Doing Business 2007

How to reform

COMPARING REGULATION IN 175 ECONOMIES

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Contents

Doing Business 2007: How to Reform is the fourth in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 175 economies—from Afghanistan to Zimbabwe—and over time.

Regulations affecting 10 areas of everyday business are measured: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

The methodology has limitations. Other areas important to business—such as a country's proximity to large markets, quality of infrastructure services (other than services related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not studied directly by *Doing Business*. To make the data comparable across countries, the indicators refer to a specific type of business—generally a limited liability company operating in the largest business city.

The methodology for 4 of the *Doing Business* topics changed in this edition. For paying taxes, the total tax rate now includes all labor contributions paid by the employer and excludes consumption taxes. For enforcing contracts, the case study was revised to reflect a typical contractual dispute over the quality of goods rather than a simple debt default. For trading across borders, *Doing Business* now reports the cost associated with exporting and importing cargo in addition to the time and number of documents required. And for employing workers, nonwage labor costs are no longer included in the calculation of the ease of employing workers. For these reasons—as well as the addition of 20 new economies—last year's rankings on the ease of doing business are recalculated using the new methodology and reported in the Overview.

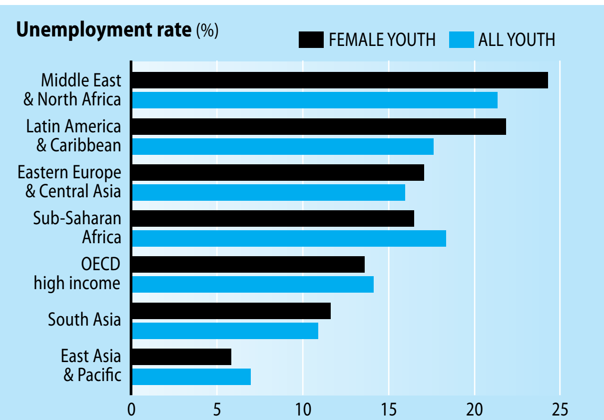
Overview

In Bolivia 400,000 workers have formal jobs in the private sector—out of a population of 8.8 million. In India 30 million workers have such jobs—in a country of 1.1 billion people. In Malawi, 50,000 out of a population of 12 million. In Mozambique, 350,000 in a country of 20 million.

Reform can change this, by making it easier for formal businesses to create more jobs. Women and young workers benefit the most. Both groups account for a large share of the unemployed (figure 1.1). Reform also expands the reach of regulation by bringing businesses and workers into the formal sector. There, workers can have health insurance and pension benefits. Businesses pay some taxes. Products are subject to quality standards. And businesses can more easily obtain bank credit or use courts to resolve disputes.

FIGURE 1.1

High unemployment among youth, especially females



Source: ILO (2005).

Many governments are taking action. Two hundred and thirteen reforms—in 112 economies—were introduced between January 2005 and April 2006. Reformers simplified business regulations, strengthened property rights, eased tax burdens, increased access to credit and reduced the cost of exporting and importing.

Georgia is the top reformer, improving in 6 of the 10 areas studied by *Doing Business* (table 1.1). It reduced the minimum capital required to start a new business from 2,000 lari to 200 ($85). Business registrations rose by 20% between 2005 and 2006. Reforms in customs and the border police simplified border procedures. It took 54 days to meet all the administrative requirements to export in 2004—it now takes 13. Georgia also amended its procedural code for the courts, introducing specialized commercial sections of the courts and reforming the appeals process. The time to resolve simple commercial disputes fell from 375 days to 285.

Georgia's new labor regulations help workers move to better jobs. The social security contributions paid by businesses decreased from 31% of wages to 20%, making it easier for employers to hire new workers. Better collection of corporate taxes, which shot up by 300%, more than made up for the loss in revenues. And unemployment has fallen by 2 percentage points.

Romania is the runner-up, also with reforms in 6 of the 10 areas of *Doing Business.* It simplified the procedures for obtaining building permits and set up a single office to process applications. Before, entrepreneurs had to run around to 5 different agencies. The time required for obtaining construction documents fell by 49 days. To encourage businesses to hire first-time workers,

TABLE 1.1
The top 10 reformers in 2005/06

Economy	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Georgia	✓	✓	✓		✓			✓	✓	
Romania		✓	✓		✓	✓		✓		✓
Mexico	✓					✓	✓			
China	✓				✓	✓		✓		
Peru	✓				✓	✓			✓	✗
France		✓			✓			✓	✓	✓
Croatia	✓			✓					✓	
Guatemala	✓	✓		✓						
Ghana				✓			✓	✓		
Tanzania	✓			✓		✓		✓		

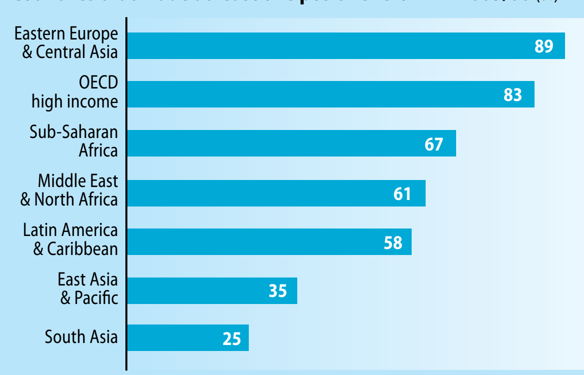
Note: Economies are ranked on the number and impact of reforms. First, *Doing Business* selects the economies that reformed in 3 or more of the *Doing Business* topics. Second, it ranks these economies on the increase in rank in the ease of doing business from the previous year. The larger the improvement, the higher the ranking as a reformer. "X" indicates a negative reform.
Source: Doing Business database.

Romania adopted new labor regulation allowing term contracts to extend up to 6 years. It also eased trading across borders. After-clearance audits now enable customs to quickly release cargo to importers, with the container contents verified after it reaches the warehouse. The time that traders need to satisfy all regulatory requirements was cut in half, to 14 days. And the number of export documents fell to 4, matching the EU average.

Mexico is third, with reforms in business entry, protecting investors and paying taxes. A new securities law defines for the first time the duties of company directors, combining an obligation to "take care of the business as if it were your own" with a list of activities that violate that duty. The law also increases scrutiny of related-party transactions. It requires full disclosure before any deal benefiting a company insider can take place. Other reforms cut the time to start a business in Mexico City from 58 days to 27, by allowing notaries to issue a tax registration number on the spot and streamlining company registration. And the corporate income tax rate was cut from 33% in 2004 to 30% in 2005 and 29% in 2006.

FIGURE 1.2
Africa ranks third in reforms

Countries that made at least one positive reform in 2005/06 (%)



Source: Doing Business database.

Africa is reforming

Last year and the year before, Africa lagged behind all other regions in the pace of reform. This year it ranks third, behind only Eastern Europe and Central Asia and the OECD high-income countries (figure 1.2). Two-thirds of African countries made at least one reform, and Tanzania and Ghana rank among the top 10 reformers.

In Côte d'Ivoire registering property took 397 days in 2005. Reforms eliminated a requirement to obtain the urban minister's consent to transfer property. Now it takes 32 days. Burkina Faso cut the procedures for starting a business from 12 to 8 and the time from 45 days to 34. Madagascar reduced the minimum capital for start-ups from 10 million francs to 2 million. Tanzania introduced electronic data interchange and risk-based inspections at customs. The time to clear imports fell by 12 days. Gambia, Nigeria and Tanzania reduced delays in the courts.

More improvements are under way, and these will be reflected in the *Doing Business* indicators next year. Benin, Burkina Faso, Cameroon, Gambia, Madagascar, Malawi, Mali, Mozambique, Niger, Nigeria and Zambia have all started to simplify business regulation. The easy reforms—what can be done by the stroke of a minister's pen—are coming first. Small as these initial reforms may be, they can attract investors who seek the growth opportunities that will follow. India's economic boom may have started with just such reforms in the 1980s.[1]

Several African countries are more ambitious. Mauritius set a goal of reaching the top 10 on the ease of doing business by 2009. It has targeted several areas of reform: making labor regulation more flexible, reducing the burden of paying taxes and speeding business entry and property registration. One reform: starting in 2007 every business will receive a unique business registration number, and entrepreneurs will no longer have to register in person for the income tax, value added tax, customs and social security numbers. The aim is to have data move around inside the government, not to have entrepreneurs run around from one office to another.

China, Eastern Europe—fast reformers

Watch out, rest of the world: China is a top-10 reformer. The government sped business entry, increased investor protections and reduced red tape in trading across borders. China also established a credit information registry for consumer loans. Now 340 million citizens have credit histories.

Eastern Europe improved the most in the ease of doing business. The desire to join the European Union inspired reformers in Croatia and Romania. And Bulgaria and Latvia are among the runner-up reformers—economies that rank 11–15 on the list of top reformers—along with El Salvador, India and Nicaragua. Regulatory competition in the enlarged union added to the impetus for reform.

The 3 boldest reforms, driving the biggest improvements in the *Doing Business* indicators:

- Mexico's increase in investor protections, in its new securities law.
- Georgia's flexible labor rules, in its new labor code.
- Serbia's easing of exporting and importing procedures, in its new customs code.

The most popular reform in 2005/06 was easing the regulations on starting a business. Forty-three countries simplified procedures, reducing costs and delays (figure 1.3). The second most popular was reducing tax rates and the administrative hassle that businesses endure when paying taxes. It is easy to understand why these reforms top the list: elections can be won on the "more jobs, lower taxes" platform.

Several countries—including Bolivia, Eritrea, Hungary, Timor-Leste, Uzbekistan, Venezuela and Zimbabwe—went backward. Venezuela made it more difficult for businesses to register property, get credit and trade across borders. The worst reform of the year took place in Eritrea: in November 2005 the government suspended all construction licenses and prohibited any private businesses from entering the construction sector.

Singapore—where doing business is easiest

Singapore became the most business-friendly economy in the world in 2005/06, as measured by the *Doing Business* indicators (table 1.2). New Zealand is the runner-up. The United States is third.

Some countries climbed far in the rankings on the ease of doing business. Georgia ranked 112 in 2004. This year it ranks 37. Mexico jumped 19 ranks, to 43. These big changes show the gains possible when countries press on with reform every year.

But rankings on the ease of doing business do not tell the whole story. The indicator is limited in scope: it covers only business regulations. It does not account for a country's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions.[2] So while Namibia ranks close to Portugal on the ease of doing business, this does not mean that businesses are just as eager to operate in Windhoek as they are in Lisbon. Distance from large markets and poor infrastructure—2 issues not directly studied in *Doing Business*—make Namibia a less attractive destination for investors.

Still, a high ranking on the ease of doing business does mean that the government has created a regulatory environment conducive to operating a business. Improvements on the *Doing Business* indicators often proxy for broader reforms to laws and institutions—whose effects go beyond the administrative procedures and the time and cost to comply with business regulations.

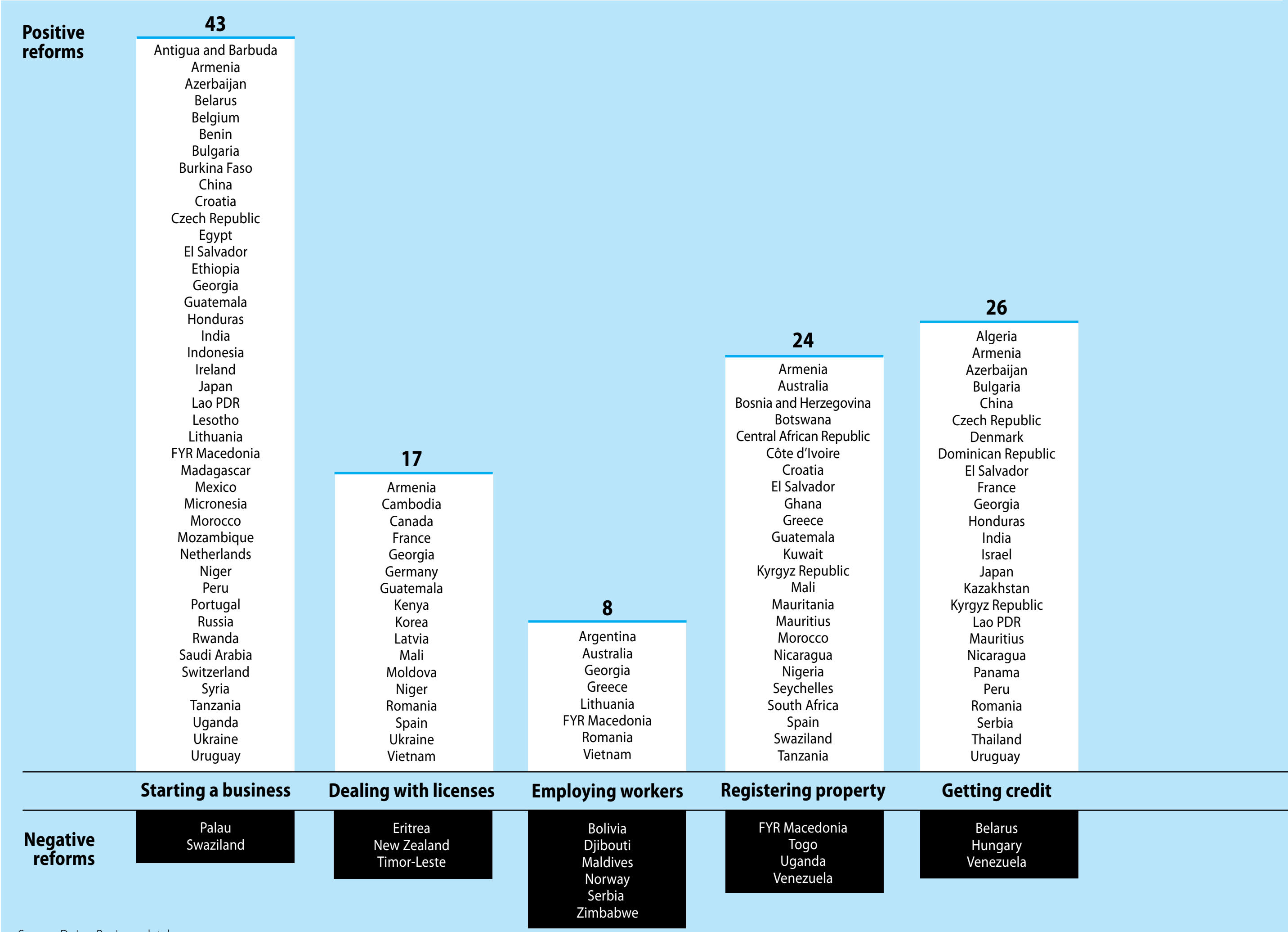
What gets measured gets done

In 2003 the donors to the International Development Association set targets for reducing the time and cost to start a business as conditions for obtaining additional grant money. Sixteen countries reformed business entry, reducing the time by 9% on average, and the cost by 13%.[3] In 2004 the United States' Millennium Challenge Account also introduced conditions for grant eligibility based on performance in the time and cost of business start-up. Since then 13 countries have started reforms aimed at meeting the criteria. Burkina Faso, El Salvador, Georgia and Madagascar have already met them. The lesson: what gets measured gets done.

Publishing comparative data on the ease of doing business inspires governments to reform. Since its start in October 2003, the *Doing Business* project has inspired

FIGURE 1.3

213 reforms made business easier—25 made it more difficult

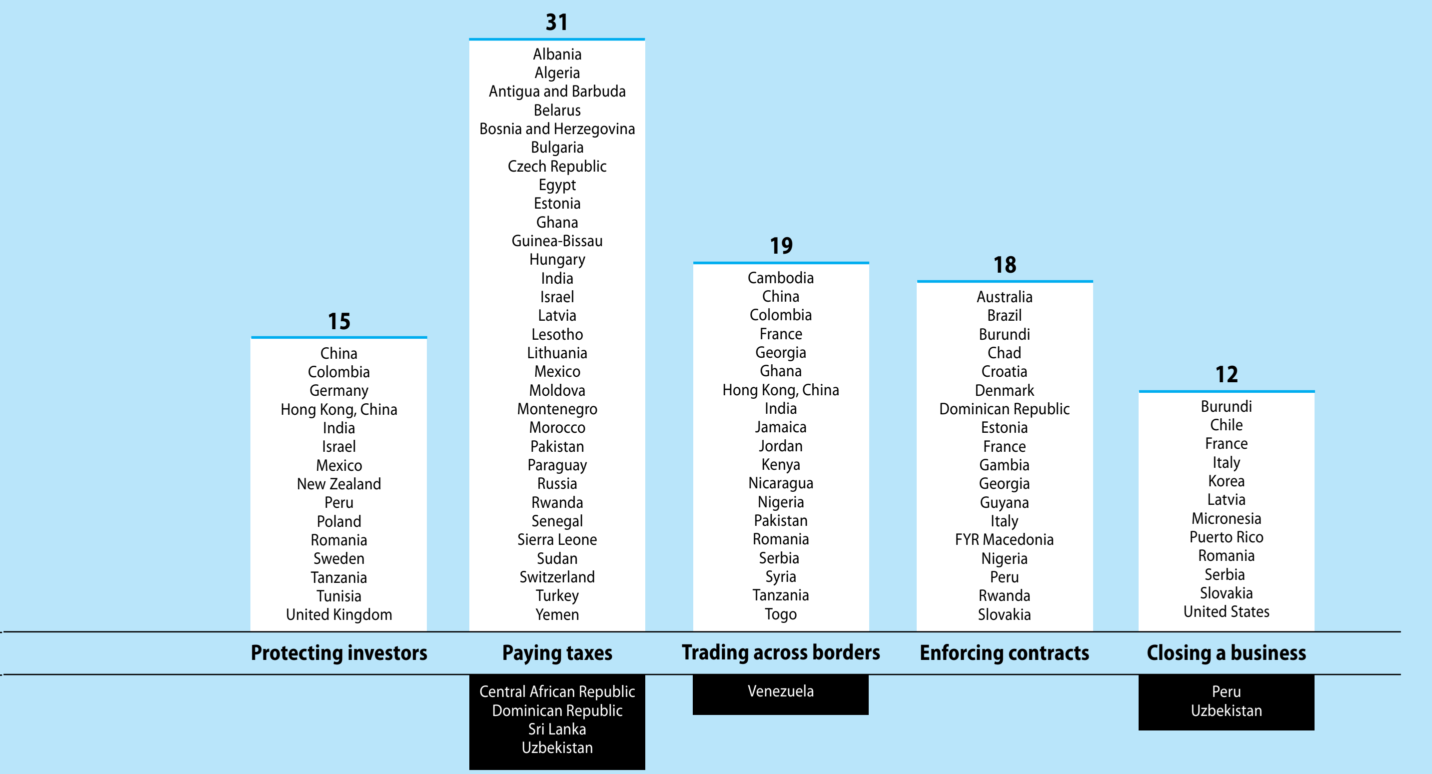


Source: Doing Business database.

or informed 48 reforms around the world. Mozambique is reforming several aspects of its business environment, with the goal of reaching the top rank on the ease of doing business in southern Africa. Burkina Faso, Mali and Niger are competing for the top rank in West Africa. Georgia has targeted the top 25 list and uses *Doing Business* indicators as benchmarks of its progress. Mauritius and Saudi Arabia have targeted the top 10.

Comparisons among states or cities within a country are even stronger drivers of reform. Recent studies across 13 cities in Brazil and 12 in Mexico have created fierce competition to build the best business environment.[4] The reason is simple: with identical federal regulations, mayors have difficulty explaining why it takes longer or costs more to start a business or register property in their city. There are no excuses.

To be useful for reformers, indicators need to be simple, easy to replicate and linked to specific policy changes. Only then will they motivate reform and be useful in evaluating its success. Few such measures exist. But this is changing. In several countries, such as Mali and Mozambique, private businesses now participate in identifying the most needed reforms. Used to bottom lines, they bring a renewed focus on measurement. The culture of bureaucrats telling bureaucrats what's good for business is disappearing. Going with it is the aversion to measuring the results of regulatory reforms.



How to reform

In the top reforming economies in the past 3 years, nearly 85% of reforms took place in the first 15 months of a new government. The message: for a government recently elected (as in Benin) or reelected (as in Colombia and Mexico), the time to push through ambitious reforms is at the start of its term. In the words of one reformer: “Reform is like repairing a car with the engine running—there is no time to strategize.”

When the government succeeds in these early reforms, citizens start seeing benefits—more jobs, more resources for health and education. The appetite for further reforms grows. In Georgia and Romania—the countries that have moved up fastest in the *Doing Business* rankings—reformers took on simultaneous reforms in several areas at the start of their mandate.

But few countries have the opportunity (or feel the pressure) for a reform blitz. Instead, reformers must decide which reforms to tackle first. The 4 steps to successful reform:

- Start simple and consider administrative reforms that don’t need legislative changes.
- Cut unnecessary procedures, reducing the number of bureaucrats entrepreneurs interact with.
- Introduce standard application forms and publish as much regulatory information as possible.
- And remember: many of the frustrations for businesses come from how regulations are administered. The internet alleviates these frustrations without changing the spirit of the regulation.

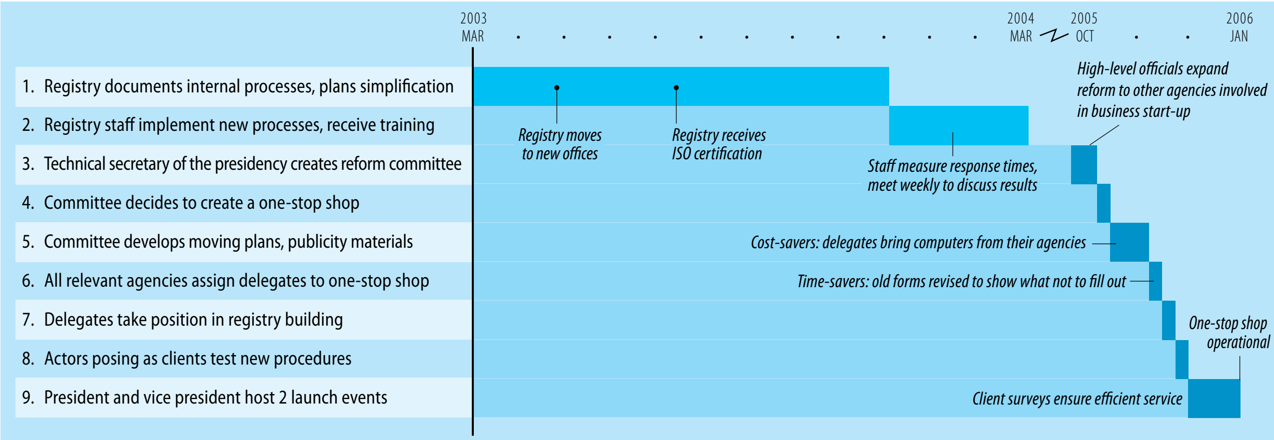
TABLE 1.2
Rankings on the ease of doing business

2007 rank	*2006 rank*	Economy
1	*2*	Singapore
2	*1*	New Zealand
3	*3*	United States
4	*4*	Canada
5	*6*	Hong Kong, China
6	*5*	United Kingdom
7	*7*	Denmark
8	*9*	Australia
9	*8*	Norway
10	*10*	Ireland
11	*12*	Japan
12	*11*	Iceland
13	*14*	Sweden
14	*13*	Finland
15	*16*	Switzerland
16	*15*	Lithuania
17	*17*	Estonia
18	*19*	Thailand
19	*18*	Puerto Rico
20	*20*	Belgium
21	*21*	Germany
22	*22*	Netherlands
23	*23*	Korea
24	*31*	Latvia
25	*25*	Malaysia
26	*26*	Israel
27	*27*	St. Lucia
28	*24*	Chile
29	*28*	South Africa
30	*30*	Austria
31	*29*	Fiji
32	*32*	Mauritius
33	*33*	Antigua and Barbuda
34	*37*	Armenia
35	*47*	France
36	*34*	Slovakia
37	*112*	Georgia
38	*35*	Saudi Arabia
39	*38*	Spain
40	*45*	Portugal
41	*36*	Samoa
42	*39*	Namibia
43	*62*	Mexico
44	*42*	St. Vincent and the Grenadines
45	*41*	Mongolia
46	*40*	Kuwait
47	*43*	Taiwan, China
48	*44*	Botswana
49	*71*	Romania
50	*48*	Jamaica
51	*46*	Tonga
52	*50*	Czech Republic
53	*49*	Maldives
54	*59*	Bulgaria
55	*52*	Oman
56	*51*	Belize
57	*53*	Papua New Guinea
58	*54*	Vanuatu
59	*55*	Trinidad and Tobago
60	*58*	Kiribati
61	*56*	Slovenia
62	*57*	Palau
63	*82*	Kazakhstan
64	*70*	Uruguay
65	*78*	Peru
66	*60*	Hungary
67	*72*	Nicaragua
68	*95*	Serbia
69	*61*	Solomon Islands
70	*64*	Montenegro
71	*75*	El Salvador
72	*65*	Dominica
73	*63*	Grenada
74	*66*	Pakistan
75	*74*	Poland
76	*67*	Swaziland
77	*68*	United Arab Emirates
78	*73*	Jordan
79	*76*	Colombia
80	*77*	Tunisia
81	*79*	Panama
82	*69*	Italy
83	*80*	Kenya
84	*83*	Seychelles
85	*85*	St. Kitts and Nevis
86	*87*	Lebanon
87	*86*	Marshall Islands
88	*81*	Bangladesh
89	*89*	Sri Lanka
90	*104*	Kyrgyz Republic
91	*84*	Turkey
92	*94*	FYR Macedonia
93	*108*	China
94	*102*	Ghana
95	*91*	Bosnia and Herzegovina
96	*97*	Russia
97	*96*	Ethiopia
98	*101*	Yemen
99	*100*	Azerbaijan
100	*90*	Nepal
101	*93*	Argentina
102	*92*	Zambia
103	*88*	Moldova
104	*98*	Vietnam
105	*99*	Costa Rica
106	*105*	Micronesia
107	*103*	Uganda
108	*109*	Nigeria
109	*111*	Greece
110	*106*	Malawi
111	*107*	Honduras
112	*110*	Paraguay
113	*118*	Gambia
114	*116*	Lesotho
115	*117*	Morocco
116	*123*	Algeria
117	*114*	Dominican Republic
118	*128*	Guatemala
119	*113*	Iran
120	*115*	Albania
121	*122*	Brazil
122	*119*	Suriname
123	*120*	Ecuador
124	*134*	Croatia
125	*125*	Cape Verde
126	*121*	Philippines
127	*127*	West Bank and Gaza
128	*132*	Ukraine
129	*124*	Belarus
130	*135*	Syria
131	*126*	Bolivia
132	*129*	Gabon
133	*130*	Tajikistan
134	*138*	India
135	*131*	Indonesia
136	*133*	Guyana
137	*139*	Benin
138	*143*	Bhutan
139	*136*	Haiti
140	*137*	Mozambique
141	*156*	Côte d'Ivoire
142	*150*	Tanzania
143	*142*	Cambodia
144	*141*	Comoros
145	*140*	Iraq
146	*152*	Senegal
147	*151*	Uzbekistan
148	*146*	Mauritania
149	*148*	Madagascar
150	*157*	Equatorial Guinea
151	*154*	Togo
152	*147*	Cameroon
153	*145*	Zimbabwe
154	*161*	Sudan
155	*166*	Mali
156	*155*	Angola
157	*149*	Guinea
158	*158*	Rwanda
159	*164*	Lao PDR
160	*170*	Niger
161	*153*	Djibouti
162	*159*	Afghanistan
163	*171*	Burkina Faso
164	*144*	Venezuela
165	*165*	Egypt
166	*160*	Burundi
167	*162*	Central African Republic
168	*163*	Sierra Leone
169	*167*	São Tomé and Principe
170	*168*	Eritrea
171	*169*	Congo, Rep.
172	*172*	Chad
173	*173*	Guinea-Bissau
174	*174*	Timor-Leste
175	*175*	Congo, Dem. Rep.

Note: The rankings for all economies are benchmarked to April 2006 and reported in the Country tables. Rankings on the ease of doing business are the average of the country rankings on the 10 topics covered in *Doing Business 2007*. Last year's rankings are presented in *italics*. These are adjusted for changes in the methodology, data corrections and the addition of 20 new economies. See the Data notes for details.
Source: Doing Business database.

FIGURE 1.4

How El Salvador reformed business start-up



Source: Doing Business database.

El Salvador did all these things. In 2 years it reduced the time to start a business from 115 days to 26—with no changes to the law (figure 1.4). The reform started in 2003 in the company registry, which had set the goal of becoming the first registry in Latin America to earn an ISO certification. The staff developed time-and-motion studies of all transactions and cut unnecessary steps. Customer surveys ensured timely feedback. In 18 months start-up time dropped to 40 days, and the share of satisfied customers rose from 32% to 87%. In a second round of reforms staff from the Ministries of Finance and Labor and the social security institute were transferred to the company registry. Entrepreneurs can now register with all 4 agencies in a single visit.

Pakistan followed a similar track. It introduced a new customs clearance process that allows importers to file cargo declarations before goods arrive at the port. Now it takes 19 days to import goods—from the conclusion of a sales contract to the arrival of the goods at the warehouse. In 2004 it took 39 days. Jamaica introduced software that detects whether a cargo document is incomplete and calculates the customs duties to be paid. In Ghana new technology links customs with several commercial banks so that customs officers can confirm the payment of duties without any additional paperwork.

New technologies can also simplify interactions between entrepreneurs and the tax authority. Madagascar computerized tax declarations in October 2005. Now if there is no change in information submitted previously, a business can file the same declaration again—with the click of a button. The benefit: the time to comply with tax regulations fell by 17 days. Croatia simplified its tax forms, cutting out 8 pages of tax returns in the process. The time to comply with tax regulations fell by 5 days.

Make it easier for all businesses

Whatever reformers do, they should always ask the question, "Who will benefit the most?" If reforms are seen to benefit only foreign investors, or large investors, or bureaucrats-turned-investors, they reduce the legitimacy of the government. Reforms should ease the burden on all businesses: small and large, domestic and foreign, rural and urban. This way there is no need to guess where the next boom in jobs will come from. Any business will have the opportunity to thrive—whether it's making movies in Lagos, writing software programs in Bangalore or transcribing doctors' notes in Belize City.

Notes

1. Rodrik and Subramanian (2005).
2. Next year's *Doing Business* will expand the scope of indicators to cover the quality of business infrastructure and possibly transparency in government procurement.
3. These targets were replaced with soft targets in the following round of grants. An opportunity to inspire further reforms was missed.
4. FIAS (2006a, 2006b).

Acknowledgments

Contact details for local partners are available
on the *Doing Business* website at
http://www.doingbusiness.org

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