Doing Business in Hargeisa 2012
COMPARING REGULATION FOR DOMESTIC FIRMS IN HARGEISA AND WITH 183 ECONOMIES
Presentation of report findings
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What does Doing Business measure?

**Doing Business indicators:**

- Focus on regulations relevant to the life cycle of a small to medium-sized domestic business.
- Are measured for the largest economic center in each economy.
- Are built on standardized case scenarios.
- Are focused on the formal sector.

**DO NOT** measure all aspects of the business environment such as: macroeconomic stability, corruption, level of labor skills, proximity to markets, or regulation specific to foreign investment or financial markets.
# Doing Business indicators – 11 areas of business regulation (10 included in the DB2012 ranking)

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## Entry
- Property rights
- Investor protection
- Access to credit

## Operations
- Administrative burden
- Flexibility in hiring

## Recovery rate
- Reallocation of assets
What do city profiles add?

- Provide data on the *Doing Business* indicators for a city not measured by the global report.
- Study rules and regulations at all levels of government.
- Provide a tool for cities to compete globally.
- Combine media appeal with active participation of the government in the reform process.
Doing Business in Hargeisa 2012

• Measures regulations in Hargeisa as they apply to domestic small and medium-size enterprises (data is as of May 2012).

• Includes global comparisons with 183 economies and reform recommendations.

• Covers 11 indicators:
  - Starting a business
  - Dealing with construction permits
  - Getting electricity
  - Registering property
  - Getting credit
  - Protecting investors
  - Paying taxes
  - Trading across borders
  - Enforcing contracts
  - Closing a business
  - Protecting investors (annex)
How does Hargeisa benefit from it?

Generates micro-level data on business regulations globally comparable.

Identifies bottlenecks, highlights opportunities for improvement and presents good practices.

Creates baseline that can be used to measure progress over time.
Main findings

- The government has made strides setting up some of the institutions and regulation necessary for businesses to operate. Yet challenges persist including enacting and implementing key business regulations.
- Hargeisa’s performance varies by indicator.
Starting a business is fast but expensive

- Starting a limited liability company in Hargeisa takes 11 procedures, 29 days, and costs 130.6% of income per capita. Minimum paid-in capital requirement is 2,365% of income per capita.
Utility connections make *dealing with construction permits* expensive

- To obtain all permits to build a warehouse and connect it to utilities, it takes 15 procedures, 56 days, and costs 1,039% of income per capita

(\% of total cost)

- Utilities 89.5\%
- Building permit 8.5\%
- Others 2.0\%
Getting electricity is fast but more expensive than in many regions in the world

- Obtaining an electricity connection in Hargeisa requires 5 procedures, takes 57 days and costs 1,878.5% of income per capita.
Registering property is fast and cheap, but secured property rights are a concern.

- To transfer a property in Hargeisa, an entrepreneur must complete 6 procedures that take 25 days and cost 5.7% of property value.
Getting credit is difficult – no credit sharing mechanisms or secured transactions regulation

- On the strength of legal rights index
  - Hargeisa scores 0 of 10.
  - No regulation for secured transactions.
  - No unified functioning registry for collateral.

- On the depth of credit information index
  - Hargeisa scores 0 of 6.
  - No credit information registry or bureau.
The laws protecting investors offer limited protection to minority shareholders

- Hargeisa scores 2 of 10 on the overall strength of investor protection index:
  - 2 out of 10 on the extent of disclosure index
  - 3 out of 10 on the director liability index
  - 1 out of 10 on the ease of shareholder suits index
Paying taxes is fast but the total tax rate is high

- A company spends 188 hours per year making 34 tax payments, and pays 101.9% of its profits paying taxes.
- Lack of compliance and transparency are major obstacles.
Trading across borders is faster and cheaper than the Sub-Saharan Africa average

- To import: submit 7 documents, wait 25 days, and spend $1,920
- To export: submit 6 documents, wait 22 days, and spend $1,940

Inland transportation drives the cost up

Obtaining a letter of credit is the biggest bottleneck in terms of time

% of total export cost

- Document preparation: 19%
- Port and terminal handling: 14%
- Customs clearance and inspection: 10%
- Inland transportation: 57%

Total: 25 days

Total: 22 days
Enforcing contracts is fast, but few cases go to court

- Enforcing a contract takes 52 procedures over 281 days and costs 40.4% of the claim value.

- The short time to enforce a contract is partly due to the low caseload, because most cases are solved through traditional justice mechanisms.

- The judiciary was reestablished in the past decade and there are promising signs: legal professionals are back, law faculties have opened their doors, and courthouses have been rebuilt.
Resolving insolvency is considered a no practice indicator

- Formal bankruptcy proceedings are rarely used in Hargeisa.
- *Doing Business* methodology requires at least 5 cases a year during the last 5 years.
- Hargeisa is classified as a “no practice economy”.
Moving forward

- Complete legal and regulatory framework
- Reduce costs across the indicators measured
- Streamline administrative procedures
- Improve compliance with regulations
Why does it matter?

- Improving business start up is associated with an increase in **economic growth** and investment rate.

- Lowering barriers to entry correlates to less perceived **corruption** and a smaller **informal** sector.

- Removing barriers also gives opportunities of **inclusion** to youth and women.

- Efficient property registration can make it easier to transfer property and can help boost the number of property registration.
Thank you!

www.doingbusiness.org/Hargeisa