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Doing Business

THE WORLD BANK IFC

2012

Doing Business in the Arab World 2012

Doing business in a **more transparent world**

COMPARING REGULATION FOR DOMESTIC FIRMS IN 20 ECONOMIES

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1 2 3 4 08 07 06 05

A copublication of The World Bank and the International Finance Corporation.

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

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

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

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

Executive summary

Against the backdrop of the Arab Spring, governments in 13 of 20 Arab economies implemented regulatory reforms in the past year aimed at improving the business environment for local entrepreneurs. Overall, these governments implemented 20 such reforms between June 2010 and May 2011. Morocco was the most active in encouraging entrepreneurship through regulatory reform.

Yet opportunities remain. Entrepreneurs across the Arab world continue to face often complex and costly regulatory processes to start and run a business—and contend with weaker investor and property rights protections than their counterparts in other regions. Accessing information needed to comply with regulations can be challenging. And the playing field can be uneven, often favoring some incumbent firms at the expense of competitors, including new entrants. Firm surveys show that manufacturing firms as well as their managers are older on average than those in other regions, indicating weaker entry and exit mechanisms.[1] Firm entry density in the Middle East and North Africa is among the lowest in the world.[2]

A clear message emerging from the political transformation of the Arab world is the demand for more inclusive, broad-based growth that creates opportunity for many who have not shared in the benefits of private sector development in the past. In most Arab economies the unemployment rate remains in double digits, and the majority of the unemployed are under the age of 30. Policies focused on promoting inclusive growth, creating incentives for the private sector to create more good jobs and improving governance can increase employment opportunities for young people in the region.[3]

Policy makers worldwide recognize the role that entrepreneurs play in creating economic opportunities for themselves and for others. To encourage private-sector-led growth, policy makers often take measures to improve the investment climate and boost productivity. Investments in infrastructure—ports, roads, telecommunications—are seen as a vital ingredient of private sector development. Security is essential, and in an increasingly complex global economy investments in education and training are critical. These investments typically take time to bear fruit. Another critical way for policy makers to encourage entrepreneurship is by creating a regulatory environment conducive to the creation and growth of businesses—one that promotes rather than inhibits competition.[4]

Economic activity requires good rules that are transparent, predictable and accessible to all. Such regulations should be efficient, striking a balance between safeguarding important interests of the public and avoiding distortions that impose unreasonable costs on business. Where business regulation is executed in a discretionary and burdensome way, and competition is limited, success depends more on whom you know than on what you know or what you can do. The burdens and costs fall hardest on new entrepreneurs and small firms—those least able to afford them. But where regulations are relatively easy to comply with and accessible to all who need to use them, anyone with talent and a good idea should be able to start and grow a business in the formal sector. In the Arab world the shift to this kind of regulatory environment, so central to the promise of the Arab Spring, is far from complete.

Through indicators benchmarking 183 economies, *Doing Business* measures and tracks changes in the regulations applying to primarily small and medium-size domestic companies in 11 areas in their life cycle (box 1.1). The findings suggest that entrepreneurs in the Arab world face a

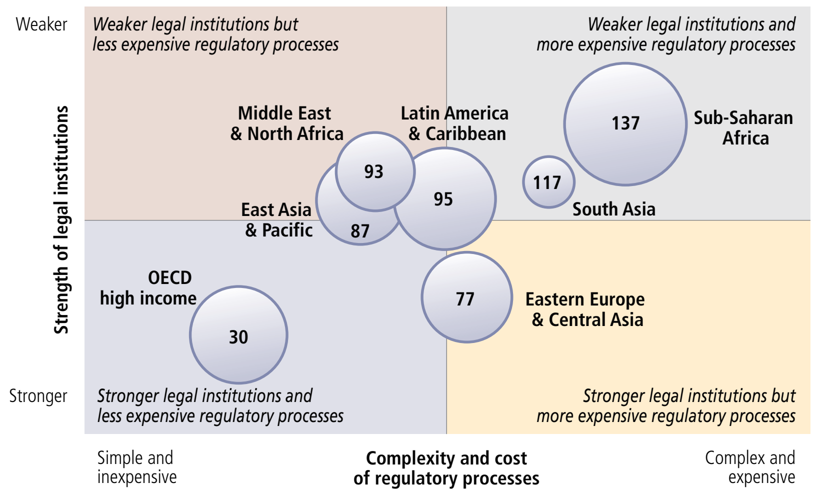
BOX 1.1 Measuring regulation through the life cycle of a local business

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

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

FIGURE 1.1 Stronger legal institutions and property rights protections are associated with more efficient regulatory processes

Average ranking on sets of *Doing Business* indicators



Note: Strength of legal institutions refers to the average ranking in getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average ranking in starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. The size of the bubble reflects the number of economies in each region and the number is the average ranking on the ease of doing business for the region. While there is much overlap between the Arab world and the Middle East and North Africa, the 2 regions include slightly different sets of economies.

Source: Doing Business database.

BOX 1.2 Key findings in the report

- Worldwide, 125 economies implemented 245 reforms making it easier to do business in 2010/11, 13% more than in the previous year. Among Arab economies, 13 implemented reforms making it easier to do business—20 such reforms in all. Half these reforms focused on making it easier to start a business or improving credit information systems.
- Opportunities for regulatory reform and greater transparency remain. Entrepreneurs across the Arab world continue to face often complex and costly regulatory processes to start and run a business—and contend with weaker investor and property rights protections than their counterparts in other regions.
- The regulatory environment varies across economies in the region. While Arab economies have an average ranking on the ease of doing business of 99 (among 183 economies globally), there is a great range within the region—from Saudi Arabia (12) to Djibouti (170).
- Morocco was the most active in implementing regulatory reforms in 2010/11. It launched a fully operational one-stop shop for obtaining construction permits. It eased the administrative burden of paying taxes for firms by enhancing electronic filing and payment of the corporate income tax and value added tax. And it adopted a new law modifying the rules of procedure governing commercial proceedings.
- New data show the importance of access to regulatory information. Fee schedules, documentation requirements and information relating to commercial cases and insolvency proceedings are not readily accessible in some Arab economies. But the rise in e-government initiatives in the region and around the world provides an opportunity to increase access to information and transparency.
- A new measure shows that over the past 6 years 94% of 174 economies covered by *Doing Business*—and 94% of the 18 Arab economies in the sample—made their regulatory environment more business-friendly. These economies moved closer to the “frontier,” a synthetic measure based on the most business-friendly regulatory practices across 9 areas of business regulation—from starting a business to resolving insolvency. Among Arab economies, the Arab Republic of Egypt made the greatest progress in narrowing the distance to the frontier between 2005 and 2011, followed by Saudi Arabia.

regulatory environment that is on average less business-friendly than those in OECD high-income economies. This means costlier and more bureaucratic procedures to start a business, deal with construction permits, register property, pay taxes and trade across borders. Getting an electricity connection, a new dimension in this year’s ease of doing business ranking, costs more on average (relative to income per capita) in the Arab world than in any other part of the world except Sub-Saharan Africa. The average cost in the Arab world is around 1,830% of income per capita, while the average in OECD high-income economies is 93% of income per capita. But a less business-friendly regulatory environment is not just about complex formalities or red tape. It also means weaker legal protections of minority shareholders and weaker collateral laws and institutions such as courts, credit bureaus and collateral registries.

Globally, more efficient regulatory processes often go hand in hand with stronger legal institutions and property rights protections. There is an association between the strength of legal institutions and property rights protections in an economy as captured by several sets of *Doing Business* indicators (getting credit, protecting investors, enforcing contracts and resolving insolvency) and the complexity and cost of regulatory processes as captured by several others (starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders). OECD high-income economies, by a large margin, have the world’s most business-friendly environment on both dimensions. At the other end of the spectrum, economies in Sub-Saharan Africa and South Asia are most likely to have both weaker legal institutions and more complex regulatory processes as measured by *Doing Business*.

The Arab world breaks away from the general trend. Regulatory processes on average have improved over time, particularly in areas such as business start-up. But legal institutions related to protecting investors, enforcing contracts and resolving insolvency are relatively weak compared with those in other regions (figure 1.1). Today

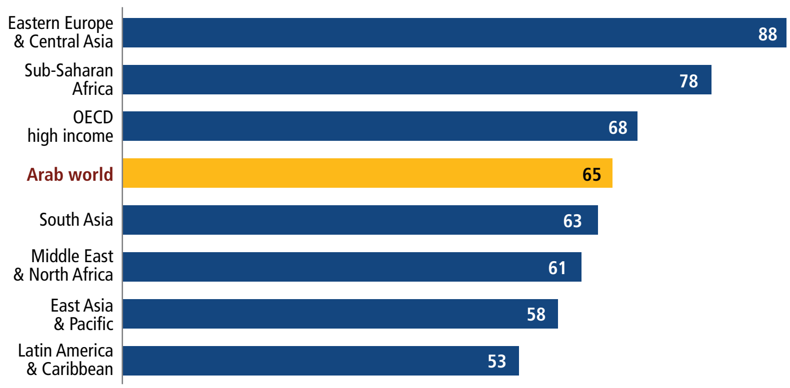
economies in the region often combine relatively weaker legal institutions with relatively more efficient regulatory processes.

TRENDS IN BUSINESS REGULATION REFORM IN THE ARAB WORLD

Worldwide, 125 economies implemented 245 reforms making it easier to do business in 2010/11, 13% more than in the previous year. These include the 20 reforms implemented by 13 Arab economies (figure 1.2).

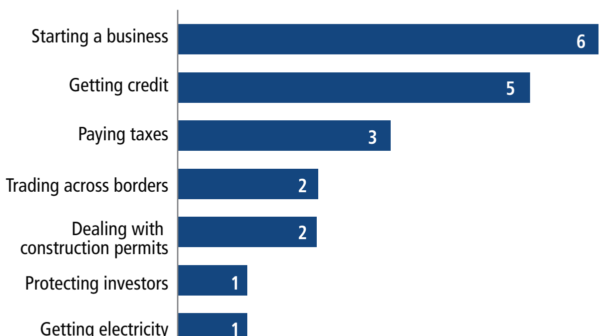
In recent years regulatory reforms in the Arab world have focused on simplifying regulatory processes such as starting a business or trading across borders. In 2010/11, 6 Arab economies made it easier to start a business (figure 1.3). Since 2005 the number of Arab economies where starting a business takes 20 days or less has more than doubled, from 4 to 11. And trading across borders has become faster. The average time required to export goods has fallen from 30 days in 2005 to 21 today, while the average time to import has fallen from 36 days to 25.

FIGURE 1.2 Two-thirds of Arab economies reformed business regulation in 2010/11
Share of economies with at least 1 *Doing Business* reform making it easier to do business (%)



Source: Doing Business database.

FIGURE 1.3 Reforms making it easier to start a business were most common in the Arab world in 2010/11
Number of *Doing Business* reforms making it easier to do business in the Arab world in 2010/11, by topic



Note: Doing Business recorded no reforms making it easier to register property, enforce contracts or resolve insolvency in the Arab world in 2010/11.
Source: Doing Business database.

Yet economies in the Arab world have lagged behind in implementing institutional reforms to improve insolvency regimes, judicial systems, collateral laws and credit information systems (box 1.3). No Arab economy implemented reforms in registering property, enforcing contracts or resolving insolvency in 2010/11, and only Morocco amended legislation to strengthen shareholder protections. Resolving a commercial dispute through the courts in Arab economies takes 651 days on average—longer than in any other region except Latin America and the Caribbean and South Asia. Creditors in Arab economies can expect to recover on average only 32.7 cents on the dollar from insolvent firms—a recovery rate that, along with that in Latin America and the Caribbean, ranks second lowest in the world after Sub-Saharan Africa's.

In a positive trend, reforms to improve credit information systems have been high on the agenda of the region's policy makers in recent years. Seventeen Arab economies have a public credit registry or private credit bureau. But coverage by these institutions, at only 15% of the region's adult population, remains low—lower than in any other region except Sub-Saharan Africa (12%) and South Asia (10%). Eastern Europe and Central Asia, the region with the next highest ranking, has coverage of 40% of its adult population.

OPPORTUNITIES FOR GREATER ACCESS TO INFORMATION IN BUSINESS REGULATION

Institutions play a major role in private sector development. Courts, registries, tax agencies and credit information bureaus are essential to make markets work. How efficient and transparent they are matters greatly to business. To improve the efficiency of processes and institutions, governments around the world—regardless of national income level—are making greater use of technology.

More than 100 of the 183 economies covered by *Doing Business* use electronic systems for services ranging from business registration to customs clearance to court filings.[5] This saves time and money for business and government alike. It also provides new opportunities to increase transparency as well as to facilitate access to information and compliance with regulation. But not all economies take advantage of the opportunities for openness provided by the new technologies. And at times fiscal constraints and budgetary priorities have prevented faster adoption of the latest technologies to improve the quality of public services.

This year *Doing Business* researched how businesses can access information essential for complying with regulations and formalities, such as documentation requirements for trade or fee schedules for business start-up, construction permitting or electricity connections. Because some economies lack fully developed information technology infrastructure, the research also explored whether economies used other means to make such information easily accessible, such as posting fee schedules at the relevant agency or disseminating them through public notices.

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

Regulatory reform efforts in the Arab world continue to focus on making regulatory processes more efficient—and less so on strengthening legal institutions. Regulatory changes aimed at making it easier to start a business or improving credit information systems account for half the 20 reforms making it easier to do business that Arab economies implemented in 2010/11.

Six Arab economies made it easier to start a business between June 2010 and May 2011. Oman introduced online company registration at its one-stop shop. Jordan and the Syrian Arab Republic significantly reduced the paid-in minimum capital requirement. Qatar combined commercial registration and registration with the Chamber of Commerce and Industry at its one-stop shop. Saudi Arabia brought together representatives from the Department of Zakat and Income Tax and the General Organization of Social Insurance at the Unified Center to register new companies with their agencies. And the United Arab Emirates merged the requirements to file company documents with the Department for Economic Development, to obtain a trade license and to register with the Dubai Chamber of Commerce and Industry.

Four Arab economies improved their credit information system. Algeria guaranteed by law the right of borrowers to inspect their personal data. Oman launched the Bank Credit and Statistical Bureau System, which collects historical information on performing and nonperforming loans for both firms and individuals. Qatar's credit bureau started to distribute historical data and eliminated the minimum threshold for loans included in the database. And the United Arab Emirates passed a new law allowing the establishment of a federal credit bureau under the supervision of the central bank. A fifth economy, the Comoros, strengthened the legal rights of borrowers and lenders by implementing amendments to the OHADA Uniform Act on Secured Transactions that, among other things, introduce the possibility of out-of-court enforcement.[1]

Lebanon was the only Arab economy that made it easier to get electricity. It lowered the cost by reducing the application fees and security deposit for a new connection.

Morocco and Oman each implemented reforms in 3 areas covered by *Doing Business*—Morocco in dealing with construction permits, protecting investors and paying taxes and Oman in starting a business, getting credit and paying taxes. Morocco was the economy that improved the most worldwide in the ease of doing business in 2010/11.

No Arab economy implemented reforms in registering property, enforcing contracts or resolving insolvency in 2010/11. And 5 Arab economies—Bahrain, the Arab Republic of Egypt, Kuwait, Sudan, and West Bank and Gaza—implemented no reforms as recorded by *Doing Business*. Iraq made it more difficult to start a business by increasing the cost to obtain a name reservation certificate and the cost for lawyers to draft articles of association.

1. The Organization for the Harmonization of Business Law in Africa (OHADA) is a system of common business laws and implementing institutions adopted by treaties among 16 West and Central African nations. It was created by 14 initial member economies on October 17, 1993, in Port Louis, Mauritius.

The findings are striking. In the majority of economies in the Arab world, obtaining such information requires a meeting with an official. In all OECD high-income economies documentation requirements for trade are accessible online, at an agency or through public notices (figure 1.4). This is the case in only about 30% of Arab economies. And documentation requirements for building permits are available online or through public notices in only about 38% of economies in the Arab world.

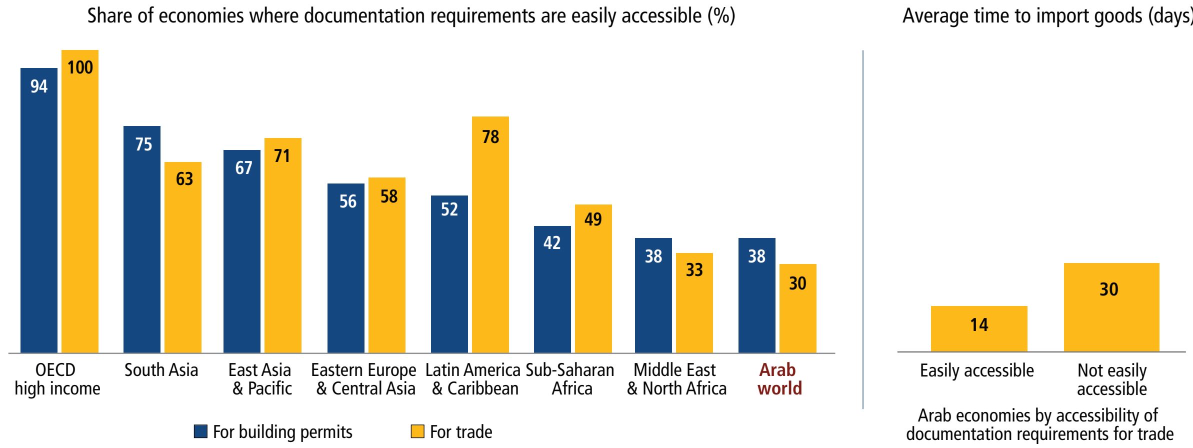
Globally, easier access to fee schedules and lower fees tend to go hand in hand. This trend also holds true in the Arab world. In Arab economies where fee schedules for company incorporation are easily accessible, starting a business costs 35% of income per capita on average; where they are not, it costs 52% of income per capita on average.

Beyond information that businesses need to comply with regulation, institutions such as courts provide information that helps increase transparency in the marketplace. Efficient and fair courts are essential for creating the trust needed for businesses to build new relationships and expand their markets—and for investors to invest. But it is not only their role in efficient enforcement that matters. *Doing Business* finds that in close to 75% of a sample of 151 economies—and in 69% of the 13 Arab economies in this group—courts are required by law to publicize the initiation of insolvency proceedings.

THE TOP 20 ECONOMIES ON THE EASE OF DOING BUSINESS

Globally, the 20 economies with the most business-friendly regulation as reflected in their ranking on the ease of doing business are Singapore; Hong Kong SAR, China; New Zealand; the United States; Denmark; Norway; the United Kingdom; the Republic of Korea; Iceland; Ireland; Finland; Saudi Arabia; Canada; Sweden; Australia; Georgia; Thailand; Malaysia; Germany; and Japan (table 1.1). An economy's ranking on the ease of doing business does not tell the

FIGURE 1.4 Access to documentation requirements for building permits and trading across borders remains difficult in the Arab world



Note: Documentation requirements are considered easily accessible if they can be obtained through the website of the relevant authority or another government agency or through public notices, without a need for an appointment with an official. The data sample for building permits comprises 159 economies, including 16 in the Arab world. The sample for trade comprises 175 economies, including 20 in the Arab world. Relationships in the second panel are significant at the 5% level after controlling for income per capita.

Source: Doing Business database.

whole story about its business environment. The underlying indicators do not account for all factors important to doing business, such as macroeconomic conditions, market size, workforce skills and security. But they do capture some key aspects of the regulatory and institutional environment that matter for firms. These 20 economies have implemented effective yet streamlined procedures for regulatory processes such as starting a business and dealing with construction permits as well as strong legal protections of property rights. They also periodically review and update business regulations as part of a broader competitiveness agenda and take advantage of new technologies through e-government initiatives.

In Saudi Arabia business regulation reforms in the areas covered by *Doing Business* have been a high priority for the government. In the past 7 years Saudi Arabia made 20 improvements in 7 of these areas. These reforms included adopting a real property registration law in 2006, establishing a commercial credit bureau in 2007 and eliminating the paid-in minimum capital requirement—which, at 1,057% of income per capita, had been among the highest in the region. In 2006 Saudi Arabia also streamlined business registration and the documentation requirements for importing goods, and in 2008 it amended its company law to address approval and disclosure requirements for related-party transactions. In 2009 it launched a new container terminal at the Jeddah Islamic Port. And in 2010 it expedited the bankruptcy process by providing for earlier access to amicable settlements and set time limits for the process to encourage creditors to participate.

DIFFERENCES IN PERFORMANCE ACROSS AREAS OF BUSINESS REGULATION

The economies making such continued efforts, often over decades, tend to compare well with others across all 10 areas of business regulation included in this year's ease of doing business ranking—and to do so over time, reflecting a more consistent and comprehensive approach to business regulation. In many of the other economies, by contrast, the degree to which regulations and institutions are business-friendly varies fairly widely across different areas of regulation.[6]

This shows up in comparisons of an economy's 3 highest rankings on *Doing Business* topics with its 3 lowest rankings (figure 1.5). For example, the Arab Republic of Egypt's top 3 rankings (on starting a business, trading across borders and getting credit) average 54, while its lowest 3 (on dealing with construction permits, paying taxes and enforcing contracts) average 149.

For some economies this variance is due in part to the rapid pace of reform in some areas of business regulation. One such area is business entry: more than 80% of the 183 economies covered by *Doing Business* (and 70% of Arab economies) have made it easier to start a business since 2003. In Egypt, for example, starting a business is reasonably straightforward thanks to the implementation of an efficient one-stop shop. But dealing with construction permits takes about 7 months, and enforcing a contract through the courts takes almost 3 years on average.

Differences across areas of business regulation provide an opportunity for policy makers interested in regulatory reform. Not surprisingly, different areas of business regulation interact. Some research suggests that business regulation reforms have greater impact if combined with effective regulation in other areas. For example, when India dismantled a strict licensing regime controlling business

TABLE 1.1 Rankings on the ease of doing business

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

Note: The rankings for all economies are benchmarked to June 2011 and reported in the country tables. This year's rankings on the ease of doing business are the average of the economy's rankings on the 10 topics included in this year's aggregate ranking (see box 1.1). The number of reforms excludes those making it more difficult to do business.

a. Last year's rankings, shown in italics, are adjusted: they are based on the same 10 topics and reflect data corrections.

Source: Doing Business database.

entry and production, the benefits were greater in states that had more flexible labor regulations. These states saw real output gains 17.8% larger than those in states with less flexible labor markets.[7] In Mexico researchers found that a municipal license reform across states increased new firm registrations by 5% and employment by 2.2%.[8] The effect was greater in states with less corruption and better governance.[9]

Beyond these country-specific studies, cross-country analysis found that a 10-day reduction in the time to start a business was associated with a 0.3 percentage point increase in the investment rate and a 0.36% increase in the GDP growth rate in relatively poor and well-governed economies.[10] Another study points to synergistic effects between institutional reforms that reduce the costs of high-quality production and trade reforms. In many developing economies production of high-quality output is a precondition for firms to become exporters. Institutional deficiencies that raise the costs of high-quality production therefore limit the positive effect that trade facilitation can have on income.[11]

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

Policy makers often keep an eye on relative rankings that compare economies at a point in time. But they increasingly recognize the importance of improvements within economies over time. And results from recent years are encouraging. In the past 6 years policy makers in 163 economies globally (including 17 of the 18 Arab economies in the sample) made domestic regulations more business-friendly (figure 1.6). They lowered barriers to entry, operation and exit and strengthened protections of property and investor rights. Only a few economies moved in the opposite direction. Among the Arab economies, Iraq is the only one that did so.

Some economies have gone particularly far in closing the gap with the regulatory systems of top-performing economies such as Singapore, New Zealand and the Northern European economies (figure 1.7). In narrowing the gap, these economies are moving closer to the "frontier"—a synthetic measure based on the most efficient practice or highest score observed for each indicator. For starting a business, for example, the bar is set by New Zealand on the time (1 day), Canada and New Zealand on the number of procedures (1), Denmark and Slovenia on the cost (0). Georgia, Norway, Portugal, Sweden and the United Arab Emirates set the bar on the number of procedures for registering property (1), France on the documents required to export (2), Singapore on the time to enforce contracts (150 days). The frontier is thus a proxy for global good practice across all indicators.

In the Arab world, Egypt, Saudi Arabia and Morocco are among those that made the most progress in closing the gap to the frontier over the past 6 years. These economies started off with relatively high levels of bureaucracy and weak protections of property rights as measured by *Doing Business*. Since 2005, however, Egypt has implemented 23 reforms making it easier to do business, Saudi Arabia 18 and Morocco 14. Yet economies such as Egypt and Morocco still have some way to go compared with most other economies, particularly in their legal institutions, many of which remain underdeveloped. By contrast, Saudi Arabia not only focused on easing regulatory burdens over the past 4 years; it also passed legislation to strengthen the protections of minority shareholders, speed up the bankruptcy process and improve access to credit.

Jordan is another Arab economy that has made substantial progress toward the frontier. Since 2005 it has implemented 14 regulatory reforms in areas covered by *Doing Business*, almost a third of them focused on making it easier and less expensive to start a business. In the past year Jordan reduced its paid-in minimum capital requirement from 1,000 Jordanian dinars to half a dinar (less than $1)—far below the Arab world average of 107% of income per capita. Moreover, Jordan lowered the overall cost to start a business from 102% of income per capita in 2004 to 14% today. This is less than a third of the average in the Arab world, though still 3 times the average in OECD high-income economies.

The Comoros, Sudan and Iraq have made no substantial progress toward the frontier. In the past 6 years the Comoros implemented only 1 regulatory reform making it easier to do business, and Sudan 3, while Iraq had no such reforms. Other economies, such as Algeria, Djibouti, and West Bank and Gaza, implemented a number of business regulation reforms in recent years, but the reforms have had only a minor impact or have not yet taken effect.

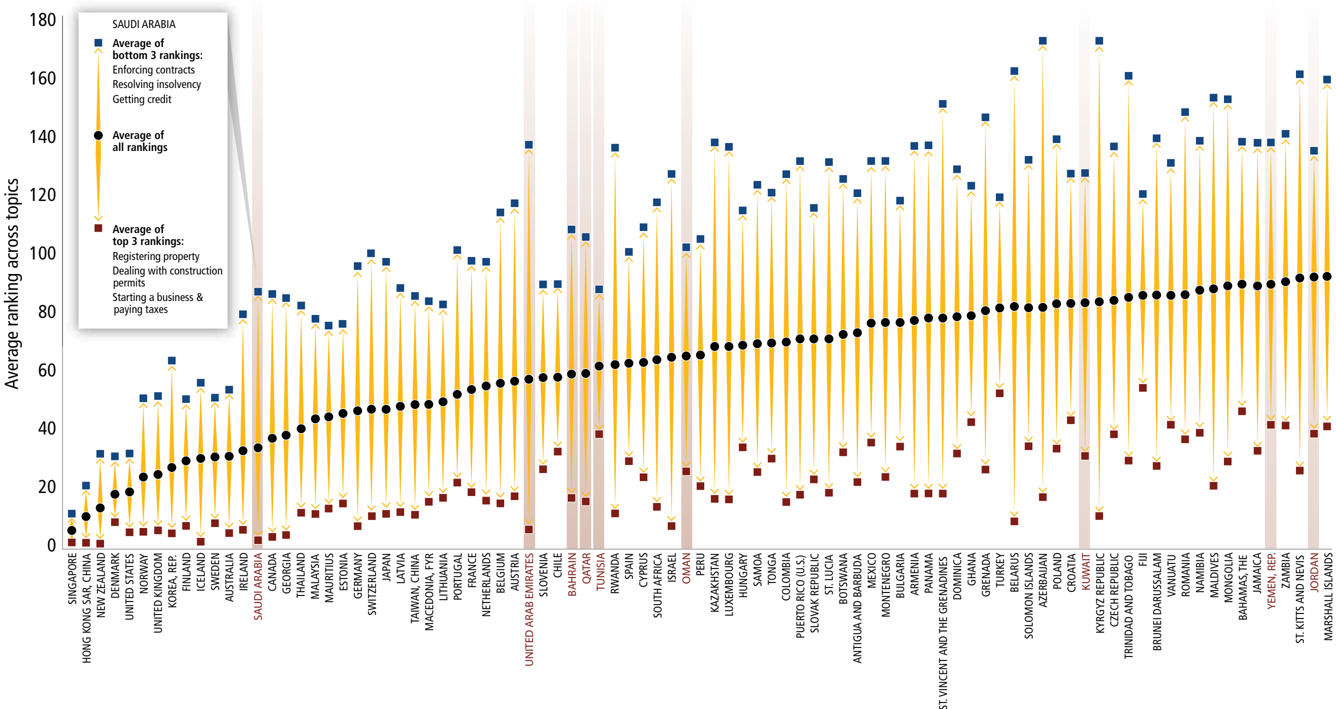
Economies making the greatest progress toward the frontier have been able to do so thanks to broad regulatory reform programs covering multiple areas of regulation and embedded in a long-term competitiveness strategy. Morocco, for example, has implemented policy changes across 7 areas of regulation measured by *Doing Business* in the years since 2005—more areas than almost any other Arab economy.

More economies are taking this broad approach. In 2010/11, 35 economies globally (including Morocco and Oman in the Arab world) implemented reforms making it easier to do business in 3 or more areas measured by *Doing Business*—12 of them in 4 or more areas. Four years before, only 10 reformed in 3 or more areas.

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

FIGURE 1.5 An economy's regulatory environment may be business-friendly in some areas, less so in others

Within-economy variation in rankings across *Doing Business* topics

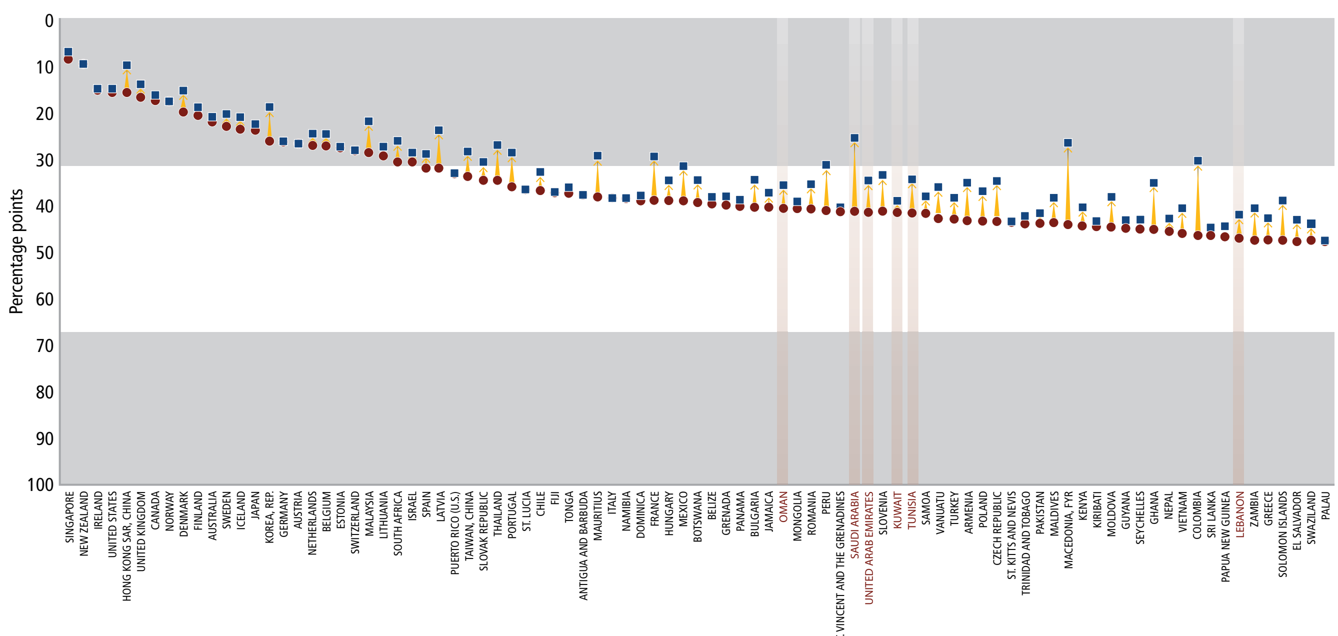


Note: Figure illustrates the variability in the degree to which an economy's regulatory environment is business-friendly compared with other economies across different areas of regulation. The vertical bars show the distance between the average of the highest 3 topic rankings and the average of the lowest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

Source: Doing Business database.

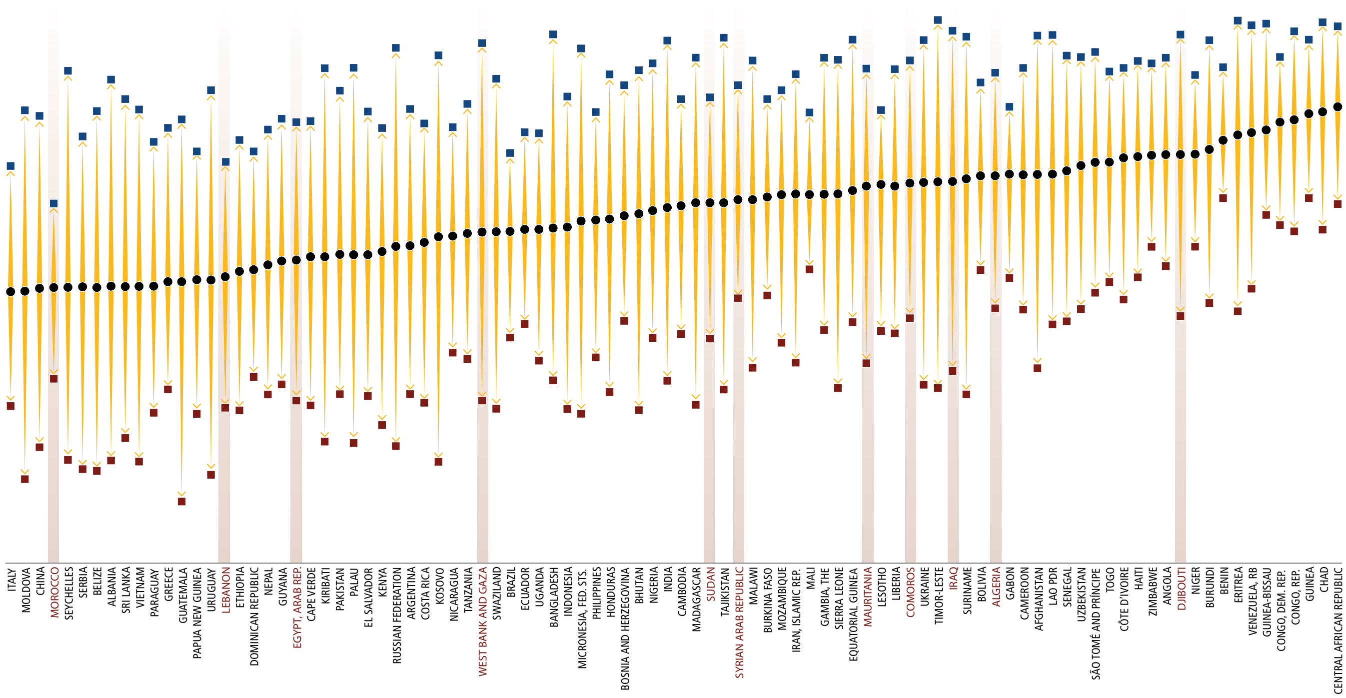
FIGURE 1.6 In the past 6 years 163 economies moved closer to the frontier in regulatory practice

Distance to frontier, 2005 and 2011



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

Source: Doing Business database.


ITALY
MOLDOVA
CHINA
MOROCCO
SEYCHELLES
SERBIA
BELIZE
ALBANIA
SRI LANKA
VIETNAM
PARAGUAY
GREECE
GUATEMALA
PAPUA NEW GUINEA
URUGUAY
LEBANON
ETHIOPIA
DOMINICAN REPUBLIC
NEPAL
GUYANA
EGYPT, ARAB REP.
CAPE VERDE
KIRIBATI
PAKISTAN
PALAU
EL SALVADOR
KENYA
RUSSIAN FEDERATION
ARGENTINA
COSTA RICA
KOSOVO
NICARAGUA
TANZANIA
WEST BANK AND GAZA
SWAZILAND
BRAZIL
ECUADOR
UGANDA
BANGLADESH
INDONESIA
MICRONESIA, FED. STS.
PHILIPPINES
HONDURAS
BOSNIA AND HERZEGOVINA
BHUTAN
NIGERIA
INDIA
CAMBODIA
MADAGASCAR
SUDAN
TAJIKISTAN
SYRIAN ARAB REPUBLIC
MALAWI
BURKINA FASO
MOZAMBIQUE
IRAN, ISLAMIC REP.
MALI
GAMBIA, THE
SIERRA LEONE
EQUATORIAL GUINEA
MAURITANIA
LESOTHO
LIBERIA
COMOROS
UKRAINE
TIMOR-LESTE
IRAQ
SURINAME
BOLIVIA
ALGERIA
GABON
CAMEROON
AFGHANISTAN
LAO PDR
SENEGAL
UZBEKISTAN
SÃO TOMÉ AND PRÍNCIPE
TOGO
CÔTE D'IVOIRE
HAITI
ZIMBABWE
ANGOLA
DJIBOUTI
NIGER
BURUNDI
BENIN
ERITREA
VENEZUELA, RB
GUINEA-BISSAU
CONGO, DEM. REP.
CONGO, REP.
GUINEA
CHAD
CENTRAL AFRICAN REPUBLIC

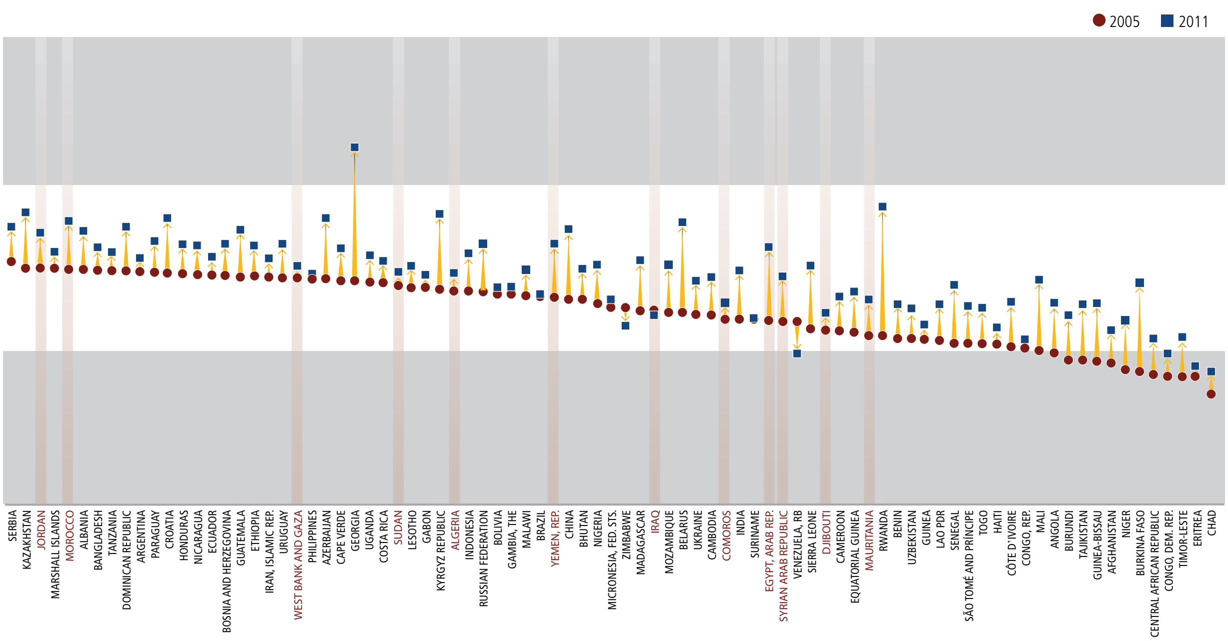
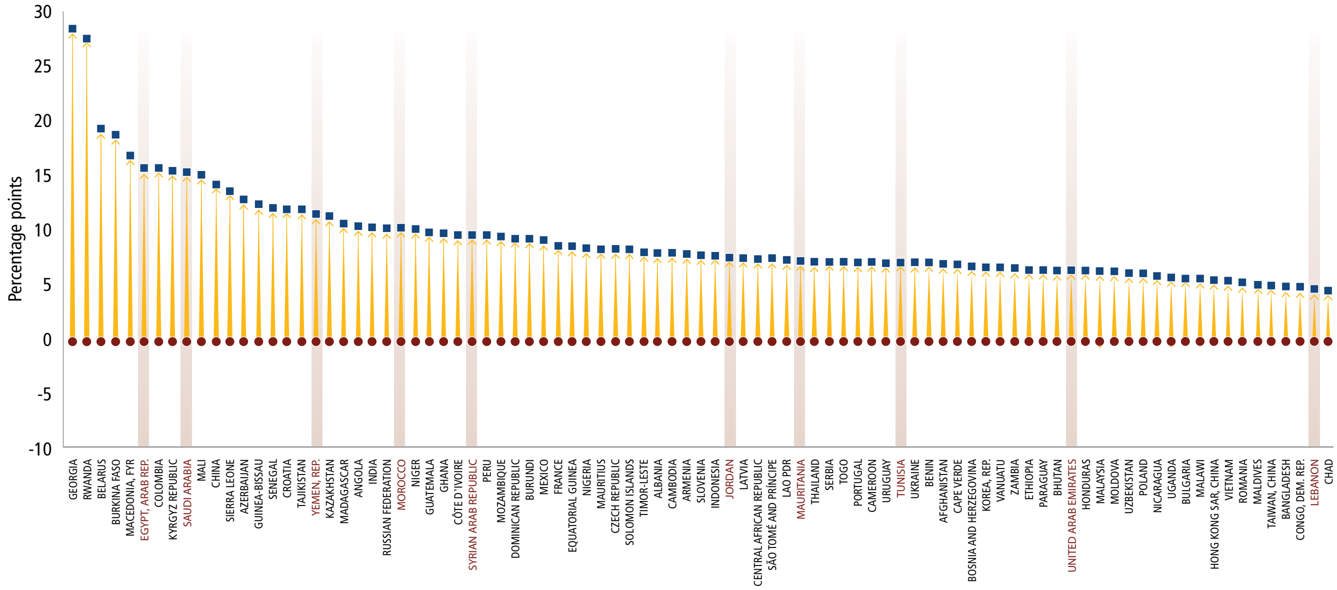

2005
2011
SERBIA
KAZAKHSTAN
JORDAN
MARSHALL ISLANDS
MOROCCO
ALBANIA
BANGLADESH
TANZANIA
DOMINICAN REPUBLIC
ARGENTINA
PARAGUAY
CROATIA
HONDURAS
NICARAGUA
ECUADOR
BOSNIA AND HERZEGOVINA
GUATEMALA
ETHIOPIA
IRAN, ISLAMIC REP.
URUGUAY
WEST BANK AND GAZA
PHILIPPINES
AZERBAIJAN
CAPE VERDE
GEORGIA
UGANDA
COSTA RICA
SUDAN
LESOTHO
GABON
KYRGYZ REPUBLIC
ALGERIA
INDONESIA
RUSSIAN FEDERATION
BOLIVIA
GAMBIA, THE
MALAWI
BRAZIL
YEMEN, REP.
CHINA
BHUTAN
NIGERIA
MICRONESIA, FED. STS.
ZIMBABWE
MADAGASCAR
IRAQ
MOZAMBIQUE
BELARUS
UKRAINE
CAMBODIA
COMOROS
INDIA
SURINAME
EGYPT, ARAB REP.
SYRIAN ARAB REPUBLIC
VENEZUELA, RB
SIERRA LEONE
DJIBOUTI
CAMEROON
EQUATORIAL GUINEA
MAURITANIA
RWANDA
BENIN
UZBEKISTAN
GUINEA
LAO PDR
SENEGAL
SÃO TOMÉ AND PRÍNCIPE
TOGO
HAITI
CÔTE D'IVOIRE
CONGO, REP.
MALI
ANGOLA
BURUNDI
TAJIKISTAN
GUINEA-BISSAU
AFGHANISTAN
NIGER
BURKINA FASO
CENTRAL AFRICAN REPUBLIC
CONGO, DEM. REP.
TIMOR-LESTE
ERITREA
CHAD

FIGURE 1.7 Who advanced the most in closing the gap to the frontier?

Progress in narrowing distance to frontier, 2005–11



Note: Figure shows the absolute difference for each economy between its distance to frontier in 2005 and that in 2011.

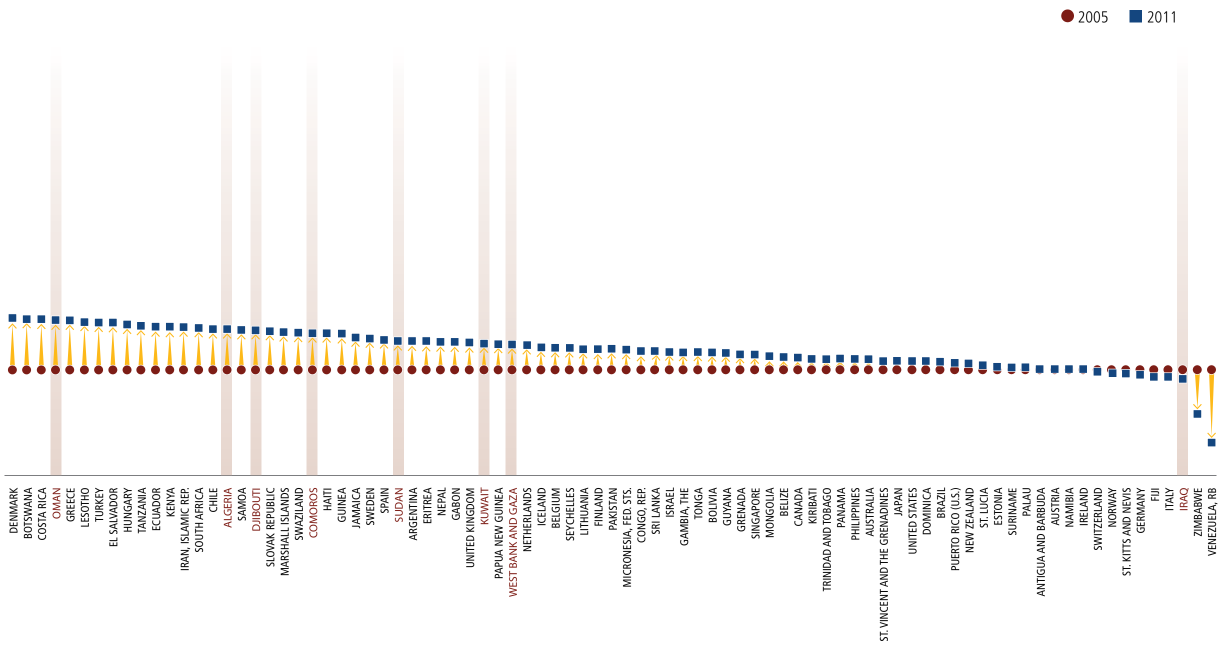
Source: Doing Business database.

TABLE 1.2 Economies that improved the most across 3 or more areas measured by *Doing Business* in 2010/11

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

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

Source: Doing Business database.



Among the 12 economies improving the most in the ease of doing business in 2010/11, two-thirds are low- or lower-middle-income economies. All implemented regulatory reforms making it easier to do business in 3 or more of the 10 areas included in this year's aggregate ranking (table 1.2).

Morocco was the economy that improved the most in 2010/11. In the past year it launched a fully operational one-stop shop for obtaining construction permits. It eased the administrative burden of paying taxes for firms by enhancing electronic filing and payment of the corporate income tax and value added tax. And in February 2011 it adopted a new law modifying the rules of procedure governing commercial proceedings. The law allows parties to a trial to ask the judge to compel any evidence that is relevant to the subject matter of the claim. In addition, the law allows parties to a commercial trial to directly question the opposing parties and witnesses. As a result of these reforms, Morocco moved up 21 places in the ease of doing business ranking.

Such reforms come as part of a broader government effort to improve Morocco's business environment. In 2008 the government established a public-private mechanism for coordinating business environment reforms, which in turn led to the establishment of the National Committee for the Business Environment (Comité National de l'Environnement des Affaires, or CNEA), a platform for public-private dialogue that periodically gathers key stakeholders around a common agenda of reform. Among the projects launched through the CNEA in 2010 and 2011, many have been completed and several are at an advanced stage of implementation. The CNEA's success is due in large part to effective interagency coordination. Morocco's business regulation reforms before 2010/11 include, most recently, amendments to the company law abolishing the paid-in minimum capital requirement for limited liability companies. Morocco also plans to establish commercial courts and to simplify and standardize the most commonly used administrative forms for businesses.

NOTES

1. World Bank 2009b.
2. According to World Bank Group Entrepreneurship Snapshots, available at http://econ.worldbank.org/research/entrepreneurship. *Firm entry density* is defined as the number of newly registered limited liability firms per 1,000 working-age people (ages 15–64).
3. Gatti and others 2011; World Bank Middle East and North Africa Region 2011.
4. Research shows that business regulations of the type measured by *Doing Business* affect the creation of new firms in the local market, the productivity levels of those firms and the creation of employment. Cross-country studies show that greater ease of entry is associated with a higher firm entry rate and greater business density on average. Encouraging evidence from economies as diverse as Colombia, India, Mexico and Portugal also supports these findings. For more on this and other relevant research, see the chapter "About *Doing Business*: measuring for impact."
5. Public procurement, while not covered by any of the *Doing Business* indicators, is another area in which a growing number of governments are using electronic platforms. The aim is to increase transparency in the relationships between public officials and suppliers.
6. This pattern of relatively large variation across indicator sets is not specific to *Doing Business*. A similar pattern can be discerned in, for example, the World Economic Forum's Global Competitiveness Index, a broader measure capturing such factors as macroeconomic stability, the soundness of public institutions, aspects of human capital and the sophistication of the business community. The United States and Japan, as leaders in technology, score extremely well on measures of innovation. But with large budget deficits and high levels of public debt, they do less well on measures of macroeconomic stability.
7. Aghion and others 2008.
8. Bruhn 2011.
9. Kaplan, Piedra and Seira 2007.
10. Eifert 2009.
11. Rauch 2010.

About *Doing Business*: measuring for impact

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

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

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

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

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

WHAT *DOING BUSINESS* COVERS

An entrepreneur's willingness to try a new idea may be influenced by many factors, including perceptions of how easy (or difficult) it will be to deal with the array of rules that define and underpin the business environment. Whether the entrepreneur decides to move forward with the idea, to abandon it or to take it elsewhere might depend in large part on how simple it is to comply with the requirements for opening a new business or getting a construction permit and how efficient the mechanisms are for resolving commercial disputes or dealing with insolvency. *Doing Business* provides quantitative measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency—as they apply to domestic small and medium-size enterprises.[3] It also looks at regulations on employing workers.

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

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

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

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

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

WHAT *DOING BUSINESS* DOES NOT COVER

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

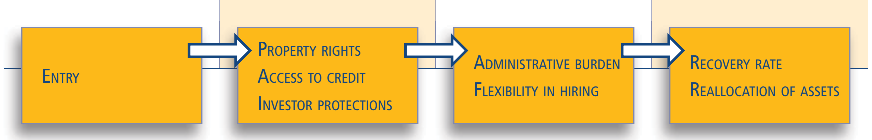
Limited in scope

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

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, corruption, market size, macroeconomic stability, the state of the financial system, the labor skills of the population or all aspects of the quality of infrastructure. Nor does it focus on regulations specific to foreign investment.
- While *Doing Business* focuses on the quality of the regulatory framework, it is not all-inclusive; it does not cover all regulations in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws (*acquis*) has now grown to no fewer than 14,500 rule sets. *Doing Business* covers 11 areas of a company's life cycle, through 11 specific sets of indicators. These indicator sets do not cover all aspects of regulation in the area of focus. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all areas of labor regulation. The current set of indicators does not, for example, include measures of regulations addressing safety at work or the right of collective bargaining.
- *Doing Business* also does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. The paying taxes indicators, for example, measure the total tax rate, which is a cost to business. The indicators do not measure, nor are they intended to measure, the social and economic programs funded through tax revenues. Measuring business laws and regulations provides one input into the debate on the regulatory burden associated with achieving regulatory objectives. Those objectives can differ across economies.

TABLE 2.2 *Doing Business*—benchmarking 11 areas of business regulation

Start-up	Expansion	Operations	Insolvency
• Starting a business *Minimum capital requirement* *Procedures, time and cost*	• Registering property *Procedures, time and cost* • Getting credit *Credit information systems* *Movable collateral laws* • Protecting investors *Disclosure and liability in related-party transactions* • Enforcing contracts *Procedures, time and cost to resolve a commercial dispute*	• Dealing with construction permits *Procedures, time and cost* • Getting electricity *Procedures, time and cost* • Paying taxes *Payments, time and total tax rate* • Trading across borders *Documents, time and cost* • Employing workers	• Resolving insolvency *Time, cost and recovery rate*



Based on standardized case scenarios

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

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

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

Focused on the formal sector

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

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

WHY THIS FOCUS

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

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

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

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

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

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

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

The results show no variation between cities within each economy in areas governed by laws or regulations such as the civil procedure code, listing rules for companies and incorporation rules. For rules governing secured transactions, for example, entrepreneurs in Brazil all refer to the Judicial Recovery and Bankruptcy Act of 2005, those in China to the Law on Regulation of and Supervision over the Banking Industry of 2006 and those in Russia to the Law on Insolvency of 2002.

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

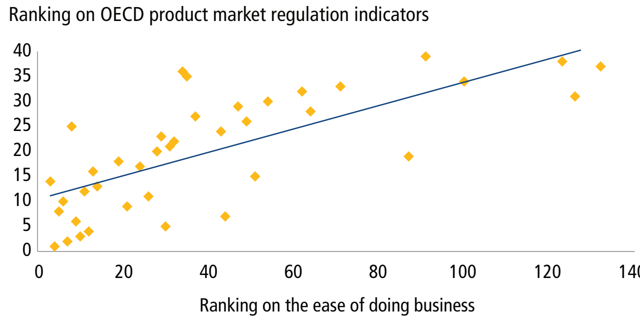
In all 3 economies the number of taxes and contributions varies between cities. In China businesses in both cities have to comply with 3 state-administered taxes (value added tax, corporate tax and business tax). But while companies in Beijing need to comply with 6 locally administered taxes, those in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

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

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

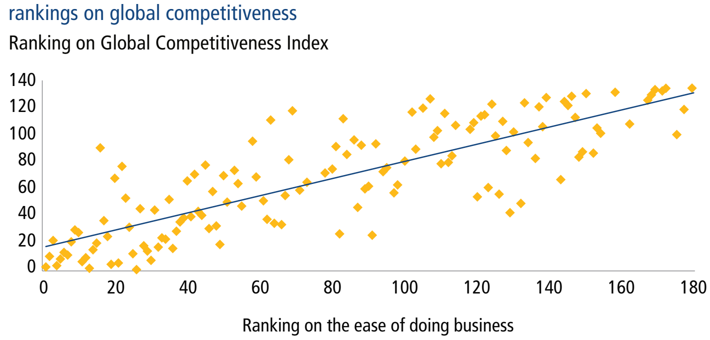
Similarly, there is a high correlation (0.82) between the rankings on the ease of doing business and those on the World Economic Forum's Global Competitiveness Index, a much broader measure capturing such factors as macroeconomic stability, aspects of human capital, the soundness of public institutions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

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



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

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



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

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

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

Where regulation is burdensome and competition limited, success tends to depend more on whom you know than on what you can do.[12] But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any aspiring entrepreneurs, regardless of their connections, to operate within the rule of law and to benefit from the opportunities and protections that the law provides. Not surprisingly, higher rankings on the ease of doing business—based on 10 areas of business regulation measured by *Doing Business*—are correlated with better governance and lower levels of perceived corruption.[13]

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

DOING BUSINESS AS A BENCHMARKING EXERCISE

Doing Business, in capturing some key dimensions of regulatory regimes, has been found useful for benchmarking—an aspect allowing decision makers to make more considered judgments on the policy options available, enhancing the ability to assess progress over time and make meaningful international comparisons, and contributing to public debate and the promotion of greater accountability.

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

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

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

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

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

Each indicator set covered by *Doing Business* measures a different aspect of the business regulatory environment. The rankings of each economy vary, sometimes significantly, across the indicator sets. A quick way to assess the variability of an economy's regulatory performance across the different areas of business regulation is to look at the topic rankings (see the country tables). Korea, for example, stands at 8 in the overall ease of doing business ranking. Its ranking is 2 on the ease of enforcing contracts, 4 on the ease of trading across borders and 8 on the ease of getting credit. At the same time, it has a ranking of 24 on the ease of starting a business, 26 on the ease of dealing with construction permits, 38 on the ease of paying taxes and 71 on the ease of registering property. Variation in performance across the indicator sets reflects the different priorities that governments give to particular areas of business regulation as well as economy-specific circumstances that may allow a faster pace of reform in some areas than in others.

WHAT RESEARCH SHOWS ON THE EFFECTS OF BUSINESS REGULATION

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

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

Lower costs for business registration encourage entrepreneurship and enhance firm productivity. Economies with efficient business registration have a higher entry rate by new firms as well as greater business density.[19] Economies where registering a new business takes less time have seen more businesses register in industries where the potential for growth is greatest, such as those that have experienced expansionary shifts in global demand or technology.[20] Reforms making it easier to start a business tend to have a significant positive effect on investment in product market industries such as transport, communications and utilities, which are often sheltered from competition.[21] There is also evidence that more efficient business entry regulations improve firm productivity and macroeconomic performance.[22]

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

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

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

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

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

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

Research also shows that an economy's ability to enforce contracts is an important determinant of its comparative advantage in the global economy: among comparable economies, those with good contract enforcement tend to produce and export more customized products than those with poor contract enforcement.[35] Another study shows that in many developing economies production of high-quality output is a precondition for firms to become exporters: institutional reforms that lower the cost of high-quality production increase the positive effect that trade facilitation can have on income.[36] Research shows that removing barriers to trade needs to be accompanied by other reforms, such as making labor markets more flexible, to achieve higher productivity and growth.[37]

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

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

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

HOW GOVERNMENTS USE *DOING BUSINESS*

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

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

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

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

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

To ensure the coordination of efforts across agencies, such economies as Colombia and Rwanda have formed regulatory reform committees, reporting directly to the president, that use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 25 other economies have formed such committees at the interministerial level. These include economies across regions: In East and South Asia, India; Malaysia; Taiwan, China; Thailand; and Vietnam. In the Middle East and North Africa, Egypt; Morocco; Saudi Arabia; the Syrian Arab Republic; the United Arab Emirates; and the Republic of Yemen. In Eastern Europe and Central Asia, Georgia; Kazakhstan; the Kyrgyz Republic; Moldova; and Tajikistan. In Sub-Saharan Africa, Botswana; Burundi; the Central African Republic; the Comoros; the Democratic Republic of Congo; Kenya; Liberia; Malawi; Mali; and Zambia. And in Latin America, Guatemala; Mexico; and Peru. Governments have reported more than 280 regulatory reforms that have been informed by *Doing Business* since 2003.

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

METHODOLOGY AND DATA

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

Information sources for the data

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

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

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

The Asia-Pacific Economic Cooperation (APEC) organization uses *Doing Business* to identify potential areas of regulatory reform, to champion economies that can help others improve and to set measurable targets. In 2009 APEC launched the Ease of Doing Business Action Plan with the goal of making it 25% cheaper, faster and easier to do business in the region by 2015.[1] The action plan sets specific targets, such as making it 25% faster to start a business by reducing the average time by 1 week.

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

1. APEC 2010.

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

Doing Business respondents

Over the past 9 years more than 12,000 professionals in 183 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's report draws on the inputs of more than 9,000 professionals. Table 13.1 in the data notes lists the number of respondents for each indicator set. The *Doing Business* website indicates the number of respondents for each economy and each indicator. Respondents are professionals or government officials who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. They are selected on the basis of their expertise in the specific areas covered by *Doing Business*. Because of the focus on legal and regulatory arrangements, most of the respondents are legal professionals such as lawyers, judges or notaries. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

Development of the methodology

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

Doing Business uses a simple averaging approach for weighting component indicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components.[47] They turn out to yield results nearly identical to those of simple averaging. Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.[48]

Inclusion of getting electricity indicators

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

Improvements to the methodology

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

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

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

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

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

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

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

Paying taxes methodology. *Doing Business* has benefited from dialogue with external stakeholders, including participants in the International Tax Dialogue, on the survey instrument and methodology for the paying taxes indicators. As a result of these consultations, this year's report introduces a threshold for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. All economies with a total tax rate below the threshold (which will be calculated and adjusted on a yearly basis) will now receive the same ranking on the total tax rate indicator. Since the total tax rate is 1 of 32 indicators included in the ranking on the overall ease of doing business, this change has minimal effects on the overall rankings. The correlation between rankings on the ease of paying taxes with and without this threshold is 99%.

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

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

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

One aspect of collateral law that is measured relates to whether secured creditors can continue individual court actions after a debtor starts a court-supervised reorganization procedure or whether they are subject to an automatic stay or a moratorium. Previously only economies where secured creditors can continue a court action in these

circumstances were rewarded in the scoring for the strength of legal rights index. Now economies where secured creditors must stop individual court actions but their rights remain protected through other means are also rewarded (see the data notes for more details). The change aligns the methodology for this indicator with guidelines of the United Nations Commission on International Trade Law (UNCITRAL) and the World Bank Group.

Data adjustments

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

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

NOTES

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

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

Doing Business 2012

Doing Business topics

Starting a business

Imagine a young Palestinian named Faysal who has just earned a degree in business from Birzeit University in Ramallah. He has always dreamed of opening a small business in his nearby Palestinian village. But that would require paying in minimum capital of 10,000 Jordanian dinars (219% of income per capita), an enormous sum for a young entrepreneur. Because employment prospects are dim, Faysal will probably end up working as a farm laborer to bring in some income.

This realistic scenario illustrates how a high minimum capital requirement can be a barrier to starting a business and therefore an obstacle to job creation and development. Some economies have lowered this barrier. One of these is Jordan, just across the border. If Faysal had sought to start a business there 4 years ago, when he was beginning his studies, complying with the minimum capital requirement would have cost him around 800% of income per capita. Today he would have to pay in only half a dinar (less than $1) to start a business.

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

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

WHY DOES FORMAL BUSINESS REGISTRATION MATTER?

The legal registration of businesses is beneficial for several reasons. Legal entities can outlive their founders. Resources are pulled together as shareholders join forces to establish a company's capital. Formally registered companies have access to services and institutions from courts to banks as well as to new markets—benefits that are not available to unregistered firms. And where firms are formally registered their employees can also benefit from protections provided by the law.

The legal form under which a company is registered also matters. Limited liability companies—the type of company that *Doing Business* focuses on—limit the financial liability of company owners to their investments, giving entrepreneurs more freedom to innovate because their personal assets are not put at risk. Sole proprietorships do not provide this kind of protection but can usually be set up with fewer procedures and at lower cost.[1]

Making the process of business incorporation easy also has broader benefits for the economy. A growing body of empirical research has explored the links between business entry regulation and social and economic outcomes. Using data collected from company registries in 100 economies over 8 years, analysis found that simple business start-up is critical for fostering formal entrepreneurship.[2] Cumbersome regulations and administrative procedures for starting a business are found to be associated with a smaller number of legally registered firms, greater informality (a finding particularly relevant for many developing economies), a smaller tax base and more opportunities for corruption.[3]

A recent study finds that barriers to starting a business are significantly and negatively correlated with business density, calculated as the total number of businesses registered as a percentage of the economically active population (ages 15–64). For example, the fewer the procedures required to start a business, the greater the number of registered

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?

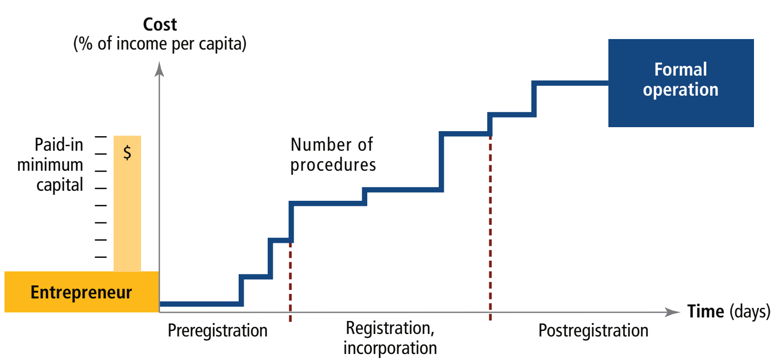
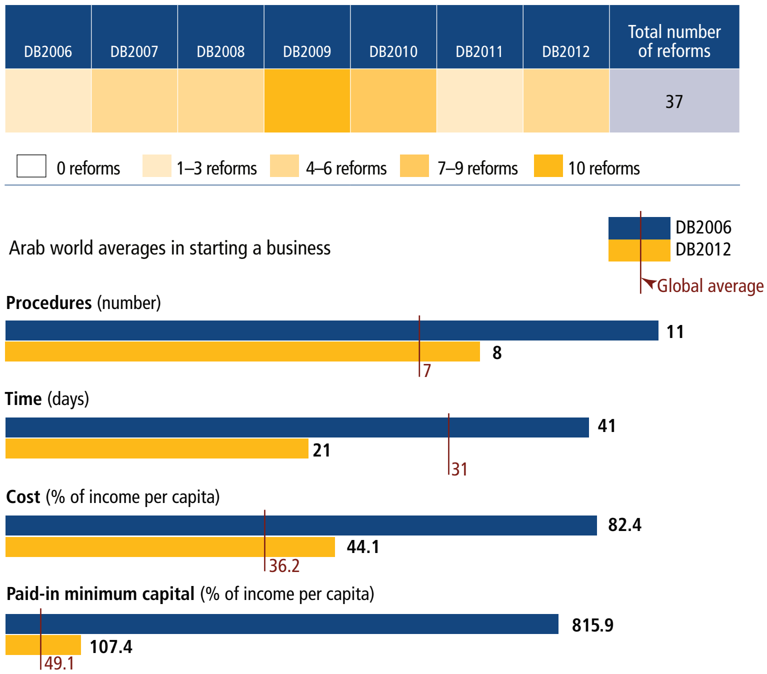


FIGURE 3.2 Arab economies have significantly reduced the paid-in minimum capital requirement

Number of *Doing Business* reforms making it easier to start a business in the Arab world, by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

firms. There is also a significant relationship between the cost of starting a business (as a percentage of gross national income, or GNI) and business density. For every 10 percentage point decrease in entry costs, density increased by about 1 percentage point.[4]

Regulatory reforms can have an impressive impact when they tackle the right bottleneck. After a reform simplifying business registration in different municipalities at different points in time across Mexico, a study found that the number of registered businesses increased by 5% and employment by 2.2%.[5]

WHO REFORMED BUSINESS REGISTRATION—AND WHAT HAS WORKED?

Starting a business was the most popular area of reform in the Arab world in 2010/11. Six Arab economies—Jordan, Oman, Qatar, Saudi Arabia, Syria and the United Arab Emirates—made starting a business easier, up from only 2 in 2009/10 (figure 3.2). Iraq was the only Arab economy that made it more difficult.

Jordan reduced the minimum capital requirement from 1,000 Jordanian dinars to 1 dinar, of which only half must be deposited before company registration.

Oman introduced online company registration in its one-stop shop and sped up the process to register a business from 7 days to 3.

Qatar combined commercial registration and registration with the Chamber of Commerce and Industry at the one-stop shop.

Saudi Arabia brought together representatives from the Department of Zakat and Income Tax and the General Organization of Social Insurance at the Unified Center to register new companies with their agencies.

Syria reduced the minimum capital requirement from 1 million Syrian pounds ($19,890) to 400,000 ($7,955) in 2011 and lowered the cost of publication for the registration notice from 25,000 pounds ($500) to 4,000 ($80).

The *United Arab Emirates* simplified registration formalities—by merging the requirements to file company documents with the Department for Economic Development, to obtain a trade license and to register with the Dubai Chamber of Commerce and Industry.

In *Iraq* starting a business became more expensive because of an increase in the cost to obtain a name reservation certificate and in the cost for lawyers to draft articles of association.

Worldwide over the past 8 years, *Doing Business* recorded 349 reforms making it easier to start a business—in 146 economies. Many opted for low-cost administrative reforms requiring little or no change in regulation. Others went further, introducing or amending legislation. Globally, the average time to start a business fell from 50 days to 31, and the average cost from 89% of income per capita to 36%. In 2010/11, 53 economies around the world made it easier to start a business, with streamlining registration formalities the most common feature of the reforms.

In the Arab world, starting a business takes 8 procedures and 21 days on average, costs 44% of income per capita and requires paid-in minimum capital of 107% of income per capita. All this represents a significant improvement compared with 7 years ago, when starting a business took 11 procedures and 41 days on average, cost 82% of income per capita and required paid-in minimum capital of 816% of income per capita.

But the process of starting a business varies widely among Arab economies. While it takes only 3 procedures in Saudi Arabia, it requires 14 in Algeria. A Saudi entrepreneur can start a business in 5 days, but a Palestinian one can expect to spend 49 days on the process—and an Iraqi one 77 days. And while starting a business costs less than 1% of income per capita in Bahrain, the cost exceeds 100% of income per capita in Iraq, Djibouti and the Comoros (table 3.1).

Similar variation can be seen in how far Arab economies have progressed toward the

TABLE 3.1 Who in the Arab world makes starting a business easy—and who does not?

Procedures (number)

Fewest		Most	
Saudi Arabia	3	Iraq	11
Lebanon	5	West Bank and Gaza	11
Oman	5	Djibouti	11[b]
Egypt, Arab Rep.	6	Kuwait	12
Yemen, Rep.	6[a]	Algeria	14

Time (days)

Fastest		Slowest	
Saudi Arabia	5	Kuwait	32
Egypt, Arab Rep.	7	Sudan	36
Oman	8	Djibouti	37
Bahrain	9	West Bank and Gaza	49
Lebanon	9	Iraq	77

Cost (% of income per capita)

Least		Most	
Bahrain	0.7	Yemen, Rep.	83.8
Kuwait	1.2	West Bank and Gaza	96.0
Oman	3.1	Iraq	115.7
Tunisia	4.2	Djibouti	169.8
United Arab Emirates	5.6	Comoros	176.2

Paid-in minimum capital

Most	% of income per capita	US$
Comoros	253	2,074
Bahrain	260	53,191
Oman	272	50,688
Mauritania	335	3,550
Djibouti	434	6,002

Note: Six Arab economies have no paid-in minimum capital requirement.

a. Morocco also requires 6 procedures.

b. The Comoros also requires 11 procedures.

Source: Doing Business database.

global frontier in starting a business (figure 3.3). Saudi Arabia, the Republic of Yemen, Egypt and Jordan made the most progress in narrowing the gap to the frontier in the past 6 years. Saudi Arabia advanced from 68 percentage points from the frontier to only 5 percentage points away. The Republic of Yemen progressed from 83 percentage points to only 21 percentage points from the frontier. Iraq is the only Arab economy that moved away from the frontier.

Worldwide, many good practices have emerged over time. Some are common among the 10 economies making it easiest to start a business, such as offering one-stop shops. Most of the top 10 charge only a fixed registration fee—regardless of company size—that is limited to the administrative cost of providing the registration services. Those making it easiest to start a business also use standard registration forms. And they require nominal paid-in minimum capital or none at all. Other good practices include assigning unique company identification numbers and adopting technology to facilitate the delivery of a range of business start-up services.

Reducing or eliminating the minimum capital requirement

Today 101 economies—including 14 in the Arab world—still require entrepreneurs to put up a set amount of capital before even starting registration formalities. The minimum capital requirement has its origins in the 18th century. It was initially intended to protect investors and creditors. But in economies around the world, the deposited capital is often withdrawn immediately after registration—hardly of any value in insolvency. Nor is it clear that minimum capital requirements have much value in other ways. Fixed amounts of capital do not take into account differences in commercial risks. Recovery rates in bankruptcy are no higher in economies with minimum capital requirements than in those without.[6] And the requirements can have counterproductive effects on entrepreneurship.[7]

Not surprisingly, the economies that originally introduced the minimum capital requirement have long since removed it. And since 2005, 57 economies have reduced or eliminated their requirement, lowering the average paid-in minimum capital requirement globally from 184% of income per capita to 49%.

In the Arab world, a region once known for prohibitively high minimum capital requirements, Egypt, Saudi Arabia, Sudan, Tunisia, the United Arab Emirates and the Republic of Yemen have all eliminated their requirement. And in the past year Jordan reduced its requirement to a nominal amount.

Creating a single interface

Single interfaces for business start-up not only save time and money. They also can make procedural requirements more transparent and easier to access. While some one-stop shops are solely for business registration, others carry out many integrated functions, including postregistration formalities with tax authorities or municipalities. Some one-stop shops are virtual; others are physical, with one or more windows. Models vary. Some one-stop shops automatically forward information from the company registry to the license authority, as in Saudi Arabia. Others include separate desks with representatives from different agencies, as in Bahrain.

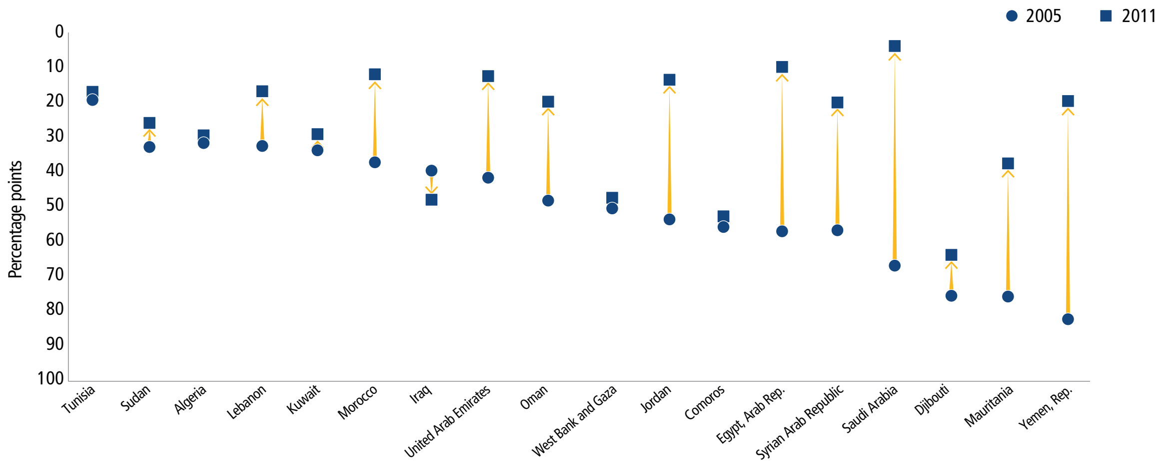
Today 83 economies around the world have some kind of one-stop shop for business registration, including the 53 that established or improved one in the past 8 years. Among these 53 are 7 Arab economies: Bahrain, Egypt, Jordan, Morocco, Oman, Qatar and Saudi Arabia. In most cases, establishing a one-stop shop merely requires some administrative changes, bringing immediate benefits to governments and entrepreneurs. And it often requires only improved coordination between government agencies, eliminating the need for an entrepreneur to visit several different agencies to file similar forms.

But not all reforms creating one-stop shops have been successful. Some resulted in “one more stop” shops that added to procedures rather than simplifying them. Others saw benefits delayed because of lack of publicity. Nonetheless, in the 83 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.

Egypt established its one-stop shop in 2005, making services relating to tax registration, chamber of commerce membership, notarization and publication available under the same roof. This was part of a series of reforms undertaken over several years to make it easier to start a business. Together, the changes reduced the number of procedures required from 13 in 2004 to 6 in 2011, the time from 37 days to 7 and the cost from 66% of income per capita to 6%. The paid-in

FIGURE 3.3 In the past 6 years almost all Arab economies moved closer to the frontier in starting a business

Distance to frontier in starting a business, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the starting a business indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

minimum capital requirement, amounting to 800% of income per capita, was eliminated. Egypt now ranks number 2 in the Arab world on the ease of starting a business (figure 3.4).

Using information and communication technology

Electronic registration is possible in more than 80% of high-income economies but only about 30% of low-income ones. Several economies with the fastest business start-up offer electronic registration—New Zealand, Australia, Singapore, Canada, Portugal, Denmark and Estonia. Oman's introduction of online company registration as an option in 2010 helped reduce the time to register a business from 7 days to 3.

According to a 2010/11 survey of 34 company registries that implemented technology solutions, nearly all the systems allowed online name search and back-office processing of registration applications.[8] About half supported online company registration and filing of annual accounts. More than two-thirds allowed electronic data sharing with other government agencies as well as the dissemination of company information to the private sector. Within the government, information was typically shared with the tax authority (59% of systems) and to a lesser extent with the collateral registry (26%) and the social security agency (18%). Experience shows that establishing a virtual one-stop shop that collects all required information through a single online interface and shares it within government can reduce registration time and eliminate redundant requirements for information.

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

Fifty-eight economies introduced information and communication technology in their business start-up processes in the past 8 years, saving time and effort for businesses and governments alike. Five

BOX 3.1 Using technology to streamline business entry in the Levant

Lebanon, Jordan, and West Bank and Gaza all aim to get more new businesses and investments in the formal economy. As part of this effort, these economies of the Levant have set ambitious goals for improving their business entry procedures.

Lebanon is working to automate its business registration process, connect relevant agencies, introduce online capabilities and establish a cost-effective mechanism for registering microbusinesses in cooperation with the Lebanese Bar Association.

Jordan has been simplifying its registration processes—by cutting the number of procedures in half (by connecting relevant agencies through the Ministry of Industry and Trade's one-stop shop), unifying company name databases and streamlining workflows.

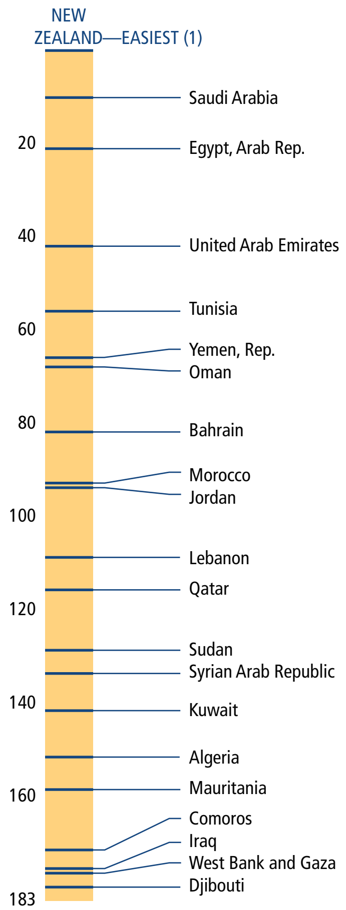
In West Bank and Gaza the Ministry of National Economy plans to improve business registration by cutting in half the time required to obtain licenses from municipalities and complete commercial registration. It also plans to rationalize workflows.

While these neighboring economies are at different stages of implementation, all 3 are using information and communication technology to automate business processes and procedures. Some back-office processes have already been automated. The next challenges are to put the application process online and to connect the entities involved in business entry through a single web-based interface.

Other developing economies introducing information and communication technology for business registration did so as part of broader e-government programs. Successful initiatives had common features: They were implemented as part of broader legal and regulatory reforms. And before information and communication technology applications were implemented, business processes were reengineered and the legal framework for digital signatures and online fee payment was established.

FIGURE 3.4 How do Arab economies rank on the ease of starting a business?

Global ranking (1–183)

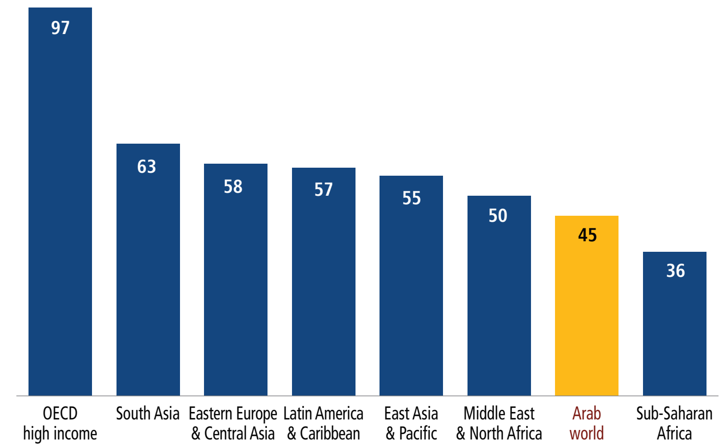


Note: Rankings are the average of the economy's percentile rankings on the procedures, time, cost and paid-in minimum capital for starting a business. See the data notes for details.

Source: Doing Business database.

FIGURE 3.5 Information on start-up fees is difficult to find in most Arab economies

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



Note: Fee schedules are considered easily accessible if they can be obtained through the website of the relevant authority or another government agency or through public notices, without a need for an appointment with an official. The data sample comprises 174 economies, including 20 in the Arab world.

Source: Doing Business database.

of them are in the Arab world—Egypt, Kuwait, Oman, Saudi Arabia and Syria. In these 5 Arab economies the average time needed to start a business is 13 days; in the other 15 Arab economies it is 24. Not surprisingly, the Arab economies introducing electronic services in the past 8 years include the 3 with the fastest times to start a business—Saudi Arabia, Egypt and Oman. More such efforts are under way in the region (box 3.1).

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

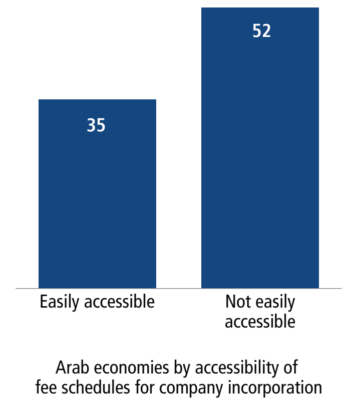
Making access to forms and fee schedules easy

Regardless of the level of automation, the easier it is for businesses to access fee schedules and documentation requirements for a regulatory process, the easier it is to comply with the regulations. Easy access not only saves businesses time; it also increases predictability in the application of regulations and fee schedules.

This year *Doing Business* collected additional information in a sample of 174 economies on the different ways in which governments and agencies make such regulatory information accessible. In the Arab world it found that obtaining information on incorporation fees required scheduling an appointment with an official in the majority of economies (figure 3.5). While the Comoros, the United Arab Emirates and 7 other Arab economies have made information on the steps required to start a business accessible, in 11 Arab economies an entrepreneur still needs to go to the registry to obtain information on fee schedules and documentation requirements. In contrast, in more than 90% of OECD high-income economies fee schedules for company incorporation could be obtained directly through the relevant agency's website or through public notices such as notice boards and brochures.

FIGURE 3.6 Starting a business in the Arab world costs less where information on the fees is easily accessible

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



Note: Relationships are significant at the 5% level after controlling for income per capita. Fee schedules are considered easily accessible if they can be obtained through the website of a government agency or through public notices, without a need for an appointment with an official. The data sample comprises 20 Arab economies.

Source: Doing Business database.

Easy access to fee schedules and low fees often go hand in hand. Globally, the cost to start a business averages a substantial 36% of income per capita. Entrepreneurs in lower-income economies face even higher costs—an average of 81% of income per capita in Sub-Saharan Africa. Regardless of income levels, incorporation fees tend to be lower in economies where fee schedules are easily accessible, including in the Arab world (figure 3.6). The cost to start a business in the Arab world averages 35% of income per capita in economies where fee schedules are easily accessible, 52% in economies where they are not.

NOTES

1. According to a survey conducted by *Doing Business* in 2011 covering 183 economies, establishing a sole proprietorship requires fewer procedures and is cheaper than establishing a limited liability company in more than 90% of economies.
2. Klapper, Lewin and Quesada Delgado 2009.
3. Audretsch, Keilbach and Lehmann 2006.
4. Klapper, Amit and Guillen 2010.
5. Bruhn 2011.
6. Djankov, Hart and others 2008.
7. Van Stel, Storey and Thurik 2007.
8. Wille and others 2011. The survey, conducted by *Doing Business* and the World Bank Group's Investment Climate Advisory Services, received responses on experience in implementing new or upgraded technology solutions from 26 company registrars (or their advisers or information and communication technology vendors) in low- or middle-income economies and 8 in high-income economies.

Dealing with construction permits

In most Arab economies a first-time applicant for a building permit is likely to have a difficult time. But things are different in economies that are applying e-governance and information and communication technology solutions. Bahrain posts fee schedules and information on procedures online, making the process faster and more transparent. Builders can download free application forms and submit documentation online, saving time and money. Complying with formalities to build a warehouse in Bahrain takes 12 procedures and 43 days, putting the country at 7 in the global ranking on the ease of dealing with construction permits.

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

WHY DOES CONSTRUCTION PERMITTING MATTER?

Good construction regulation matters for public safety. It also matters for the health of the building sector and the economy as a whole. According to a recent study, the construction industry accounts on average for 6.5% of GDP in OECD economies.[1] The building sector is Europe's largest industrial employer, accounting for about 7% of employment. In the European Union, the United States and Japan combined, more than 40 million people work in construction. It is estimated that for every 10 jobs directly related to a construction project, another 8 jobs may be created in the local economy. Small domestic firms account for most of the sector's output and most of its jobs.[2]

Public safety and efficiency

Striking the right balance is a challenge when it comes to construction permitting. Good regulations ensure the safety standards that protect the public while making the permitting process efficient, transparent and affordable for both building authorities and the private professionals who use it. If procedures are overly complicated or costly, builders tend to proceed without a permit.[3] By some estimates 60–80% of building projects in developing economies are undertaken without the proper permits and approvals. In the Philippines 57% of new construction is considered illegal. In Egypt this share might reach 90%.[4]

Overly complicated construction rules also can increase opportunities for corruption. Analysis of World Bank Enterprise Survey data shows that the share of firms expecting to give gifts in exchange for construction approvals is correlated with the level of complexity and cost of dealing with construction permits.[5]

Revenue and competitiveness

Economies that score well on the ease of dealing with construction permits tend to have rigorous yet expeditious and transparent permitting processes. Speed matters. A study in the United States shows that accelerating permit approvals by 3 months in a 22-month project cycle could increase construction spending by 5.7% and property tax revenue by 16%.[6]

In a 2009 survey of 218 companies in 19 Asia-Pacific Economic Cooperation (APEC) member economies, respondents identified the time and procedures in construction permitting as the biggest "regulatory impediment" to doing business.[7] For many entrepreneurs, construction regulations are a critical factor when deciding where to establish their businesses. A recent competitiveness report by KPMG indicated that construction costs and the permitting process were among the top 20 factors in determining the location of a start-up in the United States.[8]

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

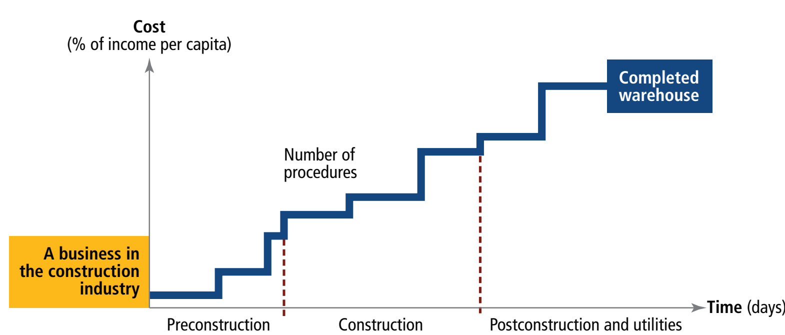
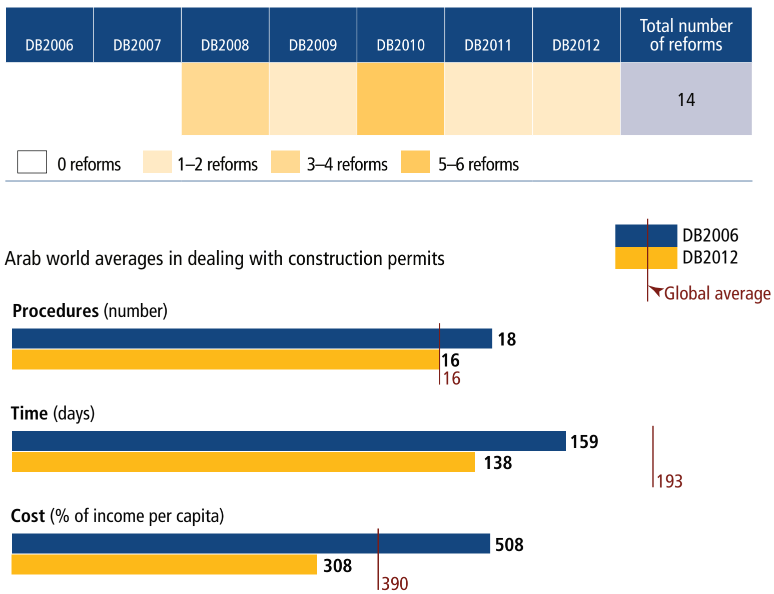


FIGURE 4.2 Arab economies have made big reductions in time and cost

Number of *Doing Business* reforms making it easier to deal with construction permits in the Arab world, by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

WHO REFORMED CONSTRUCTION PERMITTING—AND WHAT HAS WORKED?

In 2010/11, 15 economies around the world made it easier to comply with the formalities required to build a warehouse up to the moment it can be occupied and used as collateral. Most streamlined permitting procedures.

In the Arab world 2 economies—Mauritania and Morocco—made it easier to deal with construction permits in 2010/11 (figure 4.2). Two others—Djibouti and Qatar—made it more difficult.

Mauritania opened a one-stop shop, reducing the number of procedures by 4 and the time to deal with construction permits by 49 days.

Morocco launched its one-stop shop as a fully operational enterprise. This reduced the number of procedures by 1 and the time it takes to deal with construction permits by 7 days. In addition, the cost fell by 11% of income per capita.

Djibouti increased the fees for inspections and the building permit and added a new inspection in the preconstruction phase. The changes added 1 procedure, increased the time by 1 day and raised the cost by 458% of income per capita.

Qatar increased the time to obtain a clearance for electricity and water services from 7 days to 20 and introduced a charge of 100 Qatar riyals ($27) for submitting documents and obtaining a preliminary approval (that is, for opening a file). In addition, the cost to obtain a building permit increased, from 1,350 Qatar riyals ($370) to 3,000 ($825).

Over the past 6 years 13 Arab economies made progress toward the frontier in dealing with construction permits, though many narrowed the gap only slightly (figure 4.3). Egypt made the most progress, narrowing the gap by 15 percentage points, followed by Jordan (13 percentage points). Saudi Arabia and Mauritania also made large strides in closing the gap. West Bank and Gaza was the only Arab economy that moved further away from the frontier, though only by a slight distance. The cost of dealing with construction permits remains very high in West Bank and Gaza, at 10 times income per capita (table 4.1).

Worldwide in the past 7 years, *Doing Business* recorded 125 reforms making it easier to deal with construction permits in 83 economies. Many opted for low-cost administrative reforms requiring little or no change in regulation. Others went further, introducing or amending legislation. The average time to deal with construction formalities fell from 208 days to 193, and the average cost from 807% of income per capita to 390%. These gains show what is possible when construction regulation moves toward global good practices—such as coherent and transparent rules and efficient processes that include the use of one-stop shops and risk-based building approvals.

TABLE 4.1 Who in the Arab world makes dealing with construction permits easy—and who does not?

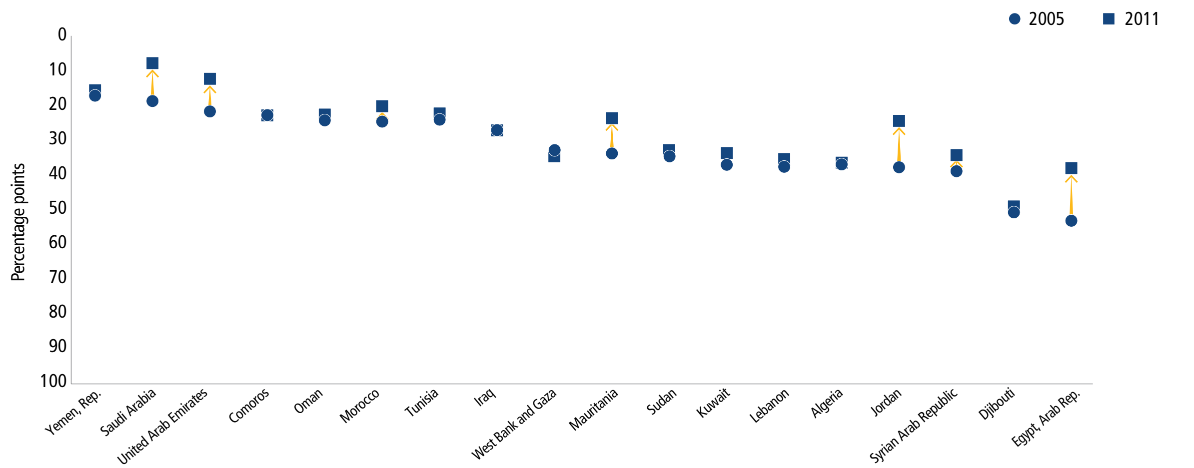
Procedures (number)			
Fewest		**Most**	
Saudi Arabia	9	Algeria	19
Bahrain	12	Lebanon	19
Yemen, Rep.	12	Egypt, Arab Rep.	22
Iraq	13	Syrian Arab Republic	23
United Arab Emirates	14[a]	Kuwait	24
Time (days)			
Fastest		**Slowest**	
Bahrain	43	Iraq	187
United Arab Emirates	46	Egypt, Arab Rep.	218
Jordan	70	Lebanon	219
Qatar	70	Sudan	270
Saudi Arabia	75	Algeria	281
Cost (% of income per capita)			
Least		**Most**	
Qatar	1.1	Iraq	470
United Arab Emirates	5.2	Syrian Arab Republic	504
Bahrain	10.7	Jordan	534
Saudi Arabia	19.4	West Bank and Gaza	1,001
Algeria	21.1	Djibouti	2,286

a. Oman also requires 14 procedures.

Source: Doing Business database.

FIGURE 4.3 Among Arab economies, Egypt advanced the most toward the frontier in dealing with construction permits in the past 6 years

Distance to frontier in dealing with construction permits, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the dealing with construction permits indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

Setting rules and ensuring that they are clear and coherent

Efficient building regulation starts with establishing a coherent body of rules that defines what is required from builders. Today 116 economies around the world—including 15 joining this group in the past 7 years—have a comprehensive set of building rules, in the form of either a national building code or a law that most fully governs the construction process.

Ensuring clarity in these rules is important. When regulations lack clarity and may be subject to broad interpretation, there is a risk that builders and authorities will become confused about how to proceed. This can lead to unnecessary delays, disputes and uncertainty. The adverse effects of ambiguous building regulations can become especially apparent in urban settings as more and more people move to cities and the need for construction of new buildings grows. Since 2007, 50% of the world's population has been living in urban areas, generating more than 80% of global GDP.[9] By 2050 the urban population share is expected to reach 70%.[10]

Yet when provisions are overly precise, keeping regulation up to date is challenging. 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 regularly updated.

Allowing easy access to information

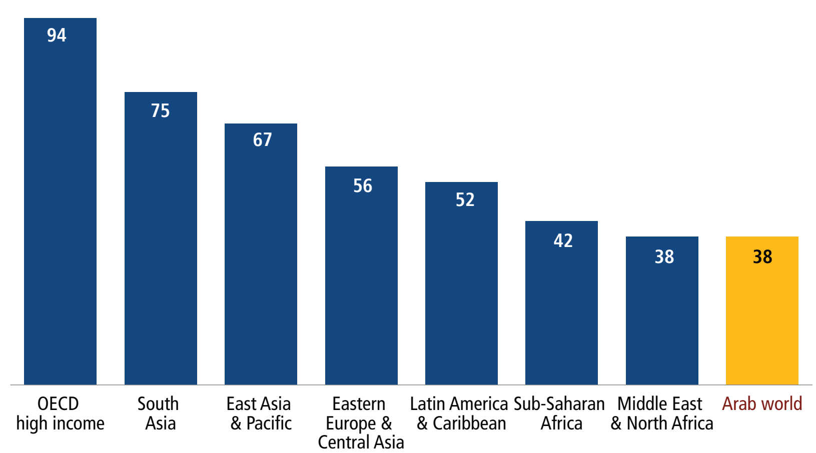
Easy access to information on documentation and fees required by building authorities can make compliance with regulations easier and reduce transactions costs for businesses.

This year *Doing Business* collected additional data in 159 economies on the different ways in which building authorities and related agencies make such information accessible.

In the majority of the 159 economies covered, understanding which documents are needed to apply for a building permit and obtaining necessary forms requires meeting with a public official. This is the case in many

FIGURE 4.4 Application requirements for building permits are not easily accessible in most Arab economies

Share of economies where application requirements are easily accessible (%)



Note: Application requirements for building permits are considered easily accessible if they can be obtained through the website of the building authority or another agency or through public notices, without a need for an appointment with an official. The data sample comprises 159 economies, including 16 in the Arab world.

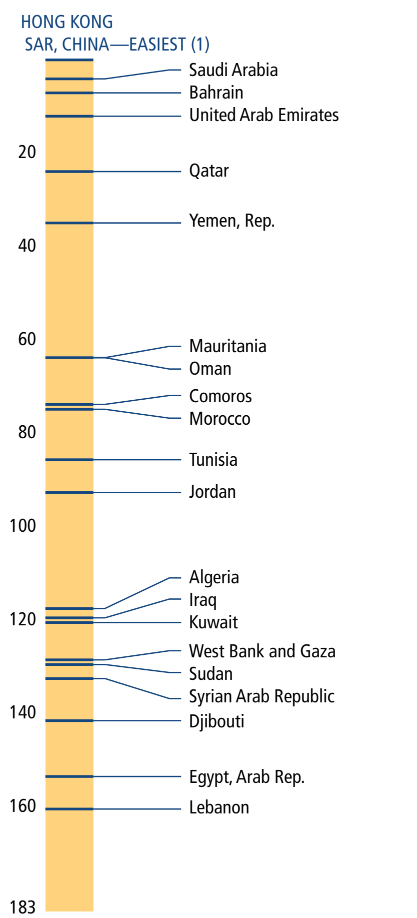
Source: Doing Business database.

economies in the Arab world, the region where access to application requirements for building permits remains most difficult (figure 4.4). OECD high-income economies make it easier for businesses. In nearly all these economies information on what is needed to obtain a building permit is available on the internet, in printed brochures or on posters displayed at the building authority or a related agency.

Worldwide, in economies where entrepreneurs have access to such information online or through brochures, applications are processed more quickly and building permits granted in less time. In these economies getting a building permit takes 177 days on average. Where an appointment with an official is required, the process takes 199 days on average. The average for such economies in the Arab world alone is even longer—293 days. Many of these economies rank low on the ease of dealing with construction permits (figure 4.5).

FIGURE 4.5 How do Arab economies rank on the ease of dealing with construction permits?

Global ranking (1–183)



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

Source: Doing Business database.

Policies promoting access to information cannot on their own increase the accountability of officials and actively counteract corrupt practices. But easier access to the information needed to comply with regulatory requirements is associated with lower transactions costs, lower levels of perceived corruption and stronger voice and accountability mechanisms.

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 multiple interactions between the entrepreneur and the various agencies.

Despite the clear benefits, only 26 economies around the world have some kind of one-stop shop for construction permitting. These include Bahrain, Jordan, Mauritania, Morocco, Qatar and Saudi Arabia.

Mauritania's one-stop shop, introduced in early 2011, replaced the old *fiche de circulation* (routing slip) system. This saves builders time, because they no longer have to follow up with each agency—the land registry, the fire and safety office, the urban planning agency. Instead, everything is processed through the one-stop shop.

Morocco's one-stop shop in Casablanca, which became fully operational in the second half of 2010, led to similar benefits. Entrepreneurs no longer need to request and receive a technical inspection for building control from the Ministry of Economic Development. Obtaining the land registry plan, building permit and certificate of conformity takes less time. A preconstruction inspection was eliminated. And separate applications no longer need to be submitted for a water and sewerage connection and an electricity connection. A single application suffices.

Differentiating projects by risk

Not all building projects are associated with the same social, cultural, economic or environmental risks. The construction of a hospital or skyscraper cannot be compared with the construction of 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, the main criteria used to classify a construction project by its potential risk are based on the building's use, location and size. Today 86 economies have a risk-differentiated approach, including Bahrain, Djibouti, Kuwait, Sudan, Syria, Tunisia, the United Arab Emirates, West Bank and Gaza, and the Republic of Yemen.

NOTES

1. OECD 2010.
2. PricewaterhouseCoopers 2005.
3. Moullier 2009.
4. De Soto 2000.
5. World Bank 2009a.
6. PricewaterhouseCoopers 2005.
7. Singapore Business Federation 2009.
8. KPMG 2009.
9. McKinsey Global Institute 2011.
10. WHO 2010.

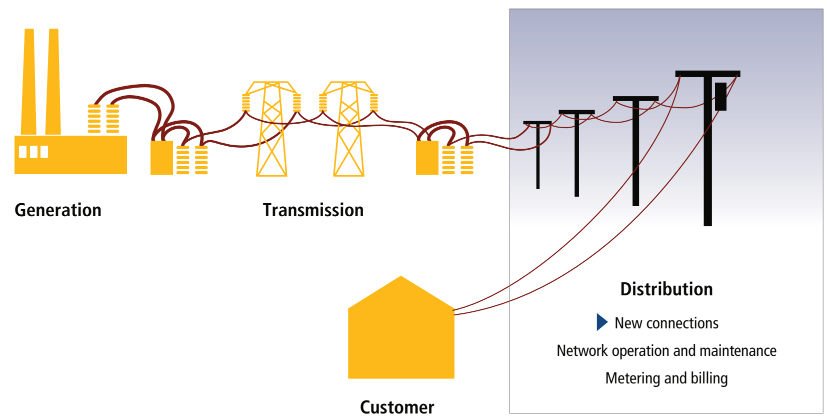
Getting electricity

Tawfik, a young Algerian entrepreneur who manufactures home furnishings in Algiers, is working hard to expand his business by setting up a new warehouse. He negotiated financing with the bank, spent weeks getting building and operating permits and invested in new machinery as well as a new building. He has employees lined up and is ready to get started. But he will have to wait. He still needs to get a new electricity connection for the warehouse—a process that takes more than 5 months and 6 interactions with the utility and other agencies.

The first and longest step is to submit an application to the Algerian electricity and gas distribution utility, Sonelgaz's Société de Distribution de l'Électricité et du Gaz d'Alger, and wait for a technical report and estimate of connection fees. This procedure takes 45 days. Tawfik must also obtain an external inspection of the warehouse site by the utility to finalize the technical report and cost estimate—a step that takes 10 days. At this point Tawfik pays the excavation fees to the Direction des Travaux Publics and awaits the authorization for excavation. In addition, his electrical contractor must buy a transformer and other equipment that is locally available and then build the substation—a step that takes around 2 months.

It does not have to be this way. Getting an electricity connection in Qatar takes a customer only 3 interactions with the utility and 3 months. The customer's approved electrical contractor submits an application to Qatar General Electricity and Water Corporation (Kahramaa), then waits for both the estimate of connection fees and an internal inspection from the utility. This procedure takes around 1 month, a much shorter time than in Algeria. The customer then obtains the internal inspection from Kahramaa, which takes only 1 day. Finally, the customer requests and obtains external works, meter installation and the final connection by Kahramaa's contractor—a procedure that takes about 2 months.

FIGURE 5.1 *Doing Business* measures the connection process at the level of distribution utilities



Doing Business measures the procedures, time and cost for a small to medium-size business to get a new electricity connection for a standardized warehouse with standardized electricity needs (figure 5.1).[1] The warehouse is assumed to be located in the largest business city, in an area where electricity is most easily available. Around the world, electricity connections are provided by distribution utilities that often retain monopolistic positions even in otherwise liberalized electricity markets. Businesses and other customers have little choice.

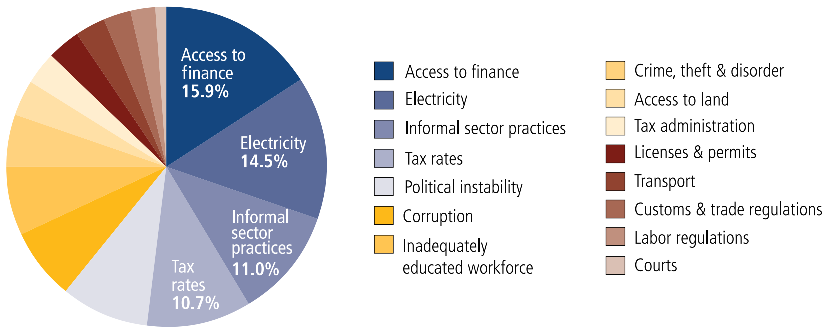
WHY DOES GETTING ELECTRICITY MATTER?

Infrastructure services, particularly electricity, are a concern for businesses around the world. World Bank Enterprise Surveys show that managers in 109 economies, 71 of them low- or lower-middle-income economies, consider electricity to be among the biggest constraints to their business (figure 5.2). In addition, managers estimated losses due to power outages at an average 5.1% of annual sales.[2] Studies have shown that poor electricity supply adversely affects the productivity of firms and the investments they make in their productive capacity.[3] Researchers estimate that eliminating the electricity outages in Eastern Europe and Central Asia would increase GDP by 0.5%.[4] It is therefore essential for businesses to have reliable, good-quality electricity supply.

But whether electricity services are reliable or not, the first step for customers is to get a new connection, the process measured by the getting electricity indicators. This process represents only a small part of electricity services. Yet the indicators offer information on a number of issues for which data were previously unavailable, complementing other indicators measuring outcomes such as outages. Analysis of data for 140 economies suggests that the getting electricity indicators can serve as a useful proxy for the broader performance of the electricity sector.[5] Greater time and cost to

FIGURE 5.2 Firms consider electricity one of their biggest constraints

Share of managers identifying issue as the most serious obstacle to their business operation (%)



Note: The data sample comprises 109 economies.
Source: World Bank Enterprise Surveys (2006–10 data).

get an electricity connection are associated with lower electrification rates. Additional connection procedures are more likely to occur in economies where the electricity supply is weak as a result of high losses in the transmission and distribution systems.

Electricity services are among the most regulated areas of economic activity. Whether better sector performance in infrastructure services can be linked to the quality of regulatory institutions has already received attention from researchers and policy makers. A study covering 28 developing economies found that a high quality of regulatory governance is associated with higher per capita electricity generation.[6]

TABLE 5.1 Where in the Arab world is getting electricity easy—and where not?

Procedures (number)			
Fewest		Most	
Comoros	3	Mauritania	5[b]
Qatar	3	Algeria	6
United Arab Emirates	4	Oman	6
Saudi Arabia	4	Egypt, Arab Rep.	7
Tunisia	4[a]	Kuwait	7

Time (days)			
Fastest		Slowest	
Yemen, Rep.	35	Bahrain	90
Kuwait	42	Qatar	90
Jordan	43	Comoros	120
Iraq	47	Algeria	159
Egypt, Arab Rep.	54	Djibouti	180

a. Djibouti and the Republic of Yemen also require 4 procedures.

b. Bahrain, Iraq, Jordan, Lebanon, Morocco, Sudan, Syria, and West Bank and Gaza also require 5 procedures.

Source: Doing Business database.

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

HOW DOES GETTING ELECTRICITY VARY ACROSS THE ARAB WORLD?

In economies where the process is most efficient, such as the United Arab Emirates and Qatar, the utilities often carry out the external connection works themselves. As part of this, they obtain the necessary approvals, streamlining procedures with other agencies. That means fewer interactions for the customer with authorities. *Doing Business* measures the number of interactions, the time and the cost a customer faces when applying for a new connection.[7] Efficient utilities set standards for the quality of their services, to ensure that customers bear no extra costs or delays. And they ensure the safety of consumers, but without imposing an unnecessary burden on the customer. In many of these same economies the safety of installations is guaranteed by regulating the electrical profession rather than imposing additional checks.

What it takes to get electricity in the Arab world varies widely. While the process takes around 6 weeks in Kuwait and Jordan, it takes around 6 months in Djibouti (table 5.1). In the Comoros and Qatar only 3 procedures are required; in Egypt and Kuwait there are 7. The cost is only 4% of income per capita in Qatar—but about 8,800% of income per capita in Djibouti.

The Arab world compares well with other regions on the time and procedures to get electricity. The average time required in the Arab world is 77 days, faster than in any other region except Latin America and the Caribbean. The number of procedures averages 4.8, less than in any other region except the OECD high-income economies (and East Asia and the Pacific, where it is also 4.8). But the average cost, at 1,830% of income per capita, is higher than in all other regions except Sub-Saharan Africa (table 5.2).

TABLE 5.2 Which regions make getting electricity easy—and which do not?

	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)
OECD high income	54	4.7	103	93
Middle East & North Africa	71	5.1	79	1,317
Latin America & Caribbean	72	5.5	65	594
Arab world	73	4.8	77	1,830
East Asia & Pacific	75	4.8	88	1,079
Sub-Saharan Africa	122	5.2	137	5,430
South Asia	128	5.6	145	1,776
Eastern Europe & Central Asia	129	6.6	168	751

Source: Doing Business database.

In high-income economies in the Arab world connection works usually require a simple line extension to the closest point of supply. And in all these economies except Saudi Arabia the distribution utility inspects the internal wiring installation or requires installation by an electrical contractor registered with the utility. But in lower-income economies in the region businesses face challenges similar to those in Sub-Saharan Africa. Getting a connection often requires the installation of a distribution transformer, and internal wiring goes unchecked.

WHO REFORMED THE CONNECTION PROCESS—AND WHAT HAS WORKED?

Economies where getting an electricity connection is easy have several good practices in common. Some are being adopted by other economies. Over the past 2 years 18 economies took measures to make it easier to get an electricity connection, including 9 economies in the past year. One of these was Lebanon, the only economy in the Arab world to do so in 2010/11.

Lebanon made getting electricity less costly as part of an effort to encourage legal connections and limit electricity theft. In 2010 a decree aimed at "creating a new connection system" reduced the electricity connection fees charged by the utility. Most important, the security deposit was reduced from 50,000 Lebanese pounds ($33) per kilovolt-ampere (kVA) to 10,000 ($7). The application fee was also lowered. This reduced the overall cost by 29% of income per capita.

Among economies worldwide that have reformed the connection process, the most effective and common features have included streamlining procedures with public agencies or within the utility, regulating the electrical profession to ensure the quality of internal wiring, increasing the transparency of the connection cost and lessening the burden of security deposits.

Streamlining approval processes

Streamlining approvals by utilities and other public agencies is among the most effective ways to reduce connection delays and the duplication of formalities. Where delays occur because other public agencies are excessively bureaucratic, some utilities shift the administrative hassle to their customers. Among the procedures most commonly transferred to customers is applying to the municipality or the department of roads or transport for an excavation permit or right of way so that the utility can lay the cables or extend wires for the connection. Customers seeking a connection undertake such procedures in 48 economies. In the Arab world wait times range from 1 day in West Bank and Gaza—where a Palestinian customer applying for a connection needs to obtain a clearance from the Jerusalem municipality—to 34 days in Oman. In Egypt customers have to contact 2 agencies to obtain an excavation permit: the district office and the Greater Cairo Utility Data Center.

Efficient utilities engage with other service providers to ensure that working relationships are clear and function smoothly. Take recent efforts in Hong Kong SAR, China. In March 2011 the government conducted a liaison group meeting with CLP Power Hong Kong Limited. Participants reviewed the application process for excavation permits relating to electricity supply for 2-story warehouses in nonresidential areas. That led the transport department to further streamline its procedures and reduce the time for processing proposals for temporary traffic detours from 21 days to 14. The necessary guidance note for the police force and the highway and transport departments has been revised. These changes followed a first stage of regulatory reforms in April 2010 to reduce the time needed to obtain an excavation permit from around 2 months to a little over 3 weeks. And in 2011 the utility reviewed its internal work processes for connecting a 2-story warehouse. This shortened the connection process by another 10 days.

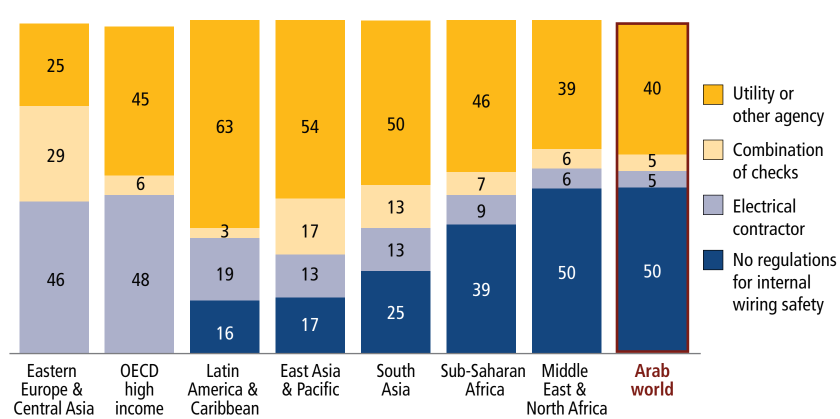
Other economies can also serve as good examples for the Arab world. Tonga is one. After reviewing past practices and procedures, its electricity commission produced a formal operations manual for supervising electrical safety and set time limits of 7–15 days for each stage of the internal wiring inspection. This resulted in a reduction of 8 days in the time taken by the commission to inspect the internal wiring over the past year.

Regulating the electrical profession

The safety of internal wiring installations is a concern not only for those using a building but also for utilities. One customer's faulty internal wiring can lead to power outages affecting other customers connected to the same distribution line. In most economies customers therefore need to comply with certain procedures aimed at ensuring quality. But the approach taken to address safety issues varies. Overall, the Arab world performs poorly in ensuring the safety of the internal installation. Half its economies have no safety standards in place, the largest share among regions (figure 5.3).

FIGURE 5.3 Who is responsible for enforcing safety standards?

Economies by type of safety certification for internal wiring (% of total)



Source: Doing Business database.

Some economies address safety by regulating the electrical profession, establishing clear liability arrangements for electrical contractors. In the economies with the most efficient connection processes, the quality of the internal wiring is the responsibility of the electrical contractor who did the installation. The utility simply requests certification by the electrical contractor that the internal wiring was done in accordance with the prevailing standards, usually established by the relevant professional bodies. In the Arab world all Gulf Cooperation Council economies except Saudi Arabia ensure quality standards for the internal wiring by requiring customers to submit their application through an electrical consultant (or contractor) selected from a preapproved list. But the utility still inspects the internal installation.

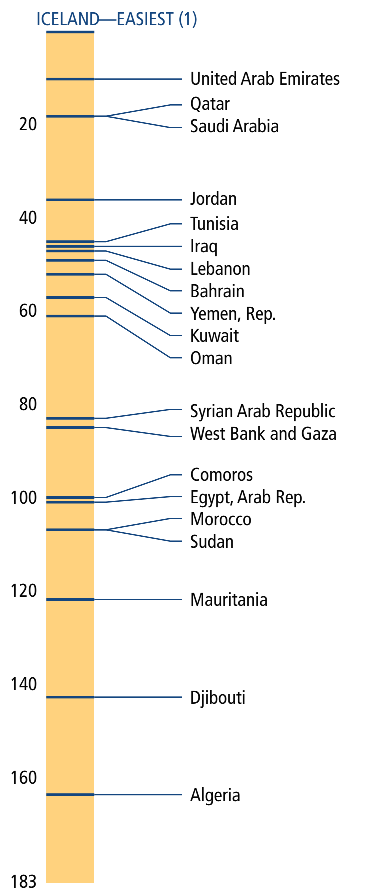
Other economies regulate the connection process, by requiring customers to obtain additional inspections and certifications from the utility or outside agencies before a new connection is granted. This approach leads to a greater burden on customers and longer average connection delays than regulating the electrical profession.

As a first step toward creating a supportive institutional framework for ensuring electrical safety, economies can regulate the electrical profession. Yet regulating the profession might not suffice where professional standards are poorly established and qualified electrical professionals in short supply. Poorly installed wiring is still causing many fires.[8]

Such risks are even greater in economies where needed safety checks are lacking. In 39 economies, many of them in the Arab world, internal wiring installations are never checked.[9] This is the case in Saudi Arabia, for example, which has among the highest rankings in the Arab world on the ease of getting electricity (figure 5.4). At the other extreme are governments that require multiple checks, imposing an excessive burden on customers seeking a connection. In 19 economies, many of them in Eastern Europe and Central Asia, internal wiring must undergo an average of 2 checks.

FIGURE 5.4 How do Arab economies rank on the ease of getting electricity?

Global ranking (1–183)



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

Source: Doing Business database.

Increasing the transparency of connection costs and processes

The type of connection works can vary depending on the network's capacity.[10] If that capacity is constrained, a more complicated connection may be required, effectively leading to an expansion of the distribution network. The resulting capital investments (such as the installation of a distribution transformer) must be covered by the new customer. This obligation, more common in low-income economies, substantially raises the total connection cost (table 5.3).

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

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

Where a new connection can be made directly to the low-voltage network, regulated and fixed fees represent a larger share of the connection cost in high-income economies. In general, the higher the income per capita in an economy, the higher the share of regulated fees in the total cost. Sweden is among those that provide clear regulation of fees. For the 140-kVA connection assumed in the case study, costs are fixed and based on an average for similar projects in the area. Information on fees also tends to be more easily accessible in higher-income

TABLE 5.3 Who in the Arab world makes getting electricity least costly—and who most costly?

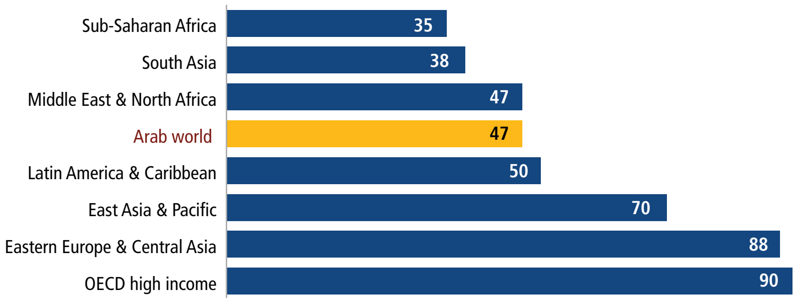
Cost (% of income per capita)

Least		Most	
Qatar	4.1	Comoros	2,685.1
United Arab Emirates	14.6	Sudan	3,949.3
Saudi Arabia	18.1	Yemen, Rep.	4,569.8
Kuwait	48.2	Mauritania	7,310.9
Oman	62.5	Djibouti	8,799.1

Source: Doing Business database.

FIGURE 5.5 Connection fee schedules are not very accessible in the Arab world

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



Note: Fee schedules are considered easily accessible if they can be obtained through the website of the relevant authority or another government agency or through public notices, without a need for an appointment with an official. The data sample comprises 181 economies, including 19 in the Arab world.

Source: Doing Business database.

economies—in a regulation, on a website or through a brochure or board at a customer service office.

Low capacity of a network does not necessarily mean high cost for a customer.[11] Where the new connection requires a more complicated installation that means installing a distribution transformer, utilities can still regulate the cost that customers must pay.

Efficient utilities make it easy for customers to find out what they need to know. They post all the necessary information about procedures and paperwork for new connections on their website, in their office or in other public offices. They also post their performance standards, such as for turnaround time. Utilities in OECD high-income economies and in Eastern Europe and Central Asia make it easier for customers to find information on connection fees than those in other regions. In the Arab world fee schedules are easily accessible in only 47% of economies (figure 5.5).

Some energy regulators monitor the fairness of the connection cost. Preliminary research shows that regulators in 42 of 113 economies request quotes presented by utilities to customers. Such monitoring is good not only for customers but also for the electricity sector. Recent research found that the mere existence of a regulatory agency affects the performance of utilities in Latin America.[12] The quality of the regulators matters too.

Easy access to fee schedules and low fees often go hand in hand. Regardless of income levels, connection fees tend to be lower in economies where fee schedules are easily accessible. This can be seen in the Arab world: getting an electricity connection costs only about half as much (relative to income per capita) in economies where fee schedules are easily accessible as in those where they are not (figure 5.6).

Lessening the burden of security deposits

Utilities in 88 of the 183 economies surveyed in 2010/11 charge customers security deposits as a guarantee against nonpayment of future electricity bills.[13] Security deposits are particularly common in Latin America and the Caribbean and in Sub-Saharan Africa.

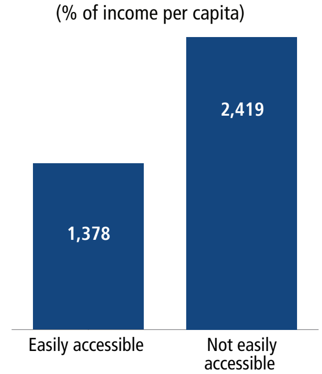
Because most utilities hold the deposit until the end of the contract and repay it without interest, this requirement can impose a substantial financial burden on small and medium-size businesses, especially those facing credit constraints. In Mauritania an entrepreneur has to pay a security deposit amounting to 1,109.3% of income per capita. Compare that with the 1.28% of income per capita paid in Saudi Arabia or the absence of any deposit required in Bahrain.

Because security deposits are supposed to protect utilities against the risk of nonpayment, it is not surprising that they are more likely to be charged in economies where utilities cannot count on efficient court systems and have to fear that contracts can be enforced only with significant delays.[14] But utilities might charge security deposits not only to protect themselves against financial losses from delinquent customers; they might be tempted to do so to improve their cash flow as well.

Where cash flow considerations are not the motivation for charging security deposits, but utilities still feel that they must rely on them to deter nonpayment, they should at least consider lessening the financial burden that security deposits represent for customers. A start would be to return the deposit after 1 or 2 years and not at the end of the connection contract. Returning the deposit with interest is a route that some utilities already pursue. In 19 economies utilities also allow customers to settle the security deposit with a bank guarantee or bond rather than deposit the entire amount with the utility. The service cost for such bank guarantees usually amounts to less than the interest that customers would lose on the deposit. More important, bank guarantees both allow customers to keep control of their financial assets and improve their cash flow.

FIGURE 5.6 Electricity connection costs are lower in Arab economies with clear disclosure of fees

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



Arab economies by accessibility of fee schedules for electricity connections

Note: The data sample comprises 19 Arab economies. Relationships are significant at the 1% level after controlling for income per capita.

Source: Doing Business database.

NOTES

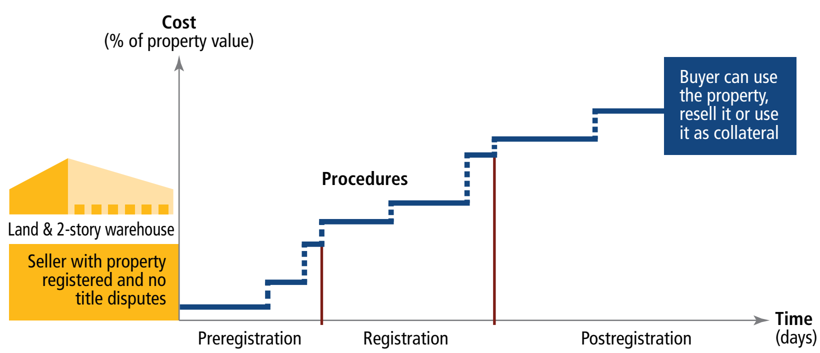
1. For more details on the methodology, see the data notes.
2. World Bank Enterprise Surveys (2002–10). The data sample includes 113 economies.
3. Calderon and Servén 2003; Dollar, Hallward-Driemeier and Mengistae 2005; Reinikka and Svensson 1999; Eifert 2007; Iimi 2008.
4. Iimi 2008.
5. This analysis, by Geginat and Ramalho (2010), was done in 2009, when the data sample for the getting electricity indicators included only 140 economies. For 2011 the indicators cover 183 economies.
6. Cubbin and Stern 2006.
7. For more details on the methodology, see the data notes. *Doing Business* records all the procedures, the time and the cost required for a business to obtain an electricity connection for a newly constructed building, including an extension or expansion of the existing infrastructure. All 3 aspects have the same weight, and the ranking on the ease of getting electricity is the simple average of an economy's percentile rankings on those 3 components.
8. "Causes of Fire Emergencies Managed by Rescue 1122 in Punjab, Pakistan," Hemmingfire.com, http://www.hemmingfire.com, accessed August 30, 2011.
9. In Senegal, where less than 7% of residential wiring installations meet the standards, a decree that would make the inspection of internal wiring mandatory was validated 10 years ago but must still be signed by the president before it enters into force.
10. *Doing Business* distinguishes between 2 cases: connecting to the low-voltage network and connecting to the medium-voltage network. The first case involves laying low-voltage underground cables or installing low-voltage overhead wires from the metering point to the closest connection point on the network. The second case usually occurs when the utility's low-voltage network lacks the capacity to accommodate the power demand of a customer. This case involves installing a distribution transformer and connecting it between the customer's installation and the utility's medium-voltage network. According to the standardized case study, the customer requests a nontrivial but still relatively modest 140-kVA connection. By comparison, the demand of a residential connection is about 20 kVA.
11. Connection costs are not just a function of the general infrastructure in an economy. They vary significantly among economies within income groups, suggesting room to reduce the cost regardless of existing infrastructure.
12. Andres, Guasch and Lopez Azumendi 2008.
13. The number of economies where utilities charge security deposits does not include those where security deposits are rolled over into consumption bills for the first 3 months (Tunisia and the United States).
14. World Bank 2010a.

Registering property

Imagine a family in Casablanca that has been in the home appliance business for 3 generations now. Its business has grown to 50 employees. The family members who run it are ready to expand again—and they want to buy a new warehouse. Since the business needs the warehouse right away and the family has no time to spend on repairs, they choose one that is in good condition and complies with all safety standards, building codes and other legal requirements. The warehouse is located on about 550 square meters of land and has 2 spacious stories totaling more than 900 square meters. The business is buying the warehouse from a local company that has had the building registered under its name for the past 10 years. But the family will have to put its plans for expansion on hold for a while: property transfers in Morocco take more than 10 weeks and 8 different interactions with agencies.

This is the standard case scenario studied by *Doing Business* through its registering property indicators. *Doing Business* records the procedures necessary for a business to purchase a property from another business and to transfer the property title to the buyer's name (figure 6.1). The process starts with obtaining the necessary documents, such as a copy of the seller's title, and conducting due diligence if required. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking on the ease of registering property is the simple average of the percentile rankings on the procedures, time and cost to register property. Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer and even if it must be completed by a third party on their behalf.

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



WHY DOES PROPERTY REGISTRATION MATTER?

Registered property rights are necessary to support investment, productivity and growth.[1] Cadastres or surveys, together with land registries, are tools used around the world to map, prove and secure property and use rights. These institutions are part of the land information system of an economy. With land and buildings accounting for between half and three-quarters of the wealth in most economies,[2] having an up-to-date land information system clearly matters.

Evidence from economies around the world suggests that property owners with registered titles are more likely to invest. They also have a better chance of getting credit when using their property as collateral.

The benefits of land registration go beyond the private sector. For governments, having reliable, up-to-date information in cadastres and land registries is essential to correctly assess and collect tax revenue.

With up-to-date land information, governments also can map the different needs in their cities and strategically plan the provision of services and infrastructure in the areas of each city where they are most needed.[3] And land information can help in planning the expansion of urban areas. This is especially important in economies prone to natural disasters. When there's no planned urbanization, informal dwellings and slums abound, even in areas that surveyors identify as being at high risk from disasters. Tools such as cadastres and survey maps can be used in city planning, as part of the land information system of a city, to avoid or mitigate the effects of environmental or climate-related risks on urban populations.

WHO REFORMED PROPERTY REGISTRATION—AND WHAT HAS WORKED?

In the past 7 years *Doing Business* recorded 169 reforms, undertaken in 107 economies, that increased the efficiency of procedures for transferring property. In these economies

FIGURE 6.2 Transferring property has become faster and easier in the Arab world

Number of *Doing Business* reforms making it easier to register property in the Arab world, by *Doing Business* report year

Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

the average time to transfer property fell by 59 days, from 122 to 63, and the average cost by 4% of the property value, from 10% to 6%.[4] In the Arab world in the past 7 years, 13 reforms in 10 economies led to reductions in the average number of procedures and the average time and cost to register property (figure 6.2).

The process of registering property varies widely among Arab economies. While registering property takes 2 days in Saudi Arabia and the United Arab Emirates, it takes more than 2 months in Egypt. It requires only 1 procedure in the United Arab Emirates, but 10 in Algeria. Property registration costs nothing in Saudi Arabia—the only economy in the region where this is the case—but more than 27% of the property value in Syria (table 6.1).

In the past 6 years Egypt narrowed the gap to the frontier in registering property substantially, by about 21 percentage points (figure 6.3). It did so through significant cost reductions as well as measures to streamline administrative procedures. Few other Arab economies have made such efforts. While most have improved their efficiency in registering property as measured by *Doing Business*, on average Arab economies moved less than 5 percentage points closer to the frontier.

In 2010/11, 20 economies around the world—but none in the Arab world—made it easier for local businesses to register property by reducing the time, cost or number of procedures required. The most common measures were introducing time limits or expedited procedures, reducing taxes or fees, streamlining procedures and computerizing cadastres and registries.

Property registries around the world confer different legal effect on the information they record. Not all offer conclusive information on property ownership. Some simply keep a record of property transactions—that is, they record the transfer of *deeds*. One example is the Registry of Deeds and Documents in The Bahamas. Others record the changes in the holders of property rights that occur as a result of the deeds presented to the registry—that is, they record the changes in holders of rights or *title*. An example is the land registry in Spain. And some, such as that in Ghana, include both a deed and a title system.[5]

Title systems usually provide conclusive evidence about who holds the rights in a given property. The rights registered are opposable to third parties and in some cases cannot be voided or annulled. To know who the rightful owner of the property is and whether anyone else has rights over it, the buyer needs to consult only the property information at the land registry.[6]

Deed systems, by contrast, do not provide conclusive proof of who owns property. Deed systems record property transfers, but the fact that a transfer is registered does not necessarily mean that it was valid. Because the last registered owner could be holding a title that is not valid, a buyer will usually hire a lawyer to determine the "good root" of the title he or she is buying.

TABLE 6.1 Who in the Arab world makes registering property easy—and who does not?

Procedures (number)			
Fewest		**Most**	
United Arab Emirates	1	Djibouti	7[b]
Bahrain	2	Lebanon	8
Oman	2	Kuwait	8
Saudi Arabia	2	Morocco	8
Mauritania	4[a]	Algeria	10

Time (days)			
Fastest		**Slowest**	
Saudi Arabia	2	Algeria	48
United Arab Emirates	2	Mauritania	49
Sudan	9	Iraq	51
Qatar	13	Egypt, Arab Rep.	72
Oman	16	Morocco	75

Cost (% of property value)			
Least		**Most**	
Saudi Arabia	0.0	Algeria	7.1
Qatar	0.3	Jordan	7.5
Kuwait	0.5	Comoros	10.5
West Bank and Gaza	0.8	Djibouti	13.0
Egypt, Arab Rep.	0.8	Syrian Arab Republic	27.5

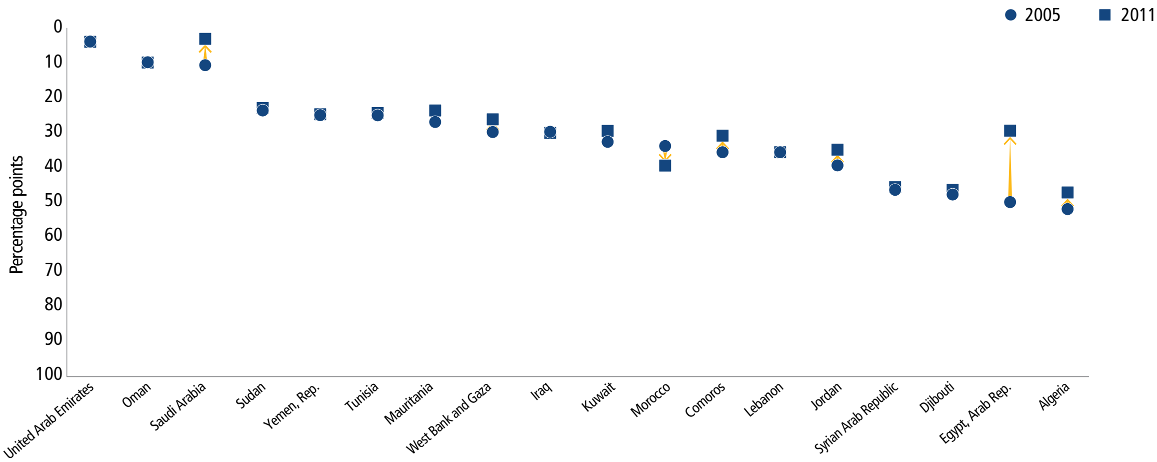
a. The Comoros, Syria and Tunisia also require 4 procedures.

b. Egypt, Jordan, Qatar, and West Bank and Gaza also require 7 procedures.

Source: Doing Business database.

FIGURE 6.3 Few Arab economies have significantly narrowed the gap to the frontier in registering property

Distance to frontier in registering property, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the registering property indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

To establish this in The Bahamas, lawyers conduct searches on the title to the property at the Registry of Deeds and Documents—but also at the courts and at the company registry—to check whether the companies that previously owned the property owned it lawfully and transmitted their property rights lawfully. These searches add B$300 ($300) and 45 days to the purchaser's due diligence.

At the end of the day all systems are trying to do the same thing: maintain an up-to-date database of rights in property. And deed and title systems can be equally efficient.[7] Comparison of property registration systems—based solely on the procedures, time and cost to transfer and register property as measured by *Doing Business*—suggests a number of common good practices.

Introducing time limits that are complied with

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

Fifty-four economies worldwide set legal time limits for property registration procedures, and 13 of them offer expedited procedures. Globally, 3 of 4 economies with statutory time limits comply with them.[8] Eastern Europe and Central Asia, OECD high-income economies and Latin America and the Caribbean stand out for the highest compliance. Yet in Latin America and the Caribbean, despite the success of time limits in the economies that use them, only 5 of 32 economies have statutory time limits.

In the past 7 years 19 economies introduced time limits. But time limits work only when the agency has the capacity to comply with them. In most economies time limits therefore supported broader changes. Twelve economies—including Egypt—introduced time limits while at the same time streamlining procedures through computerization and reorganization. In 2010/11, 4 economies introduced time limits for services provided by land registries or notaries, reducing the time to transfer property by up to 42 days.

Setting low fixed fees

Property transfer taxes are an important source of revenue for many governments. But when transfer fees and taxes are too burdensome, even registered property might quickly become informal if the high costs discourage the registration of subsequent transactions. This not only weakens the protection of property rights. It also reduces potential revenue from property taxes.

Over the past 7 years 56 economies lowered transfer taxes and other government fees, reducing the global average cost to register property by 4% of the property value. Jordan reduced property transfer fees from 10% of the property value to 7.5% in May 2009. Some economies switched to fixed registration fees over the past 7 years—including Egypt in the Arab world.

In Egypt in 2005, 90% of properties were either unregistered or registered at underestimated values.[9] Transferring a property between domestic companies cost 5.9% of the property value. Compare that with less than 0.5% of the property value in New York. Basing the registration fee on a percentage of the property value (3%) encouraged undervaluation in Egypt. It also complicated property registration, required more regulation to secure tax revenues for the government and created opportunities for corruption.

In August 2006 Egypt lowered the total cost of registration by starting to charge the buyer a flat fee of 2,000 Egyptian pounds ($332) rather than 3% of the value of the property. In addition, it capped the notarization and registration fees at 30 pounds ($5) and reduced 14 other registration fees to less than 36 pounds ($6) apiece. The low costs encouraged formal registration of property. As Osamah Saleh, chairman of Egypt's Mortgage Finance Authority, said at the time, "We were aiming to reduce property registration fees

so that every property holder will have the chance to receive a formal title. The poor especially would benefit because they would have the chance to use their properties as collateral, start doing business and achieve their dreams."

Streamlining procedures

Thirty-two economies streamlined procedures and linked or improved agencies' systems to simplify property registration in the past 7 years. These measures reduced interactions between entrepreneurs and agencies—saving between 1 and 2 procedures on average—while maintaining security and controls. This feature was particularly common in Eastern Europe and Central Asia.

One-stop shops are an efficient way to minimize interactions between agencies and entrepreneurs. Ghana did this under the roof of its Lands Commission. But not all economies can afford to bring all agencies involved in property transfer under one roof. Even so, many have been able to coordinate the functions or records of at least 2 institutions involved in the property transfer process. In most cases this coordination has linked the land registry to the tax agency or valuation agency. One way to do this is to have a representative of one of the institutions present at the other—as in Burundi and Ethiopia. Another is to link agencies electronically—as in Denmark, Latvia, Lithuania, Peru and Portugal.

BOX 6.1 Achievements and challenges in improving land management in Jordan

In Jordan the Department of Land and Surveys, part of the Ministry of Finance, is the entity responsible for registering private and public land, surveying land and maintaining the cadastre, and managing public land. The department provides roughly 40 services, covering around 180 procedures. A client feedback mechanism that it established highlighted general dissatisfaction with its services—especially with the systems for private land transactions, which were perceived as complicated. This prompted the department to undertake a series of changes aimed at improving the delivery of services relating to private land and, later, to public land.

The efforts led to concrete achievements. The Department of Land and Surveys:

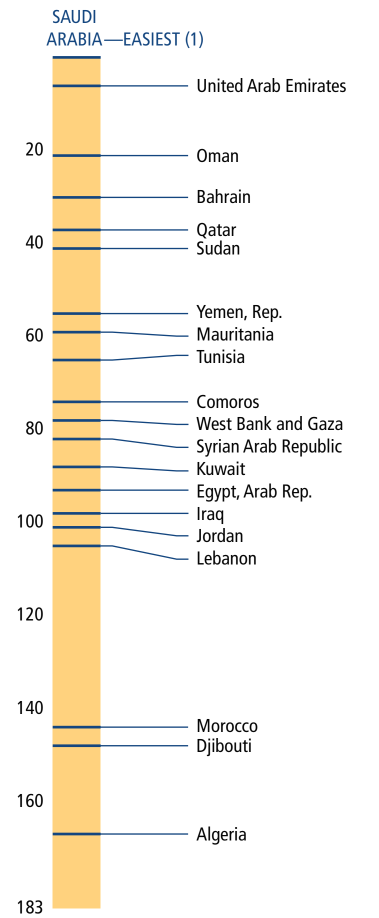
- Digitized and automated the registration and title systems and the cadastre—and linked the registration and cadastre databases—making records more authoritative in confirming rights.
- Digitized and archived 95% of paper registry records, making them more accessible and easier to search.
- Added national identification numbers to about 68% of land registration documents, to avoid title disputes caused by common family names.
- Digitized and automated records related to public land surveying and title, enhancing the public land inventory.
- Linked its databases with Ministry of Justice databases to track private land transfers effected by notaries public through irrevocable powers of attorney, a practice that is used to avoid registration and taxes and has led to numerous title disputes.
- Implemented twice-yearly customer satisfaction surveys and a complaints system, to help identify and guide future improvements.

With all these achievements in place, however, the efforts to improve land management continued to face obstacles:

- *Legal and regulatory framework.* The framework for land administration, comprising more than 20 laws and regulations, remains fragmented and contradictory, hindering wider reforms. It is also outdated. For example, a lack of laws providing for electronic signature and payment means that some transactions must still be conducted in person and in cash.
- *Inadequate public land management.* The Department of Land and Surveys lacks the skills and resources to manage public land effectively. This results in lost revenues for the Ministry of Finance. It has also allowed widespread illegal encroachment on public land. As the government wrestles with wider public sector reform, a reluctance to create new entities has stymied debate on shifting responsibility for public land management away from the department.
- *Cultural norms.* The department initiated a pilot one-stop shop for private land transactions, but it soon proved ineffective. Similar approaches have succeeded for driver's licenses, passports and civil documents in Jordan. But land is of much greater value, and citizens were less likely to trust the department to conduct the appropriate procedures without face-to-face contact.

FIGURE 6.4 How do Arab economies rank on the ease of registering property?

Global ranking (1–183)



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

Source: Doing Business database.

Some economies streamlined procedures by eliminating the requirement to obtain the municipality's approval for property transfers. One of these was Saudi Arabia, where today an entrepreneur transferring property is required only to prepare the sale deed and register the new title.

Going electronic

In 60% of economies around the world the property registries have electronic files.[10] In the Arab world 12 of 20 economies have an electronic registry—Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Tunisia, the United Arab Emirates, and West Bank and Gaza. Jordan's Department of Land and Surveys

has particularly focused on digitizing its records (box 6.1).

Digital records have advantages over paper records. They take less space, and backup copies ensure that property records will not be compromised in the event of natural disasters or civil wars. Electronic systems also make errors and overlapping titles easier to spot. But this does not mean that paper registries cannot be efficient. Thailand had a very efficient manual system before going electronic. And having digital records is no assurance that an economy has a good system in place to manage this information.

Still, transferring property takes about half as much time in economies with computerized registries as in those without them. All 31 OECD high-income economies have electronic registries. Thus it is no surprise that OECD high-income economies have the fastest property registration, taking 31 days on average. The average in the Arab world is 33 days.

Twenty-seven economies computerized their registries in the past 7 years. The land registry in Ramallah computerized its records in 2008 with the help of a World Bank project. As a result, the time to transfer property fell by 25% in West Bank and Gaza. In 2007 Saudi Arabia implemented a comprehensive electronic system for registering title deeds—creating a simple, efficient property transfer process that can be completed in only 2 days. Today Saudi Arabia tops the global rankings on the ease of registering property (figure 6.4). In Tunisia, by contrast, the property transfer process still requires a visit to the land registry, because certificates can only be obtained in person.

NOTES

1. See Deininger (2003) for a summary and analysis of relevant studies.
2. World Bank 1989, p. 87.
3. Property information held in cadastres and land registries is part of the land information available to governments. Land information also includes other geographic, environmental and socioeconomic data related to land that are useful for urban planning and development.
4. *Doing Business* database.
5. Property in Ghana falls under either the title or the deed system, depending on where it is located. This is as a result of the phased introduction of the Land Title Registration Law of 1986, which introduced the title system in Ghana. The capital city of Accra falls under the title system.
6. The title systems offering the strongest conclusive evidence are those that do not allow any kind of legal claim against the registered rights (that is, the registered rights are absolutely indefeasible). Other title systems are less absolute in the indefeasibility of the registered rights and allow claims in exceptional circumstances (for example, in the case of a registration that occurred on the basis of a property sale-purchase agreement that is declared null and void after registration took place).
7. Whether an economy has a title or a deed system has no influence on its ranking on the ease of registering property. There is no statistically significant difference in how economies rank based solely on their choice of registration system.
8. *Doing Business* database.
9. World Bank 2008a.
10. *Doing Business* database.

Getting credit

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 (figure 7.1). These institutions and systems work best together. Information sharing helps creditors assess the creditworthiness of clients (though it is not the only risk assessment tool), while legal rights can facilitate the use of collateral and the ability to enforce claims in the event of default.

The 2 types of institutions are measured by 2 sets of indicators. The first set of indicators analyzes the legal framework for secured transactions by looking at how well collateral and bankruptcy laws facilitate lending. For example, does the law allow companies to use future crops as collateral? Does the collateral need to be described in detail in the loan agreement, or is a general description allowed? Do secured creditors have priority rights to the collateral in a bankruptcy procedure?

The second set of indicators looks at the coverage, scope and quality of credit information available through public credit registries and private credit bureaus. For example, do retailers or utility companies as well as financial institutions share credit information with public or private registries? Are data on both firms and individuals distributed in credit reports?

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.

LEGAL RIGHTS

Doing Business measures the legal rights of borrowers and lenders in secured transactions (or collateral) laws and bankruptcy laws—to describe how well these laws facilitate lending.

WHY DO SECURED TRANSACTIONS REGULATIONS MATTER?

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 developing world 78% of the capital stock of businesses is typically in movable assets such as machinery, equipment or receivables, and only 22% in immovable property.[1] In economies with a modern secured transactions system, these assets could easily be used as collateral. But in most developing economies movable property would probably be unacceptable to lenders as collateral—either because the law does not recognize nonpossessory interests in movable collateral or because it does not provide sufficient protection for lenders accepting it. This constraint matters. 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]

A modern secured transactions system provides for the use of security interests in all types of movable assets—whether tangible or intangible, whether present, after-acquired or future assets, and wherever located—including both possessory and nonpossessory interests.[3] A modern legal framework for secured lending also establishes clear priority rules to resolve conflicting claims between secured creditors when a debtor defaults, whether in a bankruptcy procedure or not. One effective way to establish priority rights is to record the security interest in a centralized collateral registry.

Creditor rights and access to finance

Research has shown that both legal protection for creditors and institutions for sharing credit information are associated with higher ratios of private credit to GDP. In developing economies with poorly functioning legal systems, credit markets might depend only on credit information sharing. But in developed economies with effective systems of bankruptcy, creditor rights can play a greater role.[4] Strong creditor rights expand the availability of loans. One reason is that when

FIGURE 7.1 Do lenders have credit information on entrepreneurs seeking credit? Is the law favorable to borrowers and lenders using movable assets as collateral?

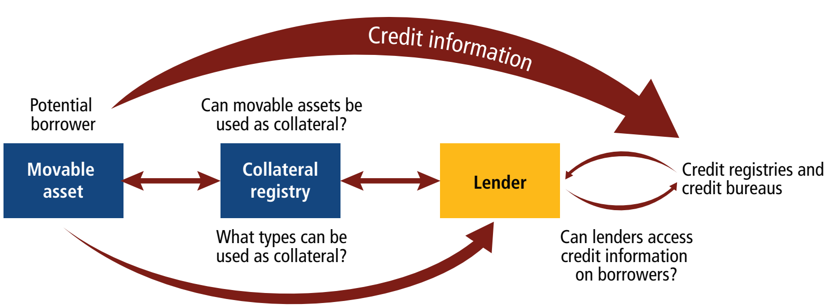
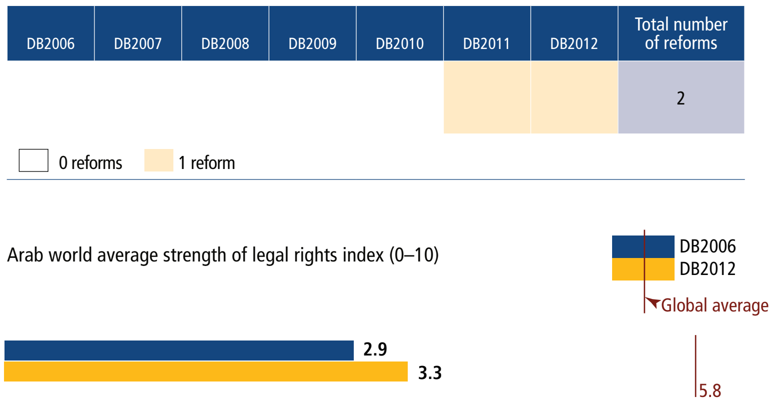


FIGURE 7.2 The Arab world has lagged behind in providing stronger legal rights

Number of *Doing Business* reforms strengthening legal rights of borrowers and lenders in the Arab world, by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

lenders have better legal protection during bankruptcy and reorganization of the debtor, they become more confident about the return of their investment in cases of default and therefore more willing to extend credit on favorable terms.

Legal reform, enforcement and lending behavior

Reforming the legal framework for secured transactions can affect the behavior of lenders. Studies show that banks tend to increase their lending after amendments of collateral laws.[5] But for a legal reform to have a real impact, enforcement of the rights stipulated in laws needs to be possible in practice. The enforceability of contracts matters for the structure and pricing of loans.[6] Where enforcement of property rights is weak, lenders tend to offer short-term credit as a way to protect themselves from debtor behavior such as defaults.[7]

TABLE 7.1 Who in the Arab world has the strongest legal rights for borrowers and lenders—and who the weakest?

Strength of legal rights index (0–10)			
Strongest		**Weakest**	
Comoros	6	Mauritania	3[b]
Saudi Arabia	5	Iraq	3
Lebanon	4	West Bank and Gaza	1
United Arab Emirates	4	Syrian Arab Republic	1
Kuwait	4[a]	Djibouti	1

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

a. Bahrain, Jordan, Oman, Qatar and Sudan also score 4 on the strength of legal rights index.

b. Algeria, Egypt, Morocco, Tunisia and the Republic of Yemen also score 3 on the strength of legal rights index.

Source: Doing Business database.

Secured transactions reforms are strengthening the legal rights of borrowers and lenders in economies around the world. One of these is Saudi Arabia. In 2010 it amended its commercial lien law, improving its legal framework for secured transactions and providing for the creation of a unified lien registry. Saudi Arabia is now transferring information from the existing registries to the new one, which along with a unified database will soon be available to users.

WHO REFORMED SECURED TRANSACTIONS LAWS—AND WHAT HAS WORKED?

The Arab world has been slow to reform secured transactions laws. In the past 7 years only 2 Arab economies—Saudi Arabia and the Comoros—implemented reforms strengthening the legal rights of borrowers and lenders (figure 7.2). The Comoros did so in 2010/11—and now has the region's highest score (6) on the strength of legal rights index (table 7.1).

The *Comoros* implemented amendments to the OHADA (Organization for the Harmonization of Business Law in Africa) Uniform Act on Secured Transactions that broaden the range of assets that can be used as collateral (including future assets), extend the security interest to the proceeds of the original asset and introduce the possibility of out-of-court enforcement.

Implementing a new secured transactions law and its corresponding collateral registry takes around 3 years on average. And the change may not have a noticeable economic impact right away. As with any legislative change, that may take some time—because the impact depends on users' awareness and adoption of the new mechanism. Yet a sound secured transactions system sets the stage for future benefits.

Through experience with collateral reforms in economies around the world, a number of good practices have evolved (box 7.1).

Allowing out-of-court enforcement

Creditors are unlikely to extend loans secured by collateral if they must rely on long, costly and burdensome court proceedings to enforce their rights in case of a default. Quick enforcement is particularly important for movable property, which depreciates over time. One way to ensure quick enforcement is to allow parties to a security agreement to agree to out-of-court enforcement at the time the security interest is created. In this approach the security agreement is essentially considered to be an execution deed, allowing the secured creditor to seize the collateral or to ask a nonjudicial official to do so if the debtor contests the enforcement. This has the added benefit of reducing dependence on the courts and thus freeing up court resources.

Today 123 economies globally—including only 4 in the Arab world (Bahrain, the Comoros, Qatar and Saudi Arabia)—allow some sort of out-of-court enforcement. But not all extrajudicial procedures are efficient. In some economies, for example, the law requires notarization of the agreement. This can protect unsophisticated debtors from abusive creditors. But if not managed well,

notarization might also imply an added cost for credit. In other economies the law over-protects the debtor, making the procedure expensive and unappealing to secured creditors. When legal reform introduces a system of out-of-court enforcement, it needs to strike the right balance—to protect the rights of all those affected, including the debtor and other creditors. In the past 7 years *Doing Business* recorded 39 legal reforms in this area, including the reforms in the Comoros and Saudi Arabia. The recent amendments to the OHADA Uniform Act on Secured Transactions allow out-of-court enforcement of security interests in some types of movable property.

Allowing a general description of collateral

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

Laws providing the most flexibility allow security interests in all types of movable property and permit a generic description of the assets to secure a loan as long as these assets are identifiable—for example, allowing the contract to stipulate as the collateral "inventory of general merchandise as of [date] and for [amount]." Such contracts typically obligate the debtor to maintain the same aggregate value of inventory and the same type of goods. For nonpossessory security interests to be effective, the debtor needs total freedom to use the assets as long as proper care is taken to preserve their commercial value. Today 91 economies allow a general description of collateral in a single category and in combined categories, the Comoros being the only Arab economy to do so.

BOX 7.1 Some good practices for secured transactions reform in the Arab world

The Arab world lags behind other regions in firms' access to private credit and in the robustness of secured transactions and movable collateral systems. This is evident in data from numerous sources. According to World Bank Enterprise Surveys conducted in 2010, the Arab world had the smallest share of firms (25.07%) with credit lines or loans from financial institutions, and substantial collateral requirements (82% of loans require some type of collateral). (*Arab world* and *Arab economies* as used in this box exclude the Comoros, Mauritania and Sudan.)

As of September 2011 reform efforts in the area of secured transactions laws and modern movable collateral registries remained very weak in the Arab world. But a handful of economies in the region have started to look into reforming their secured transactions and collateral systems. Such efforts are more likely to lead to effective systems if they take into account the following good practices:

- *Creating a unitary legal system*. Developing a stand-alone law to regulate all aspects of security interests in movable property (such as a secured transactions or personal property law) is more efficient and creates less conflict and uncertainty than revising existing provisions in multiple laws (such as in the commercial code, civil code, chattel mortgage law and the like).
- *Broadening the scope of the secured transactions law* by allowing broad pools of assets, with either a specific or a general description, to be accepted as collateral.
- *Simplifying the creation of security interests in movable property*. Allowing the parties to a credit agreement to freely agree on the conditions of the transaction eliminates cumbersome and unnecessary formalities for the creation and enforceability of security interests in movable property.
- *Modernizing movable collateral registries*. A centralized, real-time electronic registry providing public access to its records can notify parties about the existence of a security interest in movable property and establish the priority of creditors relative to third parties.
- *Establishing a clear priority scheme for secured creditors*. In 2009 the Arab world had the lowest ranking among the world's regions on the strength of legal rights index, which includes measures of the extent to which collateral systems establish clear priorities for secured creditors.
- *Improving enforcement mechanisms*. According to *Doing Business 2010*, only 3 Arab economies allow for out-of-court enforcement. Strengthening enforcement mechanisms would do much to increase access to credit in the Arab world, which ranked last on the ease of enforcing debts as measured in *Doing Business 2010*. According to a 2010 World Bank survey of financial institutions in the Middle East and North Africa, almost 60% considered enforcement of security interests in movable property as the major impediment to granting credit to firms.[1]
- *Raising awareness* about the importance of secured transactions and providing training to stakeholder groups.
- *Developing the capacity of financial institutions* to extend to businesses loans secured by movable property (asset-based lending, inventory and receivables financing and the like).

1. Rocha and others 2010.

Maintaining a unified registry

Before accepting collateral, creditors need an effective way to find out whether the potential borrower has already granted a security interest in the collateral and, if so, what priority those rights have. A central collateral registry—unified geographically and recording interests in all types of movable assets—supports the use of movable collateral to secure loans. If registries are not unified across regions, a creditor will have no way of knowing whether a security interest in an asset has already been registered in another jurisdiction. And a need to search multiple registries increases transactions costs. But where registries are unified and computerized, a creditor can immediately check all the registries in an economy from one location, by searching the debtor's name.

Today 68 economies globally—including 3 in the Arab world (Bahrain, Kuwait and Qatar)—have some sort of centralized registry for movable property used as collateral by companies. But in only 15 of these 68 economies can the collateral registries be characterized as modern, notice-based ones. These registries offer online access for registration and searches, register all types of encumbrances, establish clear parameters for priority and maintain a central database searchable by the debtor's name or a unique identifier. Once registered, security interests immediately have effect against third parties.

CREDIT INFORMATION

In Bhutan many small and medium-size businesses have difficulty accessing formal credit and must rely on personal funds. Women, who are more likely to run small businesses, face the biggest hurdles.[8] But the situation is starting to improve thanks to a new credit information bureau that started operating in 2009. Imagine Charlotte, a young Bhutanese entrepreneur who runs a small confectionery business in Thimphu. She wants to expand her profitable catering business and has new customers lined up—but she needs more funds. Charlotte approaches Sonam, a loan officer at her bank, for a line of credit. Because of the new bureau, Sonam can review her credit history—and determine that Charlotte qualifies for a low-interest loan program for small businesses.

A credit history is no substitute for risk analysis. But when banks share credit information, loan officers can assess borrowers' creditworthiness using objective measures. And access to credit information not only benefits creditors. It also benefits deserving borrowers, by increasing their chances to get credit. Where credit registries or bureaus are present, allowing easier access to borrowers' credit histories, banks are more likely to extend loans.

Besides providing credit information in the form of credit reports, the more advanced credit bureaus offer other services, including credit scoring. Credit scores, assigned to borrowers on the basis of their ability and capacity to repay debt, are calculated using information from various sources, including credit reports. The scores make borrowers aware of how they are affected by the data that credit bureaus collect. Some banks use credit scores in their loan approval process.

A growing number of credit bureaus calculate credit scores. Today, among 6 private credit bureaus in the Arab world, 3 report that they provide credit scores—those in Bahrain, Egypt and Saudi Arabia. Few Arab economies have credit scoring because public credit registries, which typically do not provide credit scores, far outnumber private credit bureaus in the region.

WHY DOES CREDIT INFORMATION SHARING MATTER?

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

Reducing information asymmetries

Borrowers typically have more information about their financial situation and investment opportunities than lenders do. This information asymmetry in credit markets affects the relationship between lenders and borrowers, especially borrowers that are small and medium-size enterprises. Banks are more likely to lend to larger firms, which typically are more transparent and use international accounting standards.[9] Sharing information on borrowers through credit registries or bureaus is one way to overcome these asymmetries. Credit reporting systems help lenders learn about borrowers' characteristics, past behavior, repayment history and current debt exposure.

Increasing access to credit for small firms

Credit bureaus and credit registries are one way of increasing access to finance for individuals and small firms.[10] With better, cheaper and faster access to credit information, lending officers can use accurate and objective data to make unbiased decisions in offering loans. And when they can assess the risk of default, banks have more incentive to lend to individuals and small firms. A recent study found that after the introduction of new credit reporting systems in developing economies, access to credit grew twice as fast for small firms as for large ones.[11]

Research in 27 transition economies shows that introducing a credit reporting system is associated with an increase of 4.2 percentage points in firms' reliance on credit.[12] Such an effect would be welcome in the Middle East and North Africa (which includes 17 of the 20 Arab economies). Banks in the region cite lack of transparency among small and medium-size enterprises and the weak financial infrastructure (credit information, creditor rights and collateral infrastructure) as the main obstacles to lending more to such enterprises.[13] Since 2005 about three-fourths of Arab economies have reformed their credit information system. Yet on average less than a quarter of the adult population in the region is covered by a credit reporting system. And only 6 of 20 economies in the region have a private credit bureau.

Improving borrower discipline

Credit information sharing can act as a disciplinary device for borrowers. When creditors are known to share information about customers' credit records, borrowers know that defaults on loans from one lender may disrupt future access to credit from all other lenders. So borrowers have greater incentive to repay.[14] Research has shown that repayment rates can increase by up to 80% when a credit registry starts operation.[15] 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 said 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.[16]

Supporting bank supervision and credit risk monitoring

For regulators, credit information systems provide a powerful tool for supervising banks and monitoring credit risk and credit trends in the economy. Regulators often use information from credit bureaus to assess whether current provisioning is adequate and to analyze developments in credit markets and interest rates. The results may guide changes in the legislation governing financial institutions. Research in Argentina, Brazil and Mexico found that credit registries played a valuable role in credit risk evaluation and in supervision, including in calculations of credit risk for capital or as a check on a bank's internal ratings.[17]

Credit information systems also support competition in the credit market. As more credit information becomes available, competition among banks and nonbank financial institutions should increase. Research in the Middle East and North Africa found that lack of credit information systems may curtail competition in the banking sector.[18]

WHO REFORMED CREDIT INFORMATION SHARING—AND WHAT HAS WORKED?

In the past 7 years 14 Arab economies implemented 24 regulatory reforms to improve credit information systems (figure 7.3). Four implemented reforms in 2010/11—Algeria, Oman, Qatar and the United Arab Emirates.

Algeria guaranteed by law the right of borrowers to inspect their personal data.

Oman launched the Bank Credit and Statistical Bureau System, which collects historical information on performing and nonperforming loans for both firms and individuals.

Qatar started to distribute historical data and eliminated the minimum threshold for loans included in the database.

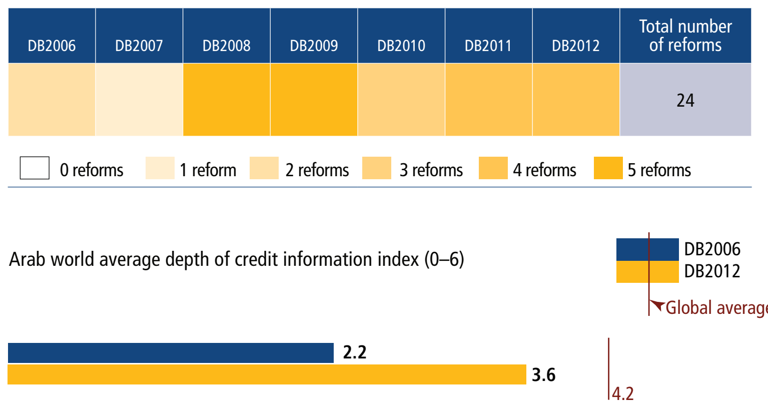
The *United Arab Emirates* adopted a new law allowing the establishment of a federal credit bureau under the supervision of the central bank.

As a result of the steady pace of reforms to improve credit information systems, and the more limited reforms to strengthen legal rights, 13 Arab economies made impressive progress toward the frontier in getting credit in the past 6 years (figure 7.4). These 13 economies moved 16 percentage points closer to the frontier on average, with 12 of them moving more than 10 percentage points closer. Among these Arab economies, the Comoros narrowed the gap the most.

Doing Business measures both public credit registries and private credit bureaus. Public credit registries are defined as databases managed by the public sector (usually the

FIGURE 7.3 The Arab world keeps a steady pace of reform in credit information

Number of *Doing Business* reforms improving credit information systems in the Arab world, by *Doing Business* report year

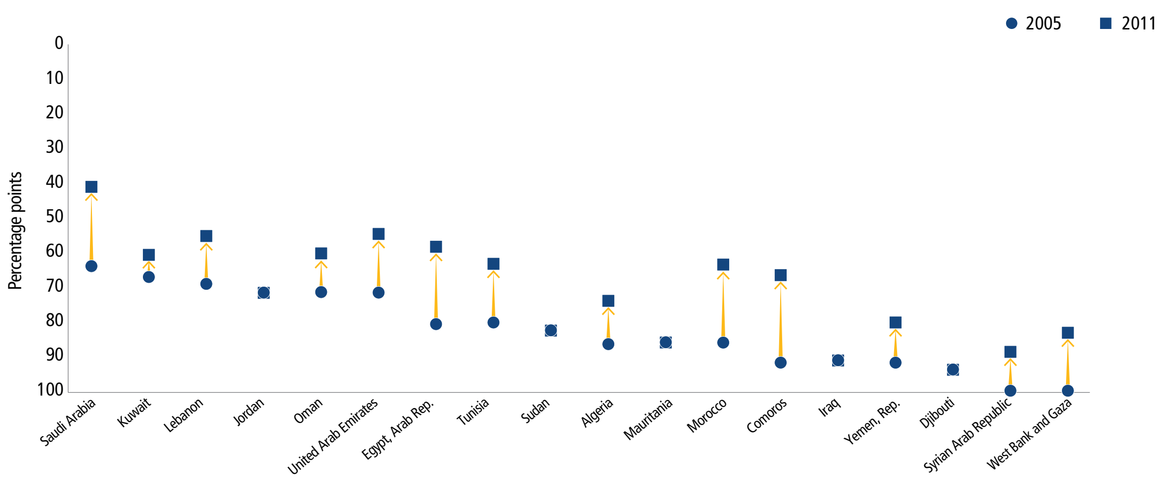


Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

FIGURE 7.4 In the past 6 years 13 Arab economies narrowed the gap to the frontier in getting credit

Distance to frontier in getting credit, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the getting credit indicators (measuring both legal rights and credit information) since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

central bank or the superintendent of banks) that collect information on the creditworthiness of borrowers and facilitate the exchange of credit information among banks and financial institutions. Private credit bureaus are set up in response to commercial opportunities and market conditions.[19] Although they are private entities and operate in the private commercial sphere, private credit bureaus are regulated by laws that allow the sharing of data between banks and borrowers. Regulations on privacy, bank secrecy and data protection stipulate the type of information that may be shared between banks and private credit bureaus. Regulations on access to credit information specify which data can be available to banks and borrowers. Some economies, including Jordan and the United Arab Emirates, even mandate by law that data be shared with private credit bureaus. Economies such as Ecuador and Morocco have established a public credit registry in the central bank with the clear objective of building a credit information database that can later be transferred to a private credit bureau.

Among Arab economies, coverage by credit registries and credit bureaus increased from an average of 4.4% of the adult population in 2005 to 15.4% in 2011. The average score on the depth of credit information index increased from 2.2 in 2005 to 3.6 in 2011.[20]

But 3 Arab economies—the Comoros, Iraq and Sudan—still lack any kind of credit information system. And in many that do have one, the credit bureau or registry covers only a tiny fraction of the adult population. In Djibouti and Mauritania, for example, the public credit bureau covers only 0.2% (table 7.2).

In 2010/11, 22 economies around the world implemented reforms to improve their credit reporting system. The most common feature of those reforms—implemented by 7 economies, including the United Arab Emirates—was improving the regulatory framework for sharing credit information.

Specific practices help increase credit coverage and encourage the use of credit information systems. Among the most common measures have been expanding the range of information shared, collecting and distributing data from sources other than banks and lowering or eliminating minimum loan thresholds.

TABLE 7.2 Who in the Arab world has the most credit information—and who the least?

Depth of credit information index (0–6)			
Most		**Least**	
Saudi Arabia	6	Jordan	2
Egypt, Arab Rep.	6	Yemen, Rep.	2
Lebanon	5	Syrian Arab Republic	2
United Arab Emirates	5	Mauritania	1
Morocco	5[a]	Djibouti	1

Borrowers covered by credit registries or bureaus (% of adults)			
Most		**Least**	
Bahrain	40.0	Jordan	1.6
Qatar	32.2	Yemen, Rep.	0.7
United Arab Emirates	29.2	Algeria	0.3
Kuwait	29.0	Djibouti	0.2
Oman	18.9	Mauritania	0.2

Note: The rankings on borrower coverage reflected in the table include only Arab economies with public or private credit registries (17 in total). Another 3 Arab economies have no credit registry and therefore no coverage.

a. Tunisia also scores 5 on the depth of credit information index.

Source: Doing Business database.

Reporting good as well as bad

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

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

Today 13 of the 17 Arab economies with a credit reporting system as recorded by *Doing Business* share both positive and negative information. One of these is Oman, whose central bank launched the Bank Credit and Statistical Bureau System on December 20, 2010. The new system collects positive and negative information on firms and individuals, including information on any type of credit facility and on both performing and nonperforming loans.

Collecting and distributing data from retailers and utility companies

One effective way to expand the range of information distributed by credit registries is to include credit information from retailers and utility companies, such as electricity providers and mobile phone companies. Providing information on payment of electricity and phone bills can help establish a good credit history for those without previous bank loans or credit cards. This represents an important opportunity for including people without traditional banking relationships. But including this information can be challenging. Utilities and retailers are regulated by different institutions than financial companies are. They also might have to be convinced that the benefits of reporting bill payment outweigh the costs.

Today credit bureaus or registries in only 3 Arab economies—Egypt, Kuwait and Saudi Arabia—include credit information from sources other than banks. In Egypt the private credit bureau I-Score began collecting both positive and negative data from retailers in 2009. I-Score is also beginning to add data from microfinance institutions (box 7.2). Kuwait's private credit bureau began collecting information from retailers such as furniture sellers in 2007. And Saudi Arabia's started collecting positive and negative data from a mobile telephone company at the end of 2006. Getting credit remains easiest in Saudi Arabia, as measured by *Doing Business* (figure 7.5).

Lowering or eliminating minimum loan thresholds

Where thresholds for the loans included in a credit bureau's database are high, retail and small business loans are more likely to be excluded. This can hurt those that benefit

BOX 7.2 Adding microfinance institutions to credit reporting in Egypt

Most credit bureaus can collect data from banks. But winning the confidence of microfinance institutions, which have special requirements and idiosyncrasies, can take time and effort. At the beginning of 2011, after nearly 3 years of collecting data from banks, mortgage companies and leasing companies, the Egyptian credit bureau I-Score was still trying to add data from microfinance institutions. Out of distrust for the Egyptian information sharing system, these institutions planned to build a separate microfinance credit bureau.

But the specter of a crisis that had threatened Morocco's microcredit industry in the absence of a functioning credit bureau was now starting to haunt Egypt's as well. While the microcredit industry in Morocco had increased lending to microfinance borrowers, this was accompanied by a corresponding increase in portfolio-at-risk ratios. The debate among Egypt's microcredit lenders focused on how they could be spared a similar crisis, particularly in an expansionary phase.

I-Score and the International Finance Corporation proposed a step toward a solution to 3 of Egypt's largest microfinance institutions. A cross-tabulation analysis would compare a sample of their loan portfolios with the data in the I-Score database, to see whether there was evidence of cross-lending—that is, whether borrowers, unbeknownst to their microfinance lenders, had also been granted lines of credit by lenders from other sectors, such as banks.

The results were both unexpected and alarming for the microfinance institutions. More than 14% (nearly 50,000) of their customers in the sample had been granted credit lines (sometimes 2 or more) by banks. The outstanding balances amounted to nearly 500 million Egyptian pounds ($82.9 million), 3 times the microfinance institutions' total outstanding balances. Among these customers, 6,000 were 90 or more days past due—and 460 of these were the subject of legal actions. About 100 had records of bounced checks.

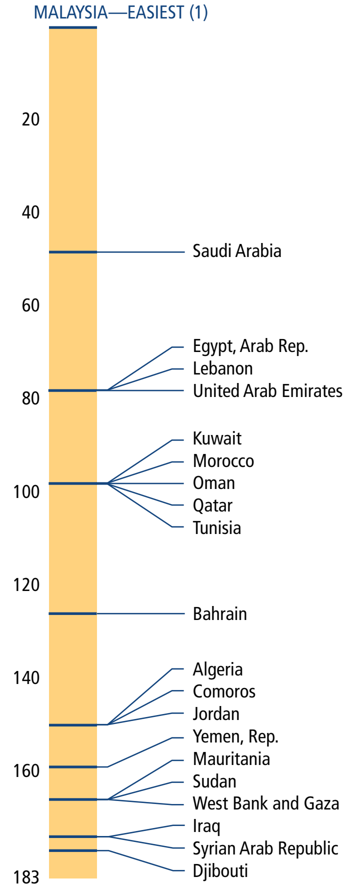
In addition, roughly 13,000 of the customers had been granted credit lines by other microfinance institutions. The outstanding balances on these amounted to about 14 million pounds ($2.3 million).

The undeniable evidence of multiple lending, and its associated risk, were enough to dissuade the microfinance institutions from keeping their data separate. The 3 major microfinance institutions signed an agreement with I-Score, and smaller institutions plan to join soon. To support the needs of the microfinance institutions, I-Score has agreed to special prices for these lenders, offered technical support, granted a free trial period for newcomers and developed ad hoc services.

Source: International Finance Corporation, Credit Bureau Program; I-Score.

FIGURE 7.5 How do Arab economies rank on the ease of getting credit?

Global ranking (1–183)



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

Source: Doing Business database.

the most from credit information systems—such as female entrepreneurs and small and medium-size enterprises, whose loans are typically smaller. Public credit registries usually set relatively high thresholds for loans, $34,260 on average, since their primary purpose is to support bank supervision and the monitoring of systemic risks. Private credit bureaus tend to have lower minimum loan thresholds, $418 on average. Today 12 Arab economies have minimum loan thresholds below 1% of income per capita—Bahrain, Egypt, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates, and West Bank and Gaza.

Globally over the past 7 years, 21 economies eliminated their minimum loan threshold, more than quadrupling their coverage on average. Tunisia and West Bank and Gaza eliminated loan thresholds in 2008. Syria's central bank removed the minimum loan threshold for the public credit registry in February 2010. The registry's coverage of individuals and firms increased to 2.8% of the adult population. Qatar's credit bureau, which began operating in March 2011, includes loans of all sizes in its database.

NOTES

1. Alvarez de la Campa and others 2010.
2. Alvarez de la Campa and others 2010.
3. World Bank 2011a.
4. Djankov, McLiesh and Shleifer 2007.
5. Haselmann, Pistor and Vig 2010.
6. Bae and Goyal 2009.
7. Diamond 2004.
8. World Bank 2010b.
9. Jappelli and Pagano 2002; Behr, Entzian and Guettler 2011; Brown, Jappelli and Pagano 2009.
10. Brown, Jappelli and Pagano 2009; Jappelli and Pagano 2002.
11. Brown and Zehnder 2007.
12. Brown, Jappelli and Pagano 2009.
13. Rocha and others 2010.
14. Padilla and Pagano 2000.
15. Brown and Zehnder 2007.
16. Turner and others 2009.
17. Powell and others 2004.
18. Anzoategui, Martinez Pería and Rocha 2010.
19. Jappelli and Pagano 1993.
20. Straight average of percentages or scores across economies.

Protecting investors

On December 15, 2010, after 11 months of legal standoff, the Swiss corporation Novartis finally closed a deal to acquire the remaining shares of eye-care company Alcon from minority shareholders. Why did it take almost a year? The acquisition had become a related-party transaction after Novartis purchased a 25% stake from then majority shareholder Nestlé and nominated some of its own directors to Alcon's board. Minority shareholders therefore claimed that the deal required the approval of a committee of independent directors. The parties finally reached an agreement when Novartis increased its offer to a level that minority shareholders deemed fair.[1]

Doing Business measures the strength of legal protections of minority investors against misuse of corporate assets by company directors for their personal gain. The indicators distinguish 3 dimensions of investor protections: rules on the approval and disclosure of related-party transactions (extent of disclosure index), liability of company executives for self-dealing (extent of director liability index) and shareholders' ability to access corporate information before and during litigation (ease of shareholder suits index). The standard case study assumes a related-party transaction between Company A ("Buyer") and Company B ("Seller") where "Mr. James" is the controlling shareholder of both Buyer and Seller and a member of both their boards of directors. The transaction is overpriced and causes damages to Buyer (figure 8.1).

The ranking on the strength of investor protection index is the simple average of the percentile rankings on the extent of disclosure, extent of director liability and ease of shareholder suits indices. A higher ranking indicates that an economy's regulations offer stronger investor protections against self-dealing in the areas measured. 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.

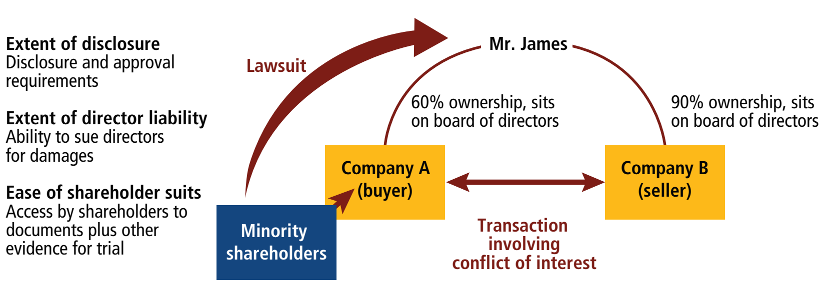
WHY DO MINORITY INVESTOR PROTECTIONS MATTER?

One of the most important issues in corporate governance 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.

Investor protections matter for the ability of companies to raise the capital needed to grow, innovate, diversify and compete. Without investor protections, equity markets fail to develop and banks become the only source of finance. Economies that have dynamic capital markets tend to effectively protect investors. In these economies investors receive financial information they can trust, they participate in major decisions of the company, and directors are accountable for their managerial decisions. If the laws do not provide such protections, investors may be reluctant to invest, unless they become controlling shareholders.[2]

Minority investor protections can have important implications for firm valuation. Research on 539 large firms in 27 economies shows that firm valuation is higher in economies with good investor protections than in those with poor protections.[3] Other research shows that corporate risk-taking and firm growth rates are positively related to the quality of the system of investor protections. Better systems may lead corporations to undertake riskier but value-enhancing investments.[4]

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

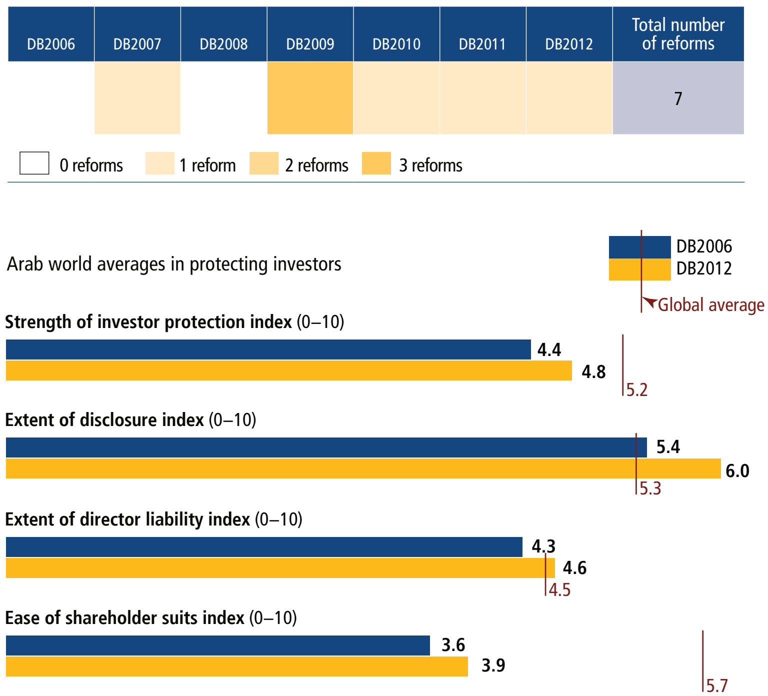


WHO REFORMED INVESTOR PROTECTIONS—AND WHAT HAS WORKED?

Compared with other regions, the Arab world has implemented few reforms in investor protections. One exception is Morocco. In both 2009/10 and 2010/11 Morocco was the only economy in the

FIGURE 8.2 The Arab world had few investor protection reforms in the past 7 years

Number of *Doing Business* reforms strengthening investor protections in the Arab world, by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

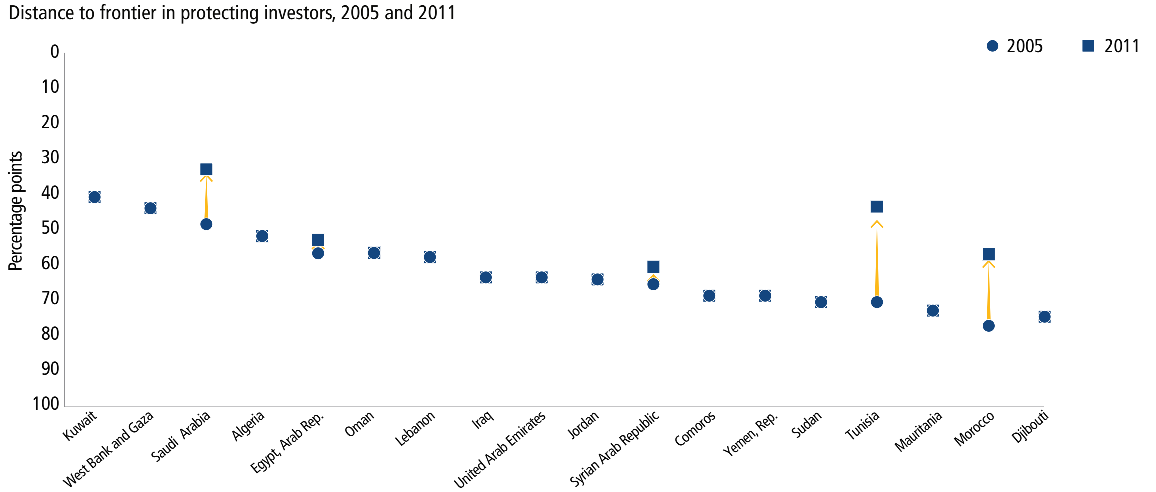
region that strengthened legal protections of minority shareholders.

Morocco strengthened investor protections in 2009/10 by requiring greater disclosure in companies' annual reports. A new decree clarified the interpretation of the company law with respect to the type of information in the report of the independent auditor who reviews related-party transactions. In 2010/11 Morocco amended Law 53-95 on the Institution of Commercial Jurisdictions, which now allows minority shareholders to obtain any nonconfidential corporate document during trial.

In the Arab world as a whole, 7 investor protection reforms have been recorded since 2005, in 4 economies—Egypt, Morocco, Saudi Arabia and Tunisia (figure 8.2). These economies have started to regulate corporate disclosure and related-party transactions more closely. And the United Arab Emirates has clear rules on director liability. Yet legal protections of minority shareholders in the region remain weak. And only 5 Arab economies moved closer to the frontier in protecting investors over the past 6 years—Egypt, Morocco, Saudi Arabia, Syria and Tunisia (figure 8.3). Tunisia advanced the most, closing the gap by about 27 percentage points, followed by Morocco (20 percentage points).

FIGURE 8.3 Few Arab economies have narrowed the gap to the frontier in protecting investors

Distance to frontier in protecting investors, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the protecting investors indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure, define clear duties for directors, offer wide access to corporate information and provide procedural rules that give minority investors the means to prove their case. While the *Doing Business* protecting investors indicators focus on laws and stock market regulations, protections for minority investors are not only about legislation. They are also about institutions and a robust enforcement system: securities commissions that ensure the correct implementation of regulations on transparency and well-functioning courts that allow investors to obtain a judgment within a reasonable time.[5]

TABLE 8.1 Who in the Arab world provides strong minority investor protections—and who does not?

Extent of disclosure index (0–10)			
Most		Least	
Saudi Arabia	9	Mauritania	5
Lebanon	9	Djibouti	5[a]
Bahrain	8	Iraq	4
Egypt, Arab Rep.	8	United Arab Emirates	4
Oman	8	Sudan	0

Extent of director liability index (0–10)			
Most		Least	
Saudi Arabia	8	Mauritania	3[c]
Kuwait	7	Djibouti	2
Tunisia	7	Morocco	2
United Arab Emirates	7	Comoros	1
Algeria	6[b]	Lebanon	1

Ease of shareholder suits index (0–10)			
Easiest		Most difficult	
West Bank and Gaza	7	Oman	2
Morocco	6	Syrian Arab Republic	2
Tunisia	6	United Arab Emirates	2
Egypt, Arab Rep.	5	Yemen, Rep.	2
Kuwait	5[d]	Djibouti	0

a. Jordan, Qatar and Tunisia also score 5 on the extent of disclosure index.

b. Qatar and Sudan also score 6 on the extent of director liability index.

c. Egypt also scores 3 on the extent of director liability index.

d. The Comoros and Lebanon also score 5 on the ease of shareholder suits index.

Source: Doing Business database.

Ensuring transparency in related-party transactions

Fifty-two of the 183 economies covered by *Doing Business* stand out for the strictest rules on disclosure of related-party transactions (both before and after the conclusion of the transaction). These include France, New Zealand, Singapore and Albania. Corporate scandals, investor activism, the global financial crisis and unification of accounting standards have prompted governments around the world to strengthen disclosure requirements.[6] Not surprisingly, this was the most common feature in investor protection reforms in the past 7 years, accounting for 39 of the total and 6 of the 13 in the past year. More than 10 economies worldwide do not require disclosure of large related-party transactions. One of them is Sudan, the only Arab economy with a score of 0 on the extent of disclosure index (table 8.1).

In the past year 6 economies—Belarus, Burundi, Cyprus, Kazakhstan, Lithuania and Sri Lanka—introduced legal provisions regulating disclosure of related-party transactions. Why does it matter? Providing reliable information on company dealings allows investors to monitor the activities of companies and assess the performance of their management.

In the Arab world, Kuwait has very strict disclosure rules. Directors must reveal any conflict of interest to the other members of the board. In addition, the company must immediately disclose detailed information on the transaction and the conflict of interest to the public, the regulator or the stock exchange, and it must include similar information in its annual report. Other economies, such as Egypt, are also implementing good practices in this area (box 8.1).

BOX 8.1 Egypt leading corporate governance reforms in the Arab world

Egypt has been a leader in introducing corporate governance practices in the Arab world since the early 2000s. In 2003 the government established the Egyptian Institute of Directors, under the umbrella of the Ministry of Investment, to spread awareness and build capacity in corporate governance in Egypt and in the Middle East and North Africa more broadly. By targeting its initiatives to directors and executives of corporations and financial institutions, the institute aims to reach those in a position to effect change by implementing sound corporate governance practices—as a way to reduce financial and corruption risks, improve access to finance, restore investor confidence and attract domestic and foreign investment.

Considered a world-class center of excellence by the Global Corporate Governance Forum, the institute has conducted many awareness sessions in Egypt and the Middle East and North Africa, graduated more than 200 directors certified by the Egyptian Financial Supervisory Authority and trained hundreds of top executives and directors in the region. It launched a code of corporate governance for private companies in October 2005, a code for state-owned enterprises in August 2006 and an audit committee manual in 2008—all serving as reference points for companies seeking to put in place effective corporate governance systems.

The institute continues to establish new links between corporate governance, responsible business and anticorruption to increase corporate engagement in addressing development issues and improve the business climate. It has expanded its efforts to reach out to and work with other economies in the Arab world, such as Oman and the United Arab Emirates. And it has contributed to a continent-wide initiative with the launch of responsible business networks in the Middle East and Africa, to connect stakeholders and enable the sharing of knowledge and experience in governance and responsible business conduct.

Companies in the Arab world have started to recognize the importance of improving corporate governance and its significant benefits for their business. Some of these benefits are outlined in a 2010 report by the International Finance Corporation that reviews the measures taken by 11 companies to improve board effectiveness, management control and other corporate governance practices.[1] Nearly all the companies reported that the improvements in corporate governance had a strong or substantial effect on their ability to access finance, with the estimates ranging from $8 million to more than $1 billion over the previous 2 years. Most of the companies also highlighted the impact of good corporate governance on their reputation and sustainability.[2]

1. IFC 2010a.

2. IFC 2010b.

Involving disinterested shareholders in the approval of related-party transactions

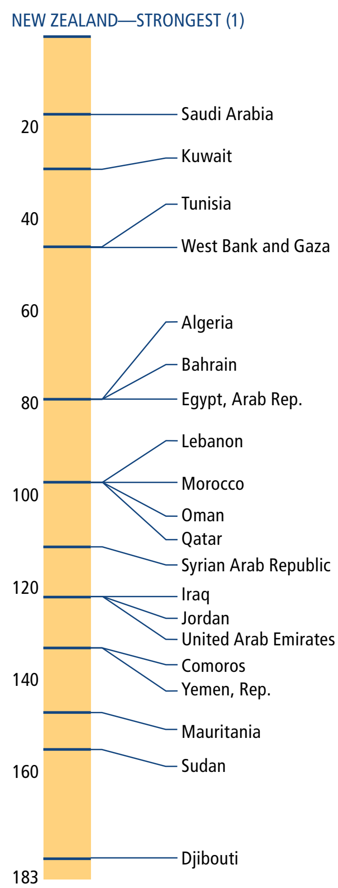
Sixty economies require shareholder approval of large related-party transactions. Burundi and Kazakhstan adopted such rules in 2011. In the previous year 5 economies—Albania, Cyprus, Georgia, Iceland and Rwanda—introduced provisions on shareholder approval of related-party transactions.

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. Other features can also strengthen shareholder approval provisions. Twenty-five of the 60 economies requiring approval of related-party transactions by disinterested shareholders also require review of the terms of these transactions by an independent body, such as an independent auditor, before their approval. The independent auditor will provide an opinion on the terms of the transaction that will help shareholders make an informed decision. But 21 economies, including Costa Rica and the Philippines, allow the chief executive officer or whoever is specified in the company statute to approve related-party transactions. In 44 economies, including Azerbaijan, Panama and the United States, these transactions are approved by the board of directors and interested parties are allowed to vote.

In the Arab world 9 economies require shareholder approval and do not allow directors with a conflict of interest to vote: Algeria, Bahrain, the Comoros, Lebanon, Morocco, Oman, Qatar, Saudi Arabia and Tunisia.

FIGURE 8.4 How do Arab economies rank on the strength of investor protections?

Global ranking (1–183)



Note: Rankings are based on the strength of investor protection index. See the data notes for details.

Source: Doing Business database.

Making directors accountable for their actions

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

Only 45 of the 183 economies covered by *Doing Business* have clear rules on the liability of company directors in case of abusive related-party transactions. Among those 45, economies take different approaches. Some have a clear catalogue of rights and duties of directors, while others have a special regime of liability for directors in the event of an abusive related-party transaction.

Those that prescribe clear rights and duties of directors include Canada, Mexico and the United Arab Emirates, which have rules encouraging directors to be prudent in the company's day-to-day management. Thirty-five economies, including Bulgaria and China, do not clearly stipulate the liability of directors for abusive related-party transactions. In those economies, as long as the interested parties comply with requirements for disclosure and approval of related-party transactions, they are not liable for any harm that results. The other 103 economies have rules on the liability of directors, but often with loopholes.

Kuwait, which has the Arab world's second highest ranking on the strength of investor protections, is among the economies that hold directors accountable (figure 8.4). Liability is established on the simple basis that the transaction was prejudicial to minority shareholders.

Facilitating access to corporate documents

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

Only 15 of the 183 economies covered by *Doing Business* permit full access to documentary evidence both before and during the trial. More than 30 economies—including Canada, the Dominican Republic and Hong Kong SAR, China—allow shareholders access to any corporate document they require, but only before the trial. Cyprus, France and the United Kingdom allow shareholders to request the appointment of a government inspector with full powers to verify and obtain copies of any corporate document. El Salvador, Kazakhstan, New Zealand and South Africa require that all company documents related to the case be open for inspection during the trial.

In the Arab world, Mauritania, Syria and the Republic of Yemen permit limited or no access to evidence during the trial, making it virtually impossible for minority investors to prove their case. By contrast, Morocco recently amended legislation to allow parties

to a trial to request the judge to compel any evidence that is relevant to the subject matter of the claim. In addition, parties to the trial only need to identify categories of documents sought, not specific documents. In addition, the new law allows parties to a commercial trial to directly question the opposing parties and witnesses.

NOTES

1. Agustino Fontevecchia, "Novartis Is Eye-Care King after Acquiring Alcon," *Forbes.com*, December 15, 2010. http://www.forbes.com/2010/12/15/novartis-alcon-pfizer-markets-equities-pharma.html.
2. Dahya, Dimitrov and McConnell 2008.
3. La Porta and others 2002.
4. John, Litov and Yeung 2008.
5. See, for example, Ford (2005); Ahdieh (2003); Black (2001); and Mahoney (1997).
6. Among 152 economies surveyed, 107 permit or require the use of International Financial Reporting Standards through company laws and accounting laws. Adoption rates are high among OECD high-income economies, in Eastern Europe and in Latin America and the Caribbean.

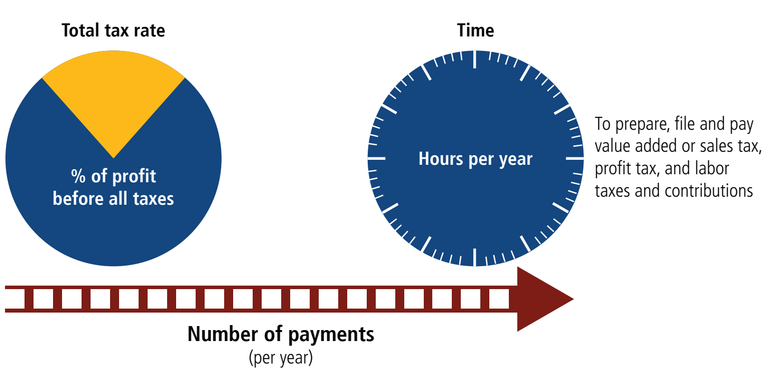
Paying taxes

Imagine a woman named Amina who owns a manufacturing company in Morocco. In 2004 she had to make 28 payments and spend more than 44 days (358 hours) to comply with tax regulations. Today, thanks to changes over the past 7 years, her administrative burden is lighter. The government merged many taxes and eliminated others, and now Amina needs to make only 17 payments a year as measured by *Doing Business*. A new electronic filing and payment system, now fully implemented, saves Amina 15 days a year (120 hours). This is time she can invest in developing her business. "New technology makes compliance easier and more transparent," said Mahat Chraibi, a partner at PwC Morocco. "This is one example of how technology helps to bridge the development gap."

Doing Business records the taxes and mandatory contributions that a medium-size company must pay in a given year and also measures the administrative burden of paying taxes and contributions. It does this with 3 indicators: payments, time and the total tax rate borne by a case study firm in a given year. The number of payments indicates the frequency with which the company has to file and pay different types of taxes and contributions, adjusted for the way in which those payments are made. The time indicator captures the number of hours it takes to prepare, file and pay 3 major types of taxes: profit taxes, consumption taxes, and labor taxes and mandatory contributions. The total tax rate measures the tax cost borne by the standard firm (figure 9.1).

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. The methodology looks at the statutory incidence of taxes and includes all taxes and contributions that the case study firm is obliged to pay. This does not mean that the entire burden falls on the firm; eventually the cost is shared among the owners, customers, workers and suppliers of the firm. The indicators do not measure the fiscal health of economies, the macroeconomic conditions under which governments collect revenue or the provision of public services supported by taxation.

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



WHY DO TAX RATES AND TAX ADMINISTRATION MATTER?

Oliver Wendell Holmes, a former U.S. supreme court justice, said, "Taxes are what we pay for a civilized society." Governments need sustainable funding for social programs and public investments to promote economic growth and development. Taxation not only pays for public goods and services; it is a key ingredient of the social contract between citizens and the economy and thus key to building effective government. How taxes are raised and spent shapes the legitimacy of governments by promoting their accountability to taxpaying citizens and by encouraging effective administration and good public financial management.[1]

All governments need revenue, but the challenge is to carefully choose not only the level of tax rates but also the tax base. Governments also need to design a tax compliance system that will not discourage taxpayers from participating. Tax rates and burdensome tax administration remain a top obstacle to business. Recent firm surveys in 123 economies show that companies consider tax rates to be among the top 3 constraints to their business, and tax administration to be among the top 8.[2]

Why tax rates matter

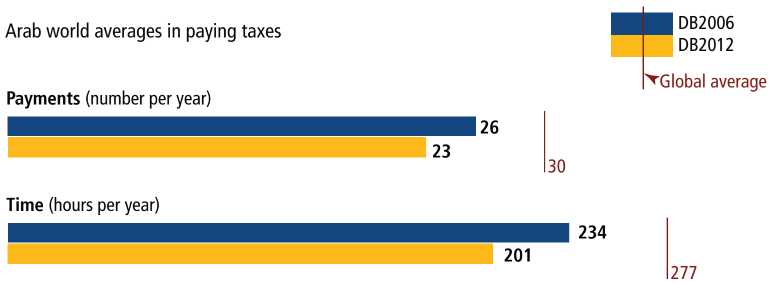
The size of the tax cost for businesses matters for investment and growth. Where taxes are high, businesses are more inclined to opt out of the formal sector. A recent study shows that higher tax rates are associated with fewer formal businesses and lower private investment. Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalization of businesses. This is particularly important for small and medium-size enterprises, which contribute to growth and job creation but do not add

FIGURE 9.2 In the past 7 years 60% of Arab economies made it easier to pay taxes

Number of *Doing Business* reforms making it easier to pay taxes in the Arab world, by *Doing Business* report year

DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	Total number of reforms
							22

0 reforms 1–2 reforms 3–4 reforms 5–6 reforms



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 comprises 18 economies. The sample for DB2012 also includes Bahrain and Qatar, for a total of 20 economies.

Source: Doing Business database.

significantly to tax revenue.[3] Typical distributions of tax revenue by firm size for economies in Sub-Saharan Africa and the Middle East and North Africa show that micro, small and medium-size enterprises make up more than 90% of taxpayers but contribute only 25–35% of revenue.[4] Thus imposing high tax costs on businesses of this size might not add much to government tax revenue, but it might cause businesses to become informal or, in the worst case, to never exist at all.

Why tax administration matters

Efficient tax administration can help encourage businesses to become formally registered and the economy to grow—and thus expand the tax base and increase tax revenues. Administration that is unfair and capricious will bring the tax system into disrepute and weaken the legitimacy of government. In many transition economies in the 1990s, failure to improve tax administration when new tax systems were introduced resulted in very uneven imposition of taxes, widespread tax evasion and lower-than-expected revenue.[5]

Compliance with tax laws is important to keep the system working for all and to support the programs and services that improve lives. One way to encourage compliance is to keep the rules as clear and simple as possible. Overly complicated tax systems are associated with high evasion. High tax compliance costs are associated with larger informal sectors, more corruption and less investment. Economies with simple, well-designed tax systems are able to help the growth of businesses and, ultimately, the growth of overall investment and employment.[6]

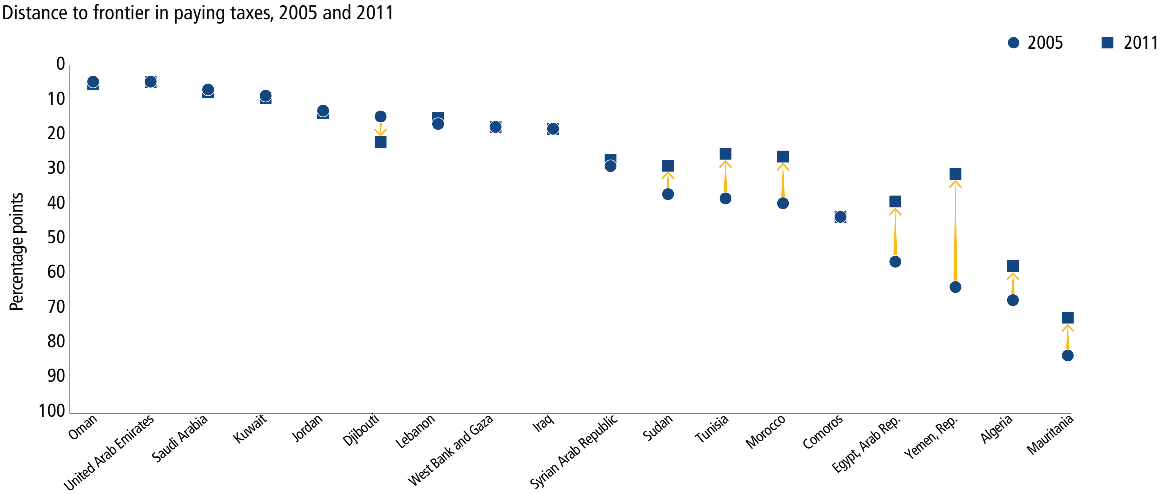
WHO REFORMED TAXES—AND WHAT HAS WORKED?

In the past 7 years 12 Arab economies implemented changes aimed at simplifying tax administration and reducing the tax burden—22 such reforms in all (figure 9.2). In 2010/11, 3 Arab economies—Morocco, Oman and the Republic of Yemen—made it easier to pay taxes or reduced tax rates.

Morocco eased the administrative burden of paying taxes for firms by enhancing electronic filing and payment of the corporate income tax and value added tax.

FIGURE 9.3 Among Arab economies, the Republic of Yemen has advanced the most toward the frontier in paying taxes

Distance to frontier in paying taxes, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the paying taxes indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

Oman enacted a new income tax law in January 2010 that redefined the scope of taxation.

The *Republic of Yemen* enacted a new tax law in December 2010 that reduced the general corporate tax rate from 35% to 20% and abolished all tax exemptions except those granted under the investment law for investment projects.

Morocco and the Republic of Yemen, as well as 7 other Arab economies—Algeria, Egypt, Lebanon, Mauritania, Sudan, Syria and Tunisia—moved closer to the frontier in paying taxes over the past 6 years (figure 9.3).

TABLE 9.1 Who in the Arab world makes paying taxes easy and who does not—and where is the total tax rate highest?

Payments (number per year)			
Fewest		Most	
Qatar	3	Algeria	29[b]
Tunisia	8	Djibouti	35
Iraq	13	Mauritania	37
United Arab Emirates	14	Sudan	42
Oman	14[a]	Yemen, Rep.	44

Time (hours per year)			
Fastest		Slowest	
United Arab Emirates	12	Iraq	312
Bahrain	36	Syrian Arab Republic	336
Qatar	36	Egypt, Arab Rep.	433
Oman	62	Algeria	451
Saudi Arabia	79	Mauritania	696

Total tax rate (% of profit)	
Highest	
Morocco	49.6
Tunisia	62.9
Mauritania	68.3
Algeria	72.0
Comoros	217.9[c]

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

a. Saudi Arabia also requires 14 payments a year.

b. Egypt also requires 29 payments a year.

c. Where the data show that taxes exceed profit, the company must apply a price markup of more than 120% of the cost of goods sold to pay its taxes under the assumptions of the *Doing Business* case study. See the data notes for more details.

Source: Doing Business database.

The Republic of Yemen narrowed the gap the most, by about 33 percentage points, followed by Egypt. Djibouti was the only Arab economy that moved substantially further away from the frontier.

Worldwide in the past year, introducing electronic systems to make compliance easier was the most common feature of tax reform for the first time since 2004. Over the past 7 years the most common features were reducing tax rates, introducing electronic systems and simplifying tax compliance by reducing the frequency of filing or allowing joint payment and filing of several taxes.

Reducing tax rates

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

Globally, the average total tax rate is 44.9% of profit. The average for Arab economies is slightly lower, at 42.9%. This average is 16 percentage points lower than it was 7 years ago. The reason is that more than half the tax reforms undertaken by Arab economies since 2005 were aimed at reducing tax rates, most often the corporate income tax rate, or eliminating certain taxes.

Labor taxes and government-mandated contributions paid by the employer account on average for 36.2% of the total tax rate in the 183 economies covered by *Doing Business*. In the Arab world the Comoros and West Bank and Gaza are the only economies that do not require the payment of any social security contributions or labor taxes.

In 5 economies taxes and mandatory contributions for the standard case study firm add up to more than 100% of profit, ranging from 105.2% to 339.7%. The Comoros is one of these economies, with a total tax rate of 217.9% (table 9.1). *Doing Business* assumes that the case study firm has a gross margin of 20%.[7] Because taxes are calculated on the gross amount, the size of the margin directly affects the ratio. For example, in the Democratic Republic of Congo, where the total tax rate equals 339.7%, the company would have to have a gross profit margin of 30% to be able to meet its tax liability.[8]

Making tax compliance easier

Complying with tax regulations in the Arab world takes 23 payments and 201 hours a year on average. This reflects improvements, with tax compliance taking 3 payments and 33 hours fewer today than it did 7 years ago.

And making the process easier continues to be a concern. In 2010/11 Morocco enhanced electronic filing and payment of the corporate income tax—through the Simpl-IS system—and value added tax—through the Simpl-TVA system. These 2 systems have been available for several years, Simpl-TVA since February 2007 and Simpl-IS since February 2009. But their use has now spread to the majority of taxpayers. This has reduced the number of payments from 28 a year to 17 and the time to prepare taxes from 358 hours a year to 238.

Offering electronic filing and payment

An electronic system for filing and paying taxes, if implemented well and used by most taxpayers, benefits both tax authorities and firms. For tax authorities, electronic filing lightens the workload and reduces operational costs—such as the costs of processing, storing and handling tax returns. At the same time, it increases tax compliance and saves time. For taxpayers, electronic filing saves time by reducing calculation errors on tax returns and making it easier to prepare, file and pay taxes.[9] And both sides benefit from a reduction in potential incidents of corruption, which are more likely to occur with more frequent contact with tax administration staff.[10]

By 2010, 66 economies had fully implemented electronic filing and payment of taxes. Twenty of them adopted the system in the past 7 years. Ten OECD high-income economies have made electronic filing and payment mandatory. And this trend is likely to continue.

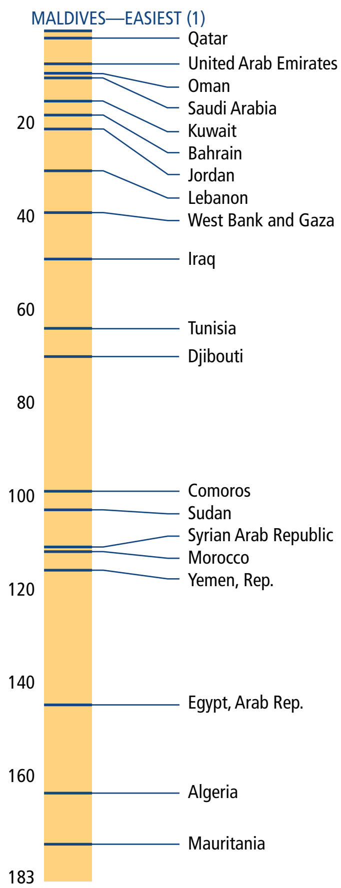
Besides Morocco, Qatar and Tunisia are the only other Arab economies that offer electronic filing. Tunisia has required all

companies with a turnover of at least 2 million Tunisian dinars ($1.34 million) to use the country's "télédeclaration" online system since January 1, 2009. As a result of this fully implemented online filing and payment system, businesses in Tunisia now spend 37% less time complying with corporate income tax and value added tax than they did before.

The change was not immediate: when the system was first introduced, taxpayers were reluctant to make online payments. The government of Tunisia addressed this concern by introducing a new option for paying taxes in 2008: "téléliquidation"—online declaration and physical payment. Taxpayers could file their tax declaration online and determine how much tax they owed, then go to a tax office to pay it. And taxpayers could make the payment at any tax office in Tunis, not just the one where their company was registered. This option provided a good intermediate step in the gradual move to a fully online filing and payment system.

FIGURE 9.4 How do Arab economies rank on the ease of paying taxes?

Global ranking (1–183)



Note: Rankings are the average of the economy's percentile rankings on the number of payments, time and total tax rate, with a threshold being applied to the total tax rate. See the data notes for details.

Source: Doing Business database.

Keeping it simple: one tax base, one tax

Some 235 years after Adam Smith proclaimed simplicity to be one of the pillars of the effective tax system,[11] multiple taxation—where the same tax base is subject to more than one tax treatment—appears to be making tax compliance inconvenient and cumbersome for taxpayers in many economies. Multiple taxation increases the cost of doing business for firms because it increases the number of payments they must make and frequently the compliance time as well. Different forms have to be filled out, often requiring different methods for calculating the tax. In Haiti, for example, the case study business is subject to the local tax on profit in addition to the corporate income tax. Multiple taxation also complicates tax administration for tax authorities and increases the cost of revenue administration for governments. And it risks damaging investor confidence in an economy.

Globally, 49 economies have one tax per tax base for taxes measured by *Doing Business*, including 9 in the Arab world—Djibouti, Egypt, Iraq, Jordan, Morocco, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Among these 9 are the region's 4 top-ranked economies on the ease of paying taxes (figure 9.4).

Having one tax per tax base keeps things simple. Having more types of taxes requires more interaction between businesses and tax agencies. It also complicates tax compliance. In 17 economies globally, businesses must prepare one return for corporate income tax and another for an additional tax on profit. In India, Lesotho, São Tomé and Príncipe, South Africa and Ukraine, besides the profit tax, companies are subject to a tax levied on dividends distributed to shareholders. In Tunisia social security contributions, work accident insurance contributions, a professional training tax and a social lodging tax are each levied separately on gross salaries.

Adopting self-assessment as an effective tool for tax collection

Driven by a desire to reduce administrative costs for tax authorities and aided by modern technology, most economies have adopted the principle of self-assessment. Taxpayers determine their own liability under the law and pay the correct amount. For governments, the computer system and software for self-assessment, if they function well, ensure effective quality control. Self-assessment systems generally make it possible to collect taxes earlier and reduce the likelihood of disputes over tax assessments.[12] They also lessen the discretionary powers of tax officials and reduce opportunities for corruption.[13] To be effective, however, self-assessment needs to be properly introduced and implemented, with transparent rules, an automated reporting process, penalties for noncompliance and risk assessment procedures for audit processes.

Economies that have introduced their tax system recently or undertaken major revision of their tax regulations have tended to adopt self-assessment principles. These include 12 Arab economies—Egypt, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, and West Bank and Gaza.

NOTES

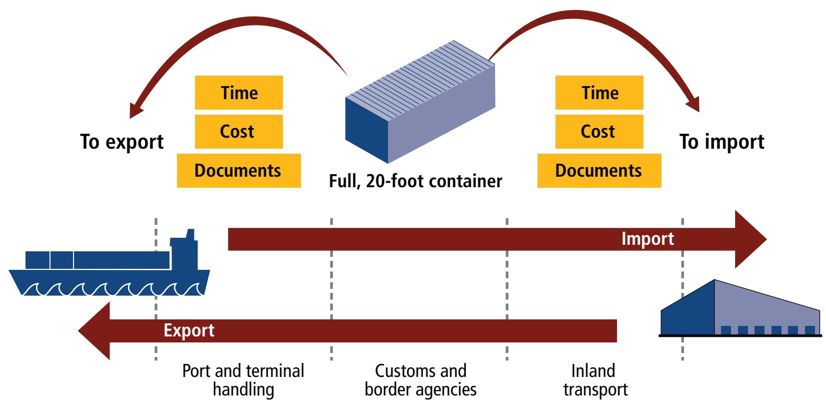
1. FIAS 2009.
2. Companies ranked 16 obstacles to business in World Bank Enterprise Surveys in 2006–10 (http://www.enterprisesurveys.org).
3. Hibbs and Piculescu 2010.
4. International Tax Dialogue 2007.
5. Bird 2010.
6. Djankov, Ganser and others 2010.
7. That is, sales are 120% of the costs of goods sold.
8. Here, gross profit margin refers to sales minus costs divided by sales, where the sales have been adjusted to a level at which the case study company's profit in the Democratic Republic of Congo would exceed the amount of taxes due. Given the original assumption in the case study of a gross margin of 20%, or 120% of the costs of goods sold, in the Democratic Republic of Congo sales would have to be 142% of the costs of goods sold for the case study company to be able to meet its tax obligation.
9. Che Azmi and Kamarulzaman 2010.
10. James 2009.
11. Smith 1776.
12. OECD Forum on Tax Administration 2011.
13. Imam and Jacobs 2007.

Trading across borders

Imagine Ahmad, an entrepreneur in Baghdad who has grown his clothing business to 60 employees in the past decade. He wants to begin importing fabric from Turkey. But that can be costly and slow. Ahmad can expect to spend $3,650 to import a standardized container of cargo through the port of Basra in the process as measured by *Doing Business*—and to wait for up to 83 days from the time the goods arrive in Basra until they reach Baghdad.

Doing Business measures the time and cost (excluding tariffs) associated with exporting and importing by ocean transport, and the number of documents necessary to complete the transaction (figure 10.1).[1] The indicators cover documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover logistical aspects, including the time and cost of inland transport between the largest business city and the main port used by traders. These are key dimensions of the ease of trading—the more time-consuming and costly it is to export or import, the more difficult it is for local companies to be competitive and to reach international markets.

FIGURE 10.1 How much time, how many documents and what cost to export and import by ocean transport?



WHY DOES FACILITATING TRADE MATTER?

The benefits of trading are well documented. Limited access to international markets can prevent the growth of businesses and economies of scale. Local markets are often small, particularly in developing economies, and trade provides potential for greater output at lower cost. Trade also allows developing economies to become part of global supply chains. Having access to imported raw materials and other inputs is often crucial for businesses, and delays or shortages can affect production. Trade can also lead to favorable externalities such as the transfer of know-how.[2]

But a firm's ability to trade overseas can be hampered by a range of factors—inadequate infrastructure, inefficient port operations, excessive documentation requirements, burdensome and time-consuming customs procedures, heavy-handed inspections and audits by different government agencies. By removing unnecessary obstacles, governments can contribute to an environment that encourages entrepreneurs to look beyond their own borders for business opportunities. A study focusing on Asia-Pacific Economic Cooperation (APEC) economies estimates that cutting the days needed to clear exports by half could enable a small to medium-size enterprise to increase its share of exports in total sales from 1.6% to 4.5%.[3]

International trade plays an important part in the development of economies.[4] Facilitating trade is therefore a natural concern for policy makers. Researchers find that the complexity or ease of customs and administrative procedures has an impact on trade flows. A study in Sub-Saharan Africa estimates that reducing exporting costs by 10% through improvements in the efficiency of the trade process increases exports by 4.7%.[5] Globally, improving port efficiency, the customs environment, the regulatory environment and the service sector could increase trade in manufacturing by up to $377 billion a year in all regions.[6]

Improving infrastructure naturally plays an important part in enhancing trade, but so do policies and regulations that promote efficient border crossing and the emergence of reliable logistics services, particularly for landlocked economies.[7] Another study in Sub-Saharan Africa shows that a 1-day reduction in inland travel times leads to a 7% increase in exports. Put another way, a 1-day reduction in inland travel times is equivalent to a 1.5 percentage point reduction in all importing-country tariffs.[8]

Governments can also benefit directly from trade facilitation, for example, by supporting easier ways to enforce tariff and duty payments and by making informal "facilitation payments" to certain customs officers more difficult. Ghana saw customs revenue grow by 49% in the first 18 months after implementing GCNet, its electronic data interchange system for customs procedures, according to

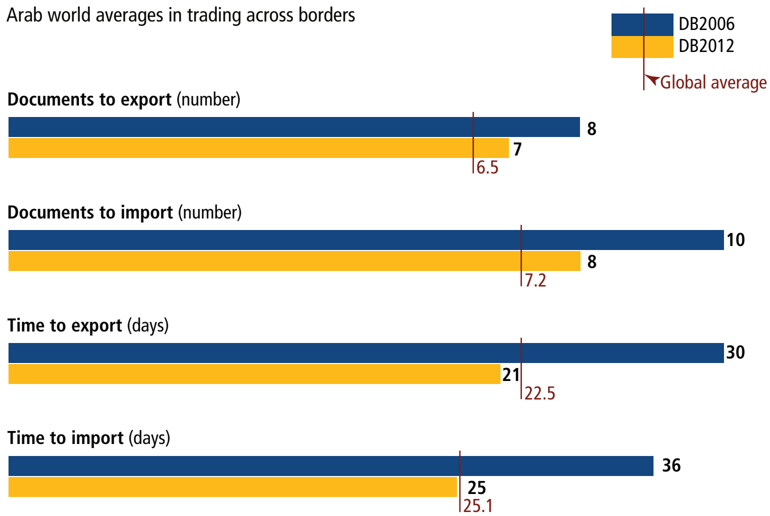
FIGURE 10.2 Arab economies lead the world in cutting the time and documents required for trade

Number of *Doing Business* reforms making it easier to trade across borders in the Arab world, by *Doing Business* report year

DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	Total number of reforms
							28

0 reforms 1–2 reforms 3–4 reforms 5–6 reforms

Arab world averages in trading across borders



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

a case study.[9] In Uganda reforms to improve customs administration and reduce corruption helped increase customs revenue by 24% between 2007 and 2008.[10]

WHO REFORMED IN TRADING ACROSS BORDERS—AND WHAT HAS WORKED?

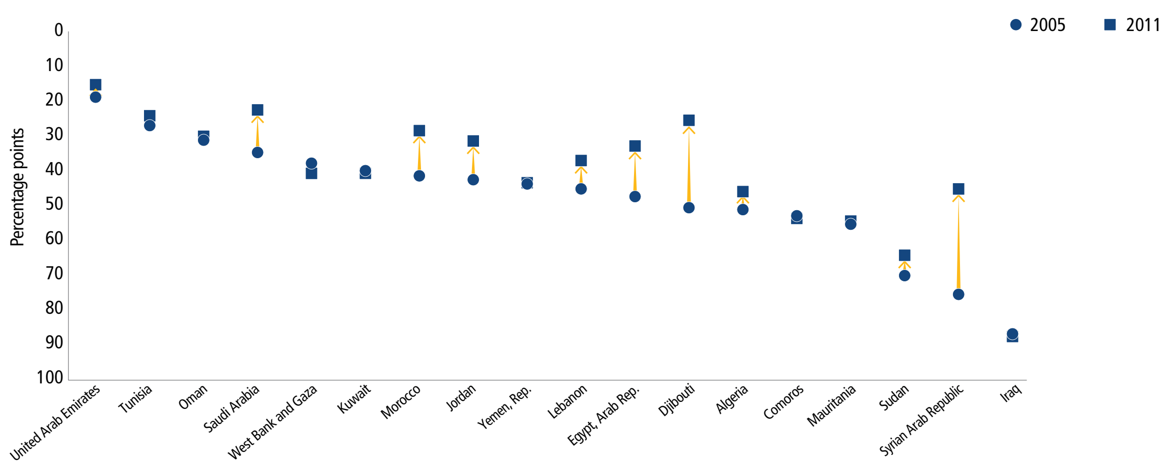
Trade facilitation has been high on Arab governments' agendas in recent years, though it became less of a priority in the past year. In each of the years 2008/09 and 2009/10, 6 Arab economies modernized customs procedures and port infrastructure (figure 10.2). In 2010/11 only 2 Arab economies implemented such reforms.

Djibouti developed the Doraleh Container Terminal. Representing an investment of around $450 million, this terminal is capable of serving larger vessels and added 1.2 million twenty-foot equivalent units (TEU) in annual handling capacity, making it the largest terminal on the east coast of Africa north of Durban. The new terminal has reduced the time it takes to export goods.

Jordan introduced X-ray scanners for exports in July 2010 to improve the risk management system for customs inspections. This has reduced the need for physical inspection and

FIGURE 10.3 Syria has made impressive strides toward the frontier in trading across borders

Distance to frontier in trading across borders, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the trading across borders indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

thus for unloading and reloading containers. In addition, further improvements were made in the automated customs system, reducing the time required to export and import.

Thanks to changes like these, the Arab world has made bigger cuts in the time and documentation requirements to export and import in recent years than any other region. The average time to export fell from 30 days in 2005 to 21 days in 2011, and the time to import from 36 days to 25. The average number of documents required to export a standard container of cargo was reduced from 8 in 2005 to 7 in 2011—and the average number required to import from 10 to 8.

Indeed, 14 of 18 Arab economies made progress in narrowing the distance to the frontier in trading across borders (figure 10.3). Syria advanced the most, narrowing the distance by about 30 percentage points, followed by Djibouti (about 25 percentage points). Most economies in the region that improved trade facilitation focused on introducing new electronic systems or enhancing existing ones. Others adopted the concept of a single customs window to streamline procedures (box 10.1).

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

BOX 10.1 How have trade logistics improved in the Arab world?

All economies in the Arab world have the geographic advantage of direct access to the sea. But the relatively high regional averages for the time to export and import suggest that this advantage is not being fully exploited. Exporting in the Arab world takes an average of 21.3 days, and importing 24.9 days. In OECD high-income economies exporting and importing take less than 11 days on average.

But underlying these regional averages are large differences among Arab economies. Trading is fastest in the United Arab Emirates (7 days to export or import) and slowest in Mauritania, Sudan and Iraq (32–80 days to export and 38–83 days to import). The variation reflects differences in security conditions and in the pace of trade facilitation reforms. Economies with relative peace and stability have set the pace for modernization.

Better performance in trade logistics depends on good infrastructure, efficient in-house procedures, reliable means of exchanging information and modern legislation to anchor a sound legal framework. Some Arab economies have gone further than others in establishing these conditions.

Among oil exporters in the region, led by the United Arab Emirates and Qatar, the development of trade logistics has progressed from improving infrastructure (including regional infrastructure) to streamlining in-house procedures and electronically linking the parties involved in trade. Among non-oil exporters, Tunisia has been a leader—implementing an electronic single-window system and reengineering in-house procedures. And Jordan, which implemented the ASYCUDA system in 2000, recently also adopted risk-based inspections.

Recently, supply chain security has become a concern in trade logistics reform—because of the region's dependence on imported food and the vulnerability of shipping lanes in the Suez Canal and Strait of Hormuz. Economies whose ports are served by these shipping lanes choose alternative supply routes and maintain large safety stocks for distribution. But to ensure the effectiveness of alternative routes that combine neighboring ports and cross-border transit requires deeper institutional arrangements between national governments. Much could be gained from an integrated customs transit regime, a common insurance guarantee system and a harmonized system of product quality and safety standards. Such cooperation, by supporting the diversification of supply routes, could boost supply chain security.

Adopting electronic data interchange systems

Electronic systems for filing, transferring, processing and exchanging customs information have become an important tool for managing flows of information, now widely used in complex trading systems. The newest web-based systems allow traders to submit their documents from anywhere and to pay duties online. The key to success is the ability of an economy to accommodate its regulatory framework to the new information technologies.

If implemented effectively, such a system saves precious time and money (not to mention paper). It can also reduce interactions with officials, which means fewer opportunities for corruption. But introducing an electronic system often requires governments to enact legislation on electronic signatures and transactions. Otherwise it can lead to redundancy and delays, requiring paper submission of signed documents after they have been filed electronically. For small and low-income economies the infrastructure and training costs of implementing such systems can be onerous—and meaningful effects for local traders may take time to materialize.

More than half the economies in the Arab world have electronic data interchange systems. In 2009 Egypt and Tunisia introduced new or updated versions of their electronic systems to better facilitate trade. In 2010 Egypt implemented several measures as part of the government's comprehensive plan to reorganize its customs administration to meet international standards. Modern customs centers were established at Egypt's major ports, and new information technology systems were implemented. Known as data warehouses, these systems facilitate communication and streamline procedures between customs, inspection agencies, port authorities, shipping lines and freight forwarders. By 2011 Egypt's trade reforms had cut the time to export from 27 days in 2005 to 12, and the time to import from 29 days to 12 (table 10.1).

Jordan's recent improvements to its automated customs system included electronically connecting customs and the port operator (ACT). As a result, containers can be directed to inspection or released immediately, with no need to handle paperwork. This cut the time to export from 14 days in 2010 to 13 days in 2011, and the time to import from 18 days to 15.

Linking agencies through an electronic single window

Increasingly, economies are going a step further by virtually linking not only traders and customs but all agencies involved in trade and transport through an electronic single-window system. In the best case such a system allows traders to file standard information and

TABLE 10.1 Who in the Arab world makes exporting easy—and who does not? / Who in the Arab world makes importing easy—and who does not?

Who in the Arab world makes exporting easy—and who does not?				Who in the Arab world makes importing easy—and who does not?			
Documents (number)				**Documents** (number)			
Fewest		Most		Fewest		Most	
United Arab Emirates	4	Syrian Arab Republic	8	United Arab Emirates	5	Algeria	9[d]
Tunisia	4	Algeria	8	Saudi Arabia	5	Syrian Arab Republic	9
Saudi Arabia	5	Mauritania	8[b]	Djibouti	5	Kuwait	10
Djibouti	5	Comoros	10	West Bank and Gaza	6	Comoros	10
Qatar	5[a]	Iraq	10	Tunisia	7[c]	Iraq	10
Time (days)				**Time** (days)			
Fastest		Slowest		Fastest		Slowest	
United Arab Emirates	7	Yemen, Rep.	27	United Arab Emirates	7	Lebanon	32
Oman	10	Comoros	30	Oman	9	Mauritania	38
Morocco	11	Sudan	32	Egypt, Arab Rep.	12	West Bank and Gaza	40
Bahrain	11	Mauritania	34	Bahrain	15	Sudan	46
Egypt, Arab Rep.	12	Iraq	80	Jordan	15	Iraq	83
Cost (US$ per container)				**Cost** (US$ per container)			
Least		Most		Least		Most	
Morocco	577	Algeria	1,248	United Arab Emirates	635	Yemen, Rep.	1,475
Egypt, Arab Rep.	613	West Bank and Gaza	1,310	Oman	680	Mauritania	1,523
Saudi Arabia	615	Mauritania	1,520	Saudi Arabia	686	Syrian Arab Republic	1,625
United Arab Emirates	630	Sudan	2,050	Qatar	730	Sudan	2,900
Oman	745	Iraq	3,550	Egypt, Arab Rep.	755	Iraq	3,650

a. Lebanon also requires 5 documents to export.
b. Egypt and Oman also require 8 documents to export.
c. Bahrain, Jordan, Lebanon, Qatar and Sudan also require 7 documents to import.
d. Egypt and the Republic of Yemen also require 9 documents to import.
Source: Doing Business database.

documents through a single entry point to fulfill all import, export and transit-related regulatory requirements—then shares relevant information with all parties involved in trade, including private participants such as banks and insurance companies as well as public agencies such as immigration and vehicle registration authorities.

Today only 3 economies in the Arab world—Egypt, Tunisia and the United Arab Emirates—have implemented single-window systems. Tunisia's expansion of its electronic single window, called TradeNet, has allowed traders to quickly file all documents required to clear their cargo online, shortening processing delays by 2 days.

Using risk-based inspections

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

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

Risk-based inspections are the norm in OECD high-income economies. They are also becoming increasingly common elsewhere. Eleven economies in the Arab world use risk-based inspections. About 50% of goods are inspected in Tunisia, 10–15% in Bahrain and only 3% in the United Arab Emirates, the Arab economy where it is easiest to trade across borders (figure 10.4). Jordan became the latest Arab economy to implement risk-based inspections with its introduction of X-ray scanners for exports in July 2010. This reduced the clearance time at customs by 2 days for exporters.

Overcoming geographic barriers through regional cooperation

Many landlocked economies face special challenges in competing globally because of the greater inland distances and multiple border crossings involved in their trade. These economies can accelerate trade through efforts to increase border cooperation agreements and reduce the number of checkpoints so that cargo can move freely—without being stopped for customs or other inspections—until it reaches its destination. A trader in Vienna, in landlocked Austria, needs only 2 days to transport cargo to the port of Hamburg, Germany, 900 kilometers away. A trader in Ouagadougou, in landlocked Burkina Faso, needs a week or considerably longer to transport cargo a similar distance to a port in neighboring Ghana or Togo. The difference is due in part to inadequate infrastructure. But it also results from additional controls and waiting time at border posts and checkpoints along the road.

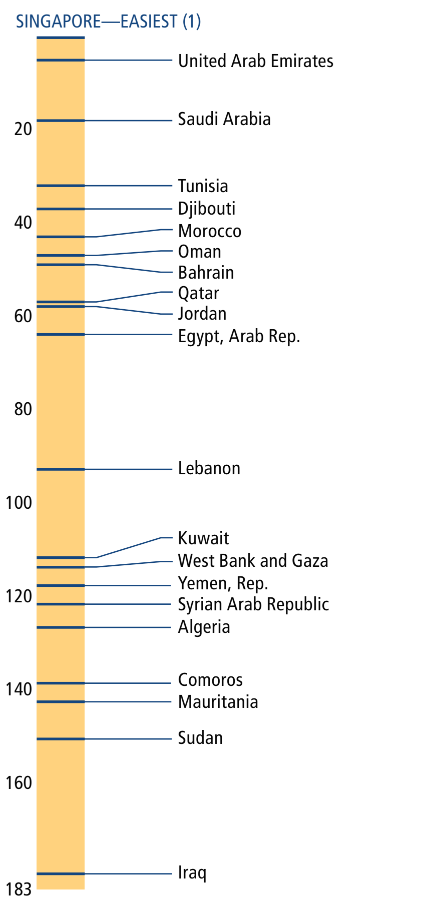
No Arab economies are landlocked. But a potential need to rely on alternative supply routes involving cross-border transit means that economies in the region could still benefit from border cooperation agreements (see box 10.1).

Sparking competition by making private participation easier

Beyond the customs formalities, private providers of trade services—such as customs brokers, transport companies and port service providers—all have important effects on the time and cost of trading across borders. Greater competition among trade service providers can lead to lower fees and higher quality of service. Governments can promote competition by removing high license fees, onerous eligibility requirements and caps on the number of brokers. After Algeria accelerated the approval of license applications for brokers, customs clearance fees dropped by 40–50%. But having many brokers to choose from is not enough. Appropriate rules and regulations and proper oversight of brokers' services are crucial to achieving good trade practices.

FIGURE 10.4 How do Arab economies rank on the ease of trading across borders?

Global ranking (1–183)



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

Source: Doing Business database.

Improving transparency to minimize costs

Improving transparency in trade by providing easy access to documentation requirements and tariff schedules can reduce transactions costs for importing and exporting. Where trading procedures and payment requirements are clear, customs brokers and trade consultants are less necessary.

Documentation requirements and tariff schedules for trade are not easily accessible in the Arab world. Only 5 Arab economies publish documentation requirements online—Bahrain, Jordan, Morocco, Saudi Arabia and the United Arab Emirates—while 7 disseminate tariff schedules through websites. Egypt publicizes documentation requirements through brochures and public notices, while the Comoros does so for tariff schedules. But in most Arab economies traders must speak to an official to find out about the documents required or the tariff rates that will apply. And even where this information is easily accessible, it is not always up to date or sufficiently detailed. Lack of clarity about documentation requirements and tariffs still contributes to considerable hassles and delays for traders.

Not all trade facilitation reforms require heavy spending. Initiatives such as providing training, clarifying and publicizing the rules and holding regular meetings with exporters on the clearance process can make a difference. Through a series of efforts to improve customs administration in 2010—such as training staff and streamlining procedures—the Palestinian Authority reduced document preparation time for exports by 2 days.

NOTES

1. Trading is assumed to take place through seaports because maritime transport is the most common means of international trade. To this extent the trading across borders indicators provide the most accurate measures of what traders around the world must deal with to export and import, while the standardized case study ensures that the data remain comparable across economies and over time. The indicators do not measure the ease of trading by other modes, such as land or air, which limits the assessment of an economy. For example, the indicators do not measure regional trade—which is becoming increasingly important, particularly for landlocked economies—even if an economy trades mainly with immediate neighbors by land. In addition, the indicators measure logistical aspects only between the largest business city of an economy and the port. In low-income economies this logistical route tends to be the most developed and is not representative of the connectivity to the rest of the economy, which may be more relevant for small and medium-size businesses.
2. For a review of discussions on the role of trade in international technology transfer, see Saggi (2002).
3. Li and Wilson 2009.
4. Bolaky and Freund 2008.
5. Hoekman and Nicita 2009.
6. Wilson, Mann and Otsuki 2004.
7. Arvis, Marteau and Raballand 2010.
8. Freund and Rocha 2010.
9. De Wulf and Sokol 2004.
10. World Bank 2009a, p. 50.

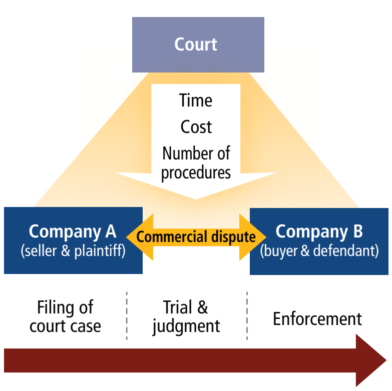
Enforcing contracts

Imagine a businessman named Khaled who sells electrical appliances in Damascus, Syria. If a customer fails to pay, Khaled could pursue the matter in court—but that would require 55 different interactions, take around 2.5 years and cost more than 29% of the value of the claim. Even if Khaled knew that the court would be on his side, he would be unlikely to go to court to recover the money owed him because judiciary procedures are so costly and time-consuming. He would be better off restricting his sales to trustworthy customers or people he knows.

Where enforcing contracts through the courts is efficient, businesses are more likely to engage with new customers. But where the process is long, complex and bureaucratic, businesses prefer to deal only with those whom they know and trust—limiting their opportunities to grow and prosper.

Doing Business measures the time, cost and procedural complexity of resolving a commercial lawsuit between 2 domestic businesses (figure 11.1). The dispute involves the breach of a sales contract worth twice the income per capita of the economy. The case study assumes that the court hears arguments on the merits and that an expert provides an opinion on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. The time, cost and procedures are measured from the perspective of an entrepreneur (the plaintiff) pursuing the standardized case through local courts.

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



WHY DOES COMMERCIAL DISPUTE RESOLUTION MATTER?

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

In Italy a study of 27 judicial districts found that commercial cases last an average of 53 months, or nearly 4.5 years.[1] In efficient judicial districts such as Venice there are 22 pending cases per 1,000 inhabitants; in Reggio Calabria the backlog is more than twice that. The study concludes that, all other things being equal, where the backlog of pending trials is relatively large, credit is less widely available, the average interest rate is higher, and the default rate is higher.

Another study shows that in economies with good contract enforcement in debt collection cases, firms tend to produce and export relatively more customized products, especially in industries where the continuation of the relationship is most important.[2] Other research finds that in economies with more effective legal systems, firms tend to be larger on average, especially in sectors where proprietorships dominate.[3] A recent study analyzing 98 developing economies suggests that foreign direct investment tends to be greater where the cost of contract enforcement in debt collection and property eviction cases is lower, particularly when the host economy is more indebted.[4]

WHO REFORMED CONTRACT ENFORCEMENT—AND WHAT HAS WORKED?

In the past 8 years *Doing Business* recorded 114 reforms that helped improve court efficiency in commercial dispute resolution. No fewer than 23 economies made it easier to enforce contracts by introducing or expanding specialized courts to deal with commercial cases. Other economies overhauled the organization of their courts or their system of judicial case management that deals with commercial dispute resolution. In 2010/11 the introduction or expansion of computerized case management systems was among the most common improvements recorded by *Doing Business*.

The Arab world is the only region where no reforms were recorded in the area of enforcing contracts in 2010/11 (figure 11.2). But in the past 7 years 6 Arab economies improved their court systems: Egypt, Jordan and Mauritania established specialized commercial courts or commercial court divisions. Algeria passed a new code of civil procedure. West Bank and Gaza introduced specialized enforcement judges. And the United Arab Emirates implemented a new electronic filing system.

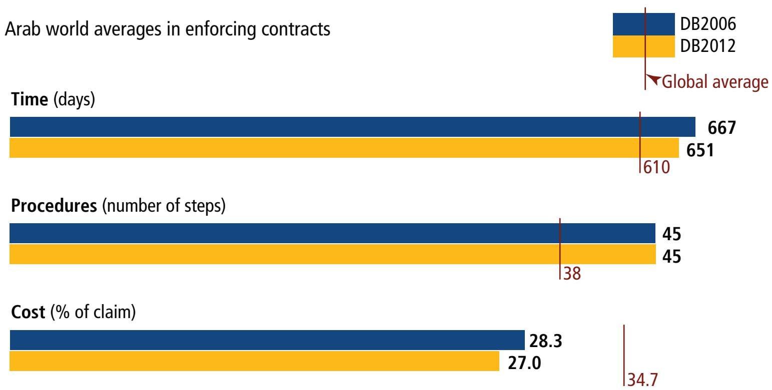
Despite the reforms, these 6 economies have not advanced much toward the frontier in enforcing contracts (figure 11.3). Indeed, the United Arab Emirates has not advanced at all. West Bank and Gaza has advanced the most, but only by about 4 percentage points. So the region has seen little improvement

FIGURE 11.2 No reforms were introduced in the past year to increase the efficiency of Arab courts

Number of *Doing Business* reforms making it easier to enforce contracts in the Arab world, by *Doing Business* report year

DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	Total number of reforms
							6

0 reforms 1–2 reforms 3–4 reforms



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

in the process of enforcing contracts. It still takes 45 procedures on average, just as it did 6 years ago, though the time and cost have decreased slightly.

There is no single surefire recipe for court reform. Most economies with successful court reform efforts have had to embrace a holistic approach, looking not only at timely disposition of cases but also at such features as accessibility, transparency, independence, due process, certainty and the competence of judges and judicial staff. Some economies with efficient commercial dispute resolution have complemented their court systems with alternative dispute resolution systems. *Doing Business* focuses on how public institutions function in the case of a commercial dispute. Using alternative dispute resolution systems may be more costly than relying on the regular court system and require the agreement of the parties involved—an agreement that is only sometimes reached by small and medium-size businesses involved in a commercial dispute.

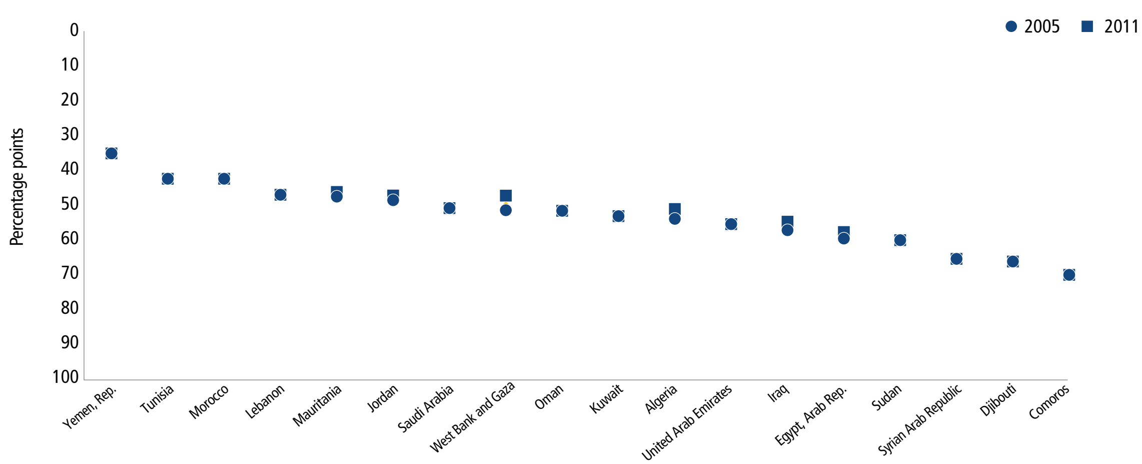
Over the years common features of judicial reforms relating to commercial dispute resolution have included updating claim thresholds, introducing case management systems and automation, creating specialized commercial courts and making judgments publicly available.

Updating claim thresholds

Today around 116 economies operate a 2-tier civil court system to ensure more efficient processing of commercial cases. Depending on the litigation value of the claim, and in some cases the subject matter, first-instance cases go either to a lower court—often the magistrate's court, city court or justice of the peace—or to the higher court. Some

FIGURE 11.3 Few Arab economies have advanced toward the frontier in enforcing contracts

Distance to frontier in enforcing contracts, 2005 and 2011



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the enforcing contracts indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

economies further divide lower and higher jurisdictions.

Regardless of the level, monetary thresholds have to be regularly updated to ensure that the workload is adequately distributed. With economic growth and inflation, thresholds can quickly become outdated—and higher courts overburdened with simple cases.

At least 19 economies around the world updated claim thresholds or ceilings for commercial cases in the past 8 years. Many raised the maximum case value for lower courts, allowing more cases to benefit from simplified procedures. In 2009 Jordan more than doubled the maximum case value for its lower courts, the conciliation courts, to allow a better distribution of the caseload. It raised the ceiling for these courts from 3,000 Jordanian dinars ($4,230) to 7,000 ($9,870).

Introducing case management systems and automation

Introducing case management and automating court processes have been common practices among economies improving contract enforcement. Judicial case management involves monitoring and managing cases in the court docket from the filing of the claim until judgment is rendered. It has proved to be an effective tool for reducing procedural delays at court and for monitoring the performance of judges and court officers. By analyzing court workloads, case management systems can help predict trends and allocate resources strategically. Case management can be particularly successful when courts are computerized and when support functions—such as electronic filing, case tracking, document management, deadline reminders and scheduling of hearings—are performed automatically.

Since 2008 *Doing Business* has recorded 18 major reforms in judicial case management and automation of court proceedings. Today 16 of the 183 economies covered by *Doing Business* allow electronic filing of the initial complaint in a case. One is the United Arab Emirates, which introduced electronic filing in its court system in 2007. The website of the Dubai courts enables parties to file several types of petitions electronically, deposit money to cover both court fees and experts' fees and follow the progress of their cases. The website also provides comprehensive information on laws and regulations in the United Arab Emirates.

Other economies in the region have also introduced information technology in their judicial systems, though they do not yet allow electronic filing. In 2008/09 Jordan implemented a computerized case management system called Mizan II, an improved version of the original system used in neighboring West Bank and Gaza. Among other features, Mizan II enables text-message notifications for attorneys and allows online access to court records for authorized users. Enforcing a contract in Jordan takes 38 procedures—the third smallest number in the region (table 11.1).

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.

TABLE 11.1 Who in the Arab world makes enforcing contracts easy—and who does not?

Time (days)			
Fastest		**Slowest**	
Mauritania	370	Lebanon	721
Comoros	506	Sudan	810
Morocco	510	Syrian Arab Republic	872
Iraq	520	Egypt, Arab Rep.	1,010
Yemen, Rep.	520	Djibouti	1,225

Procedures (number of steps)			
Fewest		**Most**	
Yemen, Rep.	36	Kuwait	50
Lebanon	37	Oman	51
Jordan	38	Iraq	51
Tunisia	39	Sudan	53
Morocco	40[a]	Syrian Arab Republic	55

Cost (% of claim)			
Least		**Most**	
Oman	13.5	Syrian Arab Republic	29.3
Bahrain	14.7	Lebanon	30.8
Yemen, Rep.	16.5	Jordan	31.2
Kuwait	18.8	Djibouti	34.0
Sudan	19.8	Comoros	89.4

a. Djibouti also requires 40 procedures.
Source: Doing Business database.

Creating specialized commercial courts

Eighty-seven of the 183 economies covered by *Doing Business* have a specialized commercial jurisdiction—established by setting up a dedicated stand-alone court, a specialized commercial section within existing courts or specialized judges within a general civil court. The majority of Arab economies have a specialized commercial jurisdiction: the Comoros, Egypt, Jordan, Kuwait, Lebanon, Mauritania, Morocco, Oman, Saudi Arabia, Sudan, Tunisia, the United Arab Emirates and the Republic of Yemen. Seven of these economies rank in the top half among Arab economies on the ease of enforcing contracts (figure 11.4).

As recorded by *Doing Business*, about 23 economies around the world introduced or expanded the scope of specialized commercial courts or commercial sections in the past 8 years. Egypt established new stand-alone commercial courts in 2008. Known as special economic courts, these began operating within the jurisdiction of each circuit court or court of first instance. The new courts handle all bankruptcy cases and commercial cases exceeding 10 million Egyptian pounds ($1.65 million). To allow the assignment of 3 judges to each commercial court, 25–35 judges were trained for the new positions.

In 2008 Jordan set up commercial divisions in its courts of first instance and its conciliation courts, assigning judges to hear solely commercial cases. To start with, 6–7 specialized commercial judges were assigned to the conciliation courts, and 12 to the courts of first instance.

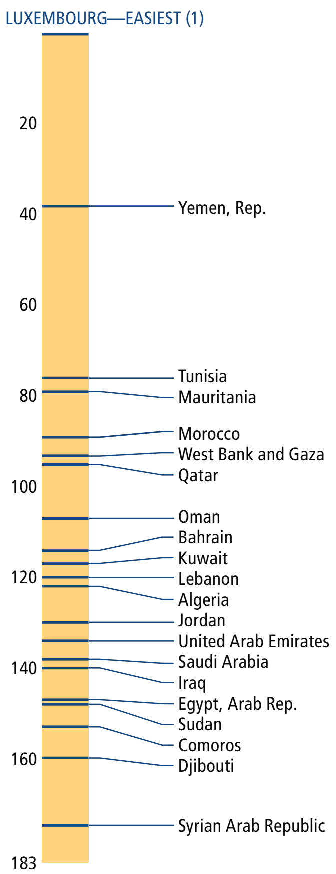
In Saudi Arabia dedicated commercial courts replaced specialized chambers within the civil courts of first instance in 2007. The new commercial courts have 3 sitting judges, while the specialized chambers had had just 1 sitting judge. With the greater capacity,

each judge is now expected to hear about 30 cases a month.

Specialized courts tend to improve efficiency.[5] Creating specialized commercial courts can result in faster and less costly contract enforcement. One reason for the greater efficiency is that judges become expert in handling commercial disputes. Commercial courts often have less formal procedures: the use of oral arguments is permitted even in economies where the general courts require written procedures. Analysis of *Doing Business* data shows that commercial disputes are resolved 5 months faster on average in economies with specialized commercial courts or sections than in those without them.[6]

FIGURE 11.4 How do Arab economies rank on the ease of enforcing contracts?

Global ranking (1–183)



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

Source: Doing Business database.

Making judgments publicly available

Many economies require judgments in court cases to be made publicly available with the aim of improving the efficiency of courts and increasing the transparency of judicial decisions. Many also impose disclosure requirements on members of the judiciary in the hope of making it easier to discover instances of corruption. These practices do not in themselves guarantee a fair trial. But they can increase the chances for fair trials. And access to court decisions can support judicial certainty and promote the development of consistent case law.[7] As the English jurist and philosopher Jeremy Bentham observed, "Publicity is the very soul of Justice. . . . It keeps the judge himself, while trying, under trial."[8]

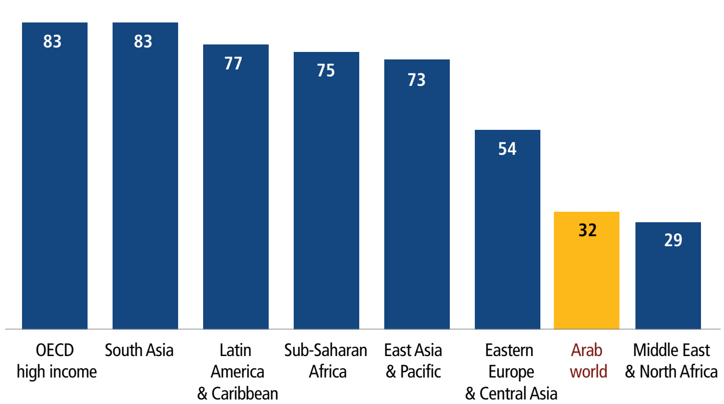
This year *Doing Business* collected data on the public availability of judgments in commercial cases in 175 economies. In no fewer than 122 economies courts ensure that the general public can access judgments in commercial cases. In most cases a third party can obtain a copy of the decision by requesting it from the registrar at the courthouse. In others, court systems make all decisions on commercial cases, or at least the new ones, available to the public.

In the Arab world third parties can access written decisions in less than 35% of the economies covered (figure 11.5). In Kuwait and Tunisia judgments are easily accessible. But in several Arab economies, including Jordan and Syria, final judgments are available only to the parties involved or to those who can prove an interest in the case.

Making judgments available does not necessarily require large resources. But it does require that case files be accessible and catalogued efficiently so that they can be conveniently searched.[9] In many low-income economies judgments are available upon request at the courthouse, but only if the case number or names of the parties are provided. Greater resources for online access increase the options for the terms and speed of search.[10] Electronic storage of judgments also can reduce the risk of losing records when physical files are misplaced or destroyed. As access to the latest technologies expands—a process driven in part by a sustained reduction in their cost—a growing number of economies have been able to modernize the administration of justice and facilitate public access to judgments and other information generated by the courts.

FIGURE 11.5 Access to judgments in commercial cases is more restricted in the Arab world than in most other regions

Share of economies where judgments are publicly available (%)



Note: Judgments in commercial cases are considered publicly available if they are systematically made available to third parties upon request or through legal publications. If judgments are not available because of poor storage of decisions or if a third party must demonstrate particular legal interest in the case to obtain a copy, they are not considered publicly available. The data sample comprises 175 economies, including 19 in the Arab world.

Source: Doing Business database.

NOTES

1. Jappelli, Pagano and Bianco 2005.
2. Nunn 2007.
3. Laeven and Woodruff 2007; Cooley, Marimon and Quadrini 2004.
4. Ahlquist and Prakash 2010.
5. Botero and others 2003.
6. Relationships are significant at the 1% level after controlling for income per capita.
7. In some economies the underlying principle that justice must be rendered by the people demands that judgments be made public. In France this principle applies not only in criminal or administrative cases but also in civil and commercial cases.
8. Bentham 1843.
9. Setting clear guidelines on who can access judgments is also important. In some economies those interested in accessing a judgment must show legitimate interest, leaving wide room for discretion by the person who is deciding. In some economies the decision might be made by an entry-level court clerk with little guidance on the matter.
10. Online databases can be either public or private, with a fee required to access a judgment in private databases. In some economies both options may be available, with privately run databases adding value by permitting enhanced search options.

Resolving insolvency

The global financial crisis spurred bankruptcy reforms around the world. Struggling with a drop in demand and business revenue, many businesses could not be saved because they lacked access to additional credit or because creditors themselves were in financial distress.[1] Bankruptcies increased sharply in economies such as Romania, testing their insolvency systems in unprecedented ways.[2] Since the onset of the crisis in 2008/09, no fewer than 65 economies have made changes in their insolvency regimes, including Kuwait and Saudi Arabia.

But systems in the Arab world for resolving insolvency through restructuring or liquidation remain weaker than those in most other regions. Many of the region's bankruptcy laws are outdated, and none comply with international best practice standards on insolvency. Moreover, the laws in some of its economies treat debtors as criminals, going so far as to allow imprisonment. Reorganization is rare, even where the law provides for it. And reorganization provisions tend to be creditor driven, with little flexibility for debtors.[3]

The region's insolvency systems also lack efficient debt enforcement. The formal bankruptcy process tends to be characterized by a high level of court involvement and multiple appeals, and debtors generally face no penalties for failing to file for bankruptcy. All this may help explain why creditors and debtors often prefer to resolve the situation through private negotiations.[4] But private negotiations may not always lead to the most effective solution.

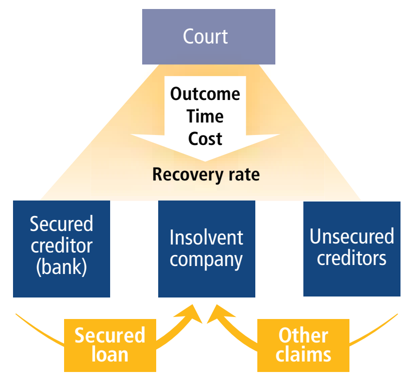
These issues are reflected in comparisons of the Arab world's insolvency systems with those in other regions. As measured by *Doing Business*, the recovery rate on debt averages 32.7 cents on the dollar in the Arab world, compared with 68.2 cents in OECD high-income economies and 37.5 cents worldwide.[5] Resolving insolvency costs an average of 14% of the value of the debtor's estate in the Arab world, compared with 9% in OECD high-income economies.

Amending bankruptcy laws in ways that reflect the growing needs of businesses in the region and focus on reorganization of debtors could improve this situation. Decriminalizing bankruptcy would help encourage debtors to file for bankruptcy early on, as soon as the need becomes apparent. Creating efficient reorganization and liquidation proceedings may enable viable businesses to continue operating and creditors to recover their investments faster and at a lower cost than in the past. This may in time lead to a higher recovery rate.

Doing Business measures the time, cost and outcome of insolvency proceedings involving domestic entities (figure 12.1). The value of the firm in the *Doing Business* case scenario is assumed to be 30% greater if the firm is sold as a going concern. The data are derived from survey responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems.

The name of the indicator set was changed this year from closing a business to resolving insolvency to reflect the fact that the case assesses the efficiency of insolvency proceedings (including foreclosure proceedings) and takes into consideration different outcomes—that is, piecemeal sale or sale as a going concern. The ranking on the ease of resolving insolvency is based on the recovery rate. Swift, low-cost proceedings leading to the continuation of viable businesses characterize the top-performing economies. *Doing Business* does not measure insolvency proceedings of individuals or financial institutions.[6]

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



WHY DOES A GOOD INSOLVENCY REGIME MATTER?

Keeping viable businesses operating is among the most important goals of bankruptcy systems. A good insolvency regime should inhibit premature liquidation of sustainable businesses.[7] It should also discourage lenders from issuing high-risk loans—and managers and shareholders from taking imprudent loans and making other reckless financial decisions.[8] A firm suffering from bad management choices or a temporary economic downturn may still be turned around. When it is, all stakeholders benefit. Creditors can recover a larger part of their investment, more employees keep their jobs, and the network of suppliers and customers is preserved.

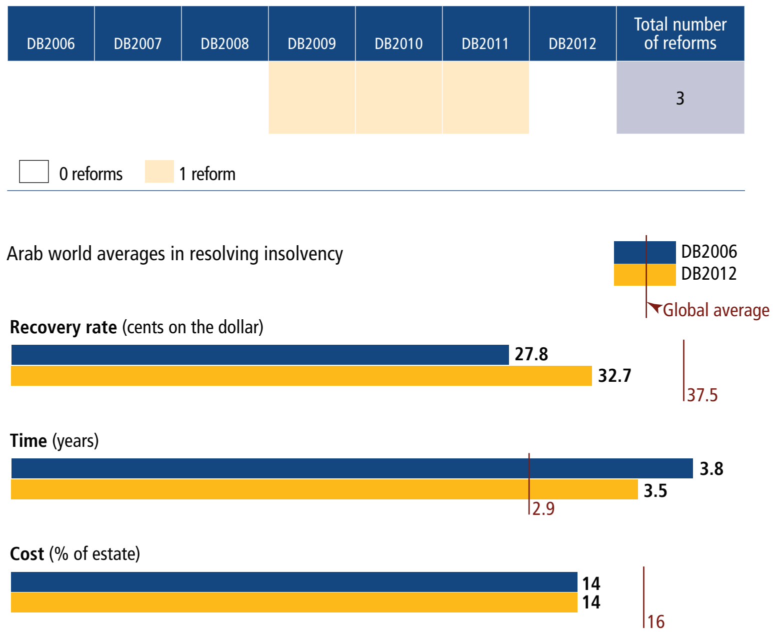
Some studies find that stronger regulatory protections for creditors—such as a higher priority order in receiving proceeds from the sale of a debtor's assets and the

ability to actively participate in the insolvency proceedings—are associated with lower costs of debt as well as a significant increase in the aggregate level of credit.[9] If in a case of bankruptcy creditors can recover most of their investments, they can keep reinvesting in viable firms, improving companies' access to credit. Similarly, if a bankruptcy regime respects the absolute priority of claims, this allows secured creditors to continue lending and maintains confidence in the bankruptcy system.[10]

Even when bankruptcy laws are similar across economies, the use of bankruptcy procedures can differ because of differences in the efficiency of debt enforcement. If courts cannot be used effectively in a case of default, creditors and debtors are likely to engage in informal negotiations outside of court—as is the case in many Arab economies. And in economies with weak judiciary systems borrowers are more likely to exhibit risky financial behavior, which could lead to more defaults and higher levels of financial distress. Conversely, if a legal system is strong and debt enforcement procedures are well observed, debtors and borrowers are more likely to avoid taking unnecessary risks and to make prudent financial decisions.[11]

FIGURE 12.2 Pace of bankruptcy reform is slow in the Arab world

Number of *Doing Business* reforms making it easier to resolve insolvency in the Arab world, by *Doing Business* report year



Note: An economy can be considered to have only 1 *Doing Business* reform per topic and year. The data sample for DB2006 (2005) comprises 18 economies. The sample for DB2012 (2011) also includes Bahrain and Qatar, for a total of 20 economies. DB2006 data are adjusted for any data revisions and changes in methodology.

Source: Doing Business database.

WHO REFORMED INSOLVENCY REGIMES—AND WHAT HAS WORKED?

Bankruptcy regulation continues to vary across regions, and so does the pace of bankruptcy reforms. The Arab world has been slow to pick up this pace. Over the past 7 years only 2 Arab economies reformed their bankruptcy regimes: Kuwait and Saudi Arabia. Even so, the efficiency in resolving insolvency has improved in the region. The average recovery rate increased from 27.8 cents on the dollar in 2005 to 32.7 cents in 2011, while the average time to resolve insolvency decreased from 3.8 years to 3.5 (figure 12.2).

Not surprisingly, among 18 Arab economies, the 2 that reformed their bankruptcy regimes—Saudi Arabia and Kuwait—are the only economies that made relatively substantial progress toward the frontier in resolving insolvency over the past 6 years (figure 12.3).

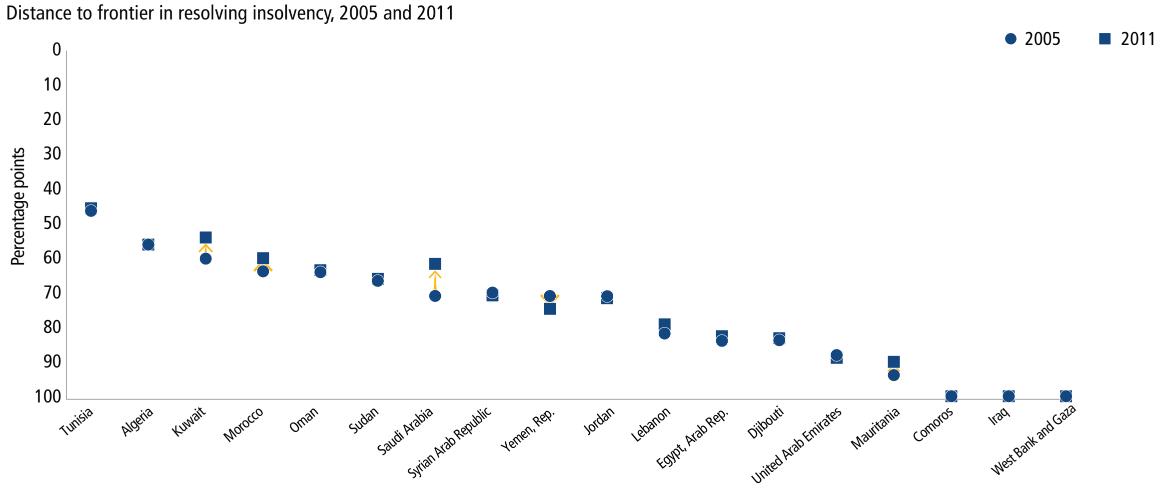
From the changes in insolvency regimes worldwide over the years—whether motivated by economic or financial crises or part of broader judicial or legal reforms—several trends and good practices have emerged. Among these is a unified international good practice standard on creditor rights and insolvency set forth by the World Bank and the United Nations Commission on International Trade Law (UNCITRAL). Good practices in many economies are aimed at improving both the efficiency and the outcome of insolvency proceedings. These include setting time limits for insolvency proceedings, introducing specialized courts and establishing new reorganization proceedings—practices that are relatively uncommon in the Arab world.

Setting time limits

Establishing time limits for proceedings can enhance the efficiency of the insolvency process. Long proceedings reduce creditors' chances of recovering outstanding debt. Speedier court resolution reduces uncertainty for all parties involved and improves the value of assets.[12] Efficient insolvency processes also increase creditors' debt recovery by making it more difficult for the shareholders of a company to sell its assets at an unreasonably low price to a second company they own.

In the past 7 years 37 economies around the world either tightened time limits for insolvency proceedings or introduced such limits for the first time. Saudi Arabia introduced strict deadlines for bankruptcy procedures in 2007, reducing the time to resolve insolvency by 1.3 years on average. In 2010 it imposed a time limit on amicable settlements through amendments to bankruptcy regulations. Today, resolving insolvency in Saudi Arabia takes only 1.5 years—the second fastest time in the region after Tunisia's (table 12.1).

FIGURE 12.3 Among Arab economies, Saudi Arabia has advanced the most toward the frontier in resolving insolvency



Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based, in this figure, on the most efficient practice or highest score achieved by any of 174 economies on each of the resolving insolvency indicators since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). Results are shown for the 18 Arab economies included in *Doing Business 2006* (2005). Bahrain and Qatar were added in subsequent years.

Source: Doing Business database.

Promoting specialized courts

Many economies face more insolvencies than they can reasonably handle. Jamaica has a 3-year backlog of insolvency cases. Promoting specialized courts is among the most efficient ways to ensure that insolvency cases receive attention more quickly. It also improves the quality of the judicial system, because it allows judges to specialize in hearing insolvency cases and thus better equips them to make informed decisions.

Specialized courts are rare in the Arab world. Bankruptcy cases are heard in specialized courts or sections in a few economies—in Lebanon, in the bankruptcy court; in Algeria, in the commercial section of the tribunal; and in the Republic of Yemen, in the commercial court. Establishing specialized courts more broadly in the region, where court systems tend to be slow and bureaucratic, could help make the judicial process more efficient.

Five economies around the world have introduced specialized courts since 2005. In 2009 Romania created special insolvency departments within tribunals. In September 2009 Malaysia established specialized civil and commercial courts in Kuala Lumpur that handle only foreclosure proceedings. This reduced the length of proceedings from 2.25 years to 1.5 years. In December 2010 Israel established an economic department at the district court of Tel Aviv. The aim was to create a more permanent and efficient judicial system dedicated to handling economic disputes. Its judges can hear corporate petitions and facilitate settlements with creditors. The new system is likely to speed up insolvency proceedings.

Establishing effective reorganization proceedings

In 101 of the 168 practice economies (those with at least 1 bankruptcy case over the past 5 years) foreclosure and liquidation are the proceedings most commonly used to resolve insolvency. This holds true in the Arab world as well. These proceedings usually provide no option for formally restructuring a company's debt in a way that allows the business to continue operating—even for a business that is potentially viable.

But in 5 economies in the Arab world insolvent businesses are likely to undergo reorganization—Bahrain, Morocco, Saudi Arabia, Tunisia and the Republic of Yemen. Bahrain has the region's highest ranking on the ease of resolving insolvency, with a recovery rate of 66 cents on the dollar, and 3 others in this group rank among the top half of Arab economies (figure 12.4).

Another economy, Kuwait, has begun to encourage out-of-court restructurings. In 2009, in response to the global financial crisis, Kuwait introduced a stimulus package that included measures aimed at

TABLE 12.1 Who in the Arab world makes resolving insolvency easy—and who does not?

Time (years)			
Fastest		**Slowest**	
Tunisia	1.3	Kuwait	4.2
Saudi Arabia	1.5	Jordan	4.3
Morocco	1.8	Djibouti	5.0
Sudan	2.0	United Arab Emirates	5.1
Algeria	2.5	Mauritania	8.0

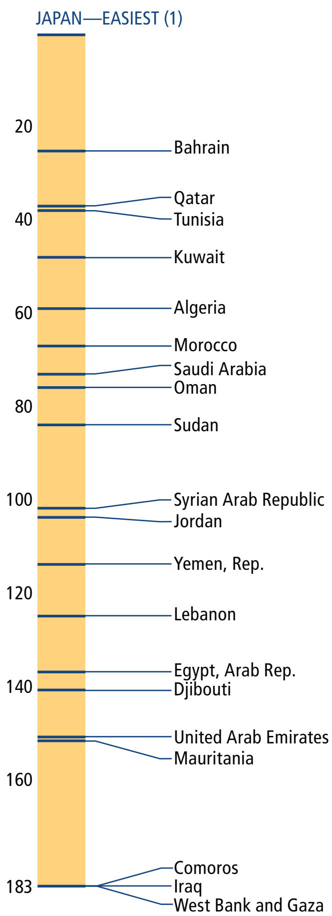
Cost (% of estate)			
Least		**Most**	
Kuwait	1	Qatar	22
Oman	4	Saudi Arabia	22
Tunisia	7	Lebanon	22
Algeria	7	Egypt, Arab Rep.	22
Yemen, Rep.	8	United Arab Emirates	30

Note: The rankings reflected in the table include only Arab economies with a practice of insolvency (17 in total). Another 3 have no practice.

Source: Doing Business database.

FIGURE 12.4 How do Arab economies rank on the ease of resolving insolvency?

Global ranking (1–183)



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

Source: Doing Business database.

facilitating restructurings between borrowers and lenders.

Protecting secured creditors

Research has shown that if secured creditors are not protected or granted priority under the law, they will have less incentive to lend in the future. That leads to a less developed credit market.[13] Several insolvency reforms in 2010/11 addressed this concern, mainly in Eastern Europe. Moldova amended its insolvency law in July 2010 to allow secured creditors to seek enforcement of individual claims in the course of insolvency proceedings. Similarly, Lithuania's Law on Reorganization of Enterprises, amended in October 2010, requires that secured creditors' claims be satisfied first from the proceeds of the sale of the debtor's secured assets. Bulgaria amended its commerce act in January 2011 to give priority to secured creditors in appealing court decisions declaring bankruptcy when the debtor's assets are insufficient to cover the initial expenses. But no Arab economies reformed in this area in the past 7 years.

Creditors' committees are another way to increase creditors' say in bankruptcy proceedings. In some cases creditors participate in the preparation of a reorganization plan or determine the fees of the insolvency administrator. In Slovenia amendments to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act that entered into force in July 2010 improved the position of creditors and creditors' committees.

Creditors' committees are not very common in the Arab world. In Egypt, however, regulations clearly define the powers of the general creditors' assembly, including its ability to change or appoint a liquidator.

Increasing transparency

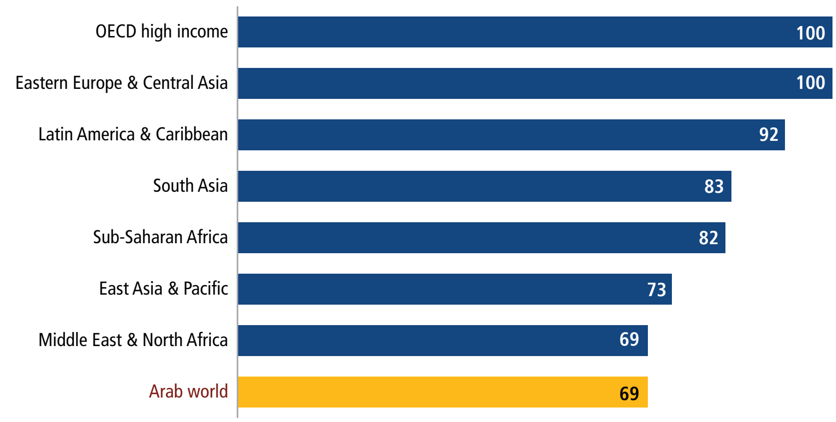
As the recent events of the Arab Spring show, governments are increasingly being held accountable by their citizens. And citizens are demanding greater transparency in political, economic and judicial systems. Transparency in insolvency systems is part of this. Publicizing the initiation of insolvency proceedings is important, since an insolvency case affects many parties, especially creditors. Doing so brings transparency to the proceedings and helps ensure that all affected parties are equally well informed.[14]

In recent years Eastern Europe has been the leading region in promoting transparency of insolvency proceedings. In FYR Macedonia bankruptcy trustees are required to use an electronic system—an "e-bankruptcy system"—to record all phases and process actions during bankruptcy proceedings. Bulgaria's commerce act now requires that a bankruptcy petition filed by an insolvent debtor be made publicly available in the commercial register.

This year *Doing Business* collected additional data on what information courts are legally required to make public in insolvency proceedings. In a sample of 151 economies it found that courts in 75% of the economies are required to publicize the initiation of insolvency proceedings. Such requirements are least common in the Arab world, where courts in only 69% of economies are required to publicize this information (figure 12.5). Among the Arab economies in the sample, Kuwait requires its courts to make the most information

FIGURE 12.5 The Arab world has the smallest share of economies where courts are required by law to publicize the start of insolvency proceedings

Share of economies with requirement (%)



Note: The data sample comprises 151 economies, including 13 in the Arab world.

Source: Doing Business database.

public by law. Courts must publish information on the start of insolvency proceedings, the submissions by parties to the proceedings, the final decisions in insolvency cases and other court decisions relating to such cases.

NOTES

1. Gramatikov and Vriesendorp 2010.
2. In Romania the number of bankruptcy cases at the beginning of 2009 was about 5,000, 50% more than in 2008. In the first half of 2009 the number rose to 12,500. The number of bankruptcy cases was expected to exceed 20,000 by the end of 2010. See Tuleașcă (2009).
3. See Uttamchandani (2010).
4. See Hawkamah and others (2009).
5. The term *recovery rate* in this chapter refers to cents on the dollar recouped by creditors through insolvency proceedings, as measured by the *Doing Business* case study for resolving insolvency. See the data notes for further details.
6. See Djankov, Hart and others (2008).
7. See Djankov, Hart and others (2008).
8. See Claessens and Klapper (2003).
9. Funchal 2008.
10. See Djankov (2009a).
11. See Claessens and Klapper (2003).
12. See Cirmizi, Klapper and Uttamchandani (2010).
13. See Claessens and Klapper (2003).
14. See UNCITRAL (2004).

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Data notes

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

The data for all sets of indicators in *Doing Business 2012* are for June 2011.[1]

METHODOLOGY

The *Doing Business* data are collected in a standardized way. To start, the *Doing Business* team, with academic advisers, designs a questionnaire. The questionnaire uses a simple business case to ensure comparability across economies and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Questionnaires are administered through more than 9,028 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements (table 13.1). These experts have several rounds of interaction with the *Doing Business* team, involving conference calls, written correspondence and visits by the team. For *Doing Business 2012* team members visited 40 economies to verify data and recruit respondents. The data from questionnaires are subjected to numerous rounds of verification, leading to revisions or expansions of the information collected.

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

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

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

ECONOMY CHARACTERISTICS

Gross national income (GNI) per capita

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

Region and income group

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

Population

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

LIMITS TO WHAT IS MEASURED

The *Doing Business* methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the economy's largest business city and may not be representative of regulation in other parts of the economy. To address this limitation, subnational *Doing Business* indicators were created (box 13.1). Second, the data often focus on a specific business form—generally a limited liability company (or its legal equivalent) of a specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Third, transactions described in a standardized case scenario refer to a specific set of issues and may not represent the full set of issues a business encounters. Fourth, the measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

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

BOX 13.1 Subnational *Doing Business* indicators

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

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

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

CHANGES IN WHAT IS MEASURED

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

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

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

Third, a threshold has been introduced for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. All economies with a total tax rate below the threshold (which will be calculated and adjusted on a yearly basis) will now receive the same ranking on the total tax rate indicator. The threshold is not based on any underlying theory. Instead, it is meant to emphasize the purpose of the indicator: to highlight economies where the tax burden on business is high relative to the tax burden in other economies. Giving the same ranking to all economies whose total tax rate is below the threshold avoids awarding economies in the scoring for having an unusually low total tax rate, often for reasons unrelated to government policies toward enterprises. For example, economies that are very small or that are rich in natural resources do not need to levy broad-based taxes.

DATA CHALLENGES AND REVISIONS

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

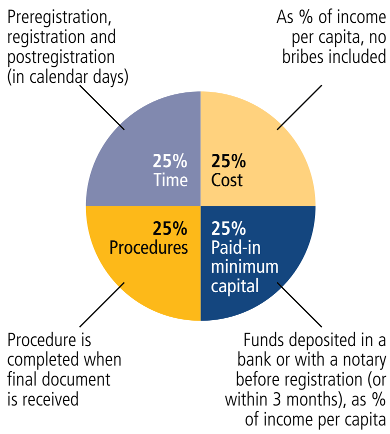
Doing Business publishes 8,967 indicators each year. To create these indicators, the team measures more than 52,000 data points, each of which is made available on the *Doing Business* website. Historical data for each indicator and economy are available on the website, beginning with the first year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

STARTING A BUSINESS

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

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

Rankings are based on 4 indicators



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

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

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

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

Assumptions about the business

The business:

- Is a limited liability company (or its legal equivalent). If there is more than one type of limited liability company in the economy, the limited liability form most popular among domestic firms is chosen. Information on the most popular form is obtained from incorporation lawyers or the statistical office.
- Operates in the economy's largest business city.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Has start-up capital of 10 times income per capita at the end of 2010, paid in cash.
- Performs general industrial or commercial activities, such as the production or sale to the public of products or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.
- Leases the commercial plant and offices and is not a proprietor of real estate.
- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees 1 month after the commencement of operations, all of them nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.

Procedures

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

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

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

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

TABLE 13.2 What do the starting a business indicators measure?
Procedures to legally start and operate a company (number)
Preregistration (for example, name verification or reservation, notarization)
Registration in the economy's largest business city
Postregistration (for example, social security registration, company seal)
Time required to complete each procedure (calendar days)
Does not include time spent gathering information
Each procedure starts on a separate day
Procedure completed once final document is received
No prior contact with officials
Cost required to complete each procedure (% of income per capita)
Official costs only, no bribes
No professional fees unless services required by law
Paid-in minimum capital (% of income per capita)
Funds deposited in a bank or with a notary before registration (or within 3 months)

Time

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

Cost

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

Paid-in minimum capital

The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation and is recorded as a percentage of the economy's income per capita. The amount is typically specified in the commercial code or the company law. Many economies require minimum capital but allow businesses to pay only a part of it before registration, with the rest to be paid after the first year of operation. In Italy in June 2011 the minimum capital requirement for limited liability companies was €10,000, of which at least €2,500 was payable before registration. The paid-in minimum capital recorded for Italy is therefore €2,500, or 9.9% of income per capita. In Mexico the minimum capital requirement was 50,000 pesos, of which one-fifth needed to be paid before registration. The paid-in minimum capital recorded for Mexico is therefore 10,000 pesos, or 8.4% of income per capita.

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

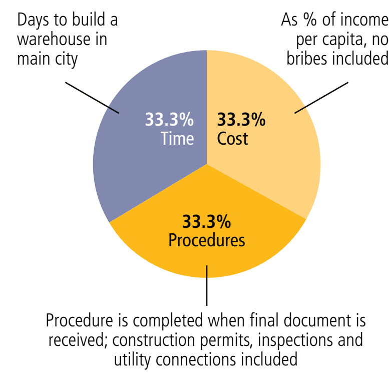
DEALING WITH CONSTRUCTION PERMITS

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

Information is collected from experts in construction licensing, including architects, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations, including approvals and inspections. To make the data comparable across economies, several assumptions about the business, the warehouse project and the utility connections are used.

FIGURE 13.2 Dealing with construction permits: building a warehouse

Rankings are based on 3 indicators



Assumptions about the construction company

The business (BuildCo):

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

Assumptions about the warehouse

The warehouse:

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

Assumptions about the utility connections

The water and sewerage connection:

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

The telephone connection:

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

Procedures

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

Time

Time is recorded in calendar days. The measure captures the median duration that local experts indicate is necessary to complete a procedure in practice. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen. It is assumed that BuildCo does not waste time and commits to completing each remaining procedure without delay. The time that BuildCo spends on gathering information is ignored. It is assumed that BuildCo is aware of all building requirements and their sequence from the beginning.

TABLE 13.3 What do the dealing with construction permits indicators measure?
Procedures to legally build a warehouse (number)
Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates
Completing all required notifications and receiving all necessary inspections
Obtaining utility connections for water, sewerage and a fixed telephone landline
Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)
Time required to complete each procedure (calendar days)
Does not include time spent gathering information
Each procedure starts on a separate day
Procedure completed once final document is received
No prior contact with officials
Cost required to complete each procedure (% of income per capita)
Official costs only, no bribes

Cost

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

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

GETTING ELECTRICITY

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

simple average of the percentile rankings on its component indicators (figure 13.3).

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

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

Assumptions about the warehouse

The warehouse:

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

Assumptions about the electricity connection

The electricity connection:

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

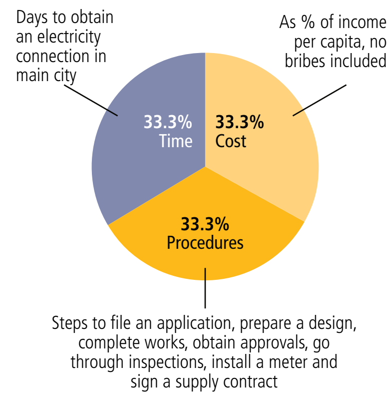
Procedures

A procedure is defined as any interaction of the company's employees or its main electrician or electrical engineer (that is, the one who may have done the internal wiring) with external parties such as the electricity distribution utility, electricity supply utilities, government agencies, electrical contractors and electrical firms. Interactions between company employees and steps related to the internal electrical wiring, such as the design and execution of the internal electrical installation plans, are not counted as procedures. Procedures that must be completed with the same utility but with different departments are counted as separate procedures (table 13.4).

The company's employees are assumed to complete all procedures themselves unless the use of a third party is mandated (for example, if only an electrician registered with the utility is allowed to submit an application). If the company can, but is not required to, request the services of professionals (such as a private firm rather than the utility for the external works), these procedures are recorded if they are commonly done. For all procedures, only the most likely cases (for example, more than 50% of the time the utility has the material) and those followed in practice for connecting a warehouse to electricity are counted.

FIGURE 13.3 Getting electricity: obtaining an electricity connection

Rankings are based on 3 indicators



Time

Time is recorded in calendar days. The measure captures the median duration that the electricity utility and experts indicate is necessary in practice, rather than required by law, to complete a procedure with minimum follow-up and no extra payments. It is also assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). It is assumed that the company does not

TABLE 13.4 What do the getting electricity indicators measure?

Procedures to obtain an electricity connection (number)
Submitting all relevant documents and obtaining all necessary clearances and permits
Completing all required notifications and receiving all necessary inspections
Obtaining external installation works and possibly purchasing material for these works
Concluding any necessary supply contract and obtaining final supply
Time required to complete each procedure (calendar days)
Is at least 1 calendar day
Each procedure starts on a separate day
Does not include time spent gathering information
Reflects the time spent in practice, with little follow-up and no prior contact with officials
Cost required to complete each procedure (% of income per capita)
Official costs only, no bribes
Value added tax excluded

waste time and commits to completing each remaining procedure without delay. The time that the company spends on gathering information is ignored. It is assumed that the company is aware of all electricity connection requirements and their sequence from the beginning.

Cost

Cost is recorded as a percentage of the economy's income per capita. Costs are recorded exclusive of value added tax. All the fees and costs associated with completing the procedures to connect a warehouse to electricity are recorded, including those related to obtaining clearances from government agencies, applying for the connection, receiving inspections of both the site and the internal wiring, purchasing material, getting the actual connection works and paying a security deposit. Information from local experts and specific regulations and fee schedules are used as sources for costs. If several local partners provide different estimates, the median reported value is used. In all cases the cost excludes bribes.

Security deposit

Utilities require security deposits as a guarantee against the possible failure of customers to pay their consumption bills. For this reason the security deposit for a new customer is most often calculated as a function of the customer's estimated consumption.

Doing Business does not record the full amount of the security deposit. If the deposit is based on the customer's actual consumption, this basis is the one assumed in the case study. Rather than the full amount of the security deposit, *Doing Business* records the present value of the losses in interest earnings experienced by the customer because the utility holds the security deposit over a prolonged period, in most cases until the end of the contract (assumed to be after 5 years). In cases where the security deposit is used to cover the first monthly consumption bills, it is not recorded. To calculate the present value of the lost interest earnings, the end-2010 lending rates from the International Monetary Fund's *International Financial Statistics* are used. In cases where the security deposit is returned with interest, the difference between the lending rate and the interest paid by the utility is used to calculate the present value.

In some economies the security deposit can be put up in the form of a bond: the company can obtain from a bank or an insurance company a guarantee issued on the assets it holds with that financial institution. In contrast to the scenario in which the customer pays the deposit in cash to the utility, in this scenario the company does not lose ownership control over the full amount and can continue using it. In return the company will pay the bank a commission for obtaining the bond. The commission charged may vary depending on the credit standing of the company. The best possible credit standing and thus the lowest possible commission are assumed. Where a bond can be put up, the value recorded for the deposit is the annual commission times the 5 years assumed to be the length of the contract. If both options exist, the cheaper alternative is recorded.

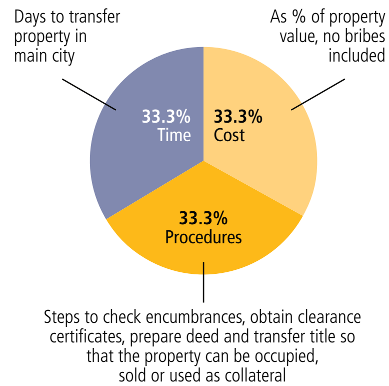
In Honduras in June 2011 a customer requesting a 140-kVA electricity connection would have had to put up a security deposit of 126,894 Honduran lempiras (L) in cash or check, and the deposit would have been returned only at the end of the contract. The customer could instead have invested this money at the prevailing lending rate of 18.87%. Over the 5 years of the contract this would imply a present value of lost interest earnings of L 73,423. In contrast, if the customer chose to settle the deposit with a bank guarantee at an annual rate of 2.5%, the amount lost over the 5 years would be just L 15,862.

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

REGISTERING PROPERTY

Doing Business records the full sequence of procedures necessary for a business (buyer) to purchase a property from another business (seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, use the property as collateral in taking new loans or, if necessary, sell the property to another business. The process starts with obtaining the necessary documents, such as a copy of the seller's title if necessary, and conducting due diligence if required. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking on the ease of registering property is the simple average of the percentile rankings on its component indicators (figure 13.4).

FIGURE 13.4 Registering property: transfer of property between 2 local companies
Rankings are based on 3 indicators



Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer or must be completed by a third party on their behalf. Local property lawyers, notaries and property registries provide information on procedures as well as the time and cost to complete each of them.

To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

Assumptions about the parties

The parties (buyer and seller):

- Are limited liability companies.
- Are located in the periurban area of the economy's largest business city.
- Are 100% domestically and privately owned.
- Have 50 employees each, all of whom are nationals.
- Perform general commercial activities.

Assumptions about the property

The property:

- Has a value of 50 times income per capita. The sale price equals the value.
- Is fully owned by the seller.
- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.
- Consists of land and a building. The land area is 557.4 square meters (6,000 square feet). A 2-story warehouse of 929 square meters (10,000 square feet) is located on the land. The warehouse is 10 years old, is in good condition and complies with all safety standards, building codes and other legal requirements. The property of land and building will be transferred in its entirety.
- Will not be subject to renovations or additional building following the purchase.
- Has no trees, natural water sources, natural reserves or historical monuments of any kind.
- Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
- Has no occupants (legal or illegal), and no other party holds a legal interest in it.

Procedures

A procedure is defined as any interaction of the buyer or the seller, their agents (if an agent is legally or in practice required) or the property with external parties, including government agencies, inspectors, notaries and lawyers. Interactions between company officers and employees are not considered. All procedures that are legally or in practice required for registering property are recorded, even if they may be avoided in exceptional cases (table 13.5). It is assumed that the buyer follows the fastest legal option available and used by the majority of property owners. Although the buyer may use lawyers or other professionals where necessary in the registration process, it is assumed that the buyer does not employ an outside facilitator in the registration process unless legally or in practice required to do so.

Time

Time is recorded in calendar days. The measure captures the median duration that property lawyers, notaries or registry officials indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day. It is assumed that the buyer does not waste time and commits to completing each remaining procedure without delay. If a procedure can be accelerated for an additional cost, the fastest legal procedure available and used by the majority of property owners is chosen. If procedures can be undertaken simultaneously, it is assumed that they are. It is assumed that the parties involved are aware of all requirements and their sequence from the beginning. Time spent on gathering information is not considered.

Cost

Cost is recorded as a percentage of the property value, assumed to be equivalent to 50 times income per capita. Only official costs required by law are recorded, including fees, transfer taxes, stamp duties and any other payment to the property registry, notaries, public agencies or lawyers. Other taxes, such as capital gains tax or value added tax, are excluded from the cost measure. Both costs borne by the buyer and those borne by the seller are included. If cost estimates differ among sources, the median reported value is used.

TABLE 13.5 What do the registering property indicators measure?
Procedures to legally transfer title on immovable property (number)
Preregistration procedures (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)
Registration procedures in the economy's largest business city
Postregistration procedures (for example, filing title with municipality)
Time required to complete each procedure (calendar days)
Does not include time spent gathering information
Each procedure starts on a separate day
Procedure completed once final document is received
No prior contact with officials
Cost required to complete each procedure (% of property value)
Official costs only, no bribes
No value added or capital gains taxes included

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

GETTING CREDIT

Doing Business measures the legal rights of borrowers and lenders with respect to secured transactions through one set of indicators and the sharing of credit information through another. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the coverage, scope and accessibility of credit information available through public credit registries and private credit bureaus. The ranking on the ease of getting credit is based on the percentile rankings on its component indicators: the depth of credit information index (weighted at 37.5%) and the strength of legal rights index (weighted at 62.5%) (figure 13.5).[3]

LEGAL RIGHTS

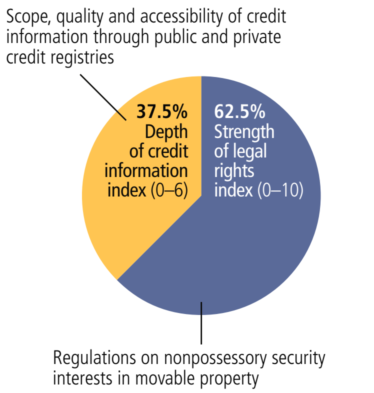
The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. The survey data are confirmed through teleconference calls or on-site visits in all economies.

Strength of legal rights index

The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending (table 13.6). Two case scenarios, case A and case B, are used to determine the scope of the secured transactions system. The case scenarios involve a secured borrower, the company ABC, and a secured lender, BizBank. In certain economies the legal framework for secured

FIGURE 13.5 Getting credit: collateral rules and credit information

Rankings are based on 2 indicators



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

transactions means that only case A or case B can apply (not both). Both cases examine the same set of legal provisions relating to the use of movable collateral.

Several assumptions about the secured borrower and lender are used:

- ABC is a domestic, limited liability company.
- The company has 100 employees.
- ABC has its headquarters and only base of operations in the economy's largest business city.
- Both ABC and BizBank are 100% domestically owned.

The case scenarios also involve assumptions. In case A, as collateral for the loan, ABC grants BizBank a nonpossessory security interest in one category of movable assets, for example, its accounts receivable or its inventory. ABC wants to keep both possession and ownership of the collateral. In economies where the law does not allow nonpossessory security interests in movable property, ABC and BizBank use a fiduciary transfer-of-title arrangement (or a similar substitute for nonpossessory security interests). The strength of legal rights index does not cover functional equivalents to security over movable assets (for example, leasing or reservation of title).

TABLE 13.6 What do the getting credit indicators measure?
Strength of legal rights index (0–10)
Protection of rights of borrowers and lenders through collateral laws
Protection of secured creditors' rights through bankruptcy laws
Depth of credit information index (0–6)
Scope and accessibility of credit information distributed by public credit registries and private credit bureaus
Public credit registry coverage (% of adults)
Number of individuals and firms listed in a public credit registry as percentage of adult population
Private credit bureau coverage (% of adults)
Number of individuals and firms listed in largest private credit bureau as percentage of adult population

In case B, ABC grants BizBank a business charge, enterprise charge, floating charge or any charge that gives BizBank a security interest over ABC's combined movable assets (or as much of ABC's movable assets as possible). ABC keeps ownership and possession of the assets.

The strength of legal rights index includes 8 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law. A score of 1 is assigned for each of the following features of the laws:

- Any business may use movable assets as collateral while keeping possession of the assets, and any financial institution may accept such assets as collateral.
- The law allows a business to grant a nonpossessory security right in a single category of movable assets (such as accounts receivable or inventory), without requiring a specific description of the collateral.
- The law allows a business to grant a nonpossessory security right in substantially all its movable assets, without requiring a specific description of the collateral.
- A security right may extend to future or after-acquired assets and may extend automatically to the products, proceeds or replacements of the original assets.
- A general description of debts and obligations is permitted in the collateral agreement and in registration documents; all types of debts and obligations can be secured between the parties, and the collateral agreement can include a maximum amount for which the assets are encumbered.
- A collateral registry or registration institution for security interests over movable property is in operation, unified geographically and by asset type, with an electronic database indexed by debtors' names.
- Secured creditors are paid first (for example, before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure.
- Secured creditors are paid first (for example, before general tax claims and employee claims) when a business is liquidated.
- Secured creditors either are not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure, or the law provides secured creditors with grounds for relief from an automatic stay or moratorium (for example, if the movable property is in danger) or sets a time limit for the automatic stay.[4]
- The law allows parties to agree in a collateral agreement that the lender may enforce its security right out of court.

The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

CREDIT INFORMATION

The data on credit information sharing are built in 2 stages. First, banking supervision authorities and public information sources are surveyed to confirm the presence of a public credit registry or private credit bureau. Second, when applicable, a detailed survey on the public credit registry's or private credit bureau's structure, laws and associated rules is administered to the entity itself. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. The survey data are confirmed through teleconference calls or on-site visits in all economies.

Depth of credit information index

The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a public credit registry or a private credit bureau. A

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

- Both positive credit information (for example, outstanding loan amounts and pattern of on-time repayments) and negative information (for example, late payments, and number and amount of defaults and bankruptcies) are distributed.
- Data on both firms and individuals are distributed.
- Data from retailers and utility companies as well as financial institutions are distributed.
- More than 2 years of historical data are distributed. Credit registries and bureaus that erase data on defaults as soon as they are repaid obtain a score of 0 for this indicator.
- Data on loan amounts below 1% of income per capita are distributed. Note that a credit registry or bureau must have a minimum coverage of 1% of the adult population to score a 1 on this indicator.
- By law, borrowers have the right to access their data in the largest credit registry or bureau in the economy.

The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public credit registry or a private credit bureau, to facilitate lending decisions. If the credit registry or bureau is not operational or has a coverage of less than 0.1% of the adult population, the score on the depth of credit information index is 0.

In Lithuania, for example, both a public credit registry and a private credit bureau operate. Both distribute positive and negative information (a score of 1). Both distribute data on firms and individuals (a score of 1). Although the public credit registry does not distribute data from retailers or utilities, the private credit bureau does do so (a score of 1). Although the private credit bureau does not distribute more than 2 years of historical data, the public credit registry does do so (a score of 1). Although the public credit registry has a threshold of 50,000 litai, the private credit bureau distributes data on loans of any value (a score of 1). Borrowers have the right to access their data in both the public credit registry and the private credit bureau (a score of 1). Summing across the indicators gives Lithuania a total score of 6.

Public credit registry coverage

The public credit registry coverage indicator reports the number of individuals and firms listed in a public credit registry with information on their borrowing history from the past 5 years. The number is expressed as a percentage of the adult population (the population age 15 and above in 2010 according to the World Bank's *World Development Indicators*). A public credit registry is defined as a database managed by the public sector, usually by the central bank or the superintendent of banks, that collects information on the creditworthiness of borrowers (individuals or firms) in the financial system and facilitates the exchange of credit information among banks and other regulated financial institutions. If no public registry operates, the coverage value is 0.

Private credit bureau coverage

The private credit bureau coverage indicator reports the number of individuals and firms listed by a private credit bureau with information on their borrowing history from the past 5 years. The number is expressed as a percentage of the adult population (the population age 15 and above in 2010 according to the World Bank's *World Development Indicators*). A private credit bureau is defined as a private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (individuals or firms) in the financial system and facilitates the exchange of credit information among creditors. Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange among banks and other financial institutions are not considered. If no private bureau operates, the coverage value is 0.

The data details on getting credit can be found for each economy at http://www.doingbusiness.org by selecting the economy in the dropdown list. This methodology was developed in Djankov, McLiesh and Shleifer (2007) and is adopted here with minor changes.

PROTECTING INVESTORS

Doing Business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protections: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index). The data come from a survey of corporate and securities lawyers and are based on securities regulations, company laws, civil procedure codes and court rules of evidence. The ranking on the strength of investor protection index is the simple average of the percentile rankings on its component indicators (figure 13.6).

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

Assumptions about the business

The business (Buyer):

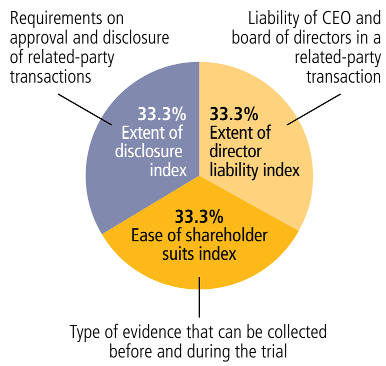
- Is a publicly traded corporation listed on the economy's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that Buyer is a large private company with multiple shareholders.
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.
- Is a manufacturing company.
- Has its own distribution network.

Assumptions about the transaction

- Mr. James is Buyer's controlling shareholder and a member of Buyer's board of directors. He owns 60% of Buyer and elected 2 directors to Buyer's 5-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand

FIGURE 13.6 Protecting investors: minority shareholder rights in related-party transactions

Rankings are based on 3 indicators



Buyer's distribution of its products, a proposal to which Buyer agrees. The price is equal to 10% of Buyer's assets and is higher than the market value.

- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent).
- The transaction causes damages to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

Extent of disclosure index

The extent of disclosure index has 5 components (table 13.7):

- Which corporate body can provide legally sufficient approval for the transaction. A score of 0 is assigned if it is the CEO or the managing director alone; 1 if the board of directors or shareholders must vote and Mr. James is permitted to vote; 2 if the board of directors must vote and Mr. James is not permitted to vote; 3 if shareholders must vote and Mr. James is not permitted to vote.
- Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required.[5] A score of 0 is assigned if no disclosure is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure in the annual report is required. A score of 0 is assigned if no disclosure on the transaction is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure by Mr. James to the board of directors is required. A score of 0 is assigned if no disclosure is required; 1 if a general disclosure of the existence of a conflict of interest is required without any specifics; 2 if full disclosure of all material facts relating to Mr. James's interest in the Buyer-Seller transaction is required.
- Whether it is required that an external body, for example, an external auditor, review the transaction before it takes place. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater disclosure. In Poland, for example, the board of directors must approve the transaction and Mr. James is not allowed to vote (a score of 2). Buyer is required to disclose immediately all information affecting the stock price, including the conflict of interest (a score of 2). In its annual report Buyer must also disclose the terms of the transaction and Mr. James's ownership in Buyer and Seller (a score of 2). Before the transaction Mr. James must disclose his conflict of interest to the other directors, but he is not required to provide specific information about it (a score of 1). Poland does not require an external body to review the transaction (a score of 0). Adding these numbers gives Poland a score of 7 on the extent of disclosure index.

TABLE 13.7 What do the protecting investors indicators measure?

Extent of disclosure index (0–10)
Who can approve related-party transactions
Disclosure requirements in case of related-party transactions
Extent of director liability index (0–10)
Ability of shareholders to hold interested parties and members of the approving body liable in case of related-party transactions
Available legal remedies (damages, repayment of profits, fines and imprisonment)
Ability of shareholders to sue directly or derivatively
Ease of shareholder suits index (0–10)
Direct access to internal documents of the company and use of a government inspector without filing suit in court
Documents and information available during trial
Strength of investor protection index (0–10)
Simple average of the extent of disclosure, extent of director liability and ease of shareholder suits indices

Extent of director liability index

The extent of director liability index has 7 components:[6]

- Whether a shareholder plaintiff is able to hold Mr. James liable for the damage the Buyer-Seller transaction causes to the company. A score of 0 is assigned if Mr. James cannot be held liable or can be held liable only for fraud or bad faith; 1 if Mr. James can be held liable only if he influenced the approval of the transaction or was negligent; 2 if Mr. James can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a shareholder plaintiff is able to hold the approving body (the CEO or the members of the board of directors) liable for the damage the transaction causes to the company. A score of 0 is assigned if the approving body cannot be held liable or can be held liable only for fraud or bad faith; 1 if the approving body can be held liable for negligence; 2 if the approving body can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a court can void the transaction upon a successful claim by a shareholder plaintiff. A score of 0 is assigned if rescission is unavailable or is available only in case of fraud or bad faith; 1 if rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 if rescission is available when the transaction is unfair or entails a conflict of interest.
- Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.
- Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.

- Whether both fines and imprisonment can be applied against Mr. James. A score of 0 is assigned if no; 1 if yes.
- Whether shareholder plaintiffs are able to sue directly or derivatively for the damage the transaction causes to the company. A score of 0 is assigned if suits are unavailable or are available only for shareholders holding more than 10% of the company's share capital; 1 if direct or derivative suits are available for shareholders holding 10% or less of share capital.

The index ranges from 0 to 10, with higher values indicating greater liability of directors. Assuming that the prejudicial transaction was duly approved and disclosed, in order to hold Mr. James liable in Panama, for example, a plaintiff must prove that Mr. James influenced the approving body or acted negligently (a score of 1). To hold the other directors liable, a plaintiff must prove that they acted negligently (a score of 1). The prejudicial transaction cannot be voided (a score of 0). If Mr. James is found liable, he must pay damages (a score of 1) but he is not required to disgorge his profits (a score of 0). Mr. James cannot be fined and imprisoned (a score of 0). Direct or derivative suits are available for shareholders holding 10% or less of share capital (a score of 1). Adding these numbers gives Panama a score of 4 on the extent of director liability index.

Ease of shareholder suits index

The ease of shareholder suits index has 6 components:

- What range of documents is available to the shareholder plaintiff from the defendant and witnesses during trial. A score of 1 is assigned for each of the following types of documents available: information that the defendant has indicated he intends to rely on for his defense; information that directly proves specific facts in the plaintiff's claim; any information relevant to the subject matter of the claim; and any information that may lead to the discovery of relevant information.
- Whether the plaintiff can directly examine the defendant and witnesses during trial. A score of 0 is assigned if no; 1 if yes, with prior approval of the questions by the judge; 2 if yes, without prior approval.
- Whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each document specifically. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital can request that a government inspector investigate the Buyer-Seller transaction without filing suit in court. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit. A score of 0 is assigned if no; 1 if yes.
- Whether the standard of proof for civil suits is lower than that for a criminal case. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction. In Greece, for example, the plaintiff can access documents that the defendant intends to rely on for his defense and that directly prove facts in the plaintiff's claim (a score of 2). The plaintiff can examine the defendant and witnesses during trial, though only with prior approval of the questions by the court (a score of 1). The plaintiff must specifically identify the documents being sought (for example, the Buyer-Seller purchase agreement of July 15, 2006) and cannot just request categories (for example, all documents related to the transaction) (a score of 0). A shareholder holding 5% of Buyer's shares can request that a government inspector review suspected mismanagement by Mr. James and the CEO without filing suit in court (a score of 1). Any shareholder can inspect the transaction documents before deciding whether to sue (a score of 1). The standard of proof for civil suits is the same as that for a criminal case (a score of 0). Adding these numbers gives Greece a score of 5 on the ease of shareholder suits index.

Strength of investor protection index

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

The data details on protecting investors can be found for each economy at http://www.doingbusiness.org by selecting the economy in the drop-down list. This methodology was developed in Djankov, La Porta and others (2008).

PAYING TAXES

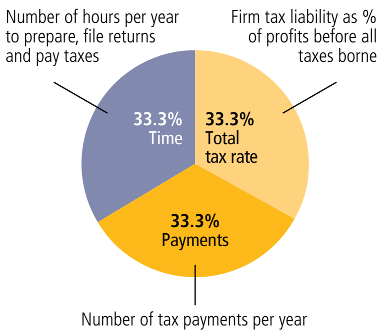
Doing Business records the taxes and mandatory contributions that a medium-size company must pay in a given year as well as measures of the administrative burden of paying taxes and contributions. The project was developed and implemented in cooperation with PwC.[7] Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees.

The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators, with a threshold being applied to one of the component indicators, the total tax rate (figure 13.7). The threshold is defined as the highest total tax rate among the top 30% of economies in the ranking on the total tax rate. It will be calculated and adjusted on a yearly basis. This year's threshold is 32.5%. For all economies with a total tax rate below this threshold, the total tax rate is set at 32.5% this year. The threshold is not based on any underlying theory. Instead, it is intended to mitigate the effect of very low tax rates on the ranking on the ease of paying taxes.

Doing Business measures all taxes and contributions that are government mandated (at any level—federal, state or local) and that apply to the standardized business and have an impact in its financial statements. In doing so, *Doing Business* goes beyond the traditional definition of a tax. As defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to general government. *Doing Business* departs from this definition because it measures imposed charges that affect

FIGURE 13.7 Paying taxes: tax compliance for a local manufacturing company

Rankings are based on 3 indicators



business accounts, not government accounts. One main difference relates to labor contributions. The *Doing Business* measure includes government-mandated contributions paid by the employer to a requited private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory superannuation guarantee and workers' compensation insurance. For the purpose of calculating the total tax rate (defined below), only taxes borne are included. For example, value added taxes are generally excluded (provided they are not irrecoverable) because they do not affect the accounting profits of the business—that is, they are not reflected in the income statement. They are, however, included for the purpose of the compliance measures (time and payments), as they add to the burden of complying with the tax system.

Doing Business uses a case scenario to measure the taxes and contributions paid by a standardized business and the complexity of an economy's tax compliance system. This case scenario uses a set of financial statements and assumptions about transactions made over the course of the year. In each economy tax experts from a number of different firms (in many economies these include PwC) compute the taxes and mandatory contributions due in their jurisdiction based on the standardized case study facts. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws in an economy. To make the data comparable across economies, several assumptions about the business and the taxes and contributions are used.

The methodology for the paying taxes indicators has benefited from discussion with members of the International Tax Dialogue and other stakeholders, which led to a refinement of the survey questions on the time to pay taxes, the collection of additional data on the labor tax wedge for further research and the introduction of a threshold applied to the total tax rate for the purpose of calculating the ranking on the ease of paying taxes (see discussion at the beginning of this section).

Assumptions about the business

The business:

- Is a limited liability, taxable company. If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. The most common form is reported by incorporation lawyers or the statistical office.
- Started operations on January 1, 2009. At that time the company purchased all the assets shown in its balance sheet and hired all its workers.
- Operates in the economy's largest business city.
- Is 100% domestically owned and has 5 owners, all of whom are natural persons.
- At the end of 2009, has a start-up capital of 102 times income per capita.
- Performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco.
- At the beginning of 2010, owns 2 plots of land, 1 building, machinery, office equipment, computers and 1 truck and leases 1 truck.
- Does not qualify for investment incentives or any benefits apart from those related to the age or size of the company.
- Has 60 employees—4 managers, 8 assistants and 48 workers. All are nationals, and 1 manager is also an owner. The company pays for additional medical insurance for employees (not mandated by any law) as an additional benefit. In addition, in some economies reimbursable business travel and client entertainment expenses are considered fringe benefits. When applicable, it is assumed that the company pays the fringe benefit tax on this expense or that the benefit becomes taxable income for the employee. The case study assumes no additional salary additions for meals, transportation, education or others. Therefore, even when such benefits are frequent, they are not added to or removed from the taxable gross salaries to arrive at the labor tax or contribution calculation.
- Has a turnover of 1,050 times income per capita.
- Makes a loss in the first year of operation.
- Has a gross margin (pretax) of 20% (that is, sales are 120% of the cost of goods sold).
- Distributes 50% of its net profits as dividends to the owners at the end of the second year.
- Sells one of its plots of land at a profit at the beginning of the second year.
- Has annual fuel costs for its trucks equal to twice income per capita.
- Is subject to a series of detailed assumptions on expenses and transactions to further standardize the case. All financial statement variables are proportional to 2005 income per capita. For example, the owner who is also a manager spends 10% of income per capita on traveling for the company (20% of this owner's expenses are purely private, 20% are for entertaining customers and 60% for business travel).

Assumptions about the taxes and contributions

- All the taxes and contributions recorded are those paid in the second year of operation (calendar year 2010). A tax or contribution is considered distinct if it has a different name or is collected by a different agency. Taxes and contributions with the same name and agency, but charged at different rates depending on the business, are counted as the same tax or contribution.

- The number of times the company pays taxes and contributions in a year is the number of different taxes or contributions multiplied by the frequency of payment (or withholding) for each tax. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).

Tax payments

The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment, the frequency of filing and the number of agencies involved for this standardized case study company during the second year of operation (table 13.8). It includes consumption taxes paid by the company, such as sales tax or value added tax. These taxes are traditionally collected from the consumer on behalf of the tax agencies. Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments measure.

The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if filings and payments are more frequent. For payments made through third parties, such as tax on interest paid by a financial institution or fuel tax paid by a fuel distributor, only one payment is included even if payments are more frequent.

Where 2 or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once. For example, if mandatory health insurance contributions and mandatory pension contributions are filed for and paid together, only one of these contributions would be included in the number of payments.

TABLE 13.8 What do the paying taxes indicators measure?

Tax payments for a manufacturing company in 2010 (number per year adjusted for electronic and joint filing and payment)
Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)
Method and frequency of filing and payment
Time required to comply with 3 major taxes (hours per year)
Collecting information and computing the tax payable
Completing tax return forms, filing with proper agencies
Arranging payment or withholding
Preparing separate mandatory tax accounting books, if required
Total tax rate (% of profit before all taxes)
Profit or corporate income tax
Social contributions and labor taxes paid by the employer
Property and property transfer taxes
Dividend, capital gains and financial transactions taxes
Waste collection, vehicle, road and other taxes

Time

Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay 3 major types of taxes and contributions: the corporate income tax, value added or sales tax, and labor taxes, including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable and to calculate the amount payable. If separate accounting books must be kept for tax purposes—or separate calculations made—the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfill the tax accounting requirements. Filing time includes the time to complete all necessary tax return forms and file the relevant returns at the tax authority. Payment time considers the hours needed to make the payment online or at the tax authorities. Where taxes and contributions are paid in person, the time includes delays while waiting.

Total tax rate

The total tax rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. *Doing Business 2012* reports the total tax rate for calendar year 2010. The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as value added tax, sales tax or goods and service tax) but not borne by the company are excluded. The taxes included can be divided into 5 categories: profit or corporate income tax, social contributions and labor taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a requited pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel taxes).

The total tax rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the total tax rate, the actual tax payable is divided by commercial profit. Data for Norway illustrate (table 13.9).

Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit therefore presents a clear picture of the

TABLE 13.9 Computing the total tax rate for Norway

Type of tax (tax base)	Statutory rate r	Statutory tax base b NKr	Actual tax payable a = r x b NKr	Commercial profit* c NKr	Total tax rate t = a/c
Corporate income tax (taxable income)	28.1%	20,612,719	5,771,561	23,651,183	24.4%
Social security contributions (taxable wages)	14.1%	26,684,645	3,762,535	23,651,183	15.9%
Fuel tax (fuel price)	NKr 4 per liter	74,247 liters	297,707	23,651,183	1.3%
Total			9,831,803		41.6%

* Profit before all taxes borne.
Note: NKr is Norwegian kroner. Commercial profit is assumed to be 59.4 times income per capita.
Source: Doing Business database.

actual profit of a business before any of the taxes it bears in the course of the fiscal year.

Commercial profit is computed as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other expenses, minus provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied, with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses. Commercial profit amounts to 59.4 times income per capita.

The methodology for calculating the total tax rate is broadly consistent with the Total Tax Contribution framework developed by PwC and the calculation within this framework for taxes borne. But while the work undertaken by PwC is usually based on data received from the largest companies in the economy, *Doing Business* focuses on a case study for a standardized medium-size company.

The data details on paying taxes can be found for each economy at http://www.doingbusiness.org by selecting the economy in the drop-down list. This methodology was developed in Djankov, Ganser and others (2010).

TRADING ACROSS BORDERS

Doing Business measures the time and cost (excluding tariffs) associated with exporting and importing a standardized cargo of goods by ocean transport. The time and cost necessary to complete every official procedure for exporting and importing the goods—from the contractual agreement between the 2 parties to the delivery of goods—are recorded. All documents needed by the trader to export or import the goods across the border are also recorded. For exporting goods, procedures range from packing the goods into the container at the warehouse to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the warehouse. The time and cost for ocean transport are not included. Payment is made by letter of credit, and the time, cost and documents required for the issuance or advising of a letter of credit are taken into account. The ranking on the ease of trading across borders is the simple average of the percentile rankings on its component indicators (figure 13.8).

Local freight forwarders, shipping lines, customs brokers, port officials and banks provide information on required documents and cost as well as the time to complete each procedure. To make the data comparable across economies, several assumptions about the business and the traded goods are used.

Assumptions about the business

The business:

- Has at least 60 employees.
- Is located in the economy's largest business city.
- Is a private, limited liability company. It does not operate in an export processing zone or an industrial estate with special export or import privileges.
- Is domestically owned with no foreign ownership.
- Exports more than 10% of its sales.

Assumptions about the traded goods

The traded product travels in a dry-cargo, 20-foot, full container load. It weighs 10 tons and is valued at $20,000. The product:

- Is not hazardous nor does it include military items.
- Does not require refrigeration or any other special environment.
- Does not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Is one of the economy's leading export or import products.

Documents

All documents required per shipment to export and import the goods are recorded (table 13.10). It is assumed that the contract has already been agreed upon and signed by both parties. Documents required for clearance by government ministries, customs authorities, port and container terminal authorities, health and technical control agencies, and banks are taken into account. Since payment is by letter of credit, all documents required by banks for the issuance or securing of a letter of credit are also taken into account. Documents that are renewed annually and that do not require renewal per shipment (for example, an annual tax clearance certificate) are not included.

Time

The time for exporting and importing is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost and is available to all trading

FIGURE 13.8 Trading across borders: exporting and importing by ocean transport
Rankings are based on 3 indicators

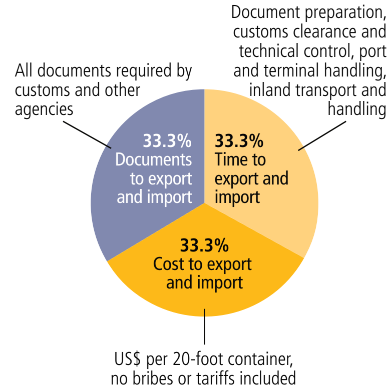


TABLE 13.10 What do the trading across borders indicators measure?

Documents required to export and import (number)
Bank documents
Customs clearance documents
Port and terminal handling documents
Transport documents
Time required to export and import (days)
Obtaining all the documents
Inland transport and handling
Customs clearance and inspections
Port and terminal handling
Does not include ocean transport time
Cost required to export and import (US$ per container)
All documentation
Inland transport and handling
Customs clearance and inspections
Port and terminal handling
Official costs only, no bribes

companies, the fastest legal procedure is chosen. Fast-track procedures applying to firms located in an export processing zone are not taken into account because they are not available to all trading companies. Ocean transport time is not included. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous. The waiting time between procedures—for example, during unloading of the cargo—is included in the measure.

Cost

Cost measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to export or import the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport. The cost does not include customs tariffs and duties or costs related to ocean transport. Only official costs are recorded.

The data details on trading across borders can be found for each economy at http://www.doingbusiness.org by selecting the economy in the drop-down list. This methodology was developed in Djankov, Freund and Pham (2010) and is adopted here with minor changes.

ENFORCING CONTRACTS

Indicators on enforcing contracts measure the efficiency of the judicial system in resolving a commercial dispute. The data are built by following the step-by-step evolution of a commercial sale dispute before local courts. The data are collected through study of the codes of civil procedure and other court regulations as well as surveys completed by local litigation lawyers and by judges. The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators (figure 13.9).

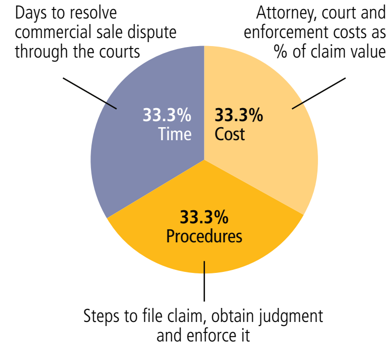
The name of the relevant court in each economy—the court in the largest business city with jurisdiction over commercial cases worth 200% of income per capita—is published at http://www.doingbusiness.org/ExploreTopics/EnforcingContracts/.

Assumptions about the case

- The value of the claim equals 200% of the economy's income per capita.
- The dispute concerns a lawful transaction between 2 businesses (Seller and Buyer), located in the economy's largest business city. Seller sells goods worth 200% of the economy's income per capita to Buyer. After Seller delivers the goods to Buyer, Buyer refuses to pay for the goods on the grounds that the delivered goods were not of adequate quality.
- Seller (the plaintiff) sues Buyer (the defendant) to recover the amount under the sales agreement (that is, 200% of the economy's income per capita). Buyer opposes Seller's claim, saying that the quality of the goods is not adequate. The claim is disputed on the merits. The court cannot decide the case on the basis of documentary evidence or legal title alone.
- A court in the economy's largest business city with jurisdiction over commercial cases worth 200% of income per capita decides the dispute.
- Seller attaches Buyer's movable assets (for example, office equipment and vehicles) before obtaining a judgment because Seller fears that Buyer may become insolvent.
- An expert opinion is given on the quality of the delivered goods. If it is standard practice in the economy for each party to call its own expert witness, the parties each call one expert witness. If it is standard practice for the judge to appoint an independent expert, the judge does so. In this case the judge does not allow opposing expert testimony.
- The judgment is 100% in favor of Seller: the judge decides that the goods are of adequate quality and that Buyer must pay the agreed price.
- Buyer does not appeal the judgment. Seller decides to start enforcing the judgment as soon as the time allocated by law for appeal expires.
- Seller takes all required steps for prompt enforcement of the judgment. The money is successfully collected through a public sale of Buyer's movable assets (for example, office equipment and vehicles).

FIGURE 13.9 Enforcing contracts: resolving a commercial dispute through the courts

Rankings are based on 3 indicators



Procedures

The list of procedural steps compiled for each economy traces the chronology of a commercial dispute before the relevant court. A procedure is defined as any interaction, required by law or commonly used in practice, between the parties or between them and the judge or court officer. This includes steps to file and serve the case, steps for trial and judgment and steps necessary to enforce the judgment (table 13.11).

The survey allows respondents to record procedures that exist in civil law but not

TABLE 13.11 What do the enforcing contracts indicators measure?
Procedures to enforce a contract through the courts (number)
Any interaction between the parties in a commercial dispute, or between them and the judge or court officer
Steps to file and serve the case
Steps for trial and judgment
Steps to enforce the judgment
Time required to complete procedures (calendar days)
Time to file and serve the case
Time for trial and obtaining judgment
Time to enforce the judgment
Cost required to complete procedures (% of claim)
No bribes
Average attorney fees
Court costs, including expert fees
Enforcement costs

common law jurisdictions and vice versa. For example, in civil law jurisdictions the judge can appoint an independent expert, while in common law jurisdictions each party submits a list of expert witnesses to the court. To indicate overall efficiency, 1 procedure is subtracted from the total number for economies that have specialized commercial courts, and 1 procedure for economies that allow electronic filing of the initial complaint in court cases. Some procedural steps that take place simultaneously with or are included in other procedural steps are not counted in the total number of procedures.

Time

Time is recorded in calendar days, counted from the moment the plaintiff decides to file the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods between. The average duration of different stages of dispute resolution is recorded: the completion of service of process (time to file and serve the case), the issuance of judgment (time for the trial and obtaining the judgment) and the moment of payment (time for enforcement of the judgment).

Cost

Cost is recorded as a percentage of the claim, assumed to be equivalent to 200% of income per capita. No bribes are recorded. Three types of costs are recorded: court costs, enforcement costs and average attorney fees.

Court costs include all court costs and expert fees that Seller (plaintiff) must advance to the court, regardless of the final cost to Seller. Expert fees, if required by law or commonly used in practice, are included in court costs. Enforcement costs are all costs that Seller (plaintiff) must advance to enforce the judgment through a public sale of Buyer's movable assets, regardless of the final cost to Seller. Average attorney fees are the fees that Seller (plaintiff) must advance to a local attorney to represent Seller in the standardized case.

The data details on enforcing contracts can be found for each economy at http://www.doingbusiness.org by selecting the economy in the drop-down list. This methodology was developed in Djankov and others (2003) and is adopted here with minor changes.

RESOLVING INSOLVENCY (FORMERLY CLOSING A BUSINESS)

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic entities. *The name of this indicator set was changed from closing a business to resolving insolvency to more accurately reflect the content of the indicators. The indicators did not change in content or scope.* The data are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems. The ranking on the ease of resolving insolvency is based on the recovery rate (figure 13.10).

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

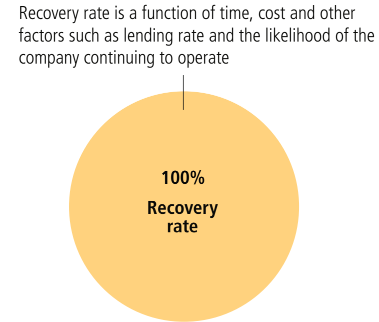
Assumptions about the business

The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned, with the founder, who is also the chairman of the supervisory board, owning 51% (no other shareholder holds more than 5% of shares).
- Has downtown real estate, where it runs a hotel, as its major asset. The hotel is valued at 100 times income per capita or $200,000, whichever is larger.
- Has a professional general manager.
- Has 201 employees and 50 suppliers, each of which is owed money for the last delivery.
- Has a 10-year loan agreement with a domestic bank secured by a universal business charge (for example, a floating charge) in economies where such collateral is recognized or by the hotel property. If the laws of the economy do not specifically provide for a universal business charge but contracts commonly use some other provision to that effect, this provision is specified in the loan agreement.
- Has observed the payment schedule and all other conditions of the loan up to now.
- Has a mortgage, with the value of the mortgage principal being exactly equal to the market value of the hotel.

FIGURE 13.10 Resolving insolvency: time, cost and outcome of bankruptcy of a local company

Rankings are based on 1 indicator



Note: Time and cost do not count separately for the rankings.

Assumptions about the case

The business is experiencing liquidity problems. The company's loss in 2010 reduced its net worth to a negative figure. It is January 1, 2011. There is no cash to pay the bank interest or principal in full, due the next day, January 2. The business will therefore default on its loan. Management believes that losses will be incurred in 2011 and 2012 as well.

The amount outstanding under the loan agreement is exactly equal to the market value of the hotel business and represents 74% of the company's total debt. The other 26% of its debt is held by unsecured creditors (suppliers, employees, tax authorities).

The company has too many creditors to negotiate an informal out-of-court workout. The following options are available: a judicial procedure aimed at the rehabilitation or reorganization of the company to permit its continued operation; a judicial procedure aimed at the liquidation or winding-up of the company; or a debt enforcement or foreclosure procedure against the company, enforced either in court (or through another government authority) or out of court (for example, by appointing a receiver).

Assumptions about the parties

The bank wants to recover as much as possible of its loan, as quickly and cheaply as possible. The unsecured creditors will do everything permitted under the applicable laws to avoid a piecemeal sale of the assets. The majority shareholder wants to keep the

company operating and under its control. Management wants to keep the company operating and preserve its employees' jobs. All the parties are local entities or citizens; no foreign parties are involved.

Time

Time for creditors to recover their credit is recorded in calendar years (table 13.12). The period of time measured by *Doing Business* is from the company's default until the payment of some or all of the money owed to the bank. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration.

Cost

The cost of the proceedings is recorded as a percentage of the value of the debtor's estate. The cost is calculated on the basis of questionnaire responses and includes court fees and government levies; fees of insolvency administrators, auctioneers, assessors and lawyers; and all other fees and costs.

Outcome

Recovery by creditors depends on whether the hotel business emerges from the proceedings as a going concern or the company's assets are sold piecemeal. If the business keeps operating, no value is lost and the bank can satisfy its claim in full, or recover 100 cents on the dollar. If the assets are sold piecemeal, the maximum amount that can be recovered will not exceed 70% of the bank's claim, which translates into 70 cents on the dollar.

TABLE 13.12 What do the resolving insolvency indicators measure?
Time required to recover debt (years)
Measured in calendar years
Appeals and requests for extension are included
Cost required to recover debt (% of debtor's estate)
Measured as percentage of estate value
Court fees
Fees of insolvency administrators
Lawyers' fees
Assessors' and auctioneers' fees
Other related fees
Recovery rate for creditors (cents on the dollar)
Measures the cents on the dollar recovered by creditors
Present value of debt recovered
Official costs of the insolvency proceedings are deducted
Depreciation of furniture is taken into account
Outcome for the business (survival or not) affects the maximum value that can be recovered

Recovery rate

The recovery rate is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. The calculation takes into account the outcome: whether the business emerges from the proceedings as a going concern or the assets are sold piecemeal. Then the costs of the proceedings are deducted (1 cent for each percentage point of the value of the debtor's estate). Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account, including the loss of value due to depreciation of the hotel furniture. Consistent with international accounting practice, the annual depreciation rate for furniture is taken to be 20%. The furniture is assumed to account for a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, based on end-2010 lending rates from the International Monetary Fund's *International Financial Statistics*, supplemented with data from central banks and the Economist Intelligence Unit.

No practice

If an economy had zero cases a year over the past 5 years involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure), the economy receives a "no practice" ranking. This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for "no practice" economies is zero.

This methodology was developed in Djankov, Hart and others (2008) and is adopted here with minor changes.

NOTES

1. The data for paying taxes refer to January–December 2010.
2. Because the ease of doing business index now includes the getting electricity indicators, procedures, time and cost related to obtaining an electricity connection were removed from the dealing with construction permits indicators.
3. The ranking is based on a straight average of points from the strength of legal rights index and depth of credit information index.
4. The scoring on this aspect was revised this year to bring it into line with UNCITRAL (2004, 2007) and World Bank (2011a).
5. This question is usually regulated by stock exchange or securities laws. Points are awarded only to economies with more than 10 listed firms in their most important stock exchange.
6. When evaluating the regime of liability for company directors for a prejudicial related-party transaction, *Doing Business* assumes that the transaction was duly disclosed and approved. *Doing Business* does not measure director liability in the event of fraud.
7. *PwC* refers to the network of member firms of PricewaterhouseCoopers International Limited (PwCIL), or, as the context requires, individual member firms of the PwC network. Each member firm is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in any way. No member firm is responsible or liable for the acts or omissions of any other member firm nor can it control the exercise of another member firm's professional judgment or bind another member firm or PwCIL in any way.

Ease of doing business and distance to frontier

This year's report presents results for 2 aggregate measures: the aggregate ranking on the ease of doing business and a new measure, the "distance to frontier." While the ease of doing business ranking compares economies with one another at a point in time, the distance to frontier measure shows how much the regulatory environment for local entrepreneurs in each economy has changed over time.

EASE OF DOING BUSINESS

The ease of doing business index ranks economies from 1 to 183. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in *Doing Business 2012*: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and, new this year, getting electricity. The employing workers indicators are not included in this year's aggregate ease of doing business ranking. In addition to this year's ranking, *Doing Business* presents a comparable ranking for the previous year, adjusted for any changes in methodology as well as additions of economies or topics.[1]

Construction of the ease of doing business index

Here is one example of how the ease of doing business index is constructed. In Korea it takes 5 procedures, 7 days and 14.6% of annual income per capita in fees to open a business. There is no minimum capital required. On these 4 indicators Korea ranks in the 18th, 14th, 53rd and 0 percentiles. So on average Korea ranks in the 21st percentile on the ease of starting a business. It ranks in the 12th percentile on getting credit, 25th percentile on paying taxes, 8th percentile on enforcing contracts, 7th percentile on resolving insolvency and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Korea's percentile rankings on all topics is 21st. When all economies are ordered by their average percentile rankings, Korea stands at 8 in the aggregate ranking on the ease of doing business.

More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly identical to the simple average used by *Doing Business*.[2] Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.[3]

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

The ease of doing business index is limited in scope. It does not account for an economy's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders and getting electricity), the strength of its financial system, the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions.

TABLE 14.1 Correlations between economy rankings on *Doing Business* topics

	Dealing with construction permits	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Getting electricity
Starting a business	0.39	0.32	0.45	0.59	0.37	0.45	0.42	0.45	0.28
Dealing with construction permits		0.22	0.19	0.25	0.36	0.45	0.20	0.33	0.40
Registering property			0.39	0.29	0.31	0.27	0.49	0.33	0.24
Getting credit				0.47	0.20	0.41	0.42	0.52	0.24
Protecting investors					0.37	0.39	0.29	0.37	0.20
Paying taxes						0.40	0.27	0.33	0.40
Trading across borders							0.35	0.50	0.56
Enforcing contracts								0.42	0.21
Resolving insolvency									0.32

Source: Doing Business database.

Variability of economies' rankings across topics

Each indicator set measures a different aspect of the business regulatory environment. The rankings of an economy can vary, sometimes significantly, across indicator sets. The average correlation coefficient between the 10 indicator sets included in the aggregate ranking is 0.36, and the coefficients between any 2 sets of indicators range from 0.19 (between dealing with construction permits and getting credit) to 0.59 (between starting a business and protecting investors). These correlations suggest that economies rarely score universally well or universally badly on the indicators (table 14.1).

Consider the example of Canada. It stands at 12 in the aggregate ranking on the ease of doing business. Its ranking is 3 on both starting a business and resolving insolvency, and 5 on protecting investors. But its ranking is only 59 on enforcing contracts, 42 on trading across borders and 156 on getting electricity.

Figure 1.5 in the executive summary illustrates the degree of variability in each economy's performance across the different areas of business regulation covered by *Doing Business*. The figure draws attention to economies with a particularly uneven performance by showing the distance between the average of the highest 3 topic rankings and the average of the lowest 3 for each of 183 economies across the 10 topics included in this year's aggregate ranking. While a relatively small distance between these 2 averages suggests a broadly consistent approach across the areas of business regulation measured by *Doing Business*, a relatively large distance suggests a more narrowly focused approach, with greater room for improvement in some areas than in others.

Variation in performance across the indicator sets is not at all unusual. It reflects differences in the degree of priority that government authorities give to particular areas of business regulation reform and the ability of different government agencies to deliver tangible results in their area of responsibility.

Economies that improved the most across 3 or more *Doing Business* topics in 2010/11

Doing Business 2012 uses a simple method to calculate which economies improved the most in the ease of doing business. First, it selects the economies that in 2010/11 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's ease of doing business ranking.[4] Thirty economies meet this criterion: Armenia, Burkina Faso, Burundi, Cape Verde, the Central African Republic, Chile, Colombia, the Democratic Republic of Congo, Côte d'Ivoire, The Gambia, Georgia, Korea, Latvia, Liberia, FYR Macedonia, Mexico, Moldova, Montenegro, Morocco, Nicaragua, Oman, Peru, Russia, São Tomé and Príncipe, Senegal, Sierra Leone, Slovenia, the Solomon Islands, South Africa and Ukraine. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

Selecting the economies that implemented regulatory reforms in at least 3 topics and improved the most in the aggregate ranking is intended to highlight economies with ongoing, broad-based reform programs.

DISTANCE TO FRONTIER MEASURE

This year's report introduces a new measure to illustrate how the regulatory environment for local businesses in each economy has changed over time. The distance to frontier measure illustrates the distance of an economy to the "frontier" and shows the extent to which the economy has closed this gap over time. The frontier is a score derived from the most efficient practice or highest score achieved on each of the component indicators in 9 *Doing Business* indicator sets (excluding the employing workers and getting electricity indicators) by any economy since 2005. In starting a business, for example, New Zealand has achieved the highest performance on the time (1 day), Canada and New Zealand on the number of procedures required (1), Denmark and Slovenia on the cost (0% of income per capita) and Australia on the paid-in minimum capital requirement (0% of income per capita).

Calculating the distance to frontier for each economy involves 2 main steps. First, individual indicator scores are normalized to a common unit. To do so, each of the 32 component indicators y is rescaled to $(y - \min)/(\max - \min)$, with the minimum value (min) representing the frontier—the highest performance on that indicator across all economies since 2005. Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score. An economy's distance to the frontier is indicated on a scale from 0 to 100, where 0 represents the frontier and 100 the lowest performance.

The difference between an economy's distance to frontier score in 2005 and its score in 2011 illustrates the extent to which the economy has closed the gap to the frontier over time.

The maximum (max) and minimum (min) observed values are computed for the 174 economies included in the *Doing Business* sample since 2005 and for all years (from 2005 to 2011). The year 2005 was chosen as the baseline for the economy sample because it was the first year in which data were available for the majority of economies (a total of 174) and for all 9 indicator sets included in the measure. To mitigate the effects of extreme outliers in the distributions of the rescaled data (very few economies need 694 days to complete the procedures to start a business, but many need 9 days), the maximum (max) is defined as the 95th percentile of the pooled data for all economies and all years for each indicator.

Take Colombia, which has a score of 0.30 on the distance to frontier measure for 2011. This score indicates that the economy is 30 percentage points away from the frontier constructed from the best performances across all economies and all years. Colombia was further from the frontier in 2005, with a score of 0.46. The difference between the scores shows an improvement over time.

NOTES

1. In case of revisions to the methodology or corrections to the underlying data, the data are back-calculated to provide a comparable time series since the year the relevant economy or topic was first included in the data set. The time series is available on the *Doing Business* website (http://www.doingbusiness.org). The *Doing Business* report publishes yearly rankings for the year of publication as well as the previous year to shed light on year-to-year developments. Six topics and more than 50 economies have been added since the inception of the project. Earlier rankings on the ease of doing business are therefore not comparable.
2. See Djankov and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.
3. A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (http://www.doingbusiness.org).
4. *Doing Business* reforms making it more difficult to do business are subtracted from the total number of those making it easier to do business.

Summaries of *Doing Business* reforms in 2010/11

20 reforms in the Arab world in 2010/11 made it easier to do business

Starting a business	Dealing with construction permits	Getting credit	Protecting investors	Trading across borders
6	2	5	1	2
Jordan Oman Qatar Saudi Arabia Syrian Arab Republic United Arab Emirates	Mauritania Morocco	Algeria Comoros Oman Qatar United Arab Emirates	Morocco	Djibouti Jordan
	Getting electricity		**Paying taxes**	
	1		3	
	Lebanon		Morocco Oman Yemen, Rep.	

Source: Doing Business database.

Doing Business reforms affecting all sets of indicators included in this year's ranking on the ease of doing business, implemented between June 2010 and May 2011.

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

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

ALGERIA

✔ **Getting credit**
Algeria improved its credit information system by guaranteeing by law the right of borrowers to inspect their personal data.

COMOROS

✔ **Getting credit**
Access to credit in the Comoros was improved through amendments to the OHADA Uniform Act on Secured Transactions that broaden the range of assets that can be used as collateral (including future assets), extend the security interest to the proceeds of the original asset and introduce the possibility of out-of-court enforcement.

DJIBOUTI

✘ **Dealing with construction permits**
Djibouti made dealing with construction permits costlier by increasing the fees for inspections and the building permit and adding a new inspection in the preconstruction phase.

✔ **Trading across borders**
Djibouti made trading across borders faster by developing a new container terminal.

IRAQ

✘ **Starting a business**
In Iraq starting a business became more expensive because of an increase in the cost to obtain a name reservation certificate and in the cost for lawyers to draft articles of association.

JORDAN

✔ **Starting a business**
Jordan made starting a business easier by reducing the minimum capital requirement from 1,000 Jordanian dinars to 1 dinar, of which only half must be deposited before company registration.

✔ **Trading across borders**
Jordan made trading across borders faster by introducing X-ray scanners for risk management systems.

LEBANON

✔ **Getting electricity**
Lebanon made getting electricity less costly by reducing the application fees and security deposit for a new connection.

MAURITANIA

✔ **Dealing with construction permits**
Mauritania made dealing with construction permits easier by opening a one-stop shop.

MOROCCO

✔ **Dealing with construction permits**
Morocco made dealing with construction permits easier by opening a one-stop shop.

✔ **Protecting investors**
Morocco strengthened investor protections by allowing minority shareholders to obtain any nonconfidential corporate document during trial.

✔ **Paying taxes**
Morocco eased the administrative burden of paying taxes for firms by enhancing electronic filing and payment of the corporate income tax and value added tax.

OMAN

✔ **Starting a business**

Oman introduced online company registration, reducing the time it takes to register a business.

✔ **Getting credit**

Oman improved its credit information system by launching the Bank Credit and Statistical Bureau System, which collects historical information on performing and nonperforming loans for both firms and individuals.

✔ **Paying taxes**

Oman enacted a new income tax law that redefined the scope of taxation.

QATAR

✔ **Starting a business**

Qatar made starting a business easier by combining commercial registration and registration with the Chamber of Commerce and Industry at the one-stop shop.

✘ **Dealing with construction permits**

Qatar made dealing with construction permits more difficult by increasing the time and cost to process building permits.

✔ **Getting credit**

Qatar improved its credit information system by starting to distribute historical data and eliminating the minimum threshold for loans included in the database.

SAUDI ARABIA

✔ **Starting a business**

Saudi Arabia made starting a business easier by bringing together representatives from the Department of Zakat and Income Tax and the General Organization of Social Insurance at the Unified Center to register new companies with their agencies.

SYRIAN ARAB REPUBLIC

✔ **Starting a business**

Syria made starting a business less costly by reducing both the minimum capital requirement and the cost of publication for the registration notice.

UNITED ARAB EMIRATES

✔ **Starting a business**

The United Arab Emirates made starting a business easier by merging the requirements to file company documents with the Department for Economic Development, to obtain a trade license and to register with the Dubai Chamber of Commerce and Industry.

✔ **Getting credit**

The United Arab Emirates improved its credit information system through a new law allowing the establishment of a federal credit bureau under the supervision of the central bank.

YEMEN, REP.

✔ **Paying taxes**

The Republic of Yemen enacted a new tax law that reduced the general corporate tax rate from 35% to 20% and abolished all tax exemptions except those granted under the investment law for investment projects.

Country tables

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

ALGERIA

Ease of doing business (rank)	148 (AW 16)	Middle East & North Africa Upper middle income		GNI per capita (US$) Population (m)	4,460 35.4
Starting a business (rank)	153 (AW 15)	**Registering property** (rank)	167 (AW 20)	**Trading across borders** (rank)	127 (AW 16)
Procedures (number)	14	Procedures (number)	10	Documents to export (number)	8
Time (days)	25	Time (days)	48	Time to export (days)	17
Cost (% of income per capita)	12.1	Cost (% of property value)	7.1	Cost to export (US$ per container)	1,248
Minimum capital (% of income per capita)	30.6			Documents to import (number)	9
		✔ **Getting credit** (rank)	150 (AW 11)	Time to import (days)	27
Dealing with construction permits (rank)	118 (AW 12)	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	1,318
Procedures (number)	19	Depth of credit information index (0-6)	3		
Time (days)	281	Public registry coverage (% of adults)	0.3	**Enforcing contracts** (rank)	122 (AW 11)
Cost (% of income per capita)	23.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	45
				Time (days)	630
Getting electricity (rank)	164 (AW 20)	**Protecting investors** (rank)	79 (AW 5)	Cost (% of claim)	21.9
Procedures (number)	6	Extent of disclosure index (0-10)	6		
Time (days)	159	Extent of director liability index (0-10)	6	**Resolving insolvency** (rank)	59 (AW 5)
Cost (% of income per capita)	1,579.0	Ease of shareholder suits index (0-10)	4	Time (years)	2.5
		Strength of investor protection index (0-10)	5.3	Cost (% of estate)	7
				Recovery rate (cents on the dollar)	41.7
		Paying taxes (rank)	164 (AW 19)		
		Payments (number per year)	29		
		Time (hours per year)	451		
		Total tax rate (% of profit)	72.0		

BAHRAIN

Ease of doing business (rank)	38 (AW 4)	Middle East & North Africa High income		GNI per capita (US$) Population (m)	20,475 0.8
Starting a business (rank)	82 (AW 7)	**Registering property** (rank)	30 (AW 4)	**Trading across borders** (rank)	49 (AW 7)
Procedures (number)	7	Procedures (number)	2	Documents to export (number)	6
Time (days)	9	Time (days)	31	Time to export (days)	11
Cost (% of income per capita)	0.7	Cost (% of property value)	2.7	Cost to export (US$ per container)	955
Minimum capital (% of income per capita)	259.8			Documents to import (number)	7
		Getting credit (rank)	126 (AW 10)	Time to import (days)	15
Dealing with construction permits (rank)	7 (AW 2)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	995
Procedures (number)	12	Depth of credit information index (0-6)	3		
Time (days)	43	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	114 (AW 8)
Cost (% of income per capita)	10.7	Private bureau coverage (% of adults)	40.0	Procedures (number)	48
				Time (days)	635
Getting electricity (rank)	49 (AW 8)	**Protecting investors** (rank)	79 (AW 5)	Cost (% of claim)	14.7
Procedures (number)	5	Extent of disclosure index (0-10)	8		
Time (days)	90	Extent of director liability index (0-10)	4	**Resolving insolvency** (rank)	25 (AW 1)
Cost (% of income per capita)	63.6	Ease of shareholder suits index (0-10)	4	Time (years)	2.5
		Strength of investor protection index (0-10)	5.3	Cost (% of estate)	10
				Recovery rate (cents on the dollar)	66.0
		Paying taxes (rank)	18 (AW 6)		
		Payments (number per year)	25		
		Time (hours per year)	36		
		Total tax rate (% of profit)	15.0		

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

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

COMOROS

Ease of doing business (rank)	157 (AW 17)	Sub-Saharan Africa	GNI per capita (US$) 820
		Low income	Population (m) 0.7

Starting a business (rank)	172 (AW 17)
Procedures (number)	11
Time (days)	24
Cost (% of income per capita)	176.2
Minimum capital (% of income per capita)	252.9
Dealing with construction permits (rank)	74 (AW 8)
Procedures (number)	15
Time (days)	155
Cost (% of income per capita)	62.8
Getting electricity (rank)	100 (AW 14)
Procedures (number)	3
Time (days)	120
Cost (% of income per capita)	2,685.1
Registering property (rank)	74 (AW 10)
Procedures (number)	4
Time (days)	30
Cost (% of property value)	10.5
✔ **Getting credit** (rank)	150 (AW 11)
Strength of legal rights index (0-10)	6
Depth of credit information index (0-6)	0
Public registry coverage (% of adults)	0.0
Private bureau coverage (% of adults)	0.0
Protecting investors (rank)	133 (AW 16)
Extent of disclosure index (0-10)	6
Extent of director liability index (0-10)	1
Ease of shareholder suits index (0-10)	5
Strength of investor protection index (0-10)	4.0
Paying taxes (rank)	99 (AW 13)
Payments (number per year)	20
Time (hours per year)	100
Total tax rate (% of profit)	217.9
Trading across borders (rank)	139 (AW 17)
Documents to export (number)	10
Time to export (days)	30
Cost to export (US$ per container)	1,207
Documents to import (number)	10
Time to import (days)	21
Cost to import (US$ per container)	1,191
Enforcing contracts (rank)	153 (AW 18)
Procedures (number)	43
Time (days)	506
Cost (% of claim)	89.4
Resolving insolvency (rank)	183 (AW 20)
Time (years)	NO PRACTICE
Cost (% of estate)	NO PRACTICE
Recovery rate (cents on the dollar)	0.0

DJIBOUTI

Ease of doing business (rank)	170 (AW 20)	Middle East & North Africa	GNI per capita (US$) 1,383
		Lower middle income	Population (m) 0.9

Starting a business (rank)	179 (AW 20)
Procedures (number)	11
Time (days)	37
Cost (% of income per capita)	169.8
Minimum capital (% of income per capita)	434.0
✘ **Dealing with construction permits** (rank)	142 (AW 18)
Procedures (number)	15
Time (days)	172
Cost (% of income per capita)	2,285.7
Getting electricity (rank)	143 (AW 19)
Procedures (number)	4
Time (days)	180
Cost (% of income per capita)	8,799.1
Registering property (rank)	148 (AW 19)
Procedures (number)	7
Time (days)	40
Cost (% of property value)	13.0
Getting credit (rank)	177 (AW 20)
Strength of legal rights index (0-10)	1
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)	179 (AW 20)
Extent of disclosure index (0-10)	5
Extent of director liability index (0-10)	2
Ease of shareholder suits index (0-10)	0
Strength of investor protection index (0-10)	2.3
Paying taxes (rank)	70 (AW 12)
Payments (number per year)	35
Time (hours per year)	82
Total tax rate (% of profit)	38.7
✔ **Trading across borders** (rank)	37 (AW 4)
Documents to export (number)	5
Time to export (days)	18
Cost to export (US$ per container)	836
Documents to import (number)	5
Time to import (days)	18
Cost to import (US$ per container)	911
Enforcing contracts (rank)	160 (AW 19)
Procedures (number)	40
Time (days)	1,225
Cost (% of claim)	34.0
Resolving insolvency (rank)	141 (AW 15)
Time (years)	5.0
Cost (% of estate)	18
Recovery rate (cents on the dollar)	16.5

EGYPT, ARAB REP.

Ease of doing business (rank)	110 (AW 12)	Middle East & North Africa	GNI per capita (US$) 2,340
		Lower middle income	Population (m) 84.5

Starting a business (rank)	21 (AW 2)
Procedures (number)	6
Time (days)	7
Cost (% of income per capita)	5.6
Minimum capital (% of income per capita)	0.0
Dealing with construction permits (rank)	154 (AW 19)
Procedures (number)	22
Time (days)	218
Cost (% of income per capita)	155.3
Getting electricity (rank)	101 (AW 15)
Procedures (number)	7
Time (days)	54
Cost (% of income per capita)	455.5
Registering property (rank)	93 (AW 14)
Procedures (number)	7
Time (days)	72
Cost (% of property value)	0.8
Getting credit (rank)	78 (AW 2)
Strength of legal rights index (0-10)	3
Depth of credit information index (0-6)	6
Public registry coverage (% of adults)	3.5
Private bureau coverage (% of adults)	13.7
Protecting investors (rank)	79 (AW 5)
Extent of disclosure index (0-10)	8
Extent of director liability index (0-10)	3
Ease of shareholder suits index (0-10)	5
Strength of investor protection index (0-10)	5.3
Paying taxes (rank)	145 (AW 18)
Payments (number per year)	29
Time (hours per year)	433
Total tax rate (% of profit)	43.6
Trading across borders (rank)	64 (AW 10)
Documents to export (number)	8
Time to export (days)	12
Cost to export (US$ per container)	613
Documents to import (number)	9
Time to import (days)	12
Cost to import (US$ per container)	755
Enforcing contracts (rank)	147 (AW 16)
Procedures (number)	41
Time (days)	1,010
Cost (% of claim)	26.2
Resolving insolvency (rank)	137 (AW 14)
Time (years)	4.2
Cost (% of estate)	22
Recovery rate (cents on the dollar)	17.7

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

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

IRAQ

Ease of doing business (rank)	164 (AW 19)	Middle East & North Africa Lower middle income		GNI per capita (US$) Population (m)	2,320 32.3
✘ **Starting a business** (rank)	176 (AW 18)	**Registering property** (rank)	98 (AW 15)	**Trading across borders** (rank)	180 (AW 20)
Procedures (number)	11	Procedures (number)	5	Documents to export (number)	10
Time (days)	77	Time (days)	51	Time to export (days)	80
Cost (% of income per capita)	115.7	Cost (% of property value)	6.9	Cost to export (US$ per container)	3,550
Minimum capital (% of income per capita)	35.5			Documents to import (number)	10
		Getting credit (rank)	174 (AW 18)	Time to import (days)	83
Dealing with construction permits (rank)	120 (AW 13)	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	3,650
Procedures (number)	13	Depth of credit information index (0-6)	0		
Time (days)	187	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	140 (AW 15)
Cost (% of income per capita)	469.8	Private bureau coverage (% of adults)	0.0	Procedures (number)	51
				Time (days)	520
Getting electricity (rank)	46 (AW 6)	**Protecting investors** (rank)	122 (AW 13)	Cost (% of claim)	28.1
Procedures (number)	5	Extent of disclosure index (0-10)	4		
Time (days)	47	Extent of director liability index (0-10)	5	**Resolving insolvency** (rank)	183 (AW 20)
Cost (% of income per capita)	609.9	Ease of shareholder suits index (0-10)	4	Time (years)	NO PRACTICE
		Strength of investor protection index (0-10)	4.3	Cost (% of estate)	NO PRACTICE
				Recovery rate (cents on the dollar)	0.0
		Paying taxes (rank)	49 (AW 10)		
		Payments (number per year)	13		
		Time (hours per year)	312		
		Total tax rate (% of profit)	28.4		

JORDAN

Ease of doing business (rank)	96 (AW 9)	Middle East & North Africa Upper middle income		GNI per capita (US$) Population (m)	4,350 6.1
✔ **Starting a business** (rank)	95 (AW 9)	**Registering property** (rank)	101 (AW 16)	✔ **Trading across borders** (rank)	58 (AW 9)
Procedures (number)	7	Procedures (number)	7	Documents to export (number)	6
Time (days)	12	Time (days)	21	Time to export (days)	13
Cost (% of income per capita)	13.9	Cost (% of property value)	7.5	Cost to export (US$ per container)	825
Minimum capital (% of income per capita)	0.0			Documents to import (number)	7
		Getting credit (rank)	150 (AW 11)	Time to import (days)	15
Dealing with construction permits (rank)	93 (AW 11)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	1,335
Procedures (number)	17	Depth of credit information index (0-6)	2		
Time (days)	70	Public registry coverage (% of adults)	1.6	**Enforcing contracts** (rank)	130 (AW 12)
Cost (% of income per capita)	534.2	Private bureau coverage (% of adults)	0.0	Procedures (number)	38
				Time (days)	689
Getting electricity (rank)	36 (AW 4)	**Protecting investors** (rank)	122 (AW 13)	Cost (% of claim)	31.2
Procedures (number)	5	Extent of disclosure index (0-10)	5		
Time (days)	43	Extent of director liability index (0-10)	4	**Resolving insolvency** (rank)	104 (AW 11)
Cost (% of income per capita)	274.2	Ease of shareholder suits index (0-10)	4	Time (years)	4.3
		Strength of investor protection index (0-10)	4.3	Cost (% of estate)	9
				Recovery rate (cents on the dollar)	27.2
		Paying taxes (rank)	21 (AW 7)		
		Payments (number per year)	25		
		Time (hours per year)	116		
		Total tax rate (% of profit)	27.7		

KUWAIT

Ease of doing business (rank)	67 (AW 7)	Middle East & North Africa High income		GNI per capita (US$) Population (m)	36,412 2.9
Starting a business (rank)	142 (AW 14)	**Registering property** (rank)	88 (AW 13)	**Trading across borders** (rank)	112 (AW 12)
Procedures (number)	12	Procedures (number)	8	Documents to export (number)	7
Time (days)	32	Time (days)	47	Time to export (days)	16
Cost (% of income per capita)	1.2	Cost (% of property value)	0.5	Cost to export (US$ per container)	1,085
Minimum capital (% of income per capita)	71.8			Documents to import (number)	10
		Getting credit (rank)	98 (AW 5)	Time to import (days)	19
Dealing with construction permits (rank)	121 (AW 14)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	1,242
Procedures (number)	24	Depth of credit information index (0-6)	4		
Time (days)	130	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	117 (AW 9)
Cost (% of income per capita)	121.8	Private bureau coverage (% of adults)	29.0	Procedures (number)	50
				Time (days)	566
Getting electricity (rank)	57 (AW 10)	**Protecting investors** (rank)	29 (AW 2)	Cost (% of claim)	18.8
Procedures (number)	7	Extent of disclosure index (0-10)	7		
Time (days)	42	Extent of director liability index (0-10)	7	**Resolving insolvency** (rank)	48 (AW 4)
Cost (% of income per capita)	48.2	Ease of shareholder suits index (0-10)	5	Time (years)	4.2
		Strength of investor protection index (0-10)	6.3	Cost (% of estate)	1
				Recovery rate (cents on the dollar)	43.9
		Paying taxes (rank)	15 (AW 5)		
		Payments (number per year)	15		
		Time (hours per year)	118		
		Total tax rate (% of profit)	15.5		

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

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LEBANON		Middle East & North Africa		GNI per capita (US$)	9,020
Ease of doing business (rank)	104 (AW 11)	Upper middle income		Population (m)	4.3
Starting a business (rank)	109 (AW 10)	**Registering property** (rank)	105 (AW 17)	**Trading across borders** (rank)	93 (AW 11)
Procedures (number)	5	Procedures (number)	8	Documents to export (number)	5
Time (days)	9	Time (days)	25	Time to export (days)	22
Cost (% of income per capita)	67.1	Cost (% of property value)	5.8	Cost to export (US$ per container)	1,050
Minimum capital (% of income per capita)	35.3			Documents to import (number)	7
		Getting credit (rank)	78 (AW 2)	Time to import (days)	32
Dealing with construction permits (rank)	161 (AW 20)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	1,250
Procedures (number)	19	Depth of credit information index (0-6)	5		
Time (days)	219	Public registry coverage (% of adults)	16.6	**Enforcing contracts** (rank)	120 (AW 10)
Cost (% of income per capita)	234.9	Private bureau coverage (% of adults)	0.0	Procedures (number)	37
				Time (days)	721
✔ **Getting electricity** (rank)	47 (AW 7)	**Protecting investors** (rank)	97 (AW 8)	Cost (% of claim)	30.8
Procedures (number)	5	Extent of disclosure index (0-10)	9		
Time (days)	75	Extent of director liability index (0-10)	1	**Resolving insolvency** (rank)	125 (AW 13)
Cost (% of income per capita)	99.9	Ease of shareholder suits index (0-10)	5	Time (years)	4.0
		Strength of investor protection index (0-10)	5.0	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	20.6
		Paying taxes (rank)	30 (AW 8)		
		Payments (number per year)	19		
		Time (hours per year)	180		
		Total tax rate (% of profit)	30.2		

MAURITANIA		Sub-Saharan Africa		GNI per capita (US$)	1,060
Ease of doing business (rank)	159 (AW 18)	Lower middle income		Population (m)	3.4
Starting a business (rank)	159 (AW 16)	**Registering property** (rank)	59 (AW 8)	**Trading across borders** (rank)	143 (AW 18)
Procedures (number)	9	Procedures (number)	4	Documents to export (number)	8
Time (days)	19	Time (days)	49	Time to export (days)	34
Cost (% of income per capita)	48.3	Cost (% of property value)	4.7	Cost to export (US$ per container)	1,520
Minimum capital (% of income per capita)	334.9			Documents to import (number)	8
		Getting credit (rank)	166 (AW 15)	Time to import (days)	38
✔ **Dealing with construction permits** (rank)	64 (AW 6)	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	1,523
Procedures (number)	18	Depth of credit information index (0-6)	1		
Time (days)	119	Public registry coverage (% of adults)	0.2	**Enforcing contracts** (rank)	79 (AW 3)
Cost (% of income per capita)	49.9	Private bureau coverage (% of adults)	0.0	Procedures (number)	46
				Time (days)	370
Getting electricity (rank)	122 (AW 18)	**Protecting investors** (rank)	147 (AW 18)	Cost (% of claim)	23.2
Procedures (number)	5	Extent of disclosure index (0-10)	5		
Time (days)	75	Extent of director liability index (0-10)	3	**Resolving insolvency** (rank)	152 (AW 17)
Cost (% of income per capita)	7,310.9	Ease of shareholder suits index (0-10)	3	Time (years)	8.0
		Strength of investor protection index (0-10)	3.7	Cost (% of estate)	9
				Recovery rate (cents on the dollar)	10.3
		Paying taxes (rank)	175 (AW 20)		
		Payments (number per year)	37		
		Time (hours per year)	696		
		Total tax rate (% of profit)	68.3		

MOROCCO		Middle East & North Africa		GNI per capita (US$)	2,850
Ease of doing business (rank)	94 (AW 8)	Lower middle income		Population (m)	32.4
Starting a business (rank)	93 (AW 8)	**Registering property** (rank)	144 (AW 18)	**Trading across borders** (rank)	43 (AW 5)
Procedures (number)	6	Procedures (number)	8	Documents to export (number)	6
Time (days)	12	Time (days)	75	Time to export (days)	11
Cost (% of income per capita)	15.7	Cost (% of property value)	4.9	Cost to export (US$ per container)	577
Minimum capital (% of income per capita)	10.7			Documents to import (number)	8
		Getting credit (rank)	98 (AW 5)	Time to import (days)	16
✔ **Dealing with construction permits** (rank)	75 (AW 9)	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	950
Procedures (number)	15	Depth of credit information index (0-6)	5		
Time (days)	97	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	89 (AW 4)
Cost (% of income per capita)	234.6	Private bureau coverage (% of adults)	14.6	Procedures (number)	40
				Time (days)	510
Getting electricity (rank)	107 (AW 16)	✔ **Protecting investors** (rank)	97 (AW 8)	Cost (% of claim)	25.2
Procedures (number)	5	Extent of disclosure index (0-10)	7		
Time (days)	71	Extent of director liability index (0-10)	2	**Resolving insolvency** (rank)	67 (AW 6)
Cost (% of income per capita)	2,588.6	Ease of shareholder suits index (0-10)	6	Time (years)	1.8
		Strength of investor protection index (0-10)	5.0	Cost (% of estate)	18
				Recovery rate (cents on the dollar)	38.3
		✔ **Paying taxes** (rank)	112 (AW 16)		
		Payments (number per year)	17		
		Time (hours per year)	238		
		Total tax rate (% of profit)	49.6		

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

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OMAN		Middle East & North Africa		GNI per capita (US$)	18,657
Ease of doing business (rank)	49 (AW 6)	High income		Population (m)	2.9
✔ **Starting a business** (rank)	68 (AW 6)	**Registering property** (rank)	21 (AW 3)	**Trading across borders** (rank)	47 (AW 6)
Procedures (number)	5	Procedures (number)	2	Documents to export (number)	8
Time (days)	8	Time (days)	16	Time to export (days)	10
Cost (% of income per capita)	3.1	Cost (% of property value)	3.0	Cost to export (US$ per container)	745
Minimum capital (% of income per capita)	271.7			Documents to import (number)	8
		✔ **Getting credit** (rank)	98 (AW 5)	Time to import (days)	9
Dealing with construction permits (rank)	64 (AW 6)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	680
Procedures (number)	14	Depth of credit information index (0-6)	4		
Time (days)	174	Public registry coverage (% of adults)	18.9	**Enforcing contracts** (rank)	107 (AW 7)
Cost (% of income per capita)	45.7	Private bureau coverage (% of adults)	0.0	Procedures (number)	51
				Time (days)	598
Getting electricity (rank)	61 (AW 11)	**Protecting investors** (rank)	97 (AW 8)	Cost (% of claim)	13.5
Procedures (number)	6	Extent of disclosure index (0-10)	8		
Time (days)	62	Extent of director liability index (0-10)	5	**Resolving insolvency** (rank)	76 (AW 8)
Cost (% of income per capita)	62.5	Ease of shareholder suits index (0-10)	2	Time (years)	4.0
		Strength of investor protection index (0-10)	5.0	Cost (% of estate)	4
				Recovery rate (cents on the dollar)	35.7
		✔ **Paying taxes** (rank)	9 (AW 3)		
		Payments (number per year)	14		
		Time (hours per year)	62		
		Total tax rate (% of profit)	22.0		

QATAR		Middle East & North Africa		GNI per capita (US$)	76,168
Ease of doing business (rank)	36 (AW 3)	High income		Population (m)	1.5
✔ **Starting a business** (rank)	116 (AW 11)	**Registering property** (rank)	37 (AW 5)	**Trading across borders** (rank)	57 (AW 8)
Procedures (number)	8	Procedures (number)	7	Documents to export (number)	5
Time (days)	12	Time (days)	13	Time to export (days)	21
Cost (% of income per capita)	8.3	Cost (% of property value)	0.3	Cost to export (US$ per container)	860
Minimum capital (% of income per capita)	64.0			Documents to import (number)	7
		✔ **Getting credit** (rank)	98 (AW 5)	Time to import (days)	20
✘ **Dealing with construction permits** (rank)	24 (AW 4)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	730
Procedures (number)	17	Depth of credit information index (0-6)	4		
Time (days)	70	Public registry coverage (% of adults)	32.2	**Enforcing contracts** (rank)	95 (AW 6)
Cost (% of income per capita)	1.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	43
				Time (days)	570
Getting electricity (rank)	18 (AW 2)	**Protecting investors** (rank)	97 (AW 8)	Cost (% of claim)	21.6
Procedures (number)	3	Extent of disclosure index (0-10)	5		
Time (days)	90	Extent of director liability index (0-10)	6	**Resolving insolvency** (rank)	37 (AW 2)
Cost (% of income per capita)	4.1	Ease of shareholder suits index (0-10)	4	Time (years)	2.8
		Strength of investor protection index (0-10)	5.0	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	53.1
		Paying taxes (rank)	2 (AW 1)		
		Payments (number per year)	3		
		Time (hours per year)	36		
		Total tax rate (% of profit)	11.3		

SAUDI ARABIA		Middle East & North Africa		GNI per capita (US$)	16,996
Ease of doing business (rank)	12 (AW 1)	High income		Population (m)	26.0
✔ **Starting a business** (rank)	10 (AW 1)	**Registering property** (rank)	1 (AW 1)	**Trading across borders** (rank)	18 (AW 2)
Procedures (number)	3	Procedures (number)	2	Documents to export (number)	5
Time (days)	5	Time (days)	2	Time to export (days)	13
Cost (% of income per capita)	5.9	Cost (% of property value)	0.0	Cost to export (US$ per container)	615
Minimum capital (% of income per capita)	0.0			Documents to import (number)	5
		Getting credit (rank)	48 (AW 1)	Time to import (days)	17
Dealing with construction permits (rank)	4 (AW 1)	Strength of legal rights index (0-10)	5	Cost to import (US$ per container)	686
Procedures (number)	9	Depth of credit information index (0-6)	6		
Time (days)	75	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	138 (AW 14)
Cost (% of income per capita)	19.4	Private bureau coverage (% of adults)	16.0	Procedures (number)	43
				Time (days)	635
Getting electricity (rank)	18 (AW 2)	**Protecting investors** (rank)	17 (AW 1)	Cost (% of claim)	27.5
Procedures (number)	4	Extent of disclosure index (0-10)	9		
Time (days)	71	Extent of director liability index (0-10)	8	**Resolving insolvency** (rank)	73 (AW 7)
Cost (% of income per capita)	18.1	Ease of shareholder suits index (0-10)	4	Time (years)	1.5
		Strength of investor protection index (0-10)	7.0	Cost (% of estate)	22
				Recovery rate (cents on the dollar)	36.8
		Paying taxes (rank)	10 (AW 4)		
		Payments (number per year)	14		
		Time (hours per year)	79		
		Total tax rate (% of profit)	14.5		

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

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SUDAN

SUDAN		Sub-Saharan Africa		GNI per capita (US$)	1,270
Ease of doing business (rank)	135 (AW 15)	Lower middle income		Population (m)	43.6
Starting a business (rank)	126 (AW 12)	**Registering property** (rank)	41 (AW 6)	**Trading across borders** (rank)	151 (AW 19)
Procedures (number)	10	Procedures (number)	6	Documents to export (number)	7
Time (days)	36	Time (days)	9	Time to export (days)	32
Cost (% of income per capita)	31.4	Cost (% of property value)	3.0	Cost to export (US$ per container)	2,050
Minimum capital (% of income per capita)	0.0			Documents to import (number)	7
		Getting credit (rank)	166 (AW 15)	Time to import (days)	46
Dealing with construction permits (rank)	130 (AW 16)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	2,900
Procedures (number)	16	Depth of credit information index (0-6)	0		
Time (days)	270	Public registry coverage (% of adults)	0.0	**Enforcing contracts** (rank)	148 (AW 17)
Cost (% of income per capita)	88.0	Private bureau coverage (% of adults)	0.0	Procedures (number)	53
				Time (days)	810
Getting electricity (rank)	107 (AW 16)	**Protecting investors** (rank)	155 (AW 19)	Cost (% of claim)	19.8
Procedures (number)	5	Extent of disclosure index (0-10)	0		
Time (days)	70	Extent of director liability index (0-10)	6	**Resolving insolvency** (rank)	84 (AW 9)
Cost (% of income per capita)	3,949.3	Ease of shareholder suits index (0-10)	4	Time (years)	2.0
		Strength of investor protection index (0-10)	3.3	Cost (% of estate)	20
				Recovery rate (cents on the dollar)	33.2
		Paying taxes (rank)	103 (AW 14)		
		Payments (number per year)	42		
		Time (hours per year)	180		
		Total tax rate (% of profit)	36.1		

SYRIAN ARAB REPUBLIC

SYRIAN ARAB REPUBLIC		Middle East & North Africa		GNI per capita (US$)	2,640
Ease of doing business (rank)	134 (AW 14)	Lower middle income		Population (m)	21.6
✔ **Starting a business** (rank)	129 (AW 13)	**Registering property** (rank)	82 (AW 12)	**Trading across borders** (rank)	122 (AW 15)
Procedures (number)	7	Procedures (number)	4	Documents to export (number)	8
Time (days)	13	Time (days)	19	Time to export (days)	15
Cost (% of income per capita)	17.1	Cost (% of property value)	27.9	Cost to export (US$ per container)	1,190
Minimum capital (% of income per capita)	127.7			Documents to import (number)	9
		Getting credit (rank)	174 (AW 18)	Time to import (days)	21
Dealing with construction permits (rank)	133 (AW 17)	Strength of legal rights index (0-10)	1	Cost to import (US$ per container)	1,625
Procedures (number)	23	Depth of credit information index (0-6)	2		
Time (days)	104	Public registry coverage (% of adults)	3.7	**Enforcing contracts** (rank)	175 (AW 20)
Cost (% of income per capita)	504.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	55
				Time (days)	872
Getting electricity (rank)	83 (AW 12)	**Protecting investors** (rank)	111 (AW 12)	Cost (% of claim)	29.3
Procedures (number)	5	Extent of disclosure index (0-10)	7		
Time (days)	71	Extent of director liability index (0-10)	5	**Resolving insolvency** (rank)	102 (AW 10)
Cost (% of income per capita)	940.4	Ease of shareholder suits index (0-10)	2	Time (years)	4.1
		Strength of investor protection index (0-10)	4.7	Cost (% of estate)	9
				Recovery rate (cents on the dollar)	27.5
		Paying taxes (rank)	111 (AW 15)		
		Payments (number per year)	19		
		Time (hours per year)	336		
		Total tax rate (% of profit)	39.7		

TUNISIA

TUNISIA		Middle East & North Africa		GNI per capita (US$)	4,070
Ease of doing business (rank)	46 (AW 5)	Upper middle income		Population (m)	10.5
Starting a business (rank)	56 (AW 4)	**Registering property** (rank)	65 (AW 9)	**Trading across borders** (rank)	32 (AW 3)
Procedures (number)	10	Procedures (number)	4	Documents to export (number)	4
Time (days)	11	Time (days)	39	Time to export (days)	13
Cost (% of income per capita)	4.2	Cost (% of property value)	6.1	Cost to export (US$ per container)	773
Minimum capital (% of income per capita)	0.0			Documents to import (number)	7
		Getting credit (rank)	98 (AW 5)	Time to import (days)	17
Dealing with construction permits (rank)	86 (AW 10)	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	858
Procedures (number)	17	Depth of credit information index (0-6)	5		
Time (days)	88	Public registry coverage (% of adults)	27.3	**Enforcing contracts** (rank)	76 (AW 2)
Cost (% of income per capita)	260.6	Private bureau coverage (% of adults)	0.0	Procedures (number)	39
				Time (days)	565
Getting electricity (rank)	45 (AW 5)	**Protecting investors** (rank)	46 (AW 3)	Cost (% of claim)	21.8
Procedures (number)	4	Extent of disclosure index (0-10)	5		
Time (days)	65	Extent of director liability index (0-10)	7	**Resolving insolvency** (rank)	38 (AW 3)
Cost (% of income per capita)	894.1	Ease of shareholder suits index (0-10)	6	Time (years)	1.3
		Strength of investor protection index (0-10)	6.0	Cost (% of estate)	7
				Recovery rate (cents on the dollar)	52.2
		Paying taxes (rank)	64 (AW 11)		
		Payments (number per year)	8		
		Time (hours per year)	144		
		Total tax rate (% of profit)	62.9		

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

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UNITED ARAB EMIRATES

Ease of doing business (rank)	33 (AW 2)	Middle East & North Africa		GNI per capita (US$)	59,717
		High income		Population (m)	4.7
✔ **Starting a business** (rank)	42 (AW 3)	**Registering property** (rank)	6 (AW 2)	**Trading across borders** (rank)	5 (AW 1)
Procedures (number)	7	Procedures (number)	1	Documents to export (number)	4
Time (days)	13	Time (days)	2	Time to export (days)	7
Cost (% of income per capita)	5.6	Cost (% of property value)	2.0	Cost to export (US$ per container)	630
Minimum capital (% of income per capita)	0.0			Documents to import (number)	5
		✔ **Getting credit** (rank)	78 (AW 2)	Time to import (days)	7
Dealing with construction permits (rank)	12 (AW 3)	Strength of legal rights index (0-10)	4	Cost to import (US$ per container)	635
Procedures (number)	14	Depth of credit information index (0-6)	5		
Time (days)	46	Public registry coverage (% of adults)	9.0	**Enforcing contracts** (rank)	134 (AW 13)
Cost (% of income per capita)	5.2	Private bureau coverage (% of adults)	29.2	Procedures (number)	49
				Time (days)	537
Getting electricity (rank)	10 (AW 1)	**Protecting investors** (rank)	122 (AW 13)	Cost (% of claim)	26.2
Procedures (number)	4	Extent of disclosure index (0-10)	4		
Time (days)	55	Extent of director liability index (0-10)	7	**Resolving insolvency** (rank)	151 (AW 16)
Cost (% of income per capita)	14.6	Ease of shareholder suits index (0-10)	2	Time (years)	5.1
		Strength of investor protection index (0-10)	4.3	Cost (% of estate)	30
				Recovery rate (cents on the dollar)	11.0
		Paying taxes (rank)	7 (AW 2)		
		Payments (number per year)	14		
		Time (hours per year)	12		
		Total tax rate (% of profit)	14.1		

WEST BANK AND GAZA

Ease of doing business (rank)	131 (AW 13)	Middle East & North Africa		GNI per capita (US$)	1,523
		Lower middle income		Population (m)	4.2
Starting a business (rank)	177 (AW 19)	**Registering property** (rank)	78 (AW 11)	**Trading across borders** (rank)	114 (AW 13)
Procedures (number)	11	Procedures (number)	7	Documents to export (number)	6
Time (days)	49	Time (days)	47	Time to export (days)	23
Cost (% of income per capita)	96.0	Cost (% of property value)	0.8	Cost to export (US$ per container)	1,310
Minimum capital (% of income per capita)	218.8			Documents to import (number)	6
		Getting credit (rank)	166 (AW 15)	Time to import (days)	40
Dealing with construction permits (rank)	129 (AW 15)	Strength of legal rights index (0-10)	1	Cost to import (US$ per container)	1,295
Procedures (number)	18	Depth of credit information index (0-6)	3		
Time (days)	119	Public registry coverage (% of adults)	5.5	**Enforcing contracts** (rank)	93 (AW 5)
Cost (% of income per capita)	1,000.5	Private bureau coverage (% of adults)	0.0	Procedures (number)	44
				Time (days)	540
Getting electricity (rank)	85 (AW 13)	**Protecting investors** (rank)	46 (AW 3)	Cost (% of claim)	21.2
Procedures (number)	5	Extent of disclosure index (0-10)	6		
Time (days)	63	Extent of director liability index (0-10)	5	**Resolving insolvency** (rank)	183 (AW 20)
Cost (% of income per capita)	1,627.8	Ease of shareholder suits index (0-10)	7	Time (years)	NO PRACTICE
		Strength of investor protection index (0-10)	6.0	Cost (% of estate)	NO PRACTICE
				Recovery rate (cents on the dollar)	0.0
		Paying taxes (rank)	39 (AW 9)		
		Payments (number per year)	27		
		Time (hours per year)	154		
		Total tax rate (% of profit)	16.8		

YEMEN, REP.

Ease of doing business (rank)	99 (AW 10)	Middle East & North Africa		GNI per capita (US$)	1,060
		Lower middle income		Population (m)	24.3
Starting a business (rank)	66 (AW 5)	**Registering property** (rank)	55 (AW 7)	**Trading across borders** (rank)	118 (AW 14)
Procedures (number)	6	Procedures (number)	6	Documents to export (number)	6
Time (days)	12	Time (days)	19	Time to export (days)	27
Cost (% of income per capita)	83.8	Cost (% of property value)	3.8	Cost to export (US$ per container)	890
Minimum capital (% of income per capita)	0.0			Documents to import (number)	9
		Getting credit (rank)	159 (AW 14)	Time to import (days)	25
Dealing with construction permits (rank)	35 (AW 5)	Strength of legal rights index (0-10)	3	Cost to import (US$ per container)	1,475
Procedures (number)	12	Depth of credit information index (0-6)	2		
Time (days)	116	Public registry coverage (% of adults)	0.7	**Enforcing contracts** (rank)	38 (AW 1)
Cost (% of income per capita)	61.1	Private bureau coverage (% of adults)	0.0	Procedures (number)	36
				Time (days)	520
Getting electricity (rank)	52 (AW 9)	**Protecting investors** (rank)	133 (AW 16)	Cost (% of claim)	16.5
Procedures (number)	4	Extent of disclosure index (0-10)	6		
Time (days)	35	Extent of director liability index (0-10)	4	**Resolving insolvency** (rank)	114 (AW 12)
Cost (% of income per capita)	4,569.8	Ease of shareholder suits index (0-10)	2	Time (years)	3.0
		Strength of investor protection index (0-10)	4.0	Cost (% of estate)	8
				Recovery rate (cents on the dollar)	24.1
		✔ **Paying taxes** (rank)	116 (AW 17)		
		Payments (number per year)	44		
		Time (hours per year)	248		
		Total tax rate (% of profit)	32.9		

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

Acknowledgments

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

Doing Business would not be possible without the expertise and generous input of a network of more than 9,000 local partners, including legal experts, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on the relevant legal and regulatory requirements in the 183 economies covered. Contact details for local partners are available on the *Doing Business* website at http://www.doingbusiness.org.

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The following experts wrote the boxes in the chapters specified: Sherif Hamdy (starting a business); Paul Prettitore (registering property); Alejandro Alvarez de la Campa and Elsa Rodriguez Felipe (getting credit—legal rights); Oscar Madeddu and Mohamed Refaat (getting credit—credit information); Maha El Moaz and Djordjija B. Petkoski (protecting investors); and Uma Subramanian (trading across borders).

The online service of the *Doing Business* database is managed by Preeti Endlaw, Graeme Littler, Kunal H. Patel, Vinod Thottikkatu and Hashim Zia. The *Doing Business 2012* report media and marketing strategy is managed by Nadine Ghannam. The events and roadshow strategy is managed by Jamile Ramadan.

The team is grateful for valuable comments provided by colleagues across the World Bank Group and for the guidance of World Bank Group Executive Directors. It would especially like to acknowledge the comments and guidance of Aart C. Kraay. Comments for *Doing Business 2012* were also received from Alejandro Alvarez de la Campa, Sudeshna Ghosh Banerjee, Alexander Berg, Lada Busevac, Dobromir Christow, Fabrizio Fraboni, Jose Maria Garrido, Heike Gramkow, Akvile Gropper, Olivier Hartmann, Neville Howlett, Dahlia Khalifa, Arvo Kuddo, Charles Kunaka, Oscar Madeddu, Andres Federico Martinez, Tadatsugu Matsudaira, Gerard McLinden, Andrei Mikhnev, Nina Mocheva, Riz Mokal, Fredesvinda Fatima Montes Herraiz, Thomas Moullier, Monica Alina Mustra, Jean Denis Pesme, Maria Teresa Goodman Pincetich, Colin Ewell Wesley Raymond, Francesca Recanatini, Shalini Sankaranarayanan, Raha Shahidsaless, Peter Douglas Sheerin, Victoria Stanley, Susan Symons, Ignacio Jose Tirado, Mahesh Uttamchandani, Barry Raymond Walsh and Ulrich Matthias Zeisluft. Comments for *Doing Business in the Arab World 2012* were received from Ali Al-Abdulrazzaq, Magdi Amin, Simon Bell, Hooman Dabidian, Jana Malinska, Philippe De Meneval, Youssef Saadani Hassani and Andrew H. W. Stone.

Oliver Hart and Andrei Shleifer provided academic advice on the project. The paying taxes project was conducted in collaboration with PwC, led by Robert Morris. The development of the getting electricity indicators was financed by the Norwegian Trust Fund. The governments of Korea, FYR Macedonia, Mexico and the United Kingdom commented on the economy case studies presented in *Doing Business 2012*.

Alison Strong copyedited the manuscript. Corporate Vision, Inc. designed the report and the graphs. The World Bank's General Services Department, Translation and Interpretation Unit's Arabic team handled the translation into Arabic and the typesetting of the Arabic language report.

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