connections cost an average of 4,343% income per capita—less than half the relative cost of the EAC's connections.

The EAC's high costs and long waits are often due to the fact that dedicated distribution transformers have to be purchased and installed for the 140-kVA connection surveyed for this set of indicators. For example, in Burundi, entrepreneurs wait 4 to 5 months, on average, to import a transformer from Europe. Kenya, too, faces import-related delays. Furthermore, Kenya's entrepreneurs wait an average of 45 days for an external inspection after submitting their applications. After a site visit, a Kenyan customer then has to wait another 2 weeks for an estimate—resulting in one of the longest connection times in the EAC region (163 days). To compare, it takes only 30 days to obtain an electricity connection in Rwanda.⁵

Within the EAC, Burundi has by far the highest costs associated with getting an electricity connection. This is due to the high cost for installation and for a distribution transformer, which is necessary to accommodate the power demand of 140 kVA as assumed in the standardized getting electricity case study.

Overall, Rwanda is the easiest economy in which to connect to electricity in the East African Community (Figure 5.2). It takes 4 procedures, as in most of the other economies, yet the wait time for estimates and inspections is considerably shorter. After the technical department of the utility company approves an application, the customer pays a fee at the utility company (Reco&Rwasco) and arranges an appointment with technical experts from the utility. Usually, the technicians will be available to visit the property within 24 to 48 hours after payment. The customer then picks up the technicians at the utility and takes them to the property for the external inspection of the site. The utility is in charge of the external connection works; however the utility outsources the works to private companies. The external works are done in about 2 weeks.

WHO MADE GETTING ELECTRICITY EASIER OVER THE PAST FEW YEARS?

Reforms making it easier to get an electricity connection may be complex—often involving regulatory agencies and other public service providers—and take time to implement. But

streamlining internal procedures is an effective means to save time.

Several utilities around the world reduced wait times for connections by streamlining internal procedures. In the EAC, Tanzania undertook such efforts. In August 2009, Tanzania's regulatory agency EWURA approved the "Customers Service Charter," which has been in force since February 2010. The charter stipulates that if a customer is not connected as per a stipulated legal time limit, the utility pays 0.5% daily interest but not exceeding 50% of the total connection costs. Tanzania's new regulation has already helped decrease connection delays. In addition, various internal processes were streamlined. Previously an application form had to be signed by 5 people, but now only 2 people are required to sign. Overall, changing procurement practices for materials and making application procedures faster has saved Tanzania's entrepreneurs 9 months, on average, as measured by *Doing Business 2011*.

Outsourcing parts of the connection process to private companies can also increase efficiency and reduce connection times. In the EAC, Uganda's utility began outsourcing external connection works to registered construction firms. As a result, Uganda's connection times were sped up by 60 days in *Doing Business 2011*.

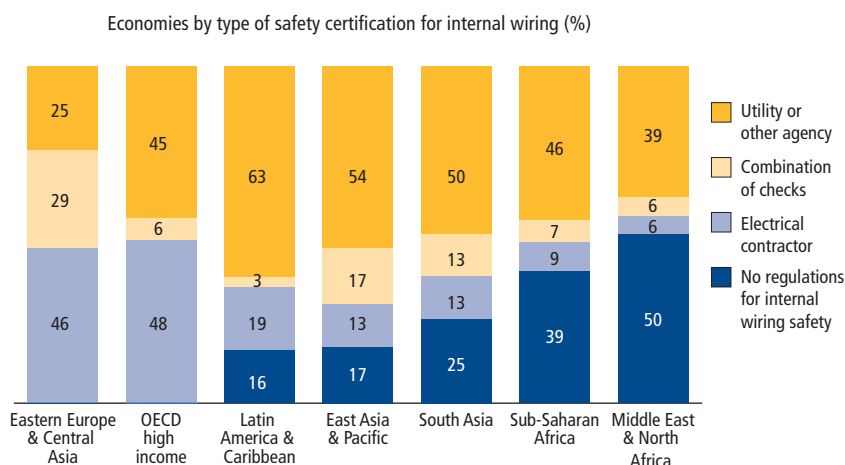
WHAT HAS WORKED?

Economies in which connecting to electricity is easiest have several good practices in common: a streamlined approval process, a well regulated electrical profession, transparent connection costs and processes and, finally, lower security deposits.

Streamlining approval processes

As discussed above, streamlining approvals by utilities and other public agencies is among the most effective ways to reduce connection delays and avoid the duplication of formalities. In Germany, for example, the customer has few interactions with agencies. Procedures are limited to submitting the application, concluding a supply contract and completing the connection works. The process takes only 17 days, on average.

FIGURE 5.3 Who is responsible for enforcing safety standards?



Source: Doing Business database.

Where delays occur because other public agencies are excessively bureaucratic, some utilities shift the administrative hassle to their customers. Among the procedures most commonly transferred to customers is applying to the municipality or the department of roads or transport for an excavation permit or right of way so that the utility can lay the cables or extend wires for the connection. Customers seeking a connection undertake such procedures in 48 economies. This is not the case in Uganda, Tanzania and Rwanda. In these 3 East African Community economies excavation permits or right of way are obtained by the utility and the customer is not involved. In Rwanda, for example, the authorization for digging the road is necessary and obtained by the utility from the regulatory agency called RURA, which can take up to 1 week.

Regulating the electrical profession

The safety of internal wiring installations is a concern not only for those using a building but also for utilities. One customer's faulty internal wiring can lead to power outages affecting other customers connected to the same distribution line. Because the quality of the installation matters to utilities and the public alike, in most economies customers seeking an electricity connection must go through some procedure to ensure that quality. Governments that require no checks of electrical installations may fail to provide an important public good.

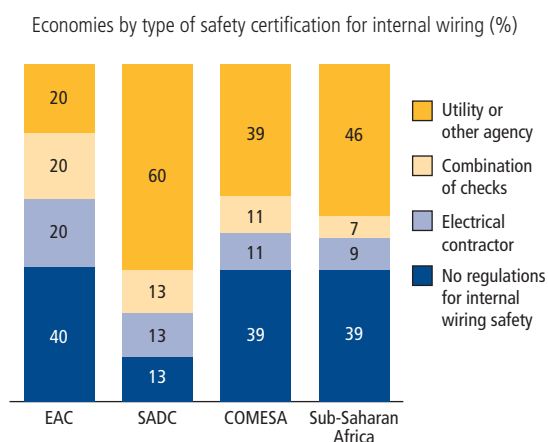
There are various approaches to ensure safe electricity connections. Some economies regulate the electrical profession by establishing clear liability arrangements for electrical contractors. Others regulate the connection process by requiring customers to obtain additional inspections and certifications from the utility or outside agencies before a new connection is granted. While different approaches to dealing with the safety of internal wiring installations can make sense in different environments, some cases emerging from the getting electricity set of indicators clearly suggest room for immediate improvement.

Overall, Sub-Saharan Africa is one of the most under-regulated regions regarding

internal-wiring safety (Figure 5.3). Within this region, the Southern Africa Development Community has the most economies that have an internal wiring inspection in place—conducted either by the utility or a specialized agency (Figure 5.4). In the EAC, however, there is a mixed picture. For example, in Burundi, there are no checks of the internal wiring required and the customer carries the responsibility for the safety of his warehouse. In Rwanda, there are no checks of the internal wiring, either. Meanwhile, in Uganda, multiple checks of internal wiring are required: The customer has to obtain an internal-wiring clearance from an electrician who is in possession of a permit from the Electricity Regulatory Authority (ERA) and submit that clearance with the application. A wiring certificate then confirms that all wiring has been done according to the standards on internal wiring established by the regulator. In addition, the utility conducts an inspection of the internal wiring. The customer has to pay the fee for the inspection at the utility and await the inspection. The whole process takes 30 days. In Tanzania, the utility carries out an inspection of the internal wiring before the final connection to electricity. In Kenya, a customer's electrical contractor simply has to submit a notification to the utility that internal wiring was done in accordance with the prevailing standards.

Where professional standards are poorly established or qualified electrical professionals are in short supply, utilities or designated

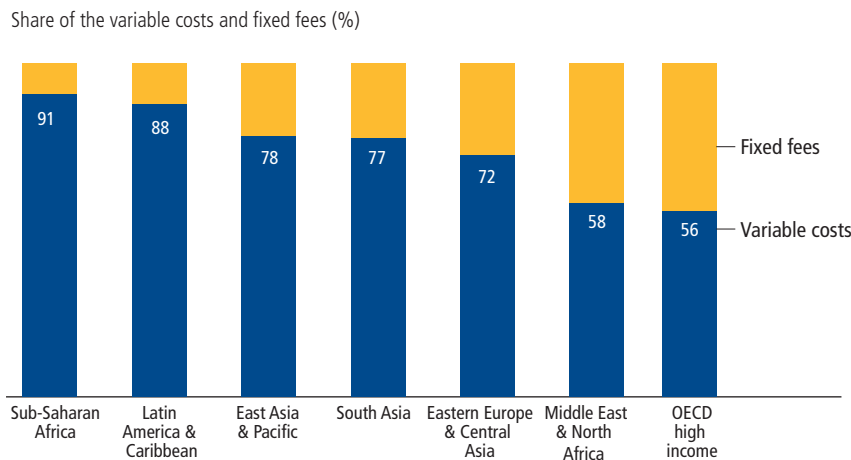
FIGURE 5.4 Who is responsible for enforcing safety standards in Africa?



Note: The data sample for COMESA does not include Libya and South Sudan.

Source: Doing Business database.

FIGURE 5.5 The variable costs represent a bigger share in Sub-Saharan Africa



Source: *Doing Business* database.

agencies may be better placed to carry out inspections to ensure the safety of customers—even if this leads to connection delays. Economies seeking to shift from regulating the connection process to regulating the electrical profession have to be careful not to transfer responsibility to private professionals too early. Take the experience in South Africa.⁶ In 1992, in an attempt to free utilities from the burden of inspecting internal wiring, the government made private electricians liable for the quality of their wiring installations. But the shortage of qualified electrical professionals and ambiguity in the regulations led to an increase in customer complaints about substandard wiring. After 8 years of heated debate, the government introduced new internal wiring regulations in May 2009, clarifying standards for electrical installations and the issuance of compliance certificates. The government also introduced voluntary (non-mandatory) inspections to be conducted by a new independent authority and pledged to continue working to reduce the shortage of skilled electricians in the country.

Increasing the transparency of connection costs and processes

The type of electrical connection can vary depending on network capacity.⁷ If that capacity is constrained, a more complicated connection may be required, effectively leading to an expansion of the distribution network. The resulting capital investments

(such as the installation of a distribution transformer) must be covered by the new customer. This obligation, more common in low-income economies, substantially raises the total connection cost.

This holds true for the economies in the EAC. Connection costs in most of these economies are high because of the prices paid to build a substation or pole and install a transformer and necessary equipment in the substation. These materials often have to be imported. Within Sub-Saharan Africa, Burundi is among the 10 economies with the highest connection costs. The customer pays to reinforce the network for the requested connection. In Uganda and Rwanda, additional transformers are needed as well; however, the customer pays only about half as much as is paid in Burundi.

Connection costs should be as transparent as possible to allow customers to contest them when they feel they are paying more than they should. As utilities allocate the costs for new connections between existing and prospective customers, they also have to balance considerations of economic efficiency and fairness. But it is often difficult in practice to distinguish between capital works needed to connect specific customers and those needed to accommodate projected growth or to improve the safety or reliability of the distribution network. This leaves room to make new customers pay for

investments in the network that will benefit other customers as well.

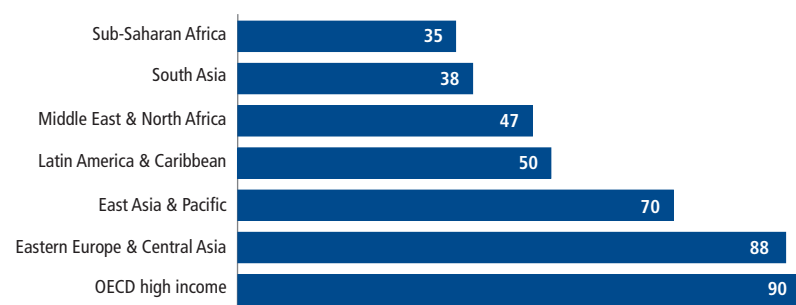
In many economies connection costs are not fully transparent. Utilities far too often present customers with individual budgets rather than follow clearly regulated capital contribution policies aimed at spreading the fixed costs of expanding the network over several customers. Costs can usually be divided into 2 categories: a clearly regulated connection fee based on a formula or set as a fixed price; and variable costs for the connection, accounting for the actual labor and material required.

Variable costs represent a larger share of total costs in Sub-Saharan Africa than they do in other regions of the world (figure 5.5). Meanwhile, on the flip side, fixed costs represent a larger share of total costs in high-income economies—especially when compared to low- and middle-income economies. Fixed costs are more transparent and predictable for entrepreneurs. Furthermore, where fixed costs represent a higher share of overall costs, connections tend to be less expensive. This suggests the potential for lowering overall connection costs by improving the transparency of fees—and the accountability of utilities.

Few utilities in Sub-Saharan Africa provide transparent cost structures to customers. Notable exceptions are Kenya and Tanzania in the EAC. However, in Tanzania additional variable costs for transformer and material can occur as well. In Kenya, connection costs include capital contribution charges based on a formula for network reinforcement for up to 600 meters of connection length. Capital contribution policies can be a good way to enhance transparency of connection cost. For example, in Trinidad and Tobago the utility clarifies connection costs through its new capital contribution policy. Before, connection costs were calculated case by case—like in most economies in the EAC—making it difficult for customers to assess whether they were charged too much or not. Now Trinidad and Tobago's utility bears the connection costs and then distributes them across all customers through clearly regulated consumption tariffs.

FIGURE 5.6 Connection fee schedules least accessible in Sub-Saharan Africa and South Asia

Share of economies where fee schedules are easily accessible (%)



Note: The data sample includes 181 economies.

Source: *Doing Business* database.

Efficient utilities make it easy for customers to find out what they need to know. They post all the necessary information about procedures and paperwork for new connections on their website, in their office or in other public offices. They also post their performance standards, such as for turn-around time. Connection fee schedules are least accessible in the Sub-Saharan Africa region (figure 5.6). Economies in the East African Community fit the broader regional pattern. Only in Tanzania are connection fee schedules easily available in brochures and in hardcopy on boards in the utility's customer service offices. In all other economies, the customer has to make an appointment with an employee from the utility to get more

information on the structure of charges for new electricity connections. In Uganda, the fee schedule is available for connections up to 50 kVA as per the law. However, no fee schedule is available for the connection type in the getting electricity case study (140 kVA). And even though Kenya has a capital contribution policy for up to 600 meters of connection length in place, information about it is not publicly available.

Easier access to fee schedules and lower fees often go hand in hand. Regardless of income levels, connection fees tend to be lower in economies where fee schedules are easily accessible (figure 5.7). In economies where the connection tariffs are more difficult to access, the cost to get an electricity connection is 275% higher (relative to income per capita).

Lessening the burden of security deposits

Utilities in 86 of the 183 economies surveyed by *Doing Business* in 2010/11 charge customers security deposits as a guarantee against nonpayment of future electricity bills.⁸ Security deposits are particularly common in 2 regions: Latin America and the Caribbean and Sub-Saharan Africa. While they average \$9,423, they can run as high as \$55,900 in Dominica.⁹

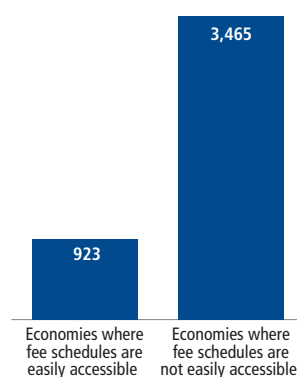
Because most utilities hold the deposit until the end of the contract and repay it without interest, this requirement can impose a substantial financial burden on small and medium-size businesses—especially those facing credit constraints. In the Central

African Republic, for example, a medium-size company effectively grants the local utility an interest-free credit equivalent to 1,195% of income per capita—and thus is prevented from putting the money to a more productive use. In the East African Community, utilities in Burundi and Kenya do not ask for a security deposit. However, utilities in Rwanda, Tanzania and Uganda do. The deposit is returned at the end of the connection contract without any interest. The present value of lost interest on the security deposit presents almost 14% and 12% of income per capita in Tanzania and Uganda, respectively.

Because security deposits are supposed to protect utilities against the risk of nonpayment, it is not surprising that they are more likely to be charged in economies where utilities cannot count on efficient court systems and have to fear that contracts can be enforced only with significant delays.¹⁰ But utilities might charge security deposits not only to protect themselves against financial losses from delinquent customers; they might be tempted to do so to improve their cash flow as well. Analysis of a sample of 24 utilities in Sub-Saharan Africa found that those with a lower cost recovery ratio are more likely to charge a security deposit (figure 5.8).¹¹

FIGURE 5.7 Electricity connection costs are lower in economies with clear disclosure of fees

Average cost to connect to electricity (% of income per capita)

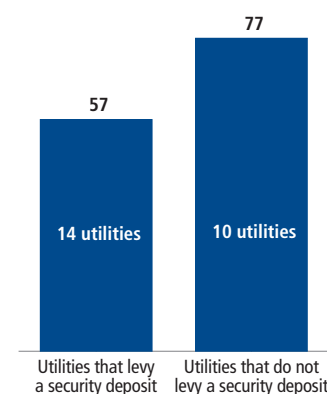


Note: The data sample includes 181 economies. Relationships are significant at the 1% level after controlling for income per capita.

Source: *Doing Business* database.

FIGURE 5.8 Utilities in Sub-Saharan Africa with lower cost recovery rates are more likely to charge security deposits

Average cost recovery rate of utilities (%)



Note: Relationships are significant at the 5% level after controlling for income per capita. The data sample includes 24 utilities in Sub-Saharan Africa.

Source: Based on data from Foster and Briceño-Garmendia (2010).

Where utilities seem to rely on security deposits to deter nonpayment, they should at least consider lessening the financial burden that security deposits represent for customers. A start would be to return the deposit after 1 or 2 years and not at the end of the connection contract. Returning the deposit with interest is another route that some utilities already pursue.

In 33 out of 46 economies in Sub-Saharan Africa, a security deposit is charged. In only 4 of the region's utilities (in Namibia, Seychelles, South Africa and Zimbabwe) are customers allowed to settle their deposits with a bank guarantee or bond rather than depositing the entire amount with the utility. The service cost for such bank guarantees usually amounts to less than the interest that customers would lose on the deposit. More importantly, bank guarantees allow entrepreneurs to keep control of their financial assets and improve their cash flow while running their businesses.

network. According to the standardized case study, the customer requests a nontrivial but still relatively modest 140-kilovolt-ampere (kVA) connection. By comparison, the demand of a residential connection is about 20 kVA.

8. The number of economies where utilities charge security deposits does not include those where security deposits are rolled over into consumption bills for the first 3 months (Tunisia and the United States).
9. Although *Doing Business* records only the present value of the interest lost on the security deposit, even those amounts can be high—in Madagascar, as high as \$14,000. In economies where a security deposit is requested, the cost of the security deposit accounts for an average of 12% of the entire connection cost for the customer.
10. World Bank 2010.
11. The cost-recovery ratio is based on the average effective tariff and the costs of power production (operating and capital expenditure). Since capital expenditure is a harder data point to get, a replacement cost approach was used in which physical assets on the ground were considered and the unit costs of replacing these assets were used to estimate their total value. These estimates were then averaged over power consumption.

NOTES

1. World Bank Enterprise Surveys (2002-10). The data sample includes 113 economies.
2. Calderon and Servén 2003; Dollar, Hallward-Driemeier and Mengistae 2005; Reinikka and Svensson 1999; Eifert 2007; Iimi 2008.
3. Iimi 2008.
4. For more details on the methodology, see the data notes.
5. Rwanda, however, has only an electrification rate of 8%, while Kenya and Tanzania have electrification rates of 29% and 14%, respectively. The installed capacity for Rwanda, Kenya and Tanzania are 84 MW, 1,513 MW and 1,095 MW, respectively. (Castalia, 2011a and 2011b, KPLC 2011 and World Bank, 2011).
6. Srinivasan and Turlakova (2010).
7. *Doing Business* distinguishes between 2 cases: connecting to the low-voltage network and connecting to the medium-voltage network. The first case involves laying low-voltage underground cables or installing low-voltage overhead wires from the metering point to the closest connection point on the network. The second case usually occurs when the capacity of the utility's low-voltage network cannot accommodate the power demand of a customer. This case involves installing a distribution transformer and connecting it between the customer's installation and the utility's medium-voltage

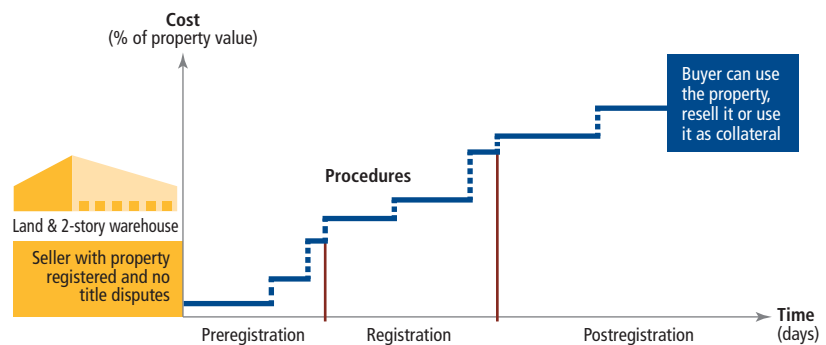
Registering property

Imagine Akiiri, an Ugandan entrepreneur who wants to sell a plot of land to invest in the expansion of his manufacturing business. He has found an interested buyer. Today, entrepreneurs like Akiiri have learned that registering and transferring property in the capital city of Kampala takes 13 procedures, 48 days and costs 2.9% of the underlying property value. The year before, the same process would have taken 77 days and cost 3.2% of the property value. Saving Ugandan entrepreneurs a full month—29 days, to be exact—to register their property is the positive result of Uganda’s 2011 establishment of new performance standards and the recruitment of more officials at its land office.

Secured property rights, via title registrations, help support investment, productivity and growth.¹ Evidence from economies around the world suggests that property owners with registered titles are more likely to invest. They also have a better chance of getting credit when using their property as collateral. In Argentina a study observed greater investment in homes after formal titles were granted to squatters. Compared with the squatters who did not receive titles, title-holders increased the overall value of their homes by 37%.² In Nicaragua, having a formal title not only made owners more likely to invest, it also increased land values by 30%.³

Yet a large share of property in developing countries is not formally registered. Furthermore, the more difficult and costly it is to formally transfer property, the greater the chances that formalized titles will become informal again. And even if titles remain formal, property markets do not function effectively if cumbersome regulations keep investments from being channeled to their most productive uses. Eliminating

FIGURE 6.1 What are the time, costs and number of procedures required to transfer a property between 2 local companies?



unnecessary obstacles to registering and transferring property is, therefore, important for economic development.

The benefits of land registration go beyond the private sector. For governments, having reliable, up-to-date information in cadastres and land registries is essential to correctly assess and collect tax revenue. In Thailand, where annual revenue from property and transfer taxes rose from \$200 million in the 1980s to \$1.2 billion by 1995, a land titling program that increased the number of registered property owners during the 1980s is perceived to be one of the reasons for the increase.⁴ Land information and tools—such as cadastres and survey maps—can also help in planning the expansion of urban areas and help to avoid or mitigate the effects of environmental or climate-related risks on urban populations.

Doing Business records the procedures necessary for a business to purchase a property from another business and to transfer the property title to the buyer’s name (figure 6.1). The process starts with obtaining the necessary documents—such as a copy of the seller’s title—and conducting due diligence, if required. The transaction is

considered complete when it is opposable to third parties and when the buyer can use the property as collateral for a bank loan or resell it. The ranking for this indicator is the simple average of the percentile rankings on the procedures, time and cost to register property. Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer and even if it must be completed by a third party on their behalf.

In East African Community (EAC) economies, entrepreneurs must go through an average of 8 procedures, wait 61 days and pay 4.7% of the property value. OECD high-income economies tend to be the easiest places to register properties—with an average of 5 procedures requiring 31 days and a cost of 4.4% of the property value. Note that in the OECD high-income economies, entrepreneurs wait only half as long to register property as in EAC economies.

However, there is a great variation among the EAC economies. Rwanda is the fastest EAC economy in which to register property: 5 procedures require only 25 days. Yet Rwanda’s cost is considerably higher: averaging 6.3% of the property value—more

TABLE 6.1 Where is getting registering property—and where not?

Procedures (number)	
Burundi	Fewest 5
Rwanda	5
Kenya	8
Tanzania	9
Uganda	Most 13
Time (days)	
Rwanda	Fastest 25
Uganda	48
Kenya	64
Tanzania	73
Burundi	Slowest 94
Cost (% of income per capita)	
Uganda	Least 2.9
Kenya	4.3
Tanzania	4.4
Burundi	5.6
Rwanda	Most 6.3

Source: *Doing Business* database.

than twice the price found in Uganda, which is the least expensive in the EAC (table 6.1). Meanwhile, registering property is slowest in Burundi, where it takes 94 days. Burundi's land registry has to perform due diligence for the transfer of property to the buyer's name and might do a field inspection of the land. The due diligence alone could take 1 or 2 months.

WHO REFORMED IN 2010/11?

Going back over the past 7 years, *Doing Business* has recorded 169 reforms undertaken in 107 economies that made it easier to transfer property. Globally, the average time to transfer property fell by 59 days—from 122 in 2005 to 63 days in 2011—and the average cost fell from 10% to just 6% of the property value over this same period.

In the past year (2010/11), 20 economies around the world made it easier to register property. During this time, Uganda was the only EAC economy to make registering property easier (figure 6.2)

In 2011, the government of Uganda introduced new time guidelines for service provision at its Chief Government Valuer's Office. Establishing performance standards

and recruiting more officials increased efficiency at the land office. As a result, the time it took to value property for transfer purposes by the Chief Government Valuer's Office decreased from 1 month to just 1 to 2 weeks. In addition, the time it took to process a sale contract at the land office dropped from 21 days to just 5 to 10 days. As a result, Uganda slashed the time required to transfer and register property from 77 days to just 48 days overall. Uganda improved by 28 positions in the global registering-property ranking; today it is 127th—ahead of Kenya (133rd) and Tanzania (158th).

In May 2010, Rwanda implemented a new law regulating its real-property valuation profession. An official list of certified real-property valuers was published. The seller of a commercial property is now required to have one of the certified experts determine the value of the property to see if capital gains tax applies and to obtain a tax clearance certificate. Previously, experts from the national bank conducted the valuation of commercial properties. In 2009, the land registry abolished the requirement to value commercial properties and reinstated today albeit by private valuers. These measures have been put in place to curb fraud resulting from the under-estimation of property values in sale-purchase agreements.

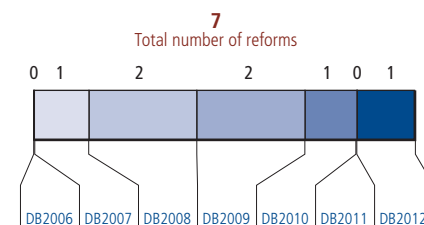
As a result, registering property in Rwanda required 1 new procedure last year. This new procedure takes 2 days and adds a considerable RWF 937,361 (\$1,600) to total transfer costs. Additionally, the government of Rwanda increased the number of officials handling land transfers at its land office and, as a result, the time to obtain an ownership certificate decreased significantly—from 25 days to just 2 days.

Over the past 7 years, EAC economies have eased the burden of registering property by cutting the number of days required by more than half (figure 6.3). Specifically, back in 2005, an entrepreneur from an EAC economy needed to wait 138 days, on average, to transfer property. Today, only 61 days are required.

But there are still some requirements that slow down the process of transferring and registering property unnecessarily. Tanzania

FIGURE 6.2 EAC reform trends easing property registration

Number of reforms easing the process of registering property per year of *Doing Business* report



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year.

Source: *Doing Business* database.

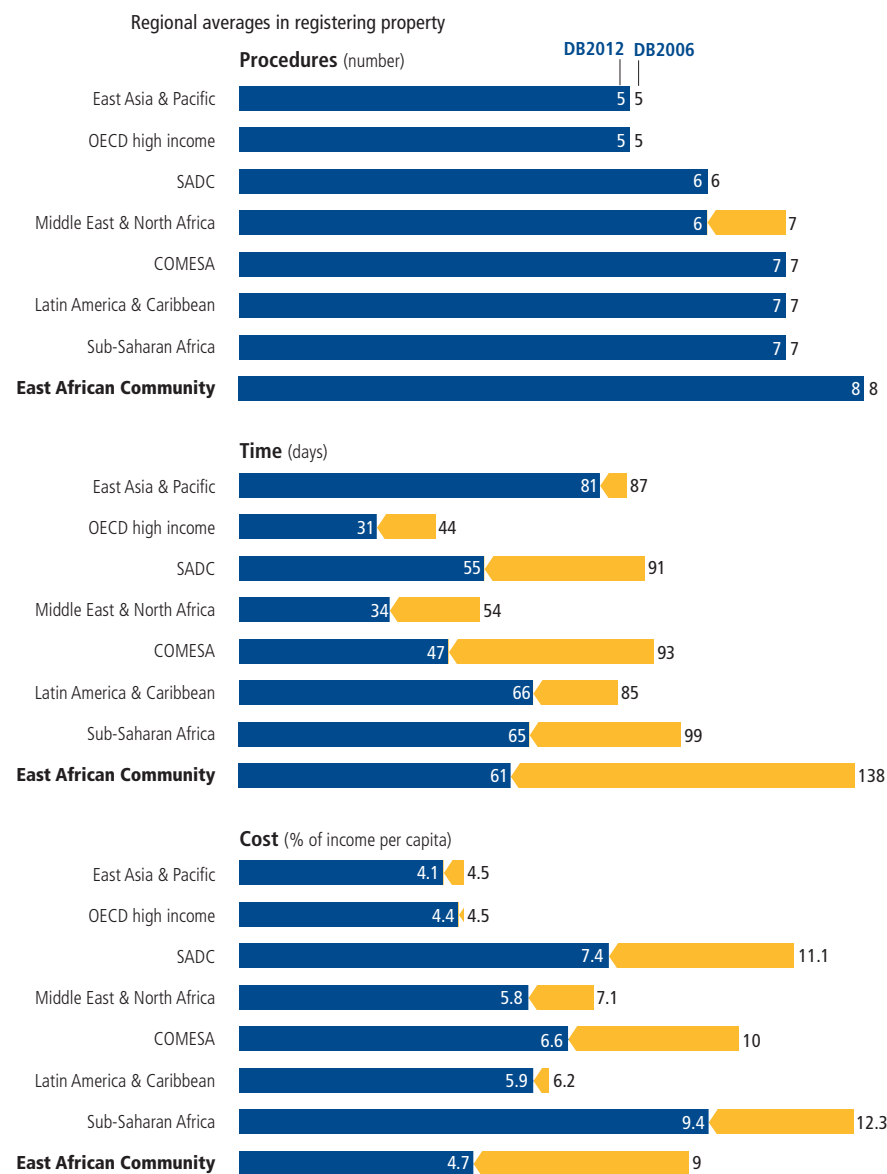
requires the consent of its Commissioner of Lands to transfer and register property—which can take up to 21 days and costs TZS 5,000 (\$4). Uganda is another EAC economy that requires government's consent prior to a transfer. Besides Tanzania and Uganda, only 9 other economies surveyed by *Doing Business* around the globe have this requirement in place.

Meanwhile, in Burundi, in order to transfer the property, the land registry and the Ministry of Finance must verify the sale price of the property. This verification can delay the registration process by 25 days, depending on the availability of the expert.

Entrepreneurs from all economies of the East African Community are still required to have the land and property valued in order to assess transfer fees payable to the government. Although in Bujumbura (Burundi) properties are not necessarily inspected for that purpose, in Tanzania, Uganda, Kenya and Rwanda physical inspections are required by law—adding 7 days, 15 weeks, 21 days and 2 to 3 days, respectively, to the registration process.

The overall price to register property in the EAC remains fairly low: averaging 4.7% of the property value. In the OECD high-income economies, the cost is only slightly lower: 4.4% of the property value. In contrast, in the broader Sub-Saharan Africa region, registering property tends to be twice as expensive: totaling 9.4% of the property value. Within the EAC, the cost ranges from just 2.9% of the property value in Uganda to

FIGURE 6.3 EAC economies have significantly reduced the number of days required to register property from 138 to 61 days



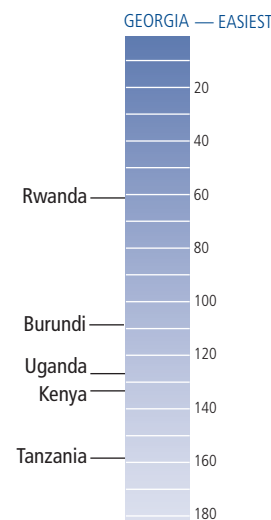
Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and South Sudan. Zimbabwe is not included in the samples due to the impact of inflation on the average cost estimates.

Source: Doing Business database.

6.3% of the property value in Rwanda. The main component of most economies' costs is the stamp tax charged by governments on property transactions. In most of the EAC, the stamp duty is calculated as a percentage of the property value—ranging from 1% in both Tanzania and Uganda to 4% in Kenya. Rwanda is the only economy in the EAC to charge a flat property-transfer fee, regardless of the property price. That fee is currently RWF 20,000 (\$34).

Another component of the property-transfer costs in the EAC is legal expenses. All East African Community economies except Kenya require transfer documents to be drafted and prepared by lawyers or notarized. In Tanzania, for example, the preparation of the transfer deed and notarization of the sale agreement costs, on average, 3% of the property value. In Uganda, having a lawyer draft a sale agreement, as required, costs between 1% to 2% of the property value.

FIGURE 6.4 How do East African Community economies rank on the ease of registering property?



Source: Doing Business database.

In Burundi, where a lawyer first drafts the sale agreement and a notary verifies it later, the related expenses amount to BIF 250,000 (\$188), or approximately 3.2% of the property value. Notarization costs are lower in Rwanda, where a notary from the Ministry of Justice authenticates the agreement for a flat fee of RWF 7,300 (\$12). Although Rwanda increased the cost and added a procedure to the process of registering property in the past year, it still earns the top ranking in the East African Community region on the ease of registering property (figure 6.4).

WHAT HAS WORKED?

The comparison of property registration systems—based solely on the procedures, time and cost to transfer and register property as measured by *Doing Business*—suggests a number of good practices. These include setting time limits, lowering fixed fees, streamlining procedures and introducing electronic processes.

Introducing time limits

Time limits give citizens a reference for gauging how much time a procedure may take. If the procedure is not completed within that time limit, they know they need to follow up.

Worldwide, 54 economies set legal time limits for property registration procedures,

and 13 of them offer expedited procedures. Following up, 3 out of every 4 economies with statutory time limits comply with them.⁵ Eastern Europe and Central Asia, OECD high-income economies and Latin America and the Caribbean stand out for the highest compliance rates. Introducing time limits can help improve administrative efficiency at registries. Time limits serve to benchmark registries' performances while they speed up processes for entrepreneurs. None of the economies in the EAC have introduced legal time limits for property registration procedures.

Since 2005, 19 economies tracked by *Doing Business* have introduced time limits. But time limits only work when the agency has the capacity to comply with them. In most economies, time limits accompanied broader changes. In 12 economies—including Belarus, Burkina Faso, the Arab Republic of Egypt, FYR Macedonia and Mauritius—time limits were introduced at the same time procedures were streamlined through computerization and strategic reorganizations.

Setting low fixed fees

Property-transfer taxes are an important source of revenue for many governments. But when transfer fees and taxes are too burdensome, even previously registered properties can become informal if subsequent transactions are not registered. Informal transfers not only erode the protection of property rights, they also reduce potential revenue from property taxes.

Over the past 7 years, 56 economies around the globe lowered transfer taxes and other government fees, reducing the average cost to register property by 4% of the property value. Of these reformers, 23 are in Sub-Saharan Africa, where costs have traditionally been highest. However, only 1 economy in the EAC offers flat-rate transfer taxes and fees: Rwanda. In January 2008, Rwanda abolished its variable registration fee (which was 6% of the underlying property value), via the Rwanda Revenue Authority, and introduced a flat rate of RWF 20,000 (\$34) that is paid for all transactions—regardless of the price of the property. Previously, Rwanda's properties had to be valued by tax authorities to determine the value of the

6% registration fee. Introducing the flat fee saved entrepreneurs time and money.

Burundi took a gradual approach to lowering its property transfer taxes. It cut the transfer cost by 10% of the property value over 3 years by first abolishing its 7% registration fee and then reducing its transfer tax rate from 6% of the property value to just 3%.

In many economies, property registration fees or transfer taxes are just part of the total cost to entrepreneurs. Additional fees and duties may apply throughout the process. Even if these additional fees amount to little, they may increase the red tape for entrepreneurs. Armenia and Burkina Faso simplified their processes by making it possible to pay several fees at a single location. Others eliminated these additional fees altogether. Madagascar, Mauritius, Rwanda and the Slovak Republic have all done so since 2006—thus reducing their transfer costs by an average of 4.5% of the property value.

Streamlining procedures

Over the past 7 years, 32 economies have streamlined procedures, linking and/or improving agencies' systems to simplify property registrations. These measures reduced the number of interactions between entrepreneurs and agencies—saving between 1 and 2 procedures, on average—while maintaining security and controls. Streamlining procedures was particularly common in the Eastern Europe and Central Asia region, where 16 such reforms were recorded.

Within the EAC, Rwanda created a new centralized service under the Rwanda Revenue Authority in 2008 to speed up the process of issuing tax-clearance certificates. Prior to this centralization, the sales agreement was bounced from 1 service to another to obtain information regarding taxes, customs and more. Now all services can be accessed from a single point. As a result of this integration, the time to transfer a property was reduced from 371 days to 315 days in 2008, on average. Since that successful reform, Rwanda has continued to streamline the procedures for property registrations. In 2009, Rwanda reorganized its land registry and created 5 branches where properties could be registered, relieving the backlog at the main

office in the capital city of Kigali. This sped up the registration process tremendously. Furthermore, since May 2009, a seller in Rwanda has been able to use the internet to request a tax-clearance certificate from the Rwanda Revenue Authority (RRA). As a result, time for property registration was further reduced from 315 days in 2008 to 60 days in 2009.

One-stop shops are an efficient way to minimize interactions between agencies and entrepreneurs. Ghana did this under the roof of its Lands Commission. But not all economies can afford to bring all of the agencies involved in property transfer under one roof. Even so, many have been able to coordinate the functions or records of at least 2 institutions involved in the property transfer process. In most cases, this coordination has linked the land registry to the tax agency or valuation agency. For example, a representative from 1 of the institutions could be present at the other agency—as in Burundi. Another option is to link agencies electronically—as in achieved in Denmark, Latvia, Lithuania, Peru and Portugal. In Latvia, for example, the land registry gained electronic access to municipal tax information on real estate. That freed entrepreneurs from having to provide this information in a paper format.

Going electronic

In 60% of the world's economies, property registries have electronic files.⁶ Digital records enjoy many advantages over paper records. They take less space, and backup copies can help ensure that property records will survive in the case of natural disasters or civil wars. Electronic systems also make errors and overlapping titles easier to spot. Furthermore, electronic interactions are more transparent. A survey in India found that fewer users paid bribes to accelerate e-government services.⁷ But this does not mean that paper registries cannot be efficient. Thailand had a very efficient manual system before going electronic. And having digital records is no assurance that an economy has a good system in place to manage this information.

Still, transferring property takes about half as much time in economies with computerized registries as in those without them. All 31

OECD high-income economies have electronic registries. Eleven—including France, the Netherlands and New Zealand—even offer electronic registration. In the South Asia and Sub-Saharan Africa regions, by contrast, more than 80% of economies still have paper-based systems. None of the economies in the EAC have electronic registries. It is no surprise that OECD high-income economies enjoy the fastest property registrations, taking just 31 days, on average.

Twenty-seven economies as diverse as Portugal, Samoa and Zambia computerized their registries over the past 7 years (three of them—Belgium, Swaziland and Vanuatu—did so in 2010/11.) These 27 economies cut the time required to transfer property in half—by about 3 months, on average. Positive reforms show that computerized systems at the cadastre or registry can make access to information easier and eventually allow information to become available online. Among the 154 economies with a cadastre or survey, 52 currently make their information available online. Last year, for example, Costa Rica made cadastral and property certificates available online to all users on a single website.

Fully implementing computerization and electronic filing may take decades, and the cost can reach millions of dollars, depending on the amount of surveying and cadastre work involved. So it is no surprise that many economies seek the financial and technical support of donor institutions. International organizations—such as the World Bank and the Organization of American States—have been engaged in land administration projects involving the digitization of records.⁸ So have national aid agencies—including those of Australia, Finland, Germany, the Netherlands, Spain and the United States.

Given the challenge (and the opportunities) of going electronic, many economies take a gradual approach to implementation—first moving from paper-based to electronic records and computerization, then introducing electronic registration. This was the approach used in New Zealand and Norway, which today have among the most efficient property registration systems in the world. New Zealand digitized its property records

between 1997 and 2002. Then it introduced electronic registration. But by 2005 only about half of property transactions were being submitted electronically. A final push was needed. In 2008, a law made electronic registration mandatory. Registration can now be completed in just 2 steps, at a cost of just 0.1% of the property value.

NOTES

1. See Deininger (2003) for a summary and analysis of relevant studies.
2. Galiani and Schargrodsky 2009.
3. Deininger and Chamorro 2002.
4. Burns 2002
5. *Doing Business* database.
6. *Doing Business* database.
7. Bhatia, Bhatnagar and Tominaga (2009).
8. For a concise and thorough overview of World Bank support for land administration and management projects, see Bell (2009).

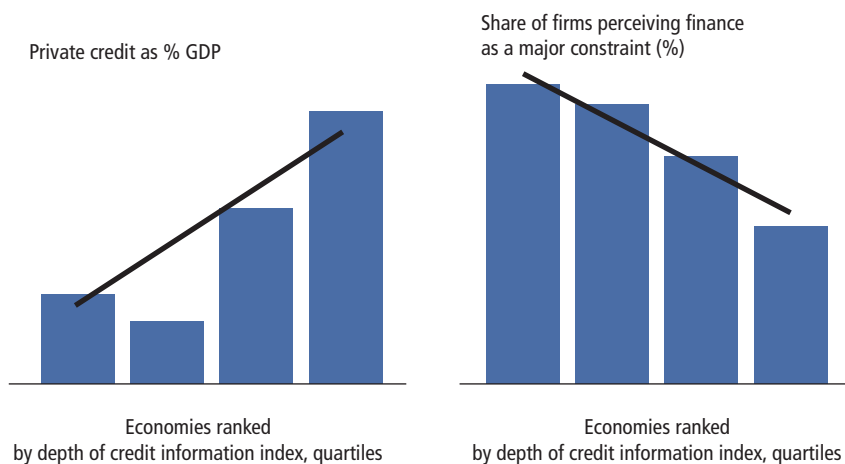
Getting credit

Entrepreneurs worldwide identify access to credit as a key challenge¹—particularly in developing economies where most rely on personal funds to open or expand their businesses.² Credit information sharing and effective collateral laws can help. In Uganda, a new private credit bureau opened in 2009. The impact is positive. Imagine Sharon, a young Ugandan entrepreneur who runs a small confectionery business in Kampala. She wants to expand her profitable catering business and has new customers lined up, but she needs more funds. Sharon approaches Sonam, a loan officer at her bank, for a line of credit. Thanks to Uganda's new bureau, Sonam can review Sharon's credit history—and determine that she qualifies for a low-interest loan program for small businesses.

Research shows that where collateral laws are effective and credit registries are present, banks are more likely to extend loans.³ Access to credit information helps lenders assess the creditworthiness of potential clients. Although a credit history is not a substitute for sophisticated risk analysis, when banks share credit information, loan officers can assess borrowers' creditworthiness using objective measures. And if lenders are also reassured by strong creditors' rights, it allows them to take greater, well-informed risks.⁴ This in turn can make financing more accessible, particularly for small and medium-size entrepreneurs (figure 7.1).

Private firms—especially micro, small and medium-size enterprises—often have more movable assets—such as stock or equipment—than they do have immovable property—such as land or buildings. In fact, recent research in developing countries has shown that 78% of the capital stock of businesses is typically in movable assets and only 22% in immovable property.⁵ But

FIGURE 7.1 More credit information is associated with more credit and lower perception of finance as a constraint – the case of Sub-Saharan Africa



Source: *Doing Business* database.

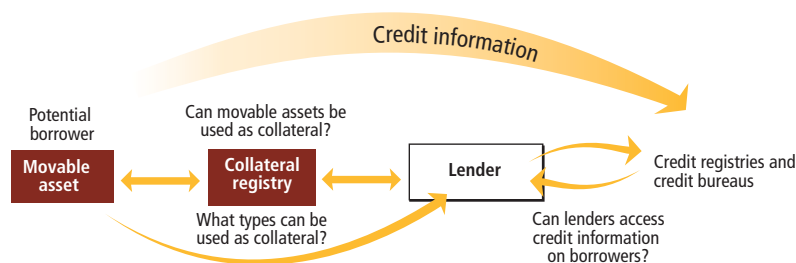
in most developing economies movable property would probably be unacceptable to lenders as collateral—either because the law does not recognize non-possessory interests in movable assets as collateral or because it does not provide sufficient protection for lenders accepting movable. Why is collateral important? Research shows that in developed economies borrowers with collateral get 9 times as much credit as those without it. They also benefit from repayment periods 11 times as long and interest rates up to 50% lower.⁶

Credit bureaus and registries are also essential parts of the financial infrastructure, facilitating access to formal finance. By sharing credit information, they help reduce information asymmetries, increase access to credit for small firms, lower interest rates, improve borrower discipline and support bank supervision and credit-risk monitoring. Research shows that basing credit decisions

on objective information may improve the availability of credit to the poor.⁷ Objective information for lenders may also increase entrepreneurs' opportunities for expansion, supporting the development of micro- and small businesses in developing economies.⁸ A recent study found that after the introduction of new credit reporting systems in developing economies, access to credit grew twice as fast for small firms as for large ones.⁹

In recent years, access to finance has been considered one of the main obstacles to business in Africa—particularly for small and medium-size enterprises.¹⁰ According to the Enterprise Surveys, on average, 45% of enterprises in the East African Community identify "access to finance" as a "major constraint" to business.¹¹ The good news is that *Doing Business* is recording some improvements in credit-information sharing and collateral laws in the region.

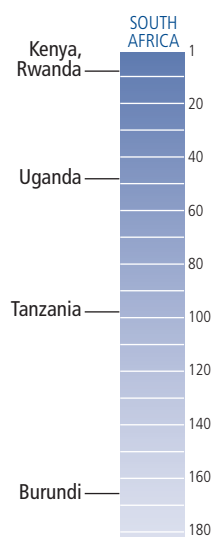
FIGURE 7.2 Do lenders have credit information on entrepreneurs seeking credit? Is the law favorable to borrowers and lenders using movable assets as collateral?



Doing Business measures 2 types of institutions and systems that can facilitate access to finance and improve its allocation: 1) credit information registries or bureaus and 2) the legal rights of borrowers and lenders in secured transactions and bankruptcy laws (figure 6.2).

These institutions and systems work best together. Information sharing helps creditors assess the creditworthiness of clients (though it is not the only risk assessment tool), while legal rights can facilitate the use of collateral and the ability to enforce claims in the event of default.

FIGURE 7.3 How do East African Community economies rank on the ease of getting credit?



Source: *Doing Business* database.

The 2 types of institutions are measured by *Doing Business* with 2 sets of indicators. The first set of indicators—the legal rights index—describes how well collateral and bankruptcy laws facilitate lending. The second set—the depth of credit information index—measures the scope, quality and accessibility of the credit information that is available through public credit registries and private credit bureaus and provides information on the depth of coverage. Overall rankings on the ease of getting credit are based on the sum of the strength of the legal rights index and the depth of credit information index (figure 7.3).

EAC economies score an average of 4 points (out of a possible 6) on the depth of credit information index (table 7.1). Within the group, Rwanda’s credit information system scores highest. Over the past 7 years, the EAC has more than doubled its average score. After several reforms implemented recently, a credit bureau in Rwanda now collects and distributes more than 2 years of historical information—including positive and negative information. Rwanda’s credit bureau also provides alternative credit data from 2 mobile phone companies (MTN and Tigo) and from the electricity and gas company (EWSA). As a result of these reforms, Rwanda’s score on the depth of credit information index rose from just 2 points in 2004/05 to a perfect 6 points in 2010/11.

Regarding the rights of borrowers and lenders with respect to secured transactions, the EAC economies perform relatively well in the global context: they average 7 out of 10 points on this indicator. Kenya has the group’s best collateral and bankruptcy laws

which facilitate the use of movable assets as collateral and define the priority of secured creditors’ claims outside of bankruptcy procedures. Kenya also boasts a unified collateral registry for movable property.

Rwanda is the only economy that had shown a great improvement in its legal rights system over the past 7 years. In 2009, Rwanda enacted a new Secured Transactions Act and a new Insolvency Act which accomplished 4 things: The acts 1) increased the flexibility of assets that can be used as security interest, 2) allowed for a general description of debts and obligations, 3) offered secured creditors absolute priority within bankruptcy and 4) introduced out-of-court enforcement of security rights.

WHO REFORMED SECURED-TRANSACTIONS LAWS?

Over the past 7 years, *Doing Business* recorded only 1 reform in EAC economies in its legal rights indicator: Rwanda strengthening its movable collateral laws. Meanwhile, in the broader Sub-Saharan Africa region, a total of 20 reforms were implemented representing 23% of the global reforms over this time period (Figure 7.4).

In the past year (2010/11), *Doing Business* recorded reforms in 16 Sub-Saharan African economies that strengthened regulations

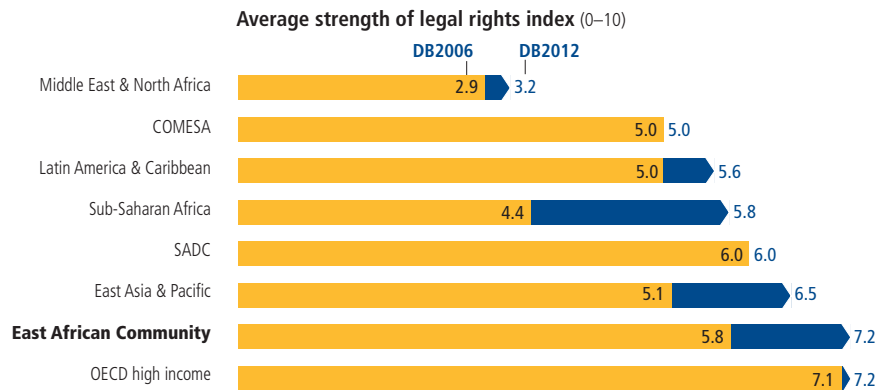
TABLE 7.1 Who has the most credit information and the most legal rights for borrowers and lenders—and who has the least?

Legal rights for borrowers and lenders (strength of legal rights index, 0-10)	
Kenya	Strongest 10
Rwanda	8
Tanzania	8
Uganda	7
Burundi	Weakest 3
Credit information sharing (strength of credit information index (0-6))	
Rwanda	Strongest 6
Kenya	4
Uganda	4
Burundi	Weakest 1
Tanzania*	NO PRACTICE

*Tanzania has neither a private credit bureau nor a public credit registry.

Source: *Doing Business* database.

FIGURE 7.4 In the past 7 years, East Asia & Pacific and Sub-Saharan Africa strengthened the legal rights of borrowers and lenders the most



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and South Sudan.

Source: *Doing Business* database.

affecting the use of movable assets as collateral. However, none of those 16 were EAC economies. Although not covered by the *Doing Business* methodology, it is notable that Burundi took an important step this year to improve its secured transactions system. Burundi introduced in its Commercial Code a non-possessory type of pledge and the obligation to register it at the Registre du Crédit Mobilier to oppose third parties' claims. Burundi is also in the course of adopting a new regulation for the creation of a collateral registry.

WHAT HAS WORKED IN SECURED TRANSACTIONS?

Although the implementation of a new secured transactions law and its corresponding collateral registry may take an average of 3

years, the change tends to improve access to credit for businesses. This type of reform is important to support business growth and the development of a dynamic private sector in the economy. Through experience with collateral reforms in economies around the world, a number of good practices have come to light (table 7.2).

Allowing out-of-court-enforcement

Creditors are unlikely to extend loans secured by collateral if they must rely on long, costly and burdensome court proceedings to enforce their rights in the case of a default. Quick enforcement is particularly important for movable property, which depreciates over time. One way to ensure quick enforcement is to allow parties to a security agreement to agree to out-of-court enforcement

at the time the security interest is created. In this approach, the security agreement is essentially considered to be an execution deed, allowing the secured creditor to seize the collateral or ask a non-judicial official to do so if the debtor contests the enforcement. This has the added benefit of reducing dependence on the courts and thus freeing up court resources.

A total of 33 economies in Sub-Saharan Africa offer out-of-court enforcement of security rights—including Kenya, Rwanda, Tanzania and Uganda in the EAC. In 2009, Rwanda enacted a new insolvency law, securing for creditors absolute priority within bankruptcy and offering out-of-court enforcement.

Allowing a general description of collateral

Some collateral laws require a specific description of the assets in the security agreement. This increases transactions costs when revolving assets—such as inventory—are used as collateral, because every time inventory is purchased or sold, the security agreement needs to be updated and perhaps even re-registered. Allowing a general description of the collateral makes security agreements more flexible and facilitates access to finance.

Flexible collateral laws allow security interests in all types of movable property and permit a generic description of the assets to secure a loan—as long as these assets are identifiable. For example, a contract could legally stipulate “inventory of general merchandise as of [date] and for [amount]” as collateral. Such contracts typically obligate the debtor to maintain the same aggregate value of inventory and the same type of goods. For non-possessory security interests to be effective, the debtor needs total freedom to use the assets as long as proper care is taken to preserve their commercial value.

Today 33 economies in the Sub-Saharan Africa region—including Kenya, Rwanda, Tanzania and Uganda from the EAC—allow a general description of collateral in a single category and in combined categories. In 2009, Rwanda enacted a new law on secured transactions—increasing flexibility regarding the assets that can be used

TABLE 7.2 Good practices around the world providing strong legal rights for borrowers and lenders

Practice	Economies Worldwide ^a	Economies EAC	Examples
Allowing out-of-court enforcement	123	Kenya; Rwanda; Tanzania; Uganda	Australia; India; Nepal; Peru; Russian Federation; Serbia; Sri Lanka; United States
Allowing a general description of collateral	91	Kenya; Rwanda; Tanzania; Uganda	Cambodia; Canada; Chile; Nigeria; Romania; Singapore; Vanuatu; Vietnam
Maintaining an unified registry	68	Kenya; Rwanda; Tanzania	Bosnia and Herzegovina; Guatemala; Honduras; Marshall Islands; Federated States of Micronesia; Montenegro; New Zealand; Romania; Solomon Islands

a. Among 183 economies surveyed.

Source: *Doing Business* database

BOX 1: OHADA UNIFORM ACT ON SECURED TRANSACTION: FACILITATING ACCESS TO CREDIT

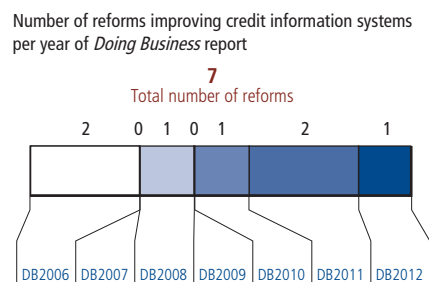
In 2010, the African economies that make up the “Organisation pour l’Harmonisation en Afrique du Droit des Affaires” (OHADA) changed their laws to facilitate access to credit—a major concern of entrepreneurs in the 16 member countries. Traders claimed that the lack of flexibility of collateral law and the difficulty of enforcing creditor rights in case of default were increasing lending costs, decreasing loan values and discouraging banks from lending money—especially to small and medium-size businesses.¹²

The recent amendment of the OHADA Uniform Act on Secured Transactions—enacted on December 15, 2010—provided a modern, clear and accessible solution for the security transactions law and helped encourage access to finance in the region.

Regarding security interests, the reform:

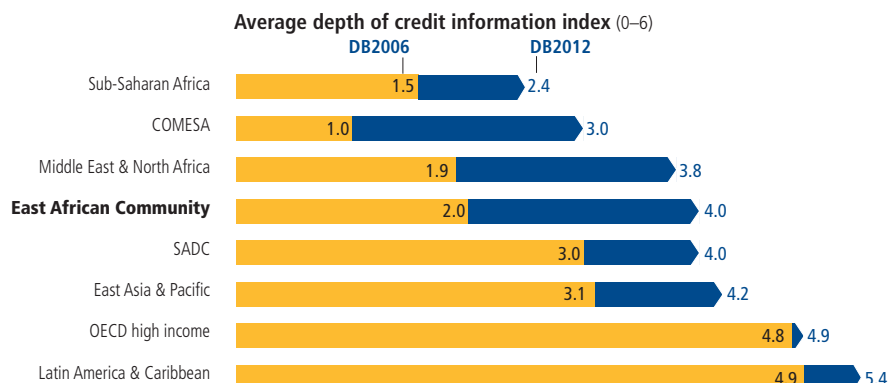
- simplified the procedure to create and publish security interests on movable assets; extends the range of security interests—including all types of movable assets, present and future—; simplifies the procedure to enforce security rights;
- enhanced publicity by improving the trade and companies register;
- increased the flexibility of mortgages systems by enabling future immovable goods and rights in rem over public domain buildings to be pledged (for the ease of infrastructure financings).

FIGURE 7.5 In the past 7 years, the East African Community improved its credit information systems



Note: An economy can be considered to have only 1 Doing Business reform per topic and year.
Source: Doing Business database.

FIGURE 7.6 Better credit-information system in the East African Community



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and South Sudan.

Source: Doing Business database.

as non-possessory security interests. Now movable assets—including present and future assets—can be used as collateral for lending.

Maintaining a unified registry

Before accepting collateral, lenders need an effective way to find out whether potential borrowers have already granted security interests in their collateral and, if so, what priority those rights have. A central collateral registry—unified geographically and recording interests in all types of movable assets—supports the use of movable collateral to secure loans. If registries are not unified across regions, a creditor has a very hard time finding out if a security interest in an asset was already registered in another jurisdiction. Furthermore, searching multiple registries increases transactions costs. But where registries are unified and computerized, a creditor can immediately check all the registries in an economy by simply searching under the debtor’s name.

Today, 8 Sub-Saharan African economies—including Kenya, Rwanda and Tanzania in the EAC—have some sort of centralized registry for movable collateral. However, none of them offer online access for registration and searches, register all types of encumbrances, establish clear parameters for priority and maintain a central database searchable by

the debtor’s name or a unique identifier. Therefore, further improvements could be made.

WHO REFORMED CREDIT INFORMATION SHARING IN 2010/11?

Over the past 7 years, 20 economies in the Sub-Saharan Africa region implemented a combined 29 regulatory reforms to improve credit information systems. Among these 20 economies, the EAC’s Kenya, Rwanda, Tanzania and Uganda implemented a combined 8 reforms over this time period (figure 7.5).

As a result of these reforms, coverage by credit registries and bureaus of Sub-Saharan Africa increased from an average of 4.93% of the adult population in 2005 to 11.20% in 2011. The average score on the depth of credit information index measured by Doing Business increased from 1.5 in 2005 to 2.4 in 2011 (figure 7.6). Among the East African Community economies, the average coverage by credit registries and bureaus increased from just 0.1% of the adult population in 2005 to 2.3% in 2011. The EAC’s average score on the depth of credit information index increased from 1.5 to 3.8 over the same period.¹⁴

In 2010/11, Rwanda was the only economy in the EAC to strengthen its credit reporting

BOX 2: EXPANDING SME FINANCING IN GHANA THROUGH COLLATERAL REFORMS

For years, small and medium-size enterprises (SMEs) in Ghana faced limited financing opportunities to support growth. Many SMEs were stuck because they typically did not possess valuable, immovable collateral—such as buildings—to guarantee loans and their movable assets were not accepted by the banks. Furthermore, lenders in Ghana could not access historical information about collateral—such as whether it was already used as a security interest and priorities of rights.

In 2008, Ghana enacted a new law which enables the establishment of a collateral registry at the Bank of Ghana. Because establishing an efficient electronic registry can take a long time, Ghana first created a temporary registry to attend to immediate demand and then developed a sophisticated online registry where lenders could access easily collateral data.

Ghana has already seen some fruitful results—including:

- Increased volume of financing for SMEs. Ghana's new collateral registry has already registered more than 20,000 loans by banks and other financial institutions in since its creation in March 2010. The loans account for more than \$800 million in financing secured with movable property.
- Increased use of movable assets as collateral by businesses—especially by SMEs. In addition to real estate property (used in 10% of the loans), borrowers in Ghana were able to use a broad range of movable assets (the other 90%) as collateral. These movable assets included inventory and accounts receivable (in 32% of the loans); investment instruments, such as shares, cash, bonds, deposit accounts, etc. (19%); household assets (13%); motor vehicles (10%); and machinery, equipment and other enterprise assets (16%).
- Increased number of banks and other financial institutions taking movable property as collateral for financing. In fact, out of 52 financial institutions in Ghana, 33 of them—specifically, 17 traditional banks, 13 non-bank financial institutions, 4 foreign-based banks and 2 rural banks—have registered with the collateral registry and granted loans secured with movable property.¹³

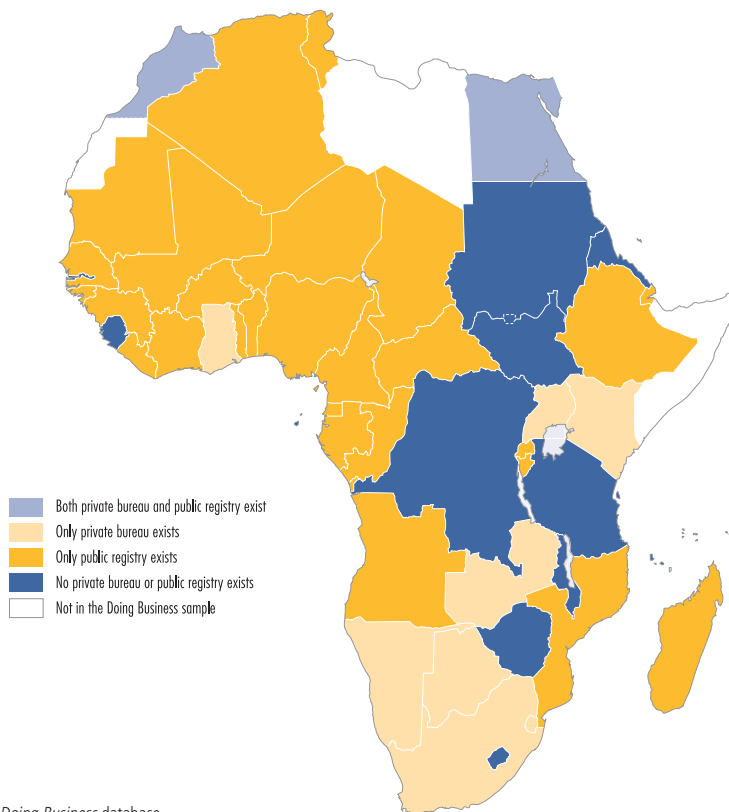
system. In April 2011, the private credit bureau in Rwanda started sharing credit data from retailers and utility companies, in addition to data from financial institutions.

Since 2005, a total of 7 economies in the Sub-Saharan Africa region established new credit bureaus—and in 6 of them, there wasn't previously any credit reporting system in place. Of those 7, 3 economies were from the EAC: Kenya, Uganda and Rwanda.

Establishing a credit-reporting system in an economy allows the sharing of data and fosters trust in the system by both banks and borrowers. A recent study found that after the introduction of new credit reporting systems in developing economies, access to credit grew twice as fast for small firms as for large ones.¹⁵

Uganda's first credit bureau—Compuscan CRB Ltd.—started operations in 2009, collecting and distributing positive and negative credit information on individuals and firms—including all loan sizes. Today, a total of 23 commercial banks and 3 regulated microfinance institutions provide information to the bureau. However, the implementation of the bureau was a challenge because Uganda did not possess a national identification number, making it almost impossible to identify the borrower in the registry. Compuscan, with the support of Ugandan financial institutions, developed a biometric identification system. At the time of issuing new loans, borrowers' biometric data is now recorded and a form of "financial identity card" is issued. This system allows for accurate identification of borrowers in the database. In January 2011, Compuscan's database included credit references for 482,354 individuals and 9,485 firms—bringing its total coverage to 3.0% of Uganda's adult population.

FIGURE 7.7 Credit registries and bureaus in Africa

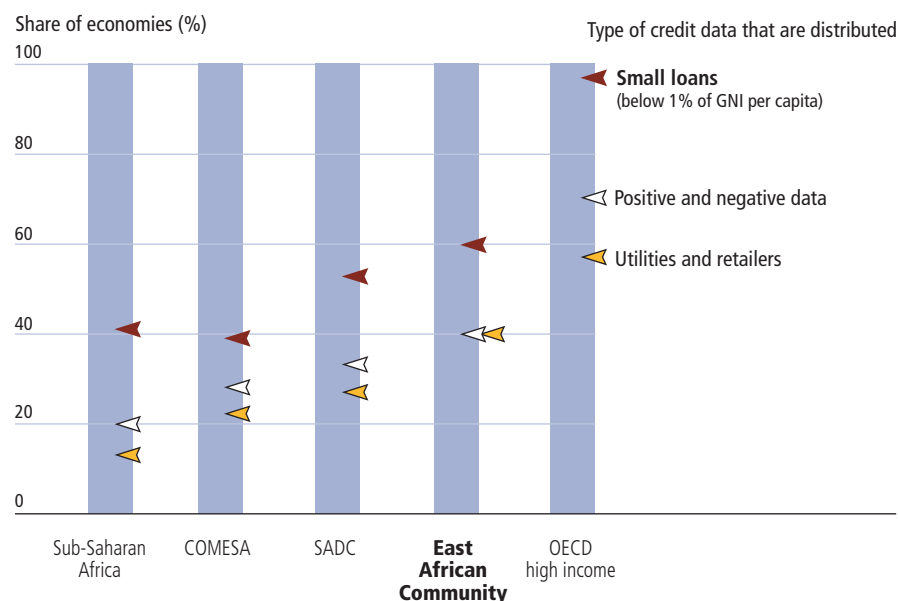


Source: Doing Business database.

WHAT HAS WORKED IN CREDIT INFORMATION SHARING?

Specific practices help increase credit coverage and encourage the use of credit information systems. Among the most common measures are 1) expanding the range of information shared, 2) collecting and distributing data from sources other than banks and 3) lowering or eliminating minimum-loan thresholds (figure 7.8).

FIGURE 7.8 Good practices in credit information systems



Note: The data sample for COMESA does not include Libya and South Sudan.

Source: *Doing Business* database.

Reporting positive as well as negative information

Credit information can be broadly divided into 2 categories: negative and positive. Negative information covers defaults and late payments. Positive information includes, for example, on-time loan repayments and the original and outstanding amounts of loans.

A credit information system that reports only negative information penalizes borrowers who default on payments—but it fails to reward diligent borrowers who pay on time. Sharing information on reliable repayment allows customers to establish a positive credit history and improves the ability of lenders to distinguish good borrowers from bad ones. Sharing more than just negative information also ensures that a credit information system will include high-risk borrowers that have accumulated significant debt exposure without yet defaulting on any loans.

Sharing full information makes a difference for lenders. A study in the United States simulated individual credit scores using only negative information and then using both negative and positive information. The negative-only model produced a 3.35% default rate among approved applicants,

while the use of both positive and negative information led to a 1.9% default rate.¹⁶

A study of Latin American economies suggests that where private credit bureaus distribute both positive and negative information and have 100% participation from banks, lending to the private sector is greater—at least 47.5% greater.¹⁷

Today, 9 Sub-Saharan African economies share positive as well as negative credit information. Only 2 economies from the EAC—Rwanda and Uganda—share positive and negative information (table 7.3).

For example, Cape Verde reformed and started to share positive information in

addition to negative credit information in June 2010. After restructuring the credit registry's processes with the implementation of a web-based system called "Riscos de Crédito Online," the Central Bank of Cape Verde now collects and distributes positive and negative information on firms and individuals—including information on any type of credit facility and on both performing and nonperforming loans. Sharing a broader range of information helped banks better understand their customers' payment patterns. Banks wanted to improve their risk management tools as their lending grew.

Collecting and distributing data from retailers and utility companies

One effective way to expand the range of information distributed by credit registries is to include credit information from retailers and utility companies—such as electricity providers and mobile phone companies. Providing information on the payment of electricity and phone bills can help establish a good credit history for those without previous bank loans or credit cards. This represents an important opportunity for including people without traditional banking relationships. A recent study across 8 global mobile money operators found that 37% of their customers lacked a bank account.¹⁸

But including this information can be challenging. Utilities and retailers are regulated by different institutions than financial companies are. They also might have to be convinced that the benefits of reporting bill payment outweigh the costs.

A utility in the United States has clearly benefited. In August 2006, DTE Energy, an electricity and natural gas company, began

TABLE 7.3 Good practices around the world in sharing credit information

Practice	Economies Worldwide ^a	Economies EAC	Examples
Distributing data on loans below 1% of income per capita	119	Kenya; Rwanda; Uganda	Brazil; Bulgaria; Germany; Kenya; Malaysia; Rwanda; Sri Lanka; Uganda; West Bank and Gaza
Distributing both positive and negative credit information	100	Rwanda; Uganda	China; Croatia; India; Italy; Jordan; Panama; Rwanda; South Africa; Uganda
Distributing credit information from retailers or utilities as well as financial institutions	54	Kenya; Rwanda	Fiji; Lithuania; Kenya; Nicaragua; Rwanda; Saudi Arabia; Spain

a. Among 183 economies surveyed.

Source: *Doing Business* database

full reporting of customer payment data to credit bureaus. DTE customers with no prior credit history—8.1% of the total, according to a recent study—gained either a credit file or a credit score. And customers began to make payments to DTE a priority. Within 6 months, DTE had 80,000 fewer accounts in arrears.¹⁹

A study in Italy looked at the effect of providing a credit bureau with payment information from a water supply company.²⁰ The credit bureau, CRIF, set up a credit scoring model, the “water score,” which took up to 3 years of payment of water bills into consideration. More than 83% of water customers who previously had no credit history now have a positive one thanks to paying their water bills. This has made it easier for them to obtain credit. Those benefiting most include young entrepreneurs and families with only one income—2 of the groups that tend to lack bank accounts in Italy.

Today, credit bureaus or registries include credit information from sources other than banks in 6 economies in the Sub-Saharan Africa region—including Kenya and Rwanda in the EAC. In these 6 economies, coverage of borrowers is 24 percentage points higher than in those where credit bureaus or registries do not include information from retailers or utility companies.

After 1 year of operation, Rwanda’s first private credit bureau expanded the range of credit information distributed and included data from 3 non-financial companies. In April 2011, 2 mobile phone companies (MTN and Tigo) and an electricity and gas company (EWSA) started providing credit information to the private credit bureau. The results were rewarding: after just a couple months collecting the data from new sources, the credit bureau’s coverage increased by 2%.

Lowering or eliminating minimum-loan thresholds

Where the thresholds for loans included in a credit bureau’s database are high, retail and small business loans are more likely to be excluded. This can hurt those that could benefit the most from credit information systems—namely, female entrepreneurs and small enterprises, whose loan values are typically lower. Because women make up

76% of all borrowers from microfinance institutions,²¹ credit bureaus and registries that collect and distribute data on microfinance (typically low value) loans are more likely to support female entrepreneurship. Note that public credit registries usually set relatively high thresholds for loans—\$34,260 on average—since their primary purpose is to support bank supervision and the monitoring of systemic risks. Private credit bureaus tend to have lower minimum loan thresholds—\$418 on average.

Today, 19 Sub-Saharan African economies—including Kenya, Rwanda and Uganda in the EAC—have minimum-loan thresholds below 1% of income per capita. Over the past 7 years, 5 economies in the region eliminated their minimum loan threshold—including Rwanda in the EAC. Rwanda’s public credit registry eliminated its minimum loan threshold to open itself up to more credit information. The minimum loan reported was 500.000 FRW (\$1,400) in 2010; now all loans are reported to the registry. Other EAC economies could follow suit.

NOTES

1. Enterprise Surveys. The World Bank.
2. Ibid.
3. Djankov, McLiesh and Shleifer. 2007.
4. Houston and others. 2008.
5. Alvarez de la Campa and others 2010.
6. Ibid.
7. Luoto, McIntosh and Wydick. 2004. Brown, Jappelli and Pagano. 2009.
8. Ibid.
9. Brown and Zehnder. 2007.
10. Africappractice. 2005.
11. Enterprise Surveys. The World Bank.
12. *Doing Business in OHADA 2012*. World Bank.
13. IFC, Access to Finance Advisory Services.
14. Straight average of percentages across economies
15. Brown and Zehnder 2007.
16. Barron and Staten. 2003.
17. Turner and Varghese. 2007.
18. CGAP and World Bank. 2010.
19. Turner and others. 2009. Turner. 2011.
20. Preliminary findings of an ongoing internal study at the credit information services firm CRIF SpA, Italy.
21. World Bank. 2010.

Protecting investors

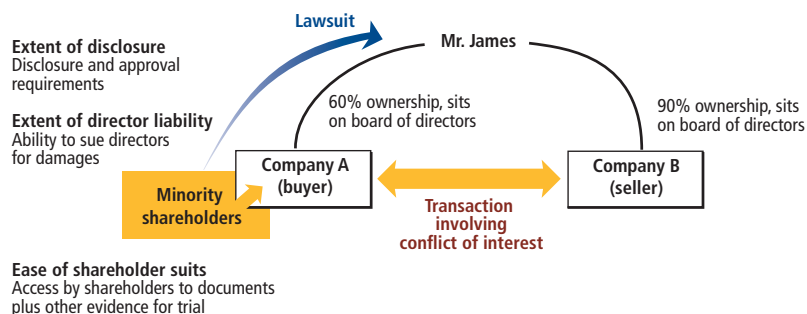
One of the most significant failures of corporate governance is self-dealing—that is, the use of corporate assets by company insiders for personal gain. Related-party transactions are the most common example. High ownership concentration and informal business relations can create the perfect environment for such transactions, which allow controlling shareholders to profit at the expense of the company's financial health—whether because company assets are sold at an excessively low price, assets are purchased at an inflated price or loans are given by the company to controlling shareholders on terms far better than the market offers.

Empirical research shows that stricter regulation of self-dealing is associated with greater equity investment and lower concentrations of ownership in businesses.¹ This is in line with the view that stronger legal protections make minority investors more confident about their investments, reducing the need for concentrated ownership to mitigate weaknesses in corporate governance.

Investor protections can help companies to raise the capital needed to grow, innovate, diversify and compete. Without investor protections, equity markets may fail to develop and banks become the only source of finance. Usually, economies with dynamic capital markets effectively protect investors with financial information that can be trusted, participation in the company's decisions, and accountability of directors for their managerial decisions. In the absence of such protections by law, investors may be reluctant to invest, unless they become controlling shareholders.²

Doing Business measures the strength of legal protections available to minority investors in a corporation. These legal protections help counteract (or prevent) the misuse

FIGURE 8.1 How well are minority shareholders protected against self-dealing in related-party transactions?



of corporate assets by company directors for their own personal gain. The indicators distinguish 3 dimensions of investor protections: 1) the rules for approval and disclosure of related-party transactions (“the extent of disclosure index”), 2) the liability of company executives for self-dealing (“the extent of director liability index”) and 3) the shareholders’ ability to access corporate information before and during litigation (“the ease of shareholder suits index”). The standard case study assumes a related-party transaction between a Company A (“the buyer”) and a Company B (“the seller”) where “Mr. James” is the controlling shareholder of both the buyer and the seller and a member of both their boards of directors. The transaction is overpriced and causes damages to buyer (figure 8.1).

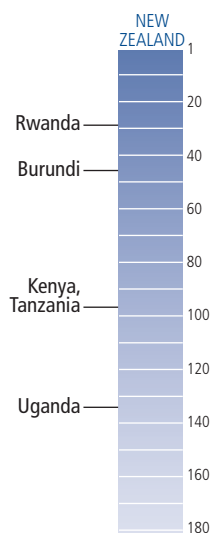
An economy’s ranking on the overall strength of investor protection index is the simple average of the percentile rankings on the extent of disclosure, extent of director liability and ease of shareholder suits indices. A higher ranking indicates that an economy’s regulations offer stronger investor protections against self-dealing in the areas measured. Note that the indicator does not measure other aspects related to the protection of minority investors—such as dilution of share

value or insider trading. Nor does it measure the dynamism of capital markets or protections specific to foreign investors.

This year, for the 7th year in a row, New Zealand ranks highest globally on the strength of investor protection index. Its overall score of 9.7 on the 3 indices is the highest among the 183 economies measured by *Doing Business*. Meanwhile, 2 economies within the East African Community (EAC) are among the top 50 performers on the strength of investor protection index worldwide: Rwanda (ranked 29th) and Burundi (ranked 46th)—with investor protection indices of 6.3 and 6.0, respectively. Within the EAC, these 2 are followed by Tanzania and Uganda—both with investor protection indices of 5.0—and then Kenya (with an investor protection index of 4.0) (figure 8.2).

Rwanda and Burundi were able to strengthen their legal frameworks for investor protection as a result of comprehensive reviews of their company laws in recent years (table 8.1). In April 2009, Rwanda adopted a new company law. Its new legislation required board of directors’ approval of transactions between interested parties representing less than 5% of the assets of the company. If the transaction represents more than 5%

FIGURE 8.2 How do East African Community economies rank on the strength of investor protection index?



Source: *Doing Business* database.

of the assets of the company, approval at a shareholders' meeting is required. The new law does not allow interested parties to participate in the transaction's approval process. In addition, the new legislation made it easier to sue interested directors in case of prejudicial transactions between interested

parties by stating a clear catalogue of director duties. Furthermore, the law allowed minority investors access to all internal corporate documents, either directly or through a government inspector.

Similarly, Burundi enacted a new company law in May 2011. Like Rwanda's, its new legislation required shareholders approval of transactions between interested parties. Directors and shareholders with conflicting interests cannot participate in the approval process. Furthermore, it mandated greater disclosure of such transactions to the board of directors and to a general meeting of shareholders. It also required an external review before such transactions are approved and detailed disclosure in the annual reports once approved. The law established as well a clear regime of liability for directors if transactions with interested parties cause damages to the company.

The rest of the EAC economies—Kenya, Tanzania and Uganda—can find good sources of inspiration and lessons learned from Burundi and Rwanda's reform experiences. In fact, both Kenya's and Uganda's companies acts are currently under review at the parliamentary level. It is, therefore, the right moment to make sure that the amended legislations incorporate global good practices for minority investor protections.

WHO REFORMED IN 2010/11?

Over the past 7 years, 57 economies strengthened their investor protections as measured by *Doing Business*, through 80 legal changes (figure 8.3). Among those 57 economies, 3 are members of the EAC—Burundi, Rwanda and Tanzania. This past year (2010/11), Burundi stands as the only economy from the EAC to strengthen its investor protections. Notably, Burundi is among the 4 economies globally that reformed the most this year by adopting modern company legislation aligned with international best practices.

As summarized above, Burundi strengthened its legal framework for protecting investors by requiring greater corporate disclosure and higher standards of accountability for company directors. Its new company law requires shareholders approval of transactions

between interested parties. Directors and shareholders with conflicting interests are not allowed to participate in the approval process. Furthermore, its new law mandates greater disclosure of such transactions to the board of directors and to a general meeting of shareholders. It also requires an external review by an independent auditor before transactions between interested parties are approved (as well as detailed disclosure in the annual reports once they are approved). Finally, it establishes a clear regime of liability for directors if transactions with interested parties cause damages to the company.

WHAT HAS WORKED?

In regulating self-dealing, both ex ante protections (e.g., extensive disclosure and approval requirements) and ex post measures (e.g., rights of action for minority investors) are important. Some economies require extensive disclosure requirements but do not feature an equally strong director-liability regime or easy access to internal corporate information during trial. Those that perform particularly well in 1 area—such as Kenya and Tanzania—could, therefore, further strengthen protections through actions targeting the other aspects of minority shareholder rights.

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure, define clear duties for directors, offer wide access to corporate information and provide procedural rules that give minority investors the means to prove their case.

Ensuring transparency in related-party transactions

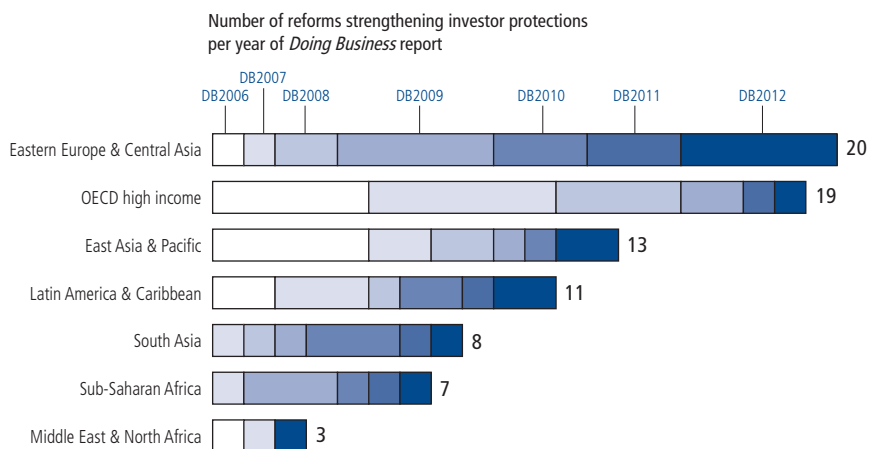
Of the 183 economies covered by *Doing Business*, 52 stand out for having the strictest rules on disclosure of related-party transactions—both before and after the conclusion of the transaction. These 52 include France, New Zealand, Singapore, Albania, and 2 economies from the EAC: Rwanda and Kenya (table 8.2). Various factors—including investor activism and the global financial crisis—have recently prompted governments around the world to strengthen disclosure requirements.³ Not surprisingly, this was the most common feature in investor protection reforms over the past 7 years, accounting

TABLE 8.1 Where are minority investor protections strong—and where not?

Extent of disclosure index (0-10)	
Burundi	Most 8
Rwanda	7
Kenya	3
Tanzania	3
Uganda	Least 2
Extent of director liability index (0-10)	
Rwanda	Most 9
Burundi	6
Uganda	5
Tanzania	4
Kenya	Least 2
Ease of shareholder suits index (0-10)	
Kenya	Easiest 10
Tanzania	8
Uganda	5
Burundi	4
Rwanda	Most difficult 3

Source: *Doing Business* database.

FIGURE 8.3 Number of *Doing Business* reforms strengthening investor protections by *Doing Business* report year



Source: *Doing Business* database.

for 39 of the total 57 and 6 of the 13 reforms enacted in the past year. However, more than 10 economies worldwide—including Sudan in Sub-Saharan Africa—still do not require disclosure of large related-party transactions.

In the past year, Burundi’s new company law introduced legal provisions regulating disclosure of related-party transactions, providing reliable information on company dealings and, therefore, allowing investors to monitor the activities of companies and assess their management. The OECD corporate governance principles consider that solid disclosure attracts capital and maintains confidence in capital markets.⁴ And as mentioned above, corporate disclosure also plays an important role in companies’ valuation. Empirical research shows that companies that disclose related-party transactions have higher stock exchange valuations than those that do not.⁵ In several economies, increased protections are benefiting greater numbers of investors thanks to growth in the number of enforcement cases uncovering prejudicial transactions.

Involving disinterested shareholders in the approval of related-party transactions

Worldwide, 60 economies require shareholder approval of large related-party transactions—including Rwanda and Burundi,

which introduced provisions on the approval of related-party transactions in the past year.

Such approval mechanisms work well only if the law does not allow many exceptions and if the approval is required at the time of the transaction. Other features can also strengthen shareholder approval provisions. Burundi, South Africa, Mauritius, Botswana, Eritrea, Zimbabwe and 18 other economies—out of the 60 economies requiring approval of related-party transactions by disinterested shareholders—also require review of the terms of these transactions by an independent body—such as an independent auditor—before their approval. The independent auditor provides an opinion on the terms of the transaction that helps shareholders make an informed decision.

Making directors accountable for their actions

Economies with the strongest protections regulate not only disclosure and approval of related-party transactions but also set out clear rules of accountability for company directors when such transactions turn out to be prejudicial. Directors need clear rules to fulfill their responsibilities effectively. In the past year, only 2 economies—Burundi and Kazakhstan—introduced clear rules on the liability of company directors in case of prejudicial related-party transactions.

Only 45 of the 183 economies covered by *Doing Business*—including Burundi, Rwanda, Tanzania and Uganda in the EAC—have clear rules on the liability of company directors in case of abusive related-party transactions. Among those 45, economies are taking different approaches. Some have a clear catalogue of rights and duties of directors, while others have a special regime of liability for directors in the event of an abusive related-party transaction. Those that prescribe clear rights and duties of directors include Canada, Mexico and the United Arab Emirates, which have rules encouraging directors to be prudent in the company’s day-to-day management. Meanwhile, 35 economies—including Bulgaria, Kenya and China—do not clearly stipulate the liability of directors for abusive related-party transactions. In those economies, as long as the interested parties comply with requirements for disclosure and approval of related-party transactions, they are not liable for any harm that results. The other 103 economies have rules on the liability of directors, but often with loopholes.

TABLE 8.2 Good practices in the East African Community

Economy	Allowing rescission of prejudicial related-party transaction	Regulating approval of related-party transaction	Requiring detailed disclosure	Allowing access to all corporate documents during trial	Defining clear duties for directors in case of related-party transactions	Requiring external review of related-party transaction	Allowing access to all corporate documents before trial
Burundi	1	1	1	0	1	1	0
Kenya	0	0	0	1	0	0	1
Rwanda	1	1	1	0	1	0	1
Tanzania	0	0	0	1	0	0	0
Uganda	1	0	0	0	0	0	0

Source: *Doing Business* database.

Facilitating access to corporate documents

Rights of minority investors cannot be protected without easy access to corporate information. Without access to documentary evidence, minority investors may find it difficult to prove that directors have been managing the company's affairs improperly. Economies can have good laws, but if access to corporate information and evidence is limited or courts are inefficient, investors are unlikely to resort to judicial options. In the past year, 4 economies—El Salvador, Morocco, Peru and the Solomon Islands—introduced provisions facilitating investors' access to corporate documents before and during a trial relating to director liability.

In the EAC, only Kenya facilitates access to corporate documents before and during a trial. Rwanda allows it before a trial and Tanzania during the trial. In total, only 15 of the 183 economies covered by *Doing Business*—including Kenya—permit full access to documentary evidence both before and during the trial. More than 30 economies worldwide—including Rwanda—allow shareholders access to any corporate document they require, with the exception of corporate secrets, but only before the trial. Other countries within the Sub-Saharan Africa region—such as Burundi, Mauritania and Sudan—permit limited or no access to evidence during the trial, making it virtually impossible for minority investors to prove their cases.

NOTES

1. Djankov and others. 2008.
2. Dahya, Dimitrov and McConnell. 2008.
3. Among 152 economies surveyed, 107 permit or require the use of International Financial Reporting Standards through company laws and accounting laws. Adoption rates are high among OECD high-income economies and in the Eastern Europe and Central Asia and Latin America and the Caribbean regions.
4. OECD. 2004.
5. Kohlbeck and Mayhew. 2010.

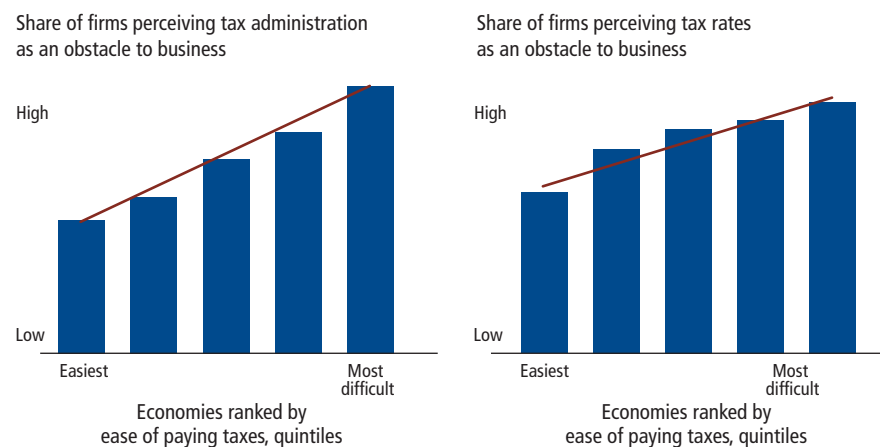
Paying taxes

Taxes are essential. All governments need revenue, but their challenge is to carefully choose not only the tax rates but also the tax base. Governments also need to design a tax compliance system that does not unduly discourage taxpayers from participating. Tax rates and burdensome tax administration remain top obstacles for businesses. Recent firm surveys in 123 economies show that companies consider tax rates to be among the top 3 constraints to their business, and tax administration to be among the top 8.¹ When taxes are too burdensome, and the corresponding benefits appear to be few, companies—especially small and medium-size ones—may choose to operate in the informal sector. Firms in economies that rank better on the ease of paying taxes tend to perceive both tax rates and tax administration as less of an obstacle to business (figure 9.1).

The total tax cost for businesses matters for investment and growth. Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalization of businesses. This is particularly important for small and medium-size enterprises, which contribute to growth and job creation but do not add significantly to tax revenue.² Typical distributions of tax revenue by firm size for economies in Sub-Saharan Africa and the Middle East and North Africa show that micro, small and medium-size enterprises make up more than 90% of taxpayers but contribute only 25–35% of revenue.³ Thus, imposing high tax costs on businesses of this size might not add much to government tax revenue, but it might cause businesses to become informal—or, in the worst case, to never exist at all.

A recent study shows that higher tax rates are associated with fewer formal businesses

FIGURE 9.1 What are the time, total tax rate and number of payments necessary for a local medium-sized company to pay all taxes?



Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.

Source: *Doing Business* database, World Bank Enterprise Surveys

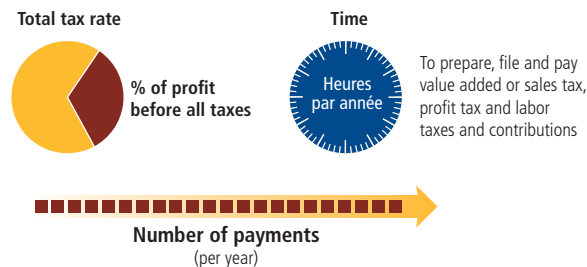
and lower private investment. A 10 percentage point increase in the effective corporate income tax rate is associated with a reduction in the ratio of investment to gross domestic product (GDP) of up to 2 percentage points and a decrease in the business entry rate of about 1 percentage point.⁴ A tax increase equivalent to 1% of GDP reduces output over the next 3 years by nearly 3%.⁵

Efficient tax administration can help encourage businesses to become formally registered and the economy to grow—and thus expand the tax base and increase tax revenues. Compliance with tax laws is important to keep the system working for all and to support the government programs and services that improve lives. One way to encourage tax compliance is to keep the rules as clear and simple as possible. Overly complicated tax systems are associated with high evasion rates. Likewise, high tax compliance costs are associated with larger informal sectors, more corruption and less investment. Economies

with simple, well-designed tax systems are able to help the growth of businesses and, ultimately, the growth of overall investment and employment.⁶

Doing Business records the taxes and mandatory contributions that a medium-size company must pay in a given year and also measures the administrative burden of paying taxes and contributions. It does this with 3 indicators: payments, time and the total tax rate borne by a case study firm in a given year. The number of payments indicates the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the way in which those payments are made. The time indicator captures the number of hours it takes to prepare, file and pay 3 major types of taxes: profit taxes, consumption taxes and labor taxes and mandatory contributions. The total tax rate measures the tax cost borne by the standard firm (figure 9.2).

FIGURE 9.2 What are the time, total tax rate and number of payments necessary for a local medium-sized company to pay all taxes?



With these indicators, *Doing Business* compares tax systems and tracks tax reforms around the world from the perspective of local businesses, covering both the direct cost of taxes and the administrative burden of complying with them. It does not measure the fiscal health of economies, the macro-economic conditions under which governments collect revenue, or the provision of public services supported by taxation.

The East African Community (EAC) ranks 106th globally on the paying taxes indicator—falling behind the Southern African Development Community (SADC, at 91st) and the Common Market for Eastern and Southern Africa (COMESA, at 90th) (figure 9.3). At 41.7% of profits, the EAC records a slightly lower average total tax rate than either the SADC or the COMESA—where the average total tax rate is 45% of profits in

each region. Compliance also takes less time, on average, in the EAC. Businesses in the EAC spend an average of 240 hours a year to comply with their tax liabilities, compared to an average of 275 hours a year in the SADC. Yet there is great variation within the East African Community: Tanzania requires 48 payments a year while Rwanda requires just 18 (table 9.1). In Tanzania, businesses have 9 different types of taxes to pay—including value added tax (VAT), labor tax and social security contributions, which are paid monthly. While businesses in Rwanda also have to pay 9 different types of taxes, Rwanda's VAT and social security contributions are paid quarterly—thus reducing the yearly total number of payments for businesses. And while it takes 393 hours to comply with the tax payments in Kenya, it takes only 148 hours in Rwanda.

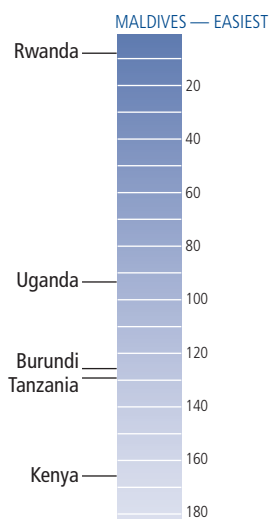
Some of these differences are due to the pace of tax reform. In 2008, Kenya committed to lowering the burden of tax compliance on companies with the implementation of electronic filing for VAT through the Kenya Revenue Authority's online portal. This has led to increased efficiency in the collection of VAT. Currently, electronic filing is available only for companies served by its "Large Taxpayer Office," with the expectation that it will be rolled out to medium- and smaller sized taxpayers in due course. In order for electronic transactions and tax filings to take place, the Kenyan government realized that it needed to legalize electronic signatures. In 2009, its Communications (Amendment) Act came into force granting electronic signatures legal recognition and enforcement capability. However, VAT payments still require visiting a bank office in Kenya—minimizing the efficiency of e-filing for now.

WHO REFORMED IN 2010/11?

Over the past 7 years, more than 60% of the 183 economies covered by *Doing Business* implemented changes aimed at simplifying tax administration and reducing the tax burden—244 such reforms in all. Four of these reforms were recorded in the EAC—in Burundi and Rwanda. As a result of these reforms, number of tax payments in the region was reduced from 36 payments in 2005 to 33 payments in 2011 and total tax rate dropped from 91.1% to 41.7% of profits over the same period. The large reduction in total tax rate is due to 1 country reforming: Burundi replaced its sales tax with a value added tax (VAT) which led to a reduction in its total tax rate of 125 percentage points.

In 2010/11, only 2 tax reforms were recorded: in Burundi and Rwanda. Both countries aimed to reduce the administrative burden by reducing the frequency of payment for certain taxes. Burundi reduced the frequency of payments for social security contributions from monthly to quarterly as of December 13, 2010. Meanwhile, Rwanda

FIGURE 9.3 How do East African Community economies rank on the ease of paying taxes?



Source: *Doing Business* database.

TABLE 9.1 Where is paying taxes easy and where not—and where is the total tax rate highest?

Payments (number per year)	
Rwanda	Fewest 18
Burundi	24
Uganda	32
Kenya	41
Tanzania	Most 48
Time (hours per year)	
Rwanda	Slowest 148
Tanzania	172
Uganda	213
Burundi	274
Kenya	Fastest 393
Total tax rate (% of profit)	
Rwanda	Lowest 31.3
Uganda	35.7
Tanzania	45.5
Burundi	46.2
Kenya	Highest 49.6

Note: The indicator on payments is adjusted for the possibility of electronic or joint filing and payment when used by the majority of firms in an economy. See the data notes for more details.

Source: *Doing Business* database.

TABLE 9.2 Good practices around the world in making it easy to pay taxes

Practice	Economies Worldwide ^a	Economies EAC	Examples
Allowing self-assessment	145	Burundi, Kenya, Rwanda, Tanzania, Uganda	Argentina, Canada, China, Arab Republic of Egypt, Rwanda, Sri Lanka, Turkey
Allowing electronic filing and payment	66	None	Australia, Colombia, India, Lithuania, Mauritius, Singapore, Tunisia
Having one tax per tax base	49	Uganda	Hong Kong SAR (China), FYR Macedonia, Morocco, Namibia, Paraguay, United Kingdom

a. Among 183 economies surveyed.
Source: *Doing Business* database

enacted legislation reducing the number of required VAT filings from monthly to quarterly. Rwanda’s new law applies to small and medium-size enterprises with an annual turnover between RWF 0 and RWF 200 million (\$ 341,002).

WHAT HAS WORKED?

Creating a business environment that enables firms to grow, invest, create jobs and increase productivity requires sound economic policies and effective public sector institutions. Tax system reforms are one way to improve business conditions. Economies that make paying taxes easier for domestic firms typically offer electronic systems for tax filing and payments. Over the past 7 years, the most common features were reducing tax rates, introducing electronic systems and simplifying tax compliance by reducing the frequency of filing or allowing joint payment and filing of several taxes (table 9.2).

Ensuring reasonable tax rates

The total tax rate measures the burden of all the taxes that a company must pay in relation to its commercial profits. Thus, all kinds of taxes that impose a cost on the firm are considered: profit taxes, property taxes, labor taxes and mandatory contributions paid by the employer, certain sales taxes, and other payments that do not require filing—such as property transfer taxes, stamp duties, dividend tax, capital gains tax, financial transactions tax, environmental tax and vehicle and road taxes.

Globally, the average total tax rate is 44.8% of profits, higher than the average for the EAC economies—which is 41.7%. In fact, the average total tax rate for EAC economies is 49.5 percentage points lower than it was 7

years ago. The great decrease in the region’s total tax rate over the past 7 years is mainly due to the reform undertaken by Burundi in 2011. In July 2009, Burundi introduced VAT to replace its existing transactions tax (sales/turnover tax). Burundi’s standard VAT rate was fixed at 18% of the taxable base, while a rate of 0% applies to exports and other comparable transactions—thus reducing the total tax rate by 125%. Note that *Doing Business* methodology only takes into account the taxes that have a statutory incidence on the firm. Since the statutory incidence of VAT is on the consumer, it is not included in the total tax rate for this indicator.

Labor taxes and government-mandated contributions paid by the employer account for 36.2% of the total tax rate, on average, in the 183 economies covered by *Doing Business*. For the 5 economies in the EAC, these taxes account for an average of 23.8% of the total tax rate—below the global average. All 5 economies collect some form of social security contributions. In the last couple of years, *Doing Business* has collected data on both employee and employer paid contributions. In the EAC economies, except for Kenya, the employer pays a larger share of social security contributions. In Kenya, the employer pays 5% of gross salaries, whereas the employee is responsible for 7% of gross salaries in social security payments.

Doing Business assumes in its case study that the firm has a gross profit margin of 20%.⁷ Because taxes are calculated on the gross amount, the size of the margin directly affects the ratio. For example, in the Democratic Republic of Congo, where the total tax rate equals 339.7% of the case study firm’s profits, the company would have to have a gross profit margin of 30% to be

able to meet its tax liability.⁸ More reasonable tax rates, as seen in the EAC, are easier for firms to comply with.

Making tax compliance easier

Complying with tax regulations in the EAC region currently takes an average of 33 payments and 240 hours a year. Over the past 7 years, economies around the globe made compliance easier by introducing or enhancing electronic systems, simplifying tax compliance or merging or eliminating some taxes. Making the compliance process easier continues to be a concern for the EAC. In the EAC’s 5 economies, there are several taxes that add little to the tax cost, but since they are administered separately, do add to the administrative burden: building tax, vehicle tax, stamp duty, tax on interests and fuel tax. Each of these taxes accounts for less than 1% of the total tax rate. These taxes may be called “nuisance” taxes; eliminating or merging them could free the government’s administrative resources to better collect other, more lucrative, taxes.

In all 5 EAC economies, the preparation, filing and payment of the value added tax (VAT) require more time than the compliance with the other 2 main taxes borne by the company: corporate income tax and social security contributions. On average, out of the 240 hours a year, more than 50% (136 hours) are spent complying with VAT preparation, filing and payments.

In 2008/09, Kenya introduced electronic filing of VAT through the Kenya Revenue Authority’s online portal. Currently, electronic filing is available for companies served by its “Large Taxpayer Office.” E-filing is expected to be rolled out to medium- and smaller sized businesses.

Reducing the frequency of tax payments also makes tax compliance easier. In 2010, Burundi reduced the frequency of payments for social security contributions—from monthly (12 a year) to quarterly (4 a year), reducing the number of tax payments by 8 for this indicator. Similarly, in 2010 Rwanda reduced the number of required VAT filings from monthly to quarterly.

Offering an electronic option

The electronic filing and payment of taxes eliminates excessive paperwork and interactions with tax officers. This option can reduce the time businesses spend complying with tax laws, increase their tax compliance rates and reduce the cost of revenue administration—while reducing error rates, as well. But this is possible only with effective implementation. Most critically, taxpayers need to trust the payment system. Simple processes and high-quality security systems are needed. Laws addressing data protection, privacy concerns and electronic signatures are also required.

Rolling out an electronic filing and payment system—and educating taxpayers in its use—are not easy tasks for a government. The necessary infrastructure must be put into place, especially where citizens lack broadband access. Consider the example of India, where the Central Board of Direct Taxes took a series of steps to ensure a smooth implementation:

- Published detailed help manuals on the forms, and how to complete them, on its website.
- Provided free, downloadable software for preparing tax returns on its website.
- Organized, in collaboration with the Institute of Chartered Accountants of India, live phone-in question-and-answer sessions with accountants.
- Distributed CDs with software and help content to accountants, trade bodies and professional and business associations through tax offices throughout India.
- Set up help centers at all field office headquarters.
- Organized meetings and seminars with taxpayers and tax practitioners.
- Answered taxpayers' queries by phone and e-mail at the call center.

By 2010, 66 economies around the world had fully implemented electronic filing and tax payment systems. Twenty of them adopted their systems within the past 7 years. Ten OECD high-income economies have made electronic filing and payment mandatory. And this trend is likely to continue. None of

the EAC economies offer electronic filing yet, as measured by *Doing Business*.

Keeping it simple: one tax base, one tax

Multiple taxations—where the same tax base is subject to more than 1 tax treatment—may make tax compliance inconvenient and cumbersome for taxpayers in many economies. First of all, subjecting the same tax base to more than 1 tax treatment is not efficient. It increases firms' cost of doing business as well as the government's cost of administering taxes. On top of that, it also risks damaging investor confidence. Different forms have to be filled out, often requiring different methods for calculating the tax.

Globally, 49 economies have 1 tax per tax base for taxes measured by *Doing Business*. This keeps things simple. Having more types of taxes requires more interaction between businesses and tax agencies. It also complicates tax compliance. Of those, only Uganda from the EAC has just 1 tax per tax base. To contrast, Burundi, for example, has social security contributions and health insurance contributions each separately based on the gross salaries. Because each is calculated differently, businesses must do 2 different calculations, slowing down tax compliance times.

Adopting self-assessment as an effective tool for tax collection

Voluntary compliance and self-assessment have become popular ways to efficiently administer a country's tax system. Taxpayers are expected to—and trusted to—determine their own liability under the law and pay the correct amount. With high rates of voluntary compliance, administrative costs are much lower and so is the burden of compliance actions.⁹ Self-assessment systems generally make it possible to collect taxes earlier and reduce the likelihood of disputes over tax assessments.¹⁰ They also reduce the discretionary powers of tax officials and opportunities for corruption.¹¹ To be effective, however, self-assessment needs to be properly introduced and implemented—with transparent rules, penalties for noncompliance and established audit processes.

Of the 183 economies covered by *Doing Business*, 79% allow firms to calculate their own tax bills and file the returns. These include all 5 economies from the EAC. Both taxpayers and revenue authorities can benefit from self-assessments. Businesses in Rwanda, for example, don't need to supply information to the tax authority for the authority to calculate the tax payment. The company has to calculate its own tax bill and file returns appropriately.

NOTES

1. Enterprise surveys, World Bank.
2. Hibbs and Piculescu. 2010.
3. International Tax Dialogue. 2007.
4. Djankov and others. 2010.
5. Romer and Romer. 2010.
6. Djankov and others. 2010.
7. That is, sales are 120% of the costs of goods sold.
8. Here, gross profit margin refers to sales minus costs divided by sales, where the sales have been adjusted to a level at which the case study company's profits in the Democratic Republic of Congo would exceed the amount of taxes due. Given the original assumption in the case study of a gross margin of 20%, or 120% of the costs of goods sold, in the Democratic Republic of Congo sales would have to be 142% of the costs of goods sold for the case study company to be able to meet its tax obligation.
9. Ricard. 2008.
10. OECD Forum on Tax Administration. 2011.
11. Imam and Davina. 2007.

Trading across borders

Cross-border trade is one of the driving forces behind the 5-member East African Community (EAC) integration efforts. With the EAC Customs Union in place since 2004, sights are now set on a number of ambitious infrastructure and trade facilitation initiatives. The aim is to reduce transaction costs for traders in the region. For businesses and consumers in EAC countries, the importance of such measures is difficult to overstate. Infrastructure and procedural problems—such as the poor quality of roads, frequent roadblocks, lengthy inspections and insufficient port capacity—make importing and exporting lengthy and expensive. EAC economies rank among the most difficult in the world for trading across borders (Figure 10.1).

Outside eyes are also watching what happens in the EAC with close attention. In Juba, the capital of the world's youngest nation and EAC neighbor, the Republic of South Sudan, the cost of living is high.¹ Decades of conflict have wiped out basic infrastructure and destroyed what production capacity it once had. As a result, most goods—including food, basic inputs and construction materials—must be imported. That can be costly and slow. Currently, an entrepreneur in Juba has to spend \$9,429 to import a standardized container of cargo through the port of Mombasa, Kenya (in the EAC)—and wait for up to 60 days from the time the goods arrive in Mombasa until they reach Juba, as measured by *Doing Business*.

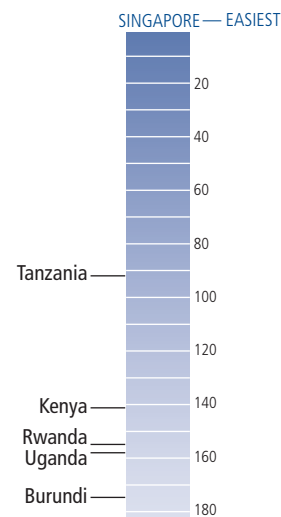
The benefits of cross-border trade are well documented. On the flip side, limited access to international markets can stunt the growth of businesses and prevent economies of scale. Local markets are often small—particularly in developing economies—and trade provides potential for greater output at lower

cost. Trade also allows developing economies to become part of global supply chains. Having access to imported raw materials and other inputs is often crucial for businesses, and delays or shortages can affect production. Trade can also lead to favorable externalities such as the transfer of know-how.² Imagine the possibilities for the EAC—with a combined population of over 130 million and abundant natural resources—if its full trade potential was unlocked.

But a firm's ability to trade overseas can be hampered by a range of factors—including inadequate infrastructure, inefficient port operations, excessive documentation requirements, burdensome and time-consuming customs procedures, heavy-handed inspections and audits by different government agencies. The World Bank's Logistics Performance Index shows that a trade supply chain is only as strong as its weakest link: poor performance in just 1 or 2 areas can have serious repercussions for overall competitiveness.³ By removing unnecessary obstacles, governments can contribute to an environment that encourages entrepreneurs to look beyond their own borders for business opportunities. A study focusing on Asia-Pacific Economic Cooperation (APEC) economies estimates that cutting the days needed to clear exports by half could enable small to medium-size enterprises (SMEs) to increase their share of exports from 1.6% to 4.5% of total sales.⁴

International trade plays an important part in the development of economies.⁵ Facilitating trade is, therefore, a natural concern for policy makers. Researchers find that the complexity or ease of customs and administrative procedures has an impact on trade flows. A study in Sub-Saharan Africa estimates that reducing exporting costs by

FIGURE 10.1 How do East African Community economies rank on the ease of trading across borders?

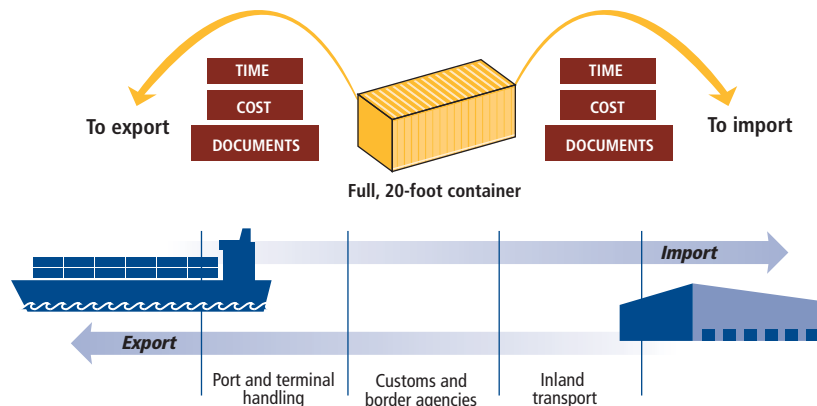


Source: *Doing Business* database.

10% through improvements in the efficiency of the trade process increases exports by 4.7%.⁶ Globally, reducing trade costs by 50% could increase trade in manufacturing by up to \$377 billion a year and triple the benefits for consumers via tariff reductions.⁷

Improving infrastructure naturally plays an important part in enhancing trade, but so do policies and regulations that promote efficient border crossing and the emergence of reliable logistics services, particularly for landlocked economies.⁸ Another study in Sub-Saharan Africa shows that a 1-day reduction in inland travel times leads to a 7% increase in exports. Put another way, a 1-day reduction in inland travel times is equivalent to a 1.5 percentage point reduction in all importing-country tariffs.⁹ Research also shows that other areas of the regulatory environment for business—such as the sharing of credit information and efficient debt

FIGURE 10.2 How much time, how many documents and what cost to export and import by ocean transport?



enforcement through the courts—play an important complementary part in boosting trade.¹⁰

Governments also benefit directly from trade facilitation—for example, by supporting easier ways to enforce tariff and duty payments and by making informal “facilitation payments” to certain customs officers more difficult. Ghana saw customs revenue grow by 49% in the first 18 months after implementing “GCNet”—its electronic data interchange system for customs procedures—according to a case study.¹¹ In Uganda, reforms to improve customs administration and reduce corruption helped increase customs revenue by 24% between 2007 and 2008.¹²

Doing Business measures the time and cost (excluding tariffs) associated with exporting and importing by ocean transport, and the number of documents necessary to complete the transaction (Figure 10.2).¹³ The indicators cover documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover logistical aspects, including the time and cost of inland transport between the largest business city and the main port used by traders. These are key dimensions of the ease of trading—the more time-consuming and costly it is to export or import, the more difficult it is for local companies to be competitive and to reach international markets.

In the East African Community, exporting and importing requires 8 documents and takes, on average, 29 and 33 days,

respectively. To compare, traders in European Union economies require only 5 documents and 11 days to complete a similar export or import operation. Compared to the broader Sub-Saharan Africa region, traders within the EAC need to assemble a similar number of documents, but manage to complete the export and import transaction in less time. Trade in the EAC is also quicker compared to other sub-regional groups—such as the Common Market for Eastern and Southern Market (COMESA), the Southern African Development Community (SADC) and

the Organisation pour l’Harmonisation en Afrique du Droit des Affaires (OHADA). With regard to the cost of exporting and importing a container, the EAC’s \$2,486 and \$3,296, respectively, is more expensive than the Sub-Saharan Africa regional average and all other mentioned sub-regions. In the EU, exporting a container costs less than half as much as in the EAC, and the cost of importing is just a third.

The differences among EAC economies are often significant. For example, traders in Tanzania deal with fewer documentation requirements and can complete both export and import procedures quicker and at a lower cost than the rest of the EAC members. To compare, exporting a container from Uganda (37 days, on average) takes twice as long as in Tanzania (18 days, on average), and importing to Burundi entails an additional 30 days when compared to Tanzania (Table 10.1). Rwanda is the most expensive for exports (\$3,275) and imports (\$4,990)—doubling or even tripling the costs of other EAC economies. Burundi and Rwanda remain among the 10 most expensive economies in the world in terms of importing a container via ocean transportation. Traders in land-locked EAC economies face longer waits and

TABLE 10.1 Where is exporting easy—and where not?

Documents (number)	
Tanzania	Fewest 6
Uganda	7
Kenya	8
Rwanda	8
Burundi	Most 9
Time (days)	
Tanzania	Fastest 18
Kenya	26
Rwanda	29
Burundi	35
Uganda	Slowest 37
Cost (US\$ per container)	
Tanzania	Least 1,255
Kenya	2,055
Uganda	2,880
Burundi	2,965
Rwanda	Most 3,275

Source: *Doing Business* database.

Where is importing easy—and where not?

Documents (number)	
Tanzania	Fewest 6
Kenya	7
Rwanda	8
Uganda	9
Burundi	Most 10
Time (days)	
Tanzania	Fastest 24
Kenya	24
Rwanda	31
Uganda	34
Burundi	Slowest 54
Cost (US\$ per container)	
Tanzania	Least 1,430
Kenya	2,190
Uganda	3,015
Burundi	4,855
Rwanda	Most 4,990

higher costs for trading—primarily due to the distance to the seaports and the need to cross inland border posts. Greater cooperation among neighbors and the streamlining of border procedures could help ease this burden to some extent.

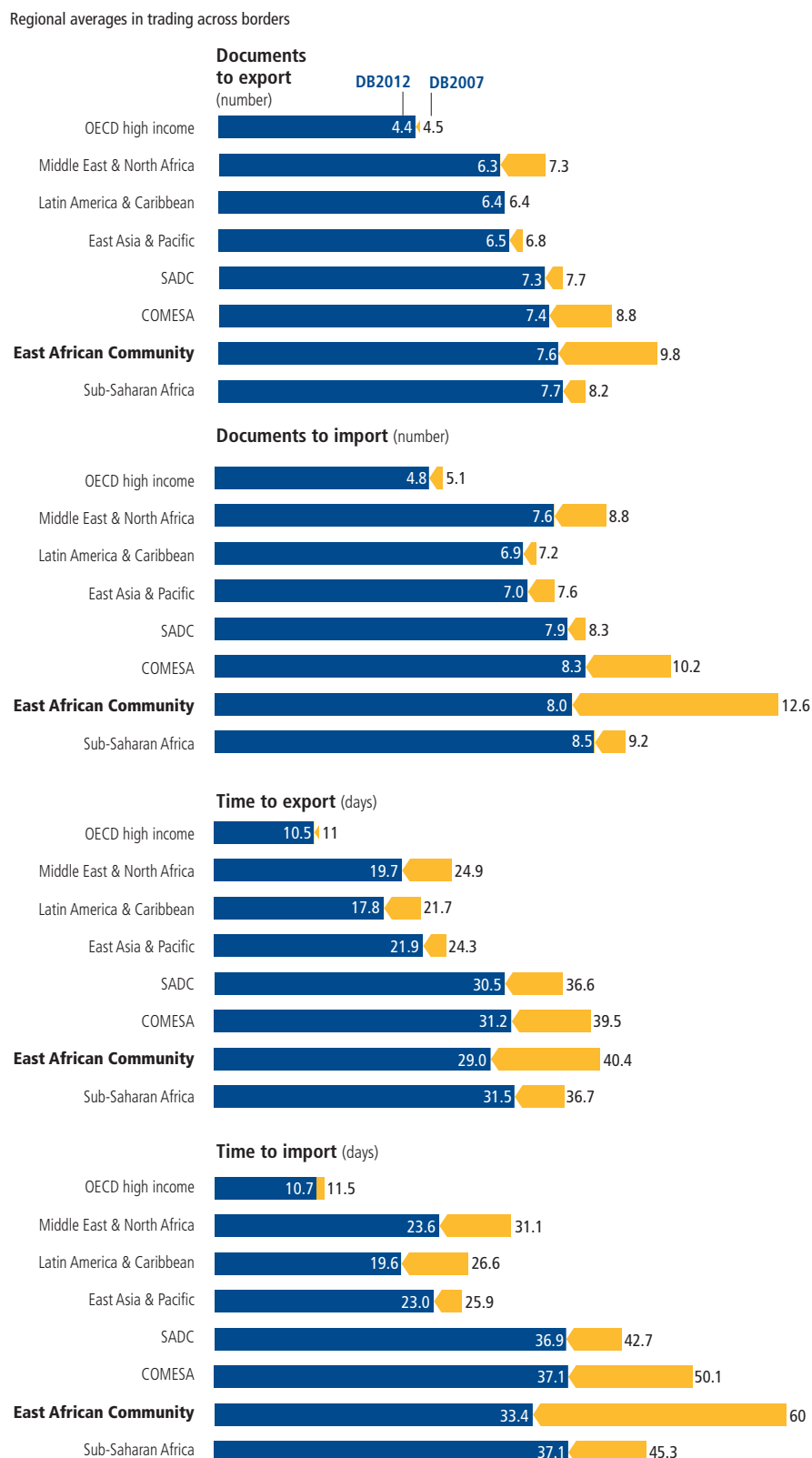
Trading across borders, as measured by *Doing Business*, typically involves the following steps: After signing a contractual agreement with the overseas importer, the exporting company first prepares and obtains all required documents and submits them to the relevant authorities. It makes arrangements with a commercial bank for the issuance of a letter of credit. The exporter then arranges for the goods to be packed into a container and transported from the warehouse to the port. Inland transport is done by truck, train or barge boat—or by a combination of these. The goods need to be cleared by customs and by authorities, such as health ministries. Export companies often hire agents, such as customs brokers, to complete the necessary paperwork and other formalities on their behalf. The use of customs brokers is included in the cost as measured by *Doing Business*. Once the cargo is at the port, port fees and handling costs are paid and the cargo is moved to the appropriate area until it can be loaded onto the vessel ready for shipment.

The importing company also prepares and obtains all required documents and submits them to the relevant authorities. It makes arrangements with a commercial bank for an import letter of credit. Once the vessel arrives at the port of entry, the cargo is offloaded to the port terminal, the necessary documents are submitted to and cleared by port authorities, and all the handling fees are paid. If customs and other clearance procedures at the port are lengthy, the cargo might need to be moved to a separate container yard, leading to storage fees for the importer. Customs clearance and other checks by authorities can be conducted at the port or at an inland port near the city where the import company is located (for more details on what *Doing Business* measures, see the data notes).¹⁴

WHO REFORMED IN 2010/11?

Looking back over the past 6 years, *Doing Business* recorded 166 trade facilitation

FIGURE 10.3 Trade becoming easier around the world



Note: The data sample for DB2007 (2006) includes 178 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Cyprus, Kosovo and Qatar, for a total of 183 economies. DB2007 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and South Sudan.

Source: *Doing Business* database.

reforms in 106 economies. Many introduced electronic data interchange systems for submitting and processing documents. Some opted for regulatory reforms, streamlining the number of documents or controls required during the trading process. As a result of these and other measures, trading across borders as measured by *Doing Business* has become faster and easier over the years. From the conclusion of a contractual agreement (between the exporter and importer) to the moment goods are shipped or received (excluding maritime transport), it takes 22.5 days, on average globally, for exporting and 25.1 days for importing. Back in 2006, it took 26.4 days, on average, to export and 30.9 days to import.

In the past 6 years, the Sub-Saharan Africa region has led the world in terms of the number of trade facilitation reforms—accounting for 52, or nearly a third, of the global total (figure 10.4). Economies in the EAC implemented 11 of these reforms in areas such as electronic submission of documents, risk management systems for inspections and joint border cooperation. Rwanda has been most active, reforming on 4 occasions in the 6-year period, followed by Kenya (3 reforms) and Tanzania and Uganda (2 reforms each). Burundi is the only EAC economy which has yet to carry out reforms to ease trading across borders. The reforms implemented have helped to considerably reduce delays in trading between the EAC economies and

the rest of the world. Export time in the EAC region dropped, on average, from 40 days in 2006 to 29 days in 2011. Meanwhile, import time was cut nearly in half, from 60 days in 2006 to 33 days in 2011 (Figure 10.3). Documentation requirements were also streamlined during this time.

In 2010/11, 18 economies worldwide made it easier to trade across borders—with introducing or improving electronic-document submission the most common feature of trade facilitation reforms. In the EAC, only Tanzania made trading across borders easier in 2010/11. Tanzania's Pre-Arrival Declaration (PAD) system became fully operational in January 2011. The new system replaced the Tanzania Scanning Scheme (TISCAN), eliminating the need for double lodgment of documents with customs and abolishing the use of the Import Declaration Form (IDF).

WHAT HAS WORKED?

The economies with the most efficient trading environments share common features. They allow traders to exchange information with customs and other control agencies electronically. And they use risk-based assessments to limit physical inspections to only a small percentage of shipments, reducing customs clearance times. Despite the reform efforts and progress of EAC economies on these fronts, there is still significant room for improvement.

Good practices in trade facilitation implemented by advanced and developing economies around the globe can serve as inspiration (Table 10.2). For the EAC, there are lessons to be learned from other economies within the Sub-Saharan Africa region—namely, Senegal and Ghana, which have performed well on this set of indicators. EAC economies can also look to each other to share ideas regarding what has worked on a country level. Furthermore, as a block, the EAC can learn from the experiences of other integration groups in Africa and beyond.

Adopting electronic-data interchange systems

Electronic systems for filing, transferring, processing and exchanging customs information have become an important tool for

TABLE 10.2 Good practices around the world in making it easy to trade across borders

Practice	Economies Worldwide ^a	Examples
Using electronic data interchange	130 ^b	Belize, Chile, Estonia, Pakistan, Uganda
Using risk-based inspections	97	Morocco, Nigeria, Palau, Suriname, Tanzania
Providing a single window	49 ^c	Colombia, Ghana, Republic of Korea, Singapore

a. Among 159 economies surveyed for electronic data interchange, 152 for risk-based inspections and 150 for single window.

b. Twenty-six have a full electronic data interchange system, 104 a partial one.

c. Twenty have a single-window system that links all relevant government agencies, 29 a system that does not.

Source: *Doing Business* database

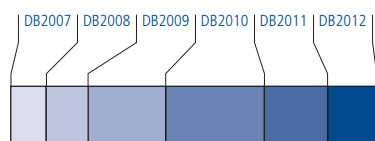
managing flows of information, now widely used in complex trading systems. The newest web-based systems allow traders to submit their documents from anywhere and pay duties online. The key to success is the ability of an economy to accommodate its regulatory framework to the new information technologies.

If implemented effectively, an electronic system saves precious time and money. It can also reduce interactions with officials, which translates to fewer opportunities for corruption. But introducing an electronic system often requires governments to enact legislation on electronic signatures and transactions. Otherwise it can lead to redundancy and delays, requiring paper submission of signed documents after they have been filed electronically. For small and low-income economies, the infrastructure and training costs of implementing such systems may be onerous—and meaningful effects for local traders may take time to materialize.

Exchange of customs data and harmonization of customs procedures are important pillars of many regional organizations, and electronic data interchange systems can support regional integration initiatives. For example, in Central America, the International Goods in Transit (TIM) system harmonizes previously cumbersome procedures in a single document to manage the movement of goods across 9 economies. At some

FIGURE 10.1 Sub-Saharan Africa continues to lead in trade reforms

Number of reforms making it easier to trade across borders per year of *Doing Business* report



Sub-Saharan Africa 52 reforms



East African Community 11 reforms

Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2007 (2006) includes 178 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Cyprus, Kosovo and Qatar, for a total of 183 economies.

Source: *Doing Business* database.

border locations this has reduced clearance times for goods in transit by up to 90%.¹⁵ But linking 2 or more information technology systems through a common interface is not always easy. Integrating Kenya's Simba system with Uganda's ASYCUDA++ through the development of the Revenue Authorities Digital Data Exchange (RADDEX) system has taken several years and does not yet cover all trade between the 2 countries. Expanding this system to the rest of the East African Community also remains an ongoing challenge.

Today, 82% of economies around the world allow traders to submit at least some of their export and import declarations, manifests and other trade-related documents to customs authorities electronically—though many of these systems are not linked to the internet and others still require hard copies. This is the case of EAC countries, which have all implemented some form of electronic system for customs declaration, but they have yet to be completely rolled out and often still require the submission of hard copies. The efforts are worth continuing.

Across economies, regardless of income level, installing electronic data interchange systems has been one of the most common and effective ways to reduce delays in the trading process. For example, statistics from the Pakistan government show how large the effect can be. Before Pakistan implemented its electronic system in 2006, only 4% of goods were cleared within a day; for a quarter of the goods, clearance took more than 6 days. By 2008, 93% of goods were cleared within a day.¹⁶ In Kenya, the Simba system for customs was interfaced with the port of Mombasa's cargo tracking system Kilindini Waterfront Operating System (KWATOS) in 2009, thereby leading to fewer delays for traders.

Since 2007, 75 economies have introduced or improved such systems, with 12 doing so in 2010/11. Today traders can submit all trade documents electronically in more than half of OECD high-income economies with no need to provide hard copies. In Sub-Saharan Africa and Eastern Europe and Central Asia, by contrast, most economies

that have electronic systems still require traders to submit hard copies.

Linking agencies through an electronic single window

Increasingly, economies are going a step further by virtually linking not only traders and customs authorities but all agencies involved in trade and transport through an electronic single-window system. In the best case scenario, such a system allows traders to file standard information and documents through a single entry point to fulfill all import, export and transit-related regulatory requirements—and then it shares relevant information with all parties involved in trade—including private participants, such as banks and insurance companies, as well as public agencies, such as immigration and vehicle registration authorities.

Today, 49 economies around the world have implemented single-window systems of varying complexity. Though EAC countries have yet to implement a single window system for trade, many economies around the world are increasingly interested in such systems. Colombia and Senegal, for example, have both rolled out their own single-window systems—though achieving complete functionality is an ongoing process. Kenya's customs modernization efforts—particularly in the development of its electronic data interchange system, Simba—have counted on technical expertise from Senegal. Rwanda is also in the process of developing its own single window for international trade. Considering the amount of paper documentation often necessary for trading with (and even within) EAC members, the adoption of electronic single window systems should help streamline documentation requirements and reduce delays.

Single-window systems for trade are being embraced by regional communities. The 10 member nations of the Association of Southeast Asian Nations (ASEAN) have set an ambitious goal of establishing an ASEAN-wide single window. Plans call for integrating members' national single windows so that a single submission of data and information suffices for the entire ASEAN region. The single-window experiences of ASEAN and

other advanced integration projects—such as the European Union—will provide valuable lessons for the EAC to look to as it makes its own progress in this field.

Using risk-based inspections

Requiring imports and exports to undergo inspections—for tax, security, environmental, border control, health and safety reasons—is often necessary. But how these inspections are carried out—including how cargo is selected for inspection—varies across economies. Done with a heavy hand, inspections can be a serious obstacle to efficient and predictable trade.

Over the years, customs administrations around the world, working in tandem with other border control agencies, have developed systems for establishing risk profiles that allow them to apply physical inspections in proportion to the potential risk of consignments. Investing in equipment is another way to help expedite the processing of cargo. Many economies—including Albania, Cameroon, Nigeria and the Philippines—have adopted the use of scanners to limit the need to physically open containers. But in some economies, the use of scanners has led to further delays because customs agents scan all containers. And mandatory scanning fees have added costs for traders. Efficient use of scanners in conjunction with risk-based profiling can strike the right balance between caution and efficiency in the trade process.

Risk-based inspections are the norm in OECD high-income economies. They are also becoming increasingly common elsewhere. Today, 97 economies use risk-based inspections. Among these economies, 49 have introduced or improved a risk-based system since 2006—31 of them low- or lower-middle-income economies.

Risk-based inspection systems are not yet used across all EAC countries and, even where they exist, the level of physical inspections still remains high, thus delaying clearances. Rwanda and Tanzania are among the economies in the region that have introduced or improved risk management systems for incoming cargo in recent years, allowing for more targeted inspections and expedited clearance of goods. However, the

lack of mutual recognition of inspection certificates among EAC administrations—and the proliferation of roadblocks and delays at weighbridges—are factors that still lead to cumbersome inspection regimes in the region.

Overcoming geographic barriers through regional cooperation

Many landlocked economies face special challenges in competing globally because of the greater inland distances and multiple border crossings involved in their trade—something business and policy-makers know all too well in Burundi, Rwanda and Uganda. These economies can accelerate trade through efforts to increase border cooperation agreements and reduce the number of checkpoints so that cargo can move freely—without being stopped for customs or other inspections—until it reaches its destination. For example, note that a trader in Vienna, in landlocked Austria, needs only 2 days to arrange for and transport cargo to the port of Hamburg, Germany, 900 kilometers away. Meanwhile, for a similar distance (1100 km), a trader in Kampala, in landlocked Uganda, needs 2 weeks or longer to arrange for and transport cargo to or from the seaport in Mombasa (Kenya). The difference is due, in part, to inadequate infrastructure. But it also results from additional controls and waiting time at border posts and checkpoints along the road.

Recognizing such obstacles, some landlocked economies have initiated reforms to facilitate trade. For example, Mali signed a border cooperation agreement with Senegal that harmonized the trade documents for the 2 countries. The number of checkpoints between Mali's Bamako and Senegal's Dakar dropped from 25 to just 4. In 2005, Honduras and Nicaragua cut the waiting time at their shared border in half. Before, traders had to go through inspections on both sides of the border; now the mutual recognition of inspections ensures that a single inspection suffices. Botswana is benefiting from greater cooperation with South Africa at the Tlokweng-Kopfontein border crossing.¹⁷

Synchronizing documents and procedures at the border can also save costs. A harmonized document for trade between China

and Hong Kong SAR, China, reduced paperwork by 60%.¹⁸ Thanks to a border cooperation agreement with Sweden and Finland, Norway is estimated to have avoided more than \$9 million a year in costs to customs authorities and \$48 million a year in costs to businesses.¹⁹

In the EAC, goods arriving at most border posts require traders to go through duplicative inspections at both the departing and arriving sides. Implementing joint border posts would save businesses from the additional cost associated with delays and also save governments from the unnecessary duplication of customs resources. Recent initiatives—such as Uganda's introduction of a secure system of seals for transit goods in 2009—are a step in the right direction, as they help reduce the need for inspections at different stages of transit.

Sparking competition by making private participation easier

Beyond the customs formalities, private providers of trade services—such as customs brokers, transport companies and port service providers—all have important effects on the time and cost of trading across borders. Greater competition among trade service providers can lead to lower fees and higher quality of service. For example, competition in the trucking market has a positive effect in Zambia. Several foreign trucking companies, most from South Africa, operate along Zambian trade corridors, and the competition keeps truckers' rates lower than in Chad.²⁰

Governments can promote competition by removing high license fees, onerous eligibility requirements and caps on the number of brokers. For instance, after Algeria accelerated the approval of license applications for brokers, customs clearance fees dropped by 40–50%. But having many brokers to choose from is not enough. Appropriate rules and regulations and proper oversight of brokers' services are crucial to achieving good trade practices.

Improving transparency to minimize costs

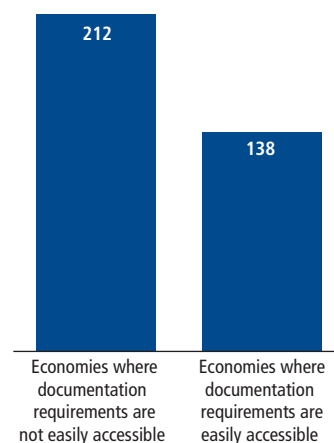
Improving transparency in trade by providing easy access to documentation requirements and tariff schedules can reduce transactions

costs for importing and exporting. Where trading procedures and payment requirements are clear, customs brokers and trade consultants are less necessary. Consider the results of analysis using the cost of customs clearance (which includes official customs clearance fees) as a proxy for customs broker fees.²¹ Among a sample of 174 economies, the average customs clearance cost for exports, as measured by *Doing Business*, is 25.3% lower in those where documentation requirements are easily accessible than in those where they are not (Figure 10.5).²²

Documentation requirements and tariff schedules for trade are easily accessible in most economies around the world: 78% publish documentation requirements online and 88% disseminate tariff schedules through websites. But in about 10% of economies, this information is available only through private customs brokers. This is often the case in Sub-Saharan Africa, where documentation requirements and tariff schedules for trade are easily accessible in only half of the economies. And even where documentation requirements and tariffs are easily accessible, the information is not

FIGURE 10.5 Customs clearance costs are lower where documentation requirements for trade are easily accessible

Average customs clearance costs for exports
(US\$ per container)



Note: Differences are statistically significant at the 5% level after controlling for income per capita. Documentation requirements for exporting and importing are considered easily accessible if they can be obtained through the website of the customs authority or other government agencies or through public notices, without a need for an appointment with an official. The data sample includes 174 economies.

Source: *Doing Business* database.

always up-to-date or sufficiently detailed. Lack of clarity in these 2 areas still contributes to considerable hassles and delays for traders.

Not all trade facilitation reforms require heavy spending. Transparency initiatives—such as providing training, clarifying and publicizing the rules and holding regular meetings with exporters on the clearance process—can make a significant difference without costing much. For example, through a series of efforts to improve customs administration—such as training staff, reducing inspections, simplifying procedures and enhancing communication with users—Grenada reduced the customs clearance time by 3 days for exports and 2 days for imports between 2008 and 2010.²³ Meanwhile, Rwanda's consistent reforms easing trade over the last few years has led to increased customs productivity. Specifically, the number of customs transactions cleared per official per year increased by 39% between 2006 and 2009 in Rwanda.²⁴

NOTES

1. The economy was the youngest as of October 2011. See John Oywa, "In Juba, a Haircut Will Cost You Sh800," *The Standard* (Nairobi), March 12, 2010, <http://www.standardmedia.co.ke/>.
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8. Arvis, Marteau and Raballand. 2010.
9. Freund and Rocha. 2010.
10. See Duval and Utoktham (2009), Cuñat and Melitz (2007) and Ranjan and Lee (2007), among others.
11. De Wulf and Sokol. 2004.
12. World Bank 2009, p. 50.
13. Trading is assumed to take place through seaports because maritime transport is the most common means of international trade. To this extent, the trading across borders indicators provide the most accurate measures of what traders around the world must deal with to export and import, while the standardized case study ensures that the data remain comparable across economies and over time. The indicators do not measure the ease of trading by other modes, such as land or air, which limits the assessment of an economy. For example, the indicators do not measure regional trade—which is becoming increasingly important, particularly for landlocked economies—even if an economy trades mainly with immediate neighbors by land. In addition, the indicators measure logistical aspects only between the largest business city of an economy and the port. In low-income economies, this logistical route tends to be the most developed and is not representative of the connectivity to the rest of the economy, which may be more relevant for small and medium-size businesses.
14. For importers in landlocked economies, goods need to be first bonded at the port and then acquitted at the inland border post so that they can transit through third economies. In some cases, goods can be transported to the importer's warehouse, but inspections might still need to be performed before the goods can be used or sold.
15. Sarmiento, Lucenti and Garcia. 2010.
16. Ahmad. 2010.
17. World Bank 2008a, p. 9.
18. World Bank 2006, p. 45.
19. World Bank 2008a, p. 47.
20. World Bank 2009, p. 53.
21. Only official costs and private sector charges are captured by the trading across borders indicators. Measures of time to export and import reflect time required in the absence of any informal payments.
22. There is also a statistically significant difference for export cost, but not for import customs clearance fees or total import cost. This could be because customs brokers play a larger role in import customs clearance than merely informing traders of documentation requirements.
23. *Doing Business* database.
24. World Bank 2010. *Doing Business 2011: Making a Difference for Entrepreneurs*.

Enforcing contracts

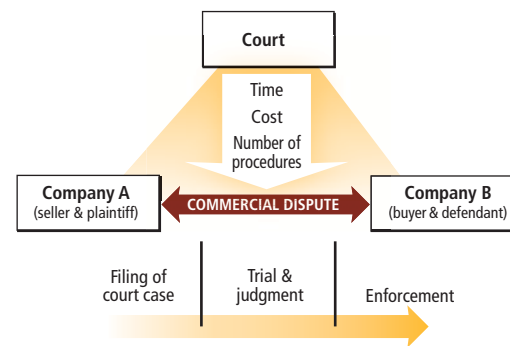
Imagine Pierre a proud owner of a successful printing company registered in Kigali (Rwanda). He is relieved because he just received the proceeds from a lawsuit he initiated earlier in the year against Jacques, a former client who refused to pay for books Pierre had delivered, as ordered. Pierre is happily surprised with the improved efficiency of the Rwandan courts. Recalling his first lawsuit experience back in 2005, Pierre had hesitated before taking Jacques to court to settle this recent dispute. In his similar case of 7 years ago, Pierre had had to wait for 13 months to obtain a judgment and then receive payment for his books. This time around, the same process took him 8 months—5 months less to wait. Pierre's story illustrates the recent improvements that have been achieved in the Rwandan legal system over the past few years.

Effective commercial dispute resolution has many benefits. Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of long court disputes.

A study in Eastern Europe found that in countries with slower courts, firms on average tend to have less bank financing for new investment. The study shows that reforms in other areas, such as creditors' rights, help increase bank lending only if contracts can be enforced before the courts.¹

Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit between 2 domestic

FIGURE 11.1 What are the time, cost and number of procedures to resolve a commercial dispute through the courts?



businesses (figure 11.1). The dispute involves the breach of a sales contract worth twice the income per capita of the economy. The case study assumes that the court hears arguments on the merits and that an expert provides an opinion on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. The time, cost and procedures are measured from the perspective of an entrepreneur (the plaintiff) pursuing the standardized case through local courts.

In the East African Community (EAC), it takes, on average, 37 procedures, 496 days and costs 44.7% of the value of the claim in dispute to enforce a contract through the courts. The EAC's performance in enforcing contracts is faster than almost any region's, although it is also more expensive than most. The fastest region in which to enforce contracts is Eastern Europe and Central Asia where it takes, on average, 389 days to enforce a contract through the courts. Within the EAC, there is a great amount of variation seen for this indicator. On the one hand, Rwanda's courts are ranked the 6th fastest in the world—enforcing contracts in an average of 230 days from filing to enforcement.

On the other hand, Burundi's courts take a discouraging 832 days to settle the same standardized dispute (table 11.1). The average cost in the EAC is especially high in Rwanda, where enforcing contracts costs an average

TABLE 11.1 Where is enforcing contracts easy—and where not?

Time (days)	
Rwanda	230
Tanzania	462
Kenya	465
Uganda	490
Burundi	832
Procedures (number of steps)	
Rwanda	24
Tanzania	38
Uganda	38
Kenya	40
Burundi	44
Cost (% of claim)	
Tanzania	14.3
Burundi	38.6
Uganda	44.9
Kenya	47.2
Rwanda	78.7

Source: *Doing Business* database.

of 78.7% of the value the claims. However, it is relatively inexpensive in Tanzania, where it costs just 14.3% of the value of the claim. To compare, in the OECD high-income economies, the cost to enforce a contract averages 20% of the value of the claim. Of the 5 economies in the EAC, Tanzania ranks first overall for making enforcing contracts easiest (figure 11.2).

WHO REFORMED IN 2010/11?

Looking back through *Doing Business* reports, 4 out of the 5 EAC economies—that is, Burundi, Kenya, Rwanda and Uganda—have implemented a total of 7 improvements in their judicial systems since 2005.

Past reforms in EAC economies include Burundi's introduction of a new code of civil procedure (adopted in 2004), implementing summary proceedings for uncontested claims. Burundi's deadline to appeal a judgment was reduced from 60 days to 30 days after notification of the judgment. Uganda has been in the process of improving its justice sector for several years, with particular emphasis also on commercial dispute resolution. With its ongoing "Justice Law and Order Sector" (JLOS) project, alternative dispute-resolution mechanisms have been promoted, reducing the cost of accessing JLOS services. The establishment of

a mediation registry, coupled with other reforms in the commercial division of the high court—such as an update of the commercial court's competence threshold—also reduced the backlog of cases—from 44% backlogged in 2009 to 34% in 2010.² As a result of these reforms, Uganda sped up contract enforcement in its courts—from 535 days in 2005 to 490 days in 2010 (figure 11.3).

In 2010/11, 11 economies worldwide made it easier to enforce a contract through the courts. Some economies introduced or expanded specialized courts to deal with commercial cases; others overhauled the organization of their courts or their system of judicial case management that deals with commercial dispute resolution. Within the EAC, Kenya was the only recent reformer. In 2010/11, Kenya introduced a "case track" system—categorizing cases as "small claims," "fast track" or "multi-track"—and allocated resources strategically to avoid delays in commercial disputes. While cases with complex facts and legal issues get "multi-track" treatment, those that involve undisputed facts and legal issues—and are likely to be concluded within 180 days after pretrial directions—get "fast track" treatment.

WHAT HAS WORKED?

There is no single sure-fire recipe for court reform. Most economies with successful reform efforts have had to embrace a holistic approach—looking not only at timely disposition of court cases, but also at such features as accessibility, transparency, independence, due process, certainty and the competence of judges and judicial staff. Over the years, common features of judicial reforms relating to commercial dispute resolution have included the electronic filing of complaints and specialized commercial courts, divisions or judges.

Going electronic with filing of complaints and case management

Introducing an electronic system for the filing of complaints has been a common reform among economies making it easier to enforce contracts. Among the 183 economies covered by *Doing Business 2012*, 16 allow the electronic filing of the initial complaint in a case—most of them OECD high-income economies. None of the economies from

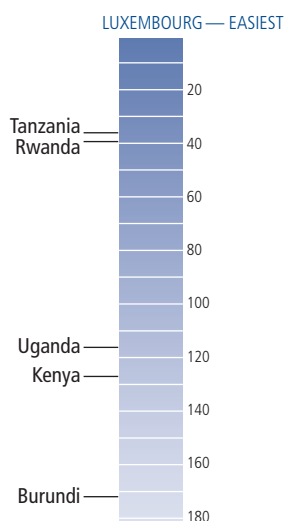
the EAC have systems of electronic filing of complaints that are fully operational—although Rwanda is getting close.

There are several benefits to allowing the electronic filing of initial complaints. It minimizes the need to physically transport paper documents and helps promote improved storage solutions within the court. It also helps ensure the fair treatment of litigants when they file their cases. In August 2011, Rwanda launched a new electronic filing system. While still in pilot mode, this system is part of an ambitious electronic records management system—along with a case management module and a digital court recording system. Subcomponents of this project—such as electronic payment of court fees, toll-free lines, an electronic alert system using SMS texting and email, a video conferencing system and a legal information portal online—are also being piloted.

As seen in Rwanda, electronic systems for the filing of complaints are often introduced as part of a broader overhaul of the court system, where economies have implemented entire case management and automated court processes. Judicial case management—which involves monitoring and managing cases in the court docket, from the filing of the claim until judgment is rendered—can be particularly successful when courts are computerized and when support functions—such as electronic filing and more—are performed automatically.

Take Malaysia, for example. In January 2009, several Malaysian courts faced a backlog of around 100,000 pending cases. These backlogs—caused in part by the large number of adjournments, which delayed the resolution of disputes—were hampering entrepreneurs' access to justice. To address the issue, Malaysia launched an "e-court" project at the Kuala Lumpur high court in February 2009 that is being expanded to all Malaysian courts. The project included a range of new systems—all introduced between 2009 and 2011—1 of which was the introduction of electronic filing. The new electronic filing system allowed all court documents to be filed and made available electronically—including the initial complaint. According to recent estimates, backlogs were reduced

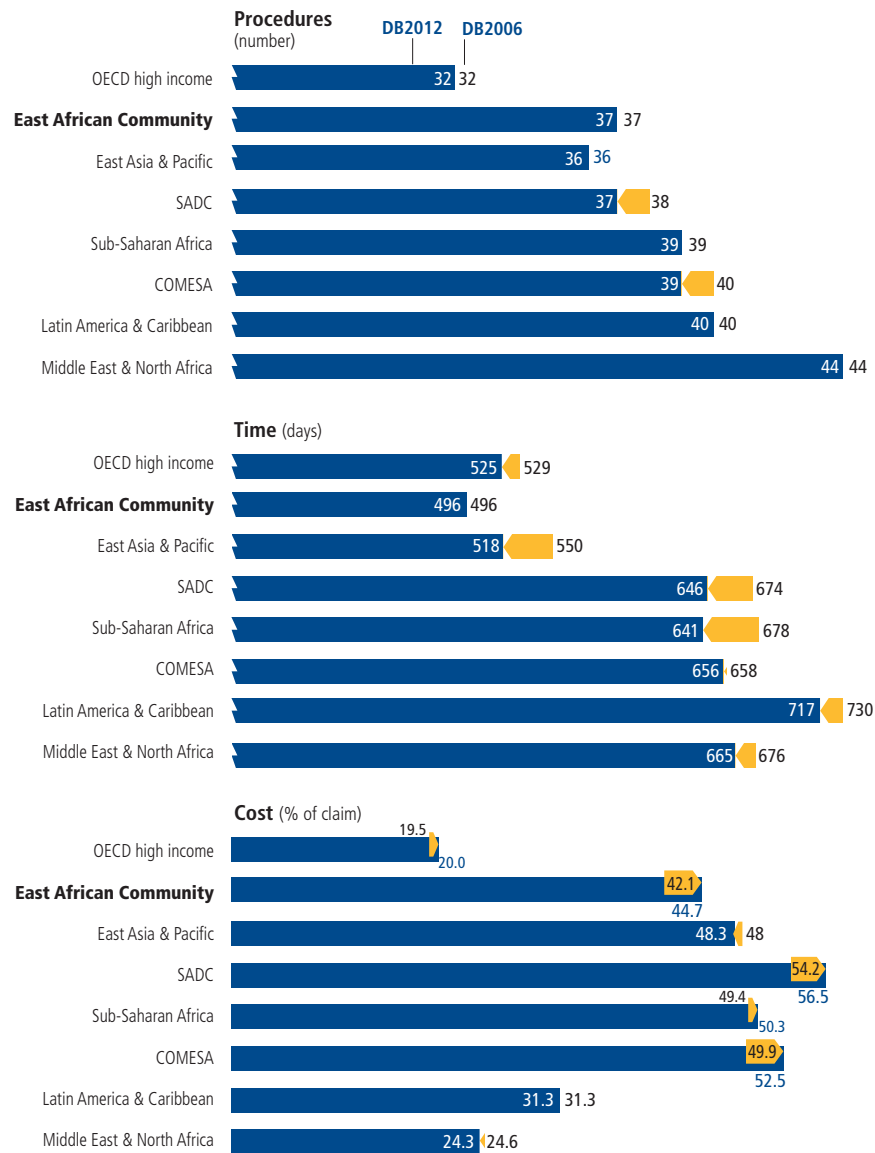
FIGURE 11.2 How do East African Community economies rank on the ease of enforcing contracts?



Source: *Doing Business* database.

FIGURE 11.3 Faster but still costly courts in the East African Community

Regional averages in enforcing contracts over time



Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies. The data sample for COMESA does not include Libya and Sudan.

Source: *Doing Business* database.

by more than 50% by 2011, thanks to these court modernization efforts.

Although allowing the electronic filing of complaints may not be high on the agenda of most economies of the East African Community or the broader Sub-Saharan Africa region, some of the region's economies have looked to computerizing their case

management systems in order to improve their court processes.

In 2009, Uganda's chief magistrates' court and commercial court began operating a case management software system (known as CAS). CAS enables the courts to have an electronic register of cases, to instantly consult the case calendar to monitor deadlines and to have statistics readily available. This

allows the magistrates to easily identify cases that have not been served and dismissed in a timely manner. As a result of Uganda's efforts, the time for filing and service has been reduced by 20 days.

Meanwhile, as part of its ongoing court reforms, Benin is implementing an automated case management system and computerizing the country's 8 courts of first instance—as well as the court of appeals of Abomey, its 7th largest city. Benin's improvements include setting up an intranet system to link the courts with its Ministry of Justice and constructing and equipping a legal and judicial information center.

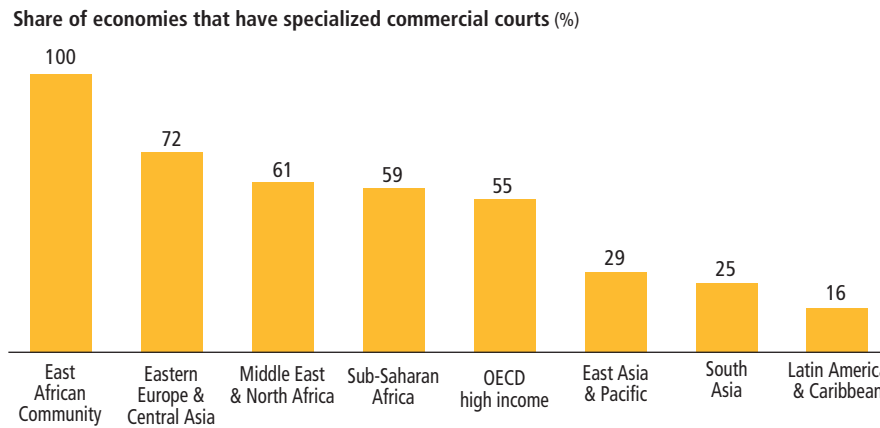
In Ethiopia, the courts of first instance in Addis Ababa have a computerized case management system. Anyone can access the court schedule—online, by telephone or from a touch screen at the court building. The system produces real-time data on the number of cases assigned to each court chamber—thus aiding in the performance assessments of judges, chambers and courts across Ethiopia. Over time, these data will help determine which courts have heavier caseloads and help guide the allocation of resources to maximize efficiency.

Creating specialized commercial courts

Worldwide, 87 of the 183 economies covered by *Doing Business* have specialized commercial jurisdictions—established by setting up a dedicated stand-alone court, a specialized commercial section within existing courts or specialized judges within a general civil court. Specialized commercial courts are very common in Sub-Saharan Africa—59% of the region's economies have them, including all 5 economies in the East African Community (figure 11.4).

In 7 African countries that introduced commercial courts or sections within the past 8 years—Burkina Faso, the Democratic Republic of Congo, Ghana, Mauritania, Mozambique, Nigeria and Rwanda—the average time to resolve the standardized case measured by *Doing Business* dropped by 4 months.³ Within 2 years of establishing its commercial court (in 2005), Ghana saw the average time to resolve the standardized case fall by 2 months. Mozambique saw its

FIGURE 11.4 Specialized commercial courts are very common in the East African Community



Source: *Doing Business* database.

average time drop by 9 months after it created a commercial court in 2007.

Among the EAC economies, Rwanda provides a great success story. In 2006, Rwanda established specialized commercial divisions within the higher instance courts. The goal was to have specialized professionals who would deal solely with commercial cases, leading to deeper expertise and efficiency.

In May 2008, Rwanda took its reform efforts a step further and established 3 lower commercial courts—1 in the capital city of Kigali, 1 in the Northern Province and 1 in the Southern Province—which cover all commercial disputes with a value below RWF 20 million (\$33,168). A 4th commercial court, attached to the high court, has pecuniary jurisdiction above RWF 20 million and hears appeals from the 3 lower courts.

These courts are constantly improving their administrative processes and the registrar has mastered the IT system. Cases are registered quickly and included in the computerized case management system. Service by huissiers de justice is performed swiftly as well. As a result of these efforts, the average time to resolve the standardized case in Rwanda has fallen by 80 days since 2005, making Rwanda one of the fastest economies in the world in which to settle a contract dispute.

As recorded by *Doing Business 2012*, 23 economies have introduced or expanded the scope of specialized commercial courts or commercial sections in the past 8 years. In Lesotho, a court dedicated exclusively to hearing commercial cases started operating in 2010. Sierra Leone created a fast-track commercial court in 2011—offering a new, more modern venue for commercial dispute resolution in addition to the commercial division at its high court. And in Senegal commercial chambers with specialized judges started operating in 2011.

Where a limited number of commercial cases need to be handled, specialized commercial sections provide a less expensive alternative to a commercial court. For example, Kenya has had a commercial division in its high court in Nairobi for over a decade now. Previous to this, commercial disputes were not resolved in a timely manner, causing many banks to protest. And in 2006, the commercial division of Nairobi's high court was expanded to deal with tax matters.

Specialized courts tend to improve efficiency.⁴ Creating specialized commercial courts can result in faster and less costly contract enforcement. One reason for the greater efficiency is that judges become expert in handling commercial disputes. Commercial courts often have less formal procedures: the use of oral arguments is permitted, even in economies where the general courts require written procedures. Analysis

of *Doing Business* data shows that commercial disputes are resolved 5 months faster, on average, in economies with specialized commercial courts or sections than in those without them.⁵

The creation of specialized sections or courts usually needs to be matched by a commitment of more resources as demand for their services expands. Take the case of Peru. The Lima commercial courts, in operation since April 2005, made headlines in 2006 for deciding cases in less than a year. But in February 2007, the judiciary transferred 11,000 enforcement cases to the new courts. These cases, amounting to about 11 times their existing caseload, flooded the courts and increased average delays again.⁶

Specialized commercial courts are often criticized because in some economies they deal only with financially important cases. Those in Tanzania, for example, accept only cases with a value of at least 75 times income per capita. Such thresholds can be justified as a way to avoid overloading newly established specialized courts. But a balance must be struck between access to justice and a reasonable caseload for the new courts. A pragmatic approach is to lower thresholds as courts are gradually able to accept more cases. This is better than having courts inundated with cases from the start.

NOTES

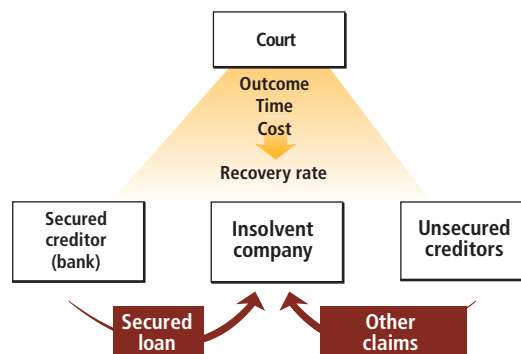
1. Safavian, Mehnaz, and Siddharth Sharma. 2007. "When Do Creditor Rights Work?" *Journal of Comparative Economics* 35 (3): 484-508.
2. The Republic of Uganda, January 2012, *The Third Sector Strategic Plan (SIP III) for the Justice Law and Order Sector 2012.13-2016/17*, available on line at http://jlos.go.ug/uploads/JLOS_SIPIII_Jan2012_final_draft.pdf.
3. *Doing Business* database.
4. Botero and others 2003.
5. Differences are statistically significant at the 1% level after controlling for income per capita.
6. World Bank 2007, p. 52.

Resolving insolvency

Keeping viable businesses operating and inhibiting the premature liquidation of sustainable businesses as well as efficiently liquidating failed businesses so that assets can be returned to productive use as quickly as possible, are the main attributes of a good insolvency system.¹ A firm suffering from bad management choices or a temporary economic downturn may still be turned around. In some cases, keeping a viable struggling business alive and preserving the value and jobs built up in the business, can be the most efficient outcome: Creditors get a chance to recover a larger part of their credit, employees have a better chance of keeping their jobs and the network of suppliers and customers is preserved. But, of course, not all insolvent businesses are viable. A good bankruptcy system weeds out the unviable from the viable. Where bankruptcy system is inefficient, nonviable businesses may linger for years, preventing assets and human capital from being reallocated to more productive uses.

Doing Business studies an insolvency case involving a main secured creditor and several unsecured ones. It measures the time, cost and outcome of insolvency proceedings involving domestic entities (figure 12.1). The value of the firm in the *Doing Business* case scenario is assumed to be 30% greater if sold as a going concern. The data are derived from survey responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems. Swift, low-cost proceedings leading to the continuation of viable businesses characterize the top-performing economies. The name of the indicator was changed this year from “closing a business” to “resolving insolvency” to reflect that the case assesses the efficiency of insolvency proceedings and takes into

FIGURE 12.1 What are the time, cost and outcome of the insolvency proceedings against a local company?



consideration different outcomes—namely, piecemeal sale or sale as a going concern. The value of the firm in the case scenario is greater if sold as a going concern (100% as opposed to 70%). The ranking on the ease of resolving insolvency is based on the recovery rate. *Doing Business* does not measure insolvency proceedings of individuals and financial institutions.²

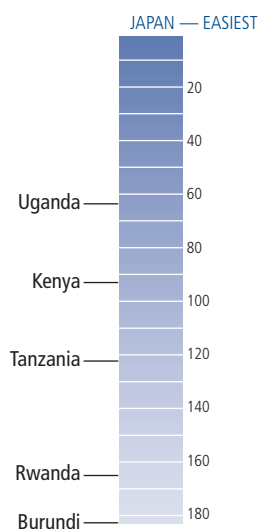
In general, insolvency systems in the East African Community (EAC) remain underdeveloped and in need of revision. And governments in the EAC realize that. Keeping viable businesses operating is one of the important goals of a well-designed bankruptcy system.³ In May 2009, Rwanda enacted a new insolvency law aimed at promoting reorganization procedures as a viable option for distressed firms. The new legislation also set clear time limits and regulated the profession of the insolvency administrators.

Furthermore, in August 2009, Rwanda adopted formal instructions aiding in the implementation of its new insolvency law. The instructions introduced professional requirements for bankruptcy administrators—including a degree in law, accounting,

management, economics or another related area and at least 2 years of experience in such area. Placing qualified administrators who are skilled, efficient and trustworthy gives viable businesses a better chance of survival, as these administrators assist and sometimes replace the management of an insolvent company. The new instructions also limited the validity of an administrator’s license limited to 3 years. And in the case of non-observance of the deadlines established for insolvency proceedings, the license may be revoked.

The global financial crisis spurred bankruptcy reforms around the world. Since the onset of the crisis in 2008/09, no fewer than 65 economies have made changes to their insolvency regimes—including 11 economies in the Sub-Saharan Africa region. However, systems for resolving insolvency still appear to be more efficient in OECD high-income economies—with proceedings taking just 1.7 years, on average. Meanwhile in Sub-Saharan Africa, the time between a company’s default until the payment of some or all of the money owed to the bank is, on average, 3.4 years. The EAC is similar in terms of proceedings’ time—with a combined average of 3.2 years

FIGURE 12.2 How do East African Community economies rank on resolving insolvency?



Source: Doing Business database.

from default to payment. The EAC ranks slightly higher than the Common Market for Eastern and Southern Africa (COMESA), whose creditors have to expect an average of 3.3 years until they receive part or all payment owed to them.

Yet, there is a great variation among the EAC economies. Burundi, despite reforms in previous years, is presented as a “no practice” economy for this indicator, due to the lack of court-supervised bankruptcies over the past 5 years.⁴ Meanwhile, Uganda ranks highest in the region (figure 12.2)—with the shortest time for creditors to recover their investments: just 2.2 years. With regards to cost, Tanzania and Kenya have the lowest proceedings costs (as a percentage of the debtor’s estate): just 22% of the underlying estate each. On the other hand, Kenya takes the longest in the EAC for creditors to recover their investments: 4.5 years, on average. In Kenya, it takes almost 2 years to sell the assets in a private or public auction. The biggest challenge is to find buyers and to process the payment for the secured creditors because of disputes usually raised by other creditors against the sale procedure. Rwanda is burdened by the highest

proceedings costs: they come to 50% of the value of the debtor’s estate (table 12.1).

Studies have shown that stronger regulatory protections for creditors are associated with lower costs of debt and a significant increase in the aggregate level of credit.⁵ If creditors can recover more of their investments, they can keep reinvesting in viable firms and continue lending while maintaining confidence in the bankruptcy system.⁶ Research has also shown that bankruptcy reform can aid in the quick recovery of an economy during a recession.⁷

Debt contracts, like any other, have to be enforced. Over the centuries, economies have introduced a variety of legal mechanisms and institutions that allow lenders to recover their investment from the borrower without resorting to violence. Economies with good bankruptcy procedures are those that maximize the total value of recovered debt—to be divided among the debtor, the main creditors and possibly the shareholders—and make it possible to do so at a relatively low cost.⁸ The recovery rate is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings.⁹ Economies with less efficient and more costly insolvency procedures generally have lower recovery rates. Many of these are in the Sub-Saharan Africa region—where the average recovery

TABLE 12.1 Where is resolving insolvency easy—and where not?

Time (years)	
Uganda	Fastest 2.2
Rwanda	3.0
Tanzania	3.0
Kenya	Slowest 4.5
Burundi	No practice
Cost (% of estate)	
Kenya	Least 22
Tanzania	22
Uganda	30
Rwanda	Most 50
Burundi	No practice

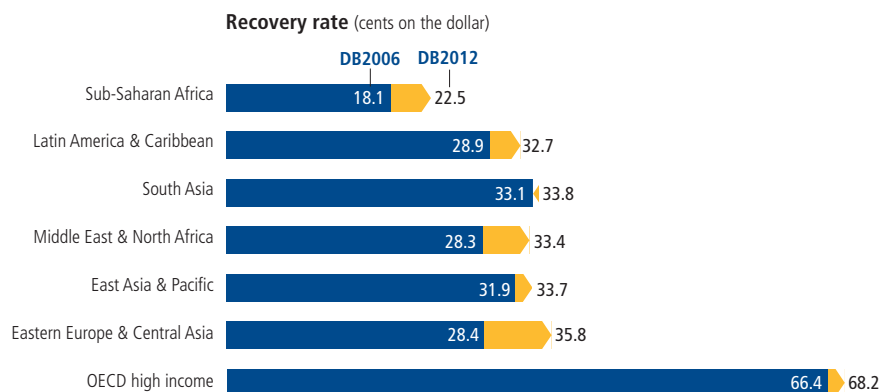
Source: Doing Business database.

rate is 22.5 cents on the dollar—followed by Latin America and the Caribbean—where it is 32.7 cents on the dollar. The EAC economies—with an average recovery rate of 24 cents on the dollar—offer better chances to creditors to recover their debts than other regional communities—such as the COMESA, which has a recovery rate of just 17 cents on the dollar (figure 12.3).

Lower bankruptcy costs can help keep viable firms in existence while simultaneously encouraging the creation of new firms and promoting healthy competition in the economy.¹⁰ Many of the economies with higher bankruptcy costs are situated in the

FIGURE 12.3 Small increase in recovery rate in Sub-Saharan Africa

Regional averages in resolving insolvency

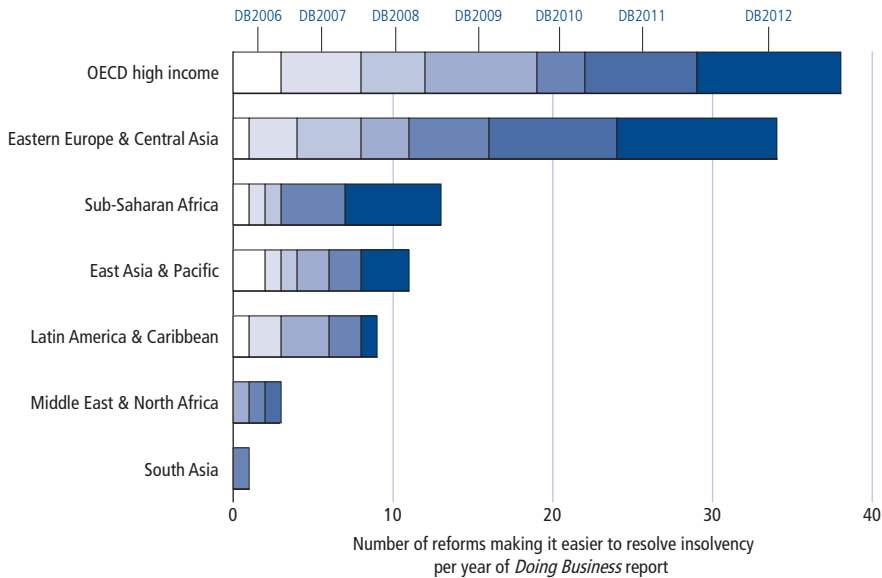


Note: The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies. DB2006 data are adjusted for any data revisions and changes in methodology and regional classifications of economies.

Source: Doing Business database.

FIGURE 12.4 Pace of bankruptcy reform has picked up in Sub-Saharan Africa

Number of Doing Business reforms making it easier to resolve insolvency by Doing Business report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2012 (2011) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.

Source: *Doing Business* database.

Sub-Saharan Africa and East Asia and Pacific regions—where the costs of proceedings average 22% of the value of the debtor's estate, as measured by *Doing Business 2012*. The price tag is even higher in the EAC—where the cost of proceedings averages 31% of the value of the debtor's estate. This average is strongly skewed by Rwanda—where the cost of proceedings averages 50% of the value of the debtor's estate and the recovery rate is just 3.2 cents on the dollar.

WHO REFORMED IN 2010/2011?

Over the past 7 years, *Doing Business* has recorded 109 insolvency reforms, most of them in OECD high-income economies and in the Eastern Europe and Central Asia region. However, Sub-Saharan Africa economies have seen a recent surge in bankruptcy reforms, many of them aimed at overhauling an outdated system or introducing new legislation (figure 12.4). In the past 2 years, Cape Verde passed a bankruptcy law setting a time limit for liquidation proceedings (12 months). In 2009 and 2010, Malawi passed new bankruptcy laws and rules on the winding-up of companies.

In 2010/11, Burundi was the only economy in the EAC to reform its insolvency regime. In October 2010, Burundi strengthened debt enforcement by amending its commercial code to establish foreclosure procedures.

WHAT HAS WORKED?

From the changes in insolvency regimes enacted over the years—whether motivated by economic or financial crises or as part of broader judicial or legal reforms—several trends and good practices have emerged. To improve both the efficiency and outcome of insolvency proceedings, good practices include: 1) setting time limits for insolvency proceedings, 2) introducing specialized courts, 3) establishing new reorganization proceedings and 4) protecting secured creditors.

Setting time limits

Establishing time limits for insolvency proceedings can enhance the efficiency of insolvency processes. Speedier court resolutions reduce uncertainty for all parties involved and improve the value and transparency of assets.¹¹ Within the EAC, it takes an average of 4.5 years for creditors to recover their debt

in Kenya, 3 years in Tanzania and 3 years in Rwanda (table 12.1). As a group, the EAC records an average of 3.2 years, falling far behind OECD high-income economies, where proceedings take just 1.7 years, on average.

Efficient insolvency processes also increase debt recovery by creditors by making it more difficult for the shareholders of a company to sell assets at an unreasonably low price to a second company they own.

Over the past 7 years, 37 economies around the world either tightened time limits for insolvency proceedings or introduced such limits for the first time. For example, in 2006, Burundi adopted its first bankruptcy law since independence in 1962 which introduced time limits for several acts of the proceedings: registration and closing of the creditors' claims, notices, appeals and calling of the creditors' assembly. Meanwhile, Cape Verde's new bankruptcy law established a 12-month time frame for liquidation proceedings. Under certain circumstances, the proceedings can be extended for another 180 days—but only at the discretion of the judge. In October 2010, Malawi adopted a new set of "Companies Winding-Up Rules" which established a 60-day time limit for liquidators to file their reports with the court.

Promoting specialized courts

Promoting specialized courts is among the most efficient ways to ensure that insolvency cases receive attention more quickly—reducing bottlenecks and backlogs of cases. Specialized courts also improve the quality of the judicial system, allowing certain judges to dedicate themselves to hearing insolvency cases. Thus focussed, these judges may be better equipped to make the most informed decisions.

Five economies have introduced specialized courts since 2005. In 2009, Romania created special insolvency departments within its tribunals. Also in 2009, Malaysia established specialized civil and commercial courts in Kuala Lumpur that handle only foreclosure proceedings. This reduced the average length of proceedings from 2.25 years to 1.5 years. In December 2010, Israel established an economic department at its district court of Tel Aviv. The aim was to create a more permanent and efficient judicial

BOX 1: A REGIONAL EAST AFRICAN COMMON MARKET APPROACH TO INSOLVENCY LAW

Through the East African Community (EAC) Common Market^a, the 5 member states of the EAC are working to harmonize their national laws through the adoption of common principles in their respective restructuring and insolvency regimes, among other areas.

Ongoing efforts to harmonize EAC member states' laws offer important opportunities to reform and reframe insolvency laws in accordance with international good practices. For instance, EAC-wide incorporation of the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Cross-Border Insolvency would assist states in managing cross-border insolvencies^b—including those that take place within the regional EAC bloc and those outside it—in a fairer and more coherent manner. Currently, Mauritius and South Africa are the only 2 African countries that have adopted this Model Law in their national insolvency legislation.

Common restructuring and insolvency principles would also allow the EAC member states to reconcile differences in their varied civil and common law jurisdictions. For instance, Burundi's insolvency law dates from 2006 and is based on French civil law principles. It incorporates specific tools for business rescue and restructuring. Kenya's law, which was revised in 2009, is predominantly based on English common law concepts.

Adopting common core principles would also allow the countries to incorporate shared standards for key actors and institutions in the insolvency regime. Given that insolvency practitioners have a quasi-public interest role as officers of the court, minimum standards and professional qualifications are essential for a holistic regulatory response. However, EAC member countries differ widely in their treatment of domestic insolvency practitioners: while practitioners in Rwanda are subject to licensing requirements and informal ethical guidelines, their Kenyan counterparts face no such demands. Adopting shared standards for insolvency professionals could change that. At the same time, many challenges are common to all of the member states' regimes—such as the large gap between having effective laws in place and effective implementation on the ground—and could be communally resolved with EAC Common Market initiatives.

By harmonizing and modernizing the insolvency and debt-resolution practices within the EAC to meet global good-practice standards, the EAC credit and business climates would improve. Furthermore, investors working across borders would be able to make credit and trade arrangements that minimize their risk for non-payment based on a common understanding of EAC-wide debt resolution options.

a. The EAC Common Market commenced July 1, 2010.

b. Cross-border insolvencies include those cases where assets are found in more than one state, or where some of the creditors are from different states, different from where the insolvency proceedings may be taking place.

system dedicated to handling economic disputes. Judges in the new department can hear corporate petitions and facilitate settlements with creditors.

In 2006, Burundi gave exclusive jurisdiction over insolvency cases to its commercial courts. However, since Burundi appears as a “no practice” economy as measured by *Doing Business*, the impact of this measure has yet to be evaluated.

Establishing effective reorganization proceedings

In 101 of the 168 practice economies (i.e., those with at least 1 bankruptcy case over the past 5 years), foreclosure and liquidation are the proceedings most commonly used to resolve insolvency. However, neither foreclosure nor liquidation usually provides the option to formally restructure a company's debt in a way that allows the business to continue operating—even for a business that

is potentially viable. But things are looking up: 21 economies around the globe have established reorganization proceedings since 2005.

In 2009, Rwanda passed a new law to promote reorganization procedures as an option for distressed firms. In November 2004, Madagascar reformed its bankruptcy law to develop a preventative procedure with a view to refine its reorganization proceedings. More recently, in May 2011, South Africa amended its bankruptcy act to allow both debtors and creditors to file for reorganization at its bankruptcy court in the case of insolvency.

Protecting secured creditors

Research suggests that if secured creditors are not protected, they will have less incentive to lend in the future—leading to a less developed credit market.¹² Establishing a creditors' committee is one of way to

increase creditors' say in bankruptcy proceedings. In some cases, creditors participate in the preparation of a reorganization plan or determine the fees of the insolvency administrator. This practice is more frequent in OECD high-income economies—such as Slovenia, where amendments to its “Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act” allowed, for example, a creditors' committee to agree an out-of-court meeting place.

Including this practice in future insolvency reforms in Sub-Saharan Africa—and in the EAC, in particular—would reinforce the involvement of creditors in the proceedings and provide them with the security they need to remain active on the credit market.

NOTES

1. See Djankov, Hart, McLiesh and Shleifer. 2008.
2. See Djankov, Hart, McLiesh and Shleifer. 2008.
3. See Djankov, Hart, McLiesh and Shleifer. 2008.
4. If an economy had zero cases a year over the past 5 years involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure), the economy receives a “no practice” ranking. This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for “no practice” economies is 0.
5. Funchal. 2008.
6. See Djankov. 2009.
7. Bergoing and others (2007) and Giné and Love (2006).
8. See Djankov. 2009.
9. The recovery rate is the present value of the remaining proceeds, based on end-2010 lending rates from the International Monetary Fund's International Financial Statistics, supplemented with data from central banks and the Economist Intelligence Unit.
10. See Cirmizi, Klapper and Uttamchandani. 2010.
11. See Cirmizi, Klapper and Uttamchandani. 2010.
12. See Claessens and Klapper. 2003.

Employing workers data

Employing workers data		Difficulty of hiring index										Rigidity of hours index										Difficulty of redundancy index										Redundancy cost	
		Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) ^a	Minimum wage for a 19-year-old worker or an apprentice (US\$/month) ^b	Ratio of minimum wage to value added per worker	50-hour workweek allowed? ^c	Maximum working days per week	Premium for night work (% of hourly pay) ^d	Premium for work on weekly rest day (% of hourly pay) ^d	Major restrictions on night work? ^d	Major restrictions on weekly holiday work? ^d	Paid annual leave (working days) ^e	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? ^f	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) ^g	Severance pay for redundancy dismissal (weeks of salary) ^g											
Burundi	No	No limit	3.0	0.13	Yes	6	30	0	No	Yes	21.0	Yes	No	No	Yes	No	No	No	Yes	Yes	8.7	7.2											
Kenya	No	No limit	78.9	0.66	Yes	6	0	0	No	No	21.0	Yes	Yes	No	Yes	No	No	Yes	No	Yes	4.3	11.4											
Rwanda	No	No limit	18.5	0.23	Yes	6	0	0	No	No	19.3	Yes	No	No	No	No	No	Yes	No	No	4.3	8.7											
Tanzania	Yes	0	58.9	0.70	Yes	6	5	100	No	No	20.0	Yes	Yes	Yes	Yes	Yes	No	No	No	No	4.0	5.3											
Uganda	No	No limit	2.9	0.03	Yes	6	0	0	No	No	21.0	Yes	No	No	No	No	No	No	No	No	8.7	0.0											

a. Including renewals.

b. Economies for which 0.0 is shown have no minimum wage.

c. For 2 months a year in case of a seasonal increase in production.

d. In case of continuous operations.

e. Average for workers with 1, 5 and 10 years of tenure.

f. Whether compulsory before redundancy.

g. Some questions are not applicable ("n.a.") for economies where dismissal due to redundancy is not allowed.

Source: Doing Business database.

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Data notes

The indicators presented and analyzed in *Doing Business* measure business regulation and the protection of property rights—and their effect on businesses, especially small and medium-size domestic firms. First, the indicators document the complexity of regulation, such as the number of procedures to start a business or to register and transfer commercial property. Second, they gauge the time and cost of achieving a regulatory goal or complying with regulation, such as the time and cost to enforce a contract, go through bankruptcy or trade across borders. Third, they measure the extent of legal protections of property, for example, the protections of investors against looting by company directors or the range of assets that can be used as collateral according to secured transactions laws. Fourth, a set of indicators documents the tax burden on businesses. Finally, a set of data covers different aspects of employment regulation.

The data for all sets of indicators in *Doing Business 2012* are for June 2011.¹

METHODOLOGY

The *Doing Business* data are collected in a standardized way. To start, the *Doing Business* team, with academic advisers, designs a questionnaire. The questionnaire uses a simple business case to ensure comparability across economies and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Questionnaires are administered through more than 9,028 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements (table 13.1). These experts have several rounds of interaction with the *Doing Business* team, involving

conference calls, written correspondence and visits by the team. For *Doing Business 2012* team members visited 40 economies to verify data and recruit respondents. The data from questionnaires are subjected to numerous rounds of verification, leading to revisions or expansions of the information collected.

The *Doing Business* methodology offers several advantages. It is transparent, using factual information about what laws and regulations say and allowing multiple interactions with local respondents to clarify potential misinterpretations of questions. Having representative samples of respondents is not an issue; *Doing Business* is not a statistical survey, and the texts of the relevant laws and regulations are collected and answers checked for accuracy. The methodology is inexpensive and easily replicable, so data can be collected in a large sample of economies. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. Finally, the data not only highlight the extent of specific regulatory obstacles to business but also identify their source and point to what might be reformed.

TABLE 13.1 How many experts does *Doing Business* consult?

Indicator set	Contributors
Starting a business	1,755
Dealing with construction permits	837
Getting electricity	782
Registering property	1,257
Getting credit	1,277
Protecting investors	1,139
Paying taxes	1,276
Trading across borders	868
Enforcing contracts	1,088
Resolving insolvency	1,044
Employing workers	1,092

ECONOMY CHARACTERISTICS

Gross national income (GNI) per capita

Doing Business 2012 reports 2010 income per capita as published in the World Bank's *World Development Indicators 2011*. Income is calculated using the Atlas method (current US\$). For cost indicators expressed as a percentage of income per capita, 2010 GNI in U.S. dollars is used as the denominator. Data were not available from the World Bank for Afghanistan; Australia; The Bahamas; Bahrain; Brunei Darussalam; Canada; Cyprus; Djibouti; the Islamic Republic of Iran; Kuwait; New Zealand; Oman; Puerto Rico (territory of the United States); Qatar; Saudi Arabia; Suriname; Taiwan, China; the United Arab Emirates; West Bank and Gaza; and the Republic of Yemen. In these cases GDP or GNP per capita data and growth rates from the International Monetary Fund's World Economic Outlook database and the Economist Intelligence Unit were used.

Region and income group

Doing Business uses the World Bank regional and income group classifications, available at <http://www.worldbank.org/data/countryclass>. The World Bank does not assign regional classifications to high-income economies. For the purpose of the *Doing Business* report, high-income OECD economies are assigned the "regional" classification *OECD high income*. Figures and tables presenting regional averages include economies from all income groups (low, lower middle, upper middle and high income).

Population

Doing Business 2012 reports midyear 2010 population statistics as published in *World Development Indicators 2011*.

LIMITS TO WHAT IS MEASURED

The *Doing Business* methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the economy's largest business city and may not be representative of regulation in other parts of the economy. To address this limitation, subnational *Doing Business* indicators were created (box 4.1). Second, the data often focus on a specific business form—generally a limited liability company (or its legal equivalent) of a specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Third, transactions described in a standardized case scenario refer to a specific set of issues and may not represent the full set of issues a business encounters. Fourth, the measures of time involve an element of judgment by

the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

Finally, the methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing a procedure may take longer if the business lacks information or is unable to follow up promptly. Alternatively, the business may choose to disregard some burdensome procedures. For both reasons the time delays reported in *Doing Business 2012* would differ from the recollection of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

CHANGES IN WHAT IS MEASURED

The methodology for 3 of the *Doing Business* topics was updated this year—getting credit, dealing with construction permits and paying taxes.

First, for getting credit, the scoring of one of the 10 components of the strength of legal rights index was amended to recognize additional protections of secured creditors and borrowers. Previously the highest score of 1 was assigned if secured creditors were not subject to an automatic stay or moratorium on enforcement procedures when a debtor entered a court-supervised reorganization procedure. Now the highest score of 1 is also assigned if the law provides secured creditors with grounds for relief from an automatic stay or moratorium (for example, if the movable property is in danger) or sets a time limit for the automatic stay.

Second, because the ease of doing business index now includes the getting electricity indicators, procedures, time and cost related to obtaining an electricity connection were removed from the dealing with construction permits indicators.

Third, a threshold has been introduced for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. All economies with a total tax rate below the threshold (which will be calculated and adjusted on a yearly basis) will now receive the

same ranking on the total tax rate indicator. The threshold is not based on any underlying theory. Instead, it is meant to emphasize the purpose of the indicator: to highlight economies where the tax burden on business is high relative to the tax burden in other economies. Giving the same ranking to all economies whose total tax rate is below the threshold avoids awarding economies in the scoring for having an unusually low total tax rate, often for reasons unrelated to government policies toward enterprises. For example, economies that are very small or that are rich in natural resources do not need to levy broad-based taxes.

DATA CHALLENGES AND REVISIONS

Most laws and regulations underlying the *Doing Business* data are available on the *Doing Business* website at <http://www.doingbusiness.org>. All the sample questionnaires and the details underlying the indicators are also published on the website. Questions on the methodology and challenges to data can be submitted through the website's "Ask a Question" function at <http://www.doingbusiness.org>.

Doing Business publishes 8,967 indicators each year. To create these indicators, the team measures more than 52,000 data points, each of which is made available on the *Doing Business* website. Historical data for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections. The website also makes available all original data sets used for background papers. The correction rate between *Doing Business 2011* and *Doing Business 2012* is 7%.

STARTING A BUSINESS

Doing Business records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company

BOX 4.1 SUBNATIONAL DOING BUSINESS INDICATORS

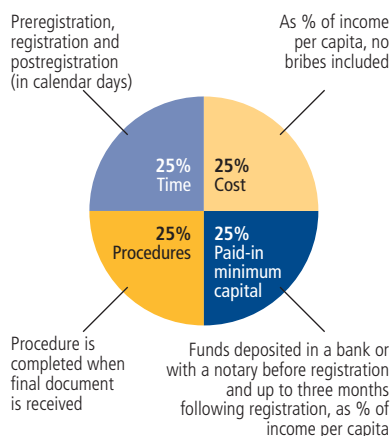
This year *Doing Business* published a subnational study for the Philippines and a regional report for Southeast Europe covering 7 economies (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Moldova, Montenegro and Serbia) and 22 cities. It also published a city profile for Juba, in the Republic of South Sudan.

The subnational studies point to differences in business regulation and its implementation—as well as in the pace of regulatory reform—across cities in the same economy. For several economies subnational studies are now periodically updated to measure change over time or to expand geographic coverage to additional cities. This year that is the case for the subnational studies in the Philippines; the regional report in Southeast Europe; the ongoing studies in Italy, Kenya and the United Arab Emirates; and the projects implemented jointly with local think tanks in Indonesia, Mexico and the Russian Federation.

Besides the subnational *Doing Business* indicators, *Doing Business* conducted a pilot study this year on the second largest city in 3 large economies to assess within-country variations. The study collected data for Rio de Janeiro in addition to São Paulo in Brazil, for Beijing in addition to Shanghai in China and for St. Petersburg in addition to Moscow in Russia.

FIGURE 13.1 Starting a business: getting a local limited liability company up and running

Rankings are based on 4 indicators



and employees with relevant authorities. The ranking on the ease of starting a business is the simple average of the percentile rankings on its component indicators (figure 13.1).

After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures is developed, along with the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital requirements. Subsequently, local incorporation lawyers, notaries and government officials complete and verify the data.

Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all agencies involved in the start-up process function without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across economies, several assumptions about the business and the procedures are used.

Assumptions about the business

The business:

- Is a limited liability company (or its legal equivalent). If there is more than one type of limited liability company in the economy, the limited liability form most

popular among domestic firms is chosen. Information on the most popular form is obtained from incorporation lawyers or the statistical office.

- Operates in the economy's largest business city.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Has start-up capital of 10 times income per capita at the end of 2010, paid in cash.
- Performs general industrial or commercial activities, such as the production or sale to the public of products or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.
- Leases the commercial plant and offices and is not a proprietor of real estate.
- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees 1 month after the commencement of operations, all of them nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.

Procedures

A procedure is defined as any interaction of the company founders with external parties (for example, government agencies, lawyers, auditors or notaries). Interactions between company founders or company officers and employees are not counted as procedures. Procedures that must be completed in the same building but in different offices are counted as separate procedures. If founders have to visit the same office several times for different sequential procedures, each is counted separately. The founders are assumed to complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law. If the services of professionals are required, procedures conducted by such professionals on behalf of the company are counted separately. Each electronic procedure is counted separately. If 2 procedures can be completed through the same website but

TABLE 13.2 What do the starting a business indicators measure?

Procedures to legally start and operate a company (number)
Preregistration (for example, name verification or reservation, notarization)
Registration in the economy's largest business city
Postregistration (for example, social security registration, company seal)
Time required to complete each procedure (calendar days)
Does not include time spent gathering information
Each procedure starts on a separate day
Procedure completed once final document is received
No prior contact with officials
Cost required to complete each procedure (% of income per capita)
Official costs only, no bribes
No professional fees unless services required by law
Paid-in minimum capital (% of income per capita)
Funds deposited in a bank or with a notary before registration (or within 3 months)

require separate filings, they are counted as 2 procedures.

Both pre- and postincorporation procedures that are officially required for an entrepreneur to formally operate a business are recorded (table 13.2).

Procedures required for official correspondence or transactions with public agencies are also included. For example, if a company seal or stamp is required on official documents, such as tax declarations, obtaining the seal or stamp is counted. Similarly, if a company must open a bank account before registering for sales tax or value added tax, this transaction is included as a procedure. Shortcuts are counted only if they fulfill 4 criteria: they are legal, they are available to the general public, they are used by the majority of companies, and avoiding them causes substantial delays.

Only procedures required of all businesses are covered. Industry-specific procedures are excluded. For example, procedures to comply with environmental regulations are included only when they apply to all businesses conducting general commercial or industrial activities. Procedures that the company undergoes to connect to electricity, water, gas and waste disposal services are not included.

Time

Time is recorded in calendar days. The measure captures the median duration that incorporation lawyers indicate is necessary in practice to complete a procedure with minimum follow-up with government agencies and no extra payments. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). A procedure is considered completed once the company has received the final document, such as the company registration certificate or tax number. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. It is assumed that the entrepreneur does not waste time and commits to completing each remaining procedure without delay. The time that the entrepreneur spends on gathering information is ignored. It is assumed that the entrepreneur is aware of all entry requirements and their sequence from the beginning but has had no prior contact with any of the officials.

Cost

Cost is recorded as a percentage of the economy's income per capita. It includes all official fees and fees for legal or professional services if such services are required by law. Fees for purchasing and legalizing company books are included if these transactions are required by law. The company law, the commercial code and specific regulations and fee schedules are used as sources for calculating costs. In the absence of fee schedules, a government officer's estimate is taken as an official source. In the absence of a government officer's estimate, estimates of incorporation lawyers are used. If several incorporation lawyers provide different estimates, the median reported value is applied. In all cases the cost excludes bribes.

Paid-in minimum capital

The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation and is recorded as a percentage of the economy's income per capita. The amount is typically specified in the commercial code or the company law.

Many economies require minimum capital but allow businesses to pay only a part of it before registration, with the rest to be paid after the first year of operation. In Italy in June 2011 the minimum capital requirement for limited liability companies was €10,000, of which at least €2,500 was payable before registration. The paid-in minimum capital recorded for Italy is therefore €2,500, or 9.9% of income per capita. In Mexico the minimum capital requirement was 50,000 pesos, of which one-fifth needed to be paid before registration. The paid-in minimum capital recorded for Mexico is therefore 10,000 pesos, or 8.4% of income per capita.

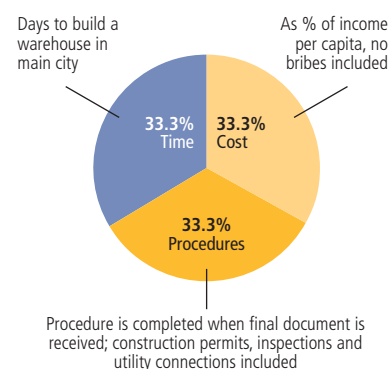
The data details on starting a business can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov and others (2002) and is adopted here with minor changes.

DEALING WITH CONSTRUCTION PERMITS

Doing Business records all procedures required for a business in the construction industry to build a standardized warehouse. These procedures include submitting all relevant project-specific documents (for example, building plans and site maps) to the authorities; obtaining all necessary clearances, licenses, permits and certificates; completing all required notifications; and receiving all necessary inspections. *Doing Business* also records procedures for obtaining connections for water, sewerage and a fixed telephone landline.² Procedures necessary to register the property so that it can be used as collateral or transferred to another entity are also counted. The survey divides the process of building a warehouse into distinct procedures and calculates the time and cost of completing each procedure. The ranking on the ease of dealing with construction permits is the simple average of the percentile rankings on its component indicators (figure 13.2).

Information is collected from experts in construction licensing, including architects, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations, including

FIGURE 13.2 Dealing with construction permits: building a warehouse
Rankings are based on 3 indicators



approvals and inspections. To make the data comparable across economies, several assumptions about the business, the warehouse project and the utility connections are used.

Assumptions about the construction company

The business (BuildCo):

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically and privately owned.
- Has 5 owners, none of whom is a legal entity.
- Is fully licensed and insured to carry out construction projects, such as building warehouses.
- Has 60 builders and other employees, all of them nationals with the technical expertise and professional experience necessary to obtain construction permits and approvals.
- Has at least 1 employee who is a licensed architect and registered with the local association of architects.
- Has paid all taxes and taken out all necessary insurance applicable to its general business activity (for example, accidental insurance for construction workers and third-person liability).
- Owns the land on which the warehouse is built.

Assumptions about the warehouse

The warehouse:

- Will be used for general storage activities, such as storage of books or stationery. The warehouse will not be used for any goods requiring special conditions, such as food, chemicals or pharmaceuticals.
- Has 2 stories, both above ground, with a total surface of approximately 1,300.6 square meters (14,000 square feet). Each floor is 3 meters (9 feet, 10 inches) high.
- Has road access and is located in the periurban area of the economy's largest business city (that is, on the fringes of the city but still within its official limits).
- Is not located in a special economic or industrial zone. The zoning requirements for warehouses are met by building in an area where similar warehouses can be found.
- Is located on a land plot of 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.
- Is a new construction (there was no previous construction on the land).
- Has complete architectural and technical plans prepared by a licensed architect.
- Will include all technical equipment required to make the warehouse fully operational.
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

Assumptions about the utility connections

The water and sewerage connection:

- Is 10 meters (32 feet, 10 inches) from the existing water source and sewer tap.
- Does not require water for fire protection reasons; a fire extinguishing system (dry system) will be used instead. If a wet fire protection system is required by law, it is assumed that the water demand specified below also covers the water needed for fire protection.
- Has an average water use of 662 liters (175 gallons) a day and an average wastewater flow of 568 liters (150 gallons) a day.
- Has a peak water use of 1,325 liters (350 gallons) a day and a peak wastewater flow of 1,136 liters (300 gallons) a day.
- Will have a constant level of water demand and wastewater flow throughout the year.

The telephone connection:

- Is 10 meters (32 feet, 10 inches) from the main telephone network.
- Is a fixed telephone landline.

Procedures

A procedure is any interaction of the company's employees or managers with external parties, including government agencies, notaries, the land registry, the cadastre, utility companies, public and private inspectors and technical experts apart from in-house architects and engineers. Interactions between company employees, such as development of the warehouse plans and inspections conducted by employees, are not counted as procedures. Procedures that the company undergoes to connect to water, sewerage and telephone services are included. All procedures that are legally or in practice required for building a warehouse are counted, even if they may be avoided in exceptional cases (table 13.3).

Time

Time is recorded in calendar days. The measure captures the median duration that local experts indicate is necessary to complete a procedure in practice. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures

start on consecutive days). If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen. It is assumed that BuildCo does not waste time and commits to completing each remaining procedure without delay. The time that BuildCo spends on gathering information is ignored. It is assumed that BuildCo is aware of all building requirements and their sequence from the beginning.

Cost

Cost is recorded as a percentage of the economy's income per capita. Only official costs are recorded. All the fees associated with completing the procedures to legally build a warehouse are recorded, including those associated with obtaining land use approvals and preconstruction design clearances; receiving inspections before, during and after construction; getting utility connections; and registering the warehouse property. Nonrecurring taxes required for the completion of the warehouse project are also recorded. The building code, information from local experts and specific regulations and fee schedules are used as sources for costs. If several local partners provide different estimates, the median reported value is used.

The data details on dealing with construction permits can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list.

TABLE 13.3 What do the dealing with construction permits indicators measure?

Procedures to legally build a warehouse (number)

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Completing all required notifications and receiving all necessary inspections

Obtaining utility connections for water, sewerage and a fixed telephone landline

Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

GETTING ELECTRICITY

Doing Business records all procedures required for a business to obtain a permanent electricity connection and supply for a standardized warehouse. These procedures include applications and contracts with electricity utilities, all necessary inspections and clearances from the utility and other agencies and the external and final connection works. The survey divides the process of getting an electricity connection into distinct procedures and calculates the time and cost of completing each procedure. The ranking on the ease of getting electricity is the simple average of the percentile rankings on its component indicators (figure 13.3).

Data are collected from the electricity distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) where warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

To make the data comparable across economies, several assumptions about the warehouse and the electricity connection are used.

Assumptions about the warehouse

The warehouse:

- Is owned by a local entrepreneur.
- Is located in the economy's largest business city.
- Is located within the city's official limits and in an area where other warehouses are located (a nonresidential area).
- Is not located in a special economic or investment zone; that is, the electricity connection is not eligible for subsidization or faster service under a special investment promotion regime. If several options for location are available, the warehouse is located where electricity is most easily available.
- Has road access. The connection works involve the crossing of a road (for excavation, overhead lines and the like), but they are all carried out on public land; that is, there is no crossing onto another owner's private property.
- Is located in an area with no physical constraints. For example, the property is not near a railway.
- Is used for storage of refrigerated goods.
- Is a new construction (that is, there was no previous construction on the land where it is located). It is being connected to electricity for the first time.
- Has 2 stories, both above ground, with a total surface area of approximately 1,300.6 square meters (14,000 square feet). The plot of land on which it is built is 929 square meters (10,000 square feet).

Assumptions about the electricity connection

The electricity connection:

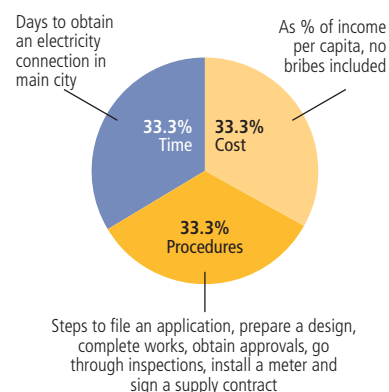
- Is a permanent one.
- Is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.
- Is 150 meters long. The connection is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the economy and in the area where the warehouse is located. The length of any connection in the customer's private domain is negligible.
- Involves the installation of only one electricity meter. The monthly electricity consumption will be 0.07 gigawatt-hour (GWh). The internal electrical wiring has already been completed.

Procedures

A procedure is defined as any interaction of the company's employees or its main electrician or electrical engineer (that is, the one who may have done the internal wiring) with external parties such as the electricity distribution utility, electricity supply utilities, government agencies, electrical contractors and electrical firms. Interactions between company employees and steps related to the internal electrical wiring, such as the design and execution of

TABLE 13.4 What do the getting electricity indicators measure?	
Procedures to obtain an electricity connection (number)	
Submitting all relevant documents and obtaining all necessary clearances and permits	
Completing all required notifications and receiving all necessary inspections	
Obtaining external installation works and possibly purchasing material for these works	
Concluding any necessary supply contract and obtaining final supply	
Time required to complete each procedure (calendar days)	
Is at least 1 calendar day	
Each procedure starts on a separate day	
Does not include time spent gathering information	
Reflects the time spent in practice, with little follow-up and no prior contact with officials	
Cost required to complete each procedure (% of income per capita)	
Official costs only, no bribes	
Value added tax excluded	

FIGURE 13.3 Getting electricity: obtaining an electricity connection
Rankings are based on 3 indicators



the internal electrical installation plans, are not counted as procedures. Procedures that must be completed with the same utility but with different departments are counted as separate procedures (table 13.4).

The company's employees are assumed to complete all procedures themselves unless the use of a third party is mandated (for example, if only an electrician registered with the utility is allowed to submit an application). If the company can, but is not required to, request the services of professionals (such as a private firm rather than the utility for the external works), these procedures are recorded if they are commonly done. For all procedures, only the most likely cases (for example, more than 50% of the time the utility has the material) and those followed in practice for connecting a warehouse to electricity are counted.

Time

Time is recorded in calendar days. The measure captures the median duration that the electricity utility and experts indicate is necessary in practice, rather than required by law, to complete a procedure with minimum follow-up and no extra payments. It is also assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). It is assumed that the company does not waste time and commits to completing each remaining procedure without delay. The

time that the company spends on gathering information is ignored. It is assumed that the company is aware of all electricity connection requirements and their sequence from the beginning.

Cost

Cost is recorded as a percentage of the economy's income per capita. Costs are recorded exclusive of value added tax. All the fees and costs associated with completing the procedures to connect a warehouse to electricity are recorded, including those related to obtaining clearances from government agencies, applying for the connection, receiving inspections of both the site and the internal wiring, purchasing material, getting the actual connection works and paying a security deposit. Information from local experts and specific regulations and fee schedules are used as sources for costs. If several local partners provide different estimates, the median reported value is used. In all cases the cost excludes bribes.

Security deposit

Utilities require security deposits as a guarantee against the possible failure of customers to pay their consumption bills. For this reason the security deposit for a new customer is most often calculated as a function of the customer's estimated consumption.

Doing Business does not record the full amount of the security deposit. If the deposit is based on the customer's actual consumption, this basis is the one assumed in the case study. Rather than the full amount of the security deposit, *Doing Business* records the present value of the losses in interest earnings experienced by the customer because the utility holds the security deposit over a prolonged period, in most cases until the end of the contract (assumed to be after 5 years). In cases where the security deposit is used to cover the first monthly consumption bills, it is not recorded. To calculate the present value of the lost interest earnings, the end-2010 lending rates from the International Monetary Fund's *International Financial Statistics* are used. In cases where the security deposit is returned with interest, the difference between the lending rate and the interest paid by the utility is used to calculate the present value.

In some economies the security deposit can be put up in the form of a bond: the company can obtain from a bank or an insurance company a guarantee issued on the assets it holds with that financial institution. In contrast to the scenario in which the customer pays the deposit in cash to the utility, in this scenario the company does not lose ownership control over the full amount and can continue using it. In return the company will pay the bank a commission for obtaining the bond. The commission charged may vary depending on the credit standing of the company. The best possible credit standing and thus the lowest possible commission are assumed. Where a bond can be put up, the value recorded for the deposit is the annual commission times the 5 years assumed to be the length of the contract. If both options exist, the cheaper alternative is recorded.

In Honduras in June 2011 a customer requesting a 140-kVA electricity connection would have had to put up a security deposit of 126,894 Honduran lempiras (L) in cash or check, and the deposit would have been returned only at the end of the contract. The customer could instead have invested this money at the prevailing lending rate of 18.87%. Over the 5 years of the contract this would imply a present value of lost interest earnings of L 73,423. In contrast, if the customer chose to settle the deposit with a bank guarantee at an annual rate of 2.5%, the amount lost over the 5 years would be just L 15,862.

The data details on getting electricity can be found for each economy at <http://www.doingbusiness.org>.

REGISTERING PROPERTY

Doing Business records the full sequence of procedures necessary for a business (buyer) to purchase a property from another business (seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, use the property as collateral in taking new loans or, if necessary, sell the property to another business. The process starts with obtaining the necessary documents, such as a copy of the seller's title if necessary, and conducting due diligence if required. The transaction is

considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking on the ease of registering property is the simple average of the percentile rankings on its component indicators (figure 13.4).

Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer or must be completed by a third party on their behalf. Local property lawyers, notaries and property registries provide information on procedures as well as the time and cost to complete each of them.

To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

Assumptions about the parties

The parties (buyer and seller):

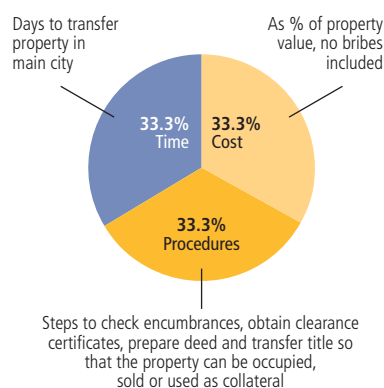
- Are limited liability companies.
- Are located in the periurban area of the economy's largest business city.
- Are 100% domestically and privately owned.
- Have 50 employees each, all of whom are nationals.
- Perform general commercial activities.

Assumptions about the property

The property:

- Has a value of 50 times income per capita. The sale price equals the value.
- Is fully owned by the seller.
- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.
- Consists of land and a building. The land area is 557.4 square meters (6,000 square feet). A 2-story warehouse of 929 square meters (10,000 square feet) is located on the land. The warehouse is 10 years old, is in good condition and complies with all safety standards, building codes and other legal requirements. The property of

FIGURE 13.4 Registering property: transfer of property between 2 local companies
Rankings are based on 3 indicators



land and building will be transferred in its entirety.

- Will not be subject to renovations or additional building following the purchase.
- Has no trees, natural water sources, natural reserves or historical monuments of any kind.
- Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
- Has no occupants (legal or illegal), and no other party holds a legal interest in it.

Procedures

A procedure is defined as any interaction of the buyer or the seller, their agents (if an agent is legally or in practice required) or the property with external parties, including government agencies, inspectors, notaries and lawyers. Interactions between company officers and employees are not considered. All procedures that are legally or in practice required for registering property are recorded, even if they may be avoided in exceptional cases (table 13.5). It is assumed that the buyer follows the fastest legal option available and used by the majority of property owners. Although the buyer may use lawyers or other professionals where necessary in the registration process, it is assumed that the buyer does not employ an outside facilitator in the registration process unless legally or in practice required to do so.

Time

Time is recorded in calendar days. The measure captures the median duration that property lawyers, notaries or registry officials indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day. It is assumed that the buyer does not waste time and commits to completing each remaining procedure without delay. If a procedure can be accelerated for an additional cost, the fastest legal procedure available and used by the majority of property owners is chosen. If procedures can be undertaken simultaneously, it is assumed that they are. It is assumed that the parties involved are aware of all requirements and their sequence from the beginning. Time spent on gathering information is not considered.

Cost

Cost is recorded as a percentage of the property value, assumed to be equivalent to 50 times income per capita. Only official costs required by law are recorded, including fees, transfer taxes, stamp duties and any other payment to the property registry, notaries, public agencies or lawyers. Other taxes, such as capital gains tax or value added tax, are excluded from the cost measure. Both costs borne by the buyer and those borne by the seller are included. If cost estimates differ

among sources, the median reported value is used.

The data details on registering property can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list.

GETTING CREDIT

Doing Business measures the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the sharing of credit information through another. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the coverage, scope and accessibility of credit information available through public credit registries and private credit bureaus. The ranking on the ease of getting credit is based on the percentile rankings on its component indicators: the depth of credit information index (weighted at 37.5%) and the strength of legal rights index (weighted at 62.5%) (figure 13.5).³

LEGAL RIGHTS

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. The survey data are confirmed through teleconference calls or on-site visits in all economies.

Strength of legal rights index

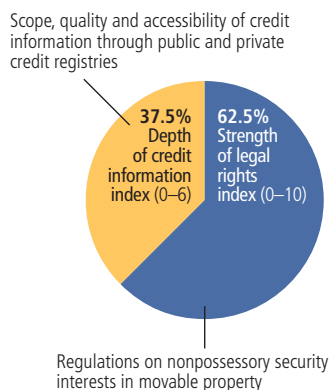
The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending (table 13.6). Two case scenarios, case A and case B, are used to determine the scope of the secured transactions system. The case scenarios involve a secured borrower, the company ABC, and a secured lender, BizBank. In certain economies the legal framework for secured transactions means that only case A or case B can apply (not both). Both cases examine

TABLE 13.5 What do the registering property indicators measure?

Procedures to legally transfer title on immovable property (number)
Preregistration procedures (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)
Registration procedures in the economy's largest business city
Postregistration procedures (for example, filing title with municipality)
Time required to complete each procedure (calendar days)
Does not include time spent gathering information
Each procedure starts on a separate day
Procedure completed once final document is received
No prior contact with officials
Cost required to complete each procedure (% of property value)
Official costs only, no bribes
No value added or capital gains taxes included

FIGURE 13.5 Getting credit: collateral rules and credit information

Rankings are based on 2 indicators



Note: Private bureau coverage and public registry coverage are measured but do not count for the rankings.

the same set of legal provisions relating to the use of movable collateral.

Several assumptions about the secured borrower and lender are used:

- ABC is a domestic, limited liability company.
- The company has 100 employees.
- ABC has its headquarters and only base of operations in the economy's largest business city.
- Both ABC and BizBank are 100% domestically owned.

The case scenarios also involve assumptions. In case A, as collateral for the loan, ABC grants BizBank a nonpossessory

security interest in one category of movable assets, for example, its accounts receivable or its inventory. ABC wants to keep both possession and ownership of the collateral. In economies where the law does not allow nonpossessory security interests in movable property, ABC and BizBank use a fiduciary transfer-of-title arrangement (or a similar substitute for nonpossessory security interests). The strength of legal rights index does not cover functional equivalents to security over movable assets (for example, leasing or reservation of title).

In case B, ABC grants BizBank a business charge, enterprise charge, floating charge or any charge that gives BizBank a security interest over ABC's combined movable assets (or as much of ABC's movable assets as possible). ABC keeps ownership and possession of the assets.

The strength of legal rights index includes 8 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law. A score of 1 is assigned for each of the following features of the laws:

- Any business may use movable assets as collateral while keeping possession of the assets, and any financial institution may accept such assets as collateral.
- The law allows a business to grant a nonpossessory security right in a single category of movable assets (such as accounts receivable or inventory), without requiring a specific description of the collateral.
- The law allows a business to grant a nonpossessory security right in substantially all its movable assets, without requiring a specific description of the collateral.
- A security right may extend to future or after-acquired assets and may extend automatically to the products, proceeds or replacements of the original assets.
- A general description of debts and obligations is permitted in the collateral agreement and in registration documents; all types of debts and obligations can be secured between the parties, and the collateral agreement can include a maximum amount for which the assets are encumbered.

- A collateral registry or registration institution for security interests over movable property is in operation, unified geographically and by asset type, with an electronic database indexed by debtors' names.
- Secured creditors are paid first (for example, before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure.
- Secured creditors are paid first (for example, before general tax claims and employee claims) when a business is liquidated.
- Secured creditors either are not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure, or the law provides secured creditors with grounds for relief from an automatic stay or moratorium (for example, if the movable property is in danger) or sets a time limit for the automatic stay.⁴
- The law allows parties to agree in a collateral agreement that the lender may enforce its security right out of court.

The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

CREDIT INFORMATION

The data on credit information sharing are built in 2 stages. First, banking supervision authorities and public information sources are surveyed to confirm the presence of a public credit registry or private credit bureau. Second, when applicable, a detailed survey on the public credit registry's or private credit bureau's structure, laws and associated rules is administered to the entity itself. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. The survey data are confirmed through teleconference calls or on-site visits in all economies.

Depth of credit information index

The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a public credit registry or a private credit bureau. A

TABLE 13.6 What do the getting credit indicators measure?

Strength of legal rights index (0-10)

Protection of rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

Depth of credit information index (0-6)

Scope and accessibility of credit information distributed by public credit registries and private credit bureaus

Public credit registry coverage (% of adults)

Number of individuals and firms listed in a public credit registry as percentage of adult population

Private credit bureau coverage (% of adults)

Number of individuals and firms listed in largest private credit bureau as percentage of adult population

score of 1 is assigned for each of the following 6 features of the public credit registry or private credit bureau (or both):

- Both positive credit information (for example, outstanding loan amounts and pattern of on-time repayments) and negative information (for example, late payments, and number and amount of defaults and bankruptcies) are distributed.
- Data on both firms and individuals are distributed.
- Data from retailers and utility companies as well as financial institutions are distributed.
- More than 2 years of historical data are distributed. Credit registries and bureaus that erase data on defaults as soon as they are repaid obtain a score of 0 for this indicator.
- Data on loan amounts below 1% of income per capita are distributed. Note that a credit registry or bureau must have a minimum coverage of 1% of the adult population to score a 1 on this indicator.
- By law, borrowers have the right to access their data in the largest credit registry or bureau in the economy.

The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public credit registry or a private credit bureau, to facilitate lending decisions. If the credit registry or bureau is not operational or has a coverage of less than 0.1% of the adult population, the score on the depth of credit information index is 0.

In Lithuania, for example, both a public credit registry and a private credit bureau operate. Both distribute positive and negative information (a score of 1). Both distribute data on firms and individuals (a score of 1). Although the public credit registry does not distribute data from retailers or utilities, the private credit bureau does do so (a score of 1). Although the private credit bureau does not distribute more than 2 years of historical data, the public credit registry does do so (a score of 1). Although the public credit registry has a threshold of 50,000 litai, the private credit bureau distributes data on loans of any value (a score of 1). Borrowers have the right to access their data in both the

public credit registry and the private credit bureau (a score of 1). Summing across the indicators gives Lithuania a total score of 6.

Public credit registry coverage

The public credit registry coverage indicator reports the number of individuals and firms listed in a public credit registry with information on their borrowing history from the past 5 years. The number is expressed as a percentage of the adult population (the population age 15 and above in 2010 according to the World Bank's *World Development Indicators*). A public credit registry is defined as a database managed by the public sector, usually by the central bank or the superintendent of banks, that collects information on the creditworthiness of borrowers (individuals or firms) in the financial system and facilitates the exchange of credit information among banks and other regulated financial institutions. If no public registry operates, the coverage value is 0.

Private credit bureau coverage

The private credit bureau coverage indicator reports the number of individuals and firms listed by a private credit bureau with information on their borrowing history from the past 5 years. The number is expressed as a percentage of the adult population (the population age 15 and above in 2010 according to the World Bank's *World Development Indicators*). A private credit bureau is defined as a private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (individuals or firms) in the financial system and facilitates the exchange of credit information among creditors. Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange among banks and other financial institutions are not considered. If no private bureau operates, the coverage value is 0.

The data details on getting credit can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov, McLiesh and Shleifer (2007) and is adopted here with minor changes.

PROTECTING INVESTORS

Doing Business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protections: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index). The data come from a survey of corporate and securities lawyers and are based on securities regulations, company laws, civil procedure codes and court rules of evidence. The ranking on the strength of investor protection index is the simple average of the percentile rankings on its component indicators (figure 13.6).

To make the data comparable across economies, several assumptions about the business and the transaction are used.

Assumptions about the business

The business (Buyer):

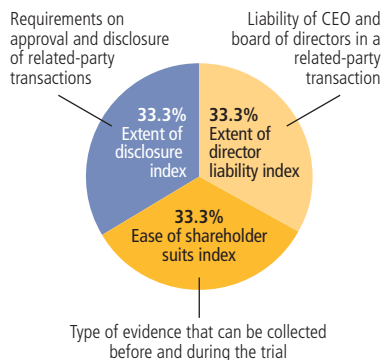
- Is a publicly traded corporation listed on the economy's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that Buyer is a large private company with multiple shareholders.
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.
- Is a manufacturing company.
- Has its own distribution network.

Assumptions about the transaction

- Mr. James is Buyer's controlling shareholder and a member of Buyer's board of directors. He owns 60% of Buyer and elected 2 directors to Buyer's 5-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its products, a

FIGURE 13.6 Protecting investors: minority shareholder rights in related-party transactions

Rankings are based on 3 indicators



proposal to which Buyer agrees. The price is equal to 10% of Buyer's assets and is higher than the market value.

- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent).
- The transaction causes damages to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

Extent of disclosure index

The extent of disclosure index has 5 components (table 13.7):

- Which corporate body can provide legally sufficient approval for the transaction. A score of 0 is assigned if it is the CEO or the managing director alone; 1 if the board of directors or shareholders must vote and Mr. James is permitted to vote; 2 if the board of directors must vote and Mr. James is not permitted to vote; 3 if shareholders must vote and Mr. James is not permitted to vote.
- Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required.⁵ A score of 0 is assigned if no disclosure is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the

terms and Mr. James's conflict of interest is required.

- Whether disclosure in the annual report is required. A score of 0 is assigned if no disclosure on the transaction is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure by Mr. James to the board of directors is required. A score of 0 is assigned if no disclosure is required; 1 if a general disclosure of the existence of a conflict of interest is required without any specifics; 2 if full disclosure of all material facts relating to Mr. James's interest in the Buyer-Seller transaction is required.
- Whether it is required that an external body, for example, an external auditor, review the transaction before it takes place. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater disclosure. In Poland, for example, the board of directors must approve the transaction and Mr. James is not allowed to vote (a score of 2). Buyer is required to disclose immediately all information affecting the stock price, including the conflict of interest (a score of 2). In its annual report Buyer must also disclose the terms of the transaction and Mr. James's ownership in Buyer and Seller (a score of

2). Before the transaction Mr. James must disclose his conflict of interest to the other directors, but he is not required to provide specific information about it (a score of 1). Poland does not require an external body to review the transaction (a score of 0). Adding these numbers gives Poland a score of 7 on the extent of disclosure index.

Extent of director liability index

The extent of director liability index has 7 components:⁶

- Whether a shareholder plaintiff is able to hold Mr. James liable for the damage the Buyer-Seller transaction causes to the company. A score of 0 is assigned if Mr. James cannot be held liable or can be held liable only for fraud or bad faith; 1 if Mr. James can be held liable only if he influenced the approval of the transaction or was negligent; 2 if Mr. James can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a shareholder plaintiff is able to hold the approving body (the CEO or the members of the board of directors) liable for the damage the transaction causes to the company. A score of 0 is assigned if the approving body cannot be held liable or can be held liable only for fraud or bad faith; 1 if the approving body can be held liable for negligence; 2 if the approving body can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a court can void the transaction upon a successful claim by a shareholder plaintiff. A score of 0 is assigned if rescission is unavailable or is available only in case of fraud or bad faith; 1 if rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 if rescission is available when the transaction is unfair or entails a conflict of interest.
- Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.
- Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.

TABLE 13.7 What do the protecting investors indicators measure?

Extent of disclosure index (0–10)
Who can approve related-party transactions
Disclosure requirements in case of related-party transactions
Extent of director liability index (0–10)
Ability of shareholders to hold interested parties and members of the approving body liable in case of related-party transactions
Available legal remedies (damages, repayment of profits, fines and imprisonment)
Ability of shareholders to sue directly or derivatively
Ease of shareholder suits index (0–10)
Direct access to internal documents of the company and use of a government inspector without filing suit in court
Documents and information available during trial
Strength of investor protection index (0–10)
Simple average of the extent of disclosure, extent of director liability and ease of shareholder suits indices

- Whether both fines and imprisonment can be applied against Mr. James. A score of 0 is assigned if no; 1 if yes.
- Whether shareholder plaintiffs are able to sue directly or derivatively for the damage the transaction causes to the company. A score of 0 is assigned if suits are unavailable or are available only for shareholders holding more than 10% of the company's share capital; 1 if direct or derivative suits are available for shareholders holding 10% or less of share capital.

The index ranges from 0 to 10, with higher values indicating greater liability of directors. Assuming that the prejudicial transaction was duly approved and disclosed, in order to hold Mr. James liable in Panama, for example, a plaintiff must prove that Mr. James influenced the approving body or acted negligently (a score of 1). To hold the other directors liable, a plaintiff must prove that they acted negligently (a score of 1). The prejudicial transaction cannot be voided (a score of 0). If Mr. James is found liable, he must pay damages (a score of 1) but he is not required to disgorge his profits (a score of 0). Mr. James cannot be fined and imprisoned (a score of 0). Direct or derivative suits are available for shareholders holding 10% or less of share capital (a score of 1). Adding these numbers gives Panama a score of 4 on the extent of director liability index.

Ease of shareholder suits index

The ease of shareholder suits index has 6 components:

- What range of documents is available to the shareholder plaintiff from the defendant and witnesses during trial. A score of 1 is assigned for each of the following types of documents available: information that the defendant has indicated he intends to rely on for his defense; information that directly proves specific facts in the plaintiff's claim; any information relevant to the subject matter of the claim; and any information that may lead to the discovery of relevant information.
- Whether the plaintiff can directly examine the defendant and witnesses during trial. A score of 0 is assigned if no; 1 if yes, with prior approval of the questions by the judge; 2 if yes, without prior approval.

- Whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each document specifically. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital can request that a government inspector investigate the Buyer-Seller transaction without filing suit in court. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit. A score of 0 is assigned if no; 1 if yes.
- Whether the standard of proof for civil suits is lower than that for a criminal case. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction. In Greece, for example, the plaintiff can access documents that the defendant intends to rely on for his defense and that directly prove facts in the plaintiff's claim (a score of 2). The plaintiff can examine the defendant and witnesses during trial, though only with prior approval of the questions by the court (a score of 1). The plaintiff must specifically identify the documents being sought (for example, the Buyer-Seller purchase agreement of July 15, 2006) and cannot just request categories (for example, all documents related to the transaction) (a score of 0). A shareholder holding 5% of Buyer's shares can request that a government inspector review suspected mismanagement by Mr. James and the CEO without filing suit in court (a score of 1). Any shareholder can inspect the transaction documents before deciding whether to sue (a score of 1). The standard of proof for civil suits is the same as that for a criminal case (a score of 0). Adding these numbers gives Greece a score of 5 on the ease of shareholder suits index.

Strength of investor protection index

The strength of investor protection index is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index. The index

ranges from 0 to 10, with higher values indicating more investor protection.

The data details on protecting investors can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov, La Porta and others (2008).

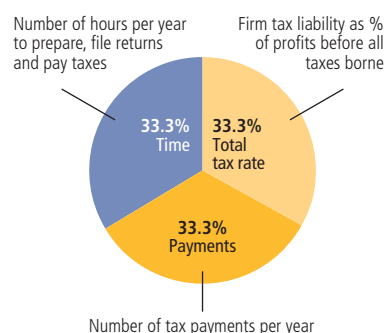
PAYING TAXES

Doing Business records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measures of the administrative burden of paying taxes and contributions. The project was developed and implemented in cooperation with PwC.⁷ Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees.

The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators, with a threshold being applied to one of the component indicators, the total tax rate (figure 13.7). The threshold is defined as the highest total tax rate among the top 30% of economies in the ranking on the total tax rate. It will be calculated and adjusted on a yearly basis. This year's threshold is 32.5%. For all economies with a total tax rate below this threshold, the total tax rate is set at 32.5% this year. The threshold is not based on any underlying theory. Instead, it is intended to mitigate the effect of very low tax rates on the ranking on the ease of paying taxes.

Doing Business measures all taxes and contributions that are government mandated (at any level—federal, state or local) and that apply to the standardized business and have an impact in its financial statements. In doing so, *Doing Business* goes beyond the traditional definition of a tax. As defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to general government. *Doing Business* departs from this definition because it measures imposed charges that affect

FIGURE 13.7 Paying taxes: tax compliance for a local manufacturing company
Rankings are based on 3 indicators



business accounts, not government accounts. One main difference relates to labor contributions. The *Doing Business* measure includes government-mandated contributions paid by the employer to a required private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory superannuation guarantee and workers' compensation insurance. For the purpose of calculating the total tax rate (defined below), only taxes borne are included. For example, value added taxes are generally excluded (provided they are not irrecoverable) because they do not affect the accounting profits of the business—that is, they are not reflected in the income statement. They are, however, included for the purpose of the compliance measures (time and payments), as they add to the burden of complying with the tax system.

Doing Business uses a case scenario to measure the taxes and contributions paid by a standardized business and the complexity of an economy's tax compliance system. This case scenario uses a set of financial statements and assumptions about transactions made over the course of the year. In each economy tax experts from a number of different firms (in many economies these include PwC) compute the taxes and mandatory contributions due in their jurisdiction based on the standardized case study facts. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws in an economy. To make the data comparable across economies, several assumptions

about the business and the taxes and contributions are used.

The methodology for the paying taxes indicators has benefited from discussion with members of the International Tax Dialogue and other stakeholders, which led to a refinement of the survey questions on the time to pay taxes, the collection of additional data on the labor tax wedge for further research and the introduction of a threshold applied to the total tax rate for the purpose of calculating the ranking on the ease of paying taxes (see discussion at the beginning of this section).

Assumptions about the business

The business:

- Is a limited liability, taxable company. If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. The most common form is reported by incorporation lawyers or the statistical office.
- Started operations on January 1, 2009. At that time the company purchased all the assets shown in its balance sheet and hired all its workers.
- Operates in the economy's largest business city.
- Is 100% domestically owned and has 5 owners, all of whom are natural persons.
- At the end of 2009, has a start-up capital of 102 times income per capita.
- Performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco.
- At the beginning of 2010, owns 2 plots of land, 1 building, machinery, office equipment, computers and 1 truck and leases 1 truck.
- Does not qualify for investment incentives or any benefits apart from those related to the age or size of the company.
- Has 60 employees—4 managers, 8 assistants and 48 workers. All are nationals, and 1 manager is also an owner. The company pays for additional medical insurance for employees (not mandated by any law)

as an additional benefit. In addition, in some economies reimbursable business travel and client entertainment expenses are considered fringe benefits. When applicable, it is assumed that the company pays the fringe benefit tax on this expense or that the benefit becomes taxable income for the employee. The case study assumes no additional salary additions for meals, transportation, education or others. Therefore, even when such benefits are frequent, they are not added to or removed from the taxable gross salaries to arrive at the labor tax or contribution calculation.

- Has a turnover of 1,050 times income per capita.
- Makes a loss in the first year of operation.
- Has a gross margin (pretax) of 20% (that is, sales are 120% of the cost of goods sold).
- Distributes 50% of its net profits as dividends to the owners at the end of the second year.
- Sells one of its plots of land at a profit at the beginning of the second year.
- Has annual fuel costs for its trucks equal to twice income per capita.
- Is subject to a series of detailed assumptions on expenses and transactions to further standardize the case. All financial statement variables are proportional to 2005 income per capita. For example, the owner who is also a manager spends 10% of income per capita on traveling for the company (20% of this owner's expenses are purely private, 20% are for entertaining customers and 60% for business travel).

Assumptions about the taxes and contributions

- All the taxes and contributions recorded are those paid in the second year of operation (calendar year 2010). A tax or contribution is considered distinct if it has a different name or is collected by a different agency. Taxes and contributions with the same name and agency, but charged at different rates depending on the business, are counted as the same tax or contribution.

- The number of times the company pays taxes and contributions in a year is the number of different taxes or contributions multiplied by the frequency of payment (or withholding) for each tax. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).

Tax payments

The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for this standardized case study company during the second year of operation (table 13.8). It includes consumption taxes paid by the company, such as sales tax or value added tax. These taxes are traditionally collected from the consumer on behalf of the tax agencies. Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments measure.

The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if filings and payments are more frequent. For payments made through third parties, such as tax on interest paid by a financial institution or fuel tax paid by a fuel distributor, only one payment is included even if payments are more frequent.

Where 2 or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once. For example, if mandatory health insurance contributions and mandatory pension contributions are filed for and paid together, only one of these contributions would be included in the number of payments.

Time

Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay 3 major types of taxes and contributions: the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions. Preparation time includes the time to

collect all information necessary to compute the tax payable and to calculate the amount payable. If separate accounting books must be kept for tax purposes—or separate calculations made—the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfill the tax accounting requirements. Filing time includes the time to complete all necessary tax return forms and file the relevant returns at the tax authority. Payment time considers the hours needed to make the payment online or at the tax authorities. Where taxes and contributions are paid in person, the time includes delays while waiting.

Total tax rate

The total tax rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. *Doing Business 2012* reports the total tax rate for calendar year 2010. The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as value added tax, sales tax or goods and service tax) but not borne by the company are excluded. The taxes included can be divided into 5 categories: profit or corporate income tax, social contributions and labor taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a required pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel taxes).

TABLE 13.8 What do the paying taxes indicators measure?

Tax payments for a manufacturing company in 2010 (number per year adjusted for electronic and joint filing and payment)	
Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)	
Method and frequency of filing and payment	
Time required to comply with 3 major taxes (hours per year)	
Collecting information and computing the tax payable	
Completing tax return forms, filing with proper agencies	
Arranging payment or withholding	
Preparing separate mandatory tax accounting books, if required	
Total tax rate (% of profit before all taxes)	
Profit or corporate income tax	
Social contributions and labor taxes paid by the employer	
Property and property transfer taxes	
Dividend, capital gains and financial transactions taxes	
Waste collection, vehicle, road and other taxes	

The total tax rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the total tax rate, the actual tax payable is divided by commercial profit. Data for Norway illustrate (table 13.9).

Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit therefore presents a clear picture of the actual profit of a business before any of the taxes it bears in the course of the fiscal year.

TABLE 13.9 Computing the total tax rate for Norway

Type of tax (tax base)	Statutory rate r	Statutory tax base b Nkr	Actual tax payable a = r × b Nkr	Commercial profit* c Nkr	Total tax rate t = a/c
Corporate income tax (taxable income)	28.1%	20,612,719	5,771,561	23,651,183	24.4%
Social security contributions (taxable wages)	14.1%	26,684,645	3,762,535	23,651,183	15.9%
Fuel tax (fuel price)	Nkr 4 per liter	74,247 liters	297,707	23,651,183	1.3%
Total			9,831,803		41.6%

* Profit before all taxes borne.

Note: Nkr is Norwegian kroner. Commercial profit is assumed to be 59.4 times income per capita.

Source: *Doing Business* database.

Commercial profit is computed as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other expenses, minus provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied, with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses. Commercial profit amounts to 59.4 times income per capita.

The methodology for calculating the total tax rate is broadly consistent with the Total Tax Contribution framework developed by PwC and the calculation within this framework for taxes borne. But while the work undertaken by PwC is usually based on data received from the largest companies in the economy, *Doing Business* focuses on a case study for a standardized medium-size company.

The data details on paying taxes can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov, Ganser and others (2010).

TRADING ACROSS BORDERS

Doing Business measures the time and cost (excluding tariffs) associated with exporting and importing a standardized cargo of goods by ocean transport. The time and cost necessary to complete every official procedure for exporting and importing the goods—from the contractual agreement between the 2 parties to the delivery of goods—are recorded. All documents needed by the trader to export or import the goods across the border are also recorded. For exporting goods, procedures range from packing the goods into the container at the warehouse to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the warehouse. The time and cost for ocean transport are not included. Payment is made by letter of credit, and the time, cost and documents required for the issuance or advising of a letter of

credit are taken into account. The ranking on the ease of trading across borders is the simple average of the percentile rankings on its component indicators (figure 13.8).

Local freight forwarders, shipping lines, customs brokers, port officials and banks provide information on required documents and cost as well as the time to complete each procedure. To make the data comparable across economies, several assumptions about the business and the traded goods are used.

Assumptions about the business

The business:

- Has at least 60 employees.
- Is located in the economy's largest business city.
- Is a private, limited liability company. It does not operate in an export processing zone or an industrial estate with special export or import privileges.
- Is domestically owned with no foreign ownership.
- Exports more than 10% of its sales.

Assumptions about the traded goods

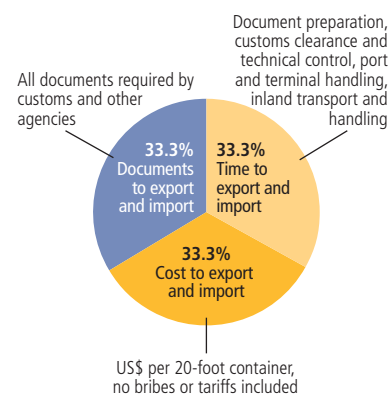
The traded product travels in a dry-cargo, 20-foot, full container load. It weighs 10 tons and is valued at \$20,000. The product:

- Is not hazardous nor does it include military items.

TABLE 13.10 What do the trading across borders indicators measure?

Documents required to export and import (number)
Bank documents
Customs clearance documents
Port and terminal handling documents
Transport documents
Time required to export and import (days)
Obtaining all the documents
Inland transport and handling
Customs clearance and inspections
Port and terminal handling
Does not include ocean transport time
Cost required to export and import (US\$ per container)
All documentation
Inland transport and handling
Customs clearance and inspections
Port and terminal handling
Official costs only, no bribes

FIGURE 13.8 Trading across borders: exporting and importing by ocean transport
Rankings are based on 3 indicators



- Does not require refrigeration or any other special environment.
- Does not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Is one of the economy's leading export or import products.

Documents

All documents required per shipment to export and import the goods are recorded (table 13.10). It is assumed that the contract has already been agreed upon and signed by both parties. Documents required for clearance by government ministries, customs authorities, port and container terminal authorities, health and technical control agencies, and banks are taken into account. Since payment is by letter of credit, all documents required by banks for the issuance or securing of a letter of credit are also taken into account. Documents that are renewed annually and that do not require renewal per shipment (for example, an annual tax clearance certificate) are not included.

Time

The time for exporting and importing is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost and is available to all trading companies, the fastest legal procedure is chosen. Fast-track procedures applying to firms located in an export processing zone are not taken into account because they are

not available to all trading companies. Ocean transport time is not included. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous. The waiting time between procedures—for example, during unloading of the cargo—is included in the measure.

Cost

Cost measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to export or import the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport. The cost does not include customs tariffs and duties or costs related to ocean transport. Only official costs are recorded.

The data details on trading across borders can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov, Freund and Pham (2010) and is adopted here with minor changes.

ENFORCING CONTRACTS

Indicators on enforcing contracts measure the efficiency of the judicial system in resolving a commercial dispute. The data are built by following the step-by-step evolution of a commercial sale dispute before local courts. The data are collected through study of the codes of civil procedure and other court regulations as well as surveys completed by local litigation lawyers and by judges. The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators (figure 13.9).

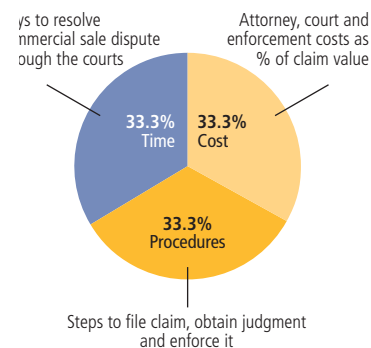
The name of the relevant court in each economy—the court in the largest business city with jurisdiction over commercial cases worth 200% of income per capita—is published at <http://www.doingbusiness.org/ExploreTopics/EnforcingContracts/>.

Assumptions about the case

- The value of the claim equals 200% of the economy's income per capita.
- The dispute concerns a lawful transaction between 2 businesses (Seller and Buyer), located in the economy's largest business city. Seller sells goods worth 200% of the economy's income per capita to Buyer. After Seller delivers the goods to Buyer, Buyer refuses to pay for the goods on the grounds that the delivered goods were not of adequate quality.
- Seller (the plaintiff) sues Buyer (the defendant) to recover the amount under the sales agreement (that is, 200% of the economy's income per capita). Buyer opposes Seller's claim, saying that the quality of the goods is not adequate. The court cannot decide the case on the basis of documentary evidence or legal title alone.
- A court in the economy's largest business city with jurisdiction over commercial cases worth 200% of income per capita decides the dispute.
- Seller attaches Buyer's movable assets (for example, office equipment and vehicles) before obtaining a judgment because Seller fears that Buyer may become insolvent.
- An expert opinion is given on the quality of the delivered goods. If it is standard practice in the economy for each party to call its own expert witness, the parties each call one expert witness. If it is standard practice for the judge to appoint an independent expert, the judge does so. In this case the judge does not allow opposing expert testimony.
- The judgment is 100% in favor of Seller: the judge decides that the goods are of adequate quality and that Buyer must pay the agreed price.
- Buyer does not appeal the judgment. Seller decides to start enforcing the judgment as soon as the time allocated by law for appeal expires.
- Seller takes all required steps for prompt enforcement of the judgment. The money is successfully collected through a public sale of Buyer's movable assets (for example, office equipment and vehicles).

FIGURE 13.9 Enforcing contracts: resolving a commercial dispute through the courts

Rankings are based on 3 indicators



Procedures

The list of procedural steps compiled for each economy traces the chronology of a commercial dispute before the relevant court. A procedure is defined as any interaction, required by law or commonly used in practice, between the parties or between them and the judge or court officer. This includes steps to file and serve the case, steps for trial and judgment and steps necessary to enforce the judgment (table 13.11).

The survey allows respondents to record procedures that exist in civil law but not common law jurisdictions and vice versa. For example, in civil law jurisdictions the judge

TABLE 13.11 What do the enforcing contracts indicators measure?

Procedures to enforce a contract through the courts (number)
Any interaction between the parties in a commercial dispute, or between them and the judge or court officer
Steps to file and serve the case
Steps for trial and judgment
Steps to enforce the judgment
Time required to complete procedures (calendar days)
Time to file and serve the case
Time for trial and obtaining judgment
Time to enforce the judgment
Cost required to complete procedures (% of claim)
No bribes
Average attorney fees
Court costs, including expert fees
Enforcement costs

can appoint an independent expert, while in common law jurisdictions each party submits a list of expert witnesses to the court. To indicate overall efficiency, 1 procedure is subtracted from the total number for economies that have specialized commercial courts, and 1 procedure for economies that allow electronic filing of the initial complaint in court cases. Some procedural steps that take place simultaneously with or are included in other procedural steps are not counted in the total number of procedures.

Time

Time is recorded in calendar days, counted from the moment the plaintiff decides to file the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods between. The average duration of different stages of dispute resolution is recorded: the completion of service of process (time to file and serve the case), the issuance of judgment (time for the trial and obtaining the judgment) and the moment of payment (time for enforcement of the judgment).

Cost

Cost is recorded as a percentage of the claim, assumed to be equivalent to 200% of income per capita. No bribes are recorded. Three types of costs are recorded: court costs, enforcement costs and average attorney fees.

Court costs include all court costs and expert fees that Seller (plaintiff) must advance to the court, regardless of the final cost to Seller. Expert fees, if required by law or commonly used in practice, are included in court costs. Enforcement costs are all costs that Seller (plaintiff) must advance to enforce the judgment through a public sale of Buyer's movable assets, regardless of the final cost to Seller. Average attorney fees are the fees that Seller (plaintiff) must advance to a local attorney to represent Seller in the standardized case.

The data details on enforcing contracts can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov and others (2003) and is adopted here with minor changes.

RESOLVING INSOLVENCY (FORMERLY CLOSING A BUSINESS)

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic entities. *The name of this indicator set was changed from closing a business to resolving insolvency to more accurately reflect the content of the indicators. The indicators did not change in content or scope.* The data are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems. The ranking on the ease of resolving insolvency is based on the recovery rate (figure 13.10).

To make the data comparable across economies, several assumptions about the business and the case are used.

Assumptions about the business

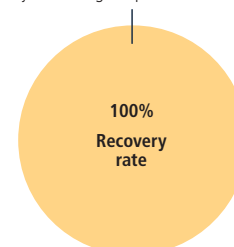
The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned, with the founder, who is also the chairman of the supervisory board, owning 51% (no other shareholder holds more than 5% of shares).
- Has downtown real estate, where it runs a hotel, as its major asset. The hotel is valued at 100 times income per capita or \$200,000, whichever is larger.
- Has a professional general manager.
- Has 201 employees and 50 suppliers, each of which is owed money for the last delivery.
- Has a 10-year loan agreement with a domestic bank secured by a universal business charge (for example, a floating charge) in economies where such collateral is recognized or by the hotel property. If the laws of the economy do not specifically provide for a universal business charge but contracts commonly use some other provision to that effect, this provision is specified in the loan agreement.
- Has observed the payment schedule and all other conditions of the loan up to now.
- Has a mortgage, with the value of the mortgage principal being exactly equal to the market value of the hotel.

FIGURE 13.10 Resolving insolvency: time, cost and outcome of bankruptcy of a local company

Rankings are based on 1 indicator

Recovery rate is a function of time, cost and other factors such as lending rate and the likelihood of the company continuing to operate



Note: Time and cost do not count separately for the rankings.

Assumptions about the case

The business is experiencing liquidity problems. The company's loss in 2010 reduced its net worth to a negative figure. It is January 1, 2011. There is no cash to pay the bank interest or principal in full, due the next day, January 2. The business will therefore default on its loan. Management believes that losses will be incurred in 2011 and 2012 as well.

The amount outstanding under the loan agreement is exactly equal to the market value of the hotel business and represents 74% of the company's total debt. The other 26% of its debt is held by unsecured creditors (suppliers, employees, tax authorities).

The company has too many creditors to negotiate an informal out-of-court workout. The following options are available: a judicial procedure aimed at the rehabilitation or reorganization of the company to permit its continued operation; a judicial procedure aimed at the liquidation or winding-up of the company; or a debt enforcement or foreclosure procedure against the company, enforced either in court (or through another government authority) or out of court (for example, by appointing a receiver).

Assumptions about the parties

The bank wants to recover as much as possible of its loan, as quickly and cheaply as possible. The unsecured creditors will do everything permitted under the applicable laws to avoid a piecemeal sale of the assets. The majority shareholder wants to keep the

company operating and under its control. Management wants to keep the company operating and preserve its employees' jobs. All the parties are local entities or citizens; no foreign parties are involved.

Time

Time for creditors to recover their credit is recorded in calendar years (table 13.12). The period of time measured by *Doing Business* is from the company's default until the payment of some or all of the money owed to the bank. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration.

Cost

The cost of the proceedings is recorded as a percentage of the value of the debtor's estate. The cost is calculated on the basis of questionnaire responses and includes court fees and government levies; fees of insolvency administrators, auctioneers, assessors and lawyers; and all other fees and costs.

Outcome

Recovery by creditors depends on whether the hotel business emerges from the proceedings as a going concern or the company's assets are sold piecemeal. If the business keeps operating, no value is lost and the bank can satisfy its claim in full, or recover 100 cents on the dollar. If the assets are sold piecemeal, the maximum amount

that can be recovered will not exceed 70% of the bank's claim, which translates into 70 cents on the dollar.

Recovery rate

The recovery rate is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. The calculation takes into account the outcome: whether the business emerges from the proceedings as a going concern or the assets are sold piecemeal. Then the costs of the proceedings are deducted (1 cent for each percentage point of the value of the debtor's estate). Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account, including the loss of value due to depreciation of the hotel furniture. Consistent with international accounting practice, the annual depreciation rate for furniture is taken to be 20%. The furniture is assumed to account for a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, based on end-2010 lending rates from the International Monetary Fund's *International Financial Statistics*, supplemented with data from central banks and the Economist Intelligence Unit.

No practice

If an economy had zero cases a year over the past 5 years involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure), the economy receives a "no practice" ranking. This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for "no practice" economies is zero.

This methodology was developed in Djankov, Hart and others (2008) and is adopted here with minor changes.

EMPLOYING WORKERS

Doing Business measures flexibility in the regulation of employment, specifically as it affects the hiring and redundancy of workers and the rigidity of working hours. Since 2007 improvements have been made to align the methodology for the employing workers indicators with the letter and spirit

of the ILO conventions. Only 4 of the 188 ILO conventions cover areas measured by *Doing Business*: employee termination, weekend work, holiday with pay and night work. The *Doing Business* methodology is fully consistent with these 4 conventions. The ILO conventions covering areas related to the employing workers indicators do not include the ILO core labor standards—8 conventions covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices.

Since 2009 the World Bank Group has been working with a consultative group—including labor lawyers, employer and employee representatives, and experts from the ILO, the OECD, civil society and the private sector—to review the employing workers methodology and explore future areas of research.⁸

The guidance of the consultative group has provided the basis for several changes in the methodology. The calculation of the minimum wage ratio was changed to ensure that no economy can receive the highest score if it has no minimum wage at all, if the law provides a regulatory mechanism for the minimum wage that is not enforced in practice, if there is only a customary minimum wage or if the minimum wage applies only to the public sector. A threshold was set for paid annual leave and a ceiling for working days allowed per week to ensure that no economy benefits in the scoring from excessive flexibility in these areas. Finally, the calculation of the redundancy cost and of the annual leave period for the rigidity of hours index was changed to refer to the average value for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years rather than the value for a worker with 20 years of tenure.

A full report with the conclusions of the consultative group is available at <http://www.doingbusiness.org/methodology/employing-workers>.

This year *Doing Business* collected additional data on regulations covering worker protection. The data will serve as a basis for developing a joint analysis of worker protection by

TABLE 13.12 What do the resolving insolvency indicators measure?

Time required to recover debt (years)
Measured in calendar years
Appeals and requests for extension are included
Cost required to recover debt (% of debtor's estate)
Measured as percentage of estate value
Court fees
Fees of insolvency administrators
Lawyers' fees
Assessors' and auctioneers' fees
Other related fees
Recovery rate for creditors (cents on the dollar)
Measures the cents on the dollar recovered by creditors
Present value of debt recovered
Official costs of the insolvency proceedings are deducted
Depreciation of furniture is taken into account
Outcome for the business (survival or not) affects the maximum value that can be recovered

the World Bank Group and the ILO and for developing measures of worker protection.

Doing Business 2012 does not present rankings of economies on the employing workers indicators or include the topic in the aggregate ranking on the ease of doing business. The report does present the data on the employing workers indicators. Detailed data collected on labor regulations are available on the *Doing Business* website (<http://www.doingbusiness.org>).

The data on employing workers are based on a detailed survey of employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy. To make the data comparable across economies, several assumptions about the worker and the business are used.

Assumptions about the worker

The worker:

- Is a full-time, male, nonexecutive employee
- Earns a salary plus benefits equal to the economy's average wage during the entire period of his employment.
- Has a pay period that is the most common for workers in the economy.
- Is a lawful citizen who belongs to the same race and religion as the majority of the economy's population.
- Resides in the economy's largest business city.
- Is not a member of a labor union, unless membership is mandatory.

Assumptions about the business

The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned.
- Operates in the manufacturing sector.
- Has 60 employees.
- Is subject to collective bargaining agreements in economies where such agreements cover more than half the manufacturing sector and apply even to firms not party to them.

- Abides by every law and regulation but does not grant workers more benefits than mandated by law, regulation or (if applicable) collective bargaining agreement.

Rigidity of employment index

The rigidity of employment index is the average of 3 subindices: the difficulty of hiring index, rigidity of hours index and difficulty of redundancy index. Data and scores for Benin are provided as an example (table 13.13).

All the subindices have several components. And all take values between 0 and 100, with higher values indicating more rigid regulation.

The difficulty of hiring index measures (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; and (iii) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker.⁹ An economy is assigned a score of 1 if fixed-term contracts are prohibited for permanent tasks and a score of 0 if they can be used for any task. A score

of 1 is assigned if the maximum cumulative duration of fixed-term contracts is less than 3 years; 0.5 if it is 3 years or more but less than 5 years; and 0 if fixed-term contracts can last 5 years or more. Finally, a score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25. A score of 0 is also assigned if the minimum wage is set by a collective bargaining agreement that applies to less than half the manufacturing sector or does not apply to firms not party to it, or if the minimum wage is set by law but does not apply to workers who are in their apprentice period. A ratio of 0.251 (and therefore a score of 0.33) is automatically assigned in 4 cases: if there is no minimum wage; if the law provides a regulatory mechanism for the minimum wage that is not enforced in practice; if there is no minimum wage set by law but there is a wage amount that is customarily used as a minimum; or if there is no minimum wage set by law in the private sector but there is one in the public sector.

TABLE 13.13 What do the employing workers indicators measure?

	Data for Benin	Score for Benin
Rigidity of employment index (0–100)		29.66
Simple average of the difficulty of hiring, rigidity of hours and difficulty of redundancy indices		39 + 10 + 40
Difficulty of hiring index (0–100)		39
Fixed-term contracts prohibited for permanent tasks?	No	0
Maximum duration of fixed-term contracts	4 years	0.5
Ratio of minimum wage for trainee or first-time employee to value added per worker	0.58	0.67
Rigidity of hours index (0–100)		10
Restrictions on night work and weekend work?	No	0
Allowed maximum length of the workweek in days and hours, including overtime	6 days	0
Fifty-hour workweeks permitted for 2 months due to an increase in production?	Yes	0
Paid annual vacation days	24 days	0.5
Difficulty of redundancy index (0–100)		40
Redundancy allowed as grounds for termination?	Yes	0
Notification required for termination of a redundant worker or group of workers?	Yes	2
Approval required for termination of a redundant worker or group of workers?	No	0
Employer obligated to reassign or retrain and to follow priority rules for redundancy and reemployment?	Yes	2
Redundancy cost (weeks of salary)		11.66
Notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary	Yes	11.66

Source: *Doing Business* database.

In Benin, for example, fixed-term contracts are not prohibited for permanent tasks (a score of 0), and they can be used for a maximum of 4 years (a score of 0.5). The ratio of the mandated minimum wage to the value added per worker is 0.58 (a score of 0.67). Averaging the 3 values and scaling the index to 100 gives Benin a score of 39.

The rigidity of hours index has 5 components: (i) whether there are restrictions on night work; (ii) whether there are restrictions on weekly holiday work; (iii) whether the workweek can consist of 5.5 days or is more than 6 days; (iv) whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year to respond to a seasonal increase in production; and (v) whether the average paid annual leave for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is more than 26 working days or fewer than 15 working days. For questions (i) and (ii), if restrictions other than premiums apply, a score of 1 is given. If the only restriction is a premium for night work or weekly holiday work, a score of 0, 0.33, 0.66 or 1 is given, depending on the quartile in which the economy's premium falls. If there are no restrictions, the economy receives a score of 0. For question (iii) a score of 1 is assigned if the legally permitted workweek is less than 5.5 days or more than 6 days; otherwise a score of 0 is assigned. For question (iv), if the answer is no, a score of 1 is assigned; otherwise a score of 0 is assigned. For question (v) a score of 0 is assigned if the average paid annual leave is between 15 and 21 working days, a score of 0.5 if it is between 22 and 26 working days and a score of 1 if it is less than 15 or more than 26 working days.

For example, Benin does not impose any restrictions either on night work (a score of 0) or on weekly holiday work (a score of 0), allows 6-day workweeks (a score of 0), permits 50-hour workweeks for 2 months (a score of 0) and requires average paid annual leave of 24 working days (a score of 0.5). Averaging the scores and scaling the result to 100 gives a final index of 10 for Benin.

The difficulty of redundancy index has 8 components: (i) whether redundancy is disallowed as a basis for terminating workers;

(ii) whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; (iii) whether the employer needs to notify a third party to terminate a group of 9 redundant workers; (iv) whether the employer needs approval from a third party to terminate 1 redundant worker; (v) whether the employer needs approval from a third party to terminate a group of 9 redundant workers; (vi) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (vii) whether priority rules apply for redundancies; and (viii) whether priority rules apply for reemployment. For question (i) an answer of yes for workers of any income level gives a score of 10 and means that the rest of the questions do not apply. An answer of yes to question (iv) gives a score of 2. For every other question, if the answer is yes, a score of 1 is assigned; otherwise a score of 0 is given. Questions (i) and (iv), as the most restrictive regulations, have greater weight in the construction of the index.

In Benin, for example, redundancy is allowed as grounds for termination (a score of 0). An employer has to notify a third party to terminate a single redundant worker (a score of 1) as well as to terminate a group of 9 redundant workers (a score of 1), although the approval of a third party is not required in either of these cases (a score of 0). The law does not mandate any retraining or alternative placement before termination (a score of 0). There are priority rules for termination (a score of 1) and reemployment (a score of 1). Adding the scores and scaling to 100 gives a final index of 40.

Redundancy cost

The redundancy cost indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. The average value of notice requirements and severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is used to assign the score. If the redundancy cost adds up to 8 or fewer weeks of salary and the workers can benefit from unemployment protection, a score of 0 is assigned, but the actual number of weeks is published. If the redundancy cost adds up

to 8 or fewer weeks of salary and the workers cannot benefit from any type of unemployment protection, a score of 8.1 is assigned, although the actual number of weeks is published. If the cost adds up to more than 8 weeks of salary, the score is the number of weeks. One month is recorded as 4 and 1/3 weeks.

In Benin, for example, an employer is required to give an average of 1 month's notice before a redundancy termination, and the average severance pay for a worker with 1 year of service, a worker with 5 years and a worker with 10 years equals 1.68 months of wages. No penalty is levied and the workers cannot benefit from any type of unemployment protection. Altogether, the employer pays the equivalent of 11.66 weeks of salary to dismiss a worker.

The data details on employing workers can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. The Doing Business website provides historical data sets adjusted for changes in methodology to allow comparison of data across years. This methodology was developed in Botero and others (2004) and is adopted here with changes.

NOTES

1. The data for paying taxes refer to January–December 2010.
2. Because the ease of doing business index now includes the getting electricity indicators, procedures, time and cost related to obtaining an electricity connection were removed from the dealing with construction permits indicators.
3. The ranking is based on a straight average of points from the strength of legal rights index and depth of credit information index.
4. The scoring on this aspect was revised this year to bring it into line with UNCITRAL (2004, 2007) and World Bank (2011a).
5. This question is usually regulated by stock exchange or securities laws. Points are awarded only to economies with more than 10 listed firms in their most important stock exchange.

6. When evaluating the regime of liability for company directors for a prejudicial related-party transaction, *Doing Business* assumes that the transaction was duly disclosed and approved. *Doing Business* does not measure director liability in the event of fraud.
7. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.
8. For the terms of reference and composition of the consultative group, see World Bank, "Doing Business Employing Workers Indicator Consultative Group," <http://www.doingbusiness.org>.
9. The average value added per worker is the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population.

Ease of doing business and distance to frontier

This year's report presents results for 2 aggregate measures: the aggregate ranking on the ease of doing business and a new measure, the "distance to frontier." While the ease of doing business ranking compares economies with one another at a point in time, the distance to frontier measure shows how much the regulatory environment for local entrepreneurs in each economy has changed over time.

EASE OF DOING BUSINESS

The ease of doing business index ranks economies from 1 to 183. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in *Doing Business 2012*: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and, new this year, getting electricity. The employing workers indicators are not included in this year's aggregate ease of doing business ranking. In addition to this year's ranking, *Doing Business* presents a comparable ranking for the previous year, adjusted for any

changes in methodology as well as additions of economies or topics.¹

Construction of the ease of doing business index

Here is one example of how the ease of doing business index is constructed. In Korea it takes 5 procedures, 7 days and 14.6% of annual income per capita in fees to open a business. There is no minimum capital required. On these 4 indicators Korea ranks in the 18th, 14th, 53rd and 0 percentiles. So on average Korea ranks in the 21st percentile on the ease of starting a business. It ranks in the 12th percentile on getting credit, 25th percentile on paying taxes, 8th percentile on enforcing contracts, 7th percentile on resolving insolvency and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Korea's percentile rankings on all topics is 21st. When all economies are ordered by their average percentile rankings, Korea stands at 8 in the aggregate ranking on the ease of doing business.

More complex aggregation methods—such as principal components and unobserved

components—yield a ranking nearly identical to the simple average used by *Doing Business*.² Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.³

If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a "no practice" mark. Similarly, an economy receives a "no practice" or "not possible" mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a "no practice" mark puts the economy at the bottom of the ranking on the relevant indicator.

The ease of doing business index is limited in scope. It does not account for an economy's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders and getting electricity), the strength of its financial system, the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions.

TABLE 1 Correlations between economy rankings on *Doing Business* topics

	Dealing with construction permits	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Getting electricity
Starting a business	0.39	0.32	0.45	0.59	0.37	0.45	0.42	0.45	0.28
Dealing with construction permits		0.22	0.19	0.25	0.36	0.45	0.20	0.33	0.40
Registering property			0.39	0.29	0.31	0.27	0.49	0.33	0.24
Getting credit				0.47	0.20	0.41	0.42	0.52	0.24
Protecting investors					0.37	0.39	0.29	0.37	0.20
Paying taxes						0.40	0.27	0.33	0.40
Trading across borders							0.35	0.50	0.56
Enforcing contracts								0.42	0.21
Resolving insolvency									0.32

Source: *Doing Business* database.

Variability of economies' rankings across topics

Each indicator set measures a different aspect of the business regulatory environment. The rankings of an economy can vary, sometimes significantly, across indicator sets. The average correlation coefficient between the 10 indicator sets included in the aggregate ranking is 0.36, and the coefficients between any 2 sets of indicators range from 0.19 (between dealing with construction permits and getting credit) to 0.59 (between starting a business and protecting investors). These correlations suggest that economies rarely score universally well or universally badly on the indicators (table 1).

Consider the example of Canada. It stands at 12 in the aggregate ranking on the ease of doing business. Its ranking is 3 on both starting a business and resolving insolvency, and 5 on protecting investors. But its ranking is only 59 on enforcing contracts, 42 on trading across borders and 156 on getting electricity.

Figure 1.6 in the executive summary illustrates the degree of variability in each economy's performance across the different areas of business regulation covered by *Doing Business*. The figure draws attention to economies with a particularly uneven performance by showing the distance between the average of the highest 3 topic rankings and the average of the lowest 3 for each of 183 economies across the 10 topics included in this year's aggregate ranking. While a relatively small distance between these 2 averages suggests a broadly consistent approach across the areas of business regulation measured by *Doing Business*, a relatively large distance suggests a more narrowly focused approach, with greater room for improvement in some areas than in others.

Variation in performance across the indicator sets is not at all unusual. It reflects differences in the degree of priority that government authorities give to particular areas of business regulation reform and the ability of different government agencies to deliver tangible results in their area of responsibility.

Economies that improved the most across 3 or more *Doing Business* topics in 2010/11

Doing Business 2012 uses a simple method to calculate which economies improved the most in the ease of doing business. First, it selects the economies that in 2010/11 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's ease of doing business ranking.⁴ Thirty economies meet this criterion: Armenia, Burkina Faso, Burundi, Cape Verde, the Central African Republic, Chile, Colombia, the Democratic Republic of Congo, Côte d'Ivoire, The Gambia, Georgia, Korea, Latvia, Liberia, FYR Macedonia, Mexico, Moldova, Montenegro, Morocco, Nicaragua, Oman, Peru, Russia, São Tomé and Príncipe, Senegal, Sierra Leone, Slovenia, the Solomon Islands, South Africa and Ukraine. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

Selecting the economies that implemented regulatory reforms in at least 3 topics and improved the most in the aggregate ranking is intended to highlight economies with ongoing, broad-based reform programs.

DISTANCE TO FRONTIER MEASURE

This year's report introduces a new measure to illustrate how the regulatory environment for local businesses in each economy has changed over time. The distance to frontier measure illustrates the distance of an economy to the "frontier" and shows the extent to which the economy has closed this gap over time. The frontier is a score derived from the most efficient practice or highest score achieved on each of the component indicators in 9 *Doing Business* indicator sets (excluding the employing workers and getting electricity indicators) by any economy since 2005. In starting a business, for example, New Zealand has achieved the highest performance on the time (1 day), Canada and New Zealand on the number of procedures required (1), Denmark and Slovenia on the cost (0% of income per capita) and Australia on the paid-in minimum capital requirement (0% of income per capita).

Calculating the distance to frontier for each economy involves 2 main steps. First, individual indicator scores are normalized to a common unit. To do so, each of the 32 component indicators y is rescaled to $(y - \text{min})/(\text{max} - \text{min})$, with the minimum value (min) representing the frontier—the highest performance on that indicator across all economies since 2005. Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score. An economy's distance to the frontier is indicated on a scale from 0 to 100, where 0 represents the frontier and 100 the lowest performance.

The difference between an economy's distance to frontier score in 2005 and its score in 2011 illustrates the extent to which the economy has closed the gap to the frontier over time.

The maximum (max) and minimum (min) observed values are computed for the 174 economies included in the *Doing Business* sample since 2005 and for all years (from 2005 to 2011). The year 2005 was chosen as the baseline for the economy sample because it was the first year in which data were available for the majority of economies (a total of 174) and for all 9 indicator sets included in the measure. To mitigate the effects of extreme outliers in the distributions of the rescaled data (very few economies need 694 days to complete the procedures to start a business, but many need 9 days), the maximum (max) is defined as the 95th percentile of the pooled data for all economies and all years for each indicator.

Take Colombia, which has a score of 0.30 on the distance to frontier measure for 2011. This score indicates that the economy is 30 percentage points away from the frontier constructed from the best performances across all economies and all years. Colombia was further from the frontier in 2005, with a score of 0.46. The difference between the scores shows an improvement over time.

NOTES

1. In case of revisions to the methodology or corrections to the underlying data, the data are back-calculated to provide a comparable time series since the year the relevant economy or topic was first included in the data set. The time series is available on the *Doing Business* website (<http://www.doingbusiness.org>). The *Doing Business* report publishes yearly rankings for the year of publication as well as the previous year to shed light on year-to-year developments. Six topics and more than 50 economies have been added since the inception of the project. Earlier rankings on the ease of doing business are therefore not comparable.
2. See Djankov and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.
3. A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (<http://www.doingbusiness.org>).
4. *Doing Business* reforms making it more difficult to do business are subtracted from the total number of those making it easier to do business.

Summaries of *Doing Business* reforms in 2010/11

10 reforms in the East African Community in 2010/11 made it easier to do business

Starting a business	Dealing with construction permits	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Rwanda	Burundi	Uganda	Rwanda	Burundi	Burundi Rwanda	Tanzania	Kenya	Burundi

Source: *Doing Business* database.

Doing Business reforms affecting all sets of indicators included in this year's ranking on the ease of doing business, implemented between June 2010 and May 2011.

- ✓ *Doing Business* reform making it easier to do business
- ✗ *Doing Business* reform making it more difficult to do business

BURUNDI

- ✓ **Dealing with construction permits**
Burundi made dealing with construction permits easier by reducing the cost to obtain a geotechnical study.
- ✓ **Protecting investors**
Burundi strengthened investor protections by introducing new requirements for the approval of transactions between interested parties, by requiring greater corporate disclosure to the board of directors and in the annual report and by making it easier to sue directors in cases of prejudicial transactions between interested parties.
- ✓ **Paying taxes**
Burundi made paying taxes easier for companies by reducing the payment frequency for social security contributions from monthly to quarterly.
- ✓ **Resolving insolvency**
Burundi amended its commercial code to establish foreclosure procedures.

KENYA

- ✓ **Enforcing contracts**
Kenya introduced a case management system that will help increase the efficiency and cost-effectiveness of commercial dispute resolution.

RWANDA

- ✓ **Starting a business**
Rwanda made starting a business easier by reducing the business registration fees.
- ✗ **Registering property**
Rwanda made transferring property more expensive by enforcing the checking of the capital gains tax.
- ✓ **Getting credit**
In Rwanda the private credit bureau started to collect and distribute information from utility companies and also started to distribute more than 2 years of historical information, improving the credit information system.
- ✓ **Paying taxes**
Rwanda reduced the frequency of value added tax filings by companies from monthly to quarterly.

TANZANIA

- ✓ **Trading across borders**
Tanzania made trading across borders faster by implementing the Pre-Arrival Declaration (PAD) system and electronic submission of customs declarations.

UGANDA

- ✗ **Starting a business**
Uganda introduced changes that added time to the process of obtaining a business license, slowing business start-up. But it simplified registration for a tax identification number and for value added tax by introducing an online system.
- ✓ **Registering property**
Uganda increased the efficiency of property transfers by establishing performance standards and recruiting more officials at the land office.

Country tables

✓ Reform making it easier to do business ✗ Reform making it more difficult to do business

BURUNDI		Sub-Saharan Africa	GNI per capita (US\$)	160	
Ease of doing business (rank)	169	Low income	Population (m)	8.5	
Starting a business (rank)	108	Registering property (rank)	109	Trading across borders (rank)	174
Procedures (number)	9	Procedures (number)	5	Documents to export (number)	9
Time (days)	14	Time (days)	94	Time to export (days)	35
Cost (% of income per capita)	116.8	Cost (% of property value)	5.6	Cost to export (US\$ per container)	2,965
Minimum capital (% of income per capita)	0.0			Documents to import (number)	10
		Getting credit (rank)	166	Time to import (days)	54
✓ Dealing with construction permits (rank)	159	Strength of legal rights index (0-10)	3	Cost to import (US\$ per container)	4,855
Procedures (number)	22	Depth of credit information index (0-6)	1		
Time (days)	135	Public registry coverage (% of adults)	0.3	Enforcing contracts (rank)	172
Cost (% of income per capita)	4,065.7	Private bureau coverage (% of adults)	0.0	Procedures (number)	44
		✓ Protecting investors (rank)	46	Time (days)	832
Getting electricity (rank)	151	Extent of disclosure index (0-10)	8	Cost (% of claim)	38.6
Procedures (number)	4	Extent of director liability index (0-10)	6		
Time (days)	188	Ease of shareholder suits index (0-10)	4	✓ Resolving insolvency (rank)	183
Cost (% of income per capita)	34,477.0	Strength of investor protection index (0-10)	6.0	Time (years)	NO PRACTICE
				Cost (% of estate)	NO PRACTICE
		✓ Paying taxes (rank)	125	Recovery rate (cents on the dollar)	0.0
		Payments (number per year)	24		
		Time (hours per year)	274		
		Total tax rate (% of profit)	46.2		
KENYA		Sub-Saharan Africa	GNI per capita (US\$)	780	
Ease of doing business (rank)	109	Low income	Population (m)	40.9	
Starting a business (rank)	132	Registering property (rank)	133	Trading across borders (rank)	141
Procedures (number)	11	Procedures (number)	8	Documents to export (number)	8
Time (days)	33	Time (days)	64	Time to export (days)	26
Cost (% of income per capita)	37.8	Cost (% of property value)	4.3	Cost to export (US\$ per container)	2,055
Minimum capital (% of income per capita)	0.0			Documents to import (number)	7
		Getting credit (rank)	8	Time to import (days)	24
Dealing with construction permits (rank)	37	Strength of legal rights index (0-10)	10	Cost to import (US\$ per container)	2,190
Procedures (number)	8	Depth of credit information index (0-6)	4		
Time (days)	125	Public registry coverage (% of adults)	0.0	✓ Enforcing contracts (rank)	127
Cost (% of income per capita)	160.9	Private bureau coverage (% of adults)	4.5	Procedures (number)	40
		✓ Protecting investors (rank)	97	Time (days)	465
Getting electricity (rank)	115	Extent of disclosure index (0-10)	3	Cost (% of claim)	47.2
Procedures (number)	4	Extent of director liability index (0-10)	2		
Time (days)	163	Ease of shareholder suits index (0-10)	10	Resolving insolvency (rank)	92
Cost (% of income per capita)	1,419.2	Strength of investor protection index (0-10)	5.0	Time (years)	4.5
				Cost (% of estate)	22
		Paying taxes (rank)	166	Recovery rate (cents on the dollar)	30.9
		Payments (number per year)	41		
		Time (hours per year)	393		
		Total tax rate (% of profit)	49.6		

Note: Most indicator sets refer to a case scenario in the largest business city of each economy. For more details, see the data notes.

✓ Reform making it easier to do business ✗ Reform making it more difficult to do business

RWANDA		Sub-Saharan Africa	GNI per capita (US\$)	540	
Ease of doing business (rank)		Low income	Population (m)	10.3	
✓ Starting a business (rank)	8	✗ Registering property (rank)	61	Trading across borders (rank)	155
Procedures (number)	2	Procedures (number)	5	Documents to export (number)	8
Time (days)	3	Time (days)	25	Time to export (days)	29
Cost (% of income per capita)	4.7	Cost (% of property value)	6.3	Cost to export (US\$ per container)	3,275
Minimum capital (% of income per capita)	0.0	✓ Getting credit (rank)	8	Documents to import (number)	8
Dealing with construction permits (rank)	84	Strength of legal rights index (0-10)	8	Time to import (days)	31
Procedures (number)	12	Depth of credit information index (0-6)	6	Cost to import (US\$ per container)	4,990
Time (days)	164	Public registry coverage (% of adults)	1.4	Enforcing contracts (rank)	39
Cost (% of income per capita)	312.0	Private bureau coverage (% of adults)	0.0	Procedures (number)	24
Getting electricity (rank)	50	Protecting investors (rank)	29	Time (days)	230
Procedures (number)	4	Extent of disclosure index (0-10)	7	Cost (% of claim)	78.7
Time (days)	30	Extent of director liability index (0-10)	9	Resolving insolvency (rank)	165
Cost (% of income per capita)	4,696.8	Ease of shareholder suits index (0-10)	3	Time (years)	3.0
		Strength of investor protection index (0-10)	6.3	Cost (% of estate)	50
		✓ Paying taxes (rank)	19	Recovery rate (cents on the dollar)	3.2
		Payments (number per year)	18		
		Time (hours per year)	148		
		Total tax rate (% of profit)	31.3		
TANZANIA		Sub-Saharan Africa	GNI per capita (US\$)	530	
Ease of doing business (rank)		Low income	Population (m)	45.0	
Starting a business (rank)	123	✓ Registering property (rank)	158	✓ Trading across borders (rank)	92
Procedures (number)	12	Procedures (number)	9	Documents to export (number)	6
Time (days)	29	Time (days)	73	Time to export (days)	18
Cost (% of income per capita)	28.8	Cost (% of property value)	4.4	Cost to export (US\$ per container)	1,255
Minimum capital (% of income per capita)	0.0	Getting credit (rank)	98	Documents to import (number)	6
Dealing with construction permits (rank)	176	Strength of legal rights index (0-10)	8	Time to import (days)	24
Procedures (number)	19	Depth of credit information index (0-6)	0	Cost to import (US\$ per container)	1,430
Time (days)	303	Public registry coverage (% of adults)	0.0	Enforcing contracts (rank)	36
Cost (% of income per capita)	1,170.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	38
Getting electricity (rank)	78	Protecting investors (rank)	97	Time (days)	462
Procedures (number)	4	Extent of disclosure index (0-10)	3	Cost (% of claim)	14.3
Time (days)	109	Extent of director liability index (0-10)	4	Resolving insolvency (rank)	122
Cost (% of income per capita)	1,040.5	Ease of shareholder suits index (0-10)	8	Time (years)	3.0
		Strength of investor protection index (0-10)	5.0	Cost (% of estate)	22
		Paying taxes (rank)	129	Recovery rate (cents on the dollar)	22.0
		Payments (number per year)	48		
		Time (hours per year)	172		
		Total tax rate (% of profit)	45.5		
UGANDA		Sub-Saharan Africa	GNI per capita (US\$)	490	
Ease of doing business (rank)		Low income	Population (m)	33.8	
✗ Starting a business (rank)	143	✓ Registering property (rank)	127	Trading across borders (rank)	158
Procedures (number)	16	Procedures (number)	13	Documents to export (number)	7
Time (days)	34	Time (days)	48	Time to export (days)	37
Cost (% of income per capita)	84.5	Cost (% of property value)	2.9	Cost to export (US\$ per container)	2,880
Minimum capital (% of income per capita)	0.0	Getting credit (rank)	48	Documents to import (number)	9
Dealing with construction permits (rank)	109	Strength of legal rights index (0-10)	7	Time to import (days)	34
Procedures (number)	15	Depth of credit information index (0-6)	4	Cost to import (US\$ per container)	3,015
Time (days)	125	Public registry coverage (% of adults)	0.0	Enforcing contracts (rank)	116
Cost (% of income per capita)	946.8	Private bureau coverage (% of adults)	3.0	Procedures (number)	38
Getting electricity (rank)	129	Protecting investors (rank)	133	Time (days)	490
Procedures (number)	5	Extent of disclosure index (0-10)	2	Cost (% of claim)	44.9
Time (days)	91	Extent of director liability index (0-10)	5	Resolving insolvency (rank)	63
Cost (% of income per capita)	5,130.1	Ease of shareholder suits index (0-10)	5	Time (years)	2.2
		Strength of investor protection index (0-10)	4.0	Cost (% of estate)	30
		Paying taxes (rank)	93	Recovery rate (cents on the dollar)	40.2
		Payments (number per year)	32		
		Time (hours per year)	213		
		Total tax rate (% of profit)	35.7		

Note: Most indicator sets refer to a case scenario in the largest business city of each economy. For more details, see the data notes.

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