# Doing Business 2007

## How to reform

COMPARING REGULATION IN 175 ECONOMIES

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# Contents

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

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

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

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

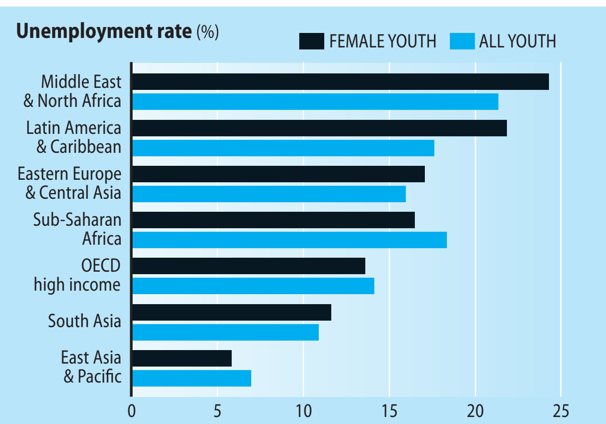
# Overview

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

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

FIGURE 1.1

***High unemployment among youth, especially females***




*Source:* ILO (2005).

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

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

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

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

TABLE 1.1
**The top 10 reformers in 2005/06**

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

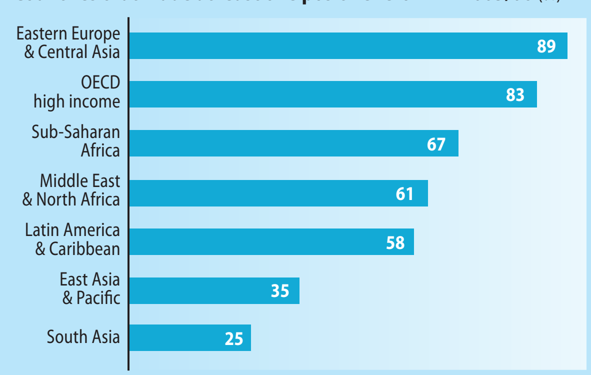
*Note:* Economies are ranked on the number and impact of reforms. First, *Doing Business* selects the economies that reformed in 3 or more of the *Doing Business* topics. Second, it ranks these economies on the increase in rank in the ease of doing business from the previous year. The larger the improvement,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

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

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

FIGURE 1.2
***Africa ranks third in reforms***

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




*Source: Doing Business* database.

## Africa is reforming

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

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

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

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

### China, Eastern Europe—fast reformers

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

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

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

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

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

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

### Singapore—where doing business is easiest

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

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

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

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

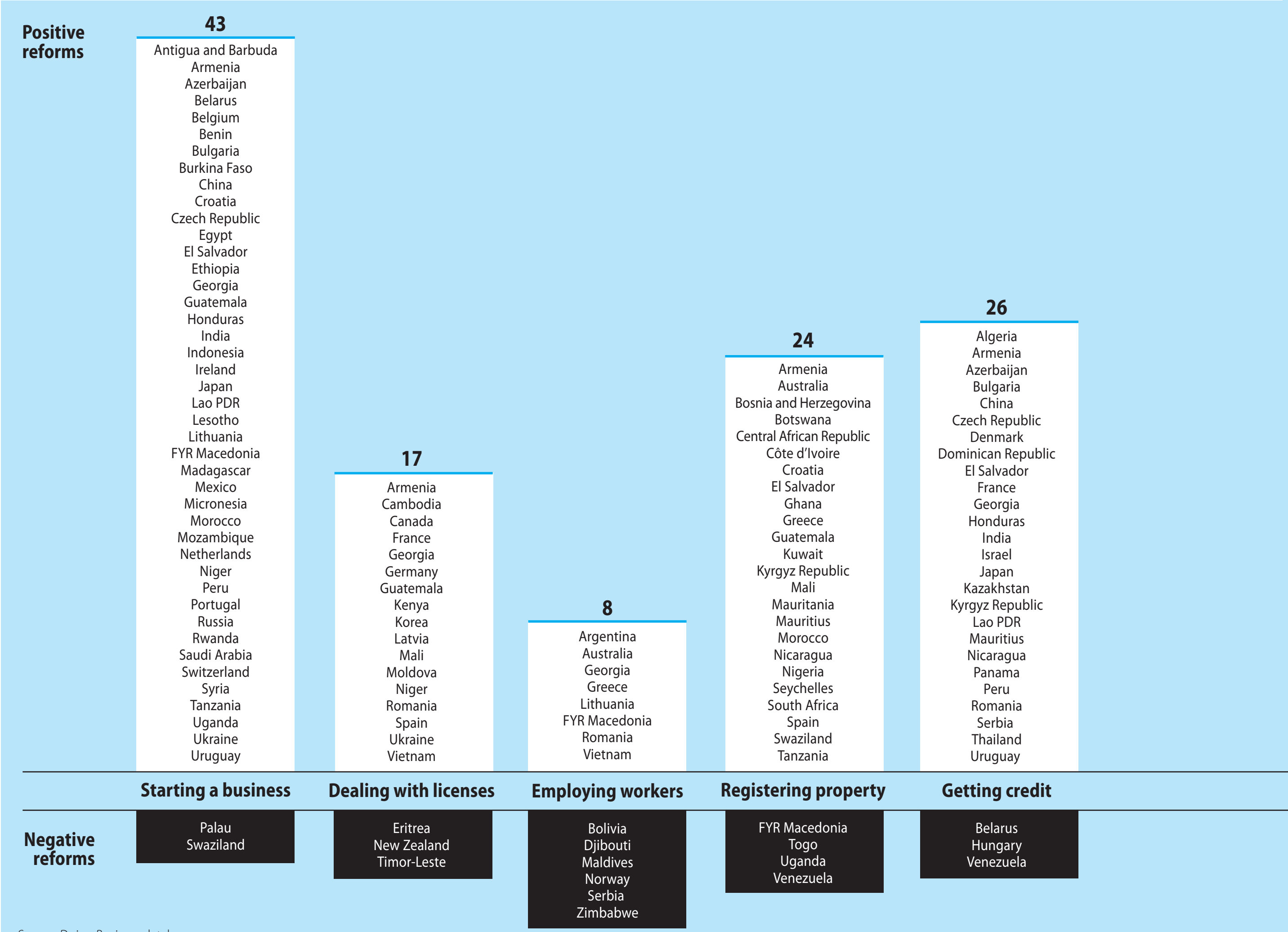
### What gets measured gets done

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

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

FIGURE 1.3

**213 reforms made business easier—25 made it more difficult**

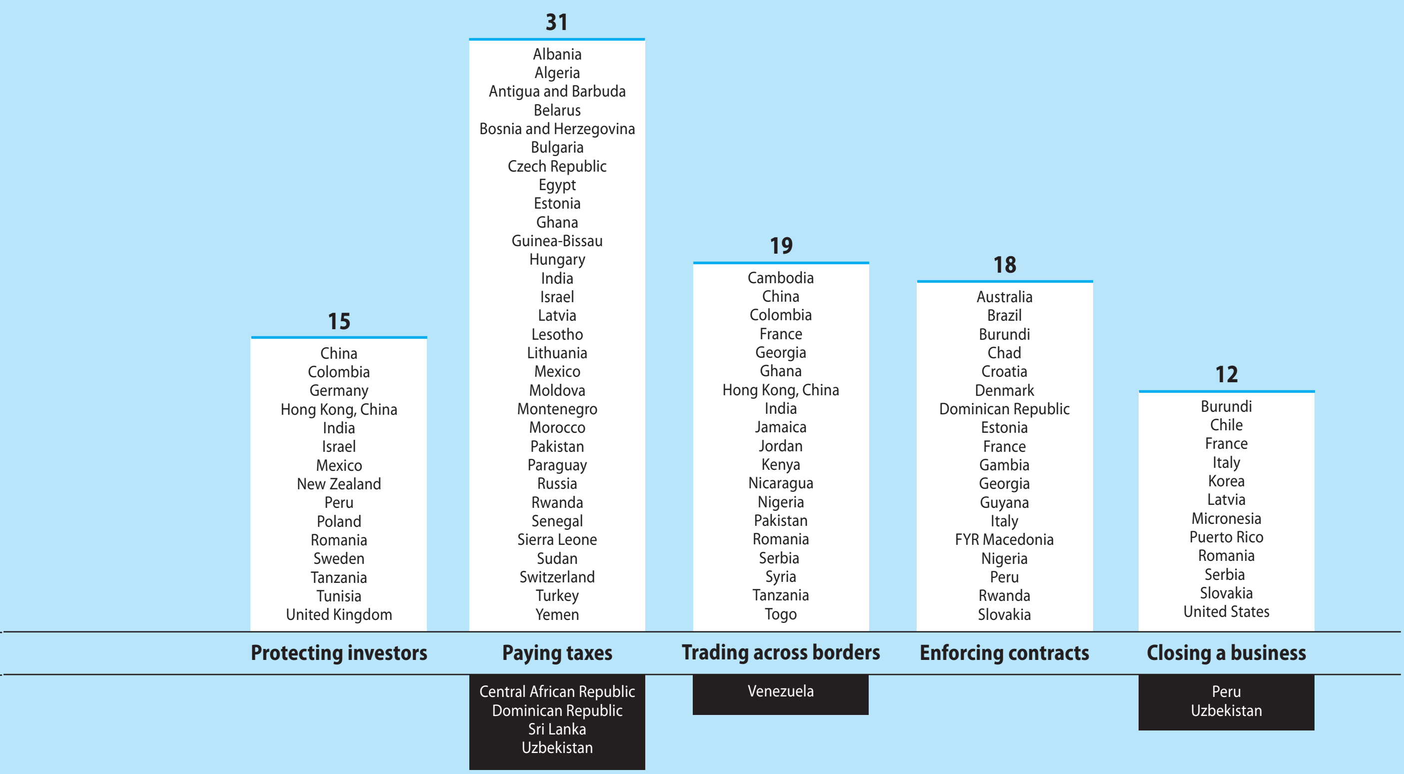



*Source: Doing Business* database.

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

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

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




## How to reform

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

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

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

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

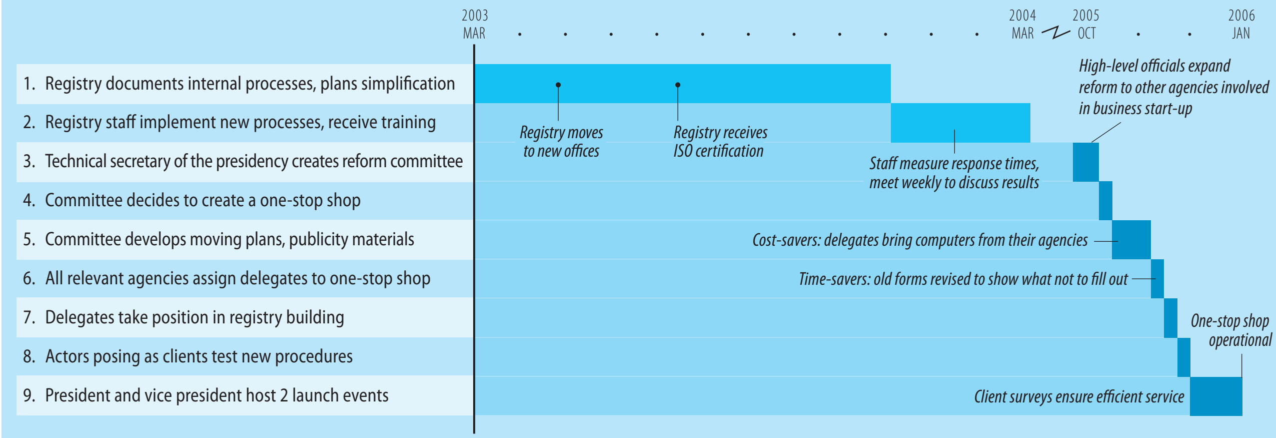
TABLE 1.2
**Rankings on the ease of doing business**

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

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

FIGURE 1.4

**How El Salvador reformed business start-up**




*Source: Doing Business* database.

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

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

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

### Make it easier for all businesses

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

## Notes

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

# Starting a business

Portugal was the top reformer in business entry in 2005/06. While a year ago starting up took 54 days, today a business can begin operating in 8. "I spent weeks going from one bureaucrat to another, begging for a stamp here and a signature there. Just to get the company name approved took 15 days. And then there was the notary, the company registry, tax agency, social security and others," recalls José, an entrepreneur in Lisbon. No longer.

Forty-three countries made it easier to start a business in the past year. More reforms took place in Africa than ever before. Ten African countries reformed, led by Burkina Faso and Madagascar. In contrast, in 2004 only Côte d'Ivoire and Nigeria made entry easier. The upswing is sorely needed—6 of the 10 most difficult places to start a business are in Africa (table 2.1).

The recent pick-up in reform shows that what gets measured gets done. The United States' Millennium Challenge Account sets explicit targets on the time and cost to start a business: to qualify for its grants, countries must do better on both measures than the median eligible country. Reforms in Burkina Faso, El Salvador, Georgia and Madagascar all met the targets.

Reforms also broke some long-standing taboos. Seven countries (China, Georgia, Japan, Lao PDR, Madagascar, Micronesia and Morocco) reduced or eliminated the minimum capital requirement—more than in the previous 5 years combined. Other countries still justify capital requirements as protecting creditors. But this makes little sense. For capital requirements to reduce the risks for creditors, shouldn't they differ by a company's size and industry? And with capital requirements as high as $58,422 in Syria and $124,464 in Saudi Arabia, few entrepreneurs can afford to register. Many turn to informality.

If it is easy to set up a business, more businesses register. Five times as many businesses register annually in El Salvador since its reforms. New entry jumped by 78% after reforms in FYR Macedonia, 55% in Georgia, 25% in Lithuania and 16% in Uganda.

Enticing enterprises into the formal economy has 2 benefits. First, formally registered businesses grow larger. In a recent study on informality in São Paulo entrepreneurs said they could double operations after registering.[1] The reason? They would be able to supply larger customers and export directly. And they would have no fear of harassment by government inspectors or the police—and no need to pay them bribes. Second, formally registered enterprises pay taxes, adding to government revenues.[2]

TABLE 2.1
**Where is it easy to start a business—and where not?**

| Easiest | Rank | Most difficult | Rank |
|---|---|---|---|
| Canada | 1 | Tajikistan | 166 |
| Australia | 2 | Haiti | 167 |
| New Zealand | 3 | Eritrea | 168 |
| United States | 4 | Togo | 169 |
| Hong Kong, China | 5 | Angola | 170 |
| Ireland | 6 | Yemen | 171 |
| Romania | 7 | Congo, Dem. Rep. | 172 |
| Puerto Rico | 8 | West Bank and Gaza | 173 |
| United Kingdom | 9 | Chad | 174 |
| Jamaica | 10 | Guinea-Bissau | 175 |

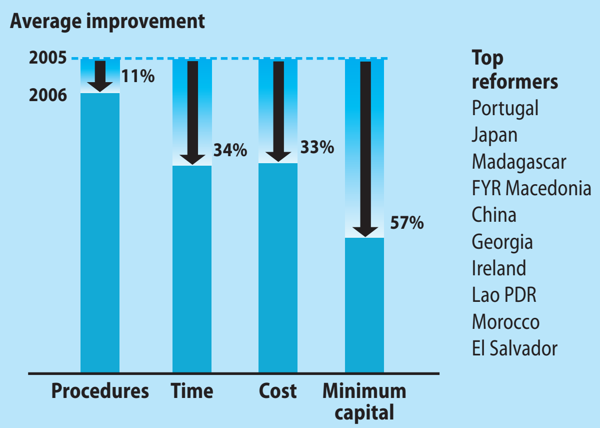
*Note:* Rankings are the average of the country rankings on the procedures, time, cost and paid-up minimum capital for starting a business. See the Data notes for details.
*Source: Doing Business* database.

## Who is reforming?

In Portugal, now one of the fastest economies for start-up (table 2.2), an entrepreneur using the new fast-track service simply chooses a preapproved name from the registry's website, then goes to the one-stop shop to register the company. The registry deals with tax, social security and labor registration and publishes the incorporation notice on the Ministry of Justice website. Standard articles of association make the application fast and error-free—with no need for a notary. More and more businesses are taking advantage of the new service. Within a year the number of companies using it rose from 12 a day to 75.

Reforms picked up more in Africa than in any other region in 2005/06. Madagascar reduced the minimum capital requirement by 80% and sped registration by relocating a legal clerk to the one-stop shop. The improvements placed Madagascar among the top 10 reformers (figure 2.1). Burkina Faso combined the professional license, company, tax and social security registrations at a single access point—cutting the time to start a business by a fourth. Ethiopia and Uganda sped company registration. Benin and Niger lifted the requirement for entrepreneurs to prepay taxes before starting operations. Mozambique and Tanzania simplified their business licensing regimes. Nigeria now allows entrepreneurs to verify the availability of company names online. Lesotho cut time by introducing a single form for value added and income tax registration. And Rwanda scrapped a law, originally adopted by King Leopold of Belgium during colonial times, that allowed only 1 notary in the entire country. Now 33 notaries are working throughout the country, reducing start-up delays.

FIGURE 2.1
***Top 10 reformers in business start-up***




*Source: Doing Business* database.

TABLE 2.2
**Who regulates business start-up the most—and who the least?**

**Procedures** (number)

| Fewest | | Most | |
|---|---|---|---|
| Australia | 2 | Azerbaijan | 15 |
| Canada | 2 | Bolivia | 15 |
| New Zealand | 2 | Belarus | 16 |
| Afghanistan | 3 | Venezuela | 16 |
| Denmark | 3 | Brazil | 17 |
| Finland | 3 | Guinea-Bissau | 17 |
| Sweden | 3 | Paraguay | 17 |
| Belgium | 4 | Uganda | 17 |
| Ireland | 4 | Chad | 19 |
| Norway | 4 | Equatorial Guinea | 20 |

**Time** (days)

| Least | | Most | |
|---|---|---|---|
| Australia | 2 | Angola | 124 |
| Canada | 3 | Equatorial Guinea | 136 |
| Denmark | 5 | Venezuela | 141 |
| Iceland | 5 | São Tomé and Principe | 144 |
| United States | 5 | Brazil | 152 |
| Singapore | 6 | Congo, Dem. Rep. | 155 |
| Puerto Rico | 7 | Lao PDR | 163 |
| France | 8 | Haiti | 203 |
| Jamaica | 8 | Guinea-Bissau | 233 |
| Portugal | 8 | Suriname | 694 |

**Cost** (% of income per capita)

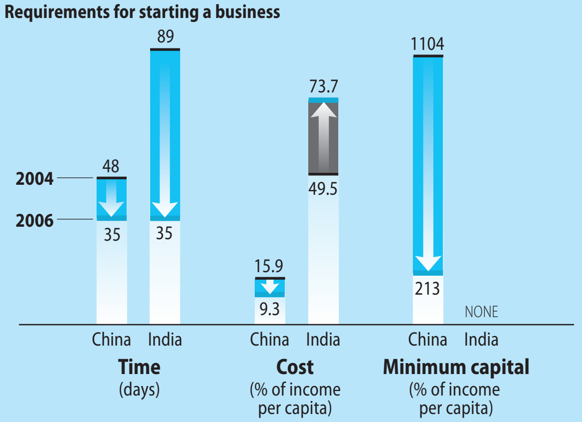
| Least | | Most | |
|---|---|---|---|
| Denmark | 0.0 | Yemen | 228.0 |
| New Zealand | 0.2 | Cambodia | 236.4 |
| Ireland | 0.3 | Togo | 252.7 |
| United States | 0.7 | Guinea-Bissau | 261.2 |
| Sweden | 0.7 | Gambia | 292.1 |
| United Kingdom | 0.7 | West Bank and Gaza | 324.7 |
| Puerto Rico | 0.8 | Niger | 416.8 |
| Singapore | 0.8 | Congo, Dem. Rep. | 481.1 |
| Canada | 0.9 | Angola | 486.7 |
| Finland | 1.1 | Sierra Leone | 1,194.5 |

**Paid-in minimum capital**

| Most | % of income per capita | US$ |
|---|---|---|
| Timor-Leste | 667 | 5,000 |
| Egypt | 695 | 8,683 |
| Niger | 778 | 1,867 |
| Jordan | 864 | 21,610 |
| Guinea-Bissau | 1,029 | 1,852 |
| Saudi Arabia | 1,057 | 124,464 |
| Ethiopia | 1,084 | 1,734 |
| West Bank and Gaza | 1,890 | 18,008 |
| Yemen | 2,566 | 15,394 |
| Syria | 4,233 | 58,422 |

*Note:* Sixty-four countries have no minimum capital requirement.
*Source: Doing Business* database.

FIGURE 2.2
*Big improvements in China and India*




Source: *Doing Business* database.

TABLE 2.3
**Single access points—a popular reform in 2005/06**

| | |
|---|---|
| **Created single access point** | Burkina Faso, Croatia, El Salvador, Guatemala, Lithuania, FYR Macedonia, Portugal, Ukraine |
| **Simplified tax registration** | Armenia, Benin, Bulgaria, India, Lesotho, Lithuania, Tanzania, Uruguay |
| **Abolished or reduced minimum capital requirement** | China, Georgia, Japan, Lao PDR, Madagascar, Micronesia, Morocco |
| **Sped registration through institutional reforms** | Belarus, Ethiopia, Honduras, Mexico, Russia, Rwanda, Saudi Arabia |
| **Cut stamp duty or capital tax** | Belgium, Ireland, Netherlands, Switzerland, Syria |
| **Simplified document requirements at registry** | Azerbaijan, Egypt, Indonesia, Lao PDR, Niger |
| **Streamlined licensing procedures** | Mozambique, Peru, Tanzania |
| **Made registration administrative** | Antigua and Barbuda, Czech Republic, FYR Macedonia, Uganda |

Source: *Doing Business* database.

China and India both cut business start-up to 35 days (figure 2.2). India simplified a complex tax registration system, more than halving start-up time. China amended its company law, reducing the minimum capital requirement by 70% and eliminating substantive review at the registry. Elsewhere in East Asia, Indonesia continued to speed the approval process at the Ministry of Justice, cutting weeks from the time for start-up.

Countries in Europe focused on cutting costs or simplifying registration. Ireland and the Netherlands abolished capital taxes. Switzerland eliminated stamp duties for the first €1,000,000 of start-up capital. Belgium halved start-up cost by abolishing the registration fee—and also piloted online registration. Georgia reduced its minimum capital requirement by 90%. FYR Macedonia, another top 10 reformer, made registration administrative rather than judicial and combined company, tax and social security registration. Time dropped from 48 days to 18. Ukraine introduced a one-stop shop for new business registration. Lithuania created a virtual one (table 2.3).

El Salvador led the reforms in Latin America for the second year in a row. It reduced the number of procedures from 12 to 10, the time from 40 days to 26. Honduras cut 18 days from the process by delegating company registration to private chambers of commerce. Guatemala linked commercial, tax and social security registration. Mexico allows entrepreneurs to obtain the tax registration number through the notary at the time of incorporation—saving 3 weeks. The municipality of Lima, in Peru, now grants a municipal license in a week rather than a month. Uruguay merged tax and social security registration.

Four reforms took place in the Middle East and North Africa. Morocco lowered the minimum capital requirement to 67% of income per capita. Syria reduced the stamp duty from 1.5% of start-up capital to 0.5%. Egypt cut cost by 30% by lowering registration fees and publishing the incorporation notice at the registry rather than in the government gazette. Saudi Arabia simplified procedures at the Ministry of Commerce and cut time from 64 days to 39.

## How to reform

For a government that has just come to power on a reform platform, here's how to start: change the company law. Eliminate the minimum capital requirement, make business registration administrative rather than judicial and allow registration notices to be published online or at the registry.

Business start-up takes 20 days more on average where judges have to approve the applications. Serbia and Uganda avoided these delays by creating a new administrative registry. Bulgaria did the same in April 2006, despite fierce opposition from the judiciary. Honduras and Italy transferred registration from judges to private chambers of commerce. Bosnia and Herzegovina, the Czech Republic, Romania and Slovakia left registration in the courts but shifted responsibility for it from judges to legal clerks.

Here is how Serbia did it. The government decided that radical reform was better than wrestling with the existing system. The reform took nearly 2 years to complete, starting in January 2003 with a seminar on business registration in countries of the European Union (figure 2.3). It faced fierce opposition from the judiciary, an 8-month hiatus after the assassination of Prime Minister Zoran Djindjic and technical difficulties just before the new administrative registry opened. But it succeeded.

In May 2004 parliament passed a law to create the new registry. Registration was simplified, and agencies linked through a central electronic database. The registry no longer has the authority to check the authenticity of data or to refuse registration if the application is complete. A "silence is consent" rule ensures automatic registration within 5 days.

As soon as the law came into force, the focus shifted to training and publicity. The registry's director, named in July 2004, became the spokesperson in the publicity campaign. By January 2005, when the registry opened, everyone knew about it. New registrations increased by 43% in the first year.

Slovakia took a different approach, reforming in steps. In October 2003—in time for its entry into the European Union the following year—Slovakia passed the Act on the Commercial Register, transferring registration from judges to court clerks. Standard documents and clear filing procedures replaced substantive review by judges. And Slovakia did not stop there. In July 2004 it cut the statutory time limit for issuing a trade license from 15 days to 7. In October 2004 it amended the commercial code to clarify grounds for rejecting registration applications. And in January 2005, by amending its tax administration and value added tax acts, it simplified tax registration. Three years after the commercial register act was adopted, opening a business takes 25 days rather than 103.

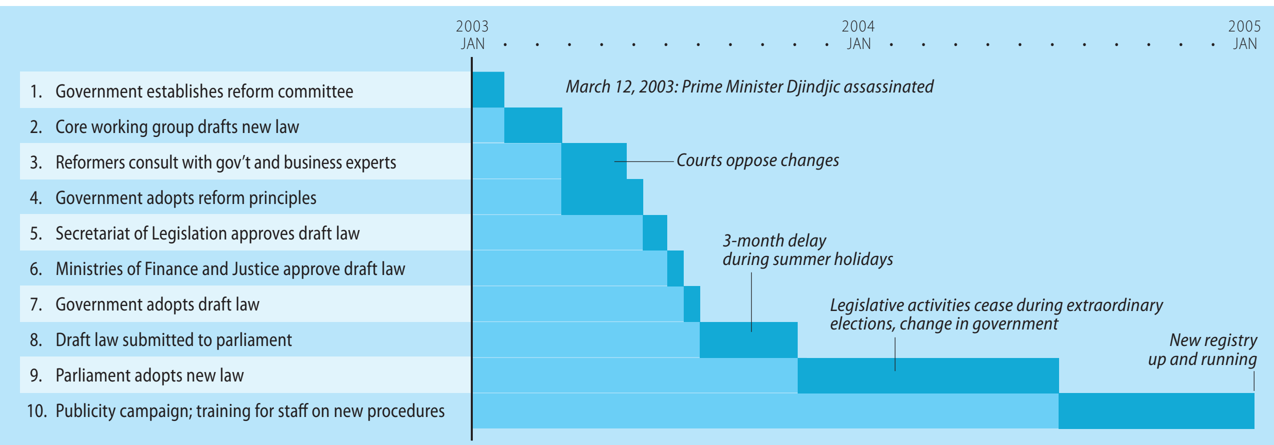
Reformers who want to start simple could consider administrative reforms first: cut unnecessary procedures, create a one-stop shop for business registration, introduce standard application forms and a single business identification number and move any tax payments to after the business has started operations.

Portugal followed this track and reformed in 5 months. As soon as the new government came into power in March 2005, it formed a working group in the Ministry of Justice. The aim was to reduce the number of approvals and government visits in business start-up as much as possible. A new law was drafted in 3 months and approved by the government on June 30, 2005. No parliamentary approval was needed because the law concerned only company matters, not the courts. A week later the law was signed by the president and published in the gazette. On July 13 it became effective. The registry's software was upgraded while the law was being drafted. And because the system is now simpler, staff needed little training. By August the fast-track system was operational. The cost of the reform was $350,000.

Creating one-stop shops for company registration was the most popular reform in 2005/06. Eight countries —Burkina Faso, Croatia, El Salvador, Guatemala, Lithuania, FYR Macedonia, Portugal and Ukraine—combined company, tax and social security registration in one building. Another 15 had created one-stop shops between 2003 and 2005.

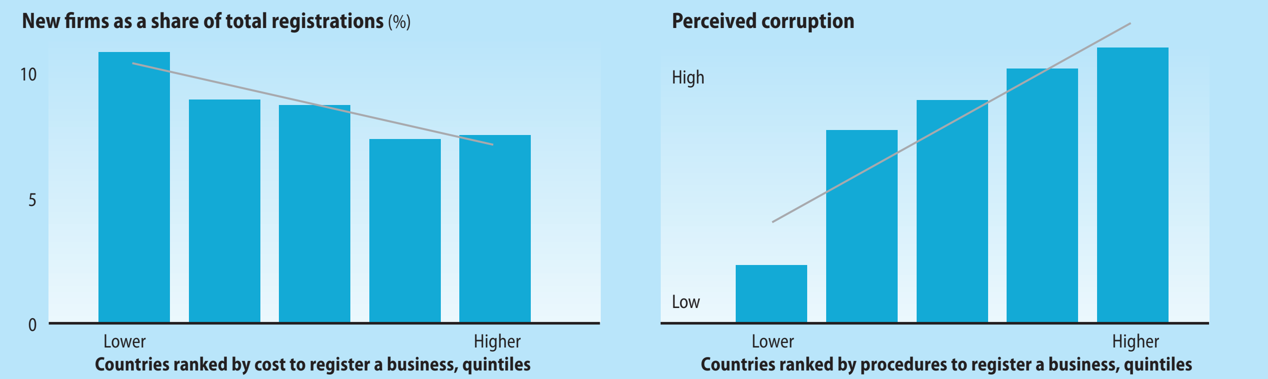
But one-stop shops are not enough. Many other procedures may be required before a business can legally operate—such as obtaining documents and having them notarized, depositing initial capital or registering for social security. Even in Portugal an entrepreneur needs to complete 5 procedures on top of visiting the one-stop shop. In Burkina Faso it is 7, in FYR Macedonia 9. One-

FIGURE 2.3
***How Serbia reformed company registration***




*Source: Doing Business* database.

FIGURE 2.4
**Easier start-up—more new firms, less corruption**




*Note:* Relationships are significant at the 5% level.
*Source: Doing Business* database, World Bank Group Entrepreneurship database, Kaufmann, Kraay and Mastruzzi (2005).

stop shops work best when other start-up procedures are cut or simplified.

El Salvador cut the time to start a business—with no changes to the law. The reform started in 2003 in the company registry with a single goal: to become the first registry in Latin America to earn an ISO certification. The staff developed time-and-motion studies of all transactions and cut unnecessary steps. Customer surveys ensured timely feedback. In 18 months start-up time dropped to 40 days and the share of satisfied customers rose to 87%.

But reformers went even further, transferring staff from the Ministries of Finance and Labor and the social security institute to the company registry. Entrepreneurs now register with all 4 agencies in a single visit and can open their business in 26 days—down from 115 before the reform.

Whatever reforms are made, reformers should advertise the changes and monitor their effect on new registrations. Most reformers are bad marketers. So, few entrepreneurs know how much easier registration has become. El Salvador first established a one-stop shop in 1999, but local entrepreneurs thought it was only for foreigners. A lesson was learned. The second time around reformers staged 2 "ribbon cutting" events with President Antonio Saca and Vice President Ana Escobar. The media coverage ensured that everyone knew about the new system when it opened in January 2006.

Finally, reformers best stick to one principle—simplify. Cumbersome entry procedures mean more hassle for entrepreneurs and more corruption, particularly in developing countries (figure 2.4).[3] Each procedure is a point of contact—an opportunity to extract a bribe. The cost of such systems is the forgone jobs that new firms would have created.[4]

## Notes

1. Bertrand and others (2006).
2. Djankov and others (2002).
3. Svensson (2005).
4. Klapper (2006).

# Dealing with licenses

Inspecting the quality of construction is necessary to protect those who will live or work in a building. Governments have been concerned with such protection for centuries. Records of Socrates' house, built in the 4th century BC, show the inspection requirements of his day: "The builder shall set the joints against each other, fitting, and before inserting the dowels he shall show the architect all the stones to be fitting, and shall set them true and sound and dowel them with iron dowels, two dowels to each stone…"[1]

There is a tradeoff between the safety that licenses create and their cost—both to entrepreneurs and to the government. In 70 countries obtaining a construction permit takes longer than the actual construction. Many of these are in Africa, which accounts for 5 of the 10 countries where it is most difficult to build legally (table 3.1).

Where procedures are complicated and the time and cost to get licenses are great, few formal projects get started. Consider the daunting task of obtaining a construction permit in Mozambique, where building regulations date to the 1880s: it takes 13 procedures involving 9 agencies and 5 separate inspections.

TABLE 3.1
**Where is building a warehouse easy—and where not?**

| **Easiest** | Rank | **Most difficult** | Rank |
|---|---|---|---|
| St. Vincent and the Grenadines | 1 | Guatemala | 165 |
| Japan | 2 | Guinea | 166 |
| Thailand | 3 | Iran | 167 |
| Belize | 4 | Burkina Faso | 168 |
| Marshall Islands | 5 | Egypt | 169 |
| Denmark | 6 | Croatia | 170 |
| St. Kitts and Nevis | 7 | Zimbabwe | 171 |
| Singapore | 8 | Tanzania | 172 |
| Maldives | 9 | Eritrea | 173 |
| St. Lucia | 10 | Timor-Leste | 174 |

*Note:* Rankings are the average of the country rankings on the procedures, time and cost to build a warehouse. One country (Afghanistan) is missing data. See the Data notes for details.
*Source: Doing Business* database.

*Doing Business* looks at licensing in the construction industry, since it is among the largest sectors in every economy and there is a clear rationale for regulating it. But the same problems occur in other sectors too. In Kenya the government is evaluating licenses in all business sectors. In 2005 it initiated a review of 1,347 business licenses and permit requirements. So far, 118 licenses are proposed for elimination. By the end of 2007 another 700 are to be simplified and 320 abolished. Problems remain. Some ministries did not submit lists of all the licenses they regulate and the related fees. And the new business regulation bill is awaiting parliamentary approval.

Persistence will pay off. Consider what a study of permits in France suggests about the potential gains from reducing burdensome licensing regulation.[2] In 1974 the Ministry of Industry issued a regulation to protect small shopkeepers against competition from chain stores. Zoning permits were issued at the discretion of municipal councils. Few such permits were given. Had this regulation not been introduced, employment in the formal retail sector could be 10% higher today.

Besides creating more jobs, cutting red tape can provide the resources to improve public services. Sweden spends 8% of its budget on regulating business, the United Kingdom 10% and the Netherlands 11%. Cutting red tape by 15% would free resources equal to around half the public health budget in these countries.[3] It would also reduce the costs to businesses of complying with regulation.