

# Doing Business 2015

## Going Beyond Efficiency

### Economy Profile 2015

## Honduras



COMPARING BUSINESS REGULATIONS FOR DOMESTIC FIRMS IN **189** ECONOMIES

*A World Bank Group Flagship Report*

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The World Bank  
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## INTRODUCTION

*Doing Business* sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and labor market regulation.

In a series of annual reports *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 189 economies, from Afghanistan to Zimbabwe, over time. The data set covers 47 economies in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 25 in East Asia and the Pacific, 26 in Eastern Europe and Central Asia, 20 in the Middle East and North Africa and 8 in South Asia, as well as 31 OECD high-income economies. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

This economy profile presents the *Doing Business* indicators for Honduras. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June

1, 2014 (except for the paying taxes indicators, which cover the period January–December 2013).

The *Doing Business* methodology has limitations. Other areas important to business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), 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*. The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. The data not only highlight the extent of obstacles to doing business; they also help identify the source of those obstacles, supporting policy makers in designing regulatory reform.

More information is available in the full report. *Doing Business 2015* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2015*, are available on the *Doing Business* website at <http://www.doingbusiness.org>.

## CHANGES IN *DOING BUSINESS 2015*

As part of a 2-year update in methodology, *Doing Business 2015* incorporates 7 important changes. First, the ease of doing business ranking as well as all topic-level rankings are now computed on the basis of distance to frontier scores (see the chapter on the distance to frontier and ease of doing business ranking). Second, for the 11 economies with a population of more than 100 million, data for a second city have been added to the data set and the ranking calculation. These economies are Bangladesh, Brazil, China, India, Indonesia, Japan, Mexico, Nigeria, Pakistan, the Russian Federation and the United States. Third, for getting credit, the methodology has been revised for both the strength of legal rights index and the depth of credit information index. The number of points has been increased in both indices, from 10 to 12 for the strength of legal rights index and from 6 to 8 for the depth of credit information index. In addition, only credit bureaus and registries that cover at least 5% of the adult population can receive a score on the depth of credit information index.

Fourth, the name of the protecting investors indicator set has been changed to protecting minority investors to better reflect its scope—and the scope of the indicator set has been expanded to include shareholders' rights in corporate governance beyond related-party transactions. Fifth, the resolving insolvency indicator set has been expanded to include an index measuring the strength of the legal framework for insolvency. Sixth, the calculation of the distance to frontier score for paying taxes has been changed. The total tax rate component now enters the score in a nonlinear fashion, in an approach different from that used for all other indicators (see the chapter on the distance to frontier and ease of doing business ranking).

Finally, the name of the employing workers indicator set has been changed to labor market regulation, and the scope of this indicator set has also been changed. The indicators now focus on labor market regulation applying to the retail sector rather than the manufacturing sector, and their coverage has been expanded to include regulations on labor disputes and on benefits provided to workers. The labor market regulation indicators continue to be excluded from the aggregate distance to frontier score and ranking on the ease of doing business.

Beyond these changes there are 3 other updates in methodology. For paying taxes, the financial statement variables have been updated to be proportional to 2012 income per capita; previously they were proportional to 2005 income per capita. For enforcing contracts, the value of the claim is now set at twice the income per capita or \$5,000, whichever is greater. For dealing with construction permits, the cost of construction is now set at 50 times income per capita (before, the cost was assessed by the *Doing Business* respondents). In addition, this indicator set no longer includes the procedures for obtaining a landline telephone connection.

For more details on the changes, see the "What is changing in *Doing Business*?" chapter starting on page 24 of the *Doing Business 2015* report. For more details on the data and methodology, please see the "Data Notes" chapter starting on page 114 of the *Doing Business 2015* report. For more details on the distance to frontier metric, please see the "Distance to frontier and ease of doing business ranking" chapter in this profile.

## THE BUSINESS ENVIRONMENT

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 189 by the ease of doing business ranking. This year's report presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking. The ranking of economies is determined by sorting the aggregate distance to frontier (DTF) scores. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. (See the chapter on the distance to frontier and ease of doing business). The 10 topics included in the ranking in *Doing Business 2015*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The labor market regulation indicators (formerly employing workers) are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile.

The aggregate ranking on the ease of doing business benchmarks each economy's performance on the indicators against that of all other economies in the *Doing Business* sample (figure 1.1). While this ranking tells much about the business environment in an economy, it does not tell the whole story. The ranking on the ease of doing business, and the underlying indicators, do not measure all aspects of the business environment that matter to firms and investors or that affect the competitiveness of the economy. Still, a high ranking does mean that the government has created a regulatory environment conducive to operating a business.

### ECONOMY OVERVIEW

Region: Latin America & Caribbean

Income category: Lower middle income

Population: 8,097,688

GNI per capita (US\$): 2,180

DB2015 rank: 104

DB2014 rank: 100\*

Change in rank: -4

DB 2015 DTF: 60.6

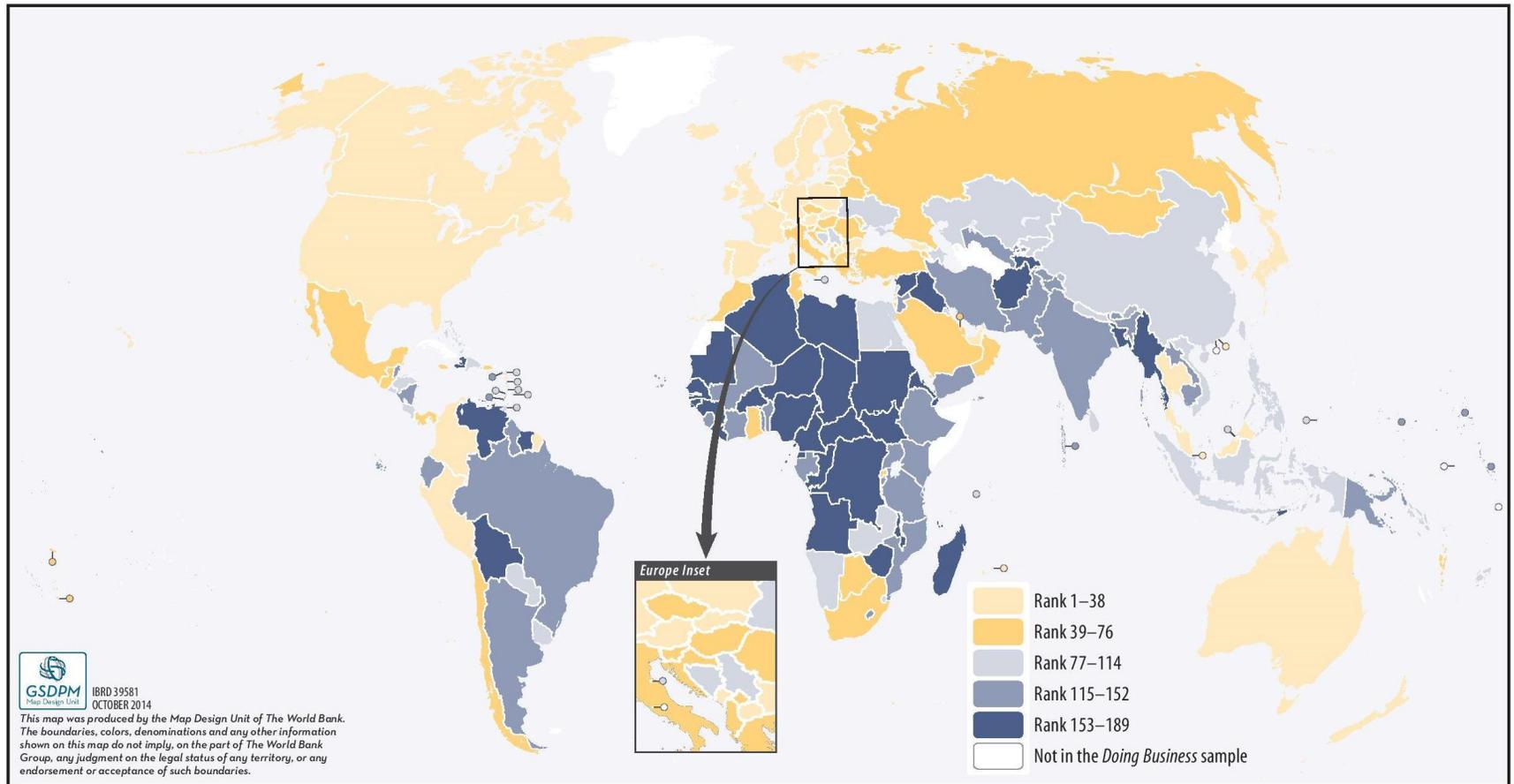
DB 2014 DTF: 60.8

Change in DTF: -0.2

\* DB2014 ranking shown is not last year's published ranking but a comparable ranking for DB2014 that captures the effects of such factors as data corrections and the changes in methodology. See the data notes starting on page 114 of the *Doing Business 2015* report for sources and definitions.

### THE BUSINESS ENVIRONMENT

Figure 1.1 Where economies stand in the global ranking on the ease of doing business



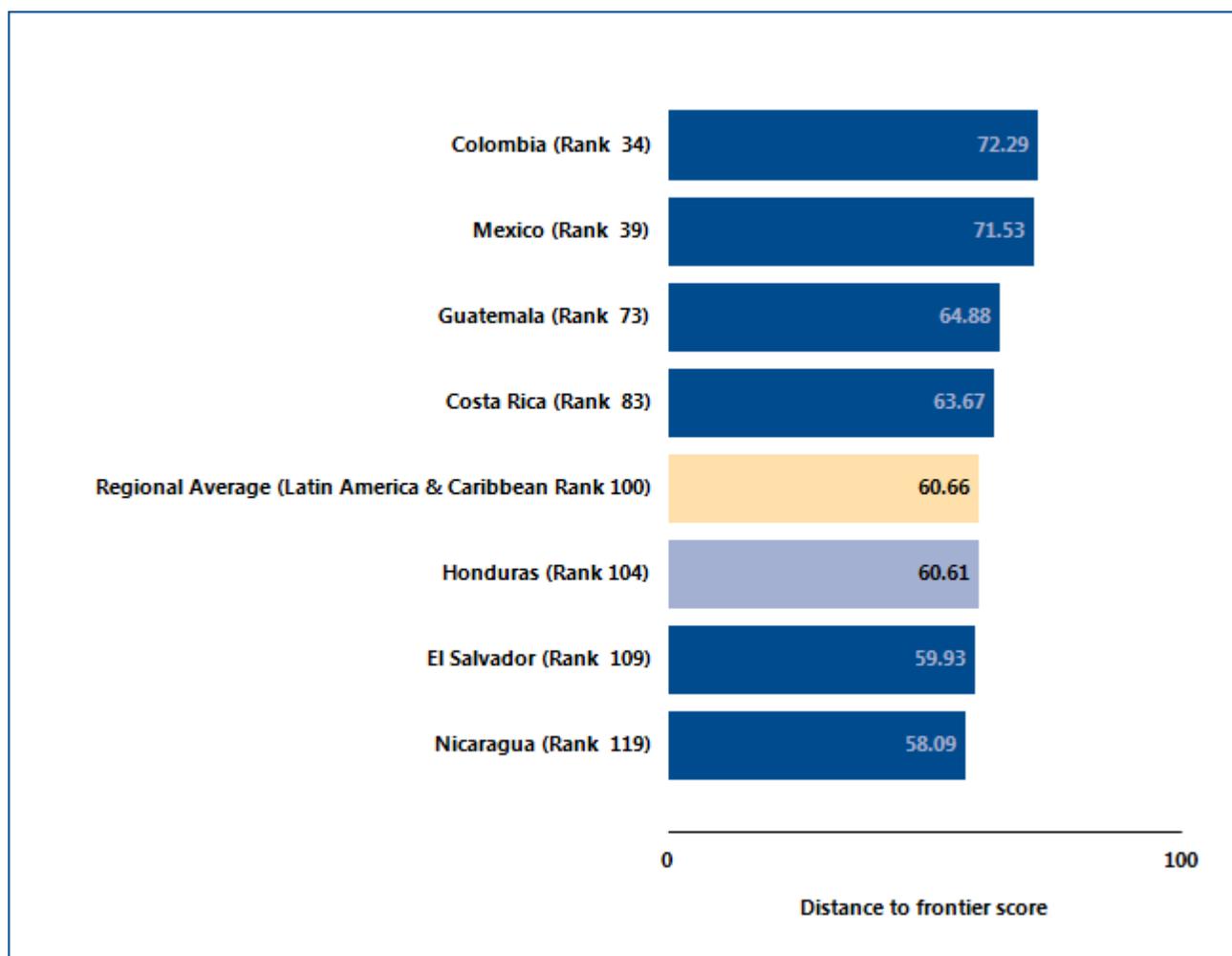
Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks relative to comparator economies and relative to the

regional average (figure 1.2). The economy's rankings (figure 1.3) and distance to frontier scores (figure 1.4) on the topics included in the ease of doing business ranking provide another perspective.

Figure 1.2 How Honduras and comparator economies rank on the ease of doing business



Note: The rankings are benchmarked to June 2014 and based on the average of each economy's distance to frontier (DTF) scores for the 10 topics included in this year's aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.

Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

Figure 1.3 Rankings on *Doing Business* topics - Honduras  
 (Scale: Rank 189 center, Rank 1 outer edge)

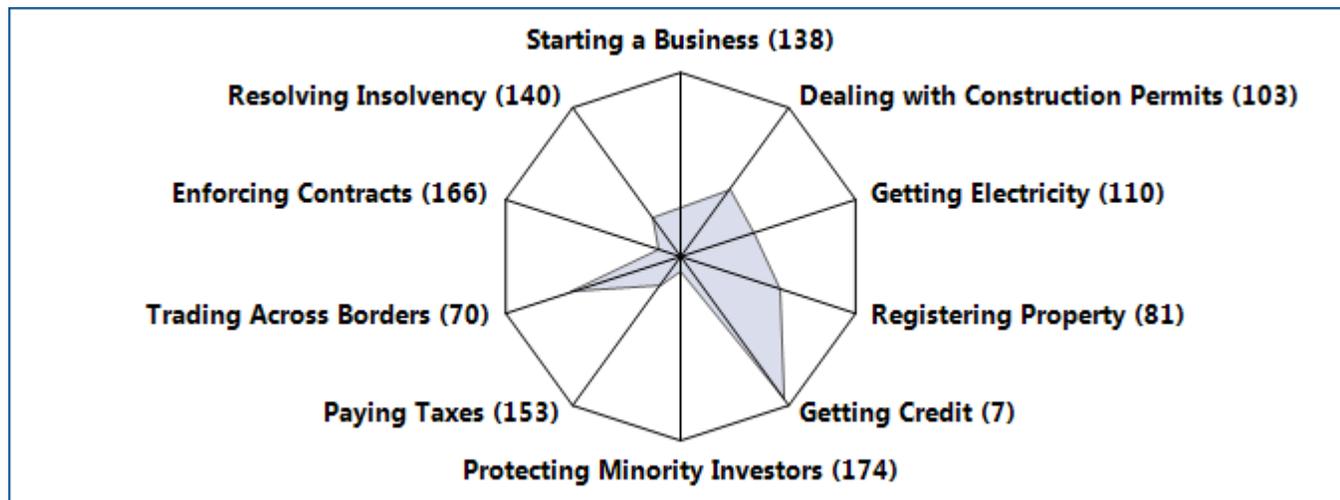
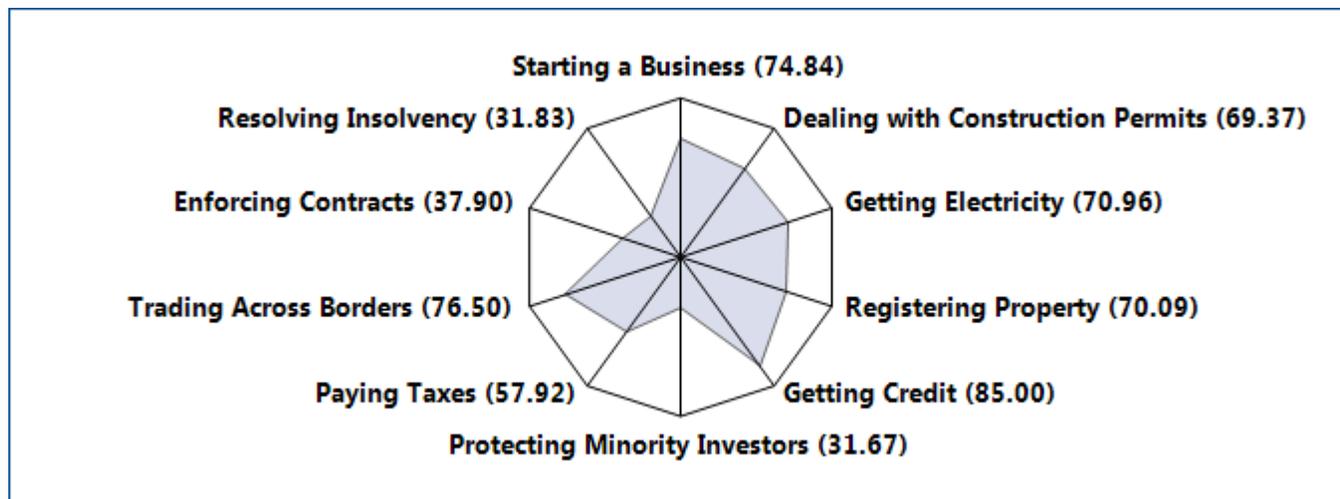


Figure 1.4 Distance to frontier scores on *Doing Business* topics - Honduras  
 (Scale: Score 0 center, Score 100 outer edge)



*Note:* The rankings are benchmarked to June 2014 and based on the average of each economy’s distance to frontier (DTF) scores for the 10 topics included in this year’s aggregate ranking. The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each *Doing Business* indicator. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. For the economies for which the data cover 2 cities, scores are a population-weighted average for the 2 cities.  
 Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

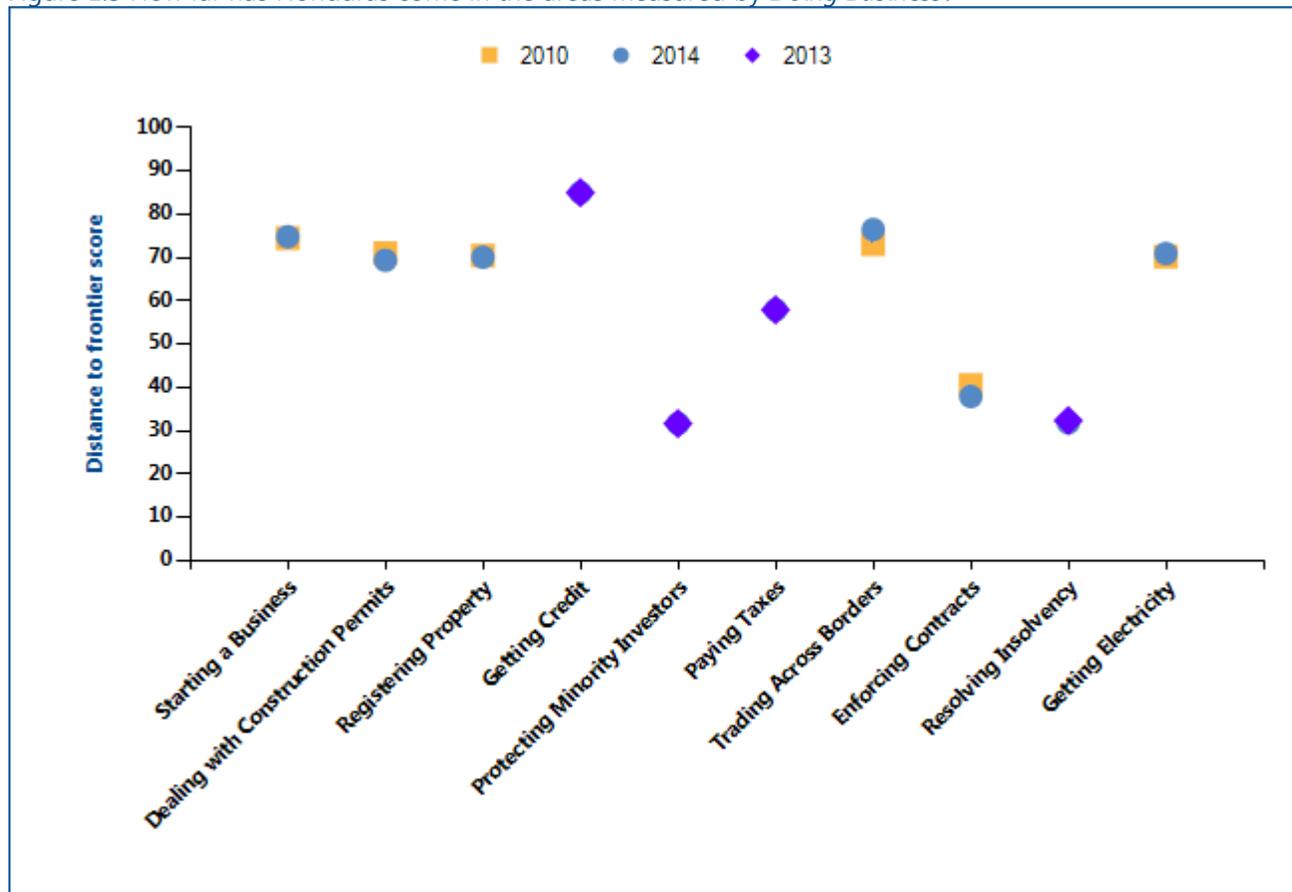
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy’s regulatory environment for firms, but they are always relative.

Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes,

*Doing Business* introduced the distance to frontier score. This measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator.

Comparing the measure for an economy at 2 points in time allows users to assess how much the economy’s regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in areas covered by *Doing Business* (figure 1.5).

Figure 1.5 How far has Honduras come in the areas measured by *Doing Business*?



Note: The distance to frontier score shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2010, except for getting credit, paying taxes, protecting minority investors and resolving insolvency which had methodology changes in 2014 and thus are only comparable to 2013. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). See the data notes starting on page 114 of the *Doing Business 2015* report for more details on the distance to frontier score.

Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of business

regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Honduras

Indicator	Honduras DB2015	Honduras DB2014	Colombia DB2015	Costa Rica DB2015	El Salvador DB2015	Guatemala DB2015	Mexico DB2015	Nicaragua DB2015	Best performer globally DB2015
<b>Starting a Business (rank)</b>	138	129	84	118	121	98	67	120	New Zealand (1)
<b>Starting a Business (DTF Score)</b>	74.84	74.75	86.13	80.90	79.87	83.72	88.85	80.27	New Zealand (99.96)
<b>Procedures (number)</b>	12.0	12.0	8.0	9.0	8.0	6.0	6.0	6.0	New Zealand (1.0)*
<b>Time (days)</b>	14.0	14.0	11.0	24.0	16.5	18.5	6.3	13.0	New Zealand (0.5)
<b>Cost (% of income per capita)</b>	39.0	39.4	7.5	11.5	45.2	25.8	18.6	73.9	Slovenia (0.0)
<b>Paid-in min. capital (% of income per capita)</b>	11.5	12.2	0.0	0.0	2.7	18.7	0.0	0.0	112 Economies (0.0)*
<b>Dealing with Construction Permits (rank)</b>	103	96	61	52	155	122	108	134	Hong Kong SAR, China (1)
<b>Dealing with Construction Permits (DTF Score)</b>	69.37	70.78	76.45	78.14	57.19	66.18	68.43	63.50	Hong Kong SAR, China (95.53)

Indicator	Honduras DB2015	Honduras DB2014	Colombia DB2015	Costa Rica DB2015	El Salvador DB2015	Guatemala DB2015	Mexico DB2015	Nicaragua DB2015	Best performer globally DB2015
<b>Procedures (number)</b>	15.0	15.0	10.0	13.0	25.0	11.0	11.3	16.0	Hong Kong SAR, China (5.0)
<b>Time (days)</b>	82.0	121.0	73.0	113.0	115.0	158.0	87.6	207.0	Singapore (26.0)
<b>Cost (% of warehouse value)</b>	7.2	4.1	7.4	1.7	4.6	7.9	10.3	2.7	Qatar (0.0)*
<b>Getting Electricity (rank)</b>	110	104	92	46	144	18	116	95	Korea, Rep. (1)
<b>Getting Electricity (DTF Score)</b>	70.96	70.75	74.20	82.72	60.56	89.28	68.47	73.84	Korea, Rep. (99.83)
<b>Procedures (number)</b>	7.0	7.0	5.0	5.0	8.0	4.0	6.8	6.0	12 Economies (3.0)*
<b>Time (days)</b>	39.0	39.0	105.0	55.0	83.0	39.0	78.9	55.0	Korea, Rep. (18.0)*
<b>Cost (% of income per capita)</b>	918.0	968.5	504.4	196.2	543.8	514.6	346.1	1,003.4	Japan (0.0)
<b>Registering Property (rank)</b>	81	81	42	47	56	65	110	134	Georgia (1)
<b>Registering Property (DTF Score)</b>	70.09	70.08	79.33	78.40	75.65	74.07	62.45	57.58	Georgia (99.88)
<b>Procedures (number)</b>	6.0	6.0	6.0	5.0	5.0	6.0	6.8	9.0	4 Economies (1.0)*
<b>Time (days)</b>	22.0	22.0	16.0	19.0	31.0	24.0	63.6	58.0	3 Economies (1.0)*
<b>Cost (% of property value)</b>	5.7	5.7	2.0	3.4	3.8	3.8	5.1	5.0	4 Economies (0.0)*
<b>Getting Credit (rank)</b>	7	5	2	89	71	12	12	89	New Zealand (1)
<b>Getting Credit (DTF Score)</b>	85.00	85.00	95.00	45.00	50.00	80.00	80.00	45.00	New Zealand (100)
<b>Strength of legal rights index (0-12)</b>	9	9	12	2	3	9	8	1	3 Economies (12)*

Indicator	Honduras DB2015	Honduras DB2014	Colombia DB2015	Costa Rica DB2015	El Salvador DB2015	Guatemala DB2015	Mexico DB2015	Nicaragua DB2015	Best performer globally DB2015
Depth of credit information index (0-8)	8	8	7	7	7	7	8	8	23 Economies (8)*
Credit registry coverage (% of adults)	21.8	21.1	0.0	27.4	28.2	19.2	0.0	16.2	Portugal (100.0)
Credit bureau coverage (% of adults)	36.1	31.9	87.0	100.0	32.0	8.7	100.0	40.7	23 Economies (100.0)*
Protecting Minority Investors (rank)	174	174	10	181	154	174	62	172	New Zealand (1)
Protecting Minority Investors (DTF Score)	31.67	31.67	71.67	28.33	41.67	31.67	57.50	33.33	New Zealand (81.67)
Extent of conflict of interest regulation index (0-10)	3.3	3.3	8.0	3.3	3.3	3.3	6.0	4.0	Singapore (9.3)*
Extent of shareholder governance index (0-10)	3.0	3.0	6.3	2.3	5.0	3.0	5.5	2.7	France (7.8)*
Strength of minority investor protection index (0-10)	3.2	3.2	7.2	2.8	4.2	3.2	5.8	3.3	New Zealand (8.2)
Paying Taxes (rank)	153	150	146	121	161	54	105	164	United Arab Emirates (1)*
Paying Taxes (DTF Score)	57.92	57.92	59.71	67.27	52.31	80.04	71.17	49.51	United Arab Emirates (99.44)*
Payments (number per year)	48.0	48.0	11.0	23.0	53.0	8.0	6.0	43.0	Hong Kong SAR, China (3.0)*
Time (hours per year)	224.0	224.0	239.0	163.0	320.0	256.0	334.0	207.0	Luxembourg (55.0)
Trading Across Borders (rank)	70	65	93	47	73	102	44	74	Singapore (1)
Trading Across Borders	76.50	77.10	72.69	80.84	76.01	70.10	81.26	75.84	Singapore (96.47)

Indicator	Honduras DB2015	Honduras DB2014	Colombia DB2015	Costa Rica DB2015	El Salvador DB2015	Guatemala DB2015	Mexico DB2015	Nicaragua DB2015	Best performer globally DB2015
(DTF Score)									
Documents to export (number)	5	5	4	5	7	8	4	5	Ireland (2)*
Time to export (days)	12.0	12.0	14.0	14.0	13.0	17.0	12.0	21.0	5 Economies (6.0)*
Cost to export (US\$ per container)	1,450.0	1,345.0	2,355.0	1,020.0	1,045.0	1,355.0	1,499.3	1,140.0	Timor-Leste (410.0)
Cost to export (deflated US\$ per container)	1,450.0	1,367.8	2,355.0	1,020.0	1,045.0	1,355.0	1,499.3	1,140.0	
Documents to import (number)	6	6	6	5	7	6	4	5	Ireland (2)*
Time to import (days)	16.0	16.0	13.0	14.0	10.0	16.0	11.2	20.0	Singapore (4.0)
Cost to import (US\$ per container)	1,630.0	1,500.0	2,470.0	1,070.0	1,035.0	1,445.0	1,887.6	1,245.0	Singapore (440.0)
Cost to import (deflated US\$ per container)	1,630.0	1,525.5	2,470.0	1,070.0	1,035.0	1,445.0	1,887.6	1,245.0	
Enforcing Contracts (rank)	166	166	168	129	82	143	57	70	Singapore (1)
Enforcing Contracts (DTF Score)	37.90	37.90	37.66	51.13	60.06	46.35	64.61	62.42	Singapore (89.54)
Time (days)	920.0	920.0	1,288.0	852.0	786.0	1,402.0	388.9	519.0	Singapore (150.0)
Cost (% of claim)	35.2	35.2	47.9	24.3	19.2	26.5	30.9	26.8	Iceland (9.0)
Procedures (number)	47.0	47.0	33.0	40.0	35.0	31.0	36.8	37.0	Singapore (21.0)*
Resolving Insolvency (rank)	140	136	30	89	79	155	27	110	Finland (1)
Resolving Insolvency (DTF Score)	31.83	32.36	70.00	43.95	46.02	27.37	72.59	39.64	Finland (93.85)

Indicator	Honduras DB2015	Honduras DB2014	Colombia DB2015	Costa Rica DB2015	El Salvador DB2015	Guatemala DB2015	Mexico DB2015	Nicaragua DB2015	Best performer globally DB2015
<b>Time (years)</b>	3.8		1.7	3.0	3.5	3.0	1.8	2.2	Ireland (0.4)
<b>Cost (% of estate)</b>	14.5	14.5	6.0	14.5	12.0	14.5	18.0	14.5	Norway (1.0)
<b>Outcome (0 as piecemeal sale and 1 as going concern)</b>	0	0	1	0	0	0	1	0	
<b>Recovery rate (cents on the dollar)</b>	18.5	19.5	72.0	26.5	33.2	27.6	68.1	33.0	Japan (92.9)
<b>Strength of insolvency framework index (0-16)</b>	7.0	7.0	10.0	9.5	9.0	4.0	11.5	7.0	5 Economies (15.0)*

*Note:* DB2014 rankings shown are not last year's published rankings but comparable rankings for DB2014 that capture the effects of such factors as data corrections and changes to the methodology. Trading across borders deflated and non-deflated values are identical in DB2015 because it is defined as the base year for the deflator. The best performer on time for paying taxes is defined as the lowest time recorded among all economies in the DB2015 sample that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and VAT or sales tax. If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a “no practice” mark. Similarly, an economy receives a “no practice” or “not possible” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a “no practice” mark puts the economy at the bottom of the ranking on the relevant indicator.

\* Two or more economies share the top ranking on this indicator. A number shown in place of an economy's name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the *Doing Business* website (<http://www.doingbusiness.org>).

*Source:* *Doing Business* database.

## STARTING A BUSINESS

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government.

### What do the indicators cover?

*Doing Business* measures the ease of starting a business in an economy by recording all procedures officially required or commonly done in practice by an entrepreneur to start up and formally operate an industrial or commercial business—as well as the time and cost required to complete these procedures. It also records the paid-in minimum capital that companies must deposit before registration (or within 3 months). The ranking of economies on the ease of starting a business is determined by sorting their distance to frontier scores for starting a business. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the procedures. It assumes that all information is readily available to the entrepreneur and that there has been no prior contact with officials. It also assumes that the entrepreneur will pay no bribes. And it assumes that the business:

- Is a limited liability company, located in the largest business city and is 100% domestically owned<sup>1</sup>.
- Has between 10 and 50 employees.
- Conducts general commercial or industrial activities.
- Has a start-up capital of 10 times income per capita.
- Has a turnover of at least 100 times income per capita.
- Does not qualify for any special benefits.
- Does not own real estate.

### WHAT THE STARTING A BUSINESS

#### INDICATORS MEASURE

#### Procedures to legally start and operate a company (number)

Preregistration (for example, name verification or reservation, notarization)

Registration in the economy's largest business city<sup>1</sup>

Postregistration (for example, social security registration, company seal)

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day (2 procedures cannot start on the same day). Procedures that can be fully completed online are recorded as ½ day.

Procedure completed once final document is received

No prior contact with officials

#### Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

No professional fees unless services required by law

#### Paid-in minimum capital (% of income per capita)

Deposited in a bank or with a notary before registration (or within 3 months)

<sup>1</sup> For the 11 economies with a population of more than 100 million, data for a second city have been added.

## STARTING A BUSINESS

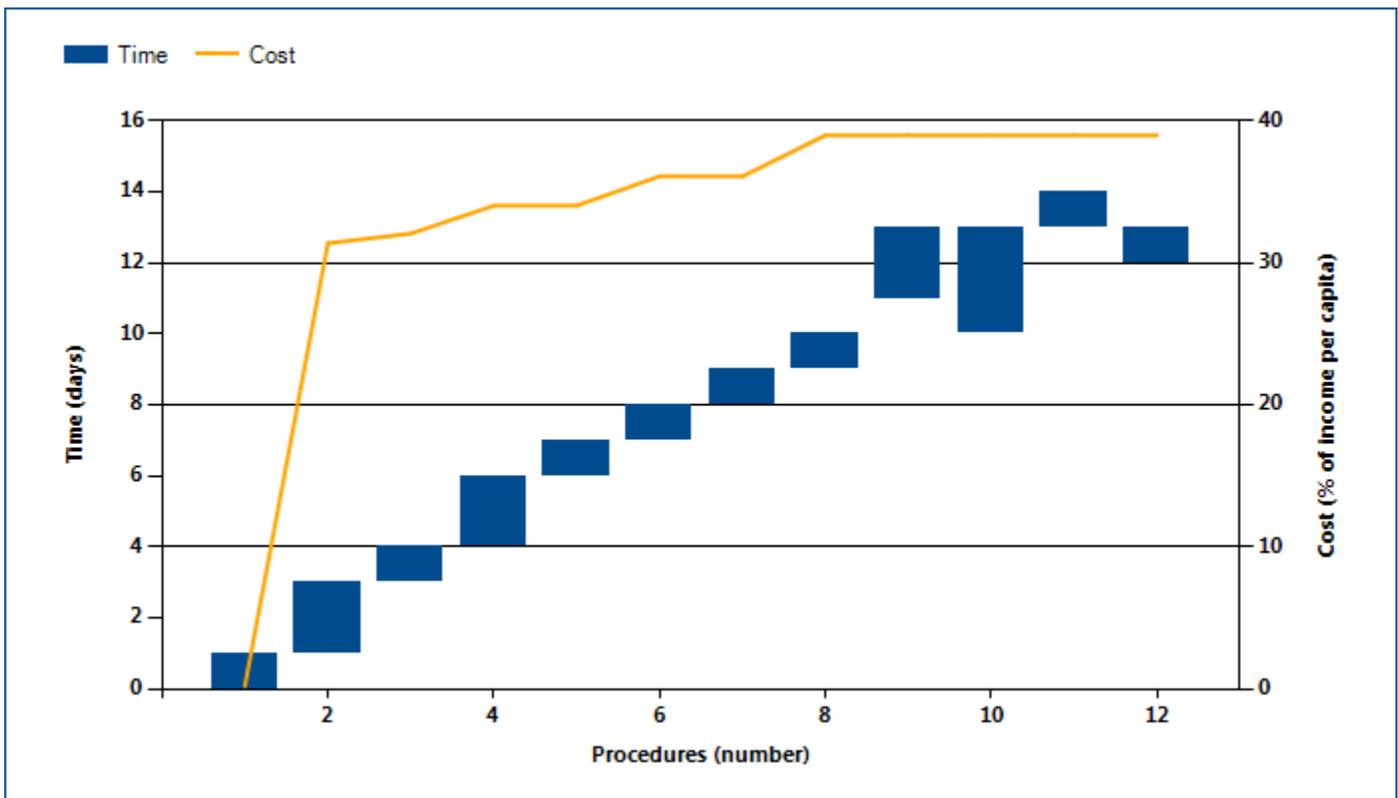
### Where does the economy stand today?

What does it take to start a business in Honduras? According to data collected by *Doing Business*, starting a business there requires 12.0 procedures, takes 14.0 days, costs 39.0% of income per capita and requires paid-in minimum capital of 11.5% of income per capita (figure 2.1). Most indicator sets refer to a case scenario in the

largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 2.1 What it takes to start a business in Honduras -

Paid-in minimum capital (% of income per capita): 11.5



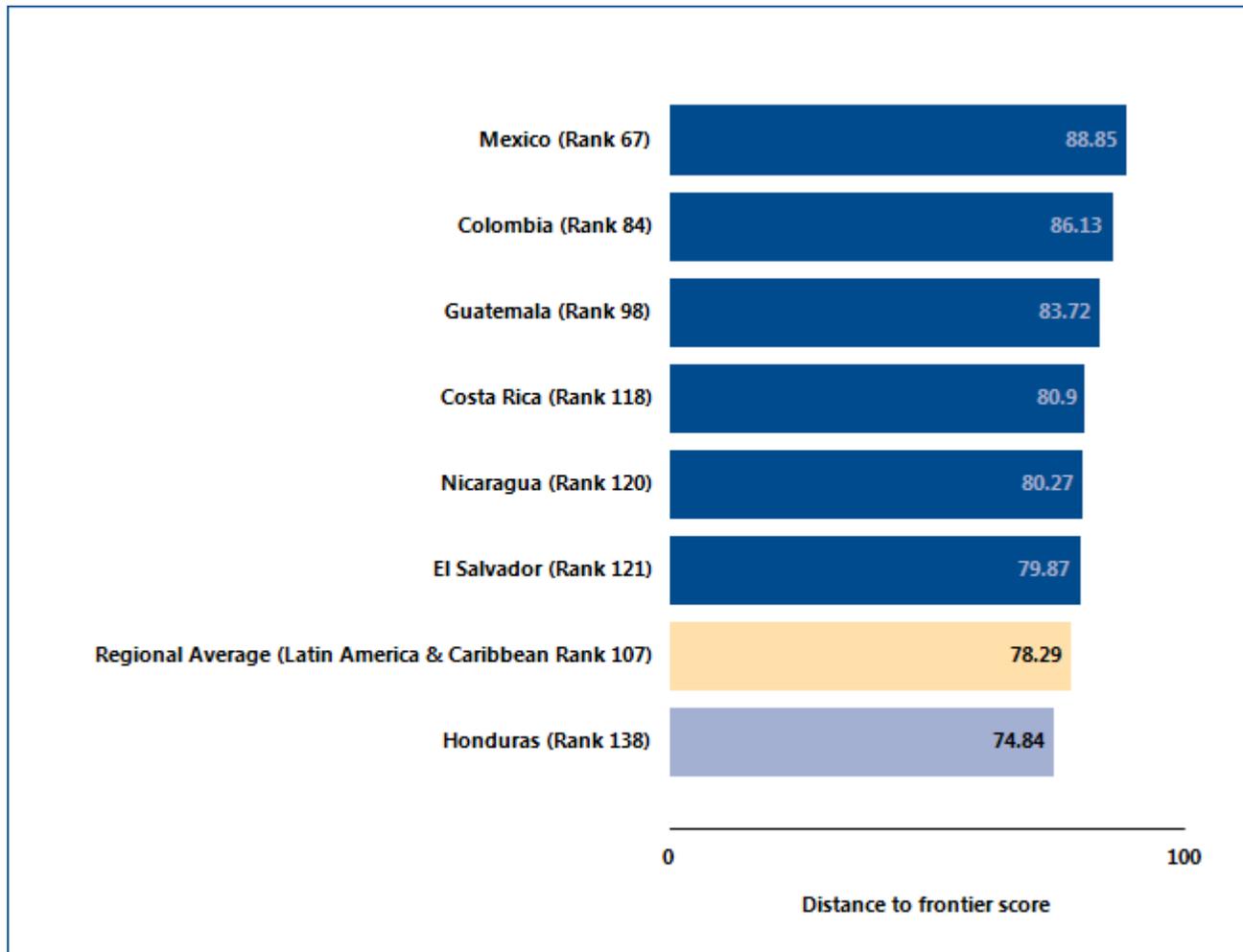
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the starting a business indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter. Source: *Doing Business* database.

### STARTING A BUSINESS

Globally, Honduras stands at 138 in the ranking of 189 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies and the regional

average ranking provide other useful information for assessing how easy it is for an entrepreneur in Honduras to start a business.

Figure 2.2 How Honduras and comparator economies rank on the ease of starting a business



Source: Doing Business database.

## STARTING A BUSINESS

Economies around the world have taken steps making it easier to start a business—streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. Many have undertaken business registration reforms in stages—and

they often are part of a larger regulatory reform program. Among the benefits have been greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Honduras (table 2.1)?

Table 2.1 How has Honduras made starting a business easier—or not?  
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
<b>DB2010</b>	Honduras simplified business start-up by improving the efficiency of business registration at the one-stop shop, improving the tax registration process and eliminating the need for a lawyer's services to obtain a municipal license.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

## STARTING A BUSINESS

### What are the details?

Underlying the indicators shown in this chapter for Honduras is a set of specific procedures—the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by *Doing Business* through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy. Following is a detailed summary of those procedures, along with the associated time and cost. These procedures are those that apply to a company matching the standard assumptions (the “standardized company”) used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators measure).

#### STANDARDIZED COMPANY

**Legal form:** Private Limited Company

**Paid in minimum capital requirement:** HNL 5,000

**City:** Tegucigalpa

**Start-up Capital:** 10 times GNI per capita

Table 2.2 Summary of time, cost and procedures for starting a business in Honduras -

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Pay the initial capital and obtain the certificate of the deposit at a local bank</b></p> <p>The entrepreneurs need to pay the initial capital in a local bank and obtain the certificate of the deposit.</p> <p><i>Agency: Bank</i></p>	1 day	Lps. 100
2	<p><b>Establish the company before a notary public, who will draw up the articles of incorporation</b></p> <p>A company may be set up by public subscription or simultaneous foundation. The procedures described here are for simultaneous foundation (fundación simultánea).</p> <p>The constitution instrument should be written on stamped paper (papel sellado). The notary uses this paper for the protocol (the original signed document in the notary’s custody) and for the first copy (testimonio) of the instrument of organization.</p> <p><i>Agency: Notary</i></p>	2 days	notary fees of 5% until Lps.25,000 and 3% over Lps.25,000 of the capital.

No.	Procedure	Time to complete	Cost to complete
3	<p><b>Publish the registration notice in “La Gaceta”, the official journal or an ordinary newspaper</b></p> <p>The company needs to publish its registration in the official journal “La Gaceta” or any other newspaper.</p> <p><i>Agency: ENAG</i></p>	1 day	US\$35 for one advertisement in “La Gaceta”; \$15 in a newspaper
4	<p><b>File the articles of incorporation with the Mercantile Registry at the Chamber of Commerce</b></p> <p>According to Decree 253-2005, company registration in Tegucigalpa was transferred from the Property Registry (Instituto de Propiedad) to the Chamber of Commerce.</p> <p>To register the Public Deed you must submit the following documents:</p> <ol style="list-style-type: none"> <li>1) First copy (testimonio) of the instrument of Organization with a Photocopy;</li> <li>2) Publication of the Registration Notice in The Gaceta with a Photocopy;</li> <li>3) Receipt of the Registration fees payment.</li> </ol> <p>Cost details: HNL 200 for the first HNL 1,000 of capital + HNL 1.5 per HNL 1,000 of capital or fraction thereof.</p> <p><i>Agency: Chamber of Commerce</i></p>	2 days	See procedure details
5	<p><b>Apply for the tax identification code (Registro Tributario Nacional, RTN)</b></p> <p>All natural or legal persons must apply for the tax identification code (Registro Tributario Nacional, RTN) at the Dirección Ejecutiva de Ingresos (DEI)- Ministry of Finance office.</p> <p>To obtain it, the notary public who authorizes an incorporation deed must notify the administrative authority of the incorporation.</p> <p><i>Agency: Ministry of Finance</i></p>	1 day	no charge
6	<p><b>Acquire accounting and minutes books</b></p> <p>The minute books can now be authorized as a separate bound sheet and not necessarily as book.</p> <p><i>Agency: Authorized Vendor</i></p>	1 day	US\$ 45 (about 0.5 US\$ per page)

No.	Procedure	Time to complete	Cost to complete
7	<p><b>Register with local and national chambers of commerce</b></p> <p>The company needs to register with the local and national chambers of commerce.</p> <p><i>Agency: Chamber of Commerce</i></p>	1 day	no charge
8	<p><b>Apply for an operational permit (Permiso de Operación) from the municipal authorities</b></p> <p>To obtain the operational permit, some or all of the following documents must be filed, depending on the type of industrial or commercial activity:</p> <ul style="list-style-type: none"> <li>- Personal identity card and municipality tax solvency of the general manager (copies).</li> <li>- Tax identification code (RTN) (copy).</li> <li>- Cadastral code (clave cadastral) corresponding to the corporation's place of business.</li> <li>- Constitution instrument (escritura de constitución de la compañía) (copy).</li> <li>- Zoning constancy.</li> <li>- Tenancy agreement and constancy of income tax solvency corresponding to the owner of the premises in which the company will do business.</li> <li>- Environmental impact statement.</li> <li>- Cadastral inspection of the premises in which the corporation will do business.</li> </ul> <p>In addition, the company must pay the following taxes, which vary based on the company's income: nomenclature tax, zoning tax, inspection tax, code tax, environmental tax, and taxes for firefighting and waste management services (paid annually to the municipality).</p> <p>Regarding the accounting books there are 2 ways in which they can be authorized: if the company follows manual accounting procedures, the books must be filed before the Mayor's office for authorization. The cost ranges between HNL 1-5 per page for three mandatory books. If the company opts to keep electronic books, it must request permission from the tax authority (Dirección Ejecutiva de Ingresos -DEI) and submit separate bound sheets before the Mayor's office by the end of each year (or earlier per the company's decision). In this case there are no associated costs.</p> <p><i>Agency: Municipality</i></p>	1 day	Lps. 1,250
9	<p><b>Register for Sales tax</b></p> <p>According to the Tax Code (Código Tributario), the company is obliged to record the constitution instrument and the operation permit before the Minister of Finance, in order to pay sales tax on the sale of goods or</p>	2 days	no charge

No.	Procedure	Time to complete	Cost to complete
	services. <i>Agency: Tax administration</i>		
10	<p><b>* Register at Social Security Institute (Instituto Hondureño de Seguridad Social, IHSS)</b></p> <p>Social Security Institute (Instituto Hondureño de Seguridad Social, IHSS) is the national social security hospital and outpatient care institution for workers and their dependants. The company is obliged to contribute 5% of each employee's salary for illness and maternity (enfermedad y maternidad, EM), plus 2% for disability, old age, and death (invalidez, vejez y muerte, IVM)—a total of 7% up to a maximum of HNL 7,000.</p> <p><i>Agency: Social Security Institute</i></p>	3 days (simultaneous with previous procedure)	no charge
11	<p><b>* Register at the Professional Training Institute (Instituto Nacional de Formación Profesional, INFOP)</b></p> <p>Employers are obliged to contribute 1% of the company's total payroll to the Professional Training Institute (Instituto Nacional de Formación Profesional, INFOP).</p> <p><i>Agency: Hand Labor Training Institute</i></p>	1 day (simultaneous with previous procedure)	no charge
12	<p><b>* Register at Social Fund for Housing (Régimen de Aportación, (RAP) al Fondo Social de la Vivienda (FOSOVI)</b></p> <p>If the company has more than 10 employees, it is obliged to contribute 1.5% of each employee's salary to the Social Fund for Housing (Régimen de Aportación, RAP, and Fondo Social de la Vivienda, FOSOVI).</p> <p><i>Agency: Social Fund for Housing</i></p>	1 day (simultaneous with previous procedure)	no charge

\* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

## DEALING WITH CONSTRUCTION PERMITS

Regulation of construction is critical to protect the public. But it needs to be efficient, to avoid excessive constraints on a sector that plays an important part in every economy. Where complying with building regulations is excessively costly in time and money, many builders opt out. They may pay bribes to pass inspections or simply build illegally, leading to hazardous construction that puts public safety at risk. Where compliance is simple, straightforward and inexpensive, everyone is better off.

### What do the indicators cover?

*Doing Business* records the procedures, time and cost for a business in the construction industry to obtain all the necessary approvals to build a warehouse in the economy's largest business city, connect it to basic utilities and register the warehouse so that it can be used as collateral or transferred to another entity.

The ranking of economies on the ease of dealing with construction permits is determined by sorting their distance to frontier scores for dealing with construction permits. These scores are the simple average of the distance to frontier scores for each of the component indicators.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the warehouse, including the utility connections.

The business:

- Is a limited liability company operating in the construction business and located in the largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added. Is domestically owned and operated.
- Has 60 builders and other employees.

The warehouse:

- Is valued at 50 times income per capita.
- Is a new construction (there was no previous construction on the land).

### WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE

#### Procedures to legally build a warehouse (number)

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Submitting all required notifications and receiving all necessary inspections

Obtaining utility connections for water and sewerage

Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day.

Procedure considered completed once final document is received

No prior contact with officials

#### Cost required to complete each procedure (% of warehouse value)

Official costs only, no bribes

- Will have complete architectural and technical plans prepared by a licensed architect or engineer.
- Will be connected to water and sewerage (sewage system, septic tank or their equivalent). The connection to each utility network will be 150 meters (492 feet) long.
- Will be used for general storage, such as of books or stationery (not for goods requiring special conditions).
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

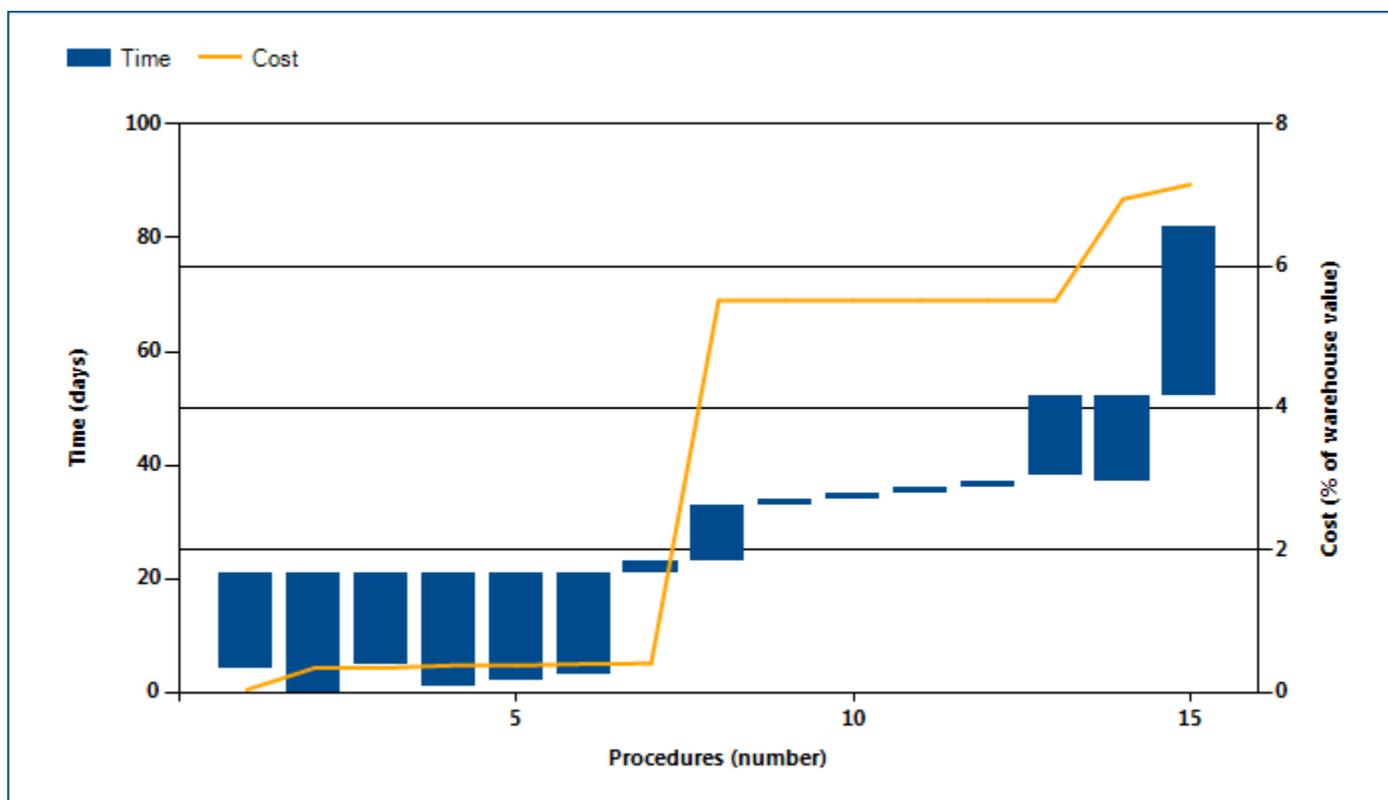
## DEALING WITH CONSTRUCTION PERMITS

### Where does the economy stand today?

What does it take to comply with the formalities to build a warehouse in Honduras? According to data collected by *Doing Business*, dealing with construction permits there requires 15.0 procedures, takes 82.0 days and costs 7.2% of the warehouse value (figure 3.1). Most indicator sets refer to a case scenario in the largest business city of

an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 3.1 What it takes to comply with formalities to build a warehouse in Honduras -



Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

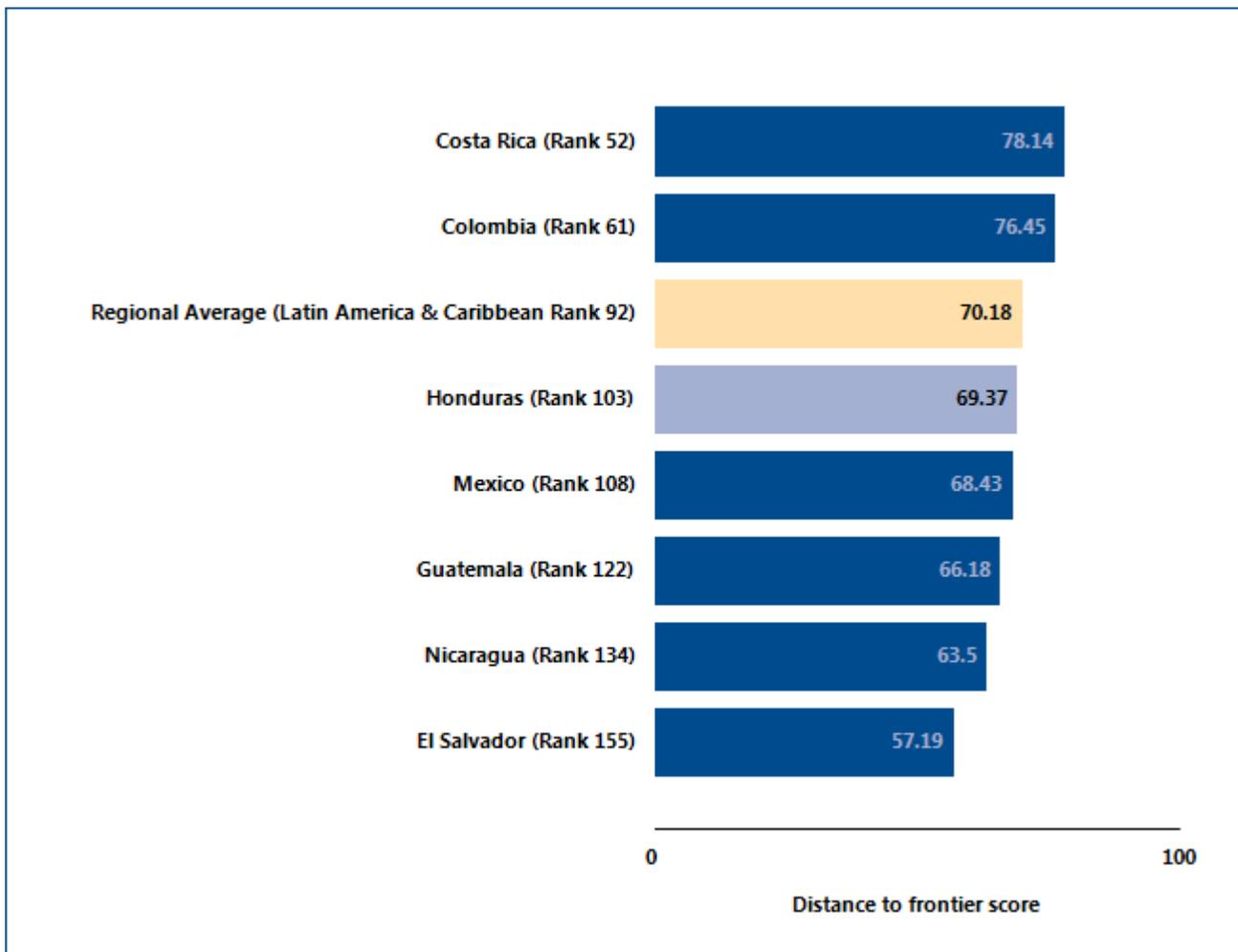
Source: *Doing Business* database.

### DEALING WITH CONSTRUCTION PERMITS

Globally, Honduras stands at 103 in the ranking of 189 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator economies and the regional average ranking provide

other useful information for assessing how easy it is for an entrepreneur in Honduras to legally build a warehouse.

Figure 3.2 How Honduras and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

## DEALING WITH CONSTRUCTION PERMITS

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

an effort to ensure building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. What construction permitting reforms has *Doing Business* recorded in Honduras (table 3.1)?

Table 3.1 How has Honduras made dealing with construction permits easier—or not?

By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
<b>DB2010</b>	Honduras reduced the time required for dealing with construction permits by streamlining administrative processes in the Construction Control Department.
<b>DB2015</b>	Honduras made dealing with construction permits more costly by increasing the building permit fees.

*Note:* For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

*Source:* *Doing Business* database.

## DEALING WITH CONSTRUCTION PERMITS

### What are the details?

The indicators reported here for Honduras are based on a set of specific procedures—the steps that a company must complete to legally build a warehouse—identified by *Doing Business* through information collected from experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures are those that apply to a company and structure matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

#### BUILDING A WAREHOUSE

**Estimated cost of construction :** HNL 2,164,820

**City :** Tegucigalpa

The procedures, along with the associated time and cost, are summarized below.

Table 3.2 Summary of time, cost and procedures for dealing with construction permits in Honduras -

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Request and obtain design guidelines and approval of drawings and designs from Urban Planning Office</b></p> <p>Every company planning to construct a new building must request design guidelines from the Urban Planning Office in the vicinity of the future construction site.</p> <p><i>Agency: Urban Planning Office</i></p>	3 days	HNL 900
2	<p><b>* Request and obtain environmental approval from Office of Municipal Environmental Development and Management (GMDAM)</b></p> <p>BuildCo's case would be considered by the Office of Municipal Environmental Development and Management. Under a major government initiative, the National Competitiveness Program (Programa Nacional de Competitividad) the municipality (GMDAM) entered into an agreement with SERNA in 2007. Under the agreement, both entities have computerized all the offices responsible for processing the relevant documents and have also trained most of the staff. This has increased the number of licenses issued from 30 per month in 2006 to 140 in 2007. However, more efficient service has also boosted demand from the private sector. The government is considering ways to increase resources to meet the increased demand.</p> <p>As of September 4, 2008, the Law on Environment was approved, as well as other implementing regulations. Article 78 of the law introduced criteria for different categories of environmental approvals depending on project risks. Commercial warehouses that fit into Category 1 (Article 5) are only subject to environmental control rather than a full scale study at the local level by the Office of Municipal Environmental Development and Management ('UGA' or 'UMA'). It is planned that this requirement which is a precondition for obtaining building permit now will be moved as precondition for operation of the building, and to be</p>	21 days	HNL 6,582

No.	Procedure	Time to complete	Cost to complete
	<p>complied with after the building is completed and all permits are obtained.</p> <p>The cost according to Article 70 of Plan de Arbitrios is 1% of the construction cost of the value up to HNL 200,000 + 0.50% of the construction cost of the value between HNL 200,001 - 1,000,000 + 0.05% of the construction cost of the value that exceeds HNL 1,000,000.</p> <p><i>Agency: Office of Municipal Environmental Development and Management of Municipality of Tegucigalpa (UMA)</i></p>		
<p>3</p>	<p><b>* Request and obtain proof of land ownership</b></p> <p>Certification that BuildCo owns the land is required. BuildCo requests certification from the Property Registration.</p> <p><i>Agency: Property Registration</i></p>	<p>1 day</p>	<p>no charge</p>
<p>4</p>	<p><b>* Request and obtain approval for connection to water and sewage from SANAA</b></p> <p>The committee responsible for approving conditions of water and sewerage connections meets once a week.</p> <p><i>Agency: SANAA</i></p>	<p>15 days</p>	<p>HNL 750</p>
<p>5</p>	<p><b>* Request and obtain rainwater drainage feasibility analysis</b></p> <p>The cost is included in the fee paid to the water company (SANAA).</p> <p><i>Agency: SANAA</i></p>	<p>7 days</p>	<p>no charge</p>
<p>6</p>	<p><b>* Request and obtain approval (constancia) from Public Works Secretary (SOPTRAVI)</b></p> <p>Approval from the Public Works Secretary (SOPTRAVI) is required for the location clearance. A fee of HNL 300.00 is charged for the approval and a fee of HNL 200.00 for the inspection.</p> <p><i>Agency: Public Works Secretary (SOPTRAVI)</i></p>	<p>7 days</p>	<p>HNL 500</p>
<p>7</p>	<p><b>Request and obtain location clearances (uso de suelo y factibilidad vial) from the Municipal Authority</b></p> <p>The following documents must be presented to obtain a certificate of occupancy (Uso de Suelo y Factibilidad Vial) from the Municipality:</p> <ul style="list-style-type: none"> <li>• Application</li> <li>• Proof of property registration</li> <li>• Designs and drawings</li> <li>• Approvals from the SANAA and the ENEE, and others</li> </ul>	<p>2 days</p>	<p>HNL 150</p>

No.	Procedure	Time to complete	Cost to complete
	<p>• Environmental license</p> <p>The new city zoning plan that was introduced in early 2008 is currently being operationalized. One of the main features of the plan is the change of zoning from residential to commercial and its further digitization based on maps from Cadastre and Management Engineering (Ingeniería Gerencial). Furthermore, the land use regulations were amended in April 2008, introducing categories based on risk factors. This led to an improvement in the process of obtaining the location clearance, including a time reduction. The application is checked in the back office to verify whether the new land use is compatible with land use regulations.</p> <p><i>Agency: Municipal Authority (Alcaldía Municipal)</i></p>		
8	<p><b>Request and obtain building permit</b></p> <p>The permit application documents are reviewed by the Legal Department, the Technical Department, the Professional College, the Environmental Section, and the Chief of Construction Permits. After submitting the permit application and all other required documents, BuildCo pays the application fee at TASA Municipal. Prior to starting construction, BuildCo must notify the authority.</p> <p><i>Agency: Municipal Authority (Alcaldía Municipal)</i></p>	10 days	HNL 110,551
9	<p><b>Receive footings and foundations inspection (“inspección de zapatas y fundaciones”)</b></p> <p>According to the 2010 Building Code of Honduras " Código de Construcción de Honduras" under Section 109, BuildCo is obliged to receive footing and foundations inspection. This inspection should be made after excavations for footings are complete and all reinforcing steel are in place. "Las inspecciones de zapatas y fundaciones deben realizarse luego de que las excavaciones para zapatas estén completas y todos los aceros de refuerzo estén colocados."</p> <p><i>Agency: Municipal Authority (Alcaldía Municipal)</i></p>	1 day	no charge
10	<p><b>Receive inspection upon pouring of concrete slabs (“inspección de losas y contrapisos de concreto”)</b></p> <p>According to the 2010 Building Code of Honduras " Código de Construcción de Honduras" under Section 109, BuildCo is obliged to receive inspection upon pouring of concrete slabs. This inspection must be performed after the steel reinforcement of the slab or subfloor and building service equipment, conduit, piping accessories and other ancillary equipment items are in place, but before any concrete is placed or the stage floor is installed, including the primary flooring.</p> <p>"Las inspecciones de losas y contrapisos de concreto deben realizarse</p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>despues de que el acero de refuerzo de las losa o contrapiso y los equipos de servicio del edificio, conductos, accesorios de tuberias y otros elementos de equipos auxiliares esten en su lugar, pero antes de que cualquier concreto sea colocado o se instale el tablado del piso, incluyendo el entarimado primario."</p> <p><i>Agency: Municipal Authority (Alcaldía Municipal)</i></p>		
<p><b>11</b></p>	<p><b>Receive structure inspection ("inspección de estructuras")</b></p> <p>According to the 2010 Building Code of Honduras " Código de Construcción de Honduras" under Section 109, BuildCo is obliged to receive structure inspection. This inspection must be made after the roof deck or sheathing, all structure, fire fighting locked and braces are in place and pipes, chimneys and vents that need to be concealed are complete and the rough work of the cables , plumbing and electrical, hydraulic and sanitary and heating ducts are approved.</p> <p>"Las inspecciones de estructuras deben realizarse después que la cubierta o entablado del techo, toda la estructura, los bloqueados antifuegos y los arriostramientos estén en su lugar y las tuberías, chimeneas y ventilaciones que deban ser ocultados estén completos y la obra gruesa de los cables, tuberías y conductos eléctricos, hidráulicos y sanitarios y de calefacción estén aprobados."</p> <p><i>Agency: Municipal Authority (Alcaldía Municipal)</i></p>	<p>1 day</p>	<p>no charge</p>
<p><b>12</b></p>	<p><b>Receive on-site inspection from Fire Department after construction</b></p> <p>According to the 2010 Building Code of Honduras " Código de Construcción de Honduras" under Section 109, BuildCo is obliged to receive Fire Department inspection.</p> <p><i>Agency: Fire Department</i></p>	<p>1 day</p>	<p>no charge</p>
<p><b>13</b></p>	<p><b>Receive final inspection</b></p> <p>According to the 2010 Building Code of Honduras " Código de Construcción de Honduras" under Section 109, BuildCo is obliged to receive a final inspection. The final inspection must be made after all work required by the building permit is finished.</p> <p><i>Agency: Municipal Authority (Alcaldía Municipal)</i></p>	<p>1 day</p>	<p>no charge</p>
<p><b>14</b></p>	<p><b>* Receive connection to water and sewage from SANAA</b></p> <p><i>Agency: SANAA</i></p>	<p>15 days</p>	<p>HNL 30,888</p>

No.	Procedure	Time to complete	Cost to complete
15	<p><b>Register building at Real Estate Registry</b></p> <p>Reforms and optimization of electronic processing have significantly decreased the time to register property. However, in 2009 due to an administrative backlog and delays with the registration process, the procedure for registration of a building is now taking on average 30 days. Additionally, the website of Institute of Property (Instituto de Propiedad) has been shut down.</p> <p><i>Agency: Real Estate Registry (Registro de Bienes Raíces)</i></p>	30 days	HNL 4,478

\* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: *Doing Business* database.

## GETTING ELECTRICITY

Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection.

*What do the indicators cover?*

*Doing Business* records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include applications and contracts with electricity utilities, clearances from other agencies and the external and final connection works. The ranking of economies on the ease of getting electricity is determined by sorting their distance to frontier scores for getting electricity. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions are used.

The warehouse:

- Is owned by a local entrepreneur, located in the economy's largest business city, in an area where other warehouses are located. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- Is not in a special economic zone where the connection would be eligible for subsidization or faster service.
- Is located in an area with no physical constraints (ie. property not near a railway).
- Is a new construction being connected to electricity for the first time.
- Is 2 stories, both above ground, with a total surface of about 1,300.6 square meters (14,000 square feet), is built on a plot of 929 square meters (10,000 square feet), is used for storage of refrigerated goods

The electricity connection:

- Is 150 meters long and is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.

### WHAT THE GETTING ELECTRICITY INDICATORS MEASURE

#### Procedures to obtain an electricity connection (number)

- Submitting all relevant documents and obtaining all necessary clearances and permits
- Completing all required notifications and receiving all necessary inspections
- Obtaining external installation works and possibly purchasing material for these works
- Concluding any necessary supply contract and obtaining final supply

#### Time required to complete each procedure (calendar days)

- Is at least 1 calendar day
- Each procedure starts on a separate day
- Does not include time spent gathering information
- Reflects the time spent in practice, with little follow-up and no prior contact with officials

#### Cost required to complete each procedure (% of income per capita)

- Official costs only, no bribes
- Excludes value added tax
- Is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the area where the warehouse is located. Included only negligible length in the customer's private domain.
- Requires crossing of a 10-meter road but all the works are carried out in a public land, so there is no crossing into other people's private property.
- Involves installing one electricity meter. The monthly electricity consumption will be 26880 kilowatt hour (kWh). The internal electrical wiring has been completed.

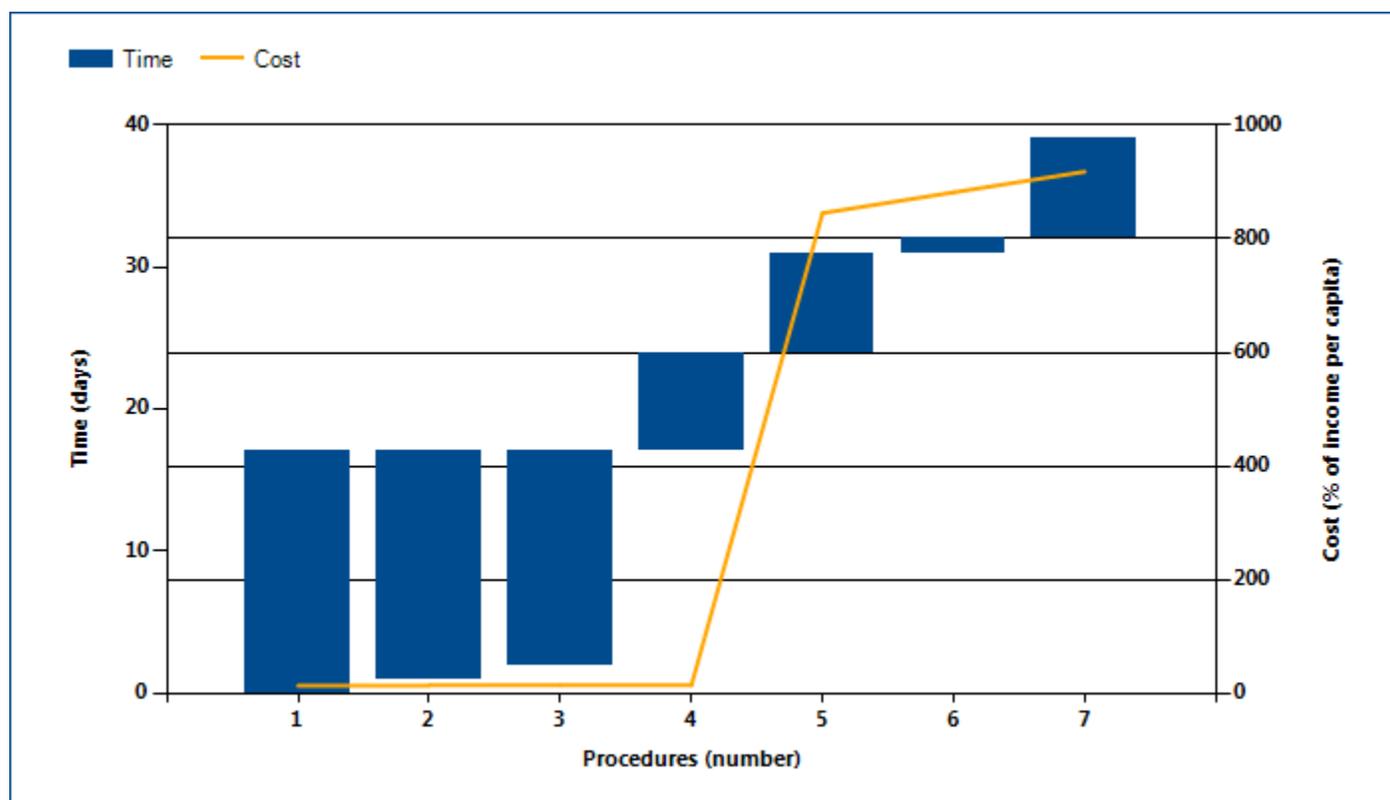
## GETTING ELECTRICITY

### Where does the economy stand today?

What does it take to obtain a new electricity connection in Honduras? According to data collected by *Doing Business*, getting electricity there requires 7.0 procedures, takes 39.0 days and costs 918.0% of income per capita (figure 4.1).

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 4.1 What it takes to obtain an electricity connection in Honduras -



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

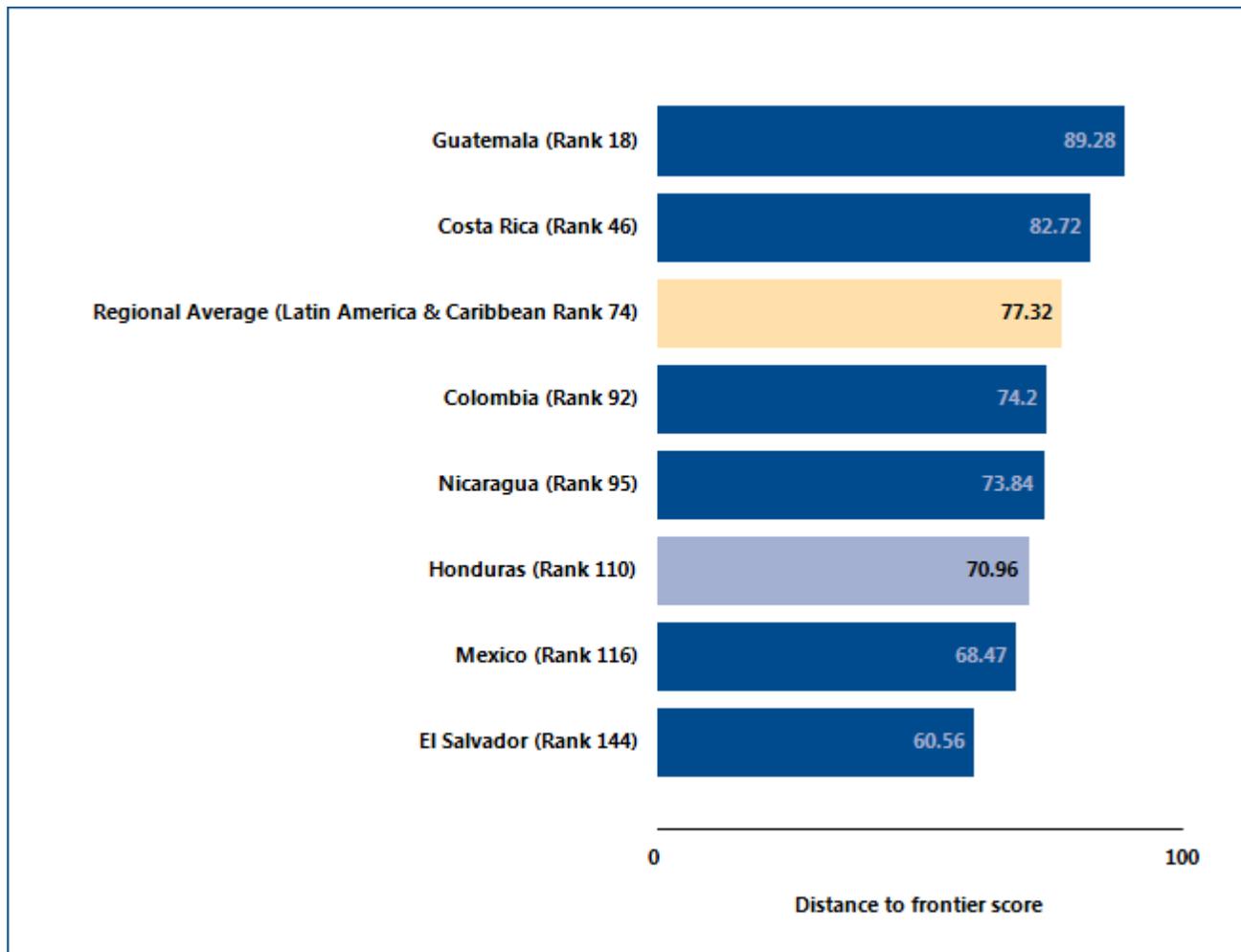
Source: *Doing Business* database.

### GETTING ELECTRICITY

Globally, Honduras stands at 110 in the ranking of 189 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the regional

average ranking provide another perspective in assessing how easy it is for an entrepreneur in Honduras to connect a warehouse to electricity.

Figure 4.2 How Honduras and comparator economies rank on the ease of getting electricity



Source: Doing Business database.

## GETTING ELECTRICITY

### What are the details?

The indicators reported here for Honduras are based on a set of specific procedures—the steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility—identified by *Doing Business*. Data are collected from the distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) in which warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

#### OBTAINING AN ELECTRICITY CONNECTION

**Name of utility:** Empresa Nacional de Energia Electrica (ENEE)

**City:** Tegucigalpa

The procedures are those that apply to a warehouse and electricity connection matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

Table 4.2 Summary of time, cost and procedures for getting electricity in Honduras -

No.	Procedure	Time to complete	Cost to complete
1	<p><b>The customer hires an electrical engineer certified by the College for Mechanical, Electrical and Chemical Engineers of Honduras (CIMEQH) to design the external connection according to the standards set by the College and to send the design and the certificate to Empresa Nacional de Energia Electrica (ENEE) for its approval</b></p> <p>An electrical engineer employed by CIMEQH estimates the power needed for the project and designs the external connection. For loads greater than 1,000 kVA, the engineer should go first to Empresa Nacional de Energia Electrica (ENEE) to request a feasibility study. In a case where the load is 140kVA, this procedure is not necessary.</p> <p>The design and the process of obtaining ENEE's review can only be made by an electrical engineer authorized by the CIMEQH. The implementation of the design can be done by an electrician. The electrical engineer must obtain a certificate by the College for each design that he files with ENEE. The certificate states that the engineer is a member of the College and has paid his contributions.</p> <p>It is recommended that the internal wiring installation be also done by a CIMEQH's electrical engineer. Although the internal installation plans are reviewed by the Municipality and the Firefighters, in the context of the process to obtain a building permit, the final internal installation is not reviewed. One way to ensure the quality of the internal installation is to hire an engineer authorized by CIMEQH for the installation. In the case of a fire due to a malfunctioning installation, it is easier to obtain legal satisfaction if it was performed by a member of CIMEQH.</p> <p>After having prepared the design, the engineer has to file the certificate</p>	17 calendar days	HNL 5,900

No.	Procedure	Time to complete	Cost to complete
	<p>with the Empresa Nacional de Energia Electrica (ENEE). ENEE reviews the certificate issued by the College to determine whether it meets ENEE's standards. ENEE also inspects the site. Finally, ENEE approves the design.</p> <p><i>Agency: Ingeniero Electrico licenciado con el Colegio de Ingenieros mecanicos, electricos y quimicos de Honduras (CIMEQH)</i></p>		
2	<p><b>* The electrical engineer authorized by the College for Mechanical, Electrical and Chemical Engineers of Honduras (CIMEQH) obtains a certificate of approval ("solvency") from the college</b></p> <p>The electrical engineer must obtain a certificate by the College for each design that he presents to the Empresa Nacional de Energia Electrica (ENEE). The certificate states that the engineer is a member of the College and has paid his contributions.</p> <p><i>Agency: Colegio ingeniero Mecánicos, Electricista y Químicos de Honduras (CIMEQH)</i></p>	1 calendar day	HNL 360
3	<p><b>* Empresa Nacional de Energia Electrica (ENEE) inspects the terrain to inform the approval of the design</b></p> <p>To prepare the design a site visit is conducted.</p> <p><i>Agency: Empresa Nacional de Energia Electrica (ENEE)</i></p>	1 calendar day	HNL 0
4	<p><b>The electrical engineer obtains a permit at the Municipality to cross cables in public space</b></p> <p>Before to request this permit, the customer has to have the approval of the plans by the utility (ENEE). The costs are calculated assuming that the wires are crossed over public roads. If the connection is underground, a permit to break tracks is needed and the cost will depend on the material used (asphalt, cement, sand, etc.)</p> <p><i>Agency: Municipality of Tegucigalpa</i></p>	7 calendar days	HNL 15
5	<p><b>The electrical engineer authorized by College for Mechanical, Electrical and Chemical Engineers of Honduras (CIMEQH) performs the external connection according to the design approved by ENEE</b></p> <p>Three transformers 50kVA or one transformer of 150kVA must be installed.</p> <p>Empresa Nacional de Energia Electrica conducts an inspection of the</p>	7 calendar days	HNL 359,625

No.	Procedure	Time to complete	Cost to complete
	<p>external connection to ensure that the implementation is according to the approved design. If the reviewer disagrees with the implementation, the responsible electrician has to make the corrections.</p> <p><i>Agency: Ingeniero Electrico licenciado con el Colegio de Ingenieros mecanicos, electricos y quimicos de Honduras (CIMEQH) o un Electricista</i></p>		
<p><b>6</b></p>	<p><b>The client sends their application in person with Empresa Nacional de Energia Electrica (ENEE), pays the security deposit and requests the execution of the last step (the installation of the meter)</b></p> <p>The following documents are required with the application (no notarization of the documents is needed):</p> <ul style="list-style-type: none"> <li>• A copy of the company's by-laws;</li> <li>• photocopy of the ID of the person authorized by the by-laws;</li> <li>• Sketch / map of where is the warehouse (address).</li> </ul> <p>It is necessary to pay a deposit of guarantee or consumption (Article 32 of the Act that rules the electrical sector): Lps.845.96 per KVA. It may be in cash or bank guarantee. Reason: to ensure the payment of consumption ENEE charges after providing the service).</p> <p>The deposit is made via a certified check payable to ENEE and / or bank guarantee in the name of ENEE and it is paid in ENEE's commercial division. The division issues a memorandum to the customer care unit for them to fill in the client's appropriate data to install the meter. At this time if the person authorized to submit the application has to submit the following additional information</p> <ul style="list-style-type: none"> <li>• To whose name the bills will be sent</li> <li>• The firm's company registration number</li> <li>• Copy of the property title or the lease agreement certified by the municipality.</li> <li>• Copy of the ID of the person that will sign the documents.</li> <li>• Document specifying that the person who will sign the documents is duly authorized by the board of directors.</li> <li>• The security deposit</li> </ul> <p><i>Agency: Empresa Nacional de Energia Electrica (ENEE)</i></p>	<p>1 calendar day</p>	<p>HNL 15,861.75</p>
<p><b>7</b></p>	<p><b>Empresa Nacional de Energia Electrica (ENEE) conducts a last inspection and installs the meter</b></p> <p>Once the application goes to the "Department of High Consumption", the Department sends an engineer to the site to install the transformer and the meter. Once the meter is installed, the energy flows.</p> <p><i>Agency: Empresa Nacional de Energia Electrica (ENEE)</i></p>	<p>7 calendar days</p>	<p>HNL 15,700</p>

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

## REGISTERING PROPERTY

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance.

### What do the indicators cover?

*Doing Business* records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking of economies on the ease of registering property is determined by sorting their distance to frontier scores for registering property. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

- Are limited liability companies, 100% domestically and privately owned and perform general commercial activities.
- Are located in the economy's largest business city<sup>2</sup>.
- Have 50 employees each, all of whom are nationals.

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value.
- Is registered in the land registry or cadastral, or both, and is free of title disputes.
- Property will be transferred in its entirety.

### WHAT THE REGISTERING PROPERTY INDICATORS MEASURE

#### Procedures to legally transfer title on immovable property (number)

Preregistration (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)

Registration in the economy's largest business city<sup>2</sup>

Postregistration (for example, filing title with the municipality)

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day. Procedures that can be fully completed online are recorded as ½ day.

Procedure considered completed once final document is received

No prior contact with officials

#### Cost required to complete each procedure (% of property value)

Official costs only, no bribes

No value added or capital gains taxes included

- Is located in a periurban commercial zone, and no rezoning is required.
- Has no mortgages attached, has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. There is no heating system.

<sup>2</sup> For the 11 economies with a population of more than 100 million, data for a second city have been added.

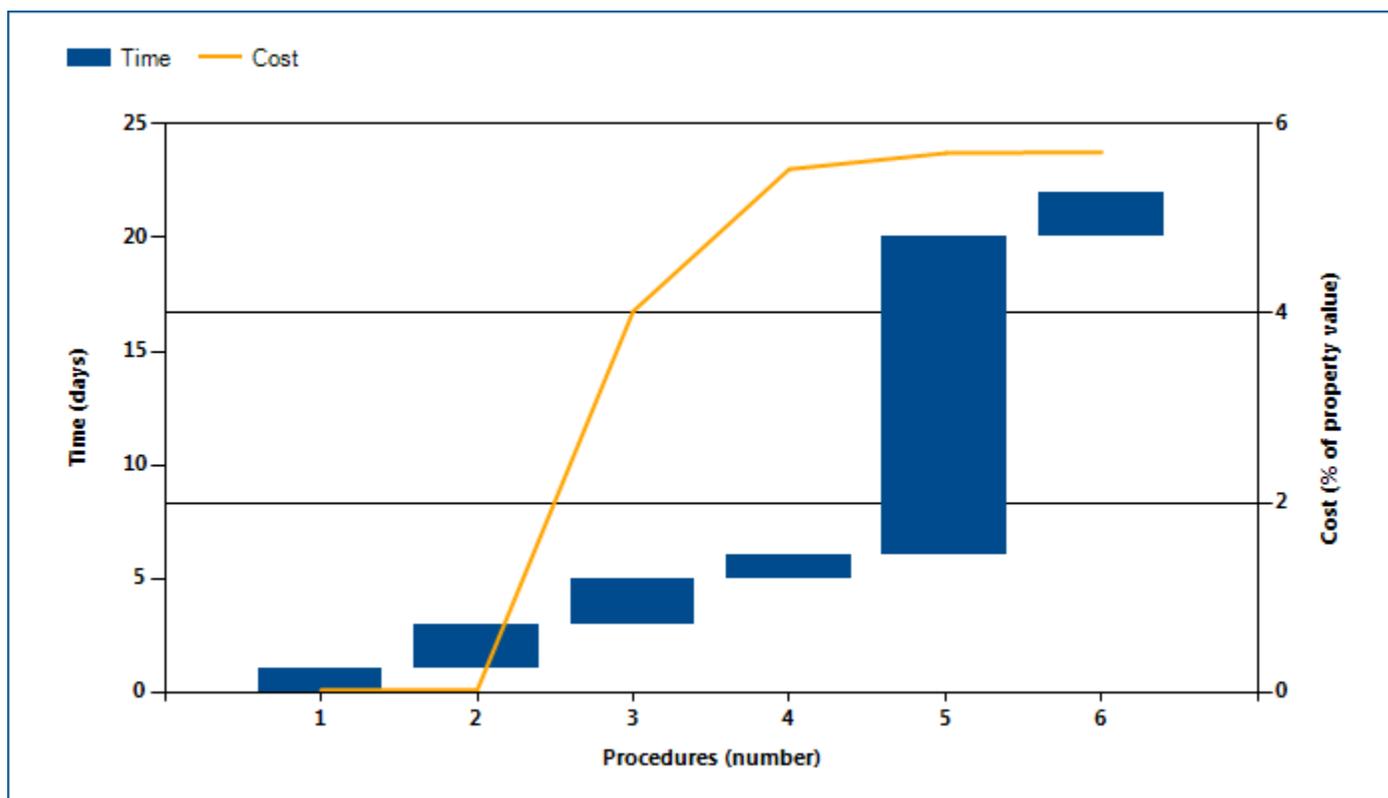
## REGISTERING PROPERTY

### Where does the economy stand today?

What does it take to complete a property transfer in Honduras? According to data collected by *Doing Business*, registering property there requires 6.0 procedures, takes 22.0 days and costs 5.7% of the property value (figure 5.1).

Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Figure 5.1 What it takes to register property in Honduras -



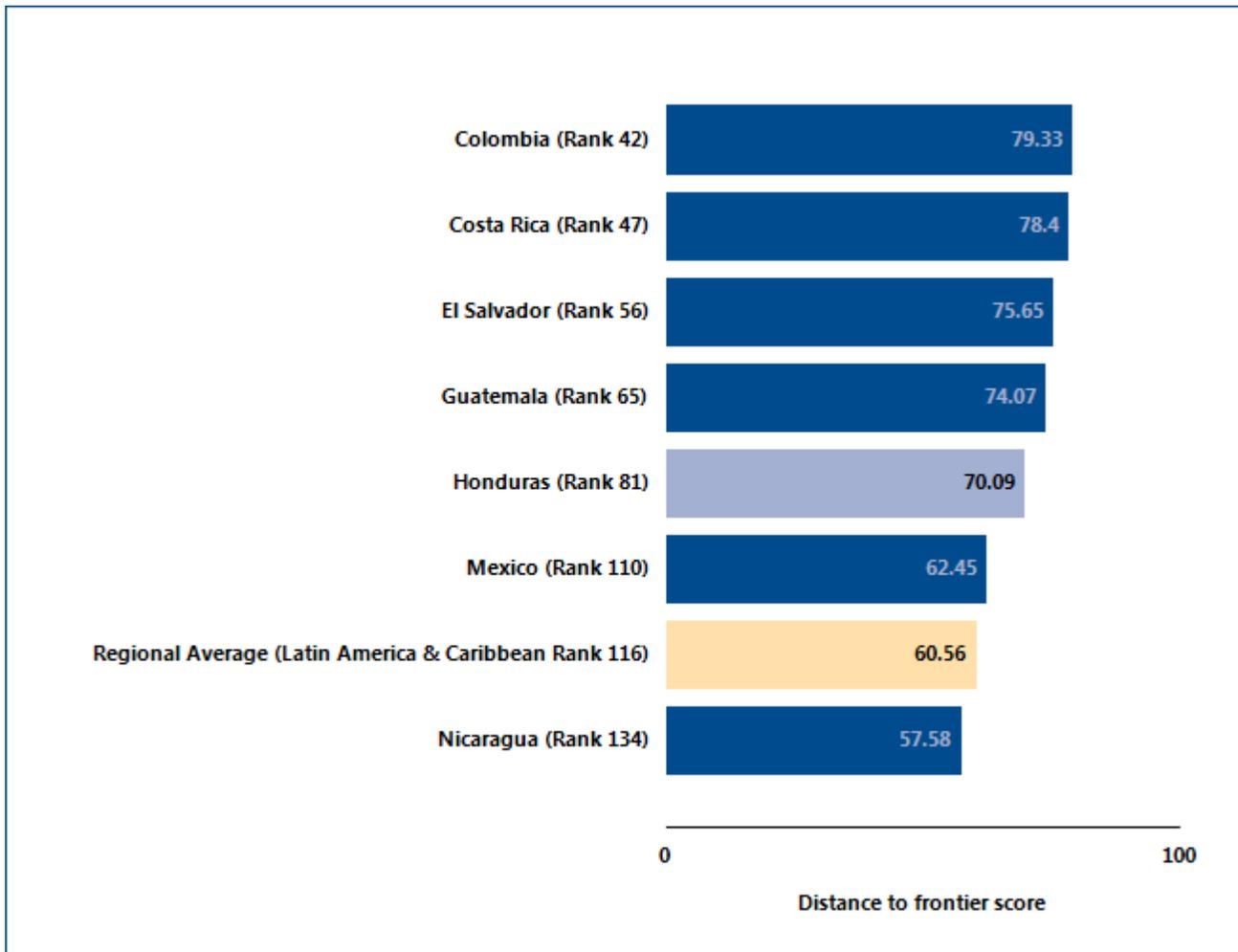
Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter. Source: *Doing Business* database.

### REGISTERING PROPERTY

Globally, Honduras stands at 81 in the ranking of 189 economies on the ease of registering property (figure 5.2). The rankings for comparator economies and the

regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Honduras to transfer property.

Figure 5.2 How Honduras and comparator economies rank on the ease of registering property



Source: Doing Business database.

## REGISTERING PROPERTY

### What are the details?

The indicators reported here are based on a set of specific procedures—the steps that a buyer and seller must complete to transfer the property to the buyer’s name—identified by *Doing Business* through information collected from local property lawyers, notaries and property registries. These procedures are those that apply to a transaction matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

STANDARD PROPERTY TRANSFER	
<b>Property value:</b>	<b>HNL 2,164,820</b>
<b>City:</b>	<b>Tegucigalpa</b>

The procedures, along with the associated time and cost, are summarized below.

Table 5.2 Summary of time, cost and procedures for registering property in Honduras

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Verification of property background</b></p> <p>It is necessary to have the previous registration numbers to see who are the owners and if there have been any mortgages or the property has been sold. The buyer can verify the property background at the on-line Unified Registry System (SURE): <a href="http://www.ip.hn">www.ip.hn</a>. However, in practice there are many problems with the SURE, so users tend to go to the registry.</p> <p><i>Agency: Registro de la Propiedad</i></p>	1 day	HNL 500 (HNL 300 for full certificate "certificación integra" + HNL 200 for non-encumbrance certificate "certificado de libertad de gravamen")
2	<p><b>Verification that the municipal taxes have been paid</b></p> <p>The municipal tax number of the property is needed to check who is the registered owner of the land in the cadastre.</p> <p><i>Agency: Dirección General de Catastro y Geografía (Alcaldía Municipal)</i></p>	2 days	no cost
3	<p><b>The notary issues the deed (preliminary)</b></p> <p>After getting the legal documentation from the parties, the notary issues the preliminary deed ("escritura matriz"). Notary's fees are usually calculated based on the market value of the property according to regulations setting minimum tariffs. For properties with a value below HNL 25,000, the rate cannot be below HNL 1,000 while for properties with a higher value, the fee cannot be below 3% of the property value. Fees are negotiated between the notary and parties.</p> <p><i>Agency: Notary</i></p>	2 days	3-5% of transaction price (Notary's fees)

No.	Procedure	Time to complete	Cost to complete
4	<p><b>Payment at the bank of taxes and fees</b></p> <p>The transfer tax (1.5% of value of property, for urban property with improvements) must be paid at a bank. The taxes are calculated based on either the official value of the property (determined by the Cadastre for tax purposes) or the insured value, whichever is higher. With the introduction of the Property Law in 2004, the transfer tax was cut from 3 to 1.5%, the registration rights and the stamps have been eliminated.</p> <p><i>Agency: Commercial Bank</i></p>	1 day	1.5% of property price (Transfer Tax)
5	<p><b>Registration at the Property registry</b></p> <p>The new deed must be registered in the Property Office by the notary. However, the notary might waive this right and leave to the responsibility to the applicants.</p> <p><i>Agency: Property registry ("Instituto de la Propiedad")</i></p>	14 days	HNL 200 for the first HNL 1,000 of the property value, and HNL 1.50 for each additional HNL 1,000 + HNL 200 for subscription
6	<p><b>Register the change of ownership in the Cadastre office</b></p> <p>The change of ownership must be registered in the Cadastre office ("Dirección General de Catastro y Geografía") by the notary or the buyer. The deed duly registered in Procedure 6 must be presented at the cadastre.</p> <p><i>Agency: Cadastre ("Dirección General de Catastro y Geografía")</i></p>	2 days	HNL 250

\* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

## GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders' rights to view a potential borrower's financial history (positive or negative)—valuable information to consider when assessing risk. And they permit borrowers to establish a good credit history that will allow easier access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital—while strong creditors' rights have been associated with higher ratios of private sector credit to GDP.

### What do the indicators cover?

*Doing Business* assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a credit registry or a credit bureau. The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. *Doing Business* uses two case scenarios, Case A and Case B, to determine the scope of the secured transactions system, involving a secured borrower and a secured lender and examining legal restrictions on the use of movable collateral (for more details on each case, see the Data Notes section of the *Doing Business 2015* report). These scenarios assume that the borrower:

- Is a private limited liability company.
- Has its headquarters and only base of operations in the largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.

### WHAT THE GETTING CREDIT INDICATORS MEASURE

#### Strength of legal rights index (0–12)<sup>3</sup>

Rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

#### Depth of credit information index (0–8)<sup>4</sup>

Scope and accessibility of credit information distributed by credit bureaus and credit registries

#### Credit bureau coverage (% of adults)

Number of individuals and firms listed in largest credit bureau as percentage of adult population

#### Credit registry coverage (% of adults)

Number of individuals and firms listed in credit registry as percentage of adult population

- Has up to 50 employees.
- Is 100% domestically owned, as is the lender.

The ranking of economies on the ease of getting credit is determined by sorting their distance to frontier scores for getting credit. These scores are the distance to frontier score for the strength of legal rights index and the depth of credit information index.

<sup>3</sup> For the legal rights index, 2 new points are added in *Doing Business 2015* for new data collected to assess the overall legal framework for secured transactions and the functioning of the collateral registry.

<sup>4</sup> For the credit information index, 2 new points are added in *Doing Business 2015* for new data collected on accessing borrowers' credit information online and availability of credit scores.

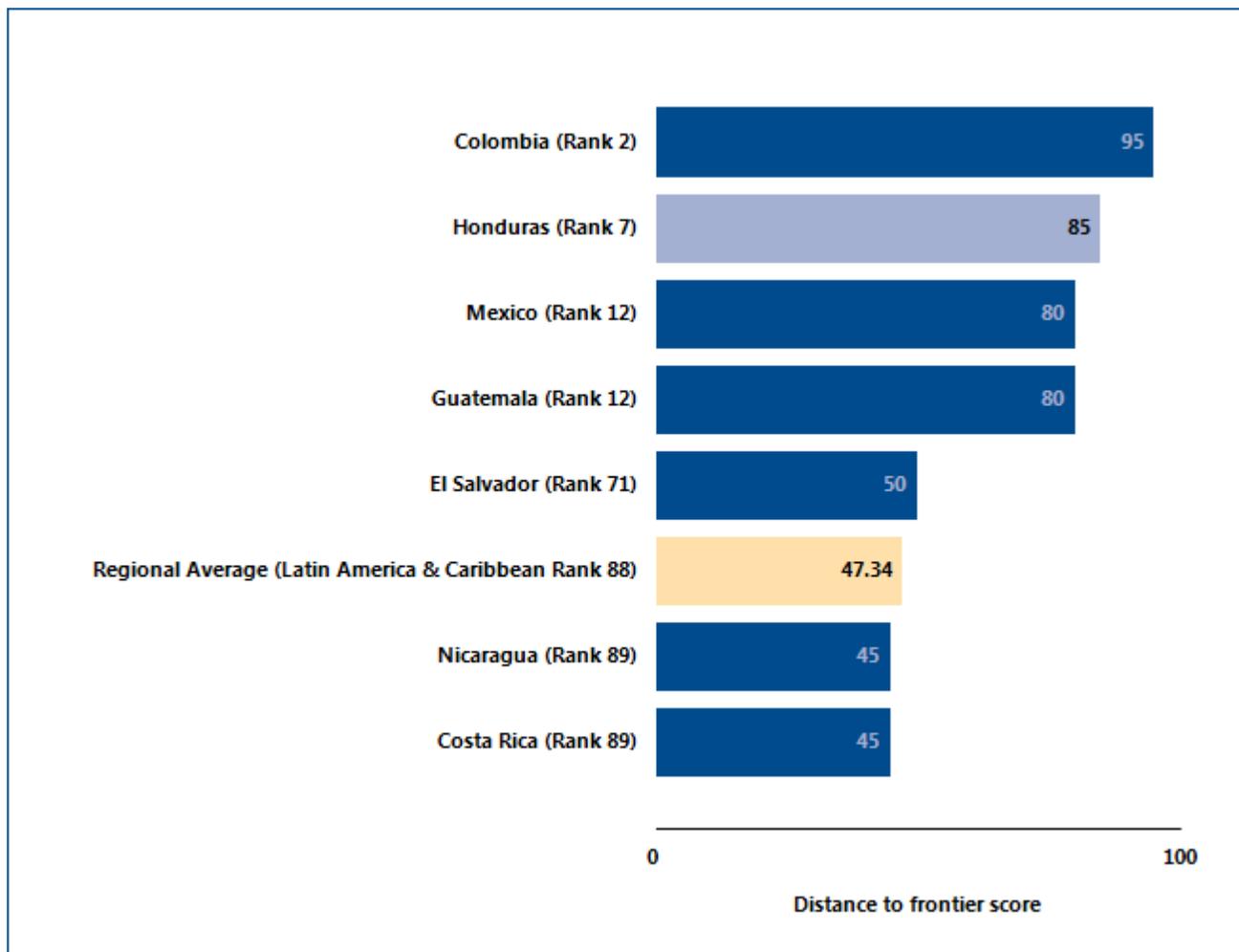
## GETTING CREDIT

### Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Honduras facilitate access to credit? The economy has a score of 8 on the depth of credit information index and a score of 9 on the strength of legal rights index (see the summary of scoring at the end of this chapter for details). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders.

Globally, Honduras stands at 7 in the ranking of 189 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how well regulations and institutions in Honduras support lending and borrowing.

Figure 6.1 How Honduras and comparator economies rank on the ease of getting credit



Source: Doing Business database.

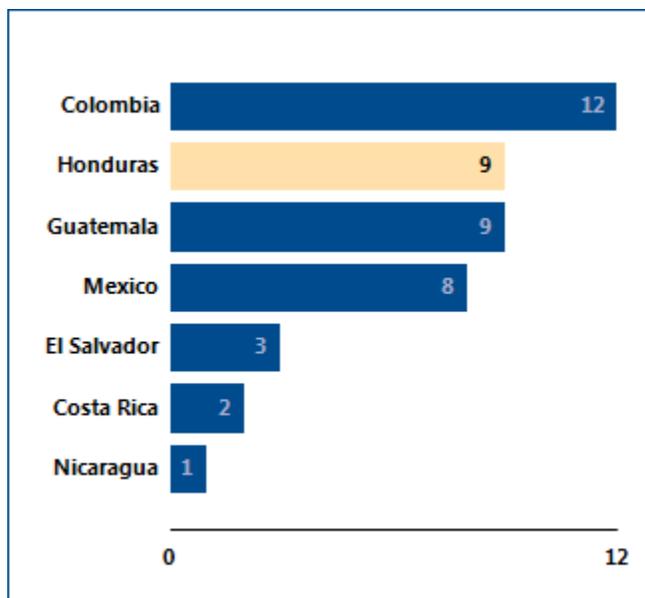
### GETTING CREDIT

One way to put an economy’s score on the getting credit indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 6.2 highlights the score on the strength of legal

rights index for Honduras and shows the scores for comparator economies as well as the regional average score. Figure 6.3 shows the same for the depth of credit information index.

Figure 6.2 How strong are legal rights for borrowers and lenders?

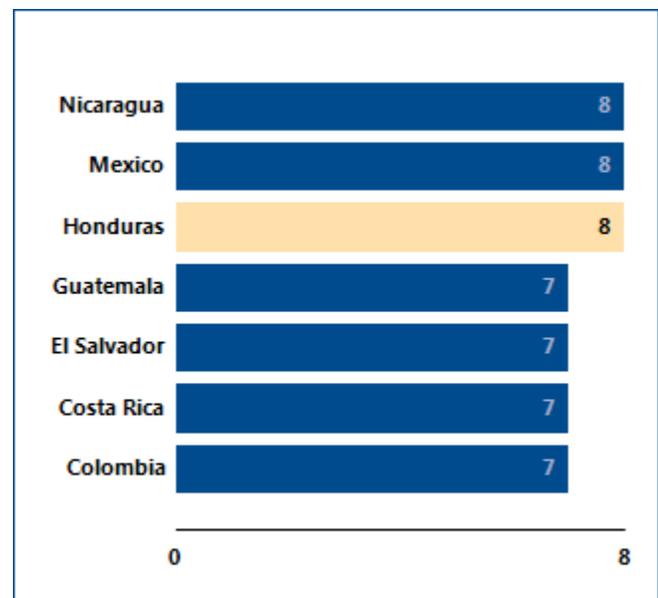
Economy scores on strength of legal rights index



Note: Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.  
Source: Doing Business database.

Figure 6.3 How much credit information is shared—and how widely?

Economy scores on depth of credit information index



Note: Higher scores indicate the availability of more credit information, from either a credit registry or a credit bureau, to facilitate lending decisions. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.  
Source: Doing Business database.

## GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit

information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Honduras (table 6.1)?

Table 6.1 How has Honduras made getting credit easier—or not?  
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
<b>DB2010</b>	Honduras improved its credit information system through a resolution that enhances the operations of the public credit bureau and introduces several categories for classifying debtors on the basis of their credit history.
<b>DB2012</b>	Honduras strengthened its secured transactions system through a new decree establishing a centralized and computerized collateral registry and providing for out-of-court enforcement of collateral upon default.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

Source: *Doing Business* database.

## GETTING CREDIT

### What are the details?

The getting credit indicators reported here for Honduras are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a credit registry and/or credit bureau (if one exists). To construct the depth of credit information index, a score of 1 is assigned for each of 8 features of the credit registry or credit bureau (see summary of scoring below).

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. For the strength of legal rights index, a score of 1 is assigned for each of 10 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law.

Strength of legal rights index (0–12)	Index score: 9
Does an integrated or unified legal framework for secured transactions that extends to the creation, publicity and enforcement of functional equivalents to security interests in movable assets exist in the economy?	Yes
Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	Yes
Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?	Yes
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?	Yes
Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?	Yes
Is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name?	Yes
Does a notice-based collateral registry exist in which all functional equivalents can be registered?	Yes
Does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party?	Yes
Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	No
Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated?	No
Are secured creditors subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure? Does the law protect secured creditors' rights by providing clear grounds for relief from the stay and/or sets a time limit for it?	No

Strength of legal rights index (0–12)	Index score: 9
Does the law allow parties to agree on out of court enforcement at the time a security interest is created? Does the law allow the secured creditor to sell the collateral through public auction and private tender, as well as, for the secured creditor to keep the asset in satisfaction of the debt?	Yes

Depth of credit information index (0–8)	Credit bureau	Credit registry	Index score: 8
Are data on both firms and individuals distributed?	Yes	Yes	1
Are both positive and negative credit data distributed?	Yes	Yes	1
Are data from retailers or utility companies - in addition to data from banks and financial institutions - distributed?	Yes	No	1
Are at least 2 years of historical data distributed? (Credit bureaus and registries that distribute more than 10 years of negative data or erase data on defaults as soon as they are repaid obtain a score of 0 for this component.)	Yes	Yes	1
Are data on loan amounts below 1% of income per capita distributed?	Yes	Yes	1
By law, do borrowers have the right to access their data in the credit bureau or credit registry?	Yes	Yes	1
Can banks and financial institutions access borrowers' credit information online (for example, through an online platform, a system-to-system connection or both)?	Yes	Yes	1
Are bureau or registry credit scores offered as a value-added service to help banks and financial institutions assess the creditworthiness of borrowers?	Yes	No	1

Note: Prior to *Doing Business 2015*, the depth of credit information index covered only the first 6 features listed above. An economy receives a score of 1 if there is a "yes" to either bureau or registry. If the credit bureau or registry is not operational or covers less than 5% of the adult population, the total score on the depth of credit information index is 0.

Coverage	Credit bureau (% of adults)	Credit registry (% of adults)
Number of firms	19,518	35,746
Number of individuals	1,742,404	1,029,441
Percent of total	36.1	21.8

*Source: Doing Business database.*

## PROTECTING MINORITY INVESTORS

Protecting minority investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed standards of accountability for company insiders.

### What do the indicators cover?

*Doing Business* measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders' rights in corporate governance through another. The ranking of economies on the strength of minority investor protections is determined by sorting their distance to frontier scores for protecting minority investors. These scores are the simple average of the distance to frontier scores for the extent of conflict of interest regulation index and the extent of shareholder governance index. To make the data comparable across economies, a case study uses several assumptions about the business and the transaction.

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange (or at least 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.

The transaction involves the following details:

- Mr. James, a director and the majority shareholder of the company, proposes that the company purchase used trucks from another company he owns.
- The price is higher than the going price for used trucks, but the transaction goes forward.
- All required approvals are obtained, and all required disclosures made, though the transaction is prejudicial to Buyer.
- Shareholders sue the interested parties and the members of the board of directors.

### WHAT THE PROTECTING MINORITY INVESTORS INDICATORS MEASURE

#### Extent of disclosure index (0–10)

Review and approval requirements for related-party transactions ; Disclosure requirements for related-party transactions

#### Extent of director liability index (0–10)

Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transactions; Available legal remedies (damages, disgorgement of profits, fines, imprisonment, rescission of the transaction)

#### Ease of shareholder suits index (0–10)

Access to internal corporate documents; Evidence obtainable during trial and allocation of legal expenses

#### Extent of conflict of interest regulation index (0–10)

Sum of the extent of disclosure, extent of director liability and ease of shareholder indices, divided by 3

#### Extent of shareholder rights index (0-10.5)

Shareholders' rights and role in major corporate decisions

#### Strength of governance structure index (0-10.5)

Governance safeguards protecting shareholders from undue board control and entrenchment

#### Extent of corporate transparency index (0-9)

Corporate transparency on ownership stakes, compensation, audits and financial prospects

#### Extent of shareholder governance index (0–10)

Sum of the extent of shareholders rights, strength of governance structure and extent of corporate transparency indices, divided by 3

#### Strength of investor protection index (0–10)

Simple average of the extent of conflict of interest regulation and extent of shareholder governance indices

## PROTECTING MINORITY INVESTORS

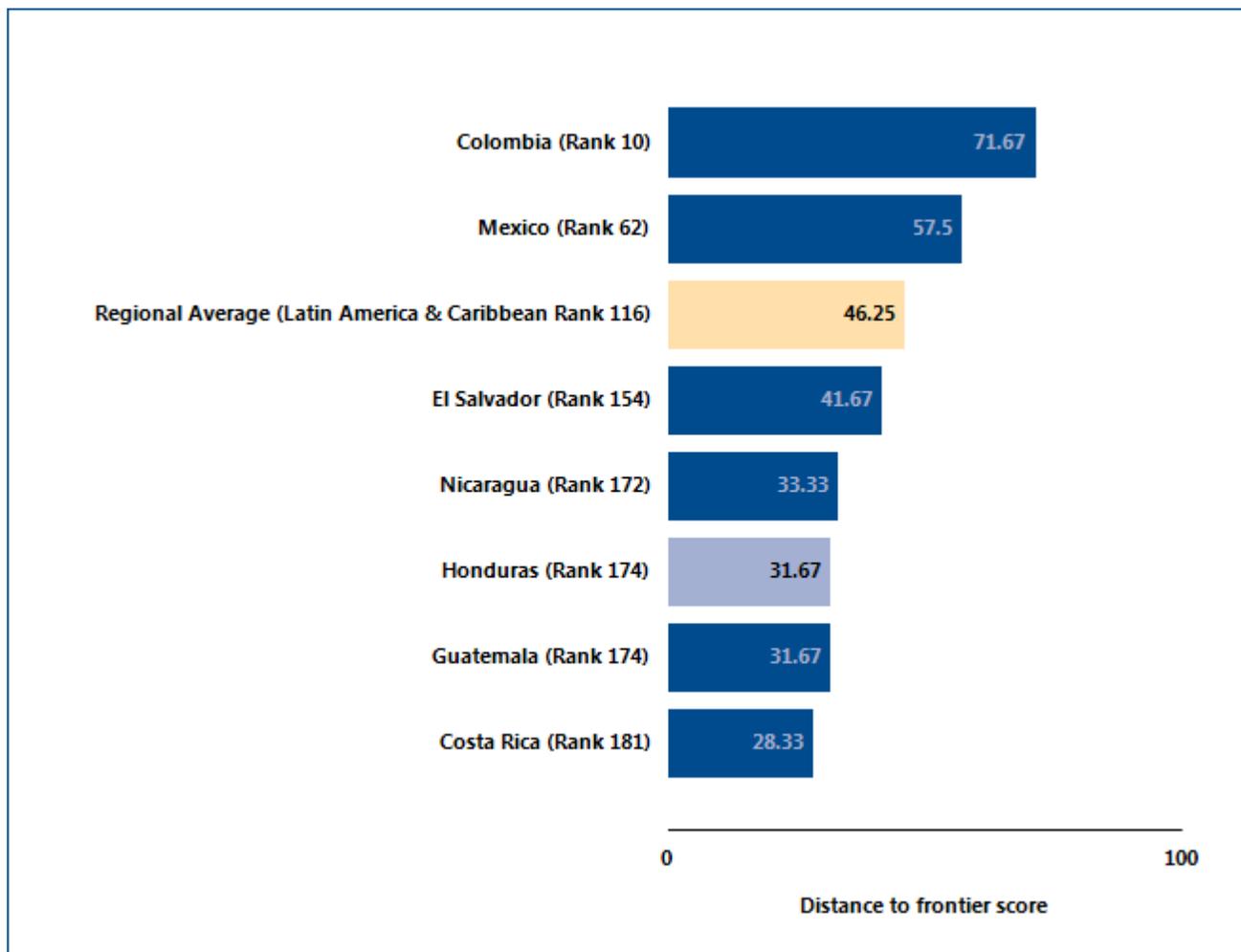
### Where does the economy stand today?

How strong are minority investor protections against self-dealing in Honduras? The economy has a score of 31.67 on the strength of minority investor protection index, with a higher score indicating stronger protections.

Globally, Honduras stands at 174 in the ranking of 189 economies on the strength of minority investor

protection index (figure 7.1). While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger minority investor protections against self-dealing in the areas measured.

Figure 7.1 How Honduras and comparator economies perform on the strength of minority investor protection index



Source: Doing Business database.

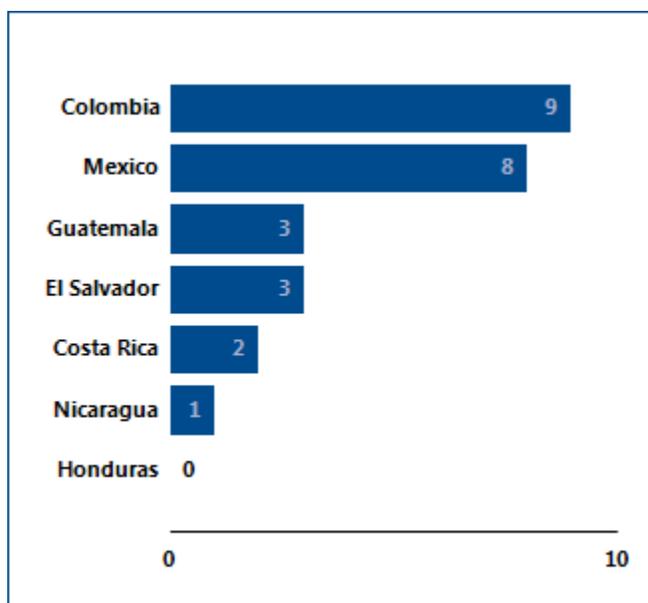
### PROTECTING MINORITY INVESTORS

One way to put an economy's scores on the protecting minority investors indicators into context is to see where the economy stands in the distribution of scores across comparator economies. Figures 7.2 through 7.7 highlight the scores on the various minority investor protection

indices for Honduras in 2014. A summary of scoring for the protecting minority investors indicators at the end of this chapter provides details on how the indices were calculated.

Figure 7.2 How extensive are disclosure requirements?

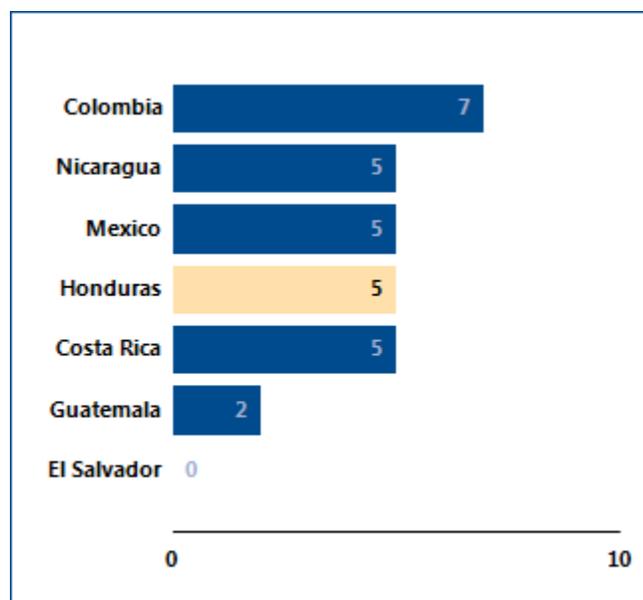
#### Extent of disclosure index (0-10)



Note: Higher scores indicate greater disclosure.  
Source: Doing Business database.

Figure 7.3 How extensive is the liability regime for directors?

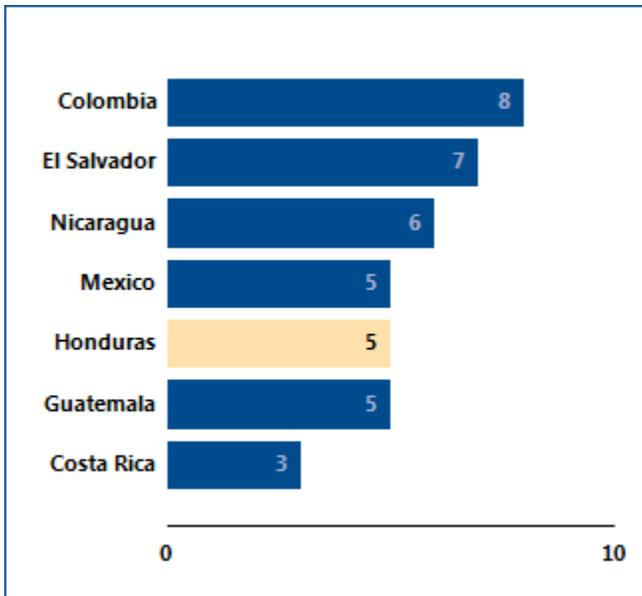
#### Extent of director liability index (0-10)



Note: Higher scores indicate greater liability of directors.  
Source: Doing Business database.

## PROTECTING MINORITY INVESTORS

Figure 7.4 How easy is accessing internal corporate documents?

**Ease of shareholder suits index (0-10)**

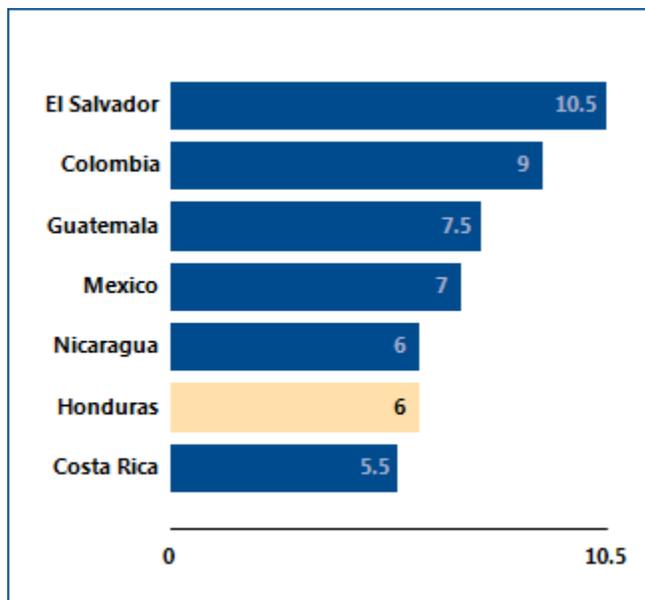
Note: Higher scores indicate greater minority shareholder access to evidence before and during trial.

Source: Doing Business database.

## PROTECTING MINORITY INVESTORS

Figure 7.5 How extensive are shareholder rights?

### Extent of shareholder rights index (0-10.5)

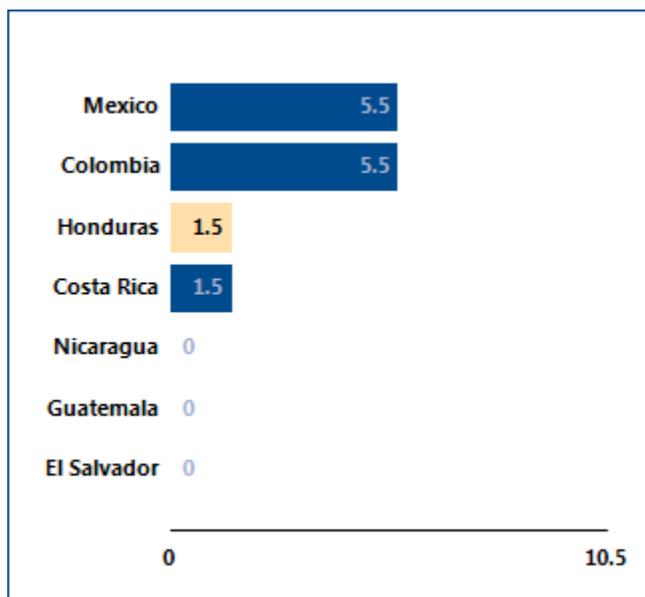


Note: The higher the score, the stronger the protections.

Source: Doing Business database.

Figure 7.6 How strong is the governance structure?

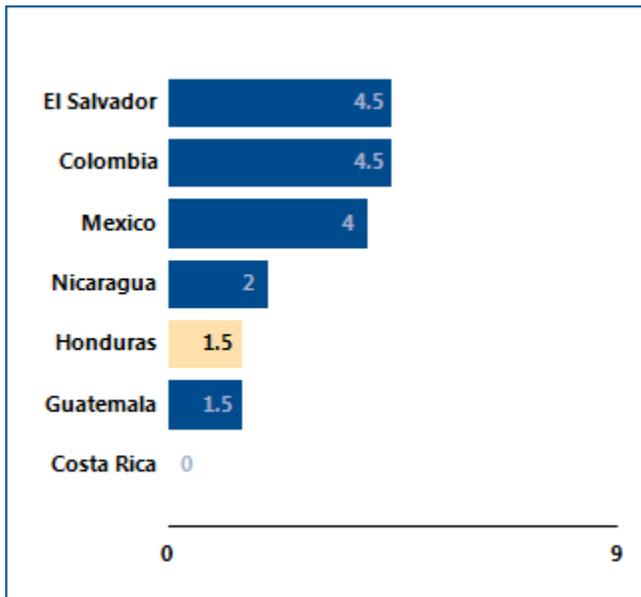
### Strength of governance structure index (0-10.5)



Note: Higher scores indicate more stringent governance structure requirements.

Source: Doing Business database.

Figure 7.7 How extensive is corporate transparency?

**Extent of corporate transparency index (0-9)**

Note: Higher scores indicate greater transparency.  
Source: Doing Business database.

## PROTECTING MINORITY INVESTORS

### What are the details?

The protecting minority investors indicators reported here for Honduras are based on detailed information collected through a survey of corporate and securities lawyers about securities regulations, company laws and court rules of evidence and procedure. To construct the six indicators on minority investor protection, scores are assigned to each based on a range of conditions relating

to disclosure, director liability, shareholder suits, shareholder rights, governance structure and corporate transparency in a standard case study (for more details, see the Data Notes section of the *Doing Business 2015* report). The summary below shows the details underlying the scores for Honduras.

Table 7.2 Summary of scoring for the protecting minority investors indicators in Honduras

	Answer	Score
<b>Extent of disclosure index (0-10)</b>		0.0
Which corporate body can provide legally sufficient approval for the Buyer-Seller transaction? (0-3)	CEO alone	0
Is disclosure by the interested director to the board of directors required? (0-2)	No disclosure obligation	0
Is disclosure of the transaction in published periodic filings (annual reports) required? (0-2)	No disclosure obligation	0
Is immediate disclosure of the transaction to the public and/or shareholders required? (0-2)	No disclosure obligation	0
Must an external body review the terms of the transaction before it takes place? (0-1)	No	0
<b>Extent of director liability index (0-10)</b>		5.0
Can shareholders sue directly or derivatively for the damage caused by the Buyer-Seller transaction to the company? (0-1)	No	0
Can shareholders hold the interested director liable for the damage caused by the transaction to the company? (0-2)	Liable if negligent	1
Can shareholders hold members of the approving body liable for the damage cause by the transaction to the company? (0-2)	Liable if negligent	1
Must the interested director pay damages for the harm caused to the company upon a successful claim by a shareholder plaintiff? (0-1)	Yes	1
Must the interested director repay profits made from the transaction upon a successful claim by a shareholder plaintiff? (0-1)	Yes	1
Can both fines and imprisonment be applied against the interested indrector? (0-1)	Yes	1
Can a court void the transaction upon a successful claim by a shareholder plaintiff? (0-2)	Only in case of fraud or bad faith	0
<b>Ease of shareholder suits index (0-10)</b>		5.0
Before filing suit, can shareholders owning 10% of the company's share capital inspect the transaction documents? (0-1)	No	0
Can the plaintiff obtain any documents from the defendant	Any relevant document	3

and witnesses during trial? (0-3)		
Can the plaintiff request categories of documents from the defendant without identifying specific ones? (0-1)	No	0
Can the plaintiff directly question the defendant and witnesses during trial? (0-2)	No	1
Is the level of proof required for civil suits lower than that of criminal cases? (0-1)	No	0
Can shareholder plaintiffs recover their legal expenses from the company? (0-2)	Yes if successful	1
<b>Strength of minority investor protection index (0-10)</b>		3.2
<b>Extent of conflict of interest regulation index (0-10)</b>		3.3
<b>Extent of shareholder rights index (0-10.5)</b>		6.0
Can shareholders amend company bylaws or statutes with a simple majority?	Yes	1.5
Can shareholders owning 10% of the company's share capital call for an extraordinary meeting of shareholders?	No	0
Can shareholders remove members of the board of directors before the end of their term.	Yes	1.5
Must a company obtain its shareholders' approval every time it issues new shares?	Yes	1.5
Are shareholders automatically granted subscription rights on new shares?	Yes	1.5
Must shareholders approve the election and dismissal of the external auditor?	No	0
Can shareholders freely trade shares prior to a major corporate action or meeting of shareholders?	No	0
<b>Strength of governance structure index (0-10.5)</b>		1.5
Is the CEO barred from also serving as chair of the board of directors?	Yes	1.5
Must the board of directors include independent board members?	No	0
Must a company have a separate audit committee?	No	0
Must changes to the voting rights of a series or class of shares be approved only by the holders of the affected shares?	Yes	1.5
Must a potential acquirer make a tender offer to all shareholders upon acquiring 50% of a company?	No	0
Is cross-shareholding between 2 independent companies limited to 10% of outstanding shares?	No	0
Is a subsidiary barred from acquiring shares issued by its parent company?	Yes	1.5
<b>Extent of corporate transparency index (0-9)</b>		1.5
Must ownership stakes representing 10% be disclosed?	No	0
Must information about board members' other directorships as well as basic information on their primary employment be disclosed?	No	0
Must the compensation of individual managers be disclosed?	No	0
Must financial statements contain explanatory notes on significant accounting policies, trends, risks, uncertainties and other factors influencing the reporting?	No	0
Must annual financial statements be audited by an external	Yes	1.5

auditor?		
Must audit reports be disclosed to the public?	No	0
<b>Extent of shareholder governance index (0-10)</b>		<b>3.0</b>

Source: *Doing Business* database.

## PAYING TAXES

Taxes are essential. The level of tax rates needs to be carefully chosen—and needless complexity in tax rules avoided. Firms in economies that rank better on the ease of paying taxes in the *Doing Business* study tend to perceive both tax rates and tax administration as less of an obstacle to business according to the World Bank Enterprise Survey research.

### What do the indicators cover?

Using a case scenario, *Doing Business* measures the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws. The ranking of economies on the ease of paying taxes is determined by sorting their distance to frontier scores on the ease of paying taxes. These scores are the simple average of the distance to frontier scores for each of the component indicators, with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax rate<sup>5</sup>. The financial statement variables have been updated to be proportional to 2012 income per capita; previously they were proportional to 2005 income per capita. To make the data comparable across economies, several assumptions are used.

- TaxpayerCo is a medium-size business that started operations on January 1, 2012.
- The business starts from the same financial position in each economy. All the taxes and mandatory contributions are recorded at all levels of government.

<sup>5</sup> The nonlinear distance to frontier for the total tax rate is equal to the distance to frontier for the total tax rate divided by the threshold. The total tax rate is the 15th percentile of the distribution for all countries included in the analysis. It is calculated and adjusted on a yearly basis. The second year of operation is recorded. A range of standard deductions and exemptions are also recorded. Taxes and mandatory contributions are recorded at all levels of government. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicator toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). This year's threshold is 26.1%.

### WHAT THE PAYING TAXES INDICATORS MEASURE

#### Tax payments for a manufacturing company in 2013 (number per year adjusted for electronic and joint filing and payment)

Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)

Method and frequency of filing and payment

#### Time required to comply with 3 major taxes (hours per year)

Collecting information and computing the tax payable

Completing tax return forms, filing with proper agencies

Arranging payment or withholding

Preparing separate tax accounting books, if required

#### Total tax rate (% of profit before all taxes)

Profit or corporate income tax

Social contributions and labor taxes paid by the employer

Property and property transfer taxes

Dividend, capital gains and financial transactions taxes

Waste collection, vehicle, road and other taxes

- Taxes and mandatory contributions include corporate income tax, turnover tax and all labor taxes and contributions paid by the company.

- A range of standard deductions and exemptions are also recorded.

## PAYING TAXES

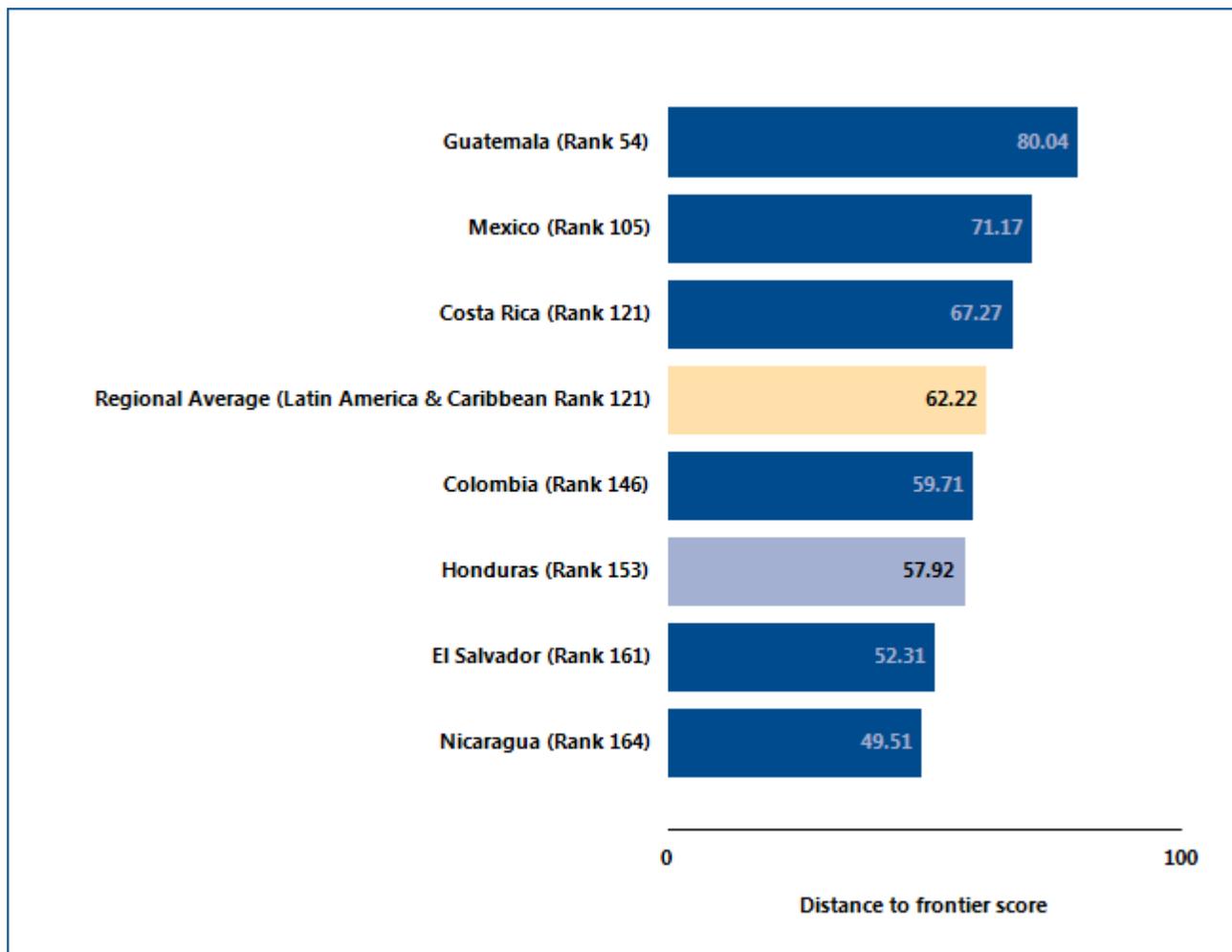
### Where does the economy stand today?

What is the administrative burden of complying with taxes in Honduras—and how much do firms pay in taxes? On average, firms make 48.0 tax payments a year, spend 224.0 hours a year filing, preparing and paying taxes and pay total taxes amounting to 43.0% of profit (see the summary at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the

2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Honduras stands at 153 in the ranking of 189 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in Honduras.

Figure 8.1 How Honduras and comparator economies rank on the ease of paying taxes



Source: Doing Business database.

## PAYING TAXES

Economies around the world have made paying taxes faster and easier for businesses—such as by consolidating filings, reducing the frequency of payments or offering electronic filing and payment. Many have lowered tax rates. Changes have brought

concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Honduras (table 8.1)?

Table 8.1 How has Honduras made paying taxes easier—or not?  
By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2012	Honduras made paying taxes costlier for firms by raising the solidarity tax rate.

*Note:* For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

*Source:* *Doing Business* database.

## PAYING TAXES

### What are the details?

The indicators reported here for Honduras are based on the taxes and contributions that would be paid by a standardized case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review a set of financial statements as well as a standardized list of assumptions and transactions that the company completed during its 2nd year of operation. Respondents are asked how much taxes and mandatory contributions the business must pay and how these taxes are filed and paid.

#### LOCATION OF STANDARDIZED COMPANY

**City: Tegucigalpa**

The taxes and contributions paid are listed in the summary below, along with the associated number of payments, time and tax rate.

Table 8.2 Summary of tax rates and administration

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	4		35	25%	taxable profit	23.9	
Municipal tax on industry and commerce	1		0	0.4%	sales	7.1	
Solidarity tax	0	paid jointly	0	6%	taxable profit over Lps 1,000,000	4.9	
Fixed assets tax	1		0	1% over Lps 3,000,000	assets value	2.1	
Employer paid - Pension contribution - RAP	0		0	1.5%	gross salaries	1.7	
Employer paid - Professional training tax - INFOP	1		0	1%	gross salaries	1.1	
Capital gains tax	1		0	10%	capital gains	1	
Municipal property tax	12		0	Lps 3.5 per 1,000	property value	0.5	
Employer paid - Social security contributions	12		93	7.2%	gross salaries	0.4	

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
Tax on interest	1		0	10% if above 50,000	interest	0.2	
Vehicle tax	1		0	Lps 2,200	fixed fee	0	
Fuel tax	1		0	\$0.6106 per gallon	fuel consumption	0	
Stamp duty	1		0	Lps 200 for contracts with a value less than 1,000 and Lps 1.5 per 1,000 of value of transaction	transaction value	0	small amount
Employee paid - Social security contributions	0	paid jointly	0	3.5%	gross salaries	0	withheld
Value added tax (VAT)	12		96	12%	value added	0	not included
Totals	48.0		224.0			43.0	

Source: Doing Business database.

## TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential. Research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets.

### What do the indicators cover?

*Doing Business* measures the time and cost (excluding tariffs and the time and cost for sea transport) associated with exporting and importing a standard shipment of goods by sea transport, and the number of documents necessary to complete the transaction. The indicators cover predefined stages such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover trade logistics, including the time and cost of inland transport to the largest business city. The ranking of economies on the ease of trading across borders is determined by sorting their distance to frontier scores for trading across borders. These scores are the simple average of the distance to frontier scores for each of the component indicators. To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the traded goods.

The business:

- Is located in the economy's largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- Is a private, limited liability company, domestically owned and does not operate with special export or import privileges.
- Conducts export and import activities, but does not have any special accreditation such as an authorized economic operator status.

### WHAT THE TRADING ACROSS BORDERS INDICATORS MEASURE

#### Documents required to export and import (number)

- Bank documents
- Customs clearance documents
- Port and terminal handling documents
- Transport documents

#### Time required to export and import (days)

- Obtaining, filling out and submitting all the documents
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Does not include sea transport time

#### Cost required to export and import (US\$ per container)

- All documentation
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Official costs only, no bribes

The traded product:

- Is not hazardous nor includes military items.
- Does not require refrigeration or any other special environment.
- Do not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Is one of the economy's leading export or import products.
- Is transported in a dry-cargo, 20-foot full container load.

## TRADING ACROSS BORDERS

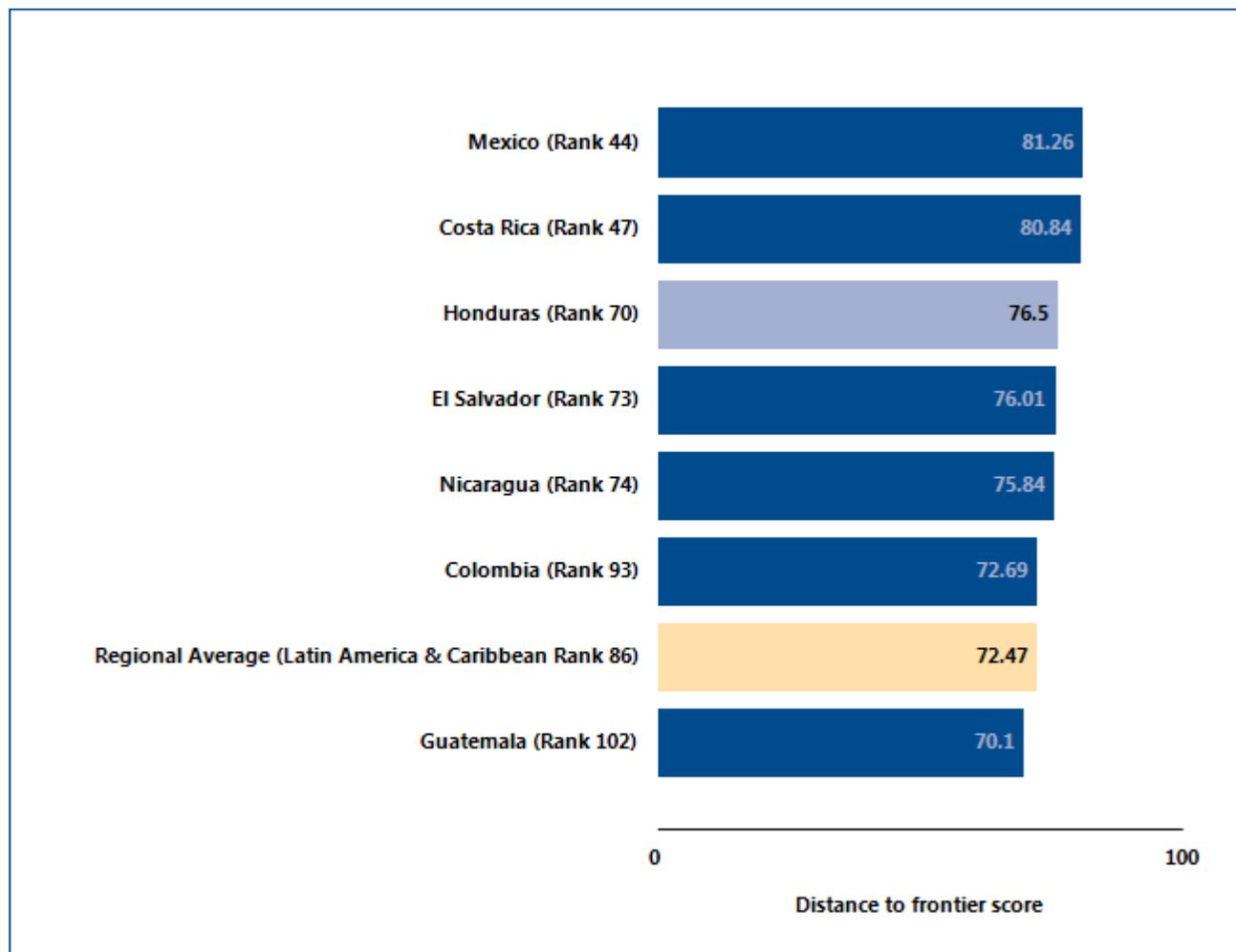
### Where does the economy stand today?

What does it take to export or import in Honduras? According to data collected by *Doing Business*, exporting a standard container of goods requires 5 documents, takes 12.0 days and costs \$1450.0. Importing the same container of goods requires 6 documents, takes 16.0 days and costs \$1630.0 (see the summary of four predefined stages and documents at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a

population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Honduras stands at 70 in the ranking of 189 economies on the ease of trading across borders (figure 9.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for a business in Honduras to export and import goods.

Figure 9.1 How Honduras and comparator economies rank on the ease of trading across borders



Source: *Doing Business* database.

## TRADING ACROSS BORDERS

In economies around the world, trading across borders as measured by *Doing Business* has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange

systems. These changes help improve the trading environment and boost firms' international competitiveness. What trade reforms has *Doing Business* recorded in Honduras (table 9.1)?

Table 9.1 How has Honduras made trading across borders easier—or not?

By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
<b>DB2012</b>	Honduras made trading across borders faster by implementing a web-based electronic data interchange system and X-ray machines at the port of Puerto Cortes.

*Note:* For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

*Source:* *Doing Business* database.

## TRADING ACROSS BORDERS

### What are the details?

The indicators reported here for Honduras are based on a set of specific predefined stages for trading a standard shipment of goods by ocean transport (see the section in this chapter on what the indicators cover). Information on the required documents and the time and cost to complete export and import is collected from local freight forwarders, shipping lines, customs brokers, port officials and banks.

#### LOCATION OF STANDARDIZED COMPANY

**Port Name: Puerto Cortes**

**City: Tegucigalpa**

The predefined stages, and the associated time and cost, for exporting and importing a standard shipment of goods are listed in the summary below, along with the required documents.

Table 9.2 Summary of predefined stages and documents for trading across borders in Honduras

Stages to export	Time (days)	Cost (US\$)
Customs clearance and inspections	2	155
Documents preparation	8	260
Inland transportation and handling	1	900
Ports and terminal handling	1	135
Totals	12	1,450

Stages to import	Time (days)	Cost (US\$)
Customs clearance and inspections	4	215
Documents preparation	8	255
Inland transportation and handling	2	900
Ports and terminal handling	2	260
Totals	16	1,630

**Documents to export**

Bill of lading
Commercial Invoice
Customs export declaration
Foreign exchange authorization
Packing List

**Documents to import**

Bill of lading
Cargo release order
Commercial invoice
Customs import declaration
Packing list
Terminal handling receipts

Source: *Doing Business* database.

## ENFORCING CONTRACTS

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

*What do the indicators cover?*

*Doing Business* measures the efficiency of the judicial system in resolving a commercial dispute before local courts. Following the step-by-step evolution of a standardized case study, it collects data relating to the time, cost and procedural complexity of resolving a commercial lawsuit. The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

The dispute in the case study involves the breach of a sales contract between 2 domestic businesses. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. To make the data comparable across economies, *Doing Business* uses several assumptions about the case:

- The seller and buyer are located in the economy's largest business city. For the 11 economies with a population of more than 100 million, data for a second city have been added.
- The buyer orders custom-made goods, then fails to pay.
- The seller sues the buyer before a competent court.
- The value of the claim is 200% of the income per capita or the equivalent in local currency of USD 5,000, whichever is greater.

### WHAT THE ENFORCING CONTRACTS

#### INDICATORS MEASURE

##### Procedures to enforce a contract through the courts (number)

- Steps to file and serve the case
- Steps for trial and judgment
- Steps to enforce the judgment

##### Time required to complete procedures (calendar days)

- Time to file and serve the case
- Time for trial and obtaining judgment
- Time to enforce the judgment

##### Cost required to complete procedures (% of claim)

- Average attorney fees
- Court costs
- Enforcement costs

- The seller requests a pretrial attachment to secure the claim.
- The dispute on the quality of the goods requires an expert opinion.
- The judge decides in favor of the seller; there is no appeal.
- The seller enforces the judgment through a public sale of the buyer's movable assets.

## ENFORCING CONTRACTS

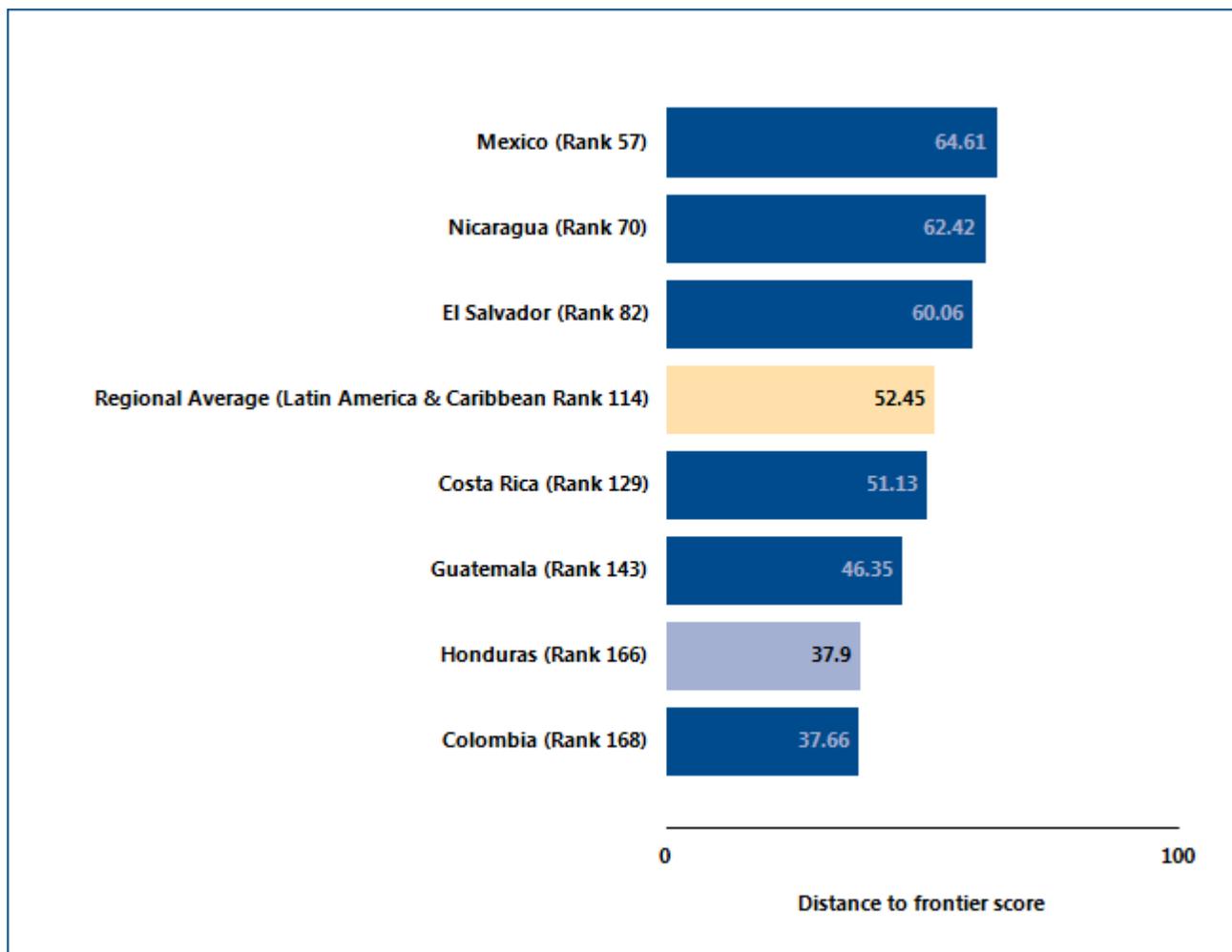
### Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Honduras? According to data collected by *Doing Business*, contract enforcement takes 920.0 days, costs 35.2% of the value of the claim and requires 47.0 procedures (see the summary at the end of this chapter for details). Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest

business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

Globally, Honduras stands at 166 in the ranking of 189 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Honduras.

Figure 10.1 How Honduras and comparator economies rank on the ease of enforcing contracts



Source: *Doing Business* database.

## ENFORCING CONTRACTS

Economies in all regions have improved contract enforcement in recent years. A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies often work on

reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making procedures faster. What reforms making it easier (or more difficult) to enforce contracts has *Doing Business* recorded in Honduras (table 10.1)?

Table 10.1 How has Honduras made enforcing contracts easier—or not?

By *Doing Business* report year from DB2010 to DB2015

DB year	Reform
DB2012	Honduras adopted a new civil procedure code that modified litigation procedures for enforcing a contract.

*Note:* For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at <http://www.doingbusiness.org>.

*Source:* *Doing Business* database.

## ENFORCING CONTRACTS

### What are the details?

The indicators reported here for Honduras are based on a set of specific procedural steps required to resolve a standardized commercial dispute through the courts (see the section in this chapter on what the indicators cover). These procedures, and the time and cost of completing them, are identified through study of the codes of civil procedure and other court regulations, as well as through questionnaires completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well).

COURT NAME	
<b>Claim value:</b>	<b>HNL 99,124</b>
<b>Court name:</b>	<b>Unified Civil District Court of Francisco Morazán</b>
<b>City:</b>	<b>Tegucigalpa</b>

Table 10.2 Summary of time, cost and procedures for enforcing a contract in Honduras

Indicator	Honduras	Latin America & Caribbean average
<b>Time (days)</b>	920	737
Filing and service	60	
Trial and judgment	680	
Enforcement of judgment	180	
<b>Cost (% of claim)</b>	35.2	30.6
Attorney cost (% of claim)	25.0	
Court cost (% of claim)	2.1	
Enforcement Cost (% of claim)	8.1	
<b>Procedures (number)</b>	47	40
Number of procedures (without bonus points)	47	
Total number of procedures (including bonus points)	47	

No.	Procedures
	Filing and service:
1	Plaintiff requests payment: Plaintiff or his lawyer asks Defendant orally or in writing to comply with the contract.
2	A third person formally notifies Defendant: A third person formally notifies Defendant. A person other than the Plaintiff or his lawyer, such as a notary public, formally notifies Defendant of Plaintiff's request for payment.
3	Plaintiff hires a lawyer: Plaintiff hires a lawyer.
*	Plaintiff files a summons and complaint: Plaintiff files a summons and complaint with the court (orally or in writing).
4	Registration of court case: Registration of court case by the court administration (this can include assigning a reference number to the case).
*	Assignment of court case to a judge: Assignment of court case to a judge (through a random procedure, automated system, ruling of an administrative judge, court officer, etc).
5	Judicial scrutiny of summons and complaint: Judge examines Plaintiff's summons and complaint for formal requirements as a matter of law or standard practice.
*	Judge admits summons and complaint: Judge admits summons and complaint (after verifying the formal requirements).
6	Plaintiff requests service of process on Defendant: Plaintiff requests in writing to the court for an order that process be served on Defendant.
7	Court order for service: Upon Plaintiff's request, judge orders process be served on Defendant.
8	Delivery of summons and complaint to person authorized to perform service of process on Defendant: The judge or a court officer delivers the summons to a summoning office, officer, or authorized person (including Plaintiff), for service of process on Defendant.
9	Attempt at physical delivery: An attempt to physically deliver summons and complaint to Defendant is made.
10	Second attempt at physical delivery: If a first attempt is not ordinarily successful, a second attempt to physically deliver the summons and complaint to Defendant is required by law or standard practice. (Check 'yes' only if a first attempt at physical delivery is not ordinarily successful)
11	Application for substituted service: Because physical delivery is NOT successful, Plaintiff has recourse to substituted service. Substituted service can include, but is not limited to, service by publication in newspapers or affixing of a notice in court or on public bulletin boards. Only ch
12	Court order regarding substituted service: Judge in a court order sets out acceptable means for substituted service in a particular case.
13	Substituted service: Substituted service is completed by publication in newspapers, by affixing a notice in court or on public bulletin boards, etc.

No.	Procedures
*	Proof of service: Plaintiff submits proof of service to court, as required by law or standard practice.
*	Application for pre-judgment attachment: Plaintiff submits an application in writing for the attachment of Defendant's property prior to judgment.
*	Decision on pre-judgment attachment: Judge decides whether to grant Plaintiff's request for pre-judgment attachment of Defendant's property and notifies Plaintiff and Defendant of the decision.
14	Guarantees securing attached property: Plaintiff submits guarantees or bonds to secure Defendant against possible damages to attached property.
15	Pre-judgment attachment order: Defendant's property is attached prior to judgment. Attachment order either involves physical attachment, or is achieved by freezing, registering, marking, or otherwise separating and restricting Defendant's movement of specific moveable assets.
16	Custody of assets attached prior to judgment: If physical attachment is ordered, Defendant's attached assets are placed in the custody or control of an enforcement officer or private bailiff.
17	Report on pre-judgment attachment: Court enforcement officer or private bailiff issues and delivers a report on the attachment of Defendant's property to the judge.
18	Hearing on pre-judgment attachment: A hearing takes place as a matter of law or standard practice to resolve the question of whether Defendant's assets can be attached prior to judgment. This process may include the submission of separate summons and petitions.
	Trial and judgment:
*	Defendant files preliminary objections.: Defendant presents preliminary objections to the court. (Preliminary exemptions differ from answers on the merits. Examples of preliminary motions are motions to dismiss on the basis of the statute of limitations or jurisdictional objections, etc.) Checke
*	Plaintiff's answer to preliminary motions: Plaintiff responds to preliminary motions raised by Defendant. Checked as 'yes' if preliminary motions are commonly raised (step 30) and if Plaintiff responds to them immediately.
19	Judge's resolution on preliminary objections: Judge decides on preliminary objections separately from the merits of the case. Checked as 'yes' if preliminary objections are commonly made (step 30) and if judge resolves the question before rendering his decision.
20	Defendant files an answer to Plaintiff's claim: Defendant files a written pleading which includes his answer or defense on the merits of the case (see assumption 4).
21	Deadline for Plaintiff to reply to Defendant's defense or answer: Judge sets a deadline for Plaintiff's submission of a reply to the Defendant's defense or answer.
22	Plaintiff's written reply to Defendant's answer: Plaintiff responds to Defendant's answer with a written pleading, which may or may not include witness statements or expert (witness) statements.
23	Filing of written submissions: Plaintiff and Defendant file written pleadings and submissions with the court and transmit copies of the written pleadings or submissions to one another. The pleadings may or may not include witness statements or expert (witness) statements.

No.	Procedures
*	Court appointment of independent expert: Judge appoints, either at the parties' request or at his own initiative, an independent expert to decide whether the quality of the goods Plaintiff delivered to Defendant is adequate. (see assumption 5-b).
24	Notification of court-appointment of independent expert: The court notifies both parties that the court is appointing an independent expert (see assumption 5-b).
*	Delivery of expert report by court-appointed expert: The independent expert, appointed by the court, delivers his or her expert report to the court (see assumption 5-b).
*	Setting of date for mediation hearing: The judge sets a date for a mediation hearing, sometimes also called a 'pre-trial conference,' and notifies the parties of the hearing date.
25	Mediation hearing: The judge, during this informal meeting with the parties, encourages them to settle the case (acting as mediator). The case cannot be settled, the judge may draft a pre-trial conference report, after which the case may be allocated to another judge for tr
*	Setting of date(s) for oral hearing or trial: Judge sets the date(s) for the oral hearing or trial.
*	List of (expert) witnesses: The parties file a list of (expert) witnesses with the court (see assumption 5-a).
26	Summoning of (expert) witnesses: The court summons (expert) witnesses to appear in court for the oral hearing or trial (see assumption 5-a).
27	Oral hearing (prevalent in civil law): The parties argue the merits of the case at an oral hearing before the judge. Witnesses and a court-appointed independent expert may be heard and questioned at the oral hearing.
*	Request for closing of the evidence period: Plaintiff or Defendant requests the judge to close the evidence period.
28	Closing of the evidence period: The court makes the formal decision to close the evidence period.
*	Final arguments: The parties present their final factual and legal arguments to the court either by oral presentation or by a written submission.
29	Judgment date: The judge sets a date for delivery of the judgment.
30	Writing of judgment: The judge produces a written copy of the judgment.
31	Registration of judgment: The court office registers the judgment after receiving a written copy of the judgment.
32	Plaintiff receives a copy of the judgment: Plaintiff receives a copy of the written judgment which is 100% in favor of Plaintiff (see assumption 6).
33	Defendant is formally notified of the judgment: Plaintiff or court formally notifies the Defendant of the judgment. The appeal period starts to run from the day the Defendant is formally notified of the judgment.
34	Appeal period: By law Defendant has the opportunity to appeal the judgment during a specified period. Defendant decides not to appeal. Seller decides to start enforcing the judgment when the appeal period ends (see assumption 8).
	Enforcement of judgment:

No.	Procedures
*	Plaintiff hires a lawyer: Plaintiff hires a lawyer to enforce the judgment or continues to be represented by a lawyer during the enforcement of judgment phase.
35	Plaintiff retains an enforcement agent to enforce the judgment.: Plaintiff retains the services of a court enforcement officer such as a court bailiff or sheriff, or a private bailiff.
*	Plaintiff requests an enforcement order: Plaintiff applies to the court to obtain the enforcement order ('seal' on judgment).
36	Attachment of enforcement order to judgment: The judge attaches the enforcement order ('seal') to the judgment.
*	Plaintiff's request for physical enforcement: As Plaintiff commonly fears that Defendant might physically resist the taking into custody of its previously attached movable assets, Plaintiff requests the judge or the police authorities to obtain police assistance during the physical enforcement of the
37	Judge's order for physical enforcement: Judge orders the police to assist with the physical enforcement of the attachment of Defendant's movable assets. Check as "yes" only if the pretrial order of attachment for Defendant's moveable assets does not ordinarily involve physical seizure of the as
38	Request to Defendant to comply voluntarily with judgment: Plaintiff, a court enforcement officer or a private bailiff requests Defendant to voluntarily comply with the judgment.
39	Plaintiff identifies Defendant's assets for attachment: Plaintiff identifies Defendant's assets for attachment.
40	Attachment: Defendant's movable goods are attached (physically or by registering, marking or separating assets).
41	Report on execution of attachment: A court enforcement officer or private bailiff delivers a report on the attachment of Defendant's movable goods to the judge.
42	Valuation or appraisal of attached movable goods: The court or court-appointed valuation expert evaluates the attached goods.
43	Call for public auction: Judge calls a public auction by, for example, advertising or publication in the newspapers.
44	Sale through public auction: The Defendant's movable property is sold at public auction.
45	Judge's decision on bids: Judge determines the adequacy of the bids presented at public auction.
46	Distribution of proceeds: The proceeds of the public auction are distributed to Plaintiff (and, where applicable, to other creditors, according to the rules of priority).
47	Payment: Court orders that the proceeds of the public auction or the direct sale be delivered to Plaintiff.

\* Not counted in the total number of procedures.

Source: Doing Business database.

## RESOLVING INSOLVENCY

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By improving the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and thereby improve growth and sustainability in the economy overall.

### What do the indicators cover?

*Doing Business* studies the time, cost and outcome of insolvency proceedings involving domestic legal entities. These variables are used to calculate the recovery rate, which is recorded as cents on the dollar recouped by secured creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. To determine the present value of the amount recovered by creditors, *Doing Business* uses the lending rates from the International Monetary Fund, supplemented with data from central banks and the Economist Intelligence Unit.

In addition, *Doing Business* evaluates the adequacy and integrity of the existing legal framework applicable to liquidation and reorganization proceedings through the strength of insolvency framework index. The index tests whether economies adopted internationally accepted good practices in four areas: commencement of proceedings, management of debtor's assets, reorganization proceedings and creditor participation.

The ranking of the Resolving Insolvency indicator is based on the recovery rate and the total score of the strength of insolvency framework index. The Resolving Insolvency indicator does not measure insolvency proceedings of individuals and financial institutions. 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.

### WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

#### Time required to recover debt (years)

Measured in calendar years

Appeals and requests for extension are included

#### Cost required to recover debt (% of debtor's estate)

Measured as percentage of estate value

Court fees

Fees of insolvency administrators

Lawyers' fees

Assessors' and auctioneers' fees

Other related fees

#### Outcome

Whether business continues operating as a going concern or business assets are sold piecemeal

#### Recovery rate for creditors

Measures the cents on the dollar recovered by secured creditors

Outcome for the business (survival or not) determines the maximum value that can be recovered

Official costs of the insolvency proceedings are deducted

Depreciation of furniture is taken into account

Present value of debt recovered

#### Strength of insolvency framework index (0-16)

Sum of the scores of four component indices:

Commencement of proceedings index (0-3)

Management of debtor's assets index (0-6)

Reorganization proceedings index (0-3)

Creditor participation index (0-4)

## RESOLVING INSOLVENCY

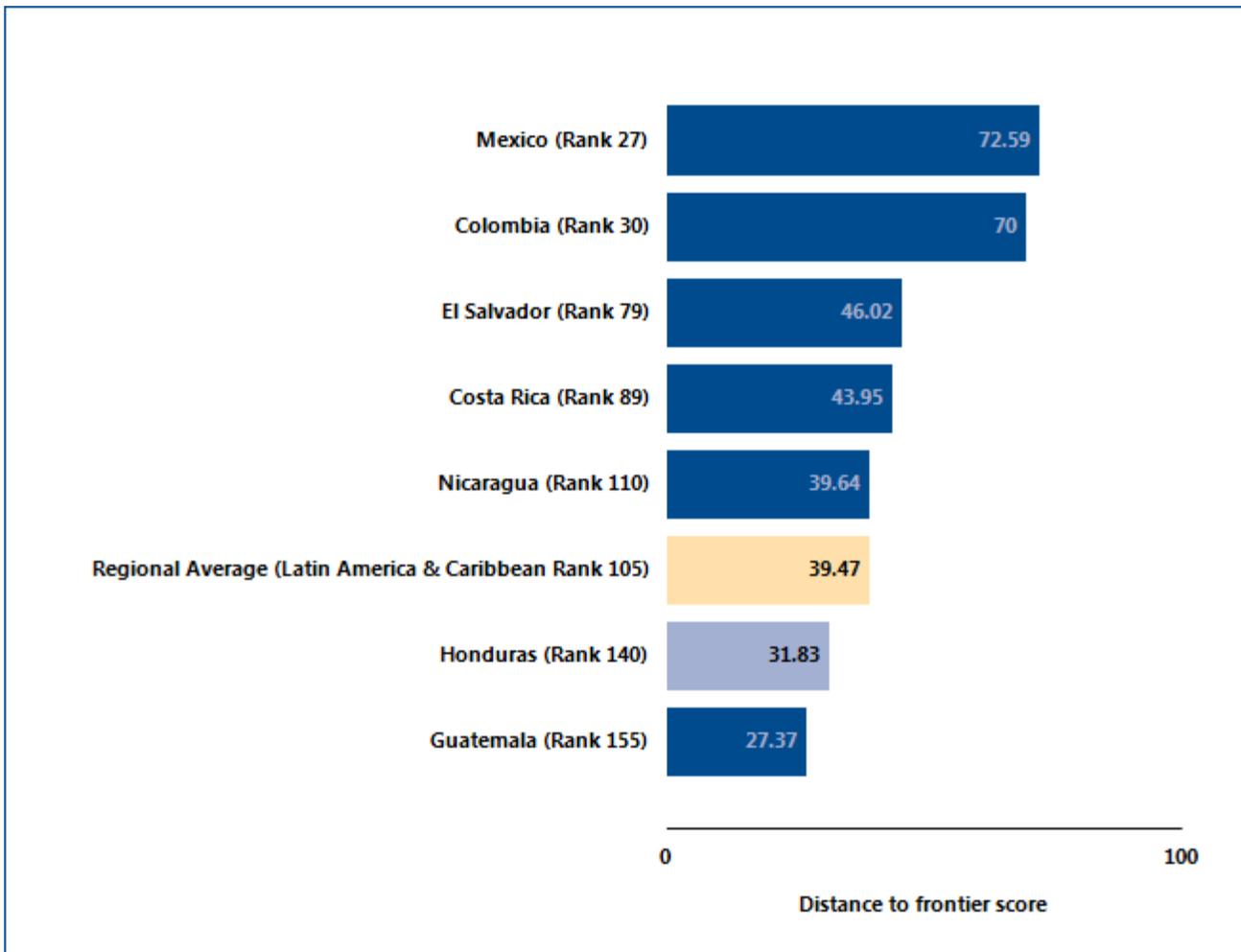
### Where does the economy stand today?

Combination of quality regulations and efficient practice characterize the top-performing economies. How efficient are insolvency proceedings in Honduras? According to data collected by *Doing Business*, resolving insolvency takes 3.8 years on average and costs 14.5% of the debtor's estate, with the most likely outcome being that the company will be sold as piecemeal sale. The average recovery rate is 18.5 cents on the dollar. Most indicator sets refer to a case scenario in the largest business city of an economy, except for 11 economies for which the data are a population-weighted average of the 2 largest business cities. See the chapter on distance to frontier and ease of doing business ranking at the end of this profile for more details.

According to data collected by *Doing Business*, Honduras scores 2.0 out of 3 points on the commencement of proceedings index, 4.0 out of 6 points on the management of debtor's assets index, 0.0 out of 3 points on the reorganization proceedings index, and 1.0 out of 4 points on the creditor participation index. Honduras's total score on the strength of insolvency framework index is 7.0 out of 16.

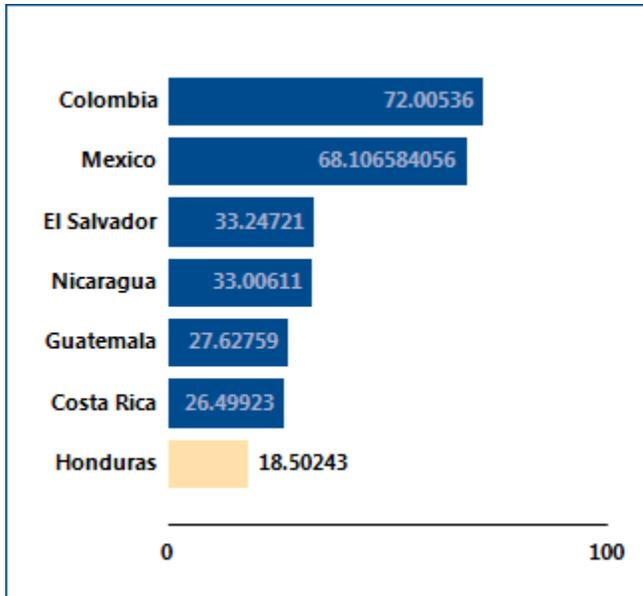
Globally, Honduras stands at 140 in the ranking of 189 economies on the ease of resolving insolvency (figure 11.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of insolvency proceedings in Honduras.

Figure 11.1 How Honduras and comparator economies rank on the ease of resolving insolvency



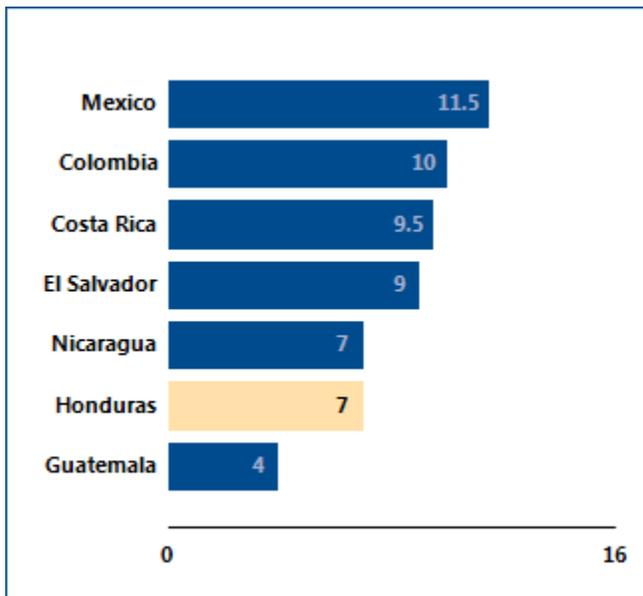
Source: Doing Business database.

Figure 11.2 Recovery Rate (0-100) - Honduras



Source: Doing Business database.

Figure 11.3 Strength of insolvency framework index (0-16) - Honduras



Source: Doing Business database.

## LABOR MARKET REGULATION

*Doing Business* measures flexibility in the regulation of employment, specifically as it affects the hiring and redundancy of workers and the rigidity of working hours. This year, for the first time, the indicators measuring flexibility in labor market regulations focus on those affecting the food retail industry, using a standardized case study of a cashier in a supermarket. Also new is that *Doing Business* collects data on regulations applying to employees hired through temporary-work agencies as well as on those applying to permanent employees or employees hired on fixed-term contracts. The indicators also cover additional areas of labor market regulation, including social protection schemes and benefits as well as labor disputes.

Over the period from 2007 to 2011 improvements were made to align the methodology for the labor market regulation indicators (formerly the employing workers indicators) with the letter and spirit of the International Labour Organization (ILO) conventions. Only 6 of the 188 ILO conventions cover areas measured by *Doing Business*: employee termination, weekend work, holiday with pay, night work, protection against unemployment and medical care and sickness benefits. The *Doing Business* methodology is fully consistent with these 6 conventions. The ILO conventions covering areas related to the labor market regulation indicators do not include the ILO core labor standards—8 conventions covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices.

Between 2009 and 2011 the World Bank Group worked with a consultative group—including labor lawyers, employer and employee representatives, and experts from the ILO, the Organisation for Economic Co-operation and Development (OECD), civil society and the private sector—to review the methodology for the labor market regulation indicators and explore future areas of research.

A full report with the conclusions of the consultative group is available at:  
<http://www.doingbusiness.org/methodology/employing-workers>.

*Doing Business 2015* presents the data for the labor market regulation indicators in an annex. The report does not present rankings of economies on these indicators nor include the topic in the aggregate distance to frontier score or ranking on the ease of doing business. Detailed data collected on labor market regulations are available on the *Doing Business* website (<http://www.doingbusiness.org>). The data on labor market regulations are based on a detailed survey of employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy. To make the data comparable across economies, several assumptions about the worker and the business are used.

The worker:

- Is a cashier in a supermarket or a grocery store
- Is a full-time employee
- Is not a member of the labor union, unless membership is mandatory

The business:

- Is a limited liability company (or the equivalent in the economy) with 60 employees.
- Operates a supermarket or grocery store in the economy's largest business city. For 11 economies the data are also collected for the second largest business city.
- Is subject to collective bargaining agreements if such agreements cover more than 50% of the food retail sector and they apply even to firms that are not party to them.
- Abides by every law and regulation but does not grant workers more benefits than those mandated by law, regulation or (if applicable) collective bargaining agreements.

## LABOR MARKET REGULATION

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. Many economies that changed their labor market regulation in

the past 5 years did so in ways that increased labor market flexibility. What changes did Honduras adopt that affected the *Doing Business* indicators on labor market regulation (table 12.1)?

Table 12.1 What changes did Honduras make in terms of labor market regulation?

DB year	Reform
DB2010	Honduras increased the severance payments applicable in redundancy dismissals.

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### What are the details?

The data reported here for Honduras are based on a detailed survey of labor market regulation that is completed by local lawyers and public officials.

Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

#### Difficulty of hiring index

Difficulty of hiring covers 4 areas: (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; (iii) the minimum wage for a cashier, age 19, with 1 year of work experience; and (iv) the ratio of the minimum

wage to the average value added per worker. The average value added per worker is the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population.

Difficulty of hiring index	Data
Fixed-term contracts prohibited for permanent tasks?	Yes
Maximum length of a single fixed-term contract (months)	12 months in general; 60 months for work requiring special technical preparation; however, a longer term can only be found to be in violation of the law on the express request of the worker (Art. 47 and 48)
Maximum length of fixed-term contracts, including renewals (months)	24
Minimum wage applicable to the worker assumed in the case study (US\$/month)	455.04
Ratio of minimum wage to value added per worker	1.51

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### Rigidity of hours index

Rigidity of hours covers 7 areas: (i) whether the workweek can extend to 50 hours or more (including overtime) for 2 months in a year to respond to a seasonal increase in workload; (ii) the maximum number of days allowed in the workweek; (iii) the premium for night work (as a percentage of hourly pay); (iv) the premium for work on a weekly rest day (as a percentage of hourly pay); (v) whether there are restrictions on night work; (vi) whether there are restrictions on weekly holiday work; and (vii) the average paid annual leave for workers with 1 year of tenure, 5 years of tenure and 10 years of tenure.

Rigidity of hours index	Data
50-hour workweek allowed for 2 months a year in case of a seasonal increase in workload?	Yes
Maximum working days per week	6.0
Premium for night work (% of hourly pay)	25%
Premium for work on weekly rest day (% of hourly pay)	100%
Major restrictions on night work?	Yes
Major restrictions on weekly holiday?	No
Paid annual leave for a worker with 1 year of tenure (in working days)	10.0
Paid annual leave for a worker with 5 years of tenure (in working days)	20.0
Paid annual leave for a worker with 10 years of tenure (in working days)	20.0
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	16.7

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### Difficulty of redundancy index

Difficulty of redundancy index looks at 9 questions: (i) what the length is in months of the maximum probationary period; (ii) whether redundancy is disallowed as a basis for terminating workers; (iii) whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; (iv) whether the employer needs to notify a third party to terminate a group of 9 redundant workers; (v)

whether the employer needs approval from a third party to terminate 1 redundant worker; (vi) whether the employer needs approval from a third party to terminate a group of 9 redundant workers; (vii) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (viii) whether priority rules apply for redundancies; and (ix) whether priority rules apply for reemployment.

Difficulty of redundancy index	Data
Maximum length of probationary period (months)	2.0
Dismissal due to redundancy allowed by law?	Yes
Third-party notification if 1 worker is dismissed?	Yes
Third-party approval if 1 worker is dismissed?	Yes
Third-party notification if 9 workers are dismissed?	Yes
Third-party approval if 9 workers are dismissed?	Yes
Retraining or reassignment obligation before redundancy?	No
Priority rules for redundancies?	Yes
Priority rules for reemployment?	No

Source: *Doing Business* database.

## LABOR MARKET REGULATION

### Redundancy cost

Redundancy cost measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. The average value of notice

requirements and severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is considered. One month is recorded as 4 and 1/3 weeks.

Redundancy cost indicator (in salary weeks)	Data
Notice period for redundancy dismissal for a worker with 1 year of tenure	4.3
Notice period for redundancy dismissal for a worker with 5 years of tenure	8.7
Notice period for redundancy dismissal for a worker with 10 years of tenure	8.7
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure)	7.2
Severance pay for redundancy dismissal for a worker with 1 year of tenure	4.3
Severance pay for redundancy dismissal for a worker with 5 years of tenure	21.7
Severance pay for redundancy dismissal for a worker with 10 years of tenure	43.3
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure)	23.1

Source: *Doing Business* database.

### Social protection schemes and benefits & Labor disputes

*Doing Business* collects data on the existence of unemployment protection schemes as well as data on whether employers are legally required to provide health insurance for employees with permanent contracts.

*Doing Business* also assesses the mechanisms available to resolve labor disputes. More specifically, it collects data on what courts would be competent to hear labor disputes and whether the competent court is specialized in resolving labor disputes.

Social protection schemes and benefits & Labor disputes indicator	Data
Availability of unemployment protection scheme?	No
Health insurance existing for permanent employees?	Yes
Availability of courts or court sections specializing in labor disputes?	No

Source: *Doing Business* database.



## DISTANCE TO FRONTIER AND EASE OF DOING BUSINESS RANKING

This year's report presents results for 2 aggregate measures: the distance to frontier score and the ease of doing business ranking, which for the first time this year is based on the distance to frontier score. The ease of doing business ranking compares economies with one another; the distance to frontier score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each *Doing Business* indicator. When compared across years, the distance to frontier score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

### Distance to Frontier

The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of 31 indicators for 10 *Doing Business* topics (the labor market regulation indicators are excluded). For starting a business, for example, Canada and New Zealand have the smallest number of procedures required (1), and New Zealand the shortest time to fulfill them (0.5 days). Slovenia has the lowest cost (0.0), and Australia, Colombia and 110 other economies have no paid-in minimum capital requirement (table 15.1 in the *Doing Business 2015* report).

#### Calculation of the distance to frontier score

Calculating the distance to frontier score for each economy involves 2 main steps. First, individual component indicators are normalized to a common unit where each of the 31 component indicators  $y$  (except for the total tax rate) is rescaled using the linear transformation  $(\text{worst} - y)/(\text{worst} - \text{frontier})$ . In this formulation the frontier represents the best performance on the indicator across all economies since 2005 or the third year after data for the indicator were collected for the first time. For legal indicators such as those on getting credit or protecting minority investors, the frontier is set at the highest possible value. For the total tax rate, consistent with the use of a threshold in calculating the rankings on this indicator, the frontier is

defined as the total tax rate at the 15th percentile of the overall distribution for all years included in the analysis. For the time to pay taxes the frontier is defined as the lowest time recorded among all economies that levy the 3 major taxes: profit tax, labor taxes and mandatory contributions, and value added tax (VAT) or sales tax. In addition, the cost to export and cost to import for each year are divided by the GDP deflator, to take the general price level into account when benchmarking these absolute-cost indicators across economies with different inflation trends. The base year for the deflator is 2013 for all economies.

In the same formulation, to mitigate the effects of extreme outliers in the distributions of the rescaled data for most component indicators (very few economies need 700 days to complete the procedures to start a business, but many need 9 days), the worst performance is calculated after the removal of outliers. The definition of outliers is based on the distribution for each component indicator. To simplify the process, 2 rules were defined: the 95th percentile is used for the indicators with the most dispersed distributions (including time, cost, minimum capital and number of payments to pay taxes), and the 99th percentile is used for number of procedures and number of documents to trade. No outlier was removed for component indicators bound by definition or construction, including legal index scores (such as the depth of credit information index, extent of conflict of interest regulation index and strength of insolvency framework index) and the recovery rate (figure 15.1 in the *Doing Business 2015* report).

Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score, first for each topic and then across all 10 topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly identical to the simple average used by *Doing Business*<sup>6</sup>. Thus *Doing Business* uses the simplest

<sup>6</sup> See Djankov, Manraj and others (2005). Principal components and unobserved components methods yield a ranking nearly identical to

method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components<sup>7</sup>.

An economy's distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. All distance to frontier calculations are based on a maximum of 5 decimals. However, indicator ranking calculations and the ease of doing business ranking calculations are based on 2 decimals. The difference between an economy's distance to frontier score in any previous year and its score in 2014 illustrates the extent to which the economy has closed the gap to the regulatory frontier over time. And in any given year the score measures how far an economy is from the best performance at that time.

#### Treatment of the total tax rate

This year, for the first time, the total tax rate component of the paying taxes indicator set enters the distance to frontier calculation in a different way than any other indicator. The distance to frontier score obtained for the total tax rate is transformed in a nonlinear fashion before it enters the distance to frontier score for paying taxes. As a result of the nonlinear transformation, an increase in the total tax rate has a smaller impact on the distance to frontier score for the total tax rate—and therefore on the distance to frontier score for paying taxes—for economies with a below-average total tax rate than it would have in the calculation done in previous years (line B is smaller than line A in figure 15.2 of the *Doing Business 2015* report). And for economies with an extreme total tax rate (a rate that is very high relative to the average), an increase has a greater impact on both these distance to frontier scores than before (line D is bigger than line C in figure 15.2 of the *Doing Business 2015* report).

The nonlinear transformation is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in an economy's

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that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.

<sup>7</sup> For getting credit, indicators are weighted proportionally, according to their contribution to the total score, with a weight of 60% assigned to the strength of legal rights index and 40% to the depth of credit information index. Indicators for all other topics are assigned equal weights

overall tax system. Instead, it is mainly empirical in nature. The nonlinear transformation along with the threshold reduces the bias in the indicator toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). In addition, it acknowledges the need of economies to collect taxes from firms.

#### Calculation of scores for economies with 2 cities covered

For each of the 11 economies for which a second city was added in this year's report, the distance to frontier score is calculated as the population-weighted average of the distance to frontier scores for the 2 cities covered (table 12.1). This is done for the aggregate score, the scores for each topic and the scores for all the component indicators for each topic.

Table 12.1 Weights used in calculating the distance to frontier scores for economies with 2 cities covered

Economy	City	Weight (%)
Bangladesh	Dhaka	78
	Chittagong	22
Brazil	São Paulo	61
	Rio de Janeiro	39
China	Shanghai	55
	Beijing	45
India	Mumbai	47
	Delhi	53
Indonesia	Jakarta	78
	Surabaya	22
Japan	Tokyo	65
	Osaka	35
Mexico	Mexico City	83
	Monterrey	17
Nigeria	Lagos	77
	Kano	23
Pakistan	Karachi	65
	Lahore	35
Russian Federation	Moscow	70
	St. Petersburg	30
United States	New York	60
	Los Angeles	40

Source: United Nations, Department of Economic and Social Affairs, Population Division, World Urbanization Prospects, 2014 Revision. <http://esa.un.org/unpd/wup/CD-ROM/Default.aspx>.

### Economies that improved the most across 3 or more *Doing Business* topics in 2013/14

*Doing Business 2015* uses a simple method to calculate which economies improved the ease of doing business the most. First, it selects the economies that in 2013/14 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate distance to frontier score. Twenty-one economies meet this criterion: Azerbaijan; Benin; the Democratic Republic of Congo; Côte d'Ivoire; the Czech Republic; Greece; India; Ireland; Kazakhstan; Lithuania; the former Yugoslav Republic of Macedonia; Poland; Senegal; the Seychelles; Spain; Switzerland; Taiwan, China; Tajikistan; Togo; Trinidad and Tobago; and the United Arab Emirates. Second, *Doing Business* sorts these economies on the increase in their distance to frontier score from the previous year using comparable data.

Selecting the economies that implemented regulatory reforms in at least 3 topics and had the biggest improvements in their distance to frontier scores is intended to highlight economies with ongoing, broad-based reform programs. The improvement in the distance to frontier score is used to identify the top improvers because this allows a focus on the absolute improvement—in contrast with the relative improvement shown by a change in rankings—that economies have made in their regulatory environment for business.

### Ease of *Doing Business* ranking

The ease of doing business ranking ranges from 1 to 189. The ranking of economies is determined by sorting the aggregate distance to frontier scores, rounded to 2 decimals.

## RESOURCES ON THE *DOING BUSINESS* WEBSITE

### **Current features**

News on the *Doing Business* project  
<http://www.doingbusiness.org>

### **Rankings**

How economies rank—from 1 to 189  
<http://www.doingbusiness.org/rankings>

### **Data**

All the data for 189 economies—topic rankings, indicator values, lists of regulatory procedures and details underlying indicators  
<http://www.doingbusiness.org/data>

### **Reports**

Access to *Doing Business* reports as well as subnational and regional reports, reform case studies and customized economy and regional profiles  
<http://www.doingbusiness.org/reports>

### **Methodology**

The methodologies and research papers underlying *Doing Business*  
<http://www.doingbusiness.org/methodology>

### **Research**

Abstracts of papers on *Doing Business* topics and related policy issues  
<http://www.doingbusiness.org/research>

### ***Doing Business* reforms**

Short summaries of DB2015 business regulation reforms, lists of reforms since DB2008 and a ranking simulation tool  
<http://www.doingbusiness.org/reforms>

### **Historical data**

Customized data sets since DB2004  
<http://www.doingbusiness.org/custom-query>

### **Law library**

Online collection of business laws and regulations relating to business  
<http://www.doingbusiness.org/law-library>

### **Contributors**

More than 10,700 specialists in 189 economies who participate in *Doing Business*  
<http://www.doingbusiness.org/contributors/doing-business>

### **Entrepreneurship data**

Data on business density (number of newly registered companies per 1,000 working-age people) for 139 economies  
<http://www.doingbusiness.org/data/exploretopics/entrepreneurship>

### **Distance to frontier**

Data benchmarking 189 economies to the frontier in regulatory practice  
<http://www.doingbusiness.org/data/distance-to-frontier>

### **Information on good practices**

Showing where the many good practices identified by *Doing Business* have been adopted  
<http://www.doingbusiness.org/data/good-practice>

### ***Doing Business* iPhone App**

*Doing Business at a Glance*—presenting the full report, rankings and highlights for each topic for the iPhone, iPad and iPod touch  
<http://www.doingbusiness.org/specialfeatures/iphone>



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