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**Doing Business
in South Asia
in 2014**

Removing Obstacles to Growth



Doing Business in South Asia in 2005

Removing Obstacles to Growth

A copublication of the World Bank and the International Finance Corporation





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Doing Business in South Asia is the first regional extension of the Doing Business series. *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 of the region and over time, together with global best practices. For the first time, *Doing Business in South Asia* also adds within country analysis for selected regions in India and Pakistan. *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 updates these measures and adds another two sets: registering property and protecting investors. The indicators are used to analyze economic and social outcomes, such as productivity, investment, informality, corruption, unemployment, and poverty, and identify what reforms have worked, where and why.

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Removing obstacles to growth: an overview

What are the findings?

What to reform?

Which myths to dispel?

What to expect next?

The past year has been good for doing business in 58 of the 145 *Doing Business* sample countries. They simplified some aspect of business regulations, strengthened property rights or made it easier for businesses to raise financing. Slovakia was the leading reformer: introducing flexible working hours, easing the hiring of first-time workers, opening a private credit registry, cutting the time to start a business in half and, thanks to a new collateral law, reducing the time to recover debt by three-quarters. Colombia was the runner-up. Among the top 10 reformers, 2 other European Union entrants—Lithuania and Poland—significantly lightened the burden on businesses. India made progress in improving credit markets. Five other European countries—Belgium, Finland, Norway, Portugal, and Spain—reduced the cost of doing business and entered the top 10 list (table 1.1).

The major impetus for reform in 2003 was competition in the enlarged European Union. Seven of the top 10 reformers were incumbent or new European Union members. Thirty-six of 89 reforms—in starting a business, hiring and firing workers, enforcing a contract, getting credit and closing a business (topics in *Doing Business in 2004* and *2005*)—happened in EU countries. Reforms in registering property and protecting investors (new topics in *Doing Business in 2005*) are also taking place fast in the EU. Accession countries reformed ahead of the competitive pressures on their businesses in the larger European market. Incumbent members reformed to maintain their advantage in the presence of many low-wage producers from accession countries, producers that would now compete with them on equal terms.

Yet progress was uneven. Fewer than a third of poor countries reformed¹. And those reformers concentrated on simplifying business entry and establishing or improving credit information systems (figure 1.1). Almost no reforms took place in making it easier to hire and fire workers or in closing down unviable businesses. Across regions, African countries reformed the least.

Many of the reforms in poor countries were spurred by the desire of governments and donors to quantify the impact of aid programs (figure 1.2). The main success story is that business start-up is now easier in borrowers from the International Development Association (IDA)—encouraged by performance targets set in the 13th IDA funding round and by the Millennium

TABLE 1.1
Top 10 reformers in 2003
Reforms affecting *Doing Business* indicators on:

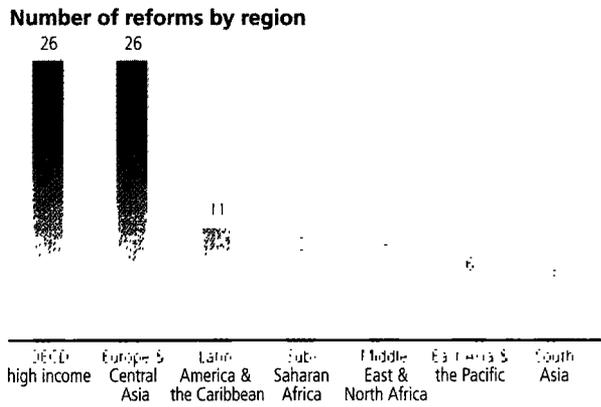
Country	Starting a business	Hiring and firing	Enforcing contracts	Getting credit	Closing a business
Slovakia	✓	✓	✓	✓	
Colombia	✓	✓	✓		
Belgium	✓	✓		✓	
Finland	✓		✓		✓
India			✓	✓	✓
Lithuania	✓		✓		✓
Norway		✓	✓		
Poland	✓	✓			✓
Portugal		✓	✓	✓	
Spain	✓			✓	✓

Note: The table identifies all reforms that took place in 2003 and had a measurable effect on the indicators constructed in this report. Countries are listed alphabetically, with the exception of Slovakia, the leading reformer, and Colombia, the runner-up.

Source: *Doing Business* database.

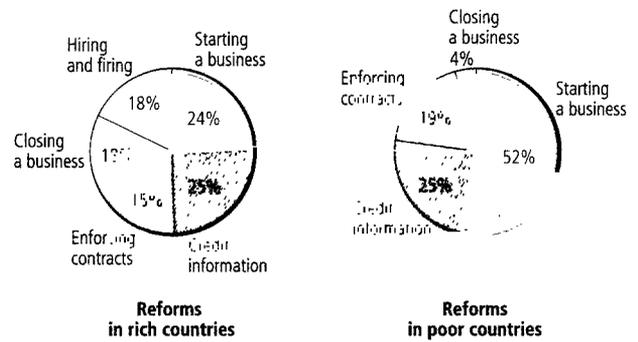
FIGURE 1.1

More reforms in rich countries



Note: Reforms affecting *Doing Business* indicators.
Source: *Doing Business* database.

What was reformed
Shares of reforms by topic



Challenge Account, an initiative of the United States government.² Measuring the initial burdens and the progress with reforms also spurred reforms in the European Union, labor reform in Colombia and bankruptcy reform in India.

Lithuania and Slovakia broke into the list of the 20 economies with the best business conditions as measured in this year's report.³ New Zealand tops the list, followed by the United States, Singapore, Hong Kong (China) and Australia (table 1.2). Among developing countries, Botswana and Thailand scored best. Latvia, Chile, Malaysia, the Czech Republic, Estonia, South Africa, Tunisia and Jamaica follow. At the other end of the spectrum, 20 poor countries—four-fifths of them in sub-Saharan Africa—make up the list of economies with the most difficult business conditions. The list may change somewhat next year because of reforms and because new topics will be added to the rankings.

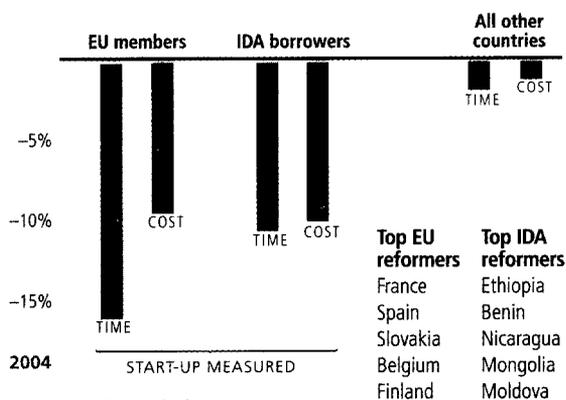
Being in the top 20 on the ease of doing business does not mean zero regulation. Few would argue it's every business for itself in New Zealand, that workers are abused in Norway or that creditors seize a debtor's assets without a fair process in the Netherlands. Indeed, for protecting property rights, more regulation is needed to make the top 20 list.

All the top countries regulate, but they do so in less costly and burdensome ways. And they focus their efforts more on protecting property rights than governments in other countries. If Australia needs only 2 procedures to start a business, why have 15 in Bolivia and 19 in Chad? If it takes 15 procedures to enforce a contract in Denmark, why have 53 in Lao PDR? If it takes 1 procedure to register property in Norway, why have 16 procedures in Algeria? And if laws require all 7 main types of disclosure to protect equity investors in Canada, why do those in Cambodia and Honduras provide none?

FIGURE 1.2

What gets measured gets done

Reduction in time and cost for business start-up, 2003–04



Source: *Doing Business* database.

TABLE 1.2

Top 20 economies on the ease of doing business

1	New Zealand	11	Switzerland
2	United States	12	Denmark
3	Singapore	13	Netherlands
4	Hong Kong, China	14	Finland
5	Australia	15	Ireland
6	Norway	16	Belgium
7	United Kingdom	17	Lithuania
8	Canada	18	Slovakia
9	Sweden	19	Botswana
10	Japan	20	Thailand

Note: The ease of doing business measure is a simple average of the country's ranking in each of the 7 areas of business regulation and property rights protection measured in *Doing Business in 2005*.

Source: *Doing Business* database.

What are the findings?

The analysis leads to 3 main findings:

- Businesses in poor countries face much larger regulatory burdens than those in rich countries. They face 3 times the administrative costs, and nearly twice as many bureaucratic procedures and delays associated with them. And they have fewer than half the protections of property rights of rich countries.
- Heavy regulation and weak property rights exclude the poor from doing business. In poor countries 40% of the economy is informal. Women, young and low-skilled workers are hurt the most.
- The payoffs from reform appear large. A hypothetical improvement to the top quartile of countries on the ease of doing business is associated with up to 2 percentage points more annual economic growth.

Businesses in poor countries face much larger regulatory burdens than those in rich countries

It takes 153 days to start a business in Maputo, but 2 days in Toronto. It costs \$2,042 or 126% of the debt value to enforce a contract in Jakarta, but \$1,300 or 5.4% of the debt value to do so in Seoul. It takes 21 procedures to register commercial property in Abuja, but 3 procedures in Helsinki. If a debtor becomes insolvent and enters bankruptcy, creditors would get 13 cents on the dollar in Mumbai, but more than 90 cents in Tokyo. Borrowers and lenders are entitled to 10 main types of legal rights in Singapore, but only 2 in Yemen.

These differences persist across the world: the countries that most need entrepreneurs to create jobs and

boost growth—poor countries—put the most obstacles in their way (figure 1.3). The average difference between poor and rich countries on *Doing Business* cost indicators is threefold. Rich countries score twice poor ones on indicators relating to property rights—enforcing contracts, protecting investors and legal rights of borrowers and lenders. Latin American countries have very high regulatory obstacles to doing business. But African countries are even worse—and African countries reformed the least in 2003.

Heavy regulation and weak property rights exclude the poor from doing business

In *The Mystery of Capital*, Hernando de Soto exposed the damaging effects of heavy business regulation and weak property rights. With burdensome entry regulations, few businesses bother to register. Instead, they choose to operate in the informal economy. Facing high transaction costs to get formal property title, many would-be entrepreneurs own informal assets that cannot be used as collateral to obtain loans. De Soto calls this “dead capital.” The solution: simplify business entry and get titles to property.

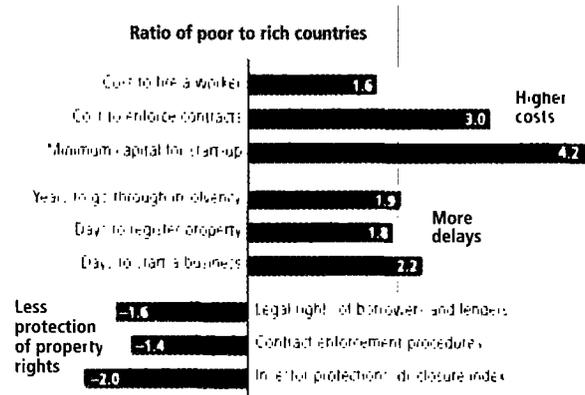
But many titling programs aimed at bringing assets into the formal sector have not had the lasting impact that reformers hoped for. *Doing Business in 2005* helps explain why. While it is critical to encourage registration of assets, it is as important—and harder—to stop them from slipping back into the informal sector and to use their formal status to gain access to credit.

Registering property—a new topic in this year’s report—explains that when formalizing property rights is accompanied by improvements in the land registry, collateral registry, the courts, and employment regulation, the benefits are much greater. If the formal cost of selling the property is high, titles will lapse by being traded informally. In Nigeria and Senegal that cost amounts to about 30% of the property value. And even when a formal title is well-established, it will not help to increase access to credit if courts are inefficient, collateral laws are poor and there are no credit information systems, because no one would be willing to lend. Add to this rigid employment regulation, and few people will be hired. Women, young and low-skilled workers are hurt the most: their only choice is to seek jobs in the informal sector (figure 1.4).

Two examples. Nerma operates a small laboratory in Istanbul. She feels strongly about providing job op-

FIGURE 1.3

More regulatory obstacles in poor countries

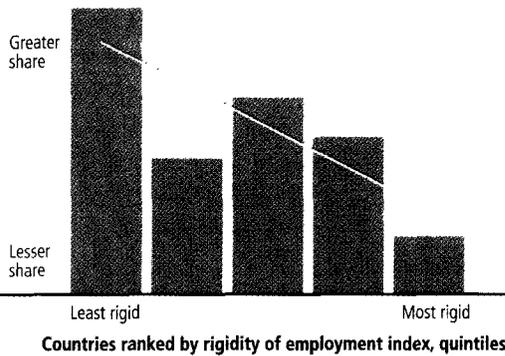


Source: *Doing business* database.

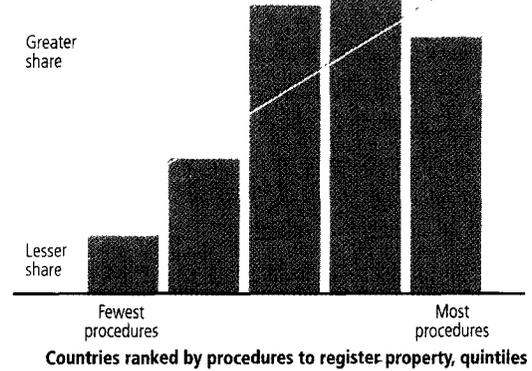
FIGURE 1.4

Complex regulations exclude the disadvantaged from doing business

Women's share of private sector employment



Informal sector share of GDP



Note: Relationships are significant at the 5% level, controlling for income per capita. Source: *Doing Business* database, World Bank (2004a), WEF (2004).

opportunities for women but says employment legislation discourages it. When women marry they are given a year to decide whether to leave their job and if they choose to go, the employer is required to pay a severance payment based on years of service. And, if the business experiences a drop in demand, it costs the employer the equivalent of 112 weeks salary to dismiss a redundant worker. With such rigid regulation, employers choose conservatively. Only 16% of Turkish women are formally employed.

Rafael runs a trading business in Guatemala. A large customer refuses to pay for equipment delivered 2 months earlier. It would take more than 4 years to resolve the commercial dispute in the courts and even then the outcome is uncertain. Rafael has no choice but to negotiate with the customer and ends up getting only a third of the amount due. With no money to pay his taxes, Rafael closes the business and goes informal. He is not alone. More than half of economic activity in Guatemala is in the informal sector.

Payoffs from reform appear large

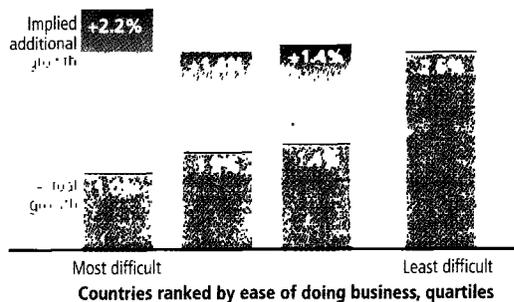
A hypothetical improvement on all aspects of the *Doing Business* indicators to reach the level of the top quartile of countries is associated with an estimated 1.4 to 2.2 percentage points in annual economic growth (figure 1.5).⁴ This is after controlling for other factors, such as income, government expenditure, investment, education, inflation, conflict and geographic regions. In contrast, improving to the level of the top quartile of countries on macroeconomic and education indicators is associated with 0.4 to 1.0 additional percentage points in growth.

How significant is the impact of regulatory reform? Very. Only 24 of the 85 poor countries averaged at least 2% growth in the last 10 years. China, the most prominent among the 24, scores higher on the ease of doing business than Argentina, Brazil, Indonesia or Turkey.

FIGURE 1.5

Ease of doing business is associated with more growth

Additional annual growth from a hypothetical improvement to the top quartile on the ease of doing business

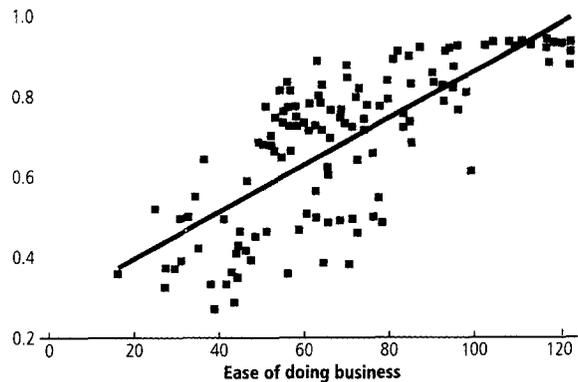


Note: Analysis controls for income, government expenditure, primary and secondary enrollment, inflation, investment, regions and civil conflict. Relationships are significant at the 5% level. Source: *Doing Business* database, Djankov, McLiesh and Ramalho (2004).

FIGURE 1.6

Simpler business regulation, more human development

Human development index



Source: *Doing Business* database, UNDP (2004).

Economic growth is only one benefit of better business regulation and property protection. Human development indicators are higher as well (figure 1.6). Governments can use revenues to improve their health and education systems, rather than support an overblown bureaucracy.

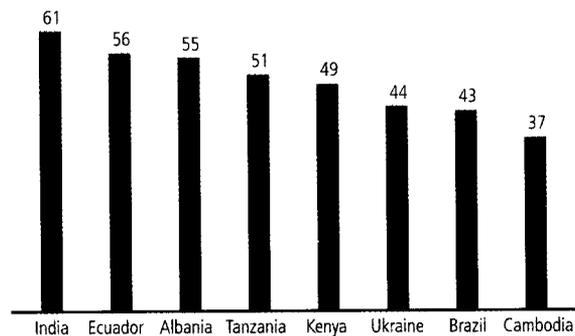
The gains come from two sources. First, businesses spend less time and money on dealing with regulations and chasing after scarce sources of finance (figure 1.7). Instead, they spend their energies on producing and marketing their goods. Second, the government spends fewer resources regulating and more providing basic social services. Sweden, a top 10 country on the ease of doing business, spends \$7 billion a year or 8% of the government budget, and employs an estimated 100,000 government officials to deal with business regulations.⁵ The United Kingdom spends \$56 billion a year, or nearly 10% of the budget, to administer business regulation.⁶ The Netherlands spends \$22 billion or 11% of its budget. Belgium, \$10 billion. Norway, \$6 billion.⁷ In both countries, this amounts to about 9% of government spending.

What would happen if these countries were to reduce red tape by a moderate 15%? The savings would amount to between 1.2% and 1.8% of total government expenditures, or approximately half of the public health

FIGURE 1.7

High costs of dealing with business regulation

Percentage of firms reporting that government regulations occupy 10% or more of senior management time



Source: World Bank investment climate assessments.

budget. Some governments are more ambitious. In 2002 the Dutch government set a goal of cutting expenditures on administrative burdens by 25% by 2006. Actal, an independent agency for cutting red tape, estimates that \$2 billion has already been saved by doing impact assessments before new regulations reach the parliament. The Belgian government has set the same 25% reduction as a goal. Denmark, France, Italy and Norway have also set quantitative goals for reducing red tape.

What to reform?

The benefits of regulatory reform are likely to be even greater in developing countries, which regulate more. Yet few governments are eager to reform, arguing that they have limited capacity, that it takes a long time and that it costs a lot. In 2003 countries that scored the lowest on the ease of doing business measure reformed at one third the rate of countries in the top quartile.

Reform involves simplification. Governments would have more capacity and more money if they reformed. With so many examples of good practice to learn from, there is no reason to wait (table 1.3).

Imagine Namibia wants to be among the best in regulating business entry. A delegation from the company registrar's office could visit Australia, Canada or New Zealand and see how the process works there. To learn how reforms take place, it could travel to Serbia and Montenegro, which just passed legislation to move registration out of the courts—and to Italy, which made the entry process much easier by establishing a single

access point. Or one could visit countries nearby—Botswana, South Africa and Uganda all have well-functioning business entry. The same approach could be followed for reforms of regulations of labor, credit, property, corporate governance, courts and bankruptcy.

To prioritize reform, governments can start by measuring regulatory costs and identifying the biggest opportunities for improvement. Belgium did so by introducing an annual survey of enterprises on the main regulatory obstacles they face. A total of 2,600 businesses participate in the survey, and the results are reported to the parliament. The process identified problems in company registration—a main reason for the 2003 reform—and in business licensing, where reform is ongoing. Actal, the independent agency in the Dutch government, performs cost-benefit analysis of regulatory proposals. Along with similar agencies in Denmark and Korea, it is among the best in measuring and reducing red tape. There are success stories in developing countries too. In Mozambique and Vietnam, the government regularly seeks advice from the business community on priorities for reform.

TABLE 1.3
Simple solutions and where they have worked

Principles of good regulation	
Starting a business	<ul style="list-style-type: none"> • Registration as an administrative process CANADA, CHILE, ITALY, SERBIA AND MONTENEGRO • Use of single identification number BELGIUM, ESTONIA, MOROCCO, TURKEY • No minimum capital requirement BOTSWANA, IRELAND, TANZANIA, THAILAND • Electronic application made possible LATVIA, MOLDOVA, SWEDEN, VIETNAM
Hiring and firing workers	<ul style="list-style-type: none"> • Long duration of fixed-term contracts AUSTRIA, COSTA RICA, DENMARK, MALAYSIA • Apprentice wages for young workers CHILE, ECUADOR, FINLAND, TUNISIA • Redundancy as grounds for dismissal ARMENIA, BOTSWANA, LEBANON, RUSSIA • Moderate severance pay for redundancy FINLAND, MADAGASCAR, NAMIBIA, URUGUAY
Registering property	<ul style="list-style-type: none"> • Consolidate procedures at the registry LITHUANIA, NORWAY, THAILAND • Unify or link the cadastre and property AUSTRALIA, NETHERLANDS, SLOVAKIA • Make the registry electronic ITALY, NEW ZEALAND, SINGAPORE • Complete the cadastre AUSTRIA, CZECH REPUBLIC, DENMARK, IRELAND
Enforcing contracts	<ul style="list-style-type: none"> • Summary proceedings for debt collection BOSNIA AND HERZEGOVINA, FINLAND, LITHUANIA, PHILIPPINES • Case management in courts INDIA, MALAYSIA, SLOVAKIA, UNITED STATES • Appeals are limited BOTSWANA, CHILE, ESTONIA, GREECE • Enforcement moved out of court HUNGARY, IRELAND, NETHERLANDS, SWEDEN
Getting credit	<ul style="list-style-type: none"> • Legal protections in collateral law ALBANIA, NEW ZEALAND, SLOVAKIA, UNITED STATES • No restrictions on assets for collateral AUSTRALIA, SINGAPORE, UNITED KINGDOM • Sharing of positive credit information GERMANY, HONG KONG (CHINA), MALAYSIA • Data protection laws to ensure quality ARGENTINA, BELGIUM, UNITED STATES
Protecting investors	<ul style="list-style-type: none"> • Derivative suits allowed CHILE, CZECH REPUBLIC, KOREA, NORWAY • Institutional investors active CHILE, KOREA, UNITED KINGDOM, UNITED STATES • Disclosure of family and indirect ownership DENMARK, SWEDEN, THAILAND, TUNISIA • Public access to ownership and financial data GERMANY, POLAND, SOUTH AFRICA
Closing a business	<ul style="list-style-type: none"> • Foreclosure focus in poor countries ARMENIA, KENYA, NEPAL, PARAGUAY • Specialized expertise in the courts COLOMBIA, INDIA, LATVIA, TANZANIA • Appeals are limited AUSTRALIA, ESTONIA, MEXICO, ROMANIA • Administrators are paid for maximizing value DENMARK, JAPAN, JORDAN, MALAYSIA

Source: *Doing Business* database.

Which myths to dispel?

This year's analysis has also dispelled some commonly held beliefs about the environment for doing business.

Myth #1 Regulatory reform is costly

The costs are modest for many of the reforms just outlined. Setting up a private credit bureau cost less than \$2 million in Bosnia and Herzegovina. Setting up an administrative agency for business registration cost less than \$2 million in Serbia and Montenegro. Integrating the business start-up process into a single access point cost \$10 million in Turkey. Simple calculations from growth analysis suggest that the benefit-to-cost ratios of such reforms are on the order of 25:1.⁸ Easing start-up was recently listed by a panel packed with Nobel laureates as one of the most cost-effective ways to spur development—ahead of investing in infrastructure, developing the financial sector and scaling up health services.⁹

Myth #2 Social protection requires more business regulation

Just look at the Nordic countries. All four Nordic economies in *Doing Business* are on the list of countries with the simplest business regulation: Norway (#5), Sweden (#9), Denmark (#12) and Finland (#14). Few would argue that they scrimp on social benefits relative to other countries, or regulate too little. Instead, they have simple regulations that allow businesses to be productive. And they focus regulation on where it counts—protecting property rights and providing social services. Estonia, Latvia and Lithuania, having learned much from their richer neighbors, are also among the countries with the best business environment. Heavier business regulation is not associated with better social outcomes.¹⁰

Myth #3 Entrepreneurs in developing countries face frequent changes in laws and regulations

Entrepreneurs complain of unpredictability. And governments complain of reform fatigue, blaming the development aid agencies. Yet reforms in developing countries are rare. Many have been stuck with the same laws and regulations for decades: Mozambique's company law dates from 1888, Angola's from 1901. No legal change there. The difficulties businesses face come from a lack of information and from discretion in enforcement. There are simple solutions. Online services in the company registrar can make it clear how to start a business. Disclosure laws can reveal company ownership and finances. And collateral and property registries can determine who owns what.

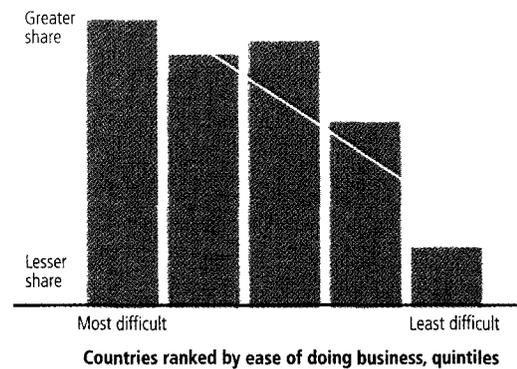
Myth #4 Regulation is irrelevant in developing countries because enforcement is poor

If it were, it would not be associated with so much informality (figure 1.8). Few businesses comply with all regulations in poor countries, since it is so prohibitively costly that entrepreneurs choose to operate in the informal economy. A large informal sector is bad for the economy: it creates distortions, reduces tax revenues and excludes many people from basic protections. If regulation were simplified, entrepreneurs would find benefits in moving to the formal sector, such as greater access to credit and to courts.

FIGURE 1.8

Heavier regulation—more informality

Informal sector share of GDP



Source: *Doing Business* database.

What to expect next?

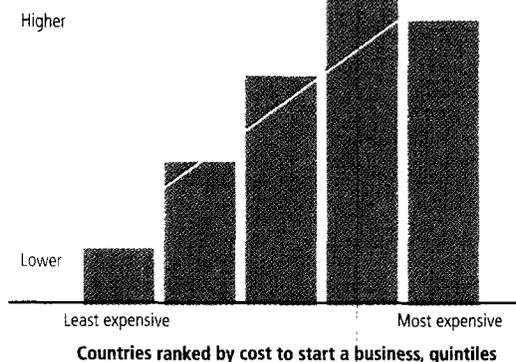
Three other areas of the business environment are being researched. First, dealing with business licenses. One argument that government officials give for why business entry is difficult is that they don't need to spend many resources on regulation once the worthy entrants are selected. Studying business licensing tests this argument—and the argument fails. The same countries that heavily regulate entry also have more complex and burdensome licensing regimes (figure 1.9). The data and analysis will be released in late 2004 on the *Doing Business* website.

Two new topics will be featured in *Doing Business in 2006*. One is trade logistics. What are the procedures, time and cost for an exporter to bring goods from the factory door to the ship, train or truck and across the border?

FIGURE 1.9

Bureaucratic entry, bureaucratic operations

Cost to obtain operational licenses and permits



Source: *Doing Business* database.

What does it take to import a good and bring it to the store shelf? How to deal with customs, pre-shipment inspections and technical and quality certification?

The other is corporate taxation—its level, structure and administration. Tax reform has been hotly debated, especially in Europe, where several transition economies—Bulgaria, Poland, Russia and Slovakia—are moving to or have already adopted flat corporate and personal tax at rates lower than the ones in other European countries. Estonia has no tax on corporate earnings if they are re-invested. Whether lowering taxation spurs enough new business activity to make up for the loss of budget revenues is a question that will be addressed next year.

The number of sample countries will continue to expand. This year, Bhutan and Estonia were included in this report. Data for Fiji, Kiribati, the Maldives, the Marshall Islands, Micronesia, Palau, Samoa, the Solomon Islands, Tonga and Vanuatu are available on the *Doing Business* website. The governments of another dozen countries, such as Cape Verde and Tajikistan, have requested inclusion in next year's sample.

Beyond adding new topics and countries is the challenge of understanding how reform takes place. *Doing Business* started by studying what entrepreneurs go through in starting a business, hiring and firing workers, enforcing contracts, registering property, getting credit, protecting investors and closing a business. With time, the project is building more information on reforms—what motivates them, how to manage them and what their impact is. Coming in *Doing Business in 2006* are studies of what reformers go through to improve business conditions.

Notes

1. Poor countries are defined as low and lower middle income economies under World Bank Group income classifications.
 2. As a part of the IDA13 round of funding, 39 IDA borrowers were monitored on the days and cost to start a business between January 2002 and January 2004. The population-weighted change during this period was -12% on days to start a business and -9% on cost to start a business.
 3. The ease of doing business measure is the simple average of country rankings (from 1 to 135) in each of the 7 topics covered in Doing Business in 2005. The ranking for each topic is the simple average of rankings for each of the indicators—for example the starting a business ranking averages the country rankings on the procedures, days, cost and minimum capital requirement to register a business.
 4. Based on a hypothetical improvement to the average of the top quartile of countries on the ease of doing business indicator. Standard growth regression analysis estimates the relationship between 10 year average annual GDP growth rates and the ease of doing business indicator. The analysis controls for income, government expenditure, primary and secondary school enrollment, inflation, investment, civil conflict and regions. The relationship is robust using 5, 15 and 20 year growth rates, as well as when controlling for trade, ethnolinguistic fractionalization, latitude, and in instrumental regressions. See Djankov, McLiesh and Ramalho (2004).
 5. NNR (2003).
 6. British Chamber of Commerce (2004).
 7. The data for Belgium, the Netherlands, and Norway come from Danish Commerce and Companies Agency (2003).
 8. Growth estimates implied from the analysis in Klapper, Laeven and Rajan (2004) suggest benefits of \$48 million from the reforms implemented in Serbia and Montenegro, and \$413 million in Turkey, in the first year alone.
 9. Copenhagen Consensus (2004). Available at <http://www.copenhagenconsensus.com/>
 10. Djankov and others (2002).
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What to reform in South Asia and who to learn from

Over 515 million people live in absolute poverty in South Asia¹. Economic growth and job creation, made possible through streamlined and modern business regulations, can help them rise out of that poverty. Findings from business regulations analyzed in *Doing Business in 2005*² show governments should focus their reform efforts for the greatest impact on labor markets flexibility, property rights, and access to credit.

SOUTH ASIA VS. OTHER REGIONS: WHERE IS IT EASIER TO DO BUSINESS?

South Asia imposes some of the highest regulatory obstacles to running a company in the world, second only to Sub-Saharan Africa in the overall difficulty of doing business as measured in *Doing Business in 2005*. Figure 2.1 presents the average Ease of Doing Business Index³ by region, measuring the average ranking of countries across all 7 sets of Doing Business indicators.

This average South Asia score masks significant differences within the region. India ranks in the bottom 20% of all 145 countries across the Doing Business indicators. Bhutan appears in among the 30% of countries where it is most difficult to do business. Bangladesh, Nepal, Pakistan, and Sri Lanka all rank close to the midpoint of countries measured in *Doing Business*⁴. By comparison, China ranks in the top 35%, Malaysia in the top 25%, and Thailand is in the top 15% of countries in *Doing Business*.

As a region, South Asia performs comparatively well in two Doing Business areas: new business start-up and time for property registration (Table 1). Labor regulations are extremely restrictive, however, and access to

credit is severely limited. Enforcing contracts through the courts is also slow and costly.

STARTING A BUSINESS

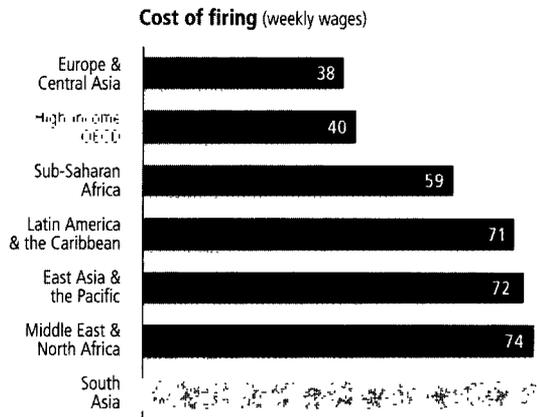
South Asia performs well on two significant measures of simplicity when registering a new business: minimum capital requirement and procedural hurdles. No country in South Asia imposes a minimum capital requirement to open a business—a strong example of regional best practice. On average South Asian countries require 9 procedures to start a new business—a long way from best practice but trailing only the OECD and East Asia as a region. The 47 days required to complete those procedures, however, moves South Asia to the middle of regions overall in time necessary to register the company. In addition, the administrative cost of starting a busi-

FIGURE 2.1
South Asia scores poorly on the Ease of Doing Business



Note: Unweighted averages of the Ease of Doing Business scores for each country in the region.
Source: *Doing Business* database.

FIGURE 2.2
Highest firing costs are in South Asia



Note: Unweighted averages of the Cost of Firing scores for each country in the region.
Source: Doing Business database.

ness in South Asia is 45% of income per capita, excessive when compared to Europe and Central Asia's 15%.

HIRING AND FIRING WORKERS

Labor regulations in South Asia are a matter of extremes: with some countries relatively flexible on working hours, but most countries making it difficult to fire. On average, the Rigidity of Hours Index for South Asia is the lowest in the world (37 in a scale from 0 to 100, where 100 is the highest rigidity), reflecting relatively few restrictions on night or weekend work, length of workday and workweek, and days of annual paid vacation⁵. Compare that to 53 for Latin America and the Caribbean and 64 for Sub Saharan Africa. Countering this flexibility in hours is great difficulty in firing workers. According to the Doing Business Difficulty of Firing Index,⁶ the South Asia region ranks the worse in the world for procedural barriers to and cost of firing for unproductive workers. As one example, on average South Asian countries require a firm to pay more than 85 weeks of salary to dismiss an unproductive worker, while Europe and Central Asian countries require that same firm to pay only 38 weeks on average (Figure 2.2)⁷. There are exceptions to the pattern—for example Pakistan regulations make it difficult to hire but are less rigid on firing.

REGISTERING PROPERTY

Registering property in South Asia is relatively simple and efficient when compared to other parts of the world. For the standard case of buying a warehouse in the peri-urban area of the country's largest city, the average South Asian country requires 6 steps and 56 days to transfer title of a piece of property—significantly more

than OECD countries, but broadly in line with other developing regions such as Latin America and East Asia. The cost to complete that transfer, however, is high: 5.8% of the property value. Only Sub-Saharan Africa and the countries in the Middle East have greater costs (6.8% and 13.2%, respectively.)

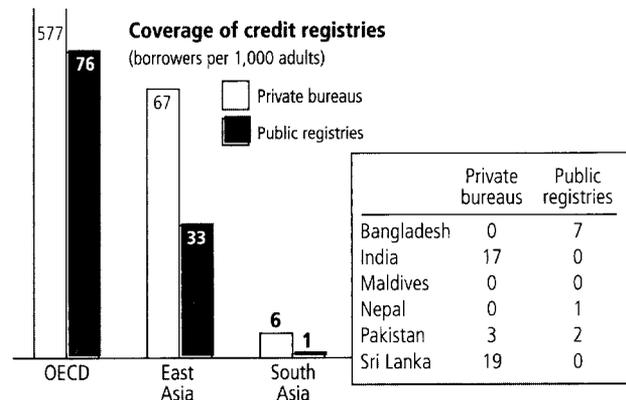
ENFORCING CONTRACTS

Collecting an unpaid debt through the courts requires significant time, money and effort on the part of South Asian businesses. The average number of procedures (30) is lower than many other regions in the world, but the time and cost relating to their completion are noteworthy: almost a year (349 days) and 38% of the debt's value must be dedicated to the effort. Expense is only higher in Sub-Saharan Africa (43% of the debt is lost in the procedures to enforce it) and East Asia and the Pacific (45%).

GETTING CREDIT

South Asia offers the least credit information in the world to potential lenders. Only Bangladesh, Nepal and Pakistan have a public credit information registry, and only India, Pakistan and Sri Lanka have a majority privately-owned credit bureau⁸. Public registries provide information on fewer than 2% of adults in the region, with private bureaus adding a mere 6% of coverage (Figure 2.3). Although credit registries are being established or improved in many countries, the scope, access, and quality of their credit information is currently extremely limited. In addition, collateral and bankruptcy laws provide lenders with few legal protections to create and enforce security efficiently: when measured by the Index

FIGURE 2.3
Very little credit information



Note: Regional values are unweighted averages of each country in the region.
Source: Doing Business database.

of Legal Rights for Borrowers and Lenders, in a scale from 0 (worst) to 10 (best), on average South Asia scores at the bottom of all regions with 3.75.

PROTECTING INVESTORS

Shareholders in South Asia's listed companies enjoy relatively high protection against expropriation of their investment. Borrowing from the UK tradition of fiduciary duties, India, Pakistan, Bangladesh and Sri Lanka all prohibit directors from operating the company in a way that prejudices minority shareholders. Disclosure requirements surrounding their actions, however, are weak and untimely. Directors generally must disclose large transactions involving conflicts of interest only in the annual report—long after the possible damage is done.

RECENT REFORM PATTERNS IN SOUTH ASIA: WHO IS REFORMING, AND HOW?

India appeared among the top 10 reformers during 2003 in the areas covered by *Doing Business*⁹. Reforming in bankruptcy laws, court procedures, collateral enforcement and credit registries, India tackled needless red tape across a variety of areas. Bangladesh improved secured debt enforcement and its credit registry, and Pakistan also made improvements to credit information availability, leaving Bhutan, Nepal and Sri Lanka as the only countries in the region without any change affecting the *Doing Business* indicators over 2003. Reform in the region as a whole, however, is low when compared with countries in the OECD or Eastern Europe and Central Asia, where an average of more than one reform per country took place in 2003.

INDIA

INTRODUCED JUDICIAL CASE MANAGEMENT

To streamline court proceedings, India introduced greater judicial case management over the last year. Under case management, the same judge follows the dispute from start to end. In countries with case management, the judicial process tends to move more quickly and individual cases are less likely to stall unnoticed—debt recovery proceedings average 278 days in poor countries with case management, and 469 days in countries without. Faster proceedings are also less costly for litigants, thus providing greater access to the courts for the poor.

CLOSING A BUSINESS

When a firm becomes bankrupt, on average a creditor recovers only 21 cents on the dollar in South Asian countries—the lowest of all regions. It takes an average of 5 years and costs 8% of the value of the bankruptcy estate to go through the insolvency process. This poor result is driven in part by India, which has the most delays in bankruptcy globally along with Chad and Brazil. Like in many other poor countries, bankruptcy is rarely used in the rest of the South Asia region. Governments can improve the lot of creditors by streamlining foreclosure and standard court enforcement procedures.

PERMITS ENFORCEMENT OF COLLATERAL OUT OF COURTS

The Securitization Act now permits state-owned banks, which account for 80% of India's lending, to enforce bad debts with minimal court involvement. On default, the bank must notify the debtor. After a 60 day grace period the bank can seize the assets directly and sell by public auction. The new procedure, despite some tough resistance, is widely used, and creditors can expect to enforce within 9 months.

ESTABLISHED A CREDIT INFORMATION SYSTEM

India also established the Credit Information Bureau India Limited (CIBIL), which started operations in May 2004. Jointly owned by the State Bank of India (40%), HDFC, the largest housing finance corporation (40%), TransUnion, one of the three large international consumer bureaus (10%), and Dun and Bradstreet (10%), CIBIL collects both positive and negative information on firms and individuals. By December 2004 the bureau included payment information on more than 12.2 million borrowers. Further changes are scheduled to take place by May 2005 as private commercial banks will join the ownership structure¹⁰.

STREAMLINED BANKRUPTCY

Finally, India repealed the Sick Industrial Companies Act, which had previously prevented bankrupt companies from being liquidated. The country simultaneously introduced specialized bankruptcy tribunals—a dozen are already in operation, with several dozen more

scheduled to start soon. These reforms cut the time to go through bankruptcy by 15%.

BANGLADESH

INCREASED PENALTIES FOR WITHHOLDING CREDIT INFORMATION

In a bid to increase credit information availability, the public registry in Bangladesh raised the penalties for banks withholding data (from 2,000 to 500,000 BDT) and for disclosing information to unauthorized parties (from 2,000 to 100,000 BDT). The result was a jump on the share of banks submitting data on time from 25% to 95%. At the same time, the Bank of Bangladesh began a modernization program for the Credit Information Bureau. Data entry forms have been already redesigned to better capture the information. Information on consumer credit cards has been incorporated in the database from September 2004. Fees are now charged at the rate of 50 BDT per credit report. CIB is currently setting up an online system for data collection and retrieval. The current timeline for completion is February, 2006.

FASTER COLLATERAL ENFORCEMENT

The New Money Loan Court Act of 2003 vastly improved debt recovery for Bangladeshi banks and financial institutions. The new Act establishes specialized courts and expedited proceedings. Under it, creditors notify defaulting debtors, obtain a summary judgment, and then may sell the collateral by public auction. Cases are heard solely on the basis of written pleadings and

documentary evidence and must be disposed of in a maximum of 180 days. Recovery rates have increased by more than 200% since the law was introduced.

PAKISTAN

ONLINE ACCESS TO CREDIT REGISTRIES

Pakistan improved access to its credit registries by putting the system online—the first in the region to do so. The use of electronic data transfer facilities has reduced the processing time by approximately 5 days, permitting lenders to generate reports almost immediately. The cost of implementation is also striking: only \$98,000. Evidence shows that private credit to GDP is almost 11% higher in countries with electronic access to credit registries than in countries without electronic access.

Other reforms that affect the Doing Business indicators are underway but not yet complete. For example, in Nepal, the Cabinet of Ministers has passed a new secured transactions and insolvency law, which now awaits promulgation by the King. Amendments to the labor law are expected in mid 2005. The Nepalese Credit Information Centre issued directives in February 2005 including severe financial penalties to banks and even staff for withholding credit information prior to loan disbursements and extending credit to a willful defaulter. Work has commenced on automating the company registry in Sri Lanka. And in Bangladesh, modern case management and computerized court administration have been introduced in 5 pilot district courts and the Supreme Court.

REGIONAL PRIORITIES FOR REFORM

The payoff for reforms is high. If India, now among the 20% of countries where it is most difficult to do business, were to reform and adopt the laws and regulations of a country among the top 20%, analysis suggests it could add approximately 1.6 percentage points to its annual economic growth. This would imply adding about 9 billion dollars per year to total output. All of the top countries regulate, but they do so in less costly and burdensome ways. And they focus their efforts more on regulating to protect property rights, rather than imposing administrative burdens. Not only rich countries reach this goal of regulatory efficiency—Thailand, Lithuania and Botswana rank among the most business-friendly regulatory environments in the world according

to the areas measured in *Doing Business in 2005*. Figure 2.4 shows the benefits across the region: if each country were to reform to the level of Thailand, the estimated gains are significant¹¹.

The need for comprehensive regulatory reform stretches across South Asia. Among the areas measured in *Doing Business*, priorities across the region are: labor market regulations, contract enforcement and credit information sharing and collateral laws.

MAKE LABOR REGULATIONS MORE FLEXIBLE

When employers have more freedom surrounding hiring and firing, they tend to hire more and choose less

conservatively. This helps women, youth and the poor. Tough labor regulations designed to protect workers are often argued to be especially necessary in countries with under-developed social security systems. But they frequently have unintended effects: they discourage employers from hiring formally and restrict unemployed workers' access to the labor markets. The unabsorbed workers are left to enter the informal sector—where they receive no regulatory protection or social security at all. Rigid labor regulations also lead to lower equilibrium wages for workers with the same skills, as employers discount their current costs to make up for unexpected future termination costs. In some cases—for example Sri Lanka, Nepal, and India—legislation applies to larger firms, setting incentives for business to remain small¹².

TO IMPROVE LABOR FLEXIBILITY AND HELP CREATE JOBS, SOUTH ASIAN GOVERNMENTS CAN:

■ Allow redundancy as a fair ground for dismissal.

India, Nepal and Sri Lanka bar employers from using redundancy as a ground for dismissal. If a firm cannot fire excess workers in times of low demand, it is less likely to hire in high times. This hurts both the worker and employer – with fewer jobs overall and less flexibility for the firm to grow. Australia, Denmark, Malaysia, Taiwan (China), Thailand and Vietnam are some of many examples of economies that permit redundancy firing.

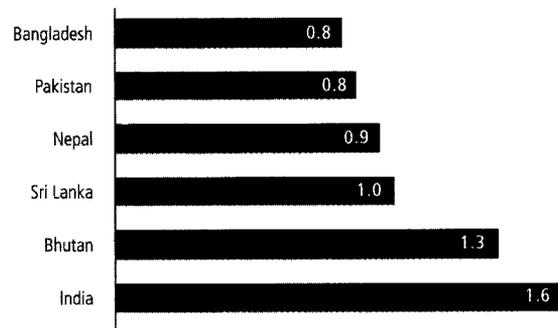
■ **Cut the mandated notice period and the severance payment for redundancy dismissal.** The notice period for firing an unproductive worker is 12 weeks in India. Sri Lanka requires a severance payment of 25 months. When such tight restrictions are placed on a firm's ability to fire, that firm necessarily becomes wary to hire. 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 jobs¹³. 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 only 1 year. Bhutan further prohibits part-time jobs. 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

FIGURE 2.4

Business reform creates opportunity for growth

Implied additional growth from reforming to the level of Thailand (percentage points, annual GDP growth)



Note: Based on a hypothetical improvement to the level of Thailand on the top quadrant of the Ease of Doing Business index (the right-hand half of the index), including government expenditure, judicial and regulatory quality, and contract enforcement, as well as dispute resolution and labor reform.

Source: *Doing Business* database.

duration of fixed term contracts, and in so doing increase job opportunities for workers.

INCREASE COURT EFFICIENCY

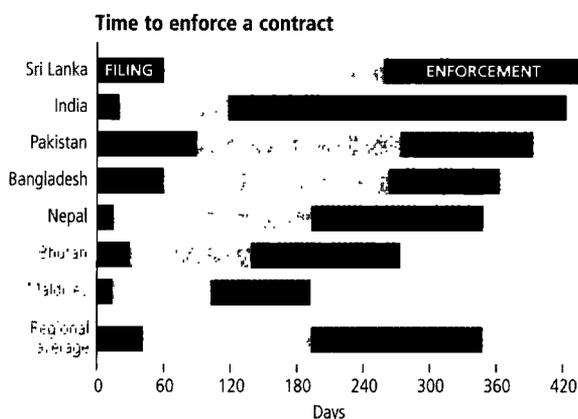
Companies look to the courts as a backstop for risk—if a new customer fails to comply with his contractual obligations, the company can collect in court. It takes on average 30 procedures and 349 days to process a simple debt collection case through the South Asian courts. And in the process, the plaintiff spends almost 40% of the claimed amount in court and attorneys fees. The complexity, delays and high cost in South Asia deters trade and investment. And the fewer procedures, the lower the cost, and the shorter the time to resolve disputes—the better that businesses rate the efficiency and integrity of the courts¹⁴.

South Asian courts could be streamlined by implementing the following practices, hallmarks of countries with efficient courts as measured in *Doing Business*:

■ **Summary proceedings for debt collection.** Frequently, commercial cases to collect an unpaid debt do not entail any substantive legal issues. Creating a simplified procedure which can resolve the dispute quickly (and with less expense) increases businesses' reliance on courts. It also decreases reliance on informal methods of collecting debt. The Philippines has instituted summary proceedings for debt collection, as have Bosnia and Herzegovina, Finland and Lithuania.

■ **Case management.** India introduced case management in courts in 2003 – use of one judge to shepherd

FIGURE 2.5

Enforcement time is an obstacle

Source: Doing Business database.

the case from filing through enforcement. Other South Asian countries could benefit from it as well. Case management reduces delays by ensuring continuity in the process. And it decreases the need for different judges to familiarize themselves with the parties and issues. Along with the reduced delays comes lower costs: fees in countries with case management tend to be 10% lower than those without (a decrease from 25% to 15%).¹⁵

■ **Move enforcement of final judgment out of the courts.** Once a judgment is reached, enforcing it takes 100 days in Bangladesh and 12 steps in Pakistan. For India, it accounts for 72% of the time involved in resolving the dispute (Figure 2.5). Permitting certified, qualified professional firms to enforce the judgment – without court involvement – would greatly speed the process. Countries could also link payment to these firms with the amount recovered, providing incentives to fast and effective attachment.

IMPROVE CREDIT INFORMATION SHARING AND COLLATERAL LAWS

Without access to credit data on prospective borrowers, banks act conservatively in their lending. This hurts new businesses and the poor. It also hurts lenders by increasing the risk associated with their loans and reducing the pool of potential borrowers. Proving a firm's ability to repay a loan – and thereby increasing the likelihood of receiving it – is difficult without showing lenders information on previous repayments. Assisting the operation and growth of credit bureaus would expand lending, and opportunities, to South Asian businesses.

The credit information industry is beginning to develop in South Asia, with some reforms recently implemented and several more planned. Countries seeking to improve businesses' access to credit have multiple opportunities to improve credit information sharing. The first step is to set up credit information registries in countries where they do not exist—and in particular support the development of private bureaus, which are oriented more towards serving lenders. Once established, a few steps towards greater information sharing through credit registries are:

■ **Share both positive and negative credit information.** Private bureaus in Pakistan do not share both positive (history of past on-time repayments) and negative (history of past defaults) credit information. Both Bhutan and the Maldives do not have any information sharing, negative or positive. Limiting the lender's understanding of the risks associated with the proposed loan heightens the cost and limits the availability of that credit, with likely no good reason. South Asian countries could follow Hong Kong and Turkey's lead in allowing the sharing of positive information during 2003.

■ **Permit data sourcing from non-financial sector.** All countries in the region share data only on banks and financial institutions like credit card issuers and leasing companies. The sources of information can be expanded to include retailers and utilities – many times the only possible sources of payment information about new borrowers.

■ **Provide online access to credit registries.** Pakistan permitted online access to credit registries in 2003, and at a very low cost. Such innovation pays off: evidence shows that private credit to GDP is almost 11% higher in countries with electronic access to credit registries than in countries without electronic access.

■ **Impose substantive penalties for withholding credit information.** Bangladesh increased penalties against credit information suppliers for delays in reporting information about their clients. Such increase was dramatic, and so were the results. Now, 95% of banks report their data on time (an increase of 70%).

Another way South Asian governments can support expanded access to business credit is through collateral law reform. When lenders can take and enforce security

efficiently, they are more assured of being able to recover their money in the event of default, and more willing to extend loans to business. South Asian countries are currently far from business-friendly in their collateral laws, which have: a broad scope of assets that can be used for security; no restrictions on who may give or take security; a collateral registry for lenders to notify

others of their claims; clear and comprehensive rules that provide the creditor with first priority to the collateral on default; and efficient enforcement out of courts. Slovakia introduced such reforms in 2003, leading to a 10% jump in credit to the private sector—mostly to small business.

INDIVIDUAL COUNTRY PRIORITIES FOR REFORM

South Asian regulatory regimes vary in their efficiency among the Doing Business topics. Beyond the general trends highlighted above, each country has its own individual areas of strength and weakness. We outline those below. Specific high scores can not only identify potential models for the region, but can provide a source of friendly competition, as well.

AFGHANISTAN

Afghanistan requires simple, inexpensive, and transparent business regulations to rebuild its economy. Current regulations and supporting institutions are in general either non-existent or ineffective. Comprehensive legal reform can introduce best practices from around the world: quick company registration (modeled after Australia's two-step process), streamlined courts (as in Japan or Tunisia) or efficient property registration (reflecting Thailand or Lithuania's innovations). By focusing on the basics, and keeping the prescriptions simple, Afghanistan can craft a regulatory environment that is business-friendly and open to growth.

Unfortunately, recent Afghani legal reforms have not taken the simple approach. There are two separate, independent company registries now operating in Kabul: one operated by the Ministry of Commerce, and the other a specialized one-stop-shop. The law does not clearly recognize one over the other, forcing many companies to register in both in order to ensure clean company records. The Ministry of Commerce's procedure requires 11 days and 3800 Afghani (about US\$80) to complete company registration. It involves 5 different agencies and mandates obtaining criminal records and publishing a notice in the official gazette. The one-stop-shop simplifies the process into one procedure in one agency, but costs US\$132. Offering one, simple and inexpensive procedure would encourage more Afghani businesses to join the formal economy.

BANGLADESH

Bangladesh follows the region's trend with relatively simple company registration and low availability of credit information, but in addition offers the region's most flexible labor regulations. It also has the lowest firing costs.

REFORM PRIORITIES FOR BANGLADESH

■ **Speed contract enforcement:** Going through the courts to enforce on a bad debt takes exactly one year in Bangladesh and costs 21% of the value of the claim (Table 2). Waiting for the judgment alone takes 205 days. Enforcement, after judgment, requires another 100 days. Bangladesh could introduce simplified summary proceedings, as did Tunisia, or direct case management by judges, as did India. Privatizing the enforcement efforts and/or linking the salary of the enforcer to the recovered claim would further eliminate unnecessary delay.

■ **Reduce the cost of starting a business:** While the process for starting a company in Bangladesh is comparatively simple, the cost is high: 91% of income per capita. This is the highest in the region. Filing documents with the Registrar of Joint Stock Companies accounts for over one-third of that cost, paying a lawyer to verify the Memorandum and Articles of Association requires another \$100, and obtaining a trade license adds \$85. Best practices leader Australia limits its requirements to two steps: incorporation (which takes only one day and 2% per capita income) and registering with the tax authorities (another day and no cost). Making entry procedures straightforward and cheap would increase Bangladeshi entrepreneurs' participation in the formal economy.

■ **Increase access to credit:** Lenders in Bangladesh have little information about their prospective borrowers. No private credit bureau operates. And the public registry covers a mere 7 adults out of every 1000 and col-

lects credit information from only financial institutions, not retailers or utilities providers. Reforms in 2001 and 2003 improved the quality of information in the registry, but progress on other improvements remains slow. Since the lender lacks information necessary to accurately determine the loan's risk, entrepreneurs must frequently use their homes or other personal assets to secure a loan. The cost of creating collateral, however, is 21% of income per capita – a huge borrowing expense in addition to the interest paid on the loan. Bangladesh could increase access to credit by supporting the development of a private bureau, further upgrading the public registry, and cutting the cost to register collateral agreements.

BHUTAN

Across various Doing Business indicators, Bhutan is low in procedural requirements but inefficient in meeting them. For example, it takes only 4 procedures to register property, but 44 days to accomplish them. Similarly, entrepreneurs must go through 11 steps to register their businesses, costing 62 days. This is shorter than India's 89 days to accomplish those 11 procedures, but much longer than Nepal's 21 days for its 11 procedures.

The true stand-out among the Bhutan data, however, is the cost of enforcing a contract: 114% of the claim's value. This makes the courts effectively meaningless as a method for enforcing agreements. Informal solutions will prevail.

REFORM PRIORITIES FOR BHUTAN

Cut the cost to enforce contracts: The greatest expense related to collecting on a bad debt through the Bhutanese courts is the attorney's fee. While not mandatory, attorney use is common and there is no requirement that the loser pay the winner's costs. The result is a court system that disadvantages smaller businesses and the poor. Bhutan could look to the Philippines' model of summary proceedings for debt collection. Such abridged procedures reduce the need for attorney expertise and permit all businesses to enforce their rights without expensive counsel, and without unnecessary delay.

Ease labor restrictions: Bhutan has the most rigid hiring regulations in the region. It bars part-time work and limits fixed term contracts to a year. In addition, employers seeking to fire redundant workers must pay two years' salary in severance fees. To make its regulations more business-friendly, Bhutan could look to several countries that have found innovative ways to balance

dual needs for worker protection and job growth. Colombia cut severance pay and established an incentive subsidy for hiring unemployed youths. Fifty countries allow flexible working hours (including night, weekend and overtime.) The result is greater formal employment—new jobs that could benefit Bhutanese employers and workers alike.

INDIA

India has the most bureaucratic red tape in the region, according to Doing Business indicators. It scores worst in time to register a business (89 days), difficulty of firing a worker (90 out of 100), delay in registering property (67 days), and time for closing a business (10 years). Further, India ranks second in the region for procedures and time required to enforce a contract. On a promising note, India has initiated a variety of reforms in 2002-04 (discussed below).

REFORM PRIORITIES FOR INDIA

■ **Reduce the difficulty of firing:** In a region with the most restrictive labor regulations in the world, India is again among the worst. It scores the highest in the region (tied with Nepal) on the difficulty of firing and rigidity of employment. Simple administrative reforms can reduce these obstacles to employers. India could follow Lebanon's lead in considering redundancy a fair cause of dismissal, or Colombia's in removing mandatory notification and third-party approval for each dismissal. Both reforms would significantly reduce the administrative hassle related to compliance with labor regulations. This, in turn, will help create a more dynamic labor market.

■ **Speed contract enforcement.** Businesses must go through 40 steps, costing 425 days and 43.1% of the contract to enforce a contract through the Indian courts. This is the second-longest delay in the region, beaten only by Sri Lanka (the latter requiring fewer than half the number of procedures). Although secured debt enforcement was recently improved with the Securitization Act, other contract enforcement remains inefficient. India introduced case management over the last year to speed judicial processes, but the greatest delay comes from enforcing the judgment: 72%, or 306 days. And this assumes the debtor does not oppose the seizure. In rich countries, the average duration from the time the judge hands down a decision to the time the creditor gets his

money back is 75 days. Middle-income countries take 134 days, and even poor countries average around half of India's time: 162 days. India has sped this process for state-owned banks by permitting them to enforce collateral out of the courts, but it can benefit litigants across the board by allowing professionals other than court officials to collect unpaid debt.

■ **Cut the time to open a business:** It takes 3 months to open a business in Mumbai, the worst in the region. Two of the months are spent in obtaining the Personal Account Number (PAN) at UTI Investors Services Limited (outsourced by Income Tax Department) and the Tax Deduction Account Number (TAN) at the Income Tax Department. Clearing the current backlog, and permitting the business to get underway while waiting to formalize the tax number, would reduce the burden on entrepreneurs.

MALDIVES

Doing Business data is incomplete for Maldives. From the information available regarding contract enforcement, however, Maldives performs admirably. Leading the region with a low 194 days to collect an unpaid debt and costing only 8.7% of the claim, Maldives is 5 months and 72% lower than the regional average. Globally, Maldives is among the top 15 countries for lowest cost in enforcing a contract (global best practice leader Norway accomplishes it with 4.2%).

Not all court actions in Maldives are so efficient, however. It takes almost 7 years to close a business through bankruptcy in Maldives. Maldives further mirrors the regional deficiency in availability of credit information. There is no credit bureau coverage for Maldives' potential borrowers nor credit information available (beyond informal social and reputational channels) for potential lenders.

NEPAL

Nepal has relatively simple procedures for starting a business and enforcing contracts. Such simplicity translates into faster-than-average time for registering a business in the region, but only average speed for enforcing contracts. And both processes are expensive. In addition, Nepalese labor regulations are extremely rigid: scoring 90 out of 100 on difficulty of firing and requiring 90 weeks severance pay, Nepalese employers have the 4th highest obstacles to firing in the world.

REFORM PRIORITIES IN NEPAL

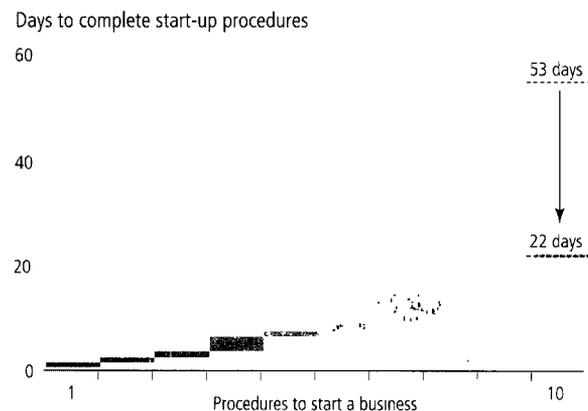
■ **Reduce the difficulty and cost of firing:** Before firing an unproductive worker in Nepal, the firm must notify and obtain the approval from a third party. That firm must further pay 90 weeks, or almost two-years of severance pay to that worker. High severance costs and barriers to firing ultimately make employers more conservative in their hiring – once the worker is in the door, it is difficult to get rid of her. The result is that young, female and low-skilled workers are persistently passed over in favor of more traditional (and seemingly less risky) candidates.

■ **Cut the cost to start a business:** It costs 74% of income per capita to start a business in Nepal. Such high cost is especially noteworthy since the country has the fewest procedures and fastest time in the region. One requirement accounts for over 73% of the total cost: verification and certification of the articles of association by a law professional or a chartered accountant. Nepal already leads the region in time and number of procedures for starting a company; removing this step would reduce the final major cost barrier to joining the formal economy.

PAKISTAN

Pakistan's business regulations reflect most of the general trends for the South Asia region: tight restrictions on labor, high procedural requirements for enforcing a contract, and low access to credit information. But following reforms in 2002, Pakistan is a regional leader for speedy business start-up (Figure 2.6). Greater focus on

FIGURE 2.6
Speeding business start-up



Source: Doing Business database.

labor and court reforms would improve its overall business environment.

REFORM PRIORITIES FOR PAKISTAN

■ **Reduce the difficulty of hiring and the cost of firing:** As in Nepal, employers must pay 90 weeks of salary as severance fees to redundant workers with 20 years of experience. Fixed-term contracts are allowed only up to 9 months, and permitted work hours are tightly limited. Pakistan could follow Malaysia's reforms to extend the duration of fixed-term contracts, or Madagascar's lead in moderating severance pay for redundancy (41 weeks).

■ **Simplify procedures for enforcing contracts:** Pakistani courts require plaintiffs to go through 46 procedures to recover a simple unpaid debt. This is the highest in the region and one of the highest in the world. Not surprisingly, the extensive procedural requirements cause lengthy delays: 395 days from filing to enforcement. Each step of the case is complex, from filing (14 steps) to judgment (20 steps) to enforcement (12 steps). Targeted administrative reforms could eliminate unnecessary red tape, including written requests to appear in court and judicial scrutiny of auction bids.

SRI LANKA

Like Nepal, Sri Lanka requires relatively few procedures, but those procedures take a long time to complete. For example, Sri Lanka is the regional leader for number of steps required to enforce a contract through the courts (17). Completing the process, however, takes 440 days. That is 25 days/procedure, compared to 10 in India (40 procedures in 425 days) or 12.5 in Nepal (28 in 350 days.) Sri Lanka has relatively slow property registration and business start-up, as well, when measured by days per procedure.

Sri Lanka is the regional leader for low cost to create collateral. Charging only 0.7% of per capita income, Sri Lanka is one of the least expensive countries measured by *Doing Business* for registering collateral. This reduces overall borrowing costs and expands loan opportunities to entrepreneurs. Credit information availability, while low by global standards, is also the best in the region, with 19 adults out of every 1000 covered by the credit registry.

REFORM PRIORITIES FOR SRI LANKA

■ **Reduce the difficulty and cost of firing:** Sri Lanka imposes relatively few restrictions on hiring a worker (e.g., part-time employment, fixed-term contracts and use of apprentice wage are all permitted). The high penalties for firing, however, artificially lower the number of jobs created. When an employer must pay 108 weeks of salary to fire a worker, as in Sri Lanka, that firm necessarily hesitates to expand. All firms with more than 15 employees must obtain permission to fire from the Commissioner of Labor, who has to date never consented to non-voluntary dismissal. The Commissioner also adjudicates severance payments on the ability to pay, introducing discretion and uncertainty into the system. Cutting severance payments and notification requirements, as well as expanding the list of what constitutes a "fair ground" for dismissal, would help firms and workers in Sri Lanka improve hiring conditions. Sri Lanka could follow Namibia's lead in lowering severance pay for redundancy.

■ **Cut the time to enforce a contract:** As shown above, it takes approximately 440 days to enforce a contract in Sri Lanka, the worst in the region. Enforcing the judgment alone takes 40% of the total – 180 days. Sri Lanka could move enforcement out of the courts, as Hungary did, and permit parties to contract with private firms to attach the property. Linking bailiff pay to amount attached (and time in which completed) would also provide incentives to speed and improve judgment enforcement.

■ **Speed property registration:** Finally, Sri Lankan regulations also make registering property difficult. For a business to purchase land and a building in the peri-urban area of Colombo, the law requires 8 procedures – costing 63 days in processing time and 5.1% of the property's value. In comparison, business owners in Thailand can accomplish the same transaction in two days (with 2 procedures) and Malaysia charges only 2.2% of the property's value. Sri Lanka can follow Thailand's lead in consolidating all procedures at the registry. Such consolidation would eliminate unnecessary agency overlap, red tape, cost and delay. Extensive titling programs lose their effectiveness if red tape makes transferring that title too expensive and time-consuming – formalized titles quickly go informal again.

SUB-NATIONAL ANALYSIS

In order to ensure comparability across countries, the Doing Business indicators are built with respect to a range of assumptions about the nature of the firm and transactions. In most cases, the indicators are built with reference to the largest business city. Although this ensures valid cross-country comparisons, in large federal countries, such as India and Pakistan, regional differences within the same countries may be significant. *Doing Business* has analyzed 9 Indian and 5 Pakistani cities. Appendix 2 presents additional details.

In certain regulatory areas—especially starting a business, registering property, and enforcing contracts, the regional differences are significant. In India, starting a business in the states of Punjab and Karnataka takes 57 days, while Maharashtra requires an additional month. Property registration presents even deeper differences. It takes 35 days in Karnataka, but 142 days in Punjab or 123 in Orissa. Punjab, however has the cheapest cost to register property, about 10% of the value of the property, while Andhra Pradesh has the highest, with over 14%. The enforcement of an unpaid debt will take about 425 days in Maharashtra, the best performer in the country, but more than 3 years in Uttar Pradesh. The cost also shows a huge variation: about 16% of the debt in Rajasthan and Orissa, but more than 43% in Maharashtra and Tamil Nadu.

Variations in Pakistan are most significant in registering property and enforcing contracts, with more uniformity for business start-up. Starting a business takes 11 steps in all the regions studied in Pakistan, and between 24 and 29 days. But while the cost is about 17% of per capita GNI in Sialkot, it goes up to 36% in Karachi. Property registration varies from 17 days in Lahore to 49 days in Karachi. Enforcing a contract may take about 390 days in Peshawar and Karachi, but more than 950 days in Lahore. The cost of enforcing a simple unpaid debt is about 20% of the debt in Faisalabad, but raises to more than 35% in Karachi.

Differences in labor and bankruptcy regulations tend to be much less significant in both Pakistan and India, in particular on cost measures, where the data are almost uniform. In these areas, much of the regulation is determined at the federal level. Reform is best undertaken first at a national level, with complementary reforms at the subnational level for more efficient implementation and any of the regulations that are governed locally.

Overall, regional variations are far more significant

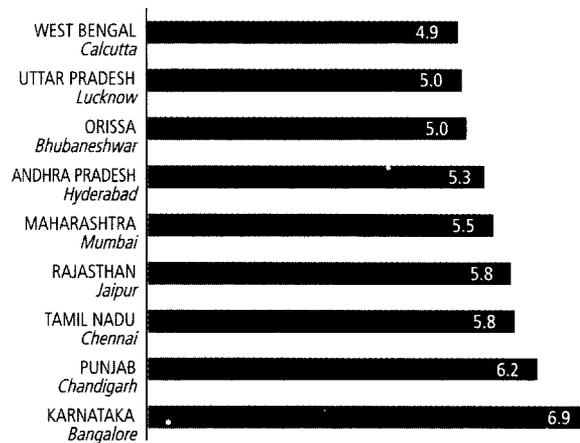
in India that in Pakistan. And although city rankings depend on the indicators, some common patterns emerge. In India, Karnataka, Punjab (Chandigarh), and Tamil Nadu score highest on the aggregate ease of doing business, whereas West Bengal and Uttar Pradesh impose more regulatory obstacles for entrepreneurs. In Pakistan, Peshawar tends to provide the most business-friendly regulations, although the differences are smaller than in India.

The subnational analysis also highlights some extreme outliers within countries. Bankruptcy is inefficient in all cities measured in India. Karnataka is the state where closing a business through bankruptcy takes the shortest time, at “only” 8 years and 4 months. Yet it takes more than 20 years in West Bengal – an extraordinary time by any measure.

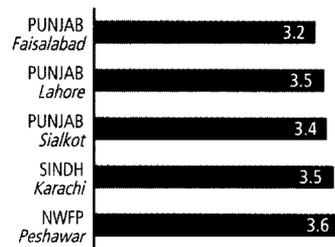
FIGURE 2.7

Sub-national analysis in India and Pakistan

India—regional variations (Ease of Doing Business Index)



Pakistan—regional variations (Ease of Doing Business Index)



Source: *Doing Business* database.

TABLE 1

	East Asia & the Pacific	Europe & Central Asia	Latin America & the Caribbean	Middle East & North Africa	OECD High income	South Asia	Sub-Saharan Africa
STARTING A BUSINESS							
Number of procedures	9.2	9.9	11.8	10.1	6.5	9.3	11.2
Time (days)	61.2	42.4	70.1	39.6	25.4	46.8	63.2
Cost (% of income per capita)	59.5	15.4	60.1	51.2	8.0	45.4	223.8
Minimum capital (% of income per capita)	158.6	51.8	28.8	856.4	44.1	0.0	254.1
HIRING AND FIRING WORKERS							
Difficulty of hiring index	25.6	31.4	44.4	22.6	26.2	37.0	53.2
Rigidity of hours index	40.0	51.5	53.3	52.9	50.0	36.7	64.2
Difficulty of firing index	33.1	42.3	34.3	40.7	26.8	53.3	50.6
Rigidity of employment index	32.9	41.7	44.0	38.7	34.3	42.3	56.0
Firing cost (weeks of salary)	72.5	38.2	70.7	74.3	40.3	84.7	59.4
REGISTERING PROPERTY							
Number of procedures	4.7	6.6	6.9	6.6	4.7	5.8	6.9
Time (days)	51.2	133.2	56.8	54.2	34.1	55.8	114.2
Cost (% of property value)	4.3	3.0	5.6	6.8	4.8	5.8	13.1
GETTING CREDIT							
Cost to create collateral (% of income per capita)	2.0	9.0	19.4	18.6	5.2	8.0	46.1
Legal rights index	5.3	5.4	3.8	3.9	6.3	3.8	4.6
Credit information Index	2.9	2.1	4.7	2.1	5.0	1.7	2.1
Public registry coverage	59.2	6.5	85.8	20.7	76.2	1.4	1.1
Private bureau coverage	103.1	46.7	325.1	12.6	577.2	5.6	39.4
PROTECTING INVESTORS							
Disclosure Index	3.9	3.6	2.3	2.6	5.6	2.9	2.1
ENFORCING CONTRACTS							
Number of procedures	28.5	29.7	35.5	38.7	19.8	29.7	35.2
Time (days)	325.2	412.7	462.1	437.7	229.7	349.1	434.2
Cost (% of debt)	44.7	17.6	23.2	17.9	10.7	38.5	42.9
CLOSING A BUSINESS							
Time (years)	3.2	3.3	3.6	3.8	1.6	5.1	3.5
Cost (% of estate)	23.6	13.1	15.8	13.0	6.8	8.3	20.5
Recovery rate (cents on the dollar)	35.2	30.5	26.6	28.6	72.2	21.4	17.1

Numbers are the simple arithmetic average among countries in each region.

TABLE 2

	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka	Maldives	Afghanistan
STARTING A BUSINESS								
Number of procedures	8	11	11	7	11	8	..	..
Time (days)	35	62	89	21	24	50	..	..
Cost (% of income per capita)	91.0	11.0	49.5	74.1	36.0	10.7	..	..
Minimum capital (% of income per capita)	0.0	0.0	0.0	0.0	0.0	0.0	..	..
HIRING AND FIRING WORKERS								
Difficulty of hiring index	11	78	33	22	78	0	..	..
Rigidity of hours index	40	60	20	20	40	40	..	..
Difficulty of firing index	20	10	90	90	30	80	..	..
Rigidity of employment index	24	49	48	44	49	40	..	..
Firing cost (weeks of salary)	47	94	79	90	90	108	..	..
REGISTERING PROPERTY								
Number of procedures	..	4	6	..	5	8	..	..
Time (days)	..	44	67	..	49	63	..	..
Cost (% of property value)	..	1.0	12.9	..	4.2	5.1	..	..
GETTING CREDIT								
Cost to create collateral (% of income per capita)	21.3	0.6	11.3	2.4	11.5	0.7	..	..
Legal rights index	..	..	4	4	4	3	..	..
Credit information Index	3	0	0	3	4	2	0	..
Public registry coverage	7	0	0	1	2	0	0	..
Private bureau coverage	0	0	17	0	3	19	0	..
PROTECTING INVESTORS								
Disclosure Index	3	1	4	3	4	4	1	..
ENFORCING CONTRACTS								
Number of procedures	29	20	40	28	46	17	28	..
Time (days)	365	275	425	350	395	440	194	..
Cost (% of debt)	21.3	113.8	43.1	25.8	35.2	21.3	8.7	..
CLOSING A BUSINESS								
Time (years)	4.0	no practice	10.0	5.0	2.8	2.2	6.7	..
Cost (% of estate)	8	no practice	8	8	4	18	4	..

Notes

- 1 South Asia includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan will be recorded for the first time in *Doing Business in 2006*. Bhutan and Maldives have been partially analyzed starting with *Doing Business in 2005*, while the coverage for the remaining countries started with *Doing Business in 2004*.
- 2 See Data Notes section for a full description of the indicators.
- 3 The Ease of Doing Business Index is the simple average of country rankings (from 1 to 135) in each of the 7 topics covered in *Doing Business in 2005*. The ranking for each topic is the simple average of rankings for each of the indicators. The *starting a business* ranking averages the country rankings on the procedures, days, cost and minimum capital requirement to register a business. The *hiring and firing* ranking averages the country rankings on the rigidity of employment index and firing costs. The *property* ranking averages the country rankings on the procedures, time and cost to register property. The *credit* ranking sums the credit information availability and legal rights scores. The *enforcing contracts* ranking averages the country rankings on the procedures, time and cost to enforce contracts. And the *protecting investors* and *closing a business* rankings are based on the disclosure index and recovery rates, respectively. The ease of doing business measure ranges from 1 to 135, with higher values indicating more efficient regulation and stronger protections of property rights.
- 4 *Doing Business* does not yet have complete data for Maldives or Afghanistan.
- 5 There are, of course, exceptions to the averages discussed in this section. For example, Sri Lanka requires 28 days of paid annual leave, high compared with other countries and a source of concern for the private sector.
- 6 The Difficulty of Firing index has 8 components: (1) whether redundancy is not grounds for dismissal; (2) whether the employer needs to notify the labor union or the labor ministry for firing 1 redundant worker; (3) whether the employer needs to notify the labor union or the labor ministry for group dismissals; (4) whether the employer needs approval from the labor union or the labor ministry for firing 1 redundant worker; (5) whether the employer needs approval from the labor union or the labor ministry for group dismissals; (6) whether the law mandates training or replacement prior to dismissal; (7) whether priority rules apply for dismissals; and (8) whether priority rules apply for reemployment. The index has values between 0 and 100, where 0 corresponds to a country where it is easier to fire a worker, while 100 corresponds to the most difficult countries.
- 7 For comparability, the cost of firing measure refers to a specific case example. Refer to Data Notes for details. Actual severance payments can vary according to the length of service. For example in India, it is on average 15 days per year of service, in Pakistan, 20 days. According to a new compensation table issued in March 2005, in Sri Lanka an employer must pay 42-75 days for each year of service.
- 8 Sri Lanka's bureau is owned 49% by the Central Bank. India's bureau is 40% owned by the State Bank of India, 40% by HDFC, 10% by Dun and Bradstreet, and 10% by Trans Union International (although there are plans to further increase private ownership). The main bureau in Pakistan is 100% privately owned. The Nepalese registry has recently been re-registered as a company, with 90% owned by banks and financial institutions and 10% by the central bank. Because the data in this report are benchmarked as at January 2004, the Nepal registry remains classified as publicly owned.
- 9 The five areas considered for the analysis of reforms are: entry regulations, labor market regulations, contract enforcement, credit information, and bankruptcy regulations.
- 10 As of May 2005, the shareholding distributions is the following: State Bank of India, 16.25%; Housing Development Finance Corporation Ltd. 16.25%, Trans Union International Inc. 10%; Dun & Bradstreet, 10%; ICICI Bank Ltd., 10%; Sundaram Finance Ltd. 2.5%, and The Hong Kong and Shanghai Banking Corporation Ltd., Citicorp Finance (India) Ltd, Union Bank of India, Punjab National Bank, Central Bank of India, Bank of India, and Bank of Baroda with 5% each.
- 11 The gains are based on a hypothetical improvement to the average of the top quartile of countries on the ease of doing business indicator. Standard growth regression analysis estimates the relationship between 10 year average annual GDP growth rates and the ease of doing business indicator. The analysis controls for income, government expenditure, primary and secondary school enrollment, inflation, investment, civil conflict and region. The relationship is robust using 5, 15 and 20-year growth rates, as well as when controlling for trade, ethnolinguistic fractionalization, latitude, and in instrumental regressions. See Djankov, Simeon, Caralee McLiesh, and Rita Ramalho. 2004. "Growth and the Ease of Doing Business," Working Paper, World Bank, Washington, DC. In this analysis, and elsewhere unless otherwise stated, the country data for India and Pakistan is for the largest business city, for comparability with other countries.
- 12 In Sri Lanka, legislation applies to firms of 15 or more workers, in Nepal, 20, and in India, 100.
- 13 Echeverry, Juan Carlos and Mauricio Santa Maria. 2004. "The Political Economy of Labor Reform in Colombia," World Bank Development Report Background Paper, World Bank, Washington, DC.
- 14 WEF (World Economic Forum). 2004. *The Global Competitiveness Report 2003-2004*, Oxford University Press, New York, NY.
- 15 *Doing Business* database.

Appendix I

Summary Doing Business indicators for South Asia compared across countries

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

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

Doing Business in 2005: Removing Obstacles to Growth is the second in a series of annual reports investigating the scope and manner of regulations that enhance business activity and those that constrain it. New quantitative indicators on business regulations and their enforcement can be compared across 145 countries—from Albania to Zimbabwe—and over time. The

indicators are used to analyze economic outcomes and identify what reforms have worked, where, and why.

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

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

Most importantly, the analysis has direct relevance for policy reform. Two features facilitate this. First, *Doing Business* studies the effects of the indicators on economic and social outcomes. This enables policy mak-

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

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

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

- Starting a Business: Entry Regulation
- Hiring and Firing Workers: Employment Regulation
- Registering Property: Regulation of Property Transfers
- Getting Credit: Legal Rights and Credit Information
- Protecting Investors: Corporate Governance
- Enforcing Contracts: Court Efficiency
- Closing a Business: Bankruptcy

A full set of topics will be built over a period of three years. New topics will include business licensing and inspections, taxation, and trading across borders. Once published, each topic will be updated annually. The data published here are benchmarked to January 2004.

The data set covers 145 economies: 33 from Africa, 22 from East Asia and the Pacific region, 8 from South Asia, 26 economies from Europe and Central Asia, 21 from Latin America, 14 countries in the Middle East and North Africa, and also includes 22 high-income OECD economies as benchmarks. The sample covers every economy with a population greater than 1.5 million, except for six economies that are not members of the World Bank or are inactive International Development Association borrowers. It also includes nine Pacific Islands, Bhutan and the Maldives. Inclusion of other economies with less than 1.5 million population may be considered on a case by case basis upon request by Governments or World Bank departments.

The following pages present the summary Doing Business indicators for South Asia. Further information is available in the full report *Doing Business in 2005: Removing Obstacles to Growth*, which presents the indicators, analyses their relationships with economic outcomes and recommends reforms. The data, and information on ordering the report, is also available online at <http://rru.worldbank.org/doingbusiness>.

Starting a Business: Entry Regulation

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

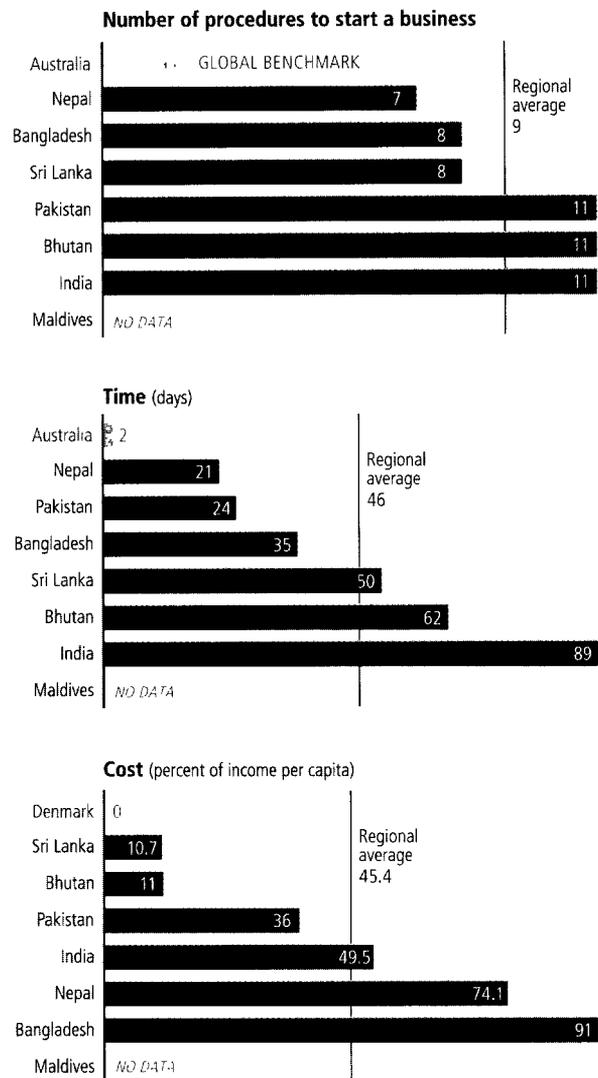
Economies differ significantly in the way in which they regulate the entry of new businesses. In some economies the process is straightforward and affordable. In others, the procedures are so burdensome that entrepreneurs have to bribe officials to speed up the process or they decide to run their business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

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

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

FIGURE A1.1

Benchmarking entry regulations



Source: Doing Business database.

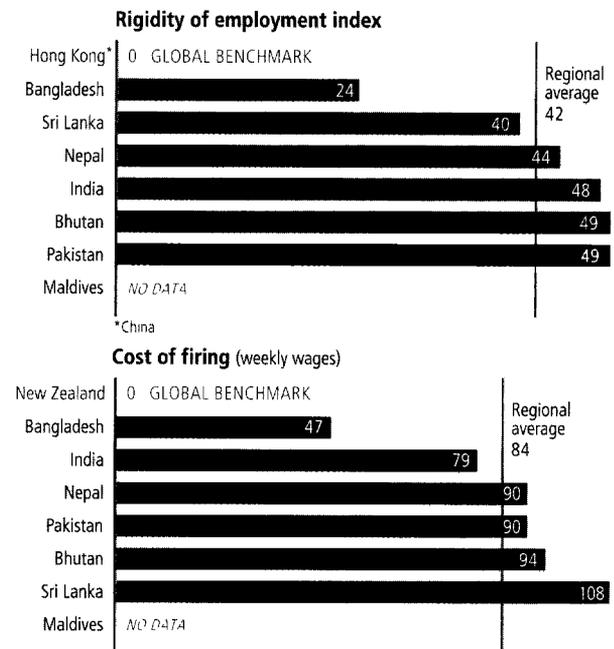
Across countries, cumbersome entry procedures are associated with more corruption, particularly in developing countries. Each procedure is a point of contact—an opportunity to extract a bribe. Empirical analysis shows that burdensome entry regulations do not increase the quality of products, make work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

Hiring and Firing Workers: Employment Regulation

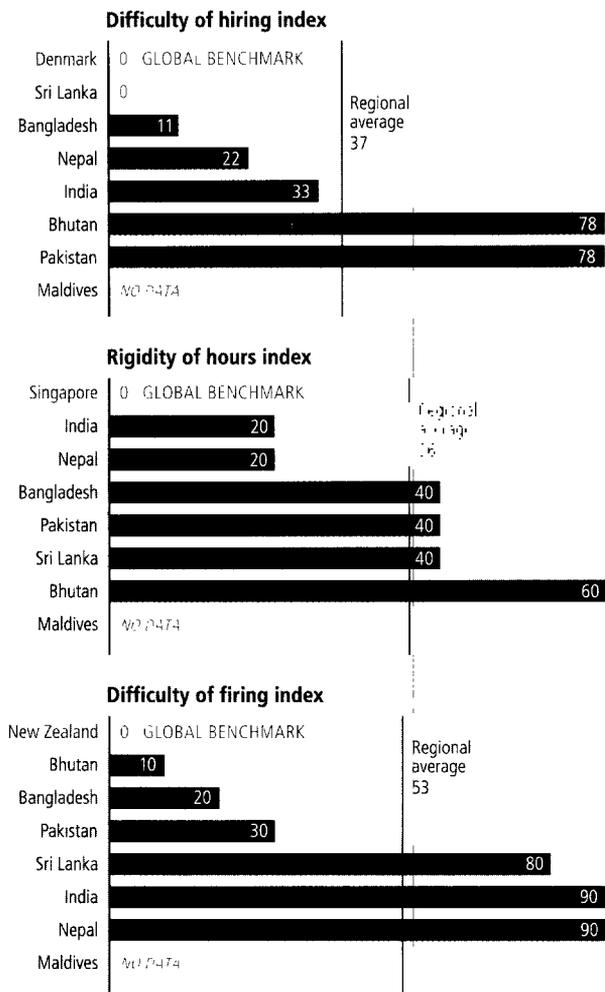
Every economy has established a complex system of laws and institutions intended to protect the interests of workers and to guarantee a minimum standard of living for its population. This system encompasses four bodies of law: employment laws, industrial relations laws, occupational health and safety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

Two measures are presented: an employment regulation index and a cost of firing measure. The employment regulation index is an average of three sub-indices: difficulty of hiring, rigidity of hours, and difficulty of firing. Each index takes values between 0 and 100, with higher values implying more rigid regulation. Difficulty of hiring covers the regulation of fixed-term contracts (on duration and use) and the minimum wage relative to the average value added per worker. Rigidity of hours covers restrictions on weekend and night work, working time requirements, and mandated days of annual leave with pay. Difficulty of firing covers workers' legal protections against dismissal, including the grounds for dismissal, and procedures for dismissal (individual and collective). A cost of firing indicator measures the cost of advance notice requirements, severance payments and penalties due when firing a worker, expressed in terms of weekly wages.

FIGURE A1.2
Benchmarking employment regulations



Source: *Doing Business* database.



Source: Doing Business database.

The indicators on employment regulations are based upon a detailed study of employment laws. Data are also gathered on the specific constitutional provisions governing these two areas. Both the actual laws and a secondary source were used to ensure accuracy. Finally, all data are verified and completed by local law firms through a detailed survey on employment regulations.

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

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

Registering Property: Regulation of Property Transfers

Property registries were first developed to help raise tax revenue. Defining and publicizing property rights through registries has proven good for entrepreneurs as well. Land and buildings account for between half and three-quarters of country wealth in most economies. 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.

Doing Business measures the ease of registering property, assuming a standardized case of an entrepreneur who wants to purchase land and building in the largest business city. It is assumed the property is already registered and free of title dispute. The data cover the full sequence of procedures necessary to transfer the property title from the seller to the buyer. Every required procedure is included, whether it is the responsibility of the seller, the buyer, or where it is required to be completed by a third party on their behalf.

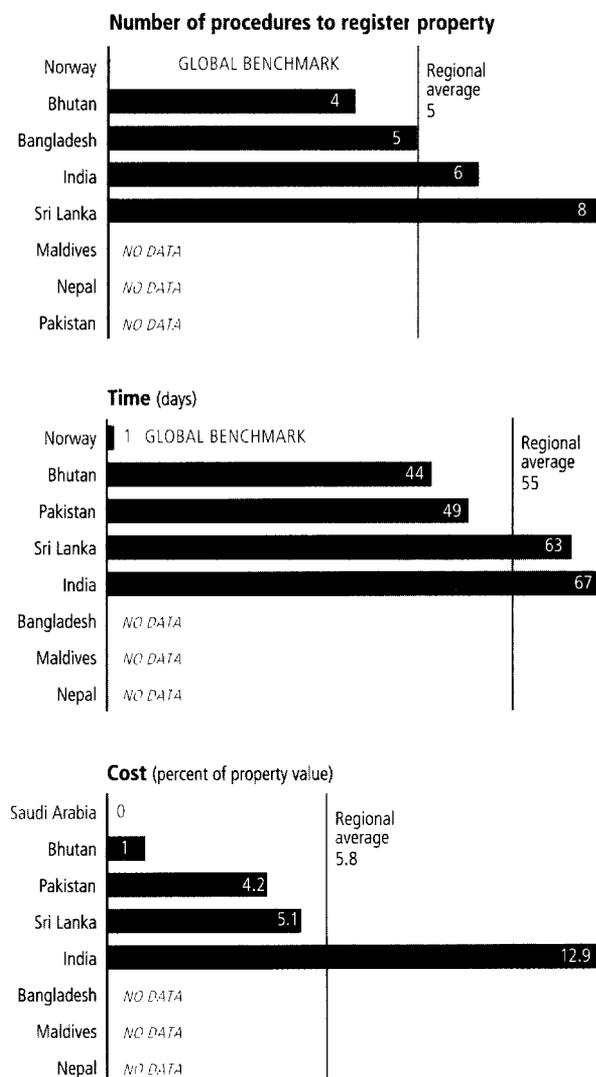
Local property lawyers and property registries provide information on required procedures, as well as the time and the cost to fulfill each of them. In most countries, the data are based on responses by both lawyers and officials in the property registries. Based on the responses, three indicators are constructed:

- Number of procedures to register property
- Time to register property (in calendar days)
- Official costs to register property (as a percentage of the property value)

A large proportion of property in developing countries is not formally registered, limiting the financing opportunities for businesses. Recognizing these obstacles, governments have embarked on extensive property titling programs in developing countries. Yet bringing assets into the formal sector is of little value unless they stay there. Many titling programs in Africa were futile because people bought and sold property informally-neglecting to update the title records in the property registry. Why? *Doing Business* shows that in the average African country a simple formal property transfer in the largest business city costs 14% of the value of the property and takes more than 100 days. Worse, the property registries are so poorly organized that they provide little security of ownership. For both reasons, formalized titles quickly go informal again.

Efficient property registration reduces transaction

FIGURE A1.3
Benchmarking property registration



Source: *Doing Business* database.

costs and helps keep formal titles from slipping to informal status. Simple procedures to register property are also associated with more perceived security of property rights and less corruption. This benefits all entrepreneurs, especially small ones. The rich have few problems protecting their property rights. They can afford the costs of investing in security systems and other measures to defend their property. But small entrepreneurs cannot. Reform can change this. Across countries, firms of all sizes report that their property rights are better protected in countries with more efficient property registration, but the relationship is much stronger for small firms.

Getting Credit: Legal Rights & Credit Information

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

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

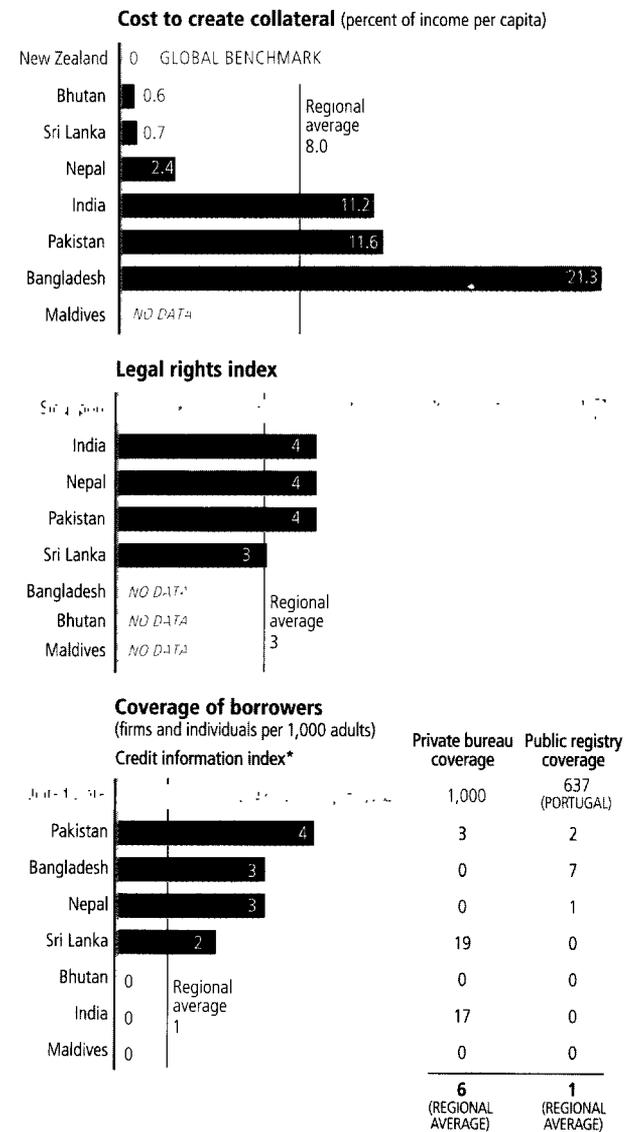
Effective regulations on secured lending—through collateral and bankruptcy laws—are another institutional solution to credit constraints. With collateral, a lender can seize and sell the borrower's secured assets upon default of a loan, which limits the potential losses of a lender and acts as a screening device of borrowers.

The legal rights indicator measures ten powers of borrowers and creditors in collateral and bankruptcy laws, including whether:

- general rather than specific descriptions of assets and debt are permitted in collateral agreements (expanding the scope of assets and debt covered);
- any legal or natural person may grant or take security over business credits;
- a unified registry including charges over movable property operates;
- security provides priority both in and outside bankruptcy;
- parties may agree on enforcement procedures by contract;
- creditors may both seize and sell collateral out of court, no automatic stay or "asset freeze" applies upon bankruptcy, and the bankrupt debtor does not retain control of the firm.

A minimum score of 0 represents weak legal rights and the maximum score of 10 represents strong legal rights. Data were obtained by examining collateral and

FIGURE A1.4
Benchmarking legal rights



*The index measures whether either public or private credit registries have: both positive information, meaning loans outstanding and payment behavior on accounts in good standing—as well as negative information, meaning defaults and arrears; data on both firms and individuals; data from retailers, utilities and financial institutions; five or more years of historical data preserved, data on all loans above 1% of income per capita, and legal guarantees for the consumer's right to inspect their data. The index varies between 0 and 6, with higher values indicating broader information sharing.

Source: *Doing Business* database.

bankruptcy laws and legal summaries, and verified through a survey of financial lawyers.

These two measures are important indicators of well functioning credit markets. Across countries, stronger legal rights and more information sharing are associated with deeper credit markets and lower default rates. Firms in countries with credit registries and strong legal rights are less likely to report obstacles to obtaining finance. And the overall link between the development of financial markets and growth is well established.

Protecting Investors: Corporate Governance

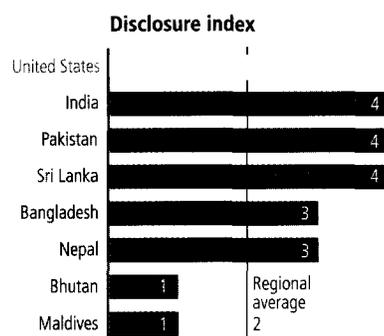
Enron, Parmalat, Bank of Credit and Commerce International are high profile cases of failures in corporate governance in rich countries. But good corporate governance is just as relevant for entrepreneurs in poor countries that seek equity from business partners. Potential investors everywhere worry about expropriation by controlling owners or managers. Whether in rich or poor countries, the same principles of good corporate governance apply.

Preventing expropriation and exposing it when it occurs requires legal protection of shareholders, enforcement capabilities, and—the focus of *Doing Business in 2005*—disclosure of ownership and financial information. Whether small investors decide to go to court, file a complaint with the regulator or feed the information to the media and embarrass the insider, better information disclosure helps.

The database presents an index of disclosure that captures seven ways of enhancing disclosure: whether laws and regulations require reporting (i) family, (ii) indirect and (iii) beneficial ownership; (iv) disclosing information on voting agreements between shareholders; (v) audit committees reporting to the board of directors; (vi) use of external auditors; and (vii) ownership and financial information is publicly available to all current and potential investors. The index varies between 0 and 7, with higher values indicating more disclosure.

The data come from a survey of corporate and securities lawyers and are based on relevant corporate governance laws and regulations applicable to a standard company. Only general rules—as opposed to those applicable to companies within a particular industry—are considered. In building the data, the highest available level of disclosure is taken into account, reflecting the notion that small investors can put their money in public or private equity. In countries where stock exchange regulations and securities laws are in force, the disclosure index assesses these regulations. In other countries, the disclosure requirements come from the company law. So the indicators are relevant for private companies as well as publicly listed ones.

FIGURE A1.5
Benchmarking corporate governance



Source: *Doing Business* database.

To make the data comparable across countries, the survey outlines several detailed assumptions about the type of company, including that the company: has a board of directors and a chief executive officer, has only national shareholders, has only invested in the country and has no subsidiaries or operations abroad, and is not involved in the banking, power, telecommunications or insurance industries or any other industry with special regulations.

Investors benefit greatly from better disclosure. So do entrepreneurs. More disclosure is associated with larger equity markets, higher stock turnover and fewer perceived obstacles to obtaining equity finance. If expropriation remains unpunished, few would dare invest in business partnerships or publicly listed companies. The result: businesses would not reach efficient size for lack of financing and economic growth would be held back.

Enforcing Contracts: Court Efficiency

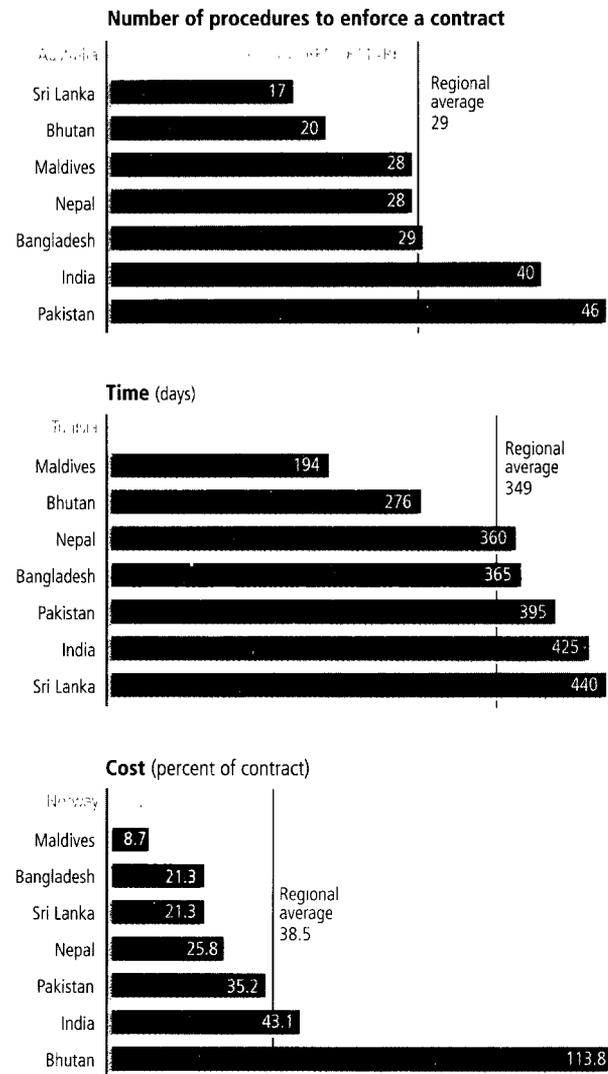
Contract enforcement is critical for businesses to engage with new borrowers or customers. The institution that enforces contracts between debtors and creditors, suppliers and customers, is the courts. In many countries around the world, courts are slow, inefficient, and even corrupt. The evidence here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

The indicators on contract enforcement are constructed assuming a standardized case of a payment dispute over 200% of income per capita in the country's most populous city. The data track the procedures to recover the debt through the courts (or through an administrative process, if available and preferred by creditors). It is assumed that the plaintiff has fully complied with the contract (plaintiff is 100% right) and files a lawsuit to recover the debt. The debtor attempts to delay and raises opposition to the complaint. The judge decides every motion for the plaintiff. There are no appeals or post-judgment motions. The data are derived from reading of the Codes of Civil Procedures and other court regulations, as well as administering surveys to local litigation attorneys. The respondents are members of the Lex Mundi or Lex Africa association of law firms, with at least two lawyers participating in each country.

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

Companies that have little or no access to efficient courts must rely on other mechanisms—both formal and informal, such as trade associations, social networks, credit bureaus or private information channels—to decide with whom to do business and under what conditions. Companies may also adopt conservative business practices and deal only with repeat customers. Transactions

FIGURE A1.6
Benchmarking contract enforcement



Source: Doing Business database.

are then structured to forestall disputes. Whichever alternative is chosen, economic and social value may be lost. The main reason to regulate procedures in commercial dispute resolution is that informal justice is vulnerable to subversion by the rich and powerful. But heavy regulation of dispute resolution has negative consequences. Across countries, the more procedures it takes to enforce a contract, the longer the delays and the higher the cost. Moreover, higher levels of complexity in the procedures to enforce a contract are associated with perceived unfairness, corruption, inconsistency and dishonesty in the judiciary.

Closing a Business: Bankruptcy

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

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

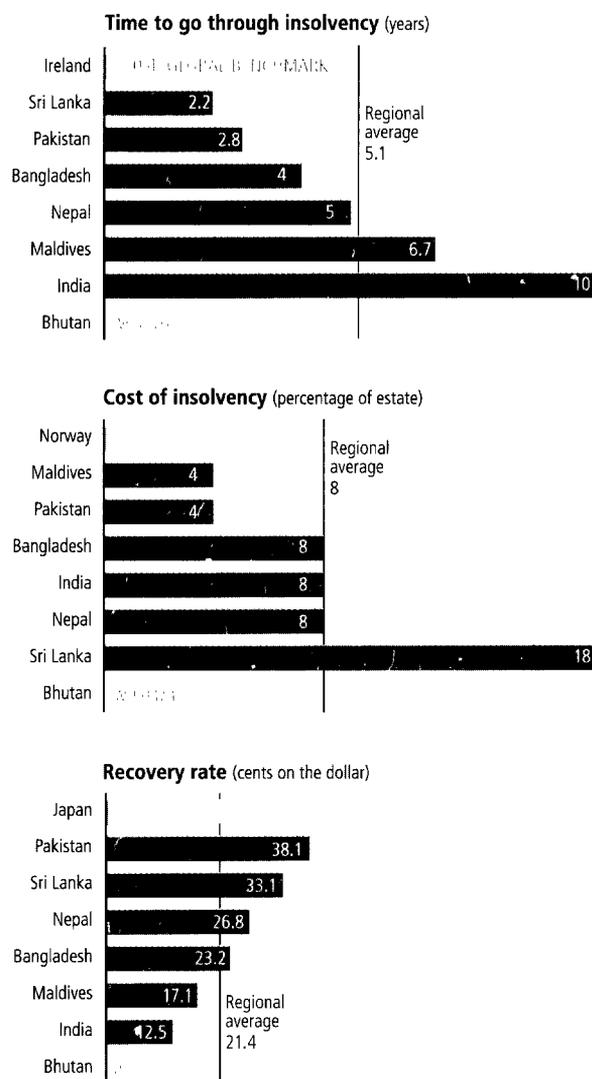
The indicators are derived from questionnaires answered by attorneys at private law firms and bankruptcy judges. Most respondents are members of the International Bar Association.

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

Three indicators were constructed from the survey responses: the time and cost to go through the insolvency process, and a measure of the proportion of the insolvency estate recovered by stakeholders - taking into account the time, cost, depreciation of assets and the outcome of the insolvency proceeding.

Countries with ill-functioning judiciaries are better off without sophisticated bankruptcy systems. There is a general misperception that bankruptcy laws are needed to enforce creditor rights. In practice, the laws usually exacerbate legal uncertainty and delays in developing countries. Private negotiations of debt restructuring

FIGURE A1.7
Benchmarking bankruptcy



Source: *Doing Business* database.

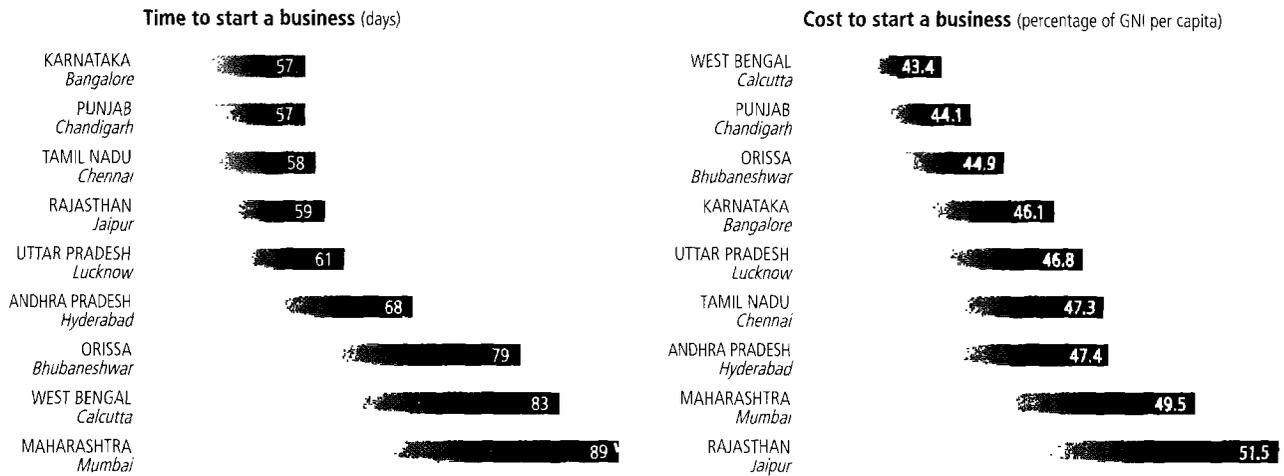
under contract law, the efficient enforcement of secured debt contracts outside insolvency under collateral law, through summary judgments and private enforcement will do better. Bankruptcy law is often oriented towards closing down unviable companies. But sometimes the bias toward discontinuing the business may lead to the premature liquidation of companies in temporary distress—and a loss of value to society.

Appendix II

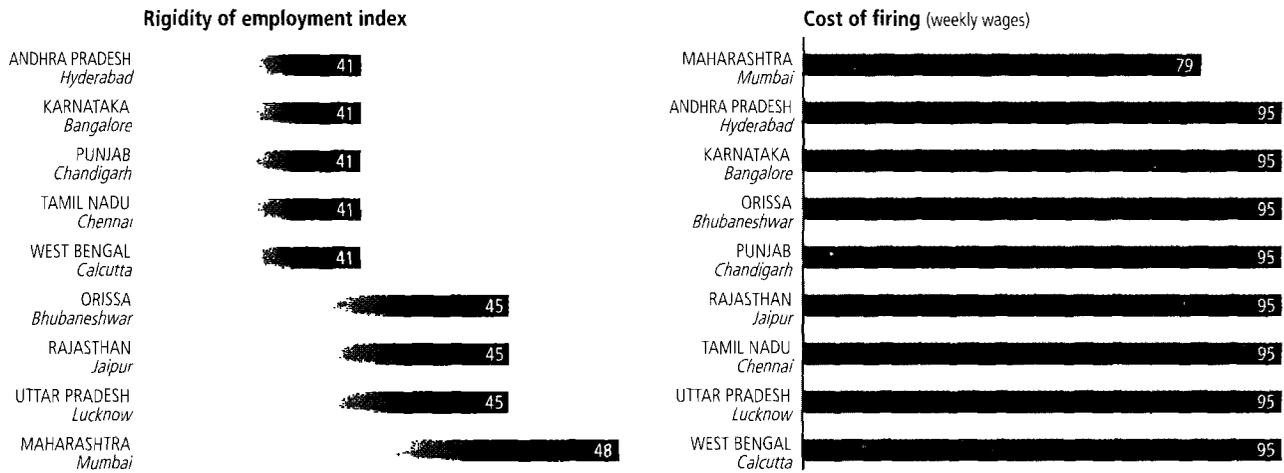
**Sub national Doing Business indicators
for India and Pakistan**

INDIA COMPARED ACROSS REGIONS

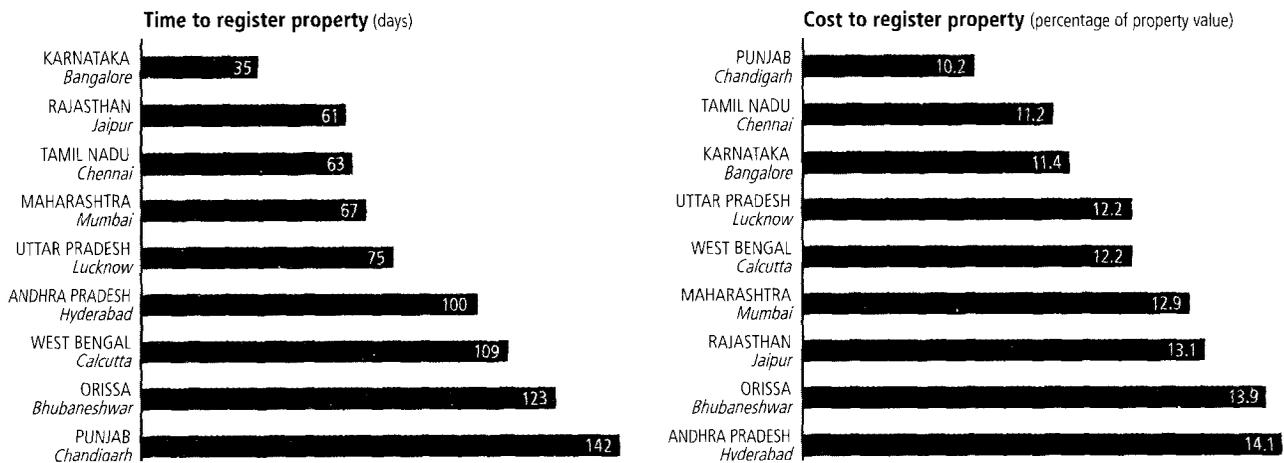
Entry regulation



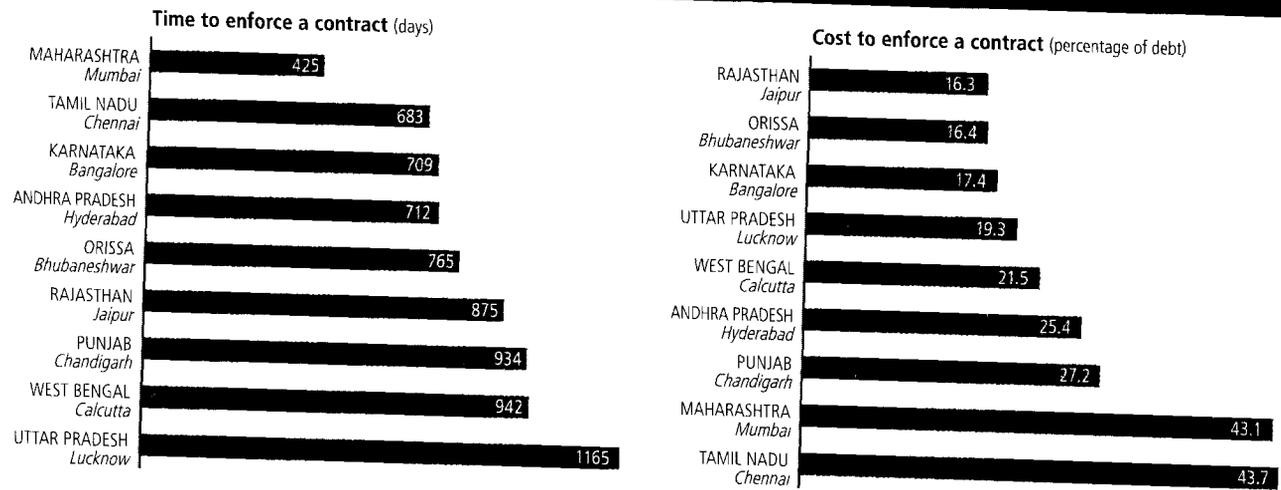
Employment regulation



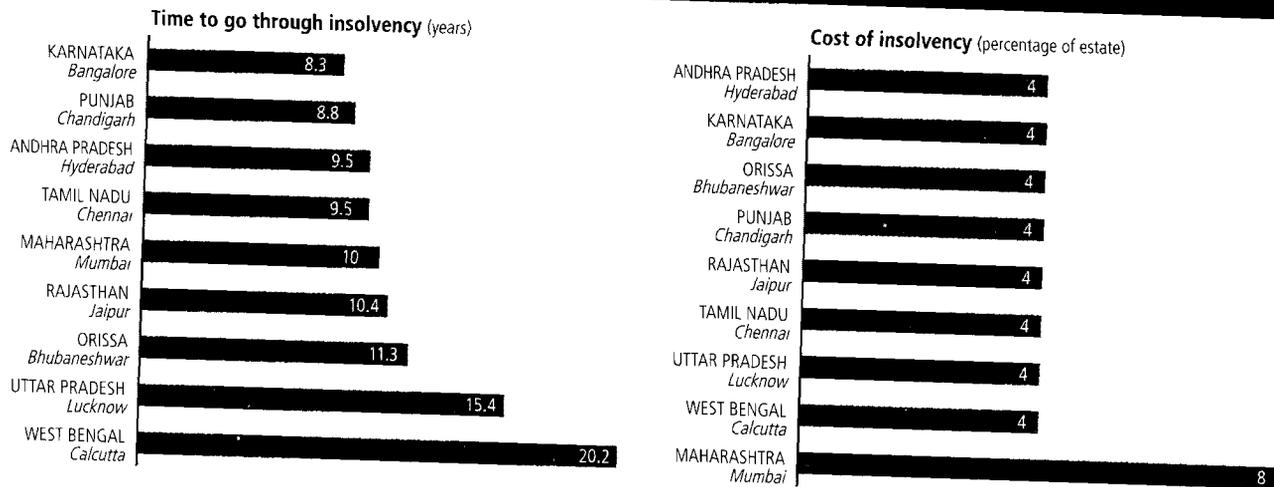
Registering property



Contract enforcement

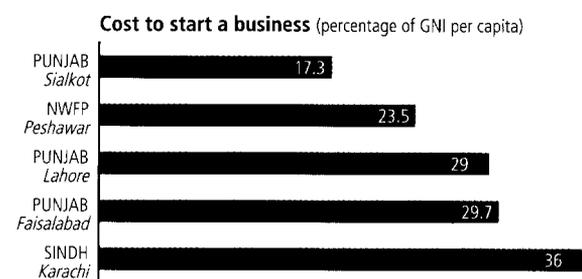


Bankruptcy

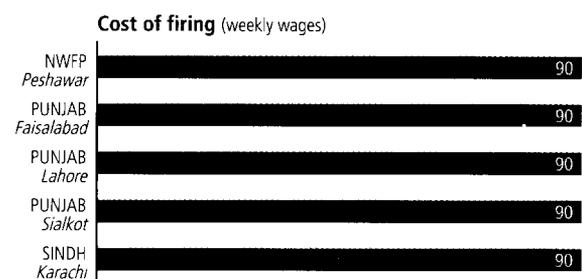
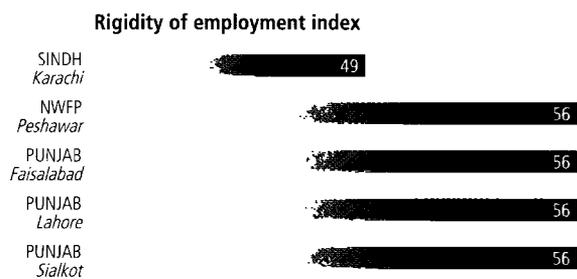


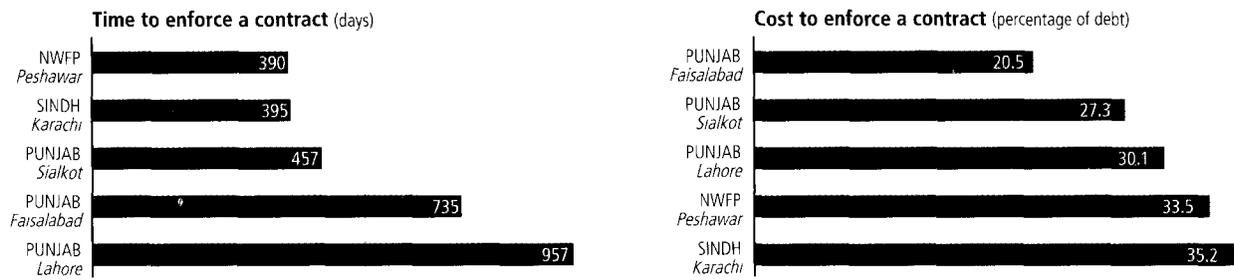
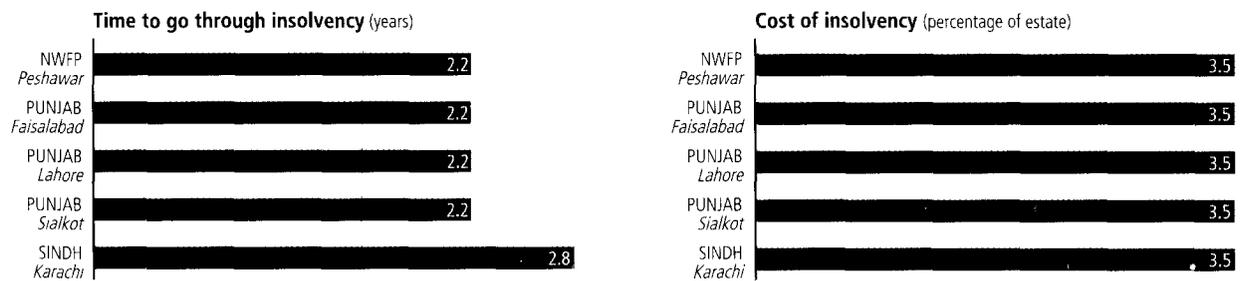
PAKISTAN COMPARED ACROSS REGIONS

Entry regulation



Labor regulation

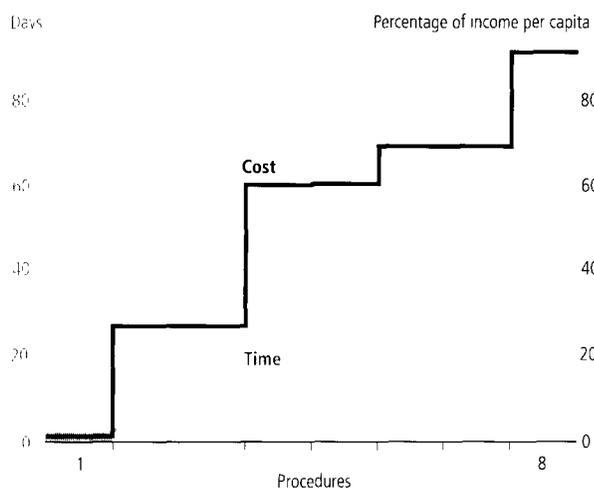


Contract enforcement**Bankruptcy**

Appendix III

Doing Business

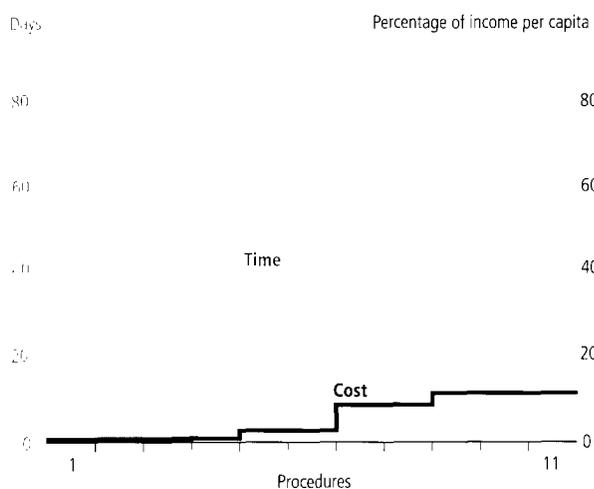
Data details

STARTING A BUSINESS NUMBER OF PROCEDURES, TIME AND COST**Bangladesh**

Number of procedures 8
 Time 35 days
 Cost 91% of income per capita
 Minimum capital 0

Procedures

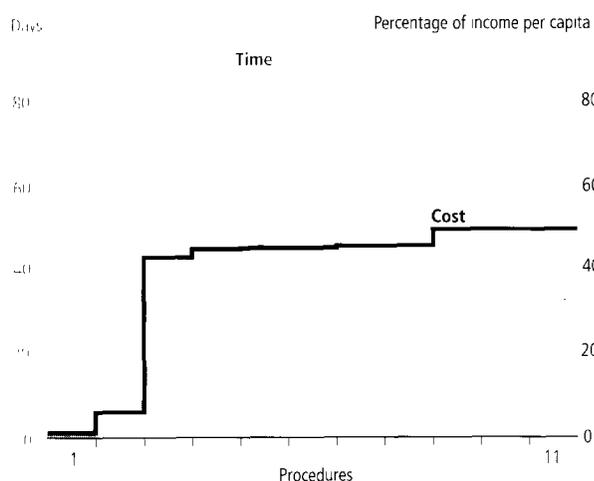
1. Verify the company name
2. Lawyers verify the Memorandum and Articles of Association
3. Buy stamps
4. File documents with the Registrar of Joint Stock Companies
5. Make a company seal
6. Register with the tax authority
7. Register for VAT
8. Obtain a trade license

Bhutan

Number of procedures 11
 Time 62 days
 Cost 11% of income per capita
 Minimum capital 0

Procedures

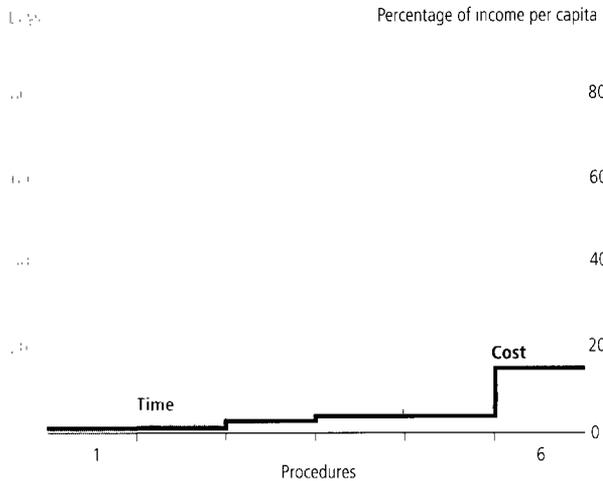
1. Search for a company name
2. Purchase an application form
3. Obtain a clearance from the City Council
4. Obtain a clearance from the Royal Bhutan Police
5. Apply for a trade/industrial license
6. Receive inspections
7. Register with the Commercial Registry/Registrar of Companies
8. Apply for tax payer identification number
9. Make a company seal
10. Open a bank account
11. File the evidence of operating a bank account with the ROC

India

Number of procedures 11
 Time 89 days
 Cost 49.5% of income per capita
 Minimum capital 0

Procedures

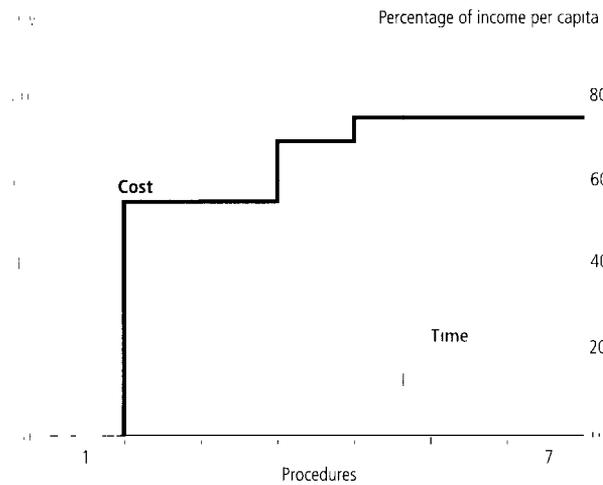
1. Obtain pre-approval of name, have documents vetted
2. Stamp the Memorandum and Articles of Association
3. File for registration
4. Make a seal
5. Obtain PAN
6. Obtain TAN
7. File for sales tax
8. Register for Profession Tax
9. Register with Mumbai Shops and Establishment Act
10. File for EPF
11. File for ESIC

Maldives

Number of procedures 6
 Time 12 days
 Cost 16% of income per capita
 Minimum capital 0

Procedures

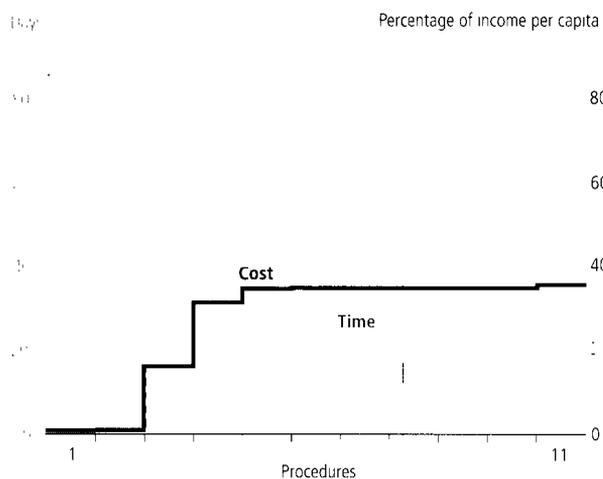
1. Search for a company name
2. Deposit the initial capital in a bank and obtain a bank statement
3. Have a notary certify the company statutes and signatures
4. Make a company seal
5. Pay registration fees
6. Register with the Registrar of Companies

Nepal

Number of procedures 7
 Time 21 days
 Cost 74% of income per capita
 Minimum capital 0

Procedures

1. Verify the proposed company name
2. A professional verifies and certifies the memorandum and articles of association.
3. Buy a stamp to be attached to registration form
4. File documents with the Company Registrar's Office
5. Make a company seal/rubber stamp
6. Register with Tax office
7. Enroll the employees in provident fund

Pakistan

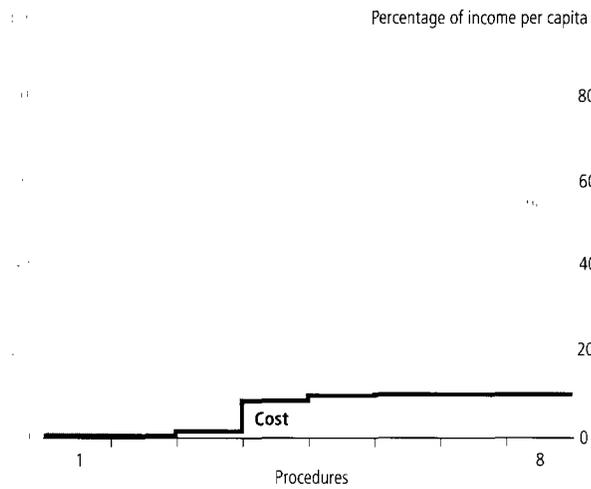
Number of procedures 11
 Time 24 days
 Cost 36% of income per capita
 Minimum capital 0

Procedures

1. Check name for uniqueness
2. Pay bank fee for procedures 1, 3 and 4
3. Stamp memorandum and articles at Treasury
4. Register at Registrar of Companies
5. Make a company seal
6. Apply for a National Tax Number
7. Register for sales tax
8. Register for professional tax
9. Register with the Employee Social Security Institution
10. File for old age benefits
11. Register with Pakistan Shops & Establishment

STARTING A BUSINESS

Sri Lanka



Number of procedures 8
 Time 50 days
 Cost 11% of income per capita
 Minimum capital 0

- Procedures
1. Obtain pre-approval of name
 2. File deed with registrar for verification
 3. Notarize deeds
 4. Obtain a registration certificate
 5. Make a company seal
 6. File Forms with the Registrar of Companies
 7. Register for taxes
 8. Register at the department of labor

Vc133r8c451

HIRING AND FIRING WORKERS INDICATORS BY COUNTRY

	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
HIRING AND FIRING INDICATORS (2004)						
Difficulty of Hiring Index	11	78	33	22	78	0
Rigidity of Hours Index	40	60	20	20	40	40
Difficulty of Firing Index	20	10	90	90	30	80
Rigidity of Employment Index	24	49	48	44	49	40
Firing costs (weeks)	47	94	79	90	90	108

Note: The first three indices measure how difficult it is to hire a new worker, how rigid the regulations are on working hours, and how difficult it is to dismiss a redundant worker.

HIRING AND FIRING WORKERS CONSTRUCTION OF THE INDICES

■ = YES = NO

	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
CONSTITUTION	Has there been a constitutional change since January 1st 2003? The answer is Yes, if a totally new Constitution has been adopted since January 2003 or if an amendment affecting workers right has been adopted					
DIFFICULTY OF HIRING QUESTIONS						
PART-TIME CONTRACTS	Part-time employment is prohibited? The answer is Yes if part-time employment is prohibited by the labor laws. The answer No if part-time work is expressly allowed or if labor laws are silent thereon.					
		■			■	■
	Part-time workers are exempt from mandatory benefits of full-time workers? The answer is No if a part-time worker working half the time of a full-time worker enjoys at least half of the benefits enjoyed by the full-time worker.					
				■		
	It is easier or less costly to terminate part-time workers than full-time workers? The answer is No if part-time workers working half time enjoy at least half of the legal rights to advance notice and separation fees for the termination of the employment contract of full time workers					
				■		
FIXED-TERM CONTRACTS	Fixed-term contracts are only allowed for fixed-term tasks? The answer is Yes if fixed-term contracts are allowed only: (i) for jobs that are temporary by nature; (ii) temporary vacancies to replace a permanent worker in maternity or sickness leave, (iii) for training contracts, (iv) for seasonal work, or (v) if the law expressly states that the will of the parties involved in the contract is not a good enough reason for entering into a fixed-term contract. The answer is No otherwise					
		■	■		■	
	What is the maximum duration of fixed-term contracts (in months)? This variable measures the maximum cumulative duration of fixed-term contracts. If there is no legally mandated ceiling or if fixed-term contracts may be renewed without limit, please say no limit					
	NO LIMIT	12	NO LIMIT	NO LIMIT	9	NO LIMIT
MINIMUM WAGE	Is there a mandatory minimum wage? The answer is Yes if there is a mandatory minimum wage by law or mandatory collective agreement.					
	■	■	■	■	■	■
	If yes, what was the minimum wage in local currency in January 2004?					
	23 (Tk1400)	45 (Nu 100)	25 (Rs 50/day)	Nrs. 90.00 (ADU:TS)/day Nrs. 73.00 (MINORS)/day	Rs. 2500 /month	\$37
	Is there an apprentice wage, lower than the minimum wage, for first-time workers? The answer is Yes if there is a apprentice wage set below or as a percentage of the mandated minimum wage by law or mandatory collective agreement.					
				■	■	■
	If yes, what was the apprentice wage in local currency in January 2004?					
			75%	NA	40%	80%12

HIRING AND FIRING WORKERS CONSTRUCTION OF THE INDICES

■ = YES =NO

<i>continued</i>		Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
CONDITIONS OF EMPLOYMENT							
HOURS OF WORK	What is the mandatory minimum daily rest? Limits may be defined either as mandatory minimum continuous rest hours between two working days, or 24 hours minus mandatory maximum regular and overtime working hours per day.	12	14	0	12	15	0
	What is the maximum number of working hours allowed in a day? This is the sum of normal working hours plus maximum overtime hours allowed in a single day.	9	8	9	12 (8 NORMAL+ 4 OVERTIME)	MAX OT NOT FIXED	8
	What is the maximum number of hours in a normal work week? This variable measures the maximum duration of the regular workweek (excluding overtime).	48	48	48	48 (36 FOR MINORS)	48	45
	Are there limitations on the number of overtime hours allowed? Limitations can be defined as a cap on overtime hours of work per either day, week, month or year.			■	■		■
	If Yes, what are these limitations? Limitations can be defined as a cap on overtime hours of work per either day, week, month or year. Please define the cap and the time frame, for example 380 overtime hours in a year (France).	12 hr. /week	10 /week	200 hr. /year	4 hr./day & 20 hr /week	NA	15 hr. /week
	What is the premium for overtime work? If premium is a function of the number of overtime hours (brackets of overtime hours), please define all the brackets and their corresponding premium.	100%	100%	100%	150%	25%	50%
	There are restrictions on night work? This answer is Yes if by law or mandatory collective agreement: (i) there are restrictions on the maximum number of hours of work that can be performed at night; and/or (ii) if there are specific premiums for night-time work. In all other cases, say No.		■		■	6 AM-6PM FOR WOMEN & MINORS	
	There are restrictions on "weekly holiday" work? The answer is Yes if by law or mandatory collective agreement there are restrictions on work during the weekly holiday (Sunday, Saturday or Friday, depending on the country). Restrictions include: (i) complete prohibition; (ii) express designation of certain day of the week as weekly holiday, which the employer cannot change unless with the worker's consent; (iii) specific maximum hours of work on such day; and (iv) special premiums for work on such day.	■			■	■	■
What is the maximum number of working days per week? The number of working days in a week can be limited by law or mandatory collective agreement that stipulates the number of days of rest per week, e.g., 1 full day of rest (Germany).	6.5	6	6	6	6	6	
LEAVE	Days of annual leave with pay in manufacturing after 20 years of continuous employment? This variable measures the number of days of the annual paid leave in manufacturing after twenty years of employment. If there is no minimum by law or mandatory collective agreement, the answer is zero.	20	30	12	18	14	21
	Are there paid mandatory holidays? Please do not count paid annual leave for this question. The answer is Yes if workers are granted paid time-off for national or local holidays by law or mandatory collective agreement.	■	■	■	■	■	■
	What is the number of paid mandatory holidays in a year? If only half a day (s) is (are) granted by law or collective agreements, please says so and provide their number per year.	12	14	12	31 (13 PUBLIC, 18 ANNUAL LEAVE, 15 SICK DAYS)	NOT FIXED	8

HIRING AND FIRING WORKERS CONSTRUCTION OF THE INDICES

■ = YES = NO

<i>continued</i>	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
DISMISSAL PROCEDURE						
The employer must notify a third party before dismissing one redundant employee? The answer is Yes if by law or mandatory collective agreement the employer must notify a third party (labor union, workers' council or government agency) before dismissing one redundant worker. The answer is No if the employer may dismiss one worker without notifying a third party, or if the employer may contract out of the prohibition.	■	■	■	■	■	■
The employer needs the approval of a third party to dismiss one redundant worker? The answer is Yes if by law or mandatory collective agreement the employer needs the approval of a third party (labor union, workers' council or government agency) to dismiss one redundant worker. The answer is No if the employer may dismiss one worker without the approval of a third party, or if the employer may contract out of the prohibition.	■	■	■	■	■	■
The employer must notify a third party prior to a collective dismissal? The answer is Yes if by law or mandatory collective agreement the employer must notify a third party (labor union, workers' council, government agency) before making a collective dismissal. The answer is No if the employer may dismiss more than one worker without notifying a third party, or if the employer may contract out of the prohibition.	■	■	■	■	■	■
The employer needs the approval of a third party prior to a collective dismissal? The answer is Yes if by law or mandatory collective agreement the employer needs the approval of a third party (labor union, workers' council or government agency) prior to a collective dismissal. The answer is No if the employer may dismiss workers without third party approval, or if the employer may contract out of the prohibition.	■	■	■	■	■	■
The law mandates retraining or replacement prior to dismissal? The answer is Yes if by law or mandatory collective agreement the employer must consider relocation or retraining alternatives for redundant employees prior to dismissal. It is No otherwise.						
There are priority rules applying to dismissal or lay-offs? The answer is Yes if by law or mandatory collective agreement there are priority rules applying to dismissal or lay-offs, i.e., in order to fire redundant employees, the employer must follow a specific order of seniority, marital status, number of dependants or other objective priority criteria. It is No otherwise.	■	■	■	■	■	■
There are priority rules applying to re-employment? The answer is Yes if by law or mandatory collective agreement there are priority rules applying to re-employment. The answer is No if former redundant employees need not be considered for new positions (i.e. there are no priority rules for re-employment).	■	■	■	■	■	■
DIFFICULTY OF FIRING						
It is unfair to terminate the employment contract without cause? Answer Yes if: (i) if the employer may not terminate the employment contract without cause; (ii) if the termination without cause always entails a mandatory penalty; or (iii) if the law bans the parties to enter into employment contracts that may be terminated by either party entirely at will or with a simple advance notice without any mandatory penalty.	■	■	■	■	■	■
The law establishes a public policy list of "fair" grounds for dismissal? The answer is Yes if the law establishes a public policy list of "fair" grounds for dismissal (other than dismissal for "grave misconduct"). The answer is No if there is no list of grounds for dismissal or if parties are allowed to contract out.	■	■	■	■	■	■
Is redundancy considered a "fair" ground for dismissal? The answer is No if redundancy ('retrenchment', 'termination for economic reasons', 'necessities of the company') is not considered a "fair" ground for dismissal by law, or if such dismissal always entails a mandatory penalty. It is No otherwise.	■	■				

HIRING AND FIRING WORKERS CONSTRUCTION OF THE INDICES

■=YES =NO

<i>continued</i>	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
DIFFICULTY OF FIRING						
NOTICE AND SEVERANCE PAYMENT						
Legally mandated notice period for redundancy dismissal (in weeks) after 20 years of continuous employment? This variable measures the length of the mandatory notice period for the dismissal of one redundant worker in manufacturing after twenty years of employment. If there is no minimum notice period by law the answer is zero. The answer is in weeks.	4	8	12	4	4	8
Severance pay for redundancy dismissal as number of months for which full wages are payable after continuous employment of twenty years? This variable measures the amount of the mandatory severance payment (including mandatory indemnity) for the dismissal of one redundant worker after twenty years of employment in manufacturing. If there is no severance payment by law the answer is zero. The answer is in months.	10	20	10	20	20	25
What is the legally mandated penalty for redundancy dismissal? This question measures the amount of mandatory penalty payment for the dismissal of one redundant worker in manufacturing after twenty years of employment. It should be expressed in weeks of pay.	0	0	24 weeks	20 months (1 month per year of service)	4 weeks per year of service	0
Severance pay for dismissal without cause as number of months for which full wages are payable after continuous employment of 20 years (Dismissal without cause)? This variable measures the amount of the mandatory severance payment (including mandatory indemnity) for the no cause dismissal of one worker after twenty years of employment in manufacturing. If there is no severance payment by law the answer is zero. The answer is in months.	20	20	NA	20	1 per year of service	?
What is the legally mandated penalty for dismissal without cause? This question measures the amount of mandatory penalty payment for the no cause dismissal of one redundant worker in manufacturing after twenty years of employment. It should be expressed in weeks of pay.	0	0	NA	4	4 per year of service	?

REGISTERING PROPERTY PROCEDURES**Bhutan**

Data as of: January 2004

City: Thimphu

Property value: \$ 33,000 = BNT 1,505,130

Procedure 1. File at the District Court of Thimphu for verdict date hearing, enclosing sale deed drawn between the parties

Time to complete: 3 days

Cost to complete: BTN 4,000

Comments:

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 at the day of file

The sale deed drawn up by the parties is enclosed, with no need of notary or witness of official for the deed.

Hearing is conducted and decision announced when the verdict will be formally issued.

Procedure 2. Verdict is announced in another hearing and a copy is given to the parties.

Time to complete: 10 days

Cost to complete: BTN 3,200

Comments:

On another hearing date, the verdict is announced and a copy of it is given to the parties.

This hearing and distribution of verdict is done by another bench of the same court, but not by the same bench who did the first miscellaneous hearing.

Procedure 3. 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: 30 days

Cost to complete: BTN 6,000

Comments:

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 whether he is genuine Bhutanese or not.

Procedure 4. Once it is approved, land ownership certificate/document is issued by the Land Department.

Time to complete: 1 day

Cost to complete: BTN 2,000

Comments:

The ownership certificate guarantees all legal rights to the owner.

India

Data as of: January 2004

City: Mumbai

Property value: \$ 26,500 = INR 1,208,665

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: INR 10,000

Comments:

The purchaser should take search of the property in the Registry and the Revenue Office. While investigating the title it should be verified (1) that the "Patta"/ legal ownership document, is in the name of the Owner, issued by the Revenue Department under the Seal of the Tahsildar, (2) that the Encumbrance Certificate (EC) for the preceding 31 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.

REGISTERING PROPERTY PROCEDURES*India continued***Procedure 2. Preparation and execution of Agreement and Memorandum at the Stamp Duty Office****Time to complete:** 7 days**Cost to complete:** INR 100**Comments:**

The property is not handed over at this stage.

Procedure 3. Give public notice inviting claims on the property**Time to complete:** 45 days**Cost to complete:** INR 1,000**Comments:**

The purchaser then inserts public notice, in English and vernacular newspaper inviting claims on the property, calls upon the vendors advocate to give original documents of the property, i.e title deeds etc. on accountable receipts.

In practice, it shall be most ideal for the purchaser to wait for a period of two months in order to detect any pending disputes with regard to the property that he is intending to purchase. During a period of two months, the purchaser may advertise as many times as he desires.

Procedure 4. The Final Sale Deed is prepared by the purchaser or his advocate**Time to complete:** 7 days**Cost to complete:** 1% of property value**Comments:**

Normally, the sale Deed, 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 5. Get the Final Sale Deed stamped, executed and registered in the presence of two witnesses.**Time to complete:** 2 days**Cost to complete:** 10% of the property value (stamp duty)**Comments:**

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 6. 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 property value (registration fee)**Comments:**

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.

REGISTERING PROPERTY PROCEDURES**Pakistan**

Data as of: January 2004

City: Karachi

Property value: \$ 23,500 = PKR 1,344,670

Procedure 1*. Advertisement of transaction in a newspaper inviting objections

Time to complete: 8 days

Cost to complete: PKR 3,000

Comments:

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

Comments:

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. 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)

Comments:

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 4. Receipt of payment is taken to Stamp Office

Time to complete: 1 day

Cost to complete: No additional cost

Comments:

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 5. Execution and registration of the deed before the registration authority

Time to complete: 38 days

Cost to complete: No cost

Comments:

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.

* Procedures 1 and 2 can take place simultaneously.

REGISTERING PROPERTY PROCEDURES**Sri Lanka***Data as of: January 2004**City: Colombo**Property value: 46,500 = LKR 4,498,317***Procedure 1*. A title search must be carried out at the relevant Land Registry****Time to complete:** 3-7 days**Cost to complete:** LKR 1,000**Comments:**

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 title to the property is clear. On confirmation that 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 1a. Obtain a Buyers Policy of Title Insurance (optional)**Time to complete:** 3 days**Cost to complete:** LKR 230,000**Comments:**

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**Comments:**

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**Comments:**

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)**Comments:**

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 seller 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)

Comments:

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

Comments:

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

Comments:

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

Comments:

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.

* Procedures 1, 2, and 3 can take place at the same time, but for title to be recommended in Procedure 1, the notary will have to peruse the documents in Procedure 2 as well

GETTING CREDIT INDICATORS BY COUNTRY

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
CREDITOR AND BORROWER RIGHTS (2004)							
Cost to create collateral (% of income per capita)	21.3	0.6	11.3	..	2.4	11.5	0.7
Legal Rights Index	..	..	4	..	4	4	3
FEATURES OF CREDIT INFORMATION SYSTEM (2004)							
Are both individuals and firms listed in credit registry?	Yes	No	No	No	Yes	Yes	No
Are both positive and negative data distributed?	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
Is five or more years of historical data preserved?	Yes	No	Yes	No	Yes	Yes	Yes
Is data on all loans larger than 1% of income per capita recorded?	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
Credit Information Index	3	0	3	0	3	4	2
CREDIT REGISTRIES COVERAGE (2004)							
Public credit registry coverage (borrowers per 1000 adults)	7	0	0	0	1	2	0
Private bureau coverage (borrowers per 1000 adults)	0	0	17	0	0	3	19

GETTING CREDIT**Bangladesh****General**

Name of the registry	CREDIT INFORMATION BUREAU
Year of establishment	August 18, 1992
Supervised by	Bangladesh Bank
Number of individuals/firms	619,915 (total) : 425,488 (individuals), 194,427 (firms)
Number of credit reports	283,823
Consultations per month	72,000
Number of employees	56

Scope of Information

Negative/positive data	Both negative and positive data available
Data collected	Name of borrower, address, tax ID, borrower's ownership of a business, presence on bad check list, court judgments; name of reporting institution, amount, type and maturity of the loan, type of collateral and guarantees securing the loan, defaults/cancelled debts, arrears/late. On firms also; name of owner(s), field of business activity.
Data distributed	Name of borrower, address, borrower's ownership of a business, presence on bad check list, court judgments; name of reporting institution, amount, type and maturity of the loan defaults/cancelled debts, arrears/late. On firms also; name of owner(s)
Information on defaults/late payments	Erased as soon as the loans have been repaid
Quality rating/classification	Included: each borrower has a unique rating that includes information on all the loans that they have taken in the financial system. This rating is available for distributions to financial institutions
Minimum loan size for inclusion	50,000 BDT for general loans and 10,000 BDT for credit card loans
Institutions providing data	50-25% of private commercial banks, 75-50% of public commercial banks, Less than 25% of Public development banks, and Finance corporations/leasing
Financial institutions report data (frequency)	Monthly/quarterly by banks and half yearly by financial institutions
Historical data (preserved)	Since inception in 1993
Historical data (available)	-
Format of data made available	Each outstanding loan is described individually
Shares data with	-
Value added services	Yes, sometimes our CIB makes inspections in bank branches and detect fraud/forgery

Access

Access limited to	Access is permitted only to information on borrowers who are clients of the financial institution
Institutions with access	Banking Supervisors, public and private institution that provide data, other government agencies
Reciprocity	Required
Access to borrower's own data	Not allowed
Fees	Yes. 50 BDT per credit report.
Means of data delivery	Written document
Time between request and release of data	Within the same day
Primary user	Supervised financial institutions

Data Quality

Types of data quality checks	Borrowers' complaints, statistical checks, special software, routine checks
Submission time requirement	Within 10 days after the end of reporting period—for loans over 10 million Taka Within 30 days after the end of reporting period—for loans under 10 million Taka
Time between data submission and its availability for distribution	3 hours after getting error free data from the sources
Time to correct reported errors	2 weeks – 1 month

Legal Framework

Law on operation of credit registries	Yes
Banks and reporting institutions are required to provide data	Yes
Banks and financial institutions are required to consult PCR before extending a loan	No
Legal penalties for reporting inaccurate data	Yes
Legal requirements to respond to consumer's complaint	No
By law borrower can access list of parties who requested his/her information	No
Laws restricting sharing of positive or negative information	Yes
Laws restricting length of preserving/distributing information on defaults	No
Laws restricting length of preserving/distributing historical information	No
By law borrower's consent is required for sharing his/her information	No

GETTING CREDIT**Pakistan****General**

Name of the registry	CREDIT INFORMATION BUREAU
Year of establishment	1992
Supervised by	State Bank of Pakistan
Number of individuals/firms	165,619 (total): 98,017 (individuals), 67,602 (firms)
Number of credit reports	218,152 (total): 82,375 (on individuals), 135,777 (on firms)
Consultations per month	18,179
Number of employees	12

Scope of Information

Negative/positive data	Both Negative and Positive data available for distribution
Data collected	Name of borrower, address, tax ID, borrower's ownership of a business; name of reporting institution, amount and type of loan; defaults, arrears, number of days loan is past due. On firms also: name of owner(s) of the firm, field of business activity
Data distributed	Name of borrower, address, borrower's ownership of a business; amount and type of loan ; defaults, arrears, number of days loan is past due.
Information on defaults/late payments	Erased from records as soon as they are repaid
Quality rating/classification	Not included
Minimum loan size for inclusion	500000 Pk.Rs.=8545 US\$
Institutions providing data	100-75% public and private commercial banks, public development banks, finance corporations/leasing
Financial institutions report data (frequency)	Monthly
Historical data (preserved)	More than 10 years
Historical data (available)	Current Month
Format of data made available	Loans are consolidated across the financial system
Shares data with	-
Value added services	No

Access

Access limited to	There are no restrictions on the type of information that can be accessed
Institutions with access	Banking supervisors, public and private financial institutions that provide data, other government agencies
Reciprocity	Required
Access to borrower's own data	Not allowed
Fees	100 Pak. Rs.
Means of data delivery	Via modems or dedicated phone lines
Time between request and release of data	Immediate online access
Primary user	Banking supervisors, Supervised Financial institutions, other non-supervised financial institutions

Data Quality

Types of data quality checks	Routine checks, borrowers' complaints, statistical checks, software programs
Submission time requirement	Within 10 days i.e. for data for month ended October they have to report by 10th of November
Time between data submission and its availability for distribution	15 days after receipt
Time to correct reported errors	Less than 2 weeks

Legal Framework

Law on operation of credit registries	Yes
Banks and reporting institutions are required to provide data	Yes
Banks and financial institutions are required to consult PCR before extending a loan	Yes
Legal penalties for reporting inaccurate data	Yes
Legal requirements to respond to consumer's complaint	No
By law borrower can access list of parties who requested his/her information	No
Laws restricting sharing of positive or negative information	No
Laws restricting length of preserving/distributing information on defaults	No
Laws restricting length of preserving/distributing historical information	No
By law borrower's consent is required for sharing his/her information	No

PROTECTING INVESTORS INDICATORS BY COUNTRY

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
PROTECTING INVESTORS DATA (2004)							
Is family ownership disclosed?	No	No	No	No	Yes	No	No
Is indirect ownership disclosed?	No	No	No	No	Yes	Yes	Yes
Is beneficial ownership disclosed?	Yes	No	Yes	No	No	No	No
Is information on voting agreements between shareholders disclosed?	Yes	No	No	No	No	No	Yes
Are internal audits required before releasing financial statements?	No	No	Yes	No	No	Yes	No
Is an external auditor required?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is ownership and financial information publicly available to investors?	No	No	Yes	No	No	Yes	Yes
Disclosure index	3	1	4	1	3	4	4

Note: The Disclosure Index is calculated using the above data (one point for each "Yes"). The index varies between 0 and 7, with higher values indicating more disclosure.

ENFORCING CONTRACTS INDICATORS BY COUNTRY

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
NATURE OF PROCEDURE (2004)							
Number of procedures	29	20	40	28	28	46	17
Filing period (days)	60	30	20	14	15	90	60
Judgment period (days)	205	110	100	90	180	185	200
Enforcement period (days)	100	135	305	90	155	120	180
Total Time (days)	365	275	425	194	350	395	440
Cost (% of debt)	21.3	113.8	43.1	8.7	25.8	35.2	21.3

ENFORCING CONTRACTS

■ =Independent procedural step (minimum required) * =Included or simultaneous with another step

FILING AND SERVICE		Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1	Pre-trial request to pay. Letter or personal request by creditor to debtor requesting compliance or notifying the default, only if required by law in order to initiate a lawsuit.	■		■	■	■	■	■
2	Pre-trial administrative procedure. Mandatory procedure or notification before an administrative or municipal office required by law prior to initiate a lawsuit.							
3	Pre-trial certification of default. Procurement of a written certification from the bank (either on the face of the check or in a separate document), if required by law to file a lawsuit.	■	■		■	■	■	
4	Pre-trial certification of signature. Mandatory pre-trial procedure before a judge, notary public, or other authority, in order to obtain debtor's acknowledgement of signature.					■		
5	Pre-trial official notification of default or request of payment. Notification of default to debtor, made by a notary public, administrative officer, or any other person other than the plaintiff, when required by law prior to filing a complaint (including check protest procedure and contract termination notices).					■		
6	Pre-trial conciliation procedure. Mandatory pre-trial conciliation or mediation procedure, including the issuance of the corresponding act or proof of failed conciliation or mediation.							
7	Appointment of lawyer. Appointment of a lawyer only when required by law to file a complaint.			*		■		
8	Filing of complaint, summons, petition, or application. Complaint or application filed orally or in writing before the court (or an administrative authority when it will be referred to a court upon defendant's opposition).	■	■	■	■	■	■	■
9	Payment of court fees. Payment of court duties, stamp duties, or any other type of court fee.	■	*	*	*	*	*	*
10	Registration or receipt of claim. Registration of the complaint by the court, including the assignment of a reference number, or the issuance of the corresponding receipt, when applicable.	■	*	*	*	■	*	
11	Assignment of court. Assignment of court (either by a random procedure, officer ruling, etc.) and delivery of the complaint or file to the assigned judge.	■	■		*		■	
12	Court scrutiny of complaint. Scrutiny of complaint by judge or court officer to verify general formal requirements	■		■	■		■	
13	Date for preliminary or preparatory hearing. Judge's separate writ or resolution, fixing the date for a preliminary or preparation hearing prior to the admission of the complaint (e.g., to verify cause of action, formal requirements, authenticity of documents, etc.)				*		■	
14	Preliminary or preparatory hearing. Preliminary or preparatory hearing attended by the plaintiff, defendant, or both, prior to admission of plaintiff (e.g., to verify cause of action, formal requirements, authenticity of documents, etc.)		■		■		■	
15	Admission of complaint. Judge's writ or resolution admitting the initiation of the lawsuit	*	*	■	*		*	
16	Payment order. Judge's writ or resolution ordering defendant to pay or to deposit the amount owed	■		*	■			
17	Issuance of summons or citation writ or brief. Issuance of formal citation to appear in court	■		*	*	■	■	*
18	Request for service. Plaintiff's written petition to court requesting process be served to defendant.	*		*				
19	Order for service. Judge's separate writ or resolution ordering process be served to defendant.	*	*	*	*		■	■
20	Delivery of file to summoning office. Delivery of the summons by the judge or court officer to the corresponding summoning office, officer, or authorized person (including plaintiff), to serve process to the defendant.	*	*					■
21	Notification arrangements. Actions required by plaintiff to accomplish physical service of process to defendant, including a meeting with notification officers, or the hiring of a private process server							
22	Mailing of complaint, notice of complaint, summons, or summons and complaint. Mailing of summoning documents to defendant by court or by plaintiff.	*	*	■	*		*	■
23	First attempt of physical delivery. Attempt of physical delivery of summons to defendant's hands (only if physical delivery is required by law), or affixing of a copy of the complaint in the premises, or delivery of the complaint to a neighbor, if it may be done in the same visit to the defendant's address.	■	■	*	■	■	■	■
24	Second attempt of physical delivery. Second attempt of physical delivery of summons to defendant's hands (only if physical delivery is required by law), or affixing of a copy of the complaint in the premises, or delivery of the complaint to a neighbor, if it may be done in the second visit to the defendant's address.	*	■		■	■	■	■
25	Application for substituted service. Application for any means of substituted service by plaintiff, including but not limited to publication in newspapers, affixing of notice in court or public boards, deposit with authorities, or notification to local organizations.	*		*			■	■

ENFORCING CONTRACTS

■=Independent procedural step (minimum required) * =included or simultaneous with another step

FLILING AND SERVICE continued	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
26 Order for substituted service. Judge or judicial officer's resolution accepting (or defining means for) substituted service	*			■		■	
27 Substituted service. Accomplishment of substituted service (either by publication in newspapers, affixing of notice in court or public boards, deposit with authorities, notification to local organizations, etc.)	*	*	*	*	■	■	
28 Proof of service. Submission to court, by plaintiff, clerk, or other, of proof of service (or substituted service) if required by law (e.g., proof of mail delivery, copies of publications, report from authority, etc.).	■	*	*	*			
29 Appointment of guardian ad litem. Court's appointment of a legal representative for the defendant that avoids service, when required by law to complete service of process.		■					
30 Application for attachment prior to judgment. Written application by plaintiff, prior to judgment, for attachment of debtor's property.	*		■	*	■		
31 Resolution on attachment prior to judgment. Resolution by judge or execution authority accepting plaintiff's application for attachment of debtor's property (prior to judgment) and its notification. It may include decision on requesting plaintiff guarantees or bonds to secure defendant against damages.	■		■	*	■		
32 Guarantees for attachment. Plaintiff's guarantees or bonds to secure defendant against damages.				*			
33 Attachment prior to judgment. Attachment of debtor's property (either physically, or registering, marking, debiting, or separating assets) before judgment.	■	*	■	*	■		
34 Custody of attached assets. Delivery or deposit of attached assets to court officer's or bailiff's care.	*						
35 Report on attachment prior to judgment. Issuance and delivery of the relevant report on attachment to court by court officer or bailiff	*						
36 Hearing on attachment. Petition, summoning, and court hearing to resolve on the attachment or the actions on the attached assets	*	■	■	*			

TRIAL AND JUDGEMENT

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
37 Appearance to defend. Defendant enters an appearance to defend or files a notice stating his intention to defend or acknowledging service.	■	■		■			
38 Application for leave to appear. Defendant's written application for leave to appear.		*	■			■	■
39 Hearing for leave to appear. Hearing attended by defendant before the judge to request leave to appear.		*					
40 Leave to appear. Judge's resolution granting defendant leave to appear, only when it would be generally granted under the case factual assumptions.		*	*			■	
41 Defense or answer to the complaint. Answer to the complaint or opposition to court order to pay, filed orally or in writing before the court or competent office.	*	■	*	*	■	■	
42 Referring of complaint to court. When the complaint or application has been filed before an administrative or execution authority, the remittance of the case from that authority to the competent judicial court (generally upon defendant's opposition)							
43 Defendant's payment of court fees. Payment of court duties or any fee by defendant.			*			*	
44 Deposit of bond or guarantee of payment. Payment or guarantee provided by defendant, when required by law						■	
45 Filing of preliminary exemptions. Defendant's presentation of exemptions (preliminary, formal, motions to dismiss, and other, generally aimed at questioning the procedure, jurisdiction, etc.), different than the answer to the complaint	■			*		■	
46 Judge's resolution on preliminary exemptions. Judge's resolution on preliminary exemptions (preliminary, formal, motions to dismiss, and others, generally aimed at questioning the procedure, jurisdiction, etc.), different than the admission of the answer to the complaint.	*			*		■	
47 Admission of answer to the complaint for trial. Judge's review of the answer to the complaint, in order to verify the compliance of formal requirements, and issuance and notification of the corresponding resolution if necessary.	*	■		*		■	
48 Delivery of defense to plaintiff. Service of opposition or defense to landlord/creditor, either by virtue of a court order or directly by debtor.		*		■			
49 Term for plaintiff to answer opposition or exemptions. Judge's resolution or writ allowing plaintiff to answer to defendant's opposition or providing a term for this purpose		*		*		*	
50 Plaintiff's answer to opposition. creditor's answer to debtor's opposition or exemptions.	*	*	■	■		■	

ENFORCING CONTRACTS

■=Independent procedural step (minimum required) * =Included or simultaneous with another step

TRIAL AND JUDGEMENT continued		Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
51	Summons for directions. Parties appearance for directions for trial.							
52	Framing of issues. Judge's determination of issues, based on claim and defense content.	■		■			■	
53	Application for summary judgment. Plaintiff's application for summary judgment.			■				
54	Notice of application for summary judgment. Service of plaintiff's application for summary judgment on defendant.			*				
55	Opposition to application for summary judgment. Defendant filing of affidavit to oppose summary judgment or requesting leave to defend the action.			■				
56	Hearing on the application for summary judgment. Hearing on the application on summary judgment and its opposition.		■	■				
57	Mailing of allocation questionnaire. Court mailing questionnaires to parties to allocate case among different case-tracks or to frame issues for trial.							
58	Answer to allocation questionnaire. Parties' submission to the court of the answers to the allocation questionnaire							
59	Date for conciliation hearing. Judge's resolution setting the date for a conciliation or mediation hearing and its notification to the parties, when mandated by law.							
60	Conciliation hearing. Conciliation or mediation hearings, mandated by law and attended by the parties before the judge or a mediator.		■					
61	Discovery. Discovery of evidence, or exchange of documents and evidence affidavits, between the parties, or submission to the court, in preparation for hearing the case		*	■	*		■	■
62	Filing of pleadings. Filing of written pleadings and preparatory submissions before the court.		*	■	*		■	
63	Request for hearing. Application by plaintiff to call or to set a date for a hearing.			■			■	
64	Date for hearing. Judge's resolution setting the date for a hearing.		*	■	*	■	*	
65	Hearing(s). Oral audience, session or meeting (or MINIMUM number of audiences, sessions or meetings required for the case facts) attended by the parties before the judge or adjudicator, for not longer than one day (if a session exceeds one day, it should be considered a different hearing).	4	■	3	7	6	■	
66	Offer of evidence or means of proof. A written request addressed to the judge aimed at obtaining the admission of means of proof, including testimony of one witnesses, if applicable for the case, or the opening of the evidence stage	*		■	*			
67	Opening of evidence stage. Judge's writ or resolution opening the evidence stage.	*	■		*		■	
68	Documentary evidence. The written submission of documentary evidence before or after the hearing, or the request for its admissibility.	*	*	*	*	*	*	*
69	List of witnesses. The submission of a list of witnesses.	*	*	*	*		■	
70	Interrogatories. The submission of a written interrogatory for witnesses	*		*			*	
71	Orders on means of proof. Judge's writ or resolution deciding on the admissibility of means of proof (documentary evidence, list of witnesses, content of the interrogatories, among others).	*		■	*		■	
72	Summoning of witnesses. Court order to summon witnesses to appear in court.	■	*	■	*		*	
73	Testimonies. If not included under the definition of hearing above, witnesses appearance before the judge, or a court officer, or the parties.	■		*	*	*	■	
74	Request for closing the evidence period. Parties' mandatory request to court for a resolution closing the evidence period.				*			
75	Closing of evidence stage. Court or judge's resolution closing the evidence period	*	*	■	*			
76	Order for submission of final arguments. Court order or court mandated term for submission of final arguments prior to judgment.	*		■			■	
77	Final arguments. Parties' oral presentation or written submission of final arguments	■	*	*	*	*	■	
78	Date for judgment. Judge's resolution setting a date for judgment.	*	*	■	*		*	
79	Judgment. Issuance of judgment (oral or written) or final decision by the judge.	■	■	■	■	■	■	
80	Leave to appear. Judge's final resolution denying defendant leave to appear.							■
81	Summary judgment. Judge's resolution granting summary judgment.							■

ENFORCING CONTRACTS

■ =Independent procedural step (minimum required) * =Included or simultaneous with another step

ENFORCEMENT		Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
82	Notification of judgment in court. Notification of judgment during a court hearing.	*	■	*	■	*	*	*
83	Writing of judgment. Court drawing of the written copy of the judgment when it has been issued orally (or plaintiff's preparing a draft of judgment and filing it for court approval).	*	*	*	■		■	
84	Delivery of copy of judgment to court office. Delivery of judgment to a court office for registration and notification (or when judgment is made available or affixed in court for the parties).	*		■				
85	Delivery of copy of judgment to parties. Written notice of judgment or copy thereof to the parties for accomplishing notification of judgment.		*	■				
86	Copy of judgment for execution. Plaintiff's procurement of a copy of judgment for execution or notification purposes.	■		*	*		■	
87	Notification of judgment to defendant by plaintiff. Plaintiff's notification of judgment to defendant.				*			
88	Publication of judgment. Mandatory publication of judgment in a court official journal or gazette or a local newspaper.							
89	Request for enforcement warrant or execution writ. Plaintiff's filing or application for enforcement court order or warrant, or plaintiff's application for a writ of execution or leave of the court to enforce (or plaintiff's preparing a draft of enforcement order and filing it for court approval).		*	■	■	■	■	■
90	Payment of enforcement or execution fees. Plaintiff's payment of fees required for the enforcement or execution of judgment		■	■			*	
91	Execution hearing. Hearing after judgment for purposes of defining form of enforcement or to examine debtor's means for compliance.			■	■			
92	Enforcement order or writ of execution. Court's or judge's order or resolution to grant enforcement based on judgment, either in the form of an enforcement court order or warrant or writ of execution (or approval of draft prepared by plaintiff).	■		■	*	■	■	■
93	Request for physical enforcement. Plaintiff's request addressed to judge or to police authorities to obtain police assistance during the execution of judgment (eviction or attachment), or to set a date for physical enforcement of judgment.		■		■			
94	Judge's order for physical enforcement. Separate writ of resolution issued by judge or court ordering the assistance of police during the execution of judgment (eviction or attachment), or setting a date for physical enforcement of judgment.	*	*	*	*		*	
95	Delivery of execution order to bailiff. Nomination or delivery of written enforcement resolution or execution order to bailiff or officer in charge of enforcement or notification.	*		■	*		■	■
96	Request of voluntary compliance by execution officer. Court's or execution officer's request and notification to defendant, asking for compliance with judgment (including the granting of a term for this purpose, when applicable).			■				*
98	Nomination of assets for attachment. Defendant's or creditor's nomination of assets for attachment, including court's or judge's order or request for this purpose.				*		■	
99	Attachment. Attachment of debtor's property (either physically, or registering, marking, debiting, or separating assets) after judgment.	■		*	*	*	■	■
100	Report on execution by enforcement officer. Issuance and delivery by court officer or bailiff of the relevant report or minutes to court of the enforcement (attachment or actual eviction).	*		*			■	
101	Valuation procedure of attached property. Valuation of the seized property, and report, including the nomination and acceptance of a valuation expert, and judge's resolution on the valuation report, if required by law for execution purposes.	*		*	■			
102	Call for auction. Judge's or officer's resolution calling for an auction, including the advertising or publication of the call for an auction by required or available means.	*	■	■	*	■	■	
103	Sale through auction. Auction and sale of debtor's property.	■	*	■	■	■	■	■
104	Qualification of bids by the judge. Court's or judge's resolution regarding the bids presented at the auction of attached assets, including the evaluation of the bids' compliance with formal or value requirements.			*			■	
105	Direct sale. Sale of debtor's property when not done through auction.							
106	Assignment of debtor's deposits. Issuance of court order to the bank to transfer debtor's deposits to the court's account, or making them available for payment to creditor.		■	*				
107	Liquidation of credit or costs. Liquidation of owed amount or assessment of costs involved in the procedure, directly by the court or with the intervention of a specialized office, expert or officer		*	*				
108	Payment. Delivery of the proceeds of the sale or the assignment of debtor's deposits to creditor by order of judge or by officer.	■	*	■	■	■	■	■

CLOSING A BUSINESS INDICATORS BY COUNTRY

	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
CLOSING A BUSINESS VARIABLES (2004)							
Time (years)	4	NO PRACTICE	10	6.7	5	2.8	2.2
Cost (% of estate)	8	NO PRACTICE	8	4	8	4	18
Recovery rate (cents on the dollar)	23.2	0	12.5	17.1	25.8	38.1	33.1

Data notes

Economy characteristics

Starting a business

Hiring and firing workers

Registering property

Getting credit

Protecting investors

Enforcing contracts

Closing a business

Ease of doing business

The indicators presented and analyzed in *Doing Business* measure government regulation and the protection of property rights—and their effect on businesses, especially on small and medium-size domestic firms. First, they 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 or go through bankruptcy. Third, the indicators measure the extent of legal protections of property, for example in the disclosure of company information to investors or the scope of assets that can be used as collateral according to secured transactions laws. The data for all sets of indicators in *Doing Business in 2005* are for January 2004.

Based on research of laws and regulations, with input and verification from more than 3,000 local government officials, lawyers, business consultants and other professionals routinely administering or advising on legal and regulatory requirements, this methodology offers several advantages. It uses factual information and allows for multiple interactions with local respondents, clarifying potential misinterpretations of questions. It is inexpensive, so data can be collected in a large sample of economies—135 published in *Doing Business in 2005*, with another 10 available on the website. Because the same standard assumptions are applied in the data collection, which is transparent and easily replicable,

comparisons and benchmarks are valid across countries. And the data highlight not only the extent of obstacles, but also help identify their source, supporting policymakers in designing reform.

The *Doing Business* methodology has 3 limitations that should be considered when interpreting the data. First, in many cases, the collected data refer to businesses in the country's most populous city and may not be representative of regulatory practices in other parts of the country. Second, the data often focus on a specific business form—limited liability company of specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Finally, some indicators—such as time—involve an element of judgment by the expert respondents. Therefore, if 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.

Questions on the methodology may be asked through the "Ask a Question" function available on the *Doing Business* website at <http://rru.worldbank.org/doingbusiness> and will be answered within 48 hours. For urgent queries, please call Marie Delion at 1 202 473 0183. Updated indicators, as well as any revisions of or corrections to the printed data, are available on the website.

Economy characteristics

Region and income group

Doing Business uses the World Bank regional and income groupings 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 refers to the upper middle income group and poor economies refers to the lower middle and low income groups.

Starting a business

Doing Business records all generic procedures that are officially required for an entrepreneur to start up an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions with relevant authorities. After a study of laws, regulations, and publicly available information on business entry, a detailed list of procedures, time, cost and minimum paid-in capital requirements is developed. Subsequently, local incorporation lawyers and government officials complete and verify the data on applicable procedures, the time and cost of fulfilling each procedure under normal circumstances and the minimum paid in capital. On average at least four different law firms participate per 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 government and nongovernment agencies involved in the start-up process function efficiently and without corruption. If answers by local experts differ, enquiries continue until the data are reconciled.

Assumptions about the business

To make the business comparable across countries, 10 assumptions are employed. The business:

- Is a limited liability company. If there is more than one type of limited liability company in the country, the most popular limited liability form 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.
- 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 2003, 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 activities of foreign trade and

Gross National Income (GNI) per capita

Doing Business reports 2003 income per capita, calculated using the Atlas method (current US\$), as published in the World Development Indicators. For cost indicators expressed as a percentage of income per capita, 2003 local currency unit GNI, as reported in the World Development Indicators, is used as the denominator.

Population

Doing Business reports mid-year 2003 population statistics as published in the World Development Indicators.

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 at least 100 times income per capita.
- Has a company deed 10 pages long.

Assumptions about procedures

To make the procedures comparable across countries, 6 assumptions are employed:

- 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 considered separate procedures.
- The founders complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such third party is mandated by law.
- Procedures that are not required by law for starting 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.
- 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.
- Procedures that the company undergoes to connect to electricity, water, gas and waste-disposal services are not included, unless they entail inspections required prior to starting operations.

Cost measure

The text of the Company Law, the Commercial Code and specific regulations and fee schedules are used as sources for calculating the costs. If there are conflicting sources and the laws are not clear, the most authoritative source is used. The constitution supersedes the company law, and the law prevails over regulations and decrees. If conflicting sources are of the same rank, the source indicating the most costly procedure is used, since an entrepreneur never second-guesses a government official. In the absence of fee schedules, a governmental officer's estimate is taken as an official source. In the absence of government officer's estimates, 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.

Time measure

Time is recorded in calendar days. It is assumed that the minimum time required per procedure is 1 day. Time captures the median duration that incorporation lawyers indicate is necessary to complete a procedure. 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.

Paid-in minimum capital requirement

The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank before registration starts. This amount is typically specified in the Commercial Code or the Company Law. Many countries mandate a capital requirement but allow businesses to pay only a portion of it during registration, with the remainder paid after the first year of operation. For example in January 2004 the minimum capital requirement for limited liability companies in Armenia was 50,000 dram, of which half was payable before registration. In Honduras in January 2004 the minimum capital requirement was 25,000 lempiras, but only a quarter of this amount needed to be paid in before registration.

This methodology is originally developed in Djankov and others (2002) and adopted with minor changes here.

Hiring and firing workers

Every economy has established a complex system of laws and institutions intended to protect the interests of workers and to guarantee a minimum standard of living for its population. The OECD Job Study and the International Encyclopedia for Labour Law and Industrial Relations identify 4 areas subject to statutory regulation in all countries: employment, industrial relations, occupational health and safety, and social security. *Doing Business* focuses on the regulation of employment, specifically the hiring and firing of workers and the rigidity of working hours.

The data on hiring and firing workers are based on a detailed study of employment laws and regulations. The employment laws of most countries are available online in the NATLEX database, published by the International Labour Organization. In all cases, both actual laws and secondary sources are used to ensure accuracy. Conflicting answers are further checked in 2 additional sources, including a local legal treatise on employment regulation. Secondary sources include the International Encyclopedia for Labour Law and Industrial Relations. Finally, all data are verified and completed by local law firms through a detailed survey on employment regulations.

To make the data comparable across countries, several assumptions about the worker and the company are employed. 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.
- Has a nonworking wife and two children. The family resides in the country's most populous city.
- Is a lawful citizen who belongs to the same race and religion as the majority of the country's population.
- Is not a member of the labor union, unless membership is mandatory.

The business:

- Is a limited liability company.
- Operates in the country's most populous city.
- 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.

Indicators

Two indicators are constructed: a Rigidity of Employment Index and a Cost of Firing measure.

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 sub-indices 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 only be used for temporary tasks; (ii) the maxi-

imum duration of term contracts; and (iii) the ratio of the mandated minimum wage (or apprentice wage, if available) to the average value-added per working population. A country is assigned a score of 1 if term contracts can only be used for temporary tasks, and a score of 0 if term contracts can be used for any task. A score of 1 is assigned if the duration of term contracts is 3 years or less; 0.5 if the duration is between 3 and 5 years; and 0 if term contracts can last more than 5 years. Finally, a score of 1 is assigned if the ratio of minimum wage to average value added per worker ratio is higher than 0.75; 0.67 for ratios between 0.50 and 0.75; 0.33 for ratios between 0.25 and 0.50; and a score of 0 if the ratio is below 0.25. For example, term contracts are only allowed for temporary tasks in Uruguay (a score of 1), but they can be longer than 5 years (a score of 0), and the ratio of the mandated minimum wage to the value-added per worker in 0.10 (also a score of 0). Averaging the three subindices and scaling the index to 100 gives Uruguay a score of 33.

The Rigidity of Hours index has 5 components: (i) whether night work is restricted; (ii) whether weekend work is allowed; (iii) whether the workweek consists of 5½ days or more; (iv) whether the workday can extend to 12 hours or more (including overtime); and (v) whether the annual paid vacation days are 21 days or less. If the answer to any of these questions is no, the country is assigned a score of 1, otherwise a score of 0 is assigned. For example, night work is not allowed in Vietnam (a score of 1), weekend work is restricted (a score of 1), the workday—with overtime—can extend to 12 hours (a score of 0), 6-day work weeks are allowed (a score of 0), and paid vacation is 16 days (a score of 0). The scores are then summed and scaled to 100 to get to the final index of 40 for Vietnam.

The Difficulty of Firing index has 8 components: (i) whether redundancy is not grounds for dismissal; (ii) whether the employer needs to notify the labor union

or the labor ministry for firing 1 redundant worker; (iii) whether the employer needs to notify the labor union or the labor ministry for group dismissals; (iv) whether the employer needs approval from the labor union or the labor ministry for firing 1 redundant worker; (v) whether the employer needs approval from the labor union or the labor ministry for group dismissals; (vi) whether the law mandates training or replacement prior to dismissal; (vii) whether priority rules apply for dismissals; and (viii) whether priority rules apply for reemployment. If the answer to any question 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 double-weight in the construction of the index. For example, an employer in Brazil has to both notify (a score of 1) and seek approval (a score of 2) from third parties when dismissing a redundant worker, she has to both notify (a score of 1) and seek approval (a score of 1) when dismissing a group of workers, and redundancy is not considered a fair grounds for dismissal (a score of 2). The law does not mandate priority rules for dismissal (a score of 0) or reemployment (a score of 0), and there is no requirement for retraining or alternative placement prior to dismissal (a score of 0). Adding up and scaling to 100 gives the final index of 70 for Brazil.

The Cost of Firing indicator measures the cost of advance notice requirements, severance payments and penalties due when firing a worker, expressed in terms of weekly wages. For example, in Cameroon an employer is required to give 16 weeks advance notice prior to a redundancy dismissal, the severance pay for workers with 20 years of experience equals 7 months of wages, and redundancy is grounds for dismissal so no penalty is levied. Altogether, the employer pays the equivalent of 46 weeks of salary to dismiss the worker.

This methodology is originally developed in Botero and others (forthcoming) and adopted with minor changes here.

Registering property

A business purchases land and a building in a peri-urban area of the most populous city. *Doing Business* covers the full sequence of procedures necessary to transfer the property title from the seller to the buyer. Every required procedure is included, whether it is the responsibility of the seller, the buyer, or where it is required to 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 the cost to fulfill each of them. In most countries, the data are based on responses by both lawyers and officials in the property registries.

Assumptions about the business

To make the business comparable across countries, five assumptions are employed. The business:

- Is a limited liability company.
 - Is located in a peri-urban area of the country's most populous city.
 - Is 100% domestically and privately owned (no foreign or state ownership).
 - Employs 50 employees, all of whom are nationals.
 - Operates in general commercial activities.
-

Assumptions about the property

To make the property comparable across countries, ten assumptions are employed. The property:

- Has a value of 50 times income per capita.
- Is currently 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 register and free of title disputes.
- Is located in a peri-urban 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 warehouse of 10,000 square feet (929 square meters) is located on the land. The warehouse is 10 years old, in good condition and was constructed following all safety standards, building codes and other legal requirements.
- 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 for residential use, industrial plants, waste storage, certain types of agricultural activities, etc. are required;
- Has no occupants (legal or illegal) and no other party holds a legal interest in it. The purchasing company will take vacant possession of the property.

Procedures measure

A procedure is defined as any interaction of the buying or selling company, their agents (if the agent is required by law) or the property itself with external parties, including government agencies, inspectors, notaries, lawyers, etc. Interactions between company officers and employees are not considered.

Getting credit

Doing Business constructs measures on credit information sharing and the legal rights of borrowers and lenders. One set of indicators measures the coverage, scope, quality and accessibility of credit information available through public or private credit registries. A second set describes how well collateral and bankruptcy laws facilitate lending.

Data on credit information sharing are built in two stages: first, the respective banking supervision authorities as well as public information sources are surveyed to confirm the presence or absence 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 collects data in 5 areas:

All procedures that are legally required for registering property are recorded, even if they may be avoided in exceptional cases. It is assumed that the purchasing company follows the fastest legal option available. 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 unless required to by law.

Cost measure

Only official costs are recorded. These include fees, transfer taxes, stamp duties, and any other payment to the property registry, notaries, public agencies or lawyers, if required by law. Other taxes, such as capital gains tax or value added tax (VAT) are excluded from the cost measure. If cost estimates differ among sources, the median reported value is used. Total costs are expressed as a percentage of the property value, calculated assuming a property value of 50 times income per capita.

Time measure

Time is recorded in calendar days. It is assumed that the minimum time required for each procedure is one day. Time captures the median duration that property lawyers or registry officials indicate as necessary to complete a procedure. It is assumed that the entrepreneur 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 procedure is chosen. If procedures may 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.

The methodology is developed in "Property," an ongoing research project by Simeon Djankov, Facundo Martin and Caralee McLiesh.

- Coverage of the market
- Scope of information collected and distributed
- Access to the data
- Quality of data
- Legal framework for information sharing and quality of data.

The surveys were adapted from previous versions designed in cooperation with the "Credit Reporting Systems Project" in the World Bank Group and with input from Professor Marco Pagano of the University of Naples. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. In more than a third of cases, the survey data are complemented by teleconference calls.

Public credit registry coverage

A public credit registry is defined as a database managed by the public sector, usually by the Central Bank or Superintendent of Banks, that collects information on the standing of borrowers (persons or businesses) in the financial system and makes it available to financial institutions. The coverage indicator reports the number of individuals and firms listed in the public credit registry with current information on repayment history, unpaid debts or credit outstanding. The number is scaled to country's adult population (per 1,000 adult population). If a public registry does not operate, the coverage value is 0.

Private credit bureau coverage

A private credit bureau is defined as a private firm or a non-profit organization that maintains a database on the standing of borrowers (persons or businesses) in the financial system and facilitates exchange of credit information among banks and financial institutions. Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange between financial institutions are not considered. The coverage indicator reports the number of individuals or firms listed in the private credit bureau with current information on repayment history, unpaid debts or credit outstanding. The number is scaled to the country's adult population (per 1,000 adult population). If a private bureau does not operate, the coverage value is 0.

Credit information availability

This index measures rules affecting the scope, access and quality of credit information available through either public or private bureaus. A score of 1 is assigned for each of the following 6 features of the credit information system:

- Both positive and negative credit information (for example on payment history, number and kind of accounts, number and frequency of late payments and any collections or bankruptcies) is distributed;
- Data on both firms and individuals is distributed;
- Data from retailers, trade creditors and/or utilities as well as financial institutions is distributed;
- More than 5 years of historical data is preserved;
- Data on loans of above 1% income per capita is distributed;
- By law, the consumer has the right to access their data.

The index ranges from 0 to 6, with higher values indicating that more credit information is available from either a public registry or a private bureau to facilitate lending decisions. For example, in Uruguay, both a public and private registry operate. The private bureau distributes only negative information, but the public registry distributes both negative and positive information (a score of 1). Both the public and private registries distribute data on firms as well as individuals (a score of 1). Although the public registry shares data only

among supervised financial institutions, lenders can access information from retailers and utilities from the private bureau (a score of 1). The public registry preserves more than 5 years of historical data (score of 1). It collects data on loans only if they are more than \$11,000—3.6 times income per capita—but the private bureau collects information on loans above 100 pesos, less than 1% of income per capita (a score of 1). Consumers do not have the right to access their data (score of 0). Summing across the variables gives the total score of 5 for Uruguay.

Cost to create and register collateral

The indicator assesses the ease of creating and registering collateral. The data are based on research of collateral and insolvency laws and responses to a survey on secured transactions laws, developed with input and comments from a range of experts including those from the Center for Economic Analysis of Law, the International Bar Association Committee E8 on Financial Law, and the European Bank for Reconstruction and Development.

Participating lawyers estimate the costs, based on the following standardized case: An entrepreneur with a medium size (100 employees) textile business located in the most populous city seeks a loan from a local bank. The loan would finance the purchase of industrial sewing machines worth 10 times income per capita. The entrepreneur secures the loan by pledging the industrial sewing machines as collateral while keeping both possession and ownership title (nonpossessory security right). If a non possessory security right is unavailable in the country, the closest functional substitute is used. Costs include taxes, notary fees and duties associated with creating the security right and registering it in the collateral registry, where such a registry operates. Countries without a registry usually have lower costs, although the secured creditor is disadvantaged elsewhere because they are unable to notify other creditors of their right to the collateral through a registry. The cost measure is presented as a percentage of income per capita.

Legal rights of borrowers and lenders

The index measures the degree to which collateral and bankruptcy laws facilitate lending. It is based on data collected through research of collateral and insolvency laws supported by the responses to the survey on secured transactions laws. It includes 3 aspects related to legal rights in bankruptcy, and 7 aspects found in collateral law. The indicators related to creditor rights in bankruptcy are based on the methodology of La Porta and others (1998). A score of 1 is assigned for each of the following features of the laws:

- Secured creditors are able to seize their collateral when a debtor enters reorganization—that is there is no “automatic stay” or “asset freeze” imposed by the court.
- Secured creditors are paid first out of the proceeds from liquidating a bankrupt firm, as opposed to other parties

- such as government or workers.
- Management does not stay in reorganization. An administrator is responsible for managing the business during reorganization, rather than the management of the bankrupt debtor.
- 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.
- A unified registry including charges over movable property operates.
- Security provides priority outside of bankruptcy.

- Parties may agree on enforcement procedures by contract.
- Creditors may both seize and sell collateral out of court.

The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

This methodology is developed in Simeon Djankov, Caralee McLiesh, and Andrei Shleifer, "Private Credit Around the World," working paper, Department of Economics, Harvard University, July 2004; and adapted from La Porta and others (1998).

Protecting investors

Doing Business distinguishes 3 dimensions of investor protection: disclosure of ownership and financial information; legal protections of small investors; and enforcement capabilities in the courts or securities regulator. *Doing Business in 2005* focuses on disclosure of ownership and financial information. The data come from a survey of corporate and securities lawyers and are based on relevant corporate governance laws and regulations applicable to a standard company. Only general rules—as opposed to those applicable to companies within a particular industry—are considered. In building the data, the highest available level of disclosure is taken into account, reflecting the notion that small investors can put their money in public or private equity. In countries where stock exchange regulations and securities laws are in force, the disclosure index assesses these regulations. In other countries, the disclosure requirements come from the company law. So the indicators are relevant for private companies as well as publicly listed ones.

Assumptions about the business

To make the data comparable across countries, the following assumptions are made about the business. The business:

- Is a publicly-traded corporation, listed on the country's most important stock exchange. If there are no publicly-traded companies in the country, it is assumed that the company is a big private company with a large number of shareholders and employees.
- Has a Board of Directors and a Chief Executive Officer (CEO), who has the legal capacity to act on behalf of the Company where permitted, even if this is not specifically required by law.

- Has only national shareholders.
- Has only invested in the country and has no subsidiaries or operations abroad.
- Is not involved in the banking, power, telecommunications or insurance industries or any other industry where there are special regulations applicable to the particular industry.

Disclosure measure

The index captures seven ways of enhancing disclosure: whether laws and regulations require reporting (i) family, (ii) indirect and (iii) beneficial ownership; (iv) disclosing information on voting agreements between shareholders; (v) audit committees to the board of directors; (vi) use of external auditors; and (vii) ownership and financial information is publicly available to all current and potential investors. The index varies between 0 and 7, with higher values indicating more disclosure. For example, in Bangladesh the company is not required to disclose family ownership (a score of 0), but is required to disclose indirect ownership (a score of 1) and beneficial ownership (a score of 1). Voting agreements are not required to be disclosed (a score of 0). There are no requirements for audit committees (a score of 0), but external auditors must be used (a score of 1). Ownership and financial information are not required to be disclosed publicly (a score of 0). Summing across all variables yields the total index of 3 for Bangladesh.

The methodology is developed in "Corporate Theft," an ongoing research project by Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer.

Enforcing contracts

Indicators on enforcing contracts measure the efficiency of the judicial (or administrative) system in the collection of overdue debt. The data are built following the step-by-step evolution of a payment dispute either before local courts or through an administrative process, if such a process is available and preferred by creditors. The data are collected through research of the codes of civil procedures and other court regulations, as well as surveys to local litigation lawyers. At least 2 lawyers participate in each country and in a quarter of the countries, judges complete the survey as well. To ensure comparability, survey respondents are provided with significant detail, including the amount of the claim, the location and main characteristics of the litigants, the presence of city regulations, the nature of the remedy requested by the plaintiff, the merit of the plaintiff's and the defendant's claims and the social implications of the judicial outcomes.

Assumptions about the case

To make the case comparable across countries, 10 assumptions are employed:

- The debt value equals 200% of the country's income per capita.
- The plaintiff has fully complied with the contract (the plaintiff is 100% right).
- The case presents a lawful transaction between businesses residing in the country's most populous city.
- The bank refuses payment for lack of funds in the borrower's account.
- The plaintiff attempts to recover the debt by filing a law suit or going through an administrative process, if such a process is available and preferred by creditors.
- The debtor attempts to delay service of process but it is finally accomplished.

- The debtor opposes the complaint (default judgment is not an option).
- The judge decides every motion for the plaintiff.
- The plaintiff attempts to introduce documentary evidence and to call one witness. The debtor attempts to call one witness. Neither party presents objections.
- The judgment is in favor of the plaintiff.

Procedures measure

The indicator measures the number of procedures mandated by law or court regulation that demand interaction between the parties or between them and the judge (or administrator) or court officer.

Cost measure

The indicator measures the official cost of going through court procedures, including court costs and attorney fees where the use of attorneys is mandatory or common, or the costs of an administrative debt recovery procedure, expressed as a percentage of the debt value.

Time measure

The indicator measures the time of dispute resolution—in calendar days—counted from the moment the plaintiff files the lawsuit in court until settlement or payment. This includes both the days where actions take place and waiting periods between actions. The respondents make separate estimates of the average duration of different stages of the dispute resolution: for the completion of service of process (time to notify the defendant), the issuance of judgment (time for the trial or administrative process) and the moment of payment or repossession (time for enforcement).

The methodology is originally developed in Djankov and others (2003) and adopted with minor changes here.

Closing a business

Doing Business studies the time and cost of insolvency proceedings involving domestic entities. The data are derived from survey responses by local law firms, all members of the International Bar Association. Answers were provided by a senior partner at each firm, in cooperation with one or two junior associates.

Assumptions about the business

To make the business comparable across countries, 10 assumptions are employed. The business:

- Is a limited liability company.
- Operates in the country's most populous city.
- Is 100% domestically owned, of which 51% is owned by its founder, who is also the chairman of the supervisory

board (aside from the founder, there is no other shareholder who has above 1% of shares).

- Has downtown real estate as its major asset, on which it runs a hotel.
- Has a professional general manager.
- Has average annual revenue of 1,000 times income per capita over the last 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 a 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

To make the case comparable across countries, 3 assumptions are employed:

- In January 2004 the business is experiencing liquidity problems. The company's loss in 2003 brought its net worth to a negative figure. There is no cash to pay the bank either interest or principal in full, due on January 2, 2004. Therefore, the business defaults on its loan. Management believes that losses will be incurred in 2004 and 2005 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. Its options are: 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, either as a going concern or piecemeal, either enforced through court (or a government authority like a debt collection agency) or out of court (receivership).

Cost measure

The cost of the bankruptcy proceedings are calculated based on answers by practicing insolvency lawyers. If several respondents report different estimates, the median reported value is used. Costs include court costs, as well as fees of insolvency practitioners, independent assessors, lawyers, accountants, etc. Bribes are excluded. The cost figures are averages of the estimates in a multiple-choice question, where the respondents choose among the following options: 0–2%, 3–5%, 6–10%, 11–16%, 16–20%, 21–25%, 26–50%, and more than 50% of the estate value of the bankrupt business.

Time measure

Time is recorded in calendar years. It captures the average duration to complete a procedure as estimated by insolvency lawyers. 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 insolvency may use, in particular extension of response periods or appeals, are considered.

Recovery rate

The recovery rate measures the efficiency of foreclosure or bankruptcy procedures. It estimates how many cents on the dollar claimants—creditors, tax authorities, and employees—recover from an insolvent firm. The calculation takes into account whether the business is kept as a going concern during the proceedings, as well as court, attorney and other related costs and the discounted 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 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 cost of the initial value). Finally, the value lost due to 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 the international accounting practice, the depreciation rate of office furniture is taken to be 20%. In turn, the value of the furniture is assumed to be a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, using end-2003 lending rates from IMF's *International Financial Statistics* and supplemented with data from central banks.

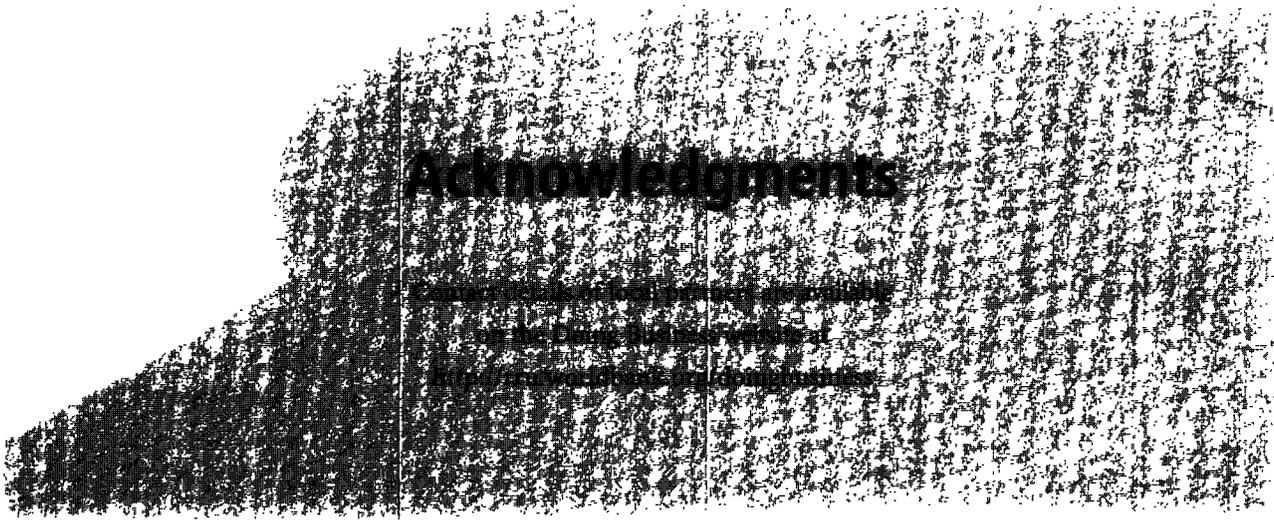
This methodology is developed in "Efficiency in Bankruptcy," an ongoing research project by Simeon Djankov, Oliver Hart, Tatiana Nenova, and Andrei Shleifer.

Ease of doing business

The ease of doing business index is the simple average of country rankings (from 1 to 135) in each of the 7 topics covered in *Doing Business in 2005*. The ranking for each topic is the simple average of rankings for each of the indicators. The starting a business ranking averages the country rankings on the procedures, days, cost and minimum capital requirement to register a business. The hiring and firing ranking averages the country rankings on the rigidity of employment index and firing costs. The property ranking averages the country rankings on the procedures, time and cost to register property. The credit ranking is based on the sum of the credit

information availability and legal rights scores. The protecting investors and closing a business rankings is based on the disclosure index and recovery rates, respectively. And the enforcing contracts ranking averages the country rankings on the procedures, time and cost to enforce contracts. The ease of doing business measure ranges from 1 to 135, with higher values indicating more efficient regulation and stronger protections of property rights.

This methodology is developed by Simeon Djankov, Caralee McLiesh, and Rita Ramalho in "Growth and the Ease of Doing Business," working paper, World Bank, Aug. 2004.



Doing Business in South Asia has been prepared by a team led by Simon Bell and Caralee McLiesh. The team also comprised Marcelo Lu and Facundo Martin, with input from Melissa Johns, Darshini Manraj, and the Doing Business team.

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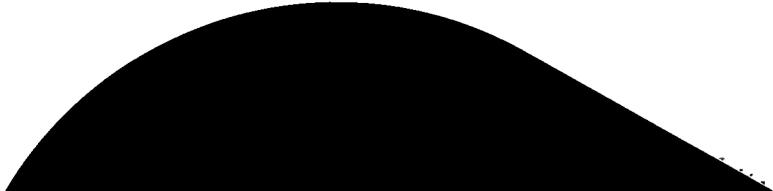
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