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Doing Business in Zanzibar 2010

COMPARING REGULATION IN ZANZIBAR WITH 183 ECONOMIES GLOBALLY

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Doing Business in Zanzibar 2010 and other subnational and regional *Doing Business* studies can be downloaded at no charge at <http://subnational.doingbusiness.org>.

Additional copies of the *Doing Business* global reports: *Doing Business 2010: Reforming through Difficult Times*; *Doing Business 2009*; *Doing Business 2008*; *Doing Business 2007: How to Reform*; *Doing Business in 2006: Creating Jobs*; *Doing Business in 2005: Removing Obstacles to Growth*; and *Doing Business in 2004: Understanding Regulations*, may be obtained at www.doingbusiness.org.

About the Investment Climate Advisory Services of the World Bank Group

The Investment Climate Advisory Services of the World Bank Group helps governments implement reforms to improve their business environment, and encourage and retain investment, thus fostering competitive markets, growth, and job creation. Funding is provided by the World Bank Group (IFC, MIGA, and the World Bank) and over fifteen donor partners working through the multi-donor FIAS platform.

Contents

Doing Business in Zanzibar 2010 is a new subnational report of the *Doing Business* series on the sub-Saharan African region, following the subnational *Doing Business* reports on Nigeria and Kenya. It measures business regulations and their enforcement in the region of Zanzibar, represented by Zanzibar Town. *Doing Business* series currently covers 183 economies around the world.

Comparisons with mainland Tanzania (represented by Dar es Salaam), small island economies, and the rest of the world are based on the indicators in *Doing Business in 2010: Reforming Through Difficult Times*, the seventh in a series of annual reports published by the World Bank and the International Finance Corporation. The indicators in *Doing Business in Zanzibar 2010* are also comparable with the data in other subnational *Doing Business* reports. All subnational *Doing Business* data and reports are available at <http://subnational.doingbusiness.org>.

Doing Business investigates the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators to

measure the regulations affecting 9 stages of the life of a business: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.* Data in *Doing Business in Zanzibar 2010* are current as of March 1, 2010.

The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why. Other areas important to business—such as country's proximity to large markets, quality of infrastructure services (other than services related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not directly studied by *Doing Business*.

This report was prepared by the World Bank Group. The report was requested by the Ministry of Finance and Economic Affairs of the Government of Zanzibar, which served as the government counterpart.

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* In addition to the 9 indicators mentioned, *Doing Business* has been measuring the employing workers indicator since 2004. Currently, this indicator is going through methodological revisions. While these revisions are ongoing, the Employing Workers data will be presented without any scoring and it will not be tabulated in the calculation of overall ease of doing business ranking for Zanzibar. For more details, please see *Annex: employing workers* at the end of this report.

About *Doing Business* and *Doing Business in Zanzibar 2010*

In 1664 William Petty, an adviser to England's Charles II, compiled the first known national accounts. He made 4 entries. On the expense side, "food, housing, clothes and all other necessaries" were estimated at £40 million. National income was split among 3 sources: £8 million from land, £7 million from other personal estates and £25 million from labor income.

In later centuries estimates of country income, expenditure and material inputs and outputs became more abundant. But it was not until the 1940s that a systematic framework was developed for measuring national income and expenditure, under the direction of British economist John Maynard Keynes. As the methodology became an international standard, comparisons of countries' financial positions became possible. Today the macroeconomic indicators in national accounts are standard in every country.

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

The global financial crisis has renewed interest in good rules and regulation. In times of recession, effective business regulation and institutions can support economic adjustment. Easy

entry and exit of firms, and flexibility in redeploying resources, make it easier to stop doing things for which demand has weakened and to start doing new things. Clarification of property rights and strengthening of market infrastructure (such as credit information and collateral systems) can contribute to confidence as investors and entrepreneurs look to rebuild.

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

The *Doing Business* project, launched 8 years ago, goes one step further. It looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. *Doing Business* and the standard cost model initially developed and applied in the Netherlands are, today, the only standard tools used across a broad range of jurisdictions to measure the impact of government rule-making on business activity.¹

The first *Doing Business* report, published in 2003, covered 5 indicator sets in 133 economies. This year's report, *Doing Business 2010*, covers 10 groups of indicators in 183 economies. The project has benefited from feedback from governments, academics, practitioners and reviewers. The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

In the *Doing Business* report, each economy is represented by its largest business city—Dar es Salaam for Tanzania, for example, or Mumbai for India. Business regulation and their enforcement, parti-

cularly in federal states and large economies present marked differences within a single country. In recognizing the interest of governments in these variations, the *Doing Business* report has complemented its global indicators with subnational studies in Brazil, China, Colombia, India, Indonesia, Kenya, Mexico, Nigeria, Philippines and others. *Doing Business* has also begun a program on small islands that are independent states.

WHAT DOING BUSINESS IN ZANZIBAR 2010 COVERS

Doing Business in Zanzibar 2010 provides a quantitative measure of the national, and local regulations for starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders enforcing contracts and closing a business—as they apply to domestic small and medium-size companies.

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

Doing Business in Zanzibar 2010 encompasses 2 types of data. The first come from readings of laws and regulations. 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. 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, Peru.²

WHAT DOING BUSINESS IN ZANZIBAR 2010 DOES NOT COVER

It is important to know the scope and limitations of *Doing Business in Zanzibar 2010* in order to interpret the results of this report.

LIMITED IN SCOPE

Doing Business in Zanzibar 2010 focuses on 9 topics, with the specific aim of measuring the regulation and red tape relevant to the life cycle of a domestic small to medium-size company. Accordingly:

- *Doing Business in Zanzibar 2010* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, macroeconomic stability, corruption, labor skills of the population, the underlying strength of institutions or the quality of infrastructure. Nor does it focus on regulations specific to foreign investment.
- *Doing Business in Zanzibar 2010* does not assess the strength of the financial system or market regulations, both important factors in understanding some of the underlying causes of the global financial crisis.
- *Doing Business* does not cover all regulations, or all regulatory goals, in any city. 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 in Zanzibar 2010* measures just 9 phases of a company's life cycle, through 9 specific indicators. The indicator sets also do not cover all aspects of regulation in the particular area. For example, the indicators on starting a business do not cover all aspects of commercial legislation.

BASED ON STANDARDIZED CASE SCENARIOS

The indicators analyzed in *Doing Business in Zanzibar 2010* are based on standardized case scenarios with specific assumptions, such as that the business is located in Zanzibar Town. Economic indicators commonly make limiting assumptions of this kind. Inflation statistics, for example, are often based on prices of consumer goods in a few urban areas. Such assumptions allow global coverage and enhance comparability, but they inevitably come at the expense of generality.

In areas where regulation is complex and highly differentiated, the standardized case used to construct each *Doing Business in Zanzibar 2010* indicator needs to be carefully defined. Where relevant, the standardized case assumes a limited liability company. This choice is in part empirical: private, limited liability companies are the most prevalent business form in most economies around the world. The choice also reflects one focus of *Doing Business*: expanding opportunities for entrepreneurship. Investors are encouraged to venture into business when potential losses are limited to their capital participation.

FOCUSED ON THE FORMAL SECTOR

In defining the indicators, *Doing Business in Zanzibar 2010* 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.³ *Doing Business in Zanzibar 2010* measures one set of factors that help explain the occurrence of informality and give policy makers insights into potential areas of reform. Gaining a fuller understanding of the broader business environment, and a broader perspective on policy challenges, requires combining insights from *Doing Business in Zanzibar 2010* with data from other sources, such as the World Bank Enterprise Surveys.⁴

WHY THIS FOCUS

Doing Business in Zanzibar 2010 functions as a kind of cholesterol test for the regulatory environment for domestic businesses. A cholesterol test does not tell us everything about the state of our health. But it does measure something important for our health. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating but also our overall health.

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. The indicator set closest to *Doing Business* in what it measures is the Organization for Economic Co-operation and Development's indicators of product market regulation; the correlation here is 0.75. The World Economic Forum's Global Competitiveness Index and IMD's World Competitiveness Yearbook are broader in scope,

but these too are strongly correlated with *Doing Business* (0.79 and 0.72, respectively). These correlations suggest that where peace and macroeconomic stability are present, domestic business regulation makes an important difference in economic competitiveness.

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.⁵ 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 companies are key drivers of competition, growth and job creation, particularly in developing countries. But in these economies up to 80% of economic activity takes place in the informal sector. Firms may be prevented from entering the formal sector by excessive bureaucracy and regulation.

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

In this sense *Doing Business* values good rules as a key to social inclusion. It also provides a basis for studying effects of regulations and their application. For example, *Doing Business 2004* found that

faster contract enforcement was associated with perceptions of greater judicial fairness—suggesting that justice delayed is justice denied.⁶

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

DOING BUSINESS IN ZANZIBAR 2010 AS A BENCHMARKING EXERCISE

Doing Business in Zanzibar 2010, in capturing some key dimensions of regulatory regimes, can be useful for benchmarking. Any benchmarking—for individuals, firms or economies—is necessarily partial: it is valid and useful if it helps sharpen judgment, less so if it substitutes for judgment.

Doing Business in Zanzibar 2010 provides 2 approaches on the data it collects: it presents “absolute” indicators for each of the 9 regulatory topics it addresses, and it provides comparisons between Zanzibar Town and Dar es

Salaam or between Zanzibar and other small island economies around the world, both by indicator and in aggregate. Judgment is required in interpreting these measures for any city and in determining a sensible and politically feasible path for reform.

Reviewing the *Doing Business* rankings in isolation may show unexpected results. Some cities may rank unexpectedly high on some indicators. And some cities that have had rapid growth or attracted a great deal of investment may rank lower than others that appear to be less dynamic.

But for reform-minded local governments, how much their indicators improve matters more than their absolute ranking. As cities develop, they strengthen and add to regulations to protect investor and property rights. Meanwhile, they find more efficient ways to implement existing regulations and cut outdated ones. One finding of *Doing Business*: dynamic and growing economies continually reform and update their regulations and their way of implementing them, while many poor economies still work with regulatory systems dating to the late 1800s.

DOING BUSINESS— A USER'S GUIDE

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

Seven years of *Doing Business* data have enabled a growing body of research on how performance on *Doing Business* indicators—and reforms relevant to those indicators—relate to desired social and

economic outcomes. Some 405 articles have been published in peer-reviewed academic journals, and about 1,143 working papers are available through Google Scholar.⁷ Among the findings:

- Lower barriers to start-up are associated with a smaller informal sector.
- Lower costs of entry encourage entrepreneurship, enhance firm productivity and reduce corruption.
- Simpler start-up translates into greater employment opportunities.

HOW DO GOVERNMENTS USE DOING BUSINESS?

A common first reaction is to doubt the quality and relevance of the *Doing Business* data. Yet the debate typically proceeds to a deeper discussion exploring the relevance of the data to the economy and areas where reform might make sense.

Most reformers start out by seeking examples, and *Doing Business* helps in this. For example, Saudi Arabia used the company law of France as a model for revising its own. Many countries in Africa look to Mauritius—the region's strongest performer on *Doing Business* indicators—as a source of good practices for reform. In the words of Egypt's Minister of Investment, Dr. Mahmoud Mohieldin:

What I like about Doing Business... is that it creates a forum for exchanging knowledge. It's no exaggeration to say that we checked the top ten in every indicator and we just asked them, "How did you do it?" If there is any advantage to starting late in anything, it's that you can learn from others.

Over the past 7 years there has been much activity by governments in reforming the regulatory environment for domestic businesses. Most reforms relating to *Doing Business* topics were nested in broader programs of reform

aimed at enhancing economic competitiveness. The same can be said at the subnational level.

In structuring their reform programs, governments use multiple data sources and indicators. And reformers respond to many stakeholders and interest groups, all of whom bring important issues and concerns into the reform debate. World Bank support to these reform processes is designed to encourage critical use of the data, sharpening judgment and avoiding a narrow focus on improving *Doing Business* rankings.

METHODOLOGY AND DATA

Doing Business in Zanzibar 2010 covers Zanzibar Town as a representative of the Zanzibar region. The data are based on central and local laws and regulations as well as administrative requirements. (For a detailed explanation of the *Doing Business in Zanzibar 2010* methodology, see the Data notes section on page 36).

INFORMATION SOURCES FOR THE DATA

Most of the indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. *Doing Business* respondents both fill out written surveys and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance.

For some indicators part of the cost component (where fee schedules are lacking) and the time component are based on actual practice rather than the law on the books. This introduces a degree of subjectivity. The *Doing Business* approach has therefore been to work with legal practitioners or professionals who regularly undertake the transactions involved. Following the standard methodological approach for time and motion studies, *Doing Business* breaks down each process or transaction, such

as starting and legally operating a business, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

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

DEVELOPMENT OF THE METHODOLOGY

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

Doing Business uses a simple averaging approach for weighting sub-indicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components. The principal components and unobserved components approaches turn out to yield results nearly identical to those of simple averaging. The tests show that each set of indicators provides new information. The simple averaging approach is therefore robust to such tests.

IMPROVEMENTS TO THE METHODOLOGY AND DATA REVISIONS

The methodology has undergone continual improvement over the years. Changes have been made mainly in response to


country suggestions. In accordance with the *Doing Business* methodology, these changes have been incorporated into the *Doing Business in Zanzibar 2010*.

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

All changes in methodology are explained in the Data notes section of this report as well as on the *Doing Business* website. In addition, data time series for each indicator and city are available on the website. 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.

6. World Bank. 2003. *Doing Business in 2004: Understanding Regulation*. Washington D.C.: The World Bank Group.
7. <http://scholar.google.com>

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1. The standard cost model is a quantitative methodology for determining the administrative burdens that regulation imposes on businesses. The method can be used to measure the effect of a single law or of selected areas of legislation or to perform a baseline measurement of all legislation in a country.
 2. De Soto, Hernando. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.
 3. Schneider, Friedrich. 2005. "The Informal Sector in 145 Countries." Department of Economics, Linz University.
 4. <http://www.enterprisesurveys.org>
 5. Narayan Deepa, Chambers Robert, Kaul Shah Meera, Petesch Patti. 2000. *Voices of the Poor: Crying Out for Change*. Washington D.C.: The World Bank Group.

Overview

Over the years, Zanzibar went through successive invasions and built a unique culture. Persian, Arab, Dutch, British, and other settlers left their marks on the archipelago at various points in history. Despite its relatively small size, invading powers used Zanzibar as a trading hub for Eastern and Central Africa for centuries. Spices, ivory, and gold were the major trading goods.

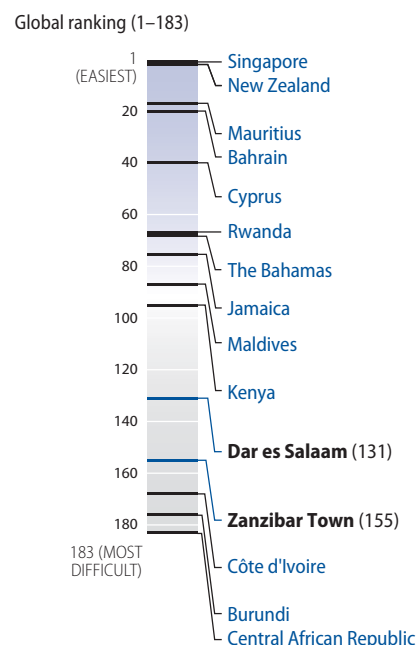
Today, agriculture and tourism are the main pillars of the economy. Cloves remain the most important export, although Zanzibar started losing its worldwide leadership in clove production 4 decades ago. Tourism has emerged as the flagship of the modern Zanzibar economy. According to government data, the services sector now represents 51% of GDP,¹ with tourism-related activities contributing most significantly to sector growth. The government's vision regarding tourism is for Zanzibar "to become one of the top tourism destinations of the Indian Ocean, offering an up-market, high quality product across the board."² Challenges remain, however. Despite steady economic growth during the last decade,³ Zanzibar struggles with poverty, income inequality, inflation, lack of proper infrastructure, and a rapidly increasing population.

Since the mid 1980s, the Zanzibar government has undertaken several ambitious steps aimed at improving and

liberalizing the island economy and promoting its resources for global markets. In 1992, it established the Zanzibar Investment Promotion Agency (ZIPA), the Commission for Tourism, and the Free Economic Zones Authority. In 1998, Zanzibar's Free Ports and Ports Authority Act was introduced. In 2000, the government launched its 2020 vision, where it laid down major objectives, with "poverty eradication" topping the list.⁴ A series of government plans have followed in order to focus on education, health, agriculture, tourism, infrastructure, trade, and good governance to help reduce poverty.

Doing Business studies business regulations from the perspective of a small to medium-size domestic firm. 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 costs of resolving disputes, rules that increase the predictability of economic outcomes and provide contractual partners with core protections against abuse. The objective: regulations designed to be efficient, accessible to all and simple in their implementation. *Subnational Doing Business* reports—such as *Doing Business in Zanzibar 2010*—go one step further to compare the regulatory environment across locations within one country or region (and against 183 world economies), creating powerful incentives for reform. Such benchmarking stimulates policy debate by revealing potential challenges and identifying where national and local policymakers can look for lessons and good practices. Dar es Salaam, the city with the highest economic activity and the largest population in the United Republic of Tanzania, represents the country in the global *Doing Business* report. Since local business regulations and their enforcement differ within Tanzania, *Doing Business in Zanzibar 2010* expands the benchmarking of 9 *Doing Business* topics beyond Dar es

FIGURE 1.1
How Zanzibar compares globally on the ease of doing business

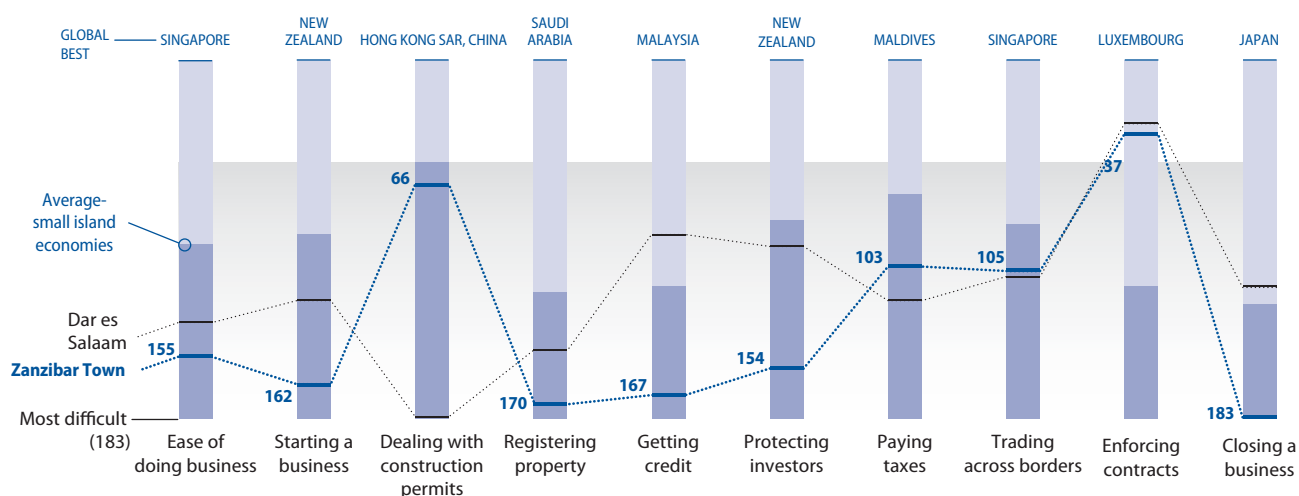


Salaam to the semi-autonomous region of Zanzibar. The archipelago is represented by Zanzibar Town.

Compared to the 183 economies measured by *Doing Business*, Zanzibar would rank 155th on the ease of doing business (figure 1.1). Behind its relatively low aggregate ranking, however, there is a lot of variation on a topic-by-topic basis (figure 1.2). For enforcing contracts, for example, Zanzibar would rank an impressive 37th out of 183 economies and 2nd among 35 small island economies,⁵ trailing only Singapore. This indicator looks at 3 main stages in the evolution of a commercial dispute before local courts: filing and service, trial and judgment, and enforcement of judgment. Resolving a commercial dispute in Zanzibar Town's courts takes 39 procedures, 469 days, and costs 12.6% of the claim value—which is 1 procedure and 7 days longer than in Dar es Salaam, but less expensive by 1.7% of average income per capita.

On the ease of dealing with construction permits, Zanzibar Town would rank 66th and come out ahead of Dar

FIGURE 1.2
Zanzibar's global ranking on *Doing Business* topics—Zanzibar Town, Dar es Salaam and small island economies compared



Source: *Doing Business* database.

es Salaam (178th). Dealing with construction permits in Zanzibar takes 65 days, 17 procedures, and costs 522% of income per capita, on average. Obtaining all the necessary clearances to build a warehouse and connect it to utilities is cheaper and less time-consuming than in Dar es Salaam, but more than twice as expensive as in the average small island economy (202% of income per capita). This is mostly due to utilities connections, which are expensive and take half of the total time to deal with construction permits. In fact, connecting to the electricity grid takes 30 days and costs around 470% of average income per capita.

Globally, for paying taxes and trading across borders, Zanzibar would rank 103rd and 105th, respectively. The large number of entities involved in tax collection makes paying taxes burdensome for entrepreneurs. Taxes have to be paid separately to the Tanzania Revenue Authority (TRA), the Zanzibar Revenue Board (ZRB), and municipal authorities. Meanwhile, for trading across borders, Zanzibar Town scores better than Dar es Salaam. However, due to the high number of documents required to import or export from the island, Zanzibar would

rank only 30th among 35 small island economies.

On the ease of starting a business and registering property, Zanzibar would rank 162nd and 170th, respectively. The relatively poor performance is mostly due to the high number of procedures and the high costs associated with them. Starting a business requires 10 steps, 2 more than the global average. It costs 71.5% of income per capita, almost twice as much as the global average. While the process of incorporation is simple at the Registrar of Companies, numerous post-incorporation procedures end up making the process quite burdensome. Meanwhile, registering property requires 10 procedures, 4 more than the global average. At the same time, it costs 20.2% of property value, more than triple the global average of 6%. Prior to registration with the Registry of Documents, a property transfer has to be approved by several authorities—including the local Sheha, the District Council, and the District Commissioner.

On the ease of protecting investors, getting credit, and closing a business, Zanzibar would rank 154th, 167th, and 183rd, respectively. In the case of protecting investors and closing a business, the

lack of a strong legal framework explains the poor performance. Both areas are governed by the Companies Act Decree of 1953 (Chapter 153 of the Laws of Zanzibar), which does not stipulate sufficient investment protections and bankruptcy proceedings. The Insolvency Decree (Chapter 20 of the Laws of Zanzibar) only applies to physical persons and not to firms. Since 1964, no bankruptcy cases have been reported, apart from some voluntary windings ups.

REGIONAL ECONOMIES ARE REFORMING—WHAT GETS MEASURED GETS DONE

Benchmarking exercises like *Doing Business* identify potential challenges and areas for improvement. They also inspire governments to reform in areas measured by *Doing Business*. Since 2004, *Doing Business* has recorded more than 1,000 reforms in *Doing Business* indicators.

In sub-Saharan Africa, 29 of 46 economies reformed in *Doing Business* areas in 2008/09, implementing 67 reforms. Rwanda, with 7 reforms, became the first sub-Saharan African country to lead the world in *Doing Business* reforms (table 1.1). In the past year, it introduced a new company law that simplified

TABLE 1.1

The top 10 economies that improved the most on the ease of doing business in 2008/2009

Economy	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Rwanda	✓		✓	✓	✓	✓		✓		✓
Kyrgyz Republic	✓	✓	✓	✓	✓		✓	✓		
Macedonia, FYR	✓	✓	✓	✓	✓	✓	✓			
Belarus	✓	✓	✓	✓			✓	✓		
United Arab Emirates	✓	✓						✓		
Moldova	✓			✓			✓			
Columbia	✓	✓		✓	✓	✓	✓	✓		✓
Tajikistan	✓	✓			✓	✓				✓
Egypt, Arab Rep.	✓	✓			✓				✓	
Liberia	✓	✓						✓		

Note: Economies are ranked on the number and impact of reforms. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the *Doing Business* topics. Second, it ranks these economies on the increase in rank on the ease of doing business from the previous year. The larger the improvement, the higher the ranking as a *Doing Business* reformer.

Source: *Doing Business* database.

business start-up and strengthened minority shareholder protections. Entrepreneurs can now start a business with just 2 procedures and 3 days. Reforms also included measures to speed up trade and property registration. Delays at the borders were reduced thanks to longer operating hours and simpler requirements for documents. Reforms removed bottlenecks at the property registry and at the Rwanda Revenue Authority, reducing the time required to register property by 255 days.

Tanzania also reformed. In 2006, it abolished the license fee for small and medium-size enterprises. The system for license categories was simplified, reducing the number of different licensed activities from 15 to just 2. The new Companies Act made the company seal optional and the computerization of tax and business registration made start-up faster.

Among small island economies, Mauritius stood out by implementing reforms in 6 *Doing Business* indicators during 2008/09 improving its global rank from 24 to 17. The property registry was made fully electronic, and strict statutory limits were introduced for property registration making the entire process 6 months shorter. The island adopted or

amended several laws to allow for the creation of a licensed private credit bureau and expanded the bureau's coverage to all credit facilities, improving the ranking on the ease of getting credit by 3 places. In addition, Mauritius passed a new insolvency law, establishing a rehabilitation procedure for companies as an alternative to winding up. The law sets clear time limits, defines the rights and obligations of creditors and debtors and outlines sanctions for those who abuse the system.


COMPARING BUSINESS REGULATIONS AT THE SUBNATIONAL AND REGIONAL LEVEL

Comparisons among cities within the same country or region can be strong drivers for improvement. That was the case in Mexico where a subnational study benchmarked 12 states in 2005. The study generated competition to improve as different local governing bodies had a difficult time explaining why it took longer or cost more to do business in their city as compared to the neighboring city. The second and third benchmarking exercises expanded the analysis to all 31 Mexican states and updated the indicators for the first 12. Out of the 12 original states, 9 (75%) had implemented reforms related to the *Doing*

Business indicators by the time of the second report.⁶ Furthermore, 28 out of the 31 states (that is, 90%) had implemented reforms by the third report.⁷ Similarly, *Doing Business in Colombia 2010* showed that 13 out of the 21 cities benchmarked for the second time had introduced at least one reform in the areas measured by *Doing Business*. The city of Neiva is one telling example. Neiva was the worst-performing city in Colombia in 2008.⁸ In response, the mayor decided to set up an “anti-red tape” committee that brought together the municipality, chamber of commerce, business associations, and representatives of national agencies, such as the police and the tax authority. This committee meets every month to propose changes to the regulatory environment and monitor progress. The city launched a one-stop shop for business registration, which connected the municipal and state governments, eliminating 11 procedures, including obtaining sanitation and fire department certificates. Thanks to this and other *Doing Business* reforms, Neiva became the economy that improved the most the ease of doing business in *Doing Business in Colombia 2010*.

The government of Zanzibar can follow the example of consistent *Doing*

Business reformers in the region and globally. These committed reformers follow a long-term agenda and continuously push forward. They include all relevant stakeholders in the process, set specific goals, institutionalize the reform effort and regularly monitor the progress thereafter. The reforms are comprehensive, thus increasing the chances of impact and success.

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1. The Revolutionary Government of Zanzibar. January 2007. *Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP)*, <http://www.unpei.org/PDF/TZ-zanzibar-strategy-growth-poverty-reduction.pdf/>.
 2. Zanzibar Commission for Tourism. See <http://www.zanzibartourism.net/>.
 3. According to the United Nations Statistics Division (UNSD) of the Department of Economic and Social Affairs (DESA), Zanzibar has seen an average annual growth of 8% in nominal GDP per capita. See <http://data.un.org> for more information.
 4. The Revolutionary Government of Zanzibar. January 2000. *Vision 2020*.
 5. For the purpose of this report, the 35 small island economies include Zanzibar and 34 Small Island Developing States (SIDS) measured by *Doing Business*.
 6. World Bank. 2006. *Doing Business in Mexico 2007*. Washington, D.C.: World Bank Group.
 7. World Bank. 2008. *Doing Business in Mexico 2009*. Washington, D.C.: World Bank Group.
 8. World Bank. 2010. *Doing Business in Colombia 2010*. Washington, D.C.: World Bank Group.

Starting a business

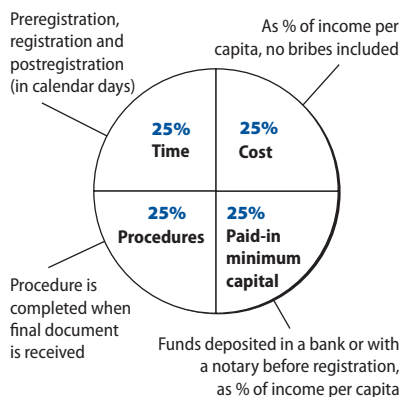
Enabling easier, faster, and more affordable business entry is essential for private sector development. In countries where entry procedures are straightforward and inexpensive, more businesses operate in the formal sector. But if entrepreneurs find such procedures overly burdensome or expensive, some may resort to corruption to expedite the process—and others will choose to run their businesses in the informal sector.

The data on starting a business investigates procedures that a typical domestic small or medium-size company needs to complete to start operations legally. These include obtaining all necessary permits and licenses, and completing all required registrations, verifications, and notifica-

FIGURE 2.1

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

Rankings are based on 4 subindicators



Note: See Data notes for details.

tions with authorities. The time and cost required to complete each procedure are calculated, as well as the minimum capital that must be paid in (figure 2.1).

In Zanzibar it takes 10 procedures, 28 days, and costs 72% of Zanzibar's income per capita to comply with all registration requirements to set up a limited liability company and start to operate. While incorporation with the Registrar General's Office in Zanzibar is relatively simple and takes less than one week (6 days), the post-incorporation procedures—such as preparing a company seal, applying for all required tax numbers from the Tanzania Revenue Authority (TRA) and the Zanzibar Revenue Board (ZRB), obtaining a business license, registering with the Zanzibar Social Security Fund (ZSSF) and with the National Insurance Corporation, and submitting employees' contracts at the Labour Commission—take up to 18 days to complete.

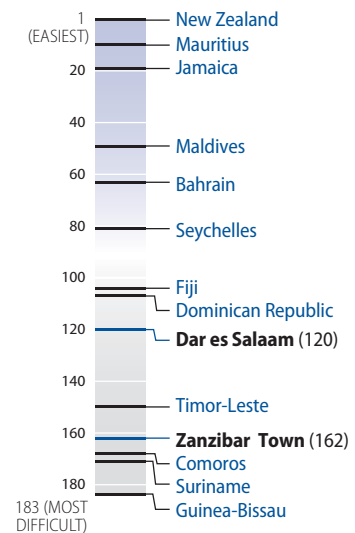
In Dar es Salaam, the same process takes 2 more procedures (12) and 1 more day (29), but it is substantially cheaper (36.8% of Tanzania's income per capita). Another difference between Dar es Salaam and Zanzibar Town is that the former does not require minimum capital, while the latter requires TZS 1 million (US\$ 772), which represents 156.5% of Zanzibar's income per capita. In starting a business, Zanzibar Town would rank 162nd out of 183 economies measured by *Doing Business*, while Dar es Salaam ranks 120th (figure 2.2). Starting a company in Zanzibar is also more cumbersome than in most other small island economies, where starting a business takes, on average, 8 procedures, 61 days and costs 46% of income per capita. Zanzibar would rank 31st compared with 34 other small island economies measured by the *Doing Business*.

Among small island economies, starting a business is easiest in Singapore and Mauritius. Since October 2006, applications for incorporation and registration in Mauritius have been processed

FIGURE 2.2

How Zanzibar compares globally and with other small island economies on the ease of starting a business

Global ranking (1–183)



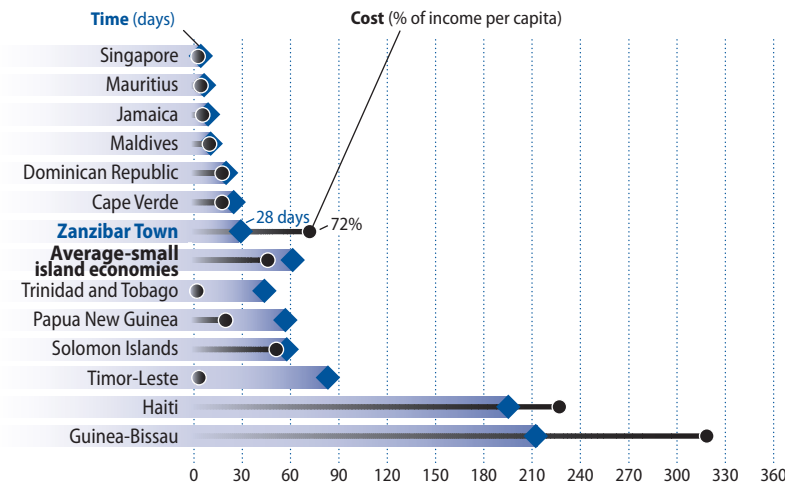
Note: Rankings are the average of the economy ranking on the procedures time, cost and paid-in minimum capital for starting a business. See Data notes for details.

Source: *Doing Business* database.

online. Following the registration, the Commercial Registry automatically informs the tax, social security, and local authorities about company formation and grants them access to all company information through a central business registration database. Once informed by the registry, local authorities contact the companies to inform them of fees and any other requirements based on the activity of the company. The entire process requires just 5 procedures, takes 6 days, and costs 4.1% of country's income per capita. In comparison, business start-ups in Zanzibar are faster than the small island economy average but more expensive (figure 2.3).

The first bottleneck in starting a business in Zanzibar lies within the ZRB, where the entrepreneur has to first obtain the business license and then apply for the Value Added Tax (VAT). These 2 procedures add up to 10 days and represent a third of the total time to start a company. Another bottleneck lies within the ZSSF, where obtaining a registration number takes 7 days. To apply for a certificate of

FIGURE 2.3
Starting a business in selected small island economies: Zanzibar is relatively fast but expensive



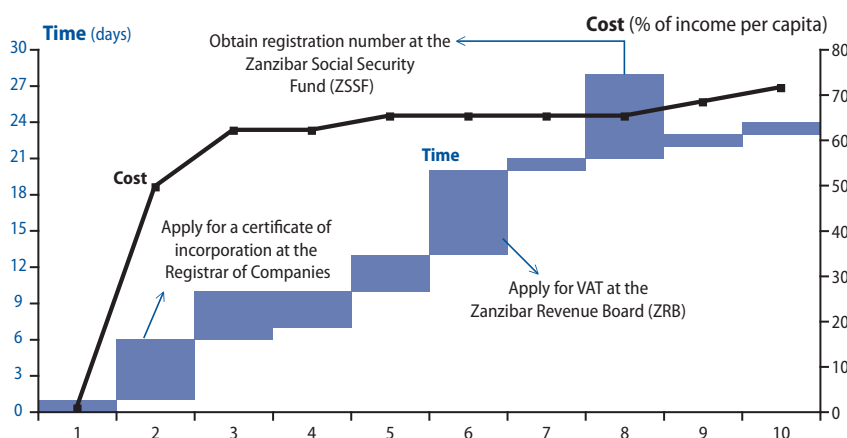
Source: Doing Business database.

incorporation an entrepreneur has to pay TZS 311,908 (US\$ 241), which represents almost 70% of the total cost to start a business (figure 2.4).

There are numerous reasons for governments to facilitate formal incorporation of companies. Legal entities outlive their founders. Resources are often pooled as shareholders join forces to start a company. And companies have access to services and institutions ranging from courts to commercial banks. Easier start-up is also correlated with higher productivity among existing firms. A recent study of 97 countries finds that reducing entry costs by 90% of income per

capita increases total factor productivity by an estimated 22%.¹ Simpler and faster business entry makes it easier for workers and capital to move across sectors when economies experience economic shocks. A recent study of 28 sectors in 55 countries found that sector employment reallocation is smoother in countries where starting a business is faster.² Finally, if it is easy to set up a company, businesses that might otherwise operate in the informal sector are more likely to legalize their operations. Formally registered businesses grow larger and contribute to the government revenues through the taxes they pay.³

FIGURE 2.4
Starting up a company in Zanzibar is complex



Source: Doing Business database.

WHAT TO REFORM?

CONSIDER ELIMINATING LICENSES FOR COMPANIES THAT DO NOT POSE ENVIRONMENTAL OR HEALTH RISKS

Currently, following registration at the Registrar General’s Office in Zanzibar Town, new companies must also obtain a business license from one of the following bodies: Municipality (small traders), ZRB (medium-size businesses), or Zanzibar Investment Promotion Authority (large companies and foreign investors). The process of obtaining a license can be confusing at times, as many business are not certain which authority has the jurisdiction over issuing the license for their type of company. Currently, obtaining a license for a medium-size company at the ZRB costs about TZS 20,000 (US\$ 15).

One approach to facilitate licensing would be to limit the requirement to certain industries that may pose environmental or health risks, while eliminating it for other businesses not operating in such licensed industries. Alternatively, the process could start with eliminating the licensing requirement for small businesses. A registration certificate issued by the Registrar General’s Office could be deemed sufficient for small businesses to operate.

Procedures

1. Apply for clearance of the proposed company name at the Registrar of Companies
2. Apply for a certificate of incorporation at the Registrar of Companies
3. Order a company seal
4. Obtain Tax Identification Number (TIN) from the Tanzania Revenue Authority (TRA)
5. Obtain a business license from the Zanzibar Revenue Board (ZRB)
6. Apply for VAT at the Zanzibar Revenue Board (ZRB)
7. Register for the workmen’s compensation insurance at the National Insurance Corporation (or alternative insurance policy)
8. Obtain registration number at the Zanzibar Social Security Fund (ZSSF)
9. Apply for Pay As You Earn (PAYE) at the Tanzania Revenue Authority
10. Submit employees’ contracts at the Labour Commission of Zanzibar

MAKE COMPANY SEAL OPTIONAL

The company seal adds 3 days to the time and TZS 60,000 (US\$ 46) to TZS 100,000 (US\$ 77) to the cost to set up a limited liability company. Moreover, the applicant or his lawyer must travel to Dar es Salaam, as no seals are made in Zanzibar.


In the past, official seals were used to authenticate the authority of the seal bearer to represent a firm, and played an important role in ensuring the legitimacy of business transactions. However, the usefulness of company seals has always been limited by the ease of forging them. Now, with the availability of digital signatures that cost nothing and are difficult to forge, and the widespread practice of sending documents electronically, company seals are largely obsolete. The abolition of company seals, together with a digital signature law that validates and regulates the use of digital signatures, would facilitate electronic business transactions, reduce forgeries, and cut down on costs and bureaucratic delay. A similar requirement was in place in Mainland Tanzania until the passing of the Business Activities Registration Act in 2006, which made obtaining a seal optional. Similar provisions should be made in the process of amending the Companies Decree, Chapter 153.

CREATE A SINGLE-ACCESS POINT FOR ALL REGISTRATION REQUIREMENTS FOR COMPANIES

Currently, numerous agencies are involved in registration process of new companies, including Registrar General's Office, TRA, ZRB, ZSSF, and Labour Commission of Zanzibar. In order to reduce the number of procedures cost and time, one of these agencies—for example Registrar General's Office—could serve as a single-access point for company registration. In other words, one designated agency would accept applications from potential businesses and ensure that the required information is shared with other concerned agencies. This reform would also require the introduction of a single

application form in order to eliminate a need for completing different forms with duplicating information.

Although Zanzibar Investment Promotion Authority (ZIPA) already acts as a one-stop shop, its services are limited to foreign and/or large investors. It is important that small and medium-size domestic enterprises could also take advantage of the benefits of single-access point for company registration. Among small island economies, Mauritius provides a successful example. Its one-stop shop links the commercial registry, tax and local authorities through a central electronic database.

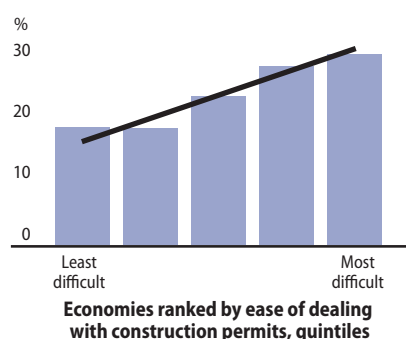
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1. Barseghyan, Levon. 2008. "Entry Costs and Cross-Country Differences in Productivity and Output." *Journal of Economic Growth* 13 (2): 145-67.
 2. Ciccone, Antonio, and Elias Papaioannou. 2007. "Red Tape and Delayed Entry." *Journal of the European Economic Association* 5 (2-3): 444-58.
 3. Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer. 2002. "The Regulation of Entry." *Quarterly Journal of Economics* 117 (1): 1-37.

Dealing with construction permits

Striking the right balance between safety and efficiency in the building sector regulations has been a challenge for many countries. Good regulations promote public safety, increase revenue for the government and make the permitting process more transparent and approachable both for those who use it and those who administer it. On the other hand, burdensome regulations may push the construction sector into the informal economy, thus undermining their primary purpose.

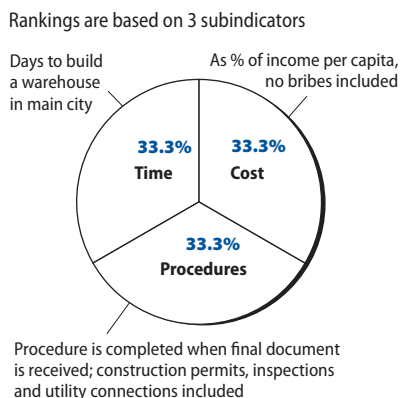
By some estimates, 60–80% of construction projects in developing countries are undertaken without a building permit because the approval process is too complex or oversight too lax.¹ An analysis based on World Bank Enterprise

FIGURE 3.1
Share of firms that expect to give gifts in exchange for construction permits



Note: Relationships are significant at the 1% level and remain significant when controlling for income per capita.
Source: *Doing Business* database; World Bank Enterprise Survey database.

FIGURE 3.2
Dealing with construction permits: building a warehouse



Note: See Data notes for details.

Surveys and *Doing Business* data found that more cumbersome and costly procedures are associated with an increased probability of informal payments in exchange for construction permits (figure 3.1). In Tanzania, 1 entrepreneur out of 2 expects to pay informal fees to public officials in order to get things done.²

Doing Business looks at construction permits as an example of licensing regulations that businesses face. It measures the number of procedures, time, and cost required for a business in the construction industry to obtain the necessary approvals to build a commercial warehouse and connect it to electricity, water, sewerage, and telecommunication services (figure 3.2). It assumes that the warehouse is to be used for storage of nonhazardous goods and is located in the peri-urban area of the city.

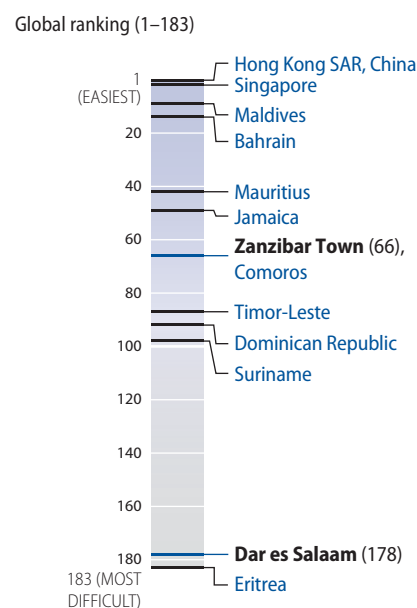
In order to obtain the necessary approvals and utility connections to build a commercial warehouse in Zanzibar Town, an entrepreneur needs to go through 17 procedures that take 65 days and cost 522% of Zanzibar's income per capita. The same process in Dar es Salaam is more expensive and time-consuming, requiring 22 procedures, 328 days and 3,281% of Tanzania's income per capita. Compared globally, Zanzibar would rank 66th out of 183 economies on the ease of dealing with construction

permits as measured by *Doing Business* (figure 3.3).

The most time-consuming procedures take place during the preconstruction stage and when connecting to utilities (figure 3.4). Obtaining a building permit from the Urban Development Control Authority (UDCA) takes an average of 30 days. After the application has been submitted, the drawings are examined by various UDCA officials to assess the viability of the project from specific points of view—such as, impact on the surrounding area, structural soundness, and respect for building regulations. Once all internal clearances have been granted, the project undergoes final scrutiny from the UDCA review committee, a body chaired by the Director of the Zanzibar Municipality that convenes only once a month and provides the authorization to build.

Procedures during the construction and post-construction phases are generally faster and less expensive.

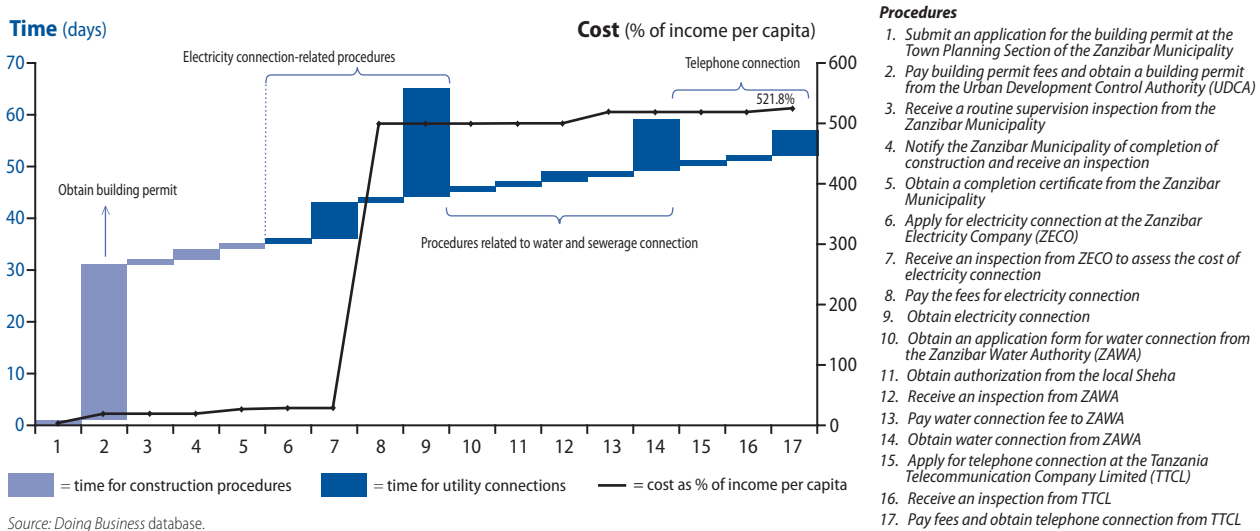
FIGURE 3.3
How Zanzibar compares globally and with other small island economies on the ease of dealing with construction permits



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

Source: *Doing Business* database.

FIGURE 3.4
Obtaining a building permit and connecting to electricity—the biggest bottlenecks



- Procedures**
1. Submit an application for the building permit at the Town Planning Section of the Zanzibar Municipality
 2. Pay building permit fees and obtain a building permit from the Urban Development Control Authority (UDCA)
 3. Receive a routine supervision inspection from the Zanzibar Municipality
 4. Notify the Zanzibar Municipality of completion of construction and receive an inspection
 5. Obtain a completion certificate from the Zanzibar Municipality
 6. Apply for electricity connection at the Zanzibar Electricity Company (ZECO)
 7. Receive an inspection from ZECO to assess the cost of electricity connection
 8. Pay the fees for electricity connection
 9. Obtain electricity connection
 10. Obtain an application form for water connection from the Zanzibar Water Authority (ZAWA)
 11. Obtain authorization from the local Sheha
 12. Receive an inspection from ZAWA
 13. Pay water connection fee to ZAWA
 14. Obtain water connection from ZAWA
 15. Apply for telephone connection at the Tanzania Telecommunication Company Limited (TTCL)
 16. Receive an inspection from TTCL
 17. Pay fees and obtain telephone connection from TTCL

As construction progresses, the Municipality sends inspectors to check compliance with the given permit and building regulations. Once the warehouse is completed, the entrepreneur is supposed to notify the Municipal Authority and obtain a certificate of completion. Although the

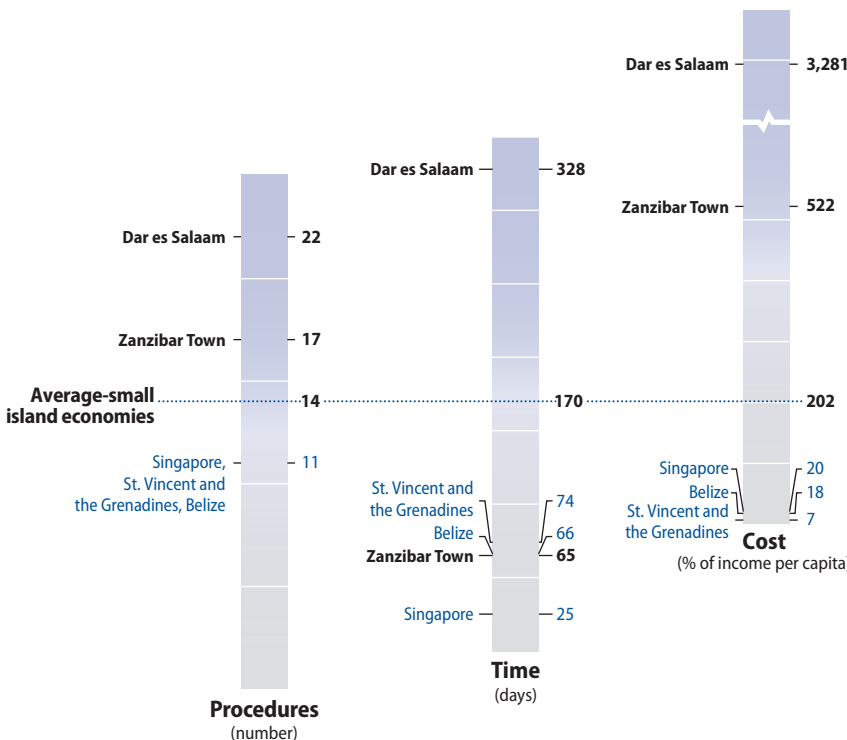
certificate of completion is required by law, it is not always obtained due to low public awareness and poor enforcement capacity by the Municipal Authority.

Connection to utilities takes approximately half of the total time to deal with construction permits. The process

of connecting to water and sewerage is unnecessarily complicated. Before requesting a connection from the Zanzibar Water Authority (ZAWA), the entrepreneur must receive a specific authorization from the Sheha, the officer in charge of local ward (Shehia). The most burdensome step, however, is connection to the electricity grid—an endeavor that takes 30 days and is by far the most expensive procedure, amounting by itself to around 470% of the island’s income per capita.

Dealing with construction permits in the average small island economy measured by *Doing Business* is considerably cheaper than in Zanzibar (figure 3.5). In the average small island economy, dealing with construction permits cost 202% of income per capita compared to 522% in Zanzibar. Some island economies rank amongst the top global performers on this indicator—including Singapore (ranked 2nd), St. Vincent and the Grenadines (ranked 3rd), and Belize (ranked 4th). Singapore, in particular, has developed a state-of-the-art system for construction permits through incremental improvements. Today, 99% percent of Singapore’s applications for construction permits are processed electronically through the city-state’s construction

FIGURE 3.5
Procedures, time, and cost to deal with construction permits in Zanzibar and selected small island economies



Source: *Doing Business* database.

and real estate network. Furthermore, the authority issuing planning permissions optimized its internal process of review and analysis of applications while setting internal targets for reducing the approval time from 3 to 2 weeks. Similar targets were set for technical clearances from the ministry of environment, the civil defense force, and the transportation authority. These authorities now respond within 10 days. As a result, Singapore's entrepreneurs can obtain a certificate of completion within 10 days and all required construction permits within 15 days. In addition, the agency that provides access to power, water and sewage has accelerated delivery of utility services. All 3 utilities can be obtained within just 7 days. In total, obtaining all construction permits and utility connections in Singapore requires 11 steps, 25 days, and costs just 19.9% of Singapore's income per capita.

WHAT TO REFORM?

IMPROVE THE ELECTRICITY DELIVERY SYSTEM

Obtaining an electricity connection in Zanzibar is particularly expensive. It costs approximately TZS 3,000,000 (US\$ 2,315) and accounts for almost 90% of the total cost of dealing with construction permits. In spite of this, black-outs still force entrepreneurs to rely on generators and allocate additional resources to buy diesel. In order to tackle the black-out problem, state authorities should improve the electricity delivery system and increase the reliability of its network.

INCREASE THE FREQUENCY OF THE URBAN DEVELOPMENT CONTROL AUTHORITY REVIEW MEETINGS

The lengthiest administrative step faced by entrepreneurs building a warehouse and connecting it to utilities in Zanzibar is obtaining a building permit. Upon submission, each application is examined by a number of technical officers within

the UDCA and subsequently cleared by a review committee chaired by the Director of the Municipality. Currently, the review committee convenes only once a month. Increasing the frequency of its meetings—introducing, for instance, bimonthly or weekly sessions—would reduce the processing time for building permits.

PUBLICLY DISPLAY INFORMATION AND PROVIDE APPLICATION FORMS FREE OF CHARGE

Entrepreneurs and builders need to have a clear understanding of how the construction-permit process works. Information and application forms should be readily available. At the moment, Zanzibari entrepreneurs need to spend a considerable amount of time on the phone or visiting public offices in order to figure out required documents and fees. Moreover, they are asked to pay a fee in order to obtain the necessary forms to apply for building permit and water connection. In many countries, information and forms are free and available for all those who need it. In 2001, the municipal authorities of Riga (Latvia) distributed a step-by-step guide with a list of required documents and flowcharts showing which offices to visit, when, and with what documents. This simple reform cut 2 months off the process and gave builders more confidence in the construction-permit process. Authorities in Zanzibar should follow suit.

SIMPLIFY THE PROCESS FOR OBTAINING A WATER CONNECTION AND DEVELOP A CLEAR FEE SCHEDULE

In the process of obtaining a water connection, the applicant is required to receive an authorization from a local Sheha. Such authorization—which aims to prove the identity of the applicant—adds TZS 2,000 (US\$ 2) and extra time to the process. Whenever possible, this requirement should be eliminated or incorporated in the application process with the Zanzibar

Water Authority (ZAWA). In addition, water connection costs should be more transparent. Currently, the lack of a clear fee schedule for water connections results into uncertainty for investors. ZAWA has plans to develop a transparent schedule of fees for connection services: efforts should be made to speed the process up.

1. Moullier, Thomas. 2009. *Reforming Building Permits: Why Is It Important and What Can IFC Really Do?* International Finance Corporation. Washington, D.C.: World Bank Group.
2. World Bank. 2006. *Enterprise Surveys: Corruption* (<http://www.enterprisesurveys.org/>).

Registering property

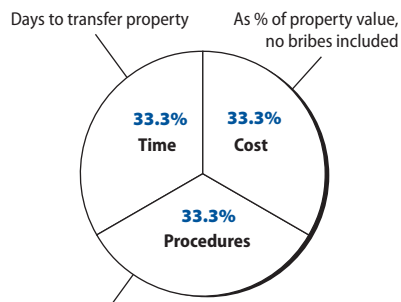
Efficient and reliable property registration systems are important for economic growth: they protect property rights, facilitate transactions in land, and enable land to be used as collateral for a loan. With a formal title, entrepreneurs have an incentive to invest in their property and can use their immovable asset to obtain credit and expand. Land title registration should be simple, reliable, prompt, and affordable.

To assess the ease of registering property, *Doing Business* records the procedures necessary for a business to purchase a property and to transfer the property title to the buyer's name. The time and costs—expressed as percentage of property value—are calculated (figure 4.1).

Zanzibar is one of the most difficult places in the world to register property. It

FIGURE 4.1
Registering property: transfer of property between 2 local companies

Rankings are based on 3 subindicators



Steps to check encumbrances, obtain clearance certificates, prepare deed and transfer title so that the property can be occupied, sold or used as collateral

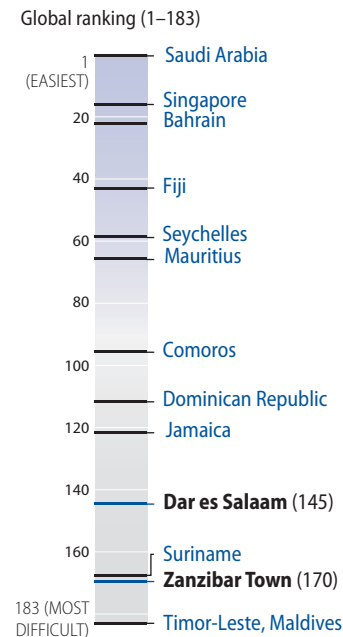
Note: See Data notes for details.

requires 10 procedures which take about 39 days and cost 20.2% of property value. It would rank 170th out of 183 economies measured, which places it in the bottom 10% globally (figure 4.2). In comparison, in Dar es Salaam, a property transfer requires 9 procedures which take 73 days but cost much less—just 4.4% of property value—ranking ahead of Zanzibar Town at 145th place. Compared to 34 other small island economies measured by *Doing Business*, Zanzibar falls in the bottom third and would rank 27th.

To transfer a property title, an entrepreneur has to visit the local Sheha, the District Council, and the District Commissioner. Each of these procedures is a source of delay and high costs. The entrepreneur has to wait 5 days to get the approval from the local Sheha, 5 days for approval from the District Council, and another 3 days from the District Commissioner. These add up to 13 days which represent one third of the total time to transfer a property title in Zanzibar (figure 4.3).

The District Council charges 10% of the underlying property value to authorize the approval. This fee represents almost half of the total cost to transfer a property in Zanzibar. Although the signature of the District Council is not required according to the sale form, it has become a standard practice to obtain such an approval before the application is accepted by the District Commissioner. In addition to this 10% charge, several other fees are added before the transfer is complete—5% of the property value charged by the Zanzibar Land Transfer Board for the Certificate of Approval, 1% of the property value required by the Registry of Documents for the Stamp Duty, 1% of the property value charged by the Tanzania Revenue Authority (TRA) for valuation inspection, and a final charge averaging 3% by lawyers for the execution and notarization of the sales agreement. With all these fees, Zanzibar is one of the most expensive

FIGURE 4.2
How Zanzibar compares globally and with other small island economies on the ease of registering property

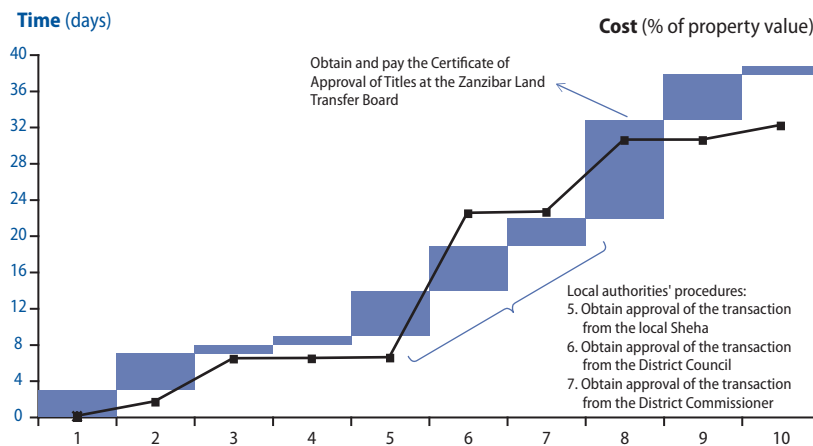


Note: Rankings are the average of the economy ranking on the procedures, time, and cost for a business to purchase, transfer, and register property from another business. See Data notes for details. Source: *Doing Business* database.

places in the world to transfer property. The only economies where it costs more are the Syrian Arab Republic (28% of property value), Chad (22.7%), Nigeria (20.9%), Comoros (20.8%), and Senegal (20.6%).

Since the late 1980s, the government of Zanzibar has undertaken efforts to strengthen property rights. To this end, a series of laws related to land and property registration have been enacted.¹ However, the titles and contracts regarding land matters continue to be registered with the Registry of Documents, according to the Registration of Documents Decree, Chapter 99/1919, dating from the time of the British Protectorate. Prior to registration at the Registry of Documents, the transfer must also be approved by local authorities, including the Sheha, District Council, and District Commissioner. For immovable properties, the procedures at the Registry of

FIGURE 4.3
It costs 20.2% of the property value to register and transfer property in Zanzibar



Source: Doing Business database.

Procedures

1. Conduct a search at the Land Registry
2. Receive a valuation inspection from the Tanzania Revenue Authority
3. Execution and notarization of the sale agreement
4. Obtain a property transfer form from the Zanzibar Land Transfer Board
5. Obtain approval of the transaction from the local Sheha
6. Obtain approval of the transaction from the District Council
7. Obtain approval of the transaction from the District Commissioner
8. Obtain and pay the Certificate of Approval of Titles at the Zanzibar Land Transfer Board
9. Obtain a Capital Gains Tax Clearance Certificate from the Tanzania Revenue Board
10. Submit documents, pay for registration, and obtain the Sales Deed registered at the Registry of Documents, Registrar's General Office

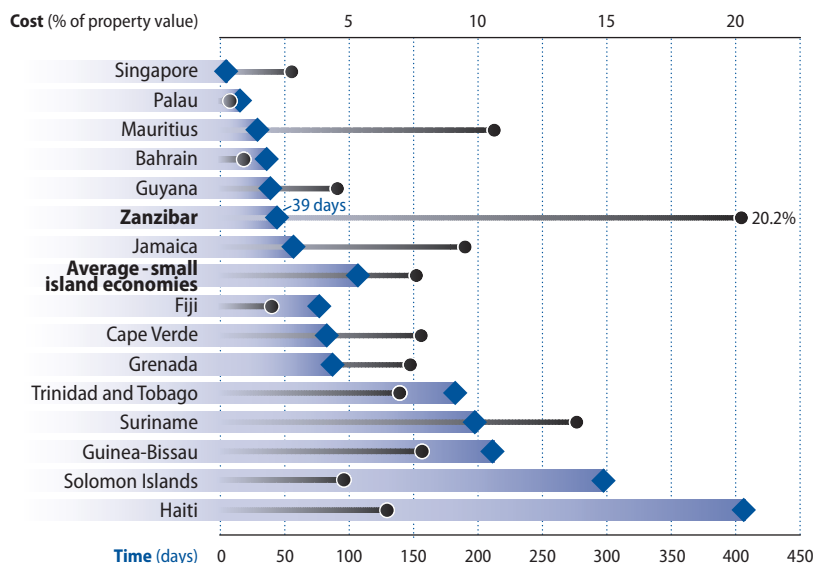
Documents are not computerized, and the means for locating information and registering properties are outdated. In addition, there is no storage security system; therefore, all records run the risk of being lost. The current system offers incomplete legal protections. Registration under the Registration of Documents Decree guarantees neither titling nor the physical inspection of properties. It simply operates as a proof that a transfer document has been registered.

Economies that score well on the ease of registering property tend to have simple procedures, low transfer taxes, fixed registration fees, computerized registries, and time limits for administrative procedures. Singapore stands out amongst small island economies as the easiest to transfer a property title. There, an online system links lawyers to all the relevant government agencies involved in property registration. In Singapore, it takes 3 procedures, 5 days, and 2.8% of property value to register a

property. Other small island economies that manage property registration well include Bahrain and Palau (figure 4.4).

Formal property titles help promote the transfer of land, encourage investment, and give entrepreneurs access to formal credit markets.² Informal titles cannot be used as security in obtaining loans, which limits financing opportunities for businesses. Many governments have recognized this and started extensive property titling programs. But bringing assets into the formal sector is not sufficient. The more difficult and costly it is to formally transfer property, the greater the chances that formalized titles will quickly become informal again. Making property registries efficient ensures that formal titles are more valuable—for getting credit, investing, and generating growth. Eliminating unnecessary obstacles to registering and transferring property is, therefore, important for economic development.

FIGURE 4.4
Registering property in selected small island economies: Zanzibar relatively fast but the most expensive



Source: Doing Business database.

WHAT TO REFORM?

COMPUTERIZE THE LAND REGISTRY

Title searches and registration are still done manually in Zanzibar. This causes delays. Computerization would digitalize files and these would no longer have to be physically handled. This would expedite property registration and reduce the danger of losing documents. This

would also be the first step in a more ambitious reform linking all registries in the country and allowing users to make online registrations. Zambia computerized its land registry and set up a customer service center to eliminate the backlog of registration requests. The time to register property fell from 70 days to 39 days between 2007 and 2008. Saudi Arabia became the best performer in the world by computerizing procedures in 2007, making it possible to register property with 2 procedures and 2 days.³

ELIMINATE THE REQUIREMENT TO OBTAIN THE DISTRICT COUNCIL'S APPROVAL FOR A PROPERTY TRANSFER

Under the current system of registering property transfers with the Registrar of Documents, applicants pay 10% of the property value as a fee to obtain an approval from the District Council. Although the signature of the District Council is officially not required according to the sale form, it has become a standard practice to obtain such an approval before the application is accepted by the District Commissioner. The Registry of Documents received several complaints about this practice, which had become particularly common in Zanzibar's Western District. By adding a cost of 10% of property value, this procedure makes Zanzibar one of the most costly places to transfer a property title.

REDUCE THE NUMBER OF FEES

Currently, a property buyer must pay fees for 9 out of the 10 procedures required to register property in Zanzibar. The fees range from fixed charges for application forms to percentage-based charges levied by various collecting authorities, which are all competing for the same narrow tax base. To reduce the number of fees collected during property registration, the central and local governments could consider deep structural reforms that would broaden the tax base and clearly identify which authority is in charge of property-related taxes.

INTRODUCE FLAT FEES INSTEAD OF PERCENTAGE-BASED FEES

Replacing the current fee system with fixed fees reduces the incentive for property owners to either undervalue their plots or not register their property altogether. In 2007, the Arab Republic of Egypt introduced a low fixed fee for stamp duty replacing the 3% registration fee. This led to a boom of property registrations that increased government revenues by 39% six months after the reform.⁴ In 2008, Rwanda replaced the 6% stamp duty with a low flat fee. In Zanzibar, the introduction of flat fees by both central and local authorities would go beyond simply cutting the cost to register property: with a flat fee, there would be no need to have the property assessed by the TRA at the time of sale. This would speed up the registration process and significantly reduce the time needed to register property.

1. These laws include: Land Adjudication Act No. 8/1989, Land Survey Act No. 9/1989, The Registered Land Act No. 10/1990, The Land Tenure Act No. 12/1992, The Land Tribunal Act No. 7/1994, The Land Transfer Act No. 8/1994.
2. Miceli, Thomas, and Joseph Kieyah. 2003. "The Economics of Land Title Reform." *Journal of Comparative Economics* 31 (2): 246-56.
3. World Bank. 2008. *Doing Business 2009*. Washington, D.C.: The World Bank Group.
4. World Bank. 2007. *Doing Business 2008*. Washington, D.C.: The World Bank Group.

Getting credit

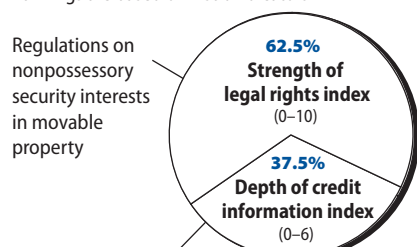
In many developing economies, limited access to credit is considered a major constraint to firms' operations.¹ The lack of credit-information systems is one obstacle. Another problem is a legal framework that does not ensure creditors' rights or that prevents businesses from using certain assets as collateral. In contrast, countries where credit registries exist and where effective collateral laws are in place, financial institutions are more likely to lend.

Doing Business covers 2 aspects of the regulations that affect the availability of credit: 1) the quality of credit information and 2) the strength of the legal rights of borrowers and lenders. The first—the “depth of credit information index”—measures the coverage, quality,

FIGURE 5.1

Getting credit: collateral rules and credit information

Rankings are based on 2 subindicators



Scope, quality and accessibility of credit information through public and private credit registries

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

and accessibility of credit information available through public credit registries and private credit bureaus. The second—the “strength of legal rights index”—measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders (figure 5.1).

Considering these 2 indexes, Zanzibar would rank 167th on the ease of getting credit amongst the 183 economies measured by *Doing Business*. Compared to other small island economies, Zanzibar would rank 30th out of 35 (figure 5.2). Zanzibar's performance on this indicator is relatively poor compared to Mainland Tanzania, at 87th place, or Rwanda—the top reforming economy for *Doing Business 2010*—ranked 61th.

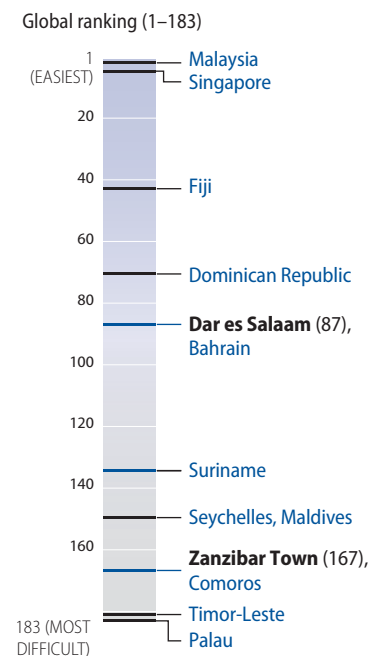
Despite the existence of a securities registry in Zanzibar—the Registrar General's Office—information is not centralized nor indexed by grantor's name, making it hard to obtain quality information on the movable assets used as collateral. This could be reflected in higher interest rates or fees, making them often prohibitively high for small and medium-size businesses.

Similarly, laws that do not enact strong creditors' rights make lenders less willing to lend. Zanzibar's credit system limits the type of assets that can be pledged as collateral (account receivables or future- or after-acquired assets are not admissible as collateral). Furthermore, secured creditors' priority over other types of creditors may not be adequately protected. These constraints mean Zanzibar scores only 3 points out of the 10 possible in the “strength of legal rights index, in contrast with Mainland Tanzania—8 out of 10—or Singapore—10 out of 10 (figure 5.3).

In recent years, many small island economies have made efforts to expand access to credit. For example, Trinidad and Tobago, a financial hub in the Caribbean where it is easier to access credit, boasts a credit information system that extended the sources of credit information to non-financial institutions (such

FIGURE 5.2

How Zanzibar compares globally and with other small island economies on the ease of getting credit



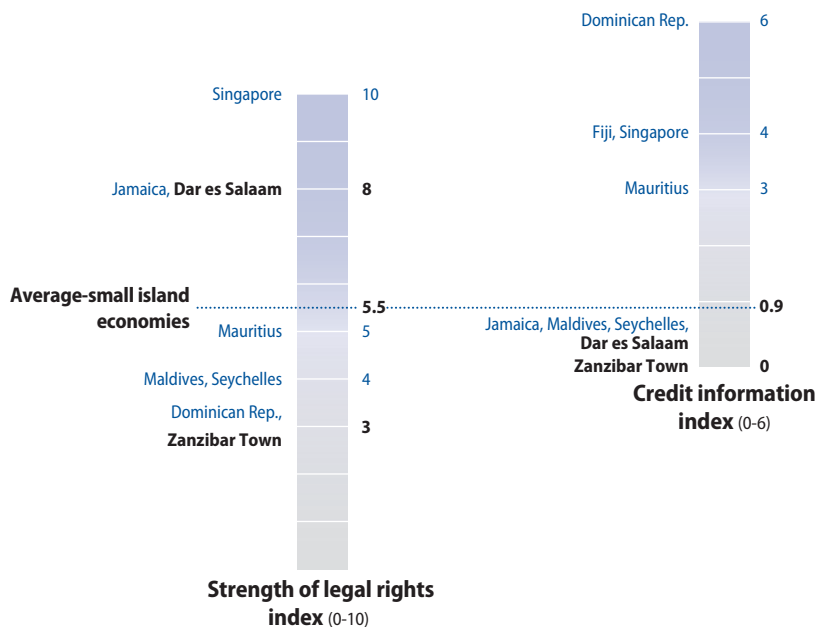
Note: Rankings are based on the sum of the strength of legal rights index and the depth of credit information index. See Data notes for details.

Source: *Doing Business* database.

as utility companies).² Banks, retailers, and telecommunication companies also share positive and negative credit information. As a result, Trinidad and Tobago's credit bureau contains information on almost 42% of country's adult population.³ In the Dominican Republic, lenders also benefit from a well-developed credit information system. Between 2005 and 2006, the country abolished consumer consent requirements for giving data to credit bureaus and implemented procedures for consumers to verify their data. Public and private credit registry records make historical information available on all bank loans as well as credit information from non-financial institutions for both individuals and companies. Of all small island economies measured by *Doing Business*, Singapore has the most effective collateral laws. It enacted non-possessory interest on movable property and allows using account receivables and inventory as collateral without requiring

FIGURE 5.3

Credit information and legal rights for borrowers and lenders in Zanzibar and selected small island economies



Source: Doing Business database.

specific descriptions of the assets. There is also a unified registry system in place with indexed information by type of assets and borrowers as well as out-of-court enforcement mechanisms for the collection of debts. Not surprisingly, Singapore obtained the highest possible score—10 out of 10—on the legal rights of borrowers and lenders index.⁴

As discussed above, in countries where credit registries and effective collateral laws are still lacking, banks make fewer loans.⁵ New evidence suggests that establishing strong legal rights and new credit registries may also reduce income inequality. Small firms and individual women, who face the biggest hurdles in accessing credit, are the ones who gain most when collateral laws and credit information support lending decisions.⁶

WHAT TO REFORM?

FACILITATE ESTABLISHMENT OF A CREDIT BUREAU

Credit registries—institutions that collect and distribute credit information on

borrowers—can greatly expand access to credit. By sharing credit information, registries help lenders assess risk and allocate credit more efficiently. That frees entrepreneurs from having to rely on personal connections alone when trying to obtain credit. Although the Zanzibar's Registrar General's Office keeps track of documents like mortgages, sales deeds and general agreements, the system does not cover all types of assets. In addition, the system is not computerized nor is it centralized, making it hard to obtain reliable information on a borrower's credit history and to enforce security interests against third parties. Some information can be shared between banks on special request. This, however, makes checking a borrower's credit history an onerous and unsure undertaking that raises transactions costs for the banks—resulting ultimately in an increase in the cost of credit in Zanzibar.

There have been efforts to establish a credit bureau to operate across Tanzania. However, the date of bureau's opening remains uncertain. The government of

Zanzibar cannot take any direct action in this respect, but it can advocate for a prompt establishment of a credit information system across Tanzania.

OVERHAUL THE SYSTEM OF REGISTRATION OF MOVABLE PROPERTY

Lenders in Zanzibar typically consider borrowers' reputation and prefer to secure loans with their salaries. Using movable property as collateral in Zanzibar is rare. This could change if a well-functioning collateral registry—where lenders could verify existing rights to the collateral and alert others of their priority—were in place.

While all transfers of property rights on immovable property must be recorded at the Registry of Documents of the Registrar's General Office, registration of liens on movable property is voluntary. Thus, a lender has no guarantee that there are no previous secured interests on a borrower's assets since they may have not been registered there. In addition, even if they are registered, records are difficult to consult, as they are indexed by year of the agreements rather than the name of the borrower.

Best international practices show that in order to facilitate lenders using movable property as collateral to secure loans, it is essential that there is a central collateral registry where all encumbrances over movable property are recorded. It is important that such a registry contains information on all types of loans and movable assets, centralized in one location (some exceptions may apply). It is also important that such a registry be indexed by the name of the borrower, rather than by date of the pledge, to facilitate comprehensive data on the debtor's movable assets that have been used as collateral. Countries increasingly recognize the value of such registries.

Setting up collateral registries—or, unifying and improving existing ones—is

a very common reform that has been implemented across the world. Countries like Croatia, France, India, and Micronesia have moved in that direction—even implementing sophisticated Web-based collateral registries that allow creditors to check for existing liens on line.

and Nataliya Mylenko. 2003. “Credit Reporting and Financing Constraints.” Policy Research Working Paper 3142. World Bank, Washington, D.C.

STRENGTHEN THE LEGAL RIGHTS OF CREDITORS BY GRANTING THEM REASONABLE PRIORITY, BOTH WITHIN AND OUTSIDE OF BANKRUPTCY PROCEEDINGS

With an operational, modern and comprehensive collateral registry, secured creditors can obtain information on claims that were registered before and predict with more confidence their ranking over other types of creditors. Once a creditor’s interest has been registered, it should have the highest reasonable priority over the asset it has taken as collateral against other types of claims—such as state income taxes and labor claims—which may have come into existence after the secured creditor has registered her security interest over that particular asset. Providing secured creditors with the highest level of priority possible based on the “first register, first priority” principle could encourage more credit to be available to entrepreneurs at better terms.

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1. World Bank. 2006. *Enterprise Surveys: Finance* (<http://www.enterprisesurveys.org/>).
 2. World Bank. 2008. *Doing Business 2009*. Washington D.C.: The World Bank Group.
 3. World Bank. 2009. *Doing Business 2010 Reforming Through Difficult Times*. Washington D.C.: The World Bank Group.
 4. *Ibid.*
 5. Sorge, Marco, and Chendi Zhang. 2007. “Credit Information Quality and Corporate Debt Maturity: Theory and Evidence.” University of Sheffield, England.
 6. World Bank. 2004. *Doing Business in 2005: Removing Obstacles to Growth*. Washington, D.C. and Love, Inessa,

Protecting investors

Companies grow by raising capital, which can be achieved through bank loans or by selling shares of the company to equity investors. Selling shares allows a company to expand without providing collateral or repaying bank loans. Investors, however, are concerned with corporate governance and look for legal protections. If investors doubt that they could prevent company insiders from running off with their money, they tend to invest in fewer companies in which they take majority stakes.¹ A recent study finds that the presence of legal and regulatory protection for investors explains up to 73% of the decision to invest. In contrast, company characteristics explain only 4% to 22%.² Because of this, governments and businesses should have an interest in reforms that strengthen investor protection.

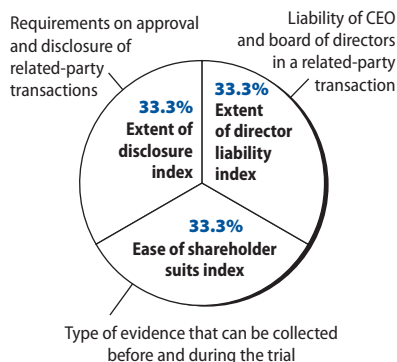
Regulations against self-dealing—i.e., the use of corporate assets by company insiders for personal gain—are particularly important in developing economies where corporate ownership tends to be highly concentrated.³ The most common examples of self-dealing are transactions between company insiders and other companies they control and typically involve sales of goods and services to the company at inflated prices or purchases from it at excessively low prices.

The *Doing Business* investor protection index assesses the disclosure require-

FIGURE 6.1

Protecting investors: minority shareholder rights in related-party transactions

Rankings are based on 3 subindicators



Note: See Data notes for details.

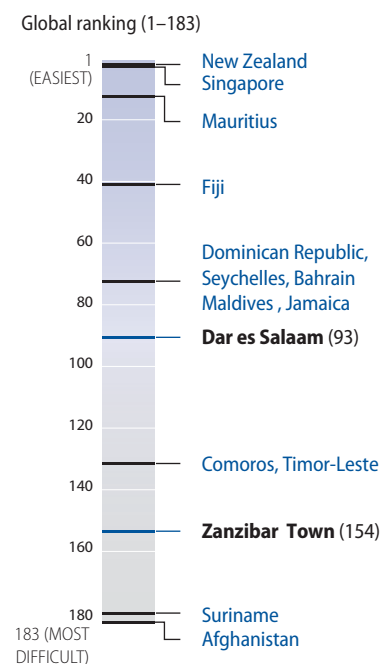
ments of related-party transactions, the extent of the obligations for company directors, and the access to evidence by minority shareholders before and during the trial (figure 6.1). A high ranking on the strength of investor protection index shows that an economy's regulations offer strong investor protection against self-dealing. The indicator is not a measure of the dynamism of capital markets or of the protections for foreign investors.

In Zanzibar, corporate governance and protection of minority shareholders are regulated by Chapter 153 of the Company Decree Act of 1953 and related court rules. This law, dating back to pre-independence times, fails to address many issues affecting today's businesses. As a result, shareholders have few instruments to defend their investments from corporate governance failures.

Because of this, Zanzibar scores only 3.7 points out of 10 on the *Doing Business* "strength of investor protection index". Compared globally, Zanzibar would rank 154th out of 183 economies, 21st among 46 sub-Saharan countries, and 29th among 35 small island economies. Minority shareholders in Zanzibar are protected from directors' misuse of corporate assets for personal gain as much as in the Republic of Congo, Cote d'Ivoire, and the islands of Sao Tome and Principe (figure 6.2). The

FIGURE 6.2

Figure 6.2 How Zanzibar compares globally and with other small island economies on the ease of protecting investors



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

situation is better than in Senegal (165th), but compares negatively with South Africa (10th) and Mauritius (12th).

According to the law, shareholders in Mainland Tanzania enjoy greater levels of protection than their counterparts in Zanzibar. While their ability to sue officers and directors is similar, the Company Act of 2005 provides shareholders in Dar es Salaam with more instruments for holding directors liable for misconduct and offers greater disclosure of related-party transactions.

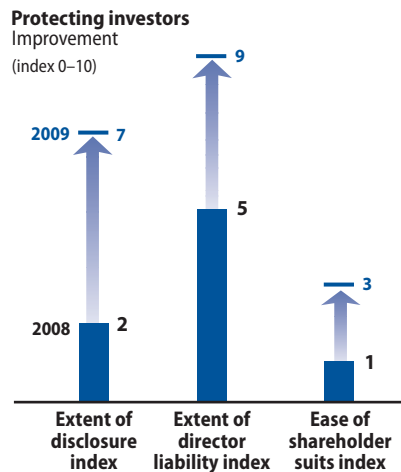
Zanzibar scores just 2 points out of 10 on the "extent of disclosure index". Related-party transactions are hardly transparent. Even though the board of directors must be informed of a potential conflict of interest, all material facts relating to interests in the transaction are not required. The board of directors approves the transaction, the interested party is allowed to vote, and shareholders

have no say in the matter. There are no external reviews of the transaction before it takes place. Moreover, the transaction does not need to be disclosed in the annual report.

The island scores only 1 point out of 10 on the “director liability index” which measures the ability of shareholders to sue officers and directors for misconduct. Actions against officers with conflicts of interest can only be undertaken if it is proven that the officers failed to disclose their conflict of interest to the board and approved the transaction fraudulently. The same principle applies to the board of directors itself. Neither a company’s officers nor its board can be held liable for negligence, not even if the transaction in question proved to be unfair or prejudicial for the company. The court may void the transaction only in the case of fraud. Unless found guilty of fraud, directors are unlikely to pay the damages for the harm caused to the company, much less repay the profits made of the transaction or be sentenced to jail.

Scoring 8 points out of 10 on the “ease of shareholder suits index”, Zanzibar facilitates the gathering of evidence guaranteed to minority shareholders before and during the trial. Its score on this index is among the highest on the continent, comparable to South Africa. In Zanzibar, the standard of proof required for civil trials is lower than what’s required for criminal cases. Shareholders are not entitled to inspect transaction documents before filing the suit but, when holding at least 10% of the shares of the company, they can request the appointment of a government inspector to investigate a related-party transaction. Moreover, court rules allow shareholder plaintiffs to access a wide range of information from defendants and witnesses. Access to such documents is guaranteed by the fact that the plaintiffs can obtain categories of documents without identifying documents specifically. During the trial, plaintiffs can question defendants

FIGURE 6.3
New company law in Rwanda strengthens investor protection



Source: Doing Business database.

and witnesses directly and do not need to submit questions beforehand.

All in all, minority shareholders in Zanzibar are not protected as they should be. In order to improve investor protections, policy-makers should seek inspiration from their African neighbors. An interesting example comes from Rwanda, a country that has recently reformed its company law (figure 6.3). In Rwanda, conflicts of interests and related-party transactions are now disclosed to the board of directors and published in the annual report. Shareholders can access internal corporate documents directly or through a government inspector. In the

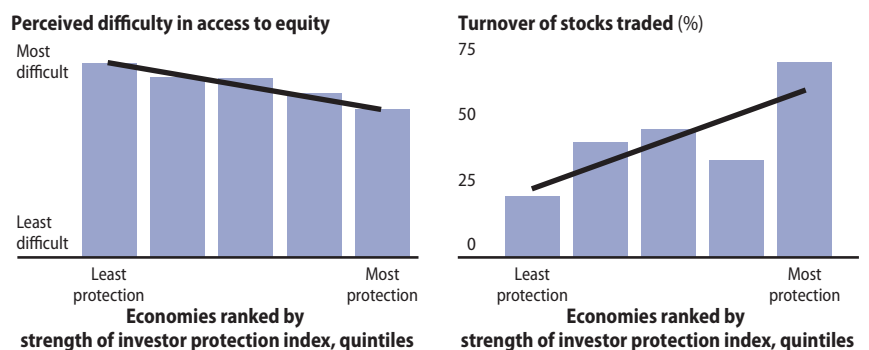
case of self-dealing, company directors are beholden to the company for damages caused and must repay any profits made from the transaction. In this simple reform, Rwanda has defined a clear set of duties for directors which make them easier to sue in cases of misconduct: when liable, they must compensate the company. In Rwanda, adoption and implementation of this reform cost US\$ 250,000. It has moved the country’s overall “protecting investors” ranking from 170th to an impressive 27th worldwide. This positive change is likely to increase the private sector’s access to finance and foster economic growth (figure 6.4).

WHAT TO REFORM?

REQUIRE SHAREHOLDERS’ APPROVAL OF RELATED-PARTY TRANSACTIONS

Currently, the vote of the board of directors is legally sufficient to approve related-party transactions for firms in Zanzibar. Moreover, directors that have a conflict of interest in the transaction are allowed to vote. In order to better protect minority investors, large related-party transactions—for instance, transactions that represent more than 5% of the assets of the company—should be approved in a shareholders’ meeting. In any case, self-interested directors should be banned from the approval process.

FIGURE 6.4
More investor protections associated with greater access for firms to equity markets and faster stock turnover



Note: Relationships are significant at the 1% and 5% level respectively and remain significant when controlling for income per capita. Economies are ranked on the perceived difficulty in financing through local equity market, with 134 being the most difficult. Source: Doing Business database; WEF (2008); World Bank, World Development Indicators database.

REQUEST AN INDEPENDENT ASSESSMENT OF THE TRANSACTION BEFORE APPROVAL

In order to reduce the risk of self-dealing, an independent auditor should review the terms and conditions of a related-party transaction before it is approved. The auditor's report should evaluate the main terms of the transaction, and present an opinion on whether or not the transaction is being concluded at market terms.

INCREASE DISCLOSURE OBLIGATIONS TO THE BOARD OF DIRECTORS AND IN THE ANNUAL REPORT

Managers and directors should disclose to the board any personal interest they have in the operations of the company. This disclosure should not only state the existence of any conflict of interests, but also the nature of such interest and the extent to which the person stands to gain personally from company actions. Additionally, annual reports should include detailed information about related-party transactions. In order to increase shareholders' access to management dealings, the annual report should disclose the nature of the interests and the extent to which each party stands to gain personally from company actions.

STATE CLEARLY, IN THE LAW, DIRECTORS' DUTIES TO ACT APPROPRIATELY WHEN OPERATING THE COMPANY

The law should require that directors exercise appropriate diligence, care, and loyalty, and that they should make well informed decisions when running the company. They should also avoid conflicts of interests and always put the interest of the corporation before those of individual directors or other individuals. In the case of prejudicial related-party transactions, directors should pay damages caused to the company and pay back any profits made in violation of their duties to the corporation.

ALLOW SHAREHOLDERS GREATER ACCESS TO COMPANY DOCUMENTS

Currently, the law does not allow access to internal corporate documents in

Zanzibar. However, regulations should grant shareholders the right to inspect all company documents if they suspect misdoings by directors, with some exceptions—for example, to protect corporate secrets. This could help maintain a balance between the needs of managers to operate without overly burdensome intrusion by shareholders, and the needs of shareholders to monitor management actions.

1. Dahya, Jay, Orlin Dimitrov and John McConnell. 2008. "Dominant Shareholders, Corporate Boards, and Corporate Value: A Cross-Country Analysis." *Journal of Financial Economics* 87 (1): 73–100.
2. Doidge, Craig, Andrew Karolyi and René M. Stulz. 2007. "Why Do Countries Matter So Much for Corporate Governance?" *Journal of Financial Economics* 86 (1): 1–39.
3. Djankov, Simeon, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer. 2008. "The Law and Economics of Self-Dealing." *Journal of Financial Economics* 88 (3): 430–65.

Paying taxes

Taxes are vital for every economy. Without them, there would be no available funds to provide essential services that help businesses and society be productive and thrive. Yet high tax rates and burdensome tax administrations are consistently ranked among the main obstacles to doing business by entrepreneurs.¹ Where taxes are high and difficult to file and public service benefits appear to be lacking, many businesses choose to remain informal and not pay. One way to enhance tax compliance is to simplify the process of paying them.

Doing Business measures the effective tax that a medium-size company must pay and the administrative burden associated with it. Three areas are measured: 1) the number of payments, 2) the time to prepare and file tax returns and pay all

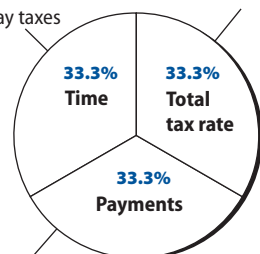
FIGURE 7.1

Paying taxes: tax compliance for a local manufacturing company

Rankings are based on 3 subindicators

Number of hours per year to prepare, file returns and pay taxes

Firm tax liability as % of profits before all taxes borne



Number of tax payments per year

Note: See Data notes for details.

mandatory taxes and contributions, and 3) the total tax rate, expressed as percentage of commercial profit (figure 7.1).²

In Zanzibar Town, a typical medium-size company makes 48 payments, pays 40.8% of its commercial profit in taxes, and spends 158 hours per year on tax compliance—including 26 hours for corporate income taxes, 60 hours for labor taxes, and 72 hours for the value added tax (VAT). In Dar es Salaam the number of payments is the same, but the time required and the tax rate are higher at 172 hours and 45.2%, respectively. The main differences between the tax burden in Dar es Salaam and Zanzibar Town are the apprenticeship tax (which is 1% lower in Zanzibar Town) and the city service levy (which is just 0.1% of commercial profits in Zanzibar Town as opposed to 5.3% in Dar es Salaam). On the ease of paying taxes overall, Zanzibar would rank 103rd out of 183 economies, while Mainland Tanzania ranks 120th (figure 7.2).

In Zanzibar, complying with tax requirements is complicated by the multiplicity of entities responsible for tax collection. The corporate income tax is considered a Union matter and, as such, falls under the administration of Tanzania Revenue Authority (TRA). On the other hand, the Zanzibar House of Representatives regulates island taxes, which are under the administration of the Zanzibar Revenue Board (ZRB). In addition, businesses are subject to local taxes regulated by municipal, town, and district councils. The existence of many tax-collecting entities requires businesses to deal with procedures that vary considerably from one agency to another.

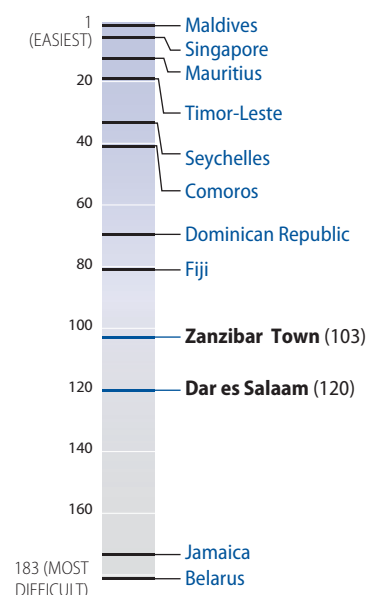
Tax payment methods in Zanzibar are outdated and burdensome. Taxpayers must personally visit the ZRB in order to have their tax returns reviewed. Then, they must pay the ZRB cashier either in cash or via bank draft: it is not possible to transfer payments to the ZRB through the banking system.

Zanzibar, like many other small island economies, has a relatively low total tax rate. In fact, the average total tax

FIGURE 7.2

How Zanzibar compares globally and with other small island economies on the ease of paying taxes

Global ranking (1–183)



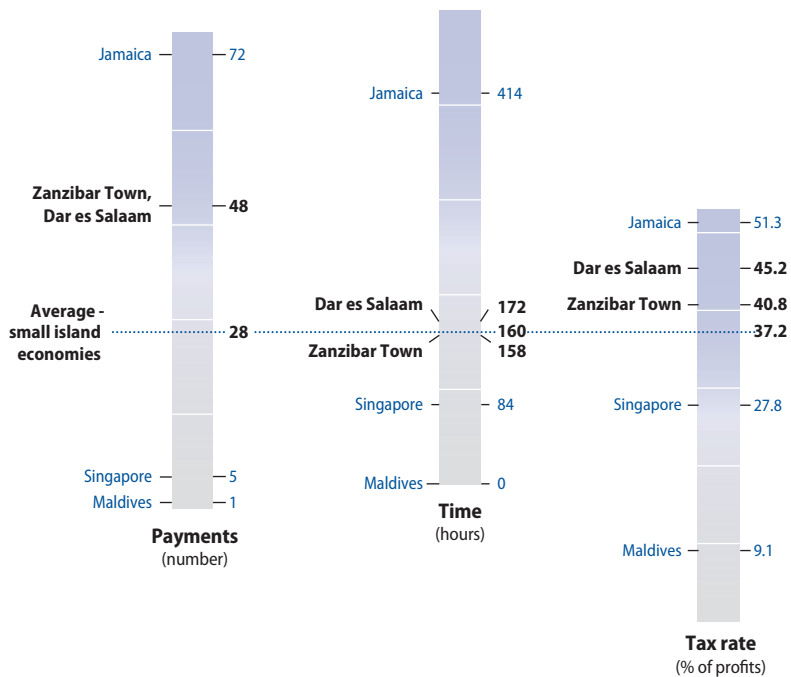
Note: Rankings are the average of the economy rankings on the number of payments, time and total tax rate. See Data notes for details.

Source: *Doing Business* database.

rate in small island economies is 37.2%, compared to the global average of 48.3%. The Maldives are the global leader on this indicator with the lowest tax administration burden. Maldivian companies make one single property-transfer tax payment per year, which amounts to just 9.1% of a company's commercial profit (figure 7.3).

Although the focus of tax reforms is often on tax rates, the administrative burden associated with tax compliance is equally important for entrepreneurs. Efficient tax systems tend to have simpler tax arrangements, combining straightforward compliance procedures with clear laws. For example, in Sweden, an entrepreneur must make only 2 payments a year, although she's paying for several taxes each time. Most taxes are paid jointly or filed online. In 2009, Mexico was the runner-up business reformer in *Doing Business* areas, thanks to its introduction of electronic filing systems for payroll taxes, property taxes, and social security payments. This reduced the

FIGURE 7.3

Number of payments, time, and total tax rate in Zanzibar and selected small island economies

Source: Doing Business database.

number of separate payments required per year from 27 to just 6.

WHAT TO REFORM?

INTRODUCE A SINGLE TAXPAYER IDENTIFICATION NUMBER AND A SINGLE TAX ADMINISTRATION ENTITY

Currently, there is no single taxpayer identification number. Every taxpayer has 2 separate numbers: a TIN (Taxpayer Identification Number) obtained from the TRA and a VAT (Value Added Tax) number obtained from the ZRB. Having a single number would reduce discrepancies between the records of the two agencies. Tax administration would be simplified even further if the TRA and the ZRB were merged into one single revenue authority in charge of all tax payments.

REDUCE THE NUMBER OF TAX FILINGS AND CONSIDER REDUCING THE NUMBER OF TAX PAYMENTS FOR FIRMS THAT PREFER TO PAY LESS FREQUENTLY

Currently, firms must pay and file labor taxes (PAYE), social security contribu-

tions, and VAT each month of the year. In addition to those monthly payments, they must pay corporate income tax 5 times each year. To simplify the tax regime, social security contributions could be reduced to bi-monthly payments (6 per year, as in Mexico) while corporate income taxes could be made biannual or even just once a year (as in South Africa) for companies that would prefer this arrangement.

Reducing the frequency of filings decreases the bureaucratic burden for businesses. The government could also lower its processing costs for reviewing and confirming the additional filings. It is important to note that this would have cash-flow implications for both government and taxpayers. Thus, such an exercise should be preceded by an analysis of how the reduced number of payments can be synchronized with projected cash-flow needs. The reduction in the number of payments could be voluntary for those companies that prefer it—others may still choose to pay taxes more frequently to avoid cash-flow problems.

CONSIDER INTRODUCING ELECTRONIC FILING AND PAYMENT SYSTEMS FOR SOCIAL SECURITY CONTRIBUTIONS

Electronic filing and payment systems are now available in 70 countries worldwide. Filing and paying taxes electronically offers advantages to taxpayers. Taxpayers can complete necessary documentation online and file faster, reducing interactions with tax authorities. If properly implemented and adopted by businesses, electronic tax systems speed up processing, improve data collection, and reduce error rates. In the United States, the error rate was less than 1% in 2009 for electronically prepared and filed returns, but about 20% for paper returns.

While electronic filing and payment is beneficial to taxpayers, it takes time and intensive public relations efforts for widespread usage to take root. Many firms do not have the hardware or software, or they lack the knowledge to utilize electronic systems. In addition, limited access to the Internet may be an obstacle. However, there are tools that governments can use to support taxpayers. Peru and South Africa provide free software. In Azerbaijan, several computer stations were installed across the country for use by small and medium-size businesses that lack access to computer facilities. In addition, Azerbaijan's government distributed free software to taxpayers 6 months before implementing the new online system. Not only did this give taxpayers precious time to familiarize themselves with online procedures, it also allowed users to provide feedback to the government on how to make the software more user-friendly.

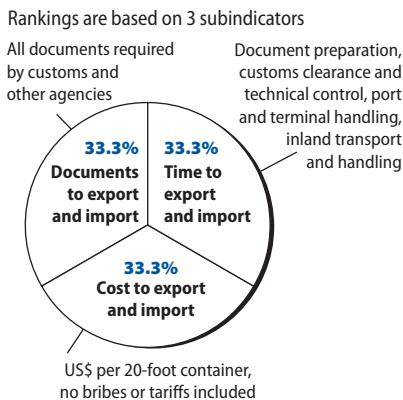
1. According to World Bank Enterprise Surveys, firms in 90% of countries surveyed rank tax compliance among the top 5 obstacles to doing business. World Bank. 2006. *Enterprise Surveys: Regulations and Tax* (<http://www.enterprisesurveys.org/>).
2. Commercial profits are net profits before taxes.

Trading across borders

The benefits of trade are well documented—as are the damages caused by obstacles to trade. Tariffs, quotas, and distances from large markets increase the cost of trading goods or prevent it altogether. In recent years, global and regional agreements have brought down many trade barriers. Yet Africa’s share of global trade is smaller than it was 25 years ago. The reason is simple: many African entrepreneurs face numerous procedural hurdles to import or export goods.

In order to assess the procedural obstacles to trade, *Doing Business* compiles all requirements for trading a standard shipment of goods by ocean transport. Every procedure, its associated documents, time, and costs are recorded for exporting and importing (figure 8.1). For exports, procedures range from packing

FIGURE 8.1
Trading across borders: exporting and importing by ocean transport



Note: See Data notes for details.

the goods at the factory to departing from the port of exit. For imports, procedures range from the vessel’s arrival at the port of entry to the cargo’s delivery at the factory warehouse.

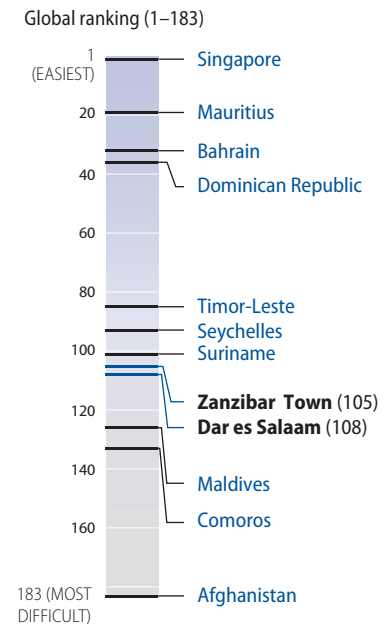
The procedures and costs required to export and import a container vary globally. Compared to 183 economies measured by *Doing Business*, Zanzibar would rank 105th on the ease of trading across borders—slightly ahead of Mainland Tanzania, which ranks 108th. Zanzibar would rank behind most small island economies, including Singapore (ranked 1st globally), Mauritius (19th), and the Dominican Republic (36th) (figure 8.2). Economies that facilitate cross-border trade require fewer documents so traders spend less time on bureaucratic approvals. They also allow traders to submit those documents electronically, often even before the goods arrive at the port. They limit physical inspections to the riskiest cargo. And many have fast-track clearance procedures for selected companies, auditing their shipments only after clearance.

Through Zanzibar’s port of Malindi, traders need 7 documents for exports and 8 documents for imports. In comparison, traders in Dar es Salaam need only 5 documents for exports and 7 for imports. Singapore—the easiest place to trade globally—requires just 4 documents from importers as well as exporters (figure 8.3).

On average, exporting from Zanzibar takes 22 days while importing takes 29 days. The main bottlenecks in the process are document preparation and port and terminal handling (figure 8.4). Trading to and from Zanzibar Town is slightly faster than Dar es Salaam, where exporting takes 24 days and importing 31 days. However, Zanzibar lags behind most other small island economies. In Singapore, for instance, a similar shipment is exported in 5 days and imported in 3 days. In the Dominican Republic, another island economy, exporting takes 9 days and importing 10 days.

The cost of exporting a standard shipment from Zanzibar is US\$ 844 while

FIGURE 8.2
How Zanzibar compares globally and with other small island economies on the ease of trading across borders



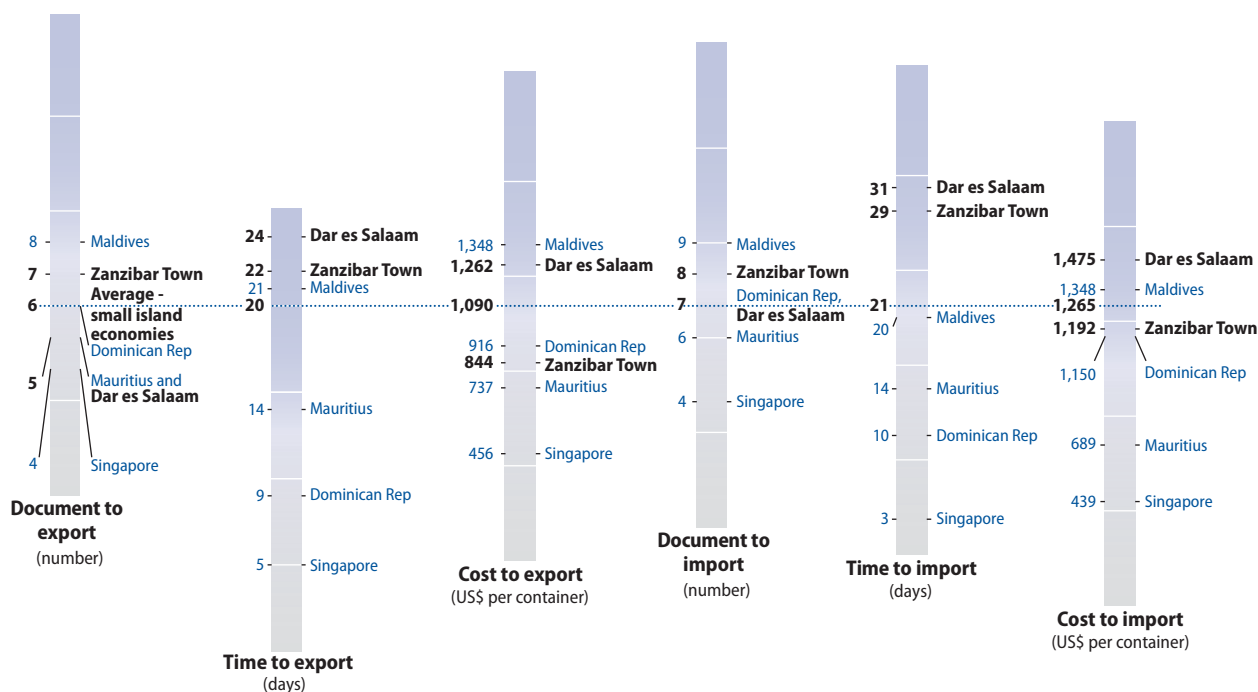
Note: Rankings are the average of the country rankings on the documents, time and cost required to import and export. See Data notes for details.

Source: *Doing Business* database.

the cost of importing is US\$ 1,192. These costs include document preparation, customs clearance and technical control, port and terminal handling, and inland transportation. While trading costs in Zanzibar Town are slightly lower than in Dar es Salaam (where exports cost US\$ 1,262 and imports cost US\$ 1,475), they remain high compared to the top performers among other small island economies. In Singapore, for example, trading the same cargo costs about half of what it costs in Zanzibar—just US\$ 456 for exports and US\$ 439 for imports.

For small island economies, trade is often critical. The close proximity of cities to ports and their small cargo volumes can speed inland transportation and customs clearance. Some economies, such as Singapore, have used their reliance on sea transportation to their advantage and become trade hubs for the region. Where the trade environment is more favorable, businesses tend to be better positioned to take advantage of new opportunities,

FIGURE 8.3

Procedures, time and cost to export and import in Zanzibar and selected small island economies

Source: Doing Business database.

to grow and create jobs. But the more time-consuming cross-border trade is, the less likely entrepreneurs will be able to reach international markets in a timely fashion. Low trading costs are essential, too, in order to make local products more competitive in foreign markets. At the same time, entrepreneurs benefit from having extra money to spend on hiring employees or investing in technology. For a number of reasons, trade is an engine for growth that can help create wealth and reduce poverty.

In Zanzibar, trade is an integral part of the archipelago's economy. In fact, most capital, intermediate and consumer goods are imported. Zanzibar's exports consist almost entirely of cloves and marine products. Establishing efficient procedures to import and export is necessary to participate in the global economy. Prior to Tanzania's harmonization of customs rates, lower tariffs offered by Zanzibar's port of Malindi attracted a higher volume of international trade (after which, goods were re-exported to Mainland Tanzania). Now, without the advantage of lower tariffs, Zanzibar should focus its

efforts on improving trade efficiency and lowering costs in order to develop a competitive edge in trade.

While many trade-facilitation initiatives focus on lowering tariffs, burdensome regulations also negatively affect trade. When many agencies are involved in importing and exporting procedures, the probability of delays increases. One study estimates that each additional day that a product is delayed prior to being shipped reduces trade activity by more than 1%.¹ This is equivalent to an economy distancing itself from its trade partners by about 70 km, on average. Delays have an even greater impact on the export of time-sensitive goods—such as perishable agricultural products. For these, each extra day of delay reduces trade volumes by 3.5%.² Another study by the Organization for Economic Co-operation and Development (OECD) finds that a 6.3% reduction in time delays or an 11% reduction in the number of documents required could increase trade flows in Africa by a robust 10%.³

The potential benefits of easing trade across borders are not limited to higher

volumes of trade; they boost government revenues, too. In another East African economy, Uganda, reforms to improve its customs administration and reduce corruption helped increase customs revenues by 24% between 2007 and 2008.⁴ In Zanzibar, where the port of Malindi is already an important source of revenue, reforms to facilitate trade would have a significant positive impact on the islands' budget.

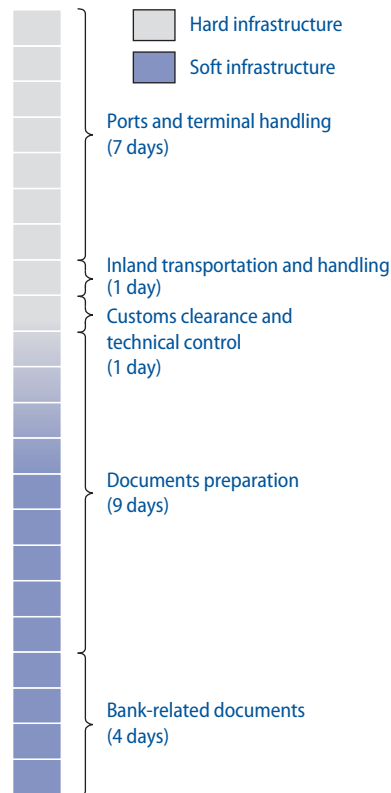
WHAT TO REFORM?

REDUCE THE NUMBER OF DOCUMENTS REQUIRED AND SIMPLIFY PROCEDURES

In order to limit bureaucratic hurdles to trade, the agencies involved in the clearance of goods exported and imported could reduce their documentary requirements. Currently, 7 documents are required for exports and 8 for imports, making document preparation by far the most time-consuming part of the trade process in Zanzibar. In fact, paperwork alone consumes 13 days for traders—nearly 60% of the total time to export and 45% of the total time to import. In contrast, Singapore requires

FIGURE 8.4

Time to export in Zanzibar: document preparation and ports and terminal handling take the most time



Source: *Doing Business* database.

just 4 documents (a bill of lading, a commercial invoice, a customs declaration, and a packing list), all of which can be assembled in just 1 day.

The government of Zanzibar should explore ways to streamline documentary requirements in the interest of saving time and money. For a limited number of products, a health or technical standard certificate could be required to safeguard public safety. Any other information could be consolidated in the customs-declaration form.

IMPLEMENT A SINGLE WINDOW FOR DOCUMENT SUBMISSION

Zanzibar could introduce a system whereby all trade-related documents could be obtained and submitted in one place. This would enable all border-clearing agencies (customs, port authorities, health and technical standard agencies, banks, tax authorities, etc.) to have simultaneous

access to trade documents. Currently, traders have to submit different documents in different places, which is cumbersome and slow. An electronic single window could consolidate many of the documents into a few essential ones and link the approving authorities to provide approvals simultaneously. This would reduce the need for paper documentation, eliminate document duplication, and improve efficiency of the trade clearance process.

Many other countries have been successful at this. Singapore's government established the world's first national single window (TradeNet) in 1989 by bringing together more than 35 border agencies. TradeNet has now been adapted in Ghana, Madagascar, Mauritius, Panama, and Saudi Arabia. Another African economy, Senegal, undertook a similar reform in 2008. Various agents involved in the clearance process—such as customs authorities, customs brokers, banks, the treasury, importers, and several government ministries—have been linked together through an electronic single window for document submission. Traders no longer need to visit each of these entities to obtain the required clearances. Instead, they can fill out a single form.

IMPROVE PORT EFFICIENCY

Zanzibar, as an archipelago, has only one entry and exit point for bulk cargo—its main seaport Malindi. Despite a recent rehabilitation of the port, its handling capacity has not been expanded and the existing infrastructure is inefficient. The average delay associated with port and terminal handling in Malindi is 7 days for exports and 13 days for imports.

The port of Malindi is one of the main sources of revenue for the government of Zanzibar. The Zanzibar Port Authority has lost billions of shillings because large cargo vessels and tankers cannot be docked in Malindi and are diverted to Dar es Salaam's port instead.

Over the longer term, the development of a new port, as planned at Mpiga Duri, may be necessary to meet growing trade volumes. For the short term, a review and mapping of port and terminal handling processes could help identify sources of delays and help optimize Zanzibar's existing port's operations.

1. Person, Maria, 2008. "Trade Facilitation and the EU-ACP Economic Partnership Agreements." *Journal of Economic Integration* 23 (3): 518–46.
2. Djankov, Simeon, Caroline Freund, and Cong Pham. 2006. "Trading on Time." World Bank Policy Research Working Paper No. 3909.
3. Wilson, Norbert. 2009. "Examining the Effect of Certain Customs and Administrative Procedures on Trade." In Organisation for Economic Co-operation and Development (OECD), *Overcoming Border Bottlenecks: The Costs and Benefits of Trade Facilitation*. Paris: OECD.
4. World Bank. 2009. *Doing Business 2010: Reforming through Difficult Times*. Washington, DC: World Bank Group.

Enforcing contracts

The primary role of a nation's judiciary is to enhance justice, fairness, and equality. But efficient courts can do much more: they can help the economy grow. In the absence of efficient courts, firms tend to undertake fewer new investments and business transactions preferring to enter commercial agreements with business partners known from previous dealings.

Doing Business measures the efficiency of the judicial system in resolving a standardized commercial dispute. The data includes number of procedures, time and cost required to file a case, conduct a trial, and enforce a judgment (figure 9.1).

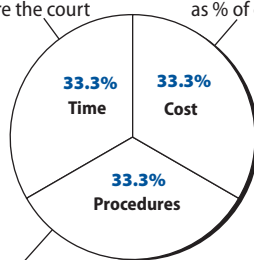
In Zanzibar Town, resolving a commercial dispute in court takes 39 procedures, 469 days, and costs 12.6% of the claim value (figure 9.2). Compared to 183 economies benchmarked worldwide, Zanzibar Town would rank 37th on the ease of enforcing contracts indicator—slightly behind Dar es Salaam, which is ranked 31st (figure 9.3). Also, compared to 34 other small island economies measured by *Doing Business*, Zanzibar would rank 2nd—surpassed only by Singapore, where it takes just 21 procedures, 150 days, and costs 25.8% of the claim value. Zanzibar boasts a comprehensive fee schedule for proceedings in courts—the Rules of Court (Prescribed Fees), Rules 2000—which helps make it the cheapest island economy in the world in which to resolve a commercial dispute. However, in 10 other small island

FIGURE 9.1
Enforcing contracts: resolving a commercial dispute through courts

Rankings are based on 3 subindicators

Days to resolve a commercial sale dispute before the court

Attorney, court and enforcement costs as % of claim value



Steps to file claim, obtain judgment and enforce it

Note: See Data notes for details.

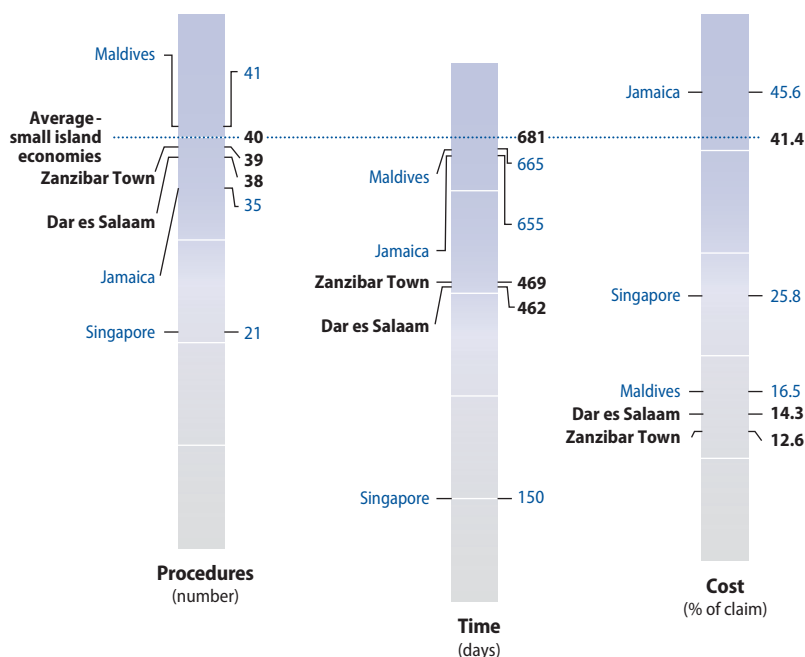
economies, the same commercial dispute would be resolved faster.

The efficiency of Zanzibar's judiciary in resolving commercial disputes varies depending on which court has jurisdiction over the case. Jurisdiction is determined by monetary thresholds on the claim value. According to the assumptions of the *Doing Business* case study for this indicator,¹ the standardized dispute would correspond to Zanzibar's District Magistrate Court, which has jurisdiction over cases between TZS 1 and 5 million (US\$ 771 and US\$ 3,859,

respectively). Disputes below TZS 1 million are handled by Primary Courts, where no legal representation is required and cases are resolved more efficiently. However, the majority of commercial cases in Zanzibar fall under the competence of the District or the Regional Magistrate Courts, where there are backlogs due to the high volume of cases and other factors—such as, numerous legal appeals, adjournments, and dilatory practices often resorted to by the parties. Not surprisingly, 78% of the total time required for enforcing a contract in Zanzibar belongs to the trial stage (365 days). Additionally, due to the fact that claims tried before these courts require legal representation and expert testimonies, they are substantially more expensive than those tried in Zanzibar's Primary Courts.

Zanzibar and other small island economies could look at Singapore, a leader in the area of commercial dispute resolution. In Singapore's court system, all documents can be filed electronically and each case can be monitored online from the moment it is filed until a decision is delivered. On average, commercial disputes are resolved in just 5 months in Singapore. Other island economies that have successfully

FIGURE 9.2
Procedures, time, and cost to enforce a contract in Zanzibar and selected small island economies

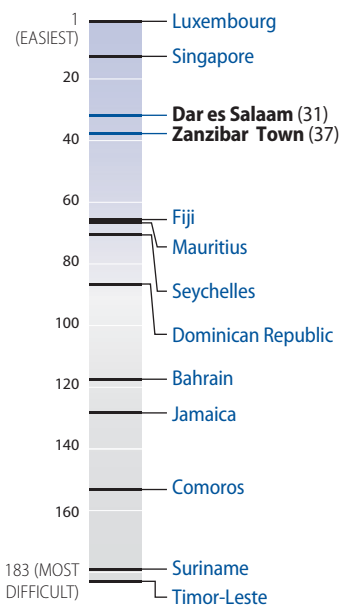


Source: *Doing Business* database.

FIGURE 9.3

How Zanzibar compares globally and with other small island economies on the ease of enforcing contracts

Global ranking (1–183)



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

Source: *Doing Business* database.

introduced electronic filing and online access to courts' documents include Fiji, St. Lucia, and Tonga. In Tonga, computerization cut the average time to enforce a contract from 510 to 350 days in a single year.

Courts serve businesses best when they are fast, affordable, and fair. Studies of the effects of court reforms find that when contracts can be enforced quickly and at a low cost, small businesses get better financial terms on loans.² Other research finds that new technologies are adopted faster when courts are efficient.³ The efficiency of a court system is also a major consideration affecting foreign investment.

WHAT TO REFORM?

ESTABLISH SPECIALIZED COMMERCIAL COURTS OR COMMERCIAL SECTIONS WITHIN EXISTING COURTS

Countries around the world have benefited from establishing specialized commercial courts. Setting up specialized commercial sections within existing

courts is an alternative for economies without a significant number of commercial claims.

Currently, the courts in Zanzibar have jurisdiction over commercial, civil and criminal cases. As Zanzibar's economy continues to grow and attract investment, a specialized commercial section—or even a separate commercial court—is recommended to help ensure that commercial disputes are resolved quickly and efficiently. Instituting such courts would allow judges to acquire more knowledge on commercial issues, thereby increasing the quality (and the quantity) of their output. Commercial courts can also follow special, expedited rules to reduce the amount of time needed to enforce a standard contract.

In Mainland Tanzania, commercial courts are operating with branches in Dar es Salaam and Arusha. However, these commercial courts only have jurisdiction over higher value claims—TZS 40 million (US\$ 30,869) and TZS 50 million (US\$ 38,587) for movable and immovable assets, respectively. These commercial courts are also limited by the fact that claims tried before them are about 10 times as expensive as civil claims tried before Tanzania's High Court.

If Zanzibar were to create a specialized commercial court, it should consider establishing lower thresholds than those found in Mainland Tanzania. This would allow more cases to be heard before the commercial court, benefitting small and medium-size businesses. Many economies—such as Germany, India, Switzerland and the United Kingdom—allow all commercial disputes to be heard by commercial courts, regardless of their monetary value.

Introducing commercial courts or specialized commercial sections within courts has been one of the most popular reforms in sub-Saharan Africa in recent years. Over the past 5 years, 6 countries have set up commercial courts or commercial sections within existing courts—Burkina Faso, the Democratic Republic

of Congo, Ghana, Mozambique, Nigeria, and Rwanda. Countries with specialized courts resolve commercial disputes about 30% faster than those that do not have them.⁴ Most recently, in 2009, Mauritius set its first specialized commercial court and, after just 5 months, it had adjudicated 62% of its cases.⁵

REVISE MONETARY THRESHOLDS THAT GUIDE JURISDICTION OF COURTS

According to practitioners in Zanzibar, there are few cases worth less than TZS 1 million that go to court at all. Since the first instance courts only handle cases worth less than TZS 1 million, a large number of cases—ranging from TZS 1 to 30 million—end up in the District or Regional Magistrate Courts where trials are more expensive and take longer. Revising monetary thresholds and jurisdiction rules could help to reallocate cases and distribute them more equitably amongst the courts, thereby reducing backlogs and speeding up proceedings. Some countries, like Jordan, have successfully reformed by raising the threshold for cases heard by its first instance courts in order to better distribute caseloads amongst the court system.⁶


INTRODUCE ALTERNATIVE DISPUTE RESOLUTION MECHANISMS

Another way to ease the burden on courts and judges is to enact alternative dispute resolution mechanisms—particularly for simple commercial disputes that do not require complex procedures or large amounts of evidence. The existing rules of Civil Procedure in Zanzibar do not provide for alternative dispute resolution mechanisms. However, in some countries like Peru, attempts to resolve disputes are required in order to even initiate litigation. Establishing alternative dispute resolution mechanisms is a promising initiative. In Ghana, for example, an alternative dispute resolution system became part of its newly established Commercial Court. As a result,

many cases are now resolved through mandatory arbitration/mediation instead of going to trial, reducing the backlog in Ghana's courts. In Tonga, new court rules introduced mediation back in 2007. Today, most litigants consent to mediation and 8 in 10 cases reach settlement out of court.⁷ In 2009, Algeria enacted new procedural rules that introduced non-mandatory arbitration and mediation.

IMPOSE STRICT RULES ON ADJOURNMENTS AND TIME LIMITS FOR PROCEEDINGS

The delays observed in Zanzibar's District and Regional Magistrate Courts are often due to dilatory practices by the parties. One way of resolving this problem is to enhance judges' and magistrates' powers and control over such practices—for example, by allowing them to impose fines for frivolous adjournments or terminate proceedings due to inactivity by the parties. In addition, court rules could establish strict procedural deadlines and hold judges and magistrates responsible for their enforcement.

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1. The value of the claim according to the *Doing Business* case study amounts to 200% GNI per capita, or approximately TZS 1,277,643.
 2. Quian, Jun, and Philip Strahan. 2006. "How Laws and Institutions Shape Financial Contracts?" Wharton Financial Institutions Center, Philadelphia.
 3. Cooley, Thomas, Ramon Marimon and Vincenzo Quadrini. 2004. "Aggregate Consequences of Limited Contract Enforceability." *Journal of Political Economy* 112 (4): 817-47.
 4. World Bank. 2008. *Doing Business 2009*. Washington D.C: The World Bank Group.
 5. World Bank. 2009. *Doing Business 2010 Reforming Through Difficult Times*. Washington D.C: The World Bank Group.
 6. *Ibid.*
 7. Ford, Anthony, and Oliver Lorenz. 2008. "Enforcing Contracts Quickly, with Help from Neighbors." In World Bank, *Celebrating Reform 2008*. Washington, DC: World Bank Group and U.S. Agency for International Development.

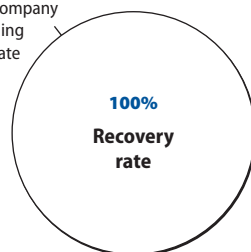
Closing a business

Figure 10.1

Closing a business: time, cost and outcome of bankruptcy of a local company

Rankings are based on 1 subindicator

Recovery rate is a function of time, cost and other factors such as lending rate and the likelihood of the company continuing to operate



Note: Time and cost do not count separately for the ranking. See Data notes for details.

Efficient bankruptcy laws encourage entrepreneurs. The freedom to fail, and to do so in an efficient way, puts people and capital to their most productive uses. But in countries where bankruptcy procedures are inefficient, insolvency proceedings may drag on for years, preventing assets and human capital from being reallocated to better uses. Good bankruptcy regimes achieve 3 goals. First, they maximize the total proceeds received by creditors, shareholders, employees, and other stakeholders. Second, they rehabilitate viable businesses and close unviable ones. Third, they establish a clear priority ranking of creditors for repayment. Countries with laws meeting these 3 objectives achieve higher recovery rates than countries without such laws.

Doing Business constructs 3 sub-indicators to measure the efficiency of insolvency proceedings: 1) the time the process takes, 2) the cost to go through the process, and 3) the recovery rate—i.e., how much of the insolvent estate is recovered by stakeholders taking into account the time, cost, depreciation of assets, and the final outcome of the insolvency proceedings (figure 10.1).

Zanzibar, along with 12 other small island economies, is among the poorest performers in the area of closing a business—indicating that formal bankruptcy procedures are rarely or never used on the islands. Globally, Zanzibar

would rank among the bottom 27 economies on this indicator (figure 10.2). Insolvency procedures are more common in Mainland Tanzania, where they take an average of 3 years and cost 22% of the estate value. Creditors are expected to recover about 21.3% of the estate in the end. These results rank Mainland Tanzania in 113th place out of 183 economies.

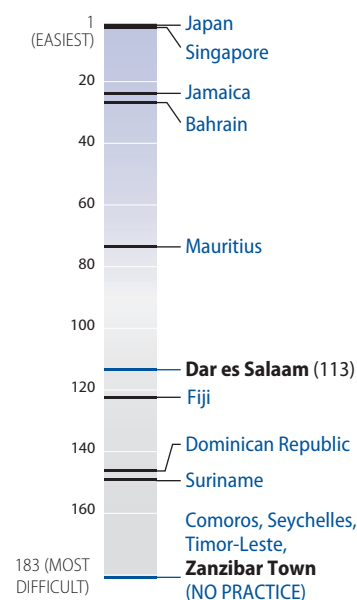
Closing a business is still governed by the Companies Act Decree of 1953, Chapter 153 of the laws of Zanzibar. In the post-independence history of Zanzibar, there have only been a few cases of voluntary windings up,¹ all of which took place since 2002. Insolvency Decree, Chapter 20 of the Laws of Zanzibar is another piece of legislation which can be used by creditors to recover their debts, but it applies only to private individuals. Nevertheless, no cases of bankruptcy have been reported since Zanzibar achieved independence in 1964. According to the *Doing Business* methodology, Zanzibar is classified as a “no practice” economy in the area of closing a business.²

While the formal closing of a business is inefficient or non-existent in many small island economies, some of them do enjoy the benefits of good insolvency regulations. In Singapore, for example, insolvency proceedings are completed in just over 9 months, at a cost of 1% of estate value, allowing creditors to recoup over 91 cents on dollar (figure 10.3). As a result, Singapore ranks second globally and first amongst small island economies.

Figure 10.2

How Zanzibar compares globally and with other small island economies on the ease of closing a business

Global ranking (1–183)



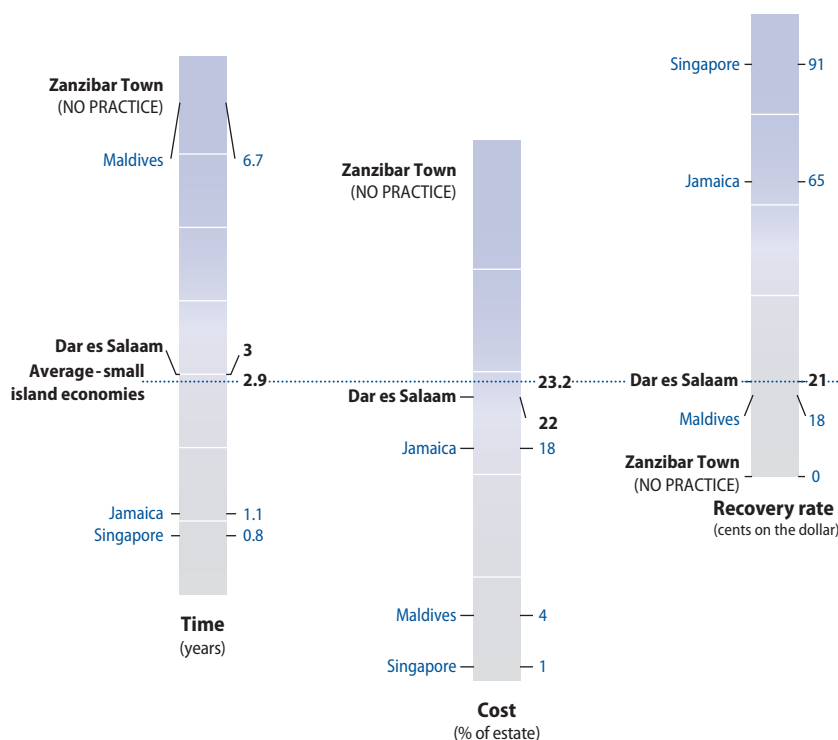
Note: Rankings are based on the recovery rate: how many cents on the dollar claimants (creditors, tax authorities and employees) recover from the insolvent firm. See Data notes for details.

Source: *Doing Business* database.

Looking back over the centuries, the English bankruptcy law of 1732 was the first modern insolvency law. In 1800, the United States introduced its first bankruptcy law, which essentially copied the English law. France, Germany, and Spain then adopted their first bankruptcy laws in the early nineteenth century. A wave of bankruptcy reforms brought reorganization procedures to the United States, Italy, France, United Kingdom, New Zealand, Australia, and Canada—just to name a few adopters.

Compared to the pace of reforms in other areas of the business environment, few bankruptcy reforms currently take place in countries around the world. It is not that reforms are not needed. First, bankruptcy reforms are complex: they usually involve making changes not only in the bankruptcy rules, but also in the rules of civil procedure and the administration of the judiciary. In some countries, it might even involve establishing the first bankruptcy law. That may take years. Second, in many countries, a large number of

Figure 10.3

Time, cost, and recovery rate for closing a business in Zanzibar and selected small island economies

Source: Doing Business database.

businesses operate in the informal sector or are family-owned and so bankruptcy is not a priority reform.

Efficient bankruptcy regimes that deal effectively with troubled businesses help entrepreneurs get access to credit, which would allow them to start new businesses.³ Easier exit means easier entry. A functioning bankruptcy system reassures creditors that if things go wrong they have a secured mechanism to get their money back. As a result of this reassurance, they are more likely to lend and to require less collateral than they would otherwise—stimulating the flow of credit to small and medium-size firms.

WHAT TO REFORM?

UNDERTAKE A REVIEW OF THE INSOLVENCY SYSTEM IN ORDER TO UNDERSTAND WHY THERE ARE SO FEW INSOLVENCY PROCEEDINGS IN ZANZIBAR

In any vibrant market economy, businesses fail and need a mechanism for

orderly exit. If an analysis of business exits in Zanzibar illustrates that the current insolvency system does not respond to the needs of debtors or creditors on the ground, it is important to identify what alternative methods are preferred and why. It is likely that these mechanisms do not provide the predictability, transparency, and efficiency of a sound insolvency system. Until such problems are clearly identified, it is difficult to design reforms that will affect practice on the ground. It is therefore recommended that a review is undertaken in order to try to answer 3 questions: 1) why the current insolvency system is not being used; 2) what alternatives are being used in its place by both debtors and creditors; and 3) what mechanisms can be implemented to address these problems.

TRAIN DESIGNATED JUDGES TO HANDLE INSOLVENCY CASES

The efficient processing of insolvency cases is extremely important because pro-

longed delays can cause business assets to lose their value and negatively affect firms' ability to continue functioning as viable enterprises. Within a commercial court, 1 or 2 judges could be designated to handle insolvency cases, allowing them to develop specialized expertise in this area.

REVISE INSOLVENCY LEGISLATION TO CONFORM TO INTERNATIONAL LEADING PRACTICES, INCLUDING THE INTRODUCTION OF UP-TO-DATE REORGANIZATION PROVISIONS

A comprehensive evaluation of current legislation is recommended to identify measures that could bring Zanzibar's insolvency legislation into line with international leading practices. Not least among these measures would be provisions for the efficient reorganization or restructuring of distressed companies that would allow the continued operation of the underlying business. Many jurisdictions, including the United Kingdom, Rwanda, Singapore, and South Africa have reformed their insolvency legislation in recent years to improve such reorganization procedures.

ADOPT GUIDELINES THAT FACILITATE OUT-OF-COURT WORKOUTS

In light of the previous recommendation, out-of-court guidelines have been introduced in many countries—including the United Kingdom, Indonesia, and Turkey. These guidelines enable debtors and creditors to undertake the informal restructuring process by negotiating options that can later be approved in court. This helps ease the burden on courts while increasing the likelihood that companies will restructure their debt if there is still a chance of rescuing the business.

CONSIDER WHETHER PROVISIONS SHOULD BE IMPLEMENTED TO SPECIFICALLY ADDRESS THE NEEDS OF MICRO, SMALL, AND MEDIUM-SIZE ENTERPRISES THAT HAVE FALLEN INTO BANKRUPTCY

Few insolvency regimes provide mechanisms that assist in flexible and cheap

restructuring of debt or bankruptcies for small business entities, even though they often comprise the majority of businesses and contribute to an economy by their innovation, employment of domestic labor, and entrepreneurship. It might be useful to examine different mechanisms that are used elsewhere in relation to the restructuring and exiting of micro, small and medium-size enterprises—although a tailored approach would most likely be required to address the specific needs of such enterprises in Zanzibar.

DEVELOP AND IMPLEMENT AN INSOLVENCY PRACTITIONER REGULATORY FRAMEWORK

One of the main prerequisites to creating a fully functioning insolvency system is the development of the insolvency practitioner profession. Insolvency practitioners play a key role in reorganization and liquidation proceedings, as they often supervise or take over the management of companies undergoing bankruptcy. It is important to establish and enforce professional standards for insolvency practitioners—for example, through licensing, training, ethical guidelines, and national standards of professional conduct. Mechanisms to monitor insolvency practitioners and to investigate any violations should also be introduced.

INCREASE THE CAPACITY OF INSTITUTIONS THAT IMPLEMENT THE INSOLVENCY FRAMEWORK

The institutions that implement insolvency frameworks should include both courts and regulatory agencies. The scarcity of insolvency cases in Zanzibar suggests that enterprises facing difficulties do not resort to the judicial system, preferring instead to deal with insolvency through unofficial channels. Even though Zanzibar has legislation in place to govern judicial proceedings for companies experiencing financial difficulties—such as Companies Act Decree of 1953, Chapter 153, and the Insolvency Decree, Chapter 20 of the Laws of Zanzibar—those

laws are rarely applied in practice. The development of court practice would increase creditor and debtor confidence in Zanzibar's formal bankruptcy proceedings.

1. The approximate official number of all winding up cases in Zanzibar is 7. *Doing Business* does not consider winding up cases when measuring the closing a business indicator.
2. If an economy has had fewer than 5 cases a year over the past 5 years involving a judicial reorganization, judicial liquidation, or debt enforcement procedure, the economy receives a “no practice” mark. This means that creditors are unlikely to recover their debt through the legal process (in or out of court).
3. La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer. 1999. “Ownership Structures Around the World,” *Journal of Finance*, December, Volume 54. No. 2, 471-517.

Data notes

ECONOMY CHARACTERISTICS

GROSS NATIONAL INCOME (GNI) PER CAPITA

Doing Business in Zanzibar 2010 reports 2008 income per capita for Zanzibar, United Republic of Tanzania, as published in the United Nations Statistics Division (UNSD) in November, 2009. Income is calculated using the Atlas method (current US\$). For cost indicators expressed as a percentage of income per capita, 2008 GNI in local currency units is used as the denominator. Zanzibar's GNI per capita in 2008 = US\$ 493

EXCHANGE RATE

The exchange rate used in this report is 1 US\$ = 1295.78 TZS (Tanzanian Shillings)

REGION AND INCOME GROUP

Doing Business uses the World Bank regional and income group classifications, available at <http://www.worldbank.org/data/countryclass>.

The indicators presented and analyzed in *Doing Business in Zanzibar 2010* 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 degree of regulation, such as the number of procedures to start a business, to construct a warehouse or to register and transfer commercial property. Second, they gauge regulatory outcomes, 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. Finally, a set of indicators documents the tax burden on businesses. For details on how the rankings on these indicators are constructed, see *Ease of Doing Business*, page 46.

The data for all sets of indicators in *Doing Business in Zanzibar 2010* are as of March 2010. The data for paying taxes refer to January–December 2008.

METHODOLOGY

The *Doing Business in Zanzibar 2010* data are collected in a standardized way, following the methodology developed by the *Doing Business* team. To start, the *Doing Business* team, with academic advisers, designs a survey. The survey 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. Then, the survey is customized to the particular case of Zanzibar. Surveys are administered through more than 90 local experts, including lawyers, business consultants, accountants, freight forwarders,

government officials and other professionals routinely administering or advising on legal and regulatory requirements. These experts have several rounds of interaction with the *Subnational Doing Business* team, through face-to-face interviews, conference calls, written correspondence and visits by the team. For *Doing Business in Zanzibar 2010* the team members visited Zanzibar two times to recruit respondents, verify data and meet with local government officials. The data from surveys are subjected to numerous tests for robustness, which lead 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, as 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 doing business but also identify their source and point to what might be reformed.

LIMITS TO WHAT IS MEASURED

The *Doing Business* methodology applied to *Doing Business in Zanzibar 2010* has 4 limitations that should be considered when interpreting the data. First, 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. Second, 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. Third, 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 in Zanzibar 2010* 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 in Zanzibar 2010* would differ from the recollection of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

STARTING A BUSINESS

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

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 nor-

mal circumstances and the paid-in minimum capital requirements. Subsequently, local incorporation lawyers 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. 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 2008, 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 post incorporation procedures that are officially required for an entrepreneur to formally operate a business are recorded.

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

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

TIME

Time is recorded in calendar days. The measure captures the median duration that incorporation lawyers indicate is necessary 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 regulations 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 have a minimum capital requirement 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 2009, 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 9.7% 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 8.9% 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 electricity, water, sewerage and a fixed land line. 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 in practice under normal circumstances.

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

ASSUMPTIONS ABOUT THE CONSTRUCTION COMPANY

The business (BuildCo):

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

- Is 10 meters (32 feet, 10 inches) from the main electricity network.
- Is a medium-tension, 3-phase, 4-wire Y, 140-kVA connection. Three-phase service is available in the construction area.
- Will be delivered by an overhead service, unless overhead service is not available in the periurban area.
- Consists of a simple hookup unless installation of a private substation (transformer) or extension of network is required.
- Requires the installation of only one electricity meter.
- BuildCo is assumed to have a licensed electrician on its team to complete the internal wiring for the warehouse.

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 land line.

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 electricity, 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.

TIME

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

COST

Cost is recorded as a percentage of the economy's income per capita. Only official costs are recorded. All the fees associated with

completing the procedures to legally build a warehouse are recorded, including those associated with obtaining land use approvals and preconstruction design clearances; receiving inspections before, during and after construction; getting utility connections; and registering the warehouse property. Nonrecurring taxes required for the completion of the warehouse project also are 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.

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.

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. 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 it 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 regulations and their sequence from the beginning. Time spent on gathering information is not considered.

COST

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

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

GETTING CREDIT

Doing Business constructs measures of the legal rights of borrowers and lenders and the sharing of credit information. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the coverage, scope, quality and accessibility of credit information available through public and private credit registries.

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. 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 public credit registries and private credit information bureaus. Second, when applicable, a detailed survey on the public or private credit registry's structure, law and associated rules is administered to the credit registry. Survey responses are verified through several rounds of follow-up communication with re-

spondents 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. Two case scenarios are used to determine the scope of the secured transactions system, involving a secured borrower, the company ABC, and a secured lender, BizBank.

Several assumptions about the secured borrower and lender are used:

- ABC is a domestic, limited liability company.
- ABC has its headquarters and only base of operations in the economy's largest business city.
- To fund its business expansion plans, ABC obtains a loan from BizBank for an amount up to 10 times income per capita in local currency.
- 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 revolving movable assets, for example, its accounts receivable or its inventory. ABC wants to keep both possession and ownership of the collateral. In economies in which 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).

In case B, ABC grants BizBank a business charge, enterprise charge, floating charge or any charge or combination of charges that gives BizBank a security interest over ABC's combined assets (or as much of ABC's 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 non-possessory security right in a single category of revolving movable assets (such as accounts receivable or inventory), without

requiring a specific description of the secured assets.

- The law allows a business to grant a nonpossessory security right in substantially all of its assets, without requiring a specific description of the secured assets.
- 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.
- General description of debts and obligations is permitted in collateral agreements and in registration documents, so that all types of obligations and debts can be secured by stating a maximum rather than a specific amount between the parties.
- A collateral registry is in operation that is unified geographically and by asset type and that is indexed by the name of the grantor of a security right.
- 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 are not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure.
- 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.

DEPTH OF CREDIT INFORMATION INDEX

The depth of credit information index measures rules affecting the scope, accessibility and quality of credit information available through either public or private credit registries. A score of 1 is assigned for each of the following 6 features of the public registry or the private credit bureau (or both):

- Both positive credit information (for example, loan amounts and pattern of on-time repayments) and negative information (for example, late payments, number and amount of defaults and bankruptcies) are distributed.
- Data on both firms and individuals are distributed.
- Data from retailers, trade creditors or utility companies as well as financial institutions are distributed.

- More than 2 years of historical data are distributed. Registries that erase data on defaults as soon as they are repaid obtain a score of 0 for this indicator.
- Data on loans below 1% of income per capita are distributed. A registry must have a minimum coverage of 1% of the adult population to score a 1 for this indicator.
- By law, borrowers have the right to access their data in the largest registry in the economy.

The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. If the registry is not operational or has coverage of less than 0.1% of the adult population, the score on the depth of credit information index is 0.

In Turkey, for example, both a public and a private registry operate. Both distribute positive and negative information (a score of 1). The private bureau distributes data only on individuals, but the public registry covers firms as well as individuals (a score of 1). The public and private registries share data among financial institutions only; no data are collected from retailers or utilities (a score of 0). The private bureau distributes more than 2 years of historical data (a score of 1). The public registry collects data on loans of \$3,493 (44% of income per capita) or more, but the private bureau collects information on loans of any value (a score of 1). Borrowers have the right to access their data in both the private and the public registry (a score of 1). Summing across the indicators gives Turkey a total score of 5.

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 repayment history, unpaid debts or credit outstanding from the past 5 years. The number is expressed as a percentage of the adult population (the population aged 15 and above in 2008 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 (persons or businesses) in the financial system and makes it available to 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 repayment history, unpaid debts or credit outstanding from the past 5 years. The number is expressed as a percentage of the adult population (the population aged 15 and above in 2008 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 (persons or businesses) in the financial system and facilitates the exchange of credit information among banks and financial institutions. Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange among banks and other financial institutions are not considered. If no private bureau operates, the coverage value is 0.

The data details on getting credit can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov, McLiesh and Shleifer (2007) and is adopted here with minor changes.

PROTECTING INVESTORS

Doing Business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protection: 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 lawyers and are based on securities regulations, company laws and court rules of evidence.

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 food manufacturer.
- Has its own distribution network.

ASSUMPTIONS ABOUT THE TRANSACTION

- Mr. James is Buyer's controlling shareholder and a member of Buyer's board of directors. He owns 60% of Buyer and elected 2 directors to Buyer's 5-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes that Buyer purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food 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 is unfair 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:

- What 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. A score of 0 is assigned if no disclosure is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure in the annual report is required. A score of 0 is assigned if no disclosure on the transaction is required; 1 if disclosure on the terms of the transaction is required but not on Mr. James's conflict of interest; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure by Mr. James to the board of directors is required. A score of

0 is assigned if no disclosure is required; 1 if a general disclosure of the existence of a conflict of interest is required without any specifics; 2 if full disclosure of all material facts relating to Mr. James's interest in the Buyer-Seller transaction is required.

- Whether it is required that an external body, for example, an external auditor, review the transaction before it takes place. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater disclosure. In Poland, for example, the board of directors must approve the transaction and Mr. James is not allowed to vote (a score of 2). Buyer is required to disclose immediately all information affecting the stock price, including the conflict of interest (a score of 2). In its annual report Buyer must also disclose the terms of the transaction and Mr. James's ownership in Buyer and Seller (a score of 2). Before the transaction Mr. James must disclose his conflict of interest to the other directors, but he is not required to provide specific information about it (a score of 1). Poland does not require an external body to review the transaction (a score of 0). Adding these numbers gives Poland a score of 7 on the extent of disclosure index.

EXTENT OF DIRECTOR LIABILITY INDEX

The extent of director liability index has 7 components:

- Whether a shareholder plaintiff is able to hold Mr. James liable for damage the Buyer-Seller transaction causes to the company. A score of 0 is assigned if Mr. James cannot be held liable or he 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 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 it 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 it 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 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. 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 unfair 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 or imprisoned (a score of 0). Direct 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, Lopez-de-Silanes, and Schleifer (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. 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 and vehicle and road taxes.

Doing Business measures all taxes and contributions that are government mandated (at any level—federal, state or local), apply to the standardized business and have an impact in its income statements. In doing so, *Doing Business* goes beyond the traditional definition of a tax: as defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to general government. *Doing Business* departs from this definition because it measures imposed charges that affect business accounts, not government accounts. The main differences relate to labor contributions and value added tax. The *Doing Business* measure includes government-mandated contributions paid by the employer to a required private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory superannuation guarantee and workers' compensation insurance. It excludes value added taxes because they do not affect the accounting profits of the business—that is, they are not reflected in the income statement.

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 year. Tax experts in each economy 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. The project was developed and implemented in cooperation with PricewaterhouseCoopers.

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

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 popular among domestic firms is chosen. The most popular form is reported by incorporation lawyers or the statistical office.

- Started operations on January 1, 2007. 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.
- Has a start-up capital of 102 times income per capita at the end of 2007.
- 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 2007, 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.
- 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 2006 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 paid in the second year of operation (fiscal 2008) are recorded. 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 one. 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 during the second year of operation. 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 payments are more frequent.

Where 2 or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once. For example, if mandatory health insurance contributions and mandatory pension contributions are filed for and paid together, only one of these contributions would be included in the number of payments.

TIME

Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay 3 major types of taxes and contributions: the corporate income tax, value added or sales tax and labor taxes, including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable and to calculate the amount payable. If separate accounting books must be kept for tax purposes—or separate calculations made—the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfill the tax accounting requirements. Filing time includes the time to complete all necessary tax return forms and file the relevant

returns at the tax authority. Payment time considers the hours needed to make the payment online or at the tax authorities. Where taxes and contributions are paid in person, the time includes delays while waiting.

TOTAL TAX RATE

The total tax rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. *Doing Business 2010* reports the total tax rate for fiscal 2008. The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as value added tax, sales tax or goods and service tax) but not borne by the company are excluded. The taxes included can be divided into 5 categories: profit or corporate income tax, social contributions and labor taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a required pension fund), property taxes, turnover taxes and other taxes (such as municipal fees and vehicle and fuel taxes).

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.

Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit therefore presents a clear picture of the actual profit of a business before any of the taxes it bears in the course of the fiscal year.

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.

This methodology is consistent with the Total Tax Contribution framework developed by PricewaterhouseCoopers. This framework measures taxes that are borne by companies and affect their income statements, as does *Doing Business*. But while PricewaterhouseCoopers bases its calculation on data from the largest companies in the economy, *Doing Business* focuses on 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, McLiesh, Ramalho and Shleifer (forthcoming).

TRADING ACROSS BORDERS

Doing Business compiles procedural requirements for exporting and importing a standardized cargo of goods by ocean transport. Every official procedure for exporting and importing the goods is recorded—from the contractual agreement between the 2 parties to the delivery of goods—along with the time and cost necessary for completion. 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 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.

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 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.

DOCUMENTS

All documents required per shipment to export and import the goods are recorded. 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 of or securing a letter of credit are also taken into account. Documents that are renewed annually and that do not require renewal per shipment (for example, an annual tax clearance certificate) are not included.

TIME

The time for exporting and importing is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost and is available to all trading companies, the fastest legal procedure is chosen. Fast-track procedures applying to firms located in an export processing zone are not taken into account because they are not available to all trading companies. Ocean transport time is not included. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous. The waiting time between procedures—for example, during unloading of the cargo—is included in the measure.

COST

Cost measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to export or import

the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport. The cost does not include customs tariffs and duties or costs related to ocean transport. Only official costs are recorded.

The data details on trading across borders can be found for each economy at <http://www.doingbusiness.org> by selecting the economy in the drop-down list. This methodology was developed in Djankov, Freund and Pham. (forthcoming) 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, in a quarter of the economies, by judges as well). 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.
- 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, vehicles) prior to obtaining a judgment because Seller fears that Buyer may become insolvent.

- Expert opinions are 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. The judgment becomes final.
- 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, vehicles).

PROCEDURES

The list of procedural steps compiled for each economy traces the chronology of a commercial dispute before the relevant court. A procedure is defined as any interaction between the parties, or between them and the judge or court officer. This includes steps to file the case, steps for trial and judgment and steps necessary to enforce the judgment.

The survey allows respondents to record procedures that exist in civil law but not common law jurisdictions, and vice versa. For example, in civil law countries the judge can appoint an independent expert, while in common law countries 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 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 files 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 the case), the issuance of judgment (time for the trial and obtaining the judgment) and the moment of payment (time for enforcement of 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 costs Seller (plaintiff) must advance to the court regardless of the final cost to Seller. Expert fees, if required by law or necessary in practice, are included in court costs. Enforcement costs are all costs 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 attorneys fees are the fees 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.

CLOSING A BUSINESS

Doing Business studies the time, cost and outcomes of bankruptcy proceedings involving domestic entities. 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.

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.
- Borrowed from a domestic bank 5 years ago (the loan has 10 years to full repayment) and bought real estate (the hotel

building), using it as security for the bank loan.

- 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.

ASSUMPTIONS ABOUT THE CASE

The business is experiencing liquidity problems. The company's loss in 2008 reduced its net worth to a negative figure. There is no cash to pay the bank interest or principal in full, due tomorrow. The business therefore defaults on its loan. Management believes that losses will be incurred in 2009 and 2010 as well.

The bank holds a floating charge against the hotel in economies where floating charges are possible. If the law does not permit a floating charge but contracts commonly use some other provision to that effect, this provision is specified in the lending contract.

The business has too many creditors to negotiate an informal out-of-court workout. It has the following options: a judicial procedure aimed at the rehabilitation or reorganization of the business 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 aimed at selling the hotel either piecemeal or as a going concern, enforced either in court (or through a government authority like a debt collection agency) or out of court (for example, by appointing a receiver).

If an economy has had fewer than 5 cases a year over the past 5 years involving a judicial reorganization, judicial liquidation or debt enforcement procedure, the economy receives a "no practice" mark. This means that creditors are unlikely to recover their debt through the legal process (in or out of court).

TIME

Time for creditors to recover their debt is recorded in calendar years. Information is collected on the sequence of procedures and on whether any procedures can be carried out simultaneously. 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 estate's value. The cost is calculated on the basis of survey responses by insolvency practitioners and includes court fees as well as fees of insolvency practitioners, independent assessors, lawyers and account-

tants. Respondents provide cost estimates from among the following options: less than 2%, 2–5%, 5–8%, 8–11%, 11–18%, 18–25%, 25–33%, 33–50%, 50–75% and more than 75% of the value of the business estate.

RECOVERY RATE

The recovery rate is recorded as cents on the dollar recouped by creditors through the bankruptcy, insolvency or debt enforcement proceedings. The calculation takes into account whether the business emerges from the proceedings as a going concern as well as costs and the loss in value due to the time spent closing down. If the business keeps operating, no value is lost on the initial claim, set at 100 cents on the dollar. If it does not, the initial 100 cents on the dollar are reduced to 70 cents on the dollar. Then the official costs of the insolvency procedure are deducted (1 cent for each percentage of the initial value). 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 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-2007 lending rates from the International Monetary Fund's *International Financial Statistics*, supplemented with data from central banks. The recovery rate for economies with "no practice" is zero. For *Doing Business 2010*, 2007 lending rates are used to avoid effects of the global financial and economic crisis on data comparability over time.

This methodology was developed in Djankov, Hart, McLiesh and Shleifer (2008).

EASE OF DOING BUSINESS

The ease of *Doing Business* is calculated as the ranking on the simple average of city percentile rankings on each of the 9 topics covered in *Doing Business in Zanzibar 2010*. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

The ease of *Doing Business* index is limited in scope. It does not account for a country's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders or construction permits), the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions. There remains a large unfinished agenda for

research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the context of a country. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

Doing Business indicators

	Global best practice	Zanzibar Town (Zanzibar)	Dar es Salaam	Small island economies average*	Sub-Saharan Africa average
Ease of doing business (rank)	1-SINGAPORE	155	131	91	139
STARTING A BUSINESS (RANK)	1-NEW ZEALAND	162	120	87	126
Procedures (number)	1	10	12	8	9
Time (days)	1	28	29	61	46
Cost (% of income per capita)	0.4	71.5	36.8	45.6	99.7
Min. capital (% of income per capita)	0	156.5	0	45.2	144.7
DEALING WITH CONSTRUCTION PERMITS (RANK)	1-HONG KONG SAR, CHINA	66	178	51	117
Procedures (number)	7	17	22	14	17
Time (days)	67	65	328	170	259
Cost (% of income per capita)	18.7	521.8	3,281.3	201.7	1,925.6
REGISTERING PROPERTY (RANK)	1-SAUDI ARABIA	170	145	116	123
Procedures (number)	2	10	9	6	7
Time (days)	2	39	73	106	81
Cost (% of property value)	0	20.2	4.4	7.5	9.9
GETTING CREDIT (RANK)	1-MALAYSIA	167	87	113	120
Strength of legal rights index (0-10)	10	3	8	5.5	4.6
Depth of credit information index (0-6)	6	0	0	0.9	1.5
Public registry coverage (% of adults)	48.5	0	0	2.7	2.4
Private bureau coverage (% of adults)	82	0	0	6.2	4.5
PROTECTING INVESTORS (RANK)	1-NEW ZEALAND	154	93	80	113
Extent of disclosure index (0-10)	10	2	3	3.8	4.8
Extent of director liability index (0-10)	9	1	4	5.1	3.3
Ease of shareholder suits index (0-10)	10	8	8	6.6	5.1
Strength of investor protection index (0-10)	9.7	3.7	5	5.2	4.4
PAYING TAXES (RANK)	1-MALDIVES	103	120	67	112
Payments (number per year)	1	48	48	28	38
Time (hours per year)	0	158	172	160	306
Total tax rate (% of profit)	9.1	40.8	45.5	37.2	67.5
TRADING ACROSS BORDERS (RANK)	1-SINGAPORE	105	108	82	137
Documents to export (number)	4	7	5	6	8
Time to export (days)	5	22	24	20	34
Cost to export (US\$ per container)	456	844	1,262	1,090	1,942
Documents to import (number)	4	8	7	7	9
Time to import (days)	3	29	31	21	39
Cost to import (US\$ per container)	439	1,192	1,475	1,265	2,365
ENFORCING CONTRACTS (RANK)	1-LUXEMBOURG	37	31	113	117
Procedures (number)	26	39	38	40	39
Time (days)	321	469	462	681	644
Cost (% of claim)	9.7	12.6	14.3	41.4	49.3
CLOSING A BUSINESS (RANK)	1-JAPAN	183	113	122	127
Time (years)	0.6	No Practice	3	2.9	3.4
Cost (% of estate)	4	No Practice	22	23.2	20.1
Recovery rate (cents on the dollar)	92.5	No Practice	21	21	17

*This average includes 34 Small Island Developing States (SIDS) measured by *Doing Business*.

Indicator details

Starting a business

Zanzibar Town, Zanzibar

Standard company legal form: limited liability company

Paid-in minimum capital requirement: TZS 1,000,000

Data as of: March 2010

Procedure 1. Apply for clearance of the proposed company name at the Registrar of Companies

Time: 1 day

Cost: TZS 5,000

Comments: Requesting clearance of a proposed company name can be done either in person or by mail. Applicants submit a letter for name clearance, which the registry clears after making a search. The registry search is to establish:

- The availability or non availability of the requested name, and
- Desirability of the name.

Procedure 2. Apply for a certificate of incorporation at the Registrar of Companies

Time: 5 days

Cost: TZS 311,908 (TZS 4,800 + 0.1% of capital share increment above TZS 2 million + TZS 250 + 1% of capital share + TZS 15,000 + 3.5% of capital share)

Comments: The fees include:

- Nominal Share Capital Registration Fee for share of capital above TZS 2 million: TZS 4,800 + 0.1% of the increment above TZS 2 million;
- Filing Fee: flat rate of TZS 250;
- Stamp Duty:
 - On capital: 1% of capital
 - On Memorandum: TZS 5,000
 - On Articles of Association: TZS 5,000;
- Form Fee: TZS 5,000;
- Legal Fee: 2–5% of capital. According to the Legal Practitioner's Decree, any legal document must be prepared by a lawyer. The Decree also specifies the fees, but they are obsolete. In practice, lawyers charge between 2–5% of the value of capital for incorporation.

A subscriber, secretary or the person named in the Articles of Association of the Company as director has to fill in the following forms:

- Form 1: Notice of Situation of Registered Office or any change therein;
- Form 12: Declaration of Compliance with the Requirements of the Decree on Application for Registration of a Company;
- Form of Consent to Act as Director of a Company.

At the moment, there is no Registry of Companies branch on Pemba, and companies from across Zanzibar must register in Zanzibar Town.

Procedure 3. Order a company seal

Time: 4 days (3 days for obtaining the company seal and 1 day for shipping from Dar es Salaam)

Cost: TZS 80,000

Comments: The company seals are not made in Zanzibar and have to be ordered from Dar es

Salaam. Although a company seal is required by law, the vast majority of companies does not comply with this requirement.

Procedure 4*. Obtain Tax Identification Number (TIN) from the Tanzania Revenue Authority (TRA)

Time: 3 days

Cost: No cost

Comments: The speed of registration has improved substantially since 2008, when the numbers started being generated locally. Previously the applications were forwarded to Dar es Salaam and the process took about 3 months.

Procedure 5. Obtain a business license from the Zanzibar Revenue Board (ZRB)

Time: 3 days

Cost: TZS 20,000

Comments: Business licenses in Zanzibar are issued by 3 bodies depending on the type of company:

- Municipality – small traders;
- Zanzibar Revenue Board (ZRB) – medium and large size domestic businesses;
- Zanzibar Investment Promotion Authority (ZIPA) – large companies and foreign investors.

The time and cost presented above refer to the process of obtaining a business license for a medium size business, which would be issued by ZRB.

Procedure 6. Apply for VAT at the Zanzibar Revenue Board (ZRB)

Time: 7 days

Cost: No cost

Comments: After obtaining a TIN, the applicant writes a letter to the ZRB to obtain a VAT number. The registration process used to be lengthy, from 1 to 2 months, but nowadays the ZRB Deputy Commissioner can sign and the time has been reduced to 1 week.

When the turnover of the business is below \$15,000 = TZS 18,778,500, the business may register under hotel levy or operational levy or restaurant levy instead of VAT.

Procedure 7. Register for workmen's compensation insurance at the National Insurance Corporation (or alternative insurance policy)

Time: 1 day

Cost: No cost

Procedure 8. Obtain registration number at the Zanzibar Social Security Fund (ZSSF)

Time: 7 days

Cost: No cost

Comments: Every company of 2 or more workers must register with the ZSSF. All employees are fingerprinted and receive social security cards.

Procedure 9*. Apply for Pay As You Earn (PAYE) at the Tanzania Revenue Authority

Time: 1 day

Cost: TZS 20,000

Procedure 10*. Submit employees' contracts at the Labour Commission of Zanzibar

Time: 1 day

Cost: TZS 20,000 (TZS 2,000 per contract, 10 employees)

Comments: Based on the Employment Act No. 11 of 2005, Section 46.1, every written contract of service entered into between an employer and an employee shall be attested to by a labor officer.

Dealing with construction permits

Zanzibar Town, Zanzibar

Procedures to build a warehouse

Warehouse value: USD 250,813.32 = TZS 325,000,000

Data as of: March 2010

Procedure 1. Submit application for the building permit at the Town Planning Section of the Zanzibar Municipality

Time: 1 day

Cost: TZS 10,000 (TZS 5,000 for Technical Officers' Report and TZS 5,000 for Town Planning Form)

Comments: BuildCo submits the drawings and building plans to the Town Planning Section of the Zanzibar Municipality. BuildCo needs to obtain 2 application forms: the Technical Officer's Report and the Town Planning Application Form. The cost for each form was recently increased from TZS 1,000 to TZS 5,000.

Procedure 2. Pay building permit fees and obtain a building permit from the Urban Development Control Authority (UDCA)

Time: 30 days

Cost: TZS 100,000 (TZS 50,000 per floor)

Comments: The fees for a building permit depend on the number of stories and the purpose of the building. For a two-storey commercial building the fee is TZS 100,000.

The building plans are reviewed by the following technical officers:

- Town Planning Officer;
- Chief Engineer (Department of Construction);
- Chief Drainage Officer;
- Land Officer;
- Medical Health Officer;
- Chief Building Inspector.

Following the approval of all officers mentioned above, the application is considered by the Urban Development Control Authority (UDCA). An UDCA review committee convenes once a month and is chaired by the Director of the Zanzibar Municipality. The building permit issued by the UDCA is valid for 6 months.

Procedure 3. Receive a routine supervision inspection from the Zanzibar Municipality

Time: 1 day

Cost: No cost

Comments: The Zanzibar Municipality sends an inspector to check whether BuildCo is in possession

of the appropriate building permit and whether the construction complies with such permit.

Procedure 4. Notify the Zanzibar Municipality of the completion of construction and receive an inspection

Time: 2 days

Cost: No cost

Procedure 5. Obtain a completion certificate from the Zanzibar Municipality

Time: 1 day

Cost: TZS 50,000

Comments: While it is common practice for large projects and government buildings to obtain a completion certificate, this procedure is often disregarded for small construction projects. The fee for the completion certificate amounts to half of the building permit fee.

Procedure 6. Apply for electricity connection at the Zanzibar Electricity Company (ZECO)

Time: 1 day

Cost: TZS 12,000 (non-refundable deposit)

Comments: For a three-phase connection the non-refundable deposit is TZS 12,000, while for a one-phase connection the non-refundable deposit is TZS 8,000.

Procedure 7. Receive an inspection from ZECO to assess the cost of electricity connection

Time: 7 days

Cost: No cost

Comments: Due to the lack of a well-established electric grid, obtaining a connection to electricity in Zanzibar is a demanding process that requires a lot of follow up by the applicant. More specifically, applicants need to follow up with the ZECO officials in order receive the on-site inspection that determines the feasibility and the cost of the connection. The process takes a week on average.

Procedure 8. Pay the fees for electricity connection

Time: 1 day

Cost: TZS 3,000,000

Comments: Fees for electricity connection range from TZS 450,000, in the case of a simple reconnection to power supply, to TZS 20,000,000, when a transformer has to be installed. For a warehouse located in the peri-urban area of Zanzibar city that does not require a new transformer and is relatively close to the electric grid, the cost estimate amounts to TZS 3,000,000.

Procedure 9. Obtain electricity connection

Time: 21 days

Cost: No cost

Procedure 10*. Obtain an application form for water connection from the Zanzibar Water Authority (ZAWA)

Time: 1 day

Cost: TZS 2,000 (application form)

Procedure 11*. Obtain authorization from the local Sheha

Time: 1 day

Cost: TZS 2,000

Comments: The Sheha in charge of the local ward verifies that BuildCo is the real owner of the property and confirms that the plot is located within its administrative boundary. The purpose of this procedure is to confirm the identity of the applicant and discourage illegal connections to the water system.

Procedure 12*. Receive an inspection from ZAWA

Time: 2 days

Cost: No cost

Comments: ZAWA sends a team of inspectors to the construction site. Inspectors measure the distance from the main pipe to the construction site and provide a cost estimate for the connection.

Procedure 13*. Pay water connection fee to ZAWA

Time: 1 day

Cost: TZS 119,000

Comments: Installation costs vary from TZS 84,000 to TZS 154,000.

Procedure 14*. Obtain water connection from ZAWA

Time: 10 days

Cost: No cost

Procedure 15*. Apply for telephone connection at the Tanzania Telecommunication Company Limited (TTCL)

Time: 1 day

Cost: No cost

Procedure 16*. Receive an inspection from TTCL

Time: 1 day

Cost: No cost

Comments: TTCL sends a team of inspectors that visits the site and provides a cost estimate for the connection.

Procedure 17*. Pay fees and obtain telephone connection from TTCL

Time: 5 days

Cost: TZS 38,600

Comments: Telephone connection costs depend upon the applicant's needs.

Fees apply as follows:

- Pre-paid connection: TZS 23,600;
- Post-paid connection (local only): TZS 38,600;
- Post-paid connection (international): TZS 150,000—including a refundable deposit.

Registering property

Zanzibar Town, Zanzibar

Property Value: USD 24,650 = TZS 31,941,087

Data as of: March 2010

Procedure 1. Conduct a search at the Land Registry

Time: 3 days

Cost: TZS 10,000

Comments: This procedure is done at the Department of Land and Registration in Zanzibar Town.

Procedure 2. Receive a valuation inspection from the Tanzania Revenue Authority

Time: 4 days

Cost: TZS 319,411 (1% of the value of property)

Comments: The purpose of the inspection is to determine the value of the property and assess the capital gains tax.

Procedure 3. Execution and notarization of the sale agreement

Time: 1 day

Cost: TZS 958,233 (3% of the property value is charged, on average, but legal fees can range from 1% to 5% of property value)

Comments: According to the Legal Practitioner's Decree, all legal documents must be prepared by a lawyer. However, that is not necessarily observed in practice.

Procedure 4. Obtain a property transfer form from the Zanzibar Land Transfer Board

Time: 1 day

Cost: TZS 5,000 (per form)

Procedure 5. Obtain approval of the transaction from the local Sheha

Time: 5 days

Cost: TZS 20,000

Comments: In absence of proper land records, there is a presumption that the Sheha witnesses almost all transactions in his ward and will be able to ascertain the vendor's right to transfer. The Sheha calls a meeting of the Advisory Committee (composed of 4 members). The members sign the forms and the Sheha approves by sealing and signing the forms.

Procedure 6. Obtain approval of the transaction from the District Council

Time: 5 days

Cost: TZS 3,194,109 (10% of the property value)

Comments: Although the signature of the District Council is not required in the sale form, it has become a common practice to obtain such signature before the application is submitted for approval to the District Commissioner.

Procedure 7. Obtain approval of the transaction from the District Commissioner**Time:** 3 days**Cost:** TZS 30,000

Procedure 8. Obtain and pay the Certificate of Approval of Titles at the Zanzibar Land Transfer Board**Time:** 11 days**Cost:** TZS 1,597,054 (5% of property value)**Comments:** The Chief Land Officer approves the forms with a signature and a stamp, and issues a bill for payment. The fee is paid at the account section of the Department of Land and Registration.

Procedure 9. Obtain a Capital Gains Tax Clearance Certificate from the Tanzania Revenue Authority**Time:** 5 days**Cost:** No cost**Comments:** A Capital Gains Tax Clearance Certificate is obtained from the TRA before the name of the buyer can be recorded at the Registry of Documents.

Procedure 10. Submit documents, pay for registration, and obtain the Sales Deed registered at the Registry of Documents, Registrar's General Office**Time:** 1 day**Cost:** TZS 319,411 (Stamp duty-1% of the value of property)**Comments:** The Registration Officer reviews the documents and assigns the Sales Deed a number. The documents are examined by the Registrar General. One copy is retained at the Registry of Documents. The fees are paid at the Registry's cashier.

Getting credit

Getting credit indicators	Private credit bureau	Public credit registry	Indicator
Depth of credit information index (0–6)			0
<i>Are data on both firms and individuals distributed?</i>	No	No	0
<i>Are both positive and negative data distributed?</i>	No	No	0
<i>Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?</i>	No	No	0
<i>Are more than 2 years of historical credit information distributed?</i>	No	No	0
<i>Is data on all loans below 1% of income per capita distributed?</i>	No	No	0
<i>Is it guaranteed by law that borrowers can inspect their data in the largest credit registry?</i>	No	No	0
Coverage	0	0	
Number of individuals	0	0	
Number of firms	0	0	
Strength of legal rights index (0–10)			3
<i>Can any business use movable assets as collateral while keeping possession of the assets; and any financial institution accept such assets as collateral?</i>			Yes
<i>Does the law allow businesses to grant a non possessory security right in a single category of revolving movable assets, without requiring a specific description of the secured assets?</i>			No
<i>Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of the secured assets?</i>			No
<i>May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets?</i>			No
<i>Is a general description of debts and obligations permitted in collateral agreements, so that all types of obligations and debts can be secured by stating a maximum amount rather than a specific amount between the parties?</i>			Yes
<i>Is a collateral registry in operation that is unified geographically and by asset type as well as indexed by the grantor's name of a security right?</i>			No
<i>Do secured creditors have absolute priority to their collateral outside bankruptcy procedures?</i>			No
<i>Do secured creditors have absolute priority to their collateral in bankruptcy procedures?</i>			No
<i>During reorganization, are secured creditors' claims exempt from an automatic stay on enforcement?</i>			No
<i>Does the law authorize parties to agree on out of court enforcement?</i>			Yes

Protecting investors

Strength of investor protection index (0–10)	3.7
Disclosure index	2
<i>What corporate body provides legally sufficient approval for the transaction? (0–3)</i>	1
<i>Immediate disclosure to the public and/or shareholders (0–2)</i>	0
<i>Disclosures in published periodic filings (0–2)</i>	0
<i>Disclosures by Mr. James to board of directors (0–2)</i>	1
<i>Requirement that an external body review the transaction before it takes place (0=no, 1=yes)</i>	0
Director liability index	1
<i>Shareholder plaintiff's ability to hold Mr. James liable for damage the Buyer-Seller transaction causes to the company (0–2)</i>	0
<i>Shareholder plaintiff's ability to hold the approving body (the CEO or board of directors) liable for damage to the company (0–2)</i>	0
<i>Whether a court can void the transaction upon a successful claim by a shareholder plaintiff (0–2)</i>	0
<i>Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff (0=no, 1=yes)</i>	0
<i>Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff (0=no, 1=yes)</i>	0
<i>Whether fines and imprisonment can be applied against Mr. James (0=no, 1=yes)</i>	0
<i>Shareholder plaintiff's ability to sue directly or derivatively for damage the transaction causes to the company (0–1)</i>	1
Shareholder suits index	8
<i>Documents available to the plaintiff from the defendant and witnesses during trial (0–4)</i>	3
<i>Ability of plaintiffs to directly question the defendant and witnesses during trial (0–2)</i>	2
<i>Plaintiff can request categories of documents from the defendant without identifying specific ones (0=no, 1=yes)</i>	1
<i>Shareholders owning 10% or less of Buyer's shares can request an inspector investigate the transaction (0=no, 1=yes)</i>	1
<i>Level of proof required for civil suits is lower than that for criminal cases (0=no, 1=yes)</i>	1
<i>Shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit (0=no, 1=yes)</i>	0

Paying taxes

City: Zanzibar Town

Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Corporate income tax	5		26	30.0%	taxable income	21.8%	
VAT	12		72	18%	value added		not included
Labor tax (Skill development levy)	12		60	5.00%	gross salaries	5.6%	
City service levy	4		-	fixed fee (TZS 6,500)	turnover	0.1%	
Social security contributions (ZSSF)	12		-	15% (only 10% paid by the employer)	gross salaries	11.3%	
Property tax	1		-	0.20%	property value	0.2%	
Vehicle taxes	1		-	fixed fee (TZS 200,000)		0.8%	
Fuel tax	1		-	TZS 450 per liter	liters	1.0%	
Tax on interest	-		-	10.00%	interest income	0.3%	not included
Total	48		158			40.8%	

Trading across borders

Zanzibar Town trading through the port of Malindi

	Time (days)	Cost (US\$ per container)
Exporting		
Documents preparation	13	334
Customs clearance and technical control	1	210
Ports and terminal handling	7	150
Inland transportation and handling	1	150
Export total:	22	844
Importing		
Documents preparation	13	382
Customs clearance and technical control	2	210
Ports and terminal handling	13	450
Inland transportation and handling	1	150
Import total:	29	1,192

Export documents

- Export license
- Customs declaration form
- Bill of lading
- Commercial invoice
- Packing list
- Cargo release order
- Terminal handling receipts

Import documents

- Import license
- Customs declaration form
- Bill of lading
- Commercial invoice
- Certificate of origin
- Packing list
- Cargo release order
- Terminal handling receipts

Enforcing contracts

City: Zanzibar Town

Value of claim: TZS 1,277,643

Nature of procedure	Indicator
Procedures (number)	39
Time (days)	469
<i>Filing and service</i>	14
<i>Trial and judgment</i>	365
<i>Enforcement of judgment</i>	90
Cost (% of claim)*	12.6
<i>Attorney cost (% of claim)</i>	10
<i>Court cost (% of claim)</i>	2
<i>Enforcement Cost (% of claim)</i>	0.6

* Claim assumed to be equivalent to 200% of income per capita.

Annex: employing workers*

	Answer
Rigidity of employment index	
Difficulty of hiring index	
<i>Are fixed-term contracts prohibited for permanent tasks?</i>	No
<i>What is the maximum duration of fixed-term contracts (including renewals)? (in months)</i>	36
Rigidity of hours index	
<i>Can the work week extend to 50 hours (including overtime) for 2 months per year to respond to a seasonal increase in production?</i>	Yes
<i>What is the maximum number of working days per week?</i>	6
<i>Are there restrictions on night work and do these apply when continuous operations are economically necessary?</i>	No
<i>Are there restrictions on "weekly holiday" work and do these apply when continuous operations are economically necessary?</i>	No
<i>What is the paid annual vacation (in working days) for an employee with 20 years of service?</i>	21
Difficulty of redundancy index	
<i>Is the termination of workers due to redundancy legally authorized?</i>	Yes
<i>Must the employer notify a third party before terminating one redundant worker?</i>	Yes
<i>Does the employer need the approval of a third party to terminate one redundant worker?</i>	Yes
<i>Must the employer notify a third party before terminating a group of 9 redundant workers?</i>	Yes
<i>Does the employer need the approval of a third party to terminate a group of 9 redundant workers?</i>	Yes
<i>Is there a retraining or reassignment obligation before an employer can make a worker redundant?</i>	No
<i>Are there priority rules applying to redundancies?</i>	No
<i>Are there priority rules applying to re-employment?</i>	No
Redundancy costs (weeks of salary)	
<i>What is the notice period for redundancy dismissal after 20 years of continuous employment? (weeks of salary)</i>	12
<i>What is the severance pay for redundancy dismissal after 20 years of employment? (weeks of salary)</i>	7
<i>What is the legally mandated penalty for redundancy dismissal? (weeks of salary)</i>	0

* *Doing Business* measures the regulation of employment, specifically as it affects the hiring and redundancy of workers and the rigidity of working hours. In 2007 improvements were made to align the methodology for the employing workers indicators with the relevant International Labour Organization (ILO) conventions. In *Doing Business 2010*, additional changes to the methodology of this indicator were made. In addition, a Consultative Group including representatives from the ILO (as the international standard setting body) was formed to serve as an important source of advice on revising this indicator and on the establishment of a new worker protection indicator. In this context, the employing workers indicators were removed as a guidepost to the World Bank Country Policy and Institutional Assessment questionnaire (CPIA) and are not to be used as a basis for policy advice.

While this process is ongoing, the Employing Workers data will be presented without any scoring and it will not be tabulated in the calculation of overall ease of doing business ranking.

The same policy has been applied for *Doing Business in Zanzibar 2010*.

For additional information, please visit: <http://www.doingbusiness.org/Methodology>.

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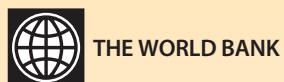
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