

Doing Business 2009

Introduction to
Doing Business 2009



September 2008



Doing Business indicators:

- Focus on regulations relevant to the life cycle of a small to medium-sized domestic business
- Are built on standardized case scenarios
- Are measured for the most populous city in each country
- Are focused on the formal sector

- Starting a business
- Dealing with licenses
- Registering property
- Trading across borders
- Paying taxes
- Enforcing Contracts
- Employing Workers
- Getting Credit
- Protecting investors
- Closing a business



**Time and motion
indicators**



**Scoring Indicators
(Legal indicators)**

1. Follow the entrepreneur from the beginning to the end of a basic transaction;
2. Record every step of the process, and the associated time and cost;
3. Gather all the relevant laws, regulations, decrees, fee schedules.

Examples:

- Registering property: transfer of property title, up to the point that the property can be used as collateral or transferred
- Trading across borders: time and cost for documents, transportation, customs, and ports needed to import/export

1. Based on standardized case
2. Establishes index with scoring scale
3. Gather all the relevant laws, regulations
4. Assigns value based on laws, regulation
5. Main index often function of underlying indices

- **EBRD-WB Business Environment and Enterprise Performance Surveys** (last one 2005, next expected in 2008)
- **Investment Climate Assessment** (Albania, upcoming in Fall 2008)
- **Administrative and Regulatory Cost Survey (ARCS,** last one 2005)

1. STARTING A BUSINESS

- Is a limited liability company
- Operates in the country's most populous city
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Has up to 50 employees 1 month after the commencement of operations, all of them nationals
- Has a company deed 10 pages long
- Performs general industrial or commercial activities

Procedures (number):

- any interaction with an external party
- Both pre- and post-incorporation procedures that are officially required for an entrepreneur to legally operate a business
- Each procedure is assigned a minimum duration of 1 day
- Both legal and common practice procedures are included

Time (days):

- median
- recorded in calendar days

Cost (% of income per capita):

- Only official fees
- recorded as percentage of GNI per capita
- no bribes or special relationships

Paid-in capital:

- measured as percentage of GNI per capita

Starting a business – What the top 10 they have in common

- **Minimum capital requirement
nominal or zero**
- **Standardized forms**
- **No courts involved**
- **Online registration**
- **Fixed registration fee**
- **No publication in legal journal
required**

2. DEALING WITH CONSTRUCTION PERMITS

- Is located in a peri-urban area of the country's most populous city.
- Is located on a land plot of 929 square meters, which is 100% owned by the company and is accurately registered in the cadastre and land registry.
- Will be 2 stories high and cover an area of 1,300.6 square meters.
- Each floor is 3 meters high.
- Has complete architectural and technical plans and is already insured
- Will be connected to electricity, water, sewerage and one land phone line. The connection to each utility network will be 10 meters long.
- Will be used for storing books.

Procedures (number)

- Every interaction with an external party (i.e. municipality, inspectors, utilities)

Time (days)

- Recorded in calendar days
- median duration of each procedure
- The time span for each procedure starts with the first filing of the application or demand, and ends once the company has received the final document or service requested

Cost (% of income per capita)

- Only official fees and taxes
- Recorded as a % of GNI

Dealing with construction permits -- What the top 10 they have in common

- Few pre-approval procedures required before obtaining a building permit
- Interaction with one agency to obtain a building permit rather than different offices and agencies
- Few inspections of the construction site by the authorities

3. TRANSFERRING PROPERTY

- Are limited liability companies
- Located in a periurban area of the country's most populous city
- 100% domestically and privately owned
- Have 50 employees, all of whom are nationals
- Perform general commercial activities

- Consists of land and a building
- Is located in a periurban commercial zone, and no rezoning is required
- Has a value of 50 times GNI per capita
- Is fully owned by another domestic limited liability company
- Has no mortgages attached and has been under the same ownership for the past 10 years
- Is adequately measured and filed in the cadastre, registered in the land registry and free of title disputes
- Will not be subject to renovations or additional building following the purchase
- Has no trees, natural water sources, natural reserves or historical monuments of any kind

Procedures (number)

- Every interaction of the seller, or their agent with an external party (i.e. municipality, inspectors, utilities)
- Buyer follows the fastest legal option

Time (days)

- Recorded in calendar days
- Median duration of each procedure
- Minimum time for each procedure is 1 day

Cost (% of property value)

- Only official fees and taxes
- Recorded as a % of property value (which is 50 times income per capita)
- Both costs borne by the buyer and those borne by the seller are included

Transferring Property- What the top 10 they have in common

- Reduce taxes or fees
- Combine and reduce procedures
- Speed procedures in the registry
- Computerize procedures and go online
- Speed procedures in the court
- Liberalize professions like surveyors, valuers and notaries

4. TRADING ACROSS BORDERS

Firm:

- be of medium size with 100 employees or more
- be located in the most populous city
- be a private, limited liability company
- be domestically owned with no foreign ownership
- exports more than 10% of product, but does not operate in an export processing zone

Traded goods:

- 20 ft container load by Ocean transport
- non hazardous, military, no special standards

Respondents: mainly freight forwarders, traders, customs and port authorities

- Exports: from the conclusion of the sales contract to the shipment of goods from the port of departure.
- Imports: from the conclusion of the purchase contract to the arrival of goods at the importers warehouse.
- Record time, costs, documents for the whole process:
 - Documents
 - Customs
 - Transport
 - Ports

Trading across borders -- what the top 10 have in common

- Reduce paperwork
- Use a single window
- Allow shippers to declare their manifest online even prior to arriving in port

5. PAYING TAXES

- Is a limited liability taxable company
- Operates in the country's most populous city
- Is 100% domestically owned and has 5 owners
- The company purchased all the assets shown in its balance sheet and hired all its workers 2 years ago.
- Has 60 employees – 4 managers, 8 assistants and 48 workers, all nationals
- Produces flower pots and sells them at retail
- Has a turnover of 1,050 times income per capita

All taxes paid in the second year of operation (2006)

- **Payments (number)**
 - All payments the company pays within one year
 - Online payments count as 1 per year even if they occur more frequently
 - 50% of large tax payers must be using online payments for them to count
- **Time (hours)**
 - Hours per year to prepare, file and pay three major types of taxes
 - Corporate income tax
 - VAT or sales tax
 - Labor taxes
- **Total tax rate:**
 - Total amount of taxes payable by the business in percent of commercial profits (VAT, Sales Tax and Personal Income Tax are not included)

- Online filing
- One tax per tax base
- Low rates and wide tax base
- Simple tax administration

6. ENFORCING CONTRACTS

- Value of claim/goods: 200% of GNI per capita
- Seller and Buyer: companies in most populated city
- Seller delivers goods to Buyer
- Buyer does not pay Seller
- Commercial dispute over quality of delivered goods
- Expert opinions
- Judgment in favor of Seller
- No appeal
- Court in most populous city- type of court varies (commercial court, small claims court, first instance court, ...)
- Enforcement through public sale of Buyer's movable goods

Procedures (number):

- Service of process
- Trial and judgment
- Enforcement of judgment through public sale of buyer's movable goods

Time (days)

- Service of process
- Trial and judgment
- Enforcement of judgment through public sale of buyer's movable goods

Cost (% of value of claim)

- Court costs + attorneys fees + enforcement fees (NEW!)

Ease of Enforcing Contracts = Average of Rank on Time, Rank on Cost and Rank on Procedures)

Enforcing contracts: What the top 10 they have in common

- Specialized commercial courts
- Changes to procedural rules
- More efficient enforcement of judgments
- Introduce out-of-court enforcement of small or uncontested claims

7. EMPLOYING WORKERS

- Is a limited liability company
- Operates in the country's most populous city
- Is 100% domestically owned
- Has 201 employees
- Operates in the manufacturing sector
- Is subject to collective bargaining agreements in countries where such agreements cover more than half of the manufacturing sector and apply even to firms not party to them
- Abides by every law and regulation but does not grant workers more benefits than what is legally mandated

- Is a non-executive, full-time male employee who has worked in the same company for 20 years, and is now 42 years old
- Earns a salary plus benefits equal to the country's average wage
- Is a lawful citizen who belongs to the same race and religion as the majority of the country's population
- Resides in the country's most populous city
- Is not a member of a labor union, unless membership is mandatory.

Rigidity of employment index (0-100) is average of:

Difficulty of hiring index (0-100)

- fixed term contracts, minimum wage

Rigidity of hours index (0-100)

- provisions relevant to non-standard work schedules and annual leave

Difficulty of firing index (0-100)

- required procedures for redundancy

Non-wage labor cost (% of salary)

Labor taxes payable by employer (% of worker's wage)

Firing cost (weeks of salary)

Notice periods and severance pay for a redundant worker (in weeks of salary)

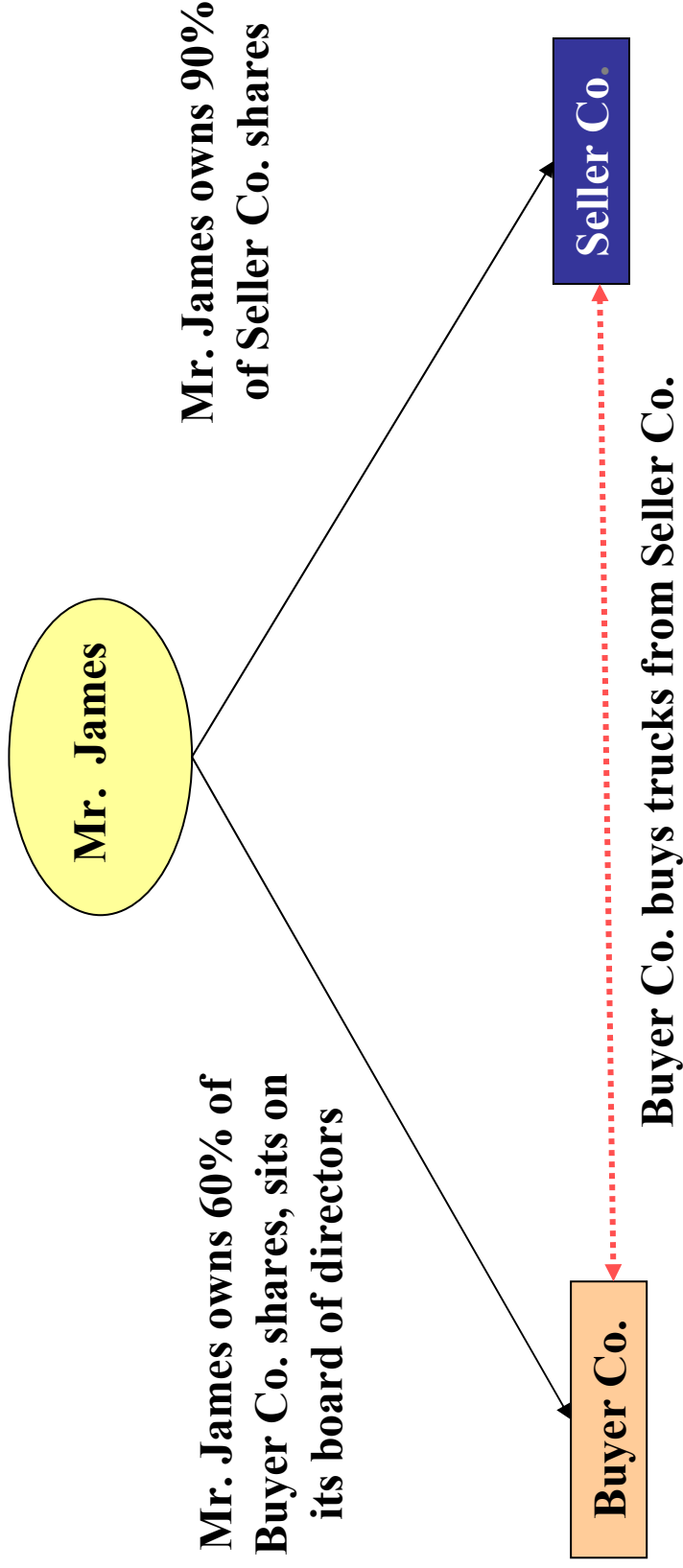
- Fixed-term contracts allowed without limit for permanent tasks
- Limited restrictions on night-time or weekly-holiday work
- Firing costs do not exceed the equivalent of two months' salary
- No third-party approval required to dismiss workers and no priority rules in place
- Non-wage labor costs do not exceed 20%

8. GETTING CREDIT

- Legal rights index: 10 features of collateral / secured transactions law
- Credit information index: 6 features of credit information system
- Public credit registry coverage = $\frac{(\# \text{ of individuals} + \text{firms})}{\text{adult population}}$
- Private credit bureau coverage = $\frac{(\# \text{ of individuals} + \text{firms})}{\text{adult population}}$

- Record positive and negative credit history
- Gather historical credit information going back at least 2 years, of both individuals and companies
- Utilities or retailers as well as banks provide credit information
- Allow all types of assets to be used as collateral
- Unified collateral registry
- Out-of-court enforcement of security rights

9. PROTECTING INVESTORS



Extent of disclosure (0-10)

- who approves the transaction
- what needs to be disclosed, when and to whom

Extent of director liability (0-10)

- available claims against Mr. James and the other directors
- what needs to be proven for each claim
- what remedies are available if they are found liable

Ease of shareholder suits (0-10)

- access to company information for proving the investor's case

Strength of investor protection: average of the three indices

- Regulate approval of related-party transactions;
- Require extensive internal and external disclosure requirements for related-party transactions;
- Facilitate shareholder judicial redress for damage caused to company through self-dealing;
- Greater remedies against directors involved in harmful related-party transactions;
- Open company books for shareholder inspection.

10. CLOSING A BUSINESS

- Domestically owned, limited liability business
- Runs a hotel in the country's most populous city
- Has a professional manager, 201 employees, and 50 suppliers
- Worth more as a going concern than it would be in a piecemeal liquidation
- **OWES LOTS OF PEOPLE MONEY...**
 - the bank (mortgage on the hotel property), suppliers, employees, back taxes...
 - and can't pay them.

- Time: how many years does it take to put the company through the bankruptcy process?
- Cost: what percentage of the estate value is spent going through the bankruptcy process?
- Recovery rate: how many cents on the dollar can claimants – creditors, tax authorities and employees – recover from the insolvent company?

Closing a business: What the top 10 they have in common

- Establish creditors' committees
- Increase creditors' priority ranking
- Allow pre-insolvency proceedings
- Reduce time limits
- Minimize court involvement