

A Project Benchmarking the Regulatory Cost of
Doing Business in over 130 countries

Doing Business in 2004
Pakistan
Country Profile

Monitoring, Analysis and Policy Unit
Investment Climate Department
World Bank Group

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A vibrant private sector—with firms investing, creating jobs, and improving productivity—promotes growth and expands opportunities for poor people. That is why governments around the world have implemented wide-ranging reforms, including macro-stabilization programs, price liberalization, privatization, and opening to foreign trade. In many countries, however, entrepreneurial activity remains limited, poverty high, and growth stagnant. And other countries have spurned orthodox macro reforms and done well. How so?

Although macro policies are unquestionably important, there is a growing consensus that the quality of government regulation of business and the institutions that enforce this regulation are a major determinant of prosperity. Hong Kong (China)'s economic success, Botswana's stellar growth performance, and Hungary's smooth transition experience have all been stimulated by a good regulatory environment. But there is little work measuring specific aspects of regulation and analyzing their impact on economic outcomes, such as productivity, investment, informality, corruption, unemployment, and poverty. The lack of systematic knowledge prevents policymakers from assessing how good their legal and regulatory systems are and how to design and sequence reforms.

Doing Business in 2004: Understanding Regulation is the first in a series of annual reports investigating the scope and manner of regulations that enhance business activity and those that constrain it. New quantitative indicators on business regulations and their enforcement can be compared across more than 130 countries—from Albania to Zimbabwe—and over time. The indicators are used to analyze economic outcomes and identify what reforms have worked, where, and why.

The indicators presented and analyzed in *Doing Business* emphasize domestic, small and medium sized companies, which comprise the vast majority of firms, investment and employment in developing countries. Two types of indicators are constructed. First, measures of actual regulations—for example the number of procedures to register a business or an index of employment law rigidity. Second, measures of regulatory outcomes, such as the time and cost to register a business, enforce a contract, or go through bankruptcy.

The methodology is based on detailed assessments of laws and regulations, and surveys of in-country government officials, lawyers, legal consultants, and other professionals involved in administering, or advising on, legal and regulatory requirements. This methodology offers several advantages. It is based on factual information. The data collection process is transparent and easily replicable. It allows multiple interactions with the local respondents, ensuring accuracy by clarifying possible misinterpretations of the survey questions. It is relatively inexpensive to administer and as a result the data can be produced for a large sample of countries. And because the same standard assumptions are applied in collection, the data enable valid cross country comparisons and benchmarking.

Most importantly, the analysis has direct relevance for policy reform. Two features facilitate this. First, *Doing Business* studies the effects of the indicators on economic and social outcomes. This enables policy makers to understand better how particular

laws and regulations affect employment, access to credit, the size of the informal economy, entry of new firms, corruption, and poverty.

Second, beyond highlighting the areas for policy reform, the analysis provides guidance on the specific design of reforms. The data provide a wealth of detail on which specific regulations and institutions enhance or hinder business activity, what the biggest bottlenecks causing bureaucratic delay are, and how costly compliance with regulation is. Each indicator set is supported by a library of current laws, and a file specifying what regulatory reforms are underway. After reviewing their country's Doing Business indicators, governments can identify where they lag behind and understand what to reform.

The initial data covered in the database and included in this country profile are:

- Starting a Business: Entry Regulations
- Hiring and Firing Workers: Employment Regulations
- Enforcing a Contract: Court Efficiency
- Getting Credit: Creditor Rights and Credit Information
- Closing a Business: Bankruptcy

A full set of topics will be built over a period of three years. New topics will include business licensing and inspections, corporate governance, property rights, taxation and law and order. Once published, each topic will be updated annually. The initial data are benchmarked to January 2003.

The data set covers over 130 economies. The sample includes up to 22 high-income OECD economies as benchmarks, 34 from Africa, 13 from East Asia and the Pacific region, 27 economies from Europe and Central Asia, 21 from Latin America, 17 from the Middle East and North Africa and 6 from South Asia. The sample covers every economy with a population greater than 1.5 million, except for six economies that are not members of the World Bank or are inactive International Development Association borrowers. Inclusion of economies with less than 1.5 million population may be considered on a case-by-case basis upon request by Governments or World Bank departments.

The following pages present the summary Doing Business indicators for Pakistan. Further information is available in a new annual report entitled Doing Business, which presents the indicators, analyses their relationships with economic outcomes and recommends reforms. The first report Doing Business in 2004: Understanding Regulation, published by the World Bank and Oxford University Press, is now available. The data, and information on ordering the report, is also available online at <http://rru.worldbank.org/doingbusiness>.

Summary of Indicators

PAKISTAN		REGION: South Asia	
Economic Characteristics		Entry Regulations	
Income per capita	410	Number of procedures	11
Legal origin	English	Time (days)	23
Informal economy (% of income)	36.8	Cost (% of income per capita)	55.6
Population	141,450,144	Min. capital (% of income per capita)	0.0
Labor Regulations		Contract Enforcement	
Flexibility of hiring index	65	Number of procedures	30
Conditions of employment index	75	Time (days)	365
Flexibility of firing index	33	Cost (% of income per capita)	49
Employment laws index	58	Procedural complexity index	53
Credit Markets		Bankruptcy	
Public credit registry operates?	Yes	Time (in years)	2.8
Public registry coverage (borrowers/1000 capita)	1	Cost (% of estate)	4
Public registry index	42	Absolute priority preserved index	100
Private credit information bureau operates?	Yes	Efficient outcome achieved index	0
Private bureau coverage (borrowers/1000 capita)	0.2	Goals-of-insolvency index	63
Creditor rights index	1	Court-powers index	33

Notes

Employment Regulations

Indices are scored between 0 and 100, with 100 representing the highest level of regulation. The employment regulation index is the average of the flexibility of hiring, conditions of employment and flexibility of firing indices.

Contract Enforcement

The procedural complexity index is constructed by averaging six sub-indices. It varies between 0 and 100, where higher values indicate more complexity in contract enforcement procedures.

Credit Markets

The creditor rights index is calculated by assigning a value of 1 for a "yes" response on each of four types of creditor rights and summing the total score across all four variables. A minimum score of 0 represents weak creditor rights and the maximum score of 4 represents strong creditor rights.

The public registry index measures how well the public credit registry rules are designed to support credit transactions. This index is a simple average of four sub-indices (collection, distribution, access and quality) and its values can range from 0 to 100, where higher values indicate a more extensive registry.

Bankruptcy

Absolute priority preserved index measures the order in which claims are paid in the bankruptcy process. Scores range from 0 to 100. Higher values imply stricter observance of priority for secured lenders. A 100 on Absolute Priority Preserved means that secured creditors are paid before court costs, labor claims and tax claims. A 67 means that secured creditors get paid second, and 33 means they get paid third. A 0 on Absolute Priority Preserved means that secured creditors get paid after all court costs, labor claims, and tax claims are satisfied.

Efficient outcome achieved index measures the success of the bankruptcy regime in reaching the economically-efficient outcome. A score of 1 indicates the efficient outcome is achieved 0 otherwise.

Goals-of-Insolvency index is calculated as the simple average of the cost of bankruptcy (rescaled from 0-100 where higher scores indicate less cost), time of bankruptcy (rescaled from 0 to 100, where higher scores indicate less time), the observance of absolute priority of claims, and the efficient outcome achieved. The total goals-of-insolvency index ranges from 0 to 100, with higher values indicating more efficiency.

Court-powers index measures the degree to which the court drives bankruptcy proceedings. Scores range from 0 to 100, with higher values indicating more court-powers.

Starting a Business: Entry Regulations

When an entrepreneur draws up a business plan and tries to get underway, the first hurdles that need to be overcome are the bureaucratic and legal procedures to incorporate and register the new firm.

Economies differ significantly in the way in which they regulate the entry of new businesses. In some economies the process is straightforward and affordable. In others, the procedures are so burdensome that entrepreneurs have to bribe officials to speed up the process or they would rather run their business informally.

The entry data is based on a survey in 133 economies, which investigates the required procedures that an average small-medium sized company needs to go through before starting operation legally. This includes obtaining all necessary permits and licenses, and completing all the required inscriptions, verifications and notifications with all requisite authorities to enable the company to start operation. The survey calculates the costs and time necessary for fulfilling each procedure under normal circumstances, as well as the minimum capital requirements to operate. The assumption is that information is readily available to the entrepreneur and that all government and non-government entities involved in the process function efficiently and without corruption.

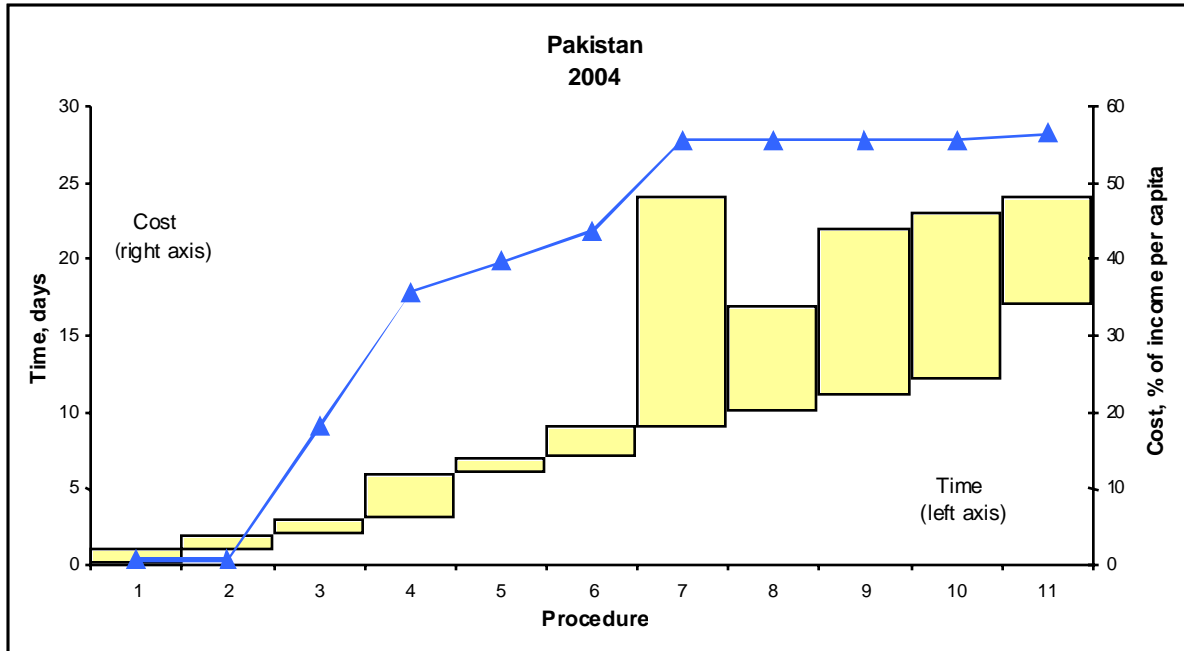
To make the data comparable across countries, the indicators track the procedures for a standardized, hypothetical company to register a business formally. Detailed assumptions about the type of business are applied. Among these, it is assumed that the business: is a limited liability company conducting general commercial activities in the capital city; that it is 100% domestically owned, with start up capital of 10 times income per capita, turnover of 100 times income per capita and between 5 and 50 employees; and that it does not qualify for any special benefits nor does it own real estate. Similarly detailed assumptions about the type of procedures are made, including that: procedures are only recorded where interaction is required with an external party; the founders complete all procedures themselves; voluntary procedures are not measured; non-mandatory lawful shortcuts are counted; and industry specific requirements and utility hook-ups are not measured.

Across countries, cumbersome entry procedures are associated with more corruption, particularly in developing countries. Each procedure is a point of contact—an opportunity to extract a bribe. Empirical analysis shows that burdensome entry regulations do not increase the quality of products, make work safer, or reduce pollution. They hold back private investment, push more people into the informal economy, increase consumer prices and fuel corruption.

PAKISTAN

Entry Regulations

Number of procedures	11
Time (days)	23
Cost (% of income per capita)	55.6
Min. capital (% of income per capita)	0.0



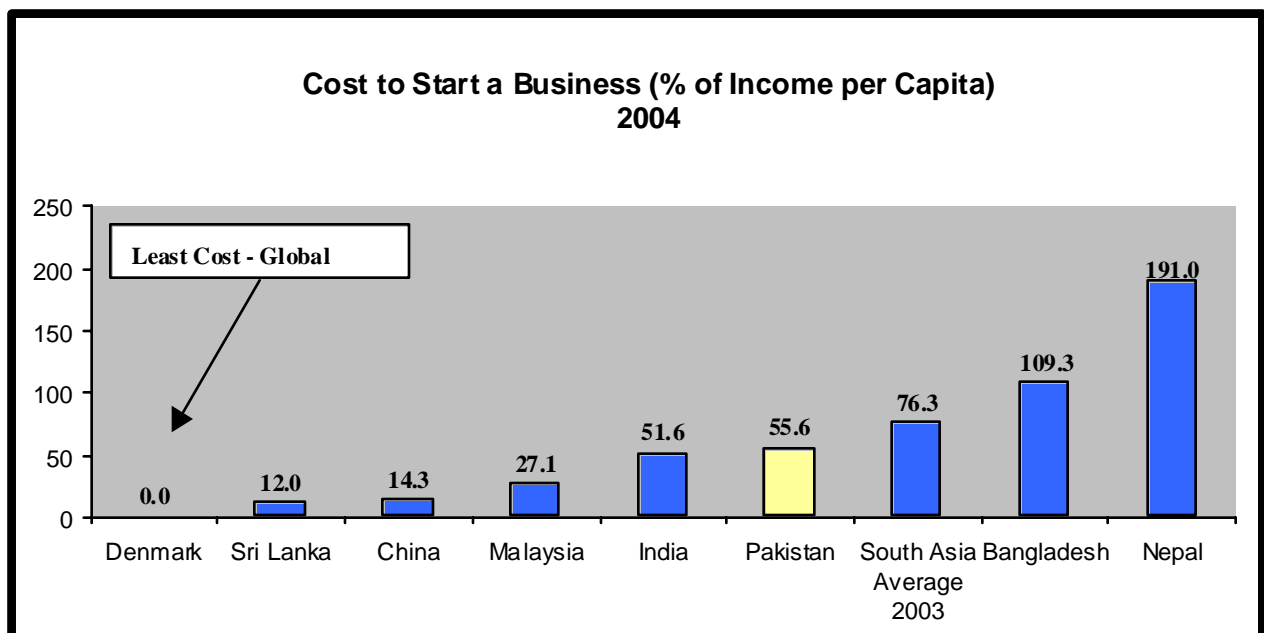
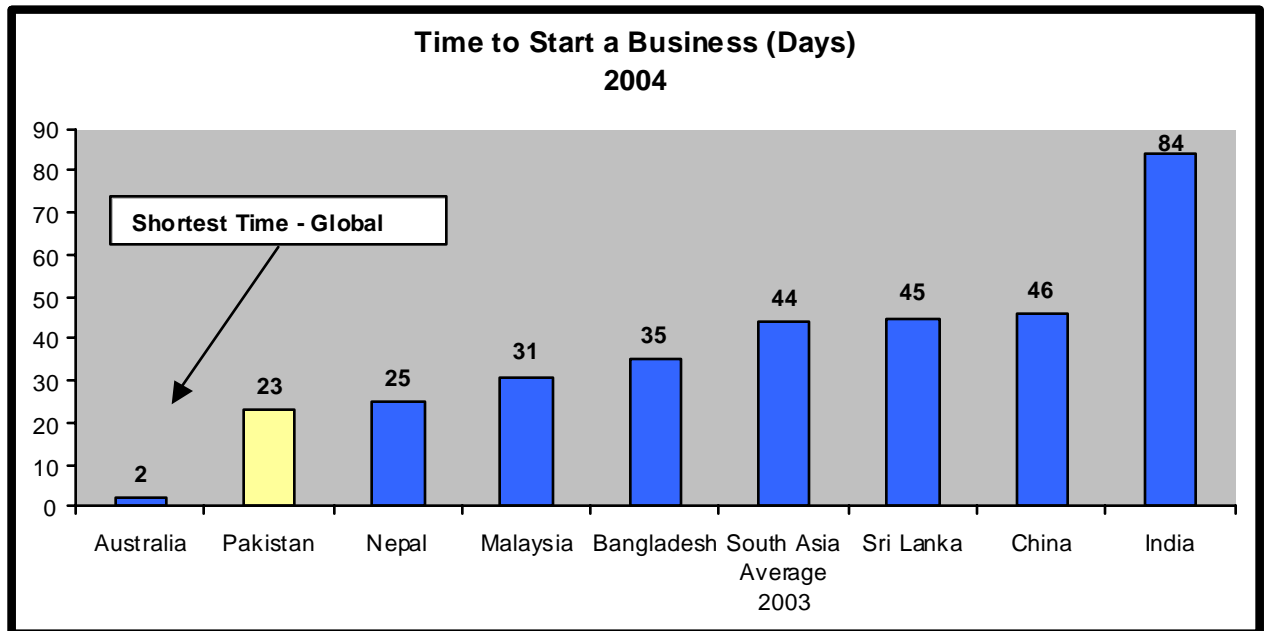
- | | |
|---|--|
| <ol style="list-style-type: none"> 1. Check name for uniqueness 2. Pay bank fee for procs 2, 3 and 4 3. Stamp memorandum and articles at Treasury 4. Register at Registrar of Companies 5. Make a company seal 6. Apply for a National Tax Number 7. Register for sales tax* | <ol style="list-style-type: none"> 8. Register for professional tax* 9. Register with the Employee Social Security Institution* 10. File for old age benefits* 11. Register with Pakistan Shops & Establishment* |
|---|--|

* This procedure runs simultaneously with the previous one.

Source: Doing Business Database

Benchmarking—Entry Regulation

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries



Source: Doing Business Database.

Hiring and Firing Workers: Employment Regulation

Every economy has established a complex system of laws and institutions intended to protect the interests of workers and to guarantee a minimum standard of living for its population. This system encompasses four bodies of law: employment laws, industrial relations laws, occupational health and safety laws, and social security laws. Doing Business examines government regulation in the areas of employment laws.

An employment regulation index is an average of three sub-indices: flexibility of hiring, conditions of employment, and flexibility of firing. Each index takes values between 0 and 100, with higher values implying more rigid regulation. Flexibility of hiring covers the availability of part-time, fixed-term, and family members' contracts. Conditions of employment cover working time requirements, including mandatory minimum daily rest, maximum number of hours in a normal workweek, premium for overtime work, and restrictions on weekly holiday; mandatory payment for non-working days, which includes days of annual leave with pay and paid time off for holidays; and minimum wage legislation. Flexibility of firing covers workers' legal protections against dismissal, including the grounds for dismissal, procedures for dismissal (individual and collective), notice period, and severance payment.

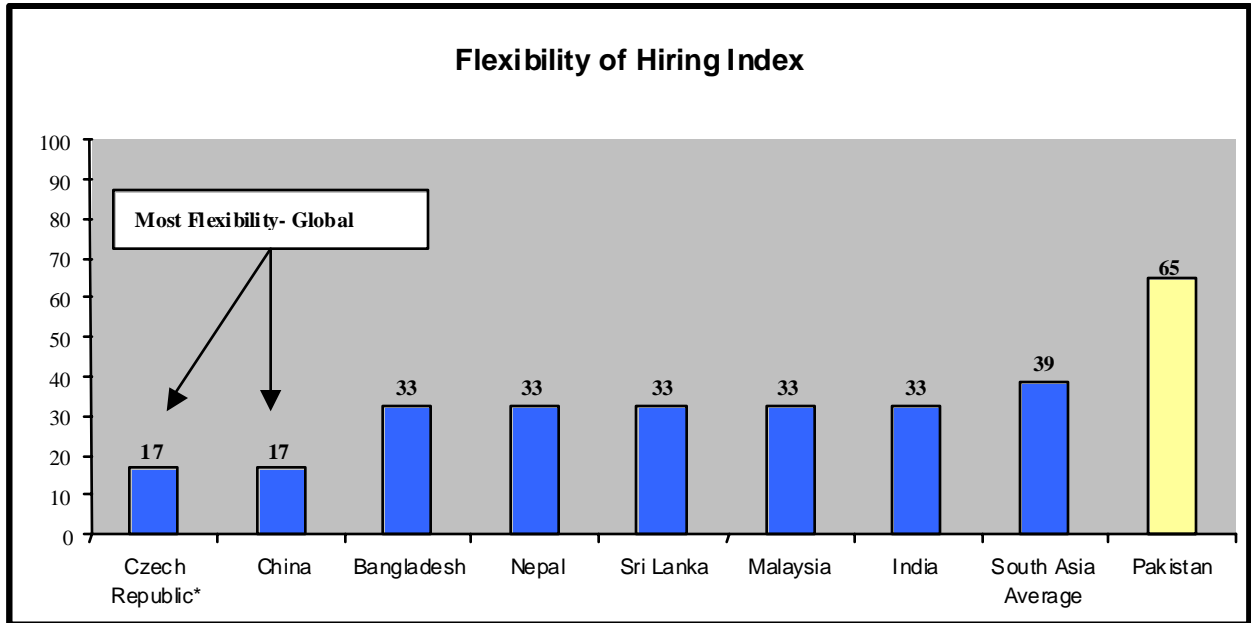
The indicators on employment regulations are based upon a detailed study of employment laws and industrial relations laws. Data are also gathered on the specific constitutional provisions governing these two areas. In most cases, both the actual laws and a secondary source were used to ensure accuracy.

To make the data comparable across countries, a range of assumptions about the worker and the company are applied. Among others, assumptions on the worker include that he is a non-executive full-time employee in the same company for 20 years, has a non-working wife and two children and is not a member of the labor union (unless membership is mandatory). It is assumed that the company is a limited liability manufacturing corporation that operates in the country's most populous city. It is 100% domestically-owned, and has 201 employees.

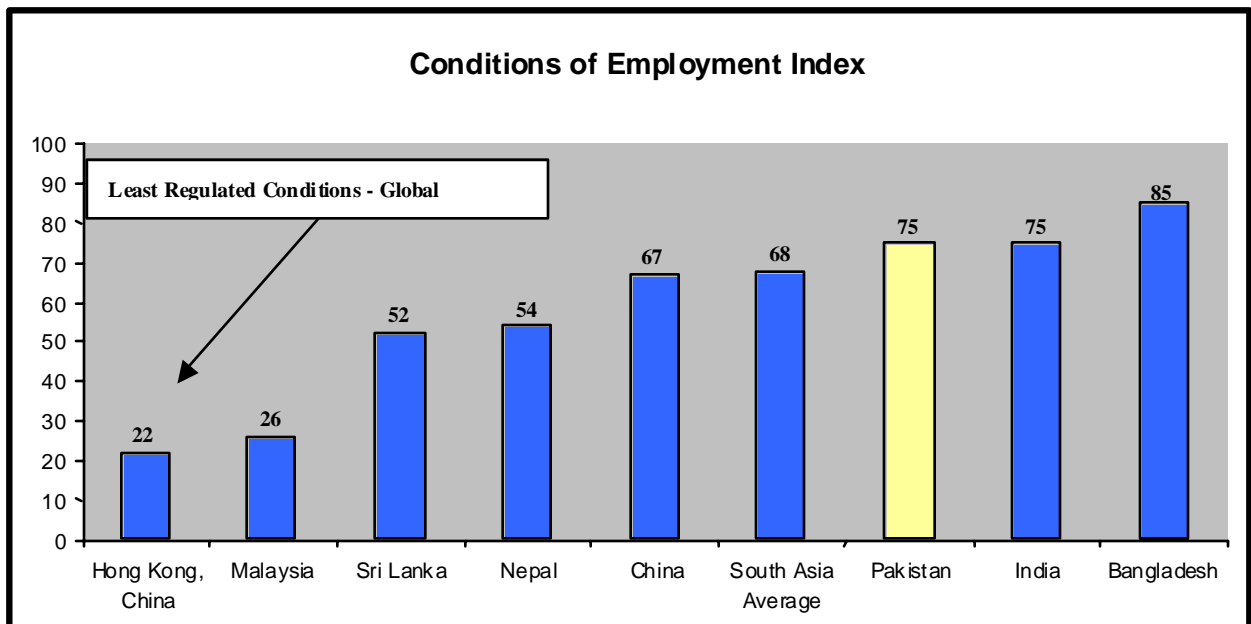
Although most employment regulations are enacted in responses to market failures, it does not mean that today's regulations are optimal. Analysis of the indicators across countries shows that while employment regulation generally increases the tenure and wages of incumbent workers, strict regulatory intervention has many undesirable side-effects, including less job creation, longer unemployment spells and the related skill obsolescence of workers, less R&D investment and smaller company size—all of which may reduce productivity growth. And with fewer job opportunities in the formal economy, the expansion of an unofficial sector becomes inevitable.

Benchmarking—Employment Regulation

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries



* Other countries that offer the most flexibility globally include Namibia, Nigeria and Papua New Guinea.

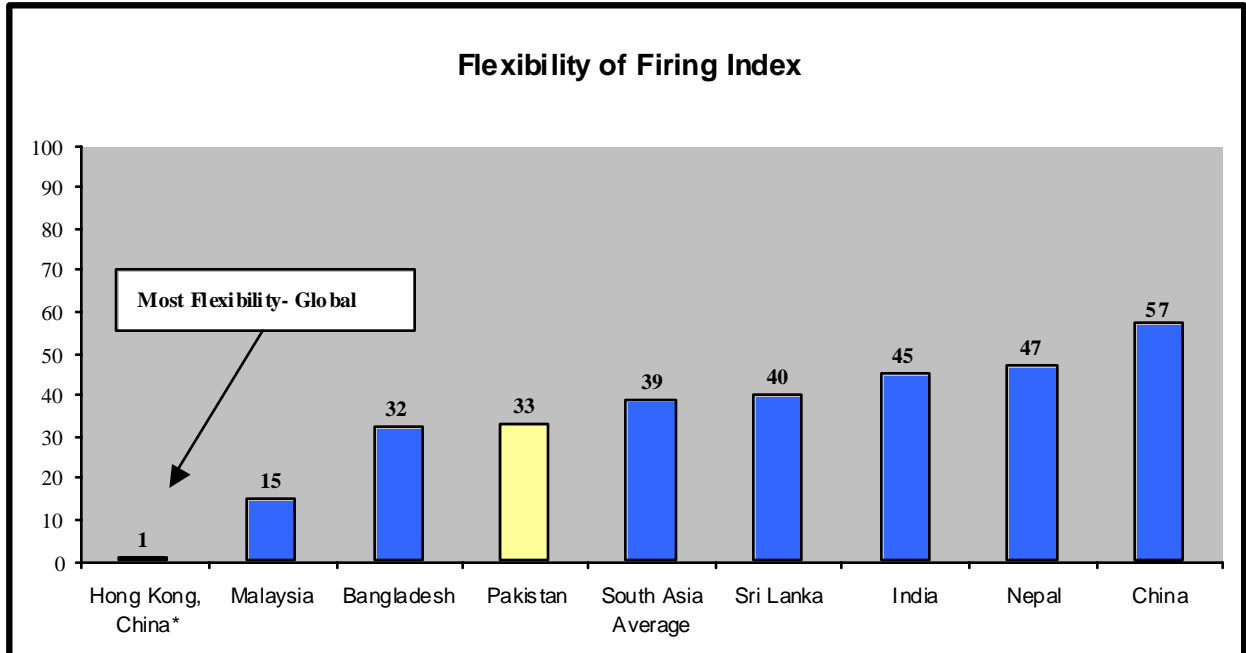


* Zimbabwe is another country with the least regulated employment conditions.

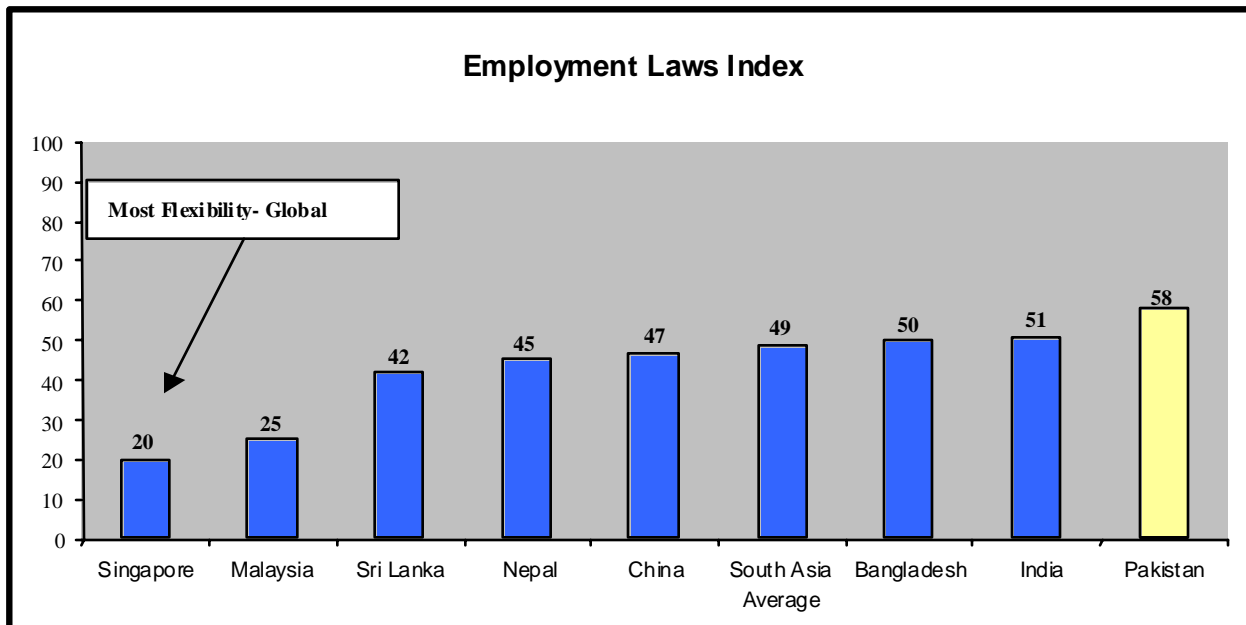
Source: Doing Business Database.

Benchmarking—Employment Regulation

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries



* Singapore is another country that offers the most flexibility globally.



Source: Doing Business Database.

HIRING & FIRING WORKERS – PAKISTAN

Flexibility of Hiring		
Part-time contracts	Part-time employment is prohibited	No
	Part-time workers are not exempt from mandatory benefits of full-time workers	Yes
	It is not easier or less costly to terminate part-time workers than full-time workers	No
Fixed-term contracts	Fixed-term contracts are only allowed for fixed-term tasks	Yes
	What is the maximum duration of fixed-term contracts (in months)?	9
Conditions of Employment		
Hours of work	What is the mandatory minimum daily rest?	15
	What is the maximum number of hours in a workweek?	48
	What is the premium for overtime work?	1
	There are restrictions on night work	No
Leave	There are restrictions on "weekly holiday" work	Yes
	Days of annual leave with pay in manufacturing?	14
Minimum Wage	Paid time off for holidays is mandatory	Yes
	There a mandatory minimum wage	Yes
	Conditions of employment in the constitution	Yes, mentioned as state Policy
Flexibility of Firing		
Grounds for firing	It is unfair to terminate the employment contract without Cause	Yes
	The law establishes a public policy list of "fair" grounds for dismissal	No
	Redundancy is not considered a "fair" ground for	No
Firing procedures	The employer must notify a third party before dismissing one redundant employee	No
	The employer needs the approval of a third party to dismiss one redundant worker	No
	The employer must notify a third party prior to a collective dismissal	No
	The employer needs the approval of a third party prior to a collective dismissal	No
	The law mandates retraining or replacement prior to dismissal	No
	There are priority rules applying to dismissal or lay-offs	Yes
	There are priority rules applying to re-employment	Yes
Notice and severance Payment	Legally mandated notice period (in weeks) after twenty years	4
	Severance pay as number of months for which full wages are payable after covered employment of	20
Right to job security in the constitution	Right to job security in the constitution	Yes, mentioned generally

Enforcing a Contract: Court Efficiency

Contract enforcement is critical for businesses to engage with new borrowers or customers. The institution that enforces contracts between debtors and creditors, suppliers and customers is the courts. In many countries around the world, courts are slow, inefficient, and even corrupt. The evidence here tracks the differences in the efficiency of contract enforcement, looking at simple transactions of relevance to the average business in everyday business activity.

The indicators on contract enforcement are constructed assuming a hypothetical case of a payment dispute over 50% of income per capita in the country's most populous city. The data track the procedures to recover the debt through the courts. It is assumed that the plaintiff has fully complied with the contract (plaintiff is 100% right) and files a lawsuit to recover the debt. The debtor attempts to delay and raises opposition to the complaint. The judge decides every motion for the plaintiff. There are no appeals or post-judgment motions. The data are derived from reading of the Codes of Civil Procedures and other court regulations, as well as administering surveys to local litigation attorneys. The respondents are members of the Lex Mundi or Lex Africa association of law firms, with at least two lawyers participating in each country.

Based upon the survey responses, four indicators of the efficiency of enforcement of commercial contracts are developed. The first indicator is the number of procedures, mandated by law or court regulation, that demand interaction between the parties or between them and the judge or court officer. The second indicator of efficiency is the time—in calendar days—of dispute resolution. Time is measured as the number of days counted from the moment the plaintiff files the lawsuit in court, until the moment of settlement or, when appropriate, payment. This measure includes both the days where actions take place and waiting periods between actions. The third indicator is the official cost of going through court procedures. The cost includes court costs and attorney fees. Finally, an index of the procedural complexity of contract enforcement is built by scoring countries on how heavily regulated the dispute resolution process is.

Companies that have little or no access to efficient courts must rely on other mechanisms—both formal and informal, such as credit bureaus, trade associations, social networks, or private information channels—to decide whom to do business with and under what conditions. Companies may also adopt conservative business practices and deal only with repeat customers. Transactions are then structured to forestall disputes. Whichever alternative is chosen, economic and social value may be lost. The main reason to regulate procedures in commercial dispute resolution is that informal justice is vulnerable to subversion by the rich and powerful. But heavy regulation of dispute resolution has negative consequences. Across countries, the more procedures it takes to enforce a contract, the longer the delays and the higher the cost. Moreover, higher levels of complexity in the procedures to enforce a contract are associated with perceived unfairness, corruption, inconsistency and dishonesty in the judiciary.

Contract Enforcement

This table provides a summary list of four indicators of performance on contract enforcement: number of procedures, duration, cost, and a procedural complexity index (including its six sub-indices and their components).

Pakistan	
	Indicator
Number of procedures	30
Duration (days)	365
Cost (% GNI per capita)	49
Procedural Complexity Index	53
Professionals or Laymen	0.67
Written or Oral	0.63
Legal Justification	0.67
Statutory Regulation of Evidence	0.25
Control of Superior Review	1.00
Other Statutory Interventions	0.00

Notes: Sub-index components are scored between 0 and 1, with 1 representing the highest level of complexity. The procedural complexity index is constructed by averaging the six sub-indices and multiplying by 100. It varies between 0 and 100, with higher values indicating more complexity in contract enforcement procedures.

Sub-indices:

Professionals or laymen index measures the required legal expertise of the person settling the dispute.

Written or oral index measures whether the stages of the process are normally carried out orally or in written form

Legal justification index measures the level of legal formalism of the documentation filed during the enforcement process

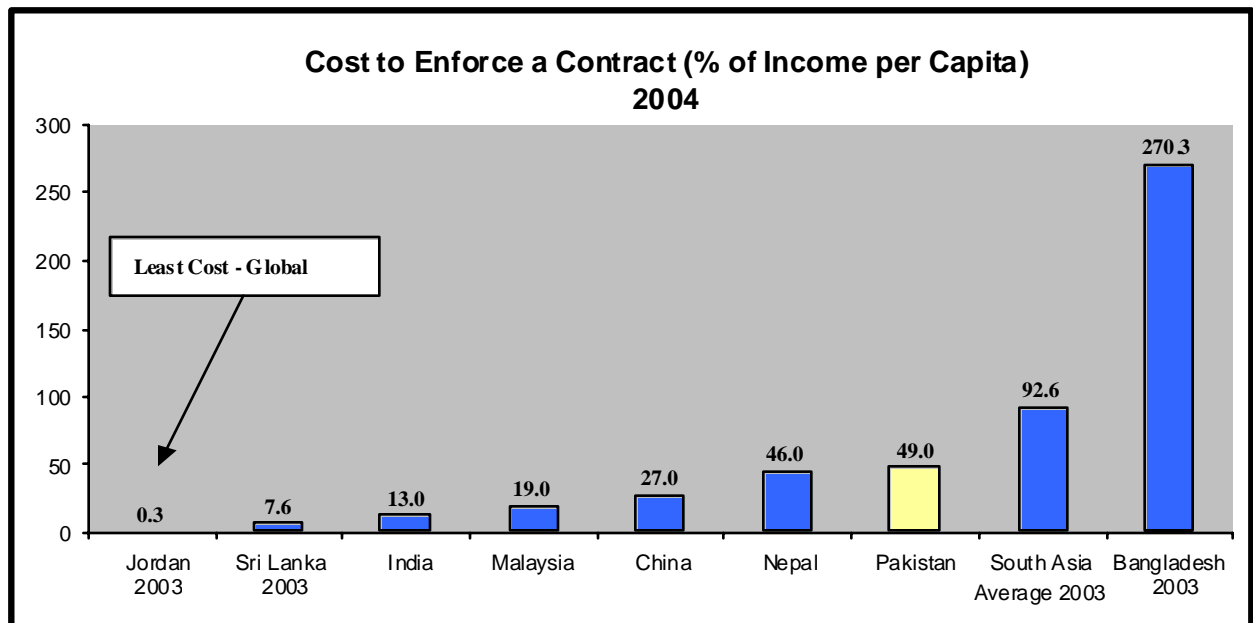
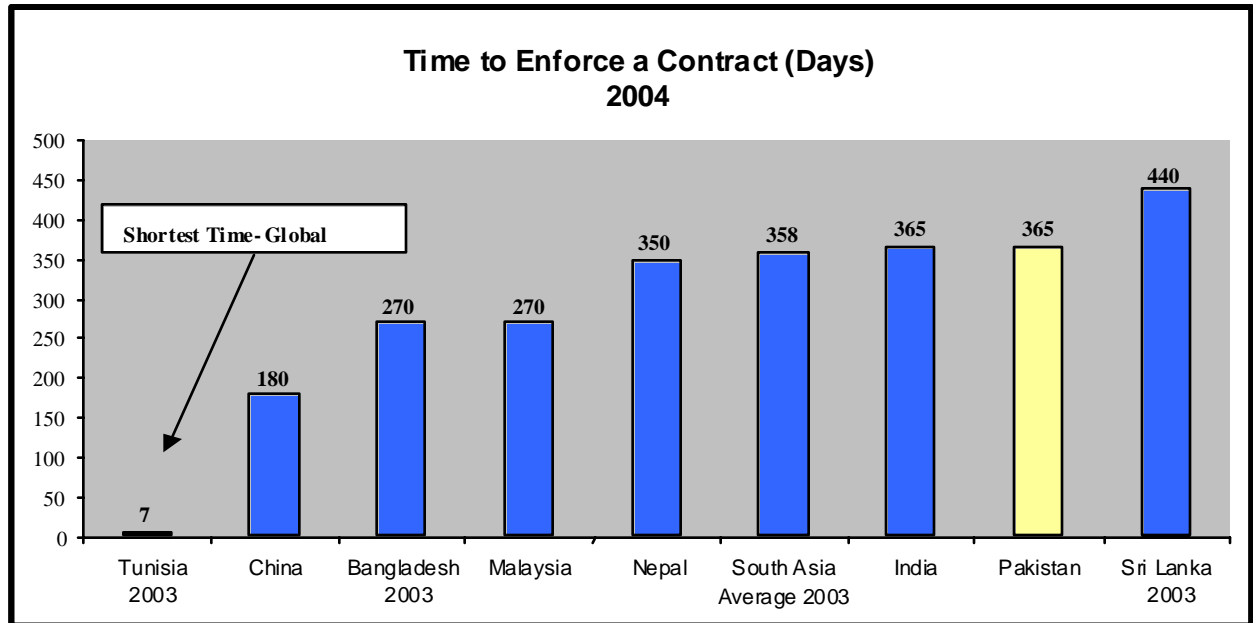
Statutory regulation of evidence index measures the levels of formality when introducing evidence during the enforcement process

Control of superior review index measures how the enforcement process is affected by appeal proceedings

Other statutory interventions index measures the review role exercised by the courts during the judicial process

Benchmarking—Contract Enforcement

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries



Source: Doing Business Database.

Getting Credit: Creditor Rights & Credit Information

Access to credit is consistently rated by firms as one of the greatest barriers to operation and growth. Two sets of issues, credit information registries and creditor rights, are covered by the database.

Access to credit may be expanded significantly by credit registries - institutions that gather and disseminate information on credit histories. The information-sharing role of credit registries helps creditors to assess risk and allocate credit more efficiently, which means that entrepreneurs don't need to rely on only personal relations when trying to obtain credit. The indicators report whether public credit registries or private credit bureaus operate in surveyed countries and the amount of credit information they cover. An index of the extent to which the rules of credit information registries facilitate lending is constructed on the basis of: scope of information collected; scope of information distributed; ease of access to information and quality of information. The data were obtained from surveys of public and private credit registries.

Effective regulations on secured lending - or collateral - are another institutional solution to credit constraints. With collateral, a lender can seize and sell the borrower's secured assets upon default of a loan, which limits the potential losses of a lender and acts as a screening device of borrowers. Therefore, with effective collateral law, systems and enforcement, one may expect increased access to credit and better allocation of credit. Doing Business reports an indicator of creditor rights, which measures the powers of secured lenders in bankruptcy. Other indicators of how well collateral systems facilitate access to credit are under development.

The creditor rights indicator is an index that measures four powers of secured creditors in liquidation and reorganization laws. First, whether there are restrictions, such as creditor consent, on entering into reorganization proceedings. Second, whether there is no automatic stay (or 'asset freeze') on realizing collateral upon bankruptcy. Third, whether secured creditors are satisfied first upon liquidation, and finally whether management is replaced by a court or creditor appointed receiver in reorganization. A value of 1 is assigned for each variable when a country's laws and regulations provide these powers for secured creditors. The aggregate creditor rights index sums the total score across all four variables. A minimum score of 0 represents weak creditor rights and the maximum score of 4 represents strong creditor rights. Data for the variables were obtained from an examination of bankruptcy laws and legal summaries, verified through a survey of bankruptcy lawyers and cross-checked with data gathered for the Doing Business bankruptcy project.

These two measures are important indicators of well functioning credit markets. Across countries, stronger creditor rights and more information sharing are associated with deeper credit markets and lower default rates. The presence of credit registries is also associated with a lower spread between lending and deposit rates. Firms in countries with information sharing are less likely to report obstacles to obtaining finance and evidence of credit constraints. Countries with stronger legal creditor protections have larger debt markets, and higher rates of capital investment and productivity growth. And the overall link between the development of financial markets and growth is well established.

Getting Credit: Creditor Rights & Credit Information

This table shows two measures: indicators of the presence and structure of public and private registries, and a creditor rights index measuring the powers of secured lenders. To relate these indicators to outcomes the table lists three credit market outcomes.

Credit Information	Indicator
Public Credit Registry operates	Yes
Year Public Credit Registry established	1992
Public Credit Registry coverage (borrowers per 1000 capita)	1
Public Credit Registry Access Index	50
Public Credit Registry Collection Index	30
Public Credit Registry Distribution Index	42
Public Credit Registry Quality Index	44
Public Credit Registry Index	42
Private Credit Bureau operates	Yes
Private Bureau coverage (borrowers per 1000 capita)	0.2

Creditor Rights	Indicator
Restrictions on entering reorganization	No
No automatic stay on enforcing security	No
Secured Creditors are paid first	Yes
Management does not stay during reorganization	No
Creditor Rights Index	1

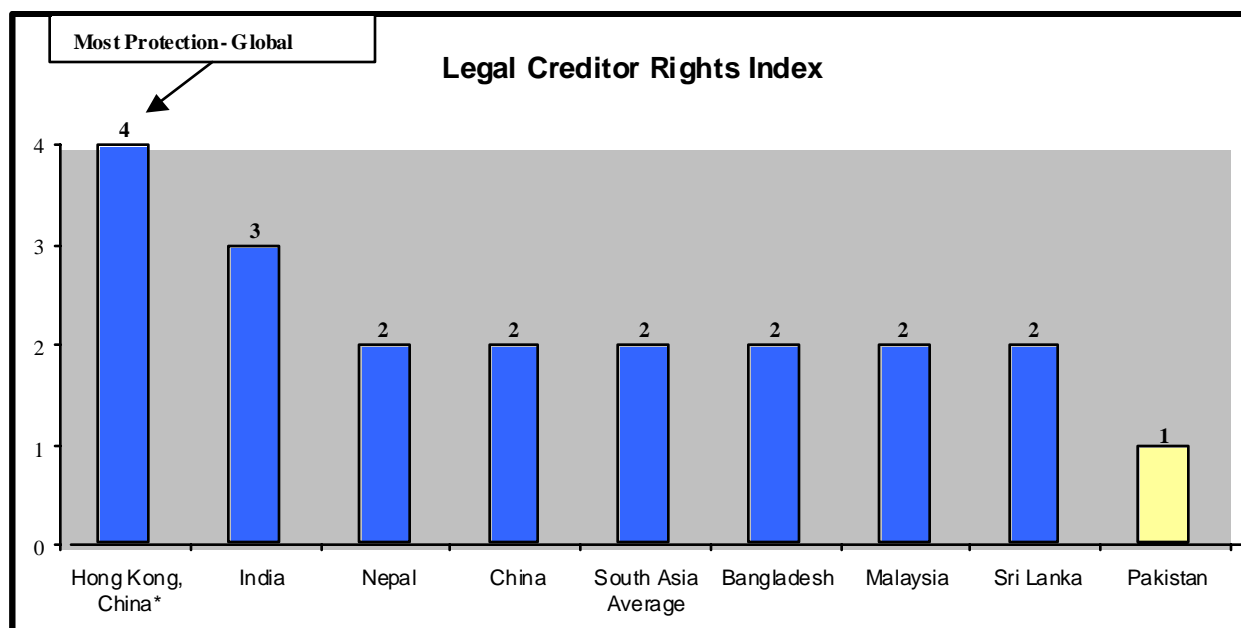
Credit Market Outcome Variables	Indicator
Private credit (% GDP)	26.4
Five bank concentration ratio (%)	60.0
Interest rate spread (%)	0.0

Note: Scores for each of the public credit registry indices on collection, distribution, access, quality can range from 0 to 100. The total public credit registry index is the simple average of the collection, distribution, access and quality indices, and ranges from 0 to 100. Higher values indicate that the rules of the public credit registry on collection, distribution, access and quality are better designed to support credit transactions. The creditor rights index is calculated following the methodology of La Porta et. al (1998) by first assigning a value of 1 for a "yes" response on each of the four types of creditor rights and then summing the total score across all four variables. A minimum score of 0 represents weak creditor rights and the maximum score of 4 represents strong creditor rights.

Source: Doing Business Database.

Benchmarking—Creditor Rights Indicator

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries



* Other countries that offer the most protection globally include Kenya, Lebanon, Nicaragua, Nigeria, New Zealand, Panama, UK and Zimbabwe.

Source: Doing Business Database.

Benchmarking - Credit Information Indicators

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries

The table shows the coverage of credit registries in Pakistan and selected benchmarks with indicators on the number of registered borrowers per 1000 inhabitants.

Country	Coverage Public Registry (borrowers / 1000cap.)	Coverage Private Bureau (borrowers / 1000cap.)
Portugal	496 (highest coverage)	24
Norway	0	945 (highest coverage)
Malaysia	105	461
China	3	0
Bangladesh	1	0
Pakistan	1	0
Pakistan	0	9
South Asia Average	0	2
India	0	0
Nepal	0	0

Source: Doing Business Database.

Closing a Business: Bankruptcy

Recent economic crises in emerging markets, from East Asia, to Latin America, to Russia and Turkey, have raised concerns about the design of bankruptcy systems and the ability of such systems to help reorganize viable companies and close down unviable ones. In countries where bankruptcy is inefficient, unviable businesses linger around for years, not allowing assets and human capital to be reallocated to more productive uses. Most often, the bottlenecks in bankruptcy are associated with the inefficient judicial process, and hence the unwillingness of banks and other lenders to push for a formal bankruptcy resolution.

In this set of indicators, the focus is on identifying weaknesses in the existing law, as well as the main procedural and administrative bottlenecks in the bankruptcy process. In many developing countries, bankruptcy is so inefficient that creditors hardly ever use it. In such countries, policy reform would best focus on improving contract enforcement outside of bankruptcy.

The indicators are derived from questionnaires answered by attorneys at private law firms and bankruptcy judges. Most respondents are members of the International Bar Association.

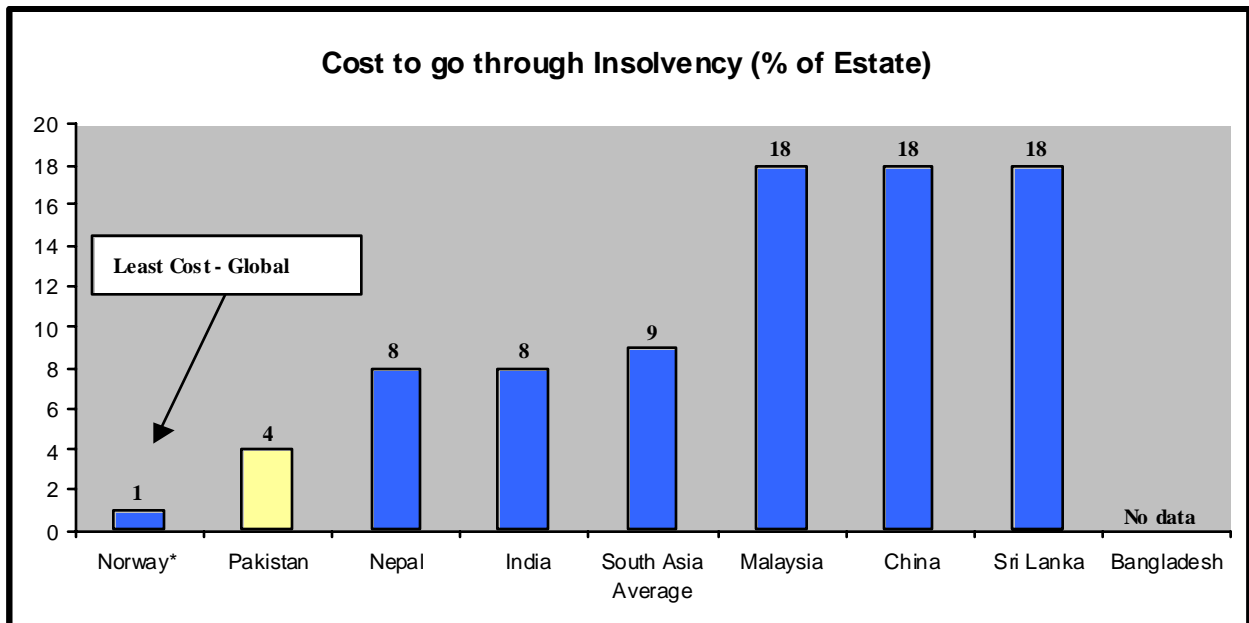
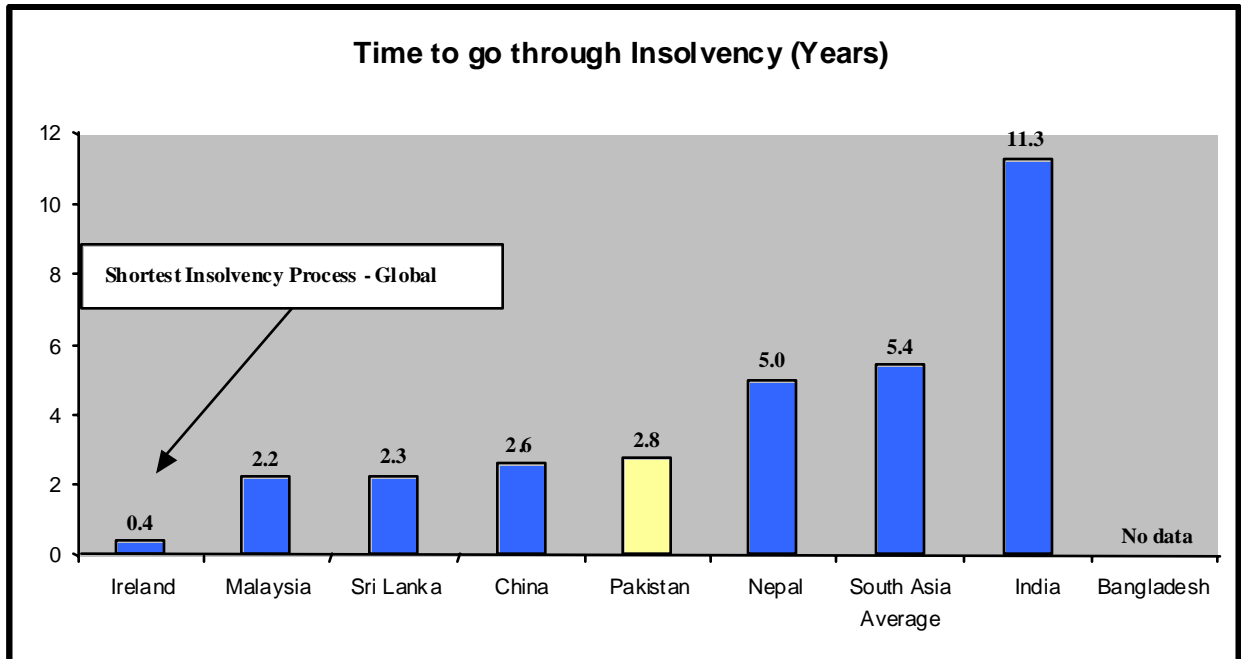
The data track the step-by-step procedures for a hypothetical company to go through the bankruptcy process. It is assumed that the company is a domestically owned limited liability corporation, operating a hotel in the most populous city. The company has 201 employees, 1 main secured creditor and 50 unsecured creditors. Detailed assumptions about the debt structure and future cash flows are made. It is assumed that the company becomes insolvent on January 1. The case is designed so that the company has a higher value as a going concern—that is, the efficient outcome is either reorganization or sale as a going concern but not piecemeal liquidation.

Six indicators were constructed from the survey responses: the time and cost to go through the bankruptcy process, a measure of whether absolute priority for secured lenders is preserved throughout the process, a measure of whether the efficient outcome is achieved in the hypothetical case. An aggregate “goals of insolvency” measure was built by averaging the scores on time, cost, priority, and whether the efficient outcome is achieved. Finally, an indicator of court powers in the bankruptcy process was constructed.

Countries with ill-functioning judiciaries are better off without sophisticated bankruptcy systems. There is a general misperception that bankruptcy laws are needed to enforce creditor rights. In practice, the laws usually exacerbate legal uncertainty and delays in developing countries. Private negotiations of debt restructuring under contract law, the efficient enforcement of secured debt contracts outside insolvency under collateral law, through summary judgments and private enforcement will do better. Bankruptcy law is often oriented towards closing down unviable companies. But sometimes the bias toward discontinuing the business may lead to the premature liquidation of companies in temporary distress—and a loss of value to society.

Benchmarking—Bankruptcy

Pakistan—Compared to Global Best / South Asia Average / Selected Other Countries



*In Colombia, Finland, Georgia, The Netherlands and Singapore the cost is also equal to 1% of estate value.

Source: Doing Business Database.