

# Doing Business in the East African Community 2010

COMPARING REGULATION IN 5 ECONOMIES

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Copies of the *Doing Business* global reports, *Doing Business 2010: Reforming through Difficult Times*, *Doing Business 2009*, *Doing Business 2008*, *Doing Business 2007: How to Reform*, *Doing Business in 2006: Creating Jobs*, *Doing Business in 2005: Removing Obstacles to Growth* and *Doing Business in 2004: Understanding Regulations*, may be purchased at [www.doingbusiness.org](http://www.doingbusiness.org).

## Foreword

In recent years, *Doing Business* has helped put business regulatory reform on the agenda of many countries—rich as well as poor. This project is premised on the belief that good business regulation is of the utmost importance in spurring economic growth, creating jobs and opportunities, and ultimately lifting people out of poverty.

Through their joint Investment Climate Reform Program the World Bank Group and DFID are committed to helping countries in the East African Community make regulation more efficient, transparent and predictable. Creating an environment which enables the growth of small and medium-sized enterprises is an integral part of the development agenda, as was acknowledged by the United Nations' Millennium Development Summit.

With this in mind, we are pleased to present this report on *Doing Business* in the five economies of the regional East African Community. Rapid integration presents an opportunity to boost competitiveness in each of the countries and the trading bloc. We hope the report will be helpful for governments, the private sector and civil society to unleash the potential of the private sector and regional integration in the fight against poverty.



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*Doing Business in the East African Community 2010* is a regional report that draws on the global *Doing Business* project and its database as well as the findings of *Doing Business 2010: Reforming through Difficult Times*, the seventh in a series of annual reports investigating 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 183 economies—from Afghanistan to Zimbabwe—over time. This report presents a summary of *Doing Business* indicators for the East African Community. It focuses on 5 economies: Burundi, Kenya, Rwanda, Tanzania and Uganda.

*Doing Business* measures regulations affecting 10 stages of the life of a business: starting a business, dealing with construction permits, 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. *Doing Business* does not directly study other areas important to business, such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions. For other limitations in the *Doing Business* methodology, see the *Doing Business* website (<http://doingbusiness.org>).

Data in *Doing Business 2010* are current as of June 1, 2009.

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# About Doing Business

In 1664 William Petty, an adviser to England's Charles II, compiled the first known national accounts. He made 4 entries. On the expense side, "food, housing, clothes and all other necessities" were estimated at £40 million. National income was split among 3 sources: £8 million from land, £7 million from other personal estates and £25 million from labor income.

In later centuries estimates of country income, expenditure and material inputs and outputs became more abundant. But it was not until the 1940s that a systematic framework was developed for measuring national income and expenditure, under the direction of British economist John Maynard Keynes. As the methodology became an international standard, comparisons of countries' financial positions became possible. Today the macroeconomic indicators in national accounts are standard in every country.

Governments committed to the economic health of their country and opportunities for its citizens now focus on more than macroeconomic conditions. They also pay attention to the laws, regulations and institutional arrangements that shape daily economic activity.

The global financial crisis has renewed interest in good rules and regulation. In times of recession, effective business regulation and institutions can support economic adjustment. Easy entry and exit of firms, and flexibility

in redeploying resources, make it easier to stop doing things for which demand has weakened and to start doing new things. Clarification of property rights and strengthening of market infrastructure (such as credit information and collateral systems) can contribute to confidence as investors and entrepreneurs look to rebuild.

Until very recently, however, there were no globally available indicator sets for monitoring such microeconomic factors and analyzing their relevance. The first efforts, in the 1980s, drew on perceptions data from expert or business surveys. Such surveys are useful gauges of economic and policy conditions. But their reliance on perceptions and their incomplete coverage of poor countries constrain their usefulness for analysis.

The *Doing Business* project, launched 8 years ago, goes one step further. It looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. *Doing Business* and the standard cost model initially developed and applied in the Netherlands are, for the present, the only standard tools used across a broad range of jurisdictions to measure the impact of government rule-making on business activity.<sup>1</sup>

The first *Doing Business* report, published in 2003, covered 5 indicator sets in 133 economies. This year's report covers 10 indicator sets in 183 economies. The project has benefited from feedback from governments, academics, practitioners and reviewers.<sup>2</sup> The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

## WHAT DOING BUSINESS COVERS

*Doing Business* provides a quantitative measure of regulations for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business—as they apply to domestic

small and medium-size enterprises.

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the costs of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be efficient, to be accessible to all who need to use them and to be simple in their implementation. Accordingly, some *Doing Business* indicators give a higher score for more regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

The *Doing Business* project encompasses 2 types of data. The first come from readings of laws and regulations. The second are time and motion indicators that measure the efficiency in achieving a regulatory goal (such as granting the legal identity of a business). Within the time and motion indicators, cost estimates are recorded from official fee schedules where applicable. Here, *Doing Business* builds on Hernando de Soto's pioneering work in applying the time and motion approach first used by Frederick Taylor to revolutionize the production of the Model T Ford. De Soto used the approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.<sup>3</sup>

## WHAT DOING BUSINESS DOES NOT COVER

Just as important as knowing what *Doing Business* does is to know what it does not do—to understand what limitations must be kept in mind in interpreting the data.

## LIMITED IN SCOPE

*Doing Business* focuses on 10 topics, with the specific aim of measuring the regulation and red tape relevant to the life cycle

of a domestic small to medium-size firm. Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, macroeconomic stability, corruption, the labor skills of the population, the underlying strength of institutions or the quality of infrastructure.<sup>4</sup> Nor does it focus on regulations specific to foreign investment.
- *Doing Business* does not assess the strength of the financial system or financial market regulations, both important factors in understanding some of the underlying causes of the global financial crisis.
- *Doing Business* does not cover all regulations, or all regulatory goals, in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws (*acquis*) has now grown to no fewer than 14,500 rule sets. *Doing Business* measures just 10 phases of a company's life cycle, through 10 specific sets of indicators. The indicator sets also do not cover all aspects of regulation in a particular area. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all aspects of labor regulation. Measures for regulations addressing safety at work or right of collective bargaining, for example, are not included in the current indicator set.

#### BASED ON STANDARDIZED CASE SCENARIOS

*Doing Business* indicators are built on the basis of standardized case scenarios with specific assumptions, such as the business being located in the largest business city of the economy. Economic indicators commonly make limiting assumptions of this kind. Inflation statistics, for example, are often based on prices of con-

sumer goods in a few urban areas.

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. Business regulation and its enforcement, particularly in federal states and large economies, differ across the country. And of course the challenges and opportunities of the largest business city—whether Mumbai or São Paulo, Nuku'alofa or Nassau—vary greatly across countries. Recognizing governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in such countries as Brazil, China, Colombia, the Arab Republic of Egypt, India, Kenya, Mexico, Morocco, Nigeria and the Philippines.<sup>5</sup>

In areas where regulation is complex and highly differentiated, the standardized case used to construct the *Doing Business* indicator needs to be carefully defined. Where relevant, the standardized case assumes a limited liability company. This choice is in part empirical: private, limited liability companies are the most prevalent business form in most economies around the world. The choice also reflects one focus of *Doing Business*: expanding opportunities for entrepreneurship. Investors are encouraged to venture into business when potential losses are limited to their capital participation.

#### FOCUSED ON THE FORMAL SECTOR

In constructing the indicators, *Doing Business* assumes that entrepreneurs are knowledgeable about all regulations in place and comply with them. In practice, entrepreneurs may spend considerable time finding out where to go and what documents to submit. Or they may avoid legally required procedures altogether—by not registering for social security, for example.

Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their workers remain outside the protections of

labor law.<sup>6</sup> *Doing Business* measures one set of factors that help explain the occurrence of informality and give policy makers insights into potential areas of reform. Gaining a fuller understanding of the broader business environment, and a broader perspective on policy challenges, requires combining insights from *Doing Business* with data from other sources, such as the World Bank Enterprise Surveys.<sup>7</sup>

#### WHY THIS FOCUS

*Doing Business* functions as a kind of cholesterol test for the regulatory environment for domestic businesses. A cholesterol test does not tell us everything about the state of our health. But it does measure something important for our health. And it puts us on watch to change behaviors in ways that will improve not only our cholesterol rating but also our overall health.

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. The indicator set closest to *Doing Business* in what it measures is the Organisation for Economic Co-operation and Development's indicators of product market regulation; the correlation here is 0.75. The World Economic Forum's Global Competitiveness Index and IMD's *World Competitiveness Yearbook* are broader in scope, but these too are strongly correlated with *Doing Business* (0.79 and 0.72, respectively). These correlations suggest that where peace and macroeconomic stability are present, domestic business regulation makes an important difference in economic competitiveness.

A bigger question is whether the issues on which *Doing Business* focuses matter for development and poverty reduction. The World Bank study *Voices of the Poor* asked 60,000 poor people around the world how they thought they might escape poverty.<sup>8</sup> The answers were unequivocal: women and men alike pin

their hopes above all on income from their own business or wages earned in employment. Enabling growth—and ensuring that poor people can participate in its benefits—requires an environment where new entrants with drive and good ideas, regardless of their gender or ethnic origin, can get started in business and where good firms can invest and grow, generating more jobs.

Small and medium-size enterprises are key drivers of competition, growth and job creation, particularly in developing countries. But in these economies up to 80% of economic activity takes place in the informal sector. Firms may be prevented from entering the formal sector by excessive bureaucracy and regulation.

Where regulation is burdensome and competition limited, success tends to depend more on whom you know than on what you can do. But where regulation is transparent, efficient and implemented in a simple way, it becomes easier for any aspiring entrepreneurs, regardless of their connections, to operate within the rule of law and to benefit from the opportunities and protections that the law provides.

In this sense *Doing Business* values good rules as a key to social inclusion. It also provides a basis for studying effects of regulations and their application. For example, *Doing Business 2004* found that faster contract enforcement was associated with perceptions of greater judicial fairness—suggesting that justice delayed is justice denied.<sup>9</sup>

In the current global crisis policy makers face particular challenges. Both developed and developing economies are seeing the impact of the financial crisis flowing through to the real economy, with rising unemployment and income loss. The foremost challenge for many governments is to create new jobs and economic opportunities. But many have limited fiscal space for publicly funded activities such as infrastructure investment or for the provision of publicly funded safety nets and social services. Reforms aimed at creating a better investment climate, including reforms of

business regulation, can be beneficial for several reasons. Flexible regulation and effective institutions, including efficient processes for starting a business and efficient insolvency or bankruptcy systems, can facilitate reallocation of labor and capital. And regulatory institutions and processes that are streamlined and accessible can help ensure that, as businesses rebuild, barriers between the informal and formal sectors are lowered, creating more opportunities for the poor.

### DOING BUSINESS AS A BENCHMARKING EXERCISE

*Doing Business*, in capturing some key dimensions of regulatory regimes, has been found useful for benchmarking. Any benchmarking—for individuals, firms or economies—is necessarily partial: it is valid and useful if it helps sharpen judgment, less so if it substitutes for judgment.

*Doing Business* provides 2 takes on the data it collects: it presents “absolute” indicators for each economy for each of the 10 regulatory topics it addresses, and it provides rankings of economies, both by indicator and in aggregate. Judgment is required in interpreting these measures for any economy and in determining a sensible and politically feasible path for reform.

Reviewing the *Doing Business* rankings in isolation may show unexpected results. Some economies may rank unexpectedly high on some indicators. And some economies that have had rapid growth or attracted a great deal of investment may rank lower than others that appear to be less dynamic.

But for reform-minded governments, how much their indicators improve matters more than their absolute ranking. As economies develop, they strengthen and add to regulations to protect investor and property rights. Meanwhile, they find more efficient ways to implement existing regulations and cut outdated ones. One finding of *Doing Business*: dynamic and growing economies continually reform and update their

regulations and their way of implementing them, while many poor economies still work with regulatory systems dating to the late 1800s.

### DOING BUSINESS— A USER'S GUIDE

Quantitative data and benchmarking can be useful in stimulating debate about policy, both by exposing potential challenges and by identifying where policy makers might look for lessons and good practices. These data also provide a basis for analyzing how different policy approaches—and different policy reforms—contribute to desired outcomes such as competitiveness, growth and greater employment and incomes.

Seven years of *Doing Business* data have enabled a growing body of research on how performance on *Doing Business* indicators—and reforms relevant to those indicators—relate to desired social and economic outcomes. Some 405 articles have been published in peer-reviewed academic journals, and about 1,143 working papers are available through Google Scholar.<sup>10</sup> Among the findings:

- Lower barriers to start-up are associated with a smaller informal sector.<sup>11</sup>
- Lower costs of entry encourage entrepreneurship, enhance firm productivity and reduce corruption.<sup>12</sup>
- Simpler start-up translates into greater employment opportunities.<sup>13</sup>

How do governments use *Doing Business*? A common first reaction is to doubt the quality and relevance of the *Doing Business* data. Yet the debate typically proceeds to a deeper discussion exploring the relevance of the data to the economy and areas where reform might make sense.

Most reformers start out by seeking examples, and *Doing Business* helps in this. For example, Saudi Arabia used the company law of France as a model for revising its own. Many countries in Africa look to Mauritius—the region's strongest performer on *Doing Business* indi-

cators—as a source of good practices for reform. In the words of Luis Guillermo Plata, the minister of commerce, industry and tourism of Colombia,

*It's not like baking a cake where you follow the recipe. No. We are all different. But we can take certain things, certain key lessons, and apply those lessons and see how they work in our environment.*

Over the past 7 years there has been much activity by governments in reforming the regulatory environment for domestic businesses. Most reforms relating to *Doing Business* topics were nested in broader programs of reform aimed at enhancing economic competitiveness. In structuring their reform programs, governments use multiple data sources and indicators. And reformers respond to many stakeholders and interest groups, all of whom bring important issues and concerns into the reform debate.

World Bank support to these reform processes is designed to encourage critical use of the data, sharpening judgment and avoiding a narrow focus on improving *Doing Business* rankings.

## METHODOLOGY AND DATA

*Doing Business* covers 183 economies—including small economies and some of the poorest countries, for which little or no data are available in other data sets. The *Doing Business* data are based on domestic laws and regulations as well as administrative requirements. (For a detailed explanation of the methodology, see the *Doing Business* website.)

### INFORMATION SOURCES FOR THE DATA

Most of the indicators are based on laws and regulations. In addition, most of the cost indicators are backed by official fee schedules. *Doing Business* respondents both fill out written surveys and provide references to the relevant laws, regulations and fee schedules, aiding data checking and quality assurance.

For some indicators part of the cost component (where fee schedules

are lacking) and the time component are based on actual practice rather than the law on the books. This introduces a degree of subjectivity. The *Doing Business* approach has therefore been to work with legal practitioners or professionals who regularly undertake the transactions involved. Following the standard methodological approach for time and motion studies, *Doing Business* breaks down each process or transaction, such as starting and legally operating a business, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

Over the past 7 years more than 11,000 professionals in 183 economies have assisted in providing the data that inform the *Doing Business* indicators. This year's report draws on the inputs of more than 8,000 professionals. The *Doing Business* website indicates the number of respondents per economy and per indicator. Respondents are professionals or government officials who routinely administer or advise on the legal and regulatory requirements covered in each *Doing Business* topic. Because of the focus on legal and regulatory arrangements, most of the respondents are lawyers. The credit information survey is answered by officials of the credit registry or bureau. Freight forwarders, accountants, architects and other professionals answer the surveys related to trading across borders, taxes and construction permits.

The *Doing Business* approach to data collection contrasts with that of enterprise or firm surveys, which capture often one-time perceptions and experiences of businesses. A corporate lawyer registering 100–150 businesses a year will be more familiar with the process than an entrepreneur, who will register a business only once or maybe twice. A bankruptcy judge deciding dozens of cases a year will have more insight into bankruptcy than a company that may undergo the process.

### DEVELOPMENT OF THE METHODOLOGY

The methodology for calculating each indicator is transparent, objective and easily replicable. Leading academics collaborate in the development of the indicators, ensuring academic rigor. Seven of the background papers underlying the indicators have been published in leading economic journals. One is at an advanced stage of publication.

*Doing Business* uses a simple averaging approach for weighting subindicators and calculating rankings. Other approaches were explored, including using principal components and unobserved components. The principal components and unobserved components approaches turn out to yield results nearly identical to those of simple averaging. The tests show that each set of indicators provides new information. The simple averaging approach is therefore robust to such tests.

### IMPROVEMENTS TO THE METHODOLOGY AND DATA REVISIONS

The methodology has undergone continual improvement over the years. Changes have been made mainly in response to country suggestions. For enforcing contracts, for example, the amount of the disputed claim in the case study was increased from 50% to 200% of income per capita after the first year of data collection, as it became clear that smaller claims were unlikely to go to court.

Another change relates to starting a business. The minimum capital requirement can be an obstacle for potential entrepreneurs. Initially, *Doing Business* measured the required minimum capital regardless of whether it had to be paid up front or not. In many economies only part of the minimum capital has to be paid up front. To reflect the actual potential barrier to entry, the paid-in minimum capital has been used since 2004.

This year's report includes changes in the core methodology for one set of indicators, those on employing workers. The assumption for the standardized case study was changed to refer to a small to medium-size company with 60 employees rather than 201. The scope of

the question on night and weekly holiday work has been limited to manufacturing activities in which continuous operation is economically necessary. Legally mandated wage premiums for night and weekly holiday work up to a threshold are no longer considered a restriction. In addition, the calculation of the minimum wage ratio was modified to ensure that an economy would not benefit in the scoring from lowering the minimum wage to below \$1.25 a day, adjusted for purchasing power parity. This level is consistent with recent adjustments to the absolute poverty line. Finally, the calculation of the redundancy cost was adjusted so that having severance payments or unemployment protections below a certain threshold does not mean a better score for an economy.

All changes in methodology are explained on the *Doing Business* website. In addition, historical data for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections. The website also makes available all original data sets used for background papers.

Information on data corrections is provided on the website. A transparent complaint procedure allows anyone to challenge the data. If errors are confirmed after a data verification process, they are expeditiously corrected.

## NEW THIS YEAR

This year's *Doing Business* report presents initial findings in 2 new areas: the ease of obtaining an electricity connection and the level of adoption in national legislation of aspects of the International Labour Organization's (ILO) core labor standards on child labor. Neither of these pilot indicator sets is included in the *Doing Business* rankings.

## PILOT INDICATORS ON GETTING ELECTRICITY

Where the quality and accessibility of infrastructure services are poor, companies' productivity and growth suffer. According to firm surveys in 89 economies, electricity was one of the biggest constraints to their business.<sup>14</sup> The *Doing Business* pilot data set on getting electricity is the first to compare distribution utilities around the world on how efficiently they respond to customer requests for connections.

The pilot indicators track the process a standardized local private business goes through in obtaining an electricity connection. By applying its methodology to electricity provision, *Doing Business* aims to illustrate some of the real implications of weak infrastructure services for entrepreneurs. The indicators complement existing data that focus on generation capacity, consumption prices and the reliability of electricity supply.<sup>15</sup> And they allow further investigation of the effects of the process of getting an electricity connection on economic outcomes.

## WORKER PROTECTION

The ILO core labor standards consist of freedom of association and recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labor, the abolition of child labor and equitable treatment in employment practices. The *Doing Business* indicators on employing workers are consistent with these core labor standards but do not measure compliance with them. To complement these indicators, *Doing Business* has launched research on the adoption of core labor standards in national legislation.

The initial research focuses on the national implementation of minimum age provisions included in 2 ILO conventions on child labor: Convention 138, on the minimum age for admission to employment (1973), and Convention 182, on the worst forms of child labor (1999).

This year's report presents initial findings on 102 countries. For each country *Doing Business* examined whether

national laws follow the minimum age threshold for general access to employment (14 or 15 years, depending on the development of the country's economy and educational facilities), for hazardous work (18 years) and for light work (12 or 13 years, depending on the development of the country's economy and educational facilities).

In the future the research will expand to more economies and to more areas covered by the core labor standards. On the basis of this, *Doing Business* plans to develop a worker protection indicator, a process that will benefit from the advice of a consultative group with broad representation of stakeholders. The ILO, which has leadership on the core labor standards, will serve as an essential source of guidance in this process. While this process is ongoing, the employing workers indicators have been removed as a guidepost in the World Bank Country Policy and Institutional Assessment (CPIA) questionnaire and Bank Group staff have been instructed not to use the indicators as a basis for policy advice or for evaluating country development programs or assistance strategies.

1. The standard cost model is a quantitative methodology for determining the administrative burdens that regulation imposes on businesses. The method can be used to measure the effect of a single law or of selected areas of legislation or to perform a baseline measurement of all legislation in a country.
2. This included a review by the World Bank Independent Evaluation Group (2008).
3. De Soto (2000).
4. The indicators related to trading across borders and dealing with construction permits and the pilot indicators on getting electricity take into account limited aspects of an economy's infrastructure, including the inland transport of goods and utility connections for businesses.
5. <http://subnational.doingbusiness.org>.
6. Schneider (2005).
7. <http://www.enterprisesurveys.org>.
8. Narayan and others (2000).

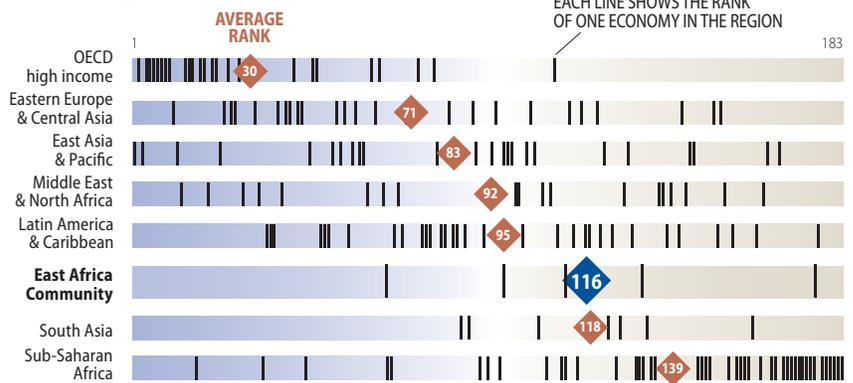
9. World Bank (2003).
10. <http://scholar.google.com>.
11. For example, Masatlioglu and Rigolini (2008), Kaplan, Piedra and Seira (2008), Ardagna and Lusagi (2009) and Djankov and others (forthcoming).
12. For example, Alesina and others (2005), Perotti and Volpin (2004), Klapper, Laeven and Rajan (2006), Fisman and Sarria-Allende (2004), Antunes and Cavalcanti (2007), Barseghyan (2008), Djankov and others (forthcoming) and Klapper, Lewin and Quesada Delgado (2009).
13. For example, Freund and Bolaky (2008), Chang, Kaltani and Loayza (2009) and Helpman, Melitz and Rubinstein (2008).
14. According to World Bank Enterprise Survey data for the 89 economies, 15.6% of managers consider electricity the most serious constraint, while a similar share (15.7%) consider access to finance the most serious constraint (<http://www.enterprisesurveys.org>).
15. See, for example, data of the International Energy Agency or the World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).

# Overview

FIGURE 1.1

## Where do the East African Community countries rank on business-friendly regulations?

DB2010 ranking on the ease of doing business (1–183)



Source: *Doing Business* database.

Running a business is always a challenge. But it is even more difficult when government regulations and procedures, rather than facilitating business transactions, are unduly burdensome. A recent mapping exercise in Uganda established that 45 institutions, 65 laws and 254 different regulatory approvals are imposed on businesses.<sup>1</sup> For an entrepreneur in Kampala seeking to register property, this translates into waiting a month before a government valuer will inspect the property to determine its value for transfer purposes and assessment of the stamp duty. In Burundi the same entrepreneur would have to wait 2 months just to file the name change at the land registry. And in Tanzania that entrepreneur would have to wait 3 weeks to obtain the capital gains tax certificate needed to complete the property registration. In Kenya until recent reforms began, there were a total of 1,347 business licenses on the books, creating confusion.

The good news: spurred on by the need to boost competitiveness, attract investment and increase trade, East African countries are beginning to reform. And the results show. Take Rwanda, a global leader in business regulatory reforms as recorded by *Doing Business* in 2008/09. In 2009 alone it attracted some \$1.1 billion in investment, 41% more than in the previous year and this in the midst of the global economic crisis.

The *Doing Business* project, launched 8 years ago, looks at domestic small and

medium-size companies and measures the regulations applying to them through their life cycle. A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: efficient regulations that are accessible to all businesses and simple to implement. How to get there? When the rule-making process is transparent and accountable and actively involves stakeholders, the likely result is a better regulatory environment for business.

This report looks at business regulations in the East African countries Burundi, Kenya, Rwanda, Tanzania and Uganda. It finds that East African countries are reforming but still have further to go. No East African country makes it into the global top 30 on the ease of doing business (table 1.1).<sup>2</sup> Indeed, the average ranking for East African countries is 116th out of 183 economies overall, (figure 1.1). But performance varies across East Africa—from Rwanda, which ranks 67th on the ease of doing business, to Burundi, which ranks 176th (table 1.2).

Despite the low overall rankings, each East African country has good practices as measured by *Doing Business*. For example, Kenya boasts one of the most business-friendly sets of regulations for

secured lending, and Rwanda is one of the fastest places to start a business. Indeed, if each East African country were to adopt the region's best practice for each *Doing Business* indicator, East Africa would rank 12th on the ease of doing business rather than 116th. In other words, if the best of East African regulations and procedures were implemented across the board, the business environment in East Africa, as measured by *Doing Business*, would be comparable to that in Thailand (12th in the 2010 global rankings on the ease of doing business).

The East African Community (EAC), the regional intergovernmental organization of the 5 countries studied here, is deepening and widening cooperation among its member states. In recent years EAC economies have intensified efforts to cooperate with and learn from one another. They have worked to harmonize legislation relating to the EAC Customs Union and common market protocols while establishing such links as the Network of Reformers, based on similar models in the OECD and European Union.

While covering only a subset of critical investment climate issues, regional *Doing Business* indicators are a key focal point for comparison and inspiration in reform. EAC member states are at different stages of regulatory reform, as the *Doing Business* indicators show. Nonetheless, linking reform initiatives on a

TABLE 1.1

**Rankings on the ease of doing business**

2010 RANK	ECONOMY	2010 RANK	ECONOMY	2010 RANK	ECONOMY
1	Singapore	62	Spain	123	Nepal
2	New Zealand	63	Kazakhstan	124	Paraguay
3	Hong Kong, China	64	Luxembourg	125	Nigeria
4	United States	65	Oman	126	Bhutan
5	United Kingdom	66	Namibia	127	Micronesia, Fed. Sts.
6	Denmark	67	Rwanda	128	Morocco
7	Ireland	68	Bahamas, The	129	Brazil
8	Canada	69	Tunisia	130	Lesotho
9	Australia	70	St. Vincent and the Grenadines	131	Tanzania
10	Norway	71	Montenegro	132	Malawi
11	Georgia	72	Poland	133	India
12	Thailand	73	Turkey	134	Madagascar
13	Saudi Arabia	74	Czech Republic	135	Mozambique
14	Iceland	75	Jamaica	136	Algeria
15	Japan	76	St. Kitts and Nevis	137	Iran, Islamic Rep.
16	Finland	77	Panama	138	Ecuador
17	Mauritius	78	Italy	139	West Bank and Gaza
18	Sweden	79	Kiribati	140	Gambia, The
19	Korea, Rep.	80	Belize	141	Honduras
20	Bahrain	81	Trinidad and Tobago	142	Ukraine
21	Switzerland	82	Albania	143	Syrian Arab Republic
22	Belgium	83	Dominica	144	Philippines
23	Malaysia	84	El Salvador	145	Cambodia
24	Estonia	85	Pakistan	146	Cape Verde
25	Germany	86	Dominican Republic	147	Burkina Faso
26	Lithuania	87	Maldives	148	Sierra Leone
27	Latvia	88	Serbia	149	Liberia
28	Austria	89	China	150	Uzbekistan
29	Israel	90	Zambia	151	Haiti
30	Netherlands	91	Grenada	152	Tajikistan
31	France	92	Ghana	153	Iraq
32	Macedonia, FYR	93	Vietnam	154	Sudan
33	United Arab Emirates	94	Moldova	155	Suriname
34	South Africa	95	Kenya	156	Mali
35	Puerto Rico	96	Brunei Darussalam	157	Senegal
36	St. Lucia	97	Palau	158	Gabon
37	Colombia	98	Marshall Islands	159	Zimbabwe
38	Azerbaijan	99	Yemen, Rep.	160	Afghanistan
39	Qatar	100	Jordan	161	Bolivia
40	Cyprus	101	Guyana	162	Comoros
41	Kyrgyz Republic	102	Papua New Guinea	163	Djibouti
42	Slovak Republic	103	Croatia	164	Timor-Leste
43	Armenia	104	Solomon Islands	165	Togo
44	Bulgaria	105	Sri Lanka	166	Mauritania
45	Botswana	106	Egypt, Arab Rep.	167	Lao PDR
46	Taiwan, China	107	Ethiopia	168	Côte d'Ivoire
47	Hungary	108	Lebanon	169	Angola
48	Portugal	109	Greece	170	Equatorial Guinea
49	Chile	110	Guatemala	171	Cameroon
50	Antigua and Barbuda	111	Seychelles	172	Benin
51	Mexico	112	Uganda	173	Guinea
52	Tonga	113	Kosovo	174	Niger
53	Slovenia	114	Uruguay	175	Eritrea
54	Fiji	115	Swaziland	176	Burundi
55	Romania	116	Bosnia and Herzegovina	177	Venezuela, R.B.
56	Peru	117	Nicaragua	178	Chad
57	Samoa	118	Argentina	179	Congo, Rep.
58	Belarus	119	Bangladesh	180	São Tomé and Príncipe
59	Vanuatu	120	Russian Federation	181	Guinea-Bissau
60	Mongolia	121	Costa Rica	182	Congo, Dem. Rep.
61	Kuwait	122	Indonesia	183	Central African Republic

Note: The rankings for all economies are benchmarked to June 2009. Rankings on the ease of doing business are the average of the economy's rankings on the 10 topics covered in *Doing Business 2010*.

Source: *Doing Business* database.

TABLE 1.2

**How do East African countries rank globally?**

	GLOBAL RANK	EAC RANK
Rwanda	67	1
Kenya	95	2
Uganda	112	3
Tanzania	131	4
Burundi	176	5

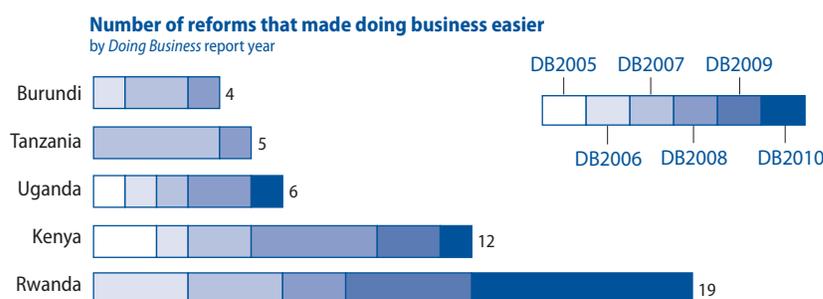
Source: *Doing Business* database.

regional basis will help establish benchmarks and create a forum for exchanging information on challenges encountered and best practices achieved. As noted at a recent conference on regulatory quality in East Africa, “From competition to cooperation should be the way.”<sup>3</sup>

**WHO IS REFORMING?**

Despite the many challenges posed by the global economic crisis, between June 2008 and May 2009 more governments implemented regulatory reforms aimed at making it easier to do business than in any year since 2004, when *Doing Business* started to track reforms through its indicators. *Doing Business* recorded 287 such reforms in 131 economies in 2008/09, 20% more than in the year before. For East African countries, *Doing Business* has recorded a total of 46 reforms since 2004 (figure 1.2). In 2008/09 it recorded 9 reforms for East Africa, 50% more than

FIGURE 1.2

**Rwanda and Kenya lead reforms in East Africa**

the 6 recorded the year before. Of the 9 reforms, 7 were carried out in Rwanda. Thanks to these reform efforts, Rwanda led the world in *Doing Business* reforms (see table 1.3). The other 2 reforms in East Africa were carried out in Kenya and Uganda. Since 2004 the areas with the most *Doing Business* reforms in the region have been trading across borders and starting a business (figure 1.3).

Rwanda has steadily reformed its commercial laws and institutions since 2001. In the past year it introduced a new company law that simplified business start-up and strengthened minority shareholder protections. Entrepreneurs can now start a business in just 2 procedures and 3 days. Related-party transactions are now subject to stricter approval and disclosure requirements. Legal pro-

visions determining directors' liability in case of prejudicial transactions between interested parties were also tightened.

Rwanda improved regulations to facilitate access to credit through 2 new laws. Its new secured transactions act allows a wider range of assets to be used as collateral in secured lending. The law also permits secured creditors to pursue out-of-court enforcement of movable collateral and gives them absolute priority within bankruptcy. Rwanda's new insolvency law streamlined reorganization procedures.

Reforms in Rwanda also included measures to facilitate trade across borders and property registration. Delays at the borders were reduced thanks to longer operating hours and simpler requirements for documents. Smart reforms

TABLE 1.3

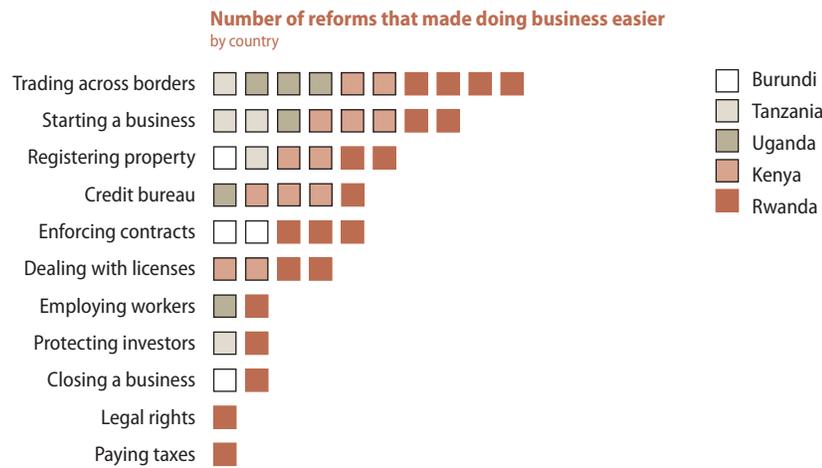
**Rwanda was the global top reformer in 2008/09**

Economy	Starting a business	Dealing with construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
<b>Rwanda</b>	✓		✓	✓	✓	✓		✓		✓
Kyrgyz Republic	✓	✓	✓	✓	✓		✓	✓		
Macedonia, FYR	✓	✓	✓	✓	✓	✓	✓			
Belarus	✓	✓	✓	✓			✓	✓		
United Arab Emirates	✓	✓						✓		
Moldova	✓			✓			✓			
Colombia	✓	✓		✓	✓	✓	✓	✓		✓
Tajikistan	✓	✓			✓	✓				✓
Egypt, Arab Rep.	✓	✓			✓				✓	
Liberia	✓	✓						✓		

Note: Economies are ranked on the number and impact of reforms. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the *Doing Business* topics. Second, it ranks these economies on the increase in rank on the ease of doing business from the previous year. The larger the improvement, the higher the ranking as a reformer.

Source: *Doing Business* database.

FIGURE 1.3  
**Trading across borders and starting a business—the most popular areas of reform**



Note: A reform is counted as 1 reform per reforming economy per year.  
 Source: *Doing Business* database.

relieved bottlenecks at the property registry and the revenue authority, reducing the time required to register property by 255 days. Creating a regulatory environment with efficient administrative processes and strong protection of property rights can set the stage for investment and a more robust economy. New research suggests that given the right conditions, particularly in low-income economies, even simple measures can make a difference. Analysis of 6 years of *Doing Business* reforms finds that in relatively poor but well-governed economies a 10-day reduction in start-up time is associated with an increase of 0.4% in the growth rate and 0.27% in the investment rate.<sup>4</sup>

**WHAT CONSISTENT REFORMERS DO**

Tracking *Doing Business* regulatory reforms over 6 years has led to the emergence of some patterns. Regulatory reform tends to pick up when pressure rises. One reason can be increasing competition as economies join a common market or trade agreement. Following the creation of the EAC Customs Union in 2005, EAC countries are creating a common market that is scheduled to start operating in July 2010. Already the possibility of greater competition in the

delivery of goods and services across the region has compelled partner states to review their internal business environments. The global financial crisis is another strong motivation for reform. The need to rebuild an economy following conflict as in Rwanda is another.

Whatever the motivation, governments that succeed in sustaining reform programs, as measured by *Doing Business*, tend to have common features. Here are 4.

**THEY FOLLOW A BROAD LONG-TERM AGENDA**

To begin with, the best reformers follow a long-term agenda aimed at increasing the competitiveness of their individual firms and the economy as a whole. Colombia, the Arab Republic of Egypt, Malaysia and Rwanda are 4 examples of economies incorporating business regulation reforms into a broader competitiveness agenda. As noted for Rwanda, this long view is often rewarded with increased investment.

Top reformers continually push forward and stay proactive. Singapore and Hong Kong (China) rank among the top economies on the ease of doing business and are also 2 of the most consistent reformers, year after year. This year Singapore once again ranked first on the ease of doing business—for the

4th year in a row. Just in the past year Singapore’s reforms made it easier to start a business, deal with construction permits and transfer property, thanks to its implementation of new online and computer-based services.

But while top reformers follow a clear path in their policy agenda, they also respond to new economic realities. Mauritius, the economy ranking highest on the ease of doing business in Sub-Saharan Africa, has announced a new insolvency act “to maintain the viability of the commercial system in the country.”<sup>5</sup>

**THEY ARE COMPREHENSIVE IN THEIR REFORMS**

Leading *Doing Business* reformers are comprehensive. Over the past 5 years Colombia, Egypt, Georgia, FYR Macedonia, Mauritius and Rwanda each implemented at least 19 reforms, covering 8 or more of the 10 areas measured by *Doing Business*. This broad approach to reform increases the chances of success and impact. Recent research suggests that reforms in different areas covered by *Doing Business* tend to be complementary. One study found that after India reformed to reduce barriers to entry for businesses, the number of informal firms in operation decreased. But the Indian states with more flexible employment regulations saw a 25% larger decrease than those with more rigid regulations.<sup>6</sup> Other studies show that when economies open up to international competition, the benefits are greater if the cost of entry for new businesses is lower. Lower barriers to entry allow entrepreneurs to move more easily into industries that most benefit from trade openness.<sup>7</sup>

Consistent reformers are also inclusive. They involve all relevant public agencies and the private sector as they institutionalize reform at the highest level. Rwanda formed a regulatory reform committee reporting directly to the president. More than 20 other economies—including Burkina Faso, India, Liberia, FYR Macedonia, the Syrian Arab Republic and Vietnam—have formed committees at the ministerial level. Suc-

Successful reforms in Egypt involved 32 government agencies and were supported by the parliament.

### THEY PAY ATTENTION TO REFORM SEQUENCE

Reforms that achieve their goals tend to have a momentum of their own. When the government succeeds in early reforms, citizens start seeing benefits, such as more jobs and more resources for health and education. The appetite for further reforms grows. In Georgia and Romania, among the economies that have moved up fastest in the *Doing Business* rankings, regulators took on simultaneous reforms in several areas at the start of their mandate.

But few countries have the opportunity (or feel the pressure) for an all-out reform blitz. Instead, reformers must decide which reforms to tackle first. They can follow this approach:

- Start with administrative reforms that don't require legislative changes.
- Cut unnecessary procedures; this will help reduce the number of agencies that entrepreneurs interact with.
- Introduce standard application forms and publish as much regulatory information as possible.
- Put processes online. Many of the frustrations for businesses come from how regulations are administered. Putting processes online may alleviate frustrations without changing the spirit of the regulation.

### THEY MAKE SURE NEW REGULATIONS ARE EFFECTIVE

National and local governments are constantly generating new regulatory requirements. The potential benefits of reform can quickly be eroded by new, burdensome regulations if there is no mechanism to ensure that the flow of new regulation is as good as the newly reformed stock of regulation. Regulatory impact analysis is being used by most OECD economies and a growing number of developing economies to systematically prepare, consult on and estimate the impacts of new regulation and identify

alternative policy options. By using this tool, reformers have identified less costly regulations to achieve results equivalent to more expensive alternatives. For example, the European Commission's first proposal for REACH (Registration, Evaluation, Authorization and restriction of Chemical substances) regulation would have cost the European chemical industry €10 billion. After regulatory impact analysis stimulated a public debate about alternatives, the regulation was revised to make compliance easier, without significantly changing the benefits. The final cost was €2 billion. The analysis cost the European Commission about €1 million, producing a social return on investment of almost 8,000 to 1. Still, in developing economies implementation of regulatory impact analysis systems remains a new and unexplored field with many challenges ahead.

1. "East African States Seek Market Reform," *East African Business Week*, January 30 2010.
2. Rankings on the ease of doing business are the average of the economy's rankings on the 10 topics covered in *Doing Business 2010*.
3. Network of Reformers conference, "Improving Regulatory Quality and Effectiveness in Eastern Africa," Kampala, Uganda, January 19–21, 2010.
4. Eifert (2008).
5. Mauritius, Corporate Affairs Division, <http://www.gov.mu>.
6. Sharma (2009).
7. Chang, Kaltani and Loayza (2009), Helpman, Melitz and Rubenstein (2008), and Freund and Bolaky (2008).



# Doing Business topics

# Starting a business

In April 1973, in the midst of the oil crisis, Frederick W. Smith started a new package delivery company. On its first night of operations it delivered 186 packages to 25 cities. Today FedEx handles more than 7.5 million shipments a day worldwide. In 1994, in the midst of the Zambian copper crisis, Carl Erwin and Francis Grogan rented 2 butcheries in Lusaka to start Zambeef Products PLC Group, an agribusiness operation. Today Zambeef has one of the largest cropping operations in Africa.

Entrepreneurs launch new businesses even in times of economic crisis—though most do not become global players. Many start their business out of necessity. In many low- and lower-middle-income economies the poor have seen starting a business or finding a job as the most effective way out of poverty.<sup>1</sup>

Faced with the current financial and economic crisis, policy makers recognize the importance of entrepreneurs and new businesses in creating jobs and driving growth. Some economies even

TABLE 2.1

## Where is it easy to start a business—and where not?

	RANK
Rwanda	11
Tanzania	120
Kenya	124
Uganda	129
Burundi	130

Note: Rankings are the average of the economy's rankings on the procedures, time, cost and paid-in minimum capital for starting a business. See Data notes for details.

Source: *Doing Business* database.

included specific measures to encourage formalized entrepreneurship in their crisis responses.

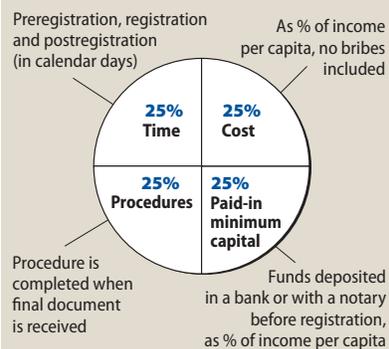
Formal incorporation has several benefits. The legal identities of companies outlive their founders. Resources are often pooled as multiple shareholders join together to form a company. And companies have access to services and institutions ranging from courts to commercial banks. Among 388 firms interviewed in the World Bank Enterprise Surveys of 2008 in Côte d'Ivoire, Madagascar and Mauritius, 85% cited better access to finance and 68% better access to markets as main reasons for registration.<sup>2</sup>

Benefits go beyond the firm level. A growing body of empirical research relates easier start-up to greater entrepreneurship and higher productivity among existing firms, particularly in economies open to trade.<sup>3</sup> A recent study using data collected from company registries in 100 economies over 8 years found that simple business start-up is critical for fostering formal entrepreneurship. Economies with efficient business registration have a higher entry rate as well as greater business density.<sup>4</sup>

Conversely, higher barriers to entry are correlated with greater perceived corruption and a larger informal sector. Vulnerable groups such as youth and women, because they mostly operate in the informal sector, are particularly affected by barriers to entry.

FIGURE 2.1  
Starting a business: getting a local limited liability company up and running

Rankings are based on 4 subindicators



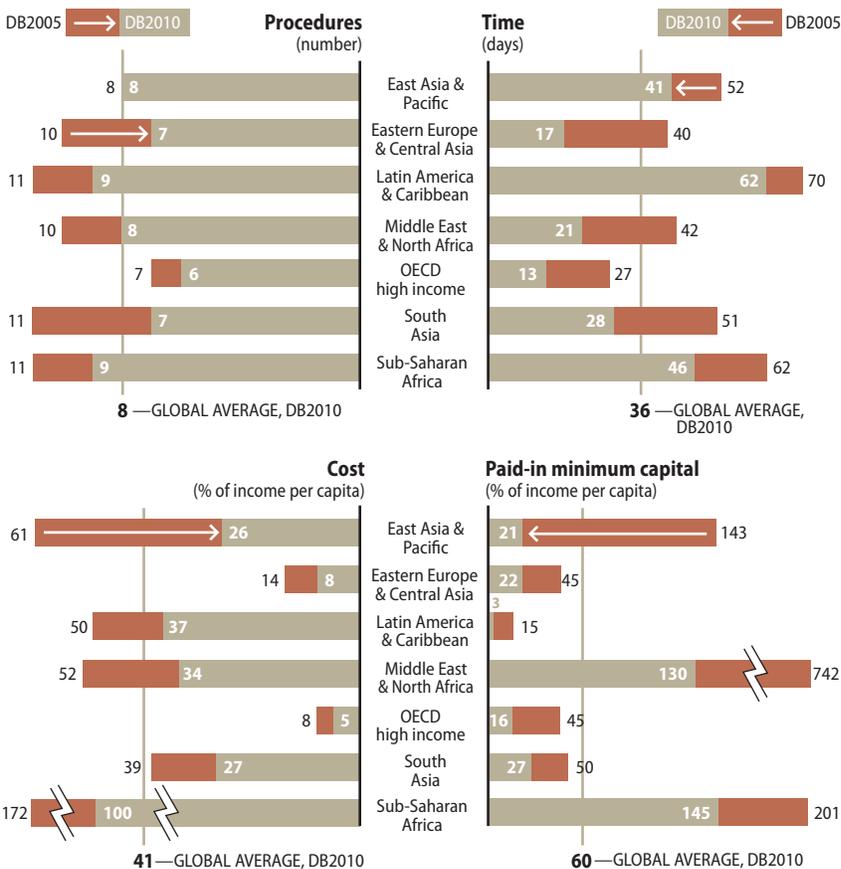
Recognizing the potential gains from making start-up easier, 134 economies have done so through 254 reforms recorded by *Doing Business* since 2004. Yet in many economies barriers to entry remain unnecessarily high. On average around the world, it still takes 8 procedures and 36 days to start a business (figure 2.2).

With so much to gain from simplifying start-up, the question is why complicated procedures remain. One argument is that strict entry regulations provide more legal certainty and protection to the public. Yet global practice shows that legal certainty does not require costly and complex procedures. Look at the practice in New Zealand or Canada, both among the top 10 on the ease of starting a business. There, thanks to links between agencies, entrepreneurs can start a business by filing information once. They are free to decide on company capital and need no approval from a judge. Reformers encourage formal registration by making services accessible, fast, inexpensive and predictable.

## CHALLENGES FACED IN EAST AFRICAN COUNTRIES

To start a business in East Africa takes on average 11 procedures, 25 days and 64% of income per capita. In comparison, registering a new business in OECD high-income economies requires on average just 6 procedures, 13 days and 4.7%

FIGURE 2.2

**Regional averages in starting a business—big improvements since DB2005**

Note: Data refer to economies included in *Doing Business 2005*. Additional economies were added in subsequent years.  
Source: *Doing Business* database.

of income per capita. But East Africa is home to one of the easiest places to start a business: Rwanda, ranked 11th globally. While starting a business in Rwanda takes just 2 procedures, entrepreneurs must go through 11–18 steps in the other East African countries studied here. This tends to be the result of a decentralized registration process. In Burundi, Kenya, Tanzania and Uganda entrepreneurs must interact with numerous agencies—including the registrar of companies, revenue authority, ministry of trade, ministry of labor, social security fund, health authority and town planning department—as well as commercial banks. In Rwanda, by contrast, the entire company registration is conducted at a one-stop shop established at its Commercial Registration Department. The application is transmitted to all other relevant agencies, limiting the number

of start-up procedures to just 2: submitting the application and picking up the registration card. Entrepreneurs in East African countries are often saddled with burdensome procedures that most economies have already eliminated. In Burundi, Kenya and Uganda these include obtaining a company seal and notarization or verification of documents before registration. In Burundi it is also mandatory to publish an announcement in a legal journal and submit extracts from the criminal records of company directors. In Uganda the application forms for company registration and trading licenses are not available online and must be picked up in person, adding 2 procedures to the registration process. In Tanzania and Uganda new businesses are also subject to several preregistration inspections, adding steps to the registration process. In Tanzania a new company

is inspected 4 times: by income tax officials, by value added tax and stamp duty officials, by town planning officers and by health officers. And because there is no coordination between the agencies involved, each inspection is conducted separately. Of the countries studied here, Rwanda has the fastest company registration (3 days) and Kenya the slowest (34 days). Delays occur because businesses are required to interact separately with numerous agencies and procedures are not conducted simultaneously.

The cost to start a business in East Africa ranges from 10.1% of income per capita in Rwanda to 151.6% in Burundi. Rwanda is the only country in East Africa where a company is registered with a single fee (RF 25,000, about \$43). Elsewhere, new businesses bear additional costs. In Burundi, Kenya and Uganda entrepreneurs must pay to have company documents verified by a notary or a commissioner for oaths. In 2 countries entrepreneurs are required to obtain a business permit or trading license—in Kenya, at a cost of KSh 5,000 (\$64), and in Uganda, for US\$ 206,500 (\$98). In Burundi a single procedure—publication in a legal journal—costs Fbu 130,000 (\$104) and accounts for about half the total cost to start a business. Another costly procedure is creating a company seal—costing Fbu 20,000 (\$16) in Burundi, KSh 3,000 (\$39) in Kenya and US\$ 225,000 (\$106) in Uganda.

**WHO REFORMED IN 2008/09?**

Worldwide, 61 economies made it easier to start a business in 2008/09. Sub-Saharan Africa and Eastern Europe and Central Asia had the most reforms. In East Africa, Rwanda was the only country to reform, though others had embarked on business registration reforms in previous years (box 2.1).

Rwanda simplified start-up by eliminating its notarization requirement; introducing a standard memorandum of association; posting publications online; consolidating procedures for name checking, registration fee payment, tax

**BOX 2.1**  
**Reforms in starting a business in East Africa**

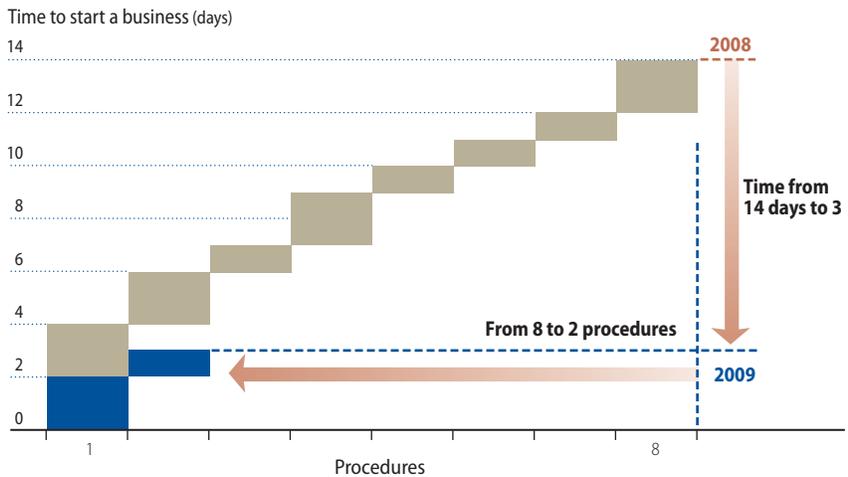
In Kenya the 2006 Licensing Laws (Repeals and Amendments) Act eliminated the need for a trading license and business permit. The business registry computerized its processes, speeding up registration. Better communication between the 2 agencies involved in providing the stamped memorandum and articles of association required for submission to the Registrar of Companies—the Stamp Duty Office (in the Ministry of Lands and Housing) and the Kenya Revenue Authority—has also helped save time in registering a new business. Altogether, comprehensive licensing reforms have led to annual private sector cost savings of \$62 million. But maintaining these benefits for the longer term will require periodic review of proposals for new licensing and regulatory requirements.

In 2006 Tanzania reformed its licensing regime, abolishing the license fee for small and medium-size enterprises and limiting it to TSh 20,000 (\$14) for larger companies with turnover of more than TSh 40 million (\$29,000). At the same time, the system of license categories was simplified, resulting in a reduction in the number of different licensed activities from 15 to 2. The computerization of tax registration and business registration processes also made start-up faster. With Tanzania’s new Companies Act, the company seal was made optional.

In 2006 Uganda created a new independent registration agency, the Uganda Registration Service Bureau, to administer the start-up process in place of the Ministry of Justice. By obtaining registration receipts at their banks (rather than at the ministry), entrepreneurs save time.

Source: Doing Business database.

**FIGURE 2.3**  
**New company law in Rwanda simplifies starting a business**



Source: Doing Business database.

registration and company registration; and reducing the time required to process completed applications (figure 2.3).

Besides Rwanda, 15 other countries in Sub-Saharan Africa reformed. Some of their reforms may provide useful insights for East African countries. Botswana simplified business licensing and tax registration as part of an ongoing computerization effort. Burkina Faso allowed online publication at the time of registration. Cameroon waived its business tax for the first 2 years of a company’s operations. Cape Verde implemented an online registration system. The Central African Republic established a one-stop shop with representatives from the entities involved in business registration, merging 4 procedures into 1. Ethiopia

and Ghana simplified company registration as part of ongoing administrative reforms. Ghana aims to enable business registration in just 1 day.

Guinea-Bissau made company name searches electronic and reduced its registration fees. Liberia adopted a risk-based approach to start-up by removing the need for companies engaged in general business to obtain an environmental license. Madagascar and Mozambique abolished their minimum capital requirements. Madagascar also eliminated stamp duties and further streamlined filing requirements at its one-stop shop. Mali established a one-stop shop, merging 4 procedures into 1, and introduced a flat fee for registration. Niger eliminated registrations with the National Center for

**TABLE 2.2**  
**Where is business start-up easy—and where not?**

Procedures (number)		Cost (% of income per capita)	
Rwanda (fewest)	2	Rwanda (least)	10.1
Burundi	11	Kenya	36.5
Tanzania	12	Tanzania	36.8
Kenya	12	Uganda	84.4
Uganda (most)	18	Burundi (most)	151.6
Time (days)		Paid-in minimum capital (% of income per capita)	
Rwanda (fastest)	3	Rwanda	0.0
Uganda	25	Kenya	0.0
Tanzania	29	Tanzania	0.0
Burundi	32	Uganda	0.0
Kenya (slowest)	34	Burundi	0.0

Note: East African economies have no paid-in minimum capital requirement.  
Source: Doing Business database.

Transportation Users and the chamber of commerce. Sierra Leone's one-stop shop became operational. So did Togo's, eliminating 6 procedures.

### TOWARD SMART REGULATION

Making business start-up easier has been the most popular of the reforms tracked by *Doing Business* since 2003. Simply put, starting a business does not need to be complicated. Two procedures—notification of a company's existence and tax registration—suffice. More economies are finding creative ways to ensure that good start-up rules are implemented in the most efficient way, often learning from one another.

Several reform features have emerged as the most popular and effective. Successful reformers often began by reviewing the need for existing requirements. Here are 4 reform tips.

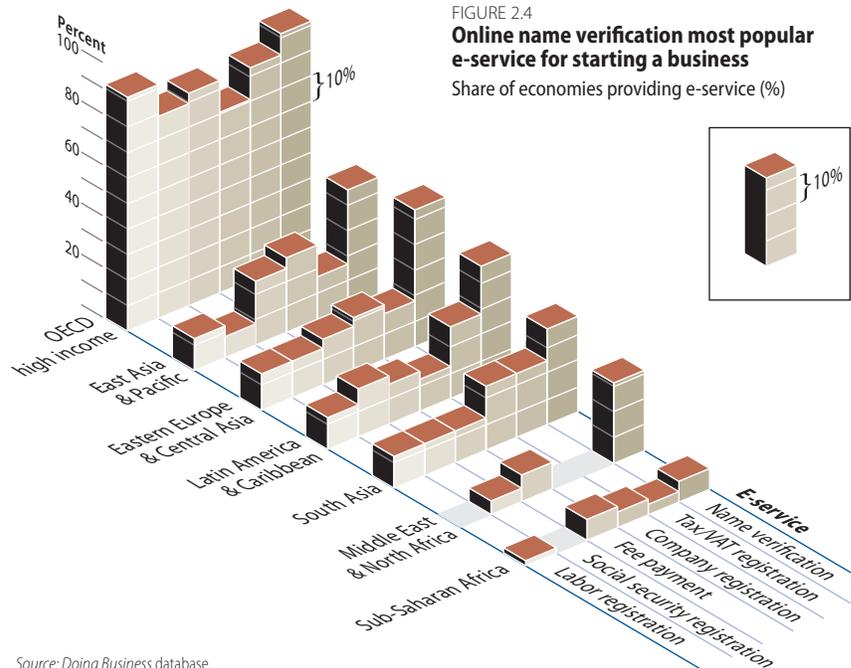
#### GET UP TO DATE

Creating or improving a one-stop shop has been the most popular reform feature since 2004. But there's no reason to combine or expedite old procedures that are simply antiquated or do not fulfill their intended purpose. They should be eliminated. One example is the company seal, still required in 70 economies—including Burundi, Kenya and Uganda. Developed in the Middle Ages, the seal is intended to avoid fraudulent use of company documents. But it can easily be forged in the digital era. Most modern economies have abolished the requirement for a seal. Many allow electronic signatures instead.

Another outdated requirement is the publication of a notice of company establishment in legal journals. This obligation still exists in Burundi. Today such notices can easily be published electronically, as in Mozambique, or at the registry, as in Burkina Faso.

#### STANDARDIZE DOCUMENTS

A more efficient way to ensure that incorporation documents are legitimate is to standardize them. The United Kingdom



did so in 1856. Standardizing incorporation documents can especially benefit small businesses, because it frees them from the costs of consulting a lawyer. And simpler documents lead to fewer errors and omissions, resulting in less hassle for registries and entrepreneurs alike. Rwanda introduced a standard memorandum of association in 2009. In Mauritius, which offers standard documents, the rejection rate is only about 8%. Applications can be processed in hours.

#### CENTRALIZE REGISTRATIONS

Legally, a company is formed once incorporated. In most economies the start-up process ends with company registration. But sometimes entrepreneurs must complete other procedures, involving multiple agencies—from tax collectors to town planners. Centralizing registrations can help. Such reforms often go hand-in-hand with introducing a unified registration form or single company identification number.

East African countries typically require a prospective business owner to visit at least 5 different agencies beyond the company registry. Rwanda is the exception. Through its one-stop shop, all business registration formalities can

be completed in a single location. In Sub-Saharan Africa, Ethiopia provides another positive example: its company registry automatically forwards information to its license authority. In Zambia a one-stop shop includes representatives from different agencies, allowing entrepreneurs to submit all documentation at one physical location. Physical one-stop shops can be implemented quickly and at relatively low cost—from \$200,000 in Burkina Faso to \$5 million in Azerbaijan. The reform in Azerbaijan took less than a year—and is saving businesses an estimated \$8.4 million annually. In Belarus the streamlining of registration is expected to save businesses \$21.5 million a year; in Burkina Faso, \$1.7 million.

#### MAKE SERVICES ELECTRONIC

In 2006 Tonga's company registry burned down. Lesson learned: the registry computerized its records. Creating electronic registration records not only mitigates certain risks but also facilitates information sharing and transparency. And it makes it easier to introduce new online services as new needs arise. Online name verification, common among OECD high-income economies, is now increasingly present in Eastern Europe and Central Asia as well as in Latin America and

the Caribbean (figure 2.4). The result: better service attracts more customers. In Bangladesh the online registration system increased name clearances by 80% and registrations by 90%.

Globally, about 40 economies now offer electronic registration services. Electronic systems have reduced administrative costs. Malaysia's company registry invested \$12.7 million in a sophisticated electronic system over 5 years. The investment was fully covered by fees generated by the new registry. In the 3 years after the reform, the number of registered businesses in Malaysia increased by 19%. At the same time, the compliance rate for filing annual tax returns rose from 28% to 91%. In the 6 weeks after Slovenia introduced its e-Vem automated system, 5,439 applications were recorded online. Moreover, the new system reduced administrative costs by 71.3%, saving €10.2 million (\$13.7 million) a year.

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1. Narayan and others (2000).
  2. World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).
  3. For an overview and summary of the literature, see Djankov (2008).
  4. Klapper, Lewin and Quesada Delgado (2009). Entry rate refers to newly registered firms as a percentage of total registered firms. Business density is defined as the number of businesses as a percentage of the working-age population (ages 18–65).

# Dealing with construction permits

In Burundi small businesses building a simple warehouse for their goods are in for a wait. And high costs. To start, they must obtain a geological study that costs roughly 38 times the income per capita in the country. But that's not all: building a warehouse requires 22 interactions with different offices—from building authorities to land registries. Dealing with construction permits is not only a problem in Burundi. In Tanzania it takes at least 22 procedures to build a warehouse. For each of these steps, several follow-up visits are required “to get things done.” To get everything in order may require nearly a year, unless you “know somebody” who can push from the inside. This need not be so. In Georgia it takes only 10 procedures and a little over 3 months to build a warehouse with all necessary permits.

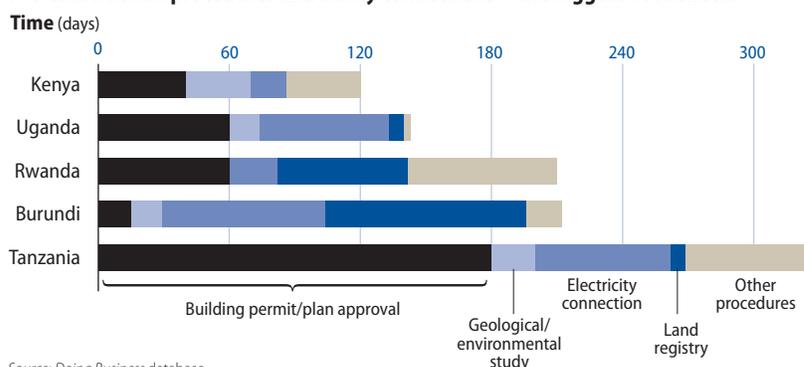
Finding the right balance between making regulations strict enough to protect the public and ensuring that they are accessible, efficient and affordable enough

TABLE 3.1  
**Where is dealing with construction permits easy—and where not?**

	RANK
Kenya	34
Uganda	84
Rwanda	90
Burundi	172
Tanzania	178

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to comply with formalities to build a warehouse. See Data notes for details.  
Source: Doing Business database.

FIGURE 3.1  
**Pre-construction procedures and utility connections—the biggest bottlenecks**



Source: Doing Business database.

to facilitate business is a challenge. Overly rigid building rules and regulations may backfire: rather than resulting in fewer accidents, they may push construction into the informal economy. Objectively balanced regulations can ensure both public safety and revenue for the government while making the construction process easier on entrepreneurs. By some estimates, 60–80% of construction projects in developing economies are undertaken without building permits, because the approval process is too complex or oversight too lax. World Bank Enterprise Surveys found that companies face more issues related to corruption in countries where dealing with construction permits is more difficult.<sup>1</sup> *Doing Business* measures the procedures, time and cost to build a commercial warehouse, hook it up to basic utilities and register it. It assumes that the new warehouse will be used for storage of nonhazardous goods and is located in the periurban area of the largest business city. The indicators on dealing with construction permits serve as an illustrative example of the licensing regulations that businesses face.

## CHALLENGES FACED IN EAST AFRICAN COUNTRIES

In East Africa it takes on average 203 days to build a warehouse, 40 days more than in OECD high-income economies. Delays can be attributed to cumbersome requirements in the preconstruction, con-

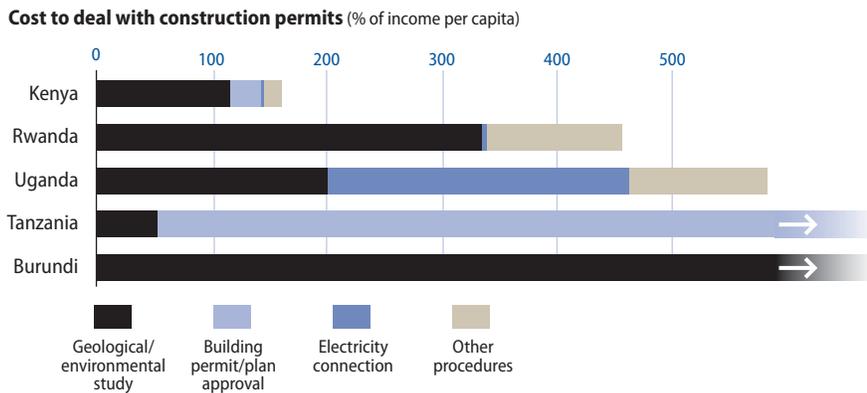
struction and postconstruction phases. The longest delays tend to be found in the preconstruction phase. In East Africa, obtaining architectural drawings and building permit approvals are the preconstruction requirements that delay the process the most (figure 3.1). Getting an approval for a building permit in Tanzania takes 180 days—more than half the total time for dealing with construction permits. Once the building permit request is filed, the city council in Dar es Salaam distributes the request to the appropriate agencies. Once all approvals are ready, the city engineer and the city

TABLE 3.2  
**Who makes dealing with construction permits easy—and who does not?**

Procedures (number)	
Kenya	11
Rwanda	14
Uganda	16
Burundi	22
Tanzania	22
Time (days)	
Kenya	120
Uganda	143
Rwanda	210
Burundi	212
Tanzania	328
Cost (% of income per capita)	
Kenya	161.7
Rwanda	456.1
Uganda	584.0
Tanzania	3,281.3
Burundi	7,968.2

Source: Doing Business database.

FIGURE 3.2  
**Burundi and Tanzania—costs are among the highest in the world**



Source: Doing Business database.

council must approve the plans. This can take months because the city council does not meet often.

In Uganda an average of 2 months is required to obtain approvals of architectural drawings from the local construction authority. The legal time limit is 30 days in theory, but approval takes up to 90 days in practice. Builders wishing to accelerate the approval process can write the municipality to request an update on the application status. In the absence of a response to this request, builders can notify the municipality of their intention to commence work.

In Rwanda this preconstruction process also takes 2 months. It involves several steps at the Kigali city hall. The first requirement is to file an application

for the right to use a land plot, followed by a plan marking the boundaries. After the leasehold is granted, the municipality must verify that the size of the plot is suitable for building a warehouse. And the cost involved? Location and building permits together account for more than 70% of the total cost of dealing with construction permits in Rwanda.

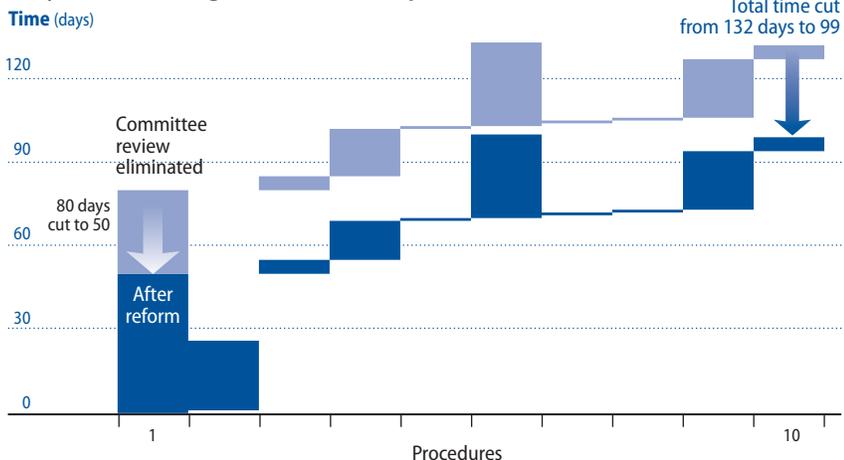
Preconstruction requirements in East Africa are the most expensive part of dealing with construction permits, as well as being the most time consuming. Indeed, East Africa is home to 2 of the most expensive permitting processes in the world: those in Tanzania and Burundi. A substantial part of the costs in these countries goes to finance the required technical studies (figure 3.2). In

Burundi, where dealing with construction permits costs a staggering 7,968% of income per capita, nearly half the money goes to finance a mandatory geotechnical study performed by the Laboratoire National du Bâtiment et des Travaux Publics. This agency has to visit the plot and dig a minimum of 3 holes to obtain samples for analysis in its laboratories. In Tanzania a similar study accounts for just over 43% of the total cost of dealing with construction permits. Among the economies with the most efficient licensing systems, none requires technical studies to be commissioned for a simple warehouse project.

Delays during the construction phase are attributable mainly to random inspections by various agencies. To build a warehouse in Tanzania requires 10 separate inspections, involving at least 4 different agencies and adding 3 weeks to the construction process. In Burundi, Rwanda and Uganda 5 inspections are required. In Kenya, in addition to the removal of a mandatory committee review, the number of inspections has been reduced to only 2 (figure 3.3).

Delays in the postconstruction phase in East Africa result mainly from long waiting periods to connect to utilities. In Burundi, after placing a request to connect to the electricity grid, a builder has to wait 2 weeks to receive an inspection. After that, the wait for the connection is another month. In Uganda the process takes 2 months. Registering the warehouse with the land authority may also require a long wait. In Rwanda a business may wait 2 months to obtain an updated deed from the land authority—and in Burundi, 3 months. In Tanzania and Uganda it takes only a week. In Kenya the procedure isn't required.

FIGURE 3.3  
**Kenya makes dealing with construction permits faster**



Source: Doing Business database.

## BOX 3.1

**Reforms in dealing with construction permits in East Africa**

Rwanda streamlined project clearances 2 years in a row—by combining the applications for a location clearance and building permit in a single form and by transferring authorities from the prefecture to the municipality. In 2006/07 the capital, Kigali, was divided into 3 administrative districts: Nyarugenge, Gasabo and Kicukiro. The administrative reorganization and decentralization reduced the time to obtain a building permit by 15 days and the time to obtain an occupancy permit by 7 days. Further reorganization in 2007/08 led to the consolidation of the location contract and building permit processes in Kicukiro and Nyarugenge. The total number of procedures was reduced by 1, and both the location clearance and building permit could be obtained within 60 days. Tanzania made it mandatory for new projects to obtain a geological survey before construction. While the procedure was intended to enhance building safety, following the devastating collapse of a ten-storey building in 2008, there are too few inspectors to match demand. As a result, dealing with construction permits takes 20 days longer on average.

In Kenya the removal of a mandatory committee review to obtain a building permit shortened that process from 80 days to 50 in 2005. In the same year the process to obtain a certificate of compliance was consolidated with the process to obtain an occupancy permit under the Physical Planning Act. As a result, the average time to obtain an occupancy permit fell from 17 days to 14—and the consolidation is still ongoing. The city council of Nairobi continues to eliminate bottlenecks and save time in the construction permitting process. Since January 2009 various internal changes, including moving project approvals from the city council to a technical committee, have reduced the time it takes to obtain an architectural plan from 50 days to 30. Before this, the city council's busy schedule and backlog had created immense problems for applicants. Similarly, the time for approval of a structural plan in Kenya was reduced from 25 days to 10. Nonetheless, recent changes—a new requirement to obtain an environmental clearance from the National Environment Management Authority and a significant increase in building permit fees—have reduced the benefit to businesses from the other reform measures.

Source: *Doing Business* database.

**TOWARD SMART REGULATION**

Reforms that make the regulation of construction projects more efficient and transparent can help reduce corruption and informality in the sector. By encouraging construction companies to go through formal channels, governments can reap returns on reform investments. Regulatory changes that make dealing with construction permits easier for businesses have been on the rise for the past 3 years. In 2008/09 *Doing Business* registered a record 31 reforms in this area. Eleven economies, including 5 of the top 10 reformers, continued reforms they had started the previous year. Here are some recommendations for smart regulation.

**IDENTIFY AREAS OF OVERLAP AMONG AGENCIES**

Dealing with construction permits involves multiple agencies and levels of approval—more than in any other area of regulation studied by *Doing Business* or, in fact, in virtually any other licensing system. To obtain all construction-related approvals and connect to utilities, builders around the world deal with 9 different agencies on average. Understanding how these agencies interact with one another and identifying areas of overlap is often the first step toward speeding up approvals while maintaining quality control.

In Rwanda, for example, administrative changes to the districts of Kigali led to the consolidation of 2 processes (obtaining a location contract and a

building permit), thus cutting 1 procedure and more than 2 weeks from the permitting process. All procedures before and during construction—including inspection requests, payments and deed requests—can now be performed at the Kigali city hall. All in all, interactions with just 3 agencies are required to deal with construction permits in Rwanda. Meanwhile, Burundi requires interactions with 8 agencies to the same end.

**STREAMLINE PROJECT CLEARANCES**

Because building approvals require the technical oversight of multiple agencies, an obvious reform choice has been to set up a one-stop shop. But this is no easy fix. One-stop shops are designed to integrate services through a single point of contact between building authorities and entrepreneurs. Their success depends on coordination between these authorities and on sound overarching legislation.

Take the experience of Tanzania, where all construction-related procedures in Dar es Salaam were centralized in the city council. Once an application is received, the city council distributes building permit requests to the Health Department, Fire Department and Planning Department. But this has not reduced delays because meetings that bring these parties together to approve the requests are not regularly scheduled. Architects often have to follow up on their requests with each of these entities separately. In a more successful reform Kenya's Rapid Results Initiative, introduced in 2008, moved permit approvals from an overburdened city council to a new technical committee that meets every 2 weeks.

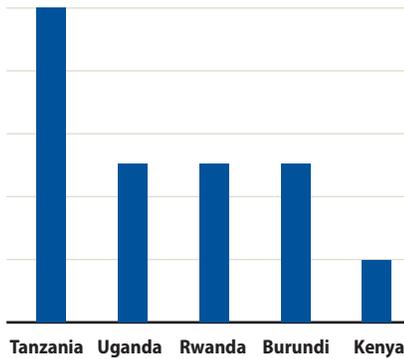
**RATIONALIZE INSPECTIONS AND MODERATE REQUIREMENTS FOR TECHNICAL STUDIES**

Inspections help ensure construction quality. But in many countries inspection fees and fines are viewed as an important source of government revenue. That needs to change. Recent studies show that eliminating unnecessary and redundant procedures can actually increase

FIGURE 3.4

**Inspection requirements vary widely**

Number of inspections to build a warehouse

Source: *Doing Business* database.

government revenue by enhancing efficiency. For example, Kenya reported a revenue increase of 33% after replacing dozens of local permits with a single business permit.

One way to make inspections more efficient is to privatize them. The Czech Republic did that recently, creating a new, independent profession: authorized inspectors. By hiring an authorized inspector, an entrepreneur can speed up the process of getting a building permit by up to 5 weeks. The inspector issues a certificate confirming that the project documentation is in compliance with the building code and that the building can be constructed. But care must be taken to ensure that private inspections are adequately controlled by the government agency responsible for implementation.

Another successful path to reform is introducing risk-based inspections—that is, inspections only at critical stages of construction. In addition, risk profiling can efficiently adjust permit requirements based on the size and nature of the project. For example, a thorough geological and environmental study should not be necessary for all construction projects. Risk profiling helps authorities focus their limited resources on projects with greater public safety concerns. Without it, agencies may spread their resources too thin and create a backlog in the approval process.

**SET TARGETS AND MEASURE PROGRESS**

While it is important to tackle the most burdensome licenses in a detailed manner, a piecemeal approach may be insufficient or unsustainable over time. Reformers may lose sight of the forest for the trees. To reduce licensing burdens, many ministries need to take action. Here is a 3-step model to make it happen. First, make the ministry of finance or the prime minister's office responsible for implementation, since other ministries respond best when their budgets depend on it. Second, take a comprehensive or broad view of what needs to be reformed and what is feasible. (For example, some countries look at all licenses, others at all administrative procedures.) Third, commit to a target reduction in the administrative costs of licenses and related requirements, and set up a measuring system to ensure that it is achieved. This holds regulators accountable.

The Netherlands provides a good example. Its government set a target of reducing administrative burdens by 25% by 2007. The minister of finance was responsible for achieving the target, reporting to parliament every 6 months. Uncooperative ministries would see their budgets cut. An independent agency, the Advisory Board on Administrative Burden, was established to monitor progress and publicize findings. The program aimed to save €4 billion, and savings from streamlined tax requirements alone are estimated at €600 million so far. Comprehensive reforms like this are not just for OECD high-income economies. Indeed, in East Africa, Kenya has been making its way through comprehensive licensing reforms too (see box 3.1).

1. Moullier (2009).

# Employing workers

In Britain during the Industrial Revolution, two-thirds of workers in the newly powered textile factories were children. Working conditions were often perilous. Large steam engines made the heat almost unbearable. Machines were tightly packed, and their moving parts often exposed. Passing between them was difficult for an adult—which was the reason children were preferred. It was also dangerous.

These conditions gave rise to the Health and Morals of Apprentices Act of 1802, the first law aimed at preventing such abuse and regulating labor relations in Britain. Its regulations included this: “The master and mistress of the factory must observe the law... every apprentice is to be supplied with two complete suits of clothing with suitable linen, stockings, hats and shoes... male and female apprentices are to be provided with separate sleeping apartments, and not more than two to sleep in one bed.” A series of labor regulation acts followed.

TABLE 4.1  
**Where is it easy to employ workers—and where not?**

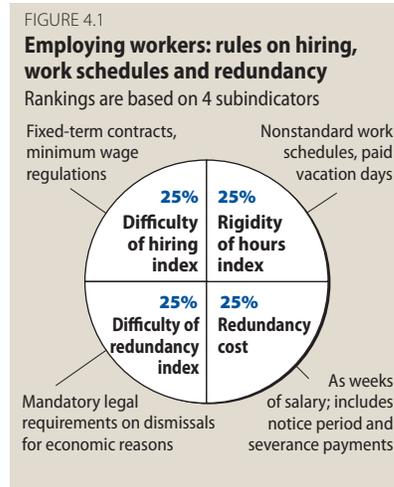
	RANK
Uganda	7
Rwanda	30
Kenya	78
Burundi	88
Tanzania	131

Note: Rankings are the average of the economy's rankings on the difficulty of hiring, rigidity of hours, difficulty of redundancy and redundancy cost indices. See Data notes for details.  
Source: *Doing Business* database.

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. The *Doing Business* indicators on employing workers measure flexibility in the regulation of hiring, working hours and redundancy in a manner consistent with the conventions of the International Labour Organization (ILO). An economy can have the most flexible labor regulations as measured by *Doing Business* while ratifying and complying with all conventions directly relevant to the areas that *Doing Business* measures.

The ILO core labor standards—covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices—are fundamental principles. The *Doing Business* employing workers indicators are fully consistent with the core labor standards but do not measure compliance with them. To complement these indicators, *Doing Business* has launched research on the adoption of core labor standards in national legislation as the basis for a future indicator on worker protection. All the data used in this report were collected as part of the global report *Doing Business 2010*. (For more details, see the chapter “About *Doing Business*.”)

Governments all over the world face the challenge of finding the right balance between worker protection and labor market flexibility. Research indicates that



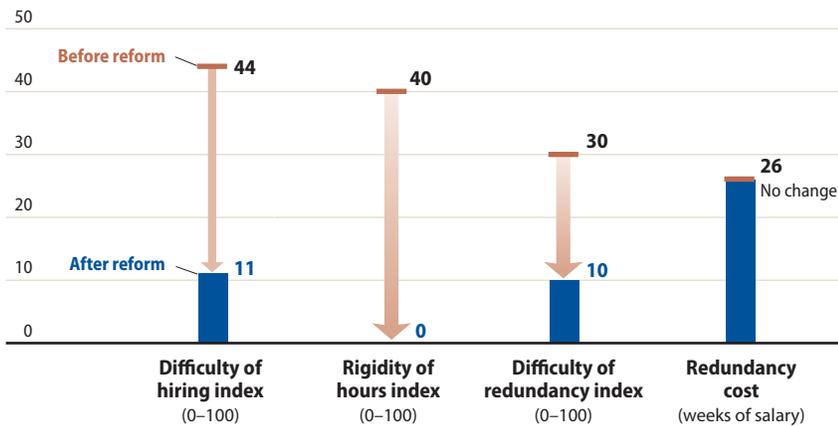
firms tend to stay small and create fewer jobs if they lack access to formal finance, institutions and markets.<sup>1</sup> Workers in the informal sector receive no benefits or social security, lack formal protection from arbitrary or discriminatory treatment and may receive lower wages.<sup>2</sup> According to a recent OECD study, 1.8 billion people are employed in the informal economy worldwide—far more than the 1.2 billion in the formal economy.<sup>3</sup>

Another study suggests that burdensome employment regulation restricts workers from moving between firms and industries, which may lead to greater job losses when external economic shocks occur.<sup>4</sup> Stringent employment regulation also reduces a firm's ability to respond adequately to demand or productivity shocks, according to a study of weekly labor choices in an international fast food chain covering 2,500 outlets in 43 economies.<sup>5</sup> And excessively rigid restrictions on hiring and redundancy tend to increase labor costs, reducing opportunities for firms to spend on innovation and adapt to new technologies.<sup>6</sup>

Labor reform is challenging. Most major developments in labor law have taken place in the context of large political or economic shifts.

Developing economies have made few reforms in labor regulations covered by *Doing Business*. In Sub-Saharan Africa only 6 of 46 economies (Burkina Faso, Mauritius, Mozambique, Namibia, Rwanda and Uganda) have made labor

FIGURE 4.2

**Rwanda makes employing workers easy**

Note: Higher values indicate more rigid regulation.  
Source: Doing Business database.

regulations more flexible in the past 5 years.

Reform is challenging, but getting the level of employment regulation right is worth the effort. In fact, employment reforms may help magnify the impact of other reforms. Following reforms to reduce barriers to entry in India, a recent study found that states with more flexible employment regulation saw a 25% drop in the number of informal firms.<sup>7</sup> The most vulnerable groups, women and youth, could benefit the most from labor reforms. While employment protection laws may increase the likelihood that employed workers will stay in their job, for those without a job they reduce the chances of finding employment or re-entering the labor market.<sup>8</sup> This particularly affects women, who tend to exit from and reenter the labor market more frequently during their careers.

**WHO REFORMED IN 2008/09?**

Around the globe, 11 economies reformed their labor laws in 2008/09. Seven increased flexibility in employing workers; 4 limited it further. Sub-Saharan Africa was one region where reformers introduced more flexible regulation. In East Africa, Rwanda was the only country to reform in 2008/09, and only a few others embarked on labor market reforms in previous years (box 4.1).

Among the 11 economies around the world that reformed in 2008/09, Rwanda carried out the most comprehensive (figure 4.2). Amendments to its labor code increased flexibility in the use of fixed-term contracts by removing limits on their duration and renewal. Employers and employees now have greater flexibility in choosing the weekly rest day, and workers are entitled to statutory

paid annual leave of 21 working days. When faced with the need to downsize for economic reasons, employers are now required to inform a labor inspector in writing only after redundant positions have been eliminated. The aim is to allow possible abuses to be detected while ensuring that employers are not deterred from hiring workers in the first place.

In Sub-Saharan Africa, besides Rwanda, the island nation of Mauritius also reformed. Its new Employment Rights Act and Employment Relations Act entered into force, making redundancy procedures more flexible. Redundancies of one or more workers for economic reasons no longer require authorization, the notice period for redundancy is now 30 calendar days, and severance pay is mandatory only if the grounds for redundancy are found to be invalid. The new laws also increased mandatory annual leave to 22 working days. In addition, Mauritius's Employment Rights Act introduced a workfare program to support workers who are laid off—through the provision of job placement or self-employment facilities, training for greater employability and some financial assistance. Every worker registered with the workfare program is entitled to a transitional unemployment benefit for up to 12 months.

TABLE 4.2  
**Who makes employing workers easy—  
and who does not?**

Rigidity of employment index (0-100)	
Uganda	0
Rwanda	7
Kenya	17
Burundi	28
Tanzania	54
Redundancy cost (weeks of salary)	
Uganda	13
Tanzania	18
Rwanda	26
Burundi	26
Kenya	47

Note: The rigidity of employment index is the average of the difficulty of hiring index, rigidity of hours index and difficulty of redundancy index. See Data notes for details.

Source: Doing Business database.

## BOX 4.1

**Reforms in employing workers in East Africa**

Rwanda has made employing workers easier by abolishing its maximum duration for fixed-term contracts and allowing an unlimited number of renewals for such contracts. In addition, Rwanda made redundancy procedures more flexible by dropping the requirement for consultation and notification of third parties.

Uganda's new Employment Act, passed in 2006, allows greater flexibility in scheduling an employee's hours of work. Rest days for workers are not restricted to particular days of the week. At the same time, Uganda introduced a new restriction on redundancy: a requirement to notify third parties when redundancies affect groups of employees.

Source: Doing Business database.

## TOWARD SMART REGULATION

Since 2004 *Doing Business* has recorded 88 reforms affecting the employing workers indicators. Of these, 54 made regulations more flexible, 34 more rigid. In searching for the right balance between flexibility and protection, reformers can look to the experience of economies around the world. The following measures are examples of reforms aimed at increasing flexibility without compromising protection.

### ALLOW FLEXIBLE SCHEDULING OF WORKING HOURS

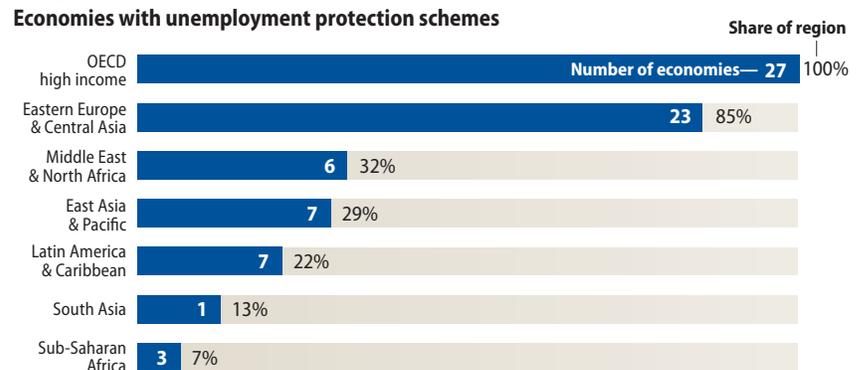
Laws restricting working hours were created to protect employees. But they also limit the ability of firms to adjust for fluctuations in seasonal demand—and can take work away from willing workers. To mitigate this risk, most economies permit greater flexibility in activities in which continuous operation is economically necessary. More than half the economies in the *Doing Business* sample allow the averaging of hours. The Czech Republic and Finland allow the distribution of hours over 52 weeks; Angola, 6 months; and Australia, a year. Allowing pay premiums for overtime or work on the weekly rest day, as done in Uganda, is another way economies deal with these needs.

### PROMOTE YOUTH EMPLOYMENT

Young people are disproportionately affected by rigid employment regulation. Lack of training and experience is already an obstacle to finding a first job; burdensome regulation and high redundancy costs can further deter potential employers. One measure used to encourage the hiring of young people is to introduce apprentice wages. These allow businesses to hire first-time employees for a portion—typically 75%—of the mandatory minimum wage for a short, fixed period. In Sub-Saharan Africa, Lesotho has established apprentice wages

Apprentice contracts and trial periods are also used to promote the hiring of young people. First-time workers

FIGURE 4.3



Source: *Doing Business* database.

without experience get an opportunity to receive training while earning an income. Having invested in training these workers, employers have a greater incentive to hire them. Allowing the use of fixed-term contracts for permanent tasks can provide another point of entry and an incentive for employers to create jobs. But if strict regulations on permanent contracts are left in place, a dual system can be created. This makes it difficult for fixed-term workers to transition to permanent employment. Low-skilled, young and immigrant workers are the most affected. They are also already the most vulnerable workers in times of crisis.<sup>9</sup>

### SHIFT FROM SEVERANCE PAY TO UNEMPLOYMENT INSURANCE

Italy, Norway and Singapore have no statutory minimum for severance payments and aid workers in transition between jobs with well-established unemployment assistance programs. Denmark and New Zealand combine flexible labor regulations with unemployment protection schemes.

Things can be different in developing economies. Many lack the financial resources and administrative capacity to provide comprehensive unemployment insurance (figure 4.3). Not surprisingly, mandatory severance payments remain the prevalent form of insurance against unemployment. But many developing economies may err on the side of excessive rigidity. Severance pay in cases of redundancy sometimes even exceeds the typical unemployment benefits in

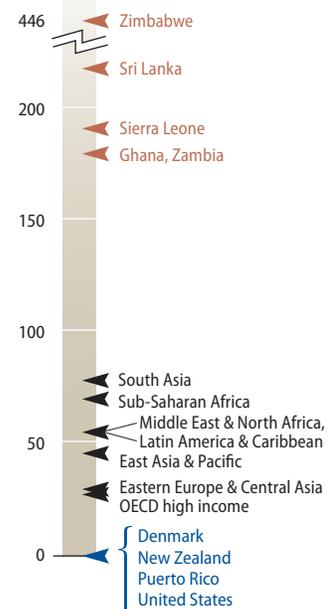
rich economies (figure 4.4). In addition, many impose strict procedural requirements for laying off workers for economic reasons—such as prior approval by the labor authority, as in the Republic of Congo, Gabon and Nepal.

Such requirements are created with good intentions—to protect workers from abuse or to provide a safety net in case of sudden job loss. But when it comes to making employment decisions for economic reasons, these requirements can give the authorities—not

FIGURE 4.4

### Where is the cost of redundancy highest?

Average cost to terminate redundant workers (weeks of salary)



Note: Bolivia and República Bolivariana de Venezuela are excluded because redundancy for economic reasons is not possible.

Source: *Doing Business* database.

employers—the power to make business decisions. And excessive costs can deter employers from hiring workers in the first place. Reducing the complexity and costs of dismissals for economic reasons is a first step toward encouraging formal job creation.

Over time, a shift to less rigid employment regulation and greater social protection can also make sense in developing economies.<sup>10</sup> Evidence suggests that unemployment benefits can help reduce poverty.<sup>11</sup> Where social insurance mechanisms are inadequate or lacking altogether, dismissed workers may be forced to accept the first job opportunity, even if it is not formal or productive. One study estimates that lack of access to insurance among poor rural households forces workers to engage in low-risk activities with lower returns. This reduces their potential earnings by 25% in rural Tanzania and by 50% in a sample of rural villages in India.<sup>12</sup>

Some low- and middle-income economies have unemployment schemes—including Algeria, Ecuador, the Kyrgyz Republic, Moldova, Thailand, Uzbekistan and Vietnam. But some of these also still maintain high redundancy costs. Employers in Ecuador face redundancy costs equal to 2.5 years of salary; in Vietnam, 1.5 years. On the other hand, Mauritius, with an unemployment protection scheme in place, has just eliminated severance pay for cases of retrenchment.

Introducing unemployment protection schemes is not straightforward. Such schemes risk prolonging unemployment if incentives for job searches are distorted. One promising approach is the use of unemployment insurance savings accounts. Workers save a fraction of their earnings in their account and draw unemployment benefits from it. Economies such as Algeria, Belgium and Chile have developed such accounts in conjunction with a solidarity fund, to ensure increased benefits for unemployed workers.

1. For a review of research on employment regulation and its effects, see Djankov and Ramalho (2009).
2. Duryea and others (2006).
3. OECD Development Centre (2009).
4. Ciccone and Papaioannou (2008).
5. Lafontaine and Sivasan (2007).
6. Pierre and Scarpetta (2007) and Kuddo (2009).
7. Sharma (2009).
8. Montenegro and Pagés (2004).
9. Pierre and Scarpetta (2007) and “When Jobs Disappear,” *The Economist*, March 14–20, 2009, pp. 71–73.
10. Boeri, Helppie and Macis (2008).
11. Vodopivec (2009).
12. Pierre and Scarpetta (2007).

# Registering property

When Abdulayeh decided to sell his business property in Ouagadougou this year, he checked the encumbrances on the property, had the sale agreement notarized, obtained a property valuation and applied for the property transfer at Burkina Faso's newly created one-stop shop. The process took 4 steps and 59 days. Just 2 years ago it would have taken 8 steps and 182 days. The cost of the process also fell: transfer taxes were lowered from 15% of the underlying property value to just 8%. The results speak for themselves: over the past 2 years the number of new title registrations in Ouagadougou has boomed. And studies suggest that the easier it is to transfer property, the more likely that newly registered titles will stay formal.

Where property systems are poorly administered or property rights poorly defined, land may not be turned into productive capital. Hernando de Soto describes such land as “dead capital,” an asset whose use is limited or that cannot

TABLE 5.1

## Where is it easy to register property—and where not?

	RANK
Rwanda	38
Burundi	118
Kenya	125
Tanzania	145
Uganda	149

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to register property. See Data notes for details.

Source: *Doing Business* database.

be used as collateral.<sup>1</sup> Formal titles can ease access to credit. A recent study in Peru suggests that property titles are associated with a 10% increase in approval rates on public sector loans for construction materials.<sup>2</sup>

Women and children can particularly benefit from easier access to land. A study in Nepal finds that women who own land are more empowered and their children are healthier.<sup>3</sup> But some countries, such as Cameroon and the Democratic Republic of Congo, still limit the ability of married women to buy, sell or mortgage land without the authorization of their husband.<sup>4</sup> In others, such as Tanzania, customary inheritance law can restrict landownership by women.<sup>5</sup>

Making property registration simple, fast and affordable allows entrepreneurs to focus on their business. Property owners with formal titles invest up to 47% more in their property, a study in Argentina finds.<sup>6</sup> A study in Peru showed that property titles allowed people to work away from the home more—because they had less need to stay home keeping squatters at bay.<sup>7</sup> Another recent study looked at the impact of a program issuing nearly 11 million land titles to rural households in Vietnam. It found a small increase in investment in crops and more time spent in nonfarm activities.<sup>8</sup>

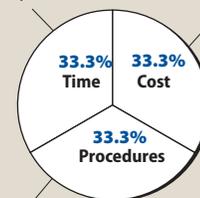
*Doing Business* records the full sequence of procedures necessary for a business to purchase a property from another business and to transfer the

FIGURE 5.1

## Registering property: transfer of property between 2 local companies

Rankings are based on 3 subindicators

Days to transfer property in main city      As % of property value, no bribes included



Steps to check encumbrances, obtain clearance certificates, prepare deed and transfer title so that the property can be occupied, sold or used as collateral

property title to the buyer's name so that the purchasing business can use it as collateral in new loans or, if needed, sell it to another business (figure 5.1).

Economies keep finding ways to streamline property registration. Practices common in the 10 economies where property registration is easiest include centralizing procedures at the registry, digitizing records, lowering transfer taxes and introducing standard forms. These practices make popular reforms. In fact, 9 of the top 10 economies on the ease of registering property reformed over the past 5 years. Some replaced complicated and costly registration systems. On average among the top 10, it now takes fewer than 3 procedures and, in most cases, 1–4 days and less than 1% of the property value to complete a property transfer.

All countries—no matter their size, income level or geography—can make it easier to transfer property. And benefits can be reaped quickly. Burkina Faso and Ghana, for example, have seen increases in formal title transfers following recent reforms that eased property registration.

## CHALLENGES FACED IN EAST AFRICAN COUNTRIES

While transferring property in some countries requires just 1 or 2 procedures, in East Africa entrepreneurs must go through 8 steps on average. The procedural requirements in the region vary

substantially from country to country. In Rwanda it takes just 4 procedures to lawfully transfer land and property ownership. But in Uganda entrepreneurs must follow as many as 13 steps. One reason for the additional steps is the requirement to have the land and property valued in order to assess transfer fees payable to the government. In Kenya, Tanzania, and Uganda the property is physically inspected for that purpose. Kenya, Rwanda and Tanzania also require additional tax clearance certificates from the land ministry, revenue authority and municipality. Additional procedures are also found where transfer documents must be prepared by a lawyer or notarized, as in Burundi, Rwanda, Tanzania and Uganda. In addition, entrepreneurs in Tanzania and Uganda must obtain the government's consent to the transfer. This is an uncommon constraint: globally, only 10 other economies have a similar requirement in place.

The time to register property in East Africa ranges from 60 days in Rwanda to 94 in Burundi. The sources of delay vary from country to country. In Kenya, conducting a property title search and a check for various tax clearances takes 20 days; in Tanzania, 32 days. In Rwanda,

obtaining a certificate from the land registry to confirm the identity of the property owner and the title status takes about 30 days, making this the biggest bottleneck in the registration process. The physical inspection of a property adds 1 month in Kenya and Uganda and 9 days in Tanzania. In Burundi, although the property is not necessarily inspected, the land registry and the Ministry of Finance must verify the sale price. This procedure delays the registration process by 25 days on average. In addition, before registration, Burundi's land registry performs due diligence to confirm that the sale price is not understated. This procedure takes an additional 60 days and accounts for nearly two-thirds of the total time to transfer property title in Burundi. Another source of delays in some East African countries is a government's consent to transfer. To obtain approval from the land department takes 18 days on average in Tanzania and 8 in Uganda.

The total cost of transferring a property ranges from 0.5% of the property value in Rwanda to 6.3% in Burundi. Stamp duties charged by governments on property transactions make up the largest share of the total cost. In most East African countries the stamp duty is calculated as a percentage of the property value; it ranges from 1% in Tanzania and Uganda to 4% in Kenya. Rwanda is the only country in the region charging a flat fee on all transactions (RF 20,000, about \$35), regardless of the property price. This is thanks to a recent reform; until January 2008 entrepreneurs in Rwanda paid a hefty registration fee—6% of the underlying property value.

Another substantial cost associated with property transfers in East Africa is legal expenses. For example, in Uganda the requirement for a lawyer to draft the sale agreement costs entrepreneurs between 1% and 2% of the property value. In Tanzania the preparation of the transfer deed and notarization of the sale agreement cost 3% of the property value. In Burundi, where a lawyer first drafts the sale agreement and a notary later verifies it, the related expenses amount

to FBu 271,000 (\$225), or about 3.2% of the property value. The notarization costs are lowest in Rwanda, where a notary from the Ministry of Justice authenticates the agreement for a small flat fee of RF 7,300(\$13).

## WHO REFORMED IN 2008/09?

*Doing Business* recorded reforms easing property transfer in all regions in 2008/09. Thirty-four economies made it easier to register property. The most popular reform, seen in 11 economies, was to introduce online procedures. The second most popular, recorded in 8 economies, was to speed up procedures at the registry. In East Africa, Rwanda was the only country to reform, though others had embarked on property registration reforms in previous years (box 5.1).

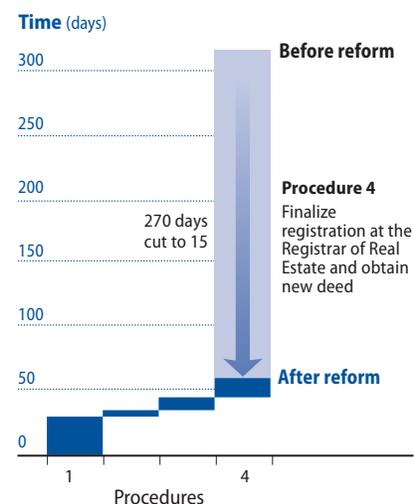
Rwanda decentralized its land registry and created 5 branches where property can be registered. Properties can now be registered at the closest branch, removing the backlog at the original land registry in the capital, Kigali. A statutory 10-day time limit was introduced for the provision of information related to the type of use permitted by the land registry. This process used to take up to 6 months. Further, since May 2009 the seller of the property has been able to request a tax clearance certificate directly

TABLE 5.2  
Where is property registration easy - and where not?

Procedures (number)	
Rwanda	4
Burundi	5
Kenya	8
Tanzania	9
Uganda	13
Time (days)	
Rwanda	60
Kenya	64
Tanzania	73
Uganda	77
Burundi	94
Cost (% of property value)	
Rwanda	0.45
Uganda	3.54
Kenya	4.20
Tanzania	4.42
Burundi	6.30

Source: *Doing Business* database.

FIGURE 5.2  
Rwanda makes property registration easy



Source: *Doing Business* database.

from the Rwanda Revenue Authority online (figure 5.2).

Besides Rwanda, other countries in Sub-Saharan Africa also carried out reforms, and these could provide useful insights for East African countries. Globally, Mauritius was the top reformer, and Burkina Faso was the runner-up. In Mauritius the property registry was made fully electronic, and strict statutory time limits now apply to property registration. Six months were cut from the process. In Burkina Faso new regulations reorganized the land registry and also established statutory time limits. Inspections for property valuations were systematized, with preestablished tables of values. And transfer taxes can now be paid at the land registry, where a special desk of the tax agency is now located. Zimbabwe reduced the total cost from 25% of the property value to about 10%. Ethiopia decentralized administrative tasks to 10 neighborhoods in the capital, Addis Ababa, and merged procedures at the land registry and municipality. Angola digitized its land registry and split it into 2 units, each covering half the land in the capital, Luanda, accelerating property transfers there.

#### BOX 5.1

##### Reforms in registering property in East Africa

Kenya now permits private practitioners to value property rather than limiting this function to government appraisers. This has drastically reduced the time taken for property valuations. Given the competition among appraisers, the procedure now takes only about 1 week. This reform was put forth by the Law Society of Kenya, through its Committee on Conveyancing, and the registry superintendent of the Ministry of Lands. The Committee on Conveyancing was formed to tackle the difficulties that lawyers were experiencing in getting government appraisers to visit properties in a timely manner.

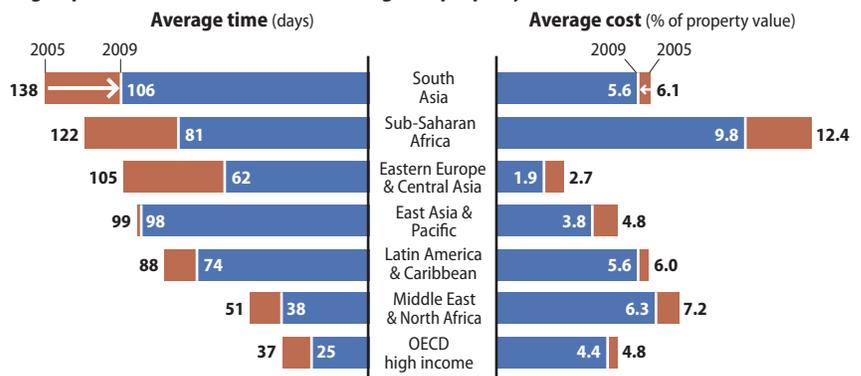
In January 2008, Rwanda made it less expensive to register property by abolishing the 6% registration fee and replacing it with a flat rate of RF 20,000 (\$35). A recent reform also eliminated the need to carry out property valuations, saving a step in the process. And the centralization of services at the Rwanda Revenue Authority means that a certificate of good standing, which is still mandatory for registration, can be obtained with a single office visit. Further, an amendment to Rwanda's Stamp Duty Act of 1972 reduced the stamp duty from 4% to 1%.

In Burundi the 2007 law of finances (Loi des Finances) made the process less expensive for businesses by abolishing a 7% registration tax, leaving only a 6% mutation tax to pay for the transfer of property.

Source: *Doing Business* database.

FIGURE 5.3

#### Big improvements, but still harder to register property in Sub-Saharan Africa



Note: Data refer to economies included in *Doing Business* 2005. Additional economies were added in subsequent years.  
Source: *Doing Business* database.

## TOWARD SMART REGULATION

In the past 5 years *Doing Business* has recorded 125 reforms in property registration in 93 economies—more than half of them in Africa and Eastern Europe and Central Asia. The largest share, 49 reforms, focused on reducing taxes and fees. The following is some advice to would-be reformers.

### SIMPLIFY AND LOWER FEES

To register a property transfer, an entrepreneur in Uganda first has to arrange for a government official to inspect the property and assess its value. Then the

entrepreneur has to complete an assessment form to pay the stamp duty at a bank and complete another assessment to pay property registration fees.

Nearly 30 of the 183 economies in the *Doing Business* sample require physical inspections to assess the value of a transferred property. Others impose multiple taxes and fees for property registration. In these economies not only are costs higher, but the process is generally more cumbersome. More steps may be required because payments must be made to different agencies or because tax assessments have to be obtained. Higher costs encourage informal transactions and underreporting of property values. And cumbersome processes can create incentives for the payment of bribes.

An alternative approach is to charge fixed fees, independent of the property value. Seventeen economies do so, including Rwanda. “Fixed fees have reduced corruption at the registry,” says a representative of the Real Estate Association of Georgia, where reforms introduced a fixed fee of \$30.90.

Another alternative is to lower fees charged as a percentage of the property value. Forty-nine economies have reduced percentage-based transfer fees since 2005. In the past 5 years Sub-Saharan Africa reduced taxes by 2.6% of the property value on average (figure 5.3). But more than 40 economies still have transfer taxes equivalent to more than 6% of the property value. In Chad,

the Comoros, Mali, Nigeria, Senegal and Syria taxes and fees exceed 20% of the property value.

Reducing taxes and fees helps remove incentives to underreport property values and promotes the formal registration of transactions. It can also ease the burden on governments trying to detect cheaters. In 31 economies, including 13 in Africa, the government inspects property for valuation purposes during transfers. This procedure is costly and time consuming and can foster bribes. Switching to lower or fixed fees makes it faster and easier to transfer property while reducing underreporting of property values. It also means that capital gains and property taxes collected later will be based on more realistic property values. In other words, reducing taxes does not necessarily mean reducing government revenues. Burkina Faso and Mozambique reduced fees yet saw total revenues stay about steady or rise, thanks to an increase in transactions.

#### **SIMPLIFY AND COMBINE PROCEDURES**

Simple measures such as reducing the number of documents can save entrepreneurs and officials valuable time and resources. More than 20 economies require cadastral certificates, and almost 70 require a proof of tax clearance from different levels of government. Eight economies, including Ethiopia and Gabon, go even further: they require certificates of payment from utility companies. And in 15 economies registration at the land registry is not enough: the new owner must register with many other institutions—such as the municipality, the tax agency and utility companies. In East Africa, Kenya requires clearance certificates to be issued by the Commissioner of Lands as well as the Nairobi city council. To avoid the extra burden on entrepreneurs, governments can establish one-stop shops to deal with multiple payments and registrations all in one place.

After simplifying and combining procedures, government agencies can go a step further by linking their systems to exchange information. Guatemala is

linking its land registry to municipalities in order to automatically update property values and ownership. Belarus introduced a successful one-stop shop 3 years ago. Entrepreneurs in Belarus can get tax payments verified and obtain clearances from the cadastral office at this one-stop shop. They don't even need to worry about the notarization requirement; representatives of the land registry have the same legal powers as notaries. Thanks in part to these reforms, Belarus has cut the time required for property registration from 231 days in 2007 to just 18.

#### **EASE ACCESS TO THE REGISTRY**

Easy access to information in the property registry helps reduce the time spent on due diligence to verify ownership, encumbrances and other required documentation.

Where the internet is widely available, allowing online access to information is an effective way to reduce the time and cost of obtaining documents. Such reforms have the biggest impact on the due diligence procedures typically carried out at the beginning of the transfer process, such as obtaining certificates of ownership, encumbrances, good standing of firms or transfer tax payment. Among a sample of 72 economies with electronic records for encumbrances, 33—including Zambia—still require a visit to the land registry, because certificates must be obtained in person; in some cases computers are available for searches.

Where a personal visit to the land registry is still necessary, decentralizing offices or adding new ones can reduce backlogs. Angola, Ethiopia and Rwanda all decentralized their land registries in 2008/09. Increasing administrative efficiency at the registry is another way to reduce delays for entrepreneurs. Burkina Faso did so in 2008/09 by introducing time limits—an effective benchmark to measure registries' performance if coupled with an enforcement mechanism. Two other economies reduced backlogs by hiring more registry staff. Establishing fast-track procedures at a higher cost helps people who need speedier registra-

tion and are willing to pay for it—and allows the registry to prioritize its work.

Computerize the registry Transferring property records from a paper-based to a digital system speeds up processing. The 14 economies that have done so in the past 5 years have cut the time to transfer property in half—by about 4 months on average. Angola is the most striking example: a 5-year computerization effort at the registry reduced the total time to transfer property in Luanda from 334 days to 184.

In economies with computerized registries it takes half as long to transfer property as it does in those with paper-based systems. Electronic processing can also improve title security, by making it easier to identify errors and overlapping titles. And digital records can be backed up and maintained more easily than paper ones. In Liberia many land books were lost or destroyed during its civil war, making it difficult to identify the rightful owners.<sup>9</sup> This can later lead to land disputes that have to be settled in court.

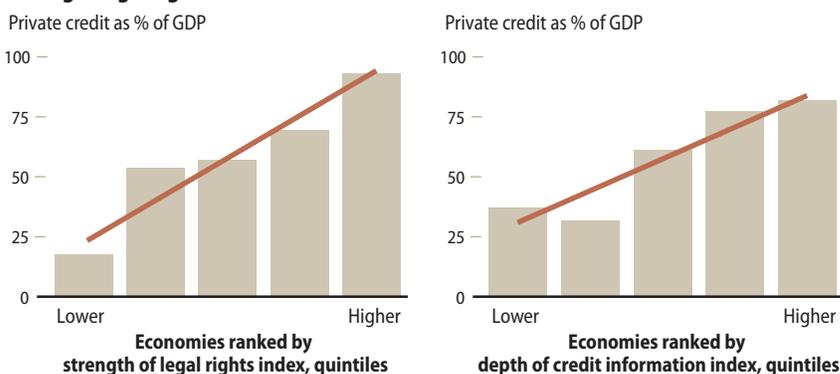
Going electronic can also increase the volume of registrations. Since Belarus began computerizing its system in 2005, it has increased the number of transferred titles threefold. Bosnia and Herzegovina has seen 33% growth in transferred titles since all municipal cadastres started working on computerization a few years ago. Angola, Portugal and West Bank and Gaza are 3 more examples of economies that have started to reap the benefits of years of computerization efforts at their registries.

1. De Soto (2000).
2. Field and Torero (2006).
3. Allendorf (2007).
4. Doing Business Gender Law Library, <http://www.doingbusiness.org/gender-lawlibrary>.
5. World Bank (2008a).
6. Galiani and Scharfrodsky (2005).
7. Field (2007).
8. Quy-Toan and Iyer (2008).
9. World Bank (2008b).

# Getting credit

FIGURE 6.1

## Stronger legal rights and more credit information are associated with more credit



Note: Relationships are significant at the 5% level and remain significant when controlling for income per capita. Source: *Doing Business* database; World Bank, World Development Indicators database (2008).

Tara grew a weaving hobby into a small textile business in the Federated States of Micronesia. Business picked up quickly, and within a year she was starting to make a profit. With plans to expand, Tara approached Sangozi, a loan officer at her bank, for a line of credit. To find out whether Tara qualified for a low-interest loan program for female-owned businesses, Sangozi needed to check her credit record. But there was no database that shared information on credit histories.

With no report to show Tara's creditworthiness, Sangozi looked for assets that Tara could use as collateral. While Tara rents the premises for her business, she owns all the machinery. To raise funds for her business, Tara had created a nonpossessory pledge over these movable assets and registered it with the electronic collateral registry created 2 years before. Her inventory, machinery and other movable assets—together with the record of her assets from the collateral registry—proved to be enough: Sangozi

gave Tara a line of credit. As long as Tara makes her loan payments, she continues to use the machinery securing her loan.

Access to information on credit histories and on registered assets used as collateral helps lenders assess the creditworthiness of potential clients. Although a credit history is not a substitute for risk analysis, when banks share credit information, loan officers can assess borrowers' creditworthiness using objective measures. And if lenders are also reassured by strong creditors' rights, they can take greater, well-informed risks.<sup>1</sup> This in turn can facilitate access to financing, particularly for small and medium-size businesses. Where collateral laws are effective and credit registries are present, banks are more likely to extend loans (figure 6.1).<sup>2</sup>

*Doing Business* measures the legal rights of borrowers and lenders and the scope and quality of credit information systems. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the scope, quality and accessibility of credit information available through public credit registries and private credit bureaus and provides information on the depth of coverage (figure 6.2).

Many women are not as lucky as Tara. Female entrepreneurs are less likely to have the collateral needed for business loans.<sup>3</sup> This hinders their entrepreneurial potential.<sup>4</sup>

Women tend to borrow from mi-

crofinance institutions, but in small amounts that often fall short of the minimum thresholds required by credit registries to build a credit history. Only 22% of public credit registries and 52% of private credit bureaus around the world collect and distribute information from microfinance institutions, according to the *Doing Business* database. And 20% of bureaus and registries surveyed do not capture small loans. But credit bureaus and credit registries are not the only way to do so. Small loans that require collateral can also be recorded in a collateral registry. Yet only 40% of the economies covered by *Doing Business* have an operational collateral registry.

Many small and medium-size companies do not have access to formal credit and have to rely on personal funds and operating profits. This is particularly true

TABLE 6.1

### Where is getting credit easy—and where not?

	RANK
Kenya	4
Rwanda	61
Tanzania	87
Uganda	113
Burundi	167

Note: Rankings on the ease of getting credit are based on the sum of the strength of legal rights index and the depth of credit information index. See Data Notes for details.

Source: *Doing Business* database.

FIGURE 6.2

### Getting credit: collateral rules and credit information

Rankings are based on 2 subindicators

Regulations on nonpossessory security interests in movable property

**62.5%**  
Strength of legal rights index  
(0–10)

Scope, quality and accessibility of credit information through public and private credit registries

**37.5%**  
Depth of credit information index  
(0–6)

Note: Private bureau coverage and public registry coverage are measured but do not count for the rankings.

in developing economies. Many of these smaller firms were hit hard by the financial and economic crisis as demand for their products fell. In this environment, improving access to credit by strengthening the regulatory environment is even more important. Encouraging the sharing of information through credit registries or bureaus and strengthening the legal framework related to collateral are 2 ways to make it easier to get credit.

Economies that rank high on the ease of getting credit typically have credit bureaus that share information on individuals and firms and include both positive and negative credit information obtained from banks, credit unions, microfinance institutions, retailers and utility providers. They tend to have bureaus that do not limit coverage to large loans and that provide historical information on borrowers. And they generally guarantee the right of borrowers to inspect their data. In addition, these economies have a legal framework that encourages lending by financial institutions to the private sector. Their laws ensure secured creditors' rights through a registration mechanism for secured interests, allow out-of-court enforcement of security rights and protect secured creditors during insolvency processes.

TABLE 6.2

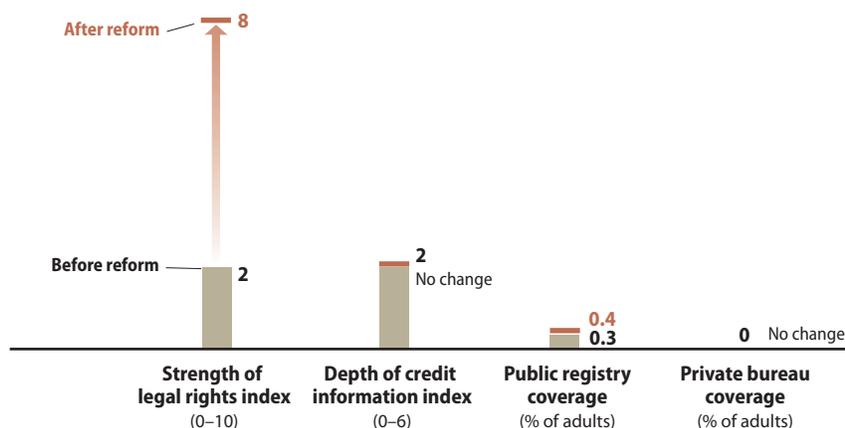
**Where is credit information and the legal rights for borrowers greatest—and where is it least?**

Legal rights for borrowers and lenders (strength of legal rights index, 0–10)	
Kenya	10
Rwanda	8
Tanzania	8
Uganda	7
Burundi	2
Borrowers covered by credit registries (% of adults)	
Kenya	2.29
Rwanda	0.37
Burundi	0.19
Tanzania	0.00
Uganda	0.00

Note: The rankings on borrower coverage reflected in the table include only economies with public or private credit registries (132 in total). Another 50 economies have no credit registry and therefore no coverage. See Data notes for details.  
Source: *Doing Business* database.

FIGURE 6.3

**Rwanda has more credit information and more legal rights for borrowers and lenders**



Source: *Doing Business* database.

**WHO REFORMED IN 2008/09?**

Twenty-seven economies made it easier to get credit in 2008/09. Rwanda was the top reformer. The country's new secured transactions law raised its score on the strength of legal rights index from 2 to 8 (on a scale of 0–10). The new law makes it easier for small and medium-size enterprises to obtain loans. Before, banks would demand that borrowers give up possession of their secured property—or, if they were allowed to keep possession, the law required a specific description of the assets, and any change to the assets would render the security agreement void. Now any individual or business can offer movable property as security for loans while maintaining possession. The law permits future assets to be used as collateral. It also established a collateral registry, protecting secured creditors against third parties.

Though Rwanda was the only economy to reform in East Africa (figure 6.3), a number of reforms were carried out elsewhere in Sub-Saharan Africa that could be useful for East African countries. Zambia now requires banks and other financial institutions to provide data to the credit bureau and use credit reference reports. Mauritius adopted or amended several laws to allow the creation of a licensed private credit bureau and expanded the bureau's coverage to all credit facilities. Nigeria also adopted

regulations to allow the creation of a private credit bureau. Sierra Leone passed a new company act in May 2009 that broadens the range of assets that can be used as collateral. The reform also clarified the legal framework for secured transactions. In Cape Verde the central bank introduced online access to the loan database for financial institutions. The minimum threshold for the loans included, however, was raised from 1,000 escudos to 5,000 (\$61).

**TOWARD SMART REGULATION**

Over the past 5 years *Doing Business* has recorded 42 reforms strengthening the legal rights of borrowers and lenders in 32 economies around the world—and 108 reforms improving credit information systems in 70 economies. This count includes 27 new credit bureaus and 11 new collateral registries launched since 2005. Below are some recommendations for credit reforms. Create a credit bureau. Establishing a credit bureau need not be expensive. Costs range from \$500,000 to \$3 million, depending on the systems already in place and the readiness of the banking sector. Most of the costs can be recovered within a couple of years. But getting started can often take time. According to experts, it takes 12–24 months for a credit bureau to begin operations—from developing a business plan to issuing the first reports.<sup>5</sup>

The Armenian credit bureau, ACRA, cost \$1 million to start up and took 3 years to begin operations. Once it was operational, coverage rose from 1.5% of adults to 35% in just a few years. Improvements to the bureau continue. In the past year Armenia strengthened the legal framework regulating the activities of credit bureaus and clarified rules on sharing credit information.

Setting up the credit bureau is only the first step in a successful reform. In many economies credit bureaus have the capacity to collect more information but lack the legal backing to do so. Reformers need to create the regulatory framework that will allow the sharing of data and foster trust in the system by both banks and borrowers. This often requires adopting a new credit bureau law or amendments to existing banking and data protection laws. Six economies took this step in 2008/09.

Including credit information from retailers and utility companies such as electricity providers and mobile phone companies is an effective way to increase coverage. But this is among the harder aspects to reform because these companies often are regulated by different institutions than financial companies are. Only 40% of bureaus include information from nonbanking sources. Yet positive information on payment of electricity and phone bills can help establish a good credit history for those who need it the most—women and youth, many of whom have had no contact with the banking sector before requesting a business loan.

### REFORM SECURED TRANSACTIONS LAWS

Sound secured transactions laws allow businesses to use their assets—including movable assets such as machinery and accounts receivable—as security to generate capital for expansion. The ability to use such assets is particularly important for small and medium-size enterprises, which may not own land or buildings. Female entrepreneurs can benefit the most in countries such as Tanzania, where customary inheritance law means

#### BOX 6.1

#### Secured transactions and credit registry reforms in East Africa

In 2004, Kenya passed and implemented a new law on credit bureaus that provides a framework for a regulated and reliable system of sharing credit information. In fact, the new law makes it mandatory for financial institutions licensed under Kenya's Banking Act to share negative information on their customers with licensed credit bureaus. It also provides for the licensing and establishment of new private credit bureaus.

Rwanda introduced a new secured transactions act and a new insolvency act in 2009 to make secured lending more flexible, allowing a wider range of assets to be used as collateral and a general description of debts and obligations. Furthermore, secured creditors now have access to out-of-court enforcement of collateral and absolute priority within bankruptcy proceedings.

Source: Doing Business database.

that few women have land to use as collateral for business loans.

Economies as diverse as Cambodia, Guatemala, the Federated States of Micronesia and Rwanda have implemented new legal frameworks in recent years. These legal changes usually do not require large investments. Rwanda invested \$55,320 in the legislative process and the validation and translation of its new law, excluding technical assistance from donors.

The experience of earlier reformers shows that such reform is well worth the effort. Where the law allows movable goods to be used as collateral, companies take advantage of this possibility. In Eastern Europe and Central Asia, the region with the most reforms in getting credit in the past 5 years, the share of companies using movable assets as collateral has increased significantly since 2005.<sup>6</sup> The use of machinery and other tangible movable property as collateral

has risen the most (figure 6.4). Revolving movable assets such as inventory and accounts receivable are also used, though to a lesser extent. Financial institutions may still feel more comfortable using assets not susceptible to change over time. Moreover, trust in the use of a collateral registry, rather than possession of the collateral, can take time to develop.

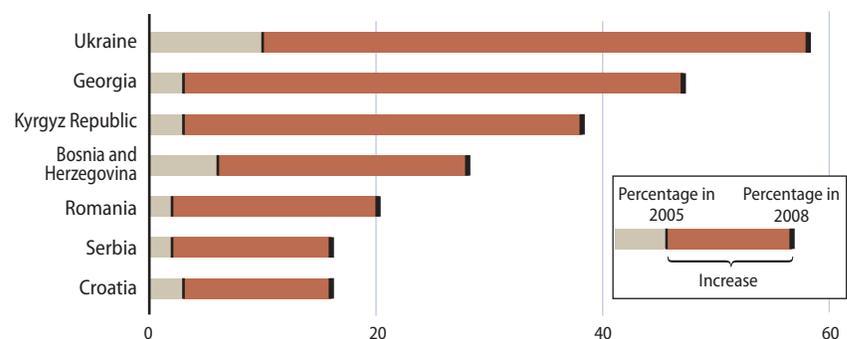
### SET UP A COLLATERAL REGISTRY

Where the necessary legal framework is in place, well-functioning collateral registries are needed so that companies can take advantage of the law and get access to credit.

Creating a new collateral registry need not be costly. Some small island states have established one in recent years, including the Federated States of Micronesia. Guatemala recently established a paper-based registry that also functions online. The reform process, which included the adoption of a new

FIGURE 6.4  
More borrowers are using movable collateral

Share of companies using machinery and equipment as collateral (%)



Source: World Bank Enterprise Surveys (2005, 2008).

secured transactions law, took several years.<sup>7</sup> The initial budget to operate the new registry was \$86,500. The total cost of establishing a new legal framework with an online collateral registry—including diagnostic and legal review, software, hardware, hosting and maintenance, along with international consulting during the entire process—can amount to about \$350,000 or more. Many economies have well-functioning paper-based collateral registries. According to a recent survey of 25 economies with established registries, only 6 had registries allowing online registration.

Reformers seeking to economize might consider combining reforms of collateral and credit information systems by focusing on what these systems have in common. Data collected by collateral registries are often similar to those used in credit reports. When implementing both reforms simultaneously, the biggest savings can be made on software. The software license and customization for a new credit registry, accounting for about half the total cost, can also be used to start a collateral registry.

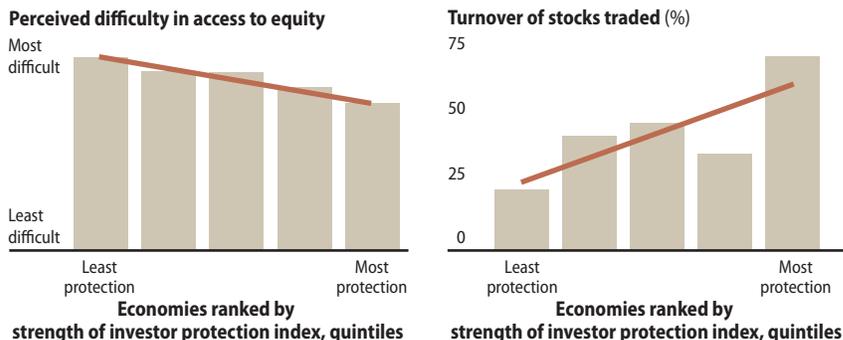
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1. Houston and others (2008).
  2. Djankov, McLiesh and Shleifer (2007).
  3. Deininger, Ali and Alemu (2009) and Joireman (2008).
  4. Menon and van der Meulen Rodgers (2009, p. 14).
  5. Based on World Bank project experience in Armenia, Bulgaria, Egypt, Nigeria, Romania, the Russian Federation, Rwanda, Sri Lanka, Uganda and the United Arab Emirates.
  6. World Bank Enterprise Surveys (<http://www.enterprisesurveys.org>).
  7. Croci Downes (forthcoming).

# Protecting investors

Businesses need capital to grow and expand. For those seeking to access finance through equity markets, the strength of investor protections is particularly important (figure 7.1). The current financial and economic crisis has made access to equity markets even more challenging. In times of uncertainty, investors tend to become more concerned about corporate governance risks and look for legal protections. Previous financial crises, such as the East Asian crisis of 1997, and corporate scandals such as those involving Enron and WorldCom also highlighted areas where stronger protections are needed. The lessons learned have helped spur innovative reform in investor protections in recent years.

Rules governing self-dealing, the use of corporate assets by company insiders for personal gain, are among

FIGURE 7.1  
**More investor protections associated with greater access for firms to equity markets and faster stock turnover**



Note: Relationships are significant at the 1% and 5% level respectively and remain significant when controlling for income per capita. Economies are ranked on the perceived difficulty in financing through local equity market, with 134 being the most difficult. Source: *Doing Business* database; WEF (2008); World Bank, World Development Indicators database.

the most important rules of corporate governance—particularly in developing economies, where corporate ownership tends to be highly concentrated.<sup>1</sup> The most common examples of self-dealing are related-party transactions—those between company insiders and other companies they control. These transactions include sales of goods or services to the company at inflated prices as well as purchases from the company at excessively low prices.

Investors typically look for corporate transparency, accountability and shareholder participation in the major decisions of the company. If a country's laws do not provide these protections, potential investors may be reluctant to invest (except to become the controlling shareholder).

*Doing Business* measures the transparency of related-party transactions, the liability of company directors for self-dealing and the ability of shareholders to sue directors for misconduct (figure 7.2). A high ranking on the strength of investor protection index shows that an economy's regulations offer strong investor protections against self-dealing. This indicator is not a measure of the dynamism of capital markets or of particular protections for foreign investors.

## CHALLENGES FACED IN EAST AFRICAN COUNTRIES

Countries in East Africa have an average score on the strength of investor protection index of 4.7 (on a scale of 0–10, with higher numbers indicating stronger overall investor protections). Within the region, investor protections tend to be more advanced in some areas, notably shareholder suit rights, while requiring substantial improvements to match international standards of corporate governance in others, notably disclosure requirements. On the *Doing Business* extent of disclosure index, East African countries score only 3.8 on average, compared with 5.9 for OECD high-income economies. Most East African countries lack sufficiently strict approval rules for related-party transactions. In Kenya and Uganda, for example, it is sufficient for a board of directors to vote to approve related-party transactions, and the interested party is allowed to

FIGURE 7.2  
**Protecting investors: minority shareholder rights in related-party transactions**

Rankings are based on 3 subindicators

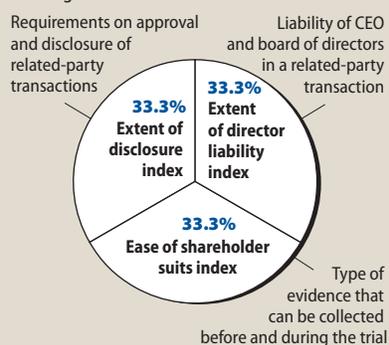


TABLE 7.1

### Where are investors protected—and where not?

	RANK
Rwanda	27
Kenya	93
Tanzania	93
Uganda	132
Burundi	154

Note: Rankings are based on the strength of investor protection index. See Data Notes for details. Source: *Doing Business* database.

participate in the process. Only Rwanda requires related-party transactions to be approved by a shareholders meeting where the interested party is not allowed to vote. Moreover, no country in East Africa requires immediate disclosure of the transaction to the public and shareholders, and only Burundi and Rwanda have regulations that require disclosure in periodic filings. Another important safeguard for transparency is a legal right for shareholders to request that an external body review a transaction before it takes place. This is not available in any of the 5 East African countries studied here. The second area of corporate governance analyzed by *Doing Business* is directors' liability for related-party transactions. Directors' accountability varies widely in East Africa. In Rwanda following a recent reform, it has become significantly easier to hold directors accountable for prejudicial related-party transactions. Under Rwanda's new company law, directors found liable for self-dealing must compensate the company for damages and repay any profits made from the transaction. In Tanzania and Uganda self-dealing directors are also required to compensate the company for damages, though they are not required to repay profits made from the transaction. In Burundi and Kenya current laws do not hold directors accountable for prejudicial related-party transactions.

Economies that rank high on investor protections grant shareholders broad powers when filing a suit regarding prejudicial related-party transactions. This is reflected in the ease of shareholder suits index, the third component of the strength of investor protection index. In East Africa, Kenya scores highest in this area. Kenya's regulations allow shareholders access to information both before and during a trial to determine directors' liability and grant shareholders the right to directly question the defendant and witnesses during the trial. But elsewhere in East Africa shareholders do not enjoy such powers. In Uganda, for example, shareholder plaintiffs cannot inspect transaction documents before filing a

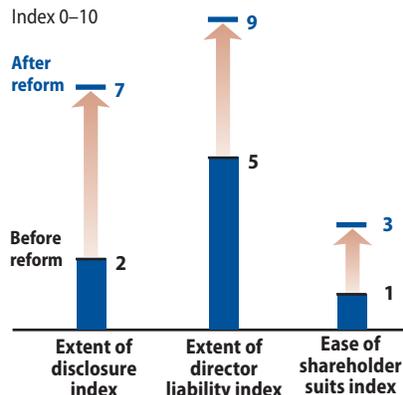
suit. During the trial they can access only documents specifically requested rather than entire categories of documents. In 4 East African countries good rules allow shareholders to appoint an independent inspector to investigate a related-party transaction. In Burundi, however, this is not possible.

#### WHO REFORMED IN 2008/09?

Around the globe, 10 economies strengthened investor protections in 2008/09—including 1 East African economy, Rwanda. Increasing disclosure requirements was once again the most popular reform feature, followed by regulating the approval process for related-party transactions.

Rwanda was the global top reformer. In April 2009 Rwanda's parliament adopted a new company law. The new law regulates conflicts of interest by requiring shareholder approvals for related-party transactions involving more than 5% of company assets. The law also introduces extensive requirements for disclosure of related-party transactions—to the board of directors and later in the company's annual report. And for the first time in Rwanda's legal history, the law sets out a

FIGURE 7.3  
Rwanda provides strong minority investor protections



Source: *Doing Business* database.

clear catalogue of directors' duties.

Rwanda's new law also makes it easier for shareholders to sue directors for prejudicial related-party transactions. As noted, if directors are found liable, they must compensate the company for damages and repay all profits made from the transaction. Also, minority shareholders can now access internal corporate documents, either directly or through a government inspector (figure 7.3).

While Rwanda was the only country in East Africa to reform in 2008/09, 2 other countries in Sub-Saharan Af-

#### BOX 7.1

##### Investor protection reforms in East Africa

Rwanda adopted a new company law in 2009 that requires greater corporate disclosure and provides shareholders with greater access to information. At the same time, directors' liability for misconduct was increased. The new law requires approval by the board of directors for a transaction between interested parties that represents less than 5% of the assets of the company—and approval by a shareholders meeting if such a transaction represents more than 5% of the assets. The new law specifically excludes interested parties from the approval process for transactions. In addition, the law makes it easier to sue interested directors in case of prejudicial transactions between interested parties by setting out a clear catalogue of directors' duties. Finally, the law allows minority investors access to any internal corporate document, either directly or through a government inspector, during a lawsuit.

Tanzania's new Companies Act, which came into effect in 2006, provides greater protections to minority shareholders by clarifying the duties of directors and increasing directors' liability. Now a director may be held personally liable for a company's debt. The act also prohibits tax-free payments or loans to a company's directors, its holding company or any connected persons. Finally, the new law introduces a statutory procedure for the removal of a director and requires that directors' service contracts be made available for inspection at the company's registered office.

Source: *Doing Business* database.

rica implemented reforms to strengthen minority shareholder rights, providing examples that may be useful to East African countries.

Sierra Leone adopted a new company law addressing both disclosure requirements for related-party transactions and directors' liability if such a transaction harms the company. Related-party transactions must now be approved by a shareholders meeting, and the interested party is not allowed to vote. Moreover, judges now have the power to rescind harmful related-party transactions.

Mali amended its civil procedure code in May 2009. Its new rules strengthen investor protections by increasing shareholders' ability to access internal corporate information during a trial to establish directors' liability.

## TOWARD SMART REGULATION

Reforms over the past 5 years show some common patterns. Reformers in Eastern Europe and Central Asia, the most actively reforming region, focused on increasing disclosure requirements and determining clear duties for directors (figure 7.4). In recent years several low-income economies took similar

TABLE 7.2

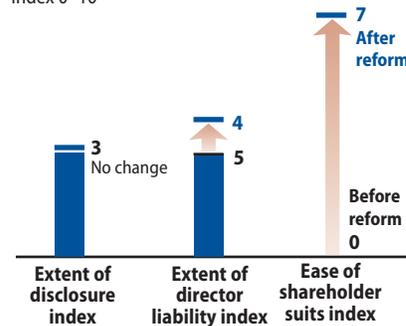
### Who provides strong minority investor protections—and who does not?

Extent of disclosure index (0-10)	
Rwanda	7.0
Burundi	4.0
Kenya	3.0
Tanzania	3.0
Uganda	2.0
Extent of director liability index (0-10)	
Rwanda	9.0
Uganda	5.0
Tanzania	4.0
Kenya	2.0
Burundi	1.0
Ease of shareholder suits index (0-10)	
Kenya	10.0
Tanzania	8.0
Uganda	5.0
Burundi	5.0
Rwanda	3.0

Source: Doing Business database.

FIGURE 7.4  
Tanzania provides strong minority investor protections

Index 0–10



Source: Doing Business database.

measures. Two examples are Rwanda and Sierra Leone, where new company laws strengthened disclosure requirements and increased directors' liability. Such reforms put into place much-needed legal protections without costing very much. The adoption of Rwanda's new company law cost \$250,000, including translation services and costs associated with the legislative process. In Sierra Leone one donor spent \$150,000 on technical assistance, communications and basic logistics in support of the country's new company law.

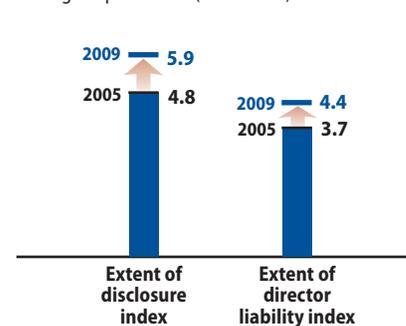
The following recommendations draw on experience with past reforms to strengthen investor protections.

## BROADEN DISCLOSURE REQUIREMENTS

Reforms aimed at increasing market transparency have focused on both internal and external disclosure requirements. Requirements for internal disclosure of related-party transactions call for notifying the company's board of directors (or supervisory board) and shareholders. Requirements for external disclosure include notifying the stock exchange or market regulator within 24–72 hours after the transaction takes place and then disclosing it in the company's annual report. Reforming governments have both broadened the scope and improved the quality of information that must be disclosed. In Rwanda, as noted, the new company law requires approval by shareholders for a transaction between

FIGURE 7.5  
Increased disclosure and directors' liability in Eastern Europe and Central Asia

Average improvement (index 0–10)



Source: Doing Business database.

interested parties that represents more than 5% of the assets of the company and approval by the board of directors for one that represents less than 5% of the assets. And in Indonesia and the Kyrgyz Republic, for example, directors must disclose the nature and amount of the transaction, explain the potential conflict of interest in detail and provide any other relevant information that could help the board or shareholders come to an informed decision.

But reformers need to watch out for potential legal loopholes allowing parties to bypass disclosure requirements. One red flag: references in laws to the "ordinary course of business." Economies may require extensive disclosure of related-party transactions, but if a questionable transaction is deemed part of the company's "day-to-day activities," disclosure provisions may not apply. If neither legislation nor case law adequately defines the "ordinary course of business," disclosure requirements could be of little use.

## SPELL OUT APPROVAL PROCESSES

Reformers that want to require the approval of related-party transactions have 2 options: approval by the board of directors (or supervisory board) or approval by the shareholders. Either way, interested directors should not be allowed to participate in the process—or should not have their votes counted.

In economies with large corporations, modern legal systems and good communications infrastructure, such as

France and Singapore, shareholder approval is the preferred route. In economies with smaller companies and fewer shareholders, the tendency is to create thresholds for approval of transactions. In Rwanda, as noted, the process for approval depends on whether a related-party transaction—or a group of such transactions—represents more or less than 5% of the company's assets. This model allows the company flexibility in conducting its day-to-day activities while ensuring that minority investors are involved in major decisions.

Many reforms focus on when approvals of related-party transactions are required. Under Rwanda's new company law, related-party transactions representing more than 5% of the company's assets must be approved at an extraordinary shareholders meeting. Meanwhile, laws in Cameroon and Senegal require that disinterested investors approve every transaction between a company and its directors. While this voting process may sound rigorous, neither Cameroon's nor Senegal's laws specify when disinterested investors must approve such transactions. In practice, the board of directors authorizes all related-party transactions during the fiscal year and waits for the annual shareholders meeting for approval. So shareholders may not vote on a transaction until months after it has taken place—and possibly already harmed the company.

Be clear about liability. Company directors are subject to strict rules and duties because they are fiduciaries. If

they manage a business properly, they are rewarded. If they fail to do so, they are responsible for the consequences.

When regulating directors' duties, governments generally follow 1 of 2 paths: Either they catalogue detailed rights and duties for company directors in their laws (the case in Mexico).<sup>2</sup> Or they create a special regime of liability for directors in case of prejudicial related-party transactions. In both approaches directors found liable for self-dealing must compensate the company for damages and repay profits made from the transaction.

Facilitate access to evidence. Minority shareholders are better protected when they can present a case before the court and expect the court to rule in a reasonable amount of time. But to make their case, they need access to evidence before and during the trial.

Reformers have made it easier for minority investors to gain access to internal corporate information before a trial, either directly or through a government inspector. For example, Mozambique and Rwanda allow shareholders access to any internal documents except corporate secrets. And if the management fails to provide sufficient information, shareholders can ask the court to appoint government inspectors with full powers to access all corporate documents. But some economies, such as the Democratic Republic of Congo, still lack laws allowing shareholders access to corporate information.

Other reformers have facilitated access to evidence during the trial. Mali did so by amending its procedural rules. Now lawyers representing investors can question defendants and witnesses directly, without needing prior approval from the judge.

- 
1. Djankov, La Porta, López-de-Silanes and Shleifer (2008).
  2. Johns and Lobet (2007).

# Paying taxes

For Juliana, the owner of Uganda's largest juice processing factory, having a simple tax system with standardized rates and payment channels would make doing business easier. But that's far from the reality of paying taxes in Uganda. Juliana has to contend with 32 payments cutting across 16 tax regimes, taking her a total of 161 hours each year. But Juliana could consider herself fortunate. Over in Kenya business owners are responsible for 41 separate tax payments cutting across 16 tax regimes, requiring a total of 417 hours each year. This need not be so. In Malawi only 19 tax payments are required. In Mauritius only 7 are. Taxes are almost always essential because governments need revenues to provide public services. Taxes provide for infrastructure, education and other services key to achieving the common goal of a prosperous, functional and orderly society. Many services, such as courts and land and company registries, very directly affect businesses.

The challenge for governments is to find a way to levy taxes that ensures public revenues while encouraging compliance. Businesses from around the world have identified taxation as an area in which they would most like to see their governments improve.<sup>1</sup> How governments raise revenues can make an important difference to business and growth. Faced with a cumbersome tax payment process, high tax rates and low quality of public service delivery, many businesses simply choose

to stay informal and not participate. This denies government much-needed revenue. In Burundi's capital, Bujumbura, the informal sector accounts for more than 75% of urban employment.<sup>2</sup> In Kenya, a recent survey shows, there are 3 times as many employees in the informal sector as in the formal sector.<sup>3</sup>

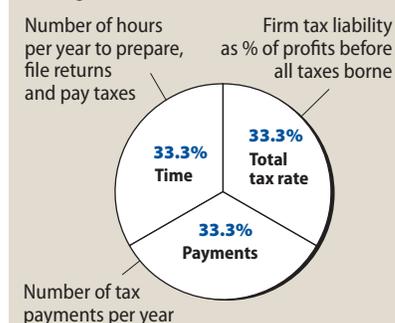
*Doing Business* measures the total tax burden borne by a standard small to medium-size enterprise as well as the number of payments and total time spent complying with tax laws in a given year (figure 8.1). With these indicators, *Doing Business* compares tax systems and tracks reforms around the world from the perspective of local small to medium-size businesses. It does not measure the fiscal health of economies, the macroeconomic conditions under which governments collect revenues or the provision of public services supported by taxation.

The dimensions of the tax burden on businesses matter for investment and growth. This is particularly important for East African countries, where the total tax rate as measured by *Doing Business* is about twice the global average. A recent study shows that a 10% increase in the effective corporate tax rate is associated with a decrease of up to 2% in the ratio of investment to GDP and a decrease of about 1% in the rate of business entry.<sup>4</sup> Other research suggests that a 1% increase in the statutory corporate tax rate reduces the local profits of existing investments by 1.31% on average<sup>5</sup> and

FIGURE 8.1

## Paying taxes: tax compliance for a local manufacturing company

Rankings are based on 3 subindicators



leads to an 18% increase in average debt-to-asset ratios.<sup>6</sup>

Corporate tax reform is integral to creating a true common market for the East African Community (EAC). As businesses expand to take advantage of the common market, moving their operations across borders, they need to know that the burdens of complying with different tax systems are not too onerous and that businesses from one partner state are not receiving more favorable tax treatment than businesses from another. EAC partner states can provide businesses with this kind of assurance by, for example, improving and aligning key tax compliance procedures—including those faced by small and medium-size enterprises—and thereby creating a level playing field across the region. Aligning procedures helps ensure that tax regimes do not distort economic decision making. The region's tax regimes should strive to create an investment climate that promotes the optimization of economic

TABLE 8.1

### Where is it easy to pay taxes—and where is not?

	RANK
Rwanda	60
Uganda	66
Burundi	116
Tanzania	119
Kenya	164

Note: Rankings are the average of the economy's rankings on the number of payments, time and total tax rate. See Data notes for details.

Source: *Doing Business* database.

resources. Furthermore, simplifying tax regimes for micro and small businesses helps reduce obstacles to formalization and encourages entrepreneurship. Good practices in tax administration already exist within the EAC. The reform process in East Africa should share good practices between partner states. Within East Africa, the Kenyan government is implementing an electronic tax filing system to facilitate tax compliance for businesses. This effort is being developed through the Kenya Revenue Authority's online portal. Electronic filing is now available for companies falling under the Large Taxpayers' Office. It is expected to be rolled out to small and medium-size enterprises in due course.

### CHALLENGES TO PAYING TAXES IN EAST AFRICAN COUNTRIES

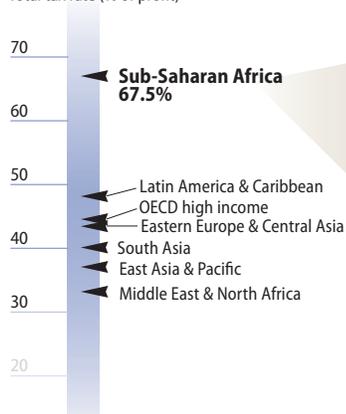
East African entrepreneurs face high tax burdens overall. The total tax rate is 88.1% on average, compared with a global average of 48.3% and Sub-Saharan Africa's regional average of 67.5%. Within Sub-Saharan Africa, East Africa is the sub-region with the second highest total tax rate (figure 8.2). This relatively high regional total tax rate is driven in part by Burundi, which until recently had an exceptionally large transaction tax of 250.4%. With Burundi's shift from a cascading sales tax system to a value added tax (VAT) system, the tax burden as measured by *Doing Business* is expected to fall substantially in subsequent years.

But businesses in other East African countries also face a high total tax rate as a result of the large number of taxes levied at the national and municipal levels. This is particularly so in Kenya. There is a uniform, statutory corporate income tax rate of 30% in Kenya, Rwanda, Tanzania and Uganda. But Kenya's total tax rate is 49.7%, compared with 31.3% in Rwanda. This difference is due largely to additional taxes in Kenya, including a single business permit for traders, a single business permit for manufacturers, apprentice tax, fuel tax, petroleum development duties, land rates and more.

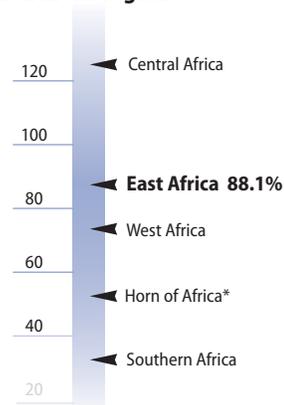
FIGURE 8.2

#### Overall tax burden still highest in Sub-Saharan Africa...

Total tax rate (% of profit)

Source: *Doing Business* database.

#### ... and East Africa with the 2nd highest tax burden in the region



\* The Horn of Africa includes Djibouti, Eritrea, Ethiopia and Sudan.

Differences in corporate tax incentive regimes also create regional variance in total tax rates. Look at depreciation rates for capital expenditures. For building investments, Kenya allows a straight line depreciation of 2.5%, while Rwanda allows 5%. For light machinery, Kenya allows a depreciation rate of 12.5%, while Tanzania allows 25%. Higher tax depreciation rates reduce a corporation's overall tax liability. Not surprisingly, with lower depreciation rates, the share of Kenya's corporate tax in the total tax rate (33.1%) higher than Tanzania's (19.9%), for example. Within the context of the EAC, it is important to address such differences in tax rates to prevent unfair competition. In addition to high tax rates, East African businesses are also burdened by a large number of required payments each year. To comply with tax regulations, domestic firms in East Africa make 37 tax payments and filings a year on average. In South Africa firms are responsible for only 9 payments and filings. Within East Africa, Tanzania requires the largest number of tax payments at 48 a year, followed by Kenya at 41. Meanwhile, Rwanda, Burundi and Uganda all require more than 30 payments. The high number of payments is due to both the number of different taxes and the frequency of payments and filings for them required by law. According to *Doing Business 2010*, labor taxes and mandatory contributions accounts

for the most payments in East Africa, followed by the VAT or sales tax. In Tanzania payroll tax, VAT and social security contributions each require monthly payments, for a total of 36 payments a year. In Burundi social security and sales taxes are paid monthly, and health insurance contributions quarterly, for a total of 28 payments a year. In Kenya, Rwanda and Uganda social security contributions are required each month, and in Kenya a training or apprentice tax is paid twice a year as well. These periodic payments add up and take a toll on businesses.

With multiple duties and periodic payments required, East African businesses spend many hours on taxes each year. In general, the greater the number of payments required, the more time businesses have to spend to comply with all tax requirements—especially when no automated systems are in place, as is the case in East Africa. Businesses in Tanzania, burdened with the highest number of payments in East Africa (48), also face one of the highest time requirements: they spend 172 hours a year on average preparing, filing and paying taxes. In only one East African country do businesses face higher time requirements: Kenya. Although Kenya requires fewer payments than Tanzania, the process for collecting Kenya's VAT is onerous for entrepreneurs, especially when it involves cross-border trade. Kenya insists that businesses pay VAT for imported services and then claim

## BOX 8.1

**Reforms in paying taxes in East Africa and the rest of Africa**

East African economies have lagged behind in tax reforms. Of the 185 tax reforms recorded globally by *Doing Business* since 2004, only 2 took place in East African countries—Tanzania and Rwanda. As recorded by *Doing Business 2006*, in July 2004 a new income tax law in Tanzania broadened the nation's tax base, closed various loopholes and introduced taxpayer self-assessments. Rwanda reduced its corporate income tax rate from 35% to 30% in January 2006 and allowed faster tax depreciation for certain fixed assets.

**Reducing tax rates—the most popular reform feature in 2008/09**

Reduced profit tax rates	Benin, Cape Verde, Sudan, Togo
Simplified process of paying taxes	Angola, Sierra Leone
Revised tax code	Sierra Leone, Sudan
Reduced labor tax or mandatory contribution rates	Benin
Eliminated taxes	Cameroon, South Africa, Sudan

In 2008/09, while East African economies recorded no significant tax reforms as measured by *Doing Business*, 8 Sub-Saharan African economies introduced measures to reduce the tax burden and ease tax compliance for domestic firms. Benin, Cape Verde, Sudan and Togo reduced the corporate income tax rate by 8.75 percentage points on average (see table). Benin also reduced its payroll tax, by 4 percentage points. Sudan enacted a new tax code, reduced the capital gains tax by 5 percentage points and abolished an additional tax on labor. South Africa abolished its stamp duty, and Cameroon exempted new companies from the business license tax for 2 years. Electronic filing became more popular across the region. Angola introduced an electronic system, making it easier to pay taxes. Sierra Leone eased tax compliance requirements and increased transparency through administrative reforms at its tax authority and through the publication of a consolidated income tax act, now available online.

Source: *Doing Business* database.

back the tax—unlike in Tanzania and Uganda, where businesses simply make book entries. Kenya's unique VAT withholding regime adds another step for compliance and has created a backlog for refunds. Not surprisingly, Kenya's VAT refund backlog is a perennial source of concern for businesses.

**TOWARD SMART REGULATION**

In the past 5 years *Doing Business* has recorded 2 major reforms in paying taxes in East African economies—reforms aimed at making compliance easier and the tax burden lighter for small and medium-size businesses. These 2 reforms were carried out in Tanzania and Rwanda (see box 8.1). Below are a number of other possible reform ideas that could contribute to this effort.

**MINIMIZE HARMFUL TAX COMPETITION AMONG EAC PARTNER STATES**

The East African economies have reached considerable harmonization in corporate income tax and VAT. There is a standard corporate income tax rate of 30% except in Burundi, where it is 35%. When Tanzania reduces its VAT to 18% (expected in the near future), 4 of 5 member states will have the same rate; Kenya has a lower standard rate of 16%.<sup>7</sup> But harmonization of tax rates is no panacea for businesses crossing borders in the EAC. In fact, the variation in tax rates within the European Union is larger, and it does not significantly impede a functioning common market. What may be more important is that tax procedures be similar throughout the EAC. Businesses need to know the steps required for tax compliance. Similar procedures also help minimize compli-

TABLE 8.2

**Where is paying taxes easy and where not—and where is the total tax rate highest and lowest?**

<b>Payments (number per year)</b>	
Uganda	32.0
Burundi	32.0
Rwanda	34.0
Kenya	41.0
Tanzania	48.0
<b>Time (hours per year)</b>	
Burundi	140.0
Rwanda	160.0
Uganda	161.0
Tanzania	172.0
Kenya	417.0
<b>Total tax rate (% of profit)</b>	
Rwanda	31.3
Uganda	35.7
Tanzania	45.2
Kenya	49.7
Burundi	278.6

Source: *Doing Business* database.

ance costs within the region.

Also critical to minimizing harmful tax competition is reducing the variation in tax incentives offered by partner states. This can be achieved through a greater harmonization of the effective tax rate borne by businesses in different countries—taking into account statutory tax rates as well as exemptions, holidays and incentives in place. Reduce the number of tax payments. In Burundi, complying with corporate income tax takes just 1 payment a year. In Uganda it requires 3 payments, and in Kenya, Rwanda and Tanzania it takes 5. Labor taxes and mandatory social contributions accounted for 24 payments a year in Tanzania, 16 in Burundi, 14 in Kenya and 12 in both Rwanda and Uganda.

Worldwide, economies where paying taxes is easiest tend to focus on 1 tax per tax base. But in East Africa 4 of 5 economies levy more than 1 tax on the same tax base (table 8.3). These 4 could combine taxes, especially those paid to the same tax entities. For payments now made monthly, tax authorities could explore the possibility of having them made quarterly. Of course, cash flow implications for both the firms and the govern-

TABLE 8.3  
**Four East African economies tax the same tax base more than once**

Economy	Tax	Payments (number)	Statutory tax rate (%)	TTR (% of profit)	Tax base
Burundi	Health insurance contribution	4	3.00%	3.38%	gross salaries
Burundi	Social security contributions	12	3.90%	4.40%	gross salaries
Kenya	Fuel tax - excise duty	1	KES 10.31 per liter	0.48%	fuel consumption
Kenya	Petroleum development duty	0	KES 0.4 per liter	0.02%	fuel consumption
Kenya	Road maintenance levy	0	KES 9 per liter	0.42%	fuel consumption
Rwanda	Accident insurance	0	2.00%	2.28%	gross salaries
Rwanda	Social security contributions	12	3.00%	3.42%	gross salaries
Tanzania	Labor tax	12	6.00%	6.77%	gross salaries
Tanzania	Social security contributions (NSSF)	12	10.00%	11.28%	gross salaries

Source: *Doing Business* database.

ments would need to be analyzed first. One idea would be to classify firms by sector and then stagger payments from different sectors so that payments come in with the same frequency as before. An alternative is to allow firms that prefer to reduce the number of payments to do so while letting those who find cash flow management easier with more frequent payments retain the current system. Such measures ensure that the cash flow needs of governments and businesses are met while easing tax compliance burdens. Reducing the number of payments and filings could be explored on a regional basis, to provide a harmonized approach for the EAC.

#### MAKE SYSTEMS ELECTRONIC

In Sub-Saharan Africa 5 of the 46 economies covered by *Doing Business*—Angola, Kenya, Mauritius, Mozambique and South Africa—offer electronic tax filing and payment options to businesses. Many other economies are eager to make use of technology for paying taxes—and with good reason. If properly implemented and adopted by businesses, electronic tax systems speed up processing, improve data collection and reduce error rates. But taxpayers can be slow to take up the new technology. First of all, in many developing economies limited access to the internet remains an obstacle. But that's not the only obstacle to adoption.

Critically, taxpayers need to trust a payment system to make it work. This requires high-quality security systems to protect data. Also required are laws addressing data protection, privacy concerns and electronic signatures. Electronic payment can be implemented in several ways, including through the internet. Another way is through automatic bank transfer—popular across all regions and income levels, mainly because taxpayers perceive it as less prone to security risks.

Another issue is access to time-saving software. South Africa provides free software that automates the filing process. Faster refunds and processing times for online transactions are key incentives to encourage the use of new technology. South Africa also waived late penalties for online filers in 2007.



1. PricewaterhouseCoopers (2008).
2. The information is from Bujumbura Centre (2009), which surveyed a panel of 1,600 households on employment in Bujumbura.
3. Ellis, Manuel and Blackden (2006).
4. Djankov and others (forthcoming).
5. Huizinga and Laeven (2008).
6. Huizinga, Laeven and Nicodème (2008).
7. Petersen (2009).

# Trading across borders

Bedi Investment Limited, a garment factory in Nakuru, Kenya, managed to obtain a large trial order for school items after pursuing it for 18 months. The order came from Tesco, one of the United Kingdom's largest retail chains. Tesco placed the order in March 2008, for delivery at the end of May. Difficulties bringing raw materials across borders delayed the start of production. As a result, Tesco agreed to extend Bedi's deadline to the first week of July, just in time to include the items in back-to-school promotions in August. Production was finished on time, and the goods arrived in Kenya's port city of Mombasa at the end of June, ready for shipment by July 5. But because of delays at the port, Bedi's goods didn't arrive in the United Kingdom until August, missing the key period for Tesco's school promotions. That effectively ended the trial relationship. Bedi lost out on a potentially lucrative business partner because it couldn't guarantee that orders would arrive on time.<sup>1</sup>

TABLE 9.1

## Where is trading easy—and where not?

	RANK
Mauritius	19
Tanzania	108
Uganda	145
Kenya	147
Rwanda	170
Burundi	175

Note: Rankings are the average of the economy's rankings on the documents, time and cost required to export and import. See Data Notes for details

Source: *Doing Business* database.

Where the trade environment is favorable, businesses are better positioned to take advantage of new opportunities, to grow and to create jobs. But in many economies cumbersome procedures, long delays and high costs stifle trade potential. In Burundi, for example, an exporter must spend 47 days completing all export formalities from the time the sales contract is signed until the goods are on the vessel. Meanwhile, an exporter in landlocked Belarus can ship goods in just a third of that time on average.

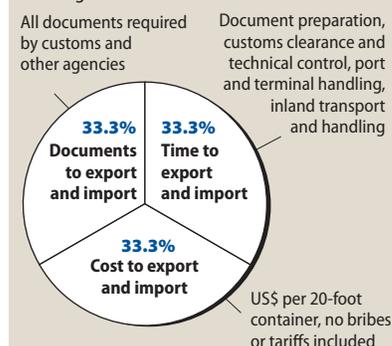
*Doing Business* measures the procedural requirements, including the number of necessary documents and the associated time and cost (excluding tariffs), for exporting and importing by ocean transport (figure 9.1). The indicators cover documentation requirements and procedures at customs and the port as well as inland transport to the largest business city. The more time consuming and costly it is to export or import, the more difficult it is for traders to be competitive in international markets.

Recent studies show that manufacturing enterprises in Africa have difficulty exporting because of poor customs administration and restrictive trade and customs regulations.<sup>2</sup> While much attention is paid to tariff cuts, better customs processes and trade logistics would also benefit African exporters. One recent study shows that if Ethiopia improved its logistics to be just half as good as South Africa's, the benefit to traders would be

FIGURE 9.1

## Trading across borders: exporting and importing by ocean transport

Rankings are based on 3 subindicators



equivalent to a 7.5% tariff cut.<sup>3</sup> Another finds that reducing the time to export in Sub-Saharan Africa by 10% could potentially increase trade by more than 6%. An OECD study finds that reducing delays at borders by 6.3%, or the number of documents required for trading by 11%, could increase trade flows in Africa by 10%.<sup>4</sup>

Another recent study shows that high trade transactions costs constrain the trade performance of African, Caribbean and Pacific economies negotiating Economic Partnership Agreements with the European Union. The study estimates that reducing border delays in these economies by 1 day could increase exports by 1%.<sup>5</sup> And a study using data from 167 countries finds that every \$1 reduction in trade costs could increase exports by more than \$1,000.<sup>6</sup>

The potential benefits from reforms are not limited to exporters. The public treasury could be a big winner. Ask Peter Malinga, commissioner of customs in Uganda. The country's efforts to improve its customs administration and reduce corruption helped increase customs revenue by 24% between 2007 and 2008. Trade facilitation reforms yield the greatest benefits when accompanied by reforms in other areas—such as business start-up or contract enforcement.<sup>7</sup>

Economies that rank high on the ease of trading across borders have found ways to make exporting and importing as efficient as possible. They require fewer documents, so traders spend less time

on bureaucratic approvals. They allow traders to submit those documents electronically, often even before the goods arrive at the port. They limit physical inspections to the riskiest cargo. And many have fast-track clearance procedures for selected companies, auditing their shipments only after clearance. More than 90 economies have adopted such practices over the past 5 years.

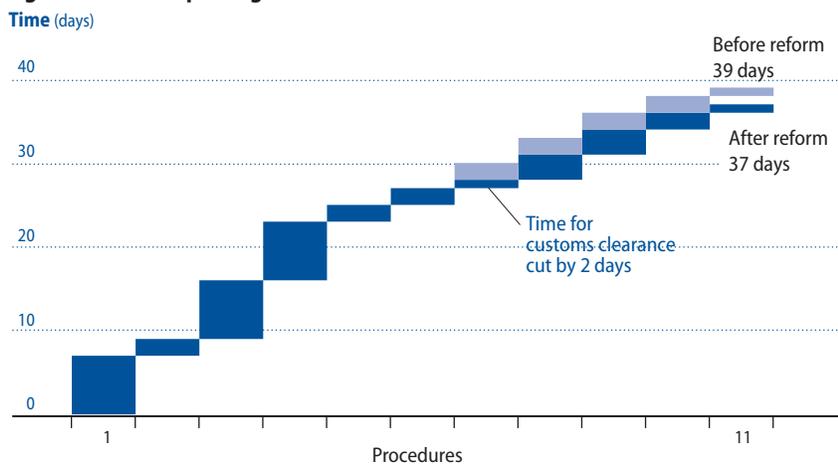
Recognizing the importance of an environment conducive to trade, members of the East African Community (EAC) have reformed trade practices. Indeed, some of the most active reformers in Sub-Saharan Africa are in the EAC region (box 9.1). In the 5 years since 2006, *Doing Business* has recorded trade reforms in 4 years for Rwanda, in 3 for Uganda (figure 9.2), in 2 for Kenya and in 1 for Tanzania. Burundi was the only EAC country with no reforms to better facilitate trade in this period.

## CHALLENGES TO TRADING IN EAST AFRICA

While recent reforms have helped, EAC members still face significant challenges in trade between themselves as well as with external partners. Within the region, the trading environment varies greatly. As measured by *Doing Business*, exporting takes an average of 24 days in Tanzania but 47 days in Burundi—nearly twice as long. And for the same consignment, while an exporter in Tanzania incurs a cost of \$1,262 for trade-related expenses (excluding ocean transport costs), a trader in Rwanda incurs a cost of \$5,070 on average. Although being landlocked creates its own logistical difficulties, not all trading problems stem from geography. While 5 documents suffice to clear goods in Tanzania, traders in landlocked Burundi and Rwanda must submit 4 additional documents. This adds to the complexity of trade.

East Africa lags behind other subregions, globally and within Sub-Saharan Africa. Compared with traders in West Africa, those in East Africa pay \$1,000 more for each export shipment on aver-

FIGURE 9.2  
Uganda makes exporting faster



Source: *Doing Business* database.

age and face an extra week in delays. Traders in southern Africa also have a competitive edge over those in East Africa. While a trader in Mauritius can expect to spend 14 days and \$737 to complete all export formalities, a trader in Kenya will need twice as much time and pay about 3 times the cost for the same shipment. According to a survey by the East African Business Council, 70% of clearing and forwarding agents in the EAC region consider customs to be slow. They business council estimates that customs delays cost truck drivers some 45,000 lost days each year and an extra \$2 million in bribes paid to customs officials to speed up the process.<sup>8</sup>

There are several main reasons for this unfavorable trading environment. First, even though there are legal instruments—within the framework of both the EAC and the Northern Corridor Transport and Transit Agreement—to facilitate trade, these regulations lack uniform interpretation and application across the region. For example, businesses report varying interpretations of customs procedures (such as rules of origin and valuations), and with no effective mechanism for dispute resolution, this limits the potential for intraregional trade.

Second, inspection regimes for cargo and transit trucks in the EAC are cumbersome. Even where risk-based inspection systems exist, the share of cargo

subjected to physical inspection remains high (more than 60% in some EAC countries), delaying clearance. Moreover, the lack of mutual recognition of inspection certificates forces traders to undergo repeated certification tests within the subregion. The inspection regimes are also hampered by the proliferation of road blocks and delays at weigh bridges. According to the latest estimates from the East African Business Council, roadblocks and delays at weigh bridges lead to the loss of 126,749 working days and \$7.9 million in expediting payments a year.<sup>9</sup>

But the public sector is not entirely responsible for the difficult trading environment. The private sector also plays a part. Some delays in the clearance process may stem from the entry of incorrect information. In many cases errors are due to a lack of knowledge of the rules and regulations. But in some cases shippers deliberately record inaccurate information to cover up trade in contraband or evade tariffs. Revenue authorities complain, for example, that shippers may declare goods intended for the domestic economy as being “in transit” so as to lower the tariffs due. And deceitful traders may exploit the information gap that exists between different customs services in the region because of the lack of an EAC-wide integrated customs system.

## BOX 9.1

**Reforms in trading across borders in East Africa**

Kenya embarked on its far-reaching Revenue Administration Reform and Modernization Program in 2005. Replacing its old customs system (Boffin) with a new one (Simba), Kenya modernized customs clearance. The new system allows traders to submit customs declarations electronically and pay duties directly. Selective postclearance verifications and risk analysis techniques save time by eliminating unnecessary inspections. And a new reward scheme for employees, based on performance targets for cargo clearance, better aligns employee compensation with clearance objectives.

In 2009 Rwanda border posts extended their operating hours by 4 hours, closing at 10:00 p.m. rather than 6:00 p.m. Customs increased the number of declaration acceptance points and introduced automatic clearance of goods at selected border posts. It also established a risk management and intelligence unit to implement new risk-based inspections and clearances. Prearrival clearances and prepayment systems have also been implemented.

Tanzania introduced UNCTAD's Automated System for Customs Data (ASYCUDA++) in 2005. Under this new system traders, inspection agencies and shippers can submit information directly to customs. The system has the potential to validate entries by users within minutes, thereby correcting erroneous entries and saving time. But much remains to be done to achieve effective functioning. Tanzania also introduced a risk management system. Risk assessments undertaken by the destination inspection company (TISCAN) can share information with port authorities and customs, reducing clearance times for most traders carrying low-risk cargo.

In Uganda a new secure system of seals for transit goods has been put into place in 2009. Seals placed at the point of entry are removed only at the point of exit, reducing the need for inspection at different stages of transit and thus saving time and money. Uganda's ASYCUDA++ system has been extended to enable electronic declarations at additional customs stations around the country. And in some stations (such as Busia) the ASYCUDA++ system has been linked with banks' payment systems so that traders can make payments at their banks, sending an electronic receipt to customs. Uganda has also implemented an electronic bond-cancellation system between border stations and a self-assessment module for customs duties. In addition, customs officials found to engage in corrupt practices are now promptly fired. To complement all these efforts, border cooperation at Malaba has been enhanced with the implementation of joint inspections by customs authorities from both Kenya and Uganda. .

*Source: Doing Business database.*

**TOWARD SMART REGULATION**

Here are some recommendations that can help address these challenges.

**STRENGTHEN COORDINATION AMONG CUSTOMS AUTHORITIES**

In recent years individual East African countries have made improvements to their customs systems. Kenya, Rwanda, Tanzania and Uganda have all implemented automated customs clearance systems, for example. At the regional level, however, the lack of an integrated customs system precludes the simultaneous sharing of information.

The EAC can learn from the example

of the European Union's New Computerized Transit System. The system allows the electronic exchange of messages between customs and economic operators or shippers and between the customs administrations of the 27 EU member countries. This speeds up clearances and ensures proper monitoring of transit trade within the EU. For example, the exchange of electronic messages means that customs offices and border posts have information about incoming cargo before it arrives. This eliminates the need to reenter information and allows customs to carry out a risk assessment before cargo arrives. In the EAC, thanks to recent advances in implementing the

Revenue Authorities Digital Data Exchange (RADDEx) system in individual member countries, a foundation already exists for building a regionwide system.

EAC trade would also benefit from the implementation of a region wide electronic cargo tracking systems. . Special transit cargo such as oil often has to be escorted in convoys. Sometimes truckers traveling in EAC countries have to wait 2 days before an escort from customs is ready to accompany a convoy to the border. This doesn't need to be the case. Jordan, a major transit country for goods going to the Middle East and North Africa, used to routinely use convoy escorts, leading to long delays and high trading costs. But a new practice of placing electronic seals and tracking devices on transit trucks eliminated the need to wait for an official escort. Now trucks can leave immediately. Any deviation of the truck from the official route can be detected by customs enforcement patrols. If implemented in East Africa, this transit system would eliminate the need for roadblocks on transit routes and save time for truckers. One study estimates that truckers traveling in East Africa encounter an average of 19 roadblocks per trip, adding 5 hours to the transit time.<sup>10</sup> Indeed, Kenya, Rwanda, Tanzania and Uganda are all working to establish electronic cargo tracking systems. It is important that these systems are well coordinated in order to achieve the maximum impact.

Operating joint border posts could also facilitate intraregional trade in the EAC. Today, most border posts require traders' goods to go through inspections at both the departing and the arriving border post. This wastes traders' time and money and spreads customs resources thin.

**DEVELOP AN EAC-WIDE SINGLE WINDOW**

Traders in East Africa may spend several hours, even days, chasing documents and approvals from various ministries, health authorities, security agencies, inspection agencies, port authorities, banks and im-

TABLE 9.2  
**Where is exporting easy—  
 and where not?**

Documents (number)	
Tanzania	5
Uganda	6
Kenya	9
Rwanda	9
Burundi	9
Time (days)	
Tanzania	24
Kenya	27
Uganda	37
Rwanda	38
Burundi	47
Cost (US\$ per container)	
Tanzania	1,262
Kenya	2,055
Burundi	2,747
Uganda	3,190
Rwanda	3,275

Source: Doing Business database.

migration officials. This maze of approvals can make the trading environment costly and cumbersome.

In recent years many countries facing similar situations have successfully introduced a single window for trade, bringing together relevant public and private sector operators at a single facility. Senegal brought together 15 agencies through its single-window system. Traders in Senegal now fill out a single form and receive all relevant approvals in one place. Kenya looked to technical expertise from Senegal to develop its own electronic data interchange (EDI) system to enable a single window for approvals. Other countries successfully implementing single-window systems in recent years include Ghana, Madagascar and Mauritius.

Adopting a single-window system should help reduce the paper documentation required in East Africa as electronic messages between agencies replace paper. For the greatest benefit, digitization efforts should extend across the EAC region. Several subregions have taken up the electronic challenge in recent years. Projects are under way to create single windows at the regional level for the Association of Southeast Asian

**Where is importing easy—  
 and where not?**

Documents (number)	
Tanzania	7
Uganda	7
Kenya	8
Rwanda	9
Burundi	10
Time (days)	
Kenya	25
Tanzania	31
Uganda	34
Rwanda	35
Burundi	71
Cost (US\$ per container)	
Tanzania	1,475
Kenya	2,190
Uganda	3,390
Burundi	4,285
Rwanda	5,070

Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC) members and EU members by 2014.

#### HARMONIZE REGULATIONS

To further boost trade in the EAC, bottlenecks arising from the lack of harmonization of regulations and practices at the regional level need to be addressed. For example, while border posts in Rwanda now operate until 10:00 p.m., those in neighboring Burundi still close at 4:00 p.m. Axle-load limits also differ by country. Kenya, Rwanda, and Uganda follow the Common Market for Eastern and Southern Africa (COMESA) limit of 18 tons, while Tanzania complies with the Southern African Development Community (SADC) limit of 16 tons. In addition, the lack of mutually recognized test certificates and quality certification marks causes delays because goods undergo repeated testing and inspection certification procedures at borders. It's no wonder that traders consider the lack of mutual recognition agreements a barrier to trade in the EAC.

#### MEASURE RESULTS

Countries where reforms succeed tend to regularly measure their progress. For example, regional trade among Balkan countries benefited from continual measurement of performance between 2000 and 2005. The Trade and Transport Facilitation in Southeast Europe program introduced a common system of performance monitoring for border control operations. The performance indicators were regularly made public, allowing customs administrations to benchmark their performance. The program also carried out independent surveys to measure user satisfaction with the pace and scope of customs modernization efforts. The results of these surveys were also made public.

Border control agencies found this continual performance measurement useful. It provided regular feedback so that authorities could identify and promptly make productive changes—and track progress. In FYR Macedonia traders' average waiting times dropped from 5.2 hours to 0.6. In Albania they fell from 4.5 hours to 1.2. And customs revenue collection rose sharply. Between 2000 and 2004 revenue climbed by 298% in Romania and by 178% in Bulgaria.

EAC countries could similarly benefit from monitoring and reporting performance across the region. Many accords have already been signed to strengthen regional trade in East Africa. Measuring their impact could help.

1. Bedi (2009).
2. Iwanow and Kirkpatrick (2007) and Rajan and Clark (2005).
3. Portugal-Perrez and Wilson (2008).
4. Wilson (2008).
5. Person (2008).
6. Martinez-Zarzosa and Márque-Ramos (2008).
7. Iwanow and Kirkpatrick (2007) and Rajan and Lee (2007).
8. East African Business Council (2008).
9. East African Business Council (2008).
10. East African Business Council (2008).

# Enforcing contracts

The efficiency of courts varies greatly around the world. Enforcing a contract can take less than a year in Singapore and Rwanda but more than 2 years in Burundi and Suriname. Worldwide, exchanging written and oral arguments, including expert testimony during trial, takes almost two-thirds of the total time on average. Enforcing the judgment takes about a third of the time. This step accounts for 17% of the total cost, while court and expert fees account for about the same share. Attorney fees are the biggest driver of cost.

Recent research shows that a country's ability to enforce contracts is an important determinant of its comparative advantage in the global economy: among comparable economies, those with good contract enforcement tend to produce and export more customized products than those with poor contract enforcement.<sup>1</sup>

*Doing Business* measures the time, cost and procedural complexity of resolving a commercial lawsuit between 2 do-

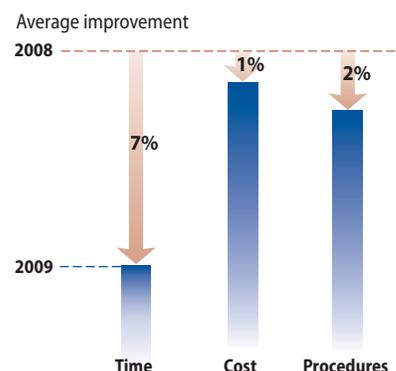
mestic businesses. The dispute involves the breach of a sales contract worth twice the income per capita of the economy. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement.

## WHO REFORMED IN 2008/09?

Sixteen economies made it faster, cheaper or less cumbersome to enforce a contract through the courts in 2008/09 (figure 10.1). The reforms included comprehensive reviews of civil procedure rules, programs to reduce case backlogs, redistributions of caseloads and the introduction or expansion of computerized case management systems. No country in East Africa reformed in 2008/09, though Rwanda had carried out reforms in previous years (box 10.1). But East African countries may learn from the reform experiences in other countries of Sub-Saharan Africa.

Botswana was the global top reformer in 2008/09. New rules for its high court, in force since mid-2008, reduced the average time to resolve a commercial dispute by 30%, from 987 days to 687. The rules introduced pretrial conferences, leading to faster resolution. Judges no longer merely hear cases but actively manage them, setting a timetable and ensuring compliance. A sophisticated new computerized case management system makes it easy to keep close tabs

FIGURE 10.1  
Reformers reduce the time to enforce a contract in 2008/09



Note: Based on average improvement of the 16 reforming economies. Source: *Doing Business* database.

on whether court personnel and litigants are complying with deadlines. The system also allows court officers to dismiss “aged matters”—cases in which litigants have remained inactive for long periods.

Ethiopia was the runner-up reformer. It reduced the average time to resolve a commercial dispute by 10%—and rose 13 places in the rankings on the ease of enforcing contracts. The Ethiopian courts are implementing a backlog reduction program with a new twist: the traditional summer recess is now devoted to disposing of backlogged cases. Two-thirds of judges volunteered to hear cases during special summer sessions.

Like Botswana, Ethiopia now has a computerized case management system that helps to sustain court improvements. In the capital, Addis Ababa, an automated system allows users to search

TABLE 10.1

## Where is enforcing contracts easy—and where not?

	RANK
Tanzania	31
Rwanda	40
Uganda	116
Kenya	126
Burundi	172

Note: Rankings are the average of the economy's rankings on the procedures, time and cost to resolve a commercial dispute through the courts. See Data Notes for details. Source: *Doing Business* database.

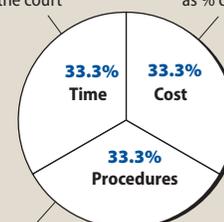
FIGURE 10.2

## Enforcing contracts: resolving a commercial dispute through the courts

Rankings are based on 3 subindicators

Days to resolve commercial sale dispute before the court

Attorney, court and enforcement costs as % of claim value



Steps to file claim, obtain judgment and enforce it

## BOX 10.1

**Reforms in enforcing contracts in East Africa**

Since 2006, Rwanda improved its court system by tightening deadlines for appeal, prohibiting interlocutory appeals and allowing its supreme court to decide the substance of a case rather than reversing the case and sending it back to the lower court. In addition, Rwanda instituted a single-judge system rather than requiring 3 judges to decide a case, and required that all judges hold a law degree. It also limited access to courts by requiring that cases be forwarded to obligatory conciliation committees and allowing parties to use arbitration.

In Burundi a new code of civil procedure adopted in 2004 introduced summary proceedings for uncontested claims (see figure). The deadline to appeal a judgment was reduced from 60 months to 30 months after notification of the judgment. Under the new Law on the Organization and Jurisdiction of Courts adopted in 2005, the maximum contested value for commercial cases that can come before the lower courts was raised from \$300 to \$1,000. Advice from a public prosecutor is no longer required in commercial matters. And 1 judge, not 3, will deal with enforcement of judgments.

Source: *Doing Business* database.

**Burundi makes enforcing contracts faster**

for cases more easily. Anyone can access the court schedule—online, over the telephone or from a touch screen at the court building. The system produces real-time data on the number of cases assigned to each court chamber, making it possible to measure the performance of judges, chambers and courts across the country. Over time, the data collected will help determine which courts have heavier caseloads and thus guide the allocation of resources.

**TOWARD SMART REGULATION**

In the past 6 years *Doing Business* has recorded 97 reforms in enforcing contracts. Policy makers often assume that judicial reform takes years and costs millions of dollars. Saudi Arabia, for example, plans to spend almost \$2 billion to upgrade its court system in the coming years. But greater court efficiency can often be achieved through simple, targeted measures. An initial analysis of the process of taking a commercial case through the court system, along with

collection of court statistics, helps focus reform efforts. Related consultancy fees range from \$80,000 to \$500,000, depending on the size of the judicial system and the quality of the data.

It can make sense to establish new commercial courts to expedite business cases if there are enough cases to warrant a separate court. Uganda did so and invested \$1.5 million. Nigeria and Tanzania each spent \$10 million on setting up new commercial courts. Where there are only a limited number of commercial cases, specialized commercial sections of the courts provide a less expensive alternative.

The following are some suggestions on ways to make enforcing contracts easier.

**UPDATE CLAIM THRESHOLDS**

Most economies distribute the responsibilities of first-instance courts to ensure more efficient processing of cases. Of the 183 economies covered by *Doing Business*, 128 operate a 2-tiered civil court system. Depending on the litiga-

tion value of the claim and, in some cases, the subject matter, first-instance cases go either to a lower court—often the magistrate's court, city court or justice of the peace—or to a higher court. Some economies further divide lower and higher jurisdictions. Kenya's magistrate's court has 5 levels.

Where economies draw the line between their lower and higher courts differs starkly. The thresholds range from \$240 in Guyana to \$45,000 in Australia—and from just one-eighth of income per capita in the Dominican Republic, Germany and the Netherlands to 4 times income per capita in Papua New Guinea. Globally, higher courts deal with cases above 126% of income per capita on average.

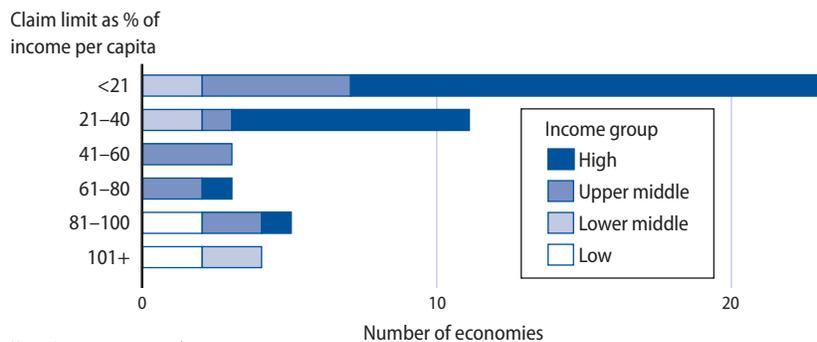
Regardless of the level, thresholds should be updated regularly to ensure that the workload is distributed as initially intended. With economic growth and inflation, monetary thresholds can quickly become outdated, and higher jurisdictions overburdened. Some reforming economies have recently adjusted monetary thresholds. In 2007 Tonga quintupled the threshold for cases assigned to magistrates. In 2009 Jordan more than doubled the threshold for its lower court. The United Kingdom raised the minimum threshold for its high court from £15,000 to £25,000.

**RELY ON SMALL CLAIMS COURTS**

Simple commercial disputes can often be resolved in small claims courts, lessening the burden on higher-instance courts. Simplified procedural rules help speed up trial and judgment. These include the use of standard forms to file claims, oral proceedings and limits on types of evidence and on cross-examinations. Small claims courts also oblige judges to issue a decision shortly after concluding a hearing.

Small claims courts exist in 48 of the 183 economies covered by *Doing Business*. They deal with claims ranging from as little as \$200 in India to as much as \$21,000 in Korea. Most economies with small claims courts fix the threshold at

FIGURE 10.3

**Most economies limit small claims filings to equivalent of 20% or less of income per capita**

Note: 48 economies surveyed.  
Source: Doing Business database.

20% or less of income per capita (figure 10.3). In Korea more than 70% of civil suits are decided under the small claims procedure.<sup>2</sup> The process of resolving a commercial dispute in the capital, Seoul, is one of the fastest in the world, taking 230 days on average.

Small and medium-size businesses can especially benefit from small claims courts. Recognizing this, in January 2009 the European Union issued a new regulation to create a small claims procedure for cross-border cases of less than €2,000. The measure is aimed at tackling inefficient debt enforcement, one of the “major reasons threatening the survival

of businesses, particularly small and medium-sized enterprises, and resulting in numerous job losses.”<sup>3</sup> Use benchmarks to guide reforms

Global comparisons can help determine time limits and assess resource needs. Take the appeals process. In 71% of the economies in the *Doing Business* sample, a judgment creditor knows within a month of the first judgment whether the debtor is appealing. In 31 economies, mainly in Sub-Saharan Africa, the law allows debtors more than a month to appeal. Judgment creditors have their patience tested in Cameroon, The Gambia and Nigeria, where debtors have 3 months to lodge an appeal.

A global comparison of the number of judges involved in the standardized case measured by *Doing Business* is also informative. In most economies just 1 judge would be assigned to this simple commercial case. But in roughly 10% of economies the law requires 3 judges to hear the case. While additional judges can add value to the decision-making process, many commercial cases, particularly routine ones, can be handled by a single judge. This was recognized by Rwanda in a 2006 reform.

TABLE 10.2

**Who makes enforcing contracts easy—and who does not?**

Procedures (number of steps)	
Rwanda	24
Tanzania	38
Uganda	38
Kenya	40
Burundi	44
Time (days)	
Rwanda	260
Tanzania	462
Kenya	465
Uganda	510
Burundi	832
Cost (% of claim)	
Tanzania	14.30
Burundi	38.60
Uganda	44.90
Kenya	47.20
Rwanda	78.70

Source: Doing Business database.

**MAKE LEGAL INFORMATION PUBLIC**

Readily available information on the law, and on the courts’ interpretation of the law, benefits both the general public and the courts. Public information makes the law more predictable. It can also help potential parties to a lawsuit find a satisfactory out-of-court solution, which helps reduce the workload of the courts.

Today, 104 economies make legal texts and recent court judgments available to the general public. But more than 30 economies, most of them low-income economies in Sub-Saharan Africa, still do not provide access to such information.

1. Nunn (2007).
2. Supreme Court of Korea, “Proceedings,” <http://eng.scourt.go.kr>.
3. Directive 2000/35/EC of the European Parliament and of the Council of 29 June 2000 on Combating Late Payment in Commercial Transactions, <http://eur-lex.europa.eu/>.

# Closing a business

Perhaps no business regulations have been more tested by the global financial and economic crisis than those relating to insolvency. Bankruptcies have increased sharply, and policy makers around the world are debating whether existing insolvency laws and regulations can adequately respond—or whether more needs to be done.

History shows that financial crises can provide good opportunities for bankruptcy reforms.<sup>1</sup> In times of recession, keeping viable companies operating as going concerns helps preserve much-needed jobs. The Great Depression prompted the first comprehensive reform of U.S. bankruptcy law in 50 years. Under the Chandler Act of 1938, the predecessor of today's Chapter 11, bankruptcy was no longer synonymous with liquidation. Instead, troubled firms had a chance to reorganize and to survive difficult times. The 1938 reform also established the authority of bankruptcy administrators, vesting them with powers to help effect reorganizations.

TABLE 11.1  
**Where is it easy to close a business—and where not?**

	RANK
Uganda	53
Kenya	79
Tanzania	113
Burundi	NO PRACTICE
Rwanda	NO PRACTICE

Note: Rankings are based on the recovery rate: how many cents on the dollar claimants (creditors, tax authorities and employees) recover from the insolvent firm. See Data Notes for details.  
Source: *Doing Business* database.

Similarly, the 1997 Asian financial crisis spurred efforts across East Asia to restructure national bankruptcy procedures. Before 1998 Korea and Thailand had outdated and inadequate procedures that were rarely used. So the laws were never really tested under normal economic circumstances. When illiquidity spread across the region in 1997–98, the entire financial sector was dragged down and liquidations became widespread. Korea and Thailand modified their laws to favor rehabilitation of distressed firms.<sup>2</sup>

Ineffective procedures for dealing with insolvency can deepen and prolong a crisis. Effective procedures can speed recovery: viable businesses are restructured and nonviable ones are quickly liquidated (figure 11.2). Resources can be reallocated and remobilized.

If history is any guide, we might expect to see more insolvency reforms in the next few years. The demand for reform may increase if the effects of the crisis intensify and as governments see their insolvency regimes tested under difficult conditions.

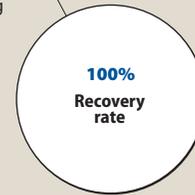
To measure the ease of closing a business, *Doing Business* studies the time, cost and outcomes of bankruptcy proceedings involving domestic entities. Speed, low cost and the continuation of viable business operations characterize the top-performing economies. In these economies viable businesses are more likely to be sold or reorganized as a going

FIGURE 11.1

## Closing a business: time, cost and outcome of bankruptcy of a local company

Rankings are based on 1 subindicator

Recovery rate is a function of time, cost and other factors such as lending rate and the likelihood of the company continuing to operate



Note: Time and cost do not count separately for the ranking.

concern rather than liquidated through piecemeal sales. Economies with efficient insolvency regimes achieve higher recovery rates than those without such systems. *Doing Business* does not measure the bankruptcy proceedings of financial institutions, which normally are not subject to bankruptcy laws.<sup>3</sup>

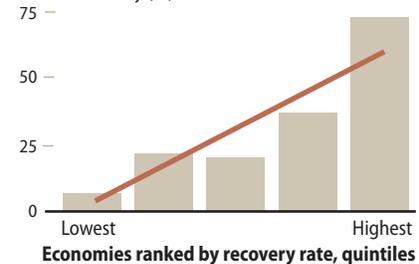
## WHO REFORMED IN 2008/09?

Eighteen economies strengthened their bankruptcy regime in 2008/09. In East Africa, Rwanda was the only country to reform in 2008/09, though Burundi carried out reforms in 2007 (Box 11.1). Rwanda improved its process of dealing with distressed companies through a new law designed to streamline reorganization procedures, allowing viable distressed firms to continue operating.

FIGURE 11.2

## Higher recovery rates associated with greater business density

Business density (%)



Note: Business density is the number of registered corporations divided by the working-age population. Relationships are significant at the 1% level and remain significant when controlling for income per capita. The data include 76 economies.  
Source: *Doing Business* database; World Bank Group Entrepreneurship Survey, 2008.

## BOX 11.1

**Reforms in closing a business in East Africa**

Besides Rwanda, which reformed in 2008/09, Burundi also carried out comprehensive bankruptcy reforms recently. In 2007 Burundi adopted its first bankruptcy law since independence in 1962. The National Assembly adopted 2 laws on bankruptcy and judicial concordat of enterprises in distress. The reform:

- Gives commercial courts jurisdiction over bankruptcy
- Sets more detailed guidelines for the administrator and trustees
- Sets time limits for dismissing the manager, registering creditors' claims, giving notice, closing creditors' claims, filing appeals, appointing trustees, deciding whether to assume or reject contracts and calling the creditors' assembly
- Grants judges the power to convene a creditors' assembly under any circumstances
- Requires the submission of regular reports on the status of each bankruptcy
- Allows liquidation to proceed upon appeal
- Clarifies procedural rules concerning the creditors' assembly
- Clarifies penalties for bankrupt debtors

Source: *Doing Business* database.

Rwanda's new law also sets clear time limits on insolvency procedures and regulates the profession of bankruptcy administrators.

Besides Rwanda's efforts, reforms carried out elsewhere in Sub-Saharan Africa could also provide useful insights for East African countries. Globally, Malawi was the top reformer in closing a business in 2008/09. Its Companies Regulation 2009 took effect on June 1, 2009. The new regulation sets a cap on liquidators' fees: 5% of the value of the estate. Before, liquidators had the discretion to set their own fees, usually at around 10% of the value of the estate. The overall cost of the insolvency procedure in Malawi fell from 30% of the value of the estate to 25%, and the mechanism for payment of liquidators has become more transparent.

Mauritius passed a new insolvency law, establishing a rehabilitation procedure for companies as an alternative to winding up. The law sets clear time limits, defines the rights and obligations of creditors and debtors and outlines sanctions for those who abuse the system. Sierra Leone passed a new company act that makes a reorganization procedure available to companies.

**TOWARD SMART REGULATION**

Nonviable businesses need a path of orderly exit, but often confront obstacles in the form of overburdened courts, unqualified liquidators and rigid laws. And viable firms need a supporting regime allowing them to successfully reorganize—important for sustaining economic growth and preserving jobs. Governments can help by encouraging firms to seek preinsolvency solutions, by improving the efficiency of courts and by training receivers and liquidators to do a good job in administering distressed companies and selling their assets efficiently. *Doing Business* has recorded 76 reforms making it easier to close a business in the past 6 years. Below is some advice for would-be reformers based on past successes.

**FACE REALITY EARLY ON**

Debtors should not wait until it is too late to save the company. In economies where reorganization functions well, companies typically file for bankruptcy just a couple of weeks after default. Many economies, particularly those with old bankruptcy regimes, could save more companies by getting debtors to face reality early on.

One way policy makers can encourage businesses to seek timely solutions is to expand the grounds on which compa-

nies suffering financial problems can file for reorganization. The law should allow debtors to file for reorganization when facing financial distress rather than requiring that they wait for the much worse situation of insolvency.

Requiring debtors to file for insolvency as soon as they default or as soon as default is imminent is another way to encourage companies to face reality before it is too late. In Poland and Spain, filing for bankruptcy too late can subject a company's management to penalties. In 2008 Uruguay's new bankruptcy law introduced an obligation for management to file within 30 days of learning of the company's insolvency. If implemented well, this provision will reduce delays.

Creating a framework for prepackaged reorganizations can help keep companies operating as a going concern. Italy and Korea introduced prepackaged reorganizations in 2006/07. Now a firm can negotiate a reorganization plan with its creditors before filing for bankruptcy. Once it reaches an agreement with the required majority of creditors, the firm files for bankruptcy and asks the court to approve its reorganization plan. Once the court approves, the deal is imposed on any creditors still holding out. The advance negotiations with creditors clear the way for quickly scheduling a court hearing, allowing a rapid exit from bankruptcy.<sup>4</sup>

**SPEED UP COURT PROCEDURES**

Once an insolvency case is brought before the court, a timely resolution becomes essential, especially if the aim is to save the company. Proceedings that end with an efficient outcome—the firm continuing to operate or being sold as a going concern—go through the insolvency process in less than 2 years.

The court systems in many economies lack the infrastructure, training and technical expertise to resolve commercial disputes in a timely manner. In the coming years growth in the number of bankruptcy filings could further strain the capacity of courts, increasing their risk of becoming overwhelmed. But some

TABLE 11.2  
**Where is it easy to close a business—  
 and where not?**

Time (years)	
Uganda	2.17
Tanzania	3.00
Kenya	4.50
Burundi	NO PRACTICE
Rwanda	NO PRACTICE
Cost (% of estate)	
Tanzania	22.0%
Kenya	22.0%
Uganda	29.5%
Burundi	NO PRACTICE
Rwanda	NO PRACTICE

Source: Doing Business database.

economies have recently introduced specialized bankruptcy courts to deal more efficiently with insolvency procedures. Others have introduced time limits. For example, in 2008 Albania started requiring that judges at the main commercial court, the Tirana district court, issue a decision on the initiation of insolvency procedures within 30 days.

### TRAIN ADMINISTRATORS

Receivers and liquidators play essential roles in insolvency procedures. Receivers take part in managing debtor companies, either replacing management or coadministering with it. Liquidators are in charge of selling the assets of nonviable companies. Many economies have launched reforms to ensure that both professions have adequate business and educational qualifications and are well supervised.

In 2008/09 Albania, Colombia and Russia adopted regulations imposing licensing requirements for receivers. In June 2006 FYR Macedonia created a chamber of bankruptcy trustees and implemented a licensing regime. In 2005 Chile established a system to ensure rigorous surveillance by the bankruptcy commissioner and to link receivers' fees to the proceeds realized from asset sales. In 2007 Mauritius allowed the sale of assets by private contract or through the submission of sealed offers. The aim is to encourage trustees to sell distressed assets quickly, maximizing returns.

1. Gine and Love (2008).
2. Carruthers and Halliday (2007).
3. Djankov (2009a).
4. Djankov (2009b).

# Ease of doing business

The ease of doing business index ranks economies from 1 to 183. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 10 topics covered in *Doing Business 2010*, that is, exclusive of the electricity pilot data. The ranking on each topic is the simple average of the percentile rankings on its component indicators (table 12.1).

If an economy has no laws or regulations covering a specific area—for example, bankruptcy—it receives a “no practice” mark. Similarly, an economy receives a “no practice” or “not possible” mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a “no practice” mark puts the economy at the bottom of the ranking on the relevant indicator.

Here is one example of how the ranking is constructed. In Iceland it takes 5 procedures, 5 days and 3% of annual income per capita in fees to open a business. The minimum capital required amounts to 15.8% of income per capita. On these 4 indicators Iceland ranks in the 14th, 4th, 19th and 67th percentiles. So on average Iceland ranks in the 26th percentile on the ease of starting a business. It ranks in the 50th percentile on protecting investors, 38th percentile on trading across borders, 8th percentile on enforcing contracts, 8th percentile on closing a business and so on. Higher rankings indicate simpler regulation and

stronger protection of property rights. The simple average of Iceland’s percentile rankings on all topics is 25%. When all economies are ordered by their average percentile rank, Iceland is in 14th place.

More complex aggregation methods—such as principal components and unobserved components—yield a nearly identical ranking.<sup>1</sup> The choice of aggregation method has little influence on the rankings because the 10 sets of indicators in *Doing Business* provide sufficiently broad coverage across topics. So *Doing Business* uses the simplest method.

The ease of doing business index is limited in scope. It does not account for an economy’s proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders), the strength of the financial system, the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the context of an economy. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

*Doing Business* also uses a simple method to calculate the top reformers. First, it selects the economies that re-

formed in 3 or more of the 10 *Doing Business* topics. This year 38 economies met this criterion: Afghanistan, Albania, Algeria, Angola, Armenia, Bangladesh, Belarus, Burkina Faso, Cameroon, Colombia, the Czech Republic, Egypt, Ethiopia, Guatemala, Honduras, Hong Kong (China), Indonesia, the Islamic Republic of Iran, Jordan, Kazakhstan, the Kyrgyz Republic, Liberia, FYR Macedonia, Mali, Mauritius, Moldova, Montenegro, Peru, the Philippines, Poland, Portugal, Russia, Rwanda, Sierra Leone, Singapore, Tajikistan, the United Arab Emirates and the Republic of Yemen. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

1. See Djankov and others (2005).

TABLE 12.1

## Which indicators make up the ranking?

<b>Starting a business</b>	<b>Protecting investors</b>
Procedures, time, cost and paid-in minimum capital to open a new business	Strength of investor protection index: extent of disclosure index, extent of director liability index and ease of shareholder suits index
<b>Dealing with construction permits</b>	<b>Paying taxes</b>
Procedures, time and cost to obtain construction permits, inspections and utility connections	Number of tax payments, time to prepare and file tax returns and to pay taxes, total taxes as a share of profit before all taxes borne
<b>Employing workers</b>	<b>Trading across borders</b>
Difficulty of hiring index, rigidity of hours index, difficulty of redundancy index, redundancy cost	Documents, time and cost to export and import
<b>Registering property</b>	<b>Enforcing contracts</b>
Procedures, time and cost to transfer commercial real estate	Procedures, time and cost to resolve a commercial dispute
<b>Getting credit</b>	<b>Closing a business</b>
Strength of legal rights index, depth of credit information index	Recovery rate in bankruptcy

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# *Doing Business* Indicators

	Burundi	Kenya	Rwanda	Tanzania	Uganda
Ease of doing business (global rank)	176	95	67	131	112
<b>STARTING A BUSINESS</b>	130	124	11	120	129
Procedures (number)	11	12	2	12	18
Time (days)	32	34	3	29	25
Cost (% of income per capita)	151.6	36.5	10.1	36.8	84.4
Min. capital (% of income per capita)	0	0	0	0	0
<b>DEALING WITH LICENSES</b>	172	34	89	178	84
Procedures (number)	22	11	14	22	16
Time (days)	212	120	210	328	143
Cost (% of income per capita)	7,968.2	161.7	456.1	3,281.3	584
<b>EMPLOYING WORKERS</b>	88	78	30	131	7
Difficulty of hiring index	0	22	11	100	0
Rigidity of hours index	53	0	0	13	0
Difficulty of firing index	30	30	10	50	0
Firing costs (weeks of wages)	26	47	26	18	13
<b>REGISTERING PROPERTY</b>	118	125	38	145	149
Procedures (number)	5	8	4	9	13
Time (days)	94	64	60	73	77
Cost (% of property value)	6.3	4.2	0.5	4.4	3.5
<b>GETTING CREDIT</b>	167	4	61	87	113
Strength of legal rights index (1–10)	1	4	2	0	0
Depth of credit information index (1–6)	2	10	8	8	7
Public registry coverage (% of adults)	0	2.3	0	0	0
Private bureau coverage (% of adults)	0.2	0	0.4	0	0
<b>PROTECTING INVESTORS</b>	116	164	59	119	65
Disclosure index	4	3	7	3	2
Director liability index	1	2	9	4	5
Shareholder suits index	5	10	3	8	5
Investor protection index	3.3	5	6.3	5	4
<b>PAYING TAXES</b>	154	93	27	93	132
Payments (number)	32	41	34	48	32
Time (hours)	140	417	160	172	161
Total tax rate (% of profit)	278.6	49.7	31.3	45.2	35.7
<b>TRADING ACROSS BORDERS</b>	175	147	170	108	145
Documents for export (number)	9	9	9	5	6
Time for export (days)	47	27	38	24	37
Cost to export (US\$ per container)	2,747	2,055	3,275	1,262	3,190
Documents for import (number)	10	8	9	7	7
Time for import (days)	71	25	35	31	34
Cost to import (US\$ per container)	4,285	2,190	5,070	1,475	3,390
<b>ENFORCING A CONTRACT</b>	183	79	183	113	53
Procedures (number)	44	40	24	38	38
Time (days)	832	465	260	462	510
Cost (% of debt)	38.6	47.2	78.7	14.3	44.9
<b>CLOSING A BUSINESS</b>	172	126	40	31	116
Time (years)	NO PRACTICE	4.5	NO PRACTICE	3	2.2
Cost (% of estate)	NO PRACTICE	22	NO PRACTICE	22	30
Recovery rate (cents on the dollar)	0	31.6	0	21.3	41.1

# Country tables

## COUNTRY PROFILE

**Burundi**

Ranking

**BURUNDI**

Sub-Saharan Africa

Low income

Ease of doing business (rank)	176
GNI per capita (US\$)	135
Population (m)	8.1

**Starting a business (rank)**

130

Procedures (number)

11

Time (days)

32

Cost (% of income per capita)

151.6

Minimum capital (% of income per capita)

0

**Dealing with construction permits (rank)**

172

Procedures (number)

22

Time (days)

212

Cost (% of income per capita)

7,968.2

**Employing workers (rank)**

88

Difficulty of hiring index (0-100)

0

Rigidity of hours index (0-100)

53

Difficulty of redundancy index (0-100)

30

Rigidity of employment index (0-100)

28

Redundancy cost (weeks of salary)

26

**Registering property (rank)**

118

Procedures (number)

5

Time (days)

94

Cost (% of property value)

6.3

**Getting credit (rank)**

167

Strength of legal rights index (0-10)

2

Depth of credit information index (0-6)

1

Public registry coverage (% of adults)

0.2

Private bureau coverage (% of adults)

0

**Protecting investors (rank)**

154

Extent of disclosure index (0-10)

4

Extent of director liability index (0-10)

1

Ease of shareholder suits index (0-10)

5

Strength of investor protection index (0-10)

3.3

**Paying taxes (rank)**

116

Payments (number per year)

32

Time (hours per year)

140

Total tax rate (% of profit)

278.6

**Trading across borders (rank)**

175

Documents to export (number)

9

Time to export (days)

47

Cost to export (US\$ per container)

2747

Documents to import (number)

10

Time to import (days)

71

Cost to import (US\$ per container)

4,285

**Enforcing contracts (rank)**

172

Procedures (number)

44

Time (days)

832

Cost (% of claim)

38.6

**Closing a business (rank)**

183

Time (years)

No practice

Cost (% of estate)

No practice

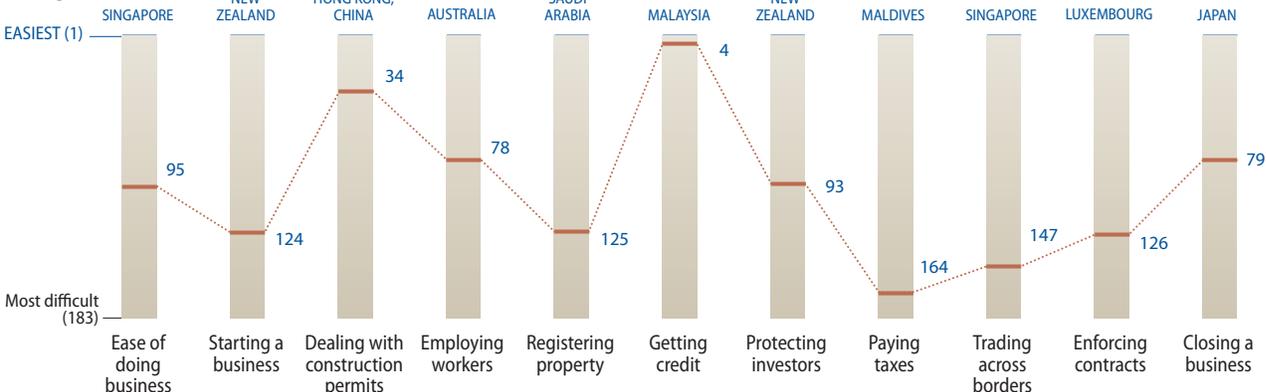
Recovery rate (cents on the dollar)

0

## COUNTRY PROFILE

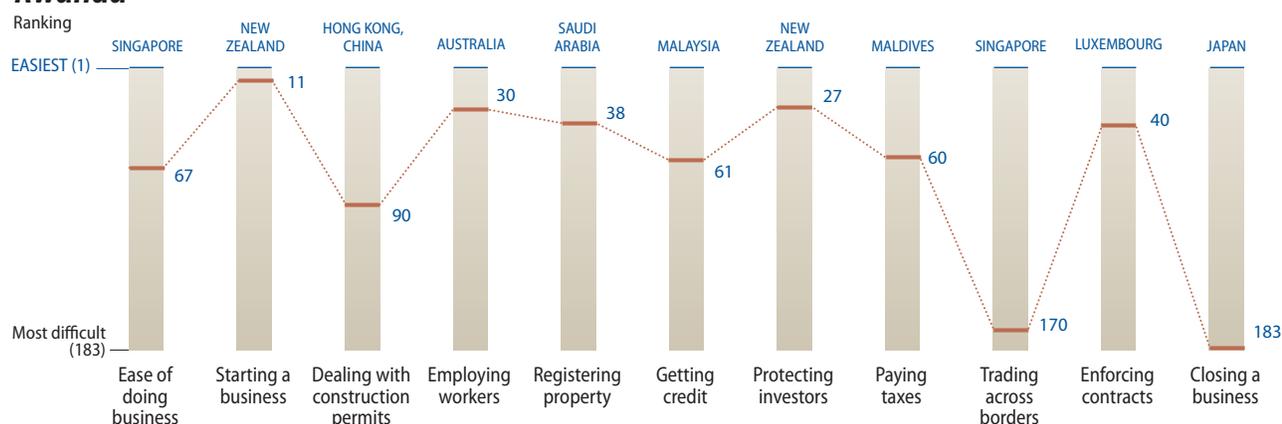
**Kenya**

Ranking



<b>KENYA</b>		Ease of doing business (rank)	95
Sub-Saharan Africa		GNI per capita (US\$)	767
Low income		Population (m)	24.8
<b>Starting a business (rank)</b>	124	<b>Protecting investors (rank)</b>	93
Procedures (number)	12	Extent of disclosure index (0-10)	3
Time (days)	34	Extent of director liability index (0-10)	2
Cost (% of income per capita)	36.5	Ease of shareholder suits index (0-10)	10
Minimum capital (% of income per capita)	0	Strength of investor protection index (0-10)	5
<b>Dealing with construction permits (rank)</b>	34	<b>Paying taxes (rank)</b>	164
Procedures (number)	11	Payments (number per year)	41
Time (days)	120	Time (hours per year)	417
Cost (% of income per capita)	161.7	Total tax rate (% of profit)	49.7
<b>Employing workers (rank)</b>	78	<b>Trading across borders (rank)</b>	147
Difficulty of hiring index (0-100)	22	Documents to export (number)	9
Rigidity of hours index (0-100)	0	Time to export (days)	27
Difficulty of redundancy index (0-100)	30	Cost to export (US\$ per container)	2,055
Rigidity of employment index (0-100)	17	Documents to import (number)	8
Redundancy cost (weeks of salary)	47	Time to import (days)	25
<b>Registering property (rank)</b>	125	Cost to import (US\$ per container)	2,190
Procedures (number)	8	<b>Enforcing contracts (rank)</b>	126
Time (days)	64	Procedures (number)	40
Cost (% of property value)	4.2	Time (days)	465
<b>Getting credit (rank)</b>	4	Cost (% of claim)	47.2
Strength of legal rights index (0-10)	10	<b>Closing a business (rank)</b>	183
Depth of credit information index (0-6)	4	Time (years)	No practice
Public registry coverage (% of adults)	0	Cost (% of estate)	No practice
Private bureau coverage (% of adults)	2.3	Recovery rate (cents on the dollar)	0

## COUNTRY PROFILE

**Rwanda****RWANDA**

Sub-Saharan Africa

Low income

Ease of doing business (rank)	67
GNI per capita (US\$)	407
Population (m)	24.8

**Starting a business (rank)**

11

Procedures (number)

2

Time (days)

3

Cost (% of income per capita)

10.1

Minimum capital (% of income per capita)

0

**Protecting investors (rank)**

27

Extent of disclosure index (0-10)

7

Extent of director liability index (0-10)

9

Ease of shareholder suits index (0-10)

3

Strength of investor protection index (0-10)

6.3

**Dealing with construction permits (rank)**

89

Procedures (number)

14

Time (days)

210

Cost (% of income per capita)

456.1

**Paying taxes (rank)**

59

Payments (number per year)

34

Time (hours per year)

160

Total tax rate (% of profit)

31.3

**Employing workers (rank)**

30

Difficulty of hiring index (0-100)

11

Rigidity of hours index (0-100)

0

Difficulty of redundancy index (0-100)

10

Rigidity of employment index (0-100)

7

Redundancy cost (weeks of salary)

26

**Trading across borders (rank)**

170

Documents to export (number)

9

Time to export (days)

38

Cost to export (US\$ per container)

3,275

Documents to import (number)

9

Time to import (days)

35

Cost to import (US\$ per container)

5,070

**Registering property (rank)**

38

Procedures (number)

4

Time (days)

60

Cost (% of property value)

0.5

**Enforcing contracts (rank)**

40

Procedures (number)

24

Time (days)

260

Cost (% of claim)

78.7

**Getting credit (rank)**

61

Strength of legal rights index (0-10)

8

Depth of credit information index (0-6)

2

Public registry coverage (% of adults)

0.4

Private bureau coverage (% of adults)

0

**Closing a business (rank)**

183

Time (years)

No practice

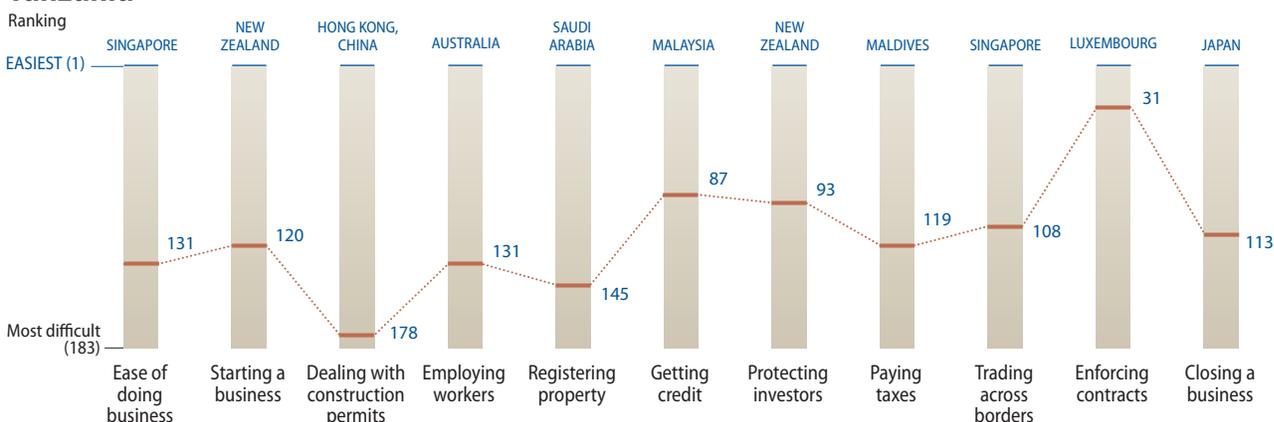
Cost (% of estate)

No practice

Recovery rate (cents on the dollar)

0

## COUNTRY PROFILE

**Tanzania****TANZANIA**

Sub-Saharan Africa

Low income

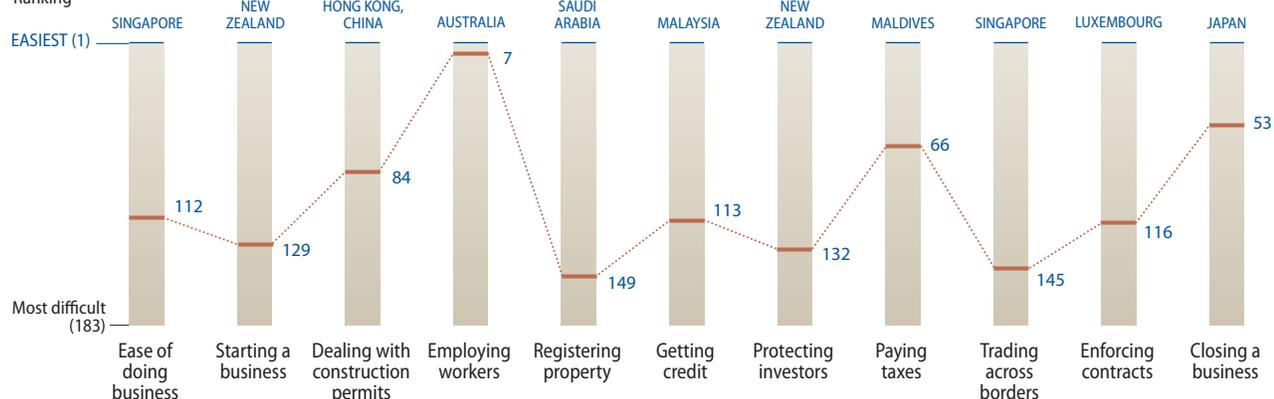
Ease of doing business (rank)	131
GNI per capita (US\$)	432
Population (m)	34.4

<b>Starting a business (rank)</b>	120	<b>Protecting investors (rank)</b>	93
Procedures (number)	12	Extent of disclosure index (0-10)	3
Time (days)	29	Extent of director liability index (0-10)	4
Cost (% of income per capita)	36.8	Ease of shareholder suits index (0-10)	8
Minimum capital (% of income per capita)	0	Strength of investor protection index (0-10)	5
<b>Dealing with construction permits (rank)</b>	178	<b>Paying taxes (rank)</b>	119
Procedures (number)	22	Payments (number per year)	48
Time (days)	328	Time (hours per year)	172
Cost (% of income per capita)	3,281.3	Total tax rate (% of profit)	45.2
<b>Employing workers (rank)</b>	131	<b>Trading across borders (rank)</b>	108
Difficulty of hiring index (0-100)	100	Documents to export (number)	5
Rigidity of hours index (0-100)	13	Time to export (days)	24
Difficulty of redundancy index (0-100)	50	Cost to export (US\$ per container)	1,262
Rigidity of employment index (0-100)	54	Documents to import (number)	7
Redundancy cost (weeks of salary)	18	Time to import (days)	31
<b>Registering property (rank)</b>	145	Cost to import (US\$ per container)	1,475
Procedures (number)	9	<b>Enforcing contracts (rank)</b>	31
Time (days)	73	Procedures (number)	38
Cost (% of property value)	4.4	Time (days)	462
<b>Getting credit (rank)</b>	87	Cost (% of claim)	14.3
Strength of legal rights index (0-10)	8	<b>Closing a business (rank)</b>	113
Depth of credit information index (0-6)	0	Time (years)	3
Public registry coverage (% of adults)	0	Cost (% of estate)	22
Private bureau coverage (% of adults)	0	Recovery rate (cents on the dollar)	21.3

## COUNTRY PROFILE

**Uganda**

Ranking

**UGANDA**

Sub-Saharan Africa

Low income

Ease of doing business (rank)	112
GNI per capita (US\$)	419
Population (m)	24.8

<b>Starting a business (rank)</b>	129	<b>Protecting investors (rank)</b>	132
Procedures (number)	18	Extent of disclosure index (0-10)	2
Time (days)	25	Extent of director liability index (0-10)	5
Cost (% of income per capita)	84.4	Ease of shareholder suits index (0-10)	5
Minimum capital (% of income per capita)	0	Strength of investor protection index (0-10)	4
<b>Dealing with construction permits (rank)</b>	84	<b>Paying taxes (rank)</b>	65
Procedures (number)	16	Payments (number per year)	32
Time (days)	143	Time (hours per year)	161
Cost (% of income per capita)	584.0	Total tax rate (% of profit)	35.7
<b>Employing workers (rank)</b>	7	<b>Trading across borders (rank)</b>	145
Difficulty of hiring index (0-100)	0	Documents to export (number)	6
Rigidity of hours index (0-100)	0	Time to export (days)	37
Difficulty of redundancy index (0-100)	0	Cost to export (US\$ per container)	3,190
Rigidity of employment index (0-100)	0	Documents to import (number)	7
Redundancy cost (weeks of salary)	13	Time to import (days)	34
<b>Registering property (rank)</b>	149	Cost to import (US\$ per container)	3,390
Procedures (number)	13	<b>Enforcing contracts (rank)</b>	116
Time (days)	77	Procedures (number)	38
Cost (% of property value)	3.5	Time (days)	510
<b>Getting credit (rank)</b>	113	Cost (% of claim)	44.9
Strength of legal rights index (0-10)	7	<b>Closing a business (rank)</b>	183
Depth of credit information index (0-6)	0	Time (years)	No practice
Public registry coverage (% of adults)	0	Cost (% of estate)	No practice
Private bureau coverage (% of adults)	0	Recovery rate (cents on the dollar)	0

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