DOING BUSINESS IN THE EAST AFRICAN COMMUNITY 2013

Smarter Regulations for Small and Medium-Size Enterprises

COMPARING BUSINESS REGULATIONS FOR DOMESTIC FIRMS IN THE EAST AFRICAN COMMUNITY AND WITH 185 ECONOMIES

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Doing Business in the East African Community 2013 is the fourth in a series of regional reports drawing on the global *Doing Business* project and its database. The report also draws on the findings of *Doing Business 2013*, the 10th 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 185 economies—from Afghanistan to Zimbabwe—and over time.

Regulations affecting 10 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 and resolving insolvency.

Data in *Doing Business in the East African Community 2013* are current as of June 1, 2012. The *Doing Business* indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Foreword

In recent years the *Doing Business* project has helped put business regulatory reform on the agenda of many countries—at all income levels. The project is premised on the belief that good business regulation is of the utmost importance in spurring economic growth, creating jobs and other opportunities and, ultimately, lifting people out of poverty.

IFC's East African Community Investment Climate Program and its partner in the publication of this report, TradeMark East Africa, are committed to helping countries in the East African Community make regulation more efficient, transparent and predictable. Creating an environment that enables the growth of small and medium-size enterprises is an integral part of the development agenda, with the ultimate goal being 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 5 economies of the East African Community, the fourth report in this series. Rapid integration presents an opportunity to boost competitiveness in each of these countries and in the trading bloc as a whole. We hope that the report will be helpful for governments, the private sector and civil society in efforts to unleash the potential of the private sector and regional integration in the fight against poverty.

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TradeMark East Africa

2007 2012 2011 2004 2005 2009 2010 2008 2006 2013

Executive summary

Over the past 8 years the 5 members of the East African Community (EAC)—Burundi, Kenya, Rwanda, Tanzania and Uganda—have continued to take steps to make it easier for local firms to start up and operate (box 1.1). Driving these efforts has been a recognition that regional integration alone is not enough to spur growth. The EAC needs an investment climate—including a business regulatory environment—that is well suited to scaling up trade and investment and can act as a catalyst to modernize the regional economy. Improving the investment climate in the EAC is therefore an essential ingredient for successful integration—the foundation for expanding business activity, boosting competitiveness, spurring growth and, ultimately, supporting human development.

Continual improvement of the business environment is important for countries seeking to benefit from greater trade and investment through regional integration. The common market protocol, which entered into force in July 2010, is supposed to be fully implemented by December 2015. By that time the EAC is expected to have achieved the "4 freedoms"—free movement of people, goods, services and capital within the common market. Several committees were set up to work on realizing each of these freedoms, such as the Monetary Affairs Committee, which is overseeing the harmonization of monetary and exchange rate policies, and the Committee on Fiscal Affairs, which is in charge of the harmonization of both tax policy and administrative processes. In addition, the secretariat is working on a monitoring system to track commitments made under the common market protocol and flag areas where implementation is slow.

Among the main tasks of the committees is to set up and implement coherent, broad-based regional reform programs to improve the investment climate of the region as a whole and make it an attractive destination for external investors. The development of regional strategies and frameworks that connect and streamline national reform programs is an indispensable condition for a well-functioning common market that can attract foreign investment. A lack of coordination among

BOX 1.1 MAIN FINDINGS SINCE THE FIRST *DOING BUSINESS* REPORT

- Over the past 8 years the 5 EAC economies implemented a total of 74 institutional or regulatory reforms improving the business environment for local entrepreneurs.
- Globally, business regulatory practices have been slowly converging as economies with initially poor performance narrow the gap with better performers. Among the 50 economies with the biggest improvements since 2005, the largest share—a third—are in Sub-Saharan Africa. Within the EAC, Rwanda is the country that has narrowed the gap the most, followed by Burundi.
- The EAC has achieved greater convergence in the complexity and cost of regulatory processes than in the strength of legal institutions relevant to business regulation. Of the 74 institutional or regulatory reforms implemented by EAC economies in the past 8 years, the largest numbers were in the areas of starting a business (11), registering property (9) and dealing with construction permits (8).

- **All 5 economies of the East African Community (EAC) implemented institutional or regulatory reforms making it easier to do business in 2011/12—just as in the previous year. The 9 reforms were spread across 8 areas of regulation measured by *Doing Business*. Worldwide, 108 economies implemented 201 reforms making it easier to do business in 2011/12.**
- **The EAC economies have an average ranking on the ease of doing business of 117 (among 185 economies globally). But there is great variation among them—from Rwanda at 52 in the global ranking to Burundi at 159. This wide variation in business regulations is among the issues that the EAC needs to tackle to achieve the desired level of integration.**
- **While the regional average ranking is less than ideal, if a hypothetical EAC economy were to adopt the region's best regulatory practices in each area measured by *Doing Business*, it would stand at 26 in the global ranking on the ease of doing business.**
- **Burundi was among the world's most active economies in implementing regulatory reforms in 2011/12. It implemented policy changes in 4 areas measured by *Doing Business*: starting a business, dealing with construction permits, registering property and trading across borders.**

TABLE 1.1 Global rankings on the ease of doing business

Rank	Economy	DB2013 reforms	Rank	Economy	DB2013 reforms	Rank	Economy	DB2013 reforms
1	Singapore	0	63	Antigua and Barbuda	0	125	Honduras	0
2	Hong Kong SAR, China	0	64	Ghana	0	126	Bosnia and Herzegovina	2
3	New Zealand	1	65	Czech Republic	3	127	Ethiopia	1
4	United States	0	66	Bulgaria	1	128	Indonesia	1
5	Denmark	1	67	Azerbaijan	0	129	Bangladesh	1
6	Norway	2	68	Dominica	1	130	Brazil	1
7	United Kingdom	1	69	Trinidad and Tobago	2	131	Nigeria	0
8	Korea, Rep.	4	70	Kyrgyz Republic	0	132	India	1
9	Georgia	6	71	Turkey	2	133	Cambodia	1
10	Australia	1	72	Romania	2	134	Tanzania	1
11	Finland	0	73	Italy	2	135	West Bank and Gaza	1
12	Malaysia	2	74	Seychelles	0	136	Lesotho	2
13	Sweden	0	75	St. Vincent and the Grenadines	0	137	Ukraine	3
14	Iceland	0	76	Mongolia	3	138	Philippines	0
15	Ireland	2	77	Bahamas, The	0	139	Ecuador	0
16	Taiwan, China	2	78	Greece	3	140	Sierra Leone	2
17	Canada	1	79	Brunei Darussalam	2	141	Tajikistan	1
18	Thailand	2	80	Vanuatu	0	142	Madagascar	1
19	Mauritius	2	81	Sri Lanka	4	143	Sudan	0
20	Germany	2	82	Kuwait	0	144	Syrian Arab Republic	1
21	Estonia	0	83	Moldova	2	145	Iran, Islamic Rep.	1
22	Saudi Arabia	2	84	Croatia	1	146	Mozambique	0
23	Macedonia, FYR	1	85	Albania	2	147	Gambia, The	0
24	Japan	1	86	Serbia	3	148	Bhutan	0
25	Latvia	0	87	Namibia	1	149	Liberia	3
26	United Arab Emirates	3	88	Barbados	0	150	Micronesia, Fed. Sts.	0
27	Lithuania	2	89	Uruguay	2	151	Mali	1
28	Switzerland	0	90	Jamaica	2	152	Algeria	1
29	Austria	0	91	China	2	153	Burkina Faso	0
30	Portugal	3	92	Solomon Islands	0	154	Uzbekistan	4
31	Netherlands	4	93	Guatemala	1	155	Bolivia	0
32	Armenia	2	94	Zambia	1	156	Togo	1
33	Belgium	0	95	Maldives	0	157	Malawi	1
34	France	0	96	St. Kitts and Nevis	0	158	Comoros	2
35	Slovenia	3	97	Morocco	1	159	Burundi	4
36	Cyprus	1	98	Kosovo	2	160	São Tomé and Príncipe	0
37	Chile	0	99	Vietnam	1	161	Cameroon	1
38	Israel	1	100	Grenada	1	162	Equatorial Guinea	0
39	South Africa	1	101	Marshall Islands	0	163	Lao PDR	3
40	Qatar	1	102	Malta	0	164	Suriname	0
41	Puerto Rico (U.S.)	1	103	Paraguay	0	165	Iraq	0
42	Bahrain	0	104	Papua New Guinea	0	166	Senegal	0
43	Peru	2	105	Belize	1	167	Mauritania	0
44	Spain	2	106	Jordan	0	168	Afghanistan	0
45	Colombia	1	107	Pakistan	0	169	Timor-Leste	0
46	Slovak Republic	4	108	Nepal	0	170	Gabon	0
47	Oman	1	109	Egypt, Arab Rep.	0	171	Djibouti	0
48	Mexico	2	110	Costa Rica	4	172	Angola	1
49	Kazakhstan	3	111	Palau	0	173	Zimbabwe	0
50	Tunisia	0	112	Russian Federation	2	174	Haiti	0
51	Montenegro	2	113	El Salvador	1	175	Benin	4
52	Rwanda	2	114	Guyana	0	176	Niger	1
53	St. Lucia	0	115	Lebanon	0	177	Côte d'Ivoire	0
54	Hungary	3	116	Dominican Republic	0	178	Guinea	3
55	Poland	4	117	Kiribati	0	179	Guinea-Bissau	0
56	Luxembourg	0	118	Yemen, Rep.	0	180	Venezuela, RB	0
57	Samoa	0	119	Nicaragua	0	181	Congo, Dem. Rep.	1
58	Belarus	2	120	Uganda	1	182	Eritrea	0
59	Botswana	1	121	Kenya	1	183	Congo, Rep.	2
60	Fiji	1	122	Cape Verde	0	184	Chad	1
61	Panama	3	123	Swaziland	1	185	Central African Republic	0
62	Tonga	0	124	Argentina	0			

Note: The rankings for all economies are benchmarked to June 2012. This year's rankings on the ease of doing business are the average of the economy's percentile 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.

Source: Doing Business database.

member countries and the implementation of "isolated" national reforms—which often focus on short-term gains and fail to consider the impact on the region—can hinder progress in fully implementing the common market. Conversely, continual exchange among different authorities across countries, the implementation of an agreed-on regional reform agenda and a focus on common goals and objectives create synergies and help the region as a whole to improve its investment climate.

Fostering economic growth by tapping the potential of the private sector is among the main objectives of the fourth EAC development strategy.[1] In addition to increasing institutional coordination, other important steps to achieve this objective are better integrating small and medium-size enterprises into the financial sector and creating business-friendly administrative structures and tax regimes. Additional challenges are to ensure the availability of reliable data and statistics and to implement credible surveillance and enforcement mechanisms, goals restated at a January 2013 workshop in Arusha, Tanzania, on the implications of the planned monetary union for partner states' fiscal policies.

Recognizing the importance of creating a well-functioning regulatory framework that is transparent and not excessively burdensome for companies, the EAC is determined to continue its steady pace of reform. This fourth edition of the *Doing Business in the East African Community* report shows that in 2011/12, for the second year in a row, all 5 EAC economies implemented at least 1 institutional or regulatory reform making it easier to do business—9 reforms in total (table 1.1). In Sub-Saharan Africa 61% of economies implemented reforms improving their business regulatory environment as measured by *Doing Business*.

The *Doing Business* data can help inform the policy debate around business regulatory reforms and within the context of the common market. Through indicators benchmarking 185 economies, *Doing Business* measures and tracks changes in the regulations applying to domestic small and medium-size companies in 11 areas in their life cycle. This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting 10 of those areas: 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 documents regulations on employing workers, which are not included in this year's aggregate ranking or in the count of reforms. Regional *Doing Business* reports capture differences in business regulations and their enforcement across economies within a single region. They provide data on the ease of doing business, rank each economy and recommend reforms to improve performance in each of the areas measured by *Doing Business*.

The economies that rank highest on the ease of doing business are not those where there is no regulation—but those where governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector. In essence, *Doing Business* is about SMART business regulations—Streamlined, Meaningful, Adaptable, Relevant, Transparent—not necessarily fewer regulations (see figure 2.1 in the chapter "About *Doing Business*").

HOW DO EAC ECONOMIES COMPARE IN BUSINESS REGULATIONS?

Doing Business encompasses 2 types of indicators: indicators relating to the *strength of legal institutions* relevant to business regulation and indicators relating to the *complexity and cost of regulatory processes*. Those in the first group focus on the legal and regulatory framework for getting credit, protecting investors, enforcing contracts and resolving insolvency. Those in the second focus on the cost and efficiency of regulatory processes for starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. 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 relevant regulations. (For a detailed explanation of the *Doing Business* methodology, see the data notes and the chapter "About *Doing Business*.")

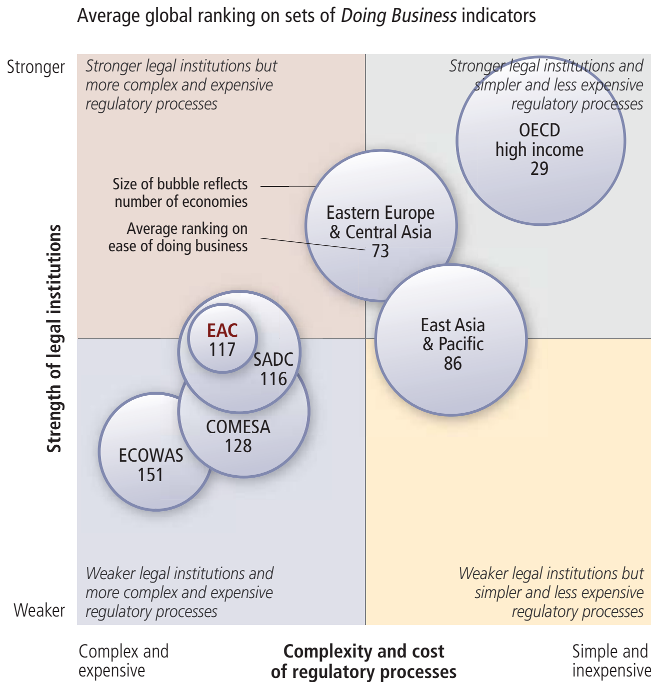
Economies that rank high on the ease of doing business tend to combine efficient regulatory processes with strong legal institutions that protect property and investor rights. Entrepreneurs in the EAC tend to face both weaker legal institutions and more complex and costly regulatory processes compared with global averages and with averages for more developed economies (figure 1.1). Yet EAC economies have stronger legal institutions for enforcing contracts, protecting investors and resolving insolvency on average than the broader region of Sub-Saharan Africa.

Despite the reform efforts of all 5 member economies, the EAC's average ranking on the ease of doing business has remained fairly constant over the past 4 years, at around 117. This is a clear indication that critical obstacles to entrepreneurial activity remain and that economies in other regions have picked up the pace in improving business regulation. But good regulatory practices do exist in the EAC. Indeed, if a hypothetical EAC economy were to adopt the best practices among partner states as measured by all *Doing Business* indicators, it would stand at 26 in the global ranking on the ease of doing business.

Comparison of the performance of different regional blocs on *Doing Business* indicators may reveal unexpected strengths in an area of business regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. One area where the EAC shows strong performance is business start-up. To start a business in the EAC requires only 8 procedures and

FIGURE 1.1 The EAC has more efficient regulatory processes and stronger legal institutions than ECOWAS

Average global ranking on sets of *Doing Business* indicators



Note: Strength of legal institutions refers to the average ranking on getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average ranking on starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. COMESA = Common Market for Eastern and Southern Africa; ECOWAS = Economic Community of West African States; SADC = Southern African Development Community.

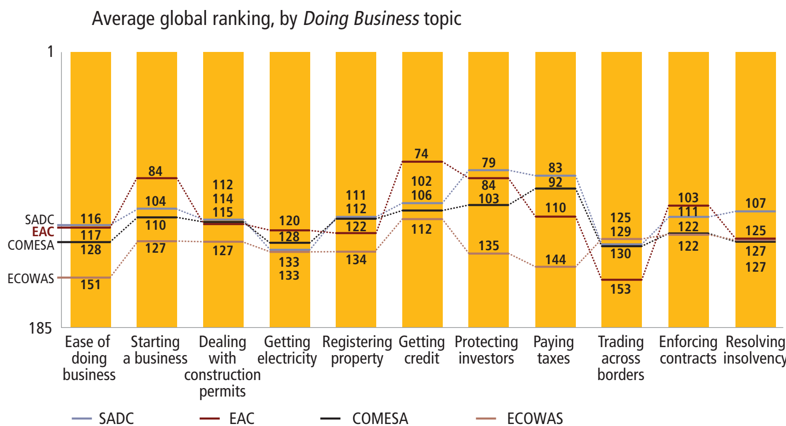
Source: Doing Business database.

20 days on average. The EAC's average ranking on the ease of starting a business is 84, higher than those of other regional blocs in Africa—104 for the Southern African Development Community (SADC), 110 for the Common Market for Eastern and Southern Africa (COMESA) and 127 for the Economic Community of West African States (ECOWAS) (figure 1.2).[2]

Comparison of the performance of individual EAC economies with regional average performance is also revealing. The sometimes substantial differences

FIGURE 1.2 The EAC outperforms other regional blocs in Africa in some areas of regulation

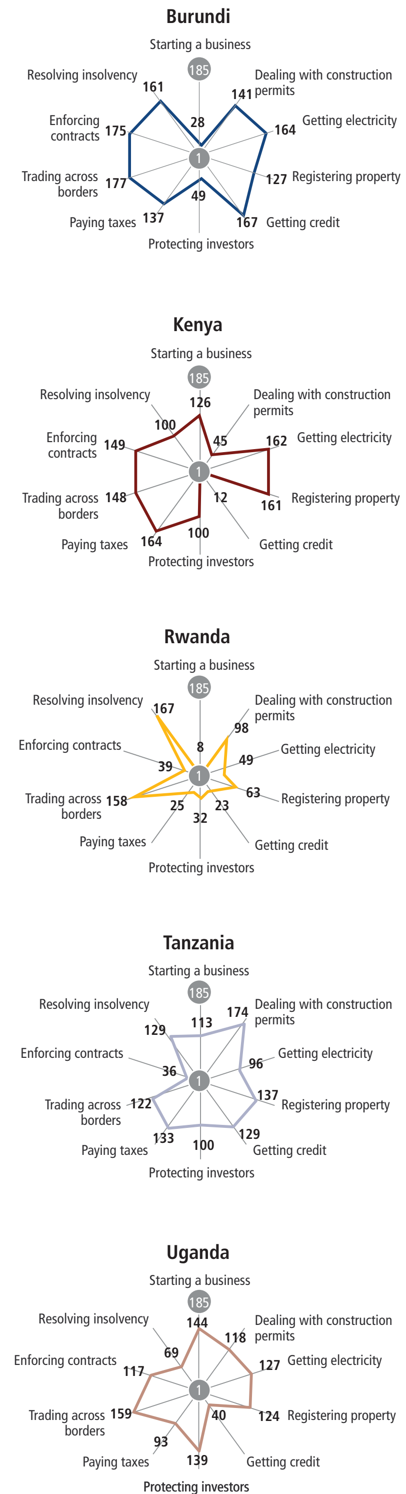
Average global ranking, by *Doing Business* topic



Source: Doing Business database.

FIGURE 1.3 How do EAC economies perform on *Doing Business* indicators?

Global ranking, by *Doing Business* topic



Source: Doing Business database.

between economy rankings and regional average rankings in areas measured by *Doing Business* clearly show that EAC economies remain at different stages of regulatory reform. Take paying taxes, where the EAC's average ranking is 110. While 2 EAC economies have higher rankings—with Rwanda at 25 and Uganda at 93—the rest have much lower rankings, with Tanzania at 133, Burundi at 137 and Kenya at 164 (figure 1.3). The closer an economy's ranking is to the center of the graph, the easier it is to do business.

Another area of stark difference is business start-up. Rwanda still has the most efficient process in the EAC to start a business, with a global ranking of 8, followed by Burundi at 28, Tanzania at 113, Kenya at 126 and Uganda at 144. In general, 3 of 5 EAC economies rank well below the regional average in all areas measured by *Doing Business*.

WHO IN THE EAC NARROWED THE REGULATORY GAP IN 2011/12?

From June 2011 to June 2012, 108 of the 185 economies covered by *Doing Business* (58%) implemented at least 1 institutional or regulatory reform making it easier to do business in the areas measured; 23 undertook reforms in 3 or more areas. The total amounted to 201 reforms making it easier to do business. In the EAC all 5 economies implemented at least 1 institutional or regulatory reform making it easier to do business—9 in total.

EAC economies accounted for 2 of the 11 regulatory reforms implemented in Sub-Saharan Africa to make it easier to start a business. Burundi eliminated 4 requirements: to have company documents notarized, to register the new company with the commercial court, to register it with the department of taxation and to publish information on it in a journal. Tanzania eliminated a requirement for inspections by health, town and land officers as a prerequisite for obtaining a business license.

The improvements in Burundi came thanks to the implementation of a one-stop shop at the Burundi Revenue Authority in 2012. This not only eliminated 4 procedures; it also reduced the time to start a business by 5 days and the cost by 98.4% of income per capita. Burundi moved up 80 places in the global ranking on the ease of starting a business, from 108 to 28.

Starting a business was not the only area in which Burundi made improvements in 2011/12. The country also implemented reforms making it easier to deal with construction permits, register property and trade across borders. As recorded in the global *Doing Business 2013* report, Burundi ranks among the 10 economies improving the most across 3 or more areas measured—and it moved up 13 places in the global ranking on the ease of doing business, from 172 to 159 (table 1.2).

Kenya launched an online platform to facilitate the process of dealing with construction permits in 2011. Architects may now submit and track the status of permit applications online. And paying taxes became easier in Kenya in 2011/12. An online filing system for value added tax introduced by the Kenya Revenue Authority in 2009 has gained in popularity among taxpayers over the past 3 years. In addition, thanks to the increased popularity of tax software, the average annual time for calculating corporate income tax has been reduced by 53 hours.

WHO IN THE EAC HAS NARROWED THE GAP OVER THE LONG RUN?

To complement the ease of doing business ranking, a relative measure, the *Doing Business 2012* report introduced the

TABLE 1.2 The 10 economies improving the most across 3 or more areas measured by *Doing Business* in 2011/12

	Economy	Ease of doing business rank	Reforms making it easier to do business									
			Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
1	Poland	55				√			√		√	√
2	Sri Lanka	81	√			√	√			√		
2	Ukraine	137	√			√			√			
4	Uzbekistan	154	√				√			√		√
5	Burundi	159	√	√		√				√		
6	Costa Rica	110	√	√			√		√			
6	Mongolia	76	√				√	√				
8	Greece	78		√				√				√
9	Serbia	86	√								√	√
10	Kazakhstan	49	√				√					√

Note: Economies are ranked on the number of their 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. 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. The increase in economy rankings is not calculated using the published ranking of last year but by using a comparable ranking for DB2012 that captures the effects of other factors, such as the inclusion this year of 2 new economies in the sample, Barbados and Malta. The choice of the most improved economies is determined by the largest improvement in rankings, among those economies with at least 3 reforms.

Source: Doing Business database.

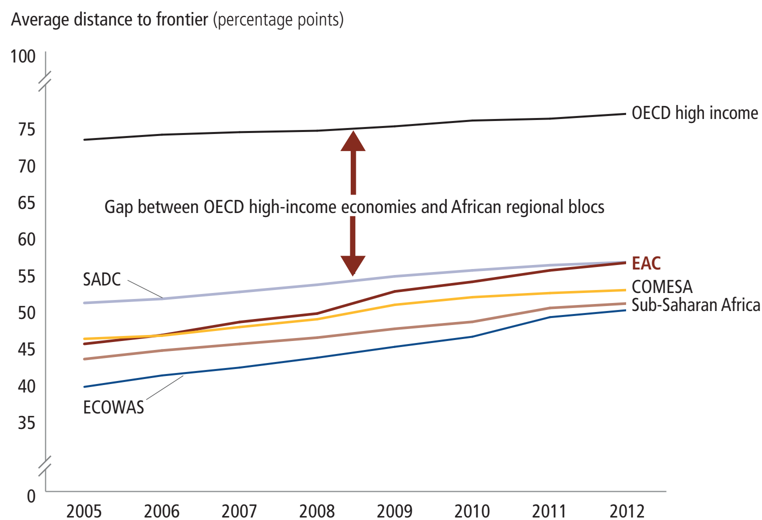
distance to frontier, an absolute measure of business regulatory efficiency. This measure aids in assessing how much the regulatory environment for local entrepreneurs improves in absolute terms over time by showing the distance of each economy to the "frontier," which represents the best performance observed on each of the *Doing Business* indicators across all economies and years included since 2005. The measure is normalized to range between 0 and 100, with 100 representing the frontier. A higher score therefore indicates a more efficient business regulatory system (for a detailed description of the methodology, see the chapter on the ease of doing business and distance to frontier).

Analysis based on the distance to frontier measure shows that the burden of regulation has declined since 2005 in the areas measured by *Doing Business*. On average the 174 economies covered by *Doing Business* since that year are today closer to the frontier in regulatory practice. In 2005 these economies were 46 percentage points from the frontier on average, with the closest economy 10 percentage points away and the furthest one 74 percentage points away. Now these 174 economies are 40 percentage points from the frontier on average, with the closest economy 8 percentage points away and the furthest economy 69 percentage points away. OECD high-income economies are closest to the frontier on average. But other world regions are narrowing the gap—and so are the EAC and other African regional blocs (figure 1.4).

Rwanda, the number 2 improver globally since 2005 and the top improver in the EAC, has reduced the gap with the frontier by almost half—26.5 percentage points. Indeed, Rwanda is approaching the average distance to frontier of the top 10 in the European Union (figure 1.5). To highlight key lessons emerging from the country's sustained efforts, this year's report features a case study of its reform process. But Rwanda is far from alone in Sub-Saharan Africa: of the 50 economies advancing the most toward the frontier since 2005, 17 are in that region. Burundi is among them. The number 16 improver globally and the number 2 in the EAC, Burundi has closed the gap with the frontier by 12.6 percentage points (table 1.3). Among ECOWAS members, 67% are among the 50 economies narrowing the gap the most since 2005.

Worldwide, economies at all income levels are narrowing the gap with the frontier on average—but low-income economies more so than high-income ones. This is an important achievement. Indeed, while business regulatory practices in all lower-income groups are converging toward those in high-income economies on

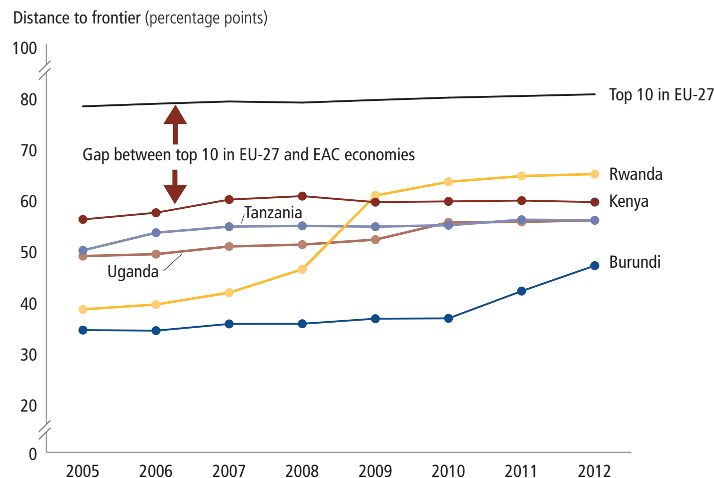
FIGURE 1.4 Doing business is easier today than in 2005 in the EAC and other African regional blocs



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005) and to the regional classifications applying in 2012. Eleven economies were added in subsequent years.

Source: Doing Business database.

FIGURE 1.5 Rwanda has reduced the gap with the frontier by almost half



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The top 10 in EU-27 are the 10 economies closest to the frontier among current members of the European Union.

Source: Doing Business database.

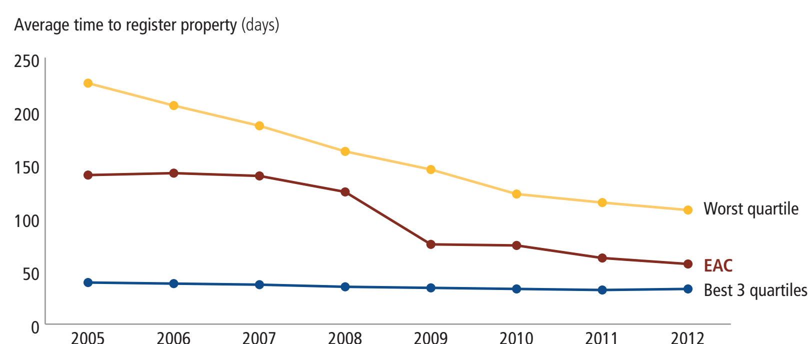
TABLE 1.3 The 50 economies narrowing the distance to frontier the most since 2005

Rank	Economy	Region	Improvement (percentage points)	Rank	Economy	Region	Improvement (percentage points)
1	Georgia	ECA	31.6	26	Saudi Arabia	MENA	10.7
2	Rwanda	SSA	26.5	27	India	SAS	10.6
3	Belarus	ECA	23.5	28	Guatemala	LAC	10.4
4	Burkina Faso	SSA	18.5	29	Madagascar	SSA	10.3
5	Macedonia, FYR	ECA	17.4	30	Morocco	MENA	10.1
6	Egypt, Arab Rep.	MENA	16.3	31	Yemen, Rep.	MENA	10.1
7	Mali	SSA	15.8	32	Peru	LAC	10.1
8	Colombia	LAC	15.3	33	Mozambique	SSA	10.0
9	Tajikistan	ECA	15.2	34	Czech Republic	OECD	9.8
10	Kyrgyz Republic	ECA	14.8	35	Timor-Leste	EAP	9.7
11	Sierra Leone	SSA	14.7	36	Côte d'Ivoire	SSA	9.5
12	China	EAP	14.3	37	Togo	SSA	9.5
13	Azerbaijan	ECA	12.9	38	Slovenia	OECD	9.5
14	Croatia	ECA	12.8	39	Mexico	LAC	9.4
15	Ghana	SSA	12.7	40	Niger	SSA	9.4
16	Burundi	SSA	12.6	41	Nigeria	SSA	9.0
17	Poland	OECD	12.3	42	Portugal	OECD	9.0
18	Guinea-Bissau	SSA	12.2	43	Solomon Islands	EAP	8.9
19	Armenia	ECA	12.2	44	Uruguay	LAC	8.8
20	Ukraine	ECA	12.0	45	Dominican Republic	LAC	8.8
21	Kazakhstan	ECA	11.9	46	Taiwan, China	EAP	8.8
22	Senegal	SSA	11.5	47	São Tomé and Príncipe	SSA	8.7
23	Cambodia	EAP	11.1	48	France	OECD	8.6
24	Angola	SSA	11.0	49	Bosnia and Herzegovina	ECA	8.4
25	Mauritius	SSA	10.9	50	Albania	ECA	8.3

Note: Rankings are based on the absolute difference for each economy between its distance to frontier in 2005 and that in 2012. The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). EAP = East Asia and the Pacific; ECA = Eastern Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; OECD = OECD high income; SAS = South Asia; SSA = Sub-Saharan Africa.

Source: Doing Business database.

FIGURE 1.6 The speed of property registration in the EAC is converging toward the best performances



Note: Economies are ranked in quartiles by performance in 2005 on time to register property. The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

Source: Doing Business database.

average, low-income economies have reduced the gap the most, by 4 percentage points since 2005. Lower-middle-income economies have closed the gap with high-income economies by 3 percentage points and upper-middle-income economies by 2 percentage points. This convergence is far from complete, however.

In improving business regulatory practices since 2005, the EAC has achieved greater convergence in the complexity and cost of regulatory processes than in the strength of legal institutions relevant to business regulation. Of the 74 institutional or regulatory reforms implemented by EAC economies in the past 8 years, the largest numbers were in the areas of starting a business (11), registering property (9) and dealing with construction permits (8). These efforts have led to clear results. In 2005 starting a business in the EAC took 29 days on average; today it takes 20. But the time needed to register property had the biggest reduction, dropping from an average of 140 days in 2005 to 56 days today (figure 1.6).

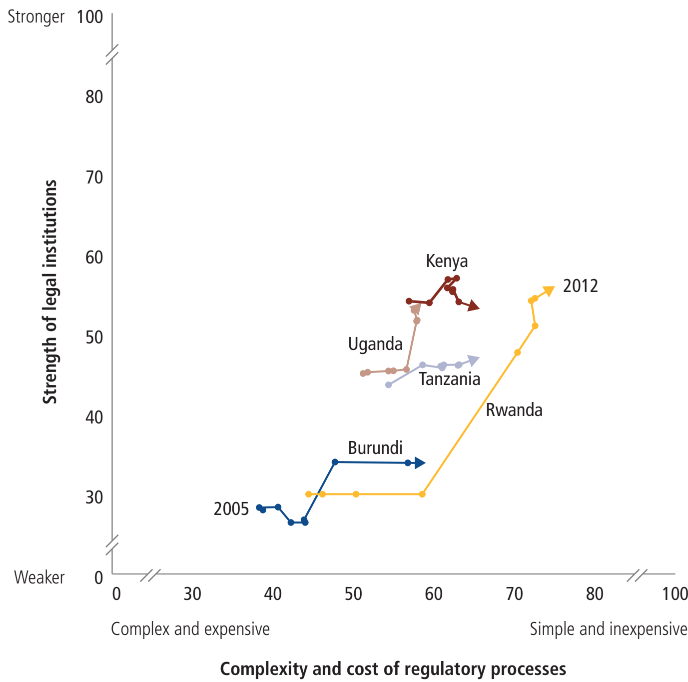
Individual EAC economies have followed different—and varying—regulatory reform paths. In 2005 Rwanda was number 4 in the ranking of EAC economies on the complexity and cost of regulatory processes. From 2005 to 2008 Rwanda focused its regulatory reform efforts on reducing regulatory complexity and cost to improve the business environment. The country has continued to reduce complexity and cost but has focused even more on strengthening legal institutions relevant to business regulation—surpassing Kenya in the process (figure 1.7). Burundi has also been strengthening legal institutions since 2005, though to a lesser degree, and is now focusing more on reducing the complexity and cost of regulatory processes.

HOW ACCESSIBLE IS REGULATORY INFORMATION IN THE EAC?

Beyond the quality of data, transparency and access to data play an important part

FIGURE 1.7 Different EAC economies have followed different regulatory reform paths

Average distance to frontier in sets of *Doing Business* indicators (percentage points)

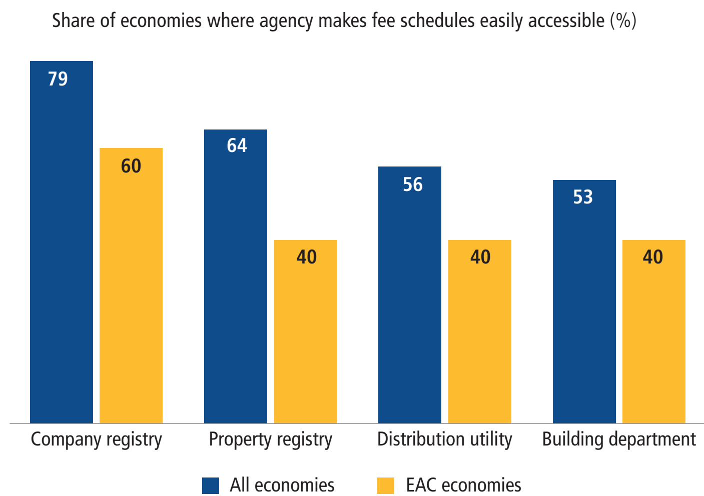


Note: Strength of legal institutions refers to the average distance to frontier in getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average distance to frontier in starting a business, dealing with construction permits, registering property, paying taxes and trading across borders. Each dot refers to a different year, starting in 2005 and ending in 2012. The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier).

Source: Doing Business database.

FIGURE 1.8 Which agencies are more likely to make regulatory information easily accessible—globally and in the EAC?

Share of economies where agency makes fee schedules easily accessible (%)



Note: Fee schedules are considered easily accessible if they can be obtained through the website of the relevant agency or through public notices (brochures or notice boards) available at that agency or a related one, without a need to meet with an official.

Source: Doing Business database.

in effective and efficient management of public resources by the government. Lack of transparency around the decisions made by policy makers and government officials can lead to resource misallocation as funds, rather than being directed toward their most productive ends, are instead captured for private gain. Lack of transparency can also undermine the credibility of those who are perceived as being its beneficiaries and thus sharply limit their ability to gain public support for economic and other reforms.

Access to information also plays an essential part in the ability of businesses to operate efficiently. Company registries, property registries, building departments and power distribution utilities in too many economies make it difficult to access basic information such as fee schedules for their services. In only 25% of economies do all 4 agencies make fee schedules easily accessible through their websites or through brochures or notice boards. These are mostly higher-income economies, but they also include low- and lower-middle-income economies such as Burkina Faso and Tanzania.

Around the world company registries are most likely to make information available online or through brochures or notice boards, and building departments least likely to do so (figure 1.8). In 60% of EAC economies—Rwanda, Tanzania and Uganda—the company registry makes fee schedules for incorporation easily accessible. But in only 40% of EAC economies does the relevant agency make fee schedules for electricity connections, property registration or building permits easily accessible.

On the brighter side, in only 7 of 176 economies worldwide do all 4 types of agencies require that customers meet with an official to obtain fee schedules. Access to fee schedules is most limited in Sub-Saharan Africa and the Middle East and North Africa. Of the 7 economies globally where fee schedules cannot be obtained from any of the agencies surveyed without meeting with an official,

6 are in Sub-Saharan Africa and 1 in the Middle East and North Africa.[3]

Tanzania makes more information easily accessible than such high-income economies as Greece, Kuwait and the United Arab Emirates. Cape Verde and Georgia, 2 lower-middle-income economies, also have higher accessibility levels than some richer economies. There are multiple ways in which governments can share information with the public. Where internet access might be difficult, for example, information can be distributed though brochures and notice boards. Low-income economies such as Burkina Faso and Tanzania show that brochures can be an effective means of creating more transparency around regulatory information.

WHAT CHALLENGES LIE AHEAD?

The EAC has set some ambitious goals. Over the years the region has substantially improved its business regulatory environment. But challenges remain, and only comprehensive, broad-based regional development strategies will help in getting the priorities right and achieving the agreed-on milestones over the coming years.

One challenge is tax harmonization, an important topic in the EAC. The Committee on Fiscal Affairs was set up to harmonize taxes (especially value added and excise taxes) within the region to facilitate the implementation of the common market. Macroeconomic convergence as well as the harmonization of financial sector laws and regulations and of major taxes and tax procedures remains key for the integration process. The Committee on Fiscal Affairs has made significant progress in tax harmonization—for example, achieving homogeneity in the value added tax, the harmonization of excise taxes and the conclusion of a double tax agreement among all 5 economies. Nevertheless, there is room for improvement, especially with respect to the different national tax regimes for small and medium-size businesses.

Another challenge is the implementation of a regional "e-registry"—an electronic registry including both registration and licensing—aimed at harmonizing business registration across the 5 countries. This regional system for sharing company information will support the provisions of the EAC common market protocol on right of establishment of companies—and will substantially improve the administration of business entry even for domestic firms, which will now have access to digitized platforms for business registration. Kenya, Rwanda and Tanzania are already implementing online business registration. But Uganda's online registry is still in the initial stages, and Burundi has yet to digitize its records. And a business registration certificate from one EAC country is not yet accepted in another.

In addition, with the implementation of the common market there was agreement that nontariff barriers would be gradually removed. But progress has been limited. There are still substantial delays in the issuance of certificates of origin, regulations are not yet fully harmonized, and there is no consistent application of the agreed-on standards.[4]

Despite the remaining challenges, the EAC has great potential. It has been among the fastest growing regional blocs in Africa in the past decade[5] and has already made much progress in harmonizing national policies in different areas. Many regulatory reforms have been implemented, and many good regulatory practices can be found in EAC economies, especially in the areas of starting a business, getting credit and protecting investors. Indeed, thanks largely to the EAC, Sub-Saharan Africa has had some of the most comprehensive reforms to strengthen minority investor protections. And among African regional blocs, an EAC economy tops the ranking on each of the 3 aspects of investor protections measured by *Doing Business*. The EAC could serve as a model for other regional blocs in Africa, especially with respect to the dynamic and ambitious discussions on the business environment and the consequent actions taken.

NOTES

1. EAC 2011.
2. This report covers the following economies in these 4 African regional blocs: In the EAC, Burundi, Kenya, Rwanda, Tanzania and Uganda. In COMESA, Burundi, the Comoros, the Democratic Republic of Congo, Djibouti, the Arab Republic of Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, the Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. In ECOWAS, Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. And in SADC, Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
3. These economies are Botswana, the Republic of Congo, Equatorial Guinea, Eritrea, Gabon and Mauritania in Sub-Saharan Africa and Iraq in the Middle East and North Africa.
4. McAuliffe, Saxena and Yabara 2012.
5. McAuliffe, Saxena and Yabara 2012.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

About *Doing Business*: measuring for impact

The private sector provides an estimated 90% of jobs in developing economies.[1] Where government policies support a dynamic business environment—with firms making investments, creating jobs and increasing productivity—all people have greater opportunities. A growing body of evidence suggests that policy makers seeking to strengthen the private sector need to pay attention not only to macroeconomic factors but also to the quality of laws, regulations and institutional arrangements that shape daily economic life.[2]

Doing Business 2013 is the 10th in a series of annual reports. When the first report was produced, in 2003, there were few globally available and regularly updated indicators for monitoring such microeconomic issues as business regulations affecting local firms. Earlier efforts from the 1980s drew on perceptions data, but these expert or business surveys focused on broad aspects of the business environment and often captured the experiences of businesses. These surveys also lacked the specificity and cross-country comparability that *Doing Business* provides—by focusing on well-defined transactions, laws and institutions rather than generic, perceptions-based questions on the business environment.

Doing Business seeks to measure business regulations for domestic firms through an objective lens. The project looks primarily at small and medium-size companies in the largest business city. Based on standardized case studies, it presents quantitative indicators on the regulations that apply to firms at different stages of their life cycle. The results for each economy can be compared with those for 184 other economies and over time.

Over the years the choice of indicators for *Doing Business* has been guided by a rich pool of data collected through the World Bank Enterprise Surveys. These data highlight the main obstacles to business activity as reported by entrepreneurs in well over 100 economies. Among the factors that the surveys have identified as important to businesses have been taxes (tax administration as well as tax rates) and electricity—inspiring the design of the paying taxes and getting electricity indicators. In addition, the design of the *Doing Business* indicators has drawn on theoretical insights gleaned from extensive research literature.[3] The *Doing Business* methodology makes it possible to update the indicators in a relatively inexpensive and replicable way.

The *Doing Business* methodology is also responsive to the needs of policy makers. 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 regulatory reform. And its quantitative measures of business regulation enable research on how specific regulations affect firm behavior and economic outcomes.

The first *Doing Business* report covered 5 topics and 133 economies. This year's report covers 11 topics and 185 economies.

Ten topics are included in the aggregate ranking on the ease of doing business, and 9 in the distance to frontier measure.[4] The project has benefited from feedback from governments, academics, practitioners and reviewers.[5] The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

WHAT *DOING BUSINESS* COVERS

Doing Business captures several important dimensions of the regulatory environment as they apply to local firms. It 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. *Doing Business* also looks at regulations on employing workers. 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 185 economies are available on the *Doing Business* website.[6]

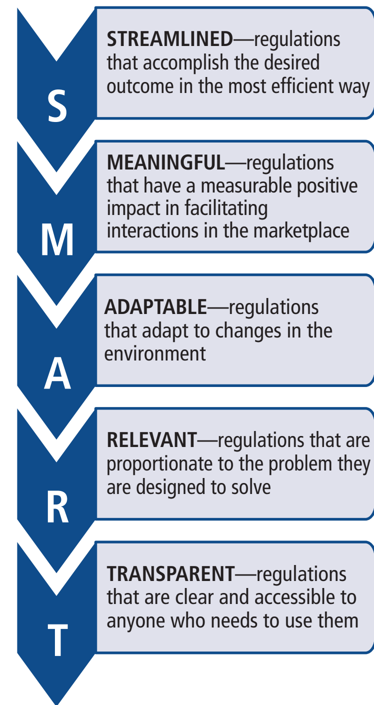
The foundation of *Doing Business* is the notion that economic activity, particularly private sector development, benefits from clear and coherent rules: Rules that set out and clarify property rights and facilitate the resolution of disputes. And rules that enhance the predictability of economic interactions and provide contractual partners with essential protections against arbitrariness and abuse. Where such rules are reasonably efficient in design, are transparent and accessible to those for whom they are intended and can be implemented at a reasonable cost, they are much more effective in shaping the incentives of economic agents in ways that promote growth and development. The quality of the rules also has a crucial bearing on how societies distribute the benefits and bear the costs of development strategies and policies.

Consistent with the view that rules matter, some *Doing Business* indicators give a higher score for more regulation and better-functioning institutions (such as courts or credit bureaus). In the area of protecting investors, for example, higher scores are given for stricter disclosure requirements for related-party transactions. Higher scores are also given for a simplified way of applying regulation that keeps compliance costs for firms low—such as by allowing firms to comply with business start-up formalities in a one-stop shop or through a single online portal. Finally, *Doing Business* scores reward economies that apply a risk-based approach to regulation as a way to address social and environmental concerns—such as by imposing a greater regulatory burden on activities that pose a high risk to the population and a lesser one on lower-risk activities.

Thus the economies that rank highest on the ease of doing business are not those where there is no regulation—but those where governments have managed to create rules that facilitate interactions in the marketplace without needlessly hindering the development of the private sector. In essence, *Doing Business* is about smart business regulations, not necessarily fewer regulations (figure 2.1).

In constructing the indicators the *Doing Business* project uses 2 types of data. The first come from readings of laws and regulations in each economy. The *Doing Business* team, in collaboration with local expert respondents, examines the company law to find the disclosure requirements for related-party transactions. It reads the civil law to find the number of procedures necessary to resolve a commercial sale dispute before local courts. It reviews the labor code to find data on a range of issues concerning employer-employee relations. And it plumbs other legal instruments for other key pieces of data used in the indicators, several of which have a large legal dimension.

FIGURE 2.1 What are SMART business regulations as defined by *Doing Business*?



Indeed, about three-quarters of the data used in *Doing Business* are of this factual type, reducing the need to have a larger sample size of experts in order to improve accuracy. The local expert respondents play a vital role in corroborating the *Doing Business* team's understanding and interpretation of rules and laws.

Data of the second type serve as inputs into indicators on the complexity and cost of regulatory processes. These indicators measure the efficiency in achieving a regulatory goal, such as the number of procedures to obtain a building permit or the time taken to grant legal identity to a business. In this group of indicators cost estimates are recorded from official fee schedules where applicable. Time estimates often involve an element of judgment by respondents who routinely administer the relevant regulations or undertake the relevant transactions.[7] These experts have several rounds of interaction with the *Doing Business* team, involving conference calls, written correspondence and visits by the team until

there is convergence on the final answer. To construct the time indicators, a regulatory process such as starting a business is broken down into clearly defined steps and procedures (for more details, see the discussion on methodology in this chapter). Here *Doing Business* builds on Hernando de Soto's pioneering work in applying the time-and-motion approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.[8]

TABLE 2.1 *Doing Business*—benchmarking 11 areas of business regulation

Complexity and cost of regulatory processes	
Starting a business	Procedures, time, cost and paid-in minimum capital requirement
Dealing with construction permits	Procedures, time and cost
Getting electricity	Procedures, time and cost
Registering property	Procedures, time and cost
Paying taxes	Payments, time and total tax rate
Trading across borders	Documents, time and cost
Strength of legal institutions	
Getting credit	Movable collateral laws and credit information systems
Protecting investors	Disclosure and liability in related-party transactions
Enforcing contracts	Procedures, time and cost to resolve a commercial dispute
Resolving insolvency	Time, cost, outcome and recovery rate
Employing workers[a]	Flexibility in the regulation of employment

a. The employing workers indicators are not included in this year's ranking on the ease of doing business nor in the calculation of any data on the strength of legal institutions included in figures in the report.

WHAT *DOING BUSINESS* DOES NOT COVER

The *Doing Business* data have key limitations that should be kept in mind by those who use them.

Limited in scope

The *Doing Business* indicators are limited in scope. In particular:

- *Doing Business* does not measure the full range of factors, policies and institutions that affect the quality of the business environment in an economy or its national competitiveness. It does not, for example, capture aspects of security, the prevalence of bribery and corruption, market size, macroeconomic stability (including whether the government manages its public finances in a sustainable way), the state of the financial system or the level of training and skills of the labor force.
- Even within the relatively small set of indicators included in *Doing Business*, the focus is deliberately narrow. The getting electricity indicators, for example, capture the procedures, time and cost involved for a business to obtain a permanent electricity connection to supply a standardized warehouse. Through these indicators *Doing Business* thus provides a narrow perspective on the range of infrastructure challenges that firms face, particularly in the developing world. It does not address the extent to which inadequate roads, rail, ports and communications may add to firms' costs and undermine competitiveness. *Doing Business* covers 11 areas of a company's life cycle, through 11 specific sets of indicators (table 2.1). Similar to the indicators on getting electricity, those on starting a business or protecting investors do not cover all aspects of commercial legislation. And those on employing workers do not cover all areas of labor regulation; for example, they do not measure regulations addressing health and safety issues at work or the right of collective bargaining.
- *Doing Business* 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 in isolation is a cost to the business. The indicators do not measure, nor are they intended to measure, the benefits of 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.

Limited to standardized case scenarios

A key consideration for the *Doing Business* indicators is that they should ensure comparability of the data across a global set of economies. The indicators are therefore developed around standardized case scenarios with specific assumptions. One such assumption is the location of a notional business in the largest business city of the economy. The reality is that business regulations and their enforcement very often differ within a country, particularly in federal states and large economies. But gathering data for every relevant jurisdiction in each of the 185 economies covered by *Doing Business* would be far too costly.

Doing Business recognizes the limitations of the standardized case scenarios and assumptions. But while such assumptions come at the expense of generality, they also help ensure the comparability of data. For this reason it is common to see limiting assumptions of this kind in economic indicators. Inflation statistics, for example, are often based on prices of a set of consumer goods in a few urban areas, since collecting nationally representative price data at high frequencies may be prohibitively costly in many countries. To capture regional variation in the business environment within economies, *Doing Business* has complemented its global indicators with subnational studies in some economies where resources and interest have come together (box 2.1).

Some *Doing Business* topics include complex and highly differentiated areas. Here the standardized cases and assumptions are carefully considered and defined. For example, the standardized case scenario usually involves a limited liability company

or its legal equivalent. The considerations in defining this assumption are twofold. First, private limited liability companies are, empirically, the most prevalent business form in many economies around the world. Second, this choice reflects the focus of *Doing Business* on expanding opportunities for entrepreneurship: investors are encouraged to venture into business when potential losses are limited to their capital participation.

Limited to the formal sector

The *Doing Business* indicators assume that entrepreneurs have knowledge of and comply with applicable regulations. In practice, entrepreneurs may not know what needs to be done or how to comply and may lose considerable time in trying to find out. Or they may deliberately avoid compliance altogether—by not registering for social security, for example. Where regulation is particularly onerous, levels of informality tend to be higher (figure 2.2).

Informality comes at a cost. Compared with their formal sector counterparts, firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and these workers remain outside the protections of labor law.[9] All this may be even more so for female-owned businesses, according to country-specific research.[10] 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 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.[11]

WHY THIS FOCUS?

Why does *Doing Business* focus on the regulatory environment for small and medium-size enterprises? These enterprises are key drivers of competition, growth and job creation, particularly in developing economies. But in these economies up to 65% of economic activity takes place in the informal sector, often because of excessive bureaucracy and regulation—and in the informal sector firms lack access to the opportunities and protections that the law provides. Even firms operating in the formal sector might not have equal access to these opportunities and protections. Where regulation is burdensome and competition limited, success tends to depend on whom one knows. But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for aspiring entrepreneurs to compete, innovate and grow.

BOX 2.1 COMPARING REGULATIONS AT THE LOCAL LEVEL: SUBNATIONAL *DOING BUSINESS* REPORTS

Subnational *Doing Business* reports expand the indicators beyond the largest business city in an economy. They capture local differences in regulations or in the implementation of national regulations across cities within an economy (as in Colombia) or region (as in South East Europe). Projects are undertaken at the request of central governments, which often contribute financing, as in Mexico. In some cases local governments also provide funding, as in the Russian Federation.

Subnational indicators provide governments with standard measures, based on laws and regulations, that allow objective comparisons both domestically and internationally. As a diagnostic tool, they identify bottlenecks as well as highlight good practices that are easily replicable in other cities sharing a similar legal framework.

Governments take ownership of a subnational project by participating in all steps of its design and implementation—choosing the cities to be benchmarked, the indicators that can capture local differences and the frequency of benchmarking. All levels of government are involved—national, regional and municipal.

Subnational projects create a space for discussing regulatory reform and provide opportunities for governments and agencies to learn from one another, through the report and through peer-to-peer learning workshops. Even after the report is launched, knowledge sharing continues. In Mexico 28 of 32 states hold regular exchanges.

Repeated benchmarking creates healthy competition between cities to improve their regulatory environment. The dissemination of the results reinforces this process and gives cities an opportunity to tell their stories. Fifteen economies have requested 2 or more rounds of benchmarking since 2005 (including Colombia, Indonesia and Nigeria), and many have expanded the geographic coverage to more cities (including Russia). In Mexico each successive round has captured an increase in the number of states improving their regulatory environment in each of the 4 indicator sets included—reaching 100% of states in 2011.

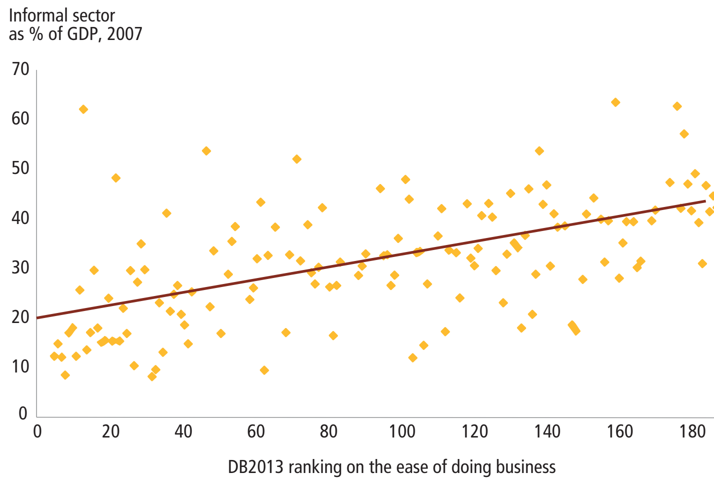
Since 2005 subnational reports have covered 335 cities in 54 economies, including Brazil, China, the Arab Republic of Egypt, India, Kenya, Morocco, Pakistan and the Philippines.[1]

This year studies were updated in Indonesia, Kenya, Mexico, Russia and the United Arab Emirates. Studies are ongoing in Hargeisa (Somaliland) as well as in 23 cities and 4 ports in Colombia, 15 cities and 3 ports in Egypt and 13 cities and 7 ports in Italy. In addition, 3 regional reports were published:

- *Doing Business in OHADA*, comparing business regulations in 16 member states of the Organization for the Harmonization of Business Law in Africa (Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, the Comoros, the Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, Senegal and Togo).
- *Doing Business in the East African Community*, covering 5 economies (Burundi, Kenya, Rwanda, Tanzania and Uganda).
- *Doing Business in the Arab World*, covering 20 economies (Algeria, Bahrain, the Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, the Syrian Arab Republic, Tunisia, the United Arab Emirates, West Bank and Gaza, and the Republic of Yemen).

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

FIGURE 2.2 Higher levels of informality are associated with lower *Doing Business* rankings



Note: The correlation between the 2 variables is 0.57. Relationships are significant at the 5% level after controlling for income per capita. The data sample includes 143 economies.
Source: Doing Business database; Schneider, Buehn and Montenegro 2010.

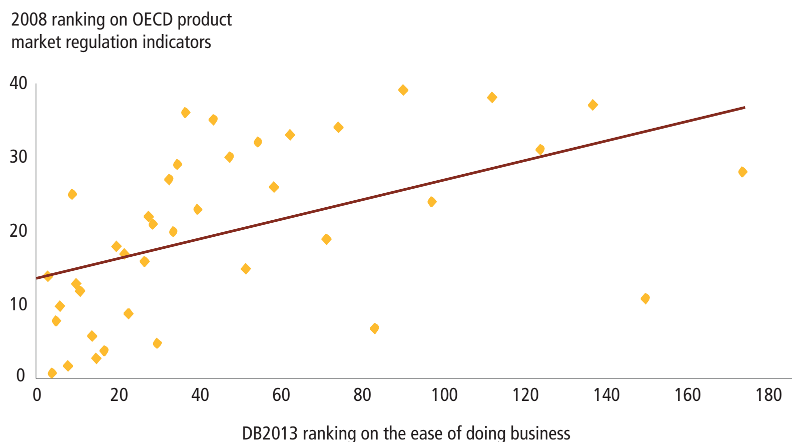
Do the focus areas of *Doing Business* matter for development and poverty reduction? The World Bank study *Voices of the Poor* asked 60,000 poor people around the world how they thought they might escape poverty.[12] The answers were unequivocal: women and men alike pin their hopes, above all, on income from their own business or wages earned in employment. Enabling growth—and ensuring that all people, regardless of income level, can participate in its benefits—requires an environment where new entrants with drive and good ideas can get started in business and where good firms can invest and grow, thereby generating more jobs. In this sense *Doing Business* values good rules as a key to social inclusion.

In effect, *Doing Business* functions as a barometer of the regulatory environment for domestic businesses. To use a medical analogy, *Doing Business* is similar to a cholesterol test. A cholesterol test does not tell us everything about our health. But our cholesterol level is easier to measure than our overall health, and the test provides us with important information, warning us when we need to adjust our behavior. Similarly, *Doing Business* does not tell us everything we need to know about the regulatory environment for domestic businesses. But its indicators cover aspects that are more easily measured than the entire regulatory environment, and they provide important information about where change is needed. What type of change or regulatory reform is right, however, can vary substantially across economies.

To test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness, one approach is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. The indicator set 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 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.[13] These indicators—for the 39 countries that are covered, several of them large emerging markets—are correlated with the *Doing Business* rankings (the correlation here is 0.53) (figure 2.3).

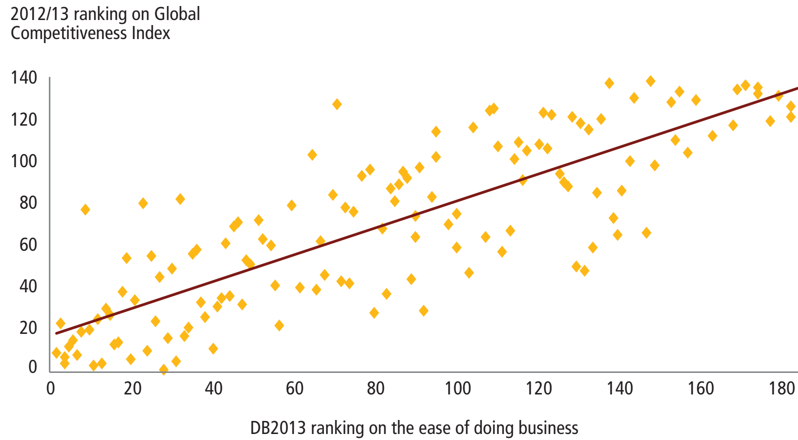
There is a high correlation (0.83) between the *Doing Business* rankings and the rankings on the World Economic Forum's Global Competitiveness Index, a much broader measure capturing such factors as macroeconomic stability, aspects of human capital, the soundness of public institutions and the sophistication of the business community (figure 2.4).[14] Self-reported experiences with business regulations, such as those captured by the

FIGURE 2.3 A significant correlation between *Doing Business* rankings and OECD rankings on product market regulation



Note: Relationships are significant at the 5% level after controlling for income per capita.
Source: Doing Business database; OECD data.

FIGURE 2.4 A strong correlation between *Doing Business* rankings and World Economic Forum rankings on global competitiveness



Note: Relationships are significant at the 5% level after controlling for income per capita.
Source: Doing Business database; WEF 2012.

Global Competitiveness Index, often vary much more within economies (across respondents in the same economy) than across economies.[15] A high correlation such as this one can therefore coexist with significant differences within economies.

DOING BUSINESS AS A BENCHMARKING EXERCISE

By capturing key dimensions of regulatory regimes, *Doing Business* provides a rich opportunity for benchmarking. Such a benchmarking exercise is necessarily incomplete, just as the *Doing Business* data are limited in scope. It is useful when it aids judgment, but not when it supplants judgment.

Since 2006 *Doing Business* has sought to provide 2 perspectives 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, by topic and also in the aggregate. Judgment is required in interpreting 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 may add to or improve on regulations that protect investor and property rights. Many also tend to streamline existing regulations and prune outdated ones. One finding of *Doing Business* is that dynamic and growing economies continually reform and update their business regulations and the implementation of those regulations, 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 an absolute sense matters far more than their economy's ranking relative to other economies. To aid in assessing the absolute level of regulatory performance and how it improves over time, this year's report again presents the distance to frontier measure. This measure shows the distance of each economy to the "frontier," which represents the highest performance observed on each of the indicators across all economies included in *Doing Business* since 2003.

At any point in time the distance to frontier measure shows how far an economy is from the highest performance. And comparing an economy's score at 2 points in time allows users to assess the absolute change over time in the economy's regulatory environment as measured by *Doing Business*, rather than simply the change in the economy's performance relative to others. In this way the distance to frontier measure complements the yearly ease of doing business ranking, which compares economies with one another at a point in time.

Each topic covered by *Doing Business* relates to a different aspect of the business regulatory environment. The rankings of each economy vary, sometimes significantly, across topics. 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 and figure 1.3 in the executive summary). Guatemala, for example, stands at 93 in the overall ease of doing business ranking. Its ranking is 12 on the ease of getting credit, 20 on the ease of registering property and 34 on the ease of getting electricity. At the same time, it has a ranking of 124 on the ease of paying taxes, 158 on the strength of investor protections and 172 on the ease of starting a business.

WHAT 10 YEARS OF DATA SHOW

A growing body of empirical research shows that particular areas of business regulation, and particular regulatory reforms in those areas, are associated with vital social and economic outcomes—including firm creation, employment, formality, international trade, access to financial services and the survival of struggling but viable firms.[16] This research has been made possible by a decade of *Doing Business* data combined with other data sets. Some 1,245 research articles published in peer-reviewed academic journals, and about 4,071 working papers available through Google Scholar, refer to the *Doing Business* data.[17]

Determining the empirical impact of regulatory reforms is not easy. One possible approach is cross-country correlation analysis. But with this method it is difficult to isolate the effect of a particular regulatory reform because of all the other factors that may vary across economies and that may not have been taken into account in the analysis. How then do researchers determine whether social or economic outcomes would have been different without a specific regulatory reform? A growing number of studies have been able to investigate such questions by analyzing regulatory changes within a country over time or by using panel estimations. Others have focused on regulatory reforms relevant only for particular firms or industries within a country. The broader literature, using a range of different empirical strategies, has produced a number of interesting findings, including those described below.

Smarter business regulation promotes economic growth. Economies with better business regulation grow faster. One study found that for economies in the best quartile of business regulation as measured by *Doing Business*, the difference in business regulation with those in the worst quartile is associated with a 2.3 percentage point increase in annual growth rates.[18] Another found that regulatory reforms making it easier to do business in relatively low-income economies are associated with an increase in growth rates of 0.4 percentage point in the following year.[19]

Simpler business registration promotes greater entrepreneurship and firm productivity. Economies that have efficient business registration also tend to have a higher entry rate by new firms and greater business density.[20] Faster business registration is associated with more businesses registering in industries with the strongest potential for growth, such as those experiencing expansionary global demand or technology shifts.[21] And easier start-up is associated with more investment in industries often sheltered from competition, including transport, utilities and communications.[22] Empirical evidence also suggests that more efficient business entry regulations improve firm productivity and macroeconomic performance.[23]

Lower costs for business registration improve formal employment opportunities. Because new firms are often set up by high-skilled workers, lowering entry costs often leads to higher take-up rates for education, more jobs for high-skilled workers and higher average productivity.[24] And by increasing formal registration, it can also boost legal certainty—because the newly formal firms are now covered by the legal system, benefiting themselves as well as their customers and suppliers.[25]

Country-specific studies confirm that simplifying entry regulations can promote the establishment of new formal sector firms:

- In Colombia the introduction of one-stop shops for business registration in different cities across the country was followed by a 5.2% increase in new firm registrations.[26]
- In Mexico a study analyzing the effects of a program simplifying municipal licensing found that it led to a 5% increase in the number of registered businesses and a 2.2% increase in employment. Moreover, competition from new entrants lowered prices by 0.6% and the income of incumbent businesses by 3.2%.[27] A second study found that the program was more effective in municipalities with less corruption and cheaper additional registration procedures.[28] Yet another found that simpler licensing may result in both more wage workers and more formal enterprises, depending on the personal characteristics of informal business owners: those with characteristics similar to wage workers were more likely to become wage workers, while those with characteristics similar to entrepreneurs in the formal sector were more likely to become formal business owners.[29]
- In India a study found that the progressive elimination of the "license raj"—the system regulating entry and production in industry—led to a 6% increase in new firm registrations.[30] Another study found that simpler entry regulation and labor market flexibility were complementary: in Indian states with more flexible employment regulations informal firms decreased by 25% more, and real output grew by 18% more, than in states with less flexible regulations.[31] A third study found that the licensing reform resulted in an aggregate productivity increase of 22% among the firms affected.[32]
- In Portugal the introduction of a one-stop shop for businesses led to a 17% increase in new firm registrations. The reform favored mostly small-scale entrepreneurs with low levels of education operating in low-tech sectors such as agriculture, construction and retail.[33]

An effective regulatory environment improves trade performance. Strengthening the institutional environment for trade—such as by increasing customs efficiency—can boost trade volumes.[34] In Sub-Saharan Africa an inefficient trade environment was found to be among the main factors in poor trade performance.[35] One study found that a 1-day reduction in inland travel times leads to a 7% increase in exports.[36] Another found that among the factors that improve trade performance are access to finance, the quality of infrastructure and the government's ability to formulate and implement sound policies and regulations that promote private sector development.[37] The same study showed that the more constrained economies are in their access to foreign markets, the more they can benefit from improvements in the investment climate. Yet another study found that improvements in transport efficiency and the business environment have a greater marginal effect on exports in lower-income economies than in high-income ones.[38] One study even suggests that behind-the-border measures to improve logistics performance and facilitate trade

may have a larger effect on trade, especially on exports, than tariff reduction would.[39]

Other areas of regulation matter for trade performance. Economies with good contract enforcement tend to produce and export more customized products than those with poor contract enforcement.[40] Since production of high-quality output is a precondition for firms to become exporters, reforms that lower the cost of high-quality production increase the positive effect of trade reforms.[41] Moreover, reforms removing barriers to trade need to be accompanied by other reforms, such as those making labor markets more flexible, to increase productivity and growth.[42]

Sound financial market infrastructure—including courts, creditor and insolvency laws, and credit and collateral registries—improves access to credit. Businesses worldwide identify access to credit as one of the main obstacles they face.[43] Good credit information systems and strong collateral laws help overcome this obstacle. An analysis of reforms improving collateral law in 12 transition economies concludes that they had a positive effect on the volume of bank lending.[44] Greater information sharing through credit bureaus is associated with higher bank profitability and lower bank risk. And stronger creditor rights and the existence of public or private credit registries are associated with a higher ratio of private credit to GDP.[45]

Country-specific studies confirm that efficient debt recovery and exit processes are key in determining credit conditions and in ensuring that less productive firms are either restructured or exit the market:

- In India the establishment of specialized debt recovery tribunals had a range of positive effects, including speeding up the resolution of debt recovery claims, allowing lenders to seize more collateral on defaulting loans, increasing the probability of repayment by 28% and reducing interest rates on loans by 1–2 percentage points.[46]
- Brazil's extensive bankruptcy reform in 2005 was associated with a 22% reduction in the cost of debt and a 39% increase in the aggregate level of credit.[47]
- Introducing streamlined mechanisms for reorganization has been shown to reduce the number of liquidations because it encourages more viable firms to opt for reorganization. Indeed, it reduced the number of liquidations by 14% in Colombia and by 8.4% in Belgium.[48] One important feature of Colombia's new system is that it better distinguishes between viable and nonviable firms, making it more likely that financially distressed but fundamentally viable firms will survive.
- Improving investor protections, developing financial markets and promoting more active markets for corporate control reduce the persistence of family-controlled firms over time, expanding opportunity for firms with more diversified capital structures.[49]

HOW GOVERNMENTS USE *DOING BUSINESS*

Doing Business offers policy makers a benchmarking tool useful in stimulating policy debate, both by exposing potential challenges and by identifying good practices and lessons learned. The initial debate on the results highlighted by the data typically turns into a deeper discussion on the relevance of the data to the economy and on areas where business regulation reform is needed, including areas well beyond those measured by *Doing Business*.

Reform-minded governments seeking success stories in business regulation refer to *Doing Business* for examples (box 2.2). Saudi Arabia, for example, used the company law of France as a model for revising its own law. Many African governments look to Mauritius—the region's strongest performer on *Doing Business* indicators—as a source of good practices to inspire regulatory reforms in their own countries. Governments shared knowledge of business regulations before the *Doing Business* project began. But *Doing Business* made it easier by creating a common language comparing business regulations around the world.

Over the past 10 years governments worldwide have been actively improving the regulatory environment for domestic companies. Most reforms relating to *Doing Business* topics have been nested in broader reform programs aimed at enhancing economic competitiveness, as in Colombia, Kenya and Liberia. In structuring reform programs for the business environment, governments use multiple data sources and indicators. This recognizes the reality that the *Doing Business* data on their own provide an incomplete roadmap for successful business regulation reforms.[50] It also reflects the need to respond to many stakeholders and interest groups, all of whom bring important issues and concerns to the reform debate.

When the World Bank Group engages with governments on the subject of improving the investment climate, the dialogue aims to encourage the critical use of the *Doing Business* data—to sharpen judgment and promote broad-based reforms that enhance the investment climate rather than a narrow focus on improving the *Doing Business* rankings. The World 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. The open data initiative has made data for many such indicators conveniently available to the public at http://data.worldbank.org.

METHODOLOGY AND DATA

The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. The data cover 185 economies—including small economies and some of the poorest economies, for which little or no data are available in other data sets. (For a detailed explanation of the *Doing Business* methodology, see the data notes.)

BOX 2.2 HOW ECONOMIES HAVE USED *DOING BUSINESS* IN REGULATORY REFORM PROGRAMS

To ensure the coordination of efforts across agencies, such economies as Brunei Darussalam, Colombia and Rwanda have formed regulatory reform committees, reporting directly to the president. These committees use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 35 other economies have formed such committees at the interministerial level. In East and South Asia they include India; Korea; Malaysia; the Philippines; Taiwan, China; and Vietnam. In the Middle East and North Africa: Morocco, Saudi Arabia and the United Arab Emirates. In Eastern Europe and Central Asia: Georgia, Kazakhstan, Kosovo, the Kyrgyz Republic, the former Yugoslav Republic of Macedonia, Moldova, Montenegro and Tajikistan. In Sub-Saharan Africa: Botswana, Burundi, the Central African Republic, the Comoros, the Democratic Republic of Congo, the Republic of Congo, Côte d'Ivoire, Kenya, Liberia, Malawi, Mali, Nigeria, Sierra Leone, Togo and Zambia. And in Latin America: Chile, the Dominican Republic, Guatemala, Mexico, Panama and Peru. Since 2003 governments have reported more than 350 regulatory reforms that have been informed by *Doing Business*.[1]

Many economies share knowledge on the regulatory reform process related to the areas measured in *Doing Business*. Among the most common venues for this knowledge sharing are peer-to-peer learning events—workshops where officials from different governments across a region or even across the globe meet to discuss the challenges of regulatory reform and share their experiences. In recent years such events have taken place in Colombia (for Latin America and the Caribbean), in Rwanda (for Sub-Saharan Africa), in Georgia (for Eastern Europe and Central Asia), in Malaysia (for East Asia and the Pacific) and in Morocco (for the Middle East and North Africa). In addition, regional organizations such as APEC, featured in a case study in this year's global report, use the *Doing Business* data as a tool and common language to set an agenda for business regulation reform.

1. These are reforms for which *Doing Business* is aware that information provided by the *Doing Business* report was used in shaping the reform agenda.

Doing Business respondents

Over the past 10 years more than 18,000 professionals in 185 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's global report draws on the inputs of more than 9,600 professionals.[51] Table 14.2 in the data notes lists the number of respondents for each indicator set. The *Doing Business* website shows the number of respondents for each economy and each indicator. Respondents are professionals 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, engineers and other professionals answer the surveys related to trading across borders, taxes and construction permits. Certain public officials (such as registrars from the commercial or property registry) also provide information that is incorporated into the indicators.

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 a business or registering a building, 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. When time estimates differ, further interactions with respondents are pursued to converge on one estimate that reflects the majority of applicable cases.

The *Doing Business* approach to data collection contrasts with that of firm surveys, which capture 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 company that may undergo the process once.

Development of the methodology

The methodology for calculating each indicator is transparent, objective and easily replicable. Leading academics collaborate in the development of the indicators, ensuring academic rigor. Eight of the background papers underlying the indicators have been published in leading economic journals.[52]

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings and the distance to frontier measure. Other approaches were explored, including using principal components and unobserved components.[53] They turn out to

yield results nearly identical to those of simple averaging. In the absence of a strong theoretical framework that assigns different weights to the topics covered for the 185 economies by *Doing Business*, the simplest method is used: weighting all topics equally and, within each topic, giving equal weight to each of the topic components (for more details, see the chapter on the ease of doing business and distance to frontier).[54]

Improvements to the methodology

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

Another change related to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. *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 relevant barrier to entry, the paid-in minimum capital has been used rather than the required minimum capital.

This year's report includes an update in the ranking methodology for paying taxes. Last year's report introduced a threshold for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. This change came as a result of consultations on the survey instrument and methodology for the paying taxes indicators with external stakeholders, including participants in the International Tax Dialogue. All economies with a total tax rate below the threshold (which is calculated and adjusted on a yearly basis) now receive the same ranking on the total tax rate indicator. This year's threshold is set at the 15th percentile of the total tax rate distribution, which translates into a threshold for the total tax rate of 25.7%.

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 revisions in income per capita data (that is, when the income per capita data are revised by the original data sources, *Doing Business* does not update the cost measures for previous years). 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. World Bank 2005; Stampini and others 2011.
2. See, for example, Alesina and others (2005); Perotti and Volpin (2005); Fisman and Sarria-Allende (2010); Antunes and Cavalcanti (2007); Barseghyan (2008); Klapper, Lewin and Quesada Delgado (2009); Freund and Bolaky (2008); Chang, Kaltani and Loayza (2009); Helpman, Melitz and Rubinstein (2008); Klapper, Laeven and Rajan (2006); World Bank (2005); and Ardagna and Lusardi (2010).
3. This includes Djankov and others (2002); Djankov, McLiesh and Shleifer (2007); Djankov, La Porta and others (2008); Djankov, Freund and Pham (2010); Djankov and others (2003); Djankov, Hart and others (2008); Botero and others (2004); and Djankov, Ganser and others (2010).
4. For more details on how the aggregate ranking is created, see the chapter on the ease of doing business and distance to frontier.
5. This has included a review by the World Bank Independent Evaluation Group (2008), input from the International Tax Dialogue and regular input from the Indicators Advisory Group.
6. http://www.doingbusiness.org.
7. Local experts in 185 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) and in the acknowledgments at the end of this report.
8. De Soto 2000.
9. Schneider 2005; La Porta and Shleifer 2008.
10. Amin 2011.
11. http://www.enterprisesurveys.org.
12. Narayan and others 2000.
13. 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.
14. 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 6.19%).
15. Hallward-Driemeier, Khun-Jush and Pritchett (2010), analyzing data from World Bank Enterprise Surveys for Sub-Saharan Africa, show that de jure measures such as *Doing Business* indicators are virtually uncorrelated with ex post firm-level responses, providing evidence that deals rather than rules prevail in Africa. The authors find that the gap between de jure and de facto conditions grows with the formal regulatory burden. The evidence also shows that more burdensome processes open up more space for making deals and that firms may not incur the official costs of compliance but still pay to avoid them.

16. 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. For details, see Djankov and others (2002); Alesina and others (2005); Banerjee and Duflo (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); and Bruhn (2011).
17. According to searches for citations of the 9 background papers that serve as the basis for the *Doing Business* indicators in the Social Science Citation Index and on Google Scholar (http://scholar.google.com).
18. Djankov, McLiesh and Ramalho 2006.
19. Eifert 2009.
20. 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).
21. Ciccone and Papaioannou 2007.
22. Alesina and others 2005.
23. Loayza, Oviedo and Servén 2005; Barseghyan 2008.
24. Dulleck, Frijters and Winter-Ebmer 2006; Calderon, Chong and Leon 2007; Micco and Pagés 2006.
25. Masatlioglu and Rigolini 2008; Djankov 2009.
26. Cardenas and Rozo 2009.
27. Bruhn 2011.
28. Kaplan, Piedra and Seira 2007.
29. Bruhn 2012.
30. Aghion and others 2008.
31. Sharma 2009.
32. Chari 2011.
33. Branstetter and others 2010.
34. Djankov, Freund and Pham 2010.
35. Iwanow and Kirkpatrick 2009.
36. Freund and Rocha 2011.
37. Seker 2011.
38. Portugal-Perez and Wilson 2011.
39. Hoekman and Nicita 2011.
40. Nunn 2007.
41. Rauch 2010.
42. Chang, Kaltani and Loayza 2009; Cuñat and Melitz 2007.
43. http://www.enterprisesurveys.org.
44. 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.
45. Djankov, McLiesh and Shleifer 2007; Houston and others 2010.
46. Visaria 2009. In a follow-up study, von Lilienfeld-Toal, Mookherjee and Visaria (2012) found that the average effects identified by Visaria (2009) differ between wealthy and poor borrowers when the credit supply is inelastic (because of limits in such resources as funds, staff and information). In particular, they found that in the short term after the debt recovery tribunals are introduced, borrowers with less collateral may experience a reduction in access to credit while those with more collateral may experience an increase. But the authors also point out that this short-term effect disappears over time as banks are able to increase their resources and the credit supply becomes elastic.
47. Funchal 2008.
48. Giné and Love (2010) on Colombia; Dewaelheyns and Van Hulle (2008) on Belgium.
49. Franks and others 2011.
50. One recent study using *Doing Business* indicators illustrates the difficulties in using highly disaggregated indicators to identify reform priorities (Kraay and Tawara 2011).
51. While about 9,600 contributors provided data for this year's global report, many of them completed a survey for more than one *Doing Business* indicator set. Indeed, the total number of surveys completed for this year's report is more than 12,000, which represents a truer measure of the inputs received. The average number of surveys per indicator set and economy is just under 6. For more details, see http://www.doingbusiness.org/contributors/doing-business.
52. All background papers are available on the *Doing Business* website (http://www.doingbusiness.org).
53. For more details, see the chapter on the ease of doing business and distance to frontier.
54. A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (http://www.doingbusiness.org).

Rwanda: fostering prosperity by promoting entrepreneurship

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Emerging from a decade marked by civil war and political instability, Rwanda began a comprehensive and ambitious campaign in 2000 to rebuild, foster national reconciliation and drastically reduce poverty. The government's agenda gave priority to health, education, infrastructure, and private and financial sector development, showing a commitment to improving citizens' living conditions and building a solid foundation for reconciliation.

Starting early on in the reform campaign, Rwanda has implemented many business regulation reforms. These have transformed the life of the private sector and made it noticeably easier to do business. While challenges remain, the country has achieved much success in its reform agenda since the early 2000s. This success stems from many factors, and Rwanda's experience may provide useful lessons for other nations seeking to improve their business climate, particularly for those coming out of conflict.

DESIGNING A STRATEGY

Between 2005 and 2011 Rwanda's real GDP per capita grew by 4.5% a year, reflecting a sustained expansion of exports and domestic investment, with inflows of foreign direct investment also increasing substantially.[1] In addition, the government strengthened the foundations of macroeconomic stability by implementing cautious fiscal policies supported by a number of structural and institutional reforms. Underpinning this policy stance was a strong and sustained commitment by national authorities to private sector development.

Building on a 2-year consultation process, the government designed a long-term development strategy, *Rwanda Vision 2020*, aimed at transforming Rwanda into a middle-income economy by raising income per capita from $290 to $900 before 2020.[2] Introduced in 2000, the strategy recognized and sought to overcome Rwanda's multiple development challenges—including past civil war, poor governance, weak infrastructure, underdeveloped financial and private sectors, unemployment, overwhelming public debt, a poorly developed education system, HIV and the rapid growth of a population expected to reach 13 million by 2020.

In 2001 the World Bank set up the Competitiveness and Enterprise Development Project, designed to help the government establish an environment conducive to private sector growth and the emergence of a more competitive investment climate. The project focused on developing and updating the commercial law and supporting the government's privatization program through technical assistance, capacity building and advice on bank restructuring. This program contributed to an overhaul of the country's financial sector that led to the recapitalization of banks, the establishment of an insurance market and the introduction of microfinance lenders. In addition, the Competitiveness and Enterprise Development Project collaborated with the World Bank's Rwanda Investment Climate Reform Program to develop a robust reform agenda. The project helped establish the Doing Business Unit, the institution responsible for spearheading Rwanda's reform initiatives, while the investment

- **Rwanda's commitment to private sector development has facilitated growth in exports, domestic investment and foreign direct investment inflows—and the implementation of effective fiscal policies supported by structural and institutional reforms.**
- **Starting in 2000, Rwanda developed a strong institutional pipeline for designing and implementing business regulation reforms.**
- **Since 2004 Rwanda has substantially improved access to credit, streamlined procedures for starting a business, reduced the time to register property, simplified cross-border trade and made courts more accessible for resolving commercial disputes.**
- **Rwanda is among more than 35 economies where the executive branch has made private sector development a priority by establishing institutions whose main purpose is to design and implement business regulation reforms.**

climate reform program provided technical assistance and expertise to support the implementation of planned legal, regulatory and institutional reforms.

Rwanda's 2007 Economic Development and Poverty Reduction Strategy, like its *Vision 2020*, emphasized private sector development as the key to creating jobs, bringing peace, generating wealth and ultimately eliminating poverty.[3] In addition, aware of its scarce natural resources and landlocked location, Rwanda has focused on business regulation reform to attract foreign investment.

Dubbed "Africa's new Singapore" by *The Economist* for its positive economic reforms,[4] Rwanda has been effectively learning from the success stories of economies like Singapore since the early 2000s. And in 2007 it started using the *Doing Business* report as a tool to identify and learn from good practices in business regulation and to monitor improvement.

Several elements of a successful reform program were present, including political will and commitment at the highest level and a broadly appropriate set of macroeconomic policies that created room in the budget to invest in reforms and gained strong support from the donor community.

BUILDING AN EFFECTIVE REFORM PIPELINE

Government responsibility for improving the investment climate in Rwanda and driving through the reforms has shifted over time. The responsibility was initially assigned to the Rwanda Investment Promotion Agency. In August 2008 this agency was joined by 7 others to create the Rwanda Development Board.[5]

The board's creation marked not only a change in name and gains in size, resources and efficiency but also a fundamental increase in political will and support. The president of Rwanda made business regulation reform a priority, as did the leaders of more than 35 other economies—including economies that have made some of the biggest improvements in the ease of doing business, such as Burundi, Colombia and Georgia.[6] The approach has proved effective in triggering reforms. In Rwanda it helped put investment climate reforms at the top of the economic policy agenda for promoting private sector development and helped consolidate and unify the multiple reform efforts.

Since reforms to the investment climate require changes across many areas of government, the Doing Business Steering Committee, bringing together representatives from different ministries, was created in early 2009 to lead the reform efforts at the cabinet level. While other countries have created similar institutions to promote reform, Rwanda has made effective use of the steering committee in implementing successful regulatory reforms (as detailed in the following section).

Below the steering committee is a technical task force made up of 6 working groups focusing on business entry, licensing reform, legislative changes, taxes and trade logistics, construction permits and property registration. One key to the working groups' effectiveness has been their inclusion of private sector representatives. This has helped ensure private sector buy-in and allowed participants to share their experiences during discussions about reform design.

To ensure success, the organizational structure still needed something to bring all the pieces together. For this purpose the Doing Business Unit was created. A small, full-time team, this unit links the working groups to the steering committee, coordinates with donors providing technical support, manages development funding to ensure proper use and promotes efforts to improve the investment climate. It also advises agencies, explains the reforms to the private sector and monitors progress through internal indicators.

The Doing Business Unit identifies reform opportunities; the technical task force and the steering committee approve the reform proposals. The annual plan for regulatory reforms is then communicated to the cabinet. The steering committee and the technical task force commit to the new priorities that are agreed on at the national leadership's annual retreats.[7] The Doing Business Unit monitors implementation and reports to the steering committee and to the prime minister, who is ultimately responsible for ensuring the execution of goals.[8] Besides reporting directly to the Rwanda Development Board, the unit also periodically informs the head of the Strategy and Policy Unit in the Office of the President about reform progress.

Far from being rigid, this structure has been further improved by the involvement of other stakeholders. Ahead of the promulgation of major pieces of legislation, the Rwanda Development Board has worked closely with the parliament and the judiciary, both of which have helped in meeting targets and deadlines. Civil society, development partners and institutions such as the Presidential Advisory Council have also provided crucial input in shaping the reform agenda.[9]

LAUNCHING REGULATORY REFORMS

Even as the internal organization was evolving, the government was enacting reforms: since 2005 Rwanda has implemented 26 business regulation reforms as recorded by *Doing Business*.

Improving access to credit

A series of changes improved conditions for getting credit. In 2005 the public credit registry expanded its database of financial institutions and improved the content of its credit reporting system. In 2009 a new secured transactions law was introduced, allowing a wider range of assets to be used as collateral and permitting out-of-court enforcement proceedings.[10]

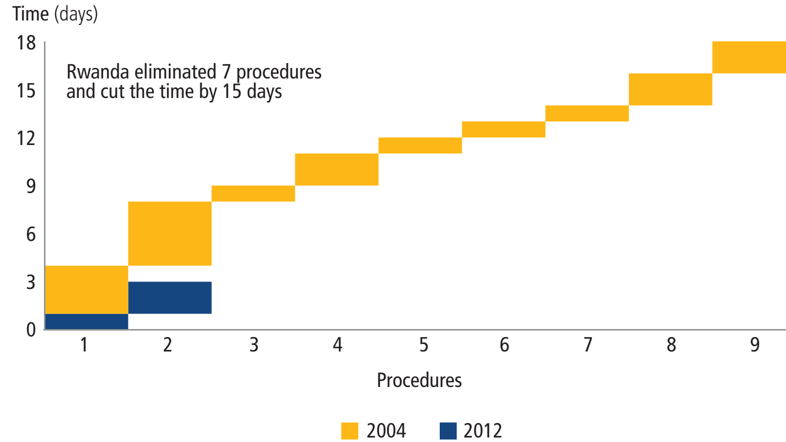
In 2010 the legislature passed a law regulating the distribution of information from credit bureaus. This led to the creation of the country's first private credit bureau, which provides wider coverage than the public registry because it includes information from utilities. In addition, the public registry expanded coverage to loans of all sizes. In December 2011 the public registry stopped issuing credit reports, and now only the private bureau shares credit information. The public registry still collects information from regulated financial institutions but only for supervisory purposes.

Streamlining regulatory processes

Other changes streamlined regulatory processes. In 2006 the introduction of hundreds of new notaries made starting a business faster. Before, only 1 notary had been available countrywide, and the high volume of requests meant a long wait for entrepreneurs wanting to register a new business. After an overhaul of the company law in 2009, entrepreneurs no longer needed to use the services of a notary; they could use standard forms instead. An online system for publishing the registration notice replaced requirements for physical publication. And a new one-stop shop streamlined business registration by reducing the number of interactions required from 9 to 2 (figure 3.1). The time required to start a business fell from 18 days to 3, and the cost from 235% of income per capita to 4%.

Rwanda also made it easier to transfer property. In 2008 it eliminated mortgage registration fees and shifted from a 6% transfer tax to a flat rate of 20,000 Rwandan francs (about $33). In 2010 the government decentralized the Office of the Registrar and Land Titles and created 5 branches throughout the country, purging the backlog of cases in Kigali. It also introduced strict time limits for some procedures. One was the issuance of tax clearance certificates, which had been the lengthiest part of the process.

FIGURE 3.1 Rwanda streamlined the procedures for starting a business



Source: Doing Business database.

The administrative reorganization and the statutory time limits reduced the time required to transfer property by 346 days—from more than a year in 2004 to less than a month (figure 3.2). And the changes in the transfer fees reduced the cost from 10.3% of the property value to 5.6%.[11]

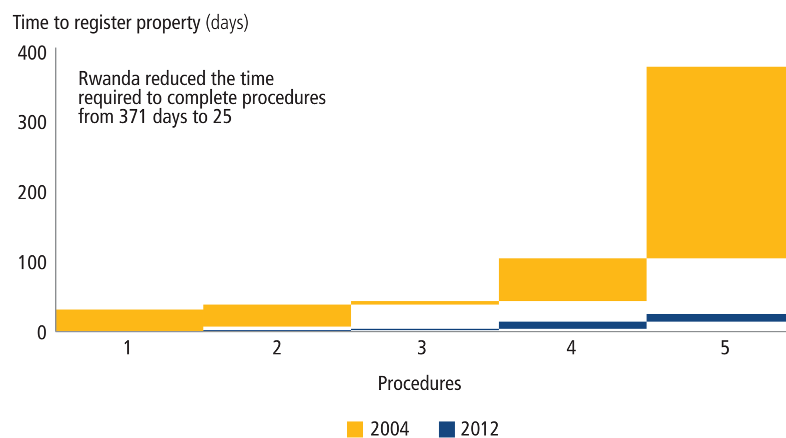
Changes over several years made trading across borders faster. In 2005 Rwanda made it possible to submit customs declarations electronically. In 2007 the customs authority introduced more acceptance points for customs declarations, reducing the waiting time to submit them. In 2008 the government extended operating hours for border posts and implemented an electronic data interchange system and risk-based inspections. And in 2010 it streamlined trade documentation requirements and improved border cooperation.

Results are clear. In 2006 exporting goods in Rwanda required 14 documents and 60 days (figure 3.3). Today it takes only 8 documents and 29 days. The story is similar for importing.

Strengthening laws and the judiciary

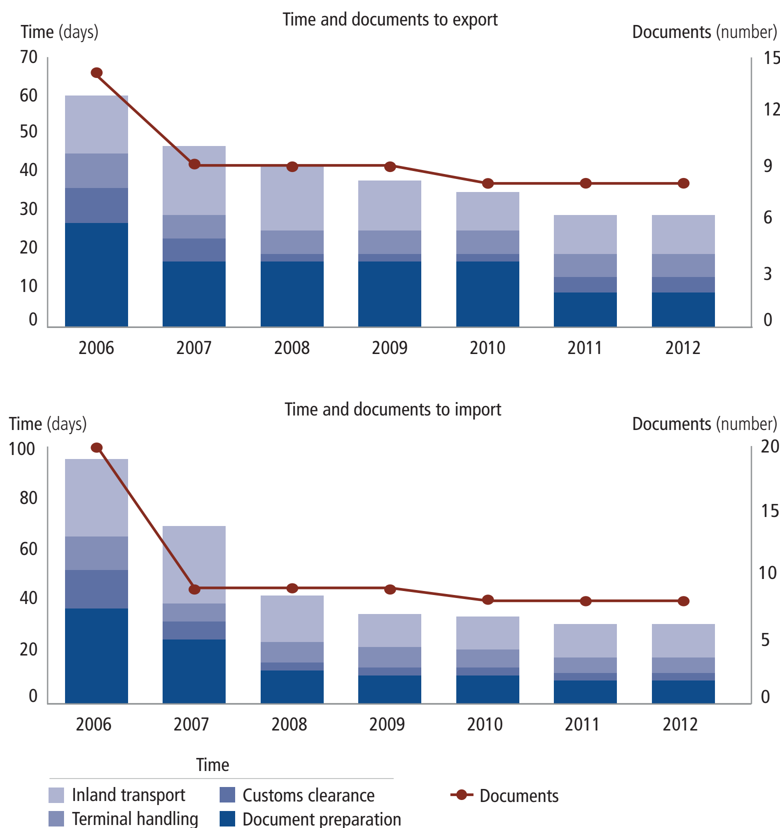
The new company law adopted in 2009 introduced several concepts into Rwanda's

FIGURE 3.2 Rwanda cut the time for property transfers by almost a year



Source: Doing Business database.

FIGURE 3.3 Big reduction in time and documents to trade across borders in Rwanda



Source: *Doing Business* database.

corporate legal system for the first time: minority shareholder rights, regulation of conflicts of interest, extensive corporate disclosure and directors' duties. The new law introduced rules requiring approval by the board of directors for related-party transactions representing less than 5% of the company's assets and by shareholders for those representing more than 5%. The law strengthened the director liability regime for breach of fiduciary duties and for related-party transactions that harm the company. And it increased corporate transparency by improving disclosure requirements and minority shareholders' access to corporate information.

In 2005 the government made contract enforcement more of a reality by establishing more commercial courts[12] and creating the Business Law Reform Cell, whose review of 14 commercial laws proved crucial for the approval of important legal reforms. The government further enhanced the court system in 2008 by creating lower commercial courts.

Consistent with its emphasis on bringing in the skills and expertise needed to ensure the success of the reform process, the government also hired non-Rwandan expatriate judges: 2 Mauritian judges to help local judges run the new commercial courts during the first 3 years of operation.[13] In addition, the government has provided incentives for Western-educated members of the diaspora to repatriate and has promoted an exchange of skills by opening the job market to immigrants from neighboring countries, including Burundi, Kenya, Tanzania and Uganda.[14] Moreover, the Capacity Strengthening Program (financed by the Competitiveness and Enterprise Development Project) and the Institute for Legal Practice are training judges, legal officers and lawyers to work in a mixed legal system, where the civil law tradition dominates but common law and customary law tendencies are also evident.[15]

With the aim of increasing efficiency in resolving corporate insolvencies, the government enacted a new insolvency law in 2009. But resolving insolvency remains the one area among all those included in the ease of doing business index in which Rwanda still has great room for improvement. Achieving widespread use of the law in insolvency cases has been among the greatest regulatory reform challenges in this area.[16]

SEEING MEASURABLE RESULTS

The ultimate goal of the reform program is a private sector that promotes economic growth and job creation.[17] And the program is achieving measurable progress toward this goal.

After Rwanda simplified formalities for business registration in 2006, 77% more firms registered in the following year.[18] In 2008 more than 3,000 firms registered, up from an average of 700 in previous years. In 2009 the number rose to 6,905. And in 2010 the government managed to register 18,447 new businesses—nearly achieving its goal of registering 20,000 that year.[19] The jump in registration numbers cannot be attributed solely to the simplification of the start-up process; the business registration reforms were part of a wider government agenda to promote private sector growth and entrepreneurship in Rwanda. Even so, the increase points to a positive trend.

Good results are also showing up in the area of contract enforcement: the commercial courts started operating in Kigali in May 2008 and had fully cleared the case backlog by the end of 2009.[20]

Rwanda's consistent reforms to make trade easier improved the productivity

of customs officials, who increased the number of documents they cleared annually by 39% between 2006 and 2009. And according to the Ministry of Trade and Industry, Rwanda's exports rose from $147 million in 2006 to $193 million in 2009.

Rwanda recently adjusted some of the targets set in *Vision 2020*. Most notably, it raised the income per capita target from $900 to $3,500. This brings the target into line with levels in middle-income economies today and reflects Rwanda's recent growth, which increased income per capita to around $570 in 2011.[21]

CONCLUSION

Every country faces different development challenges. But Rwanda's ambitious and complex reform program may offer lessons for others seeking to reform through private sector development.

One key to its achievements has been the strong commitment to reform shown by Rwanda's leaders and its citizens. The government has established structures for building a foundation for private sector development and coordinating government-wide reform efforts. And it has created a well-defined, long-term reform strategy that informs all of the country's short-term development goals.

The government entities involved in the process have had clearly defined roles and responsibilities, and they have respected the goals set in initial implementation strategy documents. The Doing Business Unit has played a pivotal role not only in ensuring coordination within the government and between the government and donors but also in coordinating development funding initiatives so as to avoid duplication.

The government has worked to meet the needs of entrepreneurs by streamlining regulatory processes involved in starting, operating and closing a business. Beyond undertaking legal and administrative reforms, the government has invested in training for professionals—including lawyers and judges—to ensure proper administration of the reforms. Recognizing the benefits of a diverse knowledge base, Rwanda has also imported technical expertise from other countries, to replicate good practices and build capacity. And the government has involved the private sector in the reform process and maintained an open line of communication to keep entrepreneurs, civil society and other stakeholders apprised of developments.

All these efforts are showing results in Rwanda's regulatory performance. And Rwanda's dedication to private sector development, in triggering positive legal reforms, has contributed substantially to its overarching goal of promoting national reconciliation and prosperity.

NOTES

This case study was written by Moussa Traoré, Adrian Gonzalez, César Chaparro Yedro, Jean Michel Lobet and Jonathan Bailey.

1. World Bank, World Development Indicators database, http://data .worldbank.org/.
2. Rwanda, Ministry of Finance and Economic Planning 2000.
3. Rwanda, Ministry of Finance and Economic Planning 2007.
4. "Africa's New Singapore?" *The Economist*, February 25, 2012, http://www.economist.com/.
5. The 7 agencies were Tourism and Conservation, the Registrar General's Office, the Privatization Unit, Human and Institutional Development, the Center for the Support to Small and Medium-Sized Enterprises (CAPMER), the IT Agency and the National Environment Management Authority.
6. See box 2.2 in the chapter "About *Doing Business*" for a list of economies using this approach.
7. These retreats, which gather about 300 top members of the administration, have included *Doing Business* reforms on the agenda since 2007.
8. Presentation by Emmanuel Hategeka, permanent secretary, Ministry of Trade and Industry, Kigali, March 16, 2011; Karim 2011.
9. In particular, the U.K. Department for International Development's multiyear program to support the Rwanda Revenue Authority is considered a success, enabling the agency both to improve its tax collection rate and to simplify its interactions with businesses.
10. Legal changes often require only modest investments. For the secured transactions law, for example, Rwanda invested $55,320 (excluding technical assistance from donors) in the validation and translation of the new law as well as in the legislative process.
11. World Bank 2010.
12. World Bank 2006.
13. Hertveldt 2008.
14. "Africa's New Singapore?" *The Economist*, February 25, 2012, http://www.economist.com/.
15. The Institute for Legal Practice was established by an organic law in 2006 and started to operate in May 2008.
16. "Rwanda: Country Struggles on Insolvency Law," *East African Business Week*, May 13, 2012, http://allafrica .com/.
17. Edmund Kagire, "New Reforms Set Up to Boost Doing Business," *New Times* (Kigali), April 18, 2010.
18. World Bank 2010.
19. Frank Kanyesigye, "Rwanda Development Board Targets to Register 20,000 New Businesses," *New Times* (Kigali), May 14, 2010.
20. Interview by *Business Times* (Kigali) with Benoit Gatete, vice president of the commercial high court, January 12, 2010, http://allafrica.com/.
21. "Government to Adjust Vision 2020," *New Times* (Kigali), February 25, 2010; World Bank, World Development Indicators database, http://data .worldbank.org/.

2007 2012 2005 2009 2004 2011 2008 2006 2010 2013

Starting a business

- **Among the economies of the East African Community (EAC) and other regional blocs covered in Africa, Rwanda makes it easiest to start a business. Entrepreneurs need to complete only 2 procedures and wait 3 days—and can register their company online free of charge.**
- **From June 2011 to June 2012 *Doing Business* recorded 11 reforms making it easier to start a business in Sub-Saharan Africa, including 2 in EAC economies.**
- **Burundi made the biggest improvement globally in the ease of starting a business in the past year.**
- **Worldwide, simplifying company registration formalities was the most common feature of business start-up reforms over the past 8 years.**

For more information on good practices and research related to starting a business, visit http://www.doingbusiness.org/data/exploretopics/starting-a-business. For more on the methodology, see the section on starting a business in the data notes.

"In the past, it was too complicated to start a business in Burundi," says Aline, an entrepreneur who just started a retail company in Bujumbura. Indeed, before the launch of the one-stop shop in Bujumbura in 2012, starting a business required visiting several separate agencies, completing 8 procedures, waiting 13 days on average and paying 247,900 Burundi francs (about $200). By bringing together representatives from several agencies, the one-stop shop has made the start-up process far simpler. Today, starting a business takes only 4 procedures and 8 days on average, and costs just 62,500 francs ($46).

Inefficient regulation is among the range of challenges faced by entrepreneurs around the world. Making the start-up process easier can help. To measure the ease of starting a business, *Doing Business* records the procedures, time, cost and paid-in minimum capital required for a small or medium-size limited liability company to start up and formally operate. To make the data comparable across 185 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 within the first month of operations.

According to a recent review, evidence from several studies shows that reforms making it easier to start a formal business are associated with an increase in the number of newly registered firms as well as with sustained gains in economic performance, including improvements in employment and productivity.[1] In Rwanda the number of newly registered limited liability companies in 2008 was about the same as the number of newly registered sole proprietorships. Then

TABLE 4.1 How do EAC economies rank on the ease of starting a business?

Economy	Global rank
Rwanda	8
Burundi	28
Tanzania	113
Kenya	126
Uganda	144

Note: Rankings are the average of the economy's rankings on the procedures, time, cost and paid-in minimum capital for starting a business. See the data notes for details.

Source: Doing Business database.

TABLE 4.2 Who in the EAC makes starting a business easy—and who does not?

Procedures (number)	
Rwanda	2
Burundi	4
Tanzania	9
Kenya	10
Uganda	15

Time (days)	
Rwanda	3
Burundi	8
Tanzania	26
Kenya	32
Uganda	33

Cost (% of income per capita)	
Rwanda	4.3
Burundi	18.3
Tanzania	28.2
Kenya	40.4
Uganda	76.7

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

Source: Doing Business database.

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 of business registration. By 2010, a year later, almost 4 of every 5 newly registered enterprises were limited liability companies.[2]

In the East African Community (EAC), Rwanda continues to make it easiest to start a business—and it is the only low-income economy ranking among the top 10 globally on the ease of starting a business (table 4.1). Burundi moved up to 28 in the global ranking in 2011/12.

On average in the 5 EAC economies, starting a business requires 8 procedures. The average time required is 20 days—less than in the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the broader region of Sub-Saharan Africa. Globally, business start-up is fastest in the OECD high-income economies, where it takes only 12 days on average.

The average cost to start a business in the EAC (33.6% of income per capita) is substantially lower than in Sub-Saharan Africa as a whole (67.3%)—though still fairly high compared with the average in OECD high-income economies (4.5%). Yet the cost varies considerably within the EAC. While the cost is less than 5% of income per capita in Rwanda, it is more than 75% of income per capita in Uganda (table 4.2). Burundi reduced the cost to start a business in 2011/12 from 117% of income per capita to 18%.

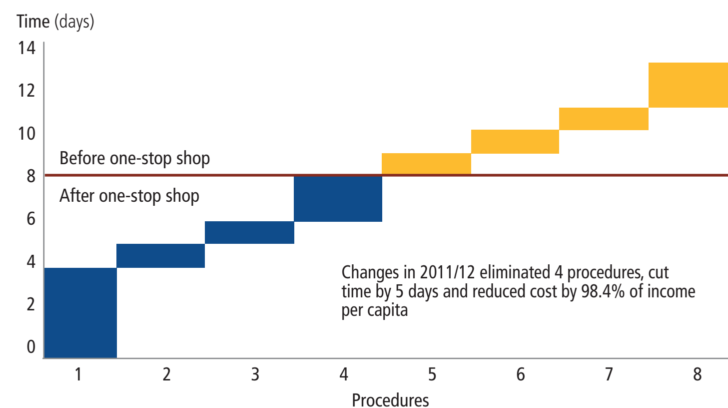
There is also much variation within the EAC in the number of procedures and the time required to start a business. In Rwanda, starting a business takes only 2 procedures and 3 days. In Kenya it requires 10 procedures and 32 days on average—including 2 weeks to file the deed with the Registrar of Companies.

TABLE 4.3 Who in the EAC made starting a business easier in 2011/12—and what did they do?

Feature	Economies	Some highlights
Simplified registration formalities (seal, publication, notarization, inspection, other requirements)	Burundi	Burundi eliminated the requirements to notarize company documents, publish new company information in a journal and register new companies with the Ministry of Trade and Industry.
Created or improved one-stop shop	Burundi	Burundi created a one-stop shop bringing together representatives from several agencies involved in the start-up process: the Burundi Investment Promotion Agency, the Registry of the Commercial Court and the tax office responsible for granting the national identification number.
Cut or simplified postregistration procedures (tax registration, social security registration, licensing)	Tanzania	Tanzania eliminated the requirements to obtain inspections from the health officer and town and land officer as a prerequisite for obtaining a business license.

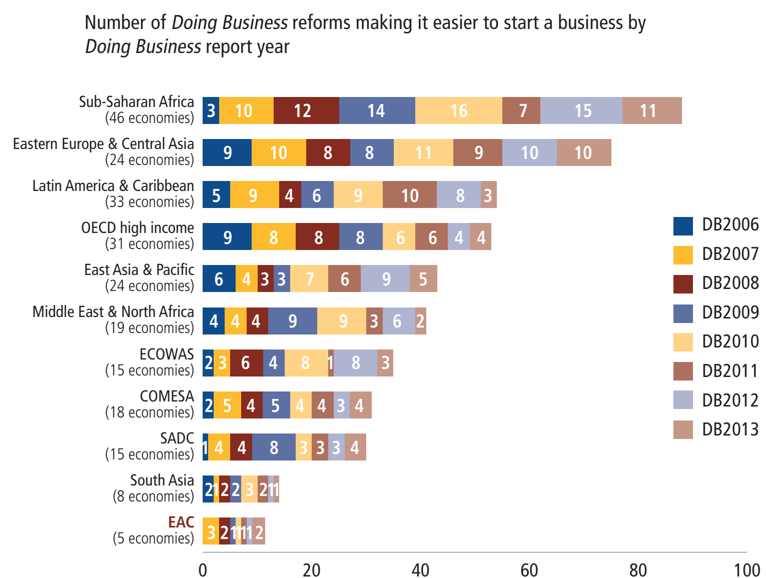
Source: Doing Business database.

FIGURE 4.1 Burundi made starting a business easier in 2011/12 by setting up a one-stop shop



Source: Doing Business database.

FIGURE 4.2 A steady pace of business start-up reforms in the EAC



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 DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

Source: Doing Business database.

WHO REFORMED IN STARTING A BUSINESS IN 2011/12?

In 2011/12, 36 economies around the world implemented reforms making it easier to start a business. Among them are 2 EAC economies, Burundi and Tanzania (table 4.3).

Burundi, the only EAC economy that implemented no business start-up reforms between 2006 and 2011, made the biggest improvement globally in the ease of starting a business in the past year. The government reduced tax registration costs and created a one-stop shop at the Burundi Revenue Authority, bringing together representatives from several agencies involved in the business start-up process (figure 4.1). Four other Sub-Saharan African economies also introduced a one-stop shop in 2011/12—Chad, Guinea, Lesotho and Madagascar.

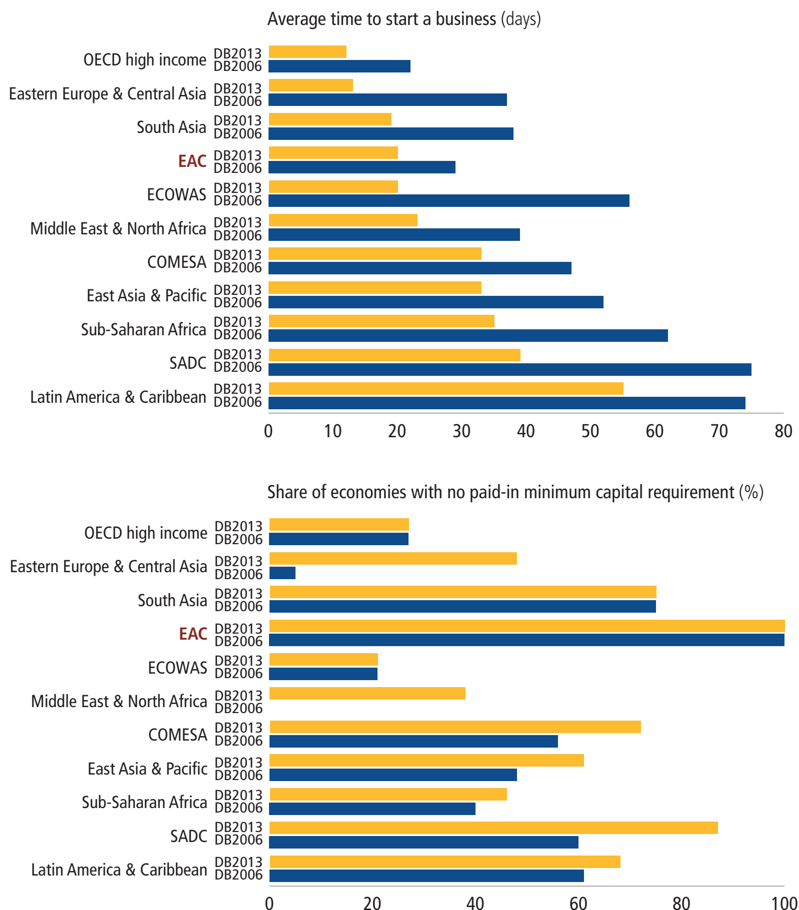
WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years *Doing Business* recorded 368 reforms making it easier to start a business, implemented in 149 economies. The 5 EAC economies—Burundi, Rwanda, Kenya, Tanzania and Uganda—account for 11 of those reforms (figure 4.2).

Thanks to these reforms, starting a business is easier today in all 5 EAC economies. Across the EAC, the reforms cut the average time to start a business from 29 days to 20 and the average cost from 140% of income per capita to 36% (figure 4.3).

Worldwide over the past 8 years, simplifying company registration formalities was the most common feature of business start-up reforms. This feature was also common in EAC economies. Rwanda simplified formalities in 2010 by eliminating the notarization requirement, introducing standardized memoranda of association, allowing online publication of the notice of incorporation, consolidating name-checking, reducing the registration fee, streamlining tax and company registration procedures and speeding up

FIGURE 4.3 EAC economies have reduced start-up time by almost a third



Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

the processing of completed applications. Through these changes Rwanda cut the number of procedures to start a business by 6, the time by 11 days and the cost by about 100% of income per capita.

Tanzania reformed its licensing regime in 2008, abolishing the license fee for small and medium-size enterprises and reducing the cost for companies with a turnover of more than 20,000 Tanzania shillings. It also simplified the license category system and reduced the number of licensed activities from 15 to 2. In Kenya the Licensing Laws Act 2006 eliminated the requirement to obtain a trading license in addition to a business permit.

Introducing information and communication technology has been another common feature of start-up reforms. Today 106 economies use modern technology for services ranging from name search to complete online business registration. Those offering electronic registration include several economies with the fastest business start-up processes—New Zealand, Australia, Singapore, Canada, Portugal, Denmark and Estonia. Online services are increasingly being offered in developing economies.

EAC economies are among those providing electronic services. Rwanda has an integrated system for company registration.

TABLE 4.4 Who in the EAC has narrowed the distance to frontier in starting a business the most since 2005?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	38 (59→97)
Burundi	28 (63→91)
Tanzania	20 (57→77)
Kenya	11 (62→73)
Uganda	3 (56→59)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the starting a business indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

Kenya offers online procedures for tax and value added tax registration. Uganda has an online system allowing entrepreneurs to apply for corporate tax and value added tax identification numbers at the same time. Tanzania consolidated and digitized registered company names, allowing the company name search to be done online and speeding up name clearances. Kenya also introduced online name search, reducing the time and cost to start a business.

Around the world 86 economies—Burundi and Rwanda among them—have some variation of a one-stop shop for business registration. These include the 56 economies that established or improved their one-stop shop over the past 8 years.

Globally, 91 economies require no paid-in minimum capital, and many others have lowered the requirement. The average requirement has fallen from 184% of income per capita to only 42% since 2005. Several economies in African regional blocs eliminated the minimum capital requirement in the past 8 years—Lesotho and Mozambique (SADC), Madagascar (COMESA) and Zambia (both SADC and COMESA). No EAC economies have a paid-in minimum capital requirement.

Madagascar first reduced and then progressively eliminated its paid-in minimum capital requirement. The country also set up a one-stop shop and substantially improved its services over time. And it simplified registration formalities and the publication requirement. Thanks to these efforts, Madagascar is among the economies in Sub-Saharan Africa that have advanced the furthest toward the frontier in regulatory practice in starting a business since 2005.

Among EAC economies, Rwanda has narrowed the distance to frontier in starting a business the most since 2005 (table 4.4). Burundi has also made steady progress over time.

NOTES

This topic note was written by Valentina Saltane and Paula Garcia Serna.

1. Motta, Oviedo and Santini 2010.
2. According to a survey of 183 economies conducted by *Doing Business* in 2011, establishing a sole proprietorship requires fewer procedures and costs less than establishing a limited liability company.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Dealing with construction permits

- **Within the East African Community (EAC), dealing with construction permits is easiest in Kenya, where it takes 9 procedures and 125 days.**
- **From June 2011 to June 2012 *Doing Business* recorded 4 reforms making it easier to deal with construction permits in Sub-Saharan Africa. One was in the EAC, in Burundi.**
- **Among EAC economies, Rwanda has advanced the furthest toward the frontier in regulatory practice in construction permitting since 2005.**
- **Since 2005 the EAC has reduced the average cost to deal with construction permits by nearly 2,500% of income per capita—more than any other regional bloc covered in Africa and more than any world region.**
- **Globally, introducing or improving a one-stop shop was among the most common features of construction permitting reforms in the past 8 years. In the EAC only Rwanda has implemented a one-stop shop for construction permitting.**

For more information on good practices and research related to dealing with construction permits, visit http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits. For more on the methodology, see the section on dealing with construction permits in the data notes.

Kenya continues to make construction permitting simpler and more transparent by implementing an online system. The system enables architects to submit building permit requests and all required plans online. It also allows online monitoring of the status of building proposals and notifies applicants by e-mail when key milestones are met.

Construction regulation matters for public safety. And simplifying regulation can increase compliance: if procedures are too complicated or costly, builders tend to proceed without a permit.[1] By some estimates 60–80% of building projects in developing economies are undertaken without the proper permits and approvals.[2] Images of buildings that have collapsed because of poor construction appear all too often in newspapers.

Thirty-four of 46 Sub-Saharan African economies have construction regulations, including 4 of the 5 in the East African Community (EAC). Aware that burdensome regulations can be difficult to enforce, some are amending laws to address this issue.

Kenya had some 103 construction regulations, a number nearly impossible to enforce. The collapse of the Sunbeam Building in 1996 and the Kihonge high-rise building in 2006 prompted Kenya to tackle the problem. A new law adopted on January 4, 2011, established the National Construction Authority to control the issuance of building permits and enforce simpler and clearer regulations.

Uganda too has had its share of building collapses, including a major one on July 25, 2011. The Building Control Bill has been proposed to address the issue. Once adopted, the law would harmonize and consolidate the country's many construction regulations and impose building standards at the same time. It would also provide stronger penalties for noncompliance.

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. 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 185 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. Among EAC economies, Kenya has the easiest process for dealing with construction permits as measured by *Doing Business* (table 5.1).

TABLE 5.1 How do EAC economies rank on the ease of dealing with construction permits?

Economy	Global rank
Kenya	45
Rwanda	98
Uganda	118
Burundi	141
Tanzania	174

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to comply with formalities to build a warehouse. See the data notes for details.

Source: Doing Business database.

TABLE 5.2 Who in the EAC makes dealing with construction permits easy—and who does not?

Procedures (number)	
Kenya	9
Rwanda	12
Uganda	15
Tanzania	19
Burundi	21
Time (days)	
Burundi	99
Kenya	125
Uganda	125
Rwanda	164
Tanzania	206
Cost (% of income per capita)	
Kenya	211.9
Rwanda	278.4
Tanzania	564.6
Uganda	853.1
Burundi	1,911.9

Source: *Doing Business* database.

On average in the EAC, entrepreneurs must go through 15 procedures to complete all formalities required to build a simple warehouse. Kenya has the fewest procedures, with 9, and Burundi the most, with 21 (table 5.2). Of the 21 procedures required in Burundi, 16 relate to obtaining postconstruction authorizations and utility connections.

The average time required to deal with construction permits in the EAC is 144 days—less than the 156 days in the Common Market for Eastern and Southern Africa (COMESA), 190 days in the broader region of Sub-Saharan Africa and 194 days in the Southern African Development Community (SADC). Indeed, the EAC average is almost the same as the fastest worldwide average, the 143 days in OECD high-income economies.

Within the EAC, the process for dealing with construction permits is fastest in Burundi, where it takes 99 days, followed by Kenya and Uganda, where it takes 125. In Tanzania, with the slowest process, it takes 206 days. The biggest delay is due to a long wait to obtain the building permit. Completing this single procedure takes 90 days—compared with 14 in Burundi, 30 in Kenya, 45 in Rwanda and 60 in Uganda. On the time required for the overall process of dealing with construction permits, Burundi, Kenya and Uganda compare well with the regional average in Sub-Saharan Africa. But there is still room for improvement: in Singapore the process takes only 26 days.

Among the regional blocs covered in Africa, the EAC has the highest average cost to deal with construction permits, 764% of income per capita. The main drivers of the higher costs in the EAC are taxes and fees for preconstruction approvals, which average 582.3% of income per capita. Yet there are big differences among EAC economies in the cost to deal with construction permits. The cost is highest in Burundi—at 1,912% of income per capita, among the highest in the world—and in Uganda (853% of income per capita). It is lowest in Kenya (212% of income per capita).

WHO REFORMED IN DEALING WITH CONSTRUCTION PERMITS IN 2011/12?

From June 2011 to June 2012 *Doing Business* recorded 4 reforms making it easier to deal with construction permits in Sub-Saharan Africa. Burundi was the only EAC economy to implement a reform (table 5.3). As of June 1, 2011, it abolished a requirement to obtain approval from the Ministry of Health before applying for a building permit, reducing the number of procedures by 2, the time by 5 days and the cost by 143,066 Burundi francs ($95).

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years 83 economies around the world implemented 146 reforms making it easier to deal with construction permits (figure 5.1). Eastern Europe and Central Asia had the most, with 39, followed by Sub-Saharan Africa with 33. COMESA had 21, and the EAC and SADC 10 each.

The EAC leads the way in reducing the cost to deal with construction permits, slashing it by an average 2,471% of income per capita since 2005, followed by COMESA, with an average reduction of 1,476% of income per capita (figure 5.2). But there is more room for improvement: the average cost in the EAC remains higher than in any world region except South Asia.

Among the most difficult changes to implement in construction permitting is the introduction or improvement of a one-stop shop. Construction approval systems usually involve many different agencies. To prevent overlap in their roles and ensure efficiency, many economies have opted to put representatives from many agencies in a single 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 the agencies involved. Globally in the past 8 years, 18 regulatory reforms were implemented to set up or improve a one-stop shop. Within the EAC, only Rwanda has implemented a one-stop shop. Besides Rwanda, 3 others in Sub-Saharan Africa have done so—Benin, Burkina Faso and Mauritania.

Many economies have gone particularly far in closing the gap with the most efficient regulatory systems for dealing with construction permits, such as those

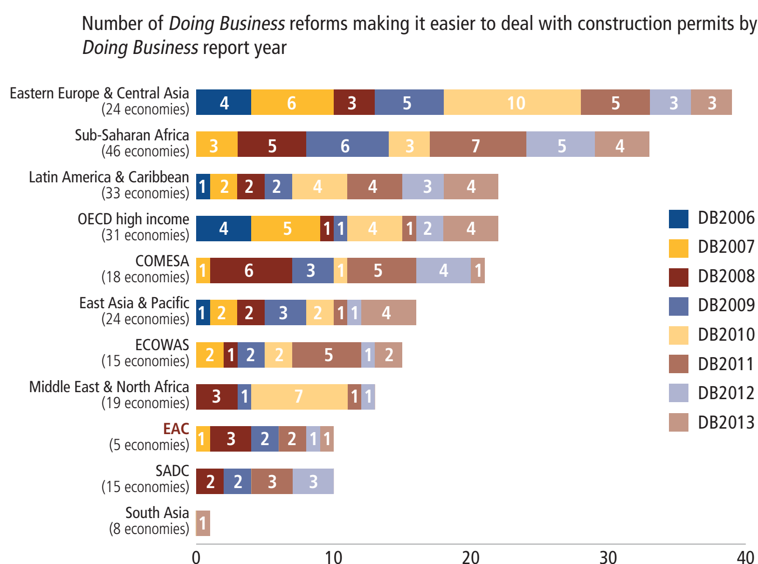
TABLE 5.3 Who in the EAC made dealing with construction permits easier in 2011/12—and what did they do?

Feature	Economy	Some highlights
Streamlined procedures and reduced time for processing permit applications	Burundi	Burundi eliminated the requirement to obtain a clearance from the Ministry of Health and reduced the cost of the geotechnical study.

Source: *Doing Business* database.

FIGURE 5.1 Reforms around the world to improve construction permitting

Number of *Doing Business* reforms making it easier to deal with construction permits 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 DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

Source: Doing Business database.

TABLE 5.4 Who in the EAC has narrowed the distance to frontier in dealing with construction permits the most since 2005?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	20 (58→78)
Burundi	16 (36→52)
Uganda	12 (58→70)
Tanzania	3 (59→62)
Kenya	-1 (87→86)

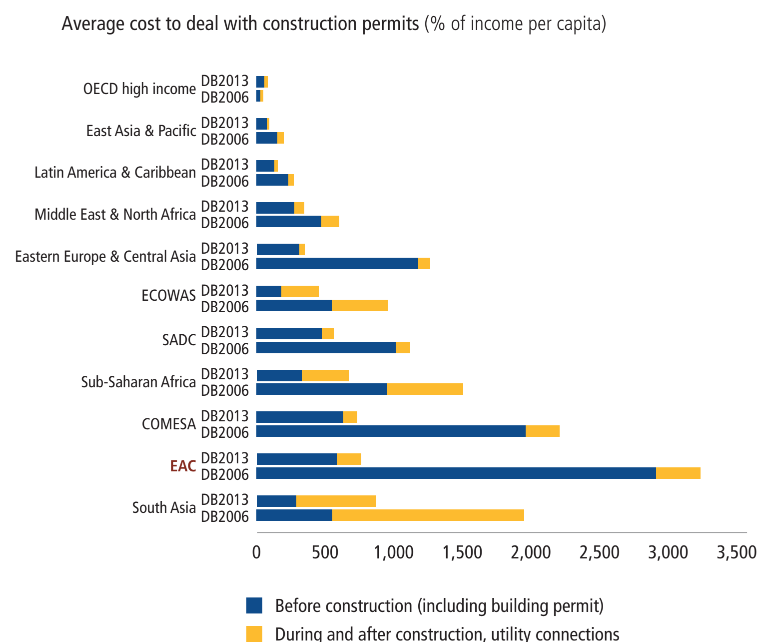
Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the dealing with construction permits indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

FIGURE 5.2 Biggest reduction in permitting costs in the EAC

Average cost to deal with construction permits (% of income per capita)



Note: To ensure an accurate comparison, the figure data cover 172 practice economies for both DB2006 (2005) and DB2013 (2012) and use the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

in Hong Kong SAR, China, and Georgia. Those making the greatest progress toward the frontier in regulatory practice in this area have been able to do so thanks to a continual effort to improve regulations. Among EAC economies, Rwanda has advanced the furthest toward this frontier since 2005 (table 5.4).

Rwanda implemented 3 reforms making it easier to deal with construction permits. Besides setting up a one-stop shop, it introduced time limits for processing the building permit and the occupation permit. In 2005 complying with all regulatory requirements for constructing the standard warehouse took 13 procedures and 307 days and cost the equivalent of 918% of income per capita. Today it takes 12 procedures and 164 days and costs 278% of income per capita.

NOTES

This topic note was written by Marie Lily Delion and Joyce Ibrahim.

1. Moullier 2009.
2. De Soto 2000.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Getting electricity

Imagine a young Burundi entrepreneur who is trying to set up a new warehouse for his garment manufacturing business in Bujumbura. He has negotiated the financing with his bank, spent weeks obtaining the building and operating permits and invested in new machinery as well as a new building. He has employees lined up and is ready to get started. But he will have to wait. He needs to obtain a new electricity connection for the warehouse, and in Bujumbura that requires several interactions with the utility, takes 6 months on average and costs more than 200 times the income per capita. In Rwanda the experience of an entrepreneur setting up a business in Gikondo, an area of Kigali, would be quite different (table 6.1). His warehouse would be hooked up to electricity in about 1 month. The process would involve only 4 interactions with the utility and cost only about 39 times the 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, consider electricity to be among the biggest constraints to their business. In addition, managers estimate losses due to power outages at an average 5.1% of annual sales.[1]

Doing Business measures the procedures, time and cost for a small to medium-size business to get a new electricity connection for a warehouse. To make the data comparable across 185 economies, *Doing Business* uses a standardized case study of a newly established warehouse requiring a connection 150 meters long and with a power need of 140 kilovolt-amperes (kVA). The warehouse is assumed to be located in the largest business city, in an area where warehouses usually locate and electricity is most easily available.

TABLE 6.1 How do EAC economies rank on the ease of getting electricity?

Economy	Global rank
Rwanda	49
Tanzania	96
Uganda	127
Kenya	162
Burundi	164

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to get an electricity connection. See the data notes for details.

Source: Doing Business database.

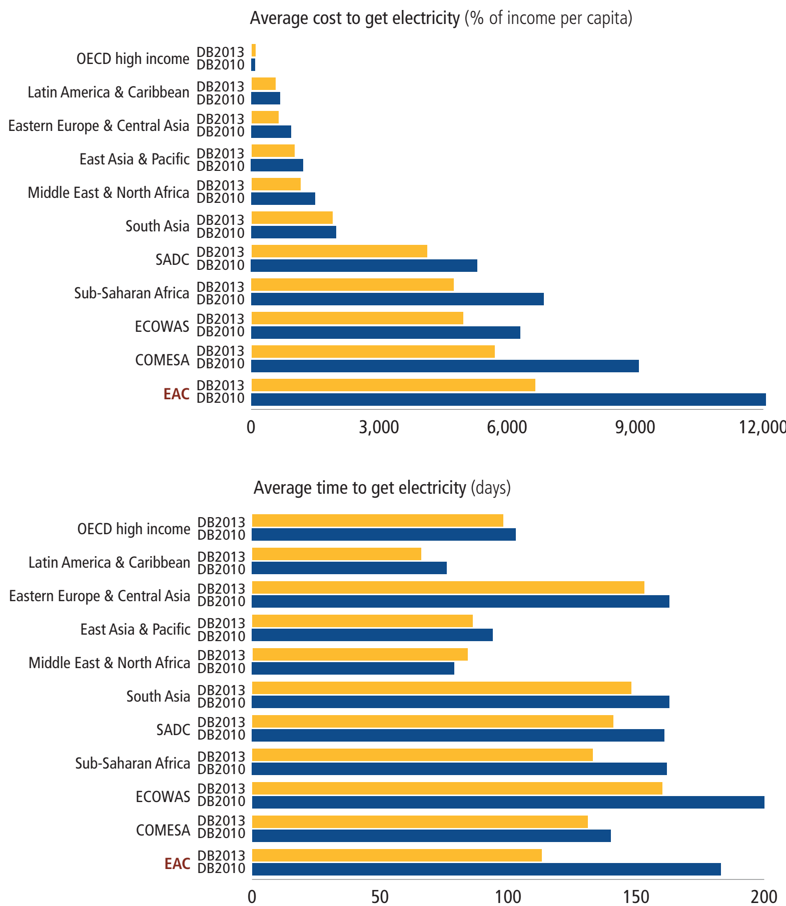
In the East African Community (EAC), getting a new electricity connection takes 113 days on average, less than the average of 131 days in the Common Market for Eastern and Southern Africa (COMESA), 141 in the Southern African Development Community (SADC) and 160 in the Economic Community of West African States (ECOWAS). It also takes less than the 133 days in the broader region of Sub-Saharan Africa. Worldwide, the fastest region is Latin America and the Caribbean, where getting a new electricity connection takes 66 days on average (figure 6.1).

Within the EAC, the process for getting electricity is fastest in Rwanda, where it takes only 30 days, followed by Uganda, where it takes 91 days, and Tanzania, where it takes 109 days (table 6.2). Burundi has the slowest process, at 188 days. A major reason for this big delay is lack of materials in the utility's stock, mainly distribution transformers. In

- **In the East African Community (EAC), getting an electricity connection is easiest in Rwanda, where it takes 4 procedures and 30 days. Globally, the process is easiest in Iceland, where it takes 4 procedures and 22 days.**
- **From June 2011 to June 2012 *Doing Business* recorded 13 reforms making it easier to get electricity. Five were in Sub-Saharan Africa, including 1 in the EAC.**
- **Among EAC economies, Rwanda made the biggest improvement in the ease of getting electricity in 2011/12. Globally, Armenia was the top improver.**
- **In the EAC, Rwanda and Uganda have advanced the furthest since 2010 in narrowing the gap with the most efficient regulations governing electricity connections.**
- **Sub-Saharan Africa leads in the number of reforms making it easier to get an electricity connection.**

For more information on good practices and research related to getting electricity, visit http://www.doingbusiness.org/data/exploretopics/getting-electricity. For more on the methodology, see the section on getting electricity in the data notes.

FIGURE 6.1 Big cuts in the time and cost to obtain a new electricity connection in the EAC



Note: The data sample for DB2010 (2009) includes 176 economies. The sample for DB2013 (2012) also includes Barbados, the Comoros, Equatorial Guinea, Iraq, the Republic of Korea, Malta, São Tomé and Príncipe, Sudan and Uruguay, for a total of 185 economies.
Source: Doing Business database.

TABLE 6.2 Who in the EAC makes getting electricity easy—and who does not?

Procedures (number)	
Rwanda	4
Tanzania	4
Burundi	5
Uganda	5
Kenya	6

Time (days)	
Rwanda	30
Uganda	91
Tanzania	109
Kenya	146
Burundi	188

Cost (% of income per capita)	
Kenya	1,208.2
Tanzania	1,944.1
Rwanda	3,948.1
Uganda	4,623.0
Burundi	21,481.7

Source: Doing Business database.

Burundi transformers must be ordered and imported from Europe, which takes several months.

In most economies around the world, a new electricity connection of 140 kVA requires reinforcement of the distribution network. When the customer bears the entire financial burden of the necessary investment, connection costs often run high because of the price of materials, mainly for the distribution transformer and substation.

The average cost of obtaining a new electricity connection in the EAC, at 6,641% of income per capita, exceeds the average cost in all world regions. The cost is also higher than in other regional blocs covered in Africa. In SADC, for example, the cost averages 4,110% of income per capita.

WHO REFORMED IN GETTING ELECTRICITY IN 2011/12?

Economies where getting an electricity connection is easy have several good practices in common (table 6.3). Other economies are adopting some of these practices. From June 2011 to June 2012 *Doing Business* recorded 13 reforms that made getting electricity easier. Five were in Sub-Saharan Africa. One of the 5 was in the EAC, in Rwanda (table 6.4). The other 4 were in Angola, Guinea, Liberia and Namibia.

Many economies put an emphasis on making it easier to get a connection to the distribution network as a way to increase the electrification rate and stimulate business growth. Rwanda is an example. Its process for obtaining a connection is among the fastest in the world. The government improved it further by reducing installation costs. Customers still provide the materials for the connection, but rather than paying an additional 30% of that cost to the utility for installation, they now pay only half of that. Kenya introduced a

TABLE 6.3 Good practices in the EAC in making it easy to get electricity

Practice	Economies
Streamlining approval processes (utility obtains excavation permit or right of way if required)	Burundi, Rwanda, Tanzania, Uganda
Reducing the financial burden of security deposits for new connections	Burundi, Kenya
Ensuring the safety of internal wiring by regulating the electrical profession rather than the connection process	Kenya
Providing transparent connection costs and processes	Tanzania

Source: Doing Business database.

TABLE 6.4 Who in the EAC made getting electricity easier in 2011/12—and what did they do?

Feature	Economy	Some highlights
Improved regulation of connection costs and processes	Rwanda	In Rwanda the installation cost that a customer must pay the Energy, Water and Sanitation Authority for the external connection works was reduced from 30% of the materials cost to 15% when the customer provides the materials.

Source: Doing Business database.

TABLE 6.5 Who in the EAC has narrowed the distance to frontier in getting electricity the most since 2010?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	6 (71→77)
Uganda	4 (55→59)
Kenya	3 (54→57)
Tanzania	2 (71→73)
Burundi	0 (30→30)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator—in this case for the getting electricity indicators since 2010. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 176 economies included in the getting electricity sample in 2010. Nine economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2010 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

customer charter in 2011/12 to push the utility to improve performance. One aim was to reduce delays in visiting the customer's site and in delivering the estimate for a new electricity connection.[2]

Improving process efficiency within the utility and streamlining approvals with other public agencies are the most common features of reforms making it easier to get electricity. These are also among the most effective ways to reduce connection delays and the duplication of formalities. Take Guinea, where the utility streamlined approvals by taking on a task previously left to the customer. As a result of a decree signed in April 2012, Electricité de Guinée now files the excavation permit application with the Ministry of Public Works on behalf of the customer. This has reduced the burden on the customer by eliminating the need to deal with another government agency.

Other utilities have reduced connection costs and wait times by improving procurement practices. The utility of the Namibian city of Windhoek took several steps aimed at reducing connection times and costs. First, the utility created a new template for calculating commodity prices, enabling it to provide customers with a cost estimate for a new connection more easily and thus more quickly. Second, the utility selected a more effective, efficient and experienced civil contractor through an open tender process. Together, these 2 measures reduced the connection time by 17 days. Finally, the utility began acquiring materials and equipment through an open tender process held every 2 years. This led to more competition and lower prices, reducing the connection cost by 77.8% of income per capita.

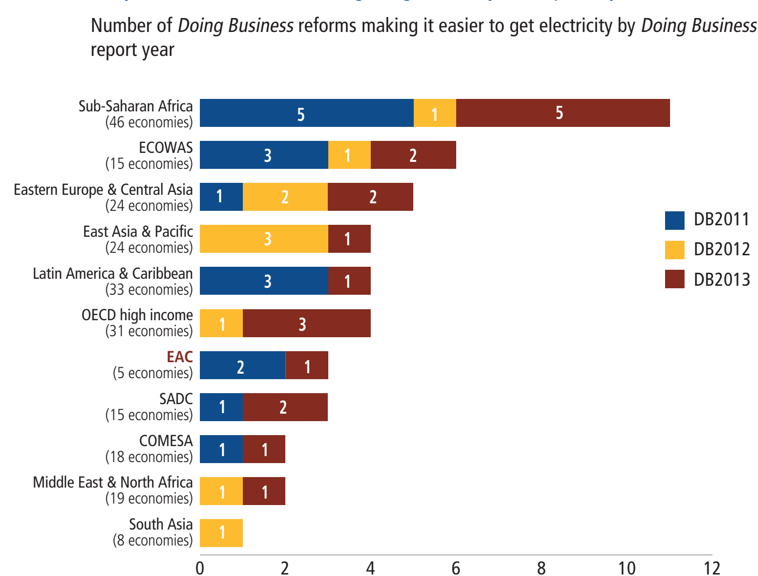
WHAT WERE THE TRENDS IN THE PAST 3 YEARS?

In the past 3 years 30 economies around the world implemented 31 regulatory reforms making it easier to get a new electricity connection (figure 6.2). Sub-Saharan Africa accounts for the largest number of such reforms. ECOWAS was particularly active, with 6 reforms in the past 3 years. EAC economies implemented 3.

The steady pace of reforms in Sub-Saharan Africa yielded results, leading to bigger reductions in the time and cost to obtain a new electricity connection than those in any other world region between 2009 and 2012. Within Africa, the EAC achieved bigger reductions than other regional blocs covered—cutting the time from 183 days to 113 and cutting the cost by almost half, from 120 times the income per capita to 66 (see figure 6.1).

In Tanzania a new customer service charter approved by the regulatory agency in

FIGURE 6.2 Thirty economies had reforms in getting electricity in the past 3 years



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2011 (2010) includes 176 economies. The sample for DB2013 (2012) also includes Barbados, the Comoros, Equatorial Guinea, Iraq, the Republic of Korea, Malta, São Tomé and Príncipe, Sudan and Uruguay, for a total of 185 economies.

Source: Doing Business database.

2010 reduced wait times for customers by enforcing time frames for different steps and streamlining internal processes. In Uganda the utility reduced the time required for completing external connection works by 60 days by outsourcing the task to registered private firms. Among EAC economies, Rwanda and Uganda have advanced the most since 2010 in narrowing the gap with the most efficient regulatory practices for connecting new customers (table 6.5).

NOTES

This topic note was written by Maya Choueiri, Caroline Frontigny, Anastasia Shegay and Jayashree Srinivasan.

1. The surveys are for various years in 2002–10. The data sample includes 113 economies.
2. In accordance with the getting electricity methodology, the introduction of the customer charter was not included in the reform count because it had only a minor impact on the time to obtain a new electricity connection.

Registering property

Imagine Célestin, a Burundi entrepreneur who wants to sell a plot of land to raise funds to expand his coffee processing business in Bujumbura. He has found a buyer, Monia, and the 2 parties have agreed on all material terms of the transaction. They can expect the process of getting the property transferred and registered in Monia's name to take 64 days and cost 3.3% of the property value. This reflects a big improvement over the year before, when it would have taken 94 days and cost 3.6% of the property value.

Formal property registration is pivotal to private sector development, especially in developing economies, because registered property rights are essential to support investment and productivity 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.

Doing Business records the procedures necessary for a business to purchase a property from another business and to formally transfer the property title to the buyer's name. The process starts with obtaining the necessary documents, such as a copy of the seller's title, and ends when the buyer is registered as the new owner of the property. The transaction is considered completed once the title is opposable to third parties and the buyer can use the property as collateral for a bank loan or resell it. 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. Within the East African Community (EAC), Rwanda makes it easiest to formally transfer and register property as measured by *Doing Business* (table 7.1).

TABLE 7.1 How do EAC economies rank on the ease of registering property?

Economy	Global rank
Rwanda	63
Uganda	124
Burundi	127
Tanzania	137
Kenya	161

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to register property. See the data notes for details.

Source: Doing Business database.

WHO REFORMED IN REGISTERING PROPERTY IN 2011/12?

In 2011/12, 17 economies around the world made it easier for local businesses to register property by reducing the procedures, time or cost required. Four of these economies are in Sub-Saharan Africa, where the most common improvements were introducing time limits or expedited procedures, increasing administrative efficiency, computerizing procedures and reducing taxes or fees.

Burundi is the only EAC economy that implemented a reform making it easier to register property in 2011/12. Through an administrative order calling for improved workflow processes at the land registry, it established a statutory time limit for processing property transfer requests (table 7.2). The land registry now issues a new title in the property purchaser's name 30 days faster (figure 7.1).

- **Within the East African Community (EAC), Rwanda makes it easiest to register property as measured by *Doing Business*.**
- **From June 2011 to June 2012 *Doing Business* recorded 4 reforms making it easier to register property in Sub-Saharan Africa. One was implemented in the EAC—in Burundi.**
- **Angola, Burkina Faso, Côte d'Ivoire, Mauritius, Rwanda and Sierra Leone are among the 10 economies making the biggest improvements in the efficiency of property registration since 2005, giving Sub-Saharan Africa the largest representation in this group.**
- **Around the world, economies making effective cuts in the procedures to register property have centralized procedures in a single agency. And they use information and communication technology or better caseload management systems to make the process faster and less costly.**

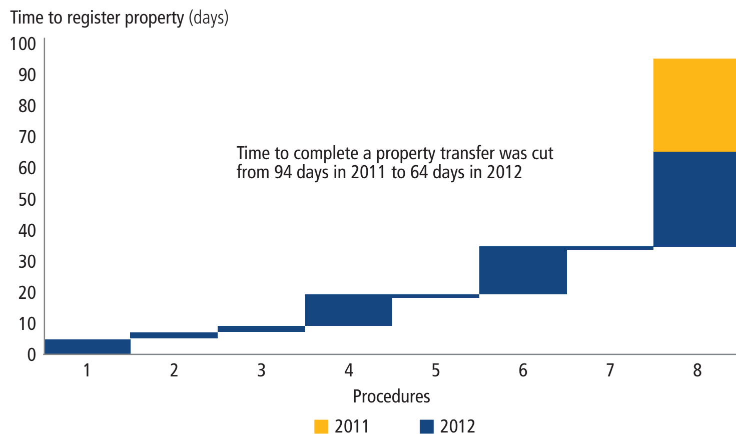
For more information on good practices and research related to registering property, visit http://www.doingbusiness.org/data/exploretopics/registering-property. For more on the methodology, see the section on registering property in the data notes.

TABLE 7.2 Who in the EAC made registering property easier in 2011/12—and what did they do?

Feature	Economy	Some highlights
Introduced effective time limits	Burundi	Burundi introduced time limits at its land registry.

Source: Doing Business database.

FIGURE 7.1 Burundi reduced the time required for property transfers by a month in 2011/12



Source: Doing Business database.

Besides Burundi, several other economies—Israel, Mauritius and Ukraine—also introduced effective time limits reducing the time required to register property in 2011/12. In addition to time limits, Mauritius implemented an electronic system allowing faster processing of registration and transcription requests at the Registrar-General's Department—and reduced the time required to transfer property by 7 days. Mauritius stands out in Sub-Saharan Africa as the economy with the most good practices in property registration.

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

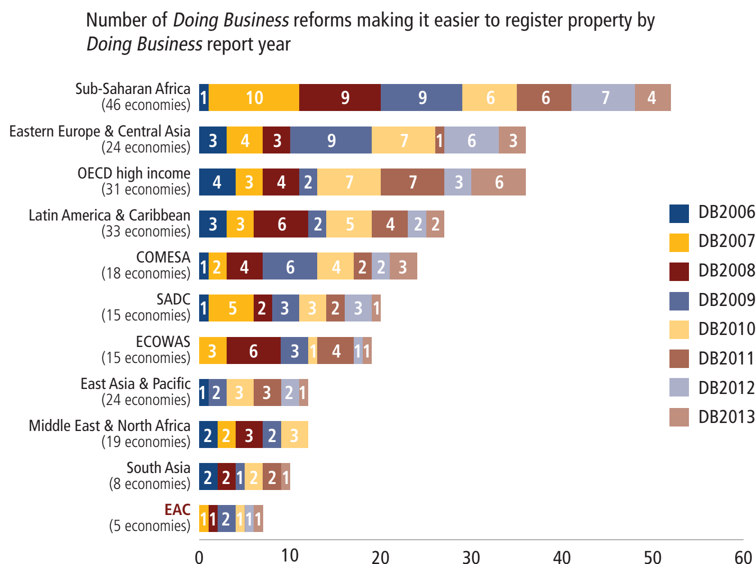
In the past 8 years *Doing Business* recorded 185 reforms, undertaken in 121 economies, that increased the efficiency of procedures for transferring property (figure 7.2). Globally, the average time to transfer property fell by 35 days, from 90 to 55, and the average cost by 1.2 percentage points, from 7.1% of the property value to 5.9%.

Among world regions, Sub-Saharan Africa had the largest number of property registration reforms in the past 8 years—with 52. As a result, it also cut the cost to register property the most, though the regional average remains the highest. The EAC, with 5 economies, accounts for a proportional share of reforms, with 7 recorded in the past 8 years. And the EAC achieved a bigger reduction in the time to register property than any world region except Eastern Europe and Central Asia (figure 7.3).

Reforms implemented by EAC economies since 2005 have had significant and lasting effects on property registration systems. In 2011 Uganda reduced the time required to transfer property by amending the service charter of the Chief Government Valuer's Office so as to increase administrative efficiency and by increasing the number of officials handling land transfers at the Land Office. In 2008 Kenya cut the time required for property valuation by allowing private practitioners as well as government valuers to carry out valuations. In 2007 Tanzania reduced the transfer fee from 4% of the property value to 1%. And in 2008 Rwanda not only reduced transfer fees but also set fixed fees.

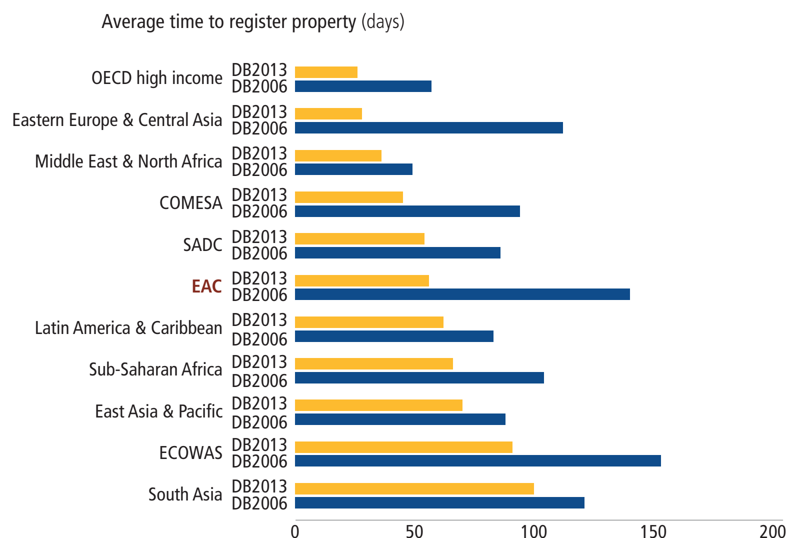
On average, registering property in EAC economies costs 3.9% of the property value, less than in economies in the Common Market for Eastern and

FIGURE 7.2 Economies around the world are increasing the efficiency of property registration



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 DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.
Source: Doing Business database.

FIGURE 7.3 Property transfers have become faster worldwide—and substantially so in the EAC



Note: To ensure an accurate comparison, the figure shows data for the same sample of 170 practice economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

TABLE 7.4 Who in the EAC has narrowed the distance to frontier in registering property the most since 2005?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	38 (36→74)
Burundi	24 (40→64)
Tanzania	10 (52→62)
Uganda	7 (50→58)
Kenya	-4 (61→58)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the registering property indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

TABLE 7.3 Who in the EAC makes registering property easy—and who does not?

Procedures (number)	
Rwanda	5
Burundi	8
Tanzania	8
Kenya	9
Uganda	12
Time (days)	
Rwanda	25
Uganda	52
Burundi	64
Tanzania	68
Kenya	73
Cost (% of property value)	
Uganda	1.9
Burundi	3.3
Kenya	4.3
Tanzania	4.4
Rwanda	5.6

Source: Doing Business database.

Southern Africa (COMESA), where the cost averages 6.4%, or in the Southern African Development Community (SADC), where it averages 7.3%. But property transfers in COMESA and SADC economies occur faster and require fewer procedures on average.

Around the world, economies making effective reductions in the time to register property have reorganized the workflow of their registries, introduced time limits (taking into account the capacity of the institutions involved) or paired the computerization of their registries with the introduction of efficient caseload management systems. Through changes such as these, Rwanda cut the time to register property from 371 days in 2004 to 25 days in 2012 (table 7.3). Indeed, while many economies have narrowed the gap with the most efficient regulatory practice in property registration since 2005, Rwanda stands out for having made the second largest improvement globally—and the greatest in the EAC (table 7.4).

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 common good practices: introducing time limits that are complied with, setting low fixed fees, streamlining procedures and going electronic.

NOTES

This topic note was written by Frédéric Meunier and Moussa Traoré.

1. See Deininger (2003) for a summary and analysis of relevant studies.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Getting credit

- **Kenya leads the East African Community (EAC) in the ease of getting credit and stands at 12 in the global ranking. Rwanda is at 23 in the ranking, and Uganda at 40.**
- **On the component indicators, Kenya leads the EAC in the strength of legal rights of borrowers and lenders, and Rwanda in the depth of credit information.**
- **In the past 8 years *Doing Business* recorded 2 reforms strengthening legal rights in the EAC, in Burundi and Rwanda. It recorded 5 improving credit information systems, in Kenya, Rwanda and Uganda.**
- **Rwanda is among the 3 economies around the world advancing the furthest toward the frontier in regulatory practice in the area of getting credit since 2005.**
- **Kenya and Rwanda have legislation allowing the use of a broad range of movable assets as collateral and out-of-court enforcement of security interests in movable property.**

For more information on good practices and research related to getting credit, visit http://www.doingbusiness.org/data/exploretopics/getting-credit. For more on the methodology, see the section on getting credit in the data notes.

The United Nations Commission on International Trade Law (UNCITRAL), in its *Legislative Guide on Secured Transactions*, emphasizes the importance the international community places on secured credit: "All businesses, whether engaged in mining, lumbering, agriculture, manufacturing, distributing, providing services or retailing, require working capital to operate, to grow and to compete successfully in the marketplace. It is well established . . . that one of the most effective means of providing working capital to commercial enterprises is through secured credit."[1]

In that spirit *Doing Business* measures 2 types of institutions and systems that can facilitate access to finance and improve its allocation: credit registries or credit bureaus and the legal rights of borrowers and lenders in secured transactions and bankruptcy laws. These institutions and systems work best together.[2] Information sharing through credit registries or bureaus 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. Creditors' rights and insolvency regimes are fundamental to a sound investment climate and can help promote commerce and economic growth.[3]

These 2 types of institutions are measured by 2 sets of indicators. One set analyzes the legal framework for secured transactions by looking at how well collateral and bankruptcy laws facilitate lending. The other looks at the coverage, scope and quality of credit information available through credit registries and credit bureaus.

TABLE 8.1 How do EAC economies rank on the ease of getting credit?

Economy	Global rank
Kenya	12
Rwanda	23
Uganda	40
Tanzania	129
Burundi	167

Note: Rankings on the ease of getting credit are based on the sum of the strength of legal rights index and the depth of credit information index. See the data notes for details.

Source: Doing Business database.

Rankings on the ease of getting credit are based on the sum of the strength of legal rights index and the depth of credit information index (table 8.1).

WHO REFORMED IN GETTING CREDIT IN 2011/12?

Globally, only 5 economies improved access to credit by reforming their secured transactions legislation or strengthening the rights of secured creditors in 2011/12. In the East African Community (EAC) no reforms were recorded in these areas of law. But some EAC economies had already incorporated good practices into their legislation covering secured transactions and creditors' rights (table 8.2).

Sixteen economies improved their credit reporting system in 2011/12; 1 economy made access to credit information more difficult. Three of the 16 reforming economies are in Sub-Saharan Africa. Ethiopia introduced a new online system for sharing credit information and guaranteed borrowers' right to inspect their

TABLE 8.2 Good practices in providing legal rights for borrowers and lenders

Practice	Economies[a]	Some highlights in the EAC
Allowing out-of-court enforcement	122	In Uganda legislation allows out-of-court enforcement of security interests if agreed to by the parties.
Allowing general description of collateral	92	In Kenya and Tanzania legislation allows movable assets owned by companies to be used as collateral and permits a general description of these assets in the security agreement.
Maintaining a unified registry for movable property	67	Rwanda introduced a collateral registry in 2010.

a. Among 185 economies surveyed around the world.
Source: Doing Business database.

TABLE 8.3 Good practices in sharing credit information

Practice	Economies[a]	Examples in the EAC
Distributing data on loans below 1% of income per capita	123	Kenya, Rwanda, Uganda
Distributing both positive and negative credit information	105	Rwanda, Uganda
Distributing credit information from retailers, trade creditors or utilities as well as financial institutions	55	Kenya, Rwanda

a. Among 185 economies surveyed around the world.
Source: Doing Business database.

personal data. In Mauritius the public credit registry developed a new format for credit reports that includes on-time payments and unpaid installments and also began collecting data from retailers. Sierra Leone's first public credit registry started operations, issuing more than 4,000 credit reports in 2011.

Specific practices help increase credit coverage and encourage the use of credit information systems. Among the most common measures around the world have been lowering or eliminating minimum thresholds for the loans included, expanding the range of information shared and collecting and distributing data from sources other than banks (table 8.3).

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

Some economies have incorporated good practices in their legal framework for secured transactions with the aim of improving access to finance for small and medium-size enterprises. Over the past 8 years *Doing Business* recorded 2 reforms in EAC economies affecting their score on the strength of legal rights index (table 8.4).

In March 2006 Burundi enacted Law 1/08, which regulates court-supervised arrangements for insolvent companies. The law provides protection for secured creditors in a reorganization proceeding by allowing the insolvency representative to replace the assets over which secured creditors have a right with others of equivalent value if the collateral is destroyed, sold or devalued during the proceeding. The law also makes payment of interest during the stay period mandatory.

In May 2009 Rwanda enacted Law 11/2009, on security interests in movable property, and Law 12/2009, on commercial recovery and settling of issues arising from insolvency. The first law broadens the range of movable assets that can be subject to nonpossessory security interests and allows enforcement of security interests out of court. The law

TABLE 8.4 Who in the EAC has the strongest legal rights for borrowers and lenders—and who the weakest?

Strength of legal rights index (0–10)	
Kenya	10
Rwanda	7
Tanzania	7
Uganda	7
Burundi	3

Note: The rankings reflected in the table on legal rights for borrowers and lenders consider solely the law. Problems may occur in the implementation of legal provisions and are not reflected in the scoring. See the data notes for details.
Source: Doing Business database.

also provided for the implementation of a collateral registry, which later became operational.

Rwanda also improved the sharing of credit information (table 8.5). In 2005 the country expanded the range of information distributed by credit registries by including credit information from microfinance institutions. In 2010 Rwanda passed the Law Governing the Establishment, Organization and Functioning of a Credit Information System, which set up a regulatory framework for the sharing of credit information and provided for the establishment of a private credit bureau. In addition, the central bank removed the minimum threshold for loans that banks are required to report to public credit registries. Rwanda's first private credit bureau, CRB Africa, started operations in May 2010. Three utility companies—the mobile phone companies MTN and Tigo and the electricity and gas company EWSA—started providing credit information to the private credit bureau in 2011, increasing by 2% the number of individuals and firms registered in the database. Also in 2011, both the public credit registry and the private credit bureau began distributing more than 2 years of historical data—both positive and negative.

Rwanda is not the only EAC economy that distributes credit information from retailers, trade creditors or utilities. In Kenya the private credit bureau added telephone companies and furniture and household appliance retailers as information providers in 2006, and utility companies and other retailers in 2007. Trade creditors had started supplying credit information before 2006. Kenya also improved access to credit by passing the Banking (Credit Reference Bureau) Regulations 2008 in February 2009. The new law made it mandatory for financial institutions licensed under the Banking Act to share negative information on their customers with licensed credit bureaus. It also provided for the licensing and establishment of private credit bureaus in the country.

TABLE 8.5 Who in the EAC has the most credit information—and who the least?

Economy	Depth of credit information index (0–6)	Public registry coverage (% of adults)	Private bureau coverage (% of adults)
Rwanda	6	0.0	7.1
Uganda	5	0.0	3.7
Kenya	4	0.0	4.9
Burundi	1	0.3	0.0
Tanzania[a]	0	0.0	0.0

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

Source: Doing Business database.

Uganda's first private credit bureau, Compuscan CRB, began operations in 2009. Regulated under the Financial Institutions (Credit Reference Bureaus) Regulations, the new private bureau receives borrower information from all regulated entities, including 23 commercial banks and 3 microfinance institutions. Loans of all sizes and both positive and negative information are reported to the private bureau. By January 1, 2010, Compuscan's database included 174,683 individuals and 3,104 firms, coverage equivalent to 1.1% of the adult population as measured by *Doing Business*. Under the Financial Institutions Act, borrowers have the right to access their credit report.

TABLE 8.6 Who in the EAC has narrowed the distance to frontier in getting credit the most since 2005?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	56 (25→81)
Uganda	31 (44→75)
Kenya	25 (63→88)
Burundi	0 (25→25)
Tanzania	0 (44→44)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the getting credit indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

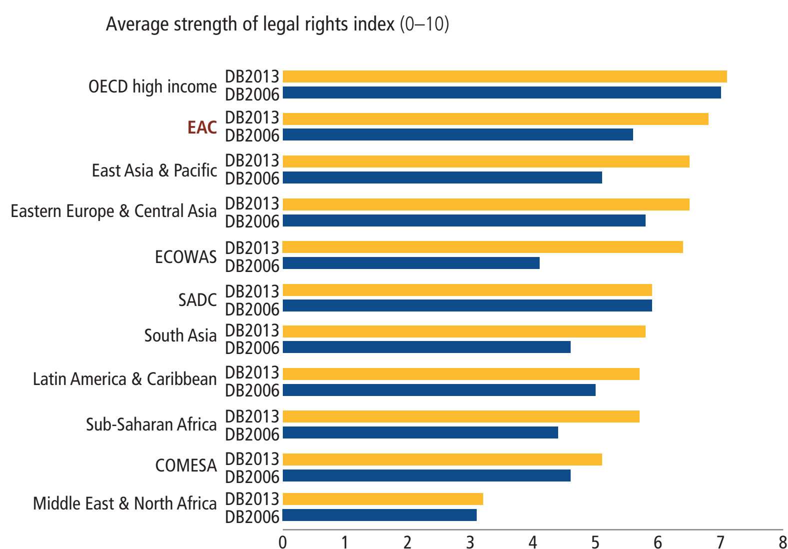
These changes in EAC economies led to important improvements. Rwanda ranks among the 3 economies globally that have advanced the furthest toward the frontier in regulatory practice in the area of getting credit since 2005 (table 8.6). Uganda ranks among the 15 economies advancing the furthest.

The measures taken in EAC economies are among the 71 reforms strengthening legal rights of borrowers and lenders in 59 economies recorded by *Doing Business* in the past 8 years—and among the 171 regulatory reforms improving credit information systems in 99 economies (more than two-thirds of the 146 economies with a credit reporting system as recorded by *Doing Business*).

Among world regions, Sub-Saharan Africa had the largest number of reforms strengthening legal rights. Most were recorded in member economies of the Organization for the Harmonization of Business Law in Africa (OHADA), which implemented amendments to the OHADA Uniform Act on Secured Transactions of 2010. The revised act broadened the range of assets that can be used as collateral (including future assets), extended security interests to the proceeds of the original asset and introduced the possibility of out-of-court enforcement.

Within Africa, the EAC has increased its average score on the strength of legal rights index more since 2005 than have the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) (figure 8.1). The reason is that no secured transactions reforms were recorded in the past 8 years for SADC and COMESA members except Burundi

FIGURE 8.1 EAC economies have strengthened the legal rights of borrowers and lenders

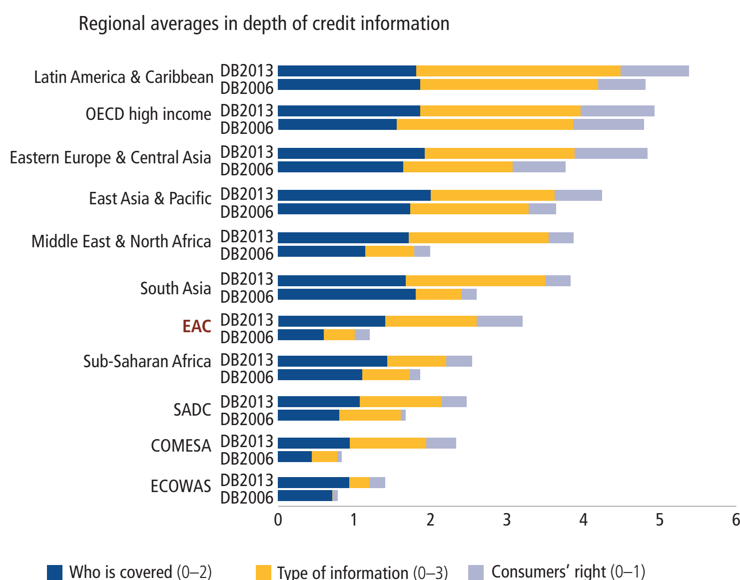


Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

FIGURE 8.2 Big improvements in credit information systems in the EAC

Regional averages in depth of credit information



Note: To ensure an accurate comparison, the figure shows data for the same sample of 123 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications applying in 2012. DB2006 data are adjusted for any data revisions and changes in methodology. *Who is covered* refers to whether both individuals and firms are covered by a bureau or registry and whether loans below 1% of income per capita are included. *Type of information* refers to the availability of information from retailers or utilities, distribution of positive and negative information and availability of historical data. *Consumers' right* refers to whether the law guarantees borrowers' right to inspect their own data.

Source: Doing Business database.

and the economies that are also OHADA members. The Economic Community of West African States (ECOWAS) has increased its average score more than all 3 of the other regional blocs, however—thanks to the secured transactions reforms implemented by OHADA members as well as by such economies as Ghana and Sierra Leone. On the depth of credit information index, the EAC has increased its average score more since 2005 than SADC, COMESA and ECOWAS—and more than Sub-Saharan Africa as a whole (figure 8.2).

NOTES

This topic note was written by Santiago Croci Downes and Charlotte Nan Jiang.

1. UNCITRAL 2007, p. 1.
2. Djankov, McLiesh and Shleifer 2007.
3. World Bank 2011.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Protecting investors

- **Rwanda has the strongest minority investor protections in related-party transactions in the East African Community (EAC), for the fifth year in a row. In Sub-Saharan Africa, South Africa continues to have the strongest protections.**
- **The EAC has been more active in strengthening the protections of minority investors since 2005 than any world region except Eastern Europe and Central Asia.**
- **Three EAC economies strengthened minority investor protections: Tanzania in 2006, Rwanda in 2009 and Burundi in 2011.**
- **Among the 10 economies globally that have advanced the furthest toward the frontier in regulatory practice in protecting investors since 2005, Rwanda is third and Burundi fifth.**
- **In 2011/12 Lesotho was the only economy in Sub-Saharan Africa that strengthened minority investor protections.**

For more information on good practices and research related to protecting investors, visit http://www.doingbusiness.org/data/exploretopics/protecting-investors. For more on the methodology, see the section on protecting investors in the data notes.

The East African Community (EAC) is deeply rooted in principles of cooperation, competition and positive emulation. After Rwanda launched ambitious and comprehensive reforms of its legal environment to foster investment, culminating in an overhaul of its company law in 2009, Burundi soon followed suit. Practitioners are already seeing changes in these economies. Business is no longer conducted in the same way. Corporations are subject to more detailed rules governing how sensitive transactions must be approved and disclosed, what duties company directors are held to and whether minority investors in a company can initiate proceedings if they suspect that its directors are not acting in its best interests.

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: approval and transparency of related-party transactions (extent of disclosure index), liability of company directors for self-dealing (extent of director liability index) and shareholders' ability to obtain corporate documents before and during litigation (ease of shareholder suits index). The standard case study assumes a related-party transaction between Company A ("Buyer") and Company B ("Seller") where "Mr. James" is the controlling shareholder of both Buyer and Seller and a member of both their boards of directors. The transaction is overpriced and causes damages to Buyer.

Protecting minority shareholders matters for companies. Without adequate regulations, equity markets fail to develop and banks become the only source of the finance that companies need to grow, innovate, diversify and compete. A recent study shows that in economies with stronger investor protections, investment

TABLE 9.1 How do EAC economies rank on the strength of investor protections?

Economy	Global rank	Strength of investor protection index (0–10)
Rwanda	32	6.3
Burundi	49	6.0
Kenya	100	5.0
Tanzania	100	5.0
Uganda	139	4.0

Note: Rankings are based on the strength of investor protection index. See the data notes for details. Economies shown with the same ranking number are tied in the ranking.

Source: Doing Business database.

TABLE 9.2 Who in the EAC provides strong minority investor protections—and who does not?

Extent of disclosure index (0–10)	
Burundi	8
Rwanda	7
Kenya	3
Tanzania	3
Uganda	2

Extent of director liability index (0–10)	
Rwanda	9
Burundi	6
Uganda	5
Tanzania	4
Kenya	2

Ease of shareholder suits index (0–10)	
Kenya	10
Tanzania	8
Uganda	5
Burundi	4
Rwanda	3

Source: Doing Business database.

in firms is less sensitive to financial constraints and leads to greater growth in revenue and profitability.[1] Another study shows that regulating conflicts of interest is essential to successfully empowering minority shareholders.[2]

Within the EAC, Rwanda provides the strongest minority investor protections as measured by *Doing Business*, ranking highest in this area for the fifth year in a row (table 9.1). But Rwanda is not alone among EAC economies in protecting minority investors. Today Burundi also offers many of the protections first introduced in the EAC in Rwanda. And in Kenya and Tanzania minority investors can still count on some of the most balanced civil procedure rules. The results of such provisions become apparent when measuring the ease of shareholder suits (table 9.2).

WHO HAS IMPROVED INVESTOR PROTECTIONS?

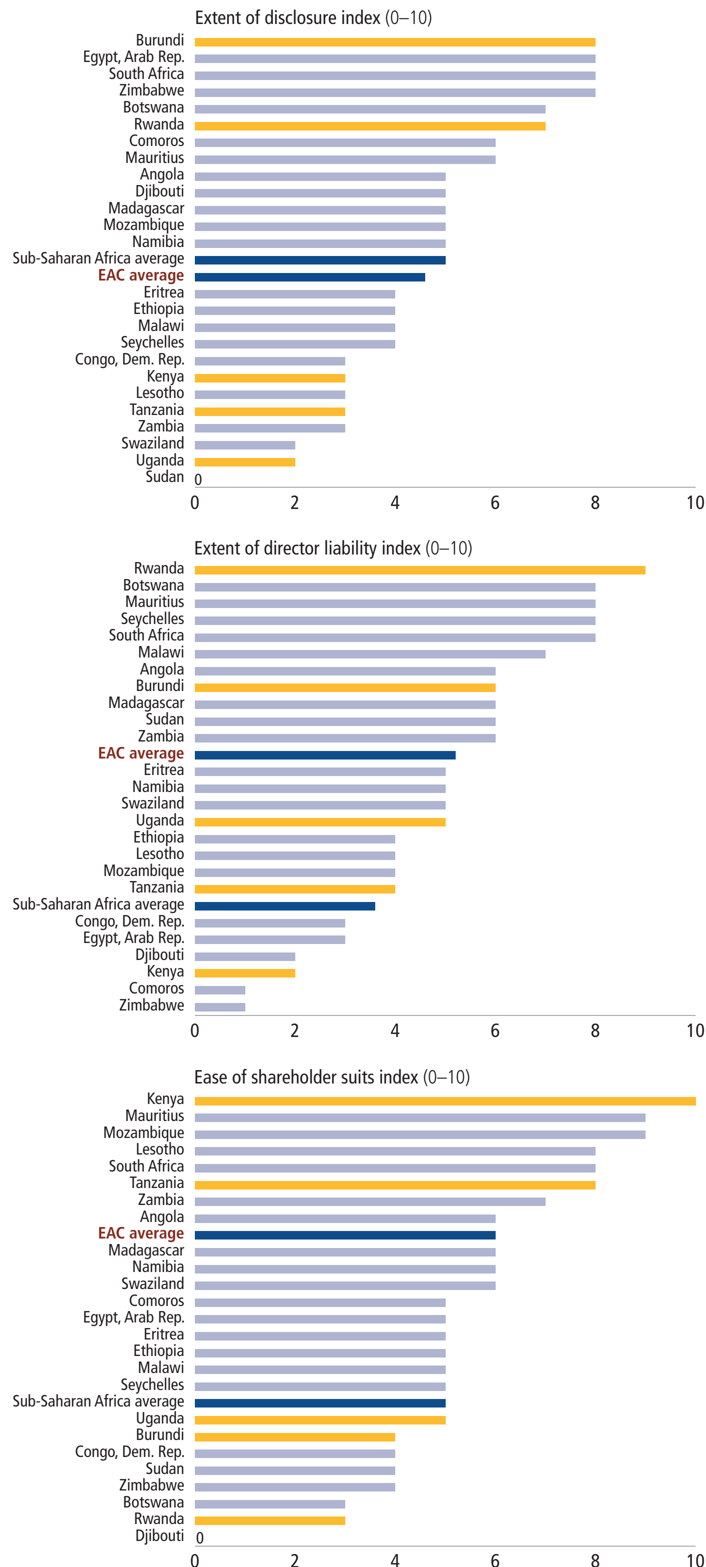
Within Africa, the EAC has been more active than any other regional bloc covered in strengthening legislation to further protect and empower minority shareholders. Indeed, it is largely responsible for initiating a trend of regulatory reforms in favor of minority shareholders, with the hope of building investor confidence in

TABLE 9.3 Who in the EAC has strengthened investor protections—and what did they do?

Economy	Some highlights
Burundi	In 2011 Burundi enacted a new company law (Code des sociétés privées et à participation publique) strengthening investor protections by regulating the approval of transactions between interested parties; requiring greater corporate disclosure to the board of directors and in the annual report; and making it easier to sue directors in cases of prejudicial transactions between interested parties.
Rwanda	In 2009 Rwanda adopted a new company law strengthening investor protections by requiring greater corporate disclosure, director liability and shareholder access to information.
Tanzania	In 2006 Tanzania passed a new company act strengthening investor protections by codifying directors' duties and shareholder suit mechanisms and providing greater access to company books.

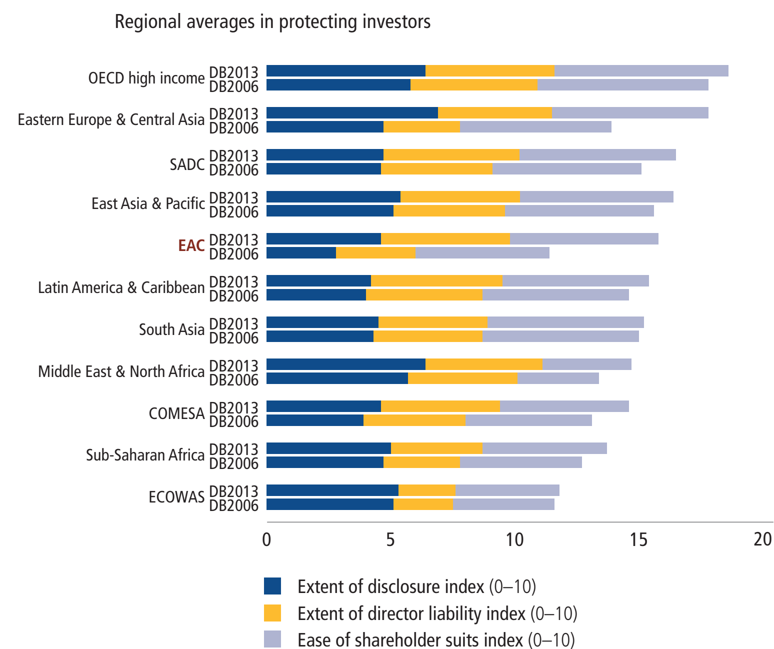
Source: Doing Business database.

FIGURE 9.1 Among African regional blocs, an EAC member tops the ranking on each of the 3 aspects of investor protections measured



Note: Figure shows data for EAC, COMESA and SADC member economies.
Source: Doing Business database.

FIGURE 9.2 The EAC has made significant strides in investor protections since 2005



Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

domestic firms. Tanzania began the trend in 2006 by adopting a new company act, followed by Rwanda in 2009 and Burundi in 2011 (table 9.3).

The emulation effect has rippled beyond the confines of the EAC to Botswana, Mozambique, Swaziland and, most recently, Lesotho. Yet among African regional blocs, an EAC economy still tops the ranking on each of the 3 aspects of investor protections measured by *Doing Business* (figure 9.1).

Moreover, thanks to the efforts of its member economies, the EAC is catching up with world regions. While it ranked below most world regions on the strength of investor protections in 2005, the EAC has now surpassed Latin America and the Caribbean, South Asia, the Middle East and North Africa and Sub-Saharan Africa as a whole (figure 9.2).

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years 60% of economies in the EAC implemented at least 1 reform strengthening investor protections. This is a larger share than in any world region except Eastern Europe and Central Asia—and a far larger one than in Sub-Saharan Africa overall (table 9.4). The EAC's 60% share also far exceeds that in the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of West African States (ECOWAS).

While many economies around the world have strengthened investor protections, Rwanda and Burundi have made some of the biggest improvements since 2005—and the biggest in Sub-Saharan Africa (table 9.5). Indeed, thanks largely to the EAC, Sub-Saharan Africa has had some of the most comprehensive minority investor protection reforms, with updates of company laws following global good practices.

TABLE 9.4 Where have economies been most active in strengthening investor protections since 2005?

		Economies that reformed[a]	
Region or regional bloc	Total economies	Number	Share of total (%)
Eastern Europe & Central Asia	24	16	67
EAC	5	3	60
OECD high income	31	15	48
East Asia & Pacific	24	9	38
South Asia	8	3	38
SADC	15	5	33
Middle East & North Africa	19	6	32
Latin America & Caribbean	33	8	24
COMESA	18	4	22
Sub-Saharan Africa	46	9	20
ECOWAS	15	2	13

a. Economies implementing at least 1 *Doing Business* reform strengthening investor protections from the *Doing Business* report year DB2006 to DB2013. 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 DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

Source: Doing Business database.

TABLE 9.5 Who in the EAC has narrowed the distance to frontier in protecting investors the most since 2005?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	38 (29→67)
Burundi	29 (34→62)
Tanzania	10 (41→51)
Kenya	0 (51→51)
Uganda	0 (42→42)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the protecting investors indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

Overall, smart, comprehensive regulations have had the strongest lasting impact. Economies undertaking a complete overhaul of their corporate, securities and civil procedure laws—such as Burundi and Rwanda—have strengthened investor protections the most as measured by *Doing Business*.

But updating decades-old corporate law principles to address investor protections is not simple. It requires a balancing act—to more effectively protect minority shareholders without creating undue burdens on companies' day-to-day operations. Thus far the EAC has been successful at maintaining this balance. Keeping this balance in mind will remain essential if Kenya, Tanzania and Uganda pursue the initiatives of Rwanda and Burundi.

NOTES

This topic note was written by Hervé Kaddoura.

1. Mclean, Zhang and Zhao 2012.
2. Hamdani and Yafeh 2012.

2007 2012 2005 2009 2004 2011 2008 2006 2010 2013

Paying taxes

- **From June 2011 to June 2012 *Doing Business* recorded 31 reforms making it easier or less costly for companies to comply with taxes. One was in the East African Community (EAC)—in Kenya.**
- **EAC economies have an average global ranking of 110 on the ease of paying taxes. But there is great variation among them on the underlying indicators—time, number of payments and total tax rate.**
- **Among EAC economies, Burundi and Rwanda have advanced the furthest toward the frontier in regulatory practice in paying taxes since 2004.**
- **Over the past 8 years 7 reforms making it easier or less costly to comply with taxes were recorded in the 5 EAC economies.**

For more information on good practices and research related to paying taxes, visit http://www.doingbusiness.org/data/exploretopics/paying-taxes. For more on the methodology, see the section on paying taxes in the data notes.

Taxes are essential: governments need revenue to provide public services. But meeting revenue targets while minimizing distortions is always a challenge. Governments need to not only choose appropriate tax rates within a broad-based, fair and transparent tax system but also design a tax compliance system that does not discourage taxpayers from participating.[1]

In recent years economies in the East African Community (EAC) have undertaken substantial efforts to improve their tax systems—to make it easier to do business while also increasing tax revenue. For example, the Tanzania Revenue Authority established tax service centers in Dar es Salaam, intensified risk-based and quality tax audits and encouraged greater use of electronic filing and payment systems. These administrative measures helped improve compliance, and tax revenue rose relative to GDP in each of the past 2 years.[2] Similarly, in Burundi tax revenue has almost doubled since the 2009 reform of the revenue administration, which included the establishment of the Office Burundais des Recettes and focused on good governance, a streamlined tax environment and stronger taxpayer services.[3]

Beyond measures by individual EAC economies, initiatives are also taking place at the regional level. The EAC has identified regional tax harmonization and greater cooperation on tax matters among its members as key to economic prosperity. The goal of the EAC members in establishing the common market is to enable businesses to operate unhindered by national borders and to tap the huge potential arising from the regional efforts to make it easier to do business. The EAC has organized many activities toward this end in recent years, including technical workshops on income tax, value added tax (VAT) and the exchange of information among EAC members' revenue authorities. Effective information exchange is essential to ensure the correct application of tax laws while maintaining sovereignty over the application and enforcement of these laws. And the development of regional strategies and frameworks for both tax policy and administrative procedures is crucial for the realization of the common market because it creates synergies and removes obstacles to cross-border trade within the EAC.

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: number of payments, time and total tax rate for the *Doing Business* case study firm. 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 filings and 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 (as a percentage of profit) borne by the standard firm. The indicators do not measure the fiscal health of economies, the macroeconomic conditions under which governments collect

TABLE 10.1 How do EAC economies rank on the ease of paying taxes?

Economy	Global rank
Rwanda	25
Uganda	93
Tanzania	133
Burundi	137
Kenya	164

Note: Rankings are the average of the economy's rankings on the number of payments, time and total tax rate as measured for the *Doing Business* case study firm, with a threshold imposed on the total tax rate. See the data notes for details.

Source: Doing Business database.

TABLE 10.2 Who in the EAC makes paying taxes easy and who does not—and where is the total tax rate highest?

Payments (number per year)	
Rwanda	17
Burundi	25
Uganda	31
Kenya	41
Tanzania	48
Time (hours per year)	
Rwanda	134
Tanzania	172
Uganda	213
Burundi	274
Kenya	340
Total tax rate (% of profit)	
Rwanda	31.3
Uganda	37.1
Kenya	44.4
Tanzania	45.3
Burundi	53.0

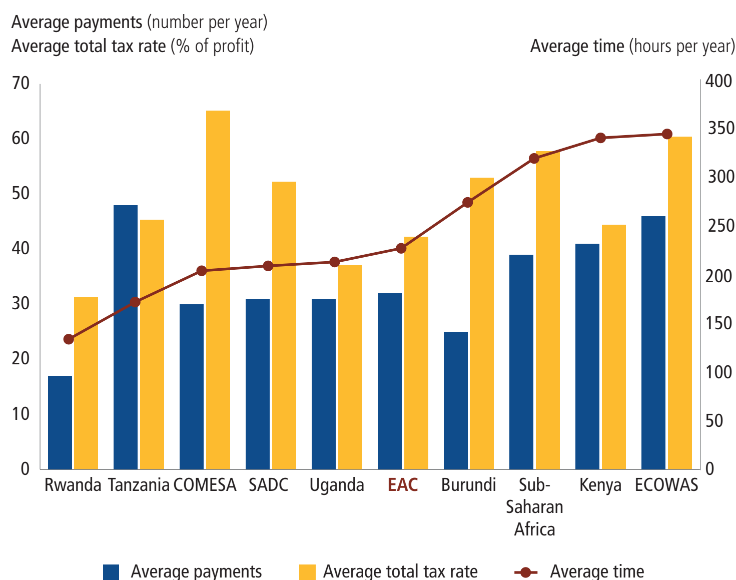
Note: The indicator on payments is adjusted for the possibility of electronic or joint filing and payment when used by the majority of firms in an economy. See the data notes for more details.

Source: Doing Business database.

revenue or the provision of public services supported by taxation. The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators, with a threshold applied to the total tax rate.[4]

On average, EAC economies have a ranking of 110 (among 185 economies globally) on the ease of paying taxes. But there is much variation among the 5 economies, with Rwanda at 25 in the global ranking and Kenya at 164 (table 10.1).

FIGURE 10.1 Tax compliance takes less time in the EAC than in ECOWAS



Source: Doing Business database.

The EAC's average ranking is lower than that for the Southern African Development Community (SADC), at 83, and the Common Market for Eastern and Southern Africa (COMESA), at 92 (in both these regional blocs, which have overlapping memberships, rankings range from 12 for Mauritius to 171 for the Democratic Republic of Congo). The EAC has a significantly lower average total tax rate, at 42.2% of profit, than SADC (52.2%), COMESA (65.1%) or Sub-Saharan Africa as a whole (57.8%). And while businesses in the EAC spend on average 227 hours a year to comply with tax liabilities, the average is 204 hours a year in COMESA, 209 in SADC, 344 in the Economic Community of West African States (ECOWAS) and 319 in Sub-Saharan Africa (figure 10.1).

Within the EAC, just as there is great variation in the overall ranking on the ease of paying taxes, there is much variation in the underlying indicators. Tanzania requires 48 payments a year, while Rwanda requires just 17 (table 10.2).[5] Businesses in Tanzania have to pay 9 different types of taxes—including VAT, labor tax and social security contributions—all of them monthly. Those in Rwanda also have to pay 9 different types of taxes, but they pay VAT and social security contributions quarterly—resulting in fewer annual transactions (filings and payments) for businesses. Complying with taxes takes only 134 hours a year in Rwanda, while it takes 340 in Kenya.

WHO REFORMED IN PAYING TAXES IN 2011/12?

From June 2011 to June 2012 *Doing Business* recorded 31 reforms worldwide making it easier or less costly for firms to pay taxes. Sixteen economies mandated or enhanced electronic filing, eliminating the need for 196 separate tax payments and reducing compliance time by 134 days (1,070 hours) in total. Seven other economies implemented electronic filing for the first time, raising the number offering this option from 67 in 2010 to 74 in 2011. Twelve economies reduced profit tax rates in 2011/12: 6 high-income economies, 4 middle-income ones and 2 low-income ones. Reductions in profit tax rates are often considered by governments within the broader context of tax policy reforms and combined with efforts to widen the tax base by removing exemptions and with

increases in the rates of other taxes, such as VAT. Eleven economies introduced new taxes. Others increased profit or income tax rates or social security contributions.

Of the 31 reforms making it easier or less costly for companies to pay taxes in 2011/12, only 1 was recorded in the EAC—in Kenya (table 10.3). Beginning in 2009, the Kenya Revenue Authority introduced an online filing system for VAT. Over the past 3 years the system has gained in popularity among taxpayers, who have learned to store required information in an efficient and user-friendly format, upload it to tax software and file the VAT returns online. Companies have reported improvements in processing speed on the filing website, a major source of delay in previous years. In addition, the revenue authority exempted companies that file monthly payroll taxes online from additional quarterly and annual filing requirements. This reduced the time required to comply with labor taxes. Thanks to the increased popularity of tax software, the time required to calculate corporate income tax (including inputting data) has also declined.

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

Over the past 8 years *Doing Business* recorded 7 reforms making it easier or less costly to comply with taxes in the EAC (figure 10.2). As a result of these reforms, the average number of tax payments in EAC economies fell from 36 in 2004 to 32 in 2011, while the average total tax rate dropped from 91.7% of profit to 42.2%.[6] Over the same period the average time for tax compliance increased slightly, showing the need for continued efforts to make compliance easier (figure 10.3).

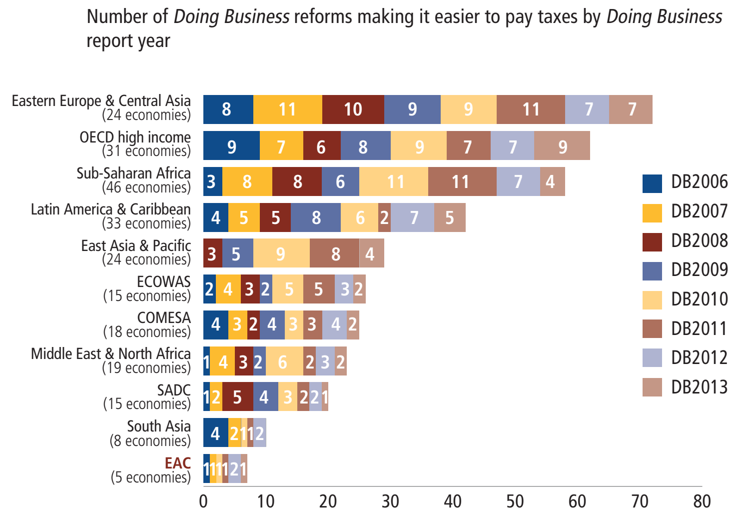
Among EAC economies, Burundi and Rwanda have advanced the furthest toward the frontier in regulatory practice in paying taxes since 2004 (table 10.4). In 2009 Burundi replaced its sales tax with VAT, which led to a reduction in the total tax rate of 125 percentage points. In 2010 Burundi continued its efforts to

TABLE 10.3 Who in the EAC made paying taxes easier and lowered the tax burden in 2011/12—and what did they do?

Feature	Economy	Some highlights
Introduced or enhanced electronic systems	Kenya	Kenya made paying taxes faster for companies by enhancing electronic filing systems.

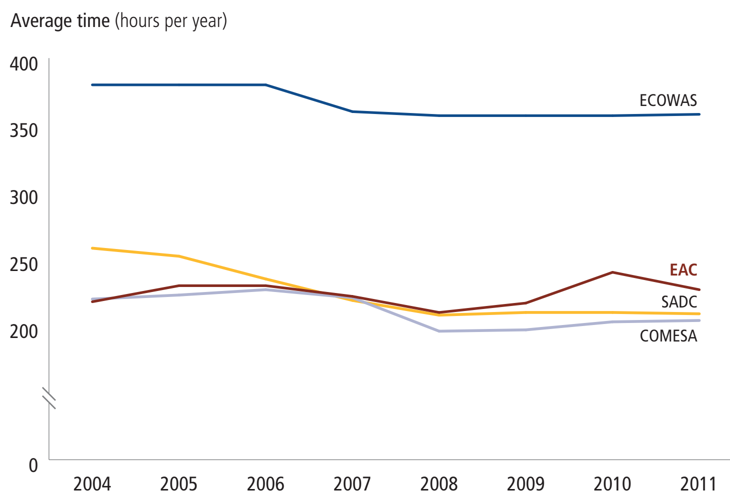
Source: Doing Business database.

FIGURE 10.2 Tax reforms were common across all regions in the past 8 years



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2004) includes 174 economies. The sample for DB2013 (2011) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.
Source: Doing Business database.

FIGURE 10.3 Time for tax compliance is converging across African regional blocs



Note: The data sample for ECOWAS excludes Liberia, which was added to the *Doing Business* sample after 2004.
Source: Doing Business database.

TABLE 10.4 Who in the EAC has narrowed the distance to frontier in paying taxes the most since 2004?

Economy	Improvement in distance to frontier (percentage points)[a]
Burundi	15 (45→60)
Rwanda	15 (69→84)
Kenya	6 (48→54)
Uganda	2 (67→69)
Tanzania	-1 (59→58)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator—in this case for the paying taxes indicators since 2004. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2004). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between financial years 2004 and 2011. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

make paying taxes easier by reducing the payment frequency for social security contributions from monthly to quarterly. Similarly, Rwanda enacted a new law in 2010 reducing the frequency of VAT filings from monthly to quarterly.

What do global data from the past 8 years show about good regulatory practice in the area of paying taxes? Economies where tax compliance is less burdensome for companies typically offer electronic filing and payment. These economies have also simplified tax compliance by reducing the frequency of filing or allowing joint payment and filing of several taxes. Other common features are having one tax per tax base and allowing self-assessment supported by clear and understandable tax laws and efficient taxpayer services.

Electronic systems for filing and paying taxes eliminate excessive paperwork and interaction with tax officers. They can reduce the time businesses spend on complying with tax laws, increase tax compliance and reduce the cost of revenue administration. But achieving these results requires effective implementation and high-quality security systems. Fundamental to success in setting up electronic systems is that implementation be gradual, following a realistic timeline adapted to the country's capacities and resources—among tax authorities as well as taxpayers.

By 2011, 74 economies had fully implemented electronic filing and payment of taxes. Twenty-nine of them adopted the system in the past 8 years. Ten OECD high-income economies have made electronic filing and payment mandatory. And this trend is likely to continue. In the next few years many other OECD high-income economies, having introduced requirements for electronic filing and payment for larger businesses, plan to extend them to smaller ones.

Among EAC economies, none has fully implemented electronic filing and payment as measured by *Doing Business*. But EAC governments recognize the importance of offering this option as a way to ease tax compliance—and are taking steps in this direction. In 2011/12 Uganda rolled out electronic filing and payment to all tax offices in the country after first piloting the system in those for medium-size and large taxpayers. Rwanda has implemented electronic filing and payment for large taxpayers. And as noted, in 2009 the Kenya Revenue Authority started implementing an electronic system for filing VAT returns.

NOTES

This topic note was written by Joanna Nasr and Nina Paustian.

1. See, for example, IMF (2011).
2. Republic of Tanzania 2012.
3. See, for example, Sittoni (2012).
4. The threshold is set at the 15th percentile of the total tax rate distribution, and this year is 25.7%. All economies with a total tax rate below this level receive the same percentile ranking on this component. The threshold is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology).
5. As noted, 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 filings and payments are made. Companies sometimes prefer more frequent payments, to smooth cash flow, and less frequent filing, and this is accounted for in the methodology in cases where the company has the option to choose a higher frequency.
6. The large reduction in the average total tax rate is due to a tax reform in one country, Burundi, where replacement of the sales tax with VAT in 2009 reduced the total tax rate by 125 percentage points.

Trading across borders

- **Tanzania leads the East African Community (EAC) in the ease of trading across borders. Globally, Singapore retains the top ranking.**
- **From June 2011 to June 2012 *Doing Business* recorded 22 reforms making it easier to trade across borders. One was in the EAC—in Burundi.**
- **Among the 10 economies making the most progress toward the frontier in regulatory practice in trading across borders since 2005, 4 are in Sub-Saharan Africa. Two are in the EAC—Rwanda and Kenya.**
- **Worldwide, the most common feature of trade facilitation reforms in the past 8 years was the introduction or improvement of electronic data interchange systems. All 5 EAC economies reformed in this area.**
- **Since 2006 EAC economies have cut the time to export by about a third and the time to import by almost half.**

For more information on good practices and research related to trading across borders, visit http://www.doingbusiness.org/data/exploretopics/trading-across-borders. For more on the methodology, see the section on trading across borders in the data notes.

Traders in Burundi have long dealt with delays at the Kabanga border crossing between Burundi and Tanzania. This is starting to change thanks to better coordination between Burundi and Tanzanian border authorities, including synchronized working hours. In addition, Burundi authorities have enhanced the system of electronic communication and information sharing between border posts and the main customs office in Bujumbura. These efforts have led to a more efficient and reliable tracking system, reducing the need for additional checks and controls at the border and along trade corridors.

To shed light on the bureaucratic and logistical hurdles facing traders, *Doing Business* measures the time and cost (excluding tariffs) associated with exporting and importing by sea transport, and the number of documents necessary to complete the transaction.[1] 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. As measured by *Doing Business*, trading across borders remains easiest in Singapore. Among economies in the East African Community (EAC) it is easiest in Tanzania (table 11.1).

TABLE 11.1 How do EAC economies rank on the ease of trading across borders?

Economy	Global rank
Tanzania	122
Kenya	148
Rwanda	158
Uganda	159
Burundi	177

Note: Rankings are the average of the economy's rankings on the documents, time and cost required to export and import. See the data notes for details.

Source: Doing Business database.

Outdated and inefficient border procedures, inadequate infrastructure and lack of reliable logistics services often mean high transactions costs and long delays, particularly for landlocked economies.[2] The more costly and time-consuming it is to export or import, the more difficult it is for local companies to be competitive and to reach international markets. Indeed, a study in Sub-Saharan Africa shows that reducing inland travel time by 1 day increases exports by 7%.[3] This is of special relevance for the several landlocked economies in the EAC.

WHO REFORMED IN TRADING ACROSS BORDERS IN 2011/12?

Globally in 2011/12, South Africa made the biggest improvement in the ease of trading across borders as measured by *Doing Business*. Through its customs modernization program it implemented measures that reduced the time, cost and number of documents required for international trade. Improvements in South Africa have effects throughout southern Africa. Since overseas goods to and from Botswana, Lesotho, Swaziland and Zimbabwe transit through South Africa, traders in these economies are also enjoying the benefits.

Within the EAC, Burundi was the only economy that made it easier to trade across borders in 2011/12 (table 11.3). It did so by enhancing its use of electronic data interchange systems, introducing

TABLE 11.2 Who in the EAC makes exporting easy—and who does not?		Who in the EAC makes importing easy—and who does not?	
Documents (number)		**Documents** (number)	
Tanzania	6	Kenya	7
Uganda	7	Rwanda	8
Kenya	8	Uganda	9
Rwanda	8	Tanzania	10
Burundi	10	Burundi	11
Time (days)		**Time** (days)	
Tanzania	18	Kenya	26
Kenya	26	Rwanda	31
Rwanda	29	Tanzania	31
Burundi	32	Uganda	33
Uganda	33	Burundi	46
Cost (US$ per container)		**Cost** (US$ per container)	
Tanzania	1,040	Tanzania	1,565
Kenya	2,255	Kenya	2,350
Burundi	2,965	Uganda	3,215
Uganda	3,050	Rwanda	4,990
Rwanda	3,245	Burundi	5,005

Source: Doing Business database.

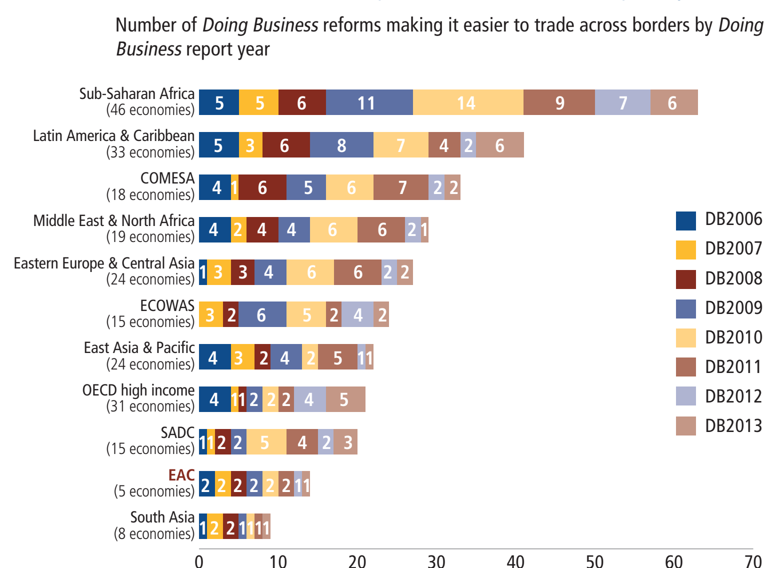
TABLE 11.3 Who in the EAC made trading across borders easier in 2011/12—and what did they do?

Feature	Economy	Some highlights
Introduced or improved electronic data interchange system	Burundi	Burundi enhanced its use of electronic data interchange systems.

Source: Doing Business database.

FIGURE 11.1 Reforms around the world to improve trade facilitation in the past 8 years

Number of *Doing Business* reforms making it easier to trade across borders 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 DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

Source: Doing Business database.

a more efficient system for monitoring goods going through transit countries, and improving border coordination with neighboring transit countries. Tanzania made trading across borders more difficult in 2011/12 by introducing the Preshipment Verification of Conformity program. This increased the time, cost and number of documents required to import.

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years *Doing Business* recorded 212 trade facilitation reforms around the world (figure 11.1). Sub-Saharan Africa leads the world in the number of such reforms—accounting for 63, nearly a third of the global total. EAC economies implemented 14 of these reforms—in such areas as joint border cooperation, electronic submission of documents and risk management systems for inspections. Rwanda was the most active, implementing 5 reforms making it easier to trade across borders in the 8-year period. Kenya and Uganda implemented 3 reforms each, Tanzania 2 and Burundi 1.

Thanks to these efforts, delays in trading between EAC economies and the rest of the world have decreased considerably. Export time in the EAC dropped from 40 days on average in 2006 to 28 days in 2012. Meanwhile, import time was cut nearly in half, from 59 days in 2006 to 33 days in 2012 (figure 11.2). Exporting and importing now take less time on average in the EAC than in the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), the reverse of the situation in 2006. Documentation requirements in the EAC were also streamlined during this time.

In all world regions over the past 8 years, the most common feature of trade facilitation reforms was the introduction or improvement of electronic submission and processing of customs declarations—implemented in 110 economies. The improvement of customs administration was the second most common feature,

TABLE 11.4 Who in the EAC has narrowed the distance to frontier in trading across borders the most since 2005?

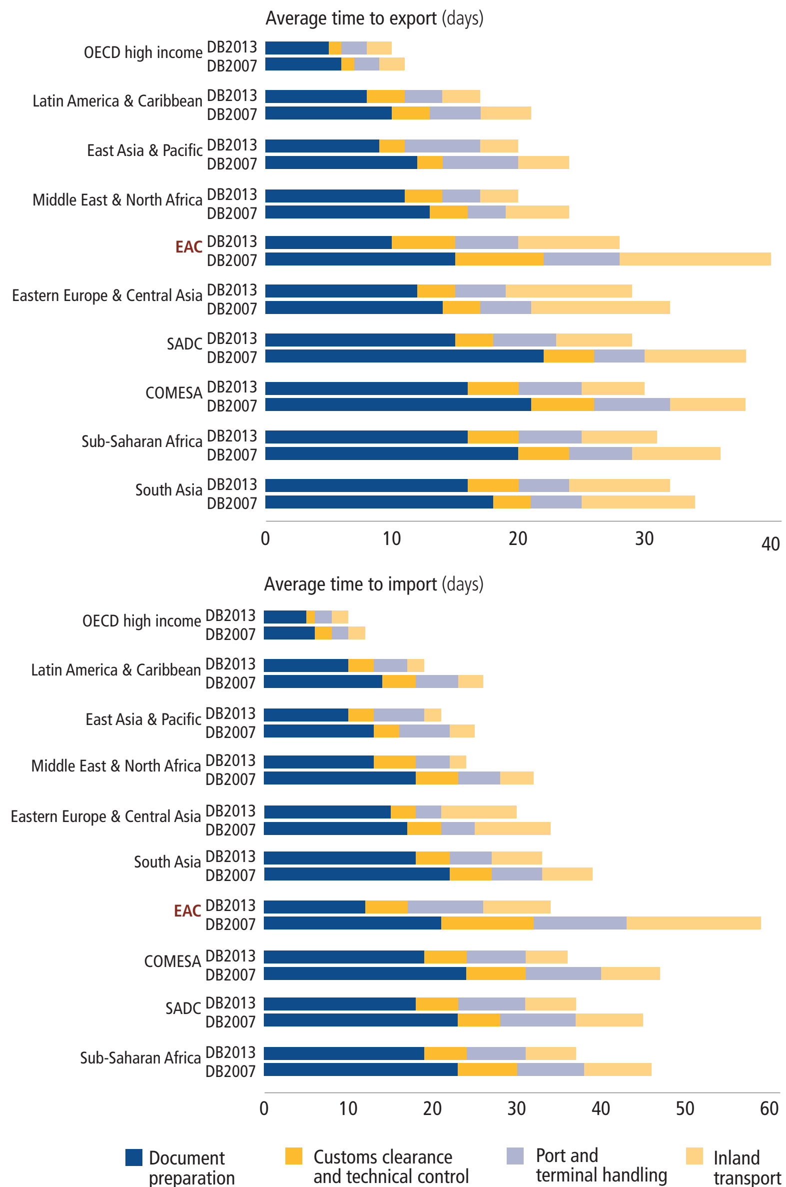
Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	30 (0→30)
Kenya	19 (26→45)
Tanzania	12 (45→57)
Burundi	7 (10→17)
Uganda	7 (24→31)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the trading across borders indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

FIGURE 11.2 Time to import cut by almost half in the EAC



Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both DB2007 (2006) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2006 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2007 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

undertaken by 61 economies. Improving port procedures was the third most common among economies in Sub-Saharan Africa and the Middle East and North Africa. By contrast, among other economies, including those in Eastern Europe and Central Asia, Latin America and the Caribbean and the OECD high-income group, introducing or improving risk-based inspection systems was more common.

Since 2005 many economies have advanced toward the frontier in regulatory practice in trading across borders. Rwanda stands out globally for having made the second greatest progress (table 11.4). All other EAC economies have also narrowed the gap with global good practice in cross-border trade. But much room remains for improvement.

NOTES

This topic note was written by Iryna Bilotserkivska, Robert Murillo and Mikiko Imai Ollison.

1. To ensure comparability across economies, the *Doing Business* methodology assumes that trade is by sea transport and therefore may not capture regional trade in some regions, such as Sub-Saharan Africa and Eastern Europe and Central Asia. While sea transport still accounts for the majority of world trade, regional trade is becoming increasingly important for small and medium-size enterprises.
2. Arvis, Marteau and Raballand 2010.
3. Freund and Rocha 2011. The authors use a modified gravity equation that controls for importer fixed effects and exporter remoteness to understand whether different types of export costs affect trade differently. All 3 techniques used to analyze the effect on trade values of export times for key components lead to the same conclusion: that inland transit delays have a robust negative effect on export values.

Enforcing contracts

Muvunyi manufactures shoe soles in Kigali. After recently deciding to expand his pool of customers, he made his first delivery—20,000 customized soles—to Pelagie, a local shoe producer. Pelagie refused to pay, alleging that the soles were of poor quality. Muvunyi decided to file a lawsuit to recover the amount due under the sales agreement. He knows that he can expect to have a judicial decision enforced against Pelagie in less than a year in Kigali. That's why he had the confidence to enter a business relationship with an unfamiliar customer. Eight years ago, before Rwanda improved its commercial justice system, that would not have been the case.

In Rwanda, as in all 4 other East African Community (EAC) members, the judicial system includes a specialized court or division to deal with commercial cases. Establishing a commercial court can reduce delays in resolving commercial disputes—delays that can frustrate investments and discourage market interactions.[1] Indeed, weak judicial systems can undermine trust, reducing the scope of commercial activity. Efficient and transparent courts, by contrast, encourage new business relationships because firms know they can rely on the courts if a new customer fails to pay. A recent study found that efficient contract enforcement is associated with greater access to credit for firms.[2] And speedy trials are essential for small enterprises because they may lack the resources to stay in business while awaiting the outcome of a long court dispute.

Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit between 2 domestic businesses. 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. Within the EAC, Tanzania has the most efficient contract enforcement as measured by *Doing Business* (table 12.1).

TABLE 12.1 How do EAC economies rank on the ease of enforcing contracts?

Economy	Global rank
Tanzania	36
Rwanda	39
Uganda	117
Kenya	149
Burundi	175

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to resolve a commercial dispute through the courts. See the data notes for details.

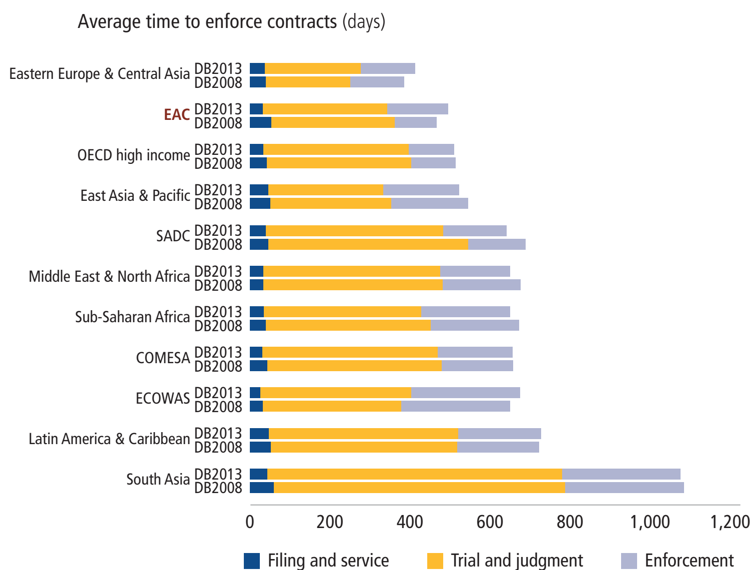
Source: Doing Business database.

On average in the EAC, to enforce a contract through the courts takes 37 procedures and 496 days and costs 44.7% of the value of the claim in dispute. This performance compares well globally. The average time to enforce contracts in the EAC is faster than in almost any world region, though the average cost is higher than in most (figure 12.1). Globally on average, enforcing contracts takes 611 days (with the fastest regional average 414 days, in Eastern Europe and Central Asia) and 38 procedures and costs 34.6% of the value of the claim (with the lowest regional average 20.1%, in OECD

- **Within the East African Community (EAC) the cost to enforce contracts varies greatly: to settle the same standardized dispute costs an average of 78.7% of the claim in Rwanda, but just 14.3% in Tanzania.**
- **Overall, enforcing contracts is easiest in Tanzania, where it takes 462 days and 38 procedures. The process is fastest in Rwanda, where it takes 230 days.**
- **One reform making it easier to enforce contracts was recorded in the EAC in 2011/12: Rwanda introduced a new electronic filing system that allows the electronic filing of initial complaints.**
- **Four EAC economies implemented reforms improving the efficiency of contract enforcement in the past 8 years: Burundi, Kenya, Rwanda and Uganda.**
- **Worldwide, introducing specialized commercial courts or divisions was the most common feature of reforms making it easier to enforce contracts in the past 8 years.**

For more information on good practices and research related to enforcing contracts, visit http://www.doingbusiness.org/data/exploretopics/enforcing-contracts. For more on the methodology, see the section on enforcing contracts in the data notes.

FIGURE 12.1 The EAC compares well globally on the speed of contract enforcement



Note: To ensure an accurate comparison, the figure shows data for the same sample of 178 economies for both DB2008 (2007) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2007 and therefore excluded here are The Bahamas, Bahrain, Barbados, Cyprus, Kosovo, Malta and Qatar. DB2008 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

TABLE 12.2 Who in the EAC makes enforcing contracts easy—and who does not?

Procedures (number of steps)	
Rwanda	23
Tanzania	38
Uganda	38
Burundi	44
Kenya	44

Time (days)	
Rwanda	230
Tanzania	462
Kenya	465
Uganda	490
Burundi	832

Cost (% of claim)	
Tanzania	14.3
Burundi	38.6
Uganda	44.9
Kenya	47.2
Rwanda	78.7

Source: Doing Business database.

high-income economies). In Sub-Saharan Africa the average time for contract enforcement is 649 days, and the average cost is 50% of the claim value. In the Common Market for Eastern and Southern Africa (COMESA), enforcing contracts takes 656 days (700 days without the 4 EAC partner states) and costs 52.2% of the claim on average, while in the Southern African Development Community (SADC) it takes 642 days and costs 56.9% of the claim.

Within the EAC, performance on the enforcing contracts indicators varies greatly (table 12.2). Rwanda's courts are the fifth fastest in the world—completing the process from filing to enforcement in an average of 230 days. Burundi's courts take 832 days to settle the same standardized dispute. The cost to enforce contracts is relatively high in Rwanda, at an average of 78.7% of the value of the claim. It is relatively low in Tanzania, at just 14.3% of the value of the claim. As a result, while the average ranking of the EAC economies on the ease of enforcing contracts is 103, a hypothetical economy combining the best EAC performance on time, cost and number of procedures would top the global ranking.

WHO REFORMED IN ENFORCING CONTRACTS IN 2011/12?

From June 2011 to June 2012 *Doing Business* recorded reforms making it easier to enforce contracts in 11 economies. 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; still others made enforcement of judgments more efficient or increased the number of court personnel, judges or bailiffs. Among the economies that improved their commercial judicial system in 2011/12, 4 are in Sub-Saharan Africa—including 1 EAC economy, Rwanda.

In 2011 Rwanda introduced a new electronic filing system (table 12.3). This allows the electronic filing of initial complaints, with no hard copies required from the plaintiff. As a judicial spokesperson explained, the new system will save citizens time and money when they file a new claim.[3] Indeed, electronic filing systems offer multiple benefits. By allowing litigants to file complaints electronically in commercial cases, they can speed up the filing and service of process. They can prevent the loss, destruction or concealment of court records. And they can increase transparency and limit opportunities for corruption in the judiciary.

In addition to introducing the electronic filing system, Rwanda also passed a law establishing the Kigali International Arbitration Center and issued regulations to put it into operation. The arbitration

TABLE 12.3 Who in the EAC made enforcing contracts easier in 2011/12—and what did they do?

Feature	Economy	Some highlights
Introduced or expanded computerized case management system	Rwanda	Rwanda introduced an electronic filing system for commercial cases, allowing attorneys to submit a summons online through a dedicated website.

Source: Doing Business database.

center could help reduce the number of cases filed in court, which may result in better management of the current caseload in the Nyarugenge commercial court.

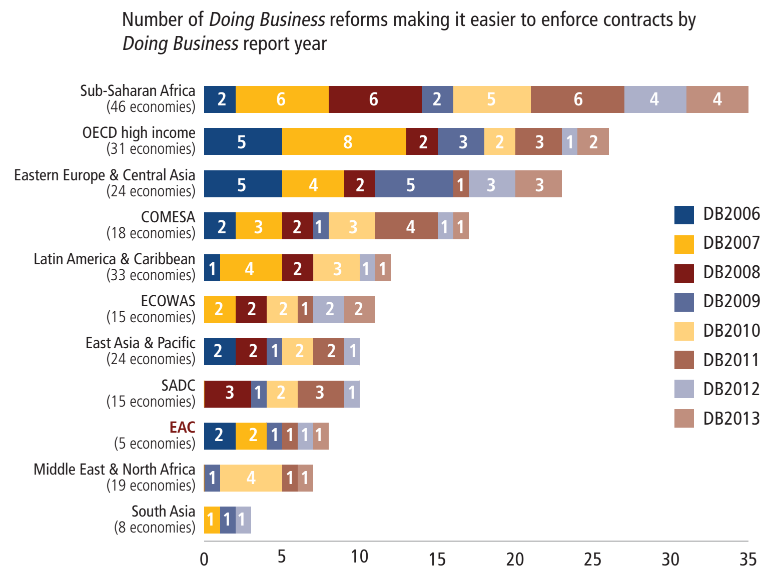
New regulations have also been in preparation in other EAC economies. In Tanzania the commercial court has drafted new rules of procedure. In Uganda efforts have been made to improve magistrates' courts and to streamline the process in these courts. Magistrates' caseloads were mapped, and the Judicial Service Commission initiated a process to recruit more magistrates.

Similarly, in Kenya the judiciary has started recruiting new judges and magistrates to reduce case backlogs. Twenty-eight additional high court judges were hired, bringing the total number to 80 nationally. An additional 7 court of appeal judges and 160 magistrates have also been hired. The Judicature Act has been amended to ensure that there are never fewer than 120 high court judges and 30 court of appeal judges. In addition, the Judicial Service Commission has advertised for 129 researchers—with one to be allocated to each judge to assist in legal research and writing. The aim is to free up time for the judges so that they can deliver judgments faster.[4]

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years *Doing Business* recorded 116 reforms that helped improve court efficiency in commercial dispute resolution in economies around the world (figure 12.2). Sub-Saharan Africa had the most reforms, with 35. In the EAC 4 of the 5 economies—Burundi, Kenya, Rwanda and Uganda—implemented reforms improving their judicial system. Burundi implemented a new code of civil procedure (adopted in 2004), introducing summary proceedings for uncontested claims. Uganda's efforts to increase court efficiency included promoting alternative commercial dispute resolution through its ongoing Justice Law and Order Sector Project. Uganda also reduced the backlog

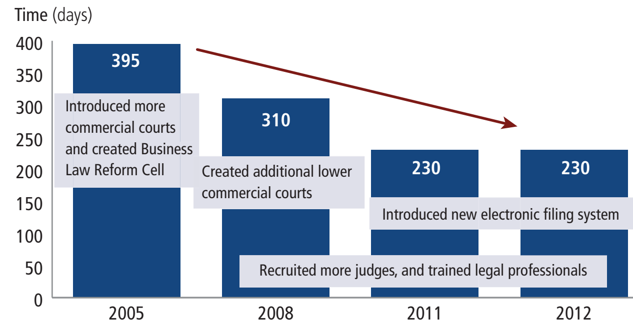
FIGURE 12.2 Reforms around the world are improving court efficiency in contract enforcement



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 DB2013 (2012) also includes The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar, for a total of 185 economies.

Source: Doing Business database.

FIGURE 12.3 How Rwanda cut the time to enforce contracts by more than a third in Kigali



Source: Doing Business database.

of cases—from 44% backlogged in 2009 to 34% in 2010—by establishing a mediation registry and making other improvements in the commercial division of the high court, such as updating the commercial court's competence threshold.[5] In Kenya a new constitution was adopted in 2010, and new civil procedure rules were passed into law that same year.

In Rwanda good results have been showing up over time. Since 2005 the time to enforce contracts has been reduced by 165 days, from 395 days to 230 (figure 12.3). Rwanda started strengthening its laws and judiciary in 2005 with the introduction of more commercial courts and the creation of the Business Law Reform Cell, whose review of 14 commercial laws proved crucial for the approval of important legal reforms. The government further enhanced the court system in 2008 by creating lower commercial courts. Rwanda also implemented a plan to recruit more judges and to train legal professionals to work in a mixed law system

TABLE 12.4 Who in the EAC has narrowed the distance to frontier in enforcing contracts the most since 2005?

Economy	Improvement in distance to frontier (percentage points)[a]
Rwanda	10 (55→65)
Burundi	1 (38→39)
Uganda	1 (52→53)
Tanzania	0 (65→65)
Kenya	-9 (55→46)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the enforcing contracts indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

that includes civil law, common law and customary law tendencies. Thanks to these efforts, Rwanda has advanced the furthest among EAC economies toward the frontier in regulatory practice in enforcing contracts (table 12.4).

NOTES

This topic note was written by Erica Bosio and Julien Vilquin.

1. Walsh 2010.
2. Bae and Goyal 2009.
3. Ikinyamakuru IGIHE, “Rwanda’s Judiciary Launches Electronic Filing System,” August 19, 2011, http://en.igihe.com/news/rwanda-s-judiciary-launches-electronic-filing.
4. World Bank 2012a.
5. World Bank 2012b.

Resolving insolvency

Things are not going well for Martin, a small entrepreneur who runs a flower business in Nairobi, Kenya. A months-long drought has left him with almost nothing to sell in his shop and thus without the means to pay off the loan he took from a local bank to open his business. But not all the news is bad: after Martin's business goes through insolvency proceedings, the most likely outcome is that it will keep operating. Martin would have faced a very different situation if he had started a business in Kigali, Rwanda. There, the local bank probably would have foreclosed on his business and sold its assets piecemeal—and his shop would have disappeared in about 2 years.

The ability to preserve viable businesses and allow them to continue operating is among the most important features of a well-designed bankruptcy system. Keeping the essential parts of a business together rather than breaking them up and disposing of them in fragments results in greater value. This option has multiple benefits for the overall economy: creditors can 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. It also promotes the development of an entrepreneurial class. But preserving viable businesses should not mean creating a safe haven for distressed businesses: those that are beyond rescue should be liquidated as quickly and efficiently as possible.[1] Striking the right balance between these options is among the key challenges for every insolvency regime.

Doing Business measures the time, cost and outcome of insolvency proceedings involving domestic entities. The time required for creditors to recover their credit is recorded in calendar years. The cost of the proceedings is recorded as a percentage of the value of the debtor's estate. The recovery rate for creditors depends on whether the case study company (a hotel business) emerges from the proceedings as a going concern or its assets are sold piecemeal. The rate is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. If an economy had zero insolvency

TABLE 13.1 How do EAC economies rank on the ease of resolving insolvency?

Economy	Global rank	Recovery rate (cents on the dollar)
Uganda	69	38.9
Kenya	100	29.5
Tanzania	129	21.7
Burundi	161	8.0
Rwanda	167	3.1

Note: Rankings are based on the recovery rate: how many cents on the dollar creditors recover from an insolvent firm as calculated by *Doing Business*. See the data notes for details.

Source: Doing Business database.

TABLE 13.2 Who in the EAC makes resolving insolvency easy—and who does not?

Time (years)	
Uganda	2.2
Rwanda	3.0
Tanzania	3.0
Kenya	4.5
Burundi	5.0

Cost (% of estate)	
Kenya	22
Tanzania	22
Burundi	30
Uganda	30
Rwanda	50

Source: Doing Business database.

- **Within the East African Community (EAC), creditors of firms facing insolvency benefit from the highest recovery rate in Uganda, at 38.9 cents on the dollar.**
- **From June 2011 to June 2012 *Doing Business* recorded 17 reforms around the world aimed at improving insolvency proceedings. One was in the EAC, in Uganda.**
- **Within the EAC, resolving insolvency is least costly in Kenya and takes the least time in Uganda.**
- **The average recovery rate in the EAC, at 20.2 cents on the dollar, is one of the lowest among the regional blocs covered in Africa.**

For more information on good practices and research related to resolving insolvency, visit http://www.doingbusiness.org/data/exploretopics/resolving-insolvency. For more on the methodology, see the section on resolving insolvency in the data notes.

cases a year over the past 5 years, it receives a "no practice" classification. 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. The ranking on the ease of resolving insolvency is based on the recovery rate, which is affected by the key variables of time, cost and outcome (tables 13.1 and 13.2).

WHO REFORMED IN RESOLVING INSOLVENCY IN 2011/12?

Compared with other areas measured by *Doing Business*, resolving insolvency had little reform activity in 2011/12 in the East African Community (EAC): only Uganda reformed its insolvency framework. But Uganda's efforts in this area are especially encouraging. Besides substantially improving its foreclosure proceedings (table 13.3), Uganda has also undertaken a revision of its insolvency law. A new insolvency act was passed by the parliament in April 2011 and was in the final endorsement stages by June 2011. The new act, which will replace a legal framework enacted in 1931, is expected to strengthen creditors' rights; clarify rules on the appointment of liquidators, managers, administrators and trustees; and allow debtors to enter into an arrangement intended to avoid insolvency.

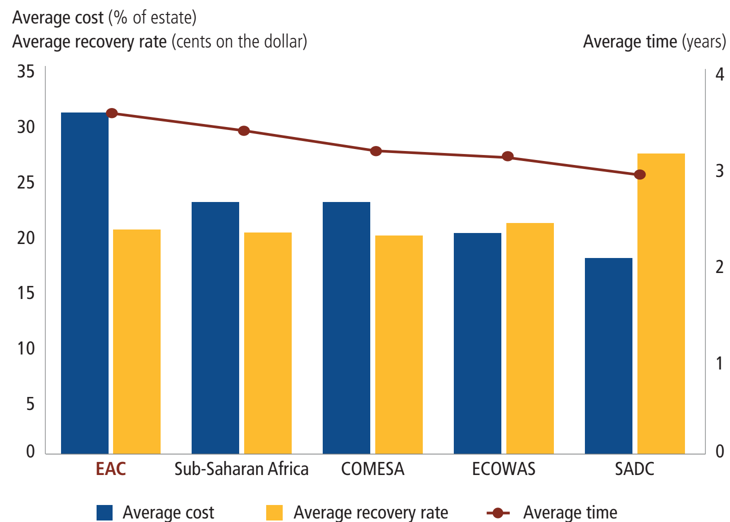
Uganda's recent measures notwithstanding, there has been a lack of sustained reform efforts in the EAC in past years. This helps explain why resolving insolvency remains more difficult in the EAC than in neighboring areas. Indeed, the average recovery rate in the EAC, at 20.2 cents on the dollar, is lower than the 20.8 cents in the Economic Community of West African States (ECOWAS) and the 27.1 cents in the Southern African Development Community (SADC). This disparity is a direct consequence of the longer and more expensive insolvency proceedings in EAC economies: the average time to resolve insolvency in the EAC is 3.5 years, and the average cost is 30.8% of the value of the debtor's estate (figure 13.1).

TABLE 13.3 Who in the EAC made resolving insolvency easier in 2011/12—and what did they do?

Feature	Economy	Some highlights
Promoted foreclosure proceedings	Uganda	In 2009 Uganda passed a new mortgage act, which came into force in 2011. The new law strengthened Uganda's insolvency process by clarifying rules on the creation of mortgages, establishing the duties of mortgagors and mortgagees, defining priority rules, providing remedies for mortgagors and mortgagees and establishing the powers of receivers.

Source: Doing Business database.

FIGURE 13.1 Resolving insolvency takes longer and is costlier in the EAC than in other regional blocs in Africa



Source: Doing Business database.

As shown in earlier *Doing Business* reports, however, there is great variation among EAC economies. Uganda has the highest recovery rate (38.9 cents on the dollar) and is also the economy where resolving insolvency takes the least time (2.2 years). Globally, it stands at 69 in the ranking on the ease of resolving insolvency. Rwanda, despite insolvency reform in earlier years, still has the highest cost to resolve insolvency in the EAC (50% of the value of the debtor's estate) and stands at 167 in the global ranking. Kenya still has the lowest cost (22% of the value of the debtor's estate), though the time required for creditors to recover their credit (4.5 years) is among the longest in the EAC.

WHAT HAVE WE LEARNED FROM 8 YEARS OF DATA?

In the past 8 years *Doing Business* recorded 126 insolvency reforms in 74 economies worldwide. While economies focused their efforts on different aspects of insolvency, these reforms still shared some common features. For example, 27 economies passed new bankruptcy laws over the past 8 years. Many economies promoted reorganization proceedings by simplifying and accelerating procedures, defining the roles of the parties involved and introducing innovative instruments such as out-of-court workouts. Tightening the time limits for different procedures was also a common feature of insolvency reforms. Other common features were regulating and refining standards for the profession of insolvency administrators

TABLE 13.4 Who in the EAC has narrowed the distance to frontier in resolving insolvency the most since 2005?

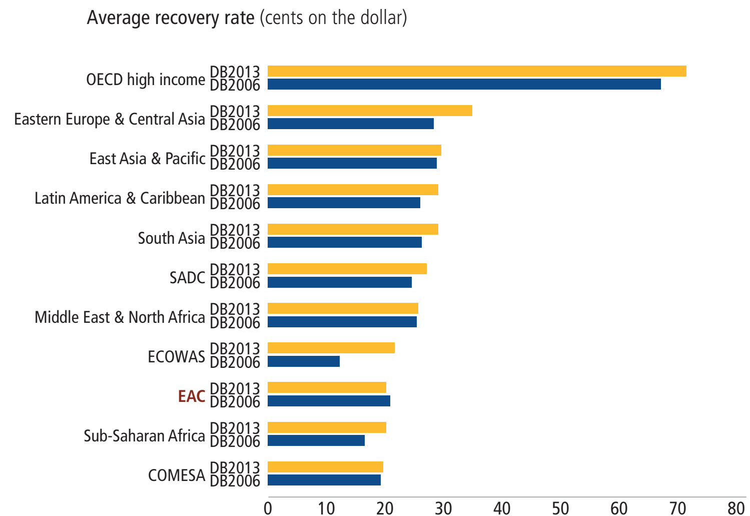
Economy	Improvement in distance to frontier (percentage points)[a]
Burundi	1 (8→9)
Rwanda	0 (4→4)
Tanzania	0 (24→24)
Uganda	-1 (43→42)
Kenya	-3 (35→32)

Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005—in this case for the resolving insolvency indicators. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The data refer to the 174 economies included in *Doing Business 2006* (2005). Eleven economies were added in subsequent years.

a. This column shows the absolute improvement in the distance to frontier between 2005 and 2012. The numbers in parentheses are the scores for those years.

Source: Doing Business database.

FIGURE 13.2 Unlike in Sub-Saharan Africa overall, no improvement in the recovery rate in the EAC since 2005



Note: To ensure an accurate comparison, the figure shows data for the same sample of 174 economies for both DB2006 (2005) and DB2013 (2012) and uses the regional classifications applying in 2012. The economies added to the *Doing Business* sample after 2005 and therefore excluded here are The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Malta, Montenegro and Qatar. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

and strengthening the rights of secured creditors.

EAC economies were among those improving their insolvency systems. Besides Uganda's reform of 2011/12, the EAC accounts for 3 other reforms in the past 8 years. Two were implemented by Burundi. In 2007 the country adopted its first bankruptcy law since independence in 1962. And in 2011 it amended its commercial code to improve foreclosure proceedings, through measures similar to those in Uganda in the past year. Thanks to these efforts, Burundi has advanced further than any other EAC economy toward the frontier in regulatory practice in resolving insolvency since 2005 (table 13.4).

Rwanda implemented the third reform. In 2009 it passed a law aimed at promoting reorganization proceedings as a viable option for distressed firms and regulating the profession of insolvency administrators. However, reorganizations still remain uncommon in Rwanda.

Despite these efforts, EAC economies remain among those with less efficient and more costly insolvency proceedings. Indeed, while the recovery rate in Sub-Saharan Africa as a whole has improved by 3.7 cents on the dollar since 2005, it has declined by 0.7 cents in the EAC (figure 13.2).

NOTES

This topic note was written by Rong Chen, Fernando Dancausa Diaz and Olena Koltko.

1. UNCITRAL 2005.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

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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 11 sets of indicators measured in *Doing Business* were added over time, and the sample of economies expanded (table 14.1).

The data for all sets of indicators in *Doing Business 2013* are for June 2012.[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 9,600 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements (table 14.2). These experts have several rounds

TABLE 14.1 Topics and economies covered by each *Doing Business* report

Topic	DB 2004	DB 2005	DB 2006	DB 2007	DB 2008	DB 2009	DB 2010	DB 2011	DB 2012	DB 2013
Starting a business										
Employing workers										
Enforcing contracts										
Resolving insolvency										
Getting credit										
Registering property										
Protecting investors										
Paying taxes										
Trading across borders										
Dealing with construction permits										
Getting electricity										
Number of economies	133	145	155	175	178	181	183	183	183	185

Note: Data for the economies added to the sample each year are back-calculated to the previous year. The exception is Kosovo, which was added to the sample after it became a member of the World Bank Group.

TABLE 14.2 How many experts does *Doing Business* consult?

Indicator set	Contributors
Starting a business	1,585
Dealing with construction permits	852
Getting electricity	830
Registering property	1,069
Getting credit	1,325
Protecting investors	1,083
Paying taxes	1,173
Trading across borders	933
Enforcing contracts	1,146
Resolving insolvency	1,085
Employing workers	1,052

of interaction with the *Doing Business* team, involving conference calls, written correspondence and visits by the team. For *Doing Business 2013* team members visited 24 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.

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 (which in some economies differs from the capital) and may not be representative of regulation in other parts of the economy. To address this limitation, subnational *Doing Business* indicators were created (box 14.1). 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.

BOX 14.1 SUBNATIONAL *DOING BUSINESS* INDICATORS

This year *Doing Business* completed subnational studies for Indonesia, Kenya, Mexico, Russia and the United Arab Emirates. Each of these countries had already asked to have subnational data in the past, and this year *Doing Business* updated the indicators, measured improvements over time and expanded geographic coverage to additional cities or added additional indicators. *Doing Business* also published regional studies for the Arab world, the East African Community and member states of the Organization for the Harmonization of Business Law in Africa (OHADA).

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 all the subnational studies published.

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*

ECONOMY CHARACTERISTICS

Gross national income per capita

Doing Business 2013 reports 2011 income per capita as published in the World Bank's *World Development Indicators 2012*. Income is calculated using the Atlas method (current U.S. dollars). For cost indicators expressed as a percentage of income per capita, 2011 gross national income (GNI) in U.S. dollars is used as the denominator. GNI data were not available from the World Bank for Afghanistan, Australia, The Bahamas, Bahrain, Barbados, Brunei Darussalam, Cyprus, Djibouti, Guyana, the Islamic Republic of Iran, Kuwait, Malta, New Zealand, Oman, Puerto Rico (territory of the United States), Sudan, Suriname, the Syrian Arab Republic, Timor-Leste, 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://data.worldbank.org/about/country-classifications. 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 2013 reports midyear 2011 population statistics as published in *World Development Indicators 2012*.

Business 2013 would differ from the recollection of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

CHANGES IN WHAT IS MEASURED

The ranking methodology for paying taxes was updated this year. The threshold for the total tax rate introduced last year for the purpose of calculating the ranking on the ease of paying taxes was updated. All economies with a total tax rate below the threshold (which is calculated and adjusted on a yearly basis) receive the same ranking on the total tax rate indicator. The threshold is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). 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 9,620 indicators each year. To create these indicators, the team measures more than 57,000 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 2012* and *Doing Business 2013* is 8.6%.[2]

STARTING A BUSINESS

Doing Business records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete them and the paid-in minimum capital requirement (figure 14.1). These procedures include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company 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 14.2).

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 requirement. 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 the entrepreneur will pay no bribes. 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

FIGURE 14.1 What are the time, cost, paid-in minimum capital and number of procedures to get a local limited liability company up and running?

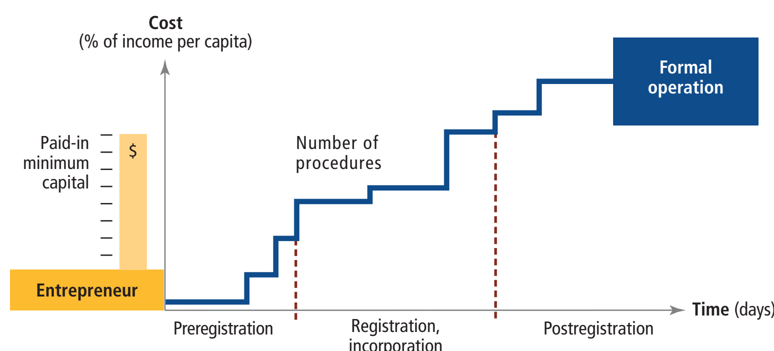
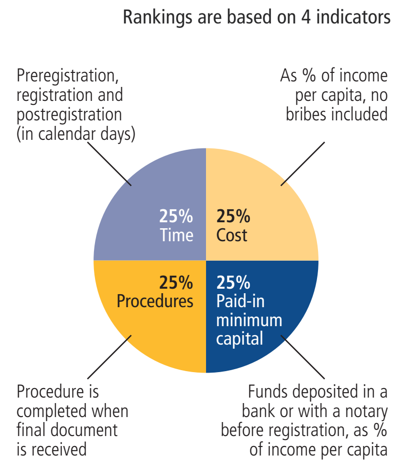


FIGURE 14.2 Starting a business: getting a local limited liability company up and running

Rankings are based on 4 indicators



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, 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 or at different counters 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 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 14.3).

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.

TABLE 14.3 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)

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 if that option is more beneficial to the economy's ranking. 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 Turkey in June 2012, for example, the minimum capital requirement was 5,000 Turkish liras, of which one-fourth needed to be paid before registration. The paid-in minimum capital recorded for Turkey is therefore 1,250 Turkish liras, or 7.2% 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 warehouse (figure 14.3). 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 landline.[3] 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 14.4).

FIGURE 14.3 What are the time, cost and number of procedures to comply with formalities to build a warehouse?

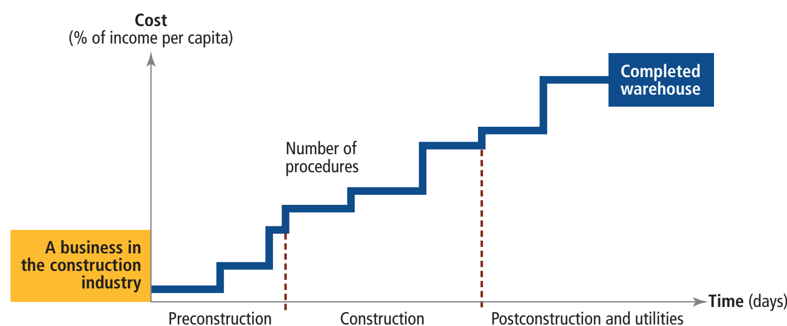
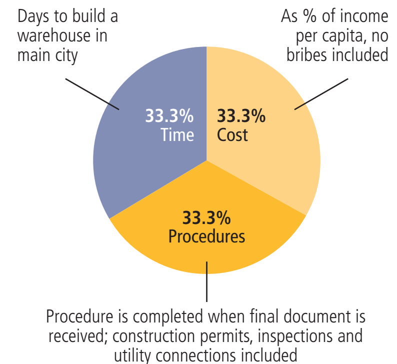


FIGURE 14.4 Dealing with construction permits: building a warehouse

Rankings are based on 3 indicators



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 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 14.4).

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.

TABLE 14.4 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 land telephone line
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

Cost

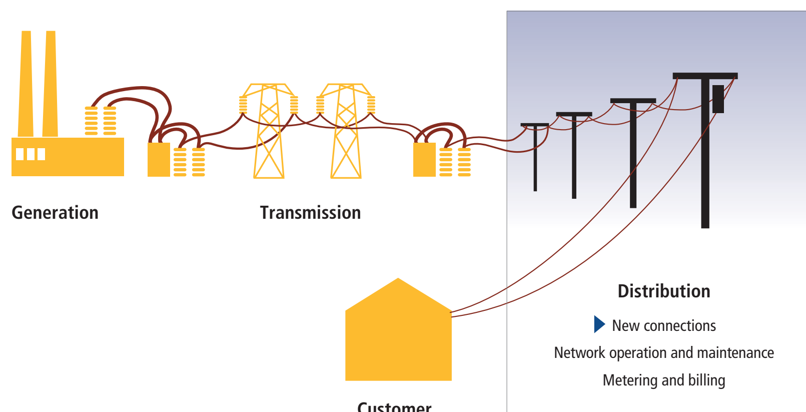
Cost is recorded as a percentage of the economy's income per capita. Only official costs are recorded. All the fees associated with completing the procedures to legally build a warehouse are recorded, including those associated with obtaining land use approvals and preconstruction design clearances; 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.

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 (figure 14.5). The ranking on the ease of getting electricity is the simple average of the percentile rankings on its component indicators (figure 14.6).

FIGURE 14.5 *Doing Business* measures the connection process at the level of distribution utilities



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:

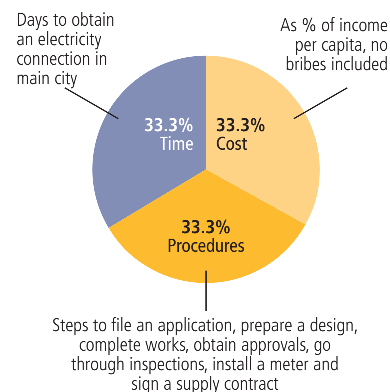
- Is a permanent one.
- Is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.
- Is 150 meters long. The connection is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the economy and in the 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

FIGURE 14.6 Getting electricity: obtaining an electricity connection

Rankings are based on 3 indicators



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 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 14.5).

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.

TABLE 14.5 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

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-2011 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 2012 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 18.56%. Over the 5 years of the contract this would imply a present value of lost interest earnings of L 72,719. 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 (figure 14.7). The ranking on the ease of registering property is the simple average of the percentile rankings on its component indicators (figure 14.8).

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 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.

FIGURE 14.7 What are the time, cost and number of procedures required to transfer property between 2 local companies?

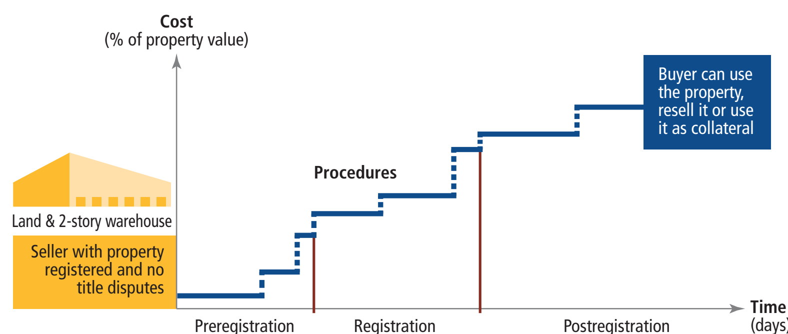
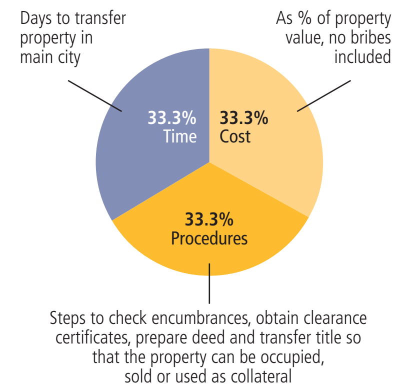


FIGURE 14.8 Registering property: transfer of property between 2 local companies

Rankings are based on 3 indicators



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

TABLE 14.6 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 of property value)
Official costs only, no bribes
No value added or capital gains taxes included

registering property are recorded, even if they may be avoided in exceptional cases (table 14.6). 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.

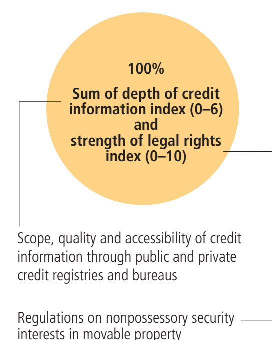
The data details on registering property can be found for each economy at http://www.doingbusiness.org by selecting the economy in the drop-down list.

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 measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. The second set measures the coverage, scope and accessibility of credit information available through public credit registries and private credit bureaus (figure 14.9). The ranking on the ease of getting credit is based on the percentile rankings on the sum of its component indicators: the depth of credit information index and the strength of legal rights index (figure 14.10).

FIGURE 14.10 Getting credit: collateral rules and credit information

Rankings are based on 2 indicators

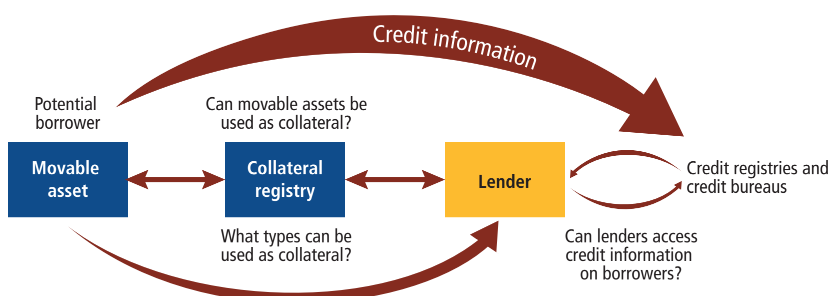


Note: Private bureau coverage and public registry coverage are measured but do not count for the rankings.

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.

FIGURE 14.9 Do lenders have credit information on entrepreneurs seeking credit? Is the law favorable to borrowers and lenders using movable assets as collateral?



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 14.7). 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 some economies the legal framework for secured transactions will allow only case A or case B to apply (not both). Both cases examine 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 domestically incorporated, limited liability company.
- The company has up to 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 machinery 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.
- 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.

TABLE 14.7 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

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 score of 1 is assigned for each of the following 6 features of the public credit registry or private credit bureau (or both):

- Data on both firms and individuals are distributed.
- 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 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). Both distribute more than 2 years of historical data (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 public credit registry has a threshold of 1,000 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 2011 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 2011 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) (figure 14.11). 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 14.12).

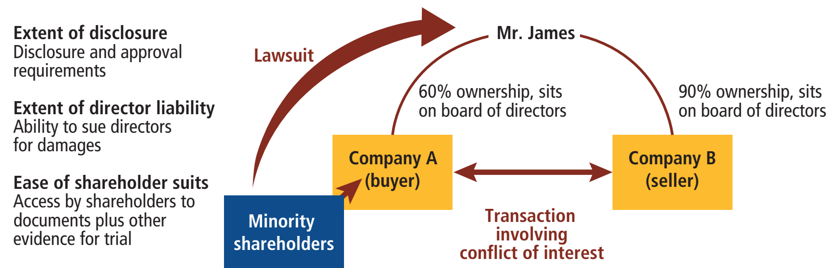
To make the data comparable across economies, several assumptions about the business and the transaction are used.

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,

FIGURE 14.11 How well are minority shareholders protected against self-dealing in related-party transactions?



even if this is not specifically required by law.

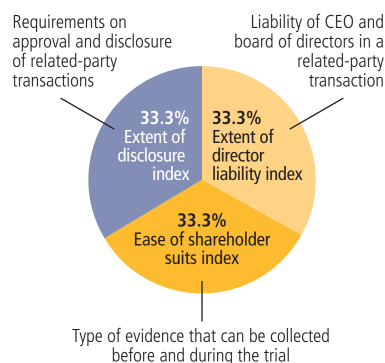
- Has a supervisory board (applicable to economies with 2-tier board systems) of which 60% of the shareholder-elected members have been appointed by Mr. James.
- Is a manufacturing company.
- Has its own distribution network.

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.

FIGURE 14.12 Protecting investors: minority shareholder rights in related-party transactions

Rankings are based on 3 indicators



- Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its products, a 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 14.8):

- 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, the supervisory board or shareholders must vote and Mr. James is permitted to vote; 2 if the board of directors or the supervisory board 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.[4] 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 or the supervisory board 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:[5]

TABLE 14.8 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 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, the members of the board of directors, or members of the supervisory board) 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.
- 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

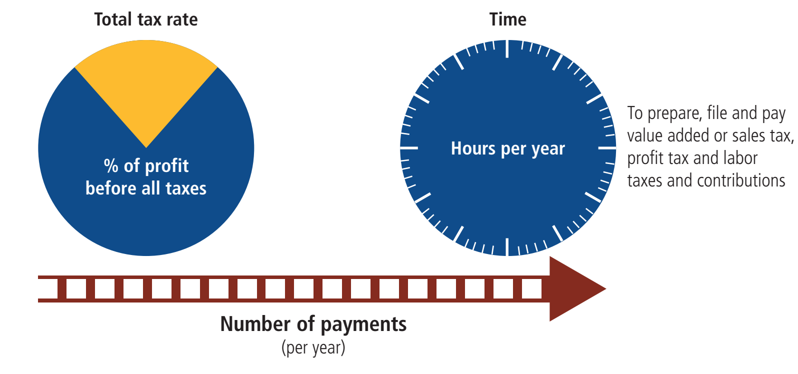
The strength of investor protection index is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index. The index ranges from 0 to 10, with higher values indicating more investor protection.

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.[6] 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 (figure 14.13).

FIGURE 14.13 What are the time, total tax rate and number of payments necessary for a local medium-size company to pay all taxes?

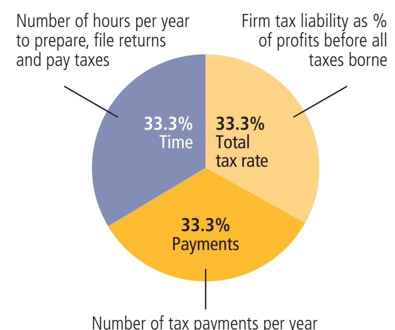


The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators, with a threshold being applied to one of the component indicators, the total tax rate (figure 14.14). The threshold is defined as the highest total tax rate among the top 15% of economies in the ranking on the total tax rate. It is calculated and adjusted on a yearly basis. This year's threshold is 25.7%. All economies with a total tax rate below this threshold receive the same score as the economy at the threshold. The threshold is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology).

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 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 requited private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory

FIGURE 14.14 Paying taxes: tax compliance for a local manufacturing company

Rankings are based on 3 indicators



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.

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, 2010. 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 2010, 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 2011, 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 2011). 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

TABLE 14.9 What do the paying taxes indicators measure?
Tax payments for a manufacturing company in 2011 (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

for this standardized case study company during the second year of operation (table 14.9). It includes taxes withheld by the company, such as sales tax, value added tax and employee-borne labor taxes. These taxes are traditionally collected by the company from the consumer or employee 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 2013* reports the total tax rate for calendar year 2011. 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 requited pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel 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 14.10).

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 14.10 Computing the total tax rate for Norway

Type of tax (tax base)	Statutory rate r	Statutory tax base b NKr	Actual tax payable $a = r \times b$ NKr	Commercial profit* c NKr	Total tax rate $t = a/c$
Corporate income tax (taxable income)	28.0%	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%

Note: NKr is Norwegian kroner. Commercial profit is assumed to be 59.4 times income per capita.
* Profit before all taxes borne.
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 sea transport. The time and cost necessary to complete every official procedure for exporting and importing the goods are recorded; however, the time and cost for sea transport are not included. 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. For landlocked economies, these include procedures at the inland border post, since the port is located in the transit economy. 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 (figure 14.15). The ranking on the ease of trading across borders is the simple average of the percentile rankings on its component indicators (figure 14.16).

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.

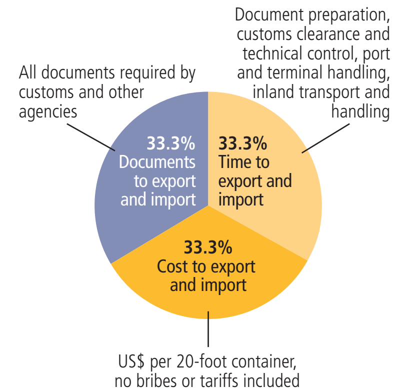
Assumptions about the traded goods

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.
- Does not require refrigeration or any other special environment.
- Does not require any special phytosanitary or environmental safety standards other than accepted international standards.

FIGURE 14.16 Trading across borders: exporting and importing by sea transport

Rankings are based on 3 indicators



- Is one of the economy's leading export or import products.

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 100% domestically owned.
- Exports more than 10% of its sales.

FIGURE 14.15 How much time, how many documents and what cost to export and import by sea transport?

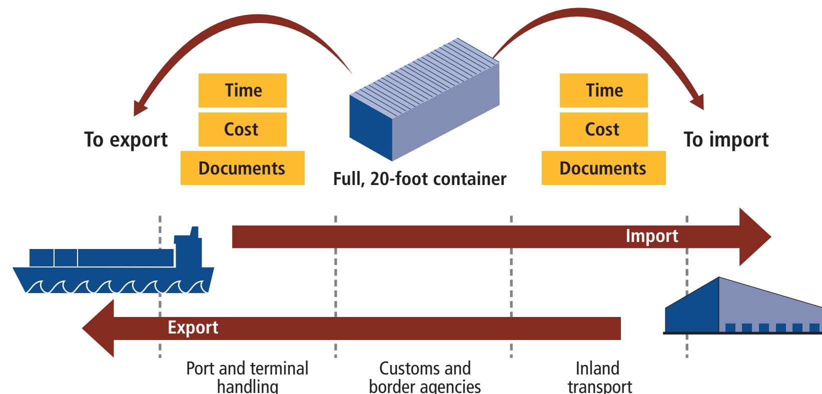


TABLE 14.11 What do the trading across borders indicators measure?
Documents required to export and import (number)
Bank documents
Customs clearance documents
Port and terminal handling documents
Transport documents
Time required to export and import (days)
Obtaining, filling out and submitting all the documents
Inland transport and handling
Customs clearance and inspections
Port and terminal handling
Does not include sea 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

Documents

All documents required per shipment to export and import the goods are recorded (table 14.11). It is assumed that a new contract is drafted per shipment and that the contract has already been agreed upon and executed by both parties. Documents required for clearance by relevant agencies—including government ministries, customs, port authorities and other control agencies—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 requested at the time of clearance but that are valid for a year or longer and 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 only to firms located in an export processing zone, or only to certain accredited firms under authorized economic operator programs, are not taken into account because they are not available to all trading companies. Sea 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. But it is assumed that document preparation, inland transport, customs and other clearance, and port and terminal handling require a minimum time of 1 day each and cannot take place simultaneously. The waiting time between procedures—for example, during unloading of the cargo—is included in the measure.

Cost

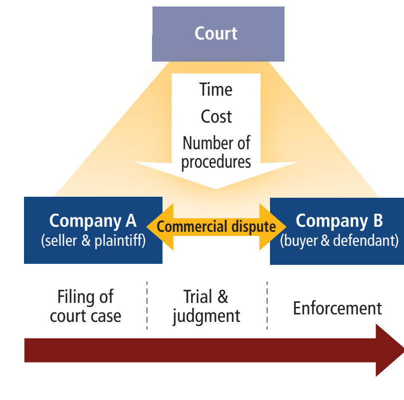
Cost measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to export or import the goods are taken into account. These include costs for documents, administrative fees for customs clearance and inspections, customs broker fees, port-related charges and inland transport costs. The cost does not include customs tariffs and duties or costs related to sea 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 (figure 14.17). The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators (figure 14.18).

FIGURE 14.17 What are the time, cost and number of procedures to resolve a commercial dispute through the courts?



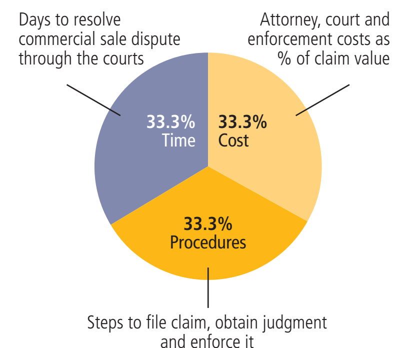
The name of the relevant court in each economy—the court in the largest business city with jurisdiction over commercial cases worth 200% of income per capita—is published at http://www.doingbusiness.org/ExploreTopics/EnforcingContracts/.

Assumptions about the case

- The value of the claim equals 200% of the economy's income per capita.

FIGURE 14.18 Enforcing contracts: resolving a commercial dispute through the courts

Rankings are based on 3 indicators



- 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 claim is disputed on the merits. 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).

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. Other procedural steps, internal to the court or between the parties and their counsel, may be counted as well. Procedural steps include steps to file and serve the case, steps to assign the case to a judge, steps for trial and judgment and steps necessary to enforce the judgment (table 14.12).

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 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 are part of others are not counted in the total number of procedures.

TABLE 14.12 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
Enforcement costs

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 that Seller (plaintiff) must advance to the court, regardless of the final cost to Seller. 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

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 (figure 14.19). The ranking on the ease of resolving insolvency is based on the recovery rate (figure 14.20).

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

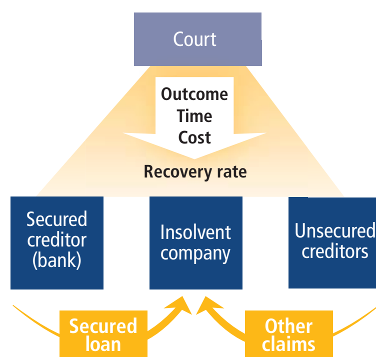
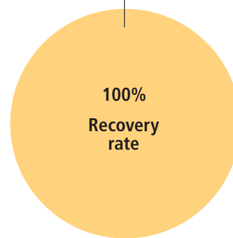


FIGURE 14.20 Resolving insolvency: time, cost and outcome of the insolvency proceedings against a local company

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 2011 reduced its net worth to a negative figure. It is January 1, 2012. 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 2012 and 2013 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 14.13). 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

TABLE 14.13 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

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-2011 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.

NOTES

1. The data for paying taxes refer to January–December 2011.
2. This correction rate reflects changes that exceed 5% up or down.
3. Following the inclusion of getting electricity indicators in the ease of doing business index in *Doing Business 2012,* additional procedures, time and cost related to obtaining an electricity connection in the preconstruction stage were removed from the dealing with construction permits indicators this year to avoid double counting.
4. 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.
5. 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.
6. *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.

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 the distance to frontier measure. The ease of doing business ranking compares economies with one another, while the distance to frontier measure benchmarks economies to the frontier in regulatory practice, measuring the absolute distance to the best performance on each indicator. Both measures can be used for comparisons over time. When compared across years, the distance to frontier measure shows how much the regulatory environment for local entrepreneurs in each economy has changed over time in absolute terms, while the ease of doing business ranking can show only relative change.

EASE OF DOING BUSINESS

The ease of doing business index ranks economies from 1 to 185. 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 2013*: 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. 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 Finland it takes 3 procedures, 14 days and 4% of the property value in fees to register a property. On these 3 indicators Finland ranks in the 6th, 16th and 39th percentiles. So on average Finland ranks in the 20th percentile on the ease of registering property. It ranks in the 30th percentile on starting a business, 28th percentile on getting credit, 24th percentile on paying taxes, 13th percentile on enforcing contracts, 5th percentile on trading across borders and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Finland's percentile rankings on all topics is 21st. When all economies are ordered by their average percentile rankings, Finland stands at 11 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

TABLE 15.1 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	0.34	0.30	0.44	0.60	0.40	0.40	0.40	0.44	0.28
Dealing with construction permits		0.24	0.19	0.21	0.41	0.49	0.23	0.36	0.49
Registering property			0.37	0.33	0.37	0.29	0.50	0.38	0.26
Getting credit				0.49	0.26	0.38	0.43	0.49	0.22
Protecting investors					0.39	0.36	0.30	0.41	0.22
Paying taxes						0.50	0.33	0.42	0.46
Trading across borders							0.36	0.55	0.58
Enforcing contracts								0.46	0.24
Resolving insolvency									0.32

Source: Doing Business database.

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.

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 0.37, and the coefficients between any 2 sets of indicators range from 0.19 (between dealing with construction permits and getting credit) to 0.60 (between starting a business and protecting investors). These correlations suggest that economies rarely score universally well or universally badly on the indicators (table 15.1).

Consider the example of Canada. It stands at 17 in the aggregate ranking on the ease of doing business. Its ranking is 3 on starting a business, and 4 on both resolving insolvency and protecting investors. But its ranking is only 62 on enforcing contracts, 69 on dealing with construction permits and 152 on getting electricity.

Comparing the average of the highest 3 topic rankings and the average of the lowest 3 for each economy draws attention to economies with a particularly uneven performance. 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 uneven 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 2011/12

Doing Business 2013 uses a simple method to calculate which economies improved the most in the ease of doing business. First, it selects the economies that in 2011/12 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] Twenty-three economies meet this criterion: Benin, Burundi, Costa Rica, the Czech Republic, Georgia, Greece, Guinea, Kazakhstan, Korea, Lao PDR, Liberia, Mongolia, the Netherlands, Panama, Poland, Portugal, Serbia, the Slovak Republic, Slovenia, Sri Lanka, Ukraine, the United Arab Emirates and Uzbekistan. 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

A drawback of the ease of doing business ranking is that it can measure the regulatory performance of economies only relative to the performance of others. It does not provide information on how the absolute quality of the regulatory environment is improving over time. Nor does it provide information on how large the gaps are between economies at a single point in time.

The distance to frontier measure is designed to address both shortcomings, complementing the ease of doing business ranking. This measure illustrates the distance of an economy to the "frontier," and the change in the measure over time shows the extent to which the economy has closed this gap. 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), Slovenia on the cost (0% of income per capita) and Australia and 90 other economies on the paid-in minimum capital requirement (0% of income per capita) (table 15.2).

Calculating the distance to frontier for each economy involves 2 main steps. First, individual indicator scores are normalized to a common unit: except for the total tax rate, each of the 28 component indicators y is rescaled to $(\max - y)/(\max - \min)$, with the minimum value (min) representing the frontier—the highest performance on that indicator across all economies since 2005. For the total tax rate, consistent with the calculation of the rankings, the frontier is defined as the total tax rate corresponding to the 15th percentile based on the overall distribution of total tax rates for all years. 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 frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.[5]

The difference between an economy's distance to frontier score in 2005 and its score in 2012 illustrates the extent to which the economy has closed the gap to the frontier over time. And in any given year the score measures how far an economy is from the highest performance at that 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 2012). 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. The exceptions are the getting credit, protecting investors and resolving insolvency indicators, whose construction precludes outliers.

Take Ghana, which has a score of 67 on the distance to frontier measure for 2012. This score indicates that the economy is 33 percentage points away from the frontier constructed from the best performances across all economies and all years. Ghana was further from the frontier in 2005, with a score of 54. The difference between the scores shows an improvement over time.

The distance to frontier measure can also be used for comparisons across economies in the same year, complementing the ease of doing business ranking. For

TABLE 15.2 What is the frontier in regulatory practice?

Topic and indicator	Frontier
Starting a business	
Procedures (number)	1
Time (days)	1
Cost (% of income per capita)	0
Minimum capital (% of income per capita)	0
Dealing with construction permits	
Procedures (number)	6
Time (days)	25
Cost (% of income per capita)	0.2
Registering property	
Procedures (number)	1
Time (days)	1
Cost (% of property value)	0
Getting credit	
Strength of legal rights index (0–10)	10
Depth of credit information index (0–6)	6
Protecting investors	
Extent of disclosure index (0–10)	10
Extent of director liability index (0–10)	9
Ease of shareholder suits index (0–10)	10
Paying taxes	
Payments (number per year)	3
Time (hours per year)	0[a]
Total tax rate (% of profit)	27.5[b]
Trading across borders	
Documents to export (number)	2
Time to export (days)	5
Cost to export (US$ per container)	390
Documents to import (number)	2
Time to import (days)	4
Cost to import (US$ per container)	317
Enforcing contracts	
Procedures (number)	21
Time (days)	120
Cost (% of claim)	0.1
Resolving insolvency	
Recovery rate (cents on the dollar)	94.4

a. The time of 0 hours refers to Maldives, where the 3 major taxes covered by the paying taxes indicators did not exist until 2011.

b. The frontier total tax rate differs from the threshold set for the indicator this year. See the data notes for more details.

Source: Doing Business database.

example, Ghana stands at 64 this year in the ease of doing business ranking, while Peru, which is 29 percentage points from the frontier, stands at 43.

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). 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.
5. This represents a change from last year's report, where 100 represented the lowest performance and 0 the frontier.

2007 2012 2011 2005 2009 2004 2008 2006 2010 2013

Summaries of *Doing Business* reforms in 2011/12

Nine reforms in the East African Community in 2011/12 made it easier to do business			
Starting a business	Dealing with construction permits	Getting electricity	Registering property
Burundi, Tanzania	Burundi	Rwanda	Burundi
Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Kenya	Burundi	Rwanda	Uganda

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 from June 2011 to June 2012.

✔ *Doing Business* reform making it easier to do business

✘ *Doing Business* reform making it more difficult to do business

BURUNDI

✔ **Starting a business**
Burundi made starting a business easier by eliminating the requirements to have company documents notarized, to publish information on new companies in a journal and to register new companies with the Ministry of Trade and Industry.

✔ **Dealing with construction permits**
Burundi made obtaining a construction permit easier by eliminating the requirement for a clearance from the Ministry of Health and reducing the cost of the geotechnical study.

✔ **Registering property**
Burundi made property transfers faster by establishing a statutory time limit for processing property transfer requests at the land registry.

✔ **Trading across borders**
Burundi reduced the time to trade across borders by enhancing its use of electronic data interchange systems, introducing a more efficient system for monitoring goods going through transit countries and improving border coordination with neighboring transit countries.

KENYA

✔ **Paying taxes**
Kenya made paying taxes faster for companies by enhancing electronic filing systems.

RWANDA

✔ **Getting electricity**
Rwanda made getting electricity easier by reducing the cost of obtaining a new connection.

✔ **Enforcing contracts**
Rwanda made enforcing contracts easier by implementing an electronic filing system for initial complaints.

TANZANIA

✔ **Starting a business**
Tanzania made starting a business easier by eliminating the requirement for inspections by health, town and land officers as a prerequisite for a business license.

✘ **Dealing with construction permits**
Tanzania made dealing with construction permits more expensive by increasing the cost to obtain a building permit.

✘ **Trading across borders**
Tanzania made importing more difficult by introducing a requirement to obtain a certificate of conformity before the imported goods are shipped.

UGANDA

✘ **Registering property**

Uganda made transferring property more difficult by introducing a requirement for property purchasers to obtain an income tax certificate before registration, resulting in delays at the Uganda Revenue Authority and the Ministry of Finance. At the same time, Uganda made it easier by digitizing records at the title registry, increasing efficiency at the assessor's office and making it possible for more banks to accept the stamp duty payment.

✔ **Resolving insolvency**

Uganda strengthened its insolvency process by clarifying rules on the creation of mortgages, establishing the duties of mortgagors and mortgagees, defining priority rules, providing remedies for mortgagors and mortgagees and establishing the powers of receivers.

Country tables

✔ Reform making it easier to do business ✘ Reform making it more difficult to do business

BURUNDI

Ease of doing business (rank)	159	Sub-Saharan Africa Low income		GNI per capita (US$) Population (m)	250 8.6
✔ **Starting a business** (rank)	28	✔ **Registering property** (rank)	127	✔ **Trading across borders** (rank)	177
Procedures (number)	4	Procedures (number)	8	Documents to export (number)	10
Time (days)	8	Time (days)	64	Time to export (days)	32
Cost (% of income per capita)	18.3	Cost (% of property value)	3.3	Cost to export (US$ per container)	2,965
Minimum capital (% of income per capita)	0.0			Documents to import (number)	11
		Getting credit (rank)	167	Time to import (days)	46
✔ **Dealing with construction permits** (rank)	141	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	5,005
Procedures (number)	21	Depth of credit information index (0-6)	1		
Time (days)	99	Public registry coverage (% of adults)	0.3	**Enforcing contracts** (rank)	175
Cost (% of income per capita)	1,911.9	Private bureau coverage (% of adults)	0.0	Procedures (number)	44
				Time (days)	832
Getting electricity (rank)	164	**Protecting investors** (rank)	49	Cost (% of claim)	38.6
Procedures (number)	5	Extent of disclosure index (0-10)	8		
Time (days)	188	Extent of director liability index (0-10)	6	**Resolving insolvency** (rank)	161
Cost (% of income per capita)	21,481.7	Ease of shareholder suits index (0-10)	4	Time (years)	5.0
		Strength of investor protection index (0-10)	6.0	Cost (% of estate)	30
				Recovery rate (cents on the dollar)	8.0
		Paying taxes (rank)	137		
		Payments (number per year)	25		
		Time (hours per year)	274		
		Total tax rate (% of profit)	53.0		

KENYA

Ease of doing business (rank)	121	Sub-Saharan Africa Low income		GNI per capita (US$) Population (m)	820 41.6
Starting a business (rank)	126	**Registering property** (rank)	161	**Trading across borders** (rank)	148
Procedures (number)	10	Procedures (number)	9	Documents to export (number)	8
Time (days)	32	Time (days)	73	Time to export (days)	26
Cost (% of income per capita)	40.4	Cost (% of property value)	4.3	Cost to export (US$ per container)	2,255
Minimum capital (% of income per capita)	0.0			Documents to import (number)	7
		Getting credit (rank)	12	Time to import (days)	26
Dealing with construction permits (rank)	45	Strength of legal rights index (0-10)	10	Cost to import (US$ per container)	2,350
Procedures (number)	9	Depth of credit information index (0-6)	4		
Time (days)	125	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	149
Cost (% of income per capita)	211.9	Private bureau coverage (% of adults)	4.9	Procedures (number)	44
				Time (days)	465
Getting electricity (rank)	162	**Protecting investors** (rank)	100	Cost (% of claim)	47.2
Procedures (number)	6	Extent of disclosure index (0-10)	3		
Time (days)	146	Extent of director liability index (0-10)	2	**Resolving insolvency** (rank)	100
Cost (% of income per capita)	1,208.2	Ease of shareholder suits index (0-10)	10	Time (years)	4.5
		Strength of investor protection index (0-10)	5.0	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	29.5
		✔ **Paying taxes** (rank)	164		
		Payments (number per year)	41		
		Time (hours per year)	340		
		Total tax rate (% of profit)	44.4		

Note: Most indicator sets refer to a case scenario in an economy's largest business city. For more details, see the data notes.

✔ Reform making it easier to do business ✘ Reform making it more difficult to do business

RWANDA

Indicator	Value
Ease of doing business (rank)	52
Sub-Saharan Africa	
Low income	
GNI per capita (US$)	570
Population (m)	10.9
Starting a business (rank)	8
Procedures (number)	2
Time (days)	3
Cost (% of income per capita)	4.3
Minimum capital (% of income per capita)	0.0
Dealing with construction permits (rank)	98
Procedures (number)	12
Time (days)	164
Cost (% of income per capita)	278.4
✔ **Getting electricity** (rank)	49
Procedures (number)	4
Time (days)	30
Cost (% of income per capita)	3,948.1
Registering property (rank)	63
Procedures (number)	5
Time (days)	25
Cost (% of property value)	5.6
Getting credit (rank)	23
Strength of legal rights index (0-10)	7
Depth of credit information index (0-6)	6
Public registry coverage (% of adults)	0.0
Private bureau coverage (% of adults)	7.1
Protecting investors (rank)	32
Extent of disclosure index (0-10)	7
Extent of director liability index (0-10)	9
Ease of shareholder suits index (0-10)	3
Strength of investor protection index (0-10)	6.3
Paying taxes (rank)	25
Payments (number per year)	17
Time (hours per year)	134
Total tax rate (% of profit)	31.3
Trading across borders (rank)	158
Documents to export (number)	8
Time to export (days)	29
Cost to export (US$ per container)	3,245
Documents to import (number)	8
Time to import (days)	31
Cost to import (US$ per container)	4,990
✔ **Enforcing contracts** (rank)	39
Procedures (number)	23
Time (days)	230
Cost (% of claim)	78.7
Resolving insolvency (rank)	167
Time (years)	3.0
Cost (% of estate)	50
Recovery rate (cents on the dollar)	3.1

TANZANIA

Indicator	Value
Ease of doing business (rank)	134
Sub-Saharan Africa	
Low income	
GNI per capita (US$)	540
Population (m)	46.2
✔ **Starting a business** (rank)	113
Procedures (number)	9
Time (days)	26
Cost (% of income per capita)	28.2
Minimum capital (% of income per capita)	0.0
✘ **Dealing with construction permits** (rank)	174
Procedures (number)	19
Time (days)	206
Cost (% of income per capita)	564.6
Getting electricity (rank)	96
Procedures (number)	4
Time (days)	109
Cost (% of income per capita)	1,944.1
Registering property (rank)	137
Procedures (number)	8
Time (days)	68
Cost (% of property value)	4.4
Getting credit (rank)	129
Strength of legal rights index (0-10)	7
Depth of credit information index (0-6)	0
Public registry coverage (% of adults)	0.0
Private bureau coverage (% of adults)	0.0
Protecting investors (rank)	100
Extent of disclosure index (0-10)	3
Extent of director liability index (0-10)	4
Ease of shareholder suits index (0-10)	8
Strength of investor protection index (0-10)	5.0
Paying taxes (rank)	133
Payments (number per year)	48
Time (hours per year)	172
Total tax rate (% of profit)	45.3
✘ **Trading across borders** (rank)	122
Documents to export (number)	6
Time to export (days)	18
Cost to export (US$ per container)	1,040
Documents to import (number)	10
Time to import (days)	31
Cost to import (US$ per container)	1,565
Enforcing contracts (rank)	36
Procedures (number)	38
Time (days)	462
Cost (% of claim)	14.3
Resolving insolvency (rank)	129
Time (years)	3.0
Cost (% of estate)	22
Recovery rate (cents on the dollar)	21.7

UGANDA

Indicator	Value
Ease of doing business (rank)	120
Sub-Saharan Africa	
Low income	
GNI per capita (US$)	510
Population (m)	34.5
Starting a business (rank)	144
Procedures (number)	15
Time (days)	33
Cost (% of income per capita)	76.7
Minimum capital (% of income per capita)	0.0
Dealing with construction permits (rank)	118
Procedures (number)	15
Time (days)	125
Cost (% of income per capita)	853.1
Getting electricity (rank)	127
Procedures (number)	5
Time (days)	91
Cost (% of income per capita)	4,622.9
✘ **Registering property** (rank)	124
Procedures (number)	12
Time (days)	52
Cost (% of property value)	1.9
Getting credit (rank)	40
Strength of legal rights index (0-10)	7
Depth of credit information index (0-6)	5
Public registry coverage (% of adults)	0.0
Private bureau coverage (% of adults)	3.7
Protecting investors (rank)	139
Extent of disclosure index (0-10)	2
Extent of director liability index (0-10)	5
Ease of shareholder suits index (0-10)	5
Strength of investor protection index (0-10)	4.0
Paying taxes (rank)	93
Payments (number per year)	31
Time (hours per year)	213
Total tax rate (% of profit)	37.1
Trading across borders (rank)	159
Documents to export (number)	7
Time to export (days)	33
Cost to export (US$ per container)	3,050
Documents to import (number)	9
Time to import (days)	33
Cost to import (US$ per container)	3,215
Enforcing contracts (rank)	117
Procedures (number)	38
Time (days)	490
Cost (% of claim)	44.9
✔ **Resolving insolvency** (rank)	69
Time (years)	2.2
Cost (% of estate)	30
Recovery rate (cents on the dollar)	38.9

Note: Most indicator sets refer to a case scenario in an economy's largest business city. For more details, see the data notes.

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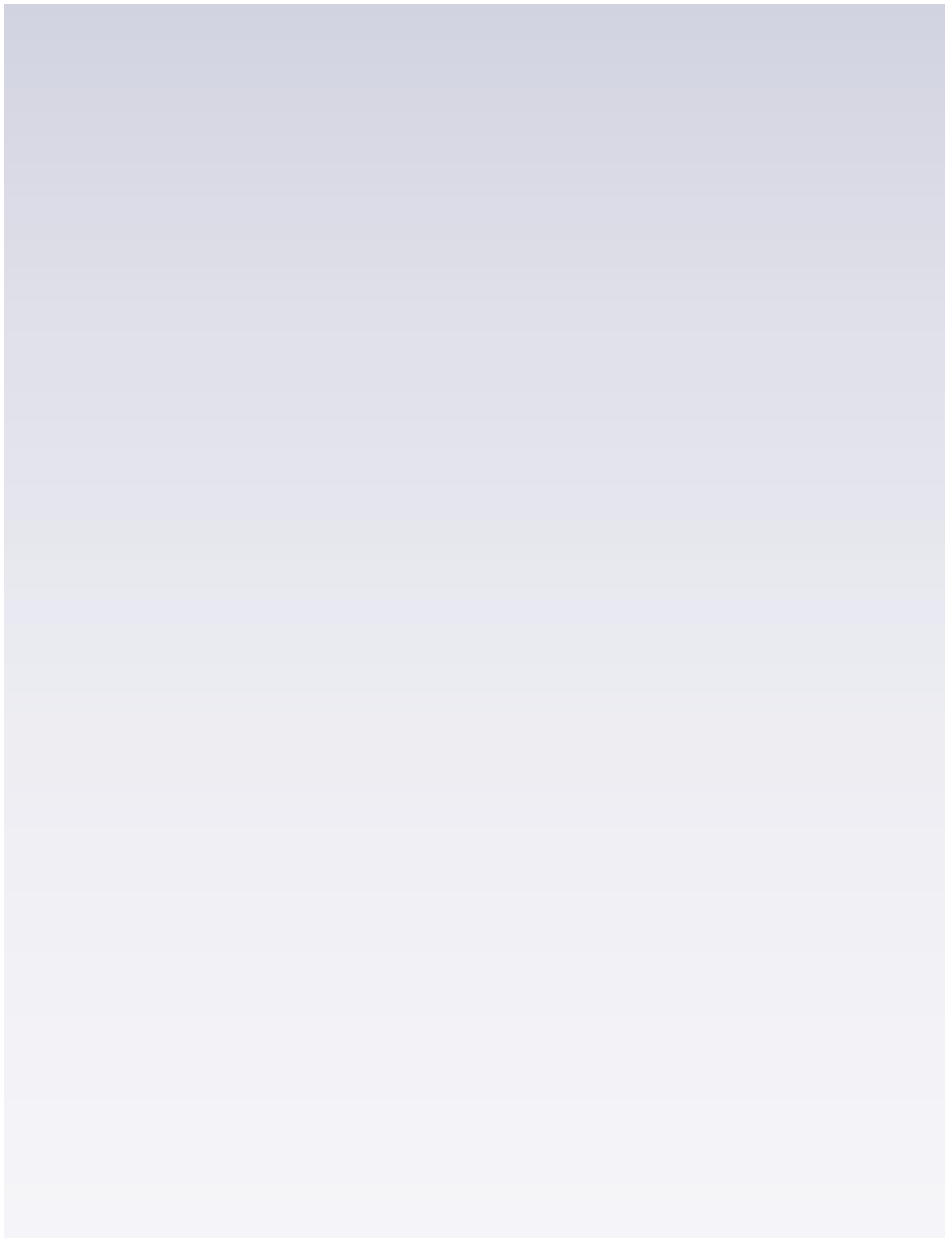

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