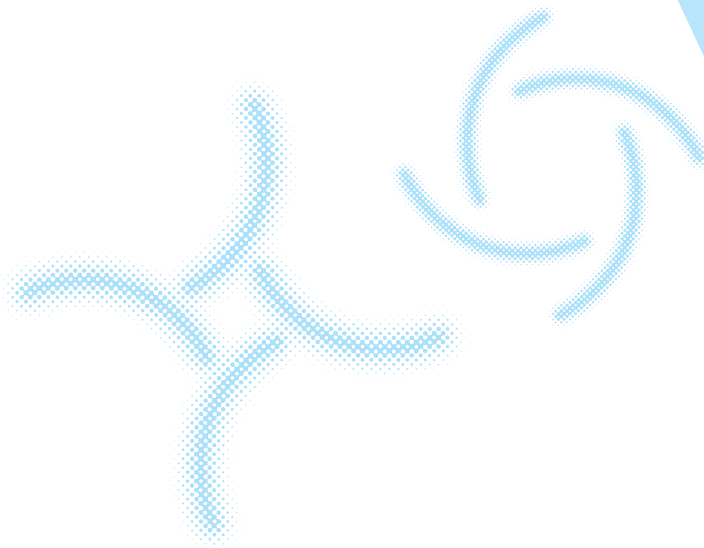




Doing Business in South Asia 2007



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Copies of *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 Regulation* may be purchased at www.doingbusiness.org.

Contents

Doing Business in South Asia 2007 is third in a series of regional *Doing Business* reports. *Doing Business* investigates the scope and manner of regulations that enhance business activity and those that constrain it. New quantitative indicators on business regulations and their enforcement can be compared across the 8 countries in the region and over time, together with global best practices. *Doing Business in South Asia* also builds indicators for 12 cities in India, 6 in Pakistan and 4 in Bangladesh. *Doing Business in 2004: Understanding Regulation* presented indicators in 5 topics: starting a business, hiring and firing workers, enforcing contracts, getting credit and closing a business. *Doing Business in 2005: Removing Obstacles to Growth* updated these measures and added another two sets: registering property and protecting investors. *Doing Business in 2006: Creating Jobs* updates all previous measures and adds an additional three sets: dealing with licenses, paying taxes and trading across borders, to create a total of 10 areas measured. *Doing Business in 2007: How to Reform* again updated the 10 areas measured in previous reports. The indicators are used to analyze economic outcomes and identify what reforms have worked, where, and why.

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Overview

In India 8 million workers have formal jobs in the private sector—in a country of over 1 billion people and a workforce of 458 million. In Pakistan, an estimated 7 million out of a labor force of 45 million work in the formal private sector. Sri Lanka has about 4 million people working in formal jobs in the private sector—out of a workforce of 7 million.

Reform can change this, by making it easier for formal businesses to create more jobs. Women and young workers benefit the most. Both groups account for a large share of the unemployed. Reform also expands the reach of regulation by bringing businesses and workers into the formal sector. There, workers can have health

insurance and pension benefits. Businesses pay taxes. Products are subject to quality standards. And businesses can more easily obtain bank credit or use courts to resolve disputes.

Many governments have taken action, in both rich and emerging economies. Twelve emerging economies, including 3 in Eastern Europe and 5 in East Asia rank in the top 30 on the ease of doing business (table 1.1).

South Asian countries have further to go. None make the top 30 list. The Maldives is the closest, with the highest ranking in the region at 53rd out of 175. At the other end, Afghanistan ranks 162nd. Reform is sorely needed.

Within countries, cities vary in their performance on the ease of doing business. *Doing Business* studies 4 cities in Bangladesh, 12 cities in India and 6 in Pakistan. In India, Hyderabad outperforms the rest. In Pakistan, Karachi, and in Bangladesh, Dhaka. But a big gap remains between India and Pakistan's best and the ease of doing business in Bangkok or Johannesburg (appendix III). Typically, large business centers such as Mumbai and Calcutta have a high volume of business activity, so regulatory bottlenecks create more congestion. Other *Doing Business* subnational studies show a similar pattern, for example in Brazil where Sao Paulo scores on the lower end of the ease of doing business.

Good practices exist within India, Pakistan and Bangladesh. If each Indian state were to adopt the country's best practice in each of the *Doing Business* indicators, India would rank 79th in the world on the ease of doing business instead of its current ranking at 134th. This means, for example, adopting Jaipur's regulations on

TABLE 1.1

Top 30 economies on the ease of doing business

1 Singapore	16 Lithuania	South Asia rankings
2 New Zealand	17 Estonia	53 Maldives
3 United States	18 Thailand	74 Pakistan
4 Canada	19 Puerto Rico	88 Bangladesh
5 Hong Kong, China	20 Belgium	89 Sri Lanka
6 United Kingdom	21 Germany	100 Nepal
7 Denmark	22 Netherlands	134 India
8 Australia	23 Korea	138 Bhutan
9 Norway	24 Latvia	162 Afghanistan
10 Ireland	25 Malaysia	
11 Japan	26 Israel	
12 Iceland	27 St. Lucia	
13 Sweden	28 Chile	
14 Finland	29 South Africa	
15 Switzerland	30 Austria	

Note: The rankings for all economies are benchmarked to April 2006. The ease of doing business averages country rankings across the 10 topics covered in *Doing Business 2007*. This year's rankings are not comparable to last year's as 20 new economies have been added, and the methodology for four topics was changed. See the Data notes for details.

Source: *Doing Business* database.

starting a business, Bhubaneswar's rules on licensing, contract enforcement and taxes, Hyderabad's property regulations and Chennai's trade practices.

The same is true for Pakistan. If each Pakistani region adopted Lahore's regulations on starting a business, Peshawar's regulations on dealing with licenses, employing workers and contract enforcement and Karachi's regulations on bankruptcy, taxes and property, Pakistan's ranking would jump from 74th to 52nd on the ease of doing business. And if Bangladesh adopted for example Bogra's regulations on starting a business and dealing with licenses, Khulna's rules on contract enforcement, Chittagong's trade practices and Dhaka's bankruptcy regulations, its ranking would go up from 88th to 62nd.

Who is reforming?

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

Reform is moving at a faster pace in some economies than in others. The most reform took place in Eastern Europe, where 89% of countries took at least one step to make things easier for business (figure 1.1). Geor-

gia, the global leader in reforms, improved in 6 of the 10 areas covered by *Doing Business 2007* (table 1.2). One of these reforms—in starting a business—reduced start-up time from 21 to 16 days and cut minimum capital requirements by 90%. And results were fast: registrations jumped by 55% over the previous year.

The pace of reform was slower in South Asia in 2005–06 than any other region—with only 25% of countries improving on the *Doing Business* indicator. Five reforms in India and two in Pakistan reduced the time, cost and hassle for businesses to comply with legal and administrative requirements. No other South Asian economy reformed its business regulations in 2005–06.

India, as the leading reformer in South Asia, took over the top reformer spot from Pakistan, which held it in last year's report and was also among the top 20 reformers worldwide. India cut the time to start a business from 71 to 35 days and reduced the corporate income tax rate from 36.59% to 33.66%. A Supreme Court decision made enforcing collateral simpler—easing access to credit. New risk management procedures in customs helped lower import time by 2 days and exports by 9 days. And reforms to stock exchange rules toughened protections for investors. Although the reforms improved India's ranking, it still ranks relatively low at 134th—41 places after China, which is reforming at a faster pace than India.

Pakistan was the runner-up reformer in South Asia

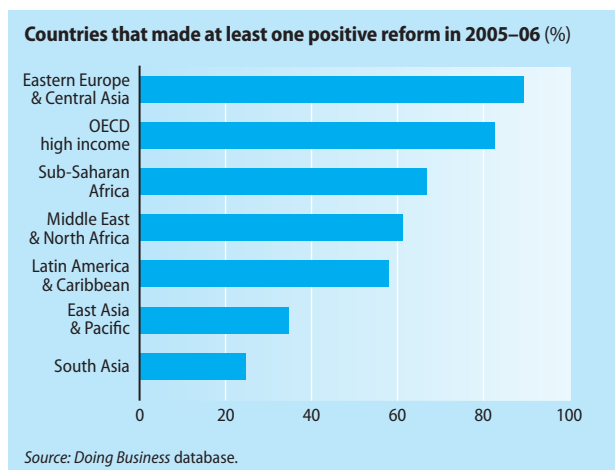
TABLE 1.2
The top 10 global reformers and South Asia

Economy	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Georgia	✓	✓	✓		✓			✓	✓	
Romania		✓	✓		✓	✓		✓		✓
Mexico	✓					✓	✓			
China	✓				✓	✓		✓		
Peru	✓				✓	✓			✓	✗
France		✓			✓			✓	✓	✓
Croatia	✓			✓					✓	
Guatemala	✓	✓		✓						
Ghana				✓			✓	✓		
Tanzania	✓			✓		✓		✓		
South Asia Region										
Afghanistan										
Bangladesh										
Bhutan										
India	✓				✓	✓	✓	✓		
Maldives			✗							
Nepal										
Pakistan							✓	✓		
Sri Lanka							✗			

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

Source: *Doing Business* database.

FIGURE 1.1
Slower pace of reform in South Asia than other regions

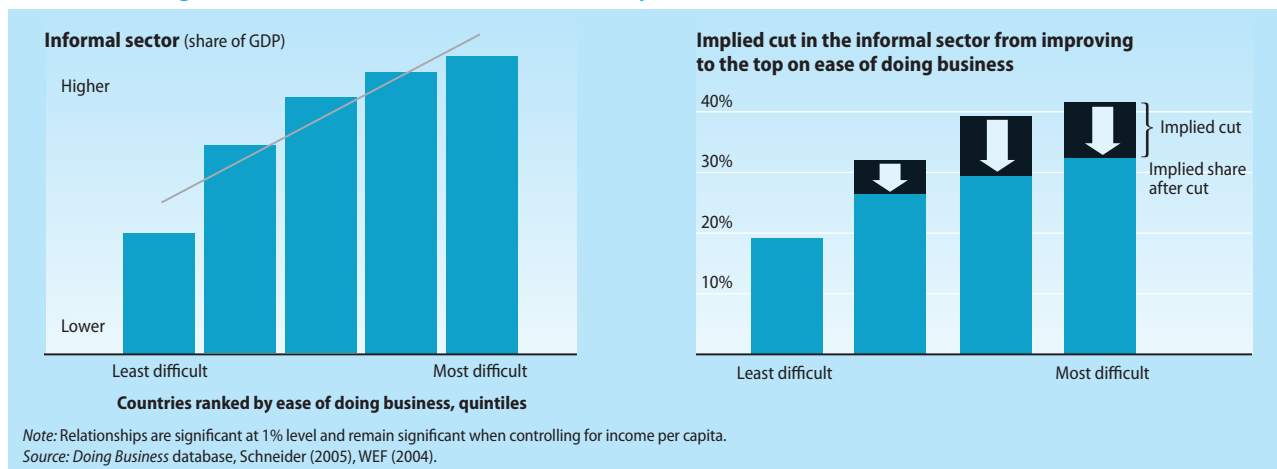


in 2005–06. Reforms to modernize customs reduced time to import from 39 to 19 days and time to export from 33 to 24 days. Corporate tax rates fell from 39% in 2004 to 37% in 2005 and 35% in 2006.

Bangladesh also made progress. The Land Registration Act of 2004, in force since July 1, 2005, decreased the property registration cost from 11% to 10.5% of the property value. It also introduced standardized deeds and more transparency in land transactions to stem the level of fraud in land tenure and, as a result, the level of land litigation in future years.

Two countries—Sri Lanka and the Maldives—made doing business more difficult. Sri Lanka reintroduced a stamp duty and levied a new tax on profits. The Maldives now requires a mandatory two-month notice period before workers can be dismissed, a move that may especially discourage businesses from hiring poor, low-skilled and young workers.

FIGURE 1.2
The ease of doing business is associated with less informality



Reforms can improve competitiveness, reduce informality

Reforms allow firms to grow faster and create jobs. An increasing number of those jobs will be in the formal economy because the benefits of being formal—such as easier access to credit and better utility services—often outweigh the costs (such as taxes). Improving a country’s performance on the *Doing Business* indicators to the level of the top 30 countries is associated with a 9 percentage point fall in the share of GDP accounted for by informal activity (figure 1.2).

Reform can ease the bureaucratic burden on all businesses. By providing easy start-up requirements and strong property rights, any business will have the opportunity to thrive. Better performance on the indicators measured by *Doing Business* is also associated with greater economic growth and lower unemployment. It also means less opportunities for corruption—as each point of contact between the entrepreneur and a bureaucrat is an opportunity for a bribe to exchange hands. Yet good regulatory performance is not a function of wealth: poorer economies can—and frequently do—perform better than richer economies on *Doing Business* indicators.

What to reform in South Asia

As a region, South Asia performs comparatively well in two *Doing Business* areas: new business start-up and investor protection (tables 1.3 and 1.4). It is extremely difficult to dismiss workers, however, and access to credit is severely limited. Trading across borders and contract enforcement are also slow and complex. Priorities for reform across the region are: make labor market regulations more flexible, ensure more efficient contract enforcement, and facilitate trade.

Making labor market regulations more flexible

To improve labor flexibility and help create jobs, South Asian governments can:

- **Simplify procedures for redundancy dismissal.** India, Nepal and Sri Lanka all have rigid requirements for redundancy dismissal. If a firm cannot fire excess workers in times of low demand, it is less likely to hire in times of high demand. This hurts both the worker and employer—with fewer jobs overall and less flexibility for the firm to grow. Australia, Denmark and Thailand are examples of the many economies that have more flexible requirements for redundancy firing.
- **Cut the mandated notice period and the severance payment for redundancy dismissal.** The notice period for firing a worker is 13 weeks in India. Sri Lanka requires a severance payment of 39 months of wages. When such tight restrictions are placed on a firm's ability to fire, that firm necessarily becomes wary of hiring. While political reaction to suggested labor reforms can be severe, the reforms work: Colombia cut severance payment from 26 to

11 months, and the mandated notice from 8 to 2 weeks. This helped create 300,000 new jobs. South Asian countries could also look to Armenia, Hong Kong (China), and Uruguay for examples on how to reduce severance pay for redundancy.

- **Remove time limits on term contracts.** Pakistan permits term contracts for a maximum of only 9 months. Bhutan permits them for only 1 year. Such inflexibility in the timing and use of employees limits companies' ability to grow and thrive. Both countries can look to China, Malaysia, Singapore and New Zealand who place no limits on the duration of fixed term contracts, and in so doing increase job opportunities for workers.

Ensuring more efficient contract enforcement

Without efficient courts, less wealth is created. When contracts can be enforced efficiently, businesses expand their trade networks and employ more workers. Steps towards improving contract enforcement are:

- **Introduce specialized commercial divisions** in existing courts or set up specialized separate commercial courts, which are associated with faster contract enforcement because judges become experts in handling commercial disputes. Although some specialized courts exist in South Asian countries, such as the Money Loan Courts in Bangladesh and the Debt Recovery Tribunals in India, these courts do not deal with all types of commercial disputes that can arise between businesses. Countries like Tanzania and Peru recently introduced separate commercial courts and can serve as models in South Asia.
- **Impose strict deadlines** for the exchange of evidence and give judges the authority to enforce such

TABLE 1.3

Priorities for South Asia are contract enforcement, labor, and trade regulations

	Starting a business	Dealing with licenses	Employing workers	Cost of firing	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
1 High income: OECD	1	1	2	2	1	1	1	1	1	1	1
2 East Asia & Pacific	3	3	1	3	4	4	3	2	2	3	5
3 Eastern Europe & Central Asia	4	6	5	1	2	2	5	7	5	2	2
4 Latin America & Caribbean	5	2	3	5	5	3	4	5	3	6	4
5 Middle East & North Africa	6	5	4	4	3	5	7	3	4	4	3
6 South Asia	2	4	6	7	6	6	2	4	6	7	6
7 Sub-Saharan Africa	7	7	7	6	7	7	6	6	7	5	7

Source: *Doing Business* database.

TABLE 1.4
Doing Business rankings of countries in South Asia

Country ranking (1–175)	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
53 Maldives	31	9	5	172	143	60	1	91	83	114
74 Pakistan	54	89	126	68	65	19	140	98	163	46
88 Bangladesh	68	67	75	167	48	15	72	134	174	93
89 Sri Lanka	44	71	98	125	101	60	157	99	90	59
100 Nepal	49	127	150	25	101	60	88	136	105	95
134 India	88	155	112	110	65	33	158	139	173	133
138 Bhutan	79	145	116	41	159	118	68	150	56	151
162 Afghanistan	17	..	74	169	174	173	30	152	165	151

Source: Doing Business database.

time limits. In 2002, India amended its Code of Civil Procedure to allow out-of-court evidence exchange in the High Courts. Bangladesh recently introduced a maximum number of adjournments before the Money Loan Courts. All countries in the region can improve the efficiency of their courts by imposing and enforcing procedural deadlines. Limiting interlocutory appeals will also reduce court delays.

- **Introduce transparent and objective processes** for selecting judges to attract the best and brightest to the judiciary. When judges are highly regarded, they have the moral authority to enforce court rules. Publicizing cases of corrupt judges or other court personnel, such as bailiffs, will show citizens that a government is serious about reducing corruption. In Kenya, opinion polls showed that the public approved of the government's prosecution of judges charged with corruption.

Facilitating trade

Businesses engage in more trade when port and customs administration is efficient. To cut the red tape a business confronts when trying to import and export, South Asian countries can:

- **Make document filing electronic.** India is the only country in the region that allows for electronic filing of documents, and it is only partial. When Singapore introduced electronic filing for all documents necessary for trading, time for cargo clearance fell from 4 days to 30 minutes. The number of shipments processed rose threefold to 32,000 a day and the cost to businesses of handling trade documents fell by a third. Mauritius and Tunisia provide similar examples to learn from.
- **Apply a risk assessment policy for inspections.** Almost 70% of cargo containers are opened and inspected when clearing customs in South Asia. In OECD countries, only 5% of imports undergo inspection. The difference is explained by risk assessment policy. In OECD countries, a software program calculates the probability of inspection based on the profiles of the business and the freight forwarders, the type of goods and their destination. This system has allowed Mexico to limit inspections to 10% of shipments, Thailand to 15%, and Latvia to 20%, cutting trading delays. It has also increased the detection of smuggled goods. As part of their trade reforms, India and Pakistan started implementing risk management techniques which have contributed to a reduction in trading time.

How to reform

Globally, the top reforming economies for the past 3 years made nearly 85% of reforms in the first 15 months of a new government. The message: for a government recently elected or reelected, the time to push through ambitious reforms is at the start of its term. In the words of one reformer: “Reform is like repairing a car with the engine running—there is no time to strategize.” When the government succeeds in these early reforms, citizens start seeing benefits—more jobs and more resources for health and education. The appetite for further reforms grows. In Georgia and Romania—the countries that have moved up fastest in the *Doing Business* rankings—reformers took on simultaneous reforms in several areas at the start of their mandate.

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

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

Pakistan did all these things in reforming its trade administration. Apart from implementing risk management techniques, Pakistan also introduced a new customs clearance process that allows importers to file cargo declarations before goods arrive at the port. Now it takes 19 days to import goods—from the conclusion of a sales contract to the arrival of the goods at the warehouse. In 2004 it took 39 days.

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

Starting a business

When an entrepreneur draws up a business plan and tries to get it underway, the first hurdles that need to be overcome are the procedures required to incorporate and register the new firm. Cumbersome entry procedures push entrepreneurs into the informal economy, where businesses pay no taxes and many of the benefits that regulation is supposed to provide are missing.

Because reforms to make business start-up cheaper and faster are often simple, they have attracted a lot of attention. Forty-three countries globally eased business entry in 2005-06. Yet India was the only South Asian country to streamline start-up last year. India cut the time to start a business from 71 days to 35 days by simplifying a complex tax registration system. Previously, stamp duty payment was routed through the stamp office only. Now, certain dealers have been authorized to affix stamps on most of the documents. The time for start-up is now at par with China (figure 1.3). The cost of setting up a new company increased from 62% of income per capita to 73.7% in 2005-06, largely because of an increase in value added tax (VAT) registration fees.

Reforms are ongoing. In March 2006, the Indian Ministry of Company Affairs launched its “MCA21” program to computerize and link all company registration offices. It will be possible in the future to incorporate an Indian company from anywhere in the world. The implementation of the system is most advanced in Delhi.

India's improvement in business start-up helped elevate the South Asia region to the second position on the ease of business entry, trailing only high-income OECD countries (figure 1.4). On average, it requires

FIGURE 1.3
Big improvements in China and India

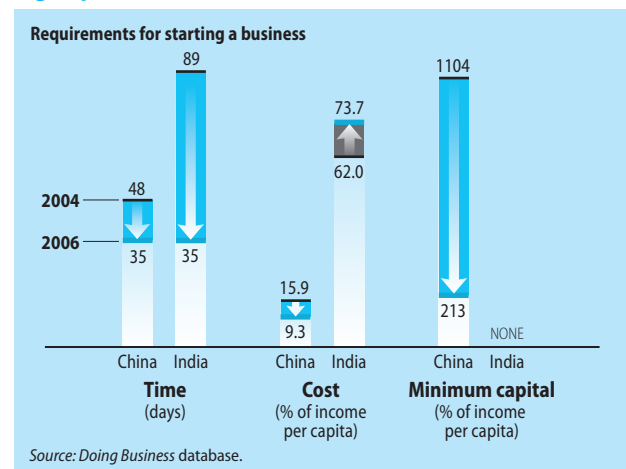
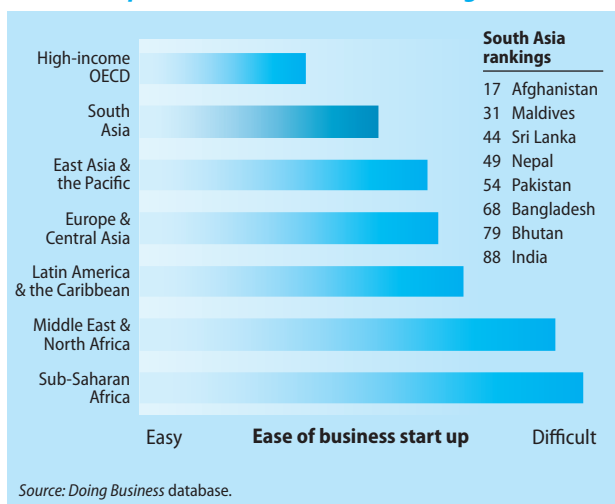


FIGURE 1.4

South Asia performs well on ease of starting a business

8 procedures and 32 days to set up a new company in South Asian countries. Only the Maldives has a legal requirement on the minimum start-up capital. However, the average cost of start-up in the region is still a lofty 47% of income per capita. By comparison, in OECD countries and Central Asia, the cost is 5% and 14% of income per capita, respectively.

Dealing with licenses

Stricter licensing protects public safety and health—except when the regulation is so burdensome that businesses move to the informal economy. *Doing Business* uses construction licenses as the starting point for the discussion of licensing because construction is among the largest sectors in every economy. Moreover, the rationale for such licensing is straightforward: well-built homes and offices save lives.

The ease of dealing with licenses is measured by the number of procedures, time and cost required for a typical medium-sized company to construct a 2-story warehouse with an area of 1,300 square meters (14,000 square feet). On average, complying with building rules in South Asia is relatively straightforward. The region ranks just after OECD high income countries and East Asia. It takes on average 16 procedures, 226 days and costs 375% of income per capita to obtain all the required building permits.

Nevertheless there is room for improvement in most countries. Within the region, complying with building requirements takes the most time in Nepal—a builder needs 424 days. Pakistan has the most expensive pro-

cess, costing 973% of income per capita. In Japan, one of the easiest countries in which to build a warehouse, a builder need only to complete 11 procedures requiring 96 days and 20% of the average annual income to fulfill all regulations. The region's best performer is the Maldives, where completing regulatory requirements takes 10 procedures, 118 days with a cost of 40% of income per capita.

No country in the region reformed the law and administration over construction activities in 2005–06. Sri Lanka made it slightly easier for businesses to obtain a fixed telephone line. Sri Lanka Telecom has now computerized its records, so an inspector no longer inspects the company on site before installing a fixed telephone line.

Employing workers

Rigid employment regulation stifles new job creation. With it, employers choose among job candidates conservatively. Some workers benefit—mostly men with years of experience on the job. But young, female and low-skilled workers often lose out. In countries where labor markets are inflexible, this lack of opportunity pushes workers into the informal sector.

Labor regulations in South Asia are a matter of extremes. The region has the lowest hiring cost in the world. Social security contributions only account for 7% of a worker's salary. The rigidity of hours index for South Asia is also low, at 25 in a scale from 0 to 100 (where 100 is the highest rigidity), reflecting relatively few restrictions on overtime and annual paid vacation. This level even surpasses that of OECD countries (an average of 45).

Firing workers is a different story. In South Asia, firing a redundant worker costs on average 72 weeks of salary (figure 1.5). In 2005 Sri Lanka was the most expensive place in the world to dismiss workers after Zimbabwe, Sierra Leone and Egypt. In New Zealand and the United States, the cost of dismissing redundant workers is zero.

Procedural requirements for dismissing workers are also a burden. The region is ahead of only Africa on the difficulty of firing index. India, Nepal and Sri Lanka impose the most restrictions, requiring a host of notifications and approvals to fire.

Registering property

Property registries were first developed to raise tax revenue. Defining and publicizing property rights through registries has proven good for entrepreneurs as well. Land and construction account for between half and three-quarters of the wealth in any economy. Securing rights to this property strengthens incentives to invest and facilitates trade. And with formal property titles, entrepreneurs can obtain mortgages on their homes or land and start businesses. But when registering property is cumbersome, ownership slips back to informal.

It takes 8 procedures, 425 days to register property in Bangladesh and 252 days in Afghanistan, but only 1 day in Norway and 2 days in Sweden. South Asia fares poorly in terms of ease of registering property, scoring only higher than Africa and Latin America among regions. The average time for completing a property transfer is 118 days, compared with 32 days in OECD countries and 86 days in the East Asia and Pacific region. The cost is also high, at 5% of the value of property, compared with 4% in East Asia. Nepal boasts the simplest property system in the region, with property registration taking 3 procedures, 5 days and costing 6% of property value. But the value of registration remains low because of numerous title disputes.

Bangladesh was the only South Asian country that made progress in property registration in 2005–06, cutting its registration fee from 11% to 10.5% of the property value. A new registration act introduced standardized deeds and greater transparency in land transactions, with a goal of reducing corruption.

Getting credit

Access to credit is consistently rated by firms as one of the greatest barriers to operating and growth. Small businesses are constrained the most. Businesses get better access to loans and more favorable terms of credit when creditors and borrowers have stronger legal rights and information on credit histories is available. But in most poor countries, credit registries and effective collateral laws are lacking. Banks make fewer loans.

Compared with other regions, South Asia falls behind in both the availability of credit information and the legal rights of borrowers and lenders. The average performance on the index of credit information is only 2 out of a 0–6 scale, second worst in the world behind Africa. Credit registries (both public and private) cover only 1% of the adult population on average, the lowest in the world, compared with an average of 69% and 35% in OECD countries and Latin America, respectively (table 1.5). South Asian countries did not implement any changes that improved their scores on the credit information indicators in 2005–06.

The collateral and bankruptcy laws of most South Asian countries do not effectively protect the legal rights of borrowers and lenders. The *Doing Business* legal rights index measures how well laws facilitate access to credit, including whether they allow all assets to be used as collateral, provide for a unified registry of security interests, and permit out-of-court enforcement of loan agreements. Out of the 10 criteria in the index, Afghanistan scores 0, making it the worst performer in this indicator globally. The region's average is 3.8, also the lowest in the world.

FIGURE 1.5
High firing cost in South Asia

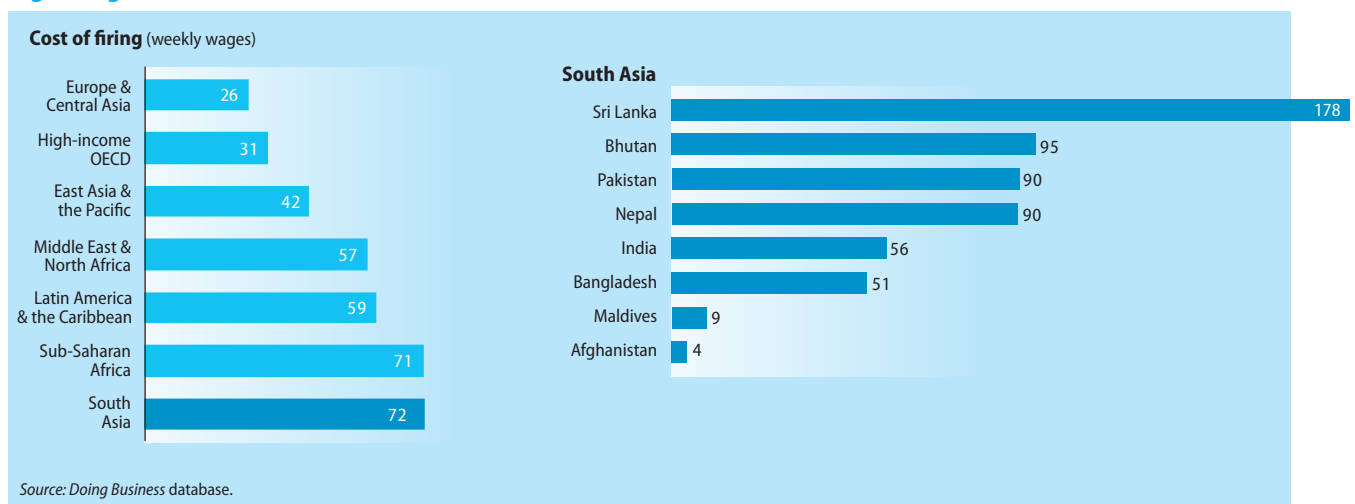


TABLE 1.5
Poor coverage of credit information in South Asia

	Public registry coverage (% of adults)	Private bureau coverage (% of adults)
Afghanistan	0	0
Bangladesh	0.6	0
Bhutan	0	0
India	0	6.1
Maldives	0	0
Nepal	0	0.1
Pakistan	0.3	1.1
Sri Lanka	0	3.1

Source: *Doing Business* database.

Once the type of security is agreed on, lenders want to check for existing rights to the collateral. The best way is with a collateral registry. Collateral registries are most effective when they are unified by region and cover all types of assets. In South Asia, although most countries have some type of collateral registry, restrictions on their coverage of firms and types of assets limit their value.

The good news is that countries are acting. India's Supreme Court recently upheld the right of banks to take possession of collateral without court involvement. A simple notice to the debtor is now sufficient to obtain payment in at least half of defaults. The reform also introduced time limits on initial judgments and appeals in collateral enforcement cases. Under the amended Enforcement of Security Interest and Recovery of Debt Law, the Debt Recovery Tribunals are now required to decide appeals within 60 days.

Protecting investors

Protection of investors is crucial to entrepreneurship and investment. In countries with higher risk of expropriation by corporate insiders, investment as a share of GDP is half that in countries with good investor protection. Stock markets are smaller and underdeveloped.

On average South Asia scores relatively well on the strength of investor protection index, trailing as a region only the OECD and East Asia. Except in Afghanistan and Bhutan, which are far from having vibrant equity markets, countries in the region give shareholders strong powers to challenge transactions involving conflicts of interest. However, the region has a low score in the extent of disclosure index—4 out of a 0-10 scale. Afghanistan and the Maldives require no disclosure on “related-party” transactions at all, not even in the annual report; and no external auditor reviews the transaction before

it takes place. The CEO or managing director alone can provide legally sufficient approval for the transaction. Other countries in the region only require directors to disclose such transactions in the annual report—long after the possible damage is done. In Afghanistan and Nepal, it is difficult to hold directors liable for the damages caused by the related-party transaction unless there is evidence of fraud or bad faith.

The payoff for protecting investors is large. India, with the most developed stock markets in the region, is taking action. In 2005-06 India continued the corporate governance reforms it started last year. As of January 2006, India's listed companies must comply with new standards. This includes having more independent directors on the companies' boards and audit committees, a code of conduct for board members, more responsibilities for audit committees and mandatory certification by the CEO and COO of a company's financial statements.

Nepal has strong investor protection provisions on the books, but these are rarely invoked and equity markets are nascent. In 2005, Nepal made its laws stronger but at the same time included a provision stating that the protections for investors do not apply to transactions that are part of the “company's ordinary course of business.” In practice, directors can avoid all the stronger investor protections in the new law by claiming the transaction is a part of the company's ordinary course of business.

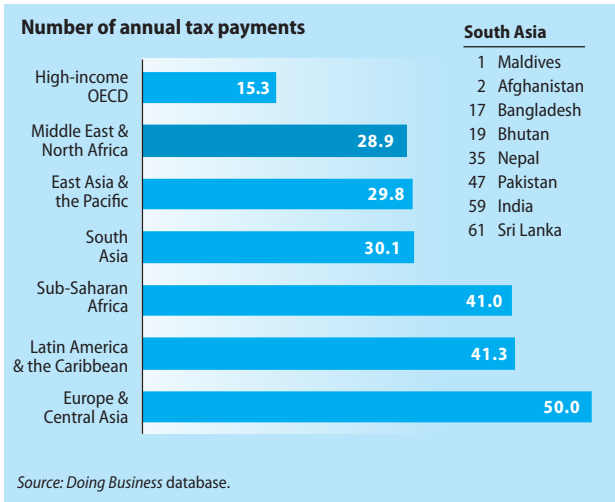
Paying taxes

Taxes are essential. Without them, there would be no money to build schools, hospitals, courts, roads, airports or other public infrastructure that helps businesses and society be more productive and better off.

Still, there are good ways and bad ways to collect taxes. In Hong Kong (China), all the taxes a medium-size business needs to pay each year is 1 income tax and 1 fuel tax totaling 29% of commercial profits (i.e. sales less materials and labor costs). It takes 4 annual electronic filings and 80 hours to comply with tax requirements. However, a medium-sized business in India has to make 59 tax payments totaling 81% of commercial profits. A Bangladeshi firm needs to make 17 payments, but the whole process takes 400 hours.

On average South Asia has a relatively simple tax system compared to other regions in the world. Companies make an average of 30 tax payments each year (figure 1.6). The average total tax payment amounts to about 45% of commercial profits, lower than Africa,

FIGURE 1.6

Relatively few tax payments per year in South Asia

Latin America, the OECD and Eastern Europe and Central Asia. Nevertheless, there is more to be done. The time to comply with tax requirements averages 304 hours, compared with 202 hours in OECD countries. These high compliance costs create incentives to evade, driving many firms into the underground economy, and do not translate to higher revenues.

Two countries in the region made it easier to pay taxes in 2005-06: India and Pakistan. India reduced its corporate tax rate from 36.59% to 33.66%. India also shifted from sales to value added taxes, which are harder to evade. Pakistan lowered its corporate income tax rate from 39% to 37%. For the year ending on December 31, 2006, the corporate income tax rate will be further reduced to 35%. Pakistan also made its revenue system more taxpayer-friendly by introducing electronic filing and one-stop shops for taxpayers.

Sri Lanka moved in the opposite direction, reintroducing a stamp duty, raising its profit tax and levying a new tax on profits.

Trading across borders

When a Bangladeshi company imports goods, it has to prepare 16 separate of documents. The whole process takes 57 days. In Afghanistan, where 70-80% of businesses import, it takes 88 days and involves 11 documents to ship goods from abroad. Contrast this with the single signature a Danish or Finnish importer needs.

Trade in South Asia takes an average of 34 days and 8 documents to export, and 42 days and 13 documents to import, making it the second least trade-friendly region

in the world. The cost to import and export goods is only higher in Africa and Eastern Europe and Central Asia. More cargo traded is inspected in South Asia than in any other region, leading to significant delays (table 1.6). Every container is opened in Nepal and Sri Lanka. Contrast this with OECD countries, where 5% of imports undergo inspection. Three countries—Afghanistan, Bangladesh and Bhutan—require both import and export licenses for shipments. Sri Lanka requires licenses for importing.

The benefits of trade are well documented. So are some of the barriers to trade. Much attention has been given to reducing trade barriers such as tariffs and quotas. But regulatory hurdles can incur higher costs to trade than tariffs. For manufactured exports, the cost of trade transactions in developing countries—which includes the cost of dealing with customs and the cost of inland transport—exceeds the cost imposed by tariffs in the European Union and the United States. Red tape is estimated to cost more than 10% of the value of exports in developing countries.

Contrary to popular belief, customs paperwork and other red tape (often called “soft infrastructure”) cause the most delays in exporting and importing. In South Asia, only one third of the delays are caused by problems with “hard infrastructure” such as poor port facilities or roads (figure 1.7). In Sri Lanka, fulfilling pre-arrival documentation and customs requirements takes 23 of the 27 days to import. In Bangladesh, 45 out of 57 days.

In 2005-06, 19 countries made it easier to trade across borders. In Pakistan, trading is now significantly easier than just a year ago. Time to import dropped from 39 to 19 days. The improvement comes from a new customs clearance process that allows traders to file cargo declarations before shipments arrive and to pay tariffs and port fees electronically. Risk management techniques are now used for choosing which containers to inspect. A pilot run between April 2005 and January

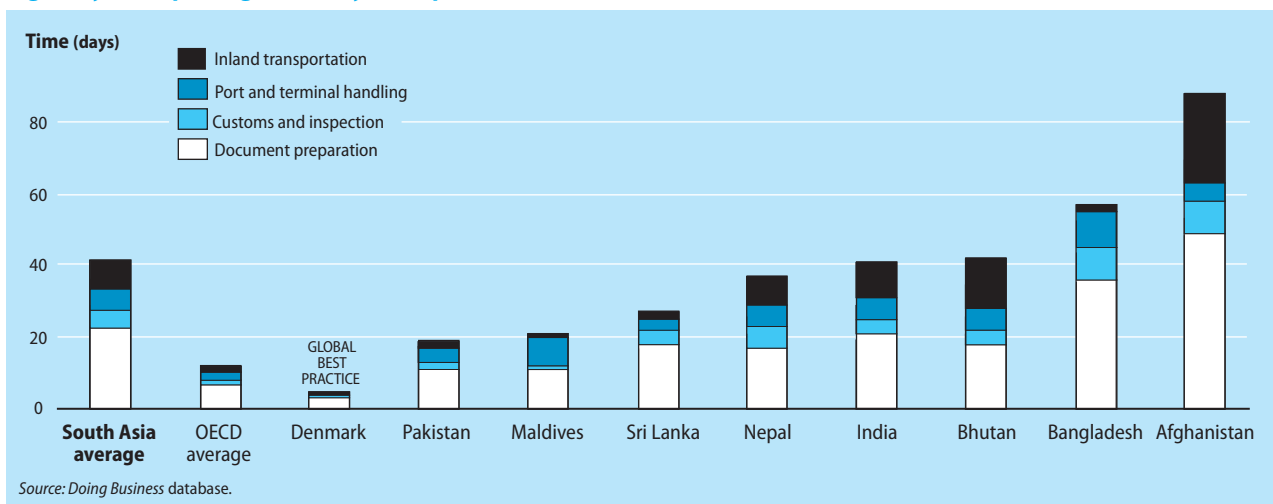
TABLE 1.6

Many inspections in South Asia

Region	% of import cargo inspected
High income OECD	5
East Europe & Central Asia	18
East Asia & Pacific	31
Latin America & Caribbean	51
Middle East & North Africa	63
Sub-Saharan Africa	67
South Asia	69

Source: Doing Business database.

FIGURE 1.7
Big delays in importing caused by red tape



2006 trained staff and the main traders. The Karachi container terminal has since fully moved to the new system. Less time is also needed to export goods from Pakistan: a drop from 33 days in 2004 to 24 days in 2005-06.

India reformed as well: time to export decreased from 36 days to 27 days and time to import from 43 days to 41 days. Like Pakistan, India now applies risk management techniques to decide which containers to inspect. The Bangalore Customs Commissioner introduced an electronic payment system which allows companies to pay customs duties online. Nearly 63% of import documents and 35% of export documents have been filed online since the introduction of the Electronic Data Interchange in Bangalore.

Enforcing contracts

Efficient contract enforcement encourages businesses to engage with new customers. The institution that enforces contracts—between debtors and creditors, suppliers and customers—is the courts. Yet in many countries around the world courts are slow, inefficient and corrupt. Complex enforcement procedures lead business to avoid courts in favor of simpler, often informal, alternatives. In developing countries, more procedures are associated with less—not more—fairness and impartiality in the legal system.

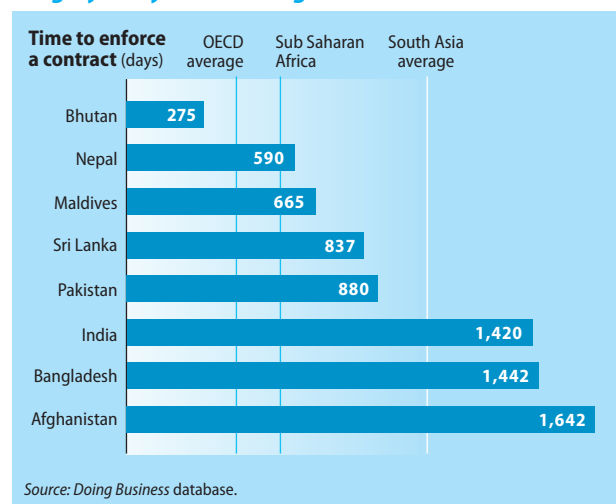
Resolving commercial disputes through the courts is more time consuming in South Asia than any other region. It takes 969 days on average compared with 642 days in Latin America, 606 days in the Middle East and 581 days in Sub-Saharan Africa. On average, litigants

must go through 38 procedures, compared with 22 procedures in OECD countries. Twenty-six percent of the claim’s value is lost in the process, more than double the costs in rich countries.

The majority of countries in South Asia—India, Pakistan, Afghanistan and Bangladesh—are among the 20 countries with the most lengthy contract enforcement process. A simple commercial case takes almost 5 years in Afghanistan and almost 4 years in Bangladesh and India. (figure 1.8). In Bangladesh, 46% of the claim is lost in attorneys’ fees and court fees.

Yet reforms in South Asia are slow in coming. In 2005–06, 18 countries reformed procedures for contract enforcement. None were in South Asia. Because of long court delays, companies start to look for alternative ways to resolve their disputes. In India, mediation and arbi-

FIGURE 1.8
Lengthy delays in enforcing contracts



tration have become more popular in recent years. But arbitral awards still end up in court because the Indian Supreme Court gives courts large powers to annul the decisions from arbitrators. In November 2005, Pakistan opened a mediation center in Karachi to respond to the need for a more efficient justice system.

Closing a business

Every country needs effective procedures for closing a failed business or saving a viable one that is experiencing temporary problems. Efficient bankruptcy systems encourage entrepreneurs to start up businesses, as easier exit means easier entry. Bottlenecks in bankruptcy cut the amount that claimants can recover, scaring away creditors.

Bankruptcy is hopelessly inefficient in most countries. Claims are eroded by long delays, high costs and by laws that either kill viable businesses or keep unviable ones alive. Creditors, workers, tax agencies and other claimants recover, on average, only 31 cents on the dollar after a bankruptcy case winds up.

Sub-Saharan Africa and South Asia have the worst recovery rates in bankruptcy, averaging 18 cents and 20 cents of every dollar, respectively. The insolvency process also takes longer in South Asia than in any other region, averaging 4 years. India has the longest bankruptcy proceedings in the world. A bankruptcy case takes an average of 10 years. Only 13 cents of every dollar of debt can be recovered in the end.

With the new bankruptcy law that came into effective in 2005, Brazil, which previously had delays as long as India's, has more than halved the time necessary to go through the bankruptcy process. Twelve other countries revamped their insolvency laws during 2005-06. No countries in South Asia reformed bankruptcy in 2005-06. India continued implementing reforms to repeal the Sick Industrial Companies Act (SICA) through the proposed Companies (Amendment) Act, 2002. SICA had previously prevented bankrupt companies from being liquidated. The reforms will establish bankruptcy tribunals, but they are not yet in full operation. Once the amendment comes into force, recovery rates are expected to rise considerably. Pakistan and Maldives have draft laws to improve the bankruptcy process. But so far, these laws have not been adopted.

Country Profiles

Afghanistan

Bangladesh

Bhutan

India

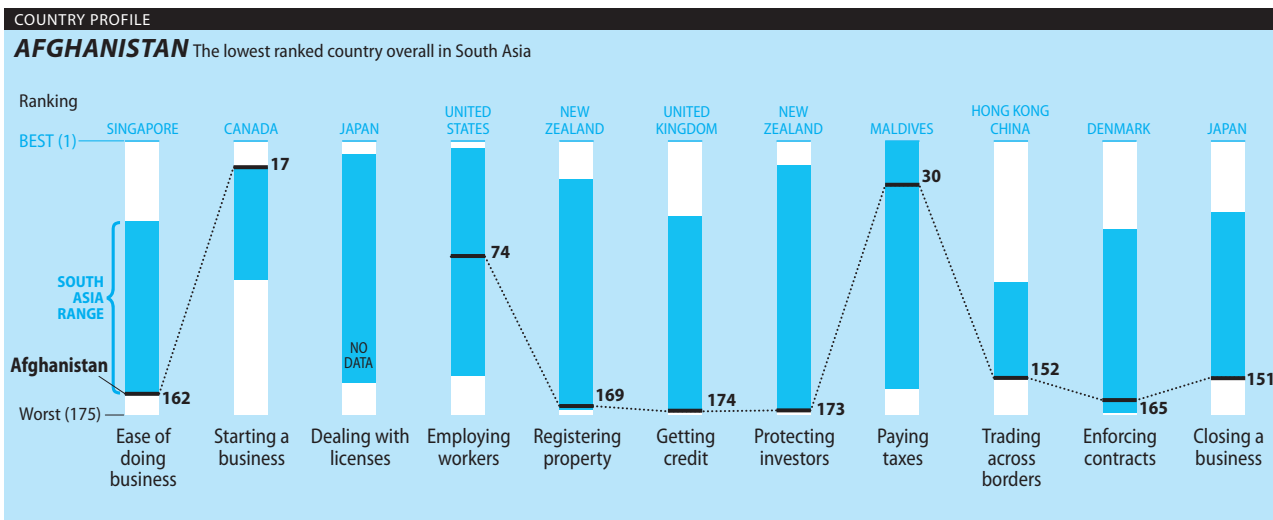
Maldives

Nepal

Pakistan

Sri Lanka





Starting a business

Business registration is an area where Afghanistan is close to global best practices. It takes only 3 procedures to fulfill all start-up requirements and the process is usually completed within 8 days. To operate legally, an investor may register through the Afghanistan Investment Support Agency (AISA). AISA was set up in 2003 with the mandate of promoting investment in the country. Before its inception it took 28 procedures and 90 days to complete start-up requirements. The creation of the AISA registration process now puts Afghanistan in 17th place worldwide on the ease of starting a business—an improvement over 2005 when it ranked 22nd.

What to reform

AISA is relatively new and would-be entrepreneurs need to be made more aware of its services. Alternative ways to register through the previous system should be discontinued to avoid confusion and duplication. Start-up costs are also relatively high in Afghanistan—67% of income per capita. Although an improvement over 2005, when costs were 75% of income per capita, they are still well above the South Asia average of 47% of income per capita. Registration fees comprise more than 80% of the costs. Reducing these fees would place Afghanistan in line with lower-cost countries such as Sri Lanka, the Maldives and Pakistan, and encourage more businesses to register formally.

While the general registration process was streamlined, industry-specific start-up barriers remain. In many sectors, investors must also obtain a license from the ministry responsible for the industry in which it plans to operate, such as in the pharmaceutical, trade,

banking, insurance, foreign exchange, transportation, construction, hospitality, travel and real estate sectors. In some of these sectors, there is no rationale for requiring an additional license, and a simple business registration should suffice. In others, the rationale is strong (such as in the pharmaceutical industry) but considerable scope exists for streamlining the licensing process. In Afghanistan, investors also often have to personally transmit the paperwork from office to office and wait while each bureaucrat works on the application.

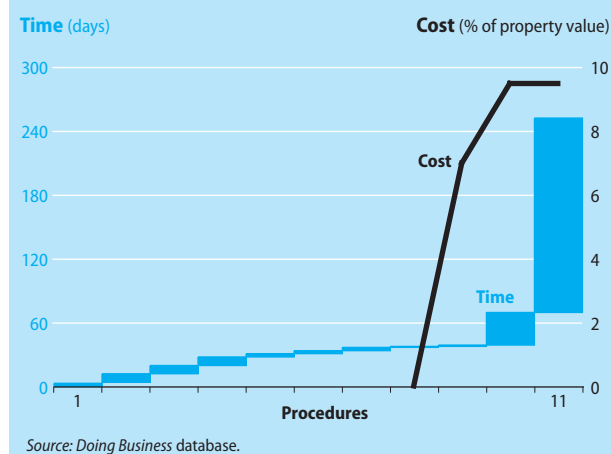
Employing workers

Afghanistan ranks 74th on the ease of employing workers. The cost of hiring is zero, as there are no social security payments or payroll taxes associated with hiring a new worker. In Pakistan and India, such costs amount to 12% and 17% salary respectively. The cost of firing is low—an employer must only give 1 month's notice when dismissing a worker. By comparison, costs of firing amount to 56 weeks' wages in India and 90 weeks' wages in Pakistan. Overall the rigidity of employment score is low at 46 out of a possible 100.

What to reform

Although employment regulations in Afghanistan are flexible overall, some specific rigidities dampen incentives to create formal jobs. In particular, Afghanistan's performance on the difficulty of hiring index, at 67 out of 100, is relatively high (the South Asian average is 42 out of 100). Term contracts are significantly restricted based on the nature of the task and the length of the contract. Loosening these rules will encourage the creation of more formal sector jobs. Outside the scope of

FIGURE 2.1

Registering property in Afghanistan**Procedures**

1. Submit two signed copies of Circular Form to the Head of Makhzan (judge)
2. The signed Circular Form is then submitted to the Chief of Makhzan
3. Circular Form sent to Imlak (Municipal Land Office) for certification
4. An Imlak committee establishes the value of the land
5. The Circular Form is submitted to the local Tax Collection Office
6. The Circular Form is submitted to the provincial Tax Collection Office
7. Submit the Circular Form to the Human Resource Directorate
8. The completed Circular Form is submitted back to the Primary Court judge
9. Seller pays property taxes at a designated bank
10. Submit the completed Circular Form to the Primary Court
11. The buyer obtains a copy of the deed

the *Doing Business* indicators—which focus on private sector employment—an important priority is to develop a sound mechanism for retrenchment of workers in state-owned enterprises. This is necessary to facilitate state-owned enterprise reform, including liquidation and privatization.

Registering property

Afghanistan ranks 169th globally in 2006 on the ease of registering property—the same as in 2005 and well below the South Asian average. It takes 252 days to complete the 11 procedures required and costs 10% of the property value (figure 2.1). The greatest bottleneck is in the time needed for the primary court to process the deed, which can take up to 1 year in some cases. Such delays are common when courts are involved in property registration. The complexity of the procedures—requiring visits to different levels of the courts, the land office, the tax collection office, the human resource directorate and the bank—discourages formal property registration.

What to reform

Most private land in Afghanistan does not have a clear title. Many land title records have been destroyed over the years, particularly during the recent conflicts in Afghanistan. The land courts that are in charge of land titling and property transfer are said to be among the most corrupt in Afghanistan. Reforming both land ownership and land registration rules are urgent priorities. Without secure property rights, businesses invest less and are constrained in getting credit. The first steps toward

reform in Afghanistan can be to rebuild the administration of property deeds, design effective property dispute resolution mechanisms and implement a transparent means for enforcing decisions. Reducing the complexity of the property registration process is also an important element in securing property rights. Though land registration pilot projects have been proposed in Afghanistan, their scale will need to be substantially increased to address urgent national needs. The registration system does not require sophisticated technologies—Thailand is an example of best practices with paper-based registration that requires only 2 procedures and 2 days. Stamp duties and taxes should also be reduced to encourage formal registration. Typically reductions in fees lead to more revenues, as more properties are registered and with less underreporting of property values.

Getting credit

Afghanistan scores zero on all four *Doing Business* indicators on the ease of getting credit. Lenders look at the borrower's credit history and collateral when extending loans. But in Afghanistan there are no credit registries to provide lenders with information on the borrower's credit history. There is no functioning secured transactions law to allow creditors to take and enforce collateral effectively. And there are no functioning property registries to support the use of land as collateral. Although discussions have been held on the possibility of establishing a basic credit bureau, none has been established.

What to reform

The government could start by creating a simple credit registry to facilitate the exchange of information on repayment patterns among financial institutions. Registries are inexpensive to establish—less than \$2 million—and can be expanded in scope as the market develops. Although land reforms will take time to implement, the government can support the development of secured lending by introducing a collateral law for movable property. Small businesses typically have 70% of their assets in movable property—including equipment, inventory and accounts receivable. Access to loans will increase if Afghanistan adopts a secured transactions law that allows all of these assets to be used as collateral provides for a unified registry of security interests and permits out-of-court enforcement of collateral agreements.

Protecting investors

Afghanistan does not have an active equity market. Laws provide none of the protections for shareholders measured in the *Doing Business* protecting investors indicator—Afghanistan is ranked 173rd out of 175 economies on this measure. There are no requirements for insiders to disclose transactions involving conflicts of interest, no penalties for managers and directors who misuse their position, and no procedures available for shareholders to seek redress in cases of self-dealing.

What to reform

Complex minority investor protections are more appropriate for countries with stock exchanges and developed markets than for countries with nascent financial institutions, such as Afghanistan. Afghanistan can benefit, however, from a baseline of simple protections for minority investors. First, Afghanistan can adopt simple board approval procedures for large transactions involving company insiders. This will structure the decision-making within a company and limit directors' ability to misuse company funds. Periodic reporting to investors on the major actions of the company would also increase transparency of company actions. And finally, if an investor feels the company is being operated in a way that inappropriately benefits the directors or managers personally, that investor should be permitted to sue those directors and managers for any damage caused to the company. Through these three steps, Afghan law can provide visibility into company operations and redress for any abuse. Such reforms will encourage investors to entrust their money to Afghan companies.

Paying taxes

Afghanistan ranks well—in 30th place—on the ease of paying taxes. Only two tax payments are required in a year, for corporate income tax and a business receipts tax. It takes about 275 hours of work to fulfill annual tax requirements, compared with 400 hours in Bangladesh and 560 hours in Pakistan. The tax burden is relatively low at 36% of profits compared to 40% in Bangladesh, 43% in Pakistan and 81% in India.

What to reform

Although Afghanistan ranks well on the ease of paying taxes, there remains a degree of uncertainty on tax policy, caused primarily by a lack of information. In 2005, the government reversed its position on tax holidays offered to investors. Many new investors were lured to Afghanistan with the promise of a 4- or 7-year tax holiday. Now, at least some of them have been informed that not only are they going to lose the tax holiday, but they also must pay tax retroactively for past years. The government has stated that the phase-out of the tax holiday is not retroactive and that only firms that did not complete the formalities to receive the tax holidays in a timely manner or were promised them by unauthorized persons are losing them. But many firms did not understand what the process was or who was authorized to grant them a holiday. This experience illustrates the need for adequate information about policy and procedures, to counter the already substantial risk and uncertainty of doing business in Afghanistan.

Trading across borders

In 2004 the government passed a customs reform package that makes Afghanistan one of the most open economies in the region. Among other reforms, the new law simplified the tariff structure and reduced the range of tariffs from a maximum of 150% to a range of 3 to 16%. The average tariff rate is 5%. In addition, the Ministry of Finance with the Ministry of Commerce is implementing a Customs Modernization Program to clarify roles and responsibilities among agencies and improve customs service.

However, there is still much to do. Afghanistan ranks 152nd on the ease of trading across borders, well below the South Asia average. Importing requires 88 days and 11 documents (table 2.1). Businesses report that customs officials continue to use wide discretion on the valuation and inspection procedures, which leads

TABLE 2.1

Long delays for importing in Afghanistan

	Days	Documents	Cost (US\$ per container)
Pakistan	19	12	1,005
Maldives	21	9	1,784
Sri Lanka	27	13	789
Nepal	37	10	1,800
India	41	15	1,244
Bhutan	42	14	1,950
Bangladesh	57	16	1,287
Afghanistan	88	11	2,100

Source: Doing Business database

to corruption and delays. The situation is slightly better for export which takes 66 days and 7 documents. However, the cost of importing and exporting to and from Afghanistan is much higher than the average in South Asia. For example, a 20-foot container costs \$2,500 to be exported from Afghanistan. In Nepal, the second most expensive South Asian country to export from, the same container only costs \$1,600 to export. The 2005 World Bank Investment Climate Survey, a cross-country study of firms, found that customs procedures in Afghanistan are significantly slower than among its neighbors, which further erodes the competitiveness of Afghan products.

What to reform

Afghanistan can boost trade and reduce smuggling and corruption in customs by cutting red tape in the import and export process. Large gains can be made with simple reforms, such as standardizing paperwork and eliminating unnecessary documentation. But broader reforms are also needed. Inland transportation is another large bottleneck in the trading process, taking 15 days. Efficient, safe and reliable trade corridors will significantly cut delays. Trade-related standards and procedures need to be harmonized. Finally, the institutional responsibilities for trade, such as the division of responsibilities between the Ministries of Finance and Commerce need to be clarified.

Enforcing contracts

Afghanistan ranks 165th on the ease of enforcing contracts. It takes almost five years or 1,642 days to enforce a commercial contract and costs 25% of the value of the claim. It is no surprise then that businesses use mostly informal mechanisms, including force, to resolve disputes. There are no formal alternative dispute resolution mechanisms such as arbitration or mediation. The formal court system suffers from a lack of qualified legal professionals, no method to hold judges accountable,

and reportedly endemic corruption. Consequently, businesses do not rely on the formal judicial system. Only 3 of the 338 firms in a recent Investment Climate Survey reported using the commercial courts to settle a payment dispute in the past two years.

What to reform

Establishing fast, fair and affordable courts is a long-term goal for Afghanistan. In the short term, a commercial arbitration system can be introduced to resolve disputes as courts develop. But as commercial arbitration is rarely faster and cheaper than the judicial process, it is not a long-term solution. When establishing rules of civil procedure for the developing court system, Afghanistan can encourage efficiency by: giving judges the authority to impose strict deadlines for the exchange of evidence and arguments, limiting the disputed issues at a pre-trial conference, limiting the opportunity for parties to change claims and introduce counterclaims, imposing a maximum length for arguments and sanctioning dilatory tactics. Summary proceedings and other types of fast track procedures can be introduced to dispose quickly of undisputed claims or claims that cannot be seriously disputed. An efficient system of enforcing judgments through private enforcement officers is also critical to the efficiency of the entire judicial process.

Closing a business

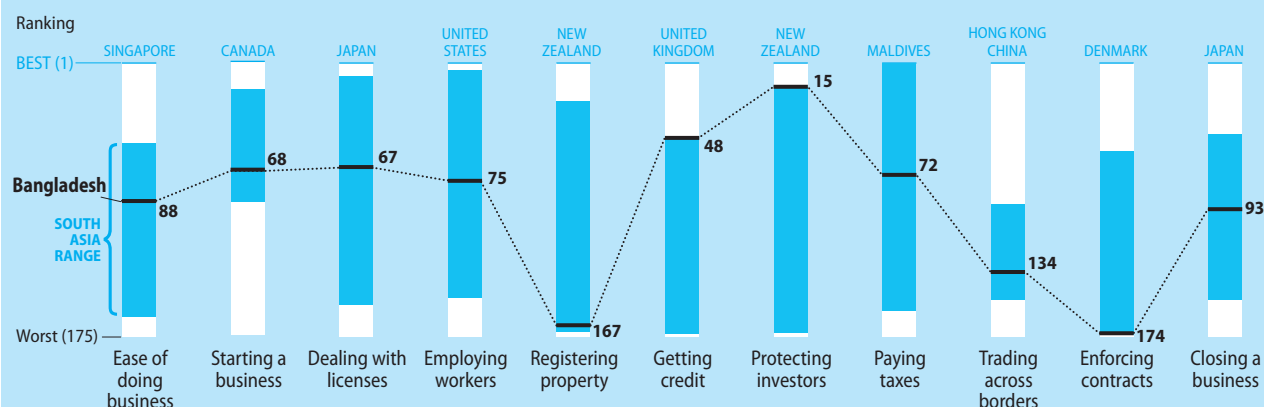
Afghanistan is recorded as “no practice” on the ease of closing a business, as there have been no bankruptcy cases in the country. Businesses simply close operations, leaving creditors with no option other than to attempt recovery through ordinary enforcement proceedings. There is no bankruptcy law.

What to reform

Bankruptcy law is most relevant in countries with developed financial systems and where businesses have several creditors who would compete for recovery of limited funds of an insolvent firm. In poor countries, reformers would do better to focus on improving foreclosure of secured debt outside of bankruptcy. Afghanistan can improve a lender's chances of recovery from an insolvent business by introducing a secured transactions law that allows for out-of-court enforcement. As a next step, the government can introduce a bankruptcy law to handle more complex insolvencies with several claimants, which may emerge as the economy develops.

COUNTRY PROFILE

BANGLADESH Ranked 3rd in South Asia, following the Maldives and Pakistan.



Starting a business

Entrepreneurs in Bangladesh do not need to put up any minimum capital to start a business, but that is about all the relief they get. Bangladesh has a worldwide rank of 68 on the ease of starting a business. The process requires 8 procedures taking 37 days at a cost of 88% of income per capita—a decline from 94% in 2005. Within the region, only Bhutan and India make start-up more burdensome. The greatest obstacle is cost, which is higher in Bangladesh than in any other South Asian country. Only Nepal (where start-up costs 79% of income per capita), Afghanistan (67%) and India (74%) are in a comparable league. Elsewhere in the region it takes less than 22% of income per capita to start a business (table 2.2).

Within Bangladesh start-up takes 30 days in both Khulna and Bogra and 37 days in Dhaka and Chittagong. While all entrepreneurs have to complete all 8 procedures, the cost of starting a business in Bogra, Khulna and Chittagong (62% of income per capita in each case) is lower than in the capital city, Dhaka (88%).

TABLE 2.2

Starting a business in South Asia

Country ranked by ease of starting a business	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)
Afghanistan	3	8	67	0
Maldives	5	13	18	7
Sri Lanka	8	50	9	0
Nepal	7	31	79	0
Pakistan	11	24	21	0
Bangladesh	8	37	88	0
Bhutan	10	62	17	0
India	11	35	74	0

Source: Doing Business database

What to reform

Company registration at the Registrar of Joint Stock Companies takes 2 weeks compared to 3 days in Pakistan. A project is underway to automate the Registrar of Joint Stock Companies and streamline the registration process. This is a good opportunity to reduce registration fees. By simplifying the registration process, administrative expenses can be cut. And lower registration fees will encourage more entrepreneurs to register their businesses formally. Costs can be reduced further by making the use of lawyers optional, as in Pakistan and Nepal. To ensure the legality of the documents, standardized documents can be introduced. This also makes the registrar's job easier and reduces the rejection rate of applications.

Further reforms can target delays. Registration with tax authorities requires 2 procedures, i.e. registering with the tax authority and registering for value added tax (VAT). These can be pursued simultaneously with the longer taking 9 days. In Sri Lanka, which requires only one tax registration procedure, the time is 2 days. Bangladesh can speed things in other areas as well. For example, although the database of company names was computerized in 2003, it still takes 5 days to verify the uniqueness of a name. In Pakistan, it takes only 24 hours.

TABLE 2.3

Subnational rankings on the ease of doing business in Bangladesh

- 1 Dhaka
- 2 Chittagong
- 3 Khulna
- 4 Bogra

Note: The rankings for all cities are benchmarked to April 2006 and reported in Appendix III. The ease of doing business averages rankings across the 10 topics covered in *Doing Business*. This excludes variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Source: Doing Business database.

Dealing with licenses

Registration is only the beginning. Businesses then need to obtain an array of permits and licenses to begin operating—a cumbersome process in Bangladesh. As an example it takes 13 procedures and 185 days to obtain the permits and licenses to build a warehouse. While the number of procedures is comparable to the OECD average (14 steps), and better than the regional average (16 steps), the time to complete the warehouse licensing process (185 days) is more than a month longer than the OECD average of 150 days. While the cost of licensing (272% of income per capita) is almost three times the per capita income, and much higher than the OECD average of 72%, it is lower than the regional average of 376%, which includes Pakistan's cost of 973% and 606% for India. The three most burdensome steps are obtaining project clearance from the Department of Environment (30 days, costing on average \$400), obtaining project clearance and the building permit from the City Development Authority (75 days, costing \$70) and obtaining a power connection (40 days, costing from \$100 to \$1,000 depending on the project size).

Obtaining a license in Chittagong and Bogra, especially in the pre-construction period, requires more procedures (in total 15 and 14 procedures, respectively) but less time (150 and 146 days, respectively) compared with Dhaka (13 procedures in 185 days). The cost of licensing in terms of percentage of income per capita is the highest in Dhaka (272%), more than twice as much as in Chittagong (128%), Khulna (104%) or Bogra (115%), mainly because of the cost of obtaining facilities from utilities authorities (about \$760) and a \$400 fee to obtain project clearance from the Environment Department in Dhaka.

What to reform

A recent World Bank Group Foreign Investment Advisory Service (FIAS) review of the environmental clearance process concluded that delays in the processing of environmental clearance certificates (ECCs) can be reduced by improving the capacity of inspectors and technical officers. The lack of trained staff, plus deficiencies in the legal framework and corrupt practices, also means that businesses often get clearance without putting in place an adequate environmental management system. Although all industries are required to have an ECC, a large majority is operating without such certificates. In brief, well-meaning businesses are harassed while the goal of environmental protection is often unrealized. A similar review should be conducted of the procedures at the City Development

Authority, the Rajdhani Unnayan Kartripakkha (RAJUK), and those for obtaining a power connection.

Other reforms are underway and require continued implementation. The Board of Investment recently introduced e-government processes that allow online tracking of various approval requests. This has resulted in some reduction in time needed to obtain approvals. The Bangladesh Export Processing Zones Authority (BEPZA) is introducing e-government in its work to facilitate online clearances and other investor services. These projects need to be sustained and replicated in other government agencies. Strict time limits in licensing combined with a silence-is-consent rule—where the authorization is automatically given after a specific period of time passes—can further reduce delays.

Employing workers

Bangladesh scores among the best in the region and ranks 75th worldwide on the ease of employing workers. There is no variation for all indicators of employing workers at the sub-national level because the same national employment regulations apply throughout the country. The cost of hiring is zero—there are no social security taxes or payroll taxes associated with hiring a new employee. By contrast, in India, Pakistan and Sri Lanka the cost of hiring ranges between 12 and 17% of salary. It is also relatively easy to fire a worker in Bangladesh. Employers are not required to obtain approval from a third party before dismissing one redundant worker or even for collective dismissal. There is no legal requirement to retrain or replace workers prior to dismissal. Only 1 month's notice is required and there is no legally mandated penalty for redundancy dismissal. Severance payments can be costly though, amounting to 47 weeks. The rigidity of hours worked is also quite low in Bangladesh. Until recently, trade union activity was not allowed within export processing zones. The government has recently enacted a law allowing limited trade union activities in the export processing zones.

What to reform

While by regional standards Bangladesh boasts fairly flexible employment laws and regulations, it could nevertheless work to increase flexibility. Bangladesh's total firing costs, at 51 weeks' wages, are high. Decreasing the cost of firing would make it easier for employers to hire workers when there is a rise demand, because employers would be less fearful of burdensome firing costs in the event of an economic downturn.

Bangladesh could also benefit from loosening its restrictions on weekend work. Under the Factories Act of 1965 if an employer wishes to have an employee work on a weekly holiday, the employer must, first, give notice to an inspector of this intention and, then, display a notice to the same effect in the workplace. This process can be simplified. The same goes for restrictions on redundancy. In Bangladesh an employer must send copies of redundancy notices to an inspection official. Streamlining the employment process makes it simpler for businesses to respond to shifts in the market, and reducing bureaucracy would lower their costs of operation.

In September 2006 the government passed a new labor law. The effects of this new law can be expected to be felt in the coming year.

Registering property

Bangladesh has a worldwide rank of 167 on the ease of registering property, among the worst global rankings by any South Asian country on any of the *Doing Business* indicators. It takes 8 procedures and 425 days to register property. By contrast in Nepal 3 procedures are required and in Pakistan and India, 6. Sri Lanka also has 8 procedures—but the process there takes only 63 days. The cost of registering property is also high in Bangladesh, at 10.5% of the property value compared to a regional average of 5%.

The longest delay is in registering the property at the municipal deed registry office, which takes between 180 and 540 days. The buyer may obtain a certified registration document within a week, but obtaining the original certificate may require about 6 months to 1½ years, or even up to 2 years in some cases. By contrast, in Sri Lanka it takes only 36 days to register at the land registry. In Pakistan, 38 days. In Nepal, it takes only 1 to 2 days for registration of the deed at the land revenue office and issuance of a new title certificate. Obtaining the permission from the municipality office, the RAJUK, to transfer property ownership, one of the early steps in the process, adds 60 days to the process in Bangladesh. Verification of the record of rights from the land revenue office adds another 15 to 60 days.

The ease of registering property varies by city. While there are seven common registration procedures throughout the country, for the land being developed by City Development Authority (for instance, RAJUK's development of model towns in Gulshan, Banani, Baridhara, Uttara and the Nikunja Residential Area) one additional step is required—obtaining permission from

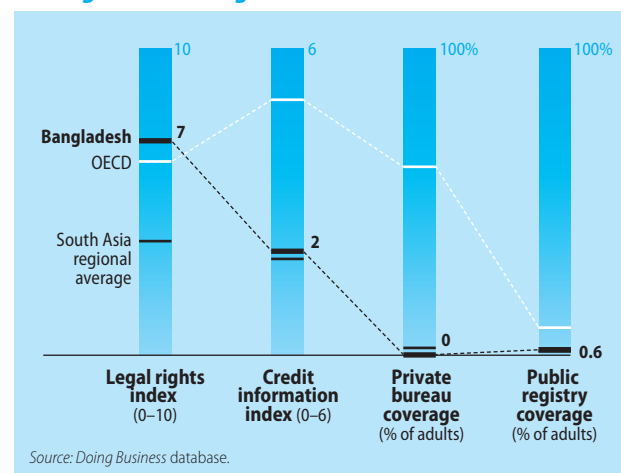
the City Development Authority to transfer ownership of the property—which makes the registration process in Dhaka lengthier and costlier than in the rest of the country. In the case of Bogra and Chittagong it takes 391 days and costs 10% of property value and in Khulna it takes 373 days and costs 9% of property value, compared to Dhaka (425 days and 10.5% of property value).

What to reform

Reforms to make property registration easier have started. A Land Registration Act came into force on July 1, 2005. It will help reduce false and multiple registrations of land. Registration fees were also cut by 1%, although they remain high overall at 10.5%. A pilot project to computerize land records has been completed in the Demra thana of the Dhaka district. Title deed requirements are being simplified—with the title, the location of the land and the map on a single page and all other documents in a backup database. The government is moving ahead in replicating the pilot model in phases in other thanas (Upa-Zillas) of the country under a public-private partnership.

Simple reforms can also have a big impact. Bangladesh can encourage formal property transactions by further reducing the registration fees and stamp duties, which cost 3% and 5%, respectively, of the property value. By contrast, in Pakistan the stamp duty is 3% and registration fee is 1% of the property value. In Sri Lanka, there is no separate registration fee; it is subsumed within a stamp duty set at 4% of the property value. In India, while the stamp duty is 5% of property value, the registration fee is only 1%. Typically reductions in fees lead to more revenues, as more properties are registered and with less underreporting of property values.

FIGURE 2.2
Getting credit in Bangladesh



Getting credit

Bangladesh ranks 48th worldwide and ahead of the South Asian average on the ease of getting credit. There is no regional variation within Bangladesh. Although no private credit bureau operates, a public credit registry functions reasonably well. Bangladesh scores 2 out of 6 on the credit information index—at the same level as Nepal but behind Pakistan, India and Sri Lanka. With a score of 7 out of 10, Bangladesh is the top performer in the region on the index of legal rights for borrowers and lenders, higher than the OECD average of 6 (figure 2.2). This high score is in large part a result of the Money Loan Court Act of 2003. The reform significantly sped foreclosure on collateral by introducing summary proceedings and allowing credit institutions to sell collateral by public auction after giving due notice to the defaulting debtors.

Further improvements are needed. It is estimated that 6 million households in the middle category (small businesses, and small and marginal farmers), are too poor for the formal banking sector and too rich for the traditional microfinance sector. Only 7% of one million potentially eligible small businesses are currently served by the banking sector. Private commercial banks cannot profitably serve this missing middle segment because they do not have the appropriate products and processes to reach it. For example, a typical application for a small business loan requires up to 29 steps, 9 meetings with the client and over 50 different documents totaling 200 pages. Such cumbersome procedures make it very expensive for banks to lend money to small businesses. At the same time margins in the private banking sector are still sufficiently high that banks neither have to look for new markets nor invest in developing new products and technologies.

What to reform

Bangladesh can expand access to credit by further improving the ease of taking and enforcing collateral. Reforms to the existing secured transactions laws can expand the pool of assets that can be used as collateral to enable every physical and juridical entity to securely pledge all types of assets. Moreover, enforcement of collateral requires further streamlining. The Money Loan Court Act's reform to allow creditors to sell collateral without a trial is a great step forward. But the major bottleneck lies in cumbersome procedures for selling collateral through public auctions. Allowing for private, licensed enforcement and auction agents would significantly speed recovery of collateral.

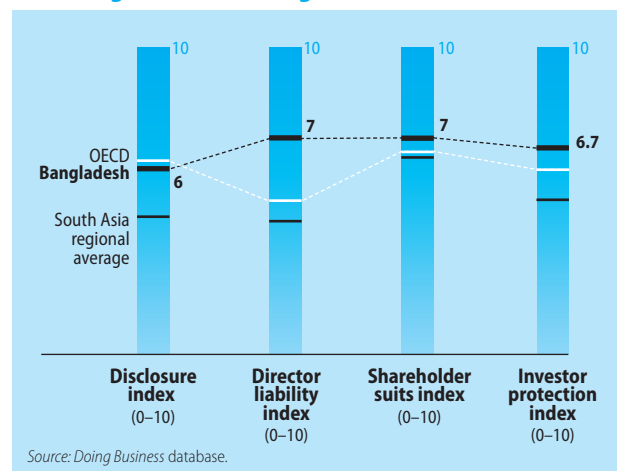
Lenders are also more likely to extend credit when they can accurately assess borrower risk. The government can encourage more effective sharing of credit information by: supporting the computerization of the credit registry; making available at least 2 years of historical data; expanding the registry's coverage to include information on loans under \$800; and extending the credit registry to cover information from microfinance institutions and non-financial institutions, such as utilities, retailers and trade creditors. Finally, Bangladesh can change its laws to allow private institutions to provide credit information services. While it is unlikely that such an industry would immediately flourish, private credit bureaus are generally more effective at serving lenders than public registries. Allowing them to form in Bangladesh can be an important element in the move from a relationship-based economy to a relationship-neutral economy.

In the short to medium term, access to finance for small businesses can be expanded, and technical assistance to financial institutions can help them develop credit products for small businesses. Bank portfolios should be expanded outside the largest two metropolitan centers, which currently account for the vast majority of financial intermediation.

Protecting investors

Bangladesh has a global rank of 15 on the protecting investors indicator—the top performer in the South Asia region. As the indicator examines areas governed by national legislation in Bangladesh, there are no differences at the sub-national level. Bangladesh performs particularly well in the director liability index and shareholder

FIGURE 2.3
Protecting investors in Bangladesh



suits index, which measure the ease with which an investor can take directors and controlling shareholders to court—and win—for violations of their duties to the company. Bangladesh also scores well in the disclosure index and the investor protection index. On all four indices, Bangladesh scores above the regional average and higher even than the OECD average, except on the disclosure index (figure 2.3). There were no revisions to the investor protection regulations between 2005 and 2006.

What to reform

Investors in Bangladesh may be able to sue directors quite easily, but they are unlikely to learn of the mismanagement in the first place. Disclosure requirements surrounding large, related-party transactions are weak. Bangladesh can improve transparency by requiring immediate public disclosure of large transactions involving company insiders. It could also mandate external review of such transactions—either by an independent auditor or the stock exchange—shining more light on transactions involving conflicts of interest.

Paying taxes

Bangladesh ranks 72nd worldwide on the paying taxes indicator. A typical business makes only 17 tax payments per year, compared with 61 in Sri Lanka, 59 in India and 47 in Pakistan. However, the time needed to comply with tax rules is very high, at 400 hours, compared with 264 in India and 274 in Bhutan. At 40.3% of commercial profits, the total tax burden is still relatively high although below the regional average of 45.1% and OECD average of 47.8%. In Nepal, for example, the total tax burden is only 32.8% of commercial profits.

What to reform

Bangladesh needs to accelerate the implementation of reforms to simplify tax compliance. The National Board of Revenue has launched a medium-term strategy to improve tax administration. In November 2003, the Large Taxpayer Unit (LTU) for income tax was restructured (taxpayer services, revenue collection, accounting, audit, and enforcement). It was also given the responsibility for collecting withholding taxes. Steps were taken to strengthen filing and payment procedures, improve detection of stop-filers, increase capacity for audits and introduce computerization of certain LTU operations. And an LTU for VAT was set up in October 2004.

The government can also encourage compliance by reducing tax rates to more moderate levels. Corporate in-

come tax in Bangladesh accounts for the bulk of total tax revenues, and at 37.5% is the highest in the region. Such high rates encourage tax evasion. Revenues can be maintained or even increased if the tax rate is decreased along with broadening the tax base. A pre-announced program of reductions in customs duties and, especially, para-tariffs to bring Bangladesh in line with the developing country average within 5 years would give industry a clear signal and allow companies to plan their investments.

Trading across borders

Bangladesh ranks 134th on the ease of trading across borders, well below the regional average. It takes 16 documents and 57 days to import, the second longest time among the South Asian countries after Afghanistan with 88 days. Exporters are relatively better off, requiring 7 documents and 35 days, comparable to Nepal (44 days) and Bhutan (39 days). The key export sector—garments, which account for nearly three-fourths of exports—can clear exports much faster. Even imports meant for the garments sectors clear much faster than average. In Bangladesh the total cost to import totals \$1,287 per container, cheaper than Afghanistan (\$2,100), Nepal (\$1,800) and Bhutan (\$1,950), but more expensive than Sri Lanka (\$789) and Pakistan (\$1,005), and comparable to India (\$1,244). The cheapest port at which to import is Dhaka, at \$829 per container, while the most expensive is Bogra (\$979). It is cheapest to export from Chittagong (\$553) due to its proximity to a seaport, and the costliest to export from Dhaka (\$607).

What to reform

The government has recently taken a number of initiatives to improve the environment for trading across borders. Customs procedures were streamlined by introducing the ASYCUDA++ system, which involves electronic processing and tracking of files. A one-stop service was introduced at the Chittagong port to facilitate port- and customs-related paperwork. However, the infrastructure of both sea and land ports requires improvement. Further investment in port equipment and streamlining of processes is needed, in particular on the import side. Trading across borders could be made easier by first reducing documentary requirements. For instance the requirement for import licenses and consular certification of documents originating from abroad could be abolished. Bangladesh could also reduce many of the fees related to imports.

Enforcing contracts

Enforcing a contract in Bangladesh is the most cumbersome of all countries in the region. It requires 50 procedures and about 4 years (1,442 days) to enforce a contract, compared to 20 procedures and 837 days in Sri Lanka (figure 2.4). Costs amount to 46% of the claim, compared to 21% in Sri Lanka.

Though there is little difference among the various cities of Bangladesh in terms of the procedures for enforcing contracts, Dhaka is the most expensive (46% of claim) due to the high attorney fees and takes the second longest time (1,442 days). It is comparatively less expensive in Bogra and Khulna (about 40% of claim) due to lower attorney fees, but takes the longest in Bogra (1,790 days), due to a 4-month delay in filing the lawsuit, as opposed to only a week in Dhaka.

The government introduced major reforms in the Civil Procedure Code in 2003. Delays are showing signs of improvement, but the reforms have yet to give the desired results. Two recent reforms have improved the judicial system. The Money Loan Court Act of 2003 set up a special court to deal exclusively with loan defaults exceeding 5 lakhs, prescribed time limits for granting judgments and imposed restrictions on appeals.

What to reform

Bangladeshi entrepreneurs will benefit from further implementation and extension of the current reforms. Case management pilot programs in 5 districts have given judges a more active role in determining the pace of cases. The project cuts short the serving of notice,

implements a courier service, imposes time limits and creates a central filing system. These pilot programs should be extended to other courts. Enforcing contracts can be sped further by computerizing and linking the courts' databases. The current system of double filing cases at the central register and at the court of original jurisdiction is inefficient. Developing specialization in commercial disputes by training judges is also important for unlogging the courts.

Closing a business

Bangladesh is in 3rd place among its South Asian counterparts when it comes to the ease of closing a business—after Pakistan and Sri Lanka—and 93rd place worldwide. It takes 4 years to go through bankruptcy proceedings, significantly lower than the 10 years it takes in India. But that is little comfort as global best practice is 0.4 years (Ireland) and regional best practice is 2 years (Sri Lanka). The cost of insolvency is 8% of the estate value and the recovery rate for claimants is 25%.

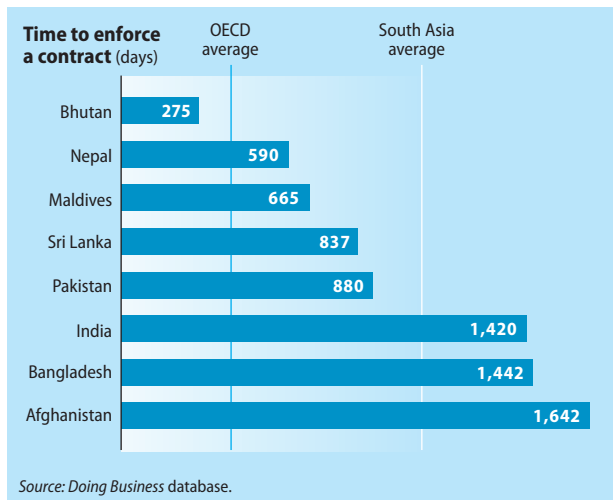
While in Dhaka it takes 4 years to go through bankruptcy proceedings with a cost of 8% of the estate value, there have been less than 60 bankruptcy cases in Chittagong, Khulna and Bogra in the last 20 years. Therefore these cities score “no practice” on the *Doing Business* closing a business indicator.

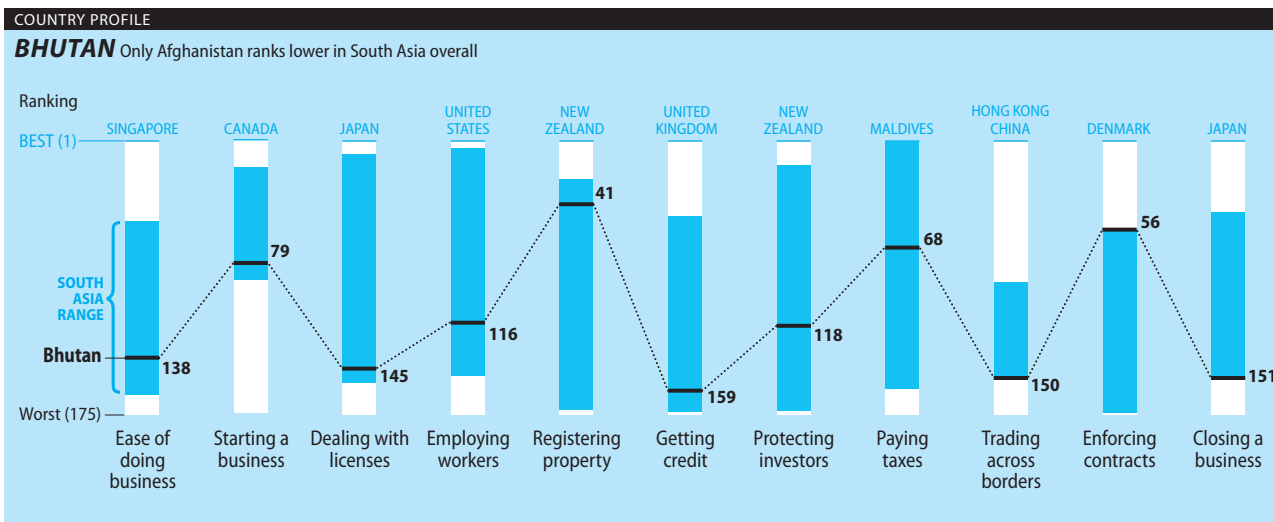
What to reform

Efficient bankruptcy procedures increase the amount that creditors recover from insolvent firms. They cause credit markets to expand and investments to rise. Bangladesh can best improve insolvency proceedings by focusing on efficient foreclosure and liquidation proceedings. Bankruptcy should allow for a fast process whereby creditors can decide on the highest value procedure. The process should also give qualified insolvency managers incentives to follow quickly the most efficient procedure. Regardless of whether a firm enters foreclosure, liquidation or reorganization, the administrator should be able to sell the business as a going concern so that the new owners keep the intrinsic value of the operating business and not just the assets. Bangladesh can also improve the efficiency of bankruptcy by eliminating criminal liability for managers who allow a company to become insolvent. Such managers are forbidden from entering into a corporate position for almost 7 years. This discourages entrepreneurship. It also dissuades companies from starting bankruptcy proceedings early enough to save the company.

FIGURE 2.4

Lengthy delays in enforcing contracts





Bhutan ranks 138th out of 175 countries on the ease of doing business. While wide-ranging reforms have been initiated in Bhutan, implementation is still far from complete. The cost of delaying reforms is high in an increasingly international competitive environment. Progress in reforming business regulations will lead to more investment, job creation and growth.

Starting a business

Bhutan ranks 79th on the ease of starting a business, ahead of only India in the South Asia region. No minimum capital requirement applies and start-up cost is one of the lowest in the region, at 17% of income per capita. However, entrepreneurs have to complete 10 separate procedures taking 62 days, well above the regional average of 8 procedures and 33 days, and the OECD average of 6 procedures and 17 days.

What to reform

The Department of Industries in Bhutan has begun reforms to simplify the registration process. The initial target is to cut registration time to 47 days. Currently, entrepreneurs are required to obtain clearances from the police, the Department of Industries, the city council, the company registry and the Ministry of Trade. Bhutan can greatly simplify start-up by creating a single access point, by locating representatives from the different agencies in one building where the entrepreneurs can obtain all of these clearances in one visit. Ideally, the government can set up an online registration system, which unites different agencies and automatically forwards an application from one agency to another. Strict time limits combined with a silence-is-consent rule, which

grants authorization automatically after a specific time has lapsed, can further reduce delays and encourage businesses to register formally.

Dealing with licenses

Licensing is time-consuming and bureaucratic, placing Bhutan at 145th position worldwide, ahead of only India in the South Asia region. Fulfilling the licensing and permit requirements to build a warehouse takes 26 procedures and 204 days. Bhutan fares poorly when compared with other South Asian countries.

What to reform

As part of its reform of business registration, the government is also streamlining licensing requirements. An amendment to the Companies Act is being drafted, existing rules and regulations consolidated and capacity within the Registrar of Companies strengthened. The current process is characterized by a complex set of inspections, which should be simplified through the reforms. As with business start-up, creating strict time limits for licensing and a silence-is-consent rule, whereby licenses are automatically approved after a set amount of time has passed, can further reduce licensing delays.

Employing workers

Rigid labor markets constrain private sector growth. Bhutan ranks 116th worldwide on the ease of employing workers. Regulations governing labor markets are rudimentary in Bhutan. Employment of Bhutanese nationals falls under the Rules and Regulations on Employment of Bhutanese Nationals in the Private Sector (1997). All

though procedures for dismissing workers are relatively flexible, the cost of firing in terms of advance notice requirements, severance payments and penalties is one of the highest, at 95 times the weekly wage. The South Asian regional average stands at 72, which is more than double the OECD average of 31. Restrictions on term contracts discourage new job creation. The minimum wage officially applies only to Bhutanese public sector workers, with limited impact on private businesses.

Part of the inflexibility in Bhutan's labor markets can be explained by the segmented nature of the labor market: it is estimated that non-nationals represent approximately 50% of total formal sector employment. Stringent restrictions exist for recruiting foreign workers. When permitted, recruiting foreigners entails time-consuming procedures. To address the duality and gaps, the government is developing a more flexible labor policy, including laws and regulations to reduce constraints for young people—the most greatly affected by the rigid labor institutions—in finding jobs. A critical element of reform involves the parliamentary ratification of the Labor and Employment Act that aims to balance the legitimate needs of workers with the objective of promoting private sector activity.

What to reform

Improving the functioning of labor markets is a priority for the government. A range of reforms to streamline the process for recruiting foreign workers were implemented recently. In particular, an online recruitment system has cut the time to obtain permits for foreign workers from 3 months to 3 weeks. And a one-stop service center was established, allowing applicants to complete the formalities for foreign worker recruitment in one place.

The government has also prepared a Labor and Employment Act to balance the legitimate needs of workers with the promotion of private sector activity. Once effective, this Act will: (i) allow Bhutanese, particularly youths, to be employed in a wider spectrum of economic activities, (ii) allow for more flexible working hours; (iii) allow night work in industries requiring round-the-clock work scheduling; and (iv) help streamline processes and reduce the time required for recruiting foreign workers.

Registering property

Bhutan ranks 41st on the ease of registering property. It takes 5 procedures and 93 days to transfer ownership of a property just outside urban Thimpu (figure 2.5). Delays are longer than in Nepal (5 days), Pakistan (50 days), India (62 days) and Sri Lanka (63 days). But costs to register property are negligible, compared to the South Asia average of 5% of the property value.

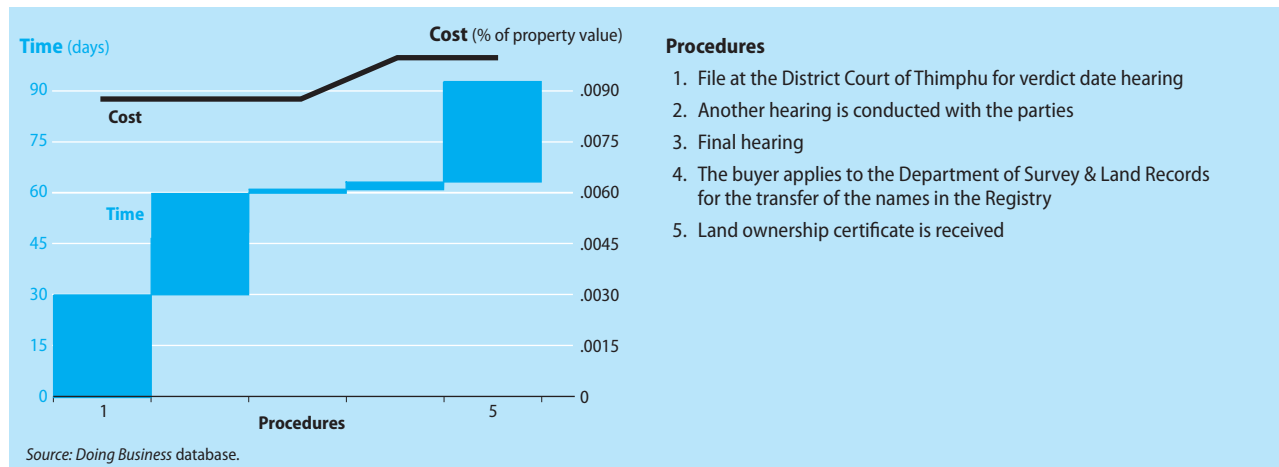
What to reform

Reforms can start by taking property registration out of the courts and making it a purely administrative process. In rural Thimpu, a judge reviews and approves the application for property transfer. This causes a 30-day delay for businesses registering property. It also takes time away from the main task of judges—resolving disputes. The buyer then makes yet another application to transfer property to the Department of Survey and Land Records. By contrast, in central urban Thimpu courts are not involved in transferring property. There, the City Corporation records property transactions and the entire registration process takes 44 days.

Delays can also be reduced by continuing the pro-

FIGURE 2.5

Registering property in Bhutan



Procedures

1. File at the District Court of Thimphu for verdict date hearing
2. Another hearing is conducted with the parties
3. Final hearing
4. The buyer applies to the Department of Survey & Land Records for the transfer of the names in the Registry
5. Land ownership certificate is received

cess of computerization of titles in the Department of Survey and Land Records. The process started in the 1990s and approximately 70% of titles are now digitized. These efforts have sped the registration process and should be completed. The City Corporation in urban Thimpu can also cut delays by following the example of its rural counterpart in computerizing records.

Getting credit

While Bhutan's financial sector is stable, it lacks depth. Bhutan ranks 159th out of 175 on the ease of getting credit. While the establishment of a credit information bureau has been initiated, legal rights for borrowers and lenders are still weak. Developing financial markets is a major challenge. There are only 2 banks and 2 non-bank financial institutions in Bhutan. The loan market is thin, substantial assets are held abroad and there is little private and international participation in banks. The government remains the dominant shareholder in financial institutions. Some capital controls are imposed. Financial reforms to strengthen provisioning requirements and capital adequacy are underway. The interest rate spread is about 10%, higher than the regional average of 7%.

What to reform

The rights of creditors to take and enforce collateral efficiently should be strengthened. Developing depth in the financial sector by introducing new financial products—such as credit cards and ATM machines (first introduced in April 2004)—is needed. Setting up more efficient payment mechanisms and increasing competition by opening the market to new non-bank financial institutions will further encourage lending. Finally, building the capacity of the Royal Monetary Authority to supervise banks and regulate insurance companies effectively is important for financial market development.

Protecting investors

Bhutan ranks 118th on the protecting investors index, below the South Asia average and ahead of only Afghanistan. Although transactions involving conflicts of interest must be disclosed in periodic filings, there are no requirements for insiders to immediately disclose such transactions. The procedures available for shareholders to seek redress in cases of self-dealing are also weak, with Bhutan scoring only 4 out of 10 on the ease of shareholder suits measure.

What to reform

Complex minority investor protections are more appropriate for countries with stock exchanges and developed markets than for countries with nascent financial institutions, such as Bhutan. Bhutan can benefit, however, from enforcing a baseline of protections for minority investors. In particular, enforcement can be strengthened by providing greater access to evidence during trial. The court procedure code currently exempts witnesses from having to turn over evidence relevant to the case. This opens a wide loophole for defendants looking to hide evidence of their wrongdoing. Protections in other areas, either through disclosure or detailed director obligations to the company, are less effective if they ultimately cannot be enforced in court. By reforming such loopholes, Bhutan can encourage investors to entrust their money to Bhutanese companies.

Paying taxes

Bhutan ranks 68th on the ease of paying taxes, middle of the range for the South Asia region. Every year entrepreneurs must make 19 tax payments and spend 274 hours complying with tax rules. They pay 43% of profits in taxes. Tax revenue accounts for only around 50% of total revenue, with the majority of non-tax revenue stemming from power exports to India. The tax base is narrow, but is expanding with growing taxation of private businesses and the introduction of an income tax in 2002-03. The government provides tax incentives to promote private sector development in manufacturing, services and export-oriented industries for a period of three years. Revenue from taxes on trade is small.

What to reform

Tax administration is improving in Bhutan. The cost of generating revenue is not unduly high. For example, as most items are imported into Bhutan, the sales tax is mostly collected at the point of entry, lowering administrative costs. Corruption in tax administration is not known to be a major problem. Further improvements can focus on simplifying tax compliance for business. The number of payments and number of different taxes a company has to pay can be reduced by consolidating different types of taxes and eliminating minor taxes that raise little revenue but increase hassle for business. The government can also address gaps in monitoring and the use of personal identification numbers.

Trading across borders

It takes 39 days and 10 documents to fulfill all procedures to export goods in Bhutan. Importing is no easier, requiring 42 days and 14 documents. Bhutan ranks 150th on the ease of trading across borders, far from the top performers in the region.

Although trade administration is an obstacle, Bhutan is otherwise relatively open. Bhutan has a free trading regime with India, which is its main trading partner and accounts for over 90% of exports and imports. Average tariffs are about 24% and there are 7 tariff bands. Bhutan does not have any taxes on exports. The South Asia Free Trade Agreement (SAFTA) became operational in January 2006 and Bhutan is also in the process of negotiating accession to the World Trade Organization. Five railway routes have been identified from India to Bhutan, and with the establishment of a dry port and direct transshipment possibilities through India, future trade policy with the rest of the world will become more meaningful.

What to reform

Bhutan's growing membership in various trade associations is likely to open up new markets for Bhutanese products. It can expand trade even further by tackling administrative hurdles to import and export. Trade agreements are most effective when they go beyond simply liberalizing tariff regimes—especially for a landlocked country that depends on efficient border procedures of its neighbors. Bhutan can pursue various border cooperation agreements with its neighbors, in particular its major trading partner India. This will avoid multiple inspections of cargo on both sides of the border, allowing trade to flow freely across borders.

Bhutan can further simplify trading procedures by introducing a unified customs declaration form, consolidating several documentary requirements for different government departments. Also, Bhutan could move away from a 100% physical inspection regime to a computerized risk management system, where less than 20% of all imports are selectively targeted for inspection. Finally, Bhutan can cut delays in trade by improving road infrastructure on the main trade corridors and developing a dry port. Ongoing work on the Thimphu-Phuentsholing Express Highway and improvements to railway routes between Bhutan and India are positive steps in this direction.

Enforcing contracts

Bhutan ranks 56th on the ease of enforcing contracts. It takes on average 275 days to resolve disputes through the courts. Bhutan's ranking on contract enforcement improved since last year because of a drop in costs. While court fees are negligible in Bhutan, lawyers previously were charging their clients exorbitantly high amounts. Last year, the Bhutanese authorities took reform measures to limit fees that lawyers can charge. As a result, today the total cost of enforcing contracts amounts to 20% of the value of the claim, compared with 114% of the value of the claim in 2005.

What to reform

Establishing fast, fair and affordable courts encourages trade beyond established business partnerships. To further cut delays, the number of appeals allowed can be reduced. The judiciary can also consistently grant summary judgment when appropriate, as is provided for in the Code of Civil Procedure. More generally, the government needs to build judicial capacity by increasing the number judges and lawyers skilled in commercial law.

Closing a business

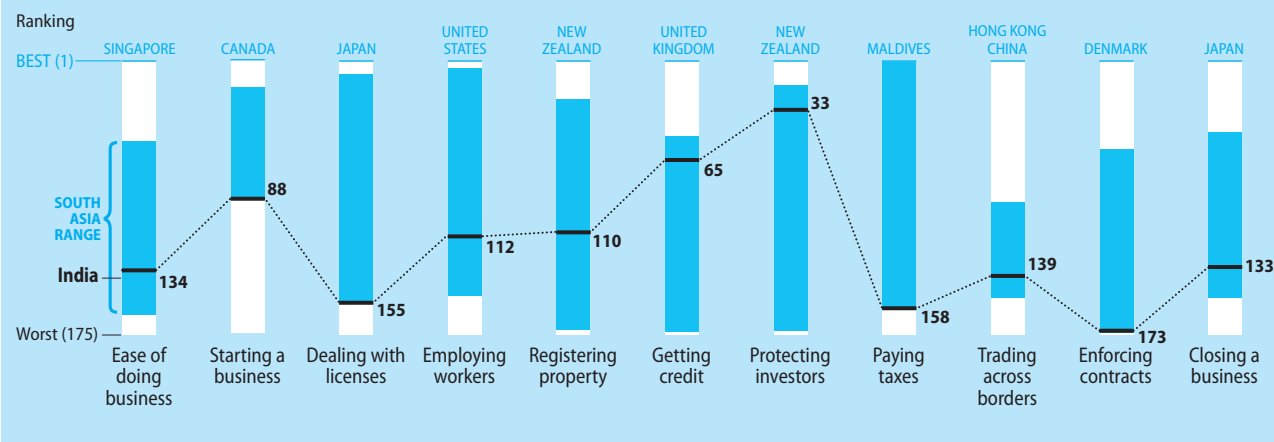
Bhutan is recorded as “no practice” on the ease of closing a business, as there are no bankruptcy cases in the country. Although Bhutan has a bankruptcy law, it is not applied. On average the company registry has recorded 3 business closings per year over the last 5 years. None have been closed through bankruptcy proceedings. Instead businesses simply discontinue operations, leaving creditors with no option other than to attempt recovery through ordinary enforcement proceedings.

What to reform

Bankruptcy law is most relevant in countries with developed financial systems and where businesses have several creditors who would compete for recovery of limited funds of an insolvent firm. In poor countries, reformers would do better to focus on improving foreclosure of secured debt outside of bankruptcy. Bhutan can increase a lender's chances of recovering from an insolvent business by allowing for out-of-court enforcement of collateral agreements and providing creditors with priority to their collateral.

COUNTRY PROFILE

INDIA Ranks lowest in South Asia in three areas



Starting a business

Starting a business in India has become considerably easier over the last two years. It now takes 35 days to register a company in Mumbai, compared with 71 days a year ago and 89 days in January 2004. The improvements are a result of computerizing the process for obtaining tax registration numbers—both Personal Account Numbers (PANs) and Tax Account Numbers (TANs). Additionally, the stamp duty can now be paid through authorized dealers (banks) as well as through the stamp office.

There is still room for improvement, however. India lags behind best practices when compared with other countries. Start-up takes 2 days in Australia. The OECD

average is 17 days. The number of procedures to start a business in India (11 procedures) is also high compared with the OECD average of 7 procedures and the South Asia average of 8.

Although India does not impose a minimum capital requirement, the official costs to start a business are high, at 74% of income per capita. This has risen from 62% last year following increases in VAT registration fees. Costs are far above global benchmarks—such as 0% of income per capita in Denmark and 9% of income per capita in China—and are even high in comparison to the South Asia average (47%) and the East Asia average (43%).

Although all Indian cities have sped business start-up, large sub-national variations remain. Within India the shortest time to start a business is 35 days in Mumbai. It takes the longest in New Delhi and Bhubaneshwar (52 days). It costs the least to start a business in Bhubaneshwar (41% of income per capita) and the most in Mumbai (74%) (figure 2.6).

FIGURE 2.6

Time and cost to start a business in India

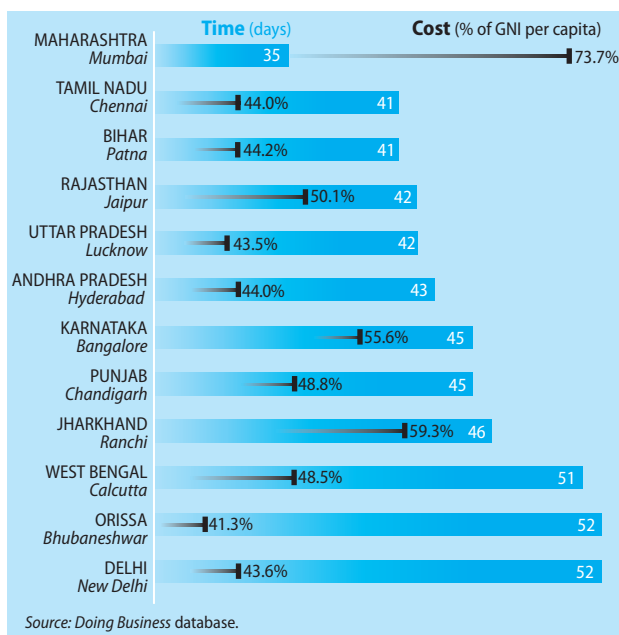


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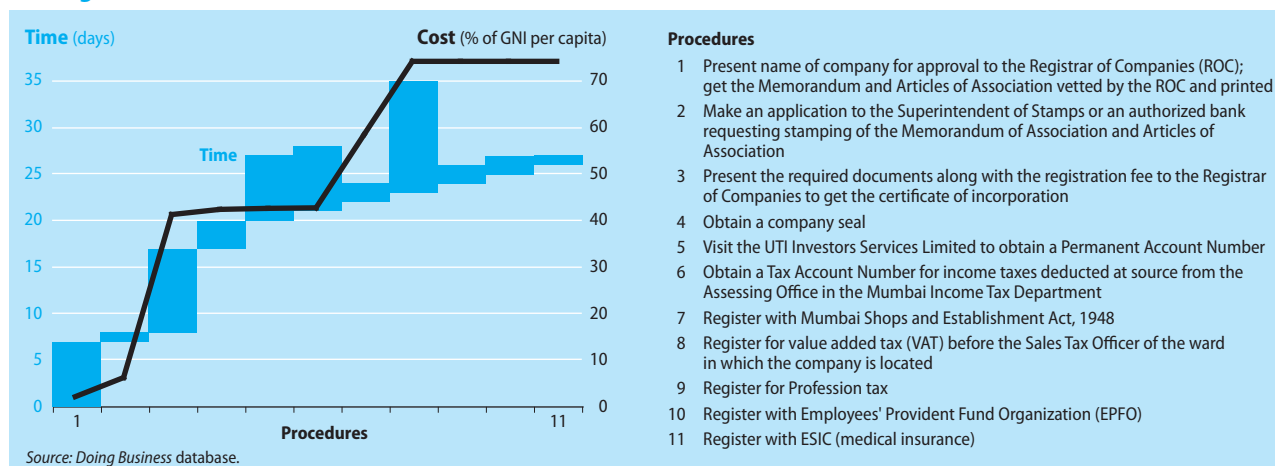
Subnational rankings on the ease of doing business in India

- | | |
|----------------|--------------|
| 1 Hyderabad | 7 Chandigarh |
| 2 Bangalore | 8 New Delhi |
| 3 Jaipur | 9 Patna |
| 4 Chennai | 10 Ranchi |
| 5 Bhubaneshwar | 11 Mumbai |
| 6 Lucknow | 12 Calcutta |

Note: The rankings for all cities are benchmarked to April 2006 and reported in Appendix III. The ease of doing business averages rankings across the 10 topics covered in *Doing Business*. This excludes variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Source: Doing Business database.

FIGURE 2.7

Starting a business in India**Procedures**

- 1 Present name of company for approval to the Registrar of Companies (ROC); get the Memorandum and Articles of Association vetted by the ROC and printed
- 2 Make an application to the Superintendent of Stamps or an authorized bank requesting stamping of the Memorandum of Association and Articles of Association
- 3 Present the required documents along with the registration fee to the Registrar of Companies to get the certificate of incorporation
- 4 Obtain a company seal
- 5 Visit the UTI Investors Services Limited to obtain a Permanent Account Number
- 6 Obtain a Tax Account Number for income taxes deducted at source from the Assessing Office in the Mumbai Income Tax Department
- 7 Register with Mumbai Shops and Establishment Act, 1948
- 8 Register for value added tax (VAT) before the Sales Tax Officer of the ward in which the company is located
- 9 Register for Profession tax
- 10 Register with Employees' Provident Fund Organization (EPFO)
- 11 Register with ESIC (medical insurance)

What to reform

In the future, the ongoing e-governance initiative of the Ministry of Company Affairs (MCA), referred to as the MCA-21 project, will further reduce the time to complete all procedures for which the ministry is responsible, such as the approval of company names, the vetting of Memorandum and Articles of Association and registration. The main goal of this project is to make electronic filing available through the MCA website so that Indian entrepreneurs can register their companies online. Still, other steps must be completed to legally start operating a business (figure 2.7).

A big reason why it takes so long to start a business in India is the large number of separate registrations a company must complete. A new business in India must register for a tax account number (TAN) and a permanent account number (PAN) and must also register to pay VAT or sales tax. The new business must, in addition, register with the Labor Department's Employees' Provident Fund Organization (EPFO) and with the Employee's State Insurance Corporation (ESIC). It must furthermore complete a registration under its state's Shops and Establishments Act.

The total time to start a business varies across Indian cities mainly because of differences in the number of days required to file with the EPFO and the ESIC and under the Shops and Establishments Act. For example, the filings with the EPFO and ESIC take one or two days in Mumbai, but can take up to 30 days in New Delhi. Registration under the Shops and Establishment Act takes 2 days in Mumbai but 7 days in New Delhi. Such results show there is potential for Indian cities to learn from each other. The number of days it takes to obtain the TAN and the PAN numbers also varies across

regions. In Mumbai it takes 8 days to complete both procedures, while in New Delhi and Bhubaneswar it takes between 15 and 20 days. This is due to variations in efficiency with which the private companies that issue the PANs and TANs operate in the various Indian states.

To further reduce complexity, the government can introduce a single unique company number that a new business could use for company, tax and social security registrations. As a next step, the company registry could forward the relevant registration information directly to the tax administration offices, the EPFO and the ESIC. In this way, 7 steps could be reduced to one.

Dealing with licenses

Obtaining the necessary licenses to construct a warehouse remains extremely costly in India, at 606% of income per capita. It is also complex and time consuming, requiring 20 procedures and 270 days. India fares poorly when compared with the South Asia average of 16 procedures and 226 days, costing 375% of income per capita. India ranks 155th in the world on the ease of licensing.

Requirements vary considerably across states. It takes 159 days to fulfill all regulatory requirements to build a warehouse in Bhubaneswar—the shortest within India. At the other end of the spectrum it takes 522 days in Ranchi. The cost is lowest in Patna—277% of income per capita—and highest in Calcutta—1,999% of income per capita. The number of procedures is lowest in Bhubaneswar (16) and highest in Patna and Ranchi (25).

What to reform

Reform of licensing regulations is needed at both state and municipal levels. The procedures that cause the greatest bottlenecks are obtaining land use approvals, building permits, power connections, water and sewerage connections and final occupancy certificates. Various municipal and state-level institutions are responsible for monitoring these steps. Among them are the city Development Authority, the Municipal Corporation, the State Electricity Distribution Company and the Water and Sewerage Board. The difference in the time and number of procedures required across states suggests that there are considerable gains to be had from adopting best practices from other states. As an example, obtaining a building permit takes nearly 120 days in Patna, 60 days in New Delhi and 30 days in Mumbai and Bangalore. Obtaining the land use approval takes nearly 90 days in Ranchi, 60 days in Lucknow and Patna, 50 days in Jaipur and Bhubaneswar, 45 days in Chennai, 37 days in Chandigarh, 30 days in New Delhi, 25 days in Bangalore and only 3 days in Hyderabad.

Employing workers

India ranks 112th worldwide on the ease of employing workers. On the rigidity of hours index, India's score—at 20 out of 100—compares relatively well with global benchmarks. Performance is somewhat worse on the difficulty of hiring index (33 out of 100), due to restrictions on term contracts. But regulations make it virtually impossible to fire a worker, in particular for companies employing 100 or more employees. Those companies must obtain the state government's prior approval. India scores 70 out of 100 on the difficulty of firing index, relative to the regional averages of 38 in South Asia, 20 in East Asia and 27 for OECD countries. Firms must pay 56 weeks of salary in notice, severance and penalties to dismiss a worker—slightly less than the South Asian regional average of 72 weeks, but more than the East Asian average of 41 weeks and the OECD average of 31 weeks.

India's labor regulations are also unusually complex. There are currently 47 national laws and 157 state regulations that directly affect labor markets. These are often inconsistent and at times overlapping. As a result it is almost impossible for firms and workers to fully understand their rights and obligations, or for enforcement authorities to ensure compliance.

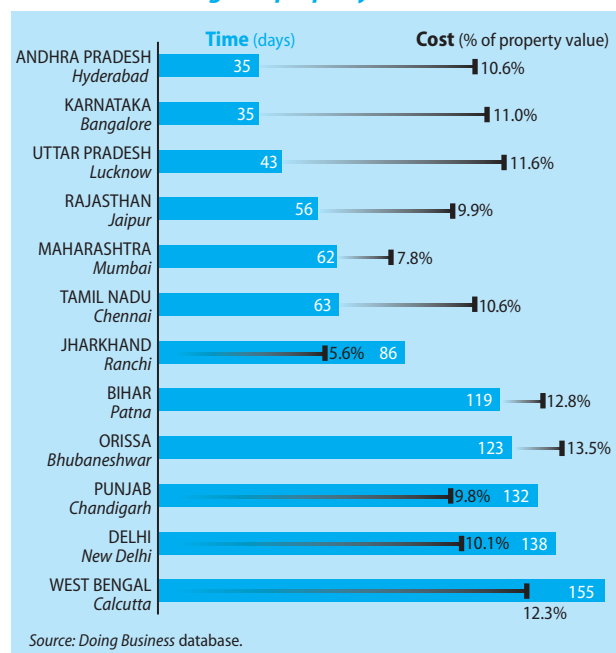
What to reform

Reforming labor regulations is a priority for India. The current rigidities impose significant costs in terms of lost jobs. Recent World Bank research measuring both de jure and de facto applications of the Industrial Disputes Act (IDA) has shown that manufacturing value added, employment and the number of factories are all lower in states with more restrictive labor laws. Estimates suggest that India failed to create almost 3 million formal manufacturing jobs due to just two clauses in the IDA—on retrenchment barriers and dispute-related regulations. The retrenchment clauses make layoffs due to changing market conditions costly. And they hinder the closure of firms with more than 100 workers. This makes firms more reluctant to hire in the first place. The dispute-related clauses create incentives for adjudication rather than reconciliation. The result is an overloaded disputes resolution system. About 533,000 labor disputes are pending, 28,000 of them for more than 10 years.

Reforms should have two main goals. First, they should simplify regulations—with special emphasis on improving industrial relations, facilitating dispute resolution and removing ambiguity. Second, reforms should reduce rigidities in labor markets. Specifically 4 main reforms will increase flexibility: (i) consolidating and simplifying labor laws from the current 47 laws to about 4 covering the main areas of conditions of work and welfare, wages and benefits, social security and dispute resolution; (ii) modernizing the Industrial Disputes Act to

FIGURE 2.8

Time and cost to register property in India



reduce the bias towards the adjudication of disputes and to increase flexibility in hiring and firing while still protecting workers' rights; (iii) resolving ambiguities concerning the Contract Labor (Regulation and Abolition) Act to introduce greater flexibility; and (iv) improving the labor law enforcement and inspection system.

Registering property

India ranks 110th on the ease of registering property. The process takes 6 procedures and 62 days, placing India among the upper half of South Asia countries. By contrast it takes only 1 day in Norway, 32 in China and 47 in Brazil. Costs are also high. Entrepreneurs must pay 8% of the property value to register a transfer of ownership. On average in South Asia property registration costs 5% of the property value. It is only 3% in China, and there is no cost in Saudi Arabia.

Within India, it takes the least time to register property in Bangalore and Hyderabad (35 days) and the most time in New Delhi (138 days) and in Calcutta (155 days) (figure 2.8). It costs the least in Ranchi (6% of property value) and the most in Bhubaneswar (14%). The difference in time across cities is due to the different amounts of time needed in each city to mutate a property title and to register the transfer at the sub-registrar. The different rates of stamp duty and transfer charges account for the differences in costs.

What to reform

Reducing the high rates of stamp duties is an important step toward making property registration easier. India's high costs discourage formal transactions and promote rampant evasion. Government revenues are lower as a result. And businesses turn to cumbersome and less secure alternatives to selling property because they want to avoid paying the stamp duties that are part of legally transferring property ownership. For example, a business may try to lease a property long-term or work out a cooperative housing arrangement. The state of Maharashtra experienced a 20% jump in revenues after halving stamp duties in 2004. At 7.8%, there is considerable room for further reduction in cost. And other states should follow Maharashtra's example and reduce fees.

Delays can be reduced by computerizing and rationalizing procedures at the property registry. Indian states can learn from Karnataka's reforms in these areas. In Karnataka mutation takes less than 20 days, compared with 60 to 90 days in most cities. Similarly the execution of the sale deed takes only 2 days in Karnataka as compared

with a month in Orissa. Other states can also follow Karnataka's efforts to simplify procedures by amending their Stamp Acts. Karnataka has discontinued using stamp paper for paying stamp duty. Instead, stamp duty is payable by the Demand Draft at the time of registering.

Getting credit

India ranks 65th on the ease of getting credit, with no variation across cities. On the legal rights index, which measures the degree to which collateral and bankruptcy laws facilitate lending, India scores 5 out of 10. Within South Asia only Bangladesh has a higher score (7). In the broader Asian region, India fares better than China (2) but worse than Malaysia (8). On the credit information index, which measures rules affecting the scope, access and quality of credit information, India has a score of 3 out of 6—same as Sri Lanka but behind Pakistan (4 out of 6). Internationally, India is in the middle of the range for this index, with Brazil scoring 5 and China 4.

Over the last few years several reforms have improved the environment for getting credit. The Credit Information Bureau of India Ltd. (CIBIL), a private partnership between several commercial banks and credit information service providers, has started to increase the amount of credit information available in the country. CIBIL's coverage has more than doubled in the last year. As of December 2005 it had a database of 44 million borrowers. Most records are on consumers, since the commercial bureau has only just been launched. Further, the Credit Information Companies (Regulation) Act, 2005, has been approved by both houses of parliament and has received the president's assent. All that remains is the official notification for implementation.

Creditors' rights have improved after a recent Supreme Court decision upheld the right of banks to take possession of collateral without court involvement. The backlog of cases pending before the Debt Recovery Tribunals (DRTs) was reduced in recent years. In early 2005, the Enforcement of Security Interest and Recovery of Debts Law was amended to improve the rights of secured creditors. The DRTs are now required to decide appeals within 60 days. The amended law allows borrowers to contest a bank's actions before a DRT without having to deposit 75% of the claim as a guarantee. After a DRT renders a decision, any party can appeal the decision to the Debt Recovery Appellate Tribunal. The amended law also allows banks and financial institutions to withdraw a claim before a DRT and instead bring an action under the Securitization Act.

What to reform

India can increase access to loans by reforming its collateral and insolvency regimes. In particular, creditors need to have clear priority to their collateral in and outside bankruptcy, as well as the ability to enforce collateral agreements without resorting to the courts. The government is currently revamping the creditors' rights regime in bankruptcy in its draft amendments to the Companies Act. In addition, the time necessary to enforce collateral has dropped significantly since the implementation of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI). However, some problems remain. SARFAESI is mainly effective in bringing recalcitrant debtors to the negotiating table and reworking payment obligations. Banks and financial institutions still need to enforce their secured and unsecured claims through DRTs, which for a long time have functioned at less than full capacity. Other secured creditors have to resort to enforcing their security through ordinary civil courts, which can take more than 5 years.

Expanding the amount and quality of credit information also increases access to credit. India can improve credit information sharing by allowing non-financial institutions—such as retailers and utilities—to participate in the credit bureau. Data on both individuals and firms should also be included. The quality of information can be further enhanced by giving borrowers the legal right to inspect and correct their data. And the bureau will be of most use when it expands its coverage of the population. CIBIL is taking steps in these directions.

Protecting investors

India performs relatively well on the protecting investors indicator. It ranks 33rd worldwide and has a strength of investor protection score of 6 out of 10 across all cities. This beats the South Asia and East Asia averages of 5 and is equal to the OECD average of 6. Regulations provide for relatively high levels of disclosure surrounding transactions involving company insiders and also make it easy to sue in cases of misconduct. But rules on directors' liability for self-dealing are weak in India. Within the region, only Bhutan, Nepal and Afghanistan have scores lower than India's on the director liability index. Internationally, India's score on this measure is lower than all regional averages. Brazil and most countries in East Asia (except China) also score higher than India on the director liability index.

The Indian capital markets regulator, the Securities

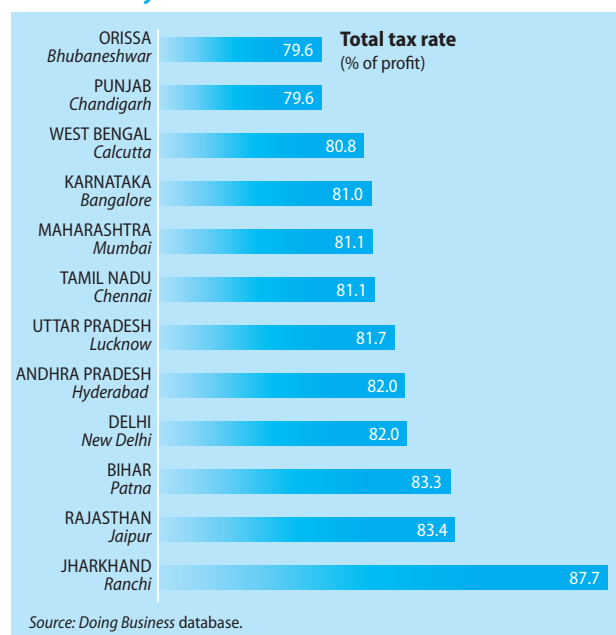
and Exchange Board of India (SEBI), has continually raised the bar on corporate governance of listed entities. As of January 1, 2006, Indian companies listed on a stock exchange must comply with numerous new standards. The new requirements include: more independent directors on boards and audit committees, even greater responsibilities for audit committees, and mandatory certification by a company's chief executive officer and chief financial officer of the company's financial statements and of the effectiveness of internal accounting controls. These requirements track closely the obligations included in the U.S. Sarbanes-Oxley Act.

What to reform

India can improve its investor protections in four main areas: (i) enhancing a plaintiff's ability to hold a director liable for damage to the company caused by a related-party transaction, even where the director meets the disclosure requirements surrounding his personal interest in the deal; (ii) requiring immediate disclosure of transactions involving a company insider; (iii) permitting shareholders to inspect the internal documents of a company; and (iv) lowering the ownership thresholds for minority shareholders to sue derivatively for damages to the company. Each of these actions will strengthen investors' trust in the Indian market—first, by providing greater transparency in companies' operations and, second, by providing a means of redress for any misconduct.

FIGURE 2.9

Tax rates vary across India



Paying taxes

India ranks 158th on the ease of paying taxes, well below the South Asia average. It fares better than most of its South Asian peers in the time spent on complying with tax requirements, at 264 hours per year. But the tax regime is cumbersome, requiring 59 separate payments per year. It is still very expensive, with over 81.1 percent of commercial profits payable in tax. The result is significant tax evasion and avoidance. Compared with countries outside the region, India's tax regime is less burdensome than China's—where businesses spend 872 hours per year—as well as Brazil's—which requires businesses to spend 2,600 hours per year. However, India's tax rate of 81 percent is higher than Brazil's (71.7%) and China's (77.1%).

The number of payments and time spent in complying with tax formalities did not change over the last year. However, the total tax payable declined from 95.2 % of commercial profits in fiscal year 2004 to 81.1% for fiscal year 2005—largely as a result of the shift from sales tax to VAT and also because the Finance Act in 2005 reduced the corporate income tax from 36.59% to 33.66%.

At the sub-national level, the tax payable as a percentage of commercial profit varies from 79.6% in Chandigarh and Bhubaneswar to 87.7% in Ranchi (figure 2.9). The variations in tax rates can be explained by the differences in the implementation of VAT across Indian states, the levy of additional taxes and the different rates and methods for calculating property taxes. Similarly, the number of tax-related payments is 59 in Mumbai and 63 in Chennai and Patna. Time spent on making tax payments does not vary by city however.

What to reform

Simple, moderate taxes and fast, cheap administration can attract investors. The Investment Climate Surveys conducted in India have consistently identified tax compliance as a significant obstacle to business, especially small firms. India has made improvements recently. In particular, a VAT was introduced in April 2005. Of the 12 Indian states covered in *Doing Business in South Asia*, 8 states implemented a VAT in April 2005, 2 did the same in April 2006, another followed suit in January 2007 and one state has yet to schedule a date for VAT implementation. Although the implementation of a VAT is an improvement, there remains an urgent need to harmonize the classification of goods across states under the new VAT regime.

Another major challenge for India is to coordinate the sales taxes and VAT collected at different levels of

government. Having different taxes on the same tax base and collecting the taxes through different government agencies considerably increases the hassle of complying with tax regulation. Companies have to pay taxes on their sales on a monthly basis to both state and the federal tax authorities. Not only is this process burdensome for business, but it effectively doubles the enforcement work that the government needs to carry out—with activities at both the state and federal levels. These taxes can be consolidated into one. The revenues from the consolidated tax could then be distributed appropriately to the different government agencies.

Two other taxes are priorities for reform. The introduction of the Fringe Benefit Tax in the Union Budget in March 2005 has increased the burden of tax compliance—as well as tax rates—with small firms being the hardest hit. Clarity on its applicability and removal of subjectivity in this process is needed. Finally, the administration of the Central Sales Tax (CST) regime—which accounts for more than 50% of the time spent by firms on tax compliance—needs to be streamlined until the CST is phased out as planned.

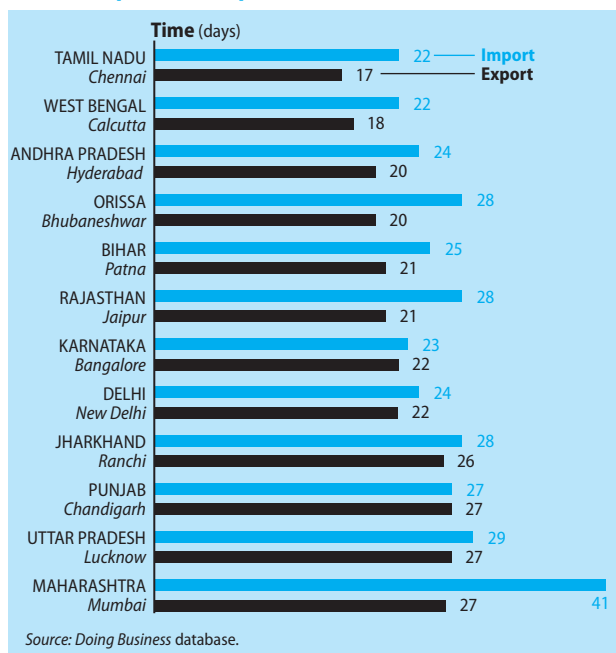
Trading across borders

India ranks 139th on the ease of trading across borders, above only Afghanistan (152nd) and Bhutan (150th). Exporting goods takes 27 days, a significant improvement on last year's time of 36 days. Even so, India lags behind the East Asia average of 24 days and is also slower than China, where it takes 18 days to export goods. Indian exporters submit 10 documents, compared with the regional average of 8 documents and the East Asia average of 7 documents. Importing in India is even more cumbersome. It takes 15 documents and 41 days to complete import procedures. Contrast this with East Asia, where importing requires 9 documents and 26 days. It takes 22 days to import in China. Last year, it took 43 instead of the current 41 days to complete import procedures in India (figure 2.10).

Within India, it is fastest to import and export from Chennai's port—17 days to export and 22 days to import. Calcutta is close behind. There it takes 18 days to export and 22 days to import. The most time is needed in Mumbai, 27 days to export and 41 days to import. Chennai requires the fewest documents—7 to export and 5 to import. The most paperwork is needed in Bhubaneswar, New Delhi, Patna, Ranchi and even Calcutta where importing and exporting involves 11 documents.

Chennai is also among the cheapest Indian cities with which to trade. For example, businesses pay \$1,030

FIGURE 2.10

Time to import and export in India

in fees to export a 20-foot container from Chandigarh and New Delhi, compared to only \$580 in Chennai. Calcutta has the lowest export cost (\$505). Importing in India costs less if the goods enter via Hyderabad and Chennai, with fees of \$850 and \$892 respectively. It is most expensive to import through Mumbai (\$1,244), Jaipur (\$1,163) and Bhubaneswar (\$1,166).

What to reform

India's export-import regime is a significant bottleneck to sustaining its recent growth in international trade and GDP. Simple reforms can have a big impact. Contrary to popular belief, inadequate port infrastructure, although important, is not the greatest obstacle to trade. Nearly 50% of delays are caused by cumbersome pre-arrival procedures. India can speed the process by establishing a single window for traders, linking all government agencies involved in the clearance process. Next, India can develop computerized risk management inspection systems. These will reduce the incidence of physical inspection of cargo, allowing customs staff to focus on cargo with a higher risk of a faulty declaration. Further reducing the number of documents for trading and publishing regulations on customs clearances will improve transparency and efficiency in customs clearances. Finally, India needs to improve its physical infrastructure—roads, ports and rails—which remain a considerable drag on trade. For example, in India loading export cargo onto a vessel takes 8 days in terminal handling and

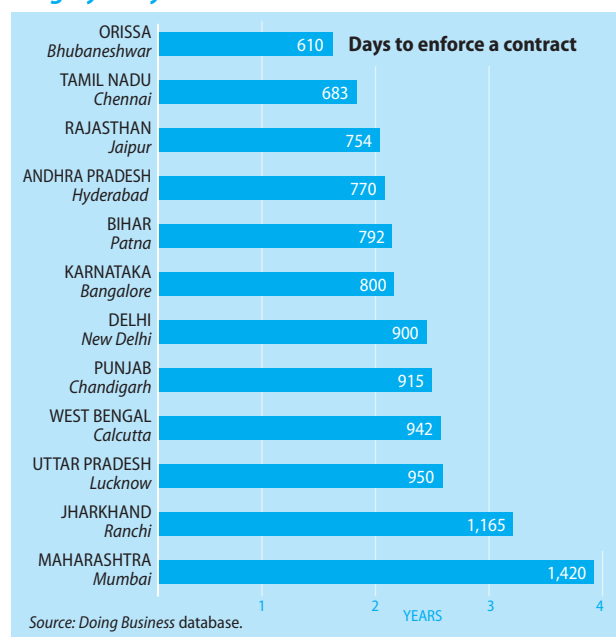
waiting, compared with 2 days in Pakistan and only a few hours in more efficient ports around the world.

Recent initiatives are improving the ease of trading across borders, but need to be expanded and accelerated. Risk management techniques focusing customs inspections on higher-risk cargo have begun to speed trade. A new 24-hour online container tracking system in Chennai enables traders to monitor container movement from the port to inland depots, thereby reducing delays in processing transshipment requests. Under the National Highways Development Project a major effort is underway to connect New Delhi, Mumbai, Calcutta and Chennai (the "Golden Quadrilateral") via express highways. In Bangalore, the Customs Commissioner introduced an e-payment gateway allowing corporate customers to pay customs duties online as of 2006. All these efforts are steps in the right direction, but to have greater impact these changes need to cover more geographical territory and their implementation needs to be accelerated.

Enforcing contracts

Commercial disputes before courts in India are among the most lengthy, costly and complex in South Asia and globally—resulting in a rank of 173rd on the ease of enforcing contracts. It takes 1,420 days to enforce a contract in India, compared with 969 days on average in South Asia, 351 days on average in OECD countries, 450 days in Malaysia and only 292 days in China. Court costs

FIGURE 2.11

Lengthy delays in courts across India

and attorneys' fees add up to 36% of the value of the claim. In China, they cost 27% of the claim and on average in South Asia 26.4%. And while it takes 56 procedures to enforce a contract in India, only 39 procedures are required on average in South Asia, 32 on average in East Asia, and 31 in China.

Within India, the shortest time needed to enforce a contract is in Bhubaneswar (610 days), Chennai (683 days) and Jaipur (754 days) and the longest time is in Mumbai (1,420 days) and Ranchi (1,165 days) (figure 1.11). Contract enforcement costs the least in Bhubaneswar (15% of the claim) and in Jaipur (16%) and the most in Mumbai (36%) and New Delhi (34%)—both large cities with high attorneys' fees.

Such high degrees of formalism in the courts are associated with less consistency, less honesty and less fairness in judicial decisions. And the long delays and high costs encourage firms to resolve disputes informally. Investment Climate Surveys conducted by the World Bank find that Indian firms do not choose to go to court to settle payment disputes unless absolutely necessary. While the fairness of the court system is less of an issue, the onerous procedures, delays and total costs are big deterrents.

What to reform

Very lengthy procedures and limited capacity of the judiciary in commercial law matters are the biggest obstacles to faster contract enforcement in India. The government could undertake judicial reforms to speed up court procedures, implement capacity building programs for judges and establish separate commercial courts. Although specialized courts currently exist for tax and certain employment matters, judges in the district courts still have to deal with a broad range of civil, criminal and commercial cases.

With the amendment of the Indian Code of Civil Procedure in 2002, evidence can now be exchanged faster and more easily. Limiting the number of interlocutory appeals is another way to decrease delays in the courts. Finally, improving the efficiency in the enforcement of judgments is also needed.

Closing a business

Insolvency procedures in India are among the most onerous in South Asia. India scores 133rd on the ease of closing a business. Going through bankruptcy takes 10 years—a tie with Chad for the longest time in the world. In South Asia, the time to go through bankruptcy on average is 4 years, in East Asia 2 years and in OECD countries 1 year.

Claimants can expect to recover less than 13 cents on the dollar in India, compared with an average of 20 cents in South Asia, 18 cents in Sub-Saharan Africa, 32 cents in China and 93 cents in Japan—the highest globally.

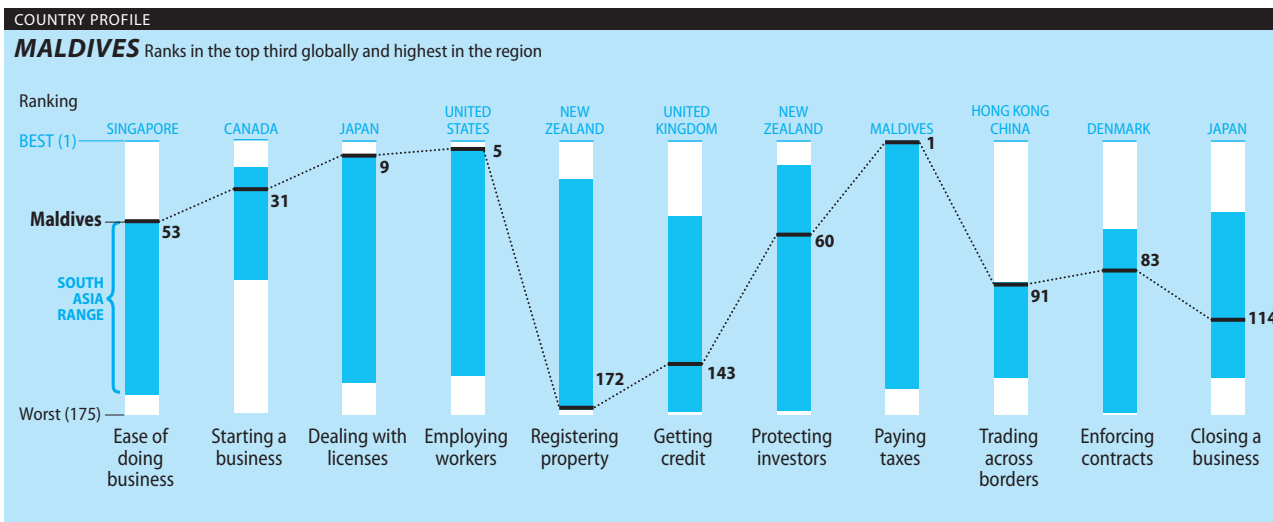
Currently, the Companies Act of 1956 governs liquidations. They are carried out by official liquidators (OLs), who follow cumbersome procedures that cause undue delay and thwart efficient outcomes. Directors typically retain possession of the company until an OL is appointed, and assets often dissipate in the interim. Creditors play a marginal role. Defaulting borrowers take refuge under Sick Industrial Companies Act (SICA) provisions in order to avoid payment to creditors. Moreover, courts and tribunals are often overburdened with a large caseload. Both the Company Court and the Board for Industrial and Financial Reconstruction (BIFR) tribunal lack adequate specialized resources.

Within India the shortest time to go through insolvency is roughly 8 years in New Delhi and Bangalore, and the longest time is in Lucknow (15 years) and Calcutta (20 years). The recovery rate is also the highest in Bangalore, at 20 cents on the dollar. The lowest recovery rate is in Calcutta at only 6 cents on the dollar.

What to reform

Insolvency reforms are underway. When it takes effect, the Companies (Second Amendment) Act, 2002, will eliminate a number of deficiencies that have led to the failure of the SICA and BIFR. It will remove the much abused statutory moratorium under SICA, and will set up a National Company Law Tribunal (NCLT) consisting of qualified people to preside over rehabilitation and liquidation matters. It furthermore contains provisions that will prevent future misuse of SICA.

However, the Second Amendment falls short of ensuring an effective insolvency regime in India. The amendment will give creditors only a limited role in rehabilitation and liquidation proceedings. It does not define the necessary qualifications and competencies of insolvency practitioners outside those working at the NCLT, and there are no provisions to deal with cross border insolvency complications. The J.J. Irani Committee reviewed the Second Amendment's provisions and recommended significant reforms to the Companies Act. Implementing these would further improve the system. In addition, the government needs to allocate sufficient resources to the implementation of the reforms and put in place an education and certification program for OLs, judges and other participants to build specialized knowledge in bankruptcy.



Starting a business

With 5 procedures and 13 days required to open a business, the Maldives ranks 31st globally on the ease of starting a business. The Maldives is ahead of both the South Asian average and OECD averages on the time and number of procedures for business start-up. But at 18% income per capita, it ranks slightly behind Sri Lanka and Bhutan on the cost of start-up. Moreover, the Maldives is the only country in the region with a minimum capital requirement—the company law requires the entrepreneur to deposit a sum equal to 7% of the Maldives' income per capita before starting operation.

What to reform

The Maldives can further improve performance on the ease of starting a business by scrapping its minimum capital requirement and matching the zero minimum capital rules in all other South Asia countries. This will free up funds that can be put to better use in the business. It will also simplify the start-up process by cutting one more procedure. Capital requirements were originally designed to protect investors and creditors. Evidence shows that not only do capital requirements fail to achieve this objective, they impose significant costs by increasing entry barriers. By removing capital requirements, the Maldives would join a growing list of countries that have either eliminated or significantly reduced theirs, from China to France to Japan.

Dealing with licenses

The Maldives ranks 9th worldwide in terms of the ease of dealing with licenses and continues to be the best performer in South Asia. To build a warehouse in the Maldives, entrepreneurs are required to follow 10 procedures that take 118 days and cost 40% of income per capita. The high ranking is due to the simplicity of the process. Only 8 countries have fewer procedures for obtaining a building license than the Maldives. Rankings on time and cost have somewhat more room for improvement. More than half of the total time is taken by two procedures—obtaining the building and occupancy permits—which together account for 86 days. The cost of utilities comprise almost 90% of total costs.

Employing workers

The Maldives ranks 5th in the world on the ease of employing workers—and is by far the best-performing South Asian country on this indicator. With no social security taxes or payroll taxes associated with recruiting a worker, the cost of hiring is zero. Restrictions on conditions of work are minimal. Although employees are prohibited from working more than 10 hours in a day, there are no restrictions on night or holiday work and no mandated annual leave. A 2006 reform introduced a 2 month mandatory notice period which raised the firing cost to 8.7 weeks.

Registering property

Due to the legal uncertainty on whether land transfers between companies are permissible, the Maldives receives a ‘no practice’ score for the *Doing Business* registering property indicators, the lowest ranking. Until 2002, when the Land Act was approved, land could not be transferred freely. Traditionally, the government issues time-bound leases to tourism resorts and allocates an indefinite lease over land to individuals. Leases for individuals can be transferred upon death to their heirs in joint ownership. No cadastral survey exists to identify property boundaries. With the new 2002 Land Act and the initiation of the Hulumale Development project on reclaimed land, the government is taking steps to create a land market by selling the land and conducting a cadastral survey. However, it still remains uncertain whether land can be transferred between companies. The lack of clarity on property rights is a significant constraint to accessing finance, as lenders are unwilling to take land as collateral if they are unable to sell it freely upon the borrower’s default. It also discourages investment in property.

What to reform

Clarifying property rights is an urgently needed reform in the Maldives. In particular, companies need the express right to transfer land without restriction, as in all other South Asian countries and almost all countries in the world. Allowing for full title to land is preferable to a system of government leasing. What is most important is to provide businesses with the unrestricted right to sell, lease, bequeath, mortgage and improve land. Entrepreneurs will invest and trade in property if these rights are secure. The government can provide this security by more clearly defining property rights in land laws, as well as by completing the cadastral survey and creating a unified cadastre and property registry that keeps accurate records of who owns what. Allowing for a simple, fast and cheap process for transferring land will further reinforce the security of property rights.

Getting credit

The Maldives ranks 143rd worldwide on the ease of getting credit indicators, well below all other South Asian countries except for Bhutan and Afghanistan. No change has occurred in 2005-06. The poor ranking is driven by modest performance in the legal rights index—where the Maldives scores 4 out of a possible 10—as well as weak

performance in the credit information index—where the Maldives scores 0 out of a possible 6 because there is no public or private credit registry to facilitate the exchange of credit information amongst lenders.

The legal rights granted borrowers and lenders in the Maldives are deficient in most respects. Laws require a specific description of the assets in the security agreement. As a result, it is impractical to use a changing pool of assets (such as in an inventory or accounts receivable) as security for a loan. The secured lender has no priority right to the collateral either in or outside bankruptcy, reducing the chances of loan recovery. If a borrower defaults, creditors are required to go through a lengthy court enforcement process rather than enforce their security privately. The lack of a bankruptcy law further reduces the chances of loan recovery in the event a borrower becomes insolvent. All this makes security agreements in the Maldives less safe, more costly and difficult to enforce.

What to reform

Improving credit institutions is a priority reform for the Maldives. Lenders are more likely to extend loans if they are able to assess a borrower’s credit history and when they can take and enforce security effectively. The government can facilitate access to credit by, first, supporting the development of a credit bureau. The bureau will be most effective if it distributes a broad range of information on past defaults and repayment patterns and collects and makes information available electronically. The Maldivian authorities are planning to set up a Credit Information Bureau with the assistance of the International Finance Corporation. In addition, the Bank of Maldives is planning to introduce mobile phone banking which will improve outreach. Second, the government can make loans more accessible by putting in place a new secured transactions system that will reduce the cost, time and uncertainty surrounding security enforcement. The new regime should allow all assets to be used as collateral and allow for out-of-court and summary enforcement proceedings.

Protecting investors

The Maldives ranks 60th worldwide on the protecting investors index, falling in the middle of South Asian countries along with Nepal and Sri Lanka and slightly below the OECD average. It has slipped from 58th place in 2005. Performance across the three sub-indices is mixed. The Maldives ranks lowest on the disclosure

index, scoring 0 out of a possible 10. There is no requirement that a manager disclose conflicts of interest, and a manager may approve transactions with a conflict of interest. Scores on the director liability as well as shareholder suits indices are significantly higher at 8 out of 10, and better than both the regional and OECD averages.

What to reform

The Maldives can encourage equity investment and open additional lines of finance for entrepreneurs by enhancing disclosure provisions in corporate governance laws. Investors need to know what stakes directors have in proposed deals so they can stop those deals through a vote or sue for damages if shareholder interests would be hurt. In cases where there are conflicts of interest, laws should require immediate public disclosure of transactions and the conflicts of interest, full disclosure of all material facts to the board of directors and regular disclosure in periodic filings. The Maldives can further increase shareholder protections by requiring shareholder approval for large transactions involving company insiders and permitting shareholders to sue directors and managers for damage caused by inside dealings.

Paying taxes

The Maldives ranks 1st worldwide on the ease of paying taxes. Entrepreneurs there are required to make only 1 payment per year, equivalent to 9.3% of commercial profit. In the Maldives a domestic company operating in the manufacturing sector is exempt from profit, consumption and labor taxes. The Maldives is well ahead of other countries in South Asia, where businesses on average must make 30 payments a year and pay 45% of commercial profit.

Trading across borders

The Maldives ranks 91st globally on the ease of trading across borders. As a small country, delays for inland transportation are rare. Time in customs is saved by allowing documents to be prepared and filed in advance anytime before the ship docks. Although the Maldives is considerably ahead of other South Asian countries, there is still room for improvement in the time it takes to export (15 days) and import (21 days).

What to reform

Delays in trading can be cut by creating a single access point at the customs authority. An entrepreneur could then complete all requirements at customs rather than having to visit each agency separately. A single access point is under discussion in the Maldives. An ongoing project to link different government ministries electronically will help facilitate the single access point, but there are questions on whether the customs authority has the legal authority to forward the document to another agency. In the meantime, allowing the trader to file documents electronically would speed the process.

Enforcing contracts

The Maldives ranks 83rd on the ease of enforcing contracts. The relatively high ranking is attributable to the low cost of enforcing a contract. At 16% of the value of the claim, the Maldives has the lowest costs in South Asia. But while costs are reasonable in the Maldives, delays are prohibitive. It takes 665 days to enforce a contract, which is less than regional average but almost double that of the OECD (351 days). The bulk of delays are in the time it takes to execute judgments—485 days. The time taken to give a judgment is 165 days.

What to reform

To reduce the time it takes to enforce a contract the government can first and foremost start collecting judicial statistics, as this will allow for a clearer diagnosis of the problems. Secondly, recovery can be sped by allowing competition in enforcing judgments. By scrapping the public monopoly on executing judges' rulings, countries like Colombia, Hungary, the Netherlands and Slovakia have cut several months from the time of enforcement. Licensed private enforcement agents quickly moved into the business. This saves time for claimants, and also saves money from the judicial budget for the government.

Closing a business

The Maldives ranks 114th on closing a business, broadly in line with the South Asian average. In the Maldives there is no bankruptcy law and the company law does not provide for any reorganization procedure. An insolvent company will simply go through a foreclosure process, which is the basis for the closing a business figures reported in *Doing Business* for the Maldives. Foreclosure is slow, taking almost 7 years, but relatively cheap at 4% of the value of the mortgaged asset (table 2.5). At the end of the process only 18.2 cents on the dollar are recovered. Because of the low recovery rates, banks are less likely to lend.

What to reform

The government can speed the foreclosure process by introducing summary judgment proceedings and private enforcement. By introducing a bankruptcy law, the government will provide more efficient solutions for complex insolvencies with multiple creditors and other claimants. Bankruptcy procedures should be expeditious and allow creditors the choice between reorganization and liquidation, whichever of the two they value most. Qualified insolvency managers should have incentives to promptly follow the most efficient procedure. Regardless of whether a firm enters liquidation or reorganization, the insolvency administrator should be able to sell the business as a going concern so that the new owners keep the intrinsic value of the operating business and not just the assets.

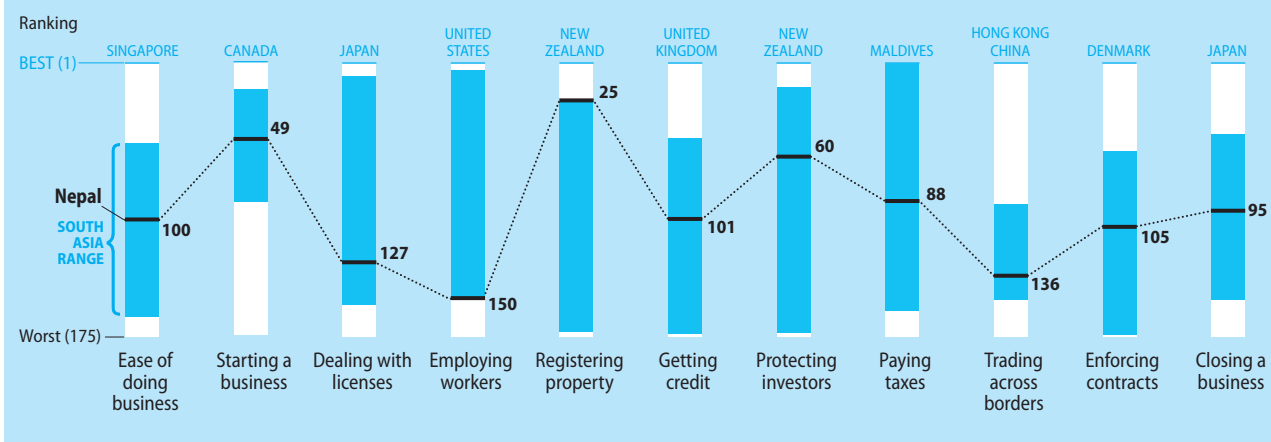
TABLE 2.5

Closing a business in the Maldives— long delays and low recovery

	Maldives	Region	OECD
Time (years)	6.7	3.6	1.4
Cost (% of estate)	4.0	6.3	7.1
Recovery rate (cents on the dollar)	18.2	19.5	74.0

Source: *Doing Business* database.

COUNTRY PROFILE

NEPAL The middle-ranking country for most indicators in the South Asia region

Starting a business

Nepal ranks 49th in the world on the ease of starting a business—a decline from last year’s position of 40th. There are only 7 procedures needed to start up a business, which take 31 days. While there is no minimum capital requirement, the cost of starting a business is relatively high at \$212 or 78.5% of income per capita. The expense is caused primarily by two procedures—verifying the memorandum and articles of association (\$136.73) and paying the fee to file the documents with the company registrar’s office (\$61.53).

What to reform

The new provision of the amended Companies Ordinance (amended October 2005) does not require a lawyer or accountant to verify the memorandum and articles of association. If enforced, it will cut costs significantly. Using standardized forms will also reduce the need to use a lawyer and pay related fees. There is room for further amendment of the Companies Act to improve the governance, accounting and auditing standards and disclosure requirements. The capacity of the Company Registrar must also be enhanced in terms of resources and expertise in order for it to properly carry out its functions.

Dealing with licenses

Dealing with licensing in Nepal continues to be cumbersome, time consuming and costly. It takes 15 procedures, 424 days and \$875, or 324% of income per capita, to fulfill the permit and licensing requirements for building a warehouse. The South Asia average is 16 procedures in 227 days, costing 376% of income per capita. Nepal

ranks lower than most of its South Asian neighbors, except India and Bhutan, placing 127th on the ease of dealing with licenses.

What to reform

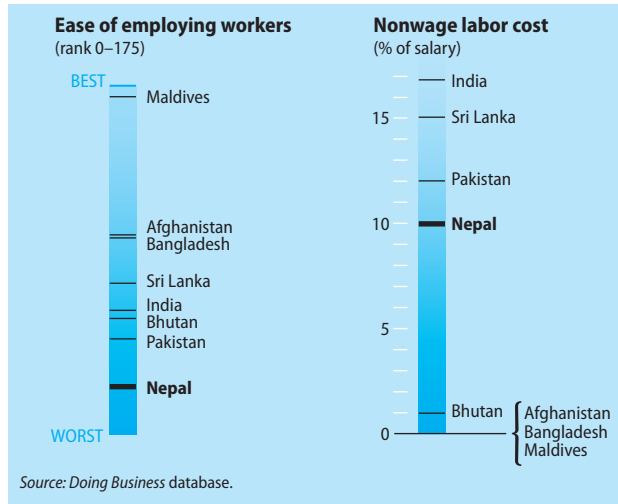
Instead of having to visit municipalities and utilities separately, an entrepreneur should be able to obtain permits from one window, i.e., from each municipality. This may require improvements in infrastructure. Although it is significantly easier to set up telephone lines due to the entry of private sector players, connecting to power, water and sewerage continues to be time-consuming and costly.

Employing Workers

Nepal ranks 150th globally on the ease of employing workers (figure 2.12). The cost of hiring is 10% of salary compared with a South Asia average of 7%. Rules on hiring and conditions of work are relatively flexible, with the exception that term contracts are limited to fixed term tasks. Firing workers is difficult and costly with severance payment equivalent to 90 weeks of wages—the 3rd most expensive country in which to fire workers in South Asia, along with Pakistan. Through an ordinance by the King the Labor Law was amended in March 2006 to address some of the rigidities in the previous law. But it was later revoked by the new government. The revoked amendment contained more flexible provisions for hiring workers on a contractual basis, increasing the probationary period, allowing retrenchment during rationalization of businesses, encouraging a safe working place, and making it easier for a business to set its own minimum remuneration.

FIGURE 2.12

Employing workers in Nepal



What to reform

Since the March 2006 amendment was revoked, Nepal again faces the same issues as before. Nepal’s labor law lacks flexibility for employers in terms of hiring and firing workers. There is an urgent need to allow for hiring workers on a contractual basis and to permit retrenchment during business rationalization. Minimum severance payments are very high. Provisions of the law also should encourage a safe working place, enable businesses to set their own minimum remuneration and reduce the number of holidays permitted to carry out union work. The process for filing court appeals in labor disputes requires streamlining and the time it takes should be reduced. The capacity of the Labor Department and the government to adopt much needed reforms needs to be enhanced.

Registering property

Nepal ranks 25th worldwide and leads South Asia on the ease of registering property. It takes only 3 procedures and 5 days to register property transfers. The process is expensive, however, at 6.4% of the property value. And although registration appears efficient, the indicator hides the fact that to get things done, a facilitator must be recruited and “deputized” to the land registry. Hiring the facilitator increases the overall cost somewhat—already steep due to the registration fee of 6% of the property’s value. Property disputes are rife, indicating that the speedy procedures are not providing greater security of property rights.

What to reform

Reducing the 6% registration fee or setting a nominal flat fee can promote the truthful declaration of actual property values. Automating the land registry can dispense with the need to hire a facilitator and help create an accurate database for expanding access to credit. The land registry currently lacks the institutional capacity and resources to carry out the necessary comprehensive reforms.

Getting credit

Nepal ranks 101st on the ease of getting credit, and is significantly behind Bangladesh, India and Pakistan (figure 2.13). Access to credit is perceived by Nepalese firms as one of the greatest barriers to doing business. The underlying reason—weak legal rights for taking and enforcing collateral. A new Insolvency Act has been passed but has not yet been enforced due to the absence of commercial courts. Similarly, a new Secured Transaction Act has been passed but there is no implementing agency to register movable assets as collateral. In the absence of such a registry, financial institutions have developed the practice of recording pledges on movable assets in the land registry in cases where land is also mortgaged as collateral. The result of these shortcomings is that lending is more risky and financial institutions are less willing to extend credit to businesses.

Nepal also has a credit bureau—the Credit Information Center—which in 2004 was transferred from the central bank to private ownership. Now 90% of the credit bureau is owned by financial institutions, while the central bank has retained 10% ownership. The bureau is mostly used to verify whether a potential borrower is a defaulter

FIGURE 2.13

Getting credit—country rankings in South Asia



or on a blacklist without having to check the borrower's full credit history. It is mandatory for all banks and finance companies to submit credit information on a periodic basis failing which strict penalties may be imposed. The bureau is functioning relatively well although it is resource and capacity constrained. It does not, however, gather information on loan sizes smaller than NPR 1 million.

What to reform

The government needs to quickly identify what is the best institution to host the movable collateral registry. In addition, the government also needs to (a) ensure the allocation of an adequate budget for the Secured Transaction Act to be implemented, (b) build the necessary capacity to implement the act, (c) train the staff and increase public awareness of the act, (d) ensure that the registry is fully computerized and that staff are fully trained and (e) enact a single law for the creation, registration, and determination of priorities to collateral.

Access to credit can be enhanced by improving the capacity and legal status of the newly privatized credit bureau. A special ordinance for credit bureaus can improve the quality of information by guaranteeing the borrower the right to review the bureau's data and have errors corrected. The credit bureau could also improve the quality of its information by expanding its coverage to include utilities, trade creditors and retailers. More than 2 years of historical credit information and information on smaller loans should also be distributed to the lenders. A new national policy on microfinance is currently under consideration, which may encourage access to finance.

Protecting investors

Nepal ranks 60th worldwide on the protecting investors indicator, along with Sri Lanka and the Maldives and ahead of Afghanistan and Bhutan. The Companies Act, amended in 2005 through an ordinance and recently ratified by parliament, aims to strengthen shareholders' rights. The new law increases disclosure requirements and restricts personal benefits for company directors. However, the law also includes a provision whereby the new protections for investors do not apply to transactions that are part of the "company's ordinary course of business." In practice, directors can avoid all the heightened investor protections of the new law by claiming the transaction in question is a part of the company's ordinary course of business. Furthermore, the capacity of regulatory authorities to monitor compliance with the law, however, continues to be extremely weak.

What to reform

Disclosure requirement in the company's annual report can be more effective if the threshold is reduced to transactions greater than 10% of the company's reported value, ensuring that major transactions receive adequate scrutiny. A great step in the right direction is the new rule in the Companies Act of 2005 that a director of a company should not derive any personal benefits through the company. The impact of this provision is limited, however, because directors can escape all liability simply by making the necessary disclosures. Other countries, for example Malaysia, excuse directors from liability only if the shareholders in a general meeting approve their actions. Nepal can encourage equity investment and open additional lines of finance for entrepreneurs by requiring shareholder approval for inside deals.

Paying taxes

Nepal is ranked 88th on the ease of paying taxes. Tax rates are high—32.8% of commercial profits—although lower than the regional average of 45.1%. The compliance requirements are cumbersome and time consuming—a business must make 35 payments per year and spend 408 hours fulfilling tax requirements. Pakistan is the only country in the region where it takes longer to pay taxes. Although corporate tax should be payable on profits, the tax authorities continue to tax income on sales turnover rather than net profits, as profits are often underreported. Tax laws have been amended in recent years but lack clarity and are often subject to various interpretations.

What to reform

Consolidating various types of taxes and eliminating minor taxes can considerably reduce processing time and hassle for businesses. The tax law needs to be simplified and the tax administration needs to build its capacity. The appeals process can be made significantly more transparent, and the tax recovery process can be improved.

Trading across borders

As a land-locked country, Nepal's trade regime is constrained, and the problem is further compounded by inadequate infrastructure and bureaucratic procedures. Exporting requires 7 separate documents and takes 44 days. Importers need to submit 10 separate documents and wait 37 days before goods are made available (table 2.6). Nepal ranks 136th on the ease of trading across borders—a further decline from 133rd place last year.

TABLE 2.6
Trading across borders, Nepal

	Nepal	Region	OECD
Documents for export (number)	7	8.1	4.8
Time for export (days)	44	34.4	10.5
Cost to export (US\$ per container)	1,599	1,236	811
Documents for import (number)	10	12.5	5.9
Time for import (days)	37	41.5	12.2
Cost to import (US\$ per container)	1,800	1,495	883

Source: Doing Business database.

What to reform

Red tape in the form of paperwork and documentation requirements is the major constraint in both import and export trade. Nepal can do away with unnecessary steps like the need to obtain a certificate of origin. Simple and standardized paperwork is essential. Electronic filing of trade documents can cut delays and corruption. Ongoing reforms in dry port facilities such as Birgunj along the Indo-Nepalese border should ease the trade and transit process.

Enforcing contracts

Nepal ranks 105th on the ease of enforcing contracts, behind Afghanistan, Bangladesh, India and Pakistan. It takes 28 procedures and 590 days to enforce a simple commercial contract through the courts, at a cost of 24% of the value of the claim.

What to reform

Nepal can streamline contract enforcement by introducing summary judgments. With these, a plaintiff only needs to present the judge with evidence of the transaction and nonpayment. Cutting the number of allowable appeals will also reduce delays. Finally, Nepal can introduce case management, where the same judge follows the dispute from start to end. Faster proceedings are also less costly for litigants, thus providing greater access to the courts for the poor.

Nepal also needs to amend provisions of the Debt Recovery Act to make possible the efficient implementation of creditor rights. Enhancing the capacity of the

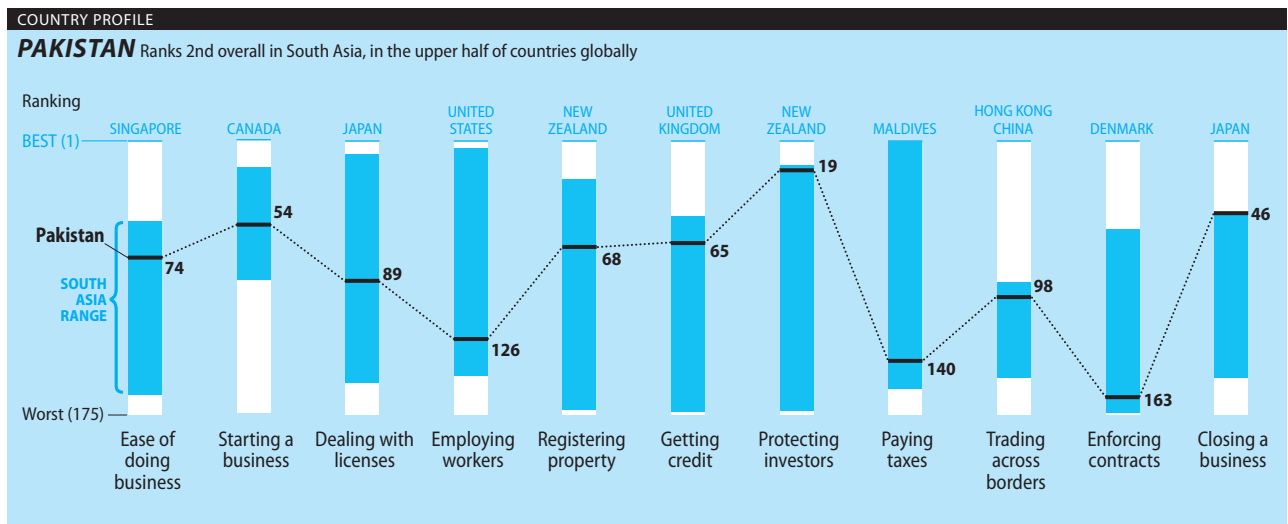
Debt Recovery Tribunals is essential to improving their speed and impartiality in resolving disputes. The government can help establish a permanent facility for the initial and ongoing training of judges and court staff, such as a national judicial academy. The government can also develop proper library facilities and university legal training programs to meet the needs of legal practitioners. The creation of specialized units to handle fast track and other civil cases can strengthen the courts' capacity to ensure fair, quality and timely case handling. Sound and transparent procedures must be established to prevent and fight corruption.

Closing a business

Nepal ranks 95th worldwide on closing a business—a decline from its 88th position last year. After a firm becomes insolvent in Nepal, it takes almost 5 years to close, and costs are 9 percent of estate value. Creditors typically recover only 25 cents on the dollar.

What to reform

Although a new insolvency law was passed through an ordinance in 2005, it needs to be ratified by the new parliament, and is yet to be implemented by the government. The new law provides for the administration of companies that have failed to pay the debts due to their creditors and have thus become—or are about to become—insolvent. The regulation provides for both the liquidation and restructuring of companies. It covers limited liability companies as well as banks, financial institutions and insurance companies (with the approval of the relevant regulator) but does not cover individuals. Most businesses in Nepal are sole proprietorships and hence the law needs to be extended to bankruptcy of individuals. The government also needs to improve the capacity of insolvency professionals and their regulators, set incentives for insolvency administrators to maximize the value of the bankruptcy estate, and reduce the number of allowed appeals—which is a major cause of delays. A suitable formal out-of-court restructuring process could greatly assist banks to restructure borrowers having financial trouble.



Starting a business

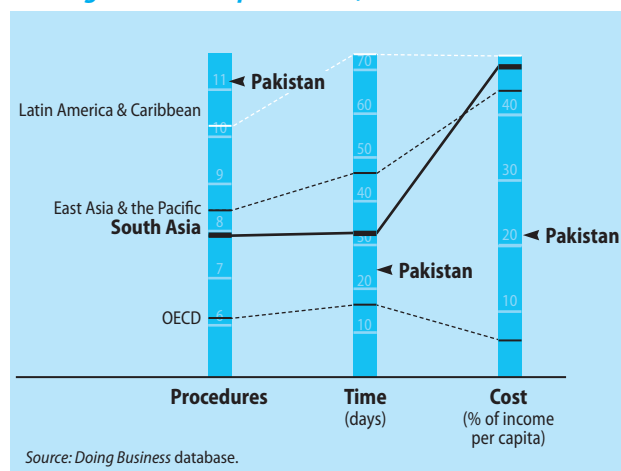
Pakistan ranks relatively well in starting a business—both globally and regionally. Reforms in the early part of the decade cut start-up time by half. Start-up now takes 24 days, 8 days less than the South Asian average (32 days) and less than Bhutan (62 days), Sri Lanka (50 days), Bangladesh (37 days) and India (35 days). The cost is 21% of income per capita, well below the South Asian average of 47%, and compares favorably to all regional averages apart from those of the OECD (5%) and Europe and Central Asia (14%). Like all South Asian countries except for the Maldives, Pakistan does not impose a minimum capital requirement.

Start-up in Pakistan still requires a high number of procedures (11)—more than in 116 other countries, including Bangladesh (8), Nepal (7) and Sri Lanka (8) (figure 2.14). In the region, only India requires an

equally high number (11). Pakistan’s procedures are cumbersome, require considerable documentation and involve 6 different agencies—the registrar of companies at the Securities and Exchange Commission, the Central Board of Revenue, the local tax authority, the Employees Social Security Institution, the Employees Old Age Benefits Institution, and the Inspector in the Department of Labor of the provincial government—and a visit to a specifically designated bank.

Costs are 25% higher in Karachi than in other cities. By removing the stamp duty requirement in 2004, Faisalabad, Lahore, Sialkot and Peshawar all eliminated 1 procedure, 1 day and considerable cost—16% of income per capita—from the start-up process. Start-up time does not vary significantly across cities, with 2 more days required to register with the Registrar of Companies in Quetta than in Faisalabad, Lahore, Sialkot and Peshawar.

FIGURE 2.14
Starting a business—procedures, time and cost



What to reform

Over the last decade Pakistan has undeniably made considerable progress—by reducing the number of steps and the cost of starting a business and by increasing access to registration offices. But limited gains have been recorded in recent years. Although Faisalabad, Lahore, Sialkot and

TABLE 2.7
Subnational rankings on the ease of doing business in Pakistan

- | | |
|--------------|------------|
| 1 Karachi | 4 Lahore |
| 2 Faisalabad | 5 Peshawar |
| 3 Sialkot | 6 Quetta |

Note: The rankings for all cities are benchmarked to April 2006 and reported in Appendix III. The ease of doing business averages rankings across the 10 topics covered in *Doing Business*. This excludes variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Source: Doing Business database.

Peshawar lowered costs by eliminating the stamp duty, the number of procedures and days has remained the same over the past years. A large number of federal and provincial institutions are still involved in start-up, and documentation requirements are heavy.

As a first step, Karachi and Quetta can follow their neighbors' example and eliminate the stamp duty for registration. Then the system for the different tax and social security registrations can be simplified. Entrepreneurs must visit various federal and provincial departments to register for sales tax (6 days), professional taxes (7 days), social security (11 days) and old age benefits (11 days) and to register with the Department of Labor and Industries (7 days). A one-stop portal and unique company identification number can be introduced to further reduce the time and cost of setting up a business. As an intermediate solution, representatives from different agencies can be located in the same building to create a single access point for entrepreneurs. Over time, the government can approach international best practices by introducing online registration. This will require implementing the Electronic Signatures Ordinance. But even without online registration, time can be cut by simplifying internal procedures.

Dealing with licenses

Pakistan ranks 89th in the world on the ease of dealing with licenses. Obtaining the necessary construction permits, licenses and inspections and securing utility connections for building a warehouse involves only 12 procedures, the fewest in the region after the Maldives. The process takes 218 days, fewer than only Nepal (424 days) and India (270 days) among the South Asian countries. More strikingly, the official cost is almost 10 times income per capita (973%), more than double the South Asia average of 375% of income per capita.

Site development regulations are governed mainly by provincial and local authorities. As such, the process for dealing with licenses significantly varies from city to city. In some cases, procedures are different—for example, Karachi does not require an environmental protection approval and Quetta requires a higher than average number of inspections. In other cases, procedures vary in length. For example, among the cities with environmental approval requirements, the time it takes to fulfill them ranges from 35 days in Lahore to 75 in Quetta. The number of procedures and time needed to obtain construction licenses have increased in cities outside of Karachi—particularly in Faisalabad, Lahore, Sialkot and

Peshawar—in part due to earthquake-related requirements and added environmental protections.

Karachi, Sialkot and Faisalabad remain the more expensive cities in which to build a warehouse, but for different reasons. Obtaining a building permit in Sialkot costs considerably more than in other cities and accounts for more than half of total licensing costs. In Faisalabad and Karachi, utility connections are the culprit. High costs for electrical connections in both cities—made worse in Karachi by the high costs of water and sewage connections—account for almost a fifth of total costs and are estimated at almost 10 times the costs in other cities. Quetta's relatively high costs derive from the high cost of the building permits coupled with the higher than average costs of obtaining connections to electricity and water.

What to reform

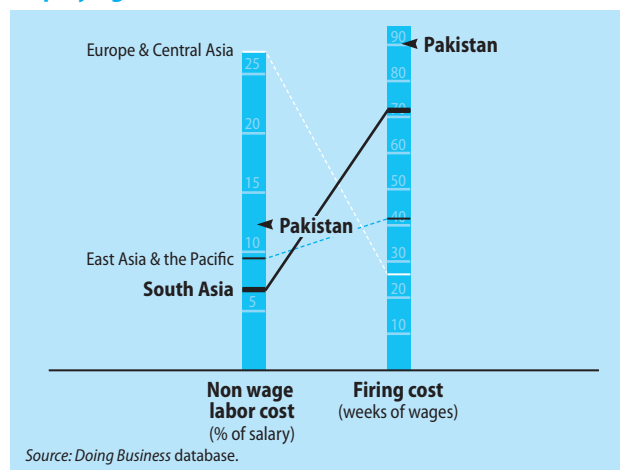
Reducing the steps, time and cost necessary to develop a site is a priority for improving the business environment in Pakistan. A builder can interface with 15 to 20 authorities—most of which are provincial or local—to obtain all necessary development permits and site inspections. Reforms should focus on reducing the costs of building permits and utility connections and on minimizing the time needed for inspections.

Pakistan can start by modernizing outdated municipal bylaws and the process for issuing permits—particularly in the large industrial areas. Road maps of the process can also assist investors, as can creating single windows for submitting applications and documents. This would require, first, clarifying the roles of national, provincial and local authorities, followed by a coordinated effort to modernize and harmonize zoning and land development laws and regulations. Mechanisms to assist with implementing reforms, such as introducing performance standards and service/complaint centers, could also reduce the licensing burden.

Employing workers

As in other South Asian countries, labor regulations are relatively rigid in Pakistan. Pakistan scores 43 on the rigidity of employment index, slightly higher than the South Asian average of 35. Unlike most countries in the region, however, Pakistan's labor code imposes rigid conditions on hiring while officially allowing flexibility in firing. Pakistan scores 78 out of 100—higher than any other South Asian country—on the difficulty of hiring

FIGURE 2.15

Employing workers—cost to hire and fire

index, which takes into account rules governing temporary contracts and minimum wage.

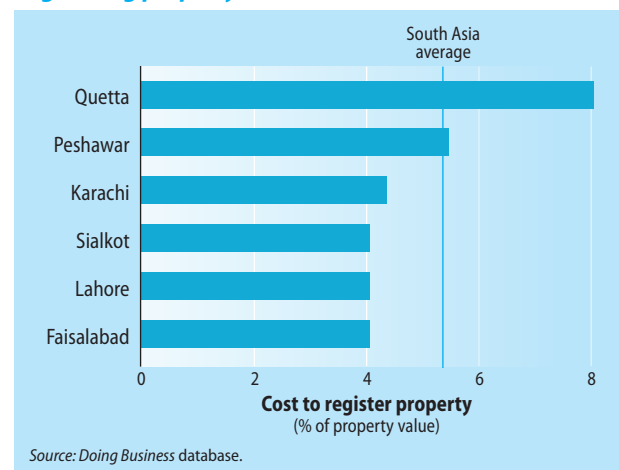
Other labor regulation indicators present a mixed picture. The cost of hiring a worker is 12% of salary, compared to 10% in Nepal, 15% in Sri Lanka and 17% in India. Pakistan's procedures for firing are moderately onerous, with a global ranking of 77th on the difficulty of firing index. But an employer must pay the equivalent of 90 weeks of salary in severance, penalties and notice to dismiss a worker (figure 2.15). Only Bhutan and Sri Lanka have higher dismissal costs, with 95 weeks and 178 weeks, respectively.

What to reform

Facing competitive pressure and high amounts of informality, all levels of Pakistan's government recognize the importance of modernizing the labor market. At the federal level, the government is undertaking an extensive reform of the labor code to (i) increase flexibility in the labor market, particularly in hiring, and (ii) lower the cost of complying with all labor regulations.

Reforms at the federal level seek to increase flexibility in hiring by eliminating restrictions on temporary contracts and by streamlining procedures for resolving labor disputes. At the provincial level, enforcement of the new legislation will be enhanced through more professional inspections. Future changes planned at the federal level include modernizing the provisions on health and safety protections and reforming labor welfare. To further improve labor market flexibility, Pakistan could also reduce the mandatory severance pay (of 20 months of wages for an employee with 20 years of seniority) and ease the requirements for redundancy.

FIGURE 2.16

Registering property in Pakistan**Registering property**

Pakistan ranks 68th on the ease of registering property—the top performing South Asian country after Nepal (25). Registering property is a relatively simple process requiring 6 procedures. Costs are 4% of the property value, higher than Bhutan (0%) but below all other countries in the region. The time to register is also slightly lower in Pakistan (50 days) than in most South Asian countries, including India (62 days) and Sri Lanka (63 days), and much lower than in Bangladesh (425 days). Only in Nepal (5 days) does property registration take less time than in Pakistan.

Land registration is governed by provincial and local authorities. The number of steps to register property therefore differs significantly across provinces—ranging from 6 in Sindh (Karachi) to 12 in Baluchistan (Quetta) with Punjab (Faisalabad, Lahore, Sialkot) and NWFP (Peshawar) falling in the middle. The cost to register property consists of the stamp duty, registration fees and transfer taxes. In addition to taking less time, registering property in Faisalabad, Lahore, Sialkot, Karachi and Peshawar is less costly (averaging around 4.5% of total property value) than in Quetta, where the cost is 8% of the property value (figure 2.16).

What to reform

Although the time and cost of registering property are moderate in Pakistan by global and regional standards, in some parts of the country—principally Quetta—the time and cost remain high. Learning from better practices in other countries may provide simple ways to cut procedures, time and costs. For example, most countries have eliminated the requirement to publish a public

notice of property transfers. Instead the registry can make its records accessible to the public. This serves the same purpose as publication, without the delays and cost. Expanding the e-government registration pilot program—currently in Punjab, where Faisalabad, Lahore and Sialkot are located—to other parts of the country can also simplify the registration process and cut costs.

Beyond property registration, problems with land titling and land availability are limiting entry, preventing financing and clogging the courts with land disputes. All levels of government need to work to expand access to clearly titled land. A significant effort is also needed to clarify rights of landowners for whom title is unclear—which is a majority of them. This will require a large-scale land registration reform that will include verifying borders and ownership. After establishing clear property rights, property markets can be further boosted by streamlining local zoning, rental and building regulations.

Getting credit

Pakistan is one of relatively few countries around the world with both public and private credit registries. Only 65 countries have public credit registries with greater coverage than Pakistan's. The only other country in South Asia with one is Bangladesh. Four other countries in the region have private credit bureaus. On the credit information index, which measures the depth of available credit information, Pakistan scores 4 out of 6—the highest in South Asia. Only 52 countries in the world score higher. By comparison India and Sri Lanka score 3, while Bangladesh and Nepal score 2 out of 6.

Although the credit information system is relatively well structured, the coverage is low. The public registry contains credit information on only 0.3% of adults. The private bureau covers only 1.1%. This is in contrast to the 0.6% of adults covered by the public registry in Bangladesh and the 6.1% and 3.1% coverage of adults by the private bureaus in India and Sri Lanka, respectively.

Pakistan's score of 4 out of 10 on the legal rights index indicates weaknesses in collateral and bankruptcy laws. Pakistan currently ranks 93rd on the index along with 32 other similarly rated countries—on par with the South Asian average, but lower than Bangladesh (7) and India (5).

What to reform

Coverage by private bureaus is increasing, although slowly, along with Pakistan's developing corporate sector. The public registry—currently run by the State Bank but which may be privatized in the future—recently expanded its database to include borrowers of smaller loan sizes. Both public and private credit bureaus can expand their coverage to include information from creditors other than financial institutions, such as retailers and utilities. Guaranteeing the legal rights of borrowers to inspect their credit data can improve the quality of the data. This in turn can help improve access to credit.

The relatively low degree of legal rights for borrowers and lenders also constrains access to credit. Although specialized legislation gives banks strong powers to seize collateral, further measures are needed. Reforms to the Company Law are currently being pursued. An opportunity exists to further strengthen creditor rights by (i) creating a unified registry for all security rights in moveable property, (ii) clearly specifying the priority for secured creditors to recover their security upon default and in bankruptcy and (iii) permitting out-of-court enforcement.

Protecting investors

Pakistan provides relatively strong protections for minority shareholders against the misuse of corporate assets. It ranks 19th worldwide on protecting investors. In South Asia only Bangladesh ranks higher, at 15th. Pakistan earns consistently high scores for each of the three components of the protecting investors indicator: (i) disclosure, (ii) director's liability and (iii) ease of shareholder suits.

This favorable ranking is a result of recent reforms that (i) introduce a code of corporate governance, (ii) require insider transactions be approved by the board of directors and (iii) require a range of disclosures be reported both to the board and in periodic public filings. Directors are held accountable with strict penalties if negligence can be shown. Finally, minority shareholders can obtain documents and directly question defendants during lawsuits.

What to reform

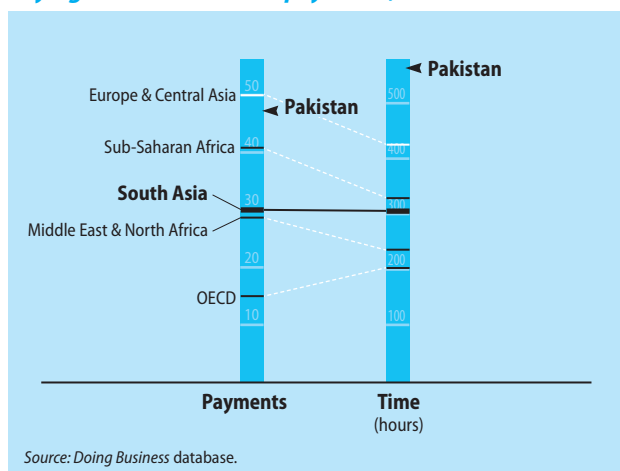
More effective enforcement has helped improve compliance. But the Securities and Exchange Commission of Pakistan still needs to do more to increase compliance with respect to immediate disclosure of large party-

related transactions, beneficial ownership and control by shareholders and companies. Access to information about specific transactions by minority shareholders prior to filing a lawsuit can also be strengthened. The burden of proof for holding directors liable is generally high. Finally, Pakistan needs to strengthen compliance with its rules governing annual general shareholder meetings. Some companies still do not hold them, or hold them in difficult to reach or obscure locations. This is particularly important because the law does not allow voting by mail or electronically.

Paying taxes

Pakistan ranks 140th on the ease of paying taxes—up from 143rd last year. Pakistan’s tax rate of 43.4% of commercial profit is moderate compared with other countries in the world and well below India’s (81.1%) and Sri Lanka’s (74.9%). But the administration of taxes continues to be a principal obstacle to doing business in Pakistan. The current tax code is cumbersome, requiring a standard business to make 47 tax payments per year to various levels of government. Complying with all statutory tax requirements takes an estimated 560 hours per year, placing Pakistan 150th in the world on time to comply with taxes (figure 2.17). These numbers are well above the regional average of 30 payments and 304 hours per year. Paying taxes in Pakistan is by far more time consuming than anywhere else in the South Asia region—requiring about 150 more hours to file taxes than Bangladesh (400 hours) and Nepal (408 hours), the two South Asian countries that come closest.

FIGURE 2.17
Paying taxes—number of payments, time



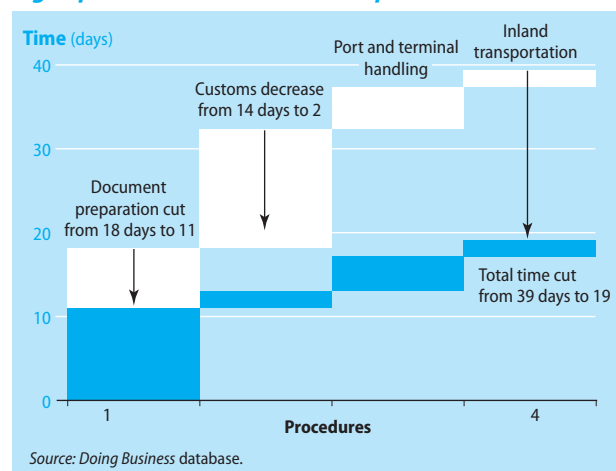
What to reform

There is an urgent need to further reform tax policy in Pakistan to widen the tax base and reduce the average tax rate. Easing tax administration by lowering the number of taxes and reducing the time to comply is also a priority. The government is taking on both challenges. A recently launched comprehensive analysis of tax policy will complement an already strong effort to improve tax administration. Legislative efforts are being driven by the federal government. A number of tax agencies are modernizing, building capacity and improving the interface between government and business. Archaic complexities in the tax code are being eliminated. Efforts to enable taxpayers to file returns and statements electronically are underway. Taxpayers Units and Medium Taxpayers Units have been established in large cities and so have Regional Tax Offices and Taxpayer Facilitation Centers. The effects of the tax reforms have started to show results. Pakistan jumped 3 spots in the rankings from last year—from 143rd to 140th. But further implementation of reforms is needed to continue this rise.

Trading across borders

Pakistan now ranks 98th on the ease of trading across borders—above the South Asian average but some distance from best practices. Last year Pakistan ranked 117th. Recent reforms have reduced the time to export (from 33 to 24 days) and import (from 39 to 19 days), rivaling or bettering the clearance time recorded in most other countries in the region (figure 2.18). Pakistan now ranks 91st in the world in time to export and 51st in the world in time to import based on a concerted effort to complement trade liberalization with improved trade

FIGURE 2.18
Big improvement in the time to import in Pakistan



logistics. A similar improvement has been achieved in the costs of trade. Sri Lanka (\$797 per container), India (\$864) and Bangladesh (\$902) all have lower export costs than Pakistan (\$996).

Despite these improvements, the number of documents required to import and export remains high by global standards. Eight documents are needed to export from Pakistan, which places the country at 107th in the world, while 12 documents are needed for import in Pakistan, putting the country at 120th.

Within Pakistan, Karachi is the cheapest and quickest city from which to export and import—because of the city's proximity to the port and the scale economies from the large volume of trade taking place there. The slowest and most costly place from which to trade is Peshawar, followed by Sialkot and Quetta. Indeed the range of export times (from 24 days in Karachi to 41 days in Peshawar) and import times (from 19 days in Karachi to 42 days in Peshawar and Quetta) across the country is large, reflecting differences in time spent in internal transport. The same is true of import costs (from \$1,005 in Karachi to \$1,786 in Peshawar) and export costs (from \$996 in Karachi to \$1,872 in Peshawar).

What to reform

Pakistan has focused intensively on reducing the level of trade taxes and administrative burden in recent years. Quotas have been converted to tariffs, followed by a reduction in the level and number of tariff bands, lowering average nominal protection levels from 67% to 10% over the past decade. Significant gains have been made in reducing the cumbersome procedures for export and import clearance. In the past the process involved 34 verifications and 62 steps—with an average time of over eight days per step and in some cases repeated interventions from various public officials. Now, under the pilot project to computerize customs, the clearance process involves only 2 or 3 documents and 2 signatures.

Continued tariff reforms and reforms to trade facilitation are needed to strengthen predictability and stability of trade policy. In particular, a review of documentary requirements is needed to build on the gains already made. Further improvements in the time to export and import are expected to result from the full implementation of tax and customs reforms currently underway. In addition, modernization of harbors, internal transportation corridors and the air transportation system—such as those changes being initiated under the National Trade Corridor Project—complement ongoing efforts at the border.

Enforcing contracts

Contract enforcement remains one of the weakest dimensions of the business environment in Pakistan. Pakistan ranks 163rd globally. It takes 880 days—well over two years—to enforce a commercial contract. The process involves 55 procedures and costs 23% of the claim's value. Pakistan compares favorably with India (1,420 days) and Bangladesh (1,442 days) on the time needed for a commercial dispute to be resolved through the courts. However, South Asia as a region does not perform well on the enforcing contracts indicator. The smaller countries—Sri Lanka, Nepal, Bhutan and the Maldives—require fewer steps and somewhat less time. The cost of enforcing a contract in Pakistan is on the low end for the region—less than in Nepal (24.4%), India (35.7%) and Bangladesh (45.7%).

Because courts are governed by a national code of civil procedure, 55 steps are required to enforce contracts irrespective of the court's location within Pakistan. However, it takes more time and remains costlier to enforce contracts in large centers such as Karachi, Lahore and, increasingly, Faisalabad. Courts in Peshawar and Quetta resolve disputes more quickly because community-based councils of tribal elders settle small claims. As a result, those courts can decide other matters—such as commercial disputes—faster than the courts in Karachi, Lahore and Faisalabad can. Lawyers' fees in Peshawar and Quetta are also lower than in larger cities, which results in a lower overall cost of contract enforcement.

What to reform

Contract enforcement presents a major challenge to Pakistan's business environment. Courts are subject to cumbersome administrative and regulatory requirements with the outcome being that a dispute is often resolved informally rather than in court. Federal and provincial governments have been struggling in recent years to improve the court system, with the support of large donor projects to support judicial reform. In particular, draft amendments to Pakistan's Code of Civil Procedure aimed at speeding up the litigation process are pending. The amendments seek to (i) make issuing summonses faster by issuing them electronically, (ii) limit the number of court adjournments, (iii) impose fines for bringing frivolous lawsuits and (iv) formalize alternative dispute resolution procedures.

Other more fundamental efforts remain under consideration. Most importantly, the appointment of judges to fill numerous vacancies at all levels of the court system

is outstanding. The judiciary decided that attempts to introduce a federal commercial court were ill-advised, and the initiative stalled. Specialized administrative and judicial tribunals to address specific types of cases (e.g., tax, banking, customs, labor, etc.) at the lower and appellate court levels are being introduced, as are alternative dispute resolution pilot programs for commercial disputes.

These and other initiatives reflect the government's efforts to further its goal of improving market governance. But there is much to do over the medium term. Improved performance by government officials in implementing regulations will lessen the burden on the judiciary. Ensuring adequate capacity at the lower court levels and timely filling of vacancies at the high court—with dedicated commercial judges—would also contribute to more certainty and predictability in the enforcement of contract rights.

Closing a business

Because of specialized legislation introduced during the banking reform of the late 1990s, Pakistan, on paper, scores relatively well globally and regionally on the ease of closing a business. Pakistan's 2.8 years to close business, put it at 69th in the world. It ranks 18th in terms of cost, at 4% of the value of the estate. And with a recovery rate of almost 40%, Pakistan ranks relatively high—46th place globally.

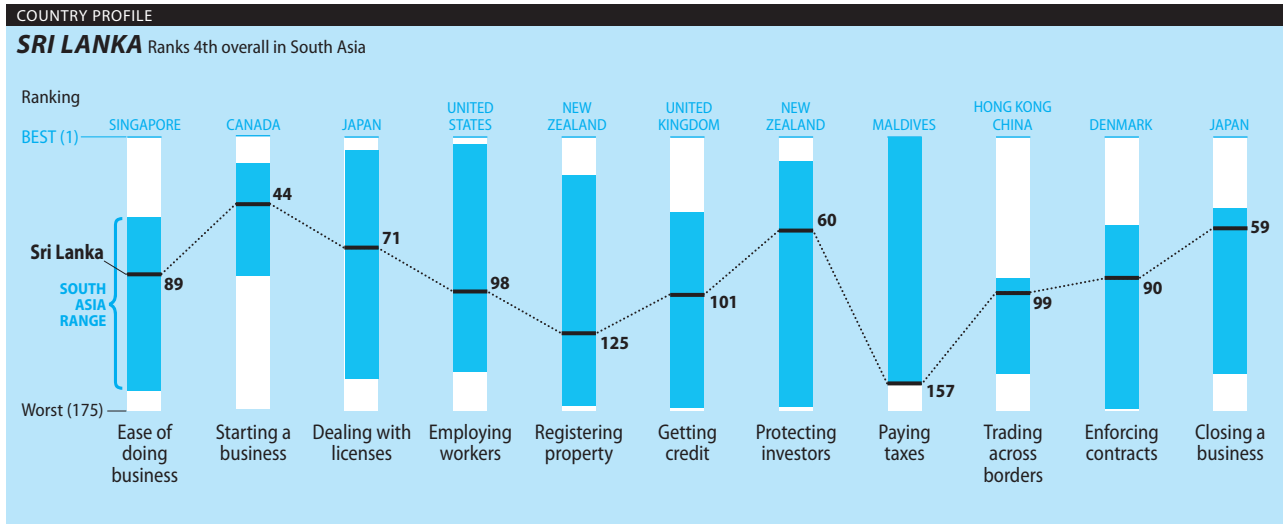
Within the South Asia region, the time to close a business in Pakistan is second only to Sri Lanka (2 years) and compares well with India (10 years), Nepal (5 years) and Bangladesh (4 years). Closing a business in Pakistan costs less than anywhere else in the South Asia region—less than half of the cost in Nepal, India and Bangladesh and less than a quarter of the cost in Sri Lanka. The system in Pakistan is also highly effective relative to other South Asia countries with the recovery rate much higher than in India (13%), Nepal (25%) Bangladesh (25%) and even Sri Lanka (36%).

Although time and recovery rates do not differ dramatically across cities, the cost to close a business does. It costs 4% of the value of the estate to close a business in Karachi, almost double the cost in Peshawar and Quetta (7%) and more than double in Faisalabad, Lahore and Sialkot (9%).

What to reform

The government has embarked on a comprehensive effort to reform corporate legislation by forming the Corporate Law Reform Commission to rewrite the Companies Act, 1984, which governs the insolvency process and reorganization proceedings. Pakistan's approach until now was to give banks special powers in insolvency cases through specialized banking legislation and banking courts, which has created a creditor-friendly regime. Companies entering insolvency have difficulty reorganizing as a going concern.

The "Corporate Rehabilitation Act" has been drafted but it has not yet been presented to parliament. One of the primary purposes of the legislation is to encourage and facilitate the rehabilitation of viable enterprises and avoid corporate closures through prolonged litigation. It is expected that the proposed law will improve corporate governance, achieve a better balance between creditor and debtor rights, and help prevent unnecessary closures. In addition to new legislation, considerable capacity building for supporting professions—including accountants, receivers, bankers, judges and other legal specialists—will be needed to apply the new regime.



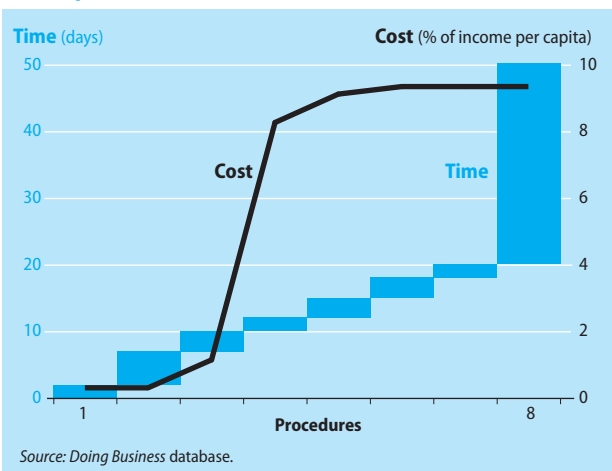
Sri Lanka ranks 89th on the ease of doing business, the same as last year. This places Sri Lanka 4th in the South Asia region behind Maldives at 53rd, Pakistan at 74th and Bangladesh at 88th.

Starting a business

Sri Lanka ranks 44th in terms of ease of starting a new business, down slightly from last year’s position of 39th. In absolute terms it remains just as easy, or difficult, as it was last year to open a new business in Sri Lanka, but during the past year other countries have improved.

Although there is no minimum capital required, a new start-up still needs to go through 8 separate procedures which takes 50 days and costs approximately \$100. Meanwhile, other countries in South Asia have continued to reduce the number of days to start a new business from 35 days on average last year to 32.5 days this year.

FIGURE 2.19
Start-up time and cost in Sri Lanka



What to reform

Sri Lanka can encourage more entrepreneurs to register their businesses formally by simplifying the start-up process. The final procedure—registering at the Department of Labor— takes 60% of the total start-up time (figure 2.19). These delays could be reduced or even eliminated entirely if the registrar of companies were computerized and connected to the Department of Labor. Similarly, the registrar of companies could also act as a “single window” for tax registration. Start-up could be further simplified by introducing standardized memoranda and articles of association. With these, there would be no need for pre-approval and notarization of the documents, cutting 2 procedures from the process.

Dealing with licenses

Sri Lanka ranks 71st in the world in terms of dealing with licenses, up from 77th last year. Despite a reduction in the number of procedures from 18 to 17, the process remains cumbersome, lengthy (167 days) and costly (151% of income per capita). In South Asia, only Bhutan and India have more procedures. Obtaining the building permit alone takes 75 days on average and accounts for almost one-third of the cost.

What to reform

Reforms should focus on speeding the procedures to issue building permits and ensure conformity, as these are the biggest bottlenecks. Reducing the time to process documents for the permit and the certificate of conformity is a start. Cutting costs is the next step. In Colombo, obtaining the building permit costs more than \$400. Many other countries charge no fees to issue a building

permit. Finally, reforms can target the cost of connecting to utilities. It costs more than \$550 to connect to electricity and \$220 to get a telephone line in Colombo. Builders should be permitted to install the basic connection themselves if they choose to.

Employing workers

Sri Lanka ranks 98th in terms of employing workers, unchanged from last year. Employing workers in Sri Lanka remains straight forward with the difficulty of hiring index at zero. Recent changes in the legislation governing overtime also provide Sri Lanka with a flexible and accommodative environment when it comes to rigidity of hours.

Although it is easy to hire it is almost impossible to fire a worker. Sri Lanka remains at the bottom of the rankings in terms of difficulty of firing workers. The cost of firing is higher in only three countries compared to Sri Lanka, where it costs 178 weeks of wages (table 2.8).

On top of the difficulty of firing, Sri Lanka's broader labor regulations are extremely complex and rigid. The country has more than 48 labor laws, many of which date to the 1970s—a period in which Sri Lanka had a closed and statist economy. Labor regulations mandate more holidays and leave than almost any other country in the world. National holidays include every full moon and eight other festivals. Workers also receive 21 days annual leave and 21 days sick leave, which are often taken as an entitlement rather than a fallback.

What to reform

Reforming labor law is an urgent priority. The Sri Lankan economy is characterized by repeated shocks including natural disasters and civil conflict and is highly vulnerable to exogenous factors such as the price of oil and trading terms for commodity exports. As such businesses in Sri Lanka need to respond regularly and swiftly

to changes in market conditions. But Sri Lanka's rigid labor regulations prevent such responses and lead to several unforeseen outcomes. Firstly, firms recruit more staff on a contract basis, implying reduced training and productivity levels. Secondly, employers are driven to pay a lower equilibrium wage-rate than would otherwise prevail. Thirdly, since the cost of reducing staff levels is prohibitive, employers that are hit especially hard in downturns are forced to declare bankruptcy, thereby letting their entire workforce go.

But perhaps the two most significant impacts of Sri Lanka's rigid labor laws are to push workers into the informal sector and stifle new job creation. 62% of jobs in Sri Lanka remain in the informal sector. There, workers have no health or social benefits and are not protected by any contracts. Resilient growth in recent years has not been matched by more jobs or higher wage rates. Young workers are forced to seek opportunities overseas, mostly in menial jobs in the Middle East.

Sri Lanka can reverse this trend immediately by reforming the Termination of Workers Act of 1971. Mandated severance payments should be reduced in line with international best practice. The intervention of the Commissioner of Labor should not be required every time a company seeks to make an employee redundant. These are all stroke-of-the-pen reforms that can be accomplished quickly if the government has the political will to do so.

Registering property

Sri Lanka ranks 125th in terms of the cost of registering property. Registering property requires 8 different procedures and takes 63 days, while the registration itself costs around 5% of the property value. Government stamp duties account for 80% of the cost. No reforms to property registration have taken place for several years.

What to reform

The government can encourage formal registration of property by reducing the 4% stamp duty. Typically reductions in fees lead to more revenues, as more properties are registered and there is less underreporting of property values. In Pakistan the transfer fee is only 2%; in Bhutan, 1%. Procedures can also be simplified by cutting documentation. Currently a business spends at least a third of the time to register just obtaining documents from the municipality. Beyond this, the government can focus on increasing the security of property rights by

TABLE 2.8

Expensive to fire workers in Sri Lanka

Cost to dismiss a redundant worker (weeks of wages)

Lowest		Highest	
New Zealand	0	Argentina	139
United States	0	Mozambique	143
Italy	2	Ghana	178
Romania	3	Sri Lanka	178
Australia	4	Zambia	178
Singapore	4	Egypt	186
Georgia	4	Sierra Leone	329
Jordan	4	Zimbabwe	446

Source: Doing Business database.

improving the way that the registry functions. Potential areas of reform include automating the land registry to improve processing time and the accuracy of records.

Getting credit

Access to credit is consistently rated by small and medium Sri Lankan firms as one of the greatest barriers to doing business. Although Sri Lanka has not made any changes in this area over the past year, other countries have, and so Sri Lanka has slipped from 96th to 101st in the global getting credit ranking.

Sri Lanka's credit information bureau, a public-private partnership between the Central Bank of Sri Lanka and several commercial banks, has started to extend its reach by increasing the percentage of adults covered from 2.2% of all adults to 3.1% in the past year.

What to reform

Access to credit can be expanded by reforming secured transaction and bankruptcy laws to provide lenders with clear priority to the proceeds from collateral. Improving the quality of credit information is also important. Banks currently submit credit information on paper, which is later entered electronically into a database. This two-step process can result in errors. The credit bureau needs to require data to be submitted electronically. Moreover, 40% of the bureau's records are missing unique national identification numbers, which makes it difficult for lenders to use the information and also allows for individuals to be attributed wrong information. Since banks are required to see an identification or passport number to issue a loan, banks should be required to include this information in credit bureau records.

The board of the Credit Registry Information Bureau (CRIB) has approved legal amendments in order to (i) collect data from various new sources (utility providers, retailers, insurers, etc.), (ii) extend CRIB services to such data providers, (iii) provide other services such as credit scoring and fraud prevention, (iv) provide dispute settlement and consumer protection, and (v) purchase the latest information and communications technology. These amendments need to be fully implemented.

Protecting investors

Sri Lanka ranks 60th in terms of protecting investors, which places it behind India, Bangladesh and Pakistan and on a par with Nepal and the Maldives. Afghanistan and Bhutan rank lower than Sri Lanka on the strength of investor protection. In comparisons to countries outside the region, Sri Lanka is on a par with Indonesia but still behind Thailand and Malaysia. Sri Lanka scores the lowest in the disclosure measurements, receiving only 4 out of 10 points on the extent of disclosure index. There are no requirements to immediately disclose transactions with conflicts of interest to shareholders or the general public, nor are inside dealings required to be reviewed by an outside body. Scores are only modestly higher on the director liability index, showing that investors have little power to hold a director liable for misconduct towards the company. The Sri Lanka's highest score (7 out of 10) is in the shareholder suit index—reflecting the relative ease with which an investor can have his dispute resolved in court.

What to reform

Sri Lanka can improve its investor protections by providing greater transparency for company operations. This will encourage investors to take equity stakes in more companies, and will lower the premium on holding a controlling share. The first step toward this could be to impose an immediate disclosure requirement for large, related-party transactions (between a company and individual members of its management). Mandating external audits on suspicious transactions can also reduce improper activities within a company.

The Sri Lankan authorities are considering requesting a Report on Observance of Standards and Codes (ROSC) for their country. The objective of the ROSC is to determine how corporate governance works in practice. The assessment focuses on shareholder rights, equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and duties of the board of companies. Completing such a study and publishing its results in an open and transparent manner as well as implementing the recommendations will go a long way to improving investor protections.

Paying taxes

Sri Lanka ranks 157th in the world and well below the South Asia average on the ease of paying taxes. Businesses must make 61 different payments per year and spend an average of 256 hours to comply with tax rules. But perhaps the biggest obstacle is the cumulative effective tax rate which at 74.9% of commercial profits is exceeded by only 18 countries worldwide. The result is significant tax evasion and avoidance.

In recent years the tax situation has deteriorated considerably. The corporate tax code is now much more burdensome than last year when close to 71.7% of commercial profits were payable in tax. Additional measures introduced in 2005 include a Social Responsibility Levy at 0.25% of profits and a stamp duty made effective in April 2006. Deductible expenses for advertising were reduced to 50% during the past year. Businesses will face even more difficulties paying tax following a budget passed in November 2006, which further complicates the tax code, introduces a number of new taxes and limits exemptions.

What to reform

Several countries have shown that low corporate tax rates can attract potential investors. Two decades ago, Ireland realized that by having a lower corporate tax rate it could position itself as a gateway to Europe. Sri Lanka has a similar opportunity to position itself as a gateway to Asia and reestablish its historical role as a regional entrepôt. This would require considerable simplification of the Sri Lankan tax code. The number of payments can be reduced by consolidating some taxes and eliminating other minor ones that significantly increase hassle but not revenues. To be competitive in today's environment the total tax rate payable should be significantly below the current rate.

Despite consistent increases in tax rates Sri Lanka's total revenue to GDP ratio has dropped from around 22% to as low as 14% in 2005. This is clearly an indication of increased tax avoidance. Larger companies have found ways to avoid paying Sri Lanka's high taxes by establishing themselves in one of the island's numerous export processing zones, run by the Board of Investment, which offer generous tax holidays and concessions—75% of manufacturing now takes place in the zones. This practice reduces revenues and creates a non-level playing field between large investors in the zones and smaller domestic entrepreneurs that are struggling

with government's bureaucratic and onerous tax regime. It also creates numerous opportunities for rent-seeking behavior among domestic and international companies vying for Board of Investment status.

Trading across borders

A recent investment climate study conducted by the World Bank and the Asian Development Bank found that Sri Lanka's ports were more efficient than many of its South Asian neighbors. However, that competitive advantage is gradually eroding as its competitors improve efficiency. Sri Lanka dropped to 99th from 90th on the ease of trading across borders during the last year. It takes 27 days and 13 documents to import goods. Exporting is only marginally better taking 25 days and 8 documents.

While competitors have narrowed the gap, Sri Lanka remains at the top of the South Asian league with only the Maldives and Pakistan ahead in terms of port competitiveness. However as a small island economy dependent on a thriving export sector, it is important that Sri Lanka continue to improve its trade performance to world class levels. Singapore takes only 3 days for imports and 6 days for exports and its container shipments cost less than half those from Sri Lanka.

What to reform

In improving port efficiency, Sri Lanka need look no further than Colombo for inspiration. The privately built and operated South Asia Gateway Terminal (SAGT) has operated alongside the publicly owned Jaya Container Terminal of the Sri Lanka Port Authority for some years now. The private sector terminal has spurred competition and efficiency within the public sector, while the publicly run terminals remain behind. Most importantly difficult labor relations continue to plague the public sector operations. A high profile strike at the Jaya Container Terminal in 2006 threatened Sri Lanka's key export sectors. The privately run SAGT mitigated the damage, operating around the clock to ensure that as many shipments as possible went out on time.

Sri Lanka can boost trade and reduce corruption in customs by cutting red tape in the import and export process. More efficient customs and ports are especially important for the garments sector, which depends heavily on imported textiles. There is much scope to improve. Port tariffs remain high, resulting in burdensome shipping costs. Moves per hour could also be significantly increased. One potential reform is to adopt the landlord

port model to sharpen the distinction between the management of the port and the operations of the terminals, thereby introducing private sector management without a transfer of assets to the private sector. Another area to improve is customs administration, which remains outdated. Large gains can be made with simple reforms, such as standardizing paperwork and eliminating unnecessary documentation requirements.

Enforcing contracts

Sri Lanka ranks 90th in terms of the ease of enforcing a contract. It takes 837 days and 20 procedures to enforce a contract (table 2.9). Such delays have several perverse effects on the way business is conducted. First, many businesses will prefer not to resort to the courts even for the simplest matters. Other businesses are tempted to bring frivolous court cases against their competitors, knowing that they can effectively tie up their competition for years in lengthy and costly disputes. Such practices encourage businesses to trade with a narrow group of known business partners, or simply internalize the risks and avoid trade altogether. Either way, growth is seriously hindered. Lengthy delays in court procedures also create the opportunity for rent-seeking behavior among the South Asian judiciary.

What to reform

Lengthy procedures and limited capacity of the judiciary in commercial law matters are the biggest obstacles to faster contract enforcement in Sri Lanka. The government can start by reforming the appeals process. In Sri Lanka, appeals on procedural matters are allowed at any point during the trial, there is a comprehensive review upon appeal, and once an appeal is made enforcement is suspended until the appeal is resolved. Not surprisingly, defendants use appeals as a delay tactic. Sri Lanka can follow other reformers—most recently Brazil in 2005—by removing opportunities for frivolous appeals and allowing cases to continue upon appeal. As a next step, establishing specialized commercial sections of the court or training judges to specialize in commercial matters could also cut delays and cost.

TABLE 2.9

Enforcing a contract in Sri Lanka

Number of procedures	20	Judgement period (days)	595
Time (days)	837	Enforcement period	180
Filing period (days)	62	Cost (% of claim)	21.3

Source: Doing Business database.

Closing a business

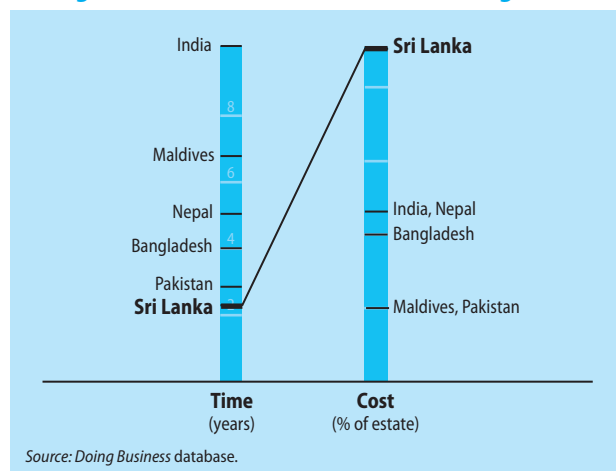
When a firm becomes insolvent in Sri Lanka, the average creditor receives around 36 cents on the dollar. It takes 2 years and costs about 18% of the estate value to go through bankruptcy. This places Sri Lanka in 59th place globally and far ahead of South Asian rivals where creditors can spend on average 4 years and recover only 20 cents on the dollar. India in particular has the most inefficient bankruptcy practices in the world—it takes over 10 years to recover just 13 cents on the dollar. Figure 2.20 shows that although bankruptcy is fairly quick in Sri Lanka, the cost for failed entrepreneurs to go through bankruptcy is the highest in South Asia.

What to reform

Terminating employees' contracts is the biggest obstacle, both in terms of time and cost, to winding up a company in Sri Lanka. The government can significantly cut delays in bankruptcy by amending the Termination of Employment Act to speed up the dismissal process and to reduce the severance package that has to be offered at the termination. Reforms that cut opportunities for frivolous appeals as well as provide incentives for bankruptcy administrators to maximize the value of the estate will also increase recovery rates in bankruptcy—and expand access to finance as a result.

FIGURE 2.20

Closing a business in Sri Lanka—short time, high cost



Appendix I

**Indicators for South Asia,
including sub-national indicators
for Bangladesh, India and Pakistan**



DOING BUSINESS INDICATORS	AFGHANISTAN	BANGLADESH	BHUTAN	INDIA	MALDIVES	NEPAL	PAKISTAN	SRI LANKA
Ease of doing business (rank)	162	88	138	134	53	100	74	89
Classification by income	LOW	LOW	LOW	LOW	LOWER MIDDLE	LOW	LOW	LOWER MIDDLE
GNI per capita (US\$)	270	470	870	720	2,390	270	690	1,160
Population (millions)	24.8	141.8	0.9	1,094.6	0.3	27.1	155.8	19.6
STARTING A BUSINESS								
Procedures (numbers)	3	8	10	11	5	7	11	8
Time (days)	8	37	62	35	13	31	24	50
Cost (% of income per capita)	67.4	87.6	16.6	73.7	18.1	78.5	21.3	9.2
Minimum capital (% of income per capita)	0	0	0	0	7	0	0	0
DEALING WITH LICENSES								
Procedures (number)	..	13	26	20	10	15	12	17
Time (days)	..	185	204	270	118	424	218	167
Cost (% of income per capita)	..	272.3	263.4	606.0	40.2	324.0	972.9	151.0
EMPLOYING WORKERS								
Difficulty of hiring index (0-100)	67	11	78	33	0	67	78	0
Rigidity of hours index (0-100)	40	40	40	20	0	20	20	20
Difficulty of firing index (0-100)	30	40	0	70	0	70	30	60
Rigidity of employment index (0-100)	46	30	39	41	0	52	43	27
Nonwage labor cost (% of salary)	0	0	1	17	0	10	12	15
Firing cost (weeks of wages)	4	51	95	56	9	90	90	178
REGISTERING PROPERTY								
Procedures (number)	11	8	5	6	NO PRACTICE	3	6	8
Time (days)	252	425	93	62	NO PRACTICE	5	50	63
Cost (% of property value)	9.5	10.5	0	7.8	NO PRACTICE	6.4	4.4	5.1
GETTING CREDIT								
Credit Information Index	0	2	0	3	0	2	4	3
Legal Rights Index	0	7	3	5	4	4	4	3
Public registry coverage (% adults)	0	0.6	0	0	0	0	0.3	0
Private bureau coverage (% adults)	0	0	0	6.1	0	0	1	3.1
PROTECTING INVESTORS								
Disclosure Index (0-10)	0	6	6	7	0	6	6	4
Director Liability Index (0-10)	0	7	3	4	8	1	6	5
Shareholder Suits Index (0-10)	2	7	4	7	8	9	7	7
Investor Protection Index (0-10)	0.7	6.7	4.3	6.0	5.3	5.3	6.3	5.3
PAYING TAXES								
Payments (number)	2	17	19	59	1	35	47	61
Time (hours)	275	400	274	264	0	408	560	256
Total tax rate (% of profit)	36.3	40.3	43.0	81.1	9.3	32.8	43.4	74.9
TRADING ACROSS BORDERS								
Documents for export (number)	7	7	10	10	8	7	8	8
Time for export (days)	66	35	39	27	15	44	24	25
Cost to export (US\$ per container)	2,500	902	1,230	864	1,000	1,599	996	797
Documents for import (number)	11	16	14	15	9	10	12	13
Time for import (days)	88	57	42	41	21	37	19	27
Cost to import (US\$ per container)	2,100	1,287	1,950	1,244	1,784	1,800	1,005	789
ENFORCING A CONTRACT								
Procedures (number)	..	50	34	56	28	28	55	20
Time (days)	1,642	1,442	275	1,420	665	590	880	837
Cost (% of claim)	25	45.7	20.2	35.7	16.2	24.4	22.6	21.3
CLOSING A BUSINESS								
Time (years)	NO PRACTICE	4	NO PRACTICE	10.0	6.7	5.0	2.8	2.2
Cost (% of estate)	NO PRACTICE	8	NO PRACTICE	9	4	9	4	18
Recovery rate (cents on the dollar)	0	24.9	0	13	18.2	24.5	39.9	35.6

BANGLADESH				
SUBNATIONAL INDICATORS	BOGRA	CHITTAGONG	DHAKA	KHULNA
STARTING A BUSINESS				
Procedures (numbers)	8	8	8	8
Time (days)	30	37	37	30
Cost (% of income per capita)	61.9	61.9	87.6	61.9
Minimum capital (% of income per capita)	0	0	0	0
DEALING WITH LICENSES				
Procedures (number)	14	15	13	13
Time (days)	146	150	185	189
Cost (% of income per capita)	114.7	128.5	272.3	103.7
EMPLOYING WORKERS				
Difficulty of hiring index (0-100)	11	11	11	11
Rigidity of hours index (0-100)	40	40	40	40
Difficulty of firing index (0-100)	40	40	40	40
Rigidity of employment index (0-100)	30	30	30	30
Nonwage labor cost (% of salary)	0	0	0	0
Firing cost (weeks of wages)	51	51	51	51
REGISTERING PROPERTY				
Procedures (number)	7	7	8	7
Time (days)	391	391	425	373
Cost (% of property value)	9.7	9.7	10.5	9.9
GETTING CREDIT				
Credit Information Index	2	2	2	2
Legal Rights Index	7	7	7	7
Public registry coverage (% adults)	0.6	0.6	0.6	0.6
Private bureau coverage (% adults)	0.0	0.0	0.0	0.0
PROTECTING INVESTORS				
Disclosure Index (0-10)	6	6	6	6
Director Liability Index (0-10)	7	7	7	7
Shareholder Suits Index (0-10)	7	7	7	7
Investor Protection Index (0-10)	6.7	6.7	6.7	6.7
PAYING TAXES				
Payments (number)	17	17	17	17
Time (hours)	400	400	400	400
Total tax rate (% of profit)	40.3	40.3	40.3	40.3
TRADING ACROSS BORDERS				
Documents for export (number)	11	11	7	11
Time for export (days)	43	25	35	37
Cost to export (US\$ per container)	582	553	902	555
Documents for import (number)	11	12	16	11
Time for import (days)	46	24	57	40
Cost to import (US\$ per container)	979	885	1,287	872
ENFORCING A CONTRACT				
Procedures (number)	50	50	50	50
Time (days)	1,790	1,400	1,442	1,373
Cost (% of claim)	40.4	43.6	45.7	40.2
CLOSING A BUSINESS				
Time (years)	NO PRACTICE	NO PRACTICE	4	NO PRACTICE
Cost (% of estate)	NO PRACTICE	NO PRACTICE	8	NO PRACTICE
Recovery rate (cents on the dollar)	NO PRACTICE	NO PRACTICE	24.9	NO PRACTICE

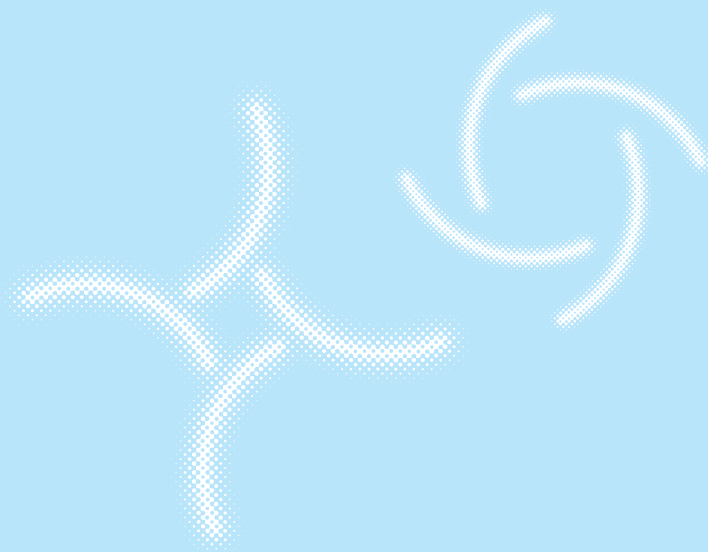
INDIA

SUBNATIONAL INDICATORS	BANGALORE <i>Karnataka</i>	BHUBANESHWAR <i>Orissa</i>	CALCUTTA <i>West Bengal</i>	CHANDIGARH <i>Punjab</i>	CHENNAI <i>Tamil Nadu</i>	HYDERABAD <i>Andhra Pradesh</i>	JAIPUR <i>Rajasthan</i>	LUCKNOW <i>Uttar Pradesh</i>	MUMBAI <i>Maharashtra</i>
STARTING A BUSINESS									
Procedures (numbers)	11	11	11	10	11	12	10	11	11
Time (days)	45	52	51	45	41	43	42	42	35
Cost (% of income per capita)	55.6	41.3	48.5	48.8	44.0	44.0	50.1	43.5	73.7
Minimum capital (% of income per capita)	0	0	0	0	0	0	0	0	0
DEALING WITH LICENSES									
Procedures (number)	20	16	24	22	21	24	20	22	20
Time (days)	165	159	386	195	219	168	240	231	270
Cost (% of income per capita)	1,363	413.5	1,999	646.5	483.0	500.1	515.0	470.8	606.0
EMPLOYING WORKERS									
Difficulty of hiring index (0-100)	33	33	33	33	33	33	33	33	33
Rigidity of hours index (0-100)	20	20	20	20	20	20	20	20	20
Difficulty of firing index (0-100)	70	70	70	70	70	70	70	70	70
Rigidity of employment index (0-100)	41	41	41	41	41	41	41	41	41
Nonwage labor cost (% of salary)	17	17	17	17	17	17	17	17	17
Firing cost (weeks of wages)	56	56	56	56	56	56	56	56	56
REGISTERING PROPERTY									
Procedures (number)	6	7	5	6	8	5	5	5	6
Time (days)	35	123	155	132	63	35	56	43	62
Cost (% of property value)	11	13.5	12.3	9.8	10.6	10.6	9.9	11.6	7.8
GETTING CREDIT									
Credit Information Index	3	3	3	3	3	3	3	3	3
Legal Rights Index	5	5	5	5	5	5	5	5	5
Public registry coverage (% adults)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private bureau coverage (% adults)	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
PROTECTING INVESTORS									
Disclosure Index (0-10)	7	7	7	7	7	7	7	7	7
Director Liability Index (0-10)	4	4	4	4	4	4	4	4	4
Shareholder Suits Index (0-10)	7	7	7	7	7	7	7	7	7
Investor Protection Index (0-10)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
PAYING TAXES									
Payments (number)	60	59	60	59	63	60	60	59	59
Time (hours)	264	264	264	264	264	264	264	264	264
Total tax rate (% of profit)	81.0	79.6	80.8	79.6	81.1	82.0	83.4	81.7	81.1
TRADING ACROSS BORDERS									
Documents for export (number)	9	11	11	10	7	9	10	9	10
Time for export (days)	22	20	18	27	17	20	21	27	27
Cost to export (US\$ per container)	755	996	505	1,029	580	706	950	875	864
Documents for import (number)	9	11	11	10	5	9	10	6	15
Time for import (days)	23	28	22	27	22	24	28	29	41
Cost to import (US\$ per container)	962	1,166	1,000	1,154	892	850	1,163	1,035	1,244
ENFORCING A CONTRACT									
Procedures (number)	56	56	56	56	56	56	56	56	56
Time (days)	800	610	942	915	683	770	754	950	1,420
Cost (% of claim)	16.5	14.5	18.6	25.1	25.4	21	16.3	18.4	35.7
CLOSING A BUSINESS									
Time (years)	7.3	10.2	19.6	8	9.5	8	9.3	15.2	10
Cost (% of estate)	4	4	4	4	4	4	4	4	9
Recovery rate (cents on the dollar)	19.5	14.5	5.5	18.1	15.5	18.1	15.9	8.7	13

SUBNATIONAL INDICATORS	INDIA			PAKISTAN					
	NEW DELHI <i>Delhi</i>	PATNA <i>Bihar</i>	RANCHI <i>Jharkhand</i>	FAISALABAD <i>Punjab</i>	KARACHI <i>Sindh</i>	LAHORE <i>Punjab</i>	PESHAWAR <i>NWFP</i>	QUETTA <i>Baluchistan</i>	SIALKOT <i>Punjab</i>
STARTING A BUSINESS									
Procedures (numbers)	11	11	11	10	11	10	10	11	10
Time (days)	52	41	46	23	24	23	23	25	23
Cost (% of income per capita)	43.6	44.1	59.3	16.2	21.3	16.2	16.2	16.9	16.2
Minimum capital (% of income per capita)	0	0	0	0	0	0	0	0	0
DEALING WITH LICENSES									
Procedures (number)	21	25	25	13	12	13	13	18	14
Time (days)	208	377	522	200	218	231	163	245	211
Cost (% of income per capita)	331.4	277.0	354.5	795.7	972.9	661.8	657.5	768.4	970.0
EMPLOYING WORKERS									
Difficulty of hiring index (0-100)	33	33	33	78	78	78	67	78	78
Rigidity of hours index (0-100)	20	20	20	20	20	20	20	20	20
Difficulty of firing index (0-100)	70	70	70	30	30	30	30	30	30
Rigidity of employment index (0-100)	41	41	41	43	43	43	39	43	43
Nonwage labor cost (% of salary)	17	17	17	12	12	12	12	12	12
Firing cost (weeks of wages)	56	56	56	90	90	90	90	90	90
REGISTERING PROPERTY									
Procedures (number)	6	5	6	9	6	8	9	12	7
Time (days)	138	119	86	38	50	41	46	93	43
Cost (% of property value)	10.1	12.8	5.6	4.1	4.4	4.1	5.5	8.1	4.1
GETTING CREDIT									
Credit Information Index	3	3	3	4	4	4	4	4	4
Legal Rights Index	5	5	5	4	4	4	4	4	4
Public registry coverage (% adults)	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Private bureau coverage (% adults)	6.1	6.1	6.1	1.0	1.0	1.0	1.0	1.0	1.0
PROTECTING INVESTORS									
Disclosure Index (0-10)	7	7	7	6	6	6	6	6	6
Director Liability Index (0-10)	4	4	4	6	6	6	6	6	6
Shareholder Suits Index (0-10)	7	7	7	7	7	7	7	7	7
Investor Protection Index (0-10)	6.0	6.0	6.0	6.3	6.3	6.3	6.3	6.3	6.3
PAYING TAXES									
Payments (number)	60	63	60	47	47	47	47	48	47
Time (hours)	264	264	264	560	560	560	560	560	560
Total tax rate (% of profit)	82.0	83.3	87.7	44.8	43.4	44.8	43.5	44.5	44.8
TRADING ACROSS BORDERS									
Documents for export (number)	11	11	11	8	8	8	9	8	8
Time for export (days)	22	21	26	25	24	26	41	27	34
Cost to export (US\$ per container)	1,030	875	827	1,105	996	1,250	1,872	1,566	1,680
Documents for import (number)	11	11	11	8	12	8	12	11	8
Time for import (days)	24	25	28	31	19	29	42	42	39
Cost to import (US\$ per container)	1,135	1,175	1,105	1,105	1,005	1,250	1,786	1,566	1,680
ENFORCING A CONTRACT									
Procedures (number)	56	56	56	55	55	55	55	55	55
Time (days)	900	792	1,165	870	880	875	730	755	735
Cost (% of claim)	33.7	22.1	23.5	16.8	22.6	21.9	12.3	13.8	14.6
CLOSING A BUSINESS									
Time (years)	7.9	9.3	8.5	3	2.8	3	3	3	3
Cost (% of estate)	4	4	4	9	9	9	7	7	9
Recovery rate (cents on the dollar)	18.3	15.9	17.2	34.4	34.4	34.4	35.9	35.9	34.4

Appendix II

Data details



STARTING A BUSINESS

Afghanistan

Standardized Company Legal Form: Private Limited Liability Company
Minimum Capital Requirement: 0
City: Kabul

Procedure 1. Obtain Business License (AISA)

Time to complete: 6 days

Cost to complete: USD 132

Comment: Required documentation:

- basic information on the business such as sectors of operation and number of employees
- personal data on the owners of the business, such as national identification card numbers
- Signature of the landlord and address of the property
- 2 passport photos

AISA is a one-stop shop, created in late 2003. Its staff is responsible for:

- cross-checking for any existing company names
- background check on outstanding financial obligations of the founders
- obtaining the criminal record of the director at the Ministry of Interior
- obtaining the company tax identification number (TIN) from the Ministry of Finance

- registration with Commercial Court of Ministry of Justice

- publication in reputable Afghan newspaper

Costs: 1500 Afghanis for publication of newspaper announcement

License fees: US\$100 (up to US\$ 10,000), US\$700 (US\$10,001 to 1,000,000), US\$1,000 (US\$ 1,000,001 and up)

Payment is made in person at AISA at the time of license application

Procedure 2. Pick up business license

Time to complete: 1 day

Cost to complete: included in procedure 1

Comment: After the license has been issued, the company personally picks it up at AISA.

Procedure 3. Obtain operational license (AISA)

Time to complete: 1 day

Cost to complete: USD 50

Comment: This second license is required once the company has become operational. To obtain the license, the company will have to show proof of its equipment and activities.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

Bangladesh

Standardized Company Legal Form: Private Limited Liability Company
Minimum Capital Requirement: 0
City: Dhaka

Procedure 1. Verify with the Registrar of Joint Stock Companies and Firms the uniqueness of the proposed company name;

Time to complete: 5 days

Cost to complete: BDT 305

Comment: An application in plain paper along with the Resolution approved by the promoters/sponsors of the proposed company regarding proposed names of the company to be formed, authorized share capital of the proposed company and the names of the proposed chairman/director(s)/shareholders who have agreed to subscribe shares of the proposed company is to be submitted by any person authorized by the promoters/sponsors of the proposed company to the Registrar of the Joint Stock Companies for verification and availability of the proposed name for new registration. The search for the company name was computerized in 2003. The Registrar publishes on a daily basis reserved and/or rejected names of companies. Application forms can be downloaded from the Registrar's website (<http://roc.gov.bd>), which also provides fee schedules and model forms for memorandum and articles of association.

Procedure 2. Two lawyers verify the Memorandum and Articles of Association

Time to complete: 1 day

Cost to complete: USD 100 (may vary)

Procedure 3. Buy Adhesive Stamp from Treasury for Memorandum and Articles of Association.

Time to complete: 1 day

Cost to complete: BDT 5000

Comment: Special adhesive stamp of Tk. 500/- (five hundred) for Memorandum of Association and Tk. 4,500 for Articles of Association will have to be affixed while submission for incorporation/ registration. Special adhesive stamps are available from the Treasury production of receipt of payment to the Bangladesh Bank. The company can buy non judicial stamps from the General Post Office (GPO) or alternatively from the stamp vendors in the court premises.

Procedure 4. File documents with the Registrar of Joint Stock Companies and Firms for registration

Time to complete: 14 days

Cost to complete: BDT 4800

Comment: For domestic companies the registration fees depend on the capital of the company: up to 1 crore (10 million takas): 5800 takas ; Next 1 crore - 1500 takas. If the company is registered as a foreign company, government registration fees amount to Tk. 795.

Govt. Registration

Fees of Tk 795 (registry provided this figure- is it true?) 1095 (dependent on the authorized capital of the company) is paid in the Registrar along with the following documents: (i) Name Clearance Certificate; (ii) 3 copies of Memorandum of Association; (iii) 3 copies of Articles of Association (iv) Form Nos. I, VI, IX, X and XII; (v) Encashment Certificate (if subscribers are non-residents); (vi) Tax Identification No. (of resident subscribers)

Procedure 5. Make a company seal.

Time to complete: 1 day

Cost to complete: USD 1

Procedure 6. Register with the tax authority

Time to complete: 9 days

Cost to complete: BDT 2000 (incidental charges)

Comment: Every company in order to commence business must register itself with the concerned taxation authority (Deputy Commission of Taxes of Company Circle, Zonal Taxation Department) under the National Board of Revenue (NBR) and procure a TIN No. (Tax Information No.) for the new company.

Procedure 7*. Register for VAT

Time to complete: 7 days (simultaneous with procedure 6)

Cost to complete: no charge

Comment: Separate registration for the purpose Value Added Tax may be obtained from the Customs, Excise and VAT Commission under NBR. The various Value Added Taxes (VAT) incurred while operating will be regulated by the zonal "Customs, Excise and VAT Commission".

Procedure 8. Obtain a trade license.

Time to complete: 6 days

Cost to complete: BDT 5,000 (2,000 government fee)

Comment: The Trade License is obtained from the City Corporation. The application for a trade license would have to be accompanied with the following documents: a certified copy of the Articles and Memorandum of Association of the Company, a copy of the certificate of incorporation, statement of bank solvency of the company, TIN Certificate of the company, a copy of the house rent agreement of the office of the company, three copies of photograph of person in charge of the main functions of the company with his particulars.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

Bhutan

Standardized Company Legal Form: Limited Liability Company

Minimum Capital Requirement: 0

City: Thimphu

Procedure 1. Obtain a clearance from the Royal Bhutan Police

Time to complete: 1 day to 30 days (1 day if it is a investor from Thimpu investing in Thimpu)

Cost to complete: no charge

Comment: Royal Bhutan Police verifies the adverse record with the criminal branch and the respective district where the applicant originally lived. This clearance can be sought up to a year in advance.

Procedure 2. The company submits project proposal to Department of Industry, Project Development Services Division

Time to complete: 4 days for activities requiring no sector /environmental clearance; up to 6 months for activities requiring sector clearance

Cost to complete: no charge

Comment: The Project Division Services Division reviews the project proposal. At the same time, where required, the Department of Industry sends a letter with a copy of the project proposal to the National Environment Commission for Environment Clearance (maximum 3 months) and other sectors for sector clearance. Where sector clearance is required, the promoter then usually waits for 2-3 months to hear back from PDSD, after which a detailed report has to be filed. The promoter may take 1 to 2 months to prepare the report.

On 24th August 2005, the Regional Trade and Industry Office has been empowered to issue environmental clearances for 17 listed sectors (instead of Environmental Unit).

Since 26th September 2005, RTIO can also approve small and cottage scale projects with fixed investment of up to Nu 10 million for the same 17 listed sectors (instead of PDSD).

However, companies to be registered by the RoC still will have to obtain the Environment Clearance from the NEC before registration at the RoC, where applicable.

Procedure 3. Obtain approval of the company name by the Intellectual Property Division (Ministry of Trade)

Time to complete: 1 day

Cost to complete: no charge

Comment: The entrepreneur can download the "name availability" application form from www.rocmi.gov.bt

The entrepreneur completes the form and provides 3 alternative names. Once the name is approved by IPD, the entrepreneur can seek the name approval from the Registrar of Companies immediately or at a later stage at the time of submitting the Articles of Incorporation..

Procedure 4. Register with the Registrar of Companies

Time to complete: 1 - 30 days

Cost to complete: BTN 2000

Comment: The following documents are required will be attached with the Articles of Incorporation:

1. Name availability form
2. Consent to act as director duly filled by all directors
3. Security clearance from Royal Bhutan Police for all the directors
4. Copy of citizenship ID card of all directors
5. Declaration of Compliance Form signed any of the Directors
6. Project approval from "Project Development Services Division", Ministry of Industry

(If required and ultimately if every formality is fulfilled in about 30 days time, the Registrar will issue letter of Registration. At present, only local Companies could be registered. Advertisement is optional. Company may choose to publish a notice in the weekly newspaper "Kuensel". It has to be booked at least 1 week in advance.

If the Articles of Association Incorporation are satisfactory, the Registrar of Companies will record all information in its computer database-CREG and print two copies of the Certificate of Incorporation. A paper file is also opened for the new company.

Registration Incorporation fee schedule as set in schedule IV of the Companies Act of Kingdom of Bhutan, 2000

Authorized share capital not exceeding Nu.1,000,000. Nu.1000

Exceeding Nu 1,000,000, but less than Nu 2,000,000. Nu.1500

Exceeding Nu. 2,000,000. Nu.2000

Procedure 5. Obtain a location clearance from the City Council or the District Administrators

Time to complete: 3 days

Cost to complete: BTN 50 + BTN 10 (legal stamp)

Comment: Once the company is incorporated, it must obtain a trade/industry license to be able to operate. In order to obtain the license, a business must get clearance from the City Council (known as City Corporation) in the urban areas and from the District Administrators in the Districts. City Corporation will verify the sites whether the location of the business is in commercial area and also the site is legally owned. One form is presented to the City Council/Office of the District Administrator as well as the Regional Trade & Industry Office. This form can be obtained from the Office of the Regional Director, Regional Trade & Industry Office (Thimphu, Pheunsholing, Gelephu, Samdrup Jongkhar, Traongsa and Trashigang). The form cost only Nu. 50; no fee is charged on the clearance by the City Council nor the District Administrator.

Procedure 6. Apply for a trade/industrial license at the Regional Trade and Industrial Office (under Ministry of Trade)

Time to complete: 2 days

Cost to complete: Registration fee, license fee, booklet charge (see comment)

Comment: RTIO. No business activity can be carried out before obtaining a trade or an industrial license. Sectoral permissions/approvals (if required) must be presented. Businesses with more than Nu. 1 million are required to present a project report as per the guideline issued by Ministry of Trade & Industry.

Fee schedule

Investment (Nu million)	Registration fees	License fees	License booklet	Total
Large More than 100	8,000	4,000	100	12,100
Medium Between 10-100	4,000	2,000	100	6,100
Small Between 1-10	2,000	1,000	100	3,100
Cottage Less than 1	1,000	500	100	1,600

Since 1st July 2005, applications forms for trade and industrial licenses can be downloaded off the Ministry of Trade and Industry's website (www.mti.gov.bt) and photocopies of application forms are accepted by the

Procedure 7. Apply for tax payer identification number and register the company for specific taxes

Time to complete: 1 - 3 days

Cost to complete: no charge

Comment: Every company is required to register for business income tax for which a business identification code (BIC) is given. This BIC number must be presented for obtaining a business license as well as for participating in public tenders and works. In practice, companies may register at the time of the first tax payment.

Procedure 8. Make a company seal

Time to complete: 5 days

Cost to complete: USD 20

Comment: Companies are required to have a seal within one year of incorporation. This is verified by the Registrar during the annual inspection.

Procedure 9*. Open a bank account

Time to complete: 1 day (simultaneous with procedure 8)

Cost to complete: no charge

Comment: Under Company Act 2000, a bank account under company's name has to be opened within one month of incorporation.

Procedure 10*. File the evidence of operating a bank account with the ROC

Time to complete: 1 day (simultaneous with procedure 8)

Cost to complete: no charge

Comment: Evidence of operating a bank account has to be presented/filed with the ROC once the Certificate is issued and upon obtaining the license.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

India

Standardized Company Legal Form: Perseroan Terbatas (PT)

Minimum Capital Requirement: 0

City: Mumbai

Procedure 1. Present name of company for approval to the Registrar of Companies (ROC); Get the Memorandum and Articles of Association vetted by the ROC and printed

Time to complete: 7 days

Cost to complete: INR 500

Comment: Name availability application (Form 1A): Select in the order of preference a few names proposed for the new company, which should indicate the main objects of the company to be incorporated. The names chosen should not violate the provisions of Emblems and Names (Prevention of improper Use) Act, 1950 and should not phonetically or visually resemble the name of any existing company. Once the name of the company has been finalized an Application in Form 1A prescribed in the Companies (General Rules and Forms) 1956 along with the filing fees of Rs. 500/- will have to be made in the office of the ROC. It is very important to fill up Form 1A carefully as no change will be made once the Form is filed. With the computerization in the ROC's office, the name availability applications are disposed off within 3 working days after their receipt. It is a common practice to have the draft Memorandum and Articles of Association vetted by the Registrar of Companies before one formally registers the company. The procedure is that the MOA & AOA are submitted to the office of the ROC, the relevant official may, after taking a detailed look into the MOA & AOA, bring out certain objections, which need to be suitably addressed. Once the objections are addressed, the documents are finally accepted for registration. The process may take 7-8 days.

Procedure 2. Make an application to the Superintendent of Stamps or an authorized bank requesting for stamping of the Memorandum of Association and Articles of Association.

Time to complete: 1 day

Cost to complete: INR 200 (for MOA) + INR 1000 (for AOA) for each slab of INR 500,000/- or part thereof + INR 100 (stamp paper for declaration Form 1)

Comment: The application should be accompanied necessarily by the following:

(i) Two Blank Copies One unsigned copy of the Memorandum of Association and Articles of Association.

(ii) Payment receipt.
Ensure that the copies submitted to the Superintendent of Stamps or to the bank for stamping are unsigned and no promoter or subscriber has written anything on it by hand. The Superintendent returns the copyies one of which is duly stamped, signed and embossed evidencing the payment of the requisite stamp duty.

The rate of stamp duty varies from State to State.

Stamp duty payable on memorandum of association and articles of association for a company to be incorporated in Mumbai, Maharashtra is:

AOA: Rs. 1000/- for every Rs. 500,000/- capital or part thereof.

Once the Memorandum and the Articles of Association of the cCompany have been stamped, the same is required to be signed by the Promoters of the Company including commencing with the father's name, address, occupation and the number of shares subscribed for in their own handwriting which is duly witnessed.

After signing the documents are to be dated.MOA: If along with AOA: Rs 200.

Declaration form 1: On Rs 100 stamp paper

Procedure 3. Present the required documents along with the registration fee to the Registrar of Companies to get the certificate of incorporation

Time to complete: 9 days

Cost to complete: see comments

Comment: Present the following documents along with ROC with filing fee and registration fee:

- The stamped and signed copies of Memorandum and Articles of Association (3 copies).
- Stamped Form-1 (Declaration of compliance), 18 (Notice of situation of registered office of the company) & 32 (Particulars of Director, Manager or Secretary) in duplicate.
- Any agreement if referred to in The MOA&AOA forming part of the Memorandum of Association.
- Any agreement proposed to be entered into with Any individual for appointment as Managing or whole time Director.
- Name availability letter issued by ROC.
- Power of Attorney from the subscribers in favor of any person for making corrections on their behalf in the documents and papers filed for registration. This must be on non-judicial stamp paper of Rs.100/-.
- Passport copies of all first directors (certified by advocates, chartered accountants, etc)

Fill up Form No.1 printed on Rs. 20 non-judicial stamp paper which relates to "declaration of compliance with the requirements of the Companies Act 1956 on application for the registration of a company and all the matters precedent and incidental thereto." The Form has to be signed by an advocate, Company Secretary or Chartered accountant and it is preferable to have it witnessed by the promoters.

The fees paid to the Registrar for registration are scaled according to the amount of the authorized share capital of a company as stated in its memorandum. The schedule is as following:

For registration of a company whose nominal share capital does not exceed Rs.100,000: Rs. 4,000.

For registration of a company whose nominal share capital exceeds Rs.100,000, the above fee of Rs.4,000 with the following additional fees regulated according to the amount of nominal capital:-

- (a) Rs. 300 for every Rs.10,000 of nominal share capital or part of Rs.10,000 after the first Rs.1,00,000 up to Rs.5,00,000;
- (b) Rs. 200 for every Rs.10,000 of nominal share capital or part of Rs.10,000 after the first Rs.5,00,000 up to Rs.50,00,000;
- (c) Rs. 100 for every Rs.10,000 of nominal share capital or part of Rs.10,000 after the first Rs.50,00,000 up to Rs.1 crore;
- (d) Rs. 50 for every Rs.10,000 of nominal share capital or part of Rs.10,000 after the first Rs.1 crore.

The above stated fees is required to be paid in the office of the ROC by way of a Demand Draft/ Treasury Challan.

The DD has to be drawn in favor of either the office of the concerned ROC or in favor of the Pay and Accounts Officer, Department of Company Affairs, Mumbai. In the present case the total amount of fees (including the filing fees of the forms filed) to be paid in the office of the ROC for getting the company registered with an authorized share capital of Rs.1,00,000 approximately would be Rs.4,800/- Schedule of RoC filing fees for the Articles and for the other forms 1, 18 and 32:

- (i) Rs. 200 In respect of a company having a nominal share capital of Rs. 100,000 or more but less than Rs. 500,000;
- (ii) Rs. 300 In respect of a company having a nominal share capital of Rs. 500,000 or more but less than Rs. 2,500,000;
- (iii) Rs. 500 In respect of a company having a nominal share capital of Rs. 2,500,000 or more.The ROC will then scrutinize the documents filed by the Company and if necessary the authorized person will on intimation make the necessary corrections under his initials. The authorized person will be provided the Obtain the Certificate of Incorporation of the company from the office of the ROC. The company can commence its business on getting incorporation certificate from RoC. The other procedures given below can be done after the business is started.

Procedure 4. Obtain a company seal

Time to complete: 3 days

Cost to complete: INR 350

Procedure 5. Visit the UTI Investors Services Limited to obtain a Permanent Account Number

Time to complete: 7 days

Cost to complete: INR 71 (INR 66/- for Fee and INR 5/- for Application Form)

Comment: Under the Income-tax Act, 1961, each person is required to quote his Permanent Account Number (PAN) for tax payment and Tax deduction Account Number (TAN) for depositing tax deducted at source. The Central Board of Direct Taxes (CBDT) has instructed banks not to accept any form for tax payments (challan) without the PAN or TAN, as the case may be.

The Permanent Account Number (PAN) is a 10-digit alphanumeric number, issued in the form of a laminated card, by an Assessing Officer of the Income Tax Department.

The Income Tax Department has outsourced PAN allotment to UTI Investors Services Limited. The application for PAN has to be made in Form 49A along with a certified copy of the certificate of registration, issued by the ROC. Form 18 (stating location of registered office) has to be filed with the ROOC at the time of incorporation. Form 49A has to be filled in black ink. The outsourcing was done as a means to speed up the allotment PAN.

Procedure 6*. Obtain a Tax Account Number for income taxes deducted at source from the Assessing Office in the Mumbai Income Tax Department

Time to complete: 7 days (simultaneous with procedure 5)

Cost to complete: INR 55

Comment: TAN is required to be obtained by all deductors under Section 203 A of the I-T Act. It is a 10-digit alpha-numeric number and is compulsory to quote TAN in TDS returns (including e-TDS). All those persons who are required to deduct tax at source are required to apply and obtain TAN through form 49B. Income tax is levied by the national government. There is also MODVAT which applies only to manufacturers and is therefore not included in this analysis.

Procedure 7*. Register with Mumbai Shops and Establishment Act, 1948

Time to complete: 2 days (simultaneous with procedure 6)

Cost to complete: INR 5000

Comment: Registration has to be completed within thirty days from the date on which the establishment commences its work. For the State of Maharashtra (where Mumbai is located), Schedule 1 of the Maharashtra Shops and Establishments Rules prescribe the fees for registration and renewal of registration, which vary depending on the number of employees in the establishment. Cost: Rs. 100 to a maximum of Rs. 6,000 per year, depending on the number of employees. In addition, a sum three (3) times the registration and renewal fee per year is charged as Trade Refuse Charges (TRC) under the provisions of Mumbai Municipal Corporation Act, 1888.

Procedure 8*. Register for value added tax (VAT) before the Sales Tax Officer of the ward in which the company is located

Time to complete: 12 days (simultaneous with previous procedure)

Cost to complete: INR 5025

Comment: VAT tax registration will be effective from the date of application. In the State of Maharashtra, from April 1, 2005, Sales Tax has been replaced by VAT and for VAT registration Form 101 is filed. Further, the authorized representative signing the said application is required to be available at the Sales Tax office on the day of verification of the application. Accompanying documentation included, certified true copy of the MoA and AoA of the company, registered office address proof of the company, antecedents of Directors copy of the office premises agreement as proof of the place of business (in Mumbai), copy of registration certificate under Mumbai Shops and Establishments Act, 1948, copy of Income Tax order, if any and PAN card, bank current A/c. number, original challan of payment of registration fees, two passport size photograph of the authorized signatory, and board resolution authorizing the signatory to sign the application form, appear before the Sales Tax Officer and to complete the formalities related to registration

Procedure 9*. Register for Profession tax

Time to complete: 2 days (simultaneous with procedure 8)

Cost to complete: no charge

Comment: Application has to be submitted to the inspector. Registration has to be obtained for each of the directors of the company. The company has to obtain a two-fold registration; one in its capacity as an employer and second in its capacity as a company. Profession Tax is levied by the state authority and the registration has to be obtained post-incorporation of the company.

Procedure 10*. Register with Employees' Provident Fund Organization

Time to complete: 2 days (simultaneous with procedure 7)

Cost to complete: no charge

Comment: Provident Commission (part of local labor authority). Procedure: Fill in application. Provident Fund Registration is optional if employee strength is not more than 20.

Procedure 11*. Register with ESIC (medical insurance)

Time to complete: 1 day (simultaneous with procedure 7)

Cost to complete: no charge

Comment: Register with the ESIC department (which is a part of local labor authority). ESIC Registration is optional if employee strength is less than 10.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

Maldives

Standardized Company Legal Form: Société à Responsabilité Limitée (SARL) - Limited Liability Company

Minimum Capital Requirement: 2,000

City: Malé

Procedure 1. Search for a unique company name and pick up standard application forms for incorporation

Time to complete: 1 day

Cost to complete: MVR 200

Comment: The Companies Act 1996 regulates the rules governing acceptable company names. To facilitate the process of company incorporation, the Registrar of Companies provides "standard-form" Memorandum and Articles of Association of incorporation of a new company.

Procedure 2. Have lawyer certify company statutes

Time to complete: 5 days

Cost to complete: MVR 2000

Comment: The process is quick and easy.

Procedure 3. Make a company seal

Time to complete: 1 day

Cost to complete: MVR 200

Comment: The Companies Act 1996 requires all companies to have a company seal, and a copy of the seal must be registered with the Registrar of Companies Office.

Procedure 4. Pay registration fees

Time to complete: 1 day

Cost to complete: no charge

Comment: Company registration fees are collected by the Inland Revenue on behalf of the Registrar of Companies.

Procedure 5. Register with the Registrar of Companies

Time to complete: 5 days

Cost to complete: MVR 2,000 annual company fee + registration fee (see the comment) + MVR 100 notarization fee

Comment: The Schedule to the Companies Act 1996 provides a list of all the fees that should be paid for company registrations. The fees are basically as follows:-

(a) Sliding scale based on the share capital: if the authorized capital of the company is MRF. 10,000 or less than MRF. 10,000, then the fee is MRF. 1,000. If the authorized capital of the company is more than MRF. 10,000, then in addition to the MRF. 1,000 stated earlier, a fee calculated on the following basis on the authorized capital of the company must be paid:

- For every MRF. 4,000/- or part thereof of the authorized capital between MRF. 10,000/- and MRF. 500,000/- a fee of MRF. 10/- shall be paid.

- For every MRF. 4,000/- or part thereof of the authorized capital between MRF.

The new company does not have to apply for a tax identification number as there is no system yet in the Maldives for revenue based corporate taxation. It is advised that the Ministry of Finance and Treasury is in the process of drafting a system for imposing corporate taxation, but this is likely to take several years before it is implemented.

500,000/- and MRF. 4,000,000/- a fee of MRF. 4/- shall be paid.

- For every MRF. 4,000/- or part thereof of the authorized capital between MRF. 4,000,000/- and MRF. 8,000,000/- a fee of MRF. 2/- shall be paid.

- For every MRF. 4,000/- or part thereof of the authorized capital above MRF. 8,000,000/- a fee of MRF. 1/- shall be paid.

(b) An annual company fee for public companies of MRF. 10,000 and for private companies of MRF 2,000 payable before the end of March every year.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

Nepal

Standardized Company Legal Form: Close Limited Liability Company

Minimum Capital Requirement: 0

City: Kathmandu

Procedure 1. Verify the uniqueness of the proposed company name

Time to complete: 1 day

Cost to complete: NPR 5

Comment: An application need to be submitted before the Office of the Registrar of Companies whether the proposed name of the company is available and acceptable by the Office of the Registrar of Companies.

Procedure 2. A professional verifies and certifies the memorandum and articles of association.

Time to complete: 5 days

Cost to complete: NPR 10,000 depending on the professional's charges.

Procedure 3. Buy a stamp to be attached to registration form.

Time to complete: 1 day

Cost to complete: NPR 5

Procedure 4. File documents with the Company Registrar's Office, Department of Industry, His Majesty's Government of Nepal.

Time to complete: 15 days

Cost to complete: NPR 4500

Comment: The format of registration application is prescribed by the Ministry of Industry, Commerce and Supplies. Company name is verified along with the main application for registration. The fee schedule is as follows:

Authorized Capital Official fee

Up to Rs. 100,000 Rs. 1,000

Rs. 100,001 to Rs. 500,000.00 Rs. 4,500

Rs. 500,001 to Rs. 2,500,000.00 Rs. 9,500

Rs. 2,500,001 to Rs. 10,000,000 Rs. 16,000

Rs. 10,000,001 to Rs. 20,000,000 Rs. 19,000

Rs. 20,000,001 to Rs. 30,000,000 Rs. 22,000

Rs. 30,000,001 to Rs. 40,000,000 Rs. 25,000

Rs. 40,000,001 to Rs. 50,000,000 Rs. 28,000

Rs. 50,000,001 to Rs. 60,000,000 Rs. 31,000

Rs. 60,000,001 to Rs. 70,000,000 Rs. 34,000

Rs. 70,000,001 to Rs. 80,000,000 Rs. 37,000

Rs. 80,000,001 to Rs. 90,000,000 Rs. 40,000

Rs. 90,000,001 to Rs. 100,000,000 Rs. 43,000

More than Rs. 100,000,000. Rs. 43,000 plus Rs. 30.00

for each additional Rs. 100,000.

Procedure 5. Make a company seal/rubber stamp.

Time to complete: 3 days

Cost to complete: NPR 1000

Procedure 6. Register with the Inland Revenue Office, the Ministry of Finance.

Time to complete: 5 days

Cost to complete: no charge

Comment: Company shall must disclose the office address and withhold 15% tax of actual rental for at least three months as a tax and deposit it to the tax office. If the objective of the company includes goods/services subjected to VAT, both registrations (VAT/Income Tax) should be obtained simultaneously.

Procedure 7. Enroll the employees in the Provident Fund.

Time to complete: 1 day

Cost to complete: no charge

Comment: Ten percent is deducted each month from the basic salary of each employee and a matching contribution is made by employer. The contribution is made to the provident fund and released upon the retirement of the employee. In addition to this the employer also has to pay gratuity at the rate prescribed by labor regulation upon retirement of an employee. Both of above rules are applicable only if the company appoints 10 or more employees.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

Pakistan

Standardized Company Legal Form: Share Corporation

Minimum Capital Requirement: 0

City: Karachi

Procedure 1. Seek the availability of a name proposed for the company from the Registrar of Companies.**Time to complete:** 1 day**Cost to complete:** PKR 200

Comment: The company may propose one or more names according to their priority. The name should not be inappropriate, deceptive or designed to exploit or offend any religion. It should neither be identical nor have any close resemblance with the name of any existing companies.

The availability of the name can be checked online by searching the names of the existing companies. Besides there are certain guidelines explaining the prohibition of the use of the name indicating the state sponsorship or association with the national leaders etc. The official confirmation of the availability of the name or otherwise is received by email within 24 hours. This confirmation is enough provided the name searching fee of Rs. 200 is paid into the bank account of the regulatory authority.

Procedure 2. Pay the fee for procedures 1, 3 and 4, and obtain bank receipt/ copy of treasury challans**Time to complete:** 1 day**Cost to complete:** no charge

Comment: Stamp duty is paid to the Sindh Provincial Government.

A copy of the original treasury challan of the amount of the registration and filing fee are to be deposited in the Habib Bank Ltd or the State Bank of Pakistan. The amount is payable under the following headings and account numbers at the stated banks:

- 1200000 Receipts from Civil Administration and other Functions

- 1210000 Receipts from General Administration

- 1213400 Economic Regulations (Receipts under the Companies Ordinance)

Pick up treasury challan forms at the counter of the bank and fill out the purpose of the payment; pay the amount due to the official accounts and obtain a copy of the form. The bank sends another copy to the relevant departments.

Procedure 3. Have the Memorandum and Articles of Association stamped at the Treasury and obtain stamp paper on which the Declaration of Compliance will be drafted**Time to complete:** 1 day**Cost to complete:** 0.1% of authorized capital + PKR 200 + PKR 2,000

Comment: The original copy of the Memorandum and Articles of Association has to be stamped according to the Stamp Act of the relevant province of Pakistan in which the company is proposed to be registered. There is a Stamp Act prescribing the adhesive stamps to be affixed on the first page of the documents before they are executed. The unsigned copy of the Memorandum and Articles of Association is submitted to the Stamp Office of the provincial government dealing with the stamp along with the proof of payment in the bank account of the Treasury and the documents are returned duly stamped the same afternoon.

Stamp fees in Sindh are paid at the following rates :

Memorandum of association: Rs. 2,000 if not accompanied by articles of association; Rs 1,000 if accompanied by Articles of Association

Articles of Association with an authorized capital not exceeding Rs. 500,000 Rs. 1,000/-, exceeding Rs. 500,000, Rs. 2,000

Procedure 4. Register the company at the Registrar of Companies.**Time to complete:** 3 days**Cost to complete:** registration fee + PKR 200, filing fee per document, 4 documents + PKR 50 for the Certificate of Registration

Comment: The following documents are required for incorporating a private company:

1. Form-1 (Declaration of Compliance), signed by: (1) An advocate that is entitled to appear before any High Court in Pakistan or the Supreme Court; or
- (2) A qualified Chartered Accountant (Member of ICAP or ICMAP) practicing in Pakistan; or (3) A person named in the Articles of Association as a Director or

other officers.

2. Form-21 (identifying the location of the office)

3. Form-29 (Particulars of Directors, Secretary, Chief Accountant, Auditors, etc). The copy of the National Identity Card of the subscriber is required to submit along with the documents.

Also attached: Three copies of Memorandum & Articles of Association, signed by each member in presence of a witness, and with special stamp pasted.

It is not mandatory to hire a lawyer or accountant to get a company incorporated but it is generally preferred for ease of accomplishment. Any of the initial subscribers to the Memorandum of Association has to declare that all the formalities in connection with the incorporation of the company stand completed before the certificate of incorporation is issued.

The fee of incorporation is reduced recently. The schedule for the registration fee is:

Authorized Capital Fees

For registration of a company whose nominal share capital does not exceed 100,000 rupees 2,500

For registration of a company whose nominal share capital exceeds 100,000 rupees,

a fee of 2,500 rupees, along with an additional fee to be determined according to the

amount of nominal share capital as follows, namely:-

- (i) For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 100,000 rupees, up to 5,000,000 rupees, a fee of . 500

- (ii) For every 100,000 rupees of nominal share capital or part of 100,000 rupees, after the first 5,000,000 rupees, a fee of 250

Provided that for registration of a company the total amount of fee to be paid shall not exceed ten million rupees.

Procedure 5. Make a company seal**Time to complete:** 2 days**Cost to complete:** PKR 1000

Comment: Common seal is prepared after certificate of incorporation is obtained. It is affixed on the documents of significant nature in accordance with the provision of the Articles of Association.

Procedure 6. Apply for a National Tax Number (NTN) and register for the income tax.**Time to complete:** 2 days**Cost to complete:** PKR 50

Comment: Companies can go to the Internet to find out the status of the processing within 24 hours of the application. Meanwhile, since 2002, NTN are issued with a continuous valid term. Companies no long need to renew their NTN.

The income tax is paid at the time of the filling of the return which is within six month from the end of the financial year of the company which is generally the June ending. Besides, the workers welfare fund at 2.5% is charged at the time of the income tax assessment by the income tax department. The company is also supposed to act as a Tax Withholding Agent for the state and deduct and deposit tax on most of the payments made by it in connection with the activities of its business. For this purposes, it is also required to file monthly returns to the tax authorities.

Every company is required to have the National Tax Number by providing the proof of registration, the Memorandum and Articles of Association of the Company, bank account number, NTN of its directors and the proof of relationship with the registered business address. All documents required due at a station by a Class-I of Gazette Officer or an Officer of a Bank. A company can start its business activities without even first obtaining the NTN but it is generally required by all the registering authorities like Chambers of Commerce, Import Export Regulatory Authority, utility authority etc. There is a uniform number of the NTN allotted by the NTN Branch (centralized for the whole of Pakistan) at Islamabad. The necessary form along with documents and duly verified are submitted to the same NTN Center after obtaining the incorporation of the company. The center quickly processes the application and issues the NTN within one week. The certificate is sent to the registered address of the applicant. In case it is not delivered at the postal address, the same can be enquired from the NTN center over the phone and its status is communicated instantly. The undelivered NTN certificate can be collected from the specified office of the CBR distinct from the NTN center.

Procedure 7. Register for sales tax

Time to complete: 14 days

Cost to complete: no charge

Comment: The registration is with the national tax authority, but a different division from the income tax. The application is filed with the registering wing of the sales tax directorate. The documents are filed and scrutinized, and an official visit follows on the premises of the application for the purposes of the verification of the address and particulars of the prospective tax payer. This takes a long time and is cumbersome.

The following documents (duly attested by Chamber of Commerce & Industries, President / Chairman of the Concerned Association, Any Assistant Collector of Sales Tax or Superintendent of Registration) are required to file to the authority for registration:

- (i) Filling of the Form, signed by any one director & rubber stamp.
- (ii) NIC of the director, who is signing the application form.
- (iii) NTN Certificate or photocopy & original of Income Tax Assessment Order for the last year.
- (iv) Certificate of appointment as Distributor.
- (v) Latest Bank Certificate along with financial worth.
- (vi) Declaration of home address and details of all properties owned.
- (vii) Attested documents of ownership or lease or Certificate of the business / manufacturing premises. In case of leased / rented premises NOC from landlord.
- (viii) Memorandum and Articles of Association and Certificate of Incorporation and or business commencement certificate.
- (ix) Photocopies of utility bills of the premises in the name of applicant or landlord.
- (x) Proof of any letter received on the declared address in the application form. List of Machinery (if manufacturer). The Central Board of Revenue (CBR) has made it incumbent upon all the registered persons falling in the jurisdiction of the Large Taxpayers Units, Karachi and Lahore; and private and public limited companies registered in the Collectorate of Sales Tax persons to file the Electronic Sales Tax Return in accordance with S.R.O. 1184 (I)/2005. The registered persons shall obtain a Digital Certificate from National Institutional Facilitation Technologies (Pvt.) Ltd (NIFT) through website www.nift.com.pk on the payment of prescribed fees of rupees 5,000. The registered person shall fill the information about the purchases and supplies made during a tax period, the tax due and paid and other applicable information as stated in the filing instructions. The duly filled Electronic Sales Tax Return including a 'Nil return' shall be transmitted to the Central Board of Revenue's e-mail address i-e (salestax.returns@cbr.gov.pk), through a digitally signed e-mail and same shall be acknowledged by the CBR through a digital signed receipt

Procedure 8*. Register for the Professional Tax with the local tax authority

Time to complete: 7 days (simultaneous with previous procedure)

Cost to complete: no charge

Comment: In practice, taxpayers usually do not register for the tax voluntarily unless the tax authority chases them to do so.

No local taxes except for professional tax are charged from a company. A manufacturing unit owning fixed assets may have to pay certain local levies on its fixed assets. There is no registration for the latter.

Professional tax is a yearly tax and is paid just for existence irrespective of paid up capital or turnover in smaller companies. The scale goes up with the increase in these two. It may range from Rs. 5,000/- to 100,000/- depending on the province of registration and other criteria. The department generally obtains the list from the Registrar for the purposes of the issuing the payment challans. Before a challan is issued, a proforma is served on the company asking for certain details which are used for the assessment. There are no registration fees etc for the professional tax. The professional tax is not deducted at source rather it is paid into the bank account of the concerned department after assessment and issuance of the challan.

Procedure 9*. Register with the Employee Social Security Institution

Time to complete: 11 days (simultaneous with previous procedure)

Cost to complete: no charge

Comment: The employment tax or social security registration is not mandatory, but subject to notification in the Official Gazette. The Social Security Institute (SSI) is managed by the provincial governments and charges are levied on the employers, whether incorporated or not, at 7% of wages up to Rs.3,000 per month.

Workers Children (Education) Ordinance, 1972. Every employer of an establishment in which the number of workers employed at any time during a year is ten or more shall pay to the Provincial Government an education cess at the rate of one hundred rupees per worker per annum. The levy is used for providing education free of costs two (2) children of every worker employed in the establishment.

Procedure 10*. Register for old age benefits with Employees Old-Age Benefits Institution (EOBI).

Time to complete: 11 days (simultaneous with previous procedure)

Cost to complete: no charge

Comment: The provisions of Employees' Old-Age Benefits Act, 1976 automatically apply to every industry or establishment wherein ten or more persons are employed by the employer directly or through any other person, or were so employed on any day during the preceding twelve months and shall continue to apply to every such industry or establishment even if the numbers of persons employed therein is, at any time after the Act becomes applicable to it is reduced to less than ten.

From 1st day of July 2001, an insured person is required to pay his personal contribution at the rate of Rs.20 only per month and not Rs.50 as printed.

Procedure 11*. Register with Pakistan Shops & Establishment Ordinance, 1969

Time to complete: 7 days

Cost to complete: PKR 38758

Comment: Every establishment and factories employing clerical staff within the factory premises other than a one-man shop shall be registered with the Deputy Chief Inspector for the area within which such establishment is situated.

Any application for registration of an establishment under section 24 of West Pakistan Shops & Establishment Ordinance, 1969 shall be made by the employer in form "A" and shall be accompanied by a Treasury challan Receipts under the West Pakistan Shops and Establishments Ordinance, 1969.

An application for registration of an establishment shall be made within two months of the setting up of the establishment.

On receipt of application and the fees, the Deputy Chief Inspector shall, on being satisfied about the correctness of the application, register the establishment in the Register of Establishment to be maintained in Form "B" and shall issue Registration Certificate to the employer in Form "C".

Registration of establishment and fee for registration.— (1) Every establishment, other than a one man shop, as hereinafter defined, and factories employing clerical staff within the factory premises, shall be registered with the Deputy Chief Inspector for the area within which such establishment is situated.

- (2) An application for registration of an establishment shall be made by the employer in Form 'A' and shall be accompanied by a Treasury Challan under Head [9][XXXVI-Miscellaneous Departments-G-Miscellaneous-(S)-Receipts under the West Pakistan Shops and Establishments Ordinance, 1969] for an amount of—
Rs. 2.00 in the case of an establishment employing 1 to 5 workers.
Rs. 3.00 in the case of an establishment employing 6 to 10 workers.
Rs. 5.00 in the case of an establishment employing 11 to 20 workers.
Rs. 10.00 in the case of an establishment employing more than 20 workers.

Explanation— For the purposes of this section, "one man shop" means a shop run by an employer or by any member of his family without engaging an employee.

- (3) An application for registration of an establishment shall be made—
(a) in the case of an establishment existing at the time this Ordinance comes into force, within three months thereof; and
(b) in the case of an establishment set up after the coming into force of this Ordinance or to which the provisions of this Ordinance are subsequently applied, within two months of the setting up of the establishment or the application of this Ordinance thereto, as the case may be.
- (4) On receipt of the application and the fees specified in sub-section (2), the Deputy Chief Inspector shall, on being satisfied about the correctness of the application register the establishment in the Register of Establishments to be maintained in Form 'B' and shall issue a registration certificate to the employer in Form 'C'.
- (5) The registration certificate shall be prominently displayed by the employer at the establishment and shall be renewed after every two years on depositing fee as prescribed in sub-section (2).

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

STARTING A BUSINESS

Sri Lanka

Standardized Company Legal Form: Aktiebolag Privat; AB privat

Minimum Capital Requirement: 0

City: Colombo

Procedure 1. Verify company name with the Registrar of Companies

Time to complete: 2 days

Cost to complete: LKR 265

Comment: The reservation is valid for a period of 3 months.

Procedure 2. Submit draft Memorandum and Articles of Association for approval of the Registrar

Time to complete: 5 days

Cost to complete: no charge

Comment: Registrar makes his observations on the draft which draft must be submitted with the documents to incorporate the company. The procedure takes from 2 to 7 days.

Procedure 3. A notary public witnesses Memorandum and Articles of Association

Time to complete: 3 days

Cost to complete: LKR 1000

Comment: Table A of the Companies Act No. 17 of 1982 of Sri Lanka contains a standard set of Articles of Association which can be adopted as the Articles of Association of a company. Articles of Association can also be drafted. Professional charges are higher for drafting new Articles of Association than adopting the standard Articles of Association contained in Table A.

A notary public must witness the signature of each signatory and affix his seal on the Memorandum and Articles of the company. FourTwo copies of each are required.

The procedure takes from 1 to 5 days.

Procedure 4. Register at the Companies Registry

Time to complete: 2 days

Cost to complete: depending on the amount of the authorized capital

Comment: The following forms are filed:

- a). Form 5 -Statutory declaration.
- b) Form 36 A -Notice of the intended situation of the registered office.
- c) Form 46 A-Consent to act as the first Director/Directors/Secretary.
- d) Form 47 -A list of persons who have consented to be Directors.

The registration fees are Rs 3,250 if nominal capital <= 250,000, Rs. 365 for each 50,000 up to Rs. 500,000, and Rs. 190 for each 50K up to Rs. 1,000,000. Additionally, Rs.540 is payable for the registration of Companies Forms (Rs. 135 per form) and a further Rs. 205 for the registration of Articles. Stamps have to be affixed to the M&A - the value of these is under US\$ 1,. The Certificate of Incorporation will be received within approximately three days.

The procedure takes from 1 to 3 days.

Procedure 5. Make a company seal

Time to complete: 3 days

Cost to complete: LKR 800-1200

Procedure 6. File Forms with the Registrar of Companies

Time to complete: 3 days

Cost to complete: LKR 270 (135 each)

Comment: The Registrar of Companies requires that Companies Forms 36 (Notice of the actual situation of the Reregistered office) and 48 (Particulars of the company's Directors and of its Secretary) are filed by the Company after the Certificate of Incorporation has been received.

The procedure takes from 2 to 4 days.

Procedure 7. Register with tax authorities to obtain a TIN

Time to complete: 2 days

Cost to complete: no charge

Comment: Applicant has to be physically present at the Inland Revenue Department to pick up and fill in the form. TIN number and VAT registration number (temporary) can be obtained within one day. To obtain permanent VAT registration, applicant has to submit documents proving turnover of Rs. 500,000 for the consequent 3 months. This is done along with income tax registration. The procedure takes from 1 to 3 days.

Procedure 8. Register with Department of Labor to obtain EPF and ETF registration

Time to complete: 1 day to file and more than one month for the ETF and EPF numbers to be issued

Cost to complete: no charge

Comment: Companies need to register for two funds: Employees Provident fund and Employees Trust Fund. Both are government owned and maintained by the Central Bank. Procedure: Visit the office of the Ministry of Labor and fill in the forms. Companies are also liable to pay Gratuity to employees that have been in employment for a period in excess of five years. The provisions relating to Gratuity do not apply to companies that have less than 15 employees. There is no pension scheme for people in the private sector. Businesses of dangerous nature should get special Factories Ordinance check ups.

The ETF and EPF numbers may take some time to be issued - sometimes as much as 4-6 months. However, a number is allocated to the company at the time the applications are made and accordingly, the company has fulfilled its obligation and may remit monies to the Department in respect of ETF and EPF with reference to the allocated number.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

Bangladesh

Data as of: January 2006

City: Dhaka

Procedure 1. Obtain a set of design condition and plot map from the Rajuk (City Development Authority)**Time to complete:** 10 days**Cost to complete:** USD 25**Procedure 2. Obtain project clearance from the local authority (Ward Commissioner, Dhaka City Corporation)****Time to complete:** 3 days**Cost to complete:** no charge**Comment:** Application along with the proposed design**Procedure 3. Obtain Cadastral Survey Map from Land Records Department****Time to complete:** 3 days**Cost to complete:** USD 25**Comment:** Application assigning reasons**Procedure 4. Obtain project clearance from Department of Environment****Time to complete:** 30 days**Cost to complete:** USD 400**Comment:** There are three categories of clearance:

- Green (Non-Polluting),
- Orange (Low Polluting) and
- Red (High Polluting).

For Green category of establishments clearance can be obtained within a week with US\$ 400 fee. For other categories, the payment and time to give clearance are higher. Requires the following documents depending on the category:

- Approval from the Ward Commissioner, DCC
- Project Profile, Feasibility report and Drawings
- Land ownership documents
- Cadastral Survey Map and location map
- Copy of Trade License and Registration of the Board of Investment
- EIA/ IEE/ EMP Report
- Fees payable to DOE (US\$)

Total project cost (millions)	Fees	Renewal fees	Total project cost (millions)	Fees	Renewal fees
0-0.08	25	5	1.6-32	400	125
0.08-0.16	50	12	32-80	800	250
0.16-0.8	80	20	>80	1600	400
0.8-1.6	160	40			

Procedure 5. Obtain project clearance and building permit from the City Development Authority (RAJUK)**Time to complete:** 75 days**Cost to complete:** USD 70**Comment:** The necessary drawings (showing the set-back clearances, approach road, orientation etc.) are to be submitted along with

- The categorization by the DOE (Green/ Orange/ Red)
- The approval from the Department of Environment
- Land ownership documents,
- Cadastral Survey Map and
- The fees payable to RAJUK:

Total area m2	Fees US\$	Total area m2	Fees US\$	Total area m2	Fees US\$
0-50	2	1,001-1,500	70	10,001-15,000	1000
51-100	4	1,501-2,000	100	15,001-20,000	1250
101-200	6	2,001-3,000	250	20,001-30,000	2000
201-300	8	3,001-4,000	400	30,001+	3500
301-500	12	4,001-5,000	600		
501-1,000	35	5,001-10,000	800		

As on August, 2005 1 US\$= 65 Taka

Required time depends on the level of follow up.

Procedure 6. Receive excavation work inspection by a City Development Official**Time to complete:** 15 days**Cost to complete:** no charge**Procedure 7. Receive foundations inspection by a City Development Official****Time to complete:** 1 day**Cost to complete:** no charge**Procedure 8. Receive electrical inspection by a City Development Official****Time to complete:** 1 day**Cost to complete:** no charge**Procedure 9. Obtain final approval upon completion of project from the Municipality or City Development Authority (Rajuk)****Time to complete:** 7 days**Cost to complete:** no charge**Procedure 10. Obtain electrical power connection from state company****Time to complete:** 40 days**Cost to complete:** USD 550**Comment:** Electrical (Authority: DESCO/ DESA): cost varies from US\$100- US\$1000 depending on the project scale**Procedure 11*. Obtain water and sewage connection from state company****Time to complete:** 10 days**Cost to complete:** USD 60**Comment:** Agency: WASA**Procedure 12*. Obtain telephone connection from state company****Time to complete:** 30 days**Cost to complete:** USD 150**Comment:** The time usually depends on the availability of the lines in that area. Mobile Cellular telephones may be obtained within a day from any of the 5 companies (4 private and one government owned) for around US\$150**Procedure 13*. Telephone inspector checks the connection****Time to complete:** 1 day**Cost to complete:** no charge**Note:** Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

Bhutan

Data as of: January 2006

City: Thimphu

Procedure 1. Obtain ownership certificate**Time to complete:** 1 day**Cost to complete:** BTN 75**Comment:** Land ownership certificate is obtained from Revenue Section of City Corporation after paying fee.**Procedure 2. Obtain official site plan****Time to complete:** 5 days**Cost to complete:** BTN 400**Comment:** Official site plan is obtained from survey section of City Corporation after paying fee.

Procedure 3. Purchase building construction application form**Time to complete:** 1 day**Cost to complete:** BTN 100**Comment:** The company must purchase the building construction application form from revenue section of the City Corporation. Cost of BTN 100 for form and 500 as service fees of lawyers, if used.**Procedure 4. Submit form to architectural section****Time to complete:** 90 days**Cost to complete:** no charge**Comment:** The company must submit duly completed form to Architectural section of the City Corporation, along with Drawing, ownership certificate and official site plan. This is stage 1 of the approval. During stage 2 the Architectural section shall undergo planning check with structural, Electrical, water supply and sewerage section. This is an internal step where the company does not have any role, however, one must follow up to ensure things are done in time. During stage 3 the Architectural section submits the proposal to the Chief (Thrompon) of City corporation with recommendation and findings to grant final approval. This is internal, however one must follow up to ensure the work is not ignored.**Procedure 5. Obtain building permit and request pre-construction inspection from City Corporation****Time to complete:** 1 day**Cost to complete:** BTN 3000**Comment:** Company must collect building permit or pre-arrange to receive by post. A written request must be made to have pre-inspection of the site. There are two types of fee involved such as scrutiny fee and amenities fee. Amenity fees = BTN 30 per sq.m for residential and institutional buildings. BTN 50 per sqm for commercial and industrial uses
Scrutiny fee = BTN 3000 or BTN 16.14 per sqm whichever is more.**Procedure 6. Receive pre-construction inspection****Time to complete:** 2 days**Cost to complete:** no charge**Comment:** When company informs building section of city corporation, building inspector visits the site for inspection. Thereafter, he visits regularly in every after three weeks for routine inspection. If the work is not according to plan, the city corporation issues notice to rectify it. If the company does not listen to the first notice, utility services are disconnected. If the company does not listen to 3rd notice also, the structure shall be demolished in the presence of building inspector, engineer, architect, surveyor and police personnel.**Procedure 7. Obtain electricity connection****Time to complete:** 20 days**Cost to complete:** BTN 4000**Comment:** First of all plain application must be submitted to Revenue Section of Bhutan Power Corporation requesting for power connection. In 3 days time, the company must sign undertaking with the section, and documents such as Test report of internal wiring, land ownership certificate, design/ architect clearance from City Corporation must be enclosed. In another 2 weeks meter and power connection is provided.**Procedure 8*. Obtain water connection****Time to complete:** 11 days**Cost to complete:** BTN 4700**Comment:** The company should fill up application Form and submit to building section of City Corporation, requesting water connection. Then pay connection fee of BTN 3,200 to Revenue section. It requires pre-verification to check whether all the connections are as per the water and sanitation rules in force.**Procedure 9*. Receive inspection of water connections****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** It requires pre-verification to check whether all the connections are as per the water and sanitation rules in force.**Procedure 10. Notify the City Corporation about beginning of construction****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** City Corporation must be served with a written notice about beginning of construction**Procedure 11. Receive excavation work inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection.**Procedure 12. Receive foundations work inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection**Procedure 13. Receive concrete work inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection.**Procedure 14. Receive drainage inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection.**Procedure 15. Receive timber scaffolding inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection**Procedure 16. Receive sanitary inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection.**Procedure 17. Receive fire inspection****Time to complete:** 1 day**Cost to complete:** no charge**Comment:** This inspection is performed around 3 weeks after the previous inspection. Therefore, the company does not have to request for the inspection**Procedure 18. Receive structure inspection****Time to complete:** 1 day**Cost to complete:** no charge**Procedure 19. Receive inspection of the building surroundings****Time to complete:** 1 day**Cost to complete:** no charge

Procedure 20. Convert temporary power connection into permanent connection

Time to complete: 1 day

Cost to complete: no charge

Comment: To obtain the permanent connection, the company needs to obtain a clearance letter from City Corporation, which is obtained after the final inspection is done above. With the test report of internal wiring, land ownership certificate, design/architect clearance from City Corporation, permanent connection can be obtained in a day.

Procedure 21. Receive inspection of power

Time to complete: 1 day

Cost to complete: no charge

Comment: Power supplying company usually verifies the site to check the load of the existing capacity in order to know that an additional load can be provided or not.

Procedure 22*. Obtain water and sewage connection

Time to complete: 15 days

Cost to complete: BTN 3,000

Comment: The company should submit plain application to sewerage section of city corporation for sewage connection, enclosing a copy of the plan. Pay connection fee of BTN 3000. Connection is provided in about 2-weeks time.

Procedure 23*. Obtain phone connection

Time to complete: 10 days

Cost to complete: BTN 600

Comment: The company should submit the prescribed application form duly filled and signed. Feasibility study is conducted by service section of Bhutan Telecom. If feasible, company would be asked to pay connection charges and linemen deputed for connection.

Procedure 24. Notify building controller of building completion and request final inspection

Time to complete: 15 days

Cost to complete: no charge

Comment: A written confirmation is issued to the building controller that the building is completed

Procedure 25. Receive final inspection for construction, water and sewerage and electricity

Time to complete: 30 days

Cost to complete: BTN 6,000

Comment: When the construction including utilities connections are completed, company must report to City Corporation. Inspection team consisting of architect, engineer, surveyor, representatives of electrical, plumbing, and sanitation agencies, and building inspector of city corporation go to the site for inspection. Environmental commission and telephone company are also informed and asked to join the team if they wish. When the team is satisfied with the construction according to plan, they would recommend for the process of occupancy certificate. If the construction is not to their satisfaction, they would ask the company to rectify wherever required.

Procedure 26. Obtain Occupancy permit

Time to complete: 1 day

Cost to complete: no charge

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

India

Data as of: January 2006

City: Mumbai

Procedure 1. The Municipal Corporation of Greater Bombay (BMC) examines the construction drawing plan and issues approval for construction

Time to complete: 145 days

Cost to complete: INR 37729

Comment: The approval includes plumbing; electrical; sanitation; foundation; structural; sewerage, well drilling & infrastructure (such as way outs, lifts, set backs, etc) drawings and IOD charges.

The Municipal Corporation examines the master plan without visiting the construction site.

Procedure 2*. Obtain approval of construction from the Area Development Authorities

Time to complete: 30 days

Cost to complete: no charge

Comment: The Area Development is under the Bombay Town Planning Committee, which is a division in the Municipal Corporation. The builder files the application with the Area Development Authorities separately and files the approval to the Municipal Corporation in order to get the building permit.

Procedure 3. Notify the Municipal Corporation of the foundation of the construction

Time to complete: 7 days

Cost to complete: no charge

Comment: The protocol being that for initiation of the building construction a formal permit/approval has to be taken from the appropriate authority (Municipal Corporation). Once the approval is obtained, the plinth inspection is a part of the procedural inspection conducted by the authorized Engineer of the Municipal Corporation for Building and Planning. After the construction of the Plinth (foundation) is complete the Municipal Corporation has to be intimated regarding the same and subsequently the Municipal corporation act within a week by sending their Authorized Engineer for the inspection. The inspection of the foundation if found appropriate by the Engineer would not take more than 1 day.

The construction is initiated only after a formal approval of construction plan of the Municipal Authorities. Hence, the Authorities are aware of the developments of the construction. Normally the developer notifies the Appropriate Authorities regarding the inspection. But the practice and the modus operandi is that the Engineers have to make inspection of the construction site according to the protocol and even if the developer does not intimate the Engineer, the Engineer may voluntarily inspect the site as it is a mandatory part of his job.

Procedure 4*. Executive/Superintendent Engineer (Building and Planning) of the Municipal Corporation inspects the site

Time to complete: 1 day

Cost to complete: no charge

Comment: The construction is only approved after inspections from the authorities verifying the norms for construction, which is hazard free for the particular area where the constructed is proposed.

Procedure 5. Receive inspection on the plinth of the building

Time to complete: 1 day

Cost to complete: no charge

Comment: The concerned Sub Engineer of the building proposal section inspects the site at least once in 3 months, once in six months by Assistant Engineer (Building and Planning) and once in a year by Executive Engineer (Building and Planning). The concerned official will make his observations in writing on the sheet of inspection report. The Deputy Chief Engineer (Building and Planning) approves all the proposals of layout, sub-division, and amalgamation. The approval of layout specifically admeasuring more than two hectares are given by him only after a personal inspection of the concerned site.

Procedure 6. Request inspection in the mid way during the construction**Time to complete:** 7 days**Cost to complete:** no charge

Comment: The Municipal Corporation is intimated regarding the inspection of the constructed building and for further inspection and subsequently the Municipal corporation act within a week by sending their Authorized Engineer. The inspection of the partly constructed building if found appropriate by the Engineer would not take more than 1 day.

Procedure 7*. Receive inspection in the mid way during the construction**Time to complete:** 1 day**Cost to complete:** no charge

Comment: The inspection by the Fire Department or by the Municipal Corporation is generally conducted in two to three stages depending upon the regulations of the said Department or the Authority.

Procedure 8. Apply for completion certificate**Time to complete:** 14 days**Cost to complete:** no charge

Comment: On receiving the Building completion certificate from the Architect, the concerned Authority in the planning department then inspects the site and submits the compliance report to the Deputy Chief Engineer Building and Planning, for granting the occupation permission along with a letter stating therein that the IOD conditions have been complied with. The application for the occupancy permit should include the earthquake resistance certificate which is issued by one of BuildCo's employees.

Procedure 9*. Final inspection of the construction by the Municipal Corporation**Time to complete:** 1 day**Cost to complete:** no charge**Procedure 10*. Apply for approval of completed construction from the fire department****Time to complete:** 14 days**Cost to complete:** INR 70,000

Comment: Before the issuance of an occupancy permit, an application is made to the fire department for their clearance. For a warehouse there is a capitation fee, which is INR 5 per square meter.

Procedure 11*. The fire department inspects the completed construction and issues the fire certificate**Time to complete:** 1 day**Cost to complete:** no charge

Comment: The Fire Department checks the fire safety equipments such as fire extinguishers, smoke detectors, fire alarms, sprinklers, hose-reels, fire buckets and reserve water storage tank for fire, etc. and issues a no objection certificate after conducting an artificial drill in the warehouse.

Procedure 12*. Apply for permanent water and sewerage connection**Time to complete:** 65 days**Cost to complete:** INR 50,000

Comment: An application is made to the municipal corporation for the approval of the permanent water and sewerage connection.

Procedure 13*. Water supplier inspects the construction and sets up connection (1)**Time to complete:** 1 day**Cost to complete:** no charge

Comment: An application for water connection is made to the Asst. Engineer of the Municipal corporation. The Asst. Engineer of the Municipal corporation makes the inspection. There are two inspections by the Asst. Engineer- before initiation of the water connection and another after the water connection is concluded. The aforementioned inspection would not take more than a day. The concerned officer of the water department of the Municipal Corporation inspects the premises and prepares a report for release of connection

Procedure 14*. Water supplier inspects the construction and sets up connection (2)**Time to complete:** 1 day**Cost to complete:** no charge**Procedure 15. Apply for permanent power connection****Time to complete:** 40 days**Cost to complete:** INR 25,000

Comment: An application is made to the power utility company a new electricity connection. This application is to be made through Licensed Electricity Contractor. The functions of such a contractor include inspection and subsequently decide the necessary electricity consumption, which is measured in Horse Power (HP)

Procedure 16*. Power supplier inspects the construction and sets up connection**Time to complete:** 1 day**Cost to complete:** no charge**Procedure 17*. Apply for telephone connection****Time to complete:** 14 days**Cost to complete:** no charge

Comment: An application for the telephone connection is submitted to the utility company along with security deposit.

Procedure 18*. Telephone supplier inspects the construction and sets up connection**Time to complete:** 1 day**Cost to complete:** no charge**Procedure 19*. Obtain occupancy permit****Time to complete:** 30 days**Cost to complete:** INR 10,000**Procedure 20*. Receive inspection for obtaining occupancy permit****Time to complete:** 1 day**Cost to complete:** no charge

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

Maldives

Data as of: January 2006
City: Malé

Procedure 1. Apply for a digging permit from road office

Time to complete: 7 days
Cost to complete: MRF 50

Procedure 2. Request approval from municipality depending on road width

Time to complete: 3 days
Cost to complete: no charge

Procedure 3. Apply for building permit

Time to complete: 56 days
Cost to complete: MRF 1,500

Comment: The company must submit an application to the Maldives Housing and Urban Development board for approval to carry out the proposed building works based on the architectural plans for construction of the warehouse. Drawings are prepared by a registered architect and certified by a Minister of Housing/Development. It takes a while as there is not adequate staff in the department and the Municipality will write to Ministry of Construction and Public Infrastructure to wait for approval and also to the Fire Department.

Procedure 4*. Housing and Urban Development inspects

Time to complete: 7 days
Cost to complete: no charge

Procedure 5*. Apply for water and sewage connection from Malé Water and Sewage Company

Time to complete: 21 days
Cost to complete: MRF 4000

Comment: The Company must submit an application for approval for connecting the warehouse to the main drinking water and sewage systems, based on the services plans for the warehouse.

Procedure 6*. Obtain inspection for water/sewerage connection

Time to complete: 3 days
Cost to complete: no charge

Procedure 7. Request for electricity installation to site from State Electricity Company (STELCO)

Time to complete: 21 days
Cost to complete: MYR 5,000

Comment: MRF 1,500 for each of 2 electricity meters + variable installation charge around MRF 2,000.

Procedure 8*. Obtain telephone connection from Dhiraagu Ltd

Time to complete: 15 days
Cost to complete: MYR 1,680

Comment: The Company must submit an application for approval for installation of a telephone line, based on the services plans for the warehouse.

Procedure 9. Request permit to occupy

Time to complete: 30 days
Cost to complete: no charge

Comment: After building completion the company requests the permit to occupy which is followed by an inspection of the building.

Procedure 10*. Receive final inspection and building approval

Time to complete: 15 days
Cost to complete: no charge

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

Nepal

Data as of: January 2006
City: Kathmandu

Procedure 1. Obtain Location Permit and Approval of Design

Time to complete: 30 days
Cost to complete: no charge

Comment: A construction company must obtain a location permit and approval of design in order to meet the zoning regulation. If an external prescribed engineer prepares the plan, he can charge between 10 000 to 15000 rupees.

Procedure 2. Submit of drawing together with copy of title certificate

Time to complete: 35 days
Cost to complete: NPR 15,300

Comment: The 35 days are divided as follows: day 1, BuildCo submits of drawing together with copy of title certificate to the Municipality. Day 2, the municipality forwards the file to municipality ward office where the land is situated. Day 4, the ward office does the field checking and service of notice to bordering neighbors. Day 8, starts the maturation of notice period. Day 23 starts the local inquiry done by the ward office. Day 27, the ward office sends back the file to municipality. Day 29, the municipality start the process of issuance of temporary approval of drawing. The neighbors must give their consent for the project to be approved. This can delay the approval process to around 2 months.

Procedure 3*. A first inspection is conducted by the municipality

Time to complete: 7 days
Cost to complete: no charge

Procedure 4. Apply for permanent building permit

Time to complete: 30 days
Cost to complete: no charge

Comment: The company should apply for the permanent building permit after the construction is up to plinth level

Procedure 5*. Receive on-site inspection prior to issuing building permit

Time to complete: 5 days
Cost to complete: no charge

Comment: An on-site inspection is done by the officer of the Municipality or Town Development Committee to ascertain whether the construction up to plinth level is according to approved drawing before issuing construction permit.

Procedure 6*. Receive building permit

Time to complete: included in previous procedure
Cost to complete: no charge

Comment: This follows the on-site inspection done by the officer of the Municipality or Town Development Committee to ascertain whether the construction up to plinth level is according to approved drawing before issuing construction permit.

Procedure 7. Apply for Completion Certificate

Time to complete: 21 days
Cost to complete: no charge

Procedure 8*. Receive on-site inspection before issuing Completion Certificate

Time to complete: 7 days
Cost to complete: no charge

Comment: Before issuing the completion certificate the municipality conducts an on-site inspection to ascertain whether the construction is according to approved drawing.

Procedure 9. Receive Completion Certificate

Time to complete: 4 days

Cost to complete: no charge

Comment: This follows an on-site inspection to ascertain whether the construction is according to approved drawing.

Procedure 10. Apply for Water and Sewerage connections

Time to complete: 25 days

Cost to complete: NPR 8,000

Comment: BuildCo submits the application for water and sewer to the drinking office and sewerage office. The drinking and sewerage offices send a recommendation to department of road to grant permission to dig the road for the connection to be built. The Department of road grants permission to dig the road. The tap and sewer connection starts being implemented.

Procedure 11*. Receive inspection

Time to complete: 7 days

Cost to complete: no charge

Procedure 12*. Apply for Power Connection

Time to complete: 15 days

Cost to complete: NPR 35,000

Comment: This application should be made before the Nepal Electricity Authority.

Procedure 13*. Receive wiring inspection before obtaining Electricity Connection

Time to complete: 7 days

Cost to complete: no charge

Comment: This inspection is conducted by the Nepal Electricity Authority.

Procedure 14*. Obtain Telecommunication Connection

Time to complete: 300 days

Cost to complete: NPR 5675

Comment: The company should contact the Nepal Telecommunication Corporation. A deposit of Rs 5000 is paid and 13.5% tax is applicable on the connection fee.

Procedure 15*. Receive telecommunications inspection

Time to complete: 7 days

Cost to complete: no charge

Comment: There is a huge backlog of 300,000 requests. After 5 years, the applicant may get a call from the Nepal Telecommunications. He will then take inspector from his office, take a taxi, within 7 days of the call, the inspection is done. Within 3 days after inspection, he submits the inspection report. Then, he gives receipt invoice to constructor and pays deposit and expenses.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

Pakistan

Data as of: January 2006

City: Karachi

Procedure 1. Obtain letter from concerned authority confirming the land title

Time to complete: 30 days

Cost to complete: PKR 0

Comment: The company must obtain a letter from the concerned authority confirming the title/land use physically fresh demarcated/dimensions of the plot along with the existence of any road widening/cut line/reservation. In Karachi the lands are owned by various authorities for example Karachi Development Authority, Karachi Municipal Corporation etc. For example if the land bought by the company belongs to the Karachi Municipal Corporation then the required letter/certificate will have to be obtained from the said authority

Procedure 2. Obtain a building permit

Time to complete: 60 days

Cost to complete: PKR 78,680

Comment: An application in the prescribed Form is required to be submitted to the concerned Karachi Building Control Authority (KBCA) together with the following information/documents:

(i) Building plan (initially three copies and thereafter six copies) together with:

(a) Full particulars of the plot, including status (whether residential, commercial, etc.) on which the building is proposed to be constructed according to the building plans.

(b) Two sets of all documents relating to the plot together with a letter from the concerned authority confirming the title/land use physically fresh demarcated/dimensions of the plot along with the existence of any road widening/cut line/reservation.

(ii) Description of the plan:

(a) Proposed, revised, addition/alteration.

(b) Previous approval (if any)

(c) Details of any litigation relating to the plot

Note: The drawings should show plans, sections and elevations together with other necessary details pertaining to RCC elements, joinery work and covered area etc., of every floor, including basement, if any, of the building intended to be erected, along with a block plan of the site, drawn to a scale of not less than 1:500 (1"=8'). Such plan and sections should show the purpose for which the building or parts thereof are intended to be used; the access to and from the several parts of the building; the position dimensions, means of ventilation, the proposed height of the plinth and superstructure at the level of each floor, together with the dimensions and descriptions of all the walls, floors, roofs, staircases and elevator, etc.

(iii) Description of proposed construction:

(a) Type of Building.

(b) Total floor area.

(c) No. of floors.

(d) No. of units (for public sale projects only).

(e) Car parking space.

(f) Area of amenity space.

(iv) Particulars of licensed professionals employed to prepare the plan and supervise work:

(a) Name:

(b) License No./Professional Registration No. from the PEC.

(c) NIC No.

(d) Mailing and permanent address/telephone No.

(e) Office address & telephone No.

(v) Whether the project is intended for public sale?

Yes/No.

(vi) List of other documents to be attached to the application (photocopies should be duly attested by the professional):

(a) Lease deed/sale deed, allotment order, mutation/transfer order/extract.

(b) Possession order.

(c) Acknowledgement of possession.

(d) Site plan.

(e) No objection certificate (NOC) from society/lessor (where applicable).

(f) NIC

(g) A letter by the owner(s) or attorney(s) of the owner(s) authorizing a named professional (whose License No./Registration No. should also be provided) to complete/comply with the relevant requirements of the Sindh Building Control Ordinance, 1979 as amended from time to time, and of the regulations framed there under for and on behalf of the owner(s); and undertaking to provide plinth certificate notice at the stage of completion of plinth as required under section 3-2.10 of the Karachi Building & Town Planning Regulations, 2002 (2002 Regulations) and further to abide by all the rules and regulations as aforementioned. This letter should be signed by the owner(s) of their attorney(s) and should contain their NIC No., e-mail address, mailing and permanent address and telephone No. as well as the signature and particulars of the architect and structural engineer

(vii) An undertaking from the architect and structural engineer in the prescribed form.

The KBCA, which operates under the Sindh Local Government Ordinance, 2002 and falls under the control of the Karachi City District Government of which the Nazim (elected head of Karachi city local council) is the chief executive.

If the property is

Agency:

- 1) After receipt of an application for permission to carry out building works, the KBCA is required to:
 - (a) Pass orders granting permission to carry out such building works within 60 calendar days.
 - (b) In the case of refusal/objections, the KBCA issues consolidated objections/ observations, specifying the provisions of the 2002 Regulations under which they are made to the professional within 30 days.
- If no order is passed on an application within 60 calendar days of its receipt, it shall be deemed to have been sanctioned to the extent to which it does not contravene the provisions of the 2002 Regulations or the master plan or sanctioned site development scheme, if any. Upon expiry of the said 60 day period, the applicant may, after giving notice to the KBCA, proceed to carry out the said building works at any time within one (1) year from the date of submission of the building plans provided the title to the land is clear from any disputes and objections.
- 2) Presently the scrutinizing fee for the ware- house project or any building construction project is Rs. 5.62 per square feet, i.e., Rs. 78,680 in the instant case.

Procedure 3. Request foundation work inspection from KBCA

Time to complete: 1 day

Cost to complete: no charge

Comment: Every person who commences building works is required to give notice to the KBCA upon completion of plinth level in order to enable the KBCA to verify the building lines.

Procedure 4. Receive foundations work inspection from KBCA

Time to complete: 15 days

Cost to complete: no charge

Comment: With the exception of any Category 1 building work, Regulation No. 3-2.10 of the 2002 Regulations require that every person who commences building works shall give notice to the KBCA in the prescribed form upon completion of plinth and in the case of basements, upon the completion of foundations, in order to enable the KBCA to verify the building lines. Regulation No. 3-2.10 further provides that no further work shall be carried out for a period of 15 days from the date of receipt by the KBCA of such notice.

Within the said 15 day period the KBCA shall either approve the building lines or inform the owner or his representative of any error which may be found in the building line.

If no intimation is received from the KBCA within the said 15-day period, the owner will be entitled to proceed with the building works, after notice to the KBCA, provided the construction is in accordance with the approved building plan.

Procedure 5. Request electricity connection

Time to complete: 75 days

Cost to complete: PKR 228,000

Comment: An application in the prescribed form will be required to be submitted to the Karachi Electric Supply Corporation Limited along with the following documents for a new electricity connection:

- (i) An application form duly verified by a licensed electrical contractor.
- (ii) A copy of the applicant's NIC card.
- (iii) Copy of approved building plan.
- (iv) A copy of the letter under cover of which the approved building plan was issued.

Procedure 6*. Request telephone connection

Time to complete: 45 days

Cost to complete: PKR 4,150

Comment: An application in the prescribed form will be required to be submitted to the Pakistan Telecommunication Company Limited along with the following documents for a new telephone connection:

- (i) Evidence of ownership of, or, in case of a tenancy, a copy of the lease agreement in respect of the plot where the telephone is to be installed OR a copy of the utility bill in the name of the prospective customer.

(ii) Certificate of Incorporation (issued by the Securities & Exchange Commission of Pakistan) if the applicant is a company.

(iii) A letter of the company authorizing a named person to sign the application for the new telephone connection.

All the documents described above are already in the company's possession

Procedure 7*. Obtain copy property tax valuation and copy of the certificate from the tax authorities

Time to complete: 30 days

Cost to complete: no charge

Comment: The company must obtain a copy of the Property Tax valuation and a copy of the certificate from the tax authorities confirming that there are no amounts due to them. These documents will be submitted along with the water connection application.

The Excise and Taxation department of the Government of Sindh provides the property tax valuation after the building is completed. The department inspects the building and issues a certificate, to the owner of the building, which provides an assessment of the value of the building considering the covered area of the building, for providing objections, if any, to the assessment. The company/owner of the building is required to provide its objections within 14 days if the same are not provided within 14 days the department issues a Form PT-1 a certificate which provides the assessed value of the property and the resultant property tax to be charged on the property is also provided in the certificate. The documents that are needed to be provided are:

1. An application providing information relating to the building
1. Title documents/ documents evidencing title of the property.
2. Approved building plan
3. National Identity Card of the Applicant

Procedure 8. Receive inspection from the Excise and Taxation department

Time to complete: 1 day

Cost to complete: no charge

Procedure 9*. Request water and sewerage connection

Time to complete: 60 days

Cost to complete: PKR 90,000

Comment: An application in the prescribed form will be required to be submitted to the Karachi water & sewerage board along with the following documents for a new water and sewerage connection:

- (i) A copy of the approved building plan along with a copy of the letter under cover of which the approved building plan was issued by the KBCA.
- (ii) Evidence of ownership of, or, in case of a tenancy, a copy of the lease agreement in respect of the plot where the water connection is to be provided.
- (iii) A copy of the Property Tax valuation.
- (iv) A copy of the certificate from the tax authorities confirming that there are no amounts due to them
- (v) A copy of the applicants NIC.

Procedure 10. Apply for occupancy permit and request final inspection

Time to complete: 30 days

Cost to complete: no charge

Comment: After the building is completed a "notice of completion and permission for occupation" along with the Architects Certificate in the prescribed Form is required to be given. After receipt of this notice The KBCA inspects the building to verify that it is made according to the plans already approved by the KBCA.

Procedure 11*. Receive final inspection

Time to complete: 15 days

Cost to complete: no charge

Procedure 12. Receive completion certificate from KBCA

Time to complete: 7 days

Cost to complete: no charge

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

DEALING WITH LICENSES

Sri Lanka

Data as of: January 2006
City: Colombo

Procedure 1. Obtain non-vesting certificate from the Municipal Treasurer

Time to complete: 1 day

Cost to complete: LKR 4,025

Comment: An application for the issue of a permit to engage in development activity is not processed until all outstanding rates as duly assessed by the Colombo Municipal Council have been settled and a clearance has been obtained to that effect.

Procedure 2. Obtain development permit (building permit) from Municipal Council of Colombo (CMC)

Time to complete: 75 days

Cost to complete: LKR 43,700

Comment: A Building application for a permit must be submitted with six copies of the Building Plan.

The following are the internal steps involved up to the issuing of the Development permit.

- Water Supply and Drainage Department of the CMC marks the drainage and water lines on the proposed plan and issue the water and drainage clearance.
- The Fire Service Department of the CMC issues the fire report with or without conditions.
- The Building Department of the CMC issues the street line confirmation. On-site inspection by an Area Inspector of the CMC and a report is prepared based on the investigations.
- Inspector's Report is then assessed by a Technical Staff Assistant and then by a Planning Officer or Engineer Building and presented to the Planning Committee with their comments and recommendations.
- Planning Committee may approve the building plan and grant the Development Permit with or without conditions.
- Must ensure that Street lines/Building Lines are demarcated on ground prior to commencement of construction.

The building application form costs SLR 135. If the floor area is above 3,500 square feet, the application should be certified by an Architect and a Chartered Engineer.

Procedure 3*. Receive on-site inspection from CMC

Time to complete: 1 day

Cost to complete: LKR 496

Comment: The applicant normally provides vehicle of transportation or be responsible for the cost of a taxi/trishaw. The cost depends on the location in Colombo but normally no more than US\$ 10.

Procedure 4*. Receive on-site inspection from fire department

Time to complete: 1 day

Cost to complete: LKR 496

Procedure 5. Obtain water sanction from Water and Drainage Department of the CMC

Time to complete: 7 days

Cost to complete: no charge

Comment: Water sanction must be obtained prior to installation of permanent fittings. The following documents must be submitted

- a. The prescribed application form
- b. A copy of the approved building plan
- c. A copy of the Development Permit
- d. A copy of any previous water bills (if applicable)
- e. Any receipt / notice issued by the local authority to confirm the assessment number.

Procedure 6*. Receive water inspection

Time to complete: 5 days

Cost to complete: LKR 496

Procedure 7. Obtain drainage certificate from Water and Drainage Department of the CMC

Time to complete: 7 days

Cost to complete: LKR 24,380

Comment: The following documents must be submitted

- a. The prescribed application form signed in duplicate
- b. Six copies of the approved building plan
- c. The water and drainage plans
- d. Two copies of the Development Permit
- e. A copy of the water sanction.

All applications for Drainage Certificates must be submitted by a registered contractor with the local authority and the drainage connection should be carried out by such contractor.

Procedure 8*. Receive sewage inspection

Time to complete: 1 day

Cost to complete: LKR 496

Procedure 9. Obtain certificate of conformity from Municipal Council of Colombo

Time to complete: 42 days

Cost to complete: LKR 575

Comment: An application must be submitted with the following documents

- a. Drainage Certificate.
- b. Approved Building Plan
 - On-site inspection by an Area Inspector of the Planning Department of the CMC to ensure that construction has been completed according to the approved plan.
 - On-site inspection by a Fire inspector.
 - Inspectors' Report is then assessed by a Technical Staff Assistant and then by a Planning Officer or Engineer, Building and presented to the Planning Committee.
 - Planning Committee may issue the Certificate of Conformity if the construction is as per the approved plan.

Procedure 10*. Receive on-site inspection by area inspector of the planning department of the CMC

Time to complete: 1 day

Cost to complete: LKR 496

Procedure 11*. Receive on-site inspection by fire inspector

Time to complete: 1 day

Cost to complete: LKR 496

Procedure 12*. Obtain electricity connection

Time to complete: 35 days

Cost to complete: LKR 58,287.50

Comment: To obtain the electricity connection the company must complete the following process:

1. Apply for electricity connection, which costs SLR 287.50
2. Receive site inspection an estimation of the electricity installation costs
3. Pay electricity installation costs
4. Submit the title of deed and the certificate of ownership to the electricity board
5. Obtain confirmation of the wiring of the building by a chartered engineer from a panel of engineers nominated by the electricity board after a site visit
6. Sign a bond with the electricity board

The company must also obtain a road permit if there is any damage to the road in getting the electricity connection through underground. This permit is issued by the Municipal Council of Colombo. It takes 2 days to obtain and the cost depends on the damage cause to the road.

Procedure 13*. Receive on-site inspection by inspector from electricity board

Time to complete: 1 day

Cost to complete: LKR 496

Procedure 14*. Receive on-site inspection by Chartered engineer**Time to complete:** 1 day**Cost to complete:** LKR 4,000

Procedure 15*. Obtain water connection**Time to complete:** 32 days**Cost to complete:** LKR 18,000

Comment: To obtain the water connection the company must submit an application to the National Water Supply and Drainage Board, receive an on-site inspection, pay water installation costs, and sign an agreement with the board. The company must also obtain a road permit if there is any damage to the road in getting the water connection. This permit is issued by the Municipal Council of Colombo. It takes 2 days to obtain and the costs depend on the damage cause to the road.

Procedure 16*. Receive on-site inspection by inspector from National Water Supply and Drainage Board**Time to complete:** 1 day**Cost to complete:** no charge

Procedure 17*. Obtain phone connection**Time to complete:** 14 days**Cost to complete:** LKR 23,000

Comment: To obtain the phone connection the company must submit an application to Sri Lanka Telecom, receive an on-site inspection, and pay water installation costs.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

EMPLOYING WORKERS

	Afghanistan		Bangladesh		Bhutan		India	
	Answer	Score	Answer	Score	Answer	Score	Answer	Score
Difficulty of Hiring Index	67		11		78		33	
Can term contracts be used only for term tasks?	Yes	1	No	0	Yes	1	Yes	1
What is the maximum duration of term contracts? (in months)	12	1	No Limit	0.00	12	1.00	No Limit	0.00
What is the ratio of mandated minimum wage to the average value added per worker?	0	0	0.37	0.33	0.26	0.33	0.19	0.00
Rigidity of Hours Index	40		40		40		20	
Can the workweek extend to 50 hours (including overtime) for 2 months per year?	Yes	0	Yes	0	Yes	0	Yes	0
What is the maximum number of working days per week?	6	0	6	0	6	0	6	0
Are there restrictions on night work?	Yes	1	No	0	Yes	1	No	0
Are there restrictions on "weekly holiday" work?	Yes	1	Yes	1	No	0	Yes	1
What is the paid annual vacation (in working days) for an employee with 20 years of service?	20	0	22	1	30	1	12	0
Difficulty of Firing Index	30		40		0		70	
Is the termination of workers due to redundancy legally authorized?	Yes	0	Yes	0	Yes	0	Yes	0
Must the employer notify a third party before terminating one redundant worker?	No	0	Yes	1	No	0	Yes	1
Does the employer need the approval of a third party to terminate one redundant worker?	No	0	No	0	No	0	Yes	1
Must the employer notify a third party before terminating a group of redundant workers?	No	0	Yes	1	No	0	Yes	1
Does the employer need the approval of a third party to terminate a group of redundant workers?	No	0	No	0	No	0	Yes	1
Must the employer consider reassignment or retraining options before redundancy termination?	Yes	1	No	0	No	0	No	0
Are there priority rules applying to redundancies?	Yes	1	Yes	1	No	0	Yes	1
Are there priority rules applying to re-employment?	Yes	1	Yes	1	No	0	Yes	1
Rigidity of Employment Index	46		30		39		41	
Nonwage labor cost (% of salary)	0		0.0		1.0		16.8	
What is the notice period for redundancy dismissal after 20 years of continuous employment? (weeks of salary)	4.3		4.3		8.0		13.0	
What is severance pay for redundancy dismissal after 20 years of employment? (months of salary)	0		10.8		20.0		9.9	
What is legally mandated penalty for redundancy dismissal? (weeks of salary)	0		0.0		0.0		0.0	
Firing costs (weeks of wages)	4.3		51.0		94.7		55.9	

EMPLOYING WORKERS

	Maldives		Nepal		Pakistan		Sri Lanka	
	Answer	Score	Answer	Score	Answer	Score	Answer	Score
Difficulty of Hiring Index		0		67		78		0
Can term contracts be used only for term tasks?	No	0	Yes	1	Yes	1	No	0
What is the maximum duration of term contracts? (in months)	No Limit	0.00	No Limit	0.00	9	1.00	No Limit	0.00
What is the ratio of mandated minimum wage to the average value added per worker?	0.00	0.00	0.81	1.00	0.25	0.33	0.21	0.00
Rigidity of Hours Index		0		20		20		20
Can the workweek extend to 50 hours (including overtime) for 2 months per year?	Yes	0	Yes	0	Yes	0	Yes	0
What is the maximum number of working days per week?	7	0	6	0	6	0	6	0
Are there restrictions on night work?	No	0	No	0	No	0	No	0
Are there restrictions on "weekly holiday" work?	No	0	Yes	1	Yes	1	Yes	1
What is the paid annual vacation (in working days) for an employee with 20 years of service?	20	0	13	0	14	0	14	0
Difficulty of Firing Index		0		70		30		60
Is the termination of workers due to redundancy legally authorized?	Yes	0	Yes	0	Yes	0	Yes	0
Must the employer notify a third party before terminating one redundant worker?	No	0	Yes	1	No	0	Yes	1
Does the employer need the approval of a third party to terminate one redundant worker?	No	0	Yes	1	No	0	Yes	1
Must the employer notify a third party before terminating a group of redundant workers?	No	0	Yes	1	No	0	Yes	1
Does the employer need the approval of a third party to terminate a group of redundant workers?	No	0	Yes	1	No	0	Yes	1
Must the employer consider reassignment or retraining options before redundancy termination?	No	0	No	0	Yes	1	No	0
Are there priority rules applying to redundancies?	No	0	Yes	1	Yes	1	Yes	1
Are there priority rules applying to re-employment?	No	0	Yes	1	Yes	1	No	0
Rigidity of Employment Index		0		52		43		27
Nonwage labor cost (% of salary)		0.0		10.0		12.0		15.0
What is the notice period for redundancy dismissal after 20 years of continuous employment? (weeks of salary)		8.7		4.3		4.3		8.7
What is severance pay for redundancy dismissal after 20 years of employment? (months of salary)		0.0		19.8		19.8		39.0
What is legally mandated penalty for redundancy dismissal? (weeks of salary)		0.0		0.0		0.0		0.0
Firing costs (weeks of wages)		8.7		90.0		90.0		177.7

REGISTERING PROPERTY

Afghanistan

Property value: 693,483

City: Kabul

Procedure 1. Submit two signed copies of Circular Form to the Head of Makhzan (judge)

Time to complete: 3 days

Cost to complete: no cost

Comment: The applicant submits two signed copies of the Circular Form to the Head of Makhzan (a judge) for signature approval in order to instantiate a search of Makhzan records.

Procedure 2. The signed Circular Form is then submitted to the Chief of Makhzan to initiate the search of registered deeds

Time to complete: 8 days

Cost to complete: no cost

Comment: Once signed by the Head of Makhzan, the Circular form is submitted by the applicant to the Chief of Makhzan, who will sign to initiate the search of the Makhzan historical records of registered deeds.

The Makhzan keeper searches for deeds in archives based on the details provided by the applicant (registry number and photos). The keeper will give the deed book and the owner's property deed to the Chief of Makhzan, who will check for the correctness of ownership and sign again the Circular Form.

The Head of Makhzan also checks for correctness and signs again the Circular Form

Procedure 3. Circular Form sent to Imlak (Municipal Land Office) for certification of location of property

Time to complete: 8 days

Cost to complete: no cost

Comment: The applicant takes the Circular Form to Imlak for certification of the property location (both for agricultural and municipal land).

Procedure 4. An Imlak committee establishes the value of the land

Time to complete: 8 days

Cost to complete: no cost

Comment: An appropriate Imlak committee establishes the value of the land after an inspection of the property. The value is entered on the Circular Form.

Procedure 5. The Circular Form is submitted to the local Tax Collection Office

Time to complete: 3 days

Cost to complete: no cost

Comment: The applicant takes the Circular Form to the Tax Collection Office of the financial department of the local Mustofiat for certification of property taxes owed.

Procedure 6. The Circular Form is submitted to the provincial Tax Collection Office

Time to complete: 3 days

Cost to complete: no cost

Comment: The applicant takes the Circular Form to the Tax Collection Office of the financial department of the provincial Mustofiat for certification of property taxes owed.

Procedure 7. Submit the Circular Form to the Human Resource Directorate for certification of signatures

Time to complete: 3 days

Cost to complete: no cost

Comment: The Circular Form is submitted to the Human Resources Directorate for certifications of the signatures of the local and provincial (regional) Mustofiat staff collected in Procedures 5 and 6.

Procedure 8. The completed Circular Form is submitted back to the Primary Court judge

Time to complete: 1 day

Cost to complete: no cost

Comment: The completed Circular Form is submitted back to the Primary Court judge who will authorize the payment of property taxes.

Procedure 9. Seller pays property taxes at a designated bank

Time to complete: 1 day

Cost to complete: 7% of property value

Comment: The seller needs to pay the property taxes, indicated in the Circular Form, at a designated bank.

Procedure 10. Submit the completed Circular Form, with payment receipts, to the Primary Court

Time to complete: 31 days

Cost to complete: 2.5% (Stamp Duty)

Comment: The applicant returns to the Primary Court with the completed Circular Form, that will have payment receipts obtained in Procedure 9 attached.

The judge will order the clerk to prepare a new deed in two copies. The new deed is checked for correctness by the Primary Court Judge, who will sign both copies.

The Kondo (stub copy) is maintained in the Primary Court until the full record book is passed on to Makhzan for storage. This takes place at the end of every financial year.

Procedure 11. The buyer obtains a copy of the deed

Time to complete: 1 to 365 days

Cost to complete: no cost

Comment: A second copy of the new deed is given to the new property owner.

Time to complete: depends on when in the financial year Step 10 is conducted.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

REGISTERING PROPERTY

Bangladesh

Property value: 1,370,110

City: Dhaka

Procedure 1*. Verify the record of rights from the Land Office (also known as Land Revenue Office)

Time to complete: 15 - 60 days

Cost to complete: BDT 2,000

Comment: At the same time, it is checked that land rent receipts are up to date. There is the:

- Land Records Office for land records, surveys, publication and maintenance of records under the directorate of land records and survey (Ministry of Land).
- Land Office or Land Revenue Office under Ministry of Land. There are 11 administrative offices in each upajela (subdistricts)
- There are 64 districts in Bangladesh but 61 registration districts. 3 hill districts do not have registration centres. In Dhaka, the district land registration office has 11 subregistrars offices under Ministry of Law.

Procedure 2*. Obtain a copy of the 1913 cadastral survey from the land records office

Time to complete: 7 days

Cost to complete: BDT 2000

Procedure 3*. Obtain Permission from the RAJUK to transfer ownership of the property

Time to complete: 60 days

Cost to complete: BDT 3,500

Comment: The permission is only mandatory when the property is under the control of either the Ministry of Works (National Housing Authority) or RAJUK (Dhaka Improvement Trust since 1952 until it was renamed Rajdhani Unnayan

Kartripakkh -RAJUK in 1982). Such land is subject to 99 year leases. The rest is subject to private ownership, government ownership or under occupation by the Bangladeshi army.

Although the permission is usually always granted, unofficial payments are still paid in order to expedite the process and guarantee approval, which amount to BDT 10,000 to 15,000.

The buyer also checks that the property is up to date with payments to the Municipality, gas utility service, electricity utility service, and the water utility service to make sure that there is no outstanding dues payable so that the those liabilities do not transfer to him. Each of these checks will cost around BDT 625. These are standard steps customary in Bangladesh and not mandatory for registration.

Procedure 4. Obtain the non-encumbrance certificate from the relevant Sub-registry office

Time to complete: 2-3 days

Cost to complete: BDT 500-700

Comment: The buyer checks the legal position of the land (mortgaged or leased or ownership) at the relevant Sub-registry.

Procedure 5. Prepare deed of transfer and pay stamp duty

Time to complete: 1 day

Cost to complete: 5% of property value (Stamp duty)

Comment: A lawyer usually prepares the transfer deed, but it can be prepared by the parties themselves. If a lawyer does it, the fees will be around BDT 6,000. The deed must be prepared in stamped paper that will cost 5% of the property value to get it. This represents the stamp duty.

Procedure 6. Pay capital gains tax, registration fee, VAT and other taxes at a designated bank

Time to complete: 1 day

Cost to complete: Capital Gains Tax (5%)+ VAT (1.5%) + local government tax (2%) + registration fee (2.5%)

Comment:

Stamp Duty = 5%

VAT = 1.5%

(Applicable only for municipal corporation area payable by private housing and flat developers and commercial businesses)

Registration fee = 2.5%

Local Government Tax = 2%

Capital Gains Tax = 5%

(Not applicable in rural areas for agriculture. Applicable to land above 100 000 Takas, irrespective of when the transfer was made)

Taxes at source for land developers

2.5% for land and 175 per m2 for a flat

The 2.5% registration fee is payable to the Bank in favor of the sub-registry office and the receipt is to be presented at the moment of applying for registration.

Procedure 7*. Apply for registration at the relevant Sub-registry

Time to complete: 180-540 days

Cost to complete: Already paid in Procedure 9

Comment: The buyer applies for registration at the Municipal Deed Registry Office, presenting the receipts of payment for the registration fees obtained in Procedure 9.

A certified registration document is obtained within a week for the buyer's record. The original sale deed/certificate may require about 6 months to one and a half years to be obtained, or even up to two years in some cases.

Procedure 8*. Register the change in ownership at the Land Revenue Office

Time to complete: 45 - 60 days

Cost to complete: BDT 5,000

Comment: The change of ownership must be registered in the Land Revenue Office.

The property is recorded under the name of the new owner, who is responsible to pay the land revenue from the day it is transferred.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

REGISTERING PROPERTY

Bhutan

Property value: 1,994,564

City: Thimphu

Procedure 1. File at the District Court of Thimphu for verdict date hearing, enclosing sale deed drawn between the parties

Time to complete: 30 days

Cost to complete: : BTN 100 (forms) + BTN 75 (legal stamps)

Comment: Purchase the prescribed legal form, fill it, sign and file it at the District Court of Thimphu for verdict date hearing, enclosing sale deed drawn between the parties.

The form may be bought at the District Office or the agents some days before filing.

The sale deed drawn up by the parties is enclosed, with no need of notary or witness of official for the deed.

Miscellaneous hearing is conducted by the Chief Judge to find out whether the documents are in order and the transaction is according to Land Act and Govt. Policy. The case file is handed over to the concerned Bench Clerk for further verification. Both the parties are asked to report again in about a month's time and the deadline is announced. Since 2006, if parties do not show up within a month, the case is cancelled and the parties have to start the process again.

In the interim period, the Court would conduct investigation with the village headman of the area, relevant ministry, Census Division and land record Division.

* Until 2005, it was common practice to hire the services of a legal consultant or 'jabmi' to conduct the process on behalf of the parties. However, in 2005 the professional licenses of all jabmis were revoked and they were not allowed to practice. Hence the process can no longer be conducted with their assistance and the costs noted here are only the official fees, minus the would-be legal fees.

Procedure 2. Another hearing is conducted with the parties at the court

Time to complete: 30 days

Cost to complete: no cost

Comment: On another hearing date, the outcomes of the investigation with the relevant people are announced. If the outcome is positive, another hearing date in about 1 month's time is announced to receive verdict. Within 2 months of filing the case, the final judgment is delivered.

Procedure 3. Final hearing is conducted with the parties at the court

Time to complete: 1 day

Cost to complete: no cost

Comment: Final hearing is conducted, verdict read between the parties and individual copies given.

Procedure 4. The buyer applies to the Department of Survey & Land Records for the transfer of the names in the Registry and issuance of ownership certificate/documents

Time to complete: 2 days

Cost to complete: BTN 30 (registration fee)

Comment: After the verdict is received, the buyer is required to file a petition to the Department of Survey & Land Records along with the copy of the Court verdict for transfer of the names in the Registry and issuance of ownership certificate/documents. The Department of Survey & Land Records verifies the census record of the buyer at the Census department to find whether he is genuine Bhutanese or not.

Procedure 5. Land ownership certificate is received from the Department of Survey and Land Record

Time to complete: 30 days

Cost to complete: (already paid in Procedure 4)

Comment: The ownership certificate guarantees all legal rights to the owner.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

REGISTERING PROPERTY

India

Property value: 1,590,262

City: Mumbai

Procedure 1. A search has to be taken in the office of Sub-Registrar of Assurance to verify whether there is any encumbrance**Time to complete:** 5 days**Cost to complete:** Rs. 10,000

Comment: The purchaser should conduct a search of the property in the Registry and the Revenue Office, noting the location details of the property and the time period to be checked. While investigating the title it should be verified (1) that the legal ownership document is in the name of the Owner, issued by the Revenue Record Department under the Seal of the Tahsildar, (2) that on the date of purchase the title of the owner for the preceding 30 years (preferably) shows no mortgage or other encumbrance as still existing on the date of purchase, (3) the property is transferable and heritable, (4) the transferor is competent and/or authorized to transfer the property, (5) the transferee is qualified to be a transferee, (6) the object or consideration for the transfer is lawful, (7) the transfer has been made and completed in the manner prescribed by law, (8) the property being sold is free of restrictions for sale under the Urban Land (Ceiling & Regulation) Act, 1976 and a Clearance Certificate for the property has been issued by the U.L.C. (Urban Land Ceiling) Authorities. Also, all papers with regard to payment of taxes, the electricity bills and water bills need to be checked. If the seller is a Company incorporated under the provisions of the Companies Act, 1956 then it is advisable to take search in the office of the Registrar of Companies to verify whether there is any charge on the property registered under the provisions of Section 125 of the Companies Act, 1956.

Procedure 2. Preparation and execution of Agreement and Memorandum at the Stamp Duty Office**Time to complete:** 7 days**Cost to complete:** Rs. 100**Comment:** The property is not handed over at this stage.**Procedure 3. The Final Sale Deed is prepared by the purchaser or his advocate****Time to complete:** 7 days**Cost to complete:** 1% of property value

Comment: Normally, the Sale Deed and Transfer Deed are drafted by Lawyer and the print out of the same is taken out on Green paper on which the Adhesive stamp for stamp duty is to be affixed.

Procedure 4. Get the Final Sale Deed stamped, executed and registered in the presence of two witnesses**Time to complete:** 2 days**Cost to complete:** 5% of the market value of the property (stamp duty)

Comment: In case the agreement for sale is already stamped as a conveyance and registered, stamp duty and registration charges need not be paid at the prescribed rates and only nominal charges need be paid.

Procedure 5. Submit documents with the office of the Sub Registrar of Assurances within whose jurisdiction the property is located**Time to complete:** 1 day**Cost to complete:** 1% of market value of the property (registration fee) up to Rs. 30,000 maximum

Comment: The Documents are submitted with the office of the Sub Registrar of Assurances within whose jurisdiction the property is located. The respective authorized signatories of the Seller and Purchaser are required to be present along with two witnesses

The documents are submitted to the Reader of the Sub-Registrar, Assurances for scrutiny. After scrutiny, the Reader indicates the Registration fee required, which is 1% of the transaction value or Rs. 30,000/- whichever is less on the document itself. The due registration fee is to be deposited with the Cashier against a receipt. After depositing the fees, the documents are required to be presented before the Sub-Registrar by the parties in accordance with Section 32 of the

Registration Act, 1908. Normally, as per practice the Seller hands over the peaceful vacant and physical possession of the property to the Buyer simultaneous to the Deed being presented for Registration.

Upon payment of the required registration fees and computer service charges in cash, as per the receipt, the document is returned within 30 minutes of getting the receipt.

The documentation shall include:

Documents which are required to be presented are :

1. Document required to be registered (in duplicate)
2. Two Passport size photographs of the authorized signatories of both parties.
3. Photo-identification of each party and witnesses i.e. Voters' Identity Card, Passport, identity Card issued by Govt. of India, Semi Govt. and Autonomous bodies or identification by a Gazette Officer.
4. Certified True copy of the Resolution of the Board of Directors' of both Seller and Purchaser.
5. Certified True copies of Certificate of incorporation of both Seller and Purchaser.

Procedure 6. Apply to Municipality for mutation of the title of the property**Time to complete:** 30 - 40 days**Cost to complete:** INR 400-5000

Comment: After receipt of the registered title deed, an application is made by the Purchaser to the Municipal Authority seeking mutation of the title of the property in its favour. The authorised signatory has to submit the duly signed application alongwith affidavit, indemnity bond, and a certified/notarised copy of the registered title deed.

After the assessment of the request for mutation, the Municipal Authority settles the rateable value for levying tax on property and then issues a letter of mutation in favour of the purchaser certifying the fact that the property has since been mutated in the Purchaser's name.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

REGISTERING PROPERTY

Nepal

Property value: 987,320

City: Kathmandu

Procedure 1. Obtain tax clearance and road clearance certificate from the Municipality (relevant ward committee)**Time to complete:** 1-2 days**Cost to complete:** Rs 100

Comment: Seller must go to the local government to certify the type or road that adjoins the property. Kathmandu municipality is divided into 35 wards. Seller has to go to ward committee to take the certificate in one day and it costs Rs 100. At the same time, he can obtain a tax clearance letter.

A tax clearance certificate must be obtained from the Municipality regarding the payment of the property tax. If the property is not yet registered in the Municipality for tax purposes then it might take a few days to collect the necessary papers of building permit, land deed, land revenue papers, field visit of municipal engineers to verify and assess the property, etc. In any case it should not take more than seven days.

Many people do not regularly pay the property tax until they have to dispose of the property. The tax collection system is quite inefficient. It is then normal that they have to pay property tax when transferring the property.

Procedure 2. Hire lekhandas or a junior lawyer**Time to complete:** 1 day**Cost to complete:** Rs 2000 - Rs 6000**Procedure 3. Registration of the deed and issuance of a new title certificate****Time to complete:** 1-2 days**Cost to complete:** 6% of property price (registration fee)

Comment: The transfer deed is submitted for registration to the Land Revenue Office.

Legally, the parties can prepare the transfer deed by themselves. But normally it is done by the LEKHANDAS which literally means Writer.

The authenticity of the seller is checked by the Land Revenue Office against the Citizenship Certificate. The existence of liens or encumbrances on the property is also checked on the same day by the Land Revenue Office.

The registration fee (6% of the property value in case of municipal areas and 3% in case of villages) is paid at the Land Revenue Office at the moment of applying for registration

Parties must sign and thumb print on the Transfer Deed.

After the verifications of all documents by the officer, the Transfer Deed will be registered and the title certificate will usually be issued on the same day. An additional Procedure applies if the land is partitioned and only one part is sold off. The seller goes to the cadastral office (Napi Viva). It is a different entity from the Land Registrar's Office. He goes there on day 3 right after submitting the documents at the registry. He can usually obtain the new partition number on the same day. Usually, there are no onsite inspections. It might then take 2 to 4 days if inspection is done in about 10% of cases.

The documentation shall include:

Land Ownership Certificate (already in possession of the seller)

Citizenship Certificate of seller and buyer or/ Incorporation Certificate of

Company Tax clearance certificate from the Municipality/Village Development

Committee (obtained in Procedure 1)

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

REGISTERING PROPERTY

Pakistan

Property value: 2,060,022

City: Karachi

Procedure 1*. Advertisement of transaction in a newspaper inviting objections

Time to complete: 8 days

Cost to complete: PKR 3,000

Comment: An advertisement in newspapers inviting objections/claims must be placed. After publication, there is a seven-day waiting time for arrival of objections, if any. Advertisement is published in local newspapers (dailies) having a large circulation.

Procedure 2*. Advertisement of transaction in a second newspaper inviting objections

Time to complete: 8 days

Cost to complete: Included in Procedure 1

Comment: Sometimes it is ordered to be published in two newspapers i.e. one in English language and the other in the local language.

Procedure 3. Hire deed writer or lawyer to draft sale purchase agreement

Time to complete: 1 day

Cost to complete: 5000 PKR

Comment: It is common practice in Pakistan to hire a lawyer or deed writer to draft the sale purchase agreement.

Procedure 4. Payment of stamp duty and registration fees

Time to complete: 1 day

Cost to complete: 3% of the property price (stamp duty) + 1% of property price (registration fee). In case of residential apartments stamp duty is NIL for apartments valued up to \$8,500; ¼ of 1% for apartments valued between \$8501 and \$16500, and ½ of 1% for apartments valued above \$16500.

Comment: Conveyance stamp duty (3% of property price) and registration fee (1% of property price) must be paid at the Government Treasury or National Bank of Pakistan, an autonomous bank jointly owned by Government of Pakistan and public, who issue receipt of money which is taken to the Stamp office of the Government.

Procedure 5. Receipt of payment is taken to Stamp Office

Time to complete: 1 day

Cost to complete: No additional cost

Comment: The receipt of payment obtained in Procedure 3 is taken to the Stamp Office of the Government.

The Stamp office will, upon production of receipt, issue a stamp paper of the value (money deposited) on the Sale Deed. Such typed stamp paper will be presented later before the Registrar, who registers the change of ownership.

Procedure 6. Execution and registration of the deed before the registration authority

Time to complete: 38 days

Cost to complete: No cost

Comment: The conveyance deed must be executed before the registering authority.

Execution of deed is done before the Sub-Registrar of Conveyance/Assurances of the area, official responsible under the Registration Act.

Registration of Deed automatically follows the execution of Sale Deed. A receipt is issued immediately, but the Deed is delivered a few weeks later.

The name of the buyer is recorded in the new deed, showing the change in ownership

The documentation shall include:

Conveyance/Sale Deed (stamped after payment in Procedure 4)

ID of parties

Original title deed of seller

If the parties have authorized someone else through a power of attorney, the power of attorney in original with copies.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

REGISTERING PROPERTY

Sri Lanka

Property value: 5,942,699

City: Colombo

Procedure 0*. A title search must be carried out at the relevant Land Registry

Time to complete: 3-7 days

Cost to complete: LKR 1,000

Comment: On receipt of the last title deed and plan from the seller, a title search has to be carried out at the relevant Land Registry.

A lawyer/notary engaged by the Purchaser has to recommend title. Good title has to be established for the past 30 years. All deeds and plans have to be checked. If prior deeds are not available with the seller the notary will have to check duplicates of deeds at the Land Registry.

Confirmation from a notary/lawyer should be obtained that the title to the property is clear.

On confirmation that the title to the property is clear step 2 will apply; if not title insurance is recommended, and the next step would be to obtain Insurance Policy.

The costs of the search are: LKR 10 for search at the Land Registry; LKR 5 to check duplicate of deed, and LKR 105 to obtain copy of deed.

Procedure 1. Obtain a Buyers Policy of Title Insurance (optional)

Time to complete: 3 days

Cost to complete: LKR 230,000

Comment: If title insurance is recommended in Procedure 1 due to a defect in title, then the next step would be to obtain a Buyers Policy of Title Insurance to cover defects.

This step is optional and contingent to the result of step 1.

Usually title insurance is recommended for the following reasons:

- Prior deeds and documentation not being available and further if the registers at the land registry cannot be traced for 30 years (if the books are damaged).
- If there are any discrepancies in the title deeds and plans.
- If the present owner had owned an undivided share of a larger land, and had sub-divided it without the consent of the other parties or without a Deed of Partition or Partition Plan.

Procedure 2*. Seller needs to obtain a group of documents from the Municipality

Time to complete: 21 days

Cost to complete: LKR 500

Comment: The seller will have to obtain the following documents from the Municipality:

1. The Building and Street line Certificate
2. Certificate of Non-vesting
3. Tax receipts in proof of payment of rates and taxes for the last quarter
4. Certificate of conformity in respect of the building
5. Certificate of Ownership stating that the seller is the owner of the land and premises

Procedure 3*. A new survey plan of the property must be obtained

Time to complete: 14 days

Cost to complete: About 0.1% of property value

Comment: A new approved plan must be obtained for both the land and the building. They must be obtained by the seller and attached later to the application for registration.

Procedure 4. The parties must present some documents to the buyer's notary/lawyer and the Deed of Transfer in favor of the buyer is signed

Time to complete: 2 days

Cost to complete: LKR 300 + 1% of purchase price (Lawyer's fees)

Comment: The following document with regard to the company of the seller will have to be furnished to the buyer's lawyer/notary:

1. Memorandum and Articles of the Company
2. Certificate of Incorporation of the Seller
3. Latest Companies Form 48 (details of the Directors)
4. Resolution authorizing the sale of land

The buyer needs to pass a resolution to purchase the property.

On receipt of the above documents the Deed of Transfer in favor of the Purchaser can be signed. Lawyer's fees are paid by the buyer and will depend on the lawyer (usually 1% of purchase price).

Procedure 5. Payment of stamp duty at a nominated bank

Time to complete: 1 day

Cost to complete: 4% of value of land minus LKR 1,000 (Stamp duty)

Comment: After execution of the deed of transfer stamp duty will have to be paid to a nominated state bank in favor of the relevant Provincial Council in which the land is situated.

Procedure 6. The deed is sent for registration to the relevant land registry

Time to complete: 30-42 days

Cost to complete: Already paid in Procedure 5

Comment: After payment of stamp duty, the deed duly attested by the notary, will have to be sent for registration to the relevant land registry.

The deed is registered and returned to the notary from the Land Registry.

Procedure 7. Name of the buyer must be registered at the Municipality and the certificate of ownership is obtained

Time to complete: 2 days

Cost to complete: LKR 200

Comment: The name of the new company will have to be registered as the new owner at the Municipality.

The certificate of ownership is obtained from the Municipality on execution of the Deed of Transfer in favor of the new owner.

Procedure 8. Notary hands over to the owner all the deeds and documents pertaining to the property

Time to complete: 1 day

Cost to complete: No additional cost

Comment: On receipt of the Deed of Transfer from the Land Registry the notary hands over to the owner all the deeds and documents pertaining to the property for retention.

Note: Procedures sometimes take place simultaneously. Instances of this are marked with an asterisk (*).

GETTING CREDIT

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Credit Information Index	0	2	0	3	0	2	4	3
Are both individuals and firms listed in credit registry?	No	Yes	No	No	No	Yes	Yes	Yes
Are both positive and negative data distributed?	No	Yes	No	Yes	No	Yes	Yes	Yes
Does the registry collect credit information from financial institutions as well as retailers and utilities providers?	No	No	No	No	No	No	No	No
Are more than 2 years of historical credit information available for distribution?	No	No	No	Yes	No	No	Yes	Yes
Is data on all loans larger than 1% of income per capita recorded?	No	No	No	Yes	No	No	Yes	No
Is it guaranteed by law that borrowers can inspect their data?	No	No	No	No	No	No	No	No

PROTECTING INVESTORS

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Disclosure Index	0	6	6	7	0	6	6	4
What corporate body provides legally sufficient approval for the transaction? (0-3; SEE NOTES)	0	2	1	2	0	2	2	1
Immediate disclosure to the public and/or shareholders (0-2; SEE NOTES)	0	0	1	0	0	0	0	0
Disclosures in published periodic filings (0-2; SEE NOTES)	0	2	1	2	0	2	2	2
Disclosures by Mr. James to board of directors (0-2; SEE NOTES)	0	2	2	2	0	2	2	1
Requirement that an external body review the transaction before it takes place (0=NO, 1=YES)	0	0	1	1	0	0	0	0
Director Liability Index	0	7	3	4	8	1	6	5
Plaintiff's ability to hold James liable for damage to the company (0-2; SEE NOTES)	0	1	0	0	2	0	1	1
Plaintiff's ability to hold the approving body liable for damage to the company. (0-2; SEE NOTES)	0	2	1	2	2	0	1	1
Plaintiff's ability to rescind the transaction (0-2; SEE NOTES)	0	1	1	1	1	0	1	1
Mr. James pays loss/damages caused to Buyer (0=NO, 1=YES)	0	1	0	0	1	0	1	1
Mr. James repays personal profits made from the transaction (0=NO, 1=YES)	0	1	0	0	1	0	1	0
Fines and jail available against James (0=NO, 1=YES)	0	0	0	0	0	0	1	0
Ability of shareholders to sue derivatively or directly for damage to Buyer as a result of the transaction (0-1; SEE NOTES)	0	1	1	1	1	1	0	1
Shareholder Suits Index	2	7	4	7	8	9	7	7
Documents available to the plaintiff from the defendant and witnesses during trial (0-4; SEE NOTES)	0	3	0	4	4	4	4	4
Ability of plaintiffs to directly question the defendant and witnesses during trial (0-2; SEE NOTES)	0	0	1	2	2	2	1	2
Plaintiff can request categories of documents from the defendant without identifying specific ones (0=NO, 1=YES)	0	1	1	0	1	1	0	0
Shareholders owning 10% or less of Buyer's shares can request an inspector investigate the transaction (0=NO, 1=YES)	1	1	0	1	1	1	1	0
Standard of proof for civil suit is lower than that for a criminal case (0=NO, 1=YES)	0	1	1	0	0	1	1	1
Shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit (0=NO, 1=YES)	1	1	1	0	0	0	0	0
Investor Protection Index	0.7	6.7	4.3	6.0	5.3	5.3	6.3	5.3

PAYING TAXES

	Payments (number)	Time (hours)	Statutory Tax Rate (%)	Tax Base	Total tax rate (% of profit)
Afghanistan					
Turnover tax (business receipts tax)	1	- a)	2%	turnover	36.3
Corporate income tax	1	155	20%	taxable income	0
Personal income tax		120	various rates	taxable salaries	e)
Total	2	275			36.3

Bangladesh					
Value added tax (VAT)	12	240	15%	value added	45.4 b)
Corporate income tax	1	160	37.50%	taxable income	26.1
Municipal tax (property tax)	1	- a)	10%	rental value	10.8
Capital gains tax	1	- a)	5%	sale price	3.1
Interest tax	1	- a)	10%	interest income	0.3
Vehicle tax	1	- a)	fixed fee		c)
Total	17	400			40.3

Bhutan					
Corporate income tax	2	250	30%	taxable income	35.5
Property tax	1	- a)	BTN 75 per unit	property area	4.2
Health insurance contributions	12	24	1%	gross salaries	1.3
Business license	1	- a)	varies from BTN 700 to 25,000		1.2
Vehicle tax	1	- a)	fixed fee (BTN 13,000)		0.8
Interest tax	1	- a)	5%	interest income	0.1
Stamp duty	1	- a)	BTN 5 per signature	number of signatures	c)
Total	19	274			43

India					
Central sales tax	12	128	4%	purchase price	29.1
Corporate income tax	4	40	33.66%	taxable income	14.3
Social security contributions	12	96	12%	gross salaries	13.9
Fuel tax	1	- a)	Rs. 3.25 per liter	fuel consumption	9.2
Value added tax (state VAT)	9	- a)	12.50%	value added	5.9 b)
Employee's state insurance contribution	12	- a)	4.75%	gross salaries	5.5
Property tax	1	- a)	10%	assessed value of property	4.7
Dividend tax	1	- a)	14.03%	distributed dividends	2
Mahashtra sales tax	3	- a)	4%	purchase price	1.6
Interest tax	1	- a)	20.91%	interest income	0.5
Insurance contracts tax	1	- a)	10%	insurance premium	0.2
Vehicle tax (pollution tax)	1	- a)	fixed fee (Rs 45)		0
Stamp duty	1	- a)	fixed fee (Rs 50)		c)
Total	59	264			81.1

Maldives					
Property transfer tax	1	0	15%	sale price	9.3
Total	1	0			9.3

PAYING TAXES

	Payments (number)	Time (hours)	Statutory Tax Rate (%)	Tax Base	Total tax rate (% of profit)	
Nepal						
Value added tax (VAT)	12	192	13%	value added	39.4	b)
Corporate income tax	3	120	20%	taxable income	18.3	
Social security contributions	12	96	10%	gross salaries	11.6	
Special duty	3	- a)	1.50%	taxable income	1.4	
Municipal business tax	1	- a)	fixed fee (NPR 10,000)		1	
Municipal tax on vehicles	1	- a)	fixed fee (NPR 3,000)		0.3	
Vehicle tax	1	- a)	fixed fee (NPR 1,500)		0.2	
Property tax	1	- a)	various rates	land value	0	
Land tax (revenue)	1	- a)	NPR 100 for each 5476 sq. ft.	property area	0	
Total	35	408			32.8	
Pakistan						
Value added tax (VAT)	12	480	15%	value added	45.4	b)
Corporate income tax	5	40	37%	taxable income	27	
Social security contributions	12	40	7%	gross salaries	8.1	
Pension contributions	12	- a)	5% up to PKR 150 per employee and per month	number of employees	5.5	
Education tax	1	- a)	PKR 25 per month per employee	number of employees	1	
Property tax	1	- a)	18% (including 10% discount)	annual rental value of property	0.9	
Professional tax	1	- a)	fixed fee (PKR 10,000)		0.6	
Vehicle tax	1	- a)	fixed fee		0.3	
Interest tax	1	- a)	10%	interest income	0.2	d)
Stamp duty	1	- a)	slab rate based on contract value			c)
Total	47	560			43.4	
Sri Lanka						
Value added tax (VAT)	12	144	15%	value added	45.4	b)
Corporate income tax	4	16	32.50%	taxable income	36.5	
Turnover tax	4	- a)	1%	turnover	18.2	
Social security contributions	12	96	12%	gross salaries	13.9	
Provident fund	12	- a)	3%	gross salaries	3.5	
Property tax	1	- a)	35%	annual property value	1.7	
Check transaction tax (stamp duty)	12	- a)	0.10%	transaction value	0.8	
Social responsibility levy	1	- a)	0.25%	taxable income	0.3	
Interest tax	1	- a)	10%	interest income	0.2	d)
Municipal business tax	1	- a)	varies from Rs 250 to Rs 5,000		0.1	
Vehicle tax	1	- a)	fixed fee (Rs 1,000)		0	
Total	61	256			74.9	

a) data not collected

b) VAT is not included in the total tax rate because it is a tax levied on consumers

c) very small amount

d) included in other taxes

e) Withheld tax

f) electronic filling available

g) paid jointly with another tax

Name of taxes have been standardized. For instance income tax, profit tax, tax on company's income are all named corporate income tax in this table.

When there is more than one statutory tax rate, the one applicable to TaxpayerCo is reported.

The hours for VAT include all the VAT and sales taxes applicable

The hours for Social Security include all the hours for labor taxes in general

ENFORCING A CONTRACT

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Procedures (number)	..	50	34	56	28	28	55	20
Total Time (days)	1,642	1,442	275	1,420	665	590	880	837
Filing period (days)	40	7	30	20	15	15	30	62
Judgment period (days)	1,420	1,070	110	1,095	165	365	550	595
Enforcement period (days)	182	365	135	305	485	210	300	180
Cost (% of claim)	25.0	45.7	20.2	35.7	16.2	24.4	22.6	21.3

Appendix III

Rankings on the ease of doing business

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

Source: Doing Business database.



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



Data notes

The indicators presented and analyzed in *Doing Business* measure business regulation and the protection of property rights—and their effect on businesses, especially small and medium-size domestic firms. First, the indicators document the degree of regulation, such as the number of procedures to start a business or register commercial property. Second, they gauge regulatory outcomes, such as the time and cost to enforce a contract, go through bankruptcy or trade across borders. Third, they measure the extent of legal protections of property, for example, the protections of investors against looting by company directors or the scope of assets that can be used as collateral according to secured transactions laws. Fourth, they measure the flexibility of employment regulation. Finally, a set of indicators documents the tax burden on businesses. The data for all sets of indicators in *Doing Business in South Asia 2007* are for April 2006.

The *Doing Business* data are collected in a standardized way. To start, the *Doing Business* team, with academic advisers, designs a survey. The survey uses a simple business case to ensure comparability across countries and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Surveys are administered through more than 5,000 local experts, including lawyers, business consultants, accountants, government officials and other professionals routinely administering or advising on legal and regulatory requirements. These experts have several (typically 4) rounds of interaction with the *Doing Business* team, involving conference calls, written correspondence and country visits. For *Doing Business 2007* team members visited 65 countries to verify data and expand the pool of respondents. The data from surveys are subjected to numerous tests for robustness, which lead to revisions or expansions of the information collected.

The *Doing Business* methodology offers several advantages. It is transparent, using factual information about what laws and regulations say and allowing multiple interactions with local respondents to clarify potential misinterpretations of questions. Having representative samples of respondents is not an issue, as the texts of the relevant laws and regulations are collected and answers checked for accuracy. The methodology is inexpensive and easily replicable, so data can be collected in a large sample of economies—175 published in *Doing Business 2007*. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across countries. And the data not only highlight the extent of obstacles to doing business but also help identify their source, supporting policymakers in designing reform.

The *Doing Business* methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the country's most populous city or the relevant cities for the sub-national data and may not be representative of regulatory practices in other parts of the country. Second, the data often focus on a specific business form—a limited liability company of a specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Third, transactions described in a standardized case study refer to a specific set of issues and may not represent the full set of issues a business encounters. Fourth, the measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the case study. Fifth, the methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing a procedure may take longer if the business lacks information or is unable to follow up promptly.

The methodology for 4 of the *Doing Business* topics changed for *Doing Business 2007* and *Doing Business in South Asia 2007*. For paying taxes, the total tax rate measure now includes all labor contributions paid by the employer (such as social security contributions) and excludes consumption taxes (such as sales tax or value added tax). And the measure is now expressed as a percentage of commercial profits rather than gross profits. This change reflects the total tax burden borne by businesses. For enforcing contracts, the case study was revised to reflect a typical contractual dispute over the quality of goods rather than a simple debt default. For trading across borders, *Doing Business* now reports the cost associated with exporting and importing cargo in addition to the time and number of documents required. And for employing workers, hiring costs are no longer included in the calculation of the ease of employing workers.

Doing Business now publishes more than 8,750 data points. Since the publication of *Doing Business* in 2006, 19 challenges to last year's data have been received. In 6 cases—Algeria, France, Hong Kong (China), Jordan, Morocco and the United Kingdom—every data point was reviewed by government experts. The challenges resulted in 12 corrections to the data.

Economy characteristics

Region and income group

Doing Business uses the World Bank regional and income group classifications, available at <http://www.worldbank.org/data/countryclass/countryclass.html>. Throughout the report the term *rich economies* refers to the high-income group, *middle-income economies* to the upper-middle-income group and *poor economies* to the lower-middle-income and low-income groups.

In other cases complaints were resolved without a need for corrections, through explanations of the assumptions underlying the methodology and the date as of which data are collected. In addition, the *Doing Business* team has corrected 37 data points as a result of new information obtained during its travel and the recruitment of additional respondents. The ease of doing business index reflects these changes. For these reasons—as well as the addition of 20 new economies—this year's rankings on the ease of doing business are not comparable with the rankings reported in *Doing Business in 2006*. To make comparisons across time, table 1.2 reports recalculated rankings for last year.

The laws and regulations underlying the *Doing Business* data are now available on the *Doing Business* website at <http://www.doingbusiness.org>. All the sample surveys and the details underlying the indicators are also published on the website. Questions on the methodology and challenges to data may be submitted through the “Ask a Question” function on the *Doing Business* home page. Updated indicators, as well as any revisions of or corrections to the printed data, are posted continuously on the website.

Population

Doing Business 2007 reports midyear 2005 population statistics as published in *World Development Indicators 2006*.

Gross national income (GNI) per capita

Doing Business 2007 reports 2005 income per capita as published in the World Bank's *World Development Indicators 2006*. Income is calculated using the Atlas method (current US\$). For cost indicators expressed as a percentage of income per capita, 2005 GNI in local currency units is used as the denominator.

Starting a business

Doing Business records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.

After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures is developed, along with the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital requirements. Subsequently, local incorporation lawyers and government officials complete and verify the data. On average 4 law firms participate in each country.

Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all agencies involved

in the start-up process function efficiently and without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across countries, several assumptions about the business and the procedures are used.

Assumptions about the business

The business:

- Is a limited liability company. If there is more than one type of limited liability company in the country, the limited liability form most popular among domestic firms is chosen. Information on the most popular form is obtained from incorporation lawyers or the statistical office.
- Operates in the country's most populous city or the relevant cities for the sub-national data.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.

- Has start-up capital of 10 times income per capita at the end of 2005, paid in cash.
- Performs general industrial or commercial activities, such as the production or sale of products or services to the public. It does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. The business is not using heavily polluting production processes.
- Leases the commercial plant and offices and is not a proprietor of real estate.
- Does not qualify for investment incentives or any special benefits.
- Has up to 50 employees 1 month after the commencement of operations, all of them nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.

Procedures

A procedure is defined as any interaction of the company founder with external parties (government agencies, lawyers, auditors, notaries). Interactions between company founders or company officers and employees are not counted as procedures. Procedures that must be completed in the same building but in different offices are counted as separate procedures. The founders are assumed to complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law.

Both pre- and post-incorporation procedures that are officially required for an entrepreneur to formally operate a business are recorded. Procedures that are not required to start and formally operate a business are ignored. For example, obtaining exclusive rights over the company name is not counted in a country where businesses may use a number as identification.

Procedures required for official correspondence or transactions with public agencies are included. For example, if a company seal or stamp is required on official documents, such as tax declarations, obtaining it is counted. Similarly, if a company must open a bank account before registering for sales tax or value added tax, this transaction is included as a procedure. Shortcuts are counted only if they fulfill 3 criteria: they are legal, they are available to the general public, and avoiding them causes substantial delays.

Only procedures required of all businesses are covered. Industry-specific procedures are excluded. For example, procedures to comply with environmental regulations are included only when they apply to all businesses conducting general commercial or industrial activities. Procedures that the company undergoes to connect to electricity, water, gas and waste disposal services are not included.

Time

Time is recorded in calendar days. The measure captures the median duration that incorporation lawyers indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day. A procedure is considered completed once the company has received the final document, such as the company registration certificate or tax number. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. It is assumed that the entrepreneur does not waste time and commits to completing each remaining procedure without delay. The time that the entrepreneur spends on gathering information is ignored. It is assumed that the entrepreneur is aware of all entry regulations and their sequence from the beginning but has had no prior contact with any of the officials.

Cost

Cost is recorded as a percentage of the country's income per capita. Only official costs are recorded. The company law, the commercial code and specific regulations and fee schedules are used as sources for calculating costs. In the absence of fee schedules, a government officer's estimate is taken as an official source. In the absence of a government officer's estimate, estimates of incorporation lawyers are used. If several incorporation lawyers provide different estimates, the median reported value is applied. In all cases the cost excludes bribes.

Paid-in minimum capital

The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank before registration starts and is recorded as a percentage of the country's income per capita. The amount is typically specified in the commercial code or the company law. Many countries have a minimum capital requirement but allow businesses to pay only a part of it before registration, with the rest to be paid after the first year of operation. In Mozambique in March 2006, for example, the minimum capital requirement for limited liability companies was 1,500,000 meticaï, of which half was payable before registration. The paid-in minimum capital recorded for Mozambique is therefore 750,000 meticaï, or 10% of income per capita. In the Philippines the minimum capital requirement was 5,000 pesos, but only a quarter needed to be paid before registration. The paid-in minimum capital recorded for the Philippines is therefore 1,250 pesos, or 2% of income per capita.

This methodology was developed in Djankov and others (2002) and is adopted here with minor changes.

Dealing with licenses

Doing Business records all procedures required for a business in the construction industry to build a standardized warehouse as an example of dealing with licenses. These procedures include obtaining all necessary licenses and permits, receiving all required inspections and completing all required notifications and submitting the relevant documents (for example, building plans and site maps) to the authorities. *Doing Business* also records procedures for obtaining utility connections, such as electricity, telephone, water and sewerage. Procedures necessary to be able to use the property as collateral or transfer it to another business are also counted. The survey divides the process of building a warehouse into distinct procedures and calculates the time and cost of completing each procedure under normal circumstances.

Information is collected from construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. To make the data comparable across countries, several assumptions about the business, the warehouse project and the procedures are used.

Assumptions about the construction company

The business (BuildCo):

- Is a limited liability company.
- Operates in the country's most populous city or the relevant cities for the sub-national data.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Carries out construction projects, such as building a warehouse.
- Has up to 20 builders and other employees, all of them nationals with the technical expertise and professional experience necessary to develop architectural and technical plans for building a warehouse.

Assumptions about the warehouse project

The warehouse:

- Has 2 stories and approximately 14,000 square feet (1,300.6 square meters). Each floor is 9 feet, 10 inches (3 meters) high.
- Is located in a periurban area of the country's most populous city or the relevant cities for the sub-national data.
- Is located on a land plot of 10,000 square feet (929 square meters), which is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.

- Is a new construction (there was no previous construction on the land).
- Has complete architectural and technical plans.
- Will be connected to electricity, water, sewerage and one land phone line. The connection to each utility network will be 32 feet, 10 inches (10 meters) long.
- Will require a 10-ampere power connection and 140 kilowatts of electricity.
- Will be used for storing books.

Procedures

A procedure is any interaction of the company's employees or managers with external parties, including government agencies, public inspectors, notaries, the land registry and cadastre and technical experts apart from architects and engineers. Interactions between company employees, such as development of the warehouse plans and inspections conducted by employees, are not counted as procedures. Procedures that the company undergoes to connect to electricity, water, sewerage and phone services are included. All procedures that are legally or in practice required for building a warehouse are counted, even if they may be avoided in exceptional cases.

Time

Time is recorded in calendar days. The measure captures the median duration that local experts indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is 1 day. If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen. It is assumed that BuildCo does not waste time and commits to completing each remaining procedure without delay. The time that BuildCo spends on gathering information is ignored. It is assumed that BuildCo is aware of all building requirements and their sequence from the beginning.

Cost

Cost is recorded as a percentage of the country's income per capita. Only official costs are recorded. The building code, specific regulations and fee schedules and information from local experts are used as sources for costs. If several local partners provide different estimates, the median reported value is used. All the fees associated with completing the procedures to legally build a warehouse, including utility hook-up, are included.

Employing workers

Doing Business measures the regulation of employment, specifically as it affects the hiring and firing of workers and the rigidity of working hours. The data on employing workers are based on a detailed survey of employment regulations that is completed by local law firms. The employment laws of most countries are available online in the NATLEX database, published by the International Labour Organization. Laws and regulations as well as secondary sources are reviewed to ensure accuracy. Conflicting answers are further checked against 2 additional sources, including a local legal treatise on employment regulation.

To make the data comparable across countries, several assumptions about the worker and the business are used.

Assumptions about the worker

The worker:

- Is a nonexecutive, full-time male employee who has worked in the same company for 20 years.
- Earns a salary plus benefits equal to the country's average wage during the entire period of his employment.
- Is a lawful citizen with a wife and 2 children. The family resides in the country's most populous city or the relevant cities for the sub-national data.
- Is not a member of a labor union, unless membership is mandatory.

Assumptions about the business

The business:

- Is a limited liability company.
- Operates in the country's most populous city or the relevant cities for the sub-national data.
- Is 100% domestically owned.
- Operates in the manufacturing sector.
- Has 201 employees.
- Abides by every law and regulation but does not grant workers more benefits than what is legally mandated.
- Is subject to collective bargaining agreements in countries where such bargaining covers more than half the manufacturing sector.

Rigidity of employment index

The rigidity of employment index is the average of three sub-indices: a difficulty of hiring index, a rigidity of hours index and a difficulty of firing index. All the subindices have several components. And all take values between 0 and 100, with higher values indicating more rigid regulation.

The difficulty of hiring index measures (i) whether term contracts can be used only for temporary tasks; (ii) the maximum cumulative duration of term contracts; and (iii) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker. A country

is assigned a score of 1 if term contracts can be used only for temporary tasks and a score of 0 if they can be used for any task. A score of 1 is assigned if the maximum cumulative duration of term contracts is less than 3 years; 0.5 if it is between 3 and 5 years; and 0 if term contracts can last 5 years or more. Finally, a score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is higher than 0.75; 0.67 for a ratio greater than 0.50 and less than or equal to 0.75; 0.33 for a ratio greater than 0.25 and less than or equal to 0.50; and 0 for a ratio less than or equal to 0.25. In the Central African Republic, for example, term contracts are allowed only for temporary tasks (a score of 1), and they can be used for a maximum of 2 years (a score of 1). The ratio of the mandated minimum wage to the value added per worker is 0.66 (a score of 0.67). Averaging the three subindices and scaling the index to 100 gives the Central African Republic a score of 89.

The rigidity of hours index has 5 components: (i) whether night work is unrestricted; (ii) whether weekend work is unrestricted; (iii) whether the workweek can consist of 5.5 days; (iv) whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year; and (v) whether paid annual vacation is 21 working days or fewer. For each of these questions, if the answer is no, the country is assigned a score of 1; otherwise a score of 0 is assigned. For example, Montenegro imposes restrictions on night work (a score of 1) and weekend work (a score of 1), allows 5.5-day workweeks (a score of 0), permits 50-hour workweeks for 2 months (a score of 0) and requires paid vacation of 20 working days (a score of 0). Averaging the scores and scaling the result to 100 gives a final index of 40 for Montenegro.

The difficulty of firing index has 8 components: (i) whether redundancy is disallowed as a basis for terminating workers; (ii) whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; (iii) whether the employer needs to notify a third party to terminate a group of more than 20 redundant workers; (iv) whether the employer needs approval from a third party to terminate 1 redundant worker; (v) whether the employer needs approval from a third party to terminate a group of more than 20 redundant workers; (vi) whether the law requires the employer to consider reassignment or retraining options before redundancy termination; (vii) whether priority rules apply for redundancies; and (viii) whether priority rules apply for reemployment. For the first question an answer of yes for workers of any income level gives a score of 10 and means that the rest of the questions do not apply. An answer of yes to question (iv) gives a score of 2. For every other question, if the answer is yes, a score of 1 is assigned; otherwise a score of 0 is given. Questions (i) and (iv), as the most restrictive regulations, have greater weight in the construction of the index.

In Tunisia, for example, redundancy is allowed as grounds for termination (a score of 0). An employer has to both notify

a third party (a score of 1) and obtain its approval (a score of 2) to terminate a single redundant worker, and has to both notify a third party (a score of 1) and obtain its approval (a score of 1) to terminate a group of redundant workers. The law mandates consideration of retraining or alternative placement before termination (a score of 1). There are priority rules for termination (a score of 1) and reemployment (a score of 1). Adding up the scores and scaling to 100 gives a final index of 80 for Tunisia.

Nonwage labor cost

The nonwage labor cost indicator measures all social security payments (including retirement fund; sickness, maternity and health insurance; workplace injury; family allowance; and other obligatory contributions) and payroll taxes associated with hiring an employee in fiscal year 2005. The cost is expressed as a percentage of the worker's salary. In Bolivia, for example, the taxes paid by the employer amount to 13.7%

of the worker's wages and include 10% for sickness, maternity and temporary disability benefits; 1.7% for permanent disability and survivor benefits; and 2% for housing.

Firing cost

The firing cost indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weekly wages. One month is recorded as 4 and 1/3 weeks. In Mozambique, for example, an employer is required to give 90 days' notice before a redundancy termination, and the severance pay for workers with 20 years of service equals 30 months of wages. No penalty is levied. Altogether, the employer pays the equivalent of 143 weeks of salary to dismiss the worker.

This methodology was developed in Botero and others (2004) and is adopted here with minor changes.

Registering property

Doing Business records the full sequence of procedures necessary when a business purchases land and a building to transfer the property title from the seller to the buyer so that the buyer can use the property for expanding its business, as collateral in taking new loans or, if necessary, to sell to another business. Every required procedure is included, whether it is the responsibility of the seller or the buyer or must be completed by a third party on their behalf. Local property lawyers and property registries provide information on required procedures as well as the time and cost to complete each of them.

To make the data comparable across countries, several assumptions about the business, the property and the procedures are used.

Assumptions about the business

The business:

- Is a limited liability company.
- Is located in a periurban area of the country's most populous city or the relevant cities for the sub-national data.
- Is 100% domestically and privately owned.
- Has 50 employees, all of whom are nationals.
- Performs general commercial activities.

Assumptions about the property

The property:

- Has a value of 50 times income per capita.
- Is fully owned by another domestic limited liability company.
- Has no mortgages attached and has been under the same ownership for the past 10 years.

- Is adequately measured and filed in the cadastre, registered in the land registry and free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.
- Consists of land and a building. The land area is 6,000 square feet (557.4 square meters). A 2-story warehouse of 10,000 square feet (929 square meters) is located on the land. The warehouse is 10 years old, is in good condition and complies with all safety standards, building codes and other legal requirements. The property of land and building will be transferred in its entirety.
- Will not be subject to renovations or additional building following the purchase.
- Has no trees, natural water sources, natural reserves or historical monuments of any kind.
- Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
- Has no occupants (legal or illegal), and no other party holds a legal interest in it.

Procedures

A procedure is defined as any interaction of the buyer or the seller, their agents (if an agent is legally or in practice required) or the property with external parties, including government agencies, inspectors, notaries and lawyers. Interactions between company officers and employees are not considered. All procedures that are legally or in practice required for registering property are recorded, even if they may be avoided in exceptional cases. It is assumed that the buyer follows the fastest legal option available and used by the general public. Although the business may use lawyers or other professionals where necessary in the registration process, it is assumed that it does not employ an outside facilitator in the registration process unless legally or in practice required to do so.

Time

Time is recorded in calendar days. The measure captures the median duration that property lawyers or registry officials indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day. It is assumed that the buyer does not waste time and commits to completing each remaining procedure without delay. If a procedure can be accelerated for an additional cost, the fastest legal procedure available and used by the general public is chosen. If procedures can be undertaken simultaneously, it is assumed that they are. It is assumed that the parties involved are aware of all regulations and their sequence from the beginning. Time spent on gathering information is not considered.

Cost

Cost is recorded as a percentage of the property value, assumed to be equivalent to 50 times income per capita. Only official costs required by law are recorded, including fees, transfer taxes, stamp duties and any other payment to the property registry, notaries, public agencies or lawyers. Other taxes, such as capital gains tax or value added tax, are excluded from the cost measure. If cost estimates differ among sources, the median reported value is used.

Getting credit

Doing Business constructs measures of the legal rights of borrowers and lenders and the sharing of credit information. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the coverage, scope, quality and accessibility of credit information available through public and private credit registries.

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. The data on credit information sharing are built in two stages. First, banking supervision authorities and public information sources are surveyed to confirm the presence of public credit registries and private credit information bureaus. Second, when applicable, a detailed survey on the public or private credit registry's structure, law and associated rules is administered to the credit registry. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. The survey data are confirmed through teleconference calls in most countries.

Strength of legal rights index

The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index includes 7 aspects related to legal rights in collateral law and 3 aspects in bankruptcy law. A score of 1 is assigned for each of the following features of the laws:

- General rather than specific description of assets is permitted in collateral agreements.
- General rather than specific description of debt is permitted in collateral agreements.

- Any legal or natural person may grant or take security in the property.
- A unified registry operates that includes charges over movable property.
- Secured creditors have priority outside of bankruptcy.
- Secured creditors, rather than other parties such as government or workers, are paid first out of the proceeds from liquidating a bankrupt firm.
- Secured creditors are able to seize their collateral when a debtor enters reorganization; there is no “automatic stay” or “asset freeze” imposed by the court.
- Management does not stay during reorganization. An administrator is responsible for managing the business during reorganization.
- Parties may agree on enforcement procedures by contract.
- Creditors may both seize and sell collateral out of court without restriction.

The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

Depth of credit information index

The depth of credit information index measures rules affecting the scope, accessibility and quality of credit information available through either public or private credit registries. A score of 1 is assigned for each of the following 6 features of the credit information system:

- Both positive (for example, amount of loan and on-time repayment pattern) and negative (for instance, number and amount of defaults, late payments, bankruptcies) credit information is distributed.
- Data on both firms and individuals are distributed.
- Data from retailers, trade creditors or utilities as well as financial institutions are distributed.

- More than 2 years of historical data are distributed.
- Data on loans above 1% of income per capita are distributed.
- By law, borrowers have the right to access their data.

The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. In Turkey, for example, both a public and a private registry operate. Both distribute positive and negative information (a score of 1). The private bureau distributes data only on individuals, but the public registry covers firms as well as individuals (a score of 1). The public and private registries share data among financial institutions only; no data are collected from retailers or utilities (a score of 0). The private bureau distributes more than 2 years of historical data (a score of 1). The public registry collects data only on loans of \$3,132 (66% of income per capita) or more, but the private bureau collects information on loans of any value (a score of 1). Borrowers have the right to access their data (a score of 1). Summing across the indicators gives Turkey a total score of 5.

Public credit registry coverage

The public credit registry coverage indicator reports the number of individuals and firms listed in a public credit registry with current information on repayment history, unpaid debts or credit outstanding. The number is expressed as a

percentage of the adult population. A public credit registry is defined as a database managed by the public sector, usually by the central bank or the superintendent of banks, that collects information on the creditworthiness of borrowers (persons or businesses) in the financial system and makes it available to financial institutions. If no public registry operates, the coverage value is 0.

Private credit bureau coverage

The private credit bureau coverage indicator reports the number of individuals or firms listed by a private credit bureau with current information on repayment history, unpaid debts or credit outstanding. The number is expressed as a percentage of the adult population. A private credit bureau is defined as a private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (persons or businesses) in the financial system and facilitates the exchange of credit information among banks and financial institutions. Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange between banks and other financial institutions are not considered. If no private bureau operates, the coverage value is 0.

This methodology was developed in Djankov, McLiesh and Shleifer (forthcoming) and is adopted here with minor changes.

Protecting investors

Doing Business measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protection: transparency of transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index). The data come from a survey of corporate lawyers and are based on company laws, court rules of evidence and securities regulations.

To make the data comparable across countries, several assumptions about the business and the transaction are used.

Assumptions about the business

The business (Buyer):

- Is a publicly traded corporation listed on the country's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the country, it is assumed that Buyer is a large private company with multiple shareholders.
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.

- Has only national shareholders.
- Has invested only in the country and has no subsidiaries or operations abroad.
- Is a food manufacturer.
- Has its own distribution network.

Assumptions about the transaction

- Mr. James is Buyer's controlling shareholder and a member of Buyer's board of directors. He owns 60% of Buyer and elected 2 directors to Buyer's 5-member board.
- Mr. James also owns 90% of Seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes to Buyer that it purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products. Buyer agrees. The price is equal to 10% of Buyer's assets and is higher than the market value.
- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made.
- The transaction is unfair to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

Extent of disclosure index

The extent of disclosure index has 5 components: (i) what corporate body can provide legally sufficient approval for the transaction (a score of 0 is assigned if it is the CEO or the managing director alone; 1 if the board of directors or shareholders must vote and Mr. James is permitted to vote; 2 if the board of directors must vote and Mr. James is not permitted to vote; 3 if shareholders must vote and Mr. James is not permitted to vote); (ii) whether immediate disclosure of the transaction to the public, the shareholders or both is required (a score of 0 is assigned if no disclosure is required; 1 if disclosure on the terms of the transaction but not Mr. James's conflict of interest is required; 2 if disclosure on both the terms and Mr. James's conflict of interest is required); (iii) whether disclosure in the annual report is required (a score of 0 is assigned if no disclosure on the transaction is required; 1 if disclosure on the terms of the transaction but not Mr. James's conflict of interest is required; 2 if disclosure on both the terms and Mr. James's conflict of interest is required); (iv) whether disclosure by Mr. James to the board of directors is required (a score of 0 is assigned if no disclosure is required; 1 if a general disclosure of the existence of a conflict of interest is required without any specifics; 2 if full disclosure of all material facts relating to Mr. James's interest in the Buyer-Seller transaction is required); and (v) whether it is required that an external body, for example, an external auditor, review the transaction before it takes place (a score of 0 is assigned if no; 1 if yes).

The index ranges from 0 to 10, with higher values indicating greater disclosure. In Poland, for example, the board of directors must approve the transaction and Mr. James is not allowed to vote (a score of 2). Buyer is required to disclose immediately all information affecting the stock price, including the conflict of interest (a score of 2). In its annual report Buyer must also disclose the terms of the transaction and Mr. James's ownership in Buyer and Seller (a score of 2). Before the transaction Mr. James must disclose his conflict of interest to the other directors, but he is not required to provide specific information about it (a score of 1). Poland does not require an external body to review the transaction (a score of 0). Adding these numbers gives Poland a score of 7 on the extent of disclosure index.

Extent of director liability index

The extent of director liability index measures (i) a shareholder plaintiff's ability to hold Mr. James liable for damage the Buyer-Seller transaction causes to the company (a score of 0 is assigned if Mr. James cannot be held liable or can be held liable only for fraud or bad faith; 1 if Mr. James can be held liable only if he influenced the approval of the transaction or was negligent; 2 if Mr. James can be held liable when the transaction was unfair or prejudicial to the other shareholders); (ii) a shareholder plaintiff's ability to hold the approving body (the CEO or board of directors) liable for

damage the transaction causes to the company (a score of 0 is assigned if the approving body cannot be held liable or can be held liable only for fraud or bad faith; 1 if the approving body can be held liable for negligence; 2 if the approving body can be held liable when the transaction is unfair or prejudicial to the other shareholders); (iii) whether a court can void the transaction upon a successful claim by a shareholder plaintiff (a score of 0 is assigned if rescission is unavailable or is available only in case of fraud or bad faith; 1 if rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 if rescission is available when the transaction is unfair or entails a conflict of interest); (iv) whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff (a score of 0 is assigned if no; 1 if yes); (v) whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff (a score of 0 is assigned if no; 1 if yes); (vi) whether fines and imprisonment can be applied against Mr. James (a score of 0 is assigned if no; 1 if yes); and (vii) shareholder plaintiffs' ability to sue directly or derivatively for damage the transaction causes to the company (a score of 0 is assigned if suits are unavailable or are available only for shareholders holding more than 10% of the company's share capital; 1 if direct or derivative suits are available for shareholders holding 10% or less of share capital).

The index ranges from 0 to 10, with higher values indicating greater liability of directors. To hold Mr. James liable in Panama, for example, a plaintiff must prove that Mr. James influenced the approving body or acted negligently (a score of 1). To hold the other directors liable, a plaintiff must prove that they acted negligently (a score of 1). The unfair transaction cannot be voided (a score of 0). If Mr. James is found liable, he must pay damages (a score of 1) but he is not required to disgorge his profits (a score of 0). Mr. James cannot be fined or imprisoned (a score of 0). Direct suits are available for shareholders holding 10% or less of share capital (a score of 1). Adding these numbers gives Panama a score of 4 on the extent of director liability index.

Ease of shareholder suits index

The ease of shareholder suits index measures (i) the range of documents available to the shareholder plaintiff from the defendant and witnesses during trial (a score of 1 is assigned for each of the following types of documents available: information that the defendant has indicated he intends to rely on for his defense; information that directly proves specific facts in the plaintiff's claim; any information relevant to the subject matter of the claim; and any information that may lead to the discovery of relevant information); (ii) whether the plaintiff can directly examine the defendant and witnesses during trial (a score of 0 is assigned if no; 1 if yes, with prior approval of the questions by the judge; 2 if yes, without prior approval); (iii) whether the plaintiff can obtain any documents from the defendant without identifying them specifically (a score of 0 is assigned if no; 1 if yes); (iv) whether shareholders owning

10% or less of the company's share capital can request that a government inspector investigate the Buyer-Seller transaction (a score of 0 is assigned if no; 1 if yes); (v) whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit (a score of 0 is assigned if no; 1 if yes); and (vi) whether the standard of proof for civil suits is lower than that for a criminal case (a score of 0 is assigned if no; 1 if yes).

The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction. In Greece, for example, the plaintiff can access documents that the defendant intends to rely on for his defense and that directly prove facts in the plaintiff's claim (a score of 2). The plaintiff can examine the defendant and witnesses during trial, though only with prior approval of the questions by the court (a score of 1). The plaintiff must specifically identify the documents being sought (for example, the Buyer-Seller purchase agreement of July 15, 2005) and cannot just request categories (for example, all documents related to the

transaction) (a score of 0). A shareholder holding 5% of Buyer's shares can request that a government inspector review suspected mismanagement by Mr. James and the CEO (a score of 1). And any shareholder can inspect the transaction documents before deciding whether to sue (a score of 1). The standard of proof for civil suits is the same as that for criminal suits (a score of 0). Adding these numbers gives Greece a score of 5 on the ease of shareholder suits index.

Strength of investor protection index

The strength of investor protection index is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index. The index ranges from 0 to 10, with higher values indicating better investor protection.

This methodology was developed in Djankov, La Porta, Lopez-de-Silanes and Shleifer (2005) and is adopted here with minor changes.

Paying taxes

Doing Business records the tax that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. Taxes are measured at all levels of government and include the profit or corporate income tax, social security contributions and labor taxes paid by the employer, property taxes, property transfer taxes, the dividend tax, the capital gains tax, the financial transactions tax, waste collection taxes and vehicle and road taxes.

To measure the tax paid by a standardized business and the complexity of a country's tax law, a case study is prepared with a set of financial statements and assumptions about transactions made over the year. Experts in each country compute the taxes owed in their jurisdiction based on the standardized case facts. Information on the frequency of filing, audits and other costs of compliance is also compiled. The project was developed and implemented in cooperation with PricewaterhouseCoopers.

To make the data comparable across countries, several assumptions about the business and the taxes are used.

Assumptions about the business

The business:

- Is a limited liability, taxable company. If there is more than one type of limited liability company in the country, the limited liability form most popular among domestic firms is chosen. Incorporation lawyers or the statistical office report the most popular form.
- Started operations on January 1, 2004. At that time the company purchased all the assets shown in its balance sheet and hired all its workers.
- Operates in the country's most populous city or the relevant cities for the sub-national data.

- Is 100% domestically owned and has 5 owners, all of whom are natural persons.
- Has a start-up capital of 102 times income per capita at the end of 2004.
- Performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco.
- Owns 2 plots of land, 1 building, machinery, office equipment, computers and 1 truck and leases another truck.
- Does not qualify for investment incentives or any special benefits apart from those related to the age or size of the company.
- Has 60 employees—4 managers, 8 assistants and 48 workers. All are nationals, and 1 of the managers is also an owner.
- Has a turnover of 1,050 times income per capita.
- Makes a loss in the first year of operation.
- Has the same gross margin (pre-tax) across all economies.
- Distributes 50% of its profits as dividends to the owners at the end of the second year.
- Sells one of its plots of land at a profit during the second year.
- Is subject to a series of detailed assumptions on expenses and transactions to further standardize the case.

Assumptions about the taxes

- All the taxes paid or withheld in the second year of operation are recorded. A tax is considered distinct if it has a different name or is collected by a different agency. Taxes with the same name and agency, but charged at different rates depending on the business, are counted as the same tax.

- The number of times the company pays or withholds taxes in a year is the number of different taxes multiplied by the frequency of payment (or withholding) for each tax. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).

Tax payments

The tax payments indicator reflects the total number of taxes paid, the method of payment, the frequency of payment and the number of agencies involved for this standardized case during the second year of operation. It includes payments made by the company on consumption taxes, such as sales tax or value added tax. These taxes are traditionally withheld on behalf of the consumer. The number of payments takes into account electronic filing. Where full electronic filing is allowed, the tax is counted as paid once a year even if the payment is more frequent.

Time

Time is recorded in hours per year. The indicator measures the time to prepare, file and pay (or withhold) three major types of taxes: the corporate income tax, value added or sales tax and labor taxes, including payroll taxes and social security contributions. Preparation time includes the time to collect all information necessary to compute the tax payable. If separate accounting books must be kept for tax purposes—or separate calculations must be made for tax purposes—the time associated with these processes is included. Filing time includes the time to complete all necessary tax forms and make all necessary calculations. Payment time is the hours needed to make the payment online or at the tax office. When taxes are paid in person, the time includes delays while waiting.

Trading across borders

Doing Business compiles procedural requirements for exporting and importing a standardized cargo of goods. Every official procedure for exporting and importing the goods is recorded—from the contractual agreement between the two parties to the delivery of goods—along with the time and cost necessary for completion. All documents required for clearance of the goods across the border are also recorded. For exporting goods, procedures range from packing the goods at the factory to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the factory warehouse.

Local freight forwarders, shipping lines, customs brokers and port officials provide information on required documents and cost as well as the time to complete each procedure. To make the data comparable across countries, several assumptions about the business and the traded goods are used.

Total tax rate

The total tax rate measures the amount of taxes payable by the business in the second year of operation, expressed as a share of commercial profits. *Doing Business 2007* reports tax rates for fiscal year 2005. The total amount of taxes is the sum of all the different taxes payable after accounting for deductions and exemptions. The taxes withheld (such as sales tax or value added tax) but not paid by the company are excluded. The taxes included can be divided into five categories: profit or corporate income tax, social security contributions and other labor taxes paid by the employer, property taxes, turnover taxes and other small taxes (such as municipal fees and vehicle and fuel taxes).

Commercial profits are defined as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other deductible expenses, minus deductible provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses.

The methodology is consistent with the total tax calculation applied by PricewaterhouseCoopers.

This methodology was developed in "Tax Burdens around the World," an ongoing research project by Simeon Djankov, Caralee McLiesh, Rita Ramalho and Andrei Shleifer.

Assumptions about the business

The business:

- Has 200 or more employees.
- Is located in the country's most populous city or the relevant cities for the sub-national data.
- Is a private, limited liability company. It does not operate within an export processing zone or an industrial estate with special export or import privileges.
- Is domestically owned with no foreign ownership.
- Exports more than 10% of its sales.
- Uses the nearest or most convenient port in the relevant cities.

Assumptions about the traded goods

The traded product travels in a dry-cargo, 20-foot, full container load. The product:

- Is not hazardous nor does it include military items.
- Does not require refrigeration or any other special environment.

- Does not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Falls under one of the following Standard International Trade Classification (SITC) Revision categories:
 - SITC 65: textile yarn, fabrics and made-up articles.
 - SITC 84: articles of apparel and clothing accessories.
 - SITC 07: coffee, tea, cocoa, spices and manufactures thereof.

Documents

All documents required to export and import the goods are recorded. It is assumed that the contract has already been agreed upon and signed by both parties. Documents include bank documents, customs declaration and clearance documents, port filing documents, import licenses and other official documents exchanged between the concerned parties. Documents filed simultaneously are considered different documents but with the same time frame for completion.

Enforcing contracts

Indicators on enforcing contracts measure the efficiency of the judicial system in resolving a commercial dispute. The data are built by following the step-by-step evolution of a payment dispute before local courts. The data are collected through study of the codes of civil procedure and other court regulations as well as surveys completed by local litigation lawyers (and, in a quarter of the countries, by judges as well).

Assumptions about the case

- The value of the claim equals 200% of the country's income per capita.
- The plaintiff has fully complied with the contract (that is, the plaintiff is 100% right).
- The case represents a lawful transaction between businesses located in the country's most populous city or the relevant cities for the sub-national data.
- The plaintiff files a lawsuit to enforce the contract.
- A court in the most populous city or the relevant cities for the sub-national data decides the dispute.
- The defendant attempts to delay service of process but it is finally accomplished.
- The defendant opposes the complaint (default judgment is not an option) on the grounds that the delivered goods were not of adequate quality.
- The plaintiff introduces documentary evidence and calls one witness. The defendant calls one witness. Neither party presents objections.
- The judgment is in favor of the plaintiff and the defendant does not appeal the judgment.

Time

Time is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost, the fastest legal procedure is chosen. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous for the purpose of measuring time. The waiting time between procedures (for example, during unloading of the cargo) is included in the measure.

Cost

Cost is recorded as the fees levied on a 20-foot container in United States dollars. All the fees associated with completing the procedures to export or import the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or trade taxes. Only official costs are recorded.

- The plaintiff takes all required steps for prompt enforcement of the judgment. The debt is successfully collected through sale of the defendant's movable assets (such as a vehicle) at a public auction.

Procedures

A procedure is defined as any interaction mandated by law or court regulation between the parties, or between them and the judge (or administrator) or court officer. This includes steps to file the case, steps for trial and judgment and steps necessary to enforce the judgment.

Time

Time is recorded in calendar days, counted from the moment the plaintiff files the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods between actions. The respondents make separate estimates of the average duration of different stages of dispute resolution: the completion of service of process (time to file the case), the issuance of judgment (time for the trial) and the moment of payment (time for enforcement).

Cost

Cost is recorded as a percentage of the claim, assumed to be equivalent to 200% of income per capita. Only official costs required by law are recorded, including court costs and average attorney fees where the use of attorneys is mandatory or common.

This methodology was developed in Djankov and others (2003) and is adopted here with minor changes.

Closing a business

Doing Business studies the time, cost and outcomes of bankruptcy proceedings involving domestic entities. The data are derived from survey responses by local insolvency lawyers and verified through a study of laws and regulations as well as public information on bankruptcy systems.

To make the data comparable across countries, several assumptions about the business and the case are used.

Assumptions about the business

The business:

- Is a limited liability company.
- Operates in the country's most populous city or the relevant cities for the sub-national data.
- Is 100% domestically owned, with the founder, who is also the chairman of the supervisory board, owning 51% (no other shareholder holds more than 5% of shares).
- Has downtown real estate, where it runs a hotel, as its major asset.
- Has a professional general manager.
- Has had average annual revenue of 1,000 times income per capita over the past 3 years.
- Has 201 employees and 50 suppliers, each of whom is owed money for the last delivery.
- Borrowed from a domestic bank 5 years ago (the loan has 10 years to full repayment) and bought real estate (the hotel building), using it as security for the bank loan.
- Has observed the payment schedule and all other conditions of the loan up to now.
- Has a mortgage, with the value of the mortgage principal being exactly equal to the market value of the hotel.

Assumptions about the case

- The business is experiencing liquidity problems. The company's loss in 2005 reduced its net worth to a negative figure. There is no cash to pay the bank interest or principal in full, due tomorrow. Therefore, the business defaults on its loan. Management believes that losses will be incurred in 2007 and 2008 as well.
- The bank holds a floating charge against the hotel in countries where floating charges are possible. If the law does not permit a floating charge but contracts commonly use some other provision to that effect, this provision is specified in the lending contract.
- The business has too many creditors to renegotiate out of court. It has the following options: a procedure aimed at rehabilitation or any procedure that will reorganize the business to permit further operation; a procedure aimed at liquidation; or a procedure aimed at selling the hotel, as a going concern or piecemeal, enforced either through court (or by a government authority like a debt collection agency) or out of court (receivership).

Time

Time is recorded in calendar years. It captures the estimated duration required to complete a bankruptcy. Information is collected on the sequence of the bankruptcy procedures and on whether any procedures can be carried out simultaneously. Delays due to legal derailment tactics that parties to the bankruptcy may use—in particular, the extension of response periods or appeals—are considered.

Cost

The cost of the bankruptcy proceedings is recorded as a percentage of the estate's value. The cost is calculated on the basis of survey responses by practicing insolvency lawyers. If several respondents report different estimates, the median reported value is used. Only official costs are recorded, including court costs as well as fees of insolvency practitioners, independent assessors, lawyers and accountants. The cost figures are averages of the estimates on a multiple-choice question, where the respondents choose among the following options: 0–2%, 3–5%, 6–8%, 9–10%, 11–18%, 19–25%, 26–33%, 34–50%, 51–75% and more than 75% of the estate value of the bankrupt business.

Recovery rate

The recovery rate is recorded as cents on the dollar recovered by claimants—creditors, tax authorities and employees—through the bankruptcy proceedings. The calculation takes into account whether the business is kept as a going concern during the proceedings, as well as bankruptcy costs and the loss in value due to the time spent closing down. If the business keeps operating, no value is lost on the initial claim, set at 100 cents on the dollar. If it does not, the initial 100 cents on the dollar are reduced to 70 cents on the dollar. Then the official costs of the insolvency procedure are deducted (1 cent for each percentage of the initial value). Finally, the value lost as a result of the time that the money remains tied up in insolvency procedures is taken into account, including the loss of value due to depreciation of the hotel furniture. Consistent with international accounting practice, the depreciation rate for furniture is taken to be 20%. The furniture is assumed to account for a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, based on end-2005 lending rates from the International Monetary Fund's *International Financial Statistics*, supplemented with data from central banks.

This methodology was developed in "Efficiency in Bankruptcy," an ongoing research project by Simeon Djankov, Oliver Hart, Caralee McLiesh and Andrei Shleifer.

Ease of doing business

The ease of doing business index ranks economies from 1 to 175. The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered in *Doing Business 2007*. The ranking on each topic is the simple average of the percentile rankings on its component indicators (table 12.1).

One example: The ranking on starting a business is the average of the country percentile rankings on the procedures, time, cost and paid-in minimum capital requirement to register a business. 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 16% of income per capita. On these 4 indicators Iceland ranks in the 7th, 1st, 8th and 48th percentiles. So on average, Iceland ranks in the 18th percentile on the ease of starting a business. It ranks in the 55th percentile on protecting investors, 18th percentile on trading across borders, 10th percentile on enforcing contracts, 7th percentile on closing a business and so on. Higher ranks indicate simpler regulation and stronger protections of property rights. The simple average of Iceland's percentile rankings on all topics is 20%. When all countries are ordered by their average percentile rank, Iceland is in 12th place.

Each indicator set studies a different aspect of the business environment. Country rankings vary, sometimes significantly, across indicator sets. For example, Iceland ranks in the 7th percentile on closing a business, its highest ranking, and in the 55th percentile on protecting investors, its lowest. This points to priorities for reform: Protecting investors is one place to start in further improving business conditions in Iceland. Across all 175 economies the average correlation coefficient between the 10 sets of indicators is 0.39, and the coefficients between any 2 sets of indicators range from 0.16 (between employing workers and trading across borders) to 0.66 (between closing a business and enforcing contracts). The low correlations suggest that countries rarely score universally well or universally badly on the indicators. In other

words, there is much room for partial reform.

When an economy has no laws or regulations covering a specific area—for example bankruptcy—it receives a "no practice" mark. Similarly, if regulation exists but is never used in practice, or if a competing regulation prohibits such practice, the economy receives a "no practice" mark. This puts it at the bottom of the ranking.

The ease of doing business index is limited in scope. It does not account for a country's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders), 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 country context. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

Doing Business 2007 uses a simple method to calculate the top reformers (table 1.1). First, it selects the economies that reformed three or more of the ten *Doing Business* topics (table 12.2). This year, 23 economies met this criterion: Armenia, Australia, Bulgaria, China, Croatia, Czech Republic, El Salvador, France, Georgia, Ghana, Guatemala, India, Israel, Latvia, Lithuania, Mexico, Morocco, Nicaragua, Nigeria, Peru, Romania, Rwanda and Tanzania. Second, these selected economies are ranked on the increase in the rank in the ease of doing business from the previous year. For example, Croatia, Mexico, and Nicaragua reformed in 3 aspects of business regulation each. But Croatia's rank improved from 134 to 124, Mexico's rank improved from 62 to 43 and Nicaragua's improved from 72 to 67. These represent a 10 place, 19 place and 5 place improvement in rankings, respectively. Mexico therefore ranks ahead of Croatia in the top 10 reformers list; Nicaragua doesn't make it.

This methodology was developed in Djankov, McLiesh and Ramalho (forthcoming) and adopted with minor changes here.

TABLE 12.1

Which indicators make up the ranking?

Starting a business

Procedures, time, cost and paid-in minimum capital to open a new business

Dealing with licenses

Procedures, time and cost of business inspections and licensing (construction industry)

Employing workers

Difficulty of hiring index, rigidity of hours index, difficulty of firing index and firing cost

Registering property

Procedures, time and cost to register commercial real estate

Getting credit

Strength of legal rights index, depth of credit information index

Protecting investors

Indices of the extent of disclosure, extent of director liability and ease of shareholder suits

Paying taxes

Number of tax payments, time to prepare tax returns and total taxes as a share of commercial profits

Trading across borders

Documents, time and cost to export and import

Enforcing contracts

Procedures, time and cost to resolve a commercial dispute

Closing a business

Recovery rate in bankruptcy

TABLE 12.2

■ Positive reform
● Negative reform

Economy	REFORMS IN 2005/06									
	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Afghanistan										
Albania							■			
Algeria					■		■			
Angola										
Antigua and Barbuda	■						■			
Argentina			■							
Armenia	■	■		■	■					
Australia			■	■					■	
Austria										
Azerbaijan	■				■					
Bangladesh										
Belarus	■				●		■			
Belgium	■									
Belize										
Benin	■									
Bhutan										
Bolivia			●							
Bosnia and Herzegovina				■			■			
Botswana				■						
Brazil									■	
Bulgaria	■				■		■			
Burkina Faso	■									
Burundi									■	■
Cambodia		■						■		
Cameroon										
Canada		■								
Cape Verde										
Central African Republic				■			●			
Chad									■	
Chile										■
China	■				■	■		■		
Colombia						■		■		
Comoros										
Congo, Dem. Rep.										
Congo, Rep.										
Costa Rica										
Côte d'Ivoire				■						
Croatia	■			■					■	
Czech Republic	■				■		■			
Denmark					■				■	
Djibouti			●							
Dominica										
Dominican Republic					■		●		■	
Ecuador										
Egypt	■						■			
El Salvador	■			■	■					
Equatorial Guinea										
Eritrea		●								
Estonia							■		■	
Ethiopia	■									
Fiji										
Finland										
France		■			■			■	■	■
Gabon										
Gambia									■	
Georgia	■	■	■		■			■	■	
Germany		■				■				
Ghana				■			■	■		
Greece			■	■						

Economy	REFORMS IN 2005/06									
	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Grenada										
Guatemala	■	■		■						
Guinea										
Guinea-Bissau							■			
Guyana									■	
Haiti										
Honduras	■				■					
Hong Kong, China						■		■		
Hungary					●		■			
Iceland										
India	■				■	■	■	■		
Indonesia	■									
Iran										
Iraq										
Ireland	■									
Israel					■	■	■			
Italy									■	■
Jamaica								■		
Japan	■				■					
Jordan								■		
Kazakhstan					■					
Kenya		■						■		
Kiribati										
Korea		■								■
Kuwait				■						
Kyrgyz Republic				■	■					
Lao PDR	■				■					
Latvia		■					■			■
Lebanon										
Lesotho	■						■			
Lithuania	■		■				■			
FYR Macedonia	■		■	●					■	
Madagascar	■									
Malawi										
Malaysia										
Maldives			●							
Mali		■		■						
Marshall Islands										
Mauritania				■						
Mauritius				■	■					
Mexico	■					■	■			
Micronesia	■									■
Moldova		■					■			
Mongolia										
Montenegro							■			
Morocco	■			■			■			
Mozambique	■									
Namibia										
Nepal										
Netherlands	■									
New Zealand		●				■				
Nicaragua				■	■			■		
Niger	■	■								
Nigeria				■				■	■	
Norway			●							
Oman										
Pakistan							■	■		
Palau	●									
Panama					■					

Economy	REFORMS IN 2005/06									
	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Papua New Guinea										
Paraguay							■			
Peru	■				■	■			■	●
Philippines										
Poland						■				
Portugal	■									
Puerto Rico										■
Romania		■	■		■	■		■		■
Russia	■						■			
Rwanda	■						■		■	
Samoa										
São Tomé and Príncipe										
Saudi Arabia	■									
Senegal							■			
Serbia			●		■			■		■
Seychelles				■						
Sierra Leone							■			
Singapore										
Slovakia								■		■
Slovenia										
Solomon Islands										
South Africa				■						
Spain		■		■						
Sri Lanka							●			
St. Kitts and Nevis										
St. Lucia										
St. Vincent and the Grenadines										
Sudan							■			
Suriname										
Swaziland	●			■						
Sweden						■				
Switzerland	■						■			
Syria	■							■		
Taiwan, China										
Tajikistan										
Tanzania	■			■		■		■		
Thailand					■					
Timor-Leste		●								
Togo				●				■		
Tonga										
Trinidad and Tobago										
Tunisia						■				
Turkey							■			
Uganda	■			●						
Ukraine	■	■								
United Arab Emirates										
United Kingdom						■				
United States										■
Uruguay	■				■					
Uzbekistan										●
Vanuatu										
Venezuela				●	●			●		
Vietnam		■	■							
West Bank and Gaza										
Yemen							■			
Zambia										
Zimbabwe			●							

Acknowledgments

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