Doing Business in the East African Community 2011

COMPARING BUSINESS REGULATION ACROSS THE EAC REGION AND WITH 183 ECONOMIES

PRO€INVEST

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Copies of the *Doing Business* global reports, *Doing Business 2011: Making a Difference for Entrepreuners, Doing Business 2010: Reforming through Difficult Times, Doing Business 2009, Doing Business 2008, Doing Business 2007: How to Reform, Doing Business in 2006: Creating Jobs, Doing Business in 2005: Removing Obstacles to Growth* and *Doing Business in 2004: Understanding Regulations,* may be purchased at www.doingbusiness.org.

Foreword

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

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

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

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Doing Business in the East African Community 2011 is a regional report that draws on the global *Doing Business* project and its database as well as the findings of *Doing Business 2011: Making a Difference for Entrepreneurs,* the eighth in a series of annual reports investigating regulations that enhance business activity and those that constrain it.

Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies—from Afghanistan to Zimbabwe—over time. This report presents a summary of *Doing Business* indicators for the East African Community. It focuses on 5 economies: Burundi, Kenya, Rwanda, Tanzania and Uganda.

Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business, getting electricity and employing workers. The getting electricity and employing workers data are not included in the ranking on the ease of doing business in *Doing Business 2011*.

Data in *Doing Business 2011* are current as of June 1, 2010. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

The methodology for the employing workers indicators changed for *Doing Business 2011*. See *Doing Business* website for details.

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About *Doing Business:* measuring for impact

Governments committed to the economic health of their country and opportunities for its citizens focus on more than macroeconomic conditions. They also pay attention to the laws, regulations and institutional arrangements that shape daily economic activity.

The global financial crisis has renewed interest in good rules and regulation. In times of recession, effective business regulation and institutions can support economic adjustment. Easy entry and exit of firms, and flexibility in redeploying resources, make it easier to stop doing things for which demand has weakened and to start doing new things. Clarification of property rights and strengthening of market infrastructure (such as credit information and collateral systems) can contribute to confidence as investors and entrepreneurs look to rebuild.

Until recently, however, there were no globally available indicator sets for monitoring such microeconomic factors and analyzing their relevance. The first efforts, in the 1980s, drew on perceptions data from expert or business surveys. Such surveys are useful gauges of economic and policy conditions. But their reliance on perceptions and their incomplete coverage of poor countries constrain their usefulness for analysis.

The *Doing Business* project, initiated 9 years ago, goes one step further. It looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. *Doing Business* and the standard cost model initially developed and applied in the Netherlands are, for the present, the only standard tools used across a broad range of jurisdictions to measure the impact of government rule-making on the cost of doing business.[1]

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

WHAT *DOING BUSINESS* COVERS

Doing Business provides a quantitative measure of regulations for starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business—as they apply to domestic small and medium-size enterprises. It also looks at regulations on employing workers as well as a new measure on getting electricity.

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the cost of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be efficient in their implementation, to be accessible to all who need to use them and to be simple in their implementation. Accordingly, some *Doing Business* indicators give a higher score for more regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

The *Doing Business* project encompasses 2 types of data. The first come from readings of laws and regulations.

BOX 1.1
Measuring regulation throughout the life cycle of a business

This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting 9 areas in the life cycle of a business: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. *Doing Business* also looks at regulations on employing workers and, as a new initiative, getting electricity (neither of which is included in this year's aggregate ranking).[1] *Doing Business* encompasses 2 types of data and indicators. "Legal scoring indicators," such as those on investor protections and legal rights for borrowers and lenders, provide a measure of legal provisions in the laws and regulations on the books. *Doing Business* gives higher scores for stronger investor and property rights protections in some areas, such as stricter disclosure requirements in related-party transactions. "Time and motion indicators," such as those on starting a business, registering property and dealing with construction permits, measure the efficiency and complexity in achieving a regulatory goal by recording the procedures, time and cost to complete a transaction in accordance with all relevant regulations from the point of view of the entrepreneur. Any interaction of the company with external parties such as government agencies counts as one procedure. Cost estimates are recorded from official fee schedules where these apply. For a detailed explanation of the *Doing Business* methodology, see the website.

1. The methodology underlying the employing workers indicators is being refined in consultation with relevant experts and stakeholders. The getting electricity indicators are a pilot data set. (For more detail, see the annexes on these indicator sets.) Aggregate rankings published in *Doing Business 2010* were based on 10 indicator sets and are therefore not comparable. Comparable rankings based on 9 topics for last year along with this year are presented on the *Doing Business* website (http://www.doingbusiness.org).

The second are time and motion indicators that measure the efficiency in achieving a regulatory goal (such as granting the legal identity of a business). Within the time and motion indicators, cost estimates are recorded from official fee schedules where applicable.[3] Here, *Doing Business* builds on Hernando de Soto's pioneering work in applying the time and motion approach first used by Frederick Taylor to revolutionize the production of the Model T Ford. De Soto used the approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.[4]

WHAT *DOING BUSINESS* DOES NOT COVER

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

LIMITED IN SCOPE

Doing Business focuses on 11 topics, with the specific aim of measuring the regulation and red tape relevant to the life cycle of a domestic small to medium-size firm. Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, macroeconomic stability, corruption, the labor skills of the population, the underlying strength of institutions or the quality of infrastructure.[5] Nor does it focus on regulations specific to foreign investment.
- *Doing Business* does not assess the strength of the financial system or financial market regulations, both important factors in understanding some of the underlying causes of the global financial crisis.
- *Doing Business* does not cover all regulations, or all regulatory goals, in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws *(acquis)* has now grown to no fewer than 14,500 rule sets. *Doing Business* covers 11 areas of a company's life cycle, through 11 specific sets of indicators. These indicator sets do not cover all aspects of regulation in the area of focus. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all areas of labor regulation. The current indicator set does not include, for example, measures of regulations addressing safety at work or the right of collective bargaining.

BASED ON STANDARDIZED CASE SCENARIOS

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

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. *Doing Business* recognizes the limitations of including data on only the largest business city. Business regulation and its enforcement, particularly in federal states and large economies, differ across the country. And of course the challenges and opportunities of the largest business city—whether Mumbai or São Paulo, Nuku'alofa or Nassau—vary greatly across countries. Recognizing governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in such countries as Brazil, China, Colombia, the Arab Republic of Egypt, India, Indonesia, Kenya, Mexico, Morocco, Nigeria, Pakistan and the Philippines.[6]

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

FOCUSED ON THE FORMAL SECTOR

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

Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their workers remain outside the protections of labor law.[7] *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.[8]

WHY THIS FOCUS

Doing Business functions as a kind of cholesterol test for the regulatory environment for domestic businesses. A cholesterol test does not tell us everything about the state of our health. But it does measure something important for our health. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating but also our overall health.

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. The indicator set closest to *Doing Business* in what it measures is the OECD indicators of product market regulation;[9] the correlation here is 0.72. The World Economic Forum's Global Competitiveness Index and IMD's World Competitiveness Yearbook are broader in scope, but these too are strongly correlated with *Doing Business* (0.79 and 0.64, respectively).[10]

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

Small and medium-size enterprises are key drivers of competition, growth and job creation, particularly in developing countries. But in these economies up to 80% of economic activity takes place in the informal sector. Firms may be prevented from entering the formal sector by excessive bureaucracy and regulation.

Where regulation is burdensome and competition limited, success tends to depend more on whom you know than on what you can do. But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any aspiring entrepreneurs, regardless of their connections, to operate within the rule of law and to benefit from the opportunities and protections that the law provides.

In this sense *Doing Business* values good rules as a key to social inclusion. It also provides a basis for studying effects of regulations and their application. For example, *Doing Business* 2004 found that faster contract enforcement was associated with perceptions of greater judicial fairness—suggesting that justice delayed is justice denied.[12]

In the context of the global crisis policy makers continue to face particular challenges. Both developed and developing economies have been seeing the impact of the financial crisis flowing through to the real economy, with rising unemployment and income loss. The foremost challenge for many governments is to create new jobs and economic opportunities. But many have limited fiscal space for publicly funded activities such as infrastructure investment or for the provision of publicly funded safety nets and social services. Reforms aimed at creating a better investment climate, including reforms of business regulation, can be beneficial for several reasons. Flexible regulation and effective institutions, including efficient processes for starting a business and efficient insolvency or bankruptcy systems, can facilitate reallocation of labor and capital. As businesses rebuild and start to create new jobs, this helps to lay the groundwork for countries' economic recovery. And regulatory institutions and processes that are streamlined and accessible can help ensure that as businesses rebuild, barriers between the informal and formal sectors are lowered, creating more opportunities for the poor.

DOING BUSINESS AS A BENCHMARKING EXERCISE

Doing Business, in capturing some key dimensions of regulatory regimes, has been found useful for benchmarking. Any benchmarking—for individuals, firms or economies—is necessarily partial: it is valid and useful if it helps sharpen judgment, less so if it substitutes for judgment.

Doing Business provides 2 takes on the data it collects: it presents "absolute" indicators for each economy for each of the 11 regulatory topics it addresses, and it provides rankings of economies for 9 topics, both by indicator and in aggregate.[13] Judgment is required in interpreting these measures for any economy and in determining a sensible and politically feasible path for reform.

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

But for reform-minded governments, how much their indicators improve matters more than their relative ranking. To aid in assessing such improvements over time, this year's report presents a new metric that allows economies to compare where they are today with where they were 5 years ago. The new 5-year measure of cumulative change shows how much economies have reformed business regulations over time. This complements the yearly ease of doing business rankings that compare economies with one another at a point in time.

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

DOING BUSINESS— A USER'S GUIDE

Quantitative data and benchmarking can be useful in stimulating debate about policy, both by exposing potential challenges and by identifying where policy makers might look for lessons and good practices. These data also provide a basis for analyzing how different policy approaches—and different policy reforms—contribute to desired outcomes such as competitiveness, growth and greater employment and incomes.

Eight years of *Doing Business* data have enabled a growing body of research on how performance on *Doing Business* indicators—and reforms relevant to those indicators—relate to desired social and economic outcomes. Some 656 articles have been published in peer-reviewed academic journals, and about 2,060 working papers are available through Google Scholar.[14] Among the findings:

- Lower barriers to start-up are associated with a smaller informal sector.[15]
- Lower costs of entry encourage entrepreneurship, enhance firm productivity and reduce corruption.[16]
- Simpler start-up translates into greater employment opportunities.[17]
- The quality of a country's contracting environment is a source of comparative advantage in trade patterns. Countries with good contract enforcement specialize in industries where relationship-specific investments are most important.[18]
- Greater information sharing through credit bureaus is associated with higher bank profitability and lower bank risk.[19]

How do governments use *Doing Business*? A common first reaction is to ask questions about the quality and relevance of the *Doing Business* data and on how the results are calculated. Yet the debate typically proceeds to a deeper discussion exploring the relevance of the data to the economy and areas where business regulation reform might make sense.

Most reformers start out by seeking examples, and *Doing Business* helps in this (box 1.2). For example, Saudi Arabia used the company law of France as a model for revising its own. Many countries in Africa look to Mauritius—the region's strongest performer on *Doing Business* indicators—as a source of good practices for reform. In the words of Luis Guillermo Plata, the former minister of commerce, industry and tourism of Colombia,

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

Over the past 8 years there has been much activity by governments in reforming the regulatory environment for domestic businesses. Most reforms relating to *Doing Business* topics were nested in broader programs of reform aimed at enhancing economic competitiveness, as in Colombia, Kenya and Liberia, for example. In structuring their reform programs for the business environment, governments use multiple data sources and indicators. And reformers respond to many stakeholders and interest groups, all of whom bring important issues and concerns to the reform debate. World Bank Group dialogue with governments on the investment climate is designed to encourage critical use of the data, sharpening judgment, avoiding a narrow focus on improving *Doing Business* rankings and encouraging broad-based reforms that enhance the investment climate.

BOX 1.2

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

To ensure coordination of efforts across agencies, such economies as Colombia, Rwanda and Sierra Leone have formed regulatory reform committees reporting directly to the president that use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 20 other economies have formed such committees at the interministerial level. These include India, Malaysia, Taiwan (China) and Vietnam in East and South Asia; the Arab Republic of Egypt, Morocco, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and the Republic of Yemen in the Middle East and North Africa; Georgia, Kazakhstan, the Kyrgyz Republic, Moldova and Tajikistan in Eastern Europe and Central Asia; Kenya, Liberia, Malawi and Zambia in Sub-Saharan Africa; and Guatemala, Mexico and Peru in Latin America.

Beyond the level of the economy, the Asia-Pacific Economic Cooperation (APEC) organization uses *Doing Business* to identify potential areas of regulatory reform, to champion economies that can help others improve and to set measurable targets. In 2009 APEC launched the Ease of Doing Business Action Plan with the goal of making it 25% cheaper, faster and easier to do business in the region by 2015. Drawing on a firm survey, planners identified 5 priority areas: starting a business, getting credit, enforcing contracts, trading across borders and dealing with permits. The next 2 steps: the APEC economies setting targets to measure results, and the champion economies selected, such as Japan, New Zealand and the United States, developing programs to build capacity to carry out regulatory reform in these areas.[1]

1. Muhamad Noor (executive director of APEC), speech delivered at ASEAN-NZ Combined Business Council breakfast meeting, Auckland, New Zealand, March 25, 2010, http://www.apec.org.

METHODOLOGY AND DATA

Doing Business covers 183 economies—including small economies and some of the poorest countries, for which little or no data are available in other data sets. The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements.

INFORMATION SOURCES FOR THE DATA

Most of the 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 surveys and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance.

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

Over the past 8 years more than 11,000 professionals in 183 economies have assisted in providing the data that inform the *Doing Business* indicators. The *Doing Business* website indicates the number of respondents for each economy and each indicator. Respondents are professionals or government officials who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. Because of the focus on legal and regulatory arrangements, most of the respondents are lawyers. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

The *Doing Business* approach to data collection contrasts with that of enterprise or firm surveys, which capture often one-time perceptions and experiences of businesses. A corporate lawyer registering 100–150 businesses a year will be more familiar with the process than an entrepreneur, who will register a business only once or maybe twice. A bankruptcy judge deciding dozens of cases a year will have more insight into bankruptcy than a company that may undergo the process.

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.

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components. They turn out to yield results nearly identical to those of simple averaging. The 9 sets of indicators included in this year's aggregate ranking on the ease of doing business provide sufficiently broad coverage across topics. Therefore, the simple averaging approach is used.

IMPROVEMENTS TO THE METHODOLOGY AND DATA REVISIONS

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

Another change relates to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. Initially *Doing Business* measured the required minimum capital regardless of whether it had to be paid up front or not. In many economies only part of the minimum capital has to be paid up front. To reflect the actual potential barrier to entry, the paid-in minimum capital has been used since 2004.

This year's report includes changes in the core methodology for one set of indicators, those on employing workers. With the aim of measuring the balance between worker protection and efficient employment regulation that favors job creation, *Doing Business* has made a series of amendments to the methodology for the employing workers indicators over the past 3 years, including in this year's report. While this process has been under way, the World Bank has removed the employing workers indicators as a guidepost from its Country Policy and Institutional Assessment questionnaire and instructed staff not to use the indicators as a basis for providing policy advice or evaluating country development programs or assistance strategies. A note to staff issued in October 2009 outlines the guidelines for using the indicators.[20]

In addition, the World Bank Group has been working with a consultative group—including labor lawyers, employer and employee representatives and experts from the International Labour Organization (ILO), the Organisation for Economic Co-operation and Development (OECD), civil society and the private sector—to review the methodology and explore future areas of research.[21] The consultative group has met several times over the past year, and its guidance has provided the basis for several changes in methodology, some of which have been implemented in this year's report. Because the consultative process and consequent changes to the methodology are not yet complete, 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. But it does present the data collected for the indicators. Additional data collected on labor regulations are available on the *Doing Business* website.[22]

The changes so far in the methodology for the employing workers indicators recognize minimum levels of protection in line with relevant ILO conventions as well as excessive levels of regulation that may stifle job creation. Floors and ceilings in such areas as paid annual leave, working days per week and the minimum wage provide a framework for balancing worker protection against excessive restrictiveness in employment regulations.

Doing Business also continues to benefit from discussions with external stakeholders, including participants in the International Tax Dialogue, on the survey instrument and methodology.

All changes in methodology are explained 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 website also makes available all original data sets used for background papers.

Information on data corrections is provided 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.

1. The standard cost model is a quantitative methodology for determining the administrative burdens that regulation imposes on businesses. The method can be used to measure the effect of a single law or of selected areas of legislation or to perform a baseline measurement of all legislation in a country.
2. This has included a review by the World Bank Independent Evaluation Group (2008) as well as ongoing input from the International Tax Dialogue.
3. Local experts in 183 economies are surveyed annually to collect and update the data. The local experts for each economy are listed on the *Doing Business* website (http://www.doingbusiness.org).
4. De Soto (2000).
5. The indicators related to trading across borders and dealing with construction permits and the pilot indicators on getting electricity take into account limited aspects of an economy's infrastructure, including the inland transport of goods and utility connections for businesses.
6. http://www.doingbusiness.org/Subnational/.
7. Schneider (2005).
8. http://www.enterprisesurveys.org.
9. OECD, "Indicators of Product Market Regulation Homepage," http://www.oecd.org/.
10. The World Economic Forum's *Global Competitiveness Report* uses part of the *Doing Business* data sets on starting a business, employing workers, protecting investors and getting credit (legal rights).
11. Narayan and others (2000).
12. World Bank (2003).
13. This year's report does not present rankings of economies on the pilot getting electricity indicators or the employing workers indicators. Nor does it include these topics in the aggregate ranking on the ease of doing business.
14. http://scholar.google.com.
15. For example, Masatlioglu and Rigolini (2008), Kaplan, Piedra and Seira (2007), Ardagna and Lusardi (2009) and Djankov (2009b).
16. For example, Alesina and others (2005), Perotti and Volpin (2004), Klapper, Laeven and Rajan (2006), Fisman and Sarria-Allende (2004), Antunes and Cavalcanti (2007), Barseghyan (2008), Djankov and others (2010) and Klapper, Lewin and Quesada Delgado (2009).
17. For example, Freund and Bolaky (2008), Chang, Kaltani and Loayza (2009) and Helpman, Melitz and Rubinstein (2008).
18. Nunn (2007).
19. Houston and others (2010).
20. World Bank (2009b).
21. For the terms of reference and composition of the consultative group, see World Bank, "*Doing Business* Employing Workers Indicator Consultative Group," http://www.doingbusiness.org.
22. http://www.doingbusiness.org.

Executive summary

The East African Community is deepening and widening cooperation among its 5 member states: Burundi, Kenya, Rwanda, Tanzania and Uganda. Spurred by the need to expand markets, boost competitiveness and attract investment, East African economies[1] have continued to take steps to make it easier for local firms to start up and operate. Continuous improvement of the business environment is important for countries seeking to benefit from increased trade and investment through regional integration. How easy or difficult it is to start and run a business, and how efficient courts and insolvency proceedings are, can influence how quickly firms are able to seize new opportunities.

Consider the story of Bedi Limited, a garment producer in Nakuru, Kenya.[2] After spending 18 months pursuing a trial order for school items from Tesco, one of the largest retail chains in the United Kingdom, Bedi lost out on the chance to become part of its global supply chain. Bedi had everything well planned to meet a delivery date set for July. But the goods were delayed at the port. When they arrived in the United Kingdom in August, it was too late. The back-to-school promotion was over. Changes to regulations and procedures can help improve the trade logistics environment, enabling companies like Bedi to capture such growth opportunities.

Opportunities are expanding in the East African Community, which has achieved strong growth in the past 2 decades. Since 2005 its member states have grown faster on average than the rest of Sub-Saharan Africa, with annual per capita growth averaging close to 4 percent.[3] Yet significant differences remain among East African economies. Deeper regional integration could help achieve economies of scale and allow the East African Community to compete more efficiently in the global economy. Properly implemented, a larger single market could turn around the systematic underinvestment in the East African Community and expand its economy.

Regional integration is already advancing: the founding members of the East African Community (Kenya, Tanzania and Uganda) entered into a customs union arrangement, effective in 2005, that established a common external tariff. While implementation of the customs union is still under way, the expanded East African Community (with Burundi and Rwanda) signed a common market protocol in November 2009, which entered into force in July 2010. Based on the model of European integration, this protocol is aimed at establishing a common market with free movement of people, goods, services and capital. The member states are now negotiating a protocol for establishing the East African Monetary Union.

Despite the progress in regional integration, critical obstacles to entrepreneurial activity remain. Reforming business regulations can help accelerate private sector growth. This report, the second *Doing Business in the East African Community* report, allows member states to compare specific areas of business regulation—and to track reforms in each area.

DOING BUSINESS HAS BECOME EASIER IN EAST AFRICA SINCE 2005

Doing Business 2011 ranked 183 economies on the overall ease of doing business, based on indicator sets measuring business regulation in 9 areas. East African countries had an average ranking of 117, similar to the previous year's average of 116.

Yearly movements in rankings provide some indication of changes in an economy's regulatory environment for firms, but they are always relative. An economy's ranking might change because of developments in other economies.

TABLE 2.1
Most business regulation reforms in EAC focused on starting a business, registering property and trading across borders

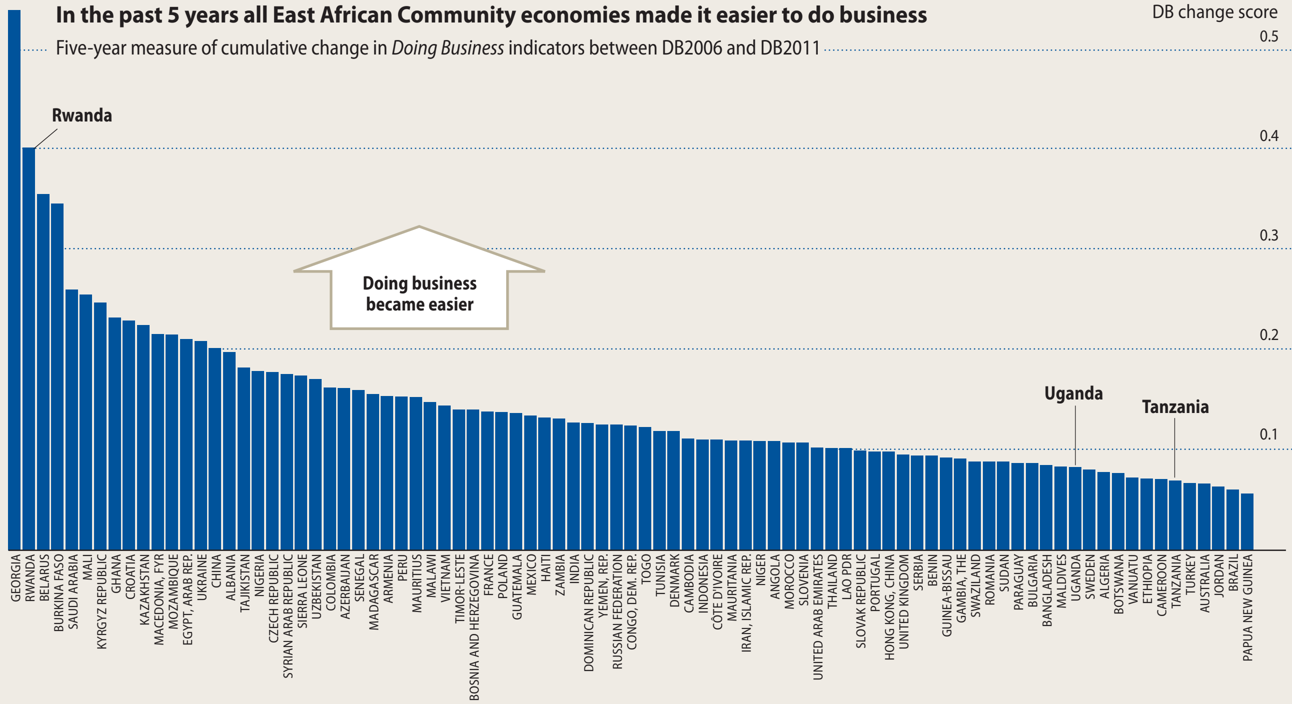
	Burundi (rank)	Kenya (rank)	Rwanda (rank)	Tanzania (rank)	Uganda (rank)
Starting a business	135	125	9	122	137
Registering a property	115	129	41	151	150
Trading across borders	176	144	159	109	148

Source: Doing Business database.

FIGURE 2.1

In the past 5 years all East African Community economies made it easier to do business

Five-year measure of cumulative change in *Doing Business* indicators between DB2006 and DB2011



Note: The DB change score illustrates the level of change in the regulatory environment for local entrepreneurs as measured by 9 *Doing Business* indicator sets over a period of 5 years. This year's DB change score ranges from –0.1 to 0.54. See *Doing Business 2011* for more details on how the DB change score is constructed.

Source: Doing Business database.

Moreover, year-to-year changes in rankings do not reflect how the business regulatory environment in an economy has changed over time.

To illustrate how the regulatory environment as measured by *Doing Business* has changed within economies over time, *Doing Business 2011* introduced a new measure. This measure provides a 5-year snapshot of how business regulation changed in 174 economies, including the 5 East African economies.[4] The new measure reflects the changes in an economy's business regulation as measured by the *Doing Business* indicators—such as a reduction in the time to start a business thanks to a one-stop shop. The measure compares an economy with where it was 5 years before. Unlike the aggregate ranking on the ease of doing business, which is relative, it does not compare an economy with all other economies.

The findings based on this new measure are encouraging for the East African Community: all 5 member states made it easier to do business over the 5 years covered by the measure (figure 2.1).

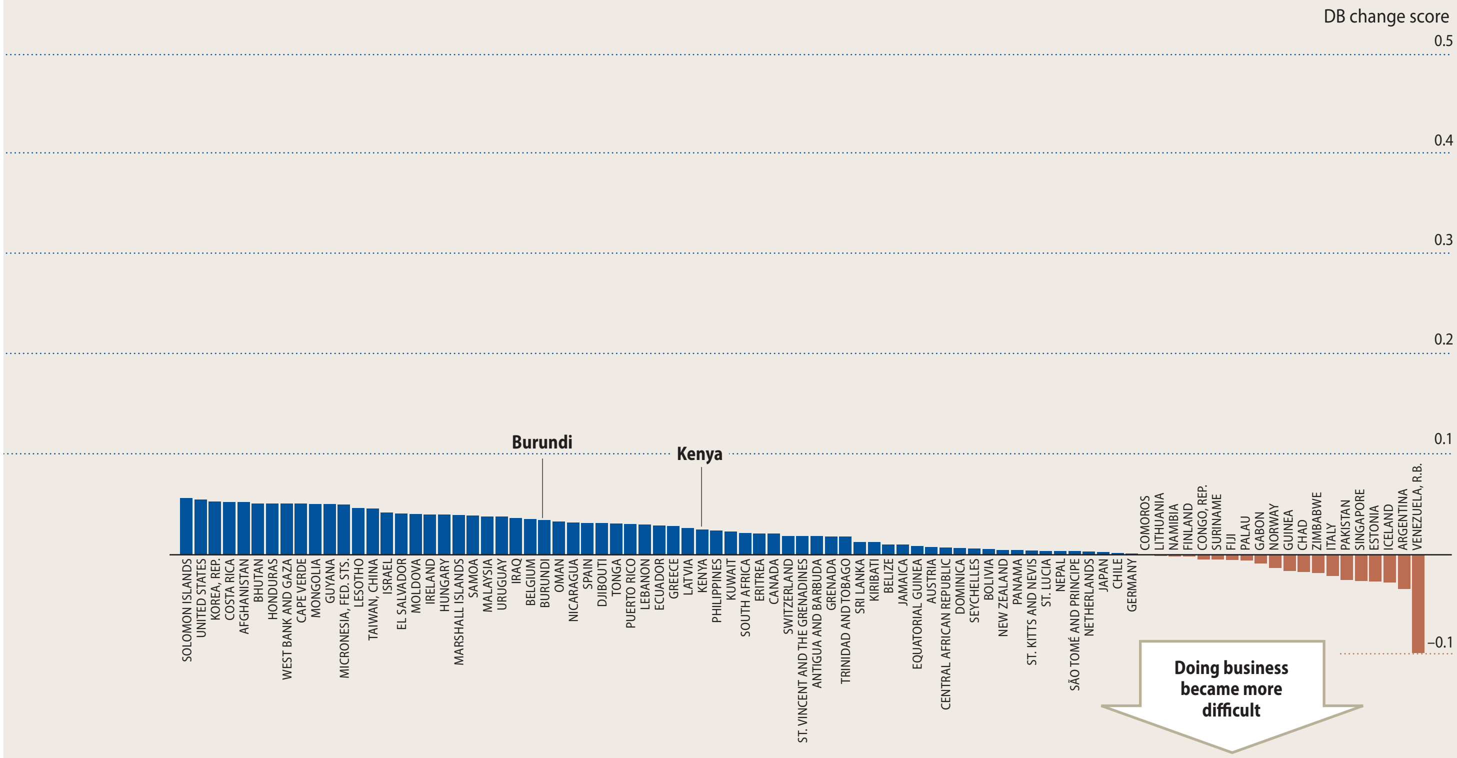
Rwanda improved its business regulatory environment the most in the 5 years, followed by Uganda, Tanzania, Burundi and Kenya. Most business regulatory reforms in East Africa over the 5 years focused on simplifying procedures for starting a business, registering property and dealing with customs (table 2.1). As a result of the reforms in business registration, the average time to start a business in East Africa fell from 37 days in 2005 to 24 days in 2010.

Rwanda's improvements reflect concerted efforts. In 2003 Rwanda started to reach out to East Asian economies such as Singapore to learn from their reform success stories. Since 2005 it has implemented 22 business regulation reforms in the areas measured by *Doing Business*, using the report to track progress on an annual basis.

Results soon started to show. In 2005 starting a business in Rwanda took 9 procedures and cost 223% of income per capita. In 2010 entrepreneurs could register a new business in 3 days, paying official fees amounting to 8.8% of income per capita. More than 3,000 entrepreneurs took advantage of the efficient process in 2008, up from an average of 700 annually in previous years. Registering property in 2005 took more than a year (371 days), and the transfer fees amounted to 9.8% of the property value. In 2010 the process took 2 months and cost 0.4% of the property value. Rwanda introduced a new company law, insolvency law and secured transactions law. In April 2010 it passed a new building regulation with new time limits for issuing various permits. To improve access to credit, Rwanda recently mandated that loans of all sizes be reported to the public credit registry and gave borrowers the right to inspect their own credit report.

SHARING GOOD PRACTICES COULD BRING EAST AFRICA CLOSER TO GLOBAL TOP PERFORMERS

Despite the progress made in East Africa, the region has not kept pace with improvements in business regulation globally. The average ranking on the ease of doing business in East Africa, at 117, is not much



higher than the average for Sub-Saharan Africa overall, at 137 (figure 2.2).

As recorded in *Doing Business 2011*, Kenya dropped 4 places in the rankings on the ease of doing business (from 94 in the previous year to 98). Tanzania dropped 3 places (from 125 to 128). Burundi remained at 181 (table 2.3). On the other hand, Uganda improved 7 places (from 129 to 122), and Rwanda, for the second year in a row, featured among the 10 economies that improved the most on the ease of doing business, moving up from 70 in the global rankings in *Doing Business 2010* to 58 in *Doing Business 2011* (table 2.2).

East Africa could benefit from sharing good practices in business regulation as measured by *Doing Business*. Kenya has some of the most business-friendly regulations for dealing with construction permits. Ugandan courts resolve insolvency relatively efficiently. And Rwanda is among the fastest places to start a business (table 2.4). If each East African country were to adopt the region's best practice in each of the *Doing Business* indicators, the region's average ranking on the ease of doing business would be 18 rather than 117.[5] In other words, if the best of East African regulations and procedures were implemented across the board, the business regulatory environment in East Africa, as measured by *Doing Business*, would be comparable to that in Japan. This possibility is not lost on East African countries. They are already seeking to learn from one another's good practices (box 2.1).

WHO MADE IT EASIER TO DO BUSINESS IN 2009/10?

Between June 2009 and May 2010, as recorded by *Doing Business 2011*, East African countries implemented 8 reforms making it easier to do business. That brought the region's total since 2004 to 54 (figure 2.3). Of the 8 reforms making it easier to do business in 2009/10, 3 were carried out in Rwanda, 2 each in Kenya and Uganda, and 1 in Burundi.

Kenya made starting a business easier by reducing the time required to get incorporation documents stamped, digitizing records at the registrar and merging the tax and value added tax registration processes. It made trade easier by implementing an electronic cargo tracking system. In 2009/10 single border controls speeded up crossings between Rwanda and Uganda. Customs authorities in Kenya, Tanzania and Uganda still use different electronic data systems, but efforts are under way to create a single interface between these systems.

Uganda established a new private credit bureau and improved procedural efficiency at the magistrate's court and the commercial division of the high court. Burundi introduced a value added tax in place of its former transactions tax.

TABLE 2.2

How do East African countries rank globally?

	GLOBAL RANK	EAC RANK
Rwanda	58	1
Kenya	98	2
Uganda	122	3
Tanzania	128	4
Burundi	181	5

Source: Doing Business database.

TABLE 2.3

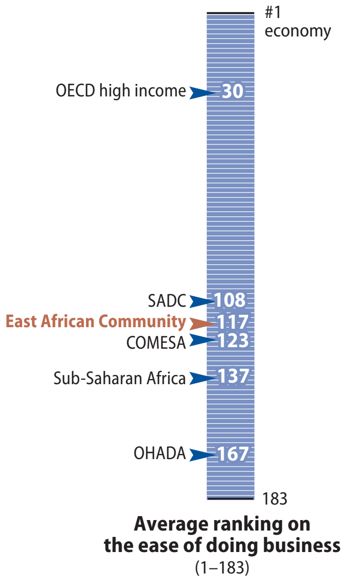
Rankings on the ease of doing business

DB2011 RANK	*DB2010 RANK*	ECONOMY	DB2011 REFORMS
1	*1*	Singapore	0
2	*2*	Hong Kong SAR, China	2
3	*3*	New Zealand	1
4	*4*	United Kingdom	2
5	*5*	United States	0
6	*6*	Denmark	2
7	*9*	Canada	2
8	*7*	Norway	0
9	*8*	Ireland	0
10	*10*	Australia	0
11	*12*	Saudi Arabia	4
12	*13*	Georgia	4
13	*11*	Finland	0
14	*18*	Sweden	3
15	*14*	Iceland	0
16	*15*	Korea, Rep.	1
17	*17*	Estonia	3
18	*19*	Japan	1
19	*16*	Thailand	1
20	*20*	Mauritius	1
21	*23*	Malaysia	3
22	*21*	Germany	1
23	*26*	Lithuania	5
24	*27*	Latvia	2
25	*22*	Belgium	1
26	*28*	France	0
27	*24*	Switzerland	0
28	*25*	Bahrain	1
29	*30*	Israel	1
30	*29*	Netherlands	1
31	*33*	Portugal	2
32	*31*	Austria	1
33	*34*	Taiwan, China	2
34	*32*	South Africa	0
35	*41*	Mexico	2
36	*46*	Peru	4
37	*35*	Cyprus	0
38	*36*	Macedonia, FYR	2
39	*38*	Colombia	1
40	*37*	United Arab Emirates	2
41	*40*	Slovak Republic	0
42	*43*	Slovenia	3
43	*53*	Chile	2
44	*47*	Kyrgyz Republic	1
45	*42*	Luxembourg	1
46	*52*	Hungary	4
47	*49*	Puerto Rico	0
48	*44*	Armenia	1
49	*48*	Spain	3
50	*39*	Qatar	0
51	*51*	Bulgaria	2
52	*50*	Botswana	0
53	*45*	St. Lucia	0
54	*55*	Azerbaijan	2
55	*58*	Tunisia	2
56	*54*	Romania	2
57	*57*	Oman	0
58	*70*	**Rwanda**	3
59	*74*	Kazakhstan	4
60	*59*	Vanuatu	0
61	*67*	Samoa	1
62	*61*	Fiji	1
63	*82*	Czech Republic	2
64	*56*	Antigua and Barbuda	0
65	*60*	Turkey	0
66	*65*	Montenegro	3
67	*77*	Ghana	2
68	*64*	Belarus	4
69	*68*	Namibia	0
70	*73*	Poland	1
71	*66*	Tonga	1
72	*62*	Panama	2
73	*63*	Mongolia	0
74	*69*	Kuwait	0
75	*72*	St. Vincent and the Grenadines	0
76	*84*	Zambia	3
77	*71*	Bahamas, The	0
78	*88*	Vietnam	3
79	*78*	China	1
80	*76*	Italy	1
81	*79*	Jamaica	1
82	*81*	Albania	1
83	*75*	Pakistan	1
84	*89*	Croatia	2
85	*96*	Maldives	1
86	*80*	El Salvador	0
87	*83*	St. Kitts and Nevis	0
88	*85*	Dominica	0
89	*90*	Serbia	1
90	*87*	Moldova	1
91	*86*	Dominican Republic	0
92	*98*	Grenada	3
93	*91*	Kiribati	0
94	*99*	Egypt, Arab Rep.	2
95	*92*	Seychelles	1
96	*106*	Solomon Islands	1
97	*95*	Trinidad and Tobago	0
98	*94*	**Kenya**	2
99	*93*	Belize	0
100	*101*	Guyana	3
101	*100*	Guatemala	0
102	*102*	Sri Lanka	0
103	*108*	Papua New Guinea	1
104	*103*	Ethiopia	1
105	*104*	Yemen, Rep.	0
106	*105*	Paraguay	1
107	*111*	Bangladesh	2
108	*123*	Marshall Islands	1
109	*97*	Greece	0
110	*110*	Bosnia and Herzegovina	2
111	*107*	Jordan	2
112	*117*	Brunei Darussalam	3
113	*109*	Lebanon	1
114	*114*	Morocco	1
115	*113*	Argentina	0
116	*112*	Nepal	0
117	*119*	Nicaragua	1
118	*126*	Swaziland	2
119	*118*	Kosovo	0
120	*120*	Palau	0
121	*115*	Indonesia	3
122	*129*	**Uganda**	2
123	*116*	Russian Federation	2
124	*122*	Uruguay	1
125	*121*	Costa Rica	0
126	*130*	Mozambique	1
127	*124*	Brazil	1
128	*125*	**Tanzania**	0
129	*131*	Iran, Islamic Rep.	3
130	*127*	Ecuador	1
131	*128*	Honduras	0
132	*142*	Cape Verde	3
133	*132*	Malawi	2
134	*135*	India	2
135	*133*	West Bank and Gaza	1
136	*136*	Algeria	0
137	*134*	Nigeria	0
138	*137*	Lesotho	0
139	*149*	Tajikistan	3
140	*138*	Madagascar	2
141	*139*	Micronesia, Fed. Sts.	0
142	*140*	Bhutan	1
143	*143*	Sierra Leone	3
144	*144*	Syrian Arab Republic	3
145	*147*	Ukraine	3
146	*141*	Gambia, The	0
147	*145*	Cambodia	1
148	*146*	Philippines	2
149	*148*	Bolivia	0
150	*150*	Uzbekistan	0
151	*154*	Burkina Faso	4
152	*151*	Senegal	0
153	*155*	Mali	3
154	*153*	Sudan	0
155	*152*	Liberia	0
156	*158*	Gabon	0
157	*156*	Zimbabwe	3
158	*157*	Djibouti	0
159	*159*	Comoros	0
160	*162*	Togo	0
161	*160*	Suriname	0
162	*163*	Haiti	1
163	*164*	Angola	1
164	*161*	Equatorial Guinea	0
165	*167*	Mauritania	0
166	*166*	Iraq	0
167	*165*	Afghanistan	0
168	*173*	Cameroon	1
169	*168*	Côte d'Ivoire	1
170	*172*	Benin	1
171	*169*	Lao PDR	1
172	*170*	Venezuela, RB	1
173	*171*	Niger	1
174	*174*	Timor-Leste	1
175	*179*	Congo, Dem. Rep.	3
176	*175*	Guinea-Bissau	1
177	*177*	Congo, Rep.	1
178	*176*	São Tomé and Principe	1
179	*178*	Guinea	0
180	*180*	Eritrea	0
181	*181*	**Burundi**	1
182	*182*	Central African Republic	0
183	*183*	Chad	0

Note: The rankings for all economies are benchmarked to June 2010 and reported in the country tables. This year's rankings on the ease of *Doing Business* are the average of the economy's rankings on 9 topics (see box 1.1). Last year's rankings, shown in italics, are adjusted: they are based on the same 9 topics and reflect data corrections. The number of business regulation reforms includes all measures making it easier to do business.

Source: Doing Business database.

FIGURE 2.2
Where do the EAC economies rank on business-friendly regulations?



Source: Doing Business database.

BOX 2.1
Peer-to-peer learning in East Africa

Peer-to-peer learning is an effective way to compare experiences, create networks of practitioners and quickly adopt innovative new practices. Regulatory policy makers and stakeholders in East Africa have in recent years developed and embraced 2 new peer-to-peer initiatives.

The Network of Reformers Initiative was launched in 2008 in Arusha, Tanzania. The initiative features annual events bringing together experts and stakeholders to discuss tools and approaches for regulatory reform. The network has discussed such themes as regulatory impact analysis, business licensing reform, mechanisms for public-private dialogue, methodologies to quantify compliance costs and, most recently, opportunities for regulatory reform under the East African Community.[1]

The Regional Initiative on Improving the Ease of Doing Business in Eastern and Southern Africa began in January 2009 with an event in Mauritius. This event was aimed at sharing information about experiences with *Doing Business* reforms across the region. The most recent event was in Kigali, Rwanda, in March 2011, and the next is planned for Botswana in November 2011. The events in Mauritius and Kigali brought together ministers and private sector representatives from 10–15 countries, including from East Africa.

1. See, for example, World Bank Group, Investment Climate, "East Africa Network of Reformers 2010—Kampala, Uganda," https://www.wbginvestmentclimate.org/index.cfm.

OPPORTUNITIES FOR CHANGE IN ACCESS TO CREDIT

Improving access to credit is one area with opportunities for change. Credit bureaus in East Africa cover only 1% of the adult population on average. Yet the sharing of credit information has been improving. Kenya and Uganda each have a private credit bureau that guarantees borrowers the right to access their data, distributes data on both individuals and firms and includes loans amounting to less than 1% of income per capita.

Uganda's private bureau, which started operating in 2009, already distributes positive credit information (for example, on-time repayments) as well as negative (for example, late payments). This is not yet the case in Kenya, but a draft law is pending that would oblige banks to share positive information. In Rwanda a private credit bureau opened in 2010. And as noted, banks must now report loans of all sizes to the country's public credit registry, the Central Bank of Rwanda. Burundi's central bank has a public credit registry that covers both individuals and firms, but it has a minimum threshold for loans to be included of 1 million Burundi francs (about $810). The coverage is less than 1% of the adult population. Tanzania lacks either a public or a private credit bureau, the only East African economy without one.

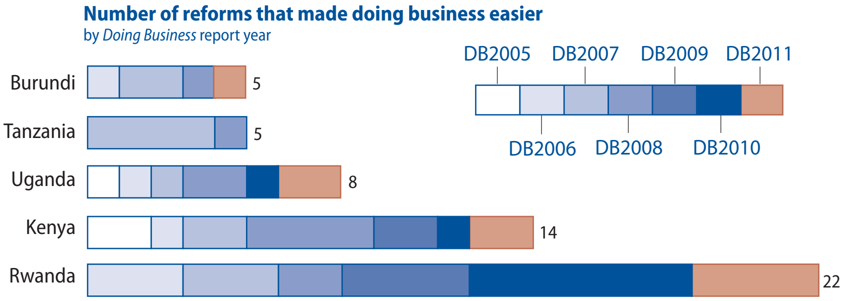
Weaknesses in the legal rights of borrowers and lenders also constrain access to credit. Legislation on secured transactions is fragmented in East Africa, with separate laws dealing with different subsets of lenders (for example, corporate entities, banks and farmers) and different types of collateral (floating and fixed charges, bills of sale, trusts and the like). In Kenya, Tanzania and Uganda the companies act does not apply to partnerships and sole proprietorships. So small entrepreneurs operating as sole proprietors—as most do—cannot use movable property as collateral in the same way that registered companies can.

TABLE 2.4
Global topic rank for EAC countries

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Ease of doing business	181	98	58	128	122
Starting a business	135	125	9	122	137
Dealing with construction permits	175	35	82	179	133
Registering property	115	129	41	151	150
Getting credit	168	6	32	89	46
Protecting investors	154	93	28	93	132
Paying taxes	141	162	43	120	62
Trading across borders	176	144	159	109	148
Enforcing contracts	171	125	39	32	113
Closing a business	NO PRACTICE	85	NO PRACTICE	113	56

Source: Doing Business database.

FIGURE 2.3
Rwanda and Kenya lead reforms in East Africa



Note: A reform is counted as 1 reform per reforming economy per year.
Source: Doing Business database.

Fragmented laws also lead to the creation of different collateral registries, which ultimately increases the cost of credit. Burundi and Uganda, for example, lack centralized collateral registries that tell creditors whether assets of a debtor are already subject to the security right of another creditor.

The regulatory integration under the East African Community Common Market Protocol may in the future create a platform for establishing a single credit and collateral database to be shared by national credit and collateral registries. This could help improve access to credit in the region.

WHAT DOES DOING BUSINESS COVER?

Through indicators that benchmark 183 economies, including the 5 East African economies, *Doing Business* sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in the regulations applying to domestic, primarily smaller companies through their life cycle, from start-up to closing. The results have stimulated policy debates globally in more than 80 economies, including more than 20 in Sub-Saharan Africa, and enabled a growing body of research on how firm-level regulation relates to economic outcomes across economies.[6] A fundamental premise of *Doing Business* is that economic activity requires good rules that are transparent and accessible to all.

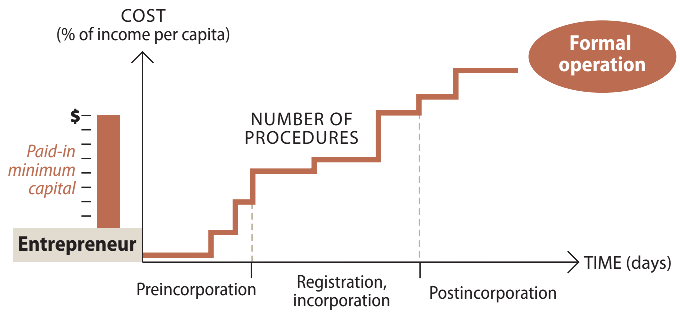
Doing Business does not cover all factors relevant for business. For example, it does not evaluate macroeconomic conditions, infrastructure, workforce skills or security. Nor does it assess market regulation or the strength of financial systems, both key factors in understanding some of the underlying causes of the global financial crisis. But where business regulation is transparent and efficient, opportunities are less likely to be based on personal connections or special privileges, and more economic activity is likely to take place in the formal economy, where it can be subject to beneficial regulations and taxation.

1. For the purposes of this report, any reference to East Africa or East African economies refers to the 5 East African Community partner states: Burundi, Kenya, Rwanda, Tanzania and Uganda.
2. Bedi (2009).
3. IMF, Regional Economic Outlook, Sub-Saharan Africa, recovery and new risks, The East African Community: Taking off?, April 2011. http://www.imf.org/external/pubs/ft/reo/2011/afr/eng/sreo0411.pdf
4. *Doing Business* has tracked business regulation reforms affecting businesses throughout their life cycle—from start-up to closing—in 174 or more economies since 2005. Between 2003 and 2005 *Doing Business* added 5 topics and increased the number of economies covered from 133 to 174. For more information on the motivation for the 5-year measure of cumulative change and on how the measure is constructed, see *Doing Business 2011*.
5. Aggregate rankings in *Doing Business 2011* exclude the employing workers indicators. The rankings in *Doing Business 2010* include those indicators, however, and Uganda had a ranking of 7 on the ease of employing workers. This explains why the average ranking for East Africa in the exercise combining all good practices in the region dropped from 12 in the previous year's report to 18 in this year's report.
6. Some 656 articles have been published in peer-reviewed academic journals, and about 2,060 working papers are available through Google Scholar (http://scholar.google.com).

Doing Business topics

Starting a business

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



In 2005, entrepreneurs in Kigali had to go through 9 steps, wait for 18 days and pay 200% of their income per capita to start a new business. Five years later, the business start-up process has been reduced to 2 procedures, 9 days and 9% of income per capita.

Many economies have simplified business registration over the past six years. Since 2004, policy makers in more than 75% of the world's economies have made it easier for entrepreneurs to start a business in the formal sector. Formal incorporation has many benefits. Legal entities outlive their founders. Resources can be pooled as several shareholders join together. Limited liability companies limit the financial liability of company owners to their investments, so personal assets are not put at risk. And companies have access to services and institutions from courts to banks as well as to new markets.

This is a good thing, because burdensome procedures can affect women more than men. In Uganda, a study identified trade licenses as the single most burdensome regulation that small and medium-size firms had to comply with, with 40 percent of women as compared with 30 percent of men referring to this as an obstacle to business.[1] Indeed, women typically make up a minority of the owners of registered businesses in the region—about 40% in Rwanda for example.

But just as women reported being more likely to be hindered by cumbersome registration procedures, they are be more likely to comply with regulations when requirements have been simplified. An impact assessment of a project to streamline registration procedures in Entebbe Municipality (Uganda) showed that reforms encouraged women to formalize: the increase in first-time business owners registering was 33 percent higher for women than for men.[2]

Rich or poor, men and women around the world seek to run and profit from their own business. With some 550,000 small businesses created across the country every month,[3] entrepreneurs are a powerful economic force, contributing half the GDP and 64% of net new jobs over the past 15 years.[4] Such impacts are possible where business registration is efficient and affordable. A recent study using data collected from company registries in 100 economies over 8 years found that simple business start-up is critical for fostering formal entrepreneurship. Economies with smart business registration have a higher entry rate as well as greater business density.[5]

Doing Business measures the procedures, time and cost for a small to medium-size enterprise to start up and operate formally (figure 3.1). The number of procedures shows how many separate interactions an entrepreneur is required to have with government agencies. Business entry requirements go beyond simple incorporation to include the registration of a business name; tax registration; registration with statistical, social security and pension administrations; and registration with local authorities.[6]

Worldwide, 42 economies made it easier to start a business in 2009/10. Streamlining registration formalities was the most popular feature of business registration reforms. In East Africa, Kenya was the only country to reform, though others had embarked on business registration reforms in previous years. Kenya eased the process of business start-up by reducing the time to stamp memorandum and articles of association, merging of tax and VAT registration procedures, and finalizing the digitization of the records at the registrar (table 3.1).

TABLE 3.1
Where is it easy to start a business—and where not?

	RANK
Rwanda	9
Tanzania	122
Kenya	125
Burundi	135
Ugandai	137

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 *Doing Business* website for details.
Source: Doing Business database.

WHAT ARE THE TRENDS?

Starting a business has become easier across all regions of the world. In the past 7 years *Doing Business* recorded 296 business registration reforms in 140 economies. As a result of these reforms, the average time to start a company fell from 49 days to 34, and the average cost from 86% of income per capita to 41%. In East Africa, 9 reforms were conducted in 4 economies (Rwanda, Kenya, Tanzania, and Uganda) within 7 years. In the region, the average number of procedures was reduced from 13 to 11, the number of days from 34 to 25 and the cost from 142% of income per capita to 60% (table 3.2).

TABLE 3.2
Who makes starting a business easy—and who does not?

Procedures (number)		**Cost** (% of income per capita)	
Rwanda (fewest)	2	Rwanda (least)	8.8
Burundi	11	Tanzania	30.9
Tanzania	11	Kenya	38.3
Kenya	12	Uganda	94.4
Uganda (most)	18	Burundi (most)	129.3
Time (days)		**Paid-in minimum capital** (% of income per capita)	
Rwanda (fastest)	3	Rwanda	0.0
Uganda	25	Kenya	0.0
Tanzania	29	Tanzania	0.0
Burundi	32	Uganda	0.0
Kenya (slowest)	33	Burundi	0.0

Note: East African economies have no paid-in minimum capital requirement.
Source: Doing Business database.

PERSISTENT GAPS

Despite business entry reforms, discrepancies remain among regions and income groups. Entrepreneurs in OECD high-income economies still benefit from the fastest and least costly processes to start a business, taking 14 days and costing 5.34% of income per capita on average. And OECD high-income economies continue to improve, with 9 introducing or upgrading online procedures in the past 7 years. Compared with OECD high-income economies, starting a business takes almost twice as long on average in East Africa—and costs 11 times as much (relative to income per capita).

Entrepreneurs in Sub-Saharan Africa continue to face the highest paid-in minimum capital requirements, 146% of income per capita on average. By contrast, entrepreneurs in East Africa face no such requirements. Indeed, there is no paid-in minimum in any of the five East African economies.

STREAMLINED PROCEDURES

Seventy-one economies streamlined the procedures to start a business in the world. Of these, 38 established or improved a one-stop shop by consolidating procedures into a single access point. But simplifying procedures does not necessarily require creating new institutions: 19 economies simply merged procedural requirements or delegated them to one agency. In 2009, Rwanda consolidated the name-checking procedure at the main desk of the Commercial Registration Department. It also combined services into a single point of interaction in two stages. First, the Rwanda Development Board, Rwanda Revenue Authority (RRA) and Caisse Sociale du Rwanda (CSR) agreed in November 2008 to have representatives within the one-stop shop at the Commercial Registration Department to receive and process applications. At this stage, the applicant was still required to interact separately with the RRA and Caisse Social representatives. Second, in May 2009, the Commercial Registration Department reorganized its procedures so that applicants were no longer required to deal with the RRA and CSR representatives. By empowering the Commercial Registration Department to process the applications on the premises, as opposed to send the applications to the separate agencies for processing, the one-stop shop became fully functional. In other countries, authorities have created single points of company registration without delegating the processing power to its employees, thus introducing another layer to the registration process without reducing the time or number of procedures.

Other economies merged post-registration procedures. This makes particular sense for tax registrations. In the past year Montenegro introduced a single form for registering with the employment bureau, health fund, pension fund and tax administration. Economies also streamlined processes by introducing new technologies. For instance, Tanzania is still in the process of computerization of its tax registration and name search.

WHAT HAS WORKED?

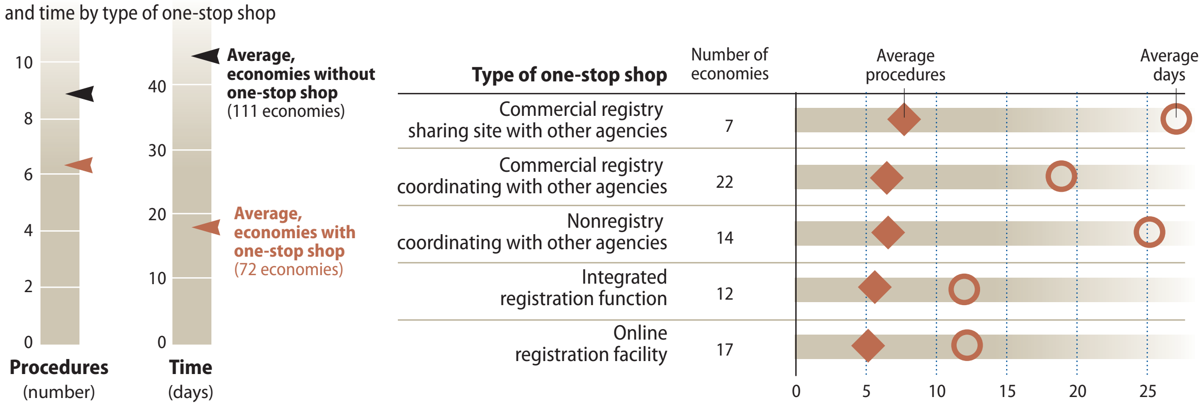
Policy makers can encourage entrepreneurs to "take the plunge" by making start-up fast, easy and inexpensive. Among the most common measures have been creating a single interface, reducing or abolishing minimum capital requirements and adopting technology.

MAKING IT SIMPLE: ONE INTERFACE

Businesses created what might have been one of the world's first one-stop shops 150 years ago, when the first department store, Le Bon Marché, opened its doors in Paris. The public loved the convenience of one-stop shopping. Achieving this kind of convenience has been among the main motivations for governments that have adopted this concept for businesses since the 1980s.

Today 72 economies around the world have some kind of one-stop shop for business registration, including the 49 that established or enhanced one in the past 7 years (figure 3.2). It is not surprising that such setups are popular. They do not necessarily require legal changes. And entrepreneurs and governments alike often see immediate benefits. The coordination among government agencies eliminates the need for entrepreneurs to visit each agency separately, often to file similar or even identical information—yet maintains regulatory checks.

FIGURE 3.2
Economies with a one-stop shop make starting a business easier
Procedures and time by type of one-stop shop



Source: Doing Business database.

While some one-stop shops are solely for business registration, others carry out many integrated functions, such as post-registration formalities. Some of these are virtual; others are physical, with one or more windows. In the 72 economies that have one-stop shops offering at least one service besides business registration, start-up is more than twice as fast as in those without such services.

USING TECHNOLOGY TO BOOST EFFICIENCY

Governments around the world are increasingly using technology to improve the efficiency of services and increase the accountability of public officials. E-government initatives range from data centers and shared networks to government-wide information infrastructure and unified service centers for the public. Fifty-four economies introduced information and communication technology in their business start-up processes in the past 7 years, saving time and effort for businesses and governments alike. When Mauritius introduced a computerized system for all types of business registrations in 2006, total registration time fell by 80%. Singapore's online registration system saves businesses an estimated $42 million annually.[7] Electronic services are also more accessible, saving entrepreneurs the time and cost of traveling to government agencies and waiting in line.[8]

Today 105 economies use information and communication technology for services ranging from name search to entirely online business registration.

In East Africa, Kenya is increasingly resorting to ICT. As of January 2010, Kenya has digitalized the company records at the Company registry. As a result, all business names and companies information are now available electronically which means name searches can now be done electronically, leading to a reduction in the time and cost when it comes to starting a business.

To encourage use, some economies set lower fees for online registration. In Belgium online registration costs €140 and paper registration €2,004. In Canada the costs are Can$200 and Can$350. In Estonia documents filed online no longer have to be notarized.

WHAT ARE SOME RESULTS?

Making business entry easier has been popular around the world. Many economies have undertaken business registration reforms in stages—and often as part of a larger regulatory reform program. Among the benefits have been greater firm satisfaction, savings and more registered businesses, financial resources and job opportunities.

In 2006, Rwanda simplified its registration formalities. The following year, 77% more firms registered.

Empirical research is increasingly focusing on economic and social outcomes such as entrepreneurship, competition, corruption and productivity. One study shows that economies where it takes less time to register new businesses have seen higher rates of entry in industries with a potential for expansion.[9] Another finds that regulations affect the decision to start a new business, particularly for individuals who engage in an entrepreneurial activity to pursue a business opportunity.[10] Yet another study finds that regulatory costs remain more burdensome for small firms than for large ones.[11]

A recent study finds that higher entry costs are associated with a larger informal sector and a smaller number of legally registered firms.[12] Informal firms are typically less productive or efficient, adversely affecting overall productivity and growth.[13] The same study also finds that variations in regulatory costs across countries lead to differences in total productivity and output. When regulation is too heavy handed, compliance and start-up costs increase, cutting into firms' profits. This discourages entrepreneurs and increases the share of the population choosing to become employees instead. Job creation suffers.[14] These costs also deter entrepreneurship driven by opportunity but have no impact on entrepreneurship driven by necessity.[15]

In evaluating impact, researchers often face the dilemma of the counterfactual: how to determine what would have happened if there had been no action? Luckily, some measures affect only a specific group, allowing researchers to compare that group with those unaffected.

When Mexico implemented a business registration reform across municipalities in stages, researchers took advantage of the opportunity. One study found that the reform increased the number of registered businesses by 5% and employment by 2.8%. Moreover, consumers benefited. Competition from new entrants lowered prices by 0.6%.[16] Another study, using a different approach, found similar results: a 5% increase in new registrations. It also found that the program was more effective in municipalities with less corruption and cheaper additional post-registration procedures.[17]

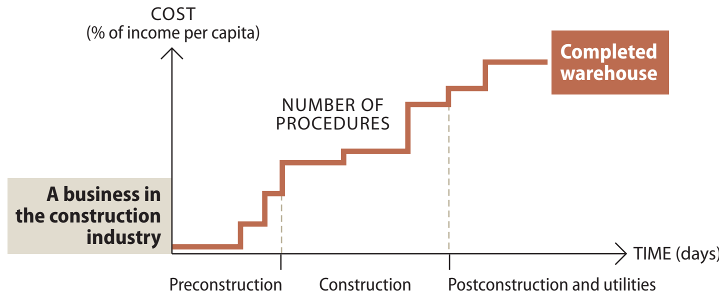
Other recent studies investigate whether reforms of business registration have different effects on economic outcomes depending on the local institutional setting. One such study looked at India's gradual elimination of the bureaucratic industrial licensing system known as the "license raj." It shows that the effect on manufacturing output, employment, entry and investment varied across Indian states, depending on the institutional environment.[18]

Another study finds that in economies with a favorable regulatory environment for firms, particularly for firm entry, trade is more likely to improve living standards. If the structure for business entry is flexible, trade openness can have a stronger impact on the allocation of resources across and within industries. The authors show that a 1% increase in trade is associated with a more than 0.5% rise in income per capita in economies that facilitate firm entry and has no positive income effects in more rigid economies.[19] Lower entry costs combined with better credit information sharing are also associated with a larger small and medium-size enterprise sector.[20]

1. Simavi, Manuel and Blackden (2010).
2. Simavi, Manuel and Blackden (2010).
3. "The United States of Entrepreneurs: America Still Leads the World," *The Economist,* March 12, 2009.
4. U.S. Small Business Administration, "Frequently Asked Questions: Advocacy Small Business Statistics and Research," accessed July 28, 2010, http://web.sba.gov/.
5. 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 number of businesses as a percentage of the working-age population (pages 18–65).
6. International Finance Corporation, FIAS, "Business Entry," accessed September 23, 2010, http://www.fias.net/.
7. World Bank conference, "The Singapore Experience: Ingredients for Successful Nation-Wide eTransformation," Singapore, September 30, 2009.
8. World Bank (2009c).
9. Ciccone and Papaioannou (2007).
10. Ardagna and Lusardi (2008).
11. Crain (2005).
12. Barseghyan and DiCecio (2009).
13. Dabla-Norris and Inchauste (2008).
14. Fonseca, Lopez-Garcia and Pissarides (2001).
15. Ho and Wong (2006).
16. Bruhn (2008).
17. Kaplan, Piedra and Seira (2007).
18. Aghion and others (2008).
19. Freund and Bolaky (2008).
20. Ayyagari, Beck and Demirgüç-Kunt (2007).

Dealing with construction permits

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



Finding the right balance between regulations aimed at protecting the public and regulations that are accessible, efficient and affordable is challenging. In Kenya, almost 30% of firms identify construction-related permits as a major constraint when doing business.[1] Overly rigid building rules and regulations may backfire; rather than resulting in fewer accidents, they may push construction into the informal economy. On the other hand, objectively balanced regulations ensure both public safety and revenue for the government, while making the entire construction process easier.

It is estimated that for every 10 jobs directly related to a construction project, another 8 jobs may be created in the local economy.[2] Small domestic firms account for most of the sector's output and most of its jobs. Some of these jobs have been lost as a result of the global economic crisis. Between December 2007 and January 2010, 1.9 million construction workers in the United States lost their jobs.[3] According to the ILO, 5 million jobs in the global construction industry disappeared in 2008 alone.[4]

Doing Business looks at construction permits as an example of licensing regulations that businesses face. It measures the procedures, time, and cost to build a commercial warehouse, hook it up to basic utilities, and register it. It assumes that the new warehouse will be used for storage of nonhazardous goods and is located in the peri-urban area of the benchmarked city (figure 4.1).

In 2009/10, 19 economies made it easier to deal with construction permits. Sub-Saharan Africa accounted for the most reforms of the construction permitting process, followed by Eastern Europe and Central Asia. Rwanda was one of these 19 reformers.

The top ranked economy in Sub-Saharan Africa is Kenya. It is currently ranked 35 in the world compared to other economies of the region like South Africa (52) and Nigeria (167) (table 4.1).

WHAT ARE THE TRENDS?

In an effort to ensure building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. Today an entrepreneur spends on average 202 days and 679% of income per capita to complete all required procedures, down from 220 days and 839% of income per capita in 2005. OECD high-income economies have streamlined their systems the most. Obtaining approvals for building a simple warehouse takes on average 16 procedures, 166 days and 62.1% of income per capita.

A large gap remains for the rest of the world. For example delays are common in Sub-Saharan Africa. To comply with formalities there takes 2 months longer than in OECD high-income economies. In East Africa a business takes on average 205 days to build a warehouse, 46 days more than in high income OECD countries. Delays to the permitting process can be attributed to cumbersome requirements to be fulfilled mainly during the pre-construction phase.

In some parts of East Africa the specific pre-construction requirements that delay the process the most are obtaining architectural drawings and building permit approvals. Approval for a building permit in Tanzania takes 180 days, more than half the total time to obtain a license. In Kenya the process is faster. To complete all the requirements to build a warehouse and connect it to utility services, a builder will need 120 days. This is mainly due to a well organized pre-construction approval process and fast connection times for utility services.

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

	DB2011 RANK
Kenya	35
Rwanda	82
Uganda	133
Burundi	175
Tanzania	179

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 *Doing Business* website for details.
Source: Doing Business database.

COST STILL HIGH IN AFRICA

In Sub-Saharan Africa 23 reforms making it easier to deal with construction permits were implemented in the past 6 years. Burkina Faso set up a new one-stop shop, Kenya introduced risk-based approvals, Liberia reduced fees, and Benin, the Democratic Republic of Congo, Mali and Rwanda streamlined permitting procedures. These improvements have reduced permitting delays in the region by 16 days. More can be done. The cost remains the second highest globally, at 1,631% of income per capita on average. The high cost largely reflects high fees to connect to water, telephone and electricity service.

In East Africa the average cost is 2,323% of income per capita, significantly higher than in the rest of the region. Kenya has the lowest cost in this part of Africa with 168% of income per capita and Burundi has the highest with 7,041% of income per capita. In Burundi administrative fees are the main reason for the high costs. The fee to pay for the building permit is USD 3,617 compared to only USD 835 in Kenya or USD 1,137 in Rwanda.

WHAT HAS WORKED?

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

FOCUSING ON RESULTS

Efficient regulation starts with a uniform building code—and its uniform implementation. Forty-three economies globally have uniform construction rules. Most commonly, a central authority outlines the rules and local authorities implement them. When regulations are not organized and applied coherently, builders and authorities can become confused about how to proceed. This often leads to delays, uncertainty and disputes.

In Nigeria a new national building code was drafted in 2006, but it has yet to be approved. Some Nigerian states have started implementing several provisions of the code, such as by amending local urban and regional planning laws to require new inspections and certificates. Others have not. The result is wide variation across states—confusing for builders with projects in more than one.[5] Kenya is currently working to update laws and regulations governing the housing, building and construction industry.

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

If provisions are too precise, this creates a challenge for keeping regulation up to date. Some building codes specify what materials can be used in construction. This seems to make sense. The materials are tested for safety, and their technical parameters mandated in the code. But this approach works only when codes are up to date. Currently Kenya is conducting an important reform that would help to update their building rules. The ongoing efforts also include the introduction of new payment platforms and the reduction of building permitting issuing times.

USING ONE-STOP SHOPS TO IMPROVE COORDINATION

Before a building plan is approved, appropriate clearances are needed to ensure quality and safety. Often several agencies are involved. To prevent overlap and ensure efficiency, many economies have opted to put the agencies in one location. These one-stop shops improve the organization of the review process—not by reducing the number of checks needed but by better coordinating the efforts of different agencies. That way, more resources can be devoted to safety checks rather than to paperwork.

In 2009 the local government in Hong Kong SAR (China), as part of its "Be the Smart Regulator" program, merged 8 procedures involving 6 different agencies and 2 private utilities through a one-stop center. A single window facilitates interaction for customers. Globally, 22 economies coordinate agencies involved in approving construction permits through some form of one-stop shop.

DIFFERENTIATING PROJECTS BY RISK

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

Simple or low-risk buildings require less documentation than more complex structures and can be approved faster. This saves time for both entrepreneurs and authorities and allows them to direct their efforts and resources more efficiently. Worldwide 84 economies, including Kenya, have functioning fast-track application processes for small commercial buildings. After Bavaria implemented differentiated permitting approaches for low- and high-risk projects, builders saved an estimated €154 million in building permit fees in a year, while building authorities needed 270 fewer employees on their payroll.[6]

WHAT ARE SOME RESULTS?

Over the past 6 years *Doing Business* recorded 110 reforms streamlining construction permitting procedures worldwide. East Africa accounts for 7 of those reforms (Kenya 3 reforms, Rwanda 3 reforms and Tanzania 1 reform). Governments, the private sector and citizens alike are starting to see benefits.

LOWER COST—FOR BUILDERS AND REGULATORS

Effective and efficient use of information technology can reduce the regulatory cost of construction. Jurisdictions across the United States are using information technology to increase efficiency. More than 500 now use an advanced e-permit processing system. Introduced since 2003, the system has reduced the time that professionals in the construction industry spend on permits by 30–40%. Interactive voice response systems enable customers to use a touch-tone telephone to connect with a jurisdiction's database of building code and land management applications, reducing the time to schedule and conduct inspections from 2–3 days to less than 24 hours. Mobile field inspection technology has increased the number of inspections per day by 25% and reduced contractors' downtime while waiting for inspections and their results by 20%. More than 20 U.S. cities use e-plan review. This system of online submission of building plans has shortened the review period by 40%, eliminated the risk of lost plans and reduced by 80% the number of in-person visits made to building authorities by out-of-state owners and architects.[7]

GREATER SAFETY AND TRANSPARENCY

By some estimates 60–80% of building projects in developing economies are undertaken without the proper permits and approvals.[8] In the Philippines 57% of new construction is considered illegal. In Egypt this share might reach 90%.[9] In Georgia before the new permitting process that was initiated in 2005, fewer than 45% of construction projects had legal permits. If procedures are overly complicated or costly, builders tend to proceed without a permit. This leads to revenue losses for local authorities, limitations on access to credit for the builders and owners and the loss of formal jobs in the construction sector.[10]

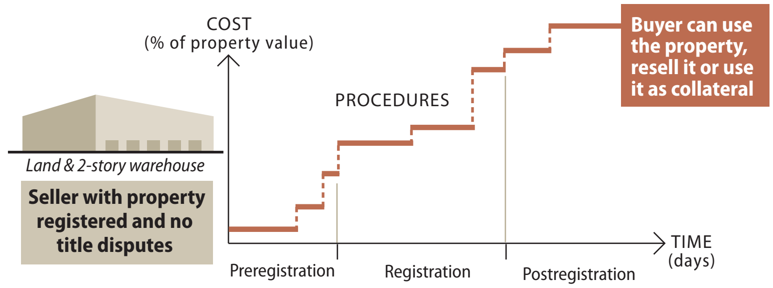
Overly complicated construction rules also can increase opportunities for corruption. World Bank Enterprise Survey data show that the share of firms expecting to give gifts in exchange for construction approvals is correlated with the level of complexity and cost of dealing with construction permits.[11] According to a 2005 survey conducted in 15 countries by Transparency International, entrepreneurs perceive construction as one of the most corrupt industries, surpassing arms and defense, oil and gas, real estate and mining.[12]

Good regulation ensures compliance with the standards and protects the public while making the permitting process transparent and affordable for construction companies. Where informal construction is rampant, the public can suffer. Nigeria lacks an approved building code that sets the standards for construction. Many of the buildings erected do not comply with proper safety standards. Without clear rules, enforcing even basic standards is a daunting task. Structural incidents have multiplied. According to the Nigerian Institute of Building, 84 buildings collapsed in the past 20 years, killing more than 400 people.[13]

1. World Bank Enterprise Surveys (http://www.enterprisesurveys.org/).
2. PricewaterhouseCoopers (2005).
3. U.S. Bureau of Labor Statistics, "Employment Situation," January 2010, http://www.bls.gov/.
4. ILO (2009).
5. World Bank (2010a).
6. Bayerisches Staatsministerium des Innern (2002).
7. Information available at http://www.natlpartnerstreamline.org/.
8. De Soto (2000).
9. De Soto (2000).
10. Moullier (2009).
11. World Bank (2009a).
12. Kenny (2007).
13. Agence France Presse, "Nigeria Approves Building Code," News24.com, August 3, 2006, http://www.news24.com/. Because many cases go unreported, the actual figure is probably higher.

Registering property

FIGURE 5.1
What are the time, cost and number of procedures required to transfer a property between 2 local companies?



When Paul decided to sell his business property in Kigali this year, he checked the encumbrances on the property, had the sale agreement notarized, obtained tax clearance certificate and finalized the registration at the Registrar of Real Estate. The process took 4 steps and 55 days. Prior to reform it would have taken 5 steps and 371 days. Fees also dropped, from 9.4% of the property value to 0.4% in 2010. The easier it is to transfer property, the more likely the newly registered titles will stay formal.

Land is a fundamental economic asset in every society. Where property systems are poorly administered or property rights poorly defined, this can prevent land from being turned into productive capital. The result is limited access to finance, which can limit economic growth.[1]

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. Even if titles remain formal, property markets will not function effectively if regulations keep investment from being channeled to its most productive use. And titles won't lead to more credit if collateral laws make mortgaging property expensive and inefficient courts prevent banks from enforcing collateral when a debtor defaults. Some studies report cases where titling failed to bring significant increases in credit or income.[2]

Doing Business records the full sequence of procedures necessary for a business to purchase a property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and the purchasing company can use the property, use it as collateral in taking new loans or, if necessary, sell it to another business (figure 5.1).

In 2009/10, 21 economies made it easier to register property, but none in East Africa.

While transferring property in some countries requires just 2 procedures, in East Africa entrepreneurs must go through 8 steps on average. In Rwanda it now takes 4 procedures, in Uganda entrepreneurs must follow as many as 13 procedures to lawfully transfer land and property ownership. A common requirement is to have the land and property valued in order to assess transfer fees payable to the government. In Kenya, Tanzania, and Uganda the property is physically inspected for that purpose. A less common constraint—globally, only 10 other countries have this requirement in place—is the requirement for entrepreneurs in Tanzania and Uganda to obtain the government's consent prior to a transfer. This procedure takes on average 18 days in Tanzania and 8 days in Uganda.

Kenya, Rwanda and Tanzania also require additional tax clearance certificates from their respective land ministries, revenue authorities and municipalities. Additional procedures arise in countries which require that transfer documents are prepared by a lawyer and or notarized, which is the case in all East African economies except for Kenya.

The time to register property in East Africa ranges from 55 days in Rwanda to 94 in Burundi. The sources of delay vary from country to country. In Kenya and Tanzania conducting a search on property title and various tax clearances take 20 and 32 days respectively. In Rwanda, obtaining a certificate from the Land Registry confirming the identity of the property owner and the title status takes about 30 days, making it the biggest bottleneck in the registration process.

The requirement to have a property physically inspected adds 1 month in Kenya and Uganda, and 7 days in Tanzania. In Burundi—although the property is not necessarily inspected—the Land Registry and the Ministry of Finance must verify the sale price. This procedure delays registration process by 25 days on average.

The total cost of transferring a property varies from 0.4% of property value in Rwanda to 5.8% in Burundi. The principal component of the cost are stamp duties charged by governments on property transactions. In most countries in the region the stamp duty is calculated as a percentage of property value and ranges from 1% in Tanzania and Uganda to 4% in Kenya. Rwanda is the only country in the region charging a flat fee of RWF 20,000 or $34 on all transactions, regardless of the property price. This is a result of a recent reform—until January 2008 entrepreneurs

TABLE 5.1
How do economies rank on the ease of registering property in EAC?

	RANK
Rwanda	41
Burundi	115
Kenya	129
Uganda	150
Tanzania	151

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to register property. See *Doing Business* website for details.
Source: Doing Business database.

in Rwanda paid a hefty registration fee calculated as 6% of property value (table 5.1).

Another cost associated with property transfers in East Africa are legal expenses. The requirement for a lawyer to draft sale agreements costs entrepreneurs between 1-2% of property value in Uganda. In Tanzania the preparation of the transfer deed and notarization of the sale agreement cost on average 3% of property value. In Burundi, where a lawyer first drafts the sale agreement and a notary verifies it later, the related expense amount to BIF 271,000 (or $225), or approximately 3.2% of property value. The notarization costs are lowest in Rwanda, where a notary from the Ministry of Justice authenticates the agreement for a small flat fee of RWF 7,300 or $13.

WHAT ARE THE TRENDS?

In the past 6 years 105 economies undertook 146 reforms making it easier to transfer property (figure 5.2). Globally, the time to transfer property fell by 38% and the cost by 10%.

GLOBAL TRENDS

The most popular feature of property registration reform over the past 6 years, implemented in 52 economies, was lowering transfer taxes and government fees. This reduced the cost by 3.1% of the property value on average. Sub-Saharan Africa was the most active, with 22 economies lowering costs. Two gradually reduced high transfer costs, Burundi by 10% of the property value and Burkina Faso by 7%. Two others made big cuts all at once, Rwanda by 8.8% of the property value and Mozambique by 7.5%.

The second most popular feature, implemented in 32 economies, was streamlining procedures and linking or improving agencies' systems to simplify registration. These measures reduced interactions between entrepreneurs and agencies—saving 2 procedures on average—while maintaining security and controls.

Eight economies in Sub-Saharan Africa undertook similar measures. Ethiopia and Rwanda decentralized their land registries to eliminate bottlenecks, creating new branches responsible for properties in their jurisdiction. Ethiopia's 10 new branches and Rwanda's 5 coordinate the work with municipalities and tax agencies. And Ethiopia's registry now assesses property's market value using predetermined tables, eliminating the need for physical inspections.

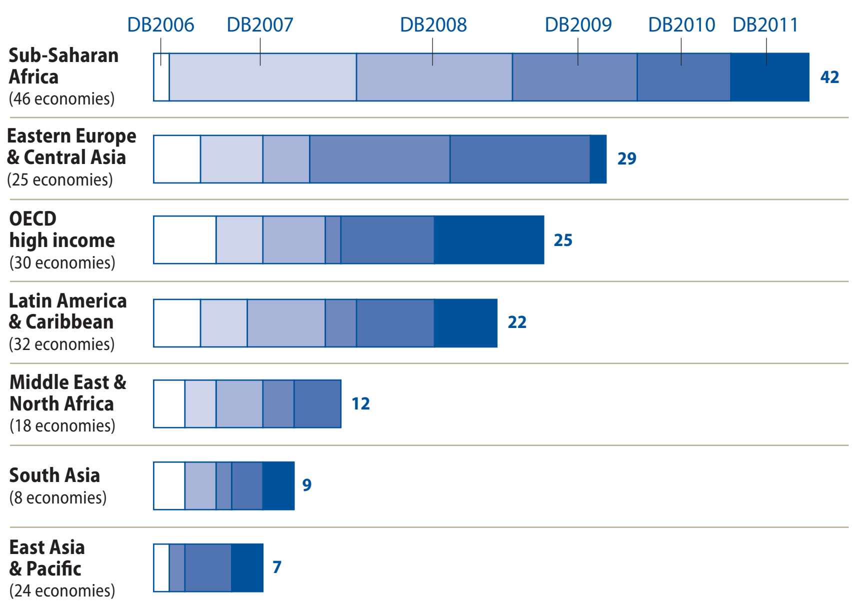
Twenty-eight economies, 9 in Sub-Saharan Africa, increased administrative efficiency. Botswana and Madagascar reorganized their land registries, hired more staff and added more computers and branches. Botswana also linked staff salary increases to the achievement of targets set by the land department's 3-year plan. Mali and Niger reorganized their land registries by reassigning workloads and enhancing supervision.

COST HIGHEST IN AFRICA

In Sub-Saharan Africa, despite improvements, transferring property still costs the most, 9.6% of the property value on average. The reason? High transfer taxes (averaging 7% of the property value) and high professional fees, such as for lawyers and notaries. In Brazzaville, in the Republic of Congo, notary fees amount to 4% of the property value. The transfer process is also complicated, requiring 6.5 procedures on average—the second highest number in the world. Nineteen economies require an assessment of taxes to be paid. This can add up to 3 procedures in such economies as Kenya and Uganda, where physical inspections are required.

A cumbersome system can create opportunities for corruption. In Kenya in 2010 a raid uncovered thousands of land files blocked in the drawers of public officials hoping to collect bribes.[3] The need for ministerial consents can also add delays, up to 60–75 days in such economies as The

FIGURE 5.2
Fast pace in property registration reforms in Sub-Saharan Africa over the years
Number of *Doing Business* reforms making it easier to register property by *Doing Business* report year



Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2006 (2005) includes 174 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.
Source: Doing Business database.

Gambia, Lesotho, Malawi and Nigeria. The good news: Ghana eliminated this consent in 2006. In 2005 Côte d'Ivoire limited its use to properties not included in the zoning plan, and property sales doubled. Across the region, land registries are still mostly paper based. This partly explains registration delays such as the 120 days in Benin and 295 in Togo. The average time to transfer property in the region is 68 days; the world average, 59.

But efforts to improve property registration have been picking up. Economies such as Botswana, Burkina Faso, Madagascar, Mali and Mauritius have made agencies and systems more efficient through incentives, reorganization and better management tools. Despite being paper based, the land registry in Bamako, Mali, can complete registration in 2–3 weeks. Through broad property reforms implemented since 2007, Mauritius has reduced the transfer tax by 5% of the property value, eliminated separate clearances by utilities and set strict time limits for notaries and the land registry. Like most African economies, Mauritius lacks a cadastre, and it still requires a physical valuation for each property sale. But a new computerized property registry linking the valuation office with a new cadastre that will use aerial maps is expected to change this.

WHAT HAS WORKED?

Governments worldwide have been making it easier for entrepreneurs to register and transfer property. Some good practices can help in achieving that goal.

GOING ELECTRONIC

Worldwide, 61% of economies have an electronic database for encumbrances, including almost all OECD high-income and Eastern European and Central Asian economies. But in Sub-Saharan Africa and South Asia more than 80% still have paper-based systems. This makes a difference. In economies with computerized registries, transferring property takes about half as much time. Properly backed up, electronic databases can also help ensure property security.

Twenty-four economies including Zambia computerized their registries in the past 6 years. Full implementation can take time, ranging from 3 to 10 years. Gradual implementation or a pilot approach can facilitate the process. The cost can reach $2 million or more if surveying and cadastre work is involved. But the impact is substantial. These 24 economies cut their average time to transfer a property in half, by about 3 months on average.

COMPLYING WITH TIME LIMITS

In the past 6 years 14 economies introduced time limits. But most went further. Twelve, including Belarus, Burkina Faso, Egypt, FYR Macedonia, Mauritius and Rwanda, did so as part of broader reforms that included merging procedures through computerization, reorganization of the land registry or creation of one-stop shops.

OFFERING FAST-TRACK PROCEDURES

Sixteen economies offer expedited registration procedures at a premium of 2–5 times the basic fee. Time savings range from 1 day to 32 and fees from $14 to $450. "I often get calls from friends who need to expedite a transfer," says a land registrar in Central America. But if expedited service is available to all, it doesn't matter whom you know in the registry.

SETTING LOW FIXED FEES

Seventeen economies have low fixed taxes and fees for property transfer, ranging from around $20 to $300, regardless of the property value. Other countries such as Finland, the Republic of Korea and Malawi, have fixed fees for registration but charge other taxes and stamp duties in proportion to the property value.

Governments' administrative cost for registration is independent of the property value, so registration fees can be fixed and low. Combined with low transfer taxes, this may encourage formal registration and prevent underreporting of property values. Four economies switched to fixed registration fees in the past 6 years: Egypt and Poland in 2006, Rwanda in 2008 and Cape Verde in 2009. Rwanda made a radical change, reducing fees from 6% of the property value to $33.

Among the 154 economies with transfer costs that vary with the property value, at least 21 have sliding scales for fees or taxes. In 16 economies tax rates increase with the property value. In Angola and Lithuania rates initially increase and then decrease as the property value rises.

WHAT ARE SOME RESULTS?

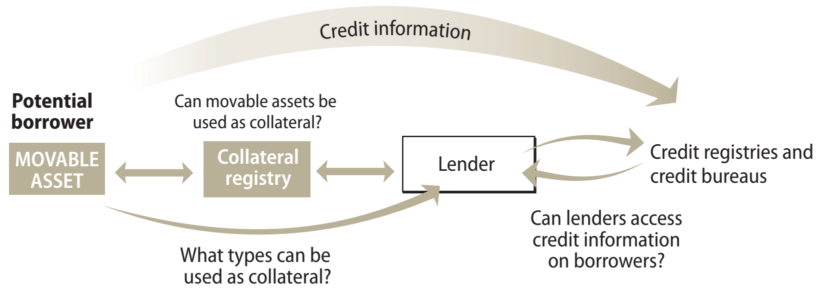
In surveys in 99 economies, an average of 21% of firms considered access to land a major constraint to business.[4] For some, formalizing title might simply be too costly. When Egypt reduced the cost of registration from 5.9% of the property value to 1% in 2006, new property registrations jumped by 39% in the following year. After Burkina Faso halved registration taxes to 8%, the stock of properties registered increased by 63% in the country as a whole—and by 93% in the capital city, Ouagadougou. But with less than 10% of properties formally registered, there is still a long way to go.

1. World Bank (2008).
2. Pande and Udry (2005).
3. "Lands Ministry Officers on the Spot," Daily Nation (Nairobi), March 1, 2010, http://www.nation.co.ke/.
4. World Bank Enterprise Surveys, 2006-09 (http://www.enterprisesurveys.org).

Getting credit

FIGURE 6.1

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



Around the world movable assets, not land or buildings, often account for most of the capital stock of private firms and an especially large share for micro, small and medium-size enterprises. In the United States movable property makes up about 60% of the capital stock of enterprises.[1] Unlike other economies that do not allow a general description of assets granted as collateral, in the United States most of this movable property could serve as collateral for a loan. Research shows that in developed economies borrowers with collateral get 9 times as much credit as those without it. They also benefit from repayment periods 11 times as long and interest rates up to 50% lower.[2]

Regulatory integration under the East Africa Protocol on Common Market may in the future create a platform for the establishment of a single credit and collateral database to be shared by national credit and collateral registries. This could help to improve access to credit in the region.

Doing Business measures 2 types of institutions and systems that can facilitate access to finance and improve its allocation: credit information registries or bureaus and the legal rights of borrowers and lenders in secured transactions and bankruptcy laws. These institutions and systems work best together. Information sharing helps creditors assess the creditworthiness of clients, while legal rights can facilitate the use of collateral and the ability to enforce claims in the event of default.

The 2 types of institutions are measured by 2 sets of indicators. One describes how well collateral and bankruptcy laws facilitate lending. The other measures the scope and accessibility of credit information available through public credit registries and private credit bureaus and provides information on coverage (figure 6.1).

WHAT ARE THE TRENDS?

Doing Business data since 2005 show that credit information and secured transactions systems continue to vary across regions, as do their strengths and weaknesses.

Most economies encourage the use of all types of assets as collateral through laws allowing a general description of assets in the loan contract. Where a general description of assets is not allowed, the use of certain types of movable collateral—such as inventory and accounts receivable—is less appealing. Imagine a computer sales company wanting to use its inventory as collateral where the law requires that each computer be identified by serial number, color, weight and value. Using the inventory as collateral would be almost impossible—because any changes to it would have to be recorded at the registry or in the loan agreement.

First priority for secured creditors is important but not enough. Clear priority rules to resolve conflicting claims between secured creditors when a debtor defaults can influence lending decisions too. Strong creditor rights expand the availability of loans because where lenders have better legal protection during bankruptcy and reorganization, they are more willing to extend credit on favorable terms.[3] A recent study finds that where secured creditors have priority over unsecured claims, the recovery rate for loans tends to be higher and the risks for creditors lower.[4]

GROWING MOMENTUM IN AFRICA

In Sub-Saharan Africa only 35% of economies allow a general description of encumbered assets. And only 13% give priority to secured creditors. In December 2010,16 member countries of the Organization for the Harmonization of Business Law in Africa amended the Uniform Act on Secured Transactions which was first implemented in 1998. Major efforts are under way to implement the Uniform Act in each of the member states.

In East Africa, Uganda passed new laws on mortgage and insolvency in 2009, but they are not yet into force. Tanzania is also in the course of adopting a new Bill on Secured Transactions.

Credit information is hardly shared in Sub-Saharan Africa, even though South Africa is thought to have the world's oldest private credit bureau, established in 1901. But efforts to develop much-needed credit information systems started picking up in 2008, when Zambia established a private credit bureau. Its database initially covered about 25,000 borrowers. Thanks to a strong communications campaign and a central bank directive, coverage has grown

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

	RANK
Kenya	4
Rwanda	32
Uganda	46
Tanzania	89
Burundi	168

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 *Doing Business* website for details.
Source: Doing Business database.

almost 10-fold, to more than 200,000 by the beginning of 2010.

Ghana introduced a private credit bureau that began operations in April 2010. The private credit bureau currently obtains data from 24 banks and other non-financial institutions and has already issued over 300 credit reports. Financial institutions can now access valuable information on individuals and firms such as: payment history, default information, property information and loan guarantor details. Both positive and negative payment information is available.

In East Africa, a new private credit bureau started operating in Uganda in 2009. Rwanda's first private credit bureau started operations in May 2010 and is in the process of expanding its database. Kenya started issuing licenses for private credit bureaus.

WHAT HAS WORKED IN SECURED TRANSACTIONS?

A sound secured transactions system has 3 main pillars. The first, relates to creation of the security interest, covering how and what kind of movable property can be used as collateral. The second consists of the methods of publicizing the security interest, usually through registration. The third deals with priority rules and enforcement of the security interest, determining how easily creditors can recover their investment after default by the debtor. Over the years economies have focused on a number of features of these 3 pillars.

UNIFYING REGISTRIES

A centralized collateral registry protects secured creditors' rights by providing objective information on whether assets are already subject to the security right of another creditor. It also helps clarify priority among creditors.

Sixty-seven of the 183 economies covered by *Doing Business* have an efficient institution for registering security interests in business assets over their entire geographic area.[5] These feature online access for registration and searches; register almost all types of assets as collateral, regardless of the nature of the parties involved; establish clear parameters for priority; and maintain a central database searchable by the debtor's name or a "unique identifier." Once registered, security interests immediately have effect against third parties.

Electronic systems can increase efficiency, but they are no magic wand. Spain created an electronic registration system in 2002. But since the law still requires registrants to have their deed notarized before completing registration, most people still submit a paper-based registration form. As a result, there have been fewer online registrations than expected. In 2007 there were 10,472 online registrations but 24,941 paper-based ones. And in 2009, while 20,586 online registrations were recorded, 32,739 paper-based registrations were.[6]

UNIFYING THE LAWS

To function properly, collateral registries must be supported by an adequate legal framework. Some economies, such as New Zealand, have a secured transactions law that treats all security interests in movable property equally with respect to publicity, priority and enforcement, regardless of the form in which the security interest is given (whether a pledge, a financial lease or a loan and trust agreement, for example). Such laws are in line with internationally accepted practices.

Although movable property is widely used as collateral, many economies still have fragmented collateral laws, with separate laws dealing with different subsets of lenders or types of collateral.[7] This fragmentation increases the risk of conflict between laws, such as when determining the priority rules for secured creditors. It also increases the risk of the same security being registered in different places, and that means greater risk for lenders. Such systems are not only less transparent but also more costly to operate.

ALLOWING OUT-OF-COURT ENFORCEMENT

For security interests to be cost-effective requires quick and inexpensive enforcement in case of default.[8] Efficient enforcement procedures are particularly important for movable property, which generally depreciates over time. The efficiency of enforcement can influence the accessibility and terms of credit. Most economies recognize this: 105 of the 183 economies covered by *Doing Business* have legal provisions allowing the parties to a security agreement to agree to some form of out-of-court enforcement.

WHAT HAS WORKED IN CREDIT INFORMATION?

Forty-four economies around the world still lack any kind of credit information system or have one that covers 0.1% or less of the adult population. But not just any credit bureau will do; many continue to cover only a tiny fraction of the adult population. Specific practices help increase coverage, encourage use and protect borrowers.

CASTING A WIDE NET

An ongoing study in Italy has looked at the effect of providing a credit bureau with repayment information from a water supply company. The findings show that more than 83% of water customers who previously lacked a credit history now have a positive one thanks to paying their utility bill.[9] This makes it easier for them to obtain credit.

Including such data in credit bureaus can also benefit the utility companies. According to a recent study surveying 70 utility companies in the United States, 72% reported that the benefits of credit reporting amounted to at least 2–5 times the costs. Half of all customers indicated that they would be more likely to pay their bills on time if those payments were fully reported to credit bureaus and could affect their credit score.[10]

REPORTING GOOD AS WELL AS BAD

A credit information system that reports only negative information penalizes borrowers who default on payments—but fails to reward diligent borrowers who pay on time. Sharing information on reliable repayment allows customers to establish a positive credit history, useful information for financial institutions seeking proven good customers. A study of many economies suggests that private credit bureaus that distribute both positive and negative information and have 100% participation from banks help increase lending to the private sector.[11]

STEERING CLEAR OF HIGH THRESHOLDS

Coverage can also be affected by minimum thresholds for the loans reported. High thresholds hurt groups that could benefit most from credit information systems—such as small and medium-size enterprises and female entrepreneurs, whose loans are typically smaller. Private credit bureaus tend to have lower minimum loan thresholds, with a global average of $459. For public credit registries the average exceeds $30,000. When smaller loans are reported to credit bureaus, more borrowers can establish credit histories.

WHAT ARE SOME RESULTS?

In a world with asymmetric information, banks are more likely to lend to larger firms, which typically are more transparent and use international accounting standards. But supported by information sharing systems, banks can sensibly extend credit to smaller and less transparent firms by basing their credit decisions on past borrower behavior.[12] This can increase entrepreneurs' opportunities for success, regardless of personal connections. One study found that an increase of 10 percentage points in the population share covered by a private credit bureau is associated with a 6% increase in private sector lending.[13]

Lending officers tend to have substantial discretion in offering loans, including in the interest rates they set and even in the types of collateral they require from a borrower. This can open the door to bribery. By reducing the discretion in evaluating loan applicants, credit information systems can help reduce corruption in bank lending.[14]

Access to credit remains particularly sparse in developing economies. In developed economies adults have an estimated 3.2 bank accounts on average, and 81% have accounts. In developing economies adults have 0.9 accounts on average, and 28% have accounts.[15] But the outlook is improving. In the past 6 years 82 economies implemented more than 134 reforms to improve credit information systems. Low-income economies increased the coverage of private or public credit registries from 0.6% of the adult population to 2.3%.[16] And 20 more economies gained a private credit bureau.

Institutions are of no benefit if they go unused. But a recent survey of collateral registries is encouraging: 20 of 27 registries that provided information on the volume of registrations showed a substantial increase since 2000 or since the year they were created.

BOX 6.1
Establishing credit bureaus in Rwanda and Uganda

In 2010, Rwanda passed the Law Governing the Establishment, Organization and Functioning of a Credit Information System. The law sets up the regulatory framework for the sharing credit information, including through the newly established private credit bureau. It guarantees the right for borrowers to obtain a copy of their credit report. The Central Bank of Rwanda (public credit registry) removed the minimum loan threshold for banks to report on. Banks must now report all loan sizes to the Central Bank.

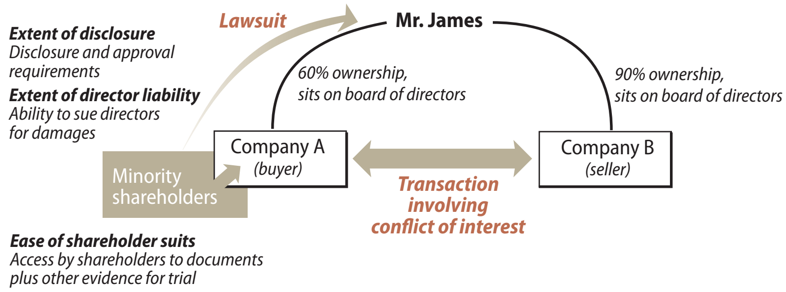
Uganda's first private credit bureau began operation in 2009. Regulated under the Financial Institutions Regulations, the new private bureau receives borrower information from all regulated entities, including 23 commercial banks and 3 regulated microfinance institutions. It already covers more than 200,000 individuals. All loan sizes are reported to the private bureau and both positive and negative information is provided. A new biometric data system allows each new loan applicant to be identified and a financial identity card is issued.

1. Fleisig, Safavian and de la Peña (2006).
2. Alvarez de la Campa and others (2010).
3. Qian and Strahan (2007).
4. Djankov, Hart, McLiesh and Shleifer (2008).
5. This may include company registries, deed registries, filing offices and any other institution with a central electronic database that records security interests over companies' assets.
6. Data provided by the Spanish registry, Colegio de Registradores de la Propiedad, Mercantiles y Bienes Muebles de España.
7. Fleisig and de la Peña (2003).
8. Kozolchyk and Furnish (2006).
9. Preliminary findings of ongoing internal study by Margherita Gallarello at CRIF SpA, Italy (credit information services firm).
10. Turner and others (2009).
11. Turner and Varghese (2007).
12. Brown, Jappelli and Pagano (2009).
13. Turner, Varghese and Walker (2007).
14. Barth and others (2009).
15. Kendall, Mylenko and Ponce (2010).
16. *Doing Business* database.

Protecting investors

FIGURE 7.1

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



Legal provisions requiring disclosure and access to information allow minority investors to monitor the activities of companies and preserve firm value. These provisions matter for the ability of companies to raise the capital needed to grow, innovate, diversify and compete. One common way to raise capital is to obtain credit from banks. Another way is to issue or sell company shares to equity investors. In return, investors ask for transparency and accountability from the company's directors and the ability to take part in major decisions of the company. If the laws do not provide such protections, investors may be reluctant to invest unless they become the controlling shareholders.[1]

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

Harmonization of domestic laws on corporate governance standards under the EAC Protocol will contribute to creating a favorable legal environment for protecting investors in East Africa region.

Doing Business measures the transparency of related-party transactions, the liability of company directors for self-dealing and the ability of shareholders to sue directors for misconduct. A higher ranking on the strength of investor protection index indicates that an economy's regulations offer stronger investor protections against self-dealing in the areas measured. The indicator does not measure all aspects related to the protection of minority investors, such as dilution of share value or insider trading. Nor does it measure the dynamism of capital markets or protections specific to foreign investors (figure 7.1).

WHAT ARE THE TRENDS?

REFORMS IN EAST AFRICA

Sub-Saharan Africa has had some of the most comprehensive investor protection reforms. Economies such as Botswana, Mozambique, Rwanda, Sierra Leone, Swaziland and Tanzania updated their company laws following global good practices. Rather than modifying a few provisions, policy makers adopted entirely new laws. And more is expected. The 16 member countries of the Organization for the Harmonization of Business Law in Africa have started reviewing the Uniform Commercial Act. Burundi, Kenya and Uganda are in the process of developing new commercial laws to improve corporate governance.

Last year, *Doing Business* recorded 7 reforms in investor protections in 7 of Sub-Saharan Africa's 46 economies. Such efforts are worthwhile. More than half the region's economies still have poor provisions or none at all on disclosure and approval of related-party transactions, and regulations on the liability of company directors for mismanagement are often outdated.

The average strength of investor protection index in East Africa is 4.7 on the scale from 0 to 10. The overall score conceals the fact that investor protections are more advanced in some areas—such as shareholder suit rights—while in others they still require substantial improvements to match international standards of corporate governance.

The weakest area in investor protections in East Africa are the disclosure requirements. East Africa's average on the *Doing Business* extent of disclosure index is 3.8, compared to an average score of 6.0 in OECD high-income countries. Only Burundi and Rwanda have regulations that require disclosure in periodic filings. Of

TABLE 7.1

How do EAC economies rank on investor protection?

	RANK
Rwanda	28
Kenya	93
Tanzania	93
Uganda	132
Burundi	154

Note: Rankings are based on the strength of investor protection index. See *Doing Business* website for details.
Source: Doing Business database.

all East African economies, only Rwanda requires transactions with interested parties to be approved by shareholders. Kenya and Uganda do not have stringent requirements on who approves a related-party transactions. It is sufficient for the board of directors to vote, and the interested party is allowed to participate in the process. Another important safeguard increasing transparency is external body's review of a transaction before it takes place—at present this option is not available in any East African economy. Inspiration can be found in Swaziland which recently adopted a new law that deals with minority investors.

The second aspect of corporate governance analyzed by *Doing Business* is the rule on accountability of directors for misconduct. There is a big variation in this respect in East Africa. In Rwanda, making directors accountable for prejudicial related-party transactions has become significantly easier. According to the new Company Law, if directors are found liable, they must compensate company for the damage caused and repay profits made from the transaction. In Tanzania and Uganda a director who engaged in a prejudicial related-party transaction is required to pay damages for the harm caused to the company. However, there are no measures that would require repayment of profits made from the transaction. In Burundi and Kenya the law currently does not establish a liability for directors involved in prejudicial related-party transaction.

Economies that rank high on the investor protection index also give shareholders broad powers when filing a suit if a transaction is prejudicial to the company. In East Africa Kenya scores highest in this area, granting shareholders access to information both before and during trial to determine director's liability, and giving them the right to question directly the defendant and witnesses during trial. But not everywhere in East Africa do shareholders enjoy such powers. Good rules also should allow shareholders to appoint an independent inspector to investigate a related-party transaction, and while most countries in East Africa do so, it is not possible in Burundi.

WHAT HAS WORKED?

Economies with the strongest protections of minority investors from self-dealing require more disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority investors the means to prove their case and obtain a judgment within a reasonable time.

SETTING STRICT RULES OF DISCLOSURE

Thirty-seven of the 183 economies covered by *Doing Business* stand out for the strictest rules on disclosure of related-party transactions. These include New Zealand, Singapore, Albania and, thanks to investor protection reforms in 2009, Rwanda. This has been the most popular feature in investor protection reforms since 2005, accounting for 32 of the total.

REGULATING APPROVAL OF RELATED-PARTY TRANSACTIONS

The more participation by shareholders—and the less by interested directors—in the approval of related-party transactions, the greater the protections. Fifty-seven economies require shareholder approval of large related-party transactions. Such approval mechanisms work well only if the law does not allow many exceptions and if the approval is required at the time of the transaction. For example, Greece and the Slovak Republic require shareholder approval only if the transaction does not take place "in the ordinary course of business"—without defining that concept.

MAKING DIRECTORS LIABLE

Economies with the strongest protections regulate not only disclosure and approval of related-party transactions but also the liability of directors when such transactions turn out to be prejudicial. This can be done by adopting a clear catalogue of the rights and duties of directors or a special regime of liability for directors in the event of an abusive related-party transaction. The board of directors is responsible for monitoring managerial performance and achieving an adequate return for shareholders while preventing conflicts of interest and balancing competing demands on the corporation.[2] To fulfill their responsibilities effectively, directors need clear rules and independent judgment.

Forty-three economies have clear rules on the liability of company directors in case of abusive related-party transactions. These include Canada, Mexico and the United Arab Emirates, which have rules encouraging directors to be prudent in the company's day-to-day management. Thirty-seven economies do not clearly regulate the liability of directors for abusive related-party transactions. There, as long as the interested parties comply with requirements for disclosure and approval of related-party transactions, they are not liable for any harm that results. The other 103 economies have rules on the liability of directors, but often with loopholes.

ALLOWING ACCESS TO EVIDENCE

Once a potentially prejudicial related-party transaction has occurred, what recourse do minority shareholders have in court? This depends in part on their access to documentary evidence before and during the trial. Without access to evidence, it is

BOX 7.1
Protecting investors in Swaziland

Swaziland provides a good example for EAC economies to follow. The Parliament of Swaziland adopted a new Company Act in December, 2009. The new law entered into force in April, 2010 after almost 10 years of discussion. The main features of the law are the following:

- It requires approval by the board of directors for related-party transactions. However, the director with a conflict is allowed to participate in the voting.
- Directors found liable must not compensate the company for damages caused and disgorge profits made from prejudicial related-party transitions.
- Minority investors holding 5% of company shares can now request the appointment of government inspector if they suspect mismanagement of the company's affairs.

Source: Doing Business database.

more difficult for minority investors to prove that directors have been managing the company's affairs improperly. Economies can have good laws, but if access to corporate information is limited and courts are inefficient, investors are unlikely to resort to the courts. It is worth noting that only 15 of the 183 economies covered by *Doing Business*, including Israel and Japan, permit full access to documentary evidence both before and during the trial.

WHAT ARE SOME RESULTS?

PAYOFFS IN PERFORMANCE

Empirical research shows that stricter regulation of self-dealing is associated with greater equity investment and lower concentration of ownership.[3] This is in line with the view that stronger legal protections make minority investors more confident about their investments, reducing the need for concentrated ownership to mitigate weaknesses in corporate governance. Both ex ante protections (extensive disclosure and approval requirements) and ex post measures against self-dealing (rights of action for minority shareholders) seem important. The 2 combined are associated with larger and more active stock markets, lower block premiums, more listed firms, higher market capitalization and higher rates of initial public offerings.

Most economies that strengthened investor protections did so as part of wider corporate governance programs—including countries as Rwanda and Sierra Leone. This is a good thing. Most research suggests a positive relationship between sound corporate governance systems and firms' performance as measured by valuation, operating performance or stock returns.[4] A Deutsche Bank study of the Standard & Poor's 500 shows that companies with strong or improved corporate governance structures outperformed those with poor or deteriorating governance practices by about 19% over a 2-year period.[5] There is room for more research to fully understand which corporate governance provisions are important for different types of firms and environments.[6]

BENEFITS FOR MORE INVESTORS

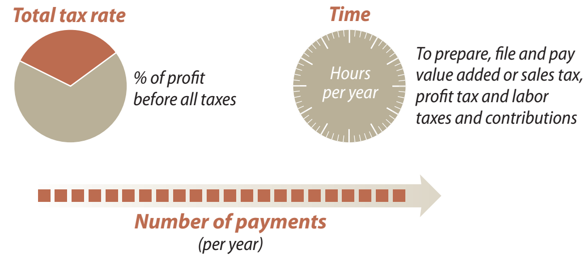
For legal protections to be effective, they must be applied. But pinning down the precise effect of specific legislative changes in an economy is difficult. Such changes generally apply to all firms at the same time, leaving no counterfactual to assess what would have occurred without them. But the experiences of several economies show how increased protections are benefiting greater numbers of investors thanks to growth in both the number of listed firms and the number of enforcement cases uncovering prejudicial transactions.

For example, in Indonesia, economy that consistently improved its laws regulating investor protections, the number of firms listed on the Indonesia Stock Exchange increased from 331 to 396 between 2004 and 2009. Meanwhile, market capitalization grew from 680 trillion rupiah ($75 billion) to 1,077 trillion rupiah ($119 billion).[7] Malaysia and Singapore, both regional leaders in investor protections, have seen the number of firms listed on each of their exchanges rise by more than 100 since 2005. In that same period the Malaysian securities commission has sanctioned more than 100 companies for noncompliance with disclosure requirements and more than 20 for noncompliance with approval requirements for related-party transactions.[8]

1. Dahya, Dimitrov and McConnell (2008).
2. OECD (2004).
3. Djankov, La Porta, López-de-Silanes and Shleifer (2008).
4. Cross-country studies include Klapper and Love (2004), Durnev and Kim (2005), Bauer, Guenster and Otten (2004) and Baker and others (2007).
5. Grandmont, Grant and Silva (2004).
6. Love (2010).
7. Indonesia Stock Exchange (2009).
8. Information provided by Securities Commission Malaysia.

Paying taxes

FIGURE 8.1
What are the time, total tax rate and number of payments necessary for a local medium-sized company to pay all taxes?



For Jean Claude, who owns and manages a Burundi-based retail business, paying taxes has become easier in the past few years. In 2004 he had to pay about 278% of profit in taxes. Today, thanks to the introduction of the value added tax which replaced the previous transactions tax, the total tax he must pay is reduced by 125.3 percentage points. But with 153%, the Burundi total tax rate remains high, compared to the regional average of 63% in East Africa.

Not only tax rates may constitute a burden for business. The tax administration—measured by the number of payments and time to file taxes—can be challenging. In Kenya, business owners are responsible for 41 separate tax payments, cutting across 16 tax regimes, requiring a total of 393 hours each year. In Malawi, only 19 tax payments are required and in Mauritius, only 7 are.

Taxes are essential. In most economies the tax system is the primary source of funding for a wide range of social and economic programs. How much revenue these economies need to raise through taxes will depend on several factors, including the government's capacity to raise revenue in other ways, such as rents on natural resources. Besides paying for public goods and services, taxes also provide a means of redistributing income, including to children, the aged and the unemployed. But the level of tax rates needs to be carefully chosen. Recent firm surveys in 123 economies show that companies consider tax rates to be among the top 4 constraints to their business.[1]

Keeping tax rates at a reasonable level can be important for encouraging the development of the private sector and the formalization of businesses. This is particularly relevant for small and medium-size enterprises, which contribute to job creation and growth but do not add significantly to tax revenue.[2] Taxation largely bypasses the informal sector, and overtaxing a shrinking formal sector leads to resentment and greater tax avoidance. Decisions on whom to tax and at what part of the business cycle can be influenced by many different factors that go beyond the scope of this study.

Tax revenue also depends on governments' administrative capacity to collect taxes and firms' willingness to comply. Compliance with tax laws is important to keep the system working for all and to support the programs and services that improve lives. Keeping rules as simple and clear as possible is undoubtedly helpful to taxpayers. Overly complicated tax systems risk high evasion. High tax compliance costs are associated with larger informal sectors, more corruption and less investment. Economies with well-designed tax systems are able to help the growth of businesses and, ultimately, of overall investment and employment.[3]

Doing Business addresses these concerns with 3 indicators: payments, time and the total tax rate borne by a standard firm with 60 employees in a given year. The number of payments indicator measures the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the way in which those payments are made. The time indicator captures the number of hours it takes to prepare, file and pay 3 major types of taxes: profit taxes, consumption taxes and labor taxes and mandatory contributions. The total tax rate measures the tax cost borne by the standard firm (figure 8.1).[4]

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

The top 10 economies on the ease of paying taxes represent a range of revenue models, each with different implications

TABLE 8.1
How do EAC economies rank on the ease of paying taxes?

	RANK
Rwanda	43
Uganda	62
Tanzania	120
Burundi	141
Kenya	162

Note: Rankings are the average of the economy's rankings on the number of payments, time and total tax rate. See *Doing Business* website for details.
Source: Doing Business database.

for the tax burden of a domestic medium-size business. The top 10 include several economies that are small or resource rich. But these characteristics do not necessarily matter for the administrative burden or total tax rate faced by businesses.

Also among the top 10, Hong Kong SAR (China), Singapore, Ireland and Canada apply a low tax cost, with total tax rates averaging less than 30% of profit. They also stand out for their low administrative burdens. They levy up to 9 different taxes on businesses, yet for a local business to comply with taxes takes only about 1 day a month and 6 payments. Electronic filing and payment and joint forms for multiple taxes are common practice among these 4 economies.

Tunisia, the economy that improved the ease of paying taxes the most in 2009/10, followed their example. It fully implemented electronic payment systems for corporate income tax and value added tax and broadened their use to most firms. The changes reduced the number of payments a year by 14 and compliance time by 84 hours.

Thirty-nine other economies also made it easier for businesses to pay taxes in 2009/10.[5] Governments continued to lower tax rates, broaden the tax base and make compliance easier so as to reduce costs for firms and encourage job creation. As in previous years, the most popular measure was to reduce profit tax rates.

WHAT ARE THE TRENDS?

In the past 6 years more than 60% of the economies covered by *Doing Business* made paying taxes easier or lowered the tax burden for local enterprises (figure 8.2). Globally on average, firms spend 35 days (282 hours) a year complying with 30 tax payments. A comparison with global averages in 2004 shows that payments have been reduced by 4 and compliance time by 5 days (39 hours).[6] Companies in high-income economies have it easiest. On average, they spend 22 days (172 hours) on 15 tax payments a year. Businesses in East Africa spend on average 28 days (217 hours) on 35 tax payments a year.

TAX COMPLIANCE BECOMING EASIER

Some Sub-Saharan African economies focused on easing tax compliance. In 2010 Sierra Leone introduced administrative reforms at the tax authority and replaced 4 different sales taxes with a value added tax. In the past 5 years 7 other economies—Burkina Faso, Cameroon, Cape Verde, Ghana, Madagascar, South Africa and Sudan—reduced the number of payments by eliminating, merging or reducing the frequency of filings and payments. Mozambique, São Tomé and Principe, Sierra Leone, Sudan and Zambia revamped existing tax codes or enacted new ones in the past 6 years.

TOTAL TAX RATES BECOMING LOWER

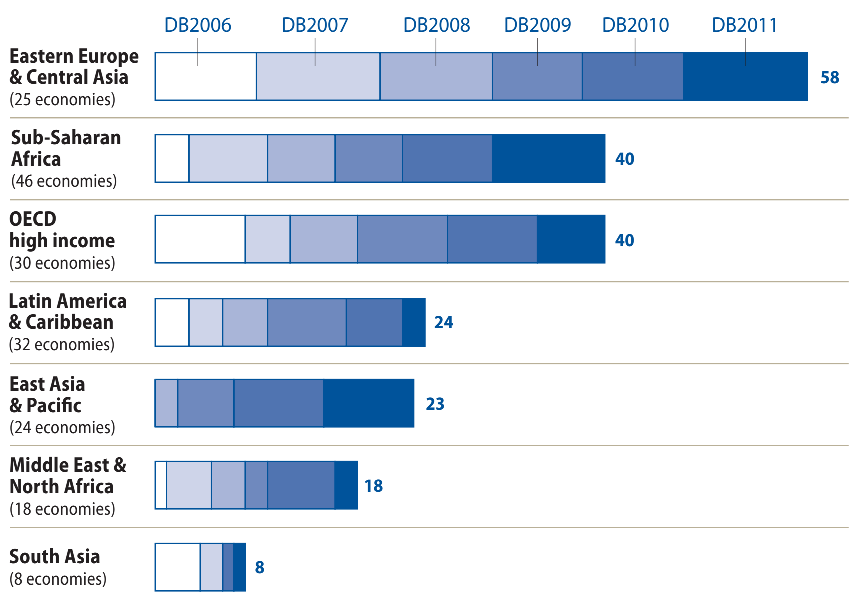
When considering the burden of taxes on business, it is important to look at all the taxes that companies pay. These may include labor taxes and mandatory contributions paid by employers, sales tax, property tax and other smaller taxes such as property transfer tax, dividend tax, capital gains tax, financial transactions tax, waste collection tax and vehicle and road tax. In Argentina, Burundi, Central African Republic, Comoros, Sierra Leone, the Gambia and Democratic Republic of Congo taxes and mandatory contributions add up to more than 100% of assumed profit, accordingly ranging from 108.2% to 339.7%. *Doing Business* assumes that the standard firm in its tax case study has a fixed gross profit margin of 20%. Where the indicator shows that taxes exceed profit, the company has to earn a gross profit margin in excess of 20% to pay its taxes. Corporate income tax is only one of many taxes with which the company has to comply. The total tax rate for most economies is between 30% and 50% of profit.

In the past year economies in Sub-Saharan Africa implemented almost a third of all reforms affecting the paying taxes indicators, a record for the region compared with previous years. On July 1, 2009, the date on which Burundi joined the East African Community, a value added tax replaced the transactions tax (turnover tax), reducing the total tax rate by 125.2% percentage points. In the past 6 years the most popular feature in the region was reducing profit tax rates (28 reforms including Rwanda, which reduced

FIGURE 8.2

Tax reforms implemented by more than 60% of economies in the past 6 years

Number of *Doing Business* reforms making it easier to pay taxes by *Doing Business* report year



Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2006 (2004) includes 174 economies. The sample for DB2011 (2009) also includes The Bahamas, Bahrain, Brunei Darussalam, Cyprus, Kosovo, Liberia, Luxembourg, Montenegro and Qatar, for a total of 183 economies.

Source: Doing Business database.

the corporate income tax rate from 35% to 30% in January 2006). The reductions lowered the average total tax rate for the region by 2.7 percentage points. But profit tax, just one of many taxes for businesses in Africa, accounts for only a third of the total tax paid. Firms in the region still face the highest average total tax rate in the world, 68% of profit.

TABLE 8.2
Good practices in paying taxes around the world

Practice	Economies[a]	Examples
Allowing self-assessment	136	Botswana, Georgia, India, Malaysia, Oman, Peru, United Kingdom
Allowing electronic filing and payment	61	Australia, Dominican Republic, India, Lithuania, Singapore, South Africa, Tunisia
Having one tax per tax base	50	Afghanistan, Hong Kong SAR (China), FYR Macedonia, Morocco, Namibia, Paraguay, Sweden

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

WHAT HAS WORKED?

Worldwide, economies that make paying taxes easy for domestic firms typically offer electronic systems for tax filing and payment, have one tax per tax base and use a filing system based on self-assessment (table 8.2). They also focus on lower tax rates accompanied by wider tax bases.

OFFERING AN ELECTRONIC OPTION

Electronic filing and payment of taxes eliminates excessive paperwork and interaction with tax officers. Offered by 61 economies, this option can reduce the time businesses spend in complying with tax laws, increase tax compliance and reduce the cost of revenue administration. But this is possible only with effective implementation. Simple processes and high-quality security systems are needed.

In Tunisia, thanks to a now fully implemented electronic filing and payment system, businesses spend 37% less time complying with corporate income tax and value added tax. Azerbaijan introduced electronic systems and online payment for value added tax in 2007 and expanded them to property and land taxes in 2009. Belarus enhanced electronic filing and payment systems, reducing the compliance time for value added tax, corporate income tax and labor taxes by 14 days. The reverse happened in Uganda. There, compliance time has increased despite the introduction of an electronic system. Online forms were simply too complex.

KEEPING IT SIMPLE: ONE TAX BASE, ONE TAX

Multiple taxation—where the same tax base is subject to more than one tax treatment—makes efficient tax management challenging. It increases firms' cost of doing business as well as the government's cost of revenue administration and risks damaging investor confidence.

Fifty economies have one tax per tax base. Having more types of taxes requires more interaction between businesses and tax agencies. In Nigeria corporate income tax, education tax and information technology tax are all levied on a company's taxable income. In New York City taxes are levied at the municipal, state and federal levels. Each is calculated on a different tax base, so businesses must do 3 different calculations.

TRUSTING THE TAXPAYER

Voluntary compliance and self-assessment have become a popular way to efficiently administer a country's tax system. Taxpayers are expected and trusted to determine their own liability under the law and pay the correct amount. With high rates of voluntary compliance, administrative costs are much lower and so is the burden of compliance actions.[7] Self-assessment systems also reduce the discretionary powers of tax officials and opportunities for corruption.[8] To be effective, however, self-assessment needs to be properly introduced and implemented, with transparent rules, penalties for noncompliance and established audit processes.

Of the 183 economies covered by *Doing Business*, 80% allow firms to calculate their own tax bills and file the returns. These include all economies in Eastern Europe and Central Asia and almost two-thirds in East Asia and the Pacific, the Middle East and North Africa and South Asia. Both taxpayers and revenue authorities can benefit. Malaysia shifted to a self-assessment system for businesses in stages starting in 2001. Taxpayer compliance increased, and so did revenue collection.[9]

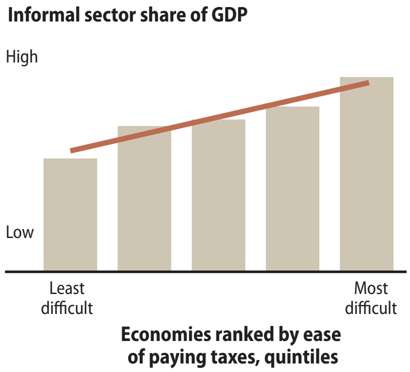
WHAT FIRMS VALUE

These results illustrate some of the benefits of more effective tax systems and appropriate tax rates. Recent research has found that in developing economies, where many firms are likely to be small and heavily involved in informal activity, reducing profit tax rates helps reduce informality and raise tax compliance, increasing growth and revenue.[10]

Mauritius implemented a major tax reform in 2006. It reduced the corporate income tax rate from 25% to 15% and removed exemptions and industry-specific allowances, such as its investment allowance and tax holidays for manufacturing. Authorities aimed to increase revenue by combining a low tax rate, a transparent system, a reinforced tax administration and efficient collection—and they did. In the 2007/08 fiscal year corporate income tax revenue grew by 27%, and in 2008/09 it increased by 65%.

The size of the informal sector, which in many developing economies accounts for as much as half of GDP, can significantly affect the tax revenue collected as a percentage of GDP.[11] But the reverse is also true: the structure of the tax system and the perception of the quality of government services can affect the size of the informal sector in a country. Larger informal sectors as well as greater corruption are found where the majority of firms perceive taxes as not "worth paying" because of low-quality public goods and poor infrastructure.[12] *Doing Business* data show

FIGURE 8.3
Size of informal sector is associated with ease of paying taxes



Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.
Source: Doing Business database; Schneider and Buehn (2009).

that economies where it is more difficult and costly to pay taxes have larger shares of informal sector activity (figure 8.3).

Sensitivity to tax reforms is affected by firm size. Large firms are usually more directly affected by changes. But small firms have a higher tendency to be unregistered if tax rates are high, and tend to underreport income and size if higher incomes and bigger firms are taxed at a higher rate.[13] In Côte d'Ivoire, where firms must pay 44% of profit and make more than 64 payments a year to comply with 14 different taxes, a recent study finds that firms avoid growing in order to pay less tax.[14] Table 8.3 illustrates major reductions of income taxes this year.

1. Globally, companies ranked tax rates 4th among 16 obstacles to business in World Bank Enterprise Surveys in 2006–09 (http://www.enterprisesurveys.org).
2. International Tax Dialogue (2007).
3. Djankov and others (2010).
4. The company has 60 employees and start-up capital of 102 times income per capita.
5. This year's report records all reforms with an impact on the paying taxes indicators between June 2009 and May 2010. Because the case study underlying the paying taxes indicators refers to the financial year ending December 31, 2009, reforms implemented between January 2010 and May 2010 are recorded in this year's report, but the impact will be reflected in the data in next year's report.
6. The comparison of global averages refers to the 175 economies included in *Doing Business 2006*. Additional economies were added in subsequent years.
7. Ricard (2008).
8. Imam and Davina (2007).
9. bin Haji Ridzuan (2006).
10. Hibbs and Piculescu (2010).
11. Gordon and Li (2009).
12. McGee and Lingle (2008).
13. OECD (2008).
14. Klapper and Richmond (2010).

TABLE 8.3
Major cuts in corporate income tax rates in 2009/10

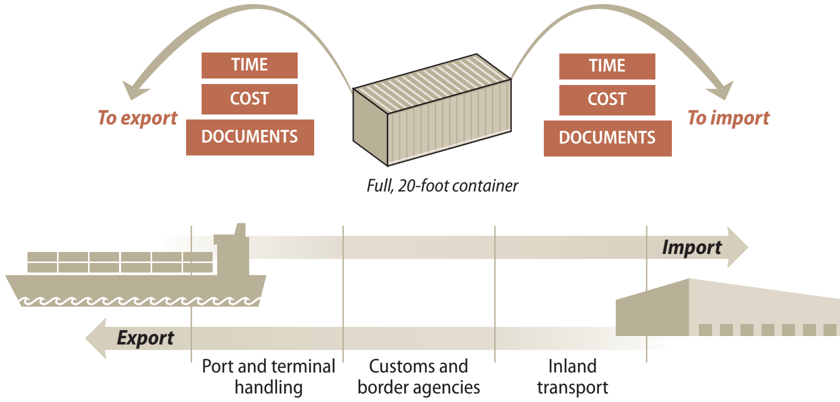
Region	Reduction in corporate income tax rate (%)	Year effective
Sub-Saharan Africa	Burkina Faso from 30 to 27.5	2010
	Republic of Congo from 38 to 36	2010
	Madagascar from 25 to 23	2010
	Niger from 35 to 30	2010
	São Tomé and Principe from 30 to 25	2009
	Seychelles from progressive 0–40 to 25–33	2010
	Zimbabwe from 30 to 25	2010
Eastern Europe & Central Asia	Azerbaijan from 22 to 20	2010
	Lithuania from 20 to 15	2010
	FYR Macedonia from 10 to 0 (for undistributed profits)	2009
	Tajikistan from 25 to 15	2009
East Asia & Pacific	Brunei Darussalam from 23.5 to 22	2010
	Indonesia from 28 to 25	2009
	Taiwan (China) from 25 to 17	2010
	Tonga from progressive 15–30 to 25	2009
Latin America & Caribbean	Panama from 30 to 25	2010

Source: Doing Business database.

Trading across borders

FIGURE 9.1

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



Traders at the Chirundu crossing between Zambia and Zimbabwe have long dealt with congestion and delays at the busy border post. Procedures duplicated on each side of the border and involving up to 15 government agencies often require a wait of 2–3 days to clear goods. This is starting to change, thanks to a one-stop border post that was recently established. Trucking companies will save, because delays "cost each truck $140 per day in fixed costs and driver's time," notes Juma Mwapachu, former secretary general of the East African Community. "The potential cost saving is about $486 million per year, which accrues to our economies and competitiveness."[1]

In a globalized world, making trade between countries easier is increasingly important for business. The ability of firms and economies to compete in global markets has been put to the test in the past 2 years of economic turmoil. In 2009 world trade recorded its largest decline in more than 70 years.

While trade recovered in 2010 and fears of a surge in protectionism have largely subsided, burdensome documentation requirements, time-consuming customs procedures, inefficient port operations and inadequate transport infrastructure still lead to unnecessary costs and delays for traders. Poor performance in just 1 or 2 of these areas can have serious repercussions for an economy's overall trade competitiveness, as shown by the World Bank's Logistics Performance Index.[2] By removing these obstacles, governments can create an environment that encourages entrepreneurs to look beyond their own borders for business opportunities.

Doing Business measures the time and cost (excluding tariffs) associated with exporting and importing by ocean transport, and the number of documents necessary to complete the transaction (figure 9.1). The indicators cover procedural requirements such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover trade logistics, including the time and cost of inland transport to the largest business city. These are key dimensions of the ease of trading—the more time consuming and costly it is to export or import, the more difficult it is for traders to be competitive and to reach international markets.

In 2009/10, 33 economies made it easier to trade. Sub-Saharan Africa accounted for the most improvements in trading across borders, followed by the Middle East and North Africa and Eastern Europe and Central Asia. Recognizing the importance of a conducive trading environment, East African Community countries have carried out most reforms in Sub-Saharan Africa. Since 2006, *Doing Business* has recorded trade facilitating reforms in five out of the six years for Rwanda. Uganda carried out reforms in 3 separate years. In Kenya three reforms and in Tanzania two reforms and a single reform were recorded respectively. The only country not to register reforms that have impacted on the time, cost and documents to trade over this period of time is Burundi.

Rwanda improved its trade logistics environment by reducing the number of trade documents required and continuing its efforts toward establishing joint border management procedures with Uganda and other neighbors. The improvements build on earlier efforts in Rwanda to implement electronic submission of customs declarations and increase acceptance points for submission.

TABLE 9.1

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

	RANK
Tanzania	109
Kenya	144
Uganda	148
Rwanda	159
Burundi	176

Note: Rankings are the average of the economy's rankings on the documents, time and cost required to export and import. See *Doing Business* website for details.
Source: Doing Business database.

WHAT ARE THE TRENDS?

CUTTING RED TAPE

Trade agreements and customs unions have spurred reforms around the world making it easier to trade across borders. Cargo can move more easily within trade blocs such as the Southern African Customs Union thanks to a common transit document that can be used in all member nations. The time to trade has fallen in all regions around the world, for a number of reasons. In Sub-Saharan Africa much of the drop in the time for exporting and importing was achieved by introducing electronic data interchange systems—as in Madagascar, Mali and Tanzania—and by reducing delays at ports and customs through infrastructure improvements—as in Benin and Eritrea. Sometimes simply extending office hours—as in Kenya, Rwanda and Senegal—made processes faster.

OVERCOMING GEOGRAPHIC BARRIERS

The geographic characteristics of economies can also influence their approach to trade reforms. For small island states, trade is often critical. Some, such as Singapore, have used their reliance on sea transport to their advantage and become trade hubs for their region. The close proximity of the largest business city to the port and the small volume of cargo can mean speedy inland transport and customs clearance. But many islands are isolated—container vessels call at the port only every 35–40 days in São Tomé and Principe, for example—and lack economies of scale.

By contrast, many landlocked economies face high inland transport costs to reach ports and delays at border posts. Not surprisingly, traders in landlocked economies face a higher average time and cost to export and import than traders elsewhere. But geography is not destiny. Border cooperation agreements can enable cargo to move freely—without being stopped for customs—until it reaches its destination. A trader in Vienna, in landlocked Austria, needs only 2 days to arrange for and complete the transport of cargo to the port of Hamburg despite the distance of 900 kilometers. This is almost similar to the distance that cargo in Kampala, in landlocked Uganda, must travel to reach a port in neighboring Kenya. Yet transporting a container between Kampala and Mombasa (port in Kenya) can take a week or considerably longer. The difference is due in part to inadequate infrastructure. But it also results from additional controls and waiting time at border posts.

To ensure speed while addressing security concerns, some developing economies are introducing fast-track systems for traders with a good track record—"compliant trader" or "gold card trader" programs. The European Union and OECD high-income economies such as the United States have developed a more sophisticated but complex certification system that authorizes certain businesses to move faster through the logistics of importing and exporting.

WHAT HAS WORKED?

The economies with the most efficient trade share common features. They allow traders to exchange information with customs and other control agencies electronically. And they use risk-based assessments to limit physical inspections to only a small percentage of shipments, reducing customs clearance times.

LINKING UP ELECTRONICALLY

Electronic data interchange systems have become common around the world: 78% of the 149 surveyed economies allow traders to submit at least some of their export and import declarations, manifests and other trade-related documents to customs authorities electronically. Traders can submit all trade documents electronically in half of OECD high-income economies, but in less than 5% of economies in Sub-Saharan Africa and in Eastern Europe and Central Asia. The newest systems are web-based, allowing traders to submit their documents from anywhere and at any time. This saves precious time and money (not to mention paper). And fewer interactions with officials mean fewer opportunities for corruption.

Electronic data interchange systems can support regional integration and East African countries are making efforts toward this goal But simply having an electronic system in place is not enough. To function properly, electronic data interchange systems require basic infrastructure such as adequate electricity supply and reliable internet connections—a challenge for many low-income economies. Electronic signature and transaction laws must be in place to ensure legal validity and avoid disputes. In addition, users will benefit only if they have received adequate training and if systems are user friendly and easy to install. In many economies that have electronic systems, such as Botswana and The Gambia, customs authorities still require traders to submit hard copies. This neutralizes potential benefits and may even generate extra work for users.

OPENING A SINGLE WINDOW

Some economies go a step further by linking not only traders and customs but all agencies involved in trade. An electronic single-window system allows users to submit their export or import information in a virtual location that communicates with all the relevant authorities for obtaining documents and approvals. Traders no longer need to visit different physical locations. The most advanced systems, such as the electronic trade portal in Korea, also connect private sector participants such as banks, customs brokers, insurance companies and freight forwarders.

Single-window systems are most prevalent among OECD high-income economies. Given the cost and complexity of setting up such systems, this is not surprising. Senegal has successfully implemented single-window systems. Kenya has learned from Senegal's advances in implementing an electronic data interchange for its own customs modernization efforts where it used technical expertise from Senegal in developing its EDI system (SIMBA). Rwanda is also about to start implementing a single-window.

With the amount of paper documents that is often required for trading within East African countries, the adoption of a single window system should help to reduce this as electronic messages can be sent directly between agencies. Traders will not need to get paper documents from one agency and send it to another. This effort should not be limited at the national level but should extend to the EAC region wide level for the greatest benefit. Indeed in recent years several sub regions have taken up this challenge. For instance, projects are already underway to create single windows at the regional level among ASEAN members, APEC members, and also among EU members latest by 2014.

FACTORING IN RISK

Requiring imports and exports to undergo several types of inspections—for tax, security, environmental, border control and health and safety reasons—is a normal thing. But how these inspections are carried out is critical. Done with a heavy hand, they can be a serious obstacle to efficient and transparent trade.

Over the years customs administrations around the world have developed systems for establishing risk profiles that allow them to limit physical inspections to only the riskiest consignments. The use of scanners in conjunction with risk-based profiling eliminates the need to open cargo, contributing to the efficiency of inspections.

Risk based inspection systems are not used across all EAC countries and even where they exist the level of physical inspections still remains high (over 60% of cargo in some countries), thus delaying clearances. Among EAC countries lack of mutual recognition inspection certificates require traders to carry out repeat certification test for the quality and standards of goods originating within the sub-region. The inspections regime is also made cumbersome by the proliferation of road blocks and delays at weighbridges. The latest East African Business Council (EABC) estimate shows that weighbridges and roadblocks alone account for an annual loss of 126,749 working days and $7.9 million in speed money payments.[3]

BOX 9.1

Reforms in trading across borders in East Africa

Kenya embarked on its far-reaching Revenue Administration Reform and Modernization Program in 2005. Replacing its old customs system (Boffin) with a new one (Simba), Kenya modernized customs clearance. The new system allows traders to submit customs declarations electronically and pay duties directly. Selective post clearance verifications and risk analysis techniques save time by eliminating unnecessary inspections. And a new reward scheme for employees, based on performance targets for cargo clearance, better aligns employee compensation with clearance objectives. In 2009 Rwanda border posts extended their operating hours by 4 hours, closing at 10:00 p.m. rather than 6:00 p.m. Customs increased the number of declaration acceptance points and introduced automatic clearance of goods at selected border posts. It also established a risk management and intelligence unit to implement new risk-based inspections and clearances. Prearrival clearances and prepayment systems have also been implemented.

Tanzania introduced UNCTAD's Automated System for Customs Data (ASYCUDA++) in 2005. Under this new system traders, inspection agencies and shippers can submit information directly to customs. The system has the potential to validate entries by users within minutes, thereby correcting erroneous entries and saving time. But much remains to be done to achieve effective functioning. Tanzania also introduced a risk management system. Risk assessments undertaken by the destination inspection company (TISCAN) can share information with port authorities and customs, reducing clearance times for most traders carrying low-risk cargo.

In Uganda a new secure system of seals for transit goods has been put into place in 2009. Seals placed at the point of entry are removed only at the point of exit, reducing the need for inspection at different stages of transit and thus saving time and money. Uganda's ASYCUDA++ system has been extended to enable electronic declarations at additional customs stations around the country. And in some stations (such as Busia) the ASYCUDA++ system has been linked with banks' payment systems so that traderscan make payments at their banks, sending an electronic receipt to customs. Uganda has also implemented an electronic bond-cancellation system between border stations and a self-assessment module for customs duties. To complement all these efforts, border cooperation at Malaba has been enhanced with the implementation of joint inspections by customs authorities from both Kenya and Uganda.

Source: Doing Business database.

STRENGTHEN CO-ORDINATION AMONG CUSTOMS AUTHORITIES

In recent years there have been improvements to customs systems in individual East African countries. For instance, Kenya, Rwanda, Uganda and Tanzania have all implemented automated customs clearance systems. However, at the regional level, there remains a lack of integrated customs system that will allow for the simultaneous sharing of information.

The EAC can learn from the example of the European Union's New Computerised Transit System (NCTS). The system allows for the electronic exchange of messages between economic operators/shippers and customs, and between customs administration of the 27 EU member countries. The NCTS speeds up customs clearance and ensures proper monitoring of intra-EU transit trade. For instance, through the exchange of electronic messages, customs offices and border posts at the receiving end will already have information about the cargo before it arrives. This prevents the need to re-enter information again but also allows customs to carry out its risk assessment of incoming cargo even before it arrives, thus speeding up the clearance process.

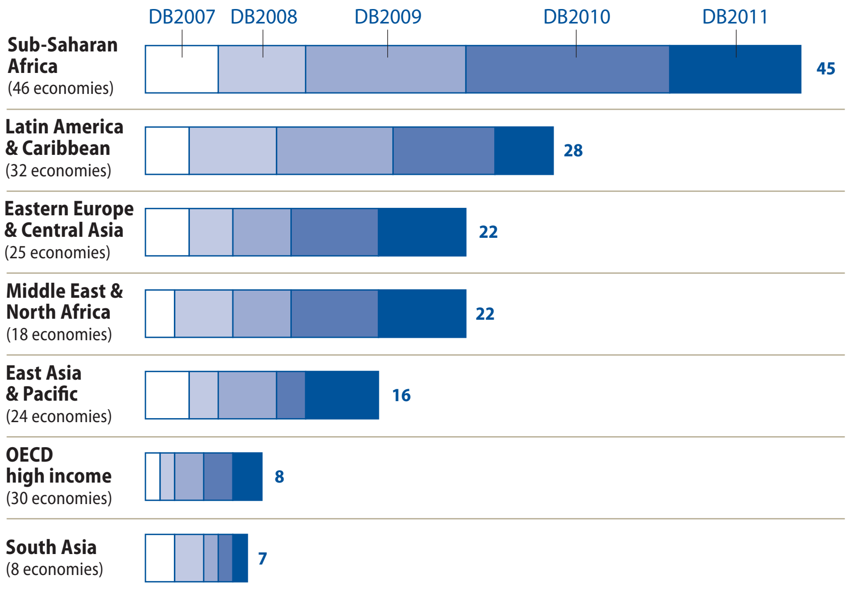
Given the recent advances in implementing the Revenue Authorities Digital Data Exchange system in individual EAC countries, there already exists a foundation to build a region wide system.

Another area of co-operation that could facilitate EAC intra-regional trade is by operating joint border posts. Currently goods arriving at most border posts require traders to go through duplicative inspections at both the departing and arriving border posts. This results in higher time costs payments for traders at the border as well as duplication of customs resources.

HARMONIZE REGULATIONS

To further boost trade among EAC countries some bottlenecks arising from the lack of harmonization of regulations and practices at the regional level will need to be addressed. In the area of border opening

FIGURE 9.2
Sub-Saharan Africa continues to lead in trade reforms
Number of *Doing Business* reforms making it easier to trade across borders by *Doing Business* report year



Note: A *Doing Business* reform is counted as 1 reform per reforming economy per year. The data sample for DB2007 (2006) includes 178 economies. The sample for DB2011 (2010) also includes The Bahamas, Bahrain, Cyprus, Kosovo and Qatar, for a total of 183 economies.
Source: Doing Business database.

hours for instance, while in Rwanda the customs borders hours have been extended to 10.00 p.m where as in Burundi they close at 4.00 p.m. Further axle-load limits differ by country. Kenya, Uganda and Rwanda follow COMESA limit of 18t whereas Tanzania complies with the SADC axle load limit of 16t. Lastly the harmonization, mutual recognition and enforcement of regulations in the area of quality certification marks and test certificates on goods will ensure that goods will not be delayed at borders due to duplicatory testing and inspection certification procedures.

WHAT ARE SOME RESULTS?

Implementing new services to ease trade matters only if they provide real benefits to both users and providers. In the best cases they can lead to economy-wide gains. More than 100 economies improved trade procedures in the past 5 years and are reaping the benefits of more efficient systems. A study in Sub-Saharan Africa finds that a 10% reduction in exporting costs increases exports by 4.7%, a greater impact than would come from further reductions in tariffs by richer economies.[4] According to another study, African economies' limited participation in global supply chains for textiles and garments—both time-sensitive products—can be attributed to delays at customs.[5]

COMPETITIVE EDGE FOR BUSINESSES

In an increasingly competitive global economy, improving the trade facilitation environment can help give businesses a competitive edge. This is often a major impetus for government action. Yet support from the private sector cannot be taken for granted. When Kenya introduced its electronic customs system, Simba, in 2005, the Kenya International Freight and Warehousing Association initiated a court action. Members felt that Simba imposed unfair and costly requirements, such as the need for computerization and training.[6]

GAINS FOR GOVERNMENTS

Businesses are not the only ones to benefit. Making it easier to trade across borders can lead to significant benefits for the government by boosting customs revenue. Ask Peter Malinga, Commissioner of customs in Uganda. The country's reforms to improve customs administration and reduce corruption helped increase customs revenue by 24% between 2007 and 2008. Not all governments experience surges in revenue, but steady increases add up. Ghana saw customs revenue grow by 49% in the first 18 months after implementing GCNet, its electronic data interchange system for customs procedures.[7] Overall Sub-Saharan Africa continues to lead in trade reforms (figure 9.2).

Making it easier to trade across borders also assists government operations. The implementation of single windows in Korea and Singapore led to big increases in the productivity of customs officials. Singapore, which established the world's first national single window (TradeNet) in 1989 by bringing together more than 35 border agencies, estimates that for every $1 earned in customs revenue it spends only 1 cent—a profit margin of 9.9%.[8] Such gains have allowed it to pass on the benefits to traders. In 1988, under the manual system, traders were charged a processing and transmission fee of S$10. Today the fee is only S$1.80.

While electronic systems can yield big gains, initial investments and operations can be costly. Korea Customs Service estimates that it spends some $38 million annually on its information technology infrastructure, $9 million of which is for the single-window system. But the estimated benefits, $2–3.3 billion a year according to Korea Customs Service, far outweigh the costs. For economies with basic computer systems, however, the cost of implementing automated systems can be significant.

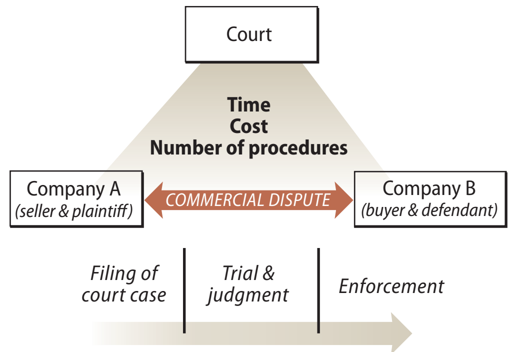
Moreover, automated systems can speed up customs procedures only if customs officials and private sector users are adequately trained to use the new technology. Inadequate infrastructure can also be a constraint, such as when customs officials are forced to stop working every time an unreliable electricity supply disrupts internet connections. Nevertheless, many economies continue to learn from Singapore's experience. Ghana, Madagascar, Mauritius, Panama and Saudi Arabia are all using adapted versions of TradeNet.

1. Statement during the official launch of the Chirundu one-stop border post, December 5, 2009.
2. World Bank, Logistics Performance Index, 2007 and 2010 (http://www.worldbank.org/lpi).
3. East African Business Council (2008).
4. Hoekman and Nicita (2009).
5. Yoshino (2008).
6. BIZCLIR (2007).
7. De Wulf and Sokol (2004).
8. Singapore Customs Service (2007).

Enforcing contracts

FIGURE 10.1

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



An efficient court system that can deal with large amount of cases is important for having a healthy business environment. But reforming courts is challenging. Take Uganda. For over 3 years Uganda has been implementing deep changes in its judicial system, and the results are slowly starting to show. Uganda reduced the time it takes to enforce a commercial dispute by nearly 10% (45 days) by introducing specialized divisions to deal with complex cases, setting stricter deadlines for judges, reducing backlogs and introducing mediation as well as a case management system.

Thirteen economies made it faster, cheaper or less cumbersome to enforce a contract through the courts in 2009/10. Malawi improved the ease of enforcing contracts the most.

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 an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement (figure 10.1).

WHAT ARE THE TRENDS?

Thirteen reforms easing contract enforcement were recorded in the past year.[1] A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies often work on reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making procedures faster.

INCREASED EFFICIENCY IN SUB-SAHARAN AFRICA

In the last 7 years, Uganda, Rwanda and Burundi have been introducing sweeping reforms. Both Burundi and Rwanda have introduced new procedure rules to make the system more efficient (stricter deadlines, shorter appeal periods, reduced backlogs and improved enforcement of judgments). From 2005 until 2008 Rwanda introduced changes to the structure of the court system, reorganized the territorial jurisdiction of the courts and introduced a brand new commercial court.

In Uganda the "Justice Law and Order Sector" project is ongoing. In 2007, mediation was made a mandatory feature of the civil procedure at the Commercial Court Division of the High Court, and the judges were given strict timelines which are monitored seriously. Judges recently started enforcing these directives requiring litigants to file all the documents they wish to rely on at trial before the date of scheduling, which allows for greater efficiency in trial scheduling and mediation. Efficiency of the Chief Magistrates Court has also improved with the increase in the number of Magistrates in all the country in the last 3 years. In Uganda's Mengo Chief Magistrates Court alone the number of magistrates has increased from 3 to 6 in the last 3 years.

Since 2006, Rwanda improved its court system by tightening deadlines for appeal, prohibiting interlocutory appeals and allowing its supreme court to decide the substance of a case rather than reversing the case and sending it back to the lower court. In addition, Rwanda instituted a single-judge system rather than requiring 3 judges to decide a case, and required that all judges hold a law degree. It also limited access to courts by requiring that cases be forwarded to obligatory conciliation committees and allowing parties to use arbitration.

In Burundi a new code of civil procedure adopted in 2004 introduced summary proceedings for uncontested claims. The deadline to appeal a judgment was reduced from 60 months to 30 months after notification of the judgment. Under the new Law on the Organization and Jurisdiction of Courts adopted in 2005, the maximum contested value for commercial cases that can come before the lower courts was raised from \$300 to \$1,000. Advice from a public prosecutor is no longer required in commercial matters. And 1 judge, not 3, will deal with enforcement of judgments.

Court reforms in Sub-Saharan Africa have reduced the time it takes to resolve a commercial dispute by an average of nearly 6 weeks since 2005. This was thanks to new case management systems, commercial courts and measures to reduce backlogs. But resolving a commercial dispute still

TABLE 10.1
How do EAC economies rank on the ease of enforcing contracts?

	RANK
Tanzania	31
Rwanda	40
Uganda	116
Kenya	126
Burundi	172

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 *Doing Business* website for details
Source: Doing Business database.

costs businesses 50% of the claim value on average. The main reason: high lawyers' fees relative to the value of the claim.

Some African countries are introducing small claims courts or small claims procedures. These offer simplified processes that take less time. Parties can often represent themselves, saving fees that they would normally spend on lawyers. In addition, filing fees are lower, and judges issue decisions more quickly.[2] Particularly for female entrepreneurs, who typically own small businesses, small claims courts can be a preferable forum for resolving simple disputes. In Kampala, Uganda, is piloting a small claims procedure with magistrates dedicated to hearing simple cases. In Zimbabwe the small claims court takes cases up to $250, and no lawyers are allowed. In neighboring Zambia a new small claims court for cases up to about $5,000 started operating in 2009. One limitation of the new Zambian small claims court is that a company cannot file a claim in the court but can appear only to respond to a claim filed against it by an individual.

WHAT HAS WORKED?

In the past 7 years *Doing Business* recorded 103 reforms to improve court efficiency. Few have been successful, and many have been slow to show impact. Court reform takes time to show results. As the courts and users become accustomed to the new system, efficiency can continue to improve for years after the change. In the past year, thanks to previous years' reforms to improve efficiency, Botswana, Mali, Rwanda and Uganda reduced the time to enforce contracts a case by 5 months on average.

SPECIALIZING FOR SPEED

Introducing specialized courts has been a popular improvement. A specialized commercial procedure can be established by setting up a dedicated stand-alone court, a specialized commercial section within existing courts or specialized judges within a general civil court. Economies with stand-alone commercial courts include Sierra Leone, Sri Lanka and Tanzania. Those with commercial divisions within high courts include Ireland, Kenya, Nigeria, Uganda and the United Kingdom. In some economies the specialized commercial courts decide only cases relating to bankruptcy, securities, maritime transport or intellectual property while general commercial cases remain with the ordinary courts. This is the case in such economies as Algeria, Indonesia, the Slovak Republic, Thailand and Uruguay. Specialized courts, besides offering the benefits of specialization, also generally resolve commercial disputes faster.

Several economies have recently introduced reforms increasing court specialization. Jordan set up commercial divisions in its courts of first instance and its conciliation courts in 2008, assigning judges to hear solely commercial cases. In Mauritius a specialized commercial division in the supreme court began hearing cases in 2009. Burkina Faso and Guinea-Bissau established dedicated commercial courts the same year. Syria plans to follow suit. If creating specialized courts yields satisfied users, it can embolden governments to try broader judicial reforms.

Successful court reforms increase efficiency and save time. That is the case in Rwanda. The commercial courts inaugurated in Kigali in May 2008 have completed more than 81.5% of the cases received. Because half the 6,806 cases that the Kigali commercial courts received and resolved in 2008–09 had been transferred from other courts, that means a big reduction in the case backlog.[3] The improved infrastructure of the new commercial courts also reduced delays in commercial dispute resolution. The registry, having mastered the new case registration system, now enters cases into the system swiftly. And time for service by bailiffs has decreased. Since 2008 the average time to resolve a commercial dispute has declined by nearly 3 months, from 310 days to 230.

INTRODUCING TECHNOLOGY

Using technology to track court processes can make managing cases easier while increasing transparency and limiting opportunities for corruption in the judiciary. Automated court processes can also prevent the loss, destruction or concealment of court records.[4] And allowing litigants to file complaints electronically in commercial cases, as the United Kingdom recently did, makes initiating a lawsuit faster. In Armenia the introduction of electronic case management has increased transparency. Public kiosks with touch screens located in court buildings make case information available to the public. But simply introducing information technology does not solve underlying procedural inefficiency. A thorough overhaul of court processes is also necessary.

Zambia is moving towards electronic forms, real-time court reporting, electronic storage and computer searches of registry files. Records of court proceedings are immediately available to litigants and court officials –as well as to the public, through computer terminals in the courts.

Electronic systems also improve efficiency within the courts, making the work of judges and staff easier. In Egypt employees in the Alexandria and El Mansûra courts of first instance used to transcribe judges' handwritten decisions on typewriters. But thanks to court modernization efforts, now they can transcribe decisions directly into an electronic system, to be archived and promptly produced for docketing and distribution.[5] In 2008 Moldova computerized its courts and introduced websites and audio recording equipment. Court administrators reported that the changes made the courts' work faster, easier and more efficient.[6] Bulgaria's supreme courts computerized their court records system in 2006, enabling litigants to access court documents and track a case to its completion.[7] All judgments of the supreme courts have been accessible online since October 2008.

MANAGING CASES

Judicial case management has proved to be effective in reducing procedural delays. It also helps in monitoring performance. In Uganda, since 2009 the Chief Magistrates' Court and the Commercial Court both operate a case management software system (CAS). CAS enables the court to have an electronic register of cases, consult instantly the case calendar to monitor deadlines and to have statistics readily available. This allows the Magistrates to easily spotting cases that have not been timely served and dismissing them. This puts pressure on the plaintiff to perform service promptly.

Botswana introduced case management in its high court rules in 2008. The average duration of trials has since fallen from 912 days to 550. Case management includes the possibility for a judge to conduct preparatory hearings to help the parties narrow the issues in dispute, to encourage them to settle and to fix procedural timelines and monitor compliance.

MEASURING PERFORMANCE

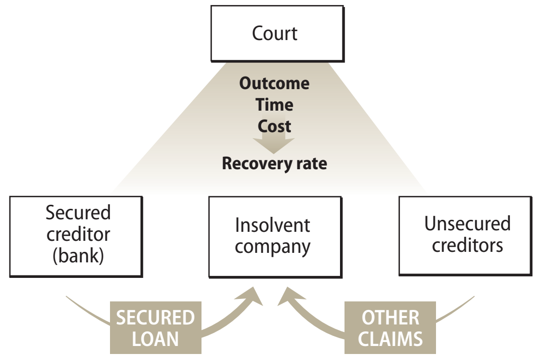
Measuring the performance of courts and individual judges can increase efficiency. Assessments of a court's performance can help its personnel set concrete targets and aid in evaluating the court's progress toward its goals, in setting budgets and in motivating staff to improve performance.[8] What gets measured can range from user satisfaction to costs, timeliness and clearance rates.[9] Economies such as Australia, Singapore and the United States have been using tools to measure performance in the judicial sector since the late 1990s.[10] Others started more recently.

1. Source: *Doing Business* database.
2. World Bank (2010b, p. 34), citing Zucker and Herr (2003).
3. Interview by the *Business Times* (Kigali) with the vice president of the commercial high court, Benoit Gatete. January 12, 2010, http://allafrica.com/.
4. Pepys (2003).
5. U.S. Agency for International Development, "Egypt—Before & After: Modernization Raises Court's Efficiency," http://www.usaid.gov/stories/.
6. Millennium Partners, "The Moldova Governance Threshold Country Program (MCC)/USAID," http://www.millenniumpartners.org/recent-projects/moldova-governance. See also USAID (2010).
7. Pepys (2003) and Supreme Court of Bulgaria, http://www.sac.government.bg/.
8. National Center for State Courts (2005a).
9. National Center for State Courts (2005a, 2005b).
10. For the United States, see the official website of the National Center for State Courts (http://www.ncsconline.org/) and North Carolina Court System, "Court Performance Management System," http://www.nccourts.org/.

Closing a business

FIGURE 11.1

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



A well-balanced bankruptcy system functions as a filter, separating companies that are financially distressed but economically viable from inefficient companies that should be liquidated.[1] By giving efficient companies a chance to restructure, bankruptcy law helps maintain a higher overall level of entrepreneurship in an economy.[2] Similarly, by letting inefficient companies fail, the bankruptcy system can foster an efficient reallocation of resources. Well-functioning insolvency regimes also facilitate access to finance, especially for small and medium-size enterprises, and thereby improve growth in the economy overall.[3]

Efforts are underway to harmonize insolvency laws and develop a regional standard for East Africa. This is part of the ongoing efforts to harmonize commercial laws more broadly within the context of the East Africa Protocol on Common Market.

Doing Business studies the time, cost and outcomes of bankruptcy proceedings involving domestic entities. Speed, low cost and continuation of viable business operations characterize the top-performing economies. In these economies viable businesses are more likely to be sold or reorganized as a going concern rather than liquidated through piecemeal sales. Economies with efficient insolvency regimes achieve higher recovery rates than those without such systems (figure 11.1). *Doing Business* does not measure bankruptcy proceedings of individuals and financial institutions.

WHAT ARE THE TRENDS?

MIXED PRACTICE IN EAST AFRICA

Sub-Saharan Africa has the largest share of economies without an efficient way of dealing with insolvent firms. Twelve of the region's 46 economies have had fewer than 5 insolvency cases annually in recent years. In some Sub-Saharan economies the law still contemplates imprisonment (contrainte par corps) as a method of debt enforcement, including for the act of 'bouncing' a cheque. A declaration of bankruptcy originally carried great stigma, particularly for individuals. Today the stigma of bankruptcy continues to be among the reasons that debtors in many economies in the North and Sub-Saharan Africa do not easily resort to insolvency procedures. Older laws take a much more punitive approach than newer ones. Modern bankruptcy laws focus on the survival of viable businesses and the creation of solid reorganization procedures.

To close a business in Sub-Saharan Africa costs 20.7% of the value of the debtor's estate and takes 3.4 years on average. In Tanzania, Uganda and Kenya the process to resolve insolvency takes on average 3.23 years and costs 24% (table 11.1).

ONGOING REFORM EFFORTS

Compared to other *Doing Business* topics, resolving insolvency is an area with little reform activity in recent years in Sub-Saharan Africa. Mauritius and Rwanda implemented new insolvency acts in 2009. More recently, Malawi and Swaziland improved their procedures to wind up companies and South Africa is introducing a new reorganization regime. Namibia is planning to adopt a new Company Act to streamline liquidation proceeding and to improve qualification requirements for liquidators, Malawi is planning to introduce a comprehensive new insolvency law that will apply to both corporates and sole proprietors and, in June 2010, Uganda passed a new insolvency law.

TABLE 11.1

Where is it easy to close a business and where not in East Africa?

	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Uganda	56	2.2	30.0	39.7
Kenya	85	4.5	22.0	29.8
Tanzania	113	3.0	22.0	21.9
Burundi	NO PRACTICE			0.0
Rwanda	NO PRACTICE			0.0

Note: Rankings are based on the recovery rate: how many cents on the dollar creditors recover from an insolvent firm. See *Doing Business* website for details.
Source: Doing Business database.

WHAT HAS WORKED?

Many features can enhance a bankruptcy system. Key is the mechanism for creditor coordination, qualified insolvency administrators and a framework that enables parties to negotiate out of court. An efficient judicial process is also critical.

EMPOWERING CREDITORS

Creditors' committees ensure control for the creditors over bankruptcy proceedings. They supervise the operation of a business by a debtor-in-possession and sometimes participate in the preparation of a reorganization plan. Alternatively, many countries prefer not to leave the debtor in possession and, instead, provide for the appointment of an administrator (often with significant input from creditors) over the business.

More than half the 183 economies covered by *Doing Business* recognize creditors' committees. Almost all insolvency laws in OECD high-income economies acknowledge a creditors' committee as a participant in bankruptcy proceedings. In North Africa, by contrast, creditors' committees are not popular. In Sub-Saharan Africa 69% of the surveyed economies allow creditors' committees a say in insolvency proceedings.

INSISTING ON QUALIFICATIONS

Professional insolvency administrators assist and sometimes replace the management of an insolvent company. Their tasks normally include registering all the creditors' claims, assessing and administering the company's assets (on their own or with the debtor's management or creditors' committees), recovering assets disposed of shortly before the insolvency and liquidating a bankrupt estate. National laws vary in their approaches to determining whether insolvency administrators are qualified for these tasks. The insolvency regulations of most of the surveyed economies in Sub-Saharan Africa contain no requirements for insolvency administrators.

Mandatory qualification requirements are based on the notion that where qualified insolvency professionals are involved, viable businesses should have higher chances of survival and nonviable ones should generate higher proceeds in liquidation. Where the law has no requirements, the insolvency administrator is generally a trusted representative of the creditors or a person deemed by a court to be up to the job.

BOX 11.1

Bankruptcy reforms in East Africa

Burundi and Rwanda have recently increased reform efforts. In 2007, Burundi adopted its first bankruptcy law since independence in 1962. The National Assembly adopted two laws on bankruptcy and on judicial concordat of enterprises in distress. The main features of the 2007 law are the following:

- Gives commercial courts jurisdiction over bankruptcy
- Sets more detailed guidelines for the administrator and trustees
- Sets time limits for dismissing the manager, registering creditors' claims, giving notice, closing creditors' claims, filing appeals, appointing trustees, deciding on whether to assume or reject contracts and calling the creditors' assembly
- Grants judges the power to convene a creditors' assembly under any circumstances
- Requires the submission of regular reports on the status of each bankruptcy
- Allows liquidation to proceed upon appeal
- Clarifies procedural rules concerning the creditors' assembly
- Clarifies penalties for bankrupt debtors

Burundi recently amended its Commercial Code to establish foreclosure procedures, including the seizure of personal property, seizure of claims, and seizure of shareholder rights and securities.

In May 2009 Rwanda improved the process of dealing with distressed companies with a new law to streamline reorganization procedures and allow for the possibility of distressed firms to remain viable. The law also sets clear time limits on insolvency procedures and regulates the bankruptcy administrators' profession. In August 2009, the Rwandan Registrar General introduced regulations to implement the insolvency law, including provisions on the activities of insolvency administrators.

Source: Doing Business database.

PROMOTING OUT-OF-COURT WORKOUTS

Out-of-court workouts are most common in OECD high-income economies. In Sub-Saharan Africa only 22% of the surveyed economies have rules on out-of-court settlement for bankruptcy. Where there are no explicit rules, creditors and debtors can usually negotiate the restructuring of debt by using the generally applicable laws on contracts and obligations. The disadvantage of such agreements is that other creditors who did not participate in the settlement negotiations cannot oppose the deal or become party to the ultimate agreement.

KEEPING ABUSE IN CHECK

Debtors filing for reorganization often do so because once a court accepts the case, it usually puts the enforcement of claims of individual creditors on hold. This allows management and shareholders to gain time, often for legitimate reasons but sometimes to tunnel valuable assets out of the company. Moreover, debtors may threaten to file for reorganization and use this threat as leverage in restructuring negotiations with creditors.

Creditors too can use the threat to file for bankruptcy, to force their terms on debtors. In many economies banks and companies prefer to avoid doing business with a bankrupt firm, so a debtor will go to great lengths to try to avoid bankruptcy. Where the law establishes criminal liability of managers and shareholders for the company's simple failure to repay regular commercial debt, this often leads to abuse by creditors. This happens in some Sub-Saharan African economies and North

Africa. A more reasonable option is for the law to establish managers' personal liability for failure to file for insolvency when mandated by law or criminal liability only for engaging in fraudulent transactions.

Thus to avoid abuse of well-intended provisions, the law should always include a system of checks and balances—such as liability for frivolous filings or robust practices for bringing assets tunneled out of a debtor's business back into the estate.

WHAT ARE SOME RESULTS?

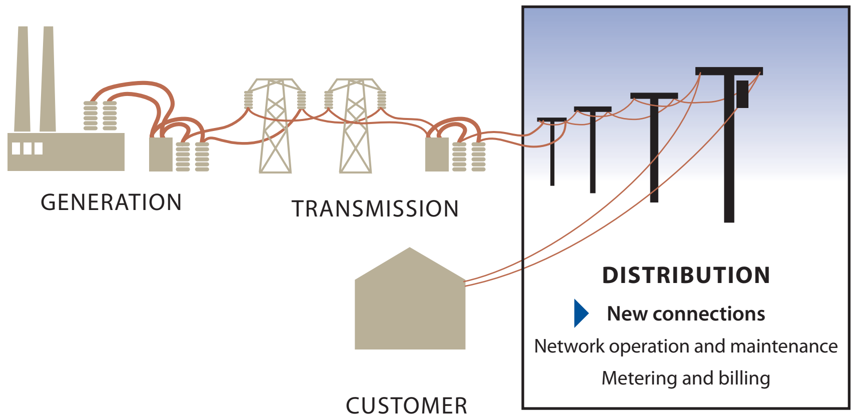
The efficiency of bankruptcy systems can be tested only if they are used. After Korea adopted the 2006 Debtor Rehabilitation and Bankruptcy Act introducing debtor-in-possession reorganization and allowing management to remain onboard to administer the company's turnaround, the number of reorganization filings jumped from 76 in 2006 to 670 in 2009.

A reform of bankruptcy laws can lead to important time and cost savings. In 2009 Spain raised the ceiling for its expedited bankruptcy procedure from a debt value of €1 million to €10 million. As a result, about 70% of bankruptcy proceedings in Spain are now eligible for the expedited procedure. This procedure is less costly than the regular one because it requires appointing only 1 insolvency administrator (rather than 3). The changes are expected to reduce the backlog in insolvency courts, which may also result in shorter proceedings.

1. Dewaelheyns and Van Hulle (2009b).
2. Armour and Cumming (2008).
3. Uttamchandani and Menezes (2010).

Annex 1: Getting electricity

FIGURE 12.1
***Getting Electricity* measures the connection process at the level of distribution utilities**



A young entrepreneur who manufactures home furnishings in Kigobe is working hard to expand her business by setting up a new warehouse. She negotiated financing with the bank, spent weeks getting building and operating permits and invested in new machinery as well as a new building. She has employees lined up and is ready to get started. But the young entrepreneur will have to wait. She needs to obtain a new electricity connection for the warehouse, and in Kigobe that requires several interactions with the utility, takes 6 months on average and costs more than 300 times the income per capita.

Compare the experience of a similar entrepreneur in Mauritius, constructing a warehouse in Pailles in Port Louis. His warehouse is hooked up to electricity in about two months. The process involves just 3 interactions with the utility and costs about twice the income per capita.

World Bank Enterprise Surveys in 108 economies show that firms consider electricity to be among the biggest constraints to their business.[1] Poor electricity supply has adverse effects on firms' productivity and the investments they make in their productive capacity.[2] To counter weak electricity supply, many firms in developing economies have to rely on self-supply through a generator.[3] The cost of self-supply is often prohibitively high, especially for small firms,[4] underlining the importance of utilities' providing reliable and affordable electricity to businesses.

Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection. It is this first and key step that *Doing Business* aims to measure through a new set of indicators. Introduced in *Doing Business 2010* with data for an initial 140 economies, these indicators measure the procedures, time and cost for obtaining a new electricity connection. The *Getting Electricity* data set covers only a small part of electricity service (figure 12.1). Yet it provides information on a number of issues for which data previously did not exist for such a large number of economies.

WHERE ARE CONNECTION PROCESSES LONG AND CUMBERSOME IN EAST AFRICA — AND WHY?

In East Africa it takes on average 116 days, 24,000 USD and 4 procedures to get a new electricity connection for a warehouse. Expressed as percentage of income per capita, cost in East Africa are among the highest in the world. The high cost are due to the fact that dedicated distribution transformers have to be purchased and installed for the type of connection surveyed in *Getting Electricity.* It takes only 30 days in Rwanda[5] to obtain an electricity connection, while it takes up to 6 months in the remaining East African economies. The long delays, in particular in Kenya and Burundi can be attributed to the time needed to import transformers needed for the connection and that are usually not readily available at the utility. In addition, in Kenya the wait time for the external inspection after the customer has submitted the application takes on average 45 days. After the site visit, the customer has to wait another two weeks for the estimate. This delays the process further, which results in one of the longest connection times in East Africa.

Connection delays increase and customers are burdened with additional procedures where utilities miss opportunities to streamline approvals with other public agencies. Utilities often shift the administrative hassle to their customers where other public agencies are slow. Among the procedures most commonly transferred to customers is applying to the municipality or the department of roads or transport for an excavation permit or right of way so that the utility can lay the cables or extend wires for the connection. This is not the case in Uganda, Tanzania and Rwanda. These East African economies have in common that excavation permits or right of way are obtained by the utility and the customer is not involved. In Rwanda for example, the authorization for digging the road is necessary and obtained by the utility from RURA, the regulatory agency, which can take up to one week.

Overall, Rwanda is the fastest economy in obtaining a new electricity connection in East Africa. It takes four procedures like in the other economies,

TABLE 12.1
Who makes getting electricity easy—and who does not?

Procedures *(number)*	
Burundi	4
Kenya	4
Rwanda	4
Tanzania	4
Uganda	5
Time *(days)*	
Rwanda	30
Uganda	91
Tanzania	109
Kenya	163
Burundi	188
Cost *(% of income per capita)*	
Tanzania	265
Kenya	1,450
Rwanda	5,500
Uganda	5,800
Burundi	36,700

Source: Doing Business database.

yet the waiting time for the estimate and inspections is shorter than in other economies. After approval of the application by the technical department of the utility, the customer has to pay a fee at the utility Reco&Rwasco and arrange an appointment with technical experts from the utility. Usually, the technicians will be available to visit the property within 24 to 48 hours after payment, however the customer needs to pick them up at the utility and takes them to the property for the external inspection of the site. The utility is in charge of the external connection works; however the utility outsources the works to private companies and external works can be done in about two weeks (table 12.1).

DIFFERENT WAYS TO DEAL WITH SAFETY CONCERNS

The safety of internal wiring installations is a concern not only for those using a building but also for utilities. One customer's faulty internal wiring can lead to power outages affecting other customers connected to the same distribution line. Because the quality of the internal installation matters to utilities and the public alike, in most economies customers seeking a connection for their business need to go through some procedure to ensure that quality.

The approach taken to address safety issues varies. Some economies regulate the electrical profession by establishing clear liability arrangements for electrical contractors. Others regulate the connection process by requiring customers to obtain additional inspections and certifications from the utility or outside agencies before a new connection is granted. While different approaches to dealing with the safety of internal wiring installations can make sense in different environments, some cases emerging from the *Getting Electricity* data clearly suggest room for immediate improvement. Because electrical safety is a public concern, governments that require no checks of electrical installations may fail to provide an important public good.

In East Africa, there is a mixed picture. For example, in Burundi no checks of the internal wiring are required and the customer carries the responsibility for the safety of his warehouse. In Rwanda, there are no checks of the internal wiring in practice as well. On the other end there is Uganda where multiple checks of the internal wiring are required. The customer has to obtain an internal wiring clearance from an electrician who is in possession of an electrical permit from the Electricity Regulatory Authority (ERA) and submit it with the application. The wiring certificate confirms that all wiring has been done according to the standards on internal wiring established by the regulator. In addition, the utility conducts an inspection of the internal wiring. The customer has to pay the fee for the inspection at the utility and await the inspection. The whole process takes 30 days. In Tanzania, the utility carries out an inspection of the internal wiring before the final connection to electricity. In Kenya the electrical contractor of the customer simply has to submit a notification to the utility that the internal wiring was done in accordance with the prevailing standards.

Where professional standards are poorly established or qualified electrical professionals are in short supply, utilities or designated agencies may be better placed to carry out inspections that ensure the safety of customers, even if this leads to connection delays. Economies seeking to shift from regulating the connection process to regulating the electrical profession have to be careful not to transfer responsibility to private professionals too early. Take the experience in South Africa.[6] In 1992, in an attempt to free utilities from the burden of inspecting internal wiring, the government made private electricians liable for the quality of their wiring installations. But the shortage of qualified electrical professionals, and the ambiguity of the regulations in assigning responsibilities, led to an increase in customer complaints about substandard wiring. After 8 years of heated debate the government introduced new internal wiring regulations in May 2009, clarifying standards for electrical installations and the issuance of compliance certificates and introducing no mandatory inspections by a new independent authority. The government is also working to reduce the shortage of skilled electricians in the country.

MATERIAL SHORTAGES

Connecting a new customer to an electricity network requires materials and equipment. If the new connection is through an overhead line, wires must be extended; if it is through an underground connection, cables must be laid. Often the utility will also have to install meters, new electricity poles and heavy equipment such as distribution transformers. Requirements for materials not only translate into costs; they also can lead to longer wait times.

Utilities, especially those in low- and lower-middle-income economies, often have to delay new connections because they lack the materials needed. In East Africa, survey respondents reported additional wait times – up to 60 days in Kenya and up to one year in Tanzania until 2009 —because in more than 50% of cases where new connections were requested, the utility did not have such critical materials as meters or distribution transformers in stock and had to order them specially. This suggests that the utility faces either financial or inventory and procurement management constraints. In Tanzania, the wait time decreased due to a change in procurement policy to now purchase material in bulks.

Utilities can ask customers to provide such materials as poles, meter boxes or transformers when they do not have them in stock. Requiring individual customers to purchase materials is not a cost-effective way to maintain a distribution network. But customers are often happy to comply. In Malawi customers purchasing the materials themselves reduced the time required for obtaining a connection from 3 years to 8 months on average. In Burundi customers opt to purchase transformers themselves since most of the time the utility does not have the required material in stock. Still, it takes 4 to 5 months for the customer to obtain the transformer which has to be imported from abroad. In Rwanda, the utility encourages the customer to purchase the transformer himself and it takes only a few weeks to obtain it.

WHAT DOES IT COST TO GET CONNECTED?

Building and maintaining a distribution network and connecting customers to electricity involve significant fixed costs. Where electricity connections are less common, these fixed costs are spread over fewer customers, driving up individual connection costs. So it is not surprising that connection costs for small and medium-size businesses are significantly higher in economies where electrification rates are low.[7]

LIMITED NETWORK CAPACITY, HIGHER COST

The same electricity need can require different connection works, depending on how constrained installed capacity is. In some economies the Getting Electricity customer requesting a not trivial but still relatively modest 140-kilovolt-ampere (kVA) connection would simply receive an overhead line or underground cable connection.[8] But in many others the capacity of the existing network is constrained, and 140-kVA electricity therefore requires a more complicated connection effectively leading to an expansion of the distribution network. Such connections require significant capital investments (such as the installation of distribution transformers), often covered by the new customer.

Accommodating the demand of the *Getting Electricity* customer is naturally more likely to require additional capital investment in low-income economies, where the installed electrical capacity tends to be more constrained—driving up absolute connection costs for new customers.

This is true for the economies in East Africa as well. Connection costs in most of these economies are high because high prices are paid for the material, which often has to be imported, building the substation or the pole and for installing the transformer and the necessary equipment in the substation. Burundi is among the ten economies with the highest connection cost in Sub-Saharan Africa. The customer pays the actual cost for reinforcing the network for the requested connection. In Uganda and Rwanda, additional transformers are needed as well; however the customer pays only about half the cost for a connection than in Burundi.

TRANSPARENCY AND ACCOUNTABILITY MATTER

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

But connection costs in many of the economies surveyed are not fully transparent. Utilities far too often present customers with individual budgets rather than follow clearly regulated capital contribution policies aimed at spreading the fixed costs of expanding the network over several customers. To illustrate, *Getting Electricity* divides costs into 2 main categories: a fixed connection fee based on a clear formula (often linked to the peak electricity demand of the customer to be connected), which is usually publicly available; and the variable costs for the connection, accounting for the labor, material and inspections required.[9]

The variable costs represent a bigger share in Sub-Saharan Africa and in Latin America and the Caribbean than in other regions. Also, fixed connection fee represents a far bigger share of the total cost in high-income economies than in low- and middle-income economies. Where the share of the fixed costs is higher, connection costs also tend to be lower. This suggests a potential for lowering connection costs by improving the transparency of the costs and strengthening the accountability of utilities.

Few utilities in Sub-Saharan Africa provide transparent cost structures to customers. Notable exceptions are Kenya and Tanzania. However, in Tanzania additional variable cost for transformer and material can occur as well. In Kenya, connection costs include capital contribution charges for network reinforcement for up to 600 meters of connection length. Capital contribution policies can be a good way to enhance transparency of connection cost. See the example of Trinidad and Tobago. The utility clarified connection costs through a new capital contribution policy that took effect in August 2009. Before, connection cost were calculated case by case—like in most economies in East Africa—making it difficult for customers to assess whether they were charged too much or not. Now the utility bears the connection costs, and then distributes them across all customers through clearly regulated consumption tariffs.

WHO MADE GETTING ELECTRICITY EASIER IN 2009/10?

Reforms making it easier to get an electricity connection are complex—often involving such stakeholders as regulatory agencies and other public service providers—and take time to implement.

Several utilities around the world cut connection times by streamlining internal procedures. In East Africa, Tanzania undertook such efforts. In Tanzania, the regulatory agency EWURA approved the Customers Service Charter on 26 August 2009 and it is in force since 1 February 2010. The Customers Service Charter stipulates that if a customer is not connected as per the stipulated time frame, the utility pays 0.5% daily interest but not exceeding 50% of the total connection costs. This new regulation helped decreasing the connection time. In addition, various internal processes were streamlined. For example, previously an application form had to be signed by 5 people but now it is signed by only two people which reduced the waiting time. Overall, changing procurement practices for materials and making application procedures faster cut wait times at the utility in Tanzania by 9 months. Outsourcing parts of the connection process to private companies can increase efficiency and reduce connection time. In East Africa, the utility in Uganda began outsourcing external connection works to registered construction firms, cutting connection times by 60 days.

1. According to the survey data, which cover the years 2006–09, 15.2% of managers consider electricity the most serious constraint, while 15.68% consider access to finance the most serious (http://www.enterprisesurveys.org).
2. See, for example, Calderon and Servén (2003), Dollar, Hallward-Driemeier and Mengistae (2005), Reinikka and Svensson (1999) and Eifert (2007). Using firm-level data, Iimi (2008) finds that in Eastern Europe and Central Asia eliminating electricity outages could increase GDP by 0.5–6%.
3. Foster and Steinbuks (2009).
4. Lee, Anas and Oh (1996).
5. Rwanda however has only an electrification rate of 8%, while Kenya and Tanzania have an electrification rate of 29% and 14% respectively; the installed capacity for Rwanda, Kenya and Tanzania are 84 MW, 1,513 MW and 1,095 MW respectively (Castalia, 2011a and 2011b, KPLC 2011and World Bank, 2011).
6. Srinivasan and Turlakova (2010).
7. Geginat and Ramalho (2010).
8. By comparison, the demand of a residential connection is about 20kVA.
9. Detailed information on cost components for each economy can be found on the *Doing Business* website (http://www.doingbusiness.org).

Annex 2: Employing workers

Maintaining and creating productive jobs and businesses is a priority for economies recovering from the crisis. As the International Labour Organization's (ILO) Decent Work Agenda acknowledges, work plays a central part in people's lives[1], providing economic and social opportunities. When the World Bank study *Voices of the Poor* asked 60,000 poor people around the world how they thought they might escape poverty, the majority of men and women pinned their hopes above all on income from their own business or wages earned in employment.[2] Smart employment regulation, which enhances job security and improves productivity through employer-worker cooperation, means that both workers and firms benefit.[3]

Good labor regulation promotes new businesses and can help shift workers to the formal sector, where they will benefit the most from worker protection and where higher productivity boosts economic growth.[4] By contrast, labor market restrictions can be an obstacle to the development of businesses, which is consistently apparent in surveys of entrepreneurs in more than 80 countries.[5] Moreover, strict labor rules and policies that increase the cost of formality are considered one of the main contributors to the persistence and growth of the informal sector in low-income economies, where it accounts for an estimated 30–70% of the workforce.[6] Workers often become caught in the "informality trap": those who do not leave the informal sector soon enough may find themselves remaining there for a long time.[7] As a result, in developing economies excessively rigid employment rules can end up providing a relatively high standard of protection to a few workers in the formal sector—but minimal protection or none at all for the majority of workers, employed in the informal sector.[8] Workers in the informal sector are twice as likely to become unemployed as those in the formal sector.[9]

Creating productive jobs in the formal sector is key. So is shielding workers from abusive or arbitrary treatment. Where labor rules do not exist, or where the rules are too flexible and fail to offer sufficient protection, workers are at risk of abusive work conditions—such as working long hours without rest periods. When employers are hit by difficult times and economic redundancy becomes inevitable, lack of sufficient severance pay or unemployment benefits can also leave workers in precarious conditions.

Evidence suggests that unemployment benefits can have a strong effect in reducing poverty. Lack of access to insurance among poor rural households pushes them to take up low-risk activities with lower returns. This reduces their income potential—by 25% in rural Tanzania and by 50% in a sample of rural villages in India, according to a recent study.[11] Mauritius took such considerations into account when it implemented a new labor law in 2008 aimed at balancing flexibility and worker protection. As part of the unemployment protection scheme, the law introduced a recycling fee—a lump sum payment from a national savings fund account to which employers contribute over time—rather than severance pay in the case of justified economic redundancies. Economies achieve this balance in different ways, depending in part on their organizational and financial means. Some establish a centralized system of government payments. Others mandate direct payments from employers.

CHANGES IN METHODOLOGY

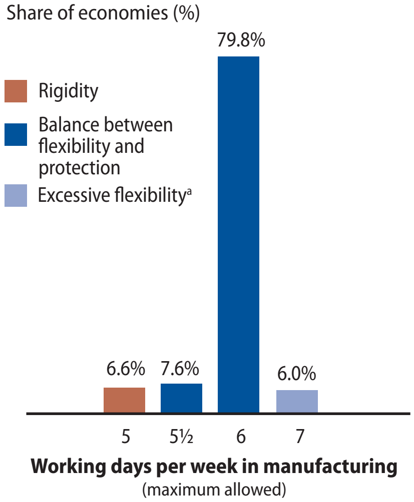
Doing Business, in its indicators on employing workers, measures flexibility in the regulation of hiring, working hours and redundancy in a manner consistent with the ILO conventions. Changes in the methodology for these indicators have been made in the past 3 years so as to ensure consistency with relevant ILO conventions and to avoid scoring that rewards economies for flexibility that comes at the cost of a basic level of social protection (including unemployment protection). In *Doing Business 2010*, for example, the indicators started taking into account the existence of unemployment protection schemes in cases of redundancy dismissal where workers receive less than 8 weeks of severance pay.

Further changes have been made to take into account the need for a balance between worker protection and flexibility in employment regulation, which favors job creation. Over the past year a consultative group—including labor lawyers, employer and employee representatives and experts from the ILO, the OECD, civil society and the private sector—has been meeting to review the methodology as well as to suggest future areas of research. Because this consultation is not yet complete, this year's report does not rank economies on the employing workers indicators or include the indicators in the aggregate ranking on the ease of doing business.

The consultative process has informed several changes in the methodology for the employing workers indicators, some of which have been implemented in this year's report. New thresholds have been introduced to recognize minimum levels of protection in line with relevant ILO conventions. This provides a framework for balancing worker protection against employment restrictions in the areas measured by the indicators.

Four main aspects are affected by the changes in methodology: the minimum wage, paid annual leave, the maximum number of working days per week and the tenure of the worker in the case study.

FIGURE 13.1
Most economies balance flexibility and protection in the length of the workweek



a. Accords with ILO Convention 14.
Source: Doing Business database.

For the minimum wage, an economy would receive a score indicating excessive flexibility if it has no minimum wage or the mechanisms that establish the minimum wage are ineffective, or if it has a minimum wage but the minimum wage is customary or applied only to the public sector. For paid annual leave there is now a minimum threshold of 15 working days below which scoring would indicate excessive flexibility. For paid annual leave above 26 working days, scoring would indicate excessive rigidity. For paid annual leave between 22 and 26 working days, an intermediate score would be assigned indicating semirigidity. For the number of working days per week there is now a maximum of 6 above which scoring would reflect excessive flexibility.

The change in the worker's tenure affects the measurements of annual leave, notice period and severance pay. Before, all these related to a worker with 20 years of tenure. Now they relate to the average for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years (see the *Doing Business* website for a full description).

For working days per week, for example, the new methodology is in accord with ILO Convention 14, which states that every worker "shall enjoy in every period of seven days a period of rest comprising at least twenty-four consecutive hours." Under the new methodology economies requiring less than 1 day (24 hours) of rest time a week receive a lower score, indicating excessive flexibility. Economies achieve the highest score by striking a balance between flexibility and worker protection. (figure 13.1). For a discussion of the results of some of the other changes in methodology, see the section in this chapter on emerging patterns.

WHO REFORMED LABOR REGULATIONS IN 2009/10?

Governments have continued to respond to the global economic crisis with short-term, emergency legislation aimed at mitigating its adverse effects. Some have focused on combating unemployment by attempting to help businesses adjust and recover, others on increasing assistance for those already unemployed. Spain now exempts a portion of severance payments from taxation. Romania exempts employers that hire previously unemployed workers from paying the workers' social insurance contributions for 6 months. Poland and Serbia have adopted legislative measures allowing employers to respond to a decline in work volume by reducing their workers' hours or placing workers on temporary leave with reduced pay. Eleven economies made changes to their labor regulations in 2009/10 that affect the employing workers indicators.

Australia passed the Fair Work Act in 2009 and National Employment Standards in 2010. These led to significant changes, including the introduction of a severance pay requirement when before there had been none. Now workers in manufacturing are entitled to up to 12 weeks of severance pay, depending on the length of their tenure. In addition, an employer must look into the feasibility of reassigning an employee to another position before considering redundancy. Annual leave requirements changed from 20 working days (4 weeks for a worker with a 5-day workweek) to 4 weeks for a nonshift worker and 5 for a shift worker.

Estonia adopted a new Employment Contracts Act in 2009. Under the new law there are no priority rules for rehiring. Collective dismissals meeting threshold numbers trigger requirements for notification of and consultation with employee representatives and government authorities. Notice periods were reduced to a range of 15–90 calendar days, depending on an employee's seniority, and severance payments to 1 month's wages. But now an unemployment insurance fund disburses an additional 1–3 months' wages, a solution that balances flexibility and worker protection.

Poland, which previously had no restriction on the maximum duration of fixed-term contracts, introduced a limit of 24 months. The Slovak Republic reduced its limit from 36 months to 24.

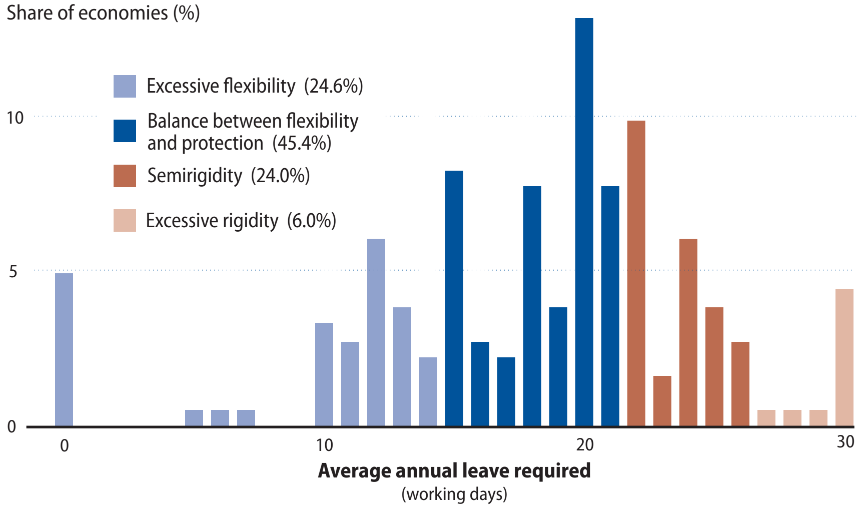
Spain passed a royal decree-law to urgently implement several changes. One measure reduced the notice period for redundancy dismissal for workers with all lengths of tenure from 30 calendar days to 15.

Zimbabwe lowered its severance pay requirements. When the country converted its wages into U.S. dollars in response to hyperinflation, it also converted severance pay amounts. As a result, common law practices shifted. Retrenchment boards now grant 2–4 months' wages as severance rather than 4–6 months' wages.

WHAT PATTERNS ARE EMERGING?

Since its inception *Doing Business* has been collecting increasingly detailed information on labor regulation as a basis for the employing workers indicators.[12] The employing workers data set has expanded over the years. The following additional data are presented in this year's report or on the *Doing Business* website: the generally applicable minimum wage as well as any minimum wage applying to a 19-year-old worker, or an apprentice, in the manufacturing sector; the maximum duration for a single fixed-term contract; and provisions relating to the work schedule, such as the length of a standard workday, the limit on overtime both in normal and in exceptional circumstances, the minimum number of rest hours between working days required by law and premiums for overtime work,

FIGURE 13.2
Almost half of economies balance flexibility and protection in annual leave
Share of economies (%)



Note: The designation *excessive flexibility* accords with ILO Convention 132. Annual leave is the average for 1, 5 and 10 years of tenure.
Source: Doing Business database.

night work and weekly holiday work.

Doing Business also gathered new information on regulations according to length of job tenure (9 months, 1 year, 5 years and 10 years). Some aspects measured by the employing workers indicators—such as paid annual leave, notice period and severance payment—can vary with different tenures. And while the indicators previously considered a worker with 20 years of tenure, this length of tenure may not be typical for small and medium-size businesses in many economies.

The data *Doing Business* has gathered on employment and labor laws and regulations point to global and regional patterns in how the 183 economies it covers regulate the conditions on which firms employ workers. These data can also be used to assess how regulation balances worker protection and employment flexibility.

FIXED OR PROPORTIONAL REDUNDANCY COSTS

In cases of redundancy dismissal, how do severance pay and notice period requirements vary for workers with different tenures? Eleven economies require no severance payment or notice period, which together make up the redundancy cost (expressed in weeks of wages). Among the rest, economies take 2 broad approaches: they set the same requirements for workers with different tenures, or they set requirements proportional to a worker's tenure).

Thirty-one economies take a fixed-cost approach. In Montenegro, for example, the redundancy cost is 28.1 weeks of wages whether the worker has 1, 5, 10 or 20 years of service. Six economies follow a proportional approach. One is the Islamic Republic of Iran, where workers are granted severance pay equal to 1 month's salary for each year worked.

The majority, 117 economies, fall between these 2 approaches. In these economies the redundancy cost is proportionally higher at the beginning of the worker's service. In most, this is because of a fixed notice period and a severance payment proportional to the worker's tenure. Cape Verde, where the severance payment is 1 month's wages for each year of work, is an example. In other economies the notice period is fixed but the severance payment is proportionally higher at the beginning of the worker's tenure. In Thailand, for example, a worker with 5 years of tenure is given 180 days of severance pay while a worker with 20 years is given 300.

In 18 economies governments adopt yet another approach, which results in redundancy costs being proportionally higher toward the end of service. This is the case in Paraguay, where workers with 5 years of tenure are granted 75 calendar days of severance pay while those with 20 years receive 600.

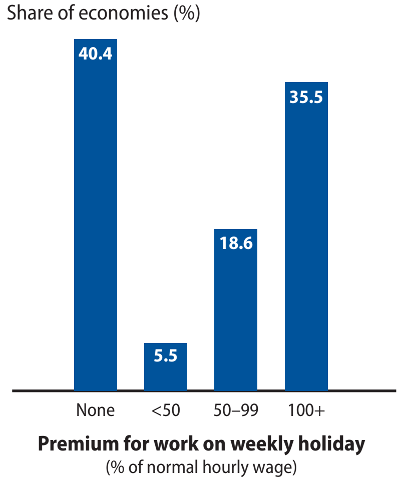
BALANCING PROTECTION AND FLEXIBILITY IN ANNUAL LEAVE

Previously, the employing workers indicators scored economies on the basis of excessive rigidity in the number of days of annual leave. Now the data also highlight excessive flexibility—a change that reflects input from the consultative process. To illustrate, economies are divided into 4 groups based on average mandatory paid annual leave (figure 13.2). The first group consists of 43 economies that on the basis of ILO Convention 132 can be considered to have excessive flexibility, with average paid annual leave of less than 15 working days. The second group, 85 economies, shows a balance between flexibility and worker protection, with average paid annual leave of between 15 and 21 working days. The third group is formed of 44 economies that can be considered to have semirigid regulations, with average paid annual leave of between 22 and 26 working days. The 11 economies in the last group have the most rigid regulations, requiring more than 26 working days of paid annual leave for workers.

VARYING PREMIUMS FOR WEEKLY HOLIDAY WORK

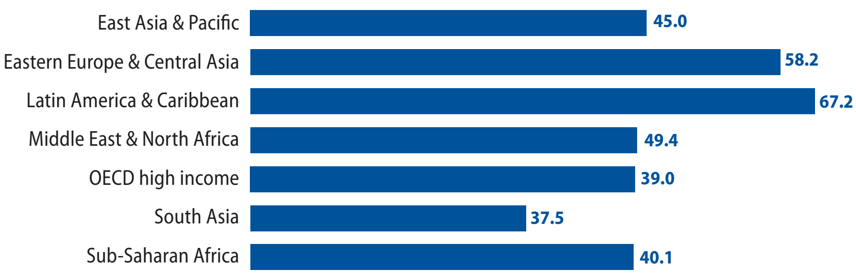
Economies also vary in the premium they require for work performed on the weekly holiday, with 74 economies requiring no premium. The most common holiday work

FIGURE 13.3
The most common premium for work done on the weekly holiday is 100%
Share of economies (%)



Source: Doing Business database.

FIGURE 13.4
Where are premiums for working on the weekly holiday highest?
Average premium for work on weekly holiday (% of normal hourly wage)



Source: Doing Business database.

premium is 100% of the hourly pay, while the highest observed premium is 150% of the hourly pay (figure 13.3).

High-income economies have lower premiums on average than low- and middle-income economies. But there is a significant difference within this group, with non-OECD high-income economies having a lower average premium than OECD high-income economies. Among regions, Latin America and the Caribbean has the highest average premium, and South Asia the lowest (figure 13.4).

LOOKING FORWARD

The employing workers indicators are changing to reflect a balance between worker protection and flexibility in employment regulation, which favors job creation. The changes are being driven by the useful engagement with stakeholders through the ongoing consultative process. Initial analysis of the impact of the changes to the indicators illustrates how economies tend to regulate the employment of workers and which regulations are excessively rigid, excessively flexible or balanced between the them. Further analysis of the data collected will provide a deeper understanding of labor regulation and the patterns that emerge globally.

Following is some of the information collected for the employing workers data set across 183 economies. The complete data set is available on the *Doing Business* website.

1. ILO, "Decent Work FAQ: Making Decent Work a Global Goal," accessed June 23, 2010, http://www.ilo.org/.
2. Narayan and others (2000).
3. Pierre and Scarpetta (2007).
4. La Porta and Shleifer (2008).
5. World Business Environment Surveys and Investment Climate Surveys, conducted in more than 80 countries by the World Bank in 1999–2000.
6. Bosch and Esteban-Pretel (2009).
7. Masatlioglu and Rigolini (2008).
8. Pierre and Scarpetta (2007).
9. Duryea and others (2006).
10. Vodopivec (2009).
11. Pierre and Scarpetta (2007) citing Rosenzweig and Binswanger (1993).
12. Detailed data are available for 183 economies on the *Doing Business* website (http://www.doingbusiness.org).

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Afghanistan	No	NO LIMIT	0.0	0.00	Yes	5.6	25	50	No	No	20.0	Yes	Yes	No	Yes	Yes	No	No	Yes	4.3	17.3
Albania	Yes	NO LIMIT	201.3	0.41	Yes	6.0	50	25	Yes	No	20.0	Yes	No	No	No	No	No	No	Yes	11.6	10.7
Algeria	Yes	NO LIMIT	228.1	0.42	No	6.0	0	0	No	No	22.0	Yes	Yes	No	Yes	No	Yes	Yes	No	4.3	13.0
Angola	Yes	12	122.0	0.22	Yes	6.0	25	100	Yes	Yes	22.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	4.3	10.7
Antigua and Barbuda	No	NO LIMIT	576.5	0.36	Yes	6.0	0	0	No	No	12.0	Yes	No	No	No	No	Yes	Yes	No	3.4	12.8
Argentina	Yes	60	447.6	0.45	Yes	6.0	13	50	No	No	18.0	Yes	No	No	No	No	No	No	No	7.2	23.1
Armenia	Yes	60	88.3	0.23	Yes	6.0	150	100	No	No	20.0	Yes	No	No	No	No	Yes	No	No	8.7	4.3
Australia	No	NO LIMIT	1,291.1	0.24	Yes	7.0	0	0	No	No	20.0	Yes	No	No	No	No	Yes	No	No	4.0	8.7
Austria	No	NO LIMIT	716.3	0.12	Yes	5.5	17	100	No	No	25.0	Yes	Yes	No	Yes	No	No	Yes	Yes	2.0	0.0
Azerbaijan	No	60	98.6	0.17	Yes	6.0	40	150	Yes	No	17.0	Yes	No	No	No	No	No	Yes	No	8.7	13.0
Bahamas, The	No	NO LIMIT	693.3	0.24	Yes	5.5	0	0	No	No	11.7	Yes	Yes	No	Yes	No	No	Yes	Yes	0.0	10.7
Bahrain	No	NO LIMIT	0.0	0.00	Yes	6.0	50	0	No	No	18.3	Yes	No	No	No	No	No	No	No	4.3	0.0
Bangladesh	Yes	NO LIMIT	23.2	0.30	Yes	6.0	0	0	No	No	17.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.3	26.7
Belarus	No	NO LIMIT	102.7	0.16	Yes	6.0	20	100	No	No	18.0	Yes	No	No	No	No	Yes	Yes	No	8.7	13.0
Belgium	No	NO LIMIT	1,746.7	0.30	Yes	6.0	4	100	No	Yes	20.0	Yes	No	No	No	No	No	No	No	6.0	0.0
Belize	No	NO LIMIT	291.7	0.50	Yes	6.0	0	50	No	No	10.0	Yes	No	No	No	No	No	No	No	3.3	5.0
Benin	No	48	67.7	0.58	Yes	6.0	0	0	No	No	24.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.3	7.3
Bhutan	No	NO LIMIT	33.0	0.13	Yes	6.0	0	0	No	No	15.0	Yes	Yes	No	Yes	No	No	No	No	8.3	0.0
Bolivia [g]	Yes	24	88.8	0.38	Yes	6.0	30	100	No	No	21.7	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bosnia and Herzegovina	No	24	529.6	0.95	Yes	6.0	30	20	No	No	18.0	Yes	No	No	Yes	No	Yes	No	Yes	2.0	7.2
Botswana	No	NO LIMIT	110.5	0.13	Yes	6.0	0	100	No	No	15.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.9	16.8
Brazil	Yes	24	279.3	0.28	Yes	6.0	20	100	Yes	No	26.0	Yes	No	No	No	No	No	No	No	4.3	8.9
Brunei Darussalam	No	NO LIMIT	0.0	0.00	Yes	6.0	0	50	No	No	13.3	Yes	No	No	No	No	No	No	No	3.0	0.0
Bulgaria	No	36	166.2	0.24	Yes	6.0	10	0	Yes	No	20.0	Yes	No	No	No	No	No	No	No	4.3	3.2
Burkina Faso	No	NO LIMIT	65.1	0.79	Yes	6.0	0	0	No	No	22.0	Yes	No	No	Yes	No	No	Yes	Yes	4.3	6.1
Burundi	No	NO LIMIT	3.0	0.14	Yes	6.0	30	0	No	Yes	21.0	Yes	No	No	Yes	No	No	Yes	Yes	8.7	7.2
Cambodia	No	24	41.0	0.47	Yes	6.0	30	100	No	No	19.3	Yes	No	No	Yes	No	No	Yes	Yes	7.9	10.7
Cameroon	No	48	63.3	0.36	Yes	6.0	50	0	No	No	26.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	6.5	8.1

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Canada	No	NO LIMIT	1,703.7	0.34	Yes	6.0	0	0	No	No	10.0	Yes	No	No	No	No	No	No	No	7.0	5.0
Cape Verde	Yes	60	0.0	0.00	Yes	6.0	25	100	No	No	22.0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	6.4	23.1
Central African Republic	Yes	48	39.8	0.59	Yes	5.0	0	50	No	Yes	25.3	Yes	Yes	No	Yes	Yes	No	Yes	Yes	4.3	17.3
Chad	No	48	71.9	0.71	Yes	6.0	0	100	No	No	24.7	Yes	Yes	No	Yes	No	No	Yes	Yes	7.2	5.8
Chile	No	24	0.0	0.00	Yes	6.0	0	0	No	No	15.0	Yes	Yes	No	Yes	No	No	No	No	4.3	12.0
China	No	NO LIMIT	159.9	0.38	Yes	6.0	39	100	No	No	6.7	Yes	Yes	No	Yes	No	Yes	Yes	Yes	4.3	23.1
Colombia	No	NO LIMIT	244.2	0.39	Yes	6.0	35	75	No	No	15.0	Yes	No	No	No	No	No	No	No	0.0	19.0
Comoros	No	36	64.8	0.52	Yes	6.0	0	0	No	Yes	22.0	Yes	Yes	No	Yes	No	No	Yes	Yes	13.0	23.1
Congo, Dem. Rep.	Yes	48	65.0	2.46	Yes	5.0	25	0	No	No	13.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	10.3	0.0
Congo, Rep.	Yes	24	119.7	0.44	Yes	6.0	0	50	No	Yes	29.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	4.3	6.5
Costa Rica	Yes	12	334.5	0.43	Yes	6.0	0	100	Yes	No	12.0	Yes	No	No	No	No	No	No	No	4.3	14.4
Côte d'Ivoire	No	24	0.0	0.00	No	6.0	38	0	No	No	27.4	Yes	No	No	Yes	No	No	No	Yes	5.8	7.3
Croatia	Yes	36	534.3	0.31	Yes	6.0	10	35	No	Yes	20.0	Yes	Yes	No	Yes	No	Yes	Yes	Yes	7.9	7.2
Cyprus	No	30	0.0	0.00	Yes	6.0	0	0	No	No	20.0	Yes	Yes	No	Yes	No	Yes	No	Yes	5.7	0.0
Czech Republic	No	24	427.8	0.21	Yes	6.0	10	10	No	No	20.0	Yes	No	No	No	No	No	No	No	8.7	13.0
Denmark	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	25.0	Yes	No	No	No	No	No	No	No	0.0	0.0
Djibouti	Yes	24	0.0	0.00	Yes	6.0	0	0	No	No	30.0	Yes	Yes	No	Yes	No	No	No	Yes	4.3	0.0
Dominica	No	NO LIMIT	257.2	0.40	Yes	6.0	0	100	No	No	15.0	Yes	No	No	No	No	No	Yes	Yes	5.8	9.3
Dominican Republic	Yes	NO LIMIT	226.0	0.37	Yes	6.0	0	100	No	Yes	14.0	Yes	No	No	No	No	No	No	No	4.0	22.2
Ecuador	No	24	229.7	0.43	Yes	5.0	25	100	No	No	12.3	Yes	No	No	Yes	Yes	No	Yes	Yes	4.3	31.8
Egypt, Arab Rep.	No	NO LIMIT	31.4	0.11	Yes	6.0	0	0	No	No	24.0	Yes	Yes	Yes	Yes	Yes	No	Yes	No	10.1	26.7
El Salvador	Yes	NO LIMIT	80.1	0.17	Yes	6.0	25	100	Yes	Yes	11.0	Yes	No	No	No	No	No	No	No	0.0	22.9
Equatorial Guinea	Yes	24	291.4	0.16	Yes	6.0	25	50	Yes	Yes	22.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	4.3	34.3
Eritrea	Yes	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	19.0	Yes	No	No	Yes	Yes	No	No	No	3.1	12.3
Estonia	Yes	120	393.0	0.23	Yes	5.0	25	0	Yes	No	24.0	Yes	No	No	No	No	Yes	Yes	No	8.6	4.3
Ethiopia	Yes	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	18.3	Yes	No	No	Yes	No	Yes	Yes	No	10.1	10.5
Fiji	No	NO LIMIT	290.8	0.56	Yes	6.0	6	100	No	No	10.0	Yes	Yes	No	Yes	No	No	No	No	4.3	5.3

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Finland	Yes	60	2,063.9	0.36	Yes	6.0	8	100	No	No	30.0	Yes	Yes	No	Yes	No	Yes	Yes	Yes	10.1	0.0
France	Yes	18	788.2	0.14	No	6.0	0	0	No	Yes	30.0	Yes	No	No	Yes	No	Yes	Yes	Yes	7.2	4.6
Gabon	No	48	48.2	0.05	Yes	6.0	50	100	No	No	24.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	10.4	4.3
Gambia, The	No	NO LIMIT	0.0	0.00	Yes	5.0	0	0	No	No	21.0	Yes	Yes	No	Yes	No	No	Yes	Yes	26.0	0.0
Georgia	No	NO LIMIT	25.1	0.08	Yes	7.0	0	0	No	No	24.0	Yes	No	No	No	No	No	No	No	0.0	4.3
Germany	No	24	1,139.6	0.21	Yes	6.0	13	100	No	No	24.0	Yes	Yes	No	Yes	No	Yes	Yes	No	10.0	11.6
Ghana	No	NO LIMIT	25.8	0.26	Yes	5.0	0	0	No	No	15.0	Yes	Yes	Yes	Yes	Yes	No	No	No	3.6	46.2
Greece	Yes	NO LIMIT	1,015.8	0.29	Yes	5.0	25	75	No	Yes	23.3	Yes	No	No	Yes	Yes	Yes	Yes	No	0.0	24.0
Grenada	Yes	NO LIMIT	225.3	0.31	Yes	6.0	0	0	No	No	13.3	Yes	No	No	No	No	No	No	No	7.2	5.3
Guatemala	Yes	NO LIMIT	169.8	0.41	Yes	6.0	0	50	Yes	Yes	15.0	Yes	No	No	No	No	No	No	No	0.0	27.0
Guinea	No	24	0.0	0.00	Yes	6.0	20	45	No	Yes	30.0	Yes	Yes	No	Yes	Yes	No	Yes	Yes	2.1	5.8
Guinea-Bissau	Yes	12	0.0	0.00	Yes	6.0	25	50	No	No	21.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	0.0	26.0
Guyana	No	NO LIMIT	145.0	0.45	Yes	7.0	0	100	No	No	12.0	Yes	Yes	No	Yes	No	No	No	No	4.3	12.3
Haiti	No	NO LIMIT	43.2	0.41	Yes	6.0	50	50	No	No	13.0	Yes	No	No	No	No	No	No	No	10.1	0.0
Honduras	Yes	24	259.2	0.99	Yes	6.0	25	100	Yes	No	16.7	Yes	Yes	Yes	Yes	Yes	No	No	No	7.2	23.1
Hong Kong SAR, China	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	11.3	Yes	No	No	No	No	No	No	No	4.3	1.5
Hungary	No	60	390.0	0.25	Yes	5.0	40	100	No	No	21.3	Yes	No	No	No	No	No	No	No	6.2	7.2
Iceland	No	24	1,707.7	0.32	Yes	6.0	80	80	No	No	24.0	Yes	No	No	No	No	No	No	No	10.1	0.0
India	No	NO LIMIT	24.1	0.16	Yes	6.0	0	0	No	No	15.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	4.3	11.4
Indonesia	Yes	36	105.9	0.38	Yes	6.0	0	0	No	No	12.0	Yes	Yes	Yes	Yes	Yes	Yes	No	No	0.0	34.7
Iran, Islamic Rep.	No	NO LIMIT	309.1	0.58	Yes	6.0	23	40	No	No	24.0	Yes	Yes	Yes	Yes	Yes	No	No	No	0.0	23.1
Iraq	Yes	NO LIMIT	115.5	0.35	Yes	5.0	100	50	No	No	22.0	Yes	Yes	No	Yes	No	No	No	No	0.0	0.0
Ireland	No	NO LIMIT	1,793.9	0.33	Yes	6.0	0	0	No	No	20.0	Yes	Yes	No	Yes	No	No	No	No	4.0	2.8
Israel	No	NO LIMIT	985.7	0.29	Yes	5.5	0	50	No	Yes	18.0	Yes	No	No	No	No	No	No	No	4.3	23.1
Italy	Yes	NO LIMIT	1,582.7	0.36	Yes	6.0	30	50	Yes	No	20.3	Yes	No	No	Yes	No	Yes	Yes	Yes	8.7	0.0
Jamaica	No	NO LIMIT	207.3	0.31	Yes	7.0	0	0	No	No	11.3	Yes	No	No	No	No	No	No	No	4.0	10.0
Japan	No	NO LIMIT	1,361.4	0.28	Yes	6.0	25	35	No	No	15.3	Yes	Yes	No	Yes	No	Yes	No	No	4.3	0.0
Jordan	No	NO LIMIT	201.0	0.40	Yes	6.0	0	150	No	No	18.7	Yes	Yes	Yes	Yes	Yes	No	No	Yes	4.3	0.0
Kazakhstan	No	NO LIMIT	111.6	0.14	Yes	6.0	50	100	No	No	18.0	Yes	Yes	No	Yes	No	Yes	No	No	4.3	4.3

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Kenya	No	NO LIMIT	67.4	0.57	Yes	6.0	0	0	No	No	21.0	Yes	Yes	No	Yes	No	No	Yes	No	4.3	11.4
Kiribati	No	NO LIMIT	0.0	0.00	Yes	7.0	0	0	No	No	0.0	Yes	Yes	Yes	Yes	Yes	No	No	No	4.3	0.0
Korea, Rep.	No	24	579.9	0.25	Yes	6.0	50	50	Yes	No	17.0	Yes	Yes	No	Yes	No	No	No	Yes	4.3	23.1
Kosovo	No	NO LIMIT	0.0	0.00	Yes	6.0	20	0	No	No	16.0	Yes	No	No	No	No	Yes	Yes	Yes	13.0	7.2
Kuwait	No	NO LIMIT	0.0	0.00	Yes	6.0	0	50	No	No	26.0	Yes	No	No	No	No	No	No	No	13.0	15.1
Kyrgyz Republic	Yes	60	12.2	0.11	Yes	6.0	50	100	No	No	20.0	Yes	No	No	No	No	No	No	No	4.3	13.0
Lao PDR	No	NO LIMIT	63.9	0.51	Yes	6.0	15	150	No	No	15.0	Yes	Yes	Yes	Yes	Yes	No	No	No	6.4	40.7
Latvia	Yes	36	354.4	0.24	Yes	5.5	50	0	Yes	No	20.0	Yes	Yes	No	Yes	No	Yes	Yes	No	1.0	8.7
Lebanon	No	24	317.3	0.32	Yes	6.0	0	50	No	No	15.0	Yes	No	No	Yes	No	No	Yes	Yes	8.7	0.0
Lesotho	No	NO LIMIT	93.8	0.62	Yes	6.0	0	100	Yes	No	12.0	Yes	No	No	No	No	Yes	No	No	4.3	10.7
Liberia	No	NO LIMIT	52.0	2.11	Yes	6.0	0	50	No	No	16.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.3	21.3
Lithuania	Yes	60	329.7	0.24	No	5.5	50	50	No	No	20.0	Yes	No	No	No	No	Yes	Yes	No	8.7	15.9
Luxembourg	Yes	24	2,407.2	0.26	No	5.5	15	70	No	Yes	25.0	Yes	Yes	No	Yes	No	No	No	Yes	17.3	4.3
Macedonia, FYR	No	60	169.0	0.32	Yes	6.0	35	50	Yes	No	20.0	Yes	No	No	Yes	No	No	No	No	4.3	8.7
Madagascar	Yes	24	34.0	0.47	Yes	6.0	30	40	No	No	24.0	Yes	No	No	Yes	Yes	No	Yes	Yes	3.4	8.9
Malawi	Yes	NO LIMIT	22.6	0.49	Yes	6.0	0	100	No	No	15.0	Yes	Yes	No	Yes	No	No	No	No	4.3	14.0
Malaysia	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	13.3	Yes	No	No	Yes	No	No	No	No	6.7	17.2
Maldives	No	24	0.0	0.00	Yes	6.0	0	50	No	No	30.0	Yes	No	No	No	No	No	No	No	5.8	0.0
Mali	Yes	72	14.8	0.14	Yes	6.0	0	0	No	No	22.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.3	9.3
Marshall Islands	No	NO LIMIT	0.0	0.00	Yes	7.0	0	0	No	No	0.0	Yes	No	No	No	No	No	No	No	0.0	0.0
Mauritania	No	24	83.1	0.60	Yes	6.0	100	50	Yes	No	18.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.3	6.1
Mauritius	No	NO LIMIT	156.5	0.18	Yes	6.0	0	100	No	No	22.0	Yes	Yes	No	Yes	No	No	No	No	4.3	6.3
Mexico	Yes	NO LIMIT	123.6	0.11	Yes	6.0	0	25	Yes	No	12.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	0.0	22.0
Micronesia, Fed. Sts.	No	NO LIMIT	212.7	0.68	Yes	7.0	0	0	No	No	0.0	Yes	No	No	No	No	No	No	No	0.0	0.0
Moldova	Yes	NO LIMIT	96.6	0.52	Yes	6.0	50	100	Yes	Yes	20.0	Yes	Yes	No	Yes	No	Yes	Yes	No	8.7	13.9
Mongolia	No	NO LIMIT	82.4	0.42	Yes	5.0	0	0	No	No	17.7	Yes	No	No	No	No	No	No	No	4.3	4.3
Montenegro	No	NO LIMIT	76.4	0.09	Yes	6.0	40	0	No	No	19.0	Yes	No	No	No	No	Yes	Yes	No	2.1	26.0
Morocco	Yes	12	254.1	0.72	Yes	6.0	0	0	No	Yes	19.5	Yes	No	No	Yes	Yes	Yes	Yes	Yes	7.2	13.5

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Mozambique	Yes	72	87.9	1.26	Yes	6.0	0	100	No	Yes	21.3	Yes	Yes	No	Yes	No	No	No	No	4.3	36.8
Namibia	No	NO LIMIT	0.0	0.00	Yes	6.0	6	100	No	Yes	20.0	Yes	Yes	No	Yes	No	No	No	No	4.3	5.3
Nepal	Yes	NO LIMIT	60.8	0.97	Yes	6.0	0	50	No	No	0.0	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	4.3	22.9
Netherlands	No	36	1,062.7	0.17	Yes	5.5	0	0	Yes	Yes	20.0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	8.7	0.0
New Zealand	No	NO LIMIT	1,552.3	0.45	Yes	7.0	0	0	No	No	20.0	Yes	No	No	No	No	Yes	No	No	0.0	0.0
Nicaragua	No	NO LIMIT	121.5	0.86	Yes	6.0	0	100	Yes	Yes	30.0	Yes	No	No	No	No	No	No	No	0.0	14.9
Niger	Yes	24	59.1	1.01	No	6.0	38	0	No	No	22.0	Yes	Yes	No	Yes	No	Yes	Yes	Yes	4.3	5.8
Nigeria	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	20.0	Yes	No	No	Yes	No	No	Yes	No	4.0	12.2
Norway	Yes	48	3,647.4	0.34	Yes	6.0	0	0	Yes	Yes	21.0	Yes	No	No	No	No	Yes	Yes	Yes	8.7	0.0
Oman	No	NO LIMIT	363.6	0.15	Yes	6.0	50	100	No	No	18.3	Yes	No	No	No	No	No	No	No	4.3	0.0
Pakistan	Yes	9	44.8	0.31	Yes	6.0	0	100	No	Yes	14.0	Yes	No	No	No	No	Yes	Yes	Yes	4.3	22.9
Palau	No	NO LIMIT	450.6	0.38	Yes	7.0	0	0	No	No	0.0	Yes	No	No	No	No	No	No	No	0.0	0.0
Panama	Yes	12	370.3	0.42	Yes	6.0	0	50	Yes	Yes	22.0	Yes	Yes	Yes	Yes	Yes	No	Yes	No	0.0	19.0
Papua New Guinea	No	NO LIMIT	119.8	0.70	Yes	6.0	0	0	No	No	11.0	Yes	No	No	No	No	No	No	No	3.3	9.2
Paraguay	Yes	NO LIMIT	168.6	0.54	Yes	6.0	30	100	Yes	No	20.0	Yes	Yes	Yes	Yes	Yes	No	No	Yes	7.5	18.6
Peru	Yes	60	185.8	0.34	Yes	6.0	35	100	No	No	13.0	Yes	Yes	Yes	Yes	Yes	No	No	Yes	0.0	11.4
Philippines	Yes	NO LIMIT	173.2	0.72	Yes	6.0	10	30	No	No	5.0	Yes	Yes	No	Yes	No	No	Yes	No	4.3	23.1
Poland	No	24	379.4	0.27	Yes	6.0	20	100	No	No	26.0	Yes	No	No	No	No	Yes	Yes	Yes	10.1	0.0
Portugal	Yes	72	677.9	0.26	Yes	6.0	25	100	No	Yes	22.0	Yes	Yes	No	Yes	No	Yes	Yes	Yes	7.9	26.0
Puerto Rico	No	NO LIMIT	1,256.7	0.64	Yes	7.0	0	100	No	No	15.0	Yes	No	No	No	No	No	Yes	Yes	0.0	0.0
Qatar	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	22.0	Yes	Yes	No	Yes	No	No	No	No	7.2	16.0
Romania	Yes	24	214.5	0.22	Yes	5.0	25	100	No	No	21.0	Yes	No	No	No	No	Yes	Yes	Yes	4.0	4.3
Russian Federation	Yes	60	150.8	0.14	Yes	6.0	20	100	No	No	22.0	Yes	Yes	No	Yes	No	Yes	Yes	No	8.7	8.7
Rwanda	No	NO LIMIT	17.6	0.25	Yes	6.0	0	0	No	No	19.3	Yes	No	No	No	No	No	Yes	No	4.3	8.7
Samoa	No	NO LIMIT	128.7	0.30	Yes	6.0	0	100	No	No	10.0	Yes	No	No	No	No	No	No	No	5.8	0.0
São Tomé and Principe	Yes	36	0.0	0.00	No	6.0	25	0	No	Yes	26.0	Yes	Yes	Yes	Yes	Yes	No	No	Yes	4.3	26.0
Saudi Arabia	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	No	20.7	Yes	No	No	No	No	No	No	No	4.3	15.2
Senegal	Yes	48	77.3	0.48	Yes	6.0	38	0	No	Yes	24.3	Yes	Yes	No	Yes	No	Yes	Yes	Yes	3.2	10.5

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Serbia	Yes	12	186.8	0.25	Yes	6.0	26	26	No	No	20.0	Yes	No	No	No	No	Yes	Yes	Yes	0.0	7.7
Seychelles	Yes	NO LIMIT	287.0	0.26	Yes	6.0	0	100	No	No	21.0	Yes	Yes	Yes	Yes	Yes	No	No	No	4.3	9.1
Sierra Leone	Yes	NO LIMIT	12.7	0.25	Yes	5.0	15	0	No	No	21.7	Yes	Yes	No	Yes	No	Yes	Yes	Yes	8.7	34.8
Singapore	No	NO LIMIT	0.0	0.00	Yes	6.0	0	100	No	No	10.7	Yes	No	No	No	No	No	No	No	3.0	0.0
Slovak Republic	No	24	441.2	0.24	Yes	6.0	20	0	No	No	25.0	Yes	Yes	No	Yes	No	Yes	No	No	11.6	11.6
Slovenia	Yes	24	1,036.7	0.37	Yes	6.0	30	50	No	Yes	21.0	Yes	No	No	No	No	Yes	Yes	Yes	5.7	5.7
Solomon Islands	No	NO LIMIT	96.3	0.73	Yes	6.0	0	0	No	No	15.0	Yes	Yes	No	Yes	No	No	No	No	4.3	10.7
South Africa	Yes	NO LIMIT	516.4	0.70	Yes	6.0	0	100	Yes	No	15.0	Yes	Yes	No	Yes	No	Yes	No	No	4.0	5.3
Spain	Yes	12	1,059.4	0.27	Yes	5.5	25	0	No	Yes	22.0	Yes	Yes	No	Yes	No	No	No	No	2.1	15.2
Sri Lanka	No	NO LIMIT	35.6	0.15	Yes	5.5	0	50	No	Yes	14.0	Yes	Yes	Yes	Yes	Yes	No	Yes	No	4.3	54.2
St. Kitts and Nevis	No	NO LIMIT	505.1	0.38	Yes	7.0	0	0	No	No	14.0	Yes	No	No	No	No	No	No	Yes	8.7	0.0
St. Lucia	No	NO LIMIT	0.0	0.00	Yes	6.0	0	150	No	No	21.0	Yes	No	No	No	No	No	No	No	3.7	9.7
St. Vincent and the Grenadines	No	NO LIMIT	176.0	0.27	Yes	6.0	0	0	No	No	19.3	Yes	No	No	Yes	No	No	No	Yes	4.0	10.0
Sudan	No	48	90.6	0.50	Yes	6.0	0	0	No	No	23.3	Yes	Yes	Yes	Yes	Yes	No	No	No	4.3	21.7
Suriname	No	NO LIMIT	0.0	0.00	Yes	6.0	0	100	No	No	16.0	Yes	Yes	Yes	Yes	Yes	No	No	No	0.0	8.8
Swaziland	No	NO LIMIT	85.5	0.25	Yes	5.5	0	0	No	No	11.0	Yes	No	No	Yes	No	No	Yes	No	5.9	8.7
Sweden	No	24	0.0	0.00	Yes	5.5	0	0	No	Yes	25.0	Yes	No	No	Yes	No	Yes	Yes	Yes	14.4	0.0
Switzerland	No	120	0.0	0.00	Yes	6.0	0	0	No	No	20.0	Yes	No	No	No	No	No	No	No	10.1	0.0
Syrian Arab Republic	No	60	133.7	0.41	Yes	6.0	0	100	No	Yes	19.3	Yes	Yes	Yes	Yes	Yes	No	No	No	8.7	0.0
Taiwan, China	Yes	12	525.2	0.26	Yes	6.0	0	100	No	No	12.0	Yes	Yes	No	Yes	No	Yes	No	Yes	4.3	18.8
Tajikistan	Yes	NO LIMIT	14.3	0.14	No	6.0	0	100	Yes	No	23.3	Yes	Yes	No	Yes	No	Yes	Yes	No	8.7	6.9
Tanzania	Yes	0	60.0	0.75	Yes	6.0	5	100	No	No	20.0	Yes	Yes	Yes	Yes	Yes	No	No	No	4.0	5.3
Thailand	Yes	NO LIMIT	78.9	0.18	Yes	6.0	0	0	No	No	6.0	Yes	No	No	No	No	No	No	No	4.3	31.7
Timor-Leste	Yes	NO LIMIT	0.0	0.00	Yes	6.0	0	100	No	No	12.0	Yes	Yes	Yes	Yes	Yes	No	No	No	4.3	0.0
Togo	Yes	48	60.0	0.92	Yes	6.0	38	60	No	No	30.0	Yes	Yes	No	Yes	No	No	Yes	Yes	4.3	7.3
Tonga	No	NO LIMIT	0.0	0.00	Yes	6.0	0	0	No	Yes	0.0	Yes	No	No	No	No	No	No	No	0.0	0.0
Trinidad and Tobago	No	NO LIMIT	0.0	0.00	Yes	6.0	0	100	No	No	10.0	Yes	No	No	Yes	No	No	Yes	No	6.4	14.1

	Difficulty of hiring index				Rigidity of hours index							Difficulty of redundancy index								Redundancy cost	
	Fixed-term contracts prohibited for permanent tasks?	Maximum length of fixed-term contracts (months) [a]	Minimum wage for a 19-year-old worker or an apprentice (US$ per month) [b]	Ratio of minimum wage to value added per worker	50-hour workweek allowed? [c]	Maximum working days per week	Premium for night work (% of hourly pay) [d]	Premium for work on weekly rest day (% of hourly pay) [d]	Major restrictions on night work? [d]	Major restrictions on weekly holiday work? [d]	Paid annual leave (working days) [e]	Dismissal due to redundancy allowed by law?	Third-party notification if 1 worker is dismissed?	Third-party approval if 1 worker is dismissed?	Third-party notification if 9 workers are dismissed?	Third-party approval if 9 workers are dismissed?	Retraining or reassignment? [f]	Priority rules for redundancies?	Priority rules for reemployment?	Notice period for redundancy dismissal (weeks of salary) [e]	Severance pay for redundancy dismissal (weeks of salary) [e]
Tunisia	No	48	120.5	0.27	Yes	6.0	0	0	No	No	13.0	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	4.3	7.8
Turkey	Yes	NO LIMIT	505.4	0.47	Yes	6.0	0	100	Yes	No	18.0	Yes	No	No	No	No	Yes	No	Yes	6.7	23.1
Uganda	No	NO LIMIT	3.1	0.04	Yes	6.0	0	0	No	No	21.0	Yes	No	No	No	No	No	No	No	8.7	0.0
Ukraine	Yes	NO LIMIT	125.1	0.38	No	5.5	20	100	No	No	18.0	Yes	Yes	No	Yes	No	Yes	Yes	Yes	8.7	4.3
United Arab Emirates	No	NO LIMIT	0.0	0.00	Yes	6.0	0	50	No	Yes	26.0	Yes	No	No	No	No	No	No	No	4.3	18.1
United Kingdom	No	NO LIMIT	1,805.0	0.35	Yes	6.0	0	0	No	No	28.0	Yes	No	No	No	No	No	No	No	5.3	2.6
United States	No	NO LIMIT	1,252.9	0.21	Yes	6.0	0	0	No	No	0.0	Yes	No	No	No	No	No	No	No	0.0	0.0
Uruguay	Yes	NO LIMIT	235.2	0.19	Yes	6.0	0	100	No	No	21.0	Yes	No	No	No	No	No	No	No	0.0	20.8
Uzbekistan	Yes	60	23.9	0.17	Yes	6.0	50	100	Yes	No	15.0	Yes	No	No	Yes	No	Yes	Yes	No	8.7	13.0
Vanuatu	No	NO LIMIT	247.0	0.65	Yes	6.0	75	50	No	No	15.0	Yes	No	No	No	No	No	No	No	9.3	23.1
Venezuela, RB[g]	Yes	24	326.4	0.25	Yes	6.0	30	50	Yes	No	19.3	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Vietnam	No	72	40.7	0.33	Yes	6.0	30	100	No	No	13.0	Yes	No	No	Yes	Yes	Yes	Yes	No	0.0	23.1
West Bank and Gaza	No	24	0.0	0.00	Yes	6.0	0	150	Yes	Yes	18.0	Yes	Yes	No	Yes	No	No	No	No	4.3	23.1
Yemen, Rep.	No	NO LIMIT	99.1	0.60	Yes	6.0	15	100	No	No	30.0	Yes	Yes	No	Yes	No	No	No	Yes	4.3	23.1
Zambia	No	NO LIMIT	63.7	0.40	Yes	5.5	4	100	No	No	24.0	Yes	Yes	No	Yes	No	No	No	No	4.3	46.2
Zimbabwe	No	NO LIMIT	90.0	1.80	Yes	6.0	0	0	No	No	22.0	Yes	Yes	Yes	Yes	Yes	Yes	No	No	13.0	69.3

a. Including renewals.
b. Economies for which 0.0 is shown have no minimum wage.
c. For 2 months a year in case of increase in production.
d. In case of continuous operations.
e. Average for workers with 1, 5 and 10 years of tenure.
f. Whether compulsory before redundancy.
g. Some questions are not applicable ("n.a.") for economies where dismissal due to redundancy is disallowed.

Source: Doing Business database.

Ease of doing business

The ease of doing business index ranks economies from 1 to 183. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 9 topics included in the index in *Doing Business 2011*: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The ranking on each topic is the simple average of the percentile rankings on its component indicators (table 14.1).

If an economy has no laws or regulations covering a specific area—for example, bankruptcy—it receives a "no practice" mark. Similarly, an economy receives a "no practice" or "not possible" mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a "no practice" mark puts the economy at the bottom of the ranking on the relevant indicator.

Here is one example of how the ranking is constructed. In Iceland it takes 5 procedures, 5 days and 2.3% of annual income per capita in fees to open a business. The minimum capital required amounts to 11.97% of income per capita. On these 4 indicators Iceland ranks in the 13th, 4th, 15th and 63th percentiles. So on average Iceland ranks in the 24th percentile on the ease of starting a business. It ranks in the 50th percentile on protecting investors, 40th percentile on trading across borders, 10th percentile on enforcing contracts, 9th percentile on closing a business and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Iceland's percentile rankings on all topics is 25%. When all economies are ordered by their average percentile rank, Iceland is in 15th place.

More complex aggregation methods—such as principal components and unobserved components—yield a nearly identical ranking.[1] The choice of aggregation method has little influence on the rankings because the 9 sets of indicators provide sufficiently broad coverage across topics. So *Doing Business* uses the simplest method.

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), the strength of its financial system, the security of property from theft and looting, its macroeconomic conditions or the strength of underlying institutions. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the context in an economy. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

Doing Business 2011 also uses a simple method to calculate which economies improve the most on the ease of doing business. First, it selects the economies that reformed in 3 or more of the 9 topics included in this year's ease of doing business ranking. Twenty five economies met this criterion: Belarus, Brunei Darussalam, Burkina Faso, Cape Verde, the Democratic Republic of Congo, Georgia, Grenada, Guyana, Hungary, Indonesia, the Islamic Republic of Iran, Kazakhstan, Lithuania, Mali, Montenegro, Peru, Rwanda, Saudi Arabia, Sierra Leone, Slovenia, Sweden, Tajikistan, Ukraine, Vietnam and Zambia. 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.

TABLE 14.1
Which indicators make up the ranking?

Starting a business	***Paying taxes***
Procedures, time, cost and paid-in minimum capital to open a new business	Number of tax payments, time to prepare and file tax returns and to pay taxes, total taxes as a share of profit before all taxes borne
Dealing with construction permits	***Trading across borders***
Procedures, time and cost to obtain construction permits, inspections and utility connections	Documents, time and cost to export and import
Registering property	***Enforcing contracts***
Procedures, time and cost to transfer commercial real estate	Procedures, time and cost to resolve a commercial dispute
Getting credit	***Closing a business***
Strength of legal rights index, depth of credit information index	Recovery rate in bankruptcy
Protecting investors	
Strength of investor protection index: extent of disclosure index, extent of director liability index and ease of shareholder suits index	

1. Djankov and others (2005).

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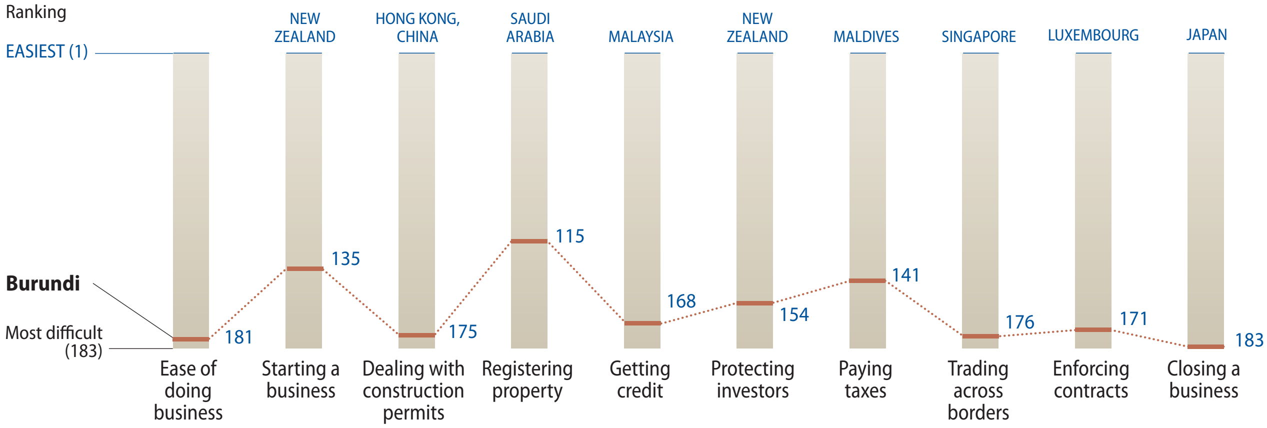
Doing Business Indicators

		Burundi	Kenya	Rwanda	Tanzania	Uganda
Ease of doing business (global rank)		181	98	58	128	122
STARTING A BUSINESS	(rank)	135	125	9	122	137
Procedures (number)		11	11	2	12	18
Time (days)		32	33	3	29	25
Cost (% of income per capita)		129.3	38.3	8.8	30.9	94.4
Min. capital (% of income per capita)		0.0	0.0	0.0	0.0	0.0
DEALING WITH CONSTRUCTION PERMITS	(rank)	175	35	82	179	133
Procedures (number)		25	11	14	22	18
Time (days)		212	120	195	328	171
Cost (% of income per capita)		7,047.6	167.8	353.6	2,756.3	1,287.8
REGISTERING PROPERTY	(rank)	115	129	41	151	150
Procedures (number)		5	8	4	9	13
Time (days)		94	64	55	73	77
Cost (% of property value)		5.8	4.2	0.4	4.4	3.2
GETTING CREDIT	(rank)	168	6	32	89	46
Strength of legal rights index (0–10)		2	10	8	8	7
Depth of credit information index (0–6)		1	4	4	0	4
Public registry coveage (% of adults)		0.2	0.0	0.7	0.0	0.0
Private bureau coverage (% of adults)		0.0	3.3	0.0	0.0	1.1
PROTECTING INVESTORS	(rank)	154	93	28	93	132
Extent of disclosure index (0–10)		4	3	7	3	2
Extent of director liability index (0–10)		1	2	9	4	5
Ease of shareholder suits index (0–10)		5	10	3	8	5
Strength of investor protection index (0–10)		3.3	5.0	6.3	5.0	4.0
PAYING TAXES	(rank)	141	162	43	120	62
Payments (number per year)		32	41	26	48	32
Time (hours per year)		211	393	148	172	161
Total tax rate (% of profit)		153.4	49.7	31.3	45.2	35.7
TRADING ACROSS BORDERS	(rank)	176	144	159	109	148
Documents to export (number)		9	8	8	5	6
Time to export (days)		47	26	35	24	37
Cost to export (US$ per container)		2,747	2,055	3,275	1,262	2,780
Documents to import (number)		10	7	8	7	8
Time to import (days)		71	24	34	31	34
Cost to import (US$ per container)		4,285	2,190	4,990	1,475	2,940
ENFORCING A CONTRACT	(rank)	171	125	39	32	113
Procedures (number)		44	40	24	38	38
Time (days)		832	465	230	462	490
Cost (% of debt)		38.6	47.2	78.7	14.3	44.9
CLOSING A BUSINESS	(rank)	183	85	183	113	56
Time (years)		NO PRACTICE	4.5	NO PRACTICE	3.0	2.2
Cost (% of estate)		NO PRACTICE	22	NO PRACTICE	22	30
Recovery rate (cents on the dollar)		0	29.8	0	21.9	39.7

COUNTRY PROFILE

Burundi



BURUNDI

Sub-Saharan Africa	
Low income	
Ease of doing business (rank)	181
GNI per capita (US$)	150
Population (m)	8.3

Starting a business (rank)	135
Procedures (number)	11
Time (days)	32
Cost (% of income per capita)	129.3
Minimum capital (% of income per capita)	0.0
Dealing with construction permits (rank)	175
Procedures (number)	25
Time (days)	212
Cost (% of income per capita)	7,047.6
Registering property (rank)	115
Procedures (number)	5
Time (days)	94
Cost (% of property value)	5.8
Getting credit (rank)	168
Strength of legal rights index (0-10)	2
Depth of credit information index (0-6)	1
Public registry coverage (% of adults)	0.2
Private bureau coverage (% of adults)	0.0
Protecting investors (rank)	154
Extent of disclosure index (0-10)	4
Extent of director liability index (0-10)	1
Ease of shareholder suits index (0-10)	5
Strength of investor protection index (0-10)	3.3

✔ **Paying taxes** (rank)	141
Payments (number per year)	32
Time (hours per year)	211
Total tax rate (% of profit)	153.4
Trading across borders (rank)	176
Documents to export (number)	9
Time to export (days)	47
Cost to export (US$ per container)	2,747
Documents to import (number)	10
Time to import (days)	71
Cost to import (US$ per container)	4,285
Enforcing contracts (rank)	171
Procedures (number)	44
Time (days)	832
Cost (% of claim)	38.6
Closing a business (rank)	183
Time (years)	NO PRACTICE
Cost (% of estate)	NO PRACTICE
Recovery rate (cents on the dollar)	0.0

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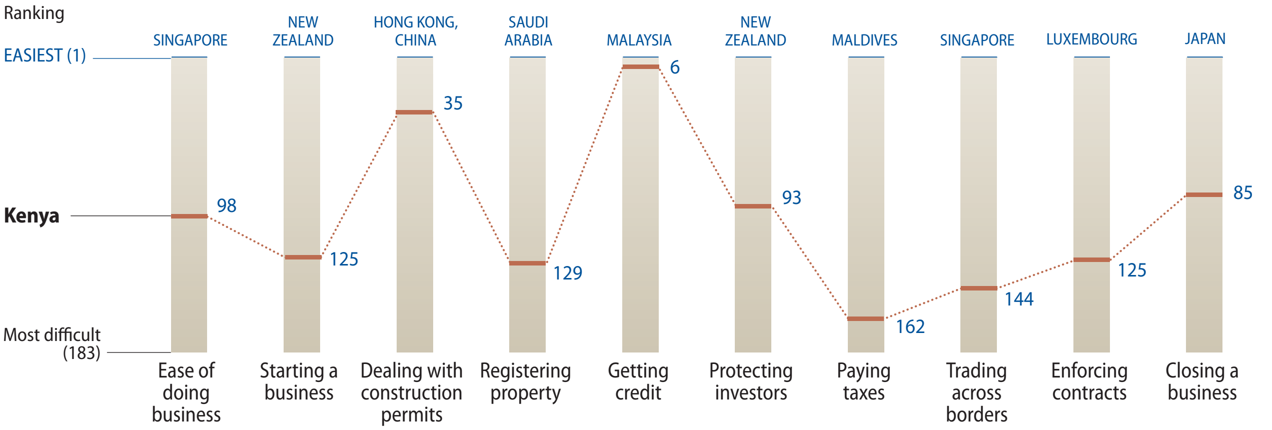
COUNTRY PROFILE

Kenya



KENYA		Ease of doing business (rank)	98
Sub-Saharan Africa		GNI per capita (US$)	770
Low income		Population (m)	39.8
✔ **Starting a business** (rank)	125	✗ **Paying taxes** (rank)	162
Procedures (number)	11	Payments (number per year)	41
Time (days)	33	Time (hours per year)	393
Cost (% of income per capita)	38.3	Total tax rate (% of profit)	49.7
Minimum capital (% of income per capita)	0.0		
		✔ **Trading across borders** (rank)	144
Dealing with construction permits (rank)	35	Documents to export (number)	8
Procedures (number)	11	Time to export (days)	26
Time (days)	120	Cost to export (US$ per container)	2,055
Cost (% of income per capita)	167.8	Documents to import (number)	7
		Time to import (days)	24
Registering property (rank)	129	Cost to import (US$ per container)	2,190
Procedures (number)	8		
Time (days)	64	**Enforcing contracts** (rank)	125
Cost (% of property value)	4.2	Procedures (number)	40
		Time (days)	465
Getting credit (rank)	6	Cost (% of claim)	47.2
Strength of legal rights index (0-10)	10		
Depth of credit information index (0-6)	4	**Closing a business** (rank)	85
Public registry coverage (% of adults)	0.0	Time (years)	4.5
Private bureau coverage (% of adults)	3.3	Cost (% of estate)	22
		Recovery rate (cents on the dollar)	29.8
Protecting investors (rank)	93		
Extent of disclosure index (0-10)	3		
Extent of director liability index (0-10)	2		
Ease of shareholder suits index (0-10)	10		
Strength of investor protection index (0-10)	5.0		

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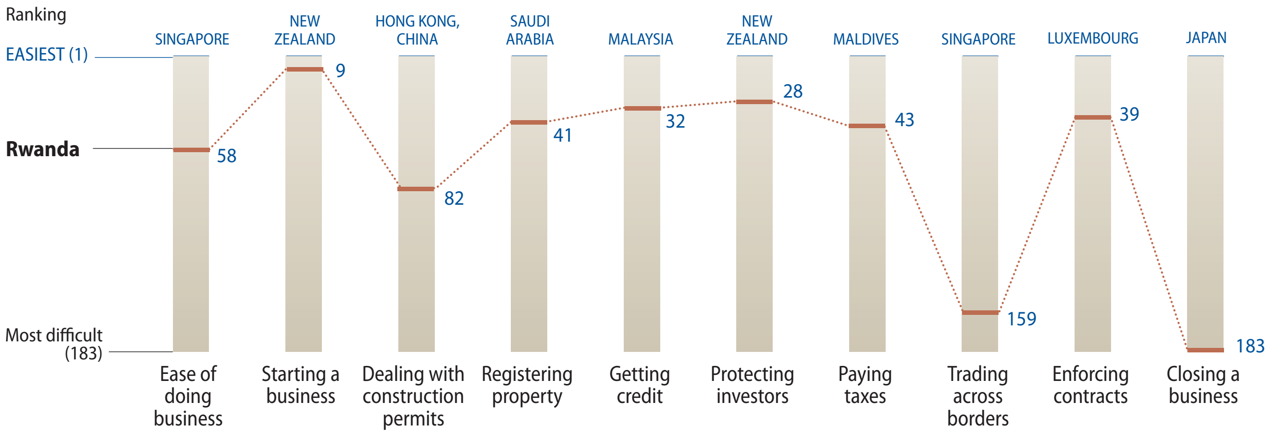
COUNTRY PROFILE

Rwanda



RWANDA		Ease of doing business (rank)	58
Sub-Saharan Africa		GNI per capita (US$)	460
Low income		Population (m)	10.0

Starting a business (rank)	9
Procedures (number)	2
Time (days)	3
Cost (% of income per capita)	8.8
Minimum capital (% of income per capita)	0.0
✔ **Dealing with construction permits** (rank)	82
Procedures (number)	14
Time (days)	195
Cost (% of income per capita)	353.6
Registering property (rank)	41
Procedures (number)	4
Time (days)	55
Cost (% of property value)	0.4
✔ **Getting credit** (rank)	32
Strength of legal rights index (0-10)	8
Depth of credit information index (0-6)	4
Public registry coverage (% of adults)	0.7
Private bureau coverage (% of adults)	0.0
Protecting investors (rank)	28
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)	43
Payments (number per year)	26
Time (hours per year)	148
Total tax rate (% of profit)	31.3
✔ **Trading across borders** (rank)	159
Documents to export (number)	8
Time to export (days)	35
Cost to export (US$ per container)	3,275
Documents to import (number)	8
Time to import (days)	34
Cost to import (US$ per container)	4,990
Enforcing contracts (rank)	39
Procedures (number)	24
Time (days)	230
Cost (% of claim)	78.7
Closing a business (rank)	183
Time (years)	NO PRACTICE
Cost (% of estate)	NO PRACTICE
Recovery rate (cents on the dollar)	0.0

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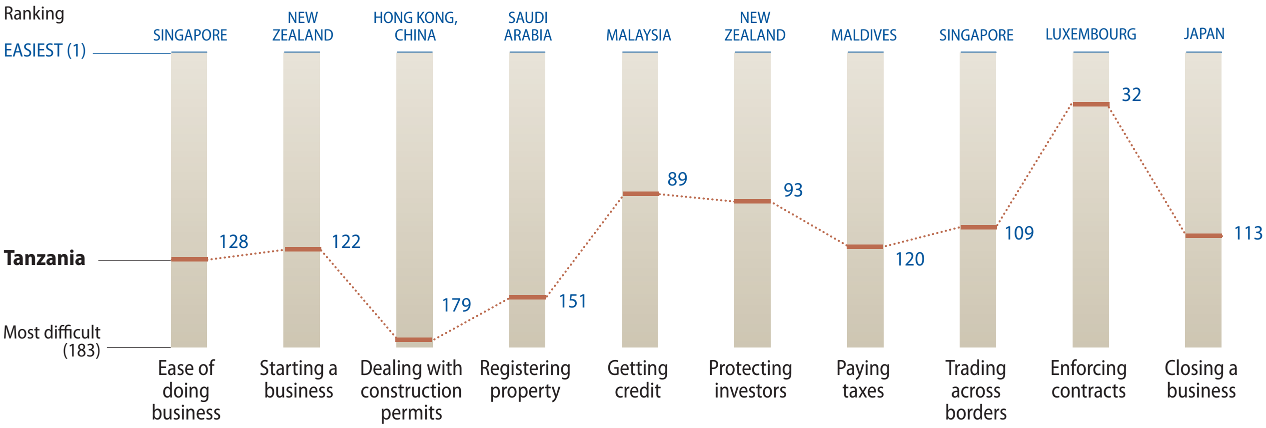
COUNTRY PROFILE

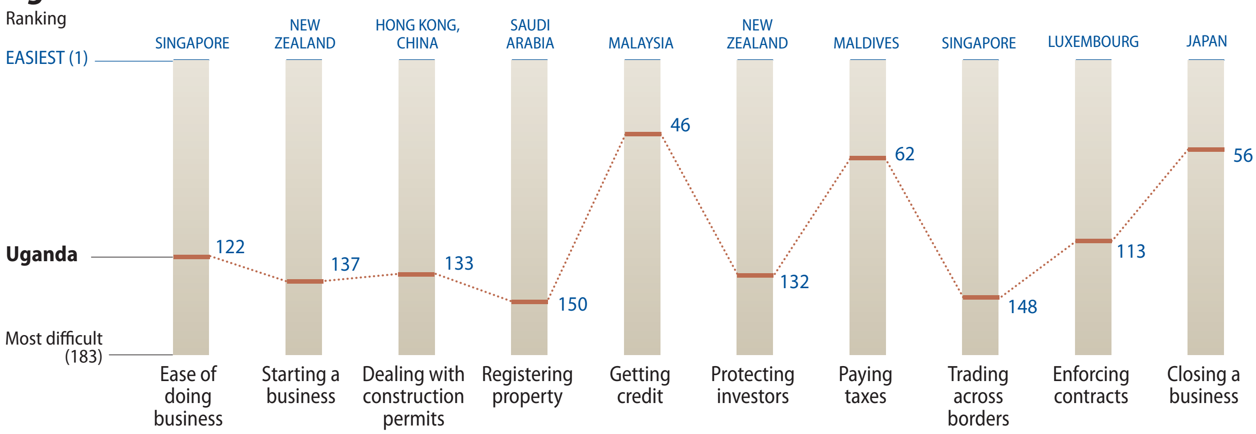
Tanzania



TANZANIA		Ease of doing business (rank)	128
Sub-Saharan Africa		GNI per capita (US$)	500
Low income		Population (m)	43.7
Starting a business (rank)	122	**Paying taxes** (rank)	120
Procedures (number)	12	Payments (number per year)	48
Time (days)	29	Time (hours per year)	172
Cost (% of income per capita)	30.9	Total tax rate (% of profit)	45.2
Minimum capital (% of income per capita)	0.0		
		Trading across borders (rank)	109
Dealing with construction permits (rank)	179	Documents to export (number)	5
Procedures (number)	22	Time to export (days)	24
Time (days)	328	Cost to export (US$ per container)	1,262
Cost (% of income per capita)	2,756.3	Documents to import (number)	7
		Time to import (days)	31
Registering property (rank)	151	Cost to import (US$ per container)	1,475
Procedures (number)	9		
Time (days)	73	**Enforcing contracts** (rank)	32
Cost (% of property value)	4.4	Procedures (number)	38
		Time (days)	462
Getting credit (rank)	89	Cost (% of claim)	14.3
Strength of legal rights index (0-10)	8		
Depth of credit information index (0-6)	0	**Closing a business** (rank)	113
Public registry coverage (% of adults)	0.0	Time (years)	3.0
Private bureau coverage (% of adults)	0.0	Cost (% of estate)	22
		Recovery rate (cents on the dollar)	21.9
Protecting investors (rank)	93		
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		

COUNTRY PROFILE

Uganda



UGANDA		Ease of doing business (rank)	122
Sub-Saharan Africa		GNI per capita (US$)	460
Low income		Population (m)	32.7
✗ **Starting a business** (rank)	137	**Paying taxes** (rank)	62
Procedures (number)	18	Payments (number per year)	32
Time (days)	25	Time (hours per year)	161
Cost (% of income per capita)	94.4	Total tax rate (% of profit)	35.7
Minimum capital (% of income per capita)	0.0		
		Trading across borders (rank)	148
Dealing with construction permits (rank)	133	Documents to export (number)	6
Procedures (number)	18	Time to export (days)	37
Time (days)	171	Cost to export (US$ per container)	2,780
Cost (% of income per capita)	1,287.8	Documents to import (number)	8
		Time to import (days)	34
Registering property (rank)	150	Cost to import (US$ per container)	2,940
Procedures (number)	13		
Time (days)	77	✔ **Enforcing contracts** (rank)	113
Cost (% of property value)	3.2	Procedures (number)	38
		Time (days)	490
✔ **Getting credit** (rank)	46	Cost (% of claim)	44.9
Strength of legal rights index (0-10)	7		
Depth of credit information index (0-6)	4	**Closing a business** (rank)	56
Public registry coverage (% of adults)	0.0	Time (years)	2.2
Private bureau coverage (% of adults)	1.1	Cost (% of estate)	30
		Recovery rate (cents on the dollar)	39.7
Protecting investors (rank)	132		
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		

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