Doing Business

THE WORLD BANK IFC

2012

Doing business in a **more transparent world**

COMPARING REGULATION FOR DOMESTIC FIRMS IN 183 ECONOMIES

1818 H Street NW
Washington, DC 20433
Telephone 202-473-1000
Internet www.worldbank.org

1 2 3 4 08 07 06 05

A copublication of The World Bank and the International Finance Corporation.

Additional copies of Doing Business 2012: Doing Business in a More Transparent World, Doing Business 2011: Making a Difference for Entrepreneurs, Doing Business 2010: Reforming through Difficult Times, Doing Business 2009, Doing Business 2008, Doing Business 2007: How to Reform, Doing Business in 2006: Creating Jobs, Doing Business in 2005: Removing Obstacles to Growth and Doing Business in 2004: Understanding Regulations may be purchased at www.doingbusiness.org.

ISBN: 978-0-8213-8833-4
E-ISBN: 978-0-8213-8834-1
DOI: 10.1596/978-0-8213-8833-4
ISSN: 1729-2638

Printed in the United States

2012

Doing business in a **more transparent world**

COMPARING REGULATION FOR DOMESTIC FIRMS IN 183 ECONOMIES

A COPUBLICATION OF THE WORLD BANK AND THE INTERNATIONAL FINANCE CORPORATION

THE DOING BUSINESS WEBSITE

Current features
News on the *Doing Business* project
http://www.doingbusiness.org

Rankings
How economies rank—from 1 to 183
http://www.doingbusiness.org/Rankings

***Doing Business* reforms**
Short summaries of DB2011 reforms, lists of reforms since DB2008
http://www.doingbusiness.org/Reforms

Historical data
Customized data sets since DB2004
http://www.doingbusiness.org/Custom-Query

Methodology and research
The methodology and research papers underlying *Doing Business*
http://www.doingbusiness.org/Methodology
http://www.doingbusiness.org/Research

Download reports
Access to *Doing Business* reports as well as subnational and regional reports, reform case studies and customized economy and regional profiles
http://www.doingbusiness.org/Reports

Subnational and regional projects
Differences in business regulations at the subnational and regional level
http://www.doingbusiness.org/Subnational-Reports

Law library
Online collection of laws and regulations relating to business and gender issues
http://www.doingbusiness.org/Law-library
http://wbl.worldbank.org

Local partners
More than 9,000 specialists in 183 economies who participate in *Doing Business*
http://www.doingbusiness.org/Local-Partners/Doing-Business

Business Planet
Interactive map on the ease of doing business
http://rru.worldbank.org/businessplanet

Doing Business

2012

Contents

Doing Business 2012 is the ninth in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulation and the protection of property rights that can be compared across 183 economies—from Afghanistan to Zimbabwe—and over time.

Regulations affecting 11 areas of the life of a business are covered: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency (formerly closing a business) and employing workers. The employing workers data are not included in this year's ranking on the ease of doing business.

Data in *Doing Business 2012* are current as of June 1, 2011. The indicators are used to analyze economic outcomes and identify what reforms of business regulation have worked, where and why. Chapters exploring these issues for each of the 11 *Doing Business* topics—as well as showing global trends—are being published online this year. The chapters are available on the *Doing Business* website at http://www.doingbusiness.org.

The methodology for the dealing with construction permits, getting credit and paying taxes indicators changed for *Doing Business 2012*. See the data notes for details.

Preface

Enabling private sector growth—and ensuring that poor people can participate in its benefits—requires a regulatory environment where new entrants with drive and good ideas, regardless of their gender or ethnic origin, can get started in business and where firms can invest and grow, generating more jobs. *Doing Business 2012* is the ninth in a series of annual reports benchmarking the regulations that enhance business activity and those that constrain it. The report presents quantitative indicators on business regulation and the protection of property rights for 183 economies—from Afghanistan to Zimbabwe. The data are current as of June 2011.

A fundamental premise of *Doing Business* is that economic activity requires good rules—rules that establish and clarify property rights and reduce the cost of resolving disputes; rules that increase the predictability of economic interactions and provide contractual partners with certainty and protection against abuse. The objective is regulations designed to be efficient, accessible to all and simple in their implementation. In some areas *Doing Business* gives higher scores for regulation providing stronger protection of investor rights, such as stricter disclosure requirements in related-party transactions.

Doing Business takes the perspective of domestic, primarily smaller companies and measures the regulations applying to them through their life cycle. This year's report ranks economies on the basis of 10 areas of regulation—for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (formerly closing a business). In addition, data are presented for regulations on employing workers.

Doing Business is limited in scope. It does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. Nor does it measure all aspects of the business environment that matter to firms and investors or affect the competitiveness of an economy. Its aim is simply to supply business leaders and policy makers with a fact base for informing policy making and to provide open data for research on how business regulations and institutions affect such economic outcomes as productivity, investment, informality, corruption, unemployment and poverty.

Through its indicators, *Doing Business* has tracked changes to business regulation around the world, recording more than 1,750 improvements since 2004. Against the backdrop of the global financial and economic crisis, policy makers around the world continue to reform business regulation at the level of the firm, in some areas at an even faster pace than before.

These continued efforts prompt questions: How has business regulation changed around the world—and how have the changes affected firms and economies? Drawing on a now longer time series, the report introduces a measure to illustrate how the regulatory environment for business has changed in absolute terms in each economy over the 6 years since *Doing Business 2006* was published in 2005. The "distance to frontier" measure, which assesses the level of change in each economy's regulatory environment as measured by *Doing Business*, complements the aggregate ranking on the ease of doing business, which benchmarks each economy's current performance on the indicators against that of all other economies in the

Doing Business sample (for more detail, see the chapter on the ease of doing business and distance to frontier).

There still remains an unfinished agenda for research into what regulations constitute binding constraints, what package of regulatory reforms is most effective and how these issues are shaped by the context in an economy. To stimulate new research in this area, *Doing Business* plans a conference for the fall of 2012. Its aim will be to deepen our understanding of the connections between business regulation reforms and broader economic outcomes.

Doing Business would not be possible without the expertise and generous input of a network of more than 9,000 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on the relevant legal and regulatory requirements in the 183 economies covered. In particular, the Doing Business team would like to thank its global contributors: Allen & Overy LLP; Baker & McKenzie; Cleary Gottlieb Steen & Hamilton LLP ; Ernst & Young; Ius Laboris, Alliance of Labor, Employment, Benefits and Pensions Law Firms; KPMG; the Law Society of England and Wales; Lex Mundi, Association of Independent Law Firms; Panalpina; PwC; Raposo Bernardo & Associados; Russell Bedford International; SDV International Logistics; and Toboc Inc.

The project also benefited throughout the past year from advice and input from governments and policy makers around the world. In particular, the team would like to thank the governments of the Republic of Korea, the former Yugoslav Republic of Macedonia, Mexico and the United Kingdom for providing input and feedback on the economy case studies. The team would also like to thank the more than 60 governments that contributed detailed information on business regulation reforms in 2010/11.

This volume is a product of the staff of the World Bank Group. The team would like to thank all World Bank Group colleagues from the regional departments and networks for their contributions to this effort.

Janamitra Devan
Vice President and Head of Network
Financial & Private Sector Development
The World Bank Group

Executive summary

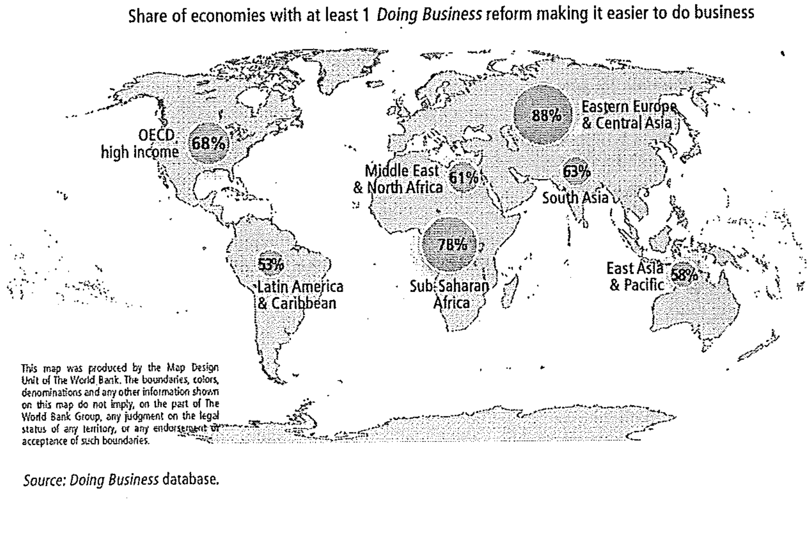
Over the past year a record number of governments in Sub-Saharan Africa changed their economy's regulatory environment to make it easier for domestic firms to start up and operate. In a region where relatively little attention was paid to the regulatory environment only 8 years ago, regulatory reforms making it easier to do business were implemented in 36 of 46 economies between June 2010 and May 2011. That represents 78% of economies in the region, compared with an average of 56% over the previous 6 years (figure 1.1).

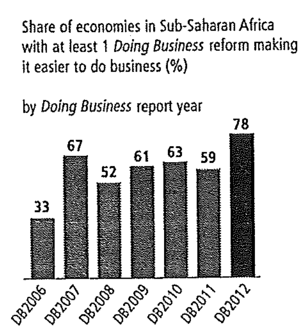
Worldwide, regulatory reforms aimed at streamlining such processes as starting a business, registering property or dealing with construction permits are still the most common. But more and more economies are focusing their reform efforts on strengthening legal institutions such as courts and insolvency regimes and enhancing legal protections of investors and property rights. This shift has been particularly pronounced in low- and lower-middle-income economies, where 43% of all reforms recorded by *Doing Business* in 2010/11 focused on aspects captured by the getting credit, protecting investors, enforcing contracts and resolving insolvency indicators (figure 1.2).

Overall in 2010/11, governments in 125 economies implemented 245 institutional and regulatory reforms as measured by *Doing Business*—13% more than in the previous year (box 1.1). A faster pace of regulatory reform is good news for entrepreneurs in developing economies. Starting a business is a leap of faith under any circumstances. For the poor, starting a business or finding a job is an important way out of poverty.[1] In most parts of the world small and medium-size businesses are often the main job creators.[2] Yet entrepreneurs in developing economies tend to encounter greater obstacles than their counterparts in high-income economies. Finding qualified staff and dealing with lack of adequate infrastructure are among the challenges. Overly burdensome regulations and inefficient institutions that discourage the creation and expansion of businesses compound the problems.

Through indicators benchmarking 183 economies, *Doing Business* measures and tracks changes in the regulations applying to domestic companies in 11 areas in their life cycle (box 1.2). A fundamental premise of *Doing Business* is that economic activity requires good rules that are transparent and accessible to all. Such regulations should be efficient, striking a balance between safeguarding some important aspects of the business environment and avoiding distortions that impose unreasonable costs on businesses. Where business regulation is burdensome and competition limited, success depends more on whom you know than on what you can do. But where regulations are relatively easy to comply with and accessible to all who need to use them, anyone with talent and a good idea should be able to start and grow a business in the formal sector.

FIGURE 1.1 A large number of economies in Sub-Saharan Africa reformed business regulation in 2010/11
Share of economies with at least 1 *Doing Business* reform making it easier to do business





Source: Doing Business database.

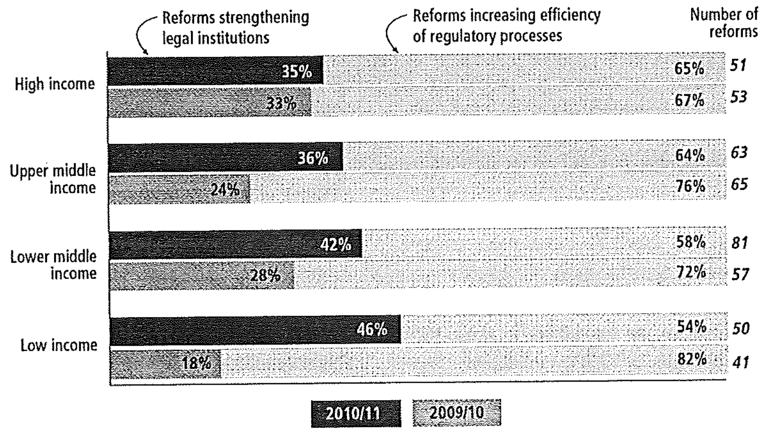
Across regions, entrepreneurs in developing economies face a regulatory environment that is on average less business-friendly than those in OECD high-income economies. This means costlier and more bureaucratic procedures to start a business, deal with construction permits, register property, trade across borders and pay taxes. Getting an electricity connection, a new dimension in this year's ease of doing business ranking, costs more on average in Sub-Saharan Africa than in any other part of the world—more than 5,400% of income per capita (the average in OECD high-income economies is 93% of income per capita). Local businesses complete more complex formalities to get an electricity connection in many Eastern European and Central Asian economies than anywhere else in the world. But it is not just about complex formalities or red tape. A less business-friendly regulatory environment also means weaker legal protections of minority shareholders and weaker collateral laws and institutions such as courts, credit bureaus and collateral registries.

Globally, more efficient regulatory processes often go hand in hand with stronger legal institutions and property rights protections. There is an association between the strength of legal institutions and property rights protections in an economy as captured by several sets of *Doing Business* indicators (getting credit, protecting investors, enforcing contracts and resolving insolvency) and the complexity and cost of regulatory processes as captured by several others (starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders). OECD high-income economies, by a large margin, have the world's most business-friendly environment on both dimensions (figure 1.3). At the other end of the spectrum, economies in Sub-Saharan Africa and South Asia are most likely to have both weaker legal institutions and more complex regulatory processes as measured by *Doing Business*.

Some regions break away from the general trend. One is the Middle East and North Africa, a region where reform efforts over the past 6 years have focused mainly on simplifying regulation. Today economies in the region often combine relatively weaker legal institutions

FIGURE 1.2 In 2010/11 economies worldwide increasingly focused reform efforts on strengthening legal institutions and property rights protections

Doing Business reforms making it easier to do business by type



Note: Reforms strengthening legal institutions are those in the areas of getting credit, protecting investors, enforcing contracts and resolving insolvency. Reforms increasing efficiency of regulatory processes are those in the areas of starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders.

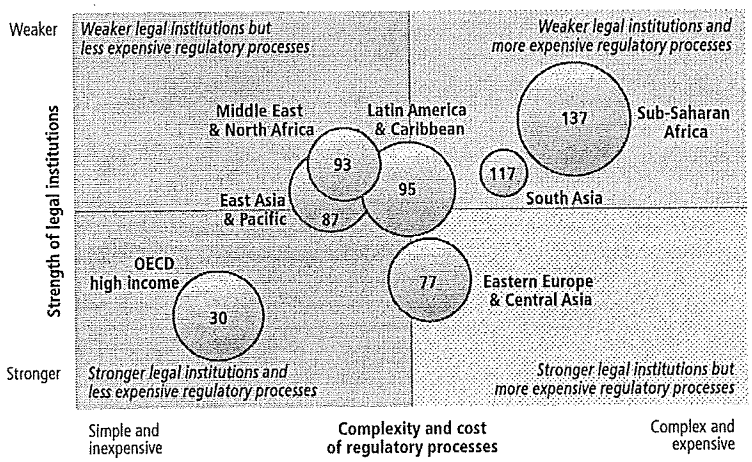
Source: Doing Business database.

BOX 1.1 Key findings in this year's report

- In Sub-Saharan Africa 36 of 46 governments improved their economy's regulatory environment for domestic businesses in 2010/11—a record number since 2005. This is good news for entrepreneurs in the region, where starting and running a business is still costlier and more complex than in any other region of the world.
- Worldwide, 125 economies implemented 245 reforms making it easier to do business in 2010/11, 13% more than in the previous year. In low- and lower-middle-income economies a greater share of these changes were aimed at strengthening courts, insolvency regimes and investor protections than in earlier years. The pickup in the pace of regulatory reform is especially welcome for small and medium-size businesses, the main job creators in many parts of the world.
- Against the backdrop of the global financial and economic crisis, more economies strengthened their insolvency regime in 2010/11 than in any previous year. Twenty-nine economies implemented insolvency reforms, up from 16 the previous year and 18 the year before. Most were OECD high-income economies or in Eastern Europe and Central Asia. Research has shown that effective insolvency systems can influence the cost of debt, access to credit, and both the ability of an economy to recover from a recession and the speed of its recovery.
- New data show the importance of access to regulatory information. Fee schedules, documentation requirements and information relating to commercial cases and insolvency proceedings are most easily accessible in OECD high-income economies and least accessible in Sub-Saharan Africa and the Middle East and North Africa. The rise in e-government initiatives around the world provides an opportunity to increase access to information and transparency.
- A new measure shows that over the past 6 years, 94% of 174 economies covered by *Doing Business* have made their regulatory environment more business-friendly. These economies moved closer to the "frontier," a synthetic measure based on the most business-friendly regulatory practices across 9 areas of business regulation—from starting a business to resolving insolvency.
- A broad, sustained approach to managing business regulation is common among the 20 economies that have the most business-friendly regulatory environment today and among those that made the greatest progress toward the "frontier" over the past 6 years. This year's report highlights the experiences of the Republic of Korea, the former Yugoslav Republic of Macedonia, Mexico and the United Kingdom. Korea just joined the top 10 economies on the ease of doing business after streamlining business entry, tax administration and contract enforcement. FYR Macedonia is among the economies that improved the most in the ease of doing business over the past year.
- The economies that improved the most in the ease of doing business in 2010/11—with improvements in 3 or more areas of regulation measured by *Doing Business*—are Morocco, Moldova, FYR Macedonia, São Tomé and Príncipe, Latvia, Cape Verde, Sierra Leone, Burundi, the Solomon Islands, Korea, Armenia, and Colombia.

FIGURE 1.3 Stronger legal institutions and property rights protections are associated with more efficient regulatory processes

Average ranking on sets of *Doing Business* indicators



Note: Strength of legal institutions refers to the average ranking in getting credit, protecting investors, enforcing contracts and resolving insolvency. *Complexity and cost of regulatory processes* refers to the average ranking in starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. The size of the bubble reflects the number of economies in each region and the number is the average ranking on the ease of doing business for the region. Correlation results for individual economies are significant at the 1% level after controlling for income per capita.

Source: Doing Business database.

BOX 1.2 Measuring regulation through the life cycle of a local business

This year's aggregate ranking on the ease of doing business is based on indicator sets that measure and benchmark regulations affecting 10 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also looks at regulations on employing workers, which are not included in this year's aggregate ranking.

Doing Business encompasses 2 types of data and indicators. One set of indicators focuses on the strength of property rights and investor protections as measured by the treatment of a case scenario according to the laws and regulations on the books. *Doing Business* gives higher scores for stronger property rights and investor protections, such as stricter disclosure requirements in related-party transactions. The second set of indicators focuses on the cost and efficiency of regulatory processes such as starting a business, registering property and dealing with construction permits. Based on time-and-motion case studies from the perspective of the business, these indicators measure the procedures, time and cost required to complete a transaction in accordance with all relevant regulations. Any interaction of the company with external parties such as government agencies counts as 1 procedure. Cost estimates are recorded from official fee schedules where these apply. For a detailed explanation of the *Doing Business* methodology, see the data notes and the chapter "About *Doing Business*: measuring for impact."

with relatively more efficient regulatory processes. In Eastern Europe and Central Asia, by contrast, economies have on average slightly stronger legal institutions and less efficient regulatory processes. In this region reform efforts over the past 6 years have put greater emphasis on strengthening legal institutions and protection of property rights than those in the Middle East and North Africa.[3]

Policy makers worldwide recognize the role that entrepreneurs play in creating economic opportunities for themselves and for others, and often take measures to improve the investment climate and boost productivity growth. Investments in infrastructure—ports, roads, telecommunications—are seen as a vital ingredient of private sector development. In an increasingly complex global economy, investments in education and training are critical. These investments typically take time to bear fruit. But economies that have made the transition from developing to high-income status have generally done so by boosting the skills and capabilities of their labor force. A critical way for policy makers to encourage entrepreneurship is by creating a regulatory environment conducive to the creation and growth of businesses—one that promotes rather than inhibits competition.[4]

OPPORTUNITIES FOR GREATER ACCESS TO INFORMATION IN BUSINESS REGULATION

Institutions play a major role in private sector development. Courts, registries, tax agencies and credit information bureaus are essential to make markets work. How efficient and transparent they are matters greatly to business. To improve the efficiency of processes and institutions, governments around the world—regardless of national income level—are making greater use of technology. More than 100 of the 183 economies covered by *Doing Business* use electronic systems for services ranging from business registration to customs clearance to court filings.[5] This saves time and money for business and government alike. It also provides new opportunities to increase transparency as well as to facilitate access to information and compliance with regulation. But not all economies take advantage of the opportunities for openness provided by the new technologies. And at times fiscal constraints and budgetary priorities have prevented faster adoption of the latest technologies to improve the quality of public services.

This year *Doing Business* researched how businesses can access information essential for complying with regulations and formalities, such as documentation requirements for trade or fee schedules for business start-up, construction permitting or electricity connections. Because some economies lack fully developed information technology infrastructure, the research also explored whether economies used other means to make such information easily accessible, such as posting fee schedules at the relevant agency or disseminating them through public notices.

The findings are striking. In the majority of economies in Sub-Saharan Africa and the Middle East and North Africa, obtaining such information requires a meeting with an official. In all OECD high-income economies documentation requirements for trade are accessible online, at an agency or through public notices (figure 1.4). In the Middle East and North Africa this is the case in only about 30% of economies, and in Sub-Saharan Africa in less than 50% of economies. Documentation requirements for building permits are available online or through public notices in only about 40% of economies in these 2 regions.

Easier access to fee schedules and lower fees tend to go hand in hand. In economies where fee schedules are easily accessible, starting a business costs 18% of income per capita on average; where they are not, it costs 66% of income per capita on average (figure 1.5).

Beyond information that businesses need to comply with regulation, institutions such as courts provide information that helps increase transparency in the marketplace. Efficient and fair courts are essential for creating the trust needed for businesses to build

WHAT WERE THE TRENDS IN BUSINESS REGULATION REFORMS AROUND THE WORLD IN 2010/11?

In Sub-Saharan Africa measures to improve the regulatory environment for local businesses in 2010/11 included the first overhaul of a body of harmonized commercial laws in the region. The legal reform by the Organization for the Harmonization of Business Law in Africa (OHADA) required the consensus of its 16 member states.[1] This first stage simplified business entry and strengthened secured transaction laws.

Overall in Sub-Saharan Africa, regulatory reform agendas have been broadening. Thirteen economies implemented reforms making it easier to do business in 3 or more areas measured by *Doing Business*—from business entry to exit—including postconflict economies such as Burundi, Liberia and Sierra Leone. South Africa introduced a new company act streamlining business incorporation and a new reorganization procedure facilitating the rehabilitation of financially distressed companies.

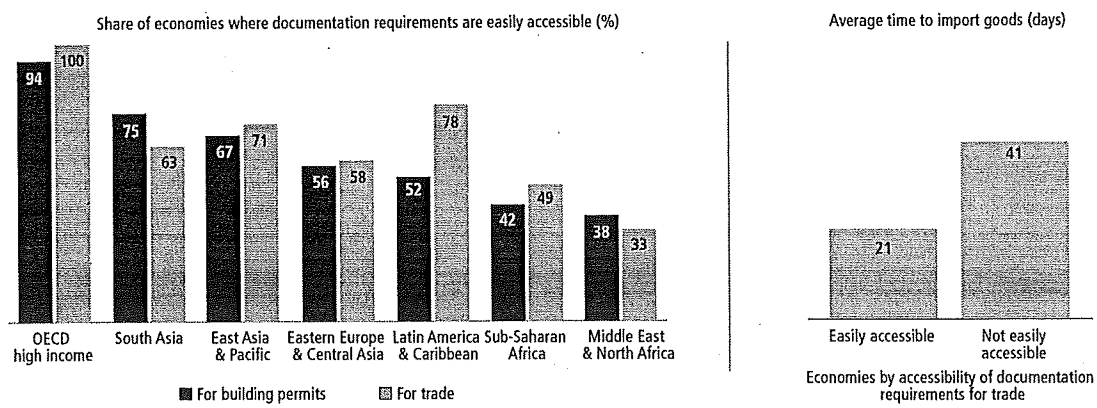
Against the backdrop of the global economic and financial crisis, changes to insolvency regimes continued across Europe and among OECD high-income economies elsewhere.[2] Worldwide, 29 economies improved insolvency regimes in 2010/11, more than in any previous year. These included Austria, Denmark, France, Italy, Poland, Slovenia and Switzerland as well as Bulgaria, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Moldova, Montenegro, Romania, Serbia and Ukraine. Iceland tightened approval requirements for related-party transactions. Greece, Portugal and Spain simplified business start-up.

In other regions the pace of regulatory reform was uneven. In the Middle East and North Africa 61% of economies implemented regulatory changes making it easier to do business. In Latin America and the Caribbean the 3 economies with the most business-friendly regulatory environments, Chile, Peru and Colombia, made them more so—each through regulatory reforms in 3 areas measured by *Doing Business*. But there were no such reforms in Ecuador or the majority of the Caribbean states.[3]

Malaysia was one of the economies that took the lead in East Asia and the Pacific, introducing electronic filing in its courts, setting up specialized civil and commercial courts in Kuala Lumpur and merging company, tax, social security and employment fund registrations at the one-stop shop for business start-up. Several small island states—the Solomon Islands, Tonga and Vanuatu—implemented regulatory reforms in 3 or more areas, often supported by donor programs. In South Asia the pace of regulatory reform remained steady over the past year. Sri Lanka and Bhutan were the most active. Sri Lanka implemented tax changes and tightened disclosure requirements for transactions involving a conflict of interest. Bhutan launched a public credit registry and streamlined business start-up.

1. OHADA is a system of common business laws and implementing institutions adopted by treaties among 16 West and Central African nations. It was created by 14 initial member economies on October 17, 1993, in Port Louis, Mauritius.
2. According to the International Monetary Fund (IMF 2009), the financial crisis resulted in a sharp increase in corporate and household defaults and firm bankruptcies.
3. No reforms making it easier to do business were recorded for Antigua and Barbuda, The Bahamas, Dominica, Grenada, Haiti, Jamaica, St. Lucia, St. Vincent and the Grenadines, Suriname or Trinidad and Tobago in 2010/11.

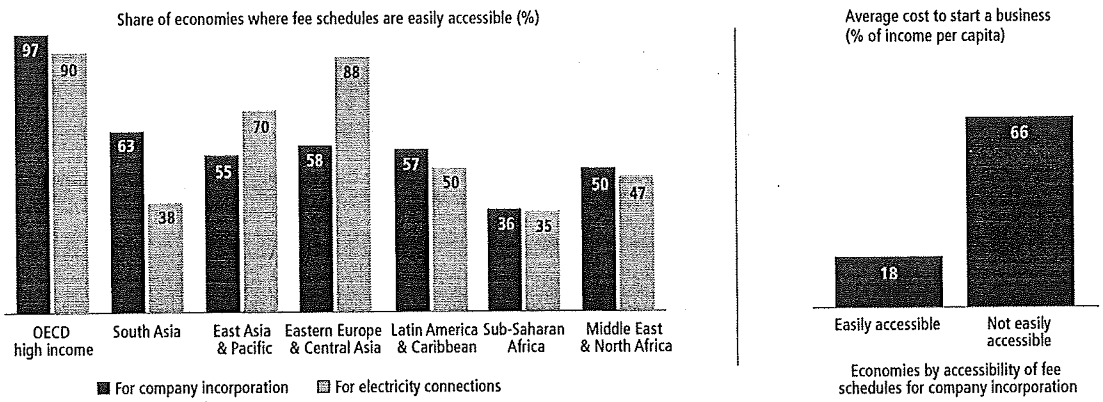
FIGURE 1.4 Access to documentation requirements for building permits and trading across borders easiest in OECD high-income economies



Note: Documentation requirements are considered easily accessible if they can be obtained through the website of the relevant authority or another government agency or through public notices, without a need for an appointment with an official. The data sample for building permits includes 159 economies, and that for trade 175 economies. Differences in the second panel are statistically significant at the 5% level after controlling for income per capita.

Source: Doing Business database.

FIGURE 1.5 Easier access to fee schedules and lower fees tend to go hand in hand



Note: Fee schedules are considered easily accessible if they can be obtained through the website of the relevant authority or another government agency or through public notices, without a need for an appointment with an official. The data sample for incorporation includes 174 economies, and that for electricity connections 181 economies. Differences in the second panel are statistically significant at the 5% level after controlling for income per capita.

Source: Doing Business database.

new relationships and expand their markets—and for investors to invest. But it is not only their role in efficient enforcement that matters. *Doing Business* finds that in close to 75% of a sample of 151 economies, courts are required by law to publicize the initiation of insolvency proceedings.

HOW THE TOP 20 ECONOMIES MANAGE BUSINESS REGULATION

The 20 economies with the most business-friendly regulation as reflected in their ranking on the ease of doing business are Singapore; Hong Kong SAR, China; New Zealand; the United States; Denmark; Norway; the United Kingdom; the Republic of Korea; Iceland; Ireland; Finland; Saudi Arabia; Canada; Sweden; Australia; Georgia; Thailand; Malaysia; Germany; and Japan (table 1.1). As noted elsewhere in this report, an economy's ranking on the ease of doing business does not tell the whole story about its business environment. The underlying indicators do not account for all factors important to doing business, such as macroeconomic conditions, market size, workforce skills and security. But they do capture some key aspects of the regulatory and institutional environment that matter for firms. These 20 economies have implemented effective yet streamlined procedures for regulatory processes such as starting a business and dealing with construction permits as well as strong legal protections of property rights. They also periodically review and update business regulations as part of a broader competitiveness agenda and take advantage of new technologies through e-government initiatives.

Only 2 decades ago some of these 20 economies faced challenges similar to those in many lower-income economies today. Consider Norway's property registry. Today it is one of the world's most efficient. But in 1995 its paper records required 30 kilometers of shelving and were growing at a rate of 1 kilometer a year. Norway took steps to change this. First it merged the land department and survey information, then digitized title certificates. In 2002 it amended the 50-year-old Land Transfer Act to allow online titling. Online registration has been required by law since 2008.

Sweden undertook a systematic review of all regulations in the 1980s. Any unjustified requirements were cut in a "guillotine" initiative. (Mexico took a similar approach in the 1990s.) In Korea the Presidential Council on National Competitiveness, created in 2008, identified regulatory reform as 1 of 4 pillars to improve the economy's competitiveness, along with public sector innovation, investment promotion, and legal and institutional advancement. Reviewing Korea's business regulations, the council found that 15% had not been revised since 1998. The council applied sunset clauses to more than 600 regulations and 3,500 administrative rules (see the case study on Korea).

Policy makers in some economies today consider regulatory reform a continual process and create dedicated committees or agencies such as Actal in the Netherlands and the Better Regulation Executive in the United Kingdom. These agencies not only routinely assess existing regulations. They also pay increasing attention to managing the flow of new regulations.

In the United Kingdom in 2005–10 a program reduced the burden of regulatory compliance on businesses by 25% according to the government.[6] That amounted to savings for firms equivalent to £3.5 billion. New initiatives are under way, such as the "one in, one out" system and the Red Tape Challenge (see the case study on the United Kingdom). The European Union has also targeted a 25% reduction in the administrative burden that regulation imposes on business. The underlying principle is to have "smart" regulation, dispensing with cumbersome and costly regulations that impair the private sector's capacity to innovate and grow while maintaining regulations that promote a level playing field.[7]

TABLE 1.1 Rankings on the ease of doing business

DB2012 rank	DB2011 rank[a]	Economy	DB2012 reforms	DB2012 rank	DB2011 rank[a]	Economy	DB2012 reforms	DB2012 rank	DB2011 rank[a]	Economy	DB2012 reforms
1	*1*	Singapore	0	62	*59*	Poland	2	123	*119*	Uganda	1
2	*2*	Hong Kong SAR, China	2	63	*60*	Ghana	0	124	*123*	Swaziland	1
3	*3*	New Zealand	1	64	*70*	Czech Republic	2	125	*127*	Bosnia and Herzegovina	2
4	*4*	United States	0	65	*64*	Dominica	0	126	*120*	Brazil	1
5	*5*	Denmark	1	66	*69*	Azerbaijan	0	127	*125*	Tanzania	1
6	*7*	Norway	0	67	*71*	Kuwait	0	128	*130*	Honduras	2
7	*6*	United Kingdom	1	68	*76*	Trinidad and Tobago	0	129	*126*	Indonesia	1
8	*15*	Korea, Rep.	3	69	*91*	Belarus	3	130	*131*	Ecuador	0
9	*13*	Iceland	2	70	*67*	Kyrgyz Republic	0	131	*128*	West Bank and Gaza	0
10	*8*	Ireland	0	71	*73*	Turkey	2	132	*139*	India	1
11	*14*	Finland	1	72	*65*	Romania	2	133	*133*	Nigeria	0
12	*10*	Saudi Arabia	1	73	*68*	Grenada	0	134	*136*	Syrian Arab Republic	1
13	*12*	Canada	1	74	*81*	Solomon Islands	4	135	*135*	Sudan	0
14	*9*	Sweden	0	75	*66*	St. Vincent and the Grenadines	0	136	*134*	Philippines	1
15	*11*	Australia	1	76	*75*	Vanuatu	3	137	*144*	Madagascar	2
16	*17*	Georgia	4	77	*72*	Fiji	0	138	*138*	Cambodia	1
17	*16*	Thailand	1	78	*74*	Namibia	1	139	*132*	Mozambique	0
18	*23*	Malaysia	3	79	*78*	Maldives	0	140	*137*	Micronesia, Fed. Sts.	0
19	*19*	Germany	0	80	*79*	Croatia	1	141	*150*	Sierra Leone	4
20	*20*	Japan	0	81	*99*	Moldova	4	142	*146*	Bhutan	2
21	*31*	Latvia	4	82	*77*	Albania	1	143	*142*	Lesotho	1
22	*34*	Macedonia, FYR	4	83	*86*	Brunei Darussalam	1	144	*140*	Iran, Islamic Rep.	0
23	*21*	Mauritius	0	84	*80*	Zambia	0	145	*141*	Malawi	2
24	*18*	Estonia	0	85	*82*	Bahamas, The	0	146	*148*	Mali	2
25	*24*	Taiwan, China	2	86	*89*	Mongolia	1	147	*152*	Tajikistan	1
26	*22*	Switzerland	2	87	*83*	Italy	1	148	*143*	Algeria	1
27	*25*	Lithuania	2	88	*85*	Jamaica	0	149	*145*	Gambia, The	3
28	*27*	Belgium	2	89	*98*	Sri Lanka	2	150	*151*	Burkina Faso	3
29	*26*	France	1	90	*107*	Uruguay	2	151	*155*	Liberia	3
30	*30*	Portugal	2	91	*87*	China	0	152	*149*	Ukraine	4
31	*29*	Netherlands	0	92	*88*	Serbia	2	153	*147*	Bolivia	0
32	*28*	Austria	1	93	*92*	Belize	1	154	*157*	Senegal	4
33	*35*	United Arab Emirates	2	94	*115*	Morocco	3	155	*161*	Equatorial Guinea	1
34	*32*	Israel	2	95	*84*	St. Kitts and Nevis	1	156	*160*	Gabon	1
35	*36*	South Africa	3	96	*95*	Jordan	2	157	*156*	Comoros	1
36	*38*	Qatar	2	97	*93*	Guatemala	0	158	*153*	Suriname	0
37	*37*	Slovenia	3	98	*90*	Vietnam	1	159	*162*	Mauritania	1
38	*33*	Bahrain	0	99	*94*	Yemen, Rep.	1	160	*154*	Afghanistan	1
39	*41*	Chile	3	100	*101*	Greece	2	161	*165*	Cameroon	2
40	*49*	Cyprus	1	101	*97*	Papua New Guinea	0	162	*158*	Togo	2
41	*39*	Peru	3	102	*100*	Paraguay	2	163	*174*	São Tomé and Príncipe	4
42	*47*	Colombia	3	103	*109*	Seychelles	2	164	*159*	Iraq	0
43	*42*	Puerto Rico (U.S.)	2	104	*103*	Lebanon	1	165	*163*	Lao PDR	0
44	*45*	Spain	1	105	*96*	Pakistan	0	166	*164*	Uzbekistan	1
45	*50*	Rwanda	3	106	*102*	Marshall Islands	0	167	*170*	Côte d'Ivoire	3
46	*40*	Tunisia	0	107	*110*	Nepal	1	168	*169*	Timor-Leste	2
47	*58*	Kazakhstan	1	108	*105*	Dominican Republic	1	169	*177*	Burundi	4
48	*43*	Slovak Republic	1	109	*106*	Kenya	1	170	*167*	Djibouti	1
49	*53*	Oman	3	110	*108*	Egypt, Arab Rep.	0	171	*168*	Zimbabwe	0
50	*44*	Luxembourg	0	111	*104*	Ethiopia	0	172	*171*	Angola	2
51	*46*	Hungary	0	112	*112*	El Salvador	1	173	*172*	Niger	1
52	*48*	St. Lucia	0	113	*114*	Argentina	0	174	*166*	Haiti	0
53	*54*	Mexico	3	114	*113*	Guyana	1	175	*173*	Benin	2
54	*52*	Botswana	0	115	*111*	Kiribati	0	176	*181*	Guinea-Bissau	2
55	*61*	Armenia	5	116	*116*	Palau	0	177	*175*	Venezuela, RB	0
56	*56*	Montenegro	3	117	*117*	Kosovo	0	178	*176*	Congo, Dem. Rep.	3
57	*51*	Antigua and Barbuda	0	118	*122*	Nicaragua	3	179	*179*	Guinea	1
58	*62*	Tonga	3	119	*129*	Cape Verde	3	180	*178*	Eritrea	0
59	*57*	Bulgaria	2	120	*124*	Russian Federation	4	181	*180*	Congo, Rep.	1
60	*55*	Samoa	0	121	*121*	Costa Rica	2	182	*183*	Central African Republic	3
61	*63*	Panama	1	122	*118*	Bangladesh	0	183	*182*	Chad	2

Note: The rankings for all economies are benchmarked to June 2011 and reported in the country tables. This year's rankings on the ease of doing business are the average of the economy's rankings on the 10 topics included in this year's aggregate ranking.

[a] Last year's rankings, shown in italics, are adjusted: they are based on 10 topics and reflect data corrections. The number of reforms excludes those making it more difficult to do business.

Source: Doing Business database.

Other initiatives share the objective of making business regulation effective at the lowest possible cost for business. In Sweden the government recently commissioned the Swedish Agency for Growth Policy Analysis to conduct studies on the effect of rules on the enterprise sector.[8] Canada and the United States have introduced impact assessments to prevent the introduction of regulations considered too costly to society.

At all levels, much attention is being paid to transparent policy making. Governments are making business regulation and the regulatory process accessible, helped in many cases by e-government initiatives. The United Kingdom invites comment on regulatory proposals on the website of the Better Regulation Executive.[9] Canada and the United States publish guidelines on the evaluation process underlying the cost-benefit analysis of new regulations.

DIFFERENCES IN PERFORMANCE ACROSS AREAS OF BUSINESS REGULATION

The economies making such continued efforts, often over decades, often compare well with others across all 10 areas of business regulation included in this year's ease of doing business ranking—and they do so over time, reflecting a more consistent and comprehensive approach to business regulation. In many of the other economies, by contrast, the degree to which regulations and institutions are business-friendly varies fairly widely across different areas of regulation.[10]

This shows up in comparisons of an economy's 3 highest rankings on *Doing Business* topics with its 3 lowest rankings (figure 1.6). For example, Malaysia's top 3 rankings (on getting credit, protecting investors and trading across borders) average 11, while its lowest 3 (on dealing with construction permits, getting electricity and registering property) average 77.

For some economies this variance is due in part to the rapid pace of reform in some areas of business regulation. One such area is business entry: more than 80% of the 183 economies covered by *Doing Business* have made it easier to start a business since 2003. Among them is the Arab Republic of Egypt, where starting a business is reasonably straightforward thanks to the implementation of an efficient one-stop shop. But dealing with construction permits takes about 7 months, and enforcing a contract through the courts takes almost 3 years on average. Egypt's top 3 rankings (on starting a business, getting credit and trading across borders) average 54, while its lowest 3 (on dealing with construction permits, paying taxes and enforcing contracts) average 149.

Indeed, reforms simplifying business entry have been high on the agenda since early on—particularly in common markets such as the European Union, where businesses are free to start and operate in any of the member states. Over time such business regulation reforms have increasingly been undertaken by low- and lower-middle-income economies. Many have been helped by peer learning among policy makers, which has picked up around the world. Every year corporate registrars from 31 economies meet to discuss challenges and solutions.[11] Representatives from Canada, which ranks number 3 on the ease of starting a business, are now advising economies as diverse as Indonesia and Peru. In 2010/11, 53 economies made it easier to start a business (figure 1.7). Since 2005 the number of economies where starting a business takes 20 days or less has increased from 41 to 98.

Improving the regulatory environment for business can be difficult and take time, particularly if the improvements involve substantial institutional or legal changes. Some require difficult political trade-offs. Outside pressures may be needed to push through legislative changes. So it is no surprise that times of crisis have often proved to be a time of opportunity. Against the backdrop of the global economic and financial crisis, the number of insolvency reforms increased over the past 3 years, particularly in Europe and among OECD high-income economies elsewhere.[12] In 2010/11, 29 economies around the world reformed their insolvency systems, more than in any previous year. Most focused on improving reorganization proceedings to allow viable firms to continue operating.

Differences across areas of business regulation provide an opportunity for policy makers interested in regulatory reform. Not surprisingly, different areas of business regulation interact. Some research suggests that business regulation reforms have greater impact if combined with effective regulation in other areas. For example, when India dismantled a strict licensing regime controlling business entry and production, the benefits were greater in states that had more flexible labor regulations. These states saw real output gains 17.8% larger than those in other states.[13] In Mexico researchers found that a municipal license reform across states increased new firm registrations by 5% and employment by 2.2%.[14] The effect was greater in states with less corruption and better governance.[15]

Beyond these country-specific studies, cross-country analysis found that a 10-day reduction in the time to start a business was associated with a 0.3 percentage point increase in the investment rate and a 0.36% increase in the GDP growth rate in relatively poor and well-governed economies.[16] Another study points to synergistic effects between institutional reforms that reduce the costs of high-quality production and trade reforms. In many developing economies production of high-quality output is a precondition for firms to become exporters. Institutional deficiencies that raise the costs of high-quality production therefore limit the positive effect that trade facilitation can have on income.[17]

CLOSING THE GAP—A GLOBAL TREND TOWARD BUSINESS-FRIENDLY REGULATION

Policy makers often keep an eye on relative rankings that compare economies at a point in time. But they increasingly recognize the importance of improvements within economies over time. And results from recent years are encouraging. In the past 6 years policy makers in 163 economies made domestic regulations more business-friendly (figure 1.8). They lowered barriers to entry, operation and exit and strengthened protections of property and investor rights. Only a few economies moved in the opposite direction. República Bolivariana de Venezuela

FIGURE 1.6 An economy's regulatory environment may be business-friendly in some areas, less so in others

Within-economy variation in rankings across *Doing Business* topics

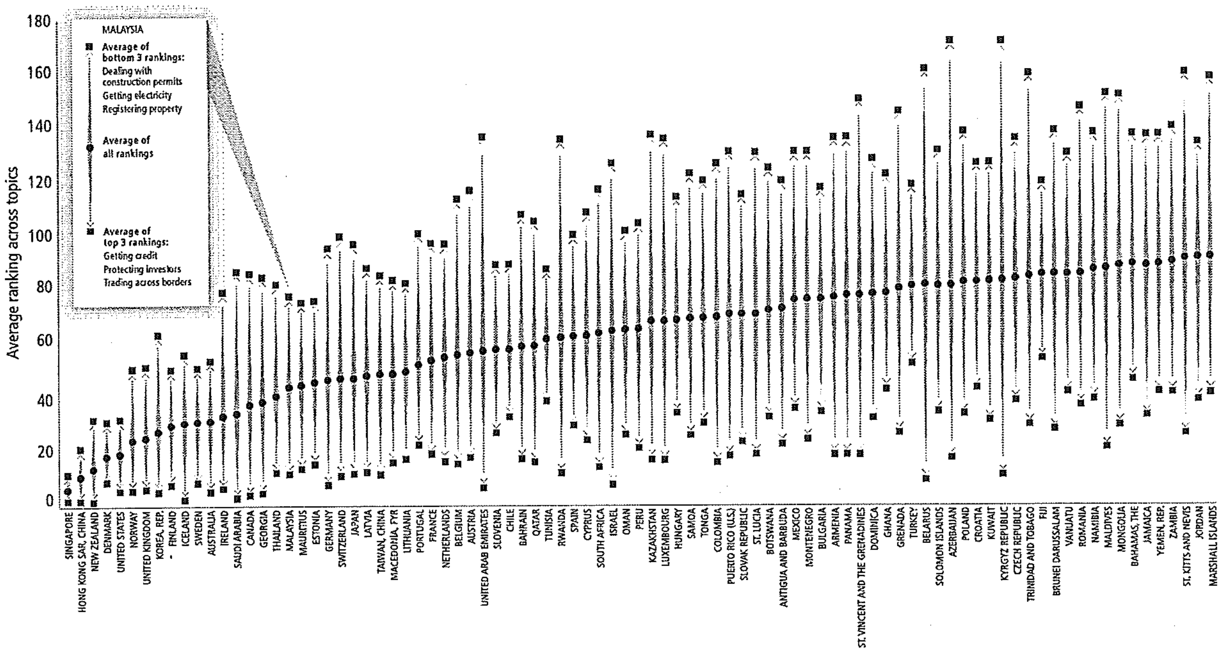
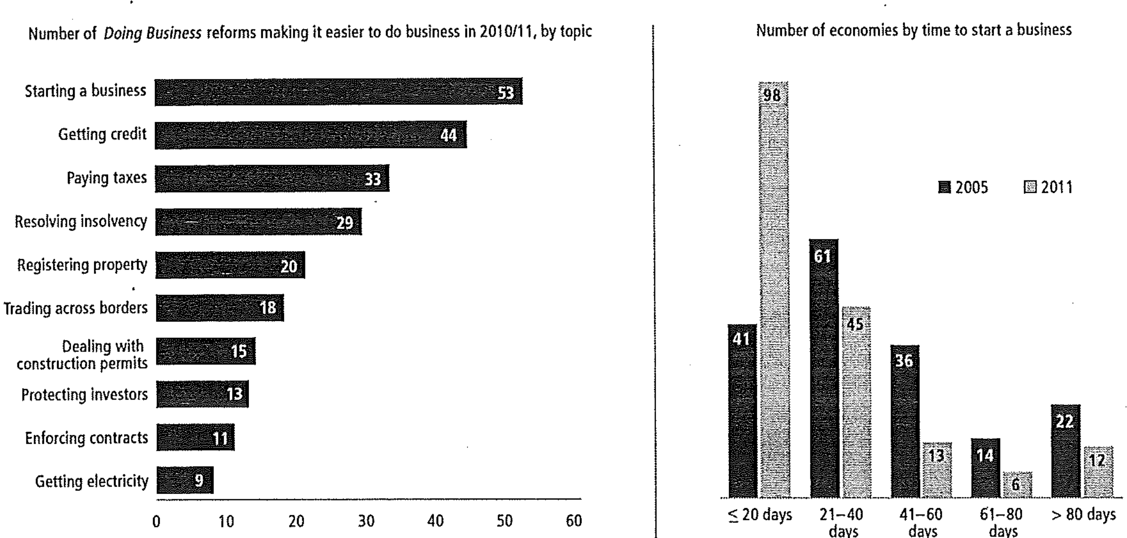
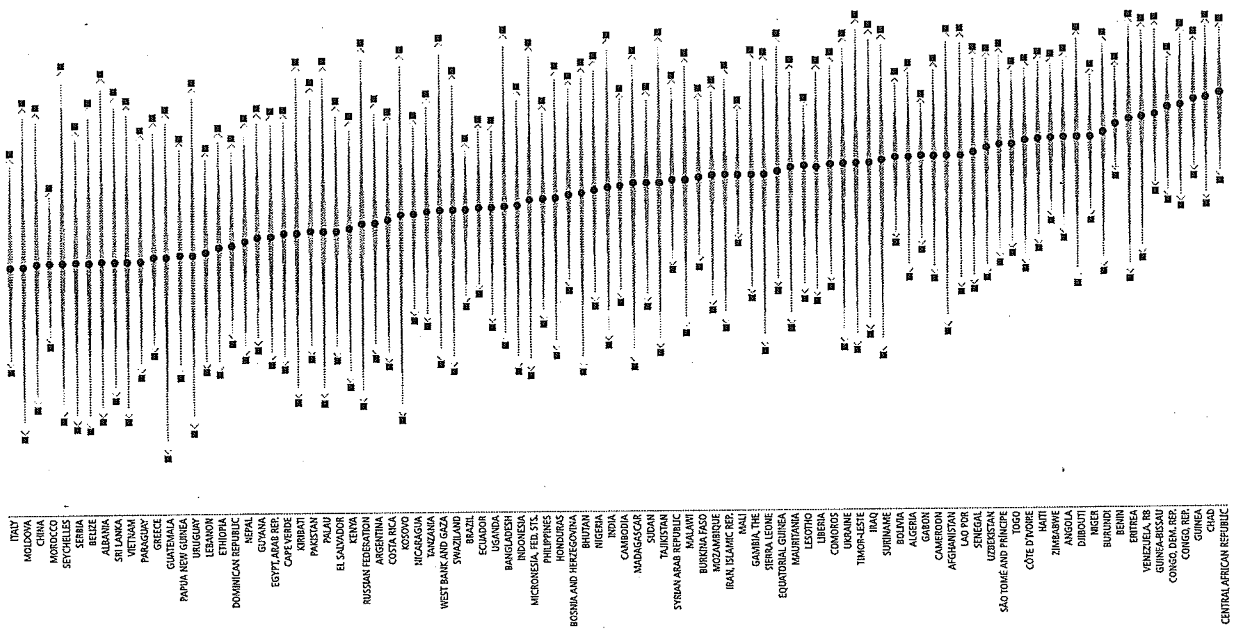


FIGURE 1.7 Reforms making it easier to start a business were most common in 2010/11—and have shown results over time



Note: The data in the second panel refer to the 174 economies included in *Doing Business 2006* (2005). Additional economies were added in subsequent years.

Source: Doing Business database.



Note: Figure illustrates the variability in the degree to which an economy's regulatory environment is business-friendly compared with other economies across different areas of regulation. The vertical bars show the distance between the average of the highest 3 topic rankings and the average of the lowest 3 for each of 183 economies across the 10 topics included in this year's aggregate ranking.
Source: Doing Business database.

and Zimbabwe went the furthest in making business regulation less business-friendly.

Some economies have gone particularly far in closing the gap with the regulatory systems of top-performing economies such as Singapore, New Zealand and the Northern European economies (figure 1.9). Many of them are developing economies that started off with relatively high levels of bureaucracy and weak protections of property rights as measured by *Doing Business*. In narrowing the gap, all these economies are moving closer to the frontier—a synthetic measure based on the most efficient practice or highest score observed for each indicator. For starting a business, for example, the bar is set by New Zealand on the time (1 day), Canada and New Zealand on the number of procedures (1), Denmark and Slovenia on the cost (0). Georgia, Norway, Portugal, Sweden and the United Arab Emirates set the bar on the number of procedures for registering property (1), France on the documents required to export (2), Singapore on the time to enforce contracts (150 days). The frontier is thus a proxy for global good practice across all indicators.

Economies making the greatest progress toward the frontier have been able to do so thanks to broad regulatory reform programs covering multiple areas of regulation and embedded in a long-term competitiveness strategy (figure 1.10). China, for example, implemented policy changes across 9 areas of business regulation in the years since 2005. The changes included a new company law in 2005, a new credit registry in 2006 and, in 2007, the first bankruptcy law regulating the bankruptcy of private enterprises since 1949 (figure 1.11).

More economies are taking this broad approach. In 2010/11, 35 economies implemented reforms making it easier to do business in 3 or more areas measured by *Doing Business*—12 of them in 4 or more areas. Four years before, only 10 reformed in 3 or more areas.

Also new are the comprehensive approach and high level of coordination and commitment that some developing and emerging market economies are bringing to regulatory reform. More than 2 dozen economies have put in place regulatory reform committees, often reporting directly to the president or prime minister—as in Colombia, Malaysia and Rwanda.[18] And they have not shied away from radical legal reforms. Economies making the greatest strides in creating a more business-friendly regulatory environment have been revamping their regulatory and administrative systems in multiple areas to encourage private sector activity (box 1.3).

That more and more developing economies are serious about business regulation reform is encouraging. Such broad thinking is good news for entrepreneurs and governments alike.

FIGURE 1.8 In the past 6 years 163 economies moved closer to the frontier in regulatory practice

Distance to frontier, 2005 and 2011

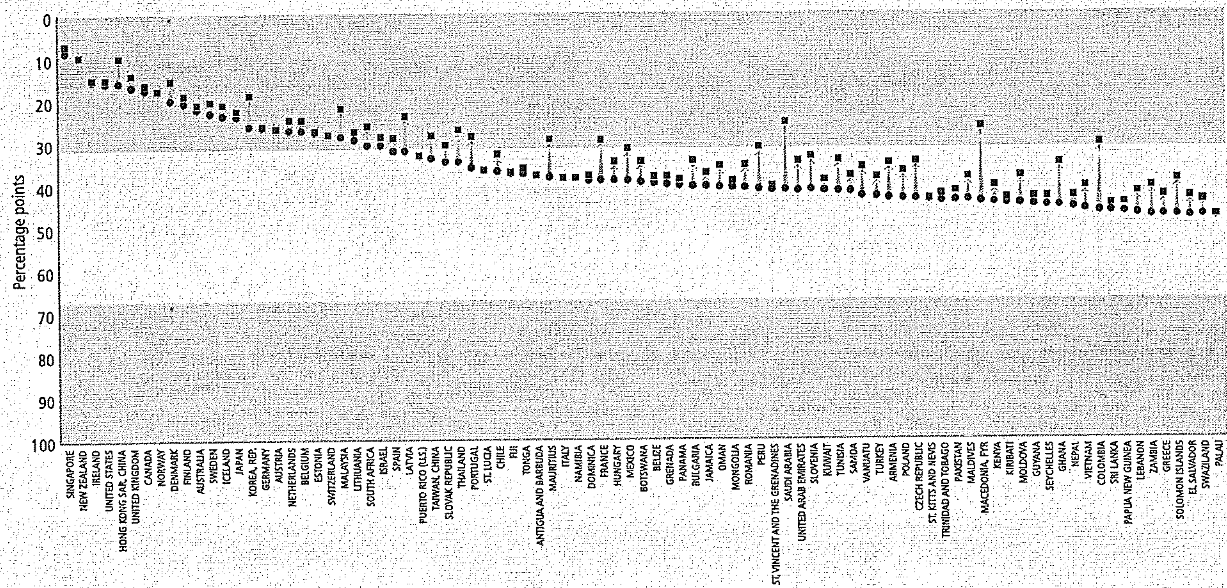
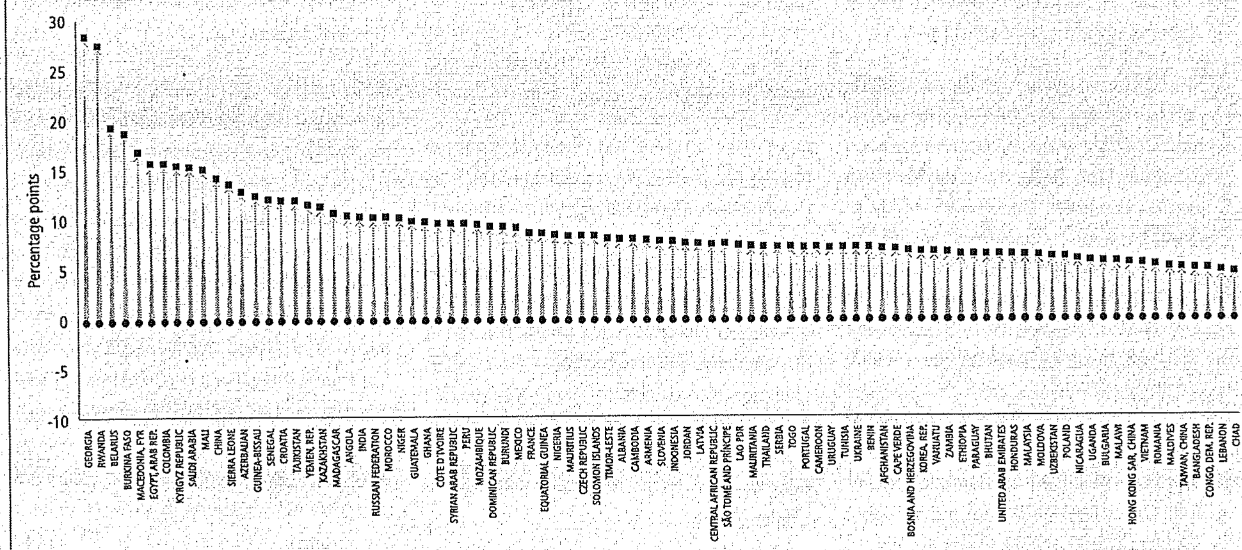
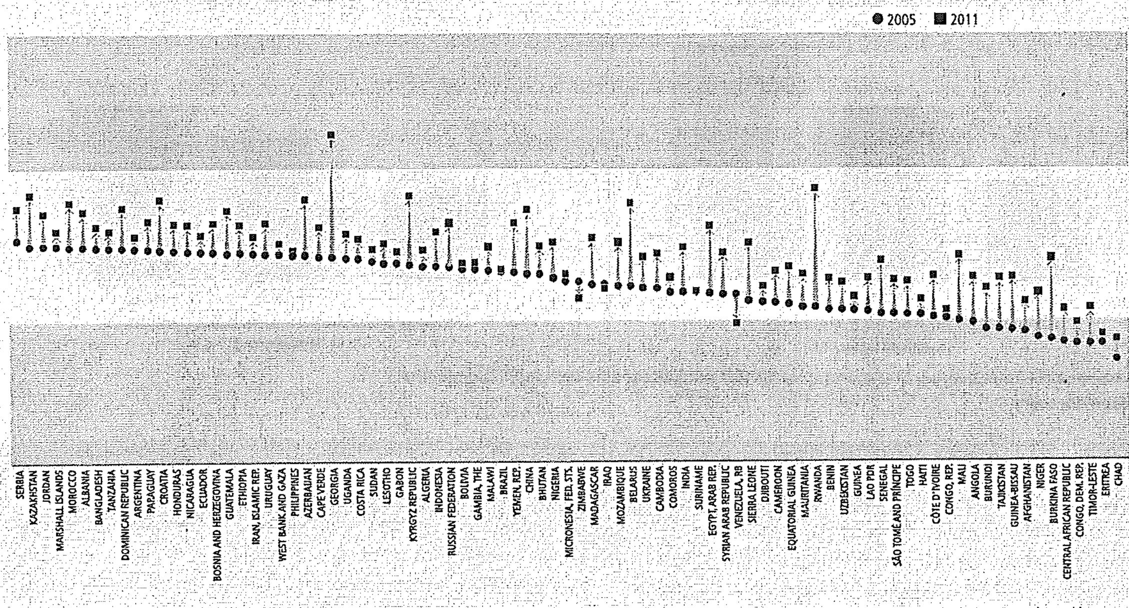


FIGURE 1.9 Who advanced the most in closing the gap to the frontier?

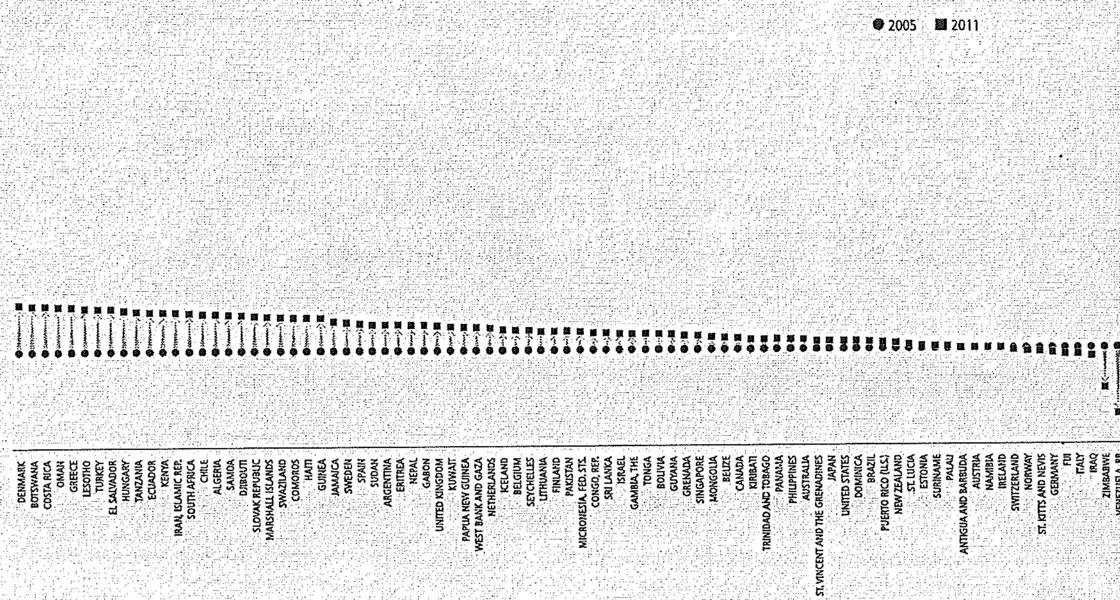
Progress in narrowing distance to frontier, 2005–11





Note: The distance to frontier measure illustrates the distance of an economy to the "frontier"—a synthetic measure based on the most efficient practice or highest score achieved by any economy on each of the indicators in 9 *Doing Business* indicator sets (excluding the employing workers and getting electricity indicators) since 2005. The vertical axis represents the distance to the frontier, and 0 the most efficient regulatory environment (frontier practice). The data refer to the 174 economies included in *Doing Business 2006* (2005). Additional economies were added in subsequent years.

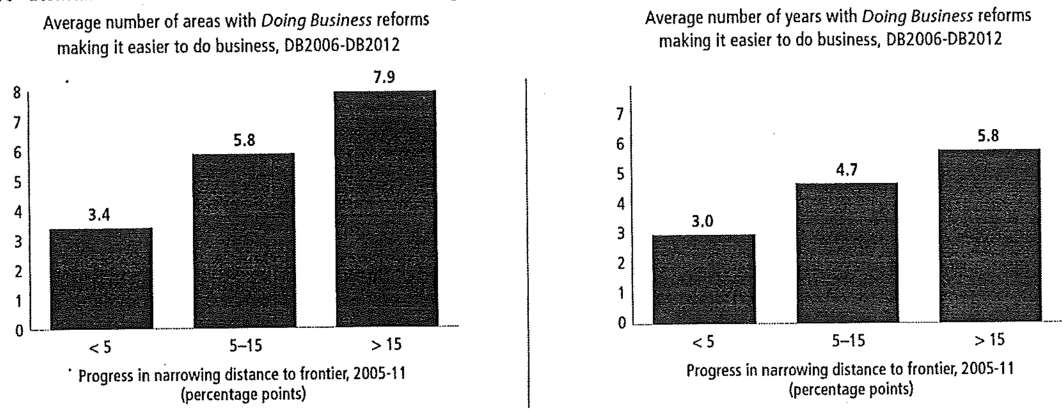
Source: Doing Business database.



Note: Figure shows the absolute difference for each economy between its distance to frontier in 2005 and that in 2011.

Source: Doing Business database.

FIGURE 1.10 Economies with broader and more sustained business regulation reforms moved a greater distance toward the frontier



Note: The data refer to the 174 economies included in *Doing Business 2006* (2005). Additional economies were added in subsequent years.

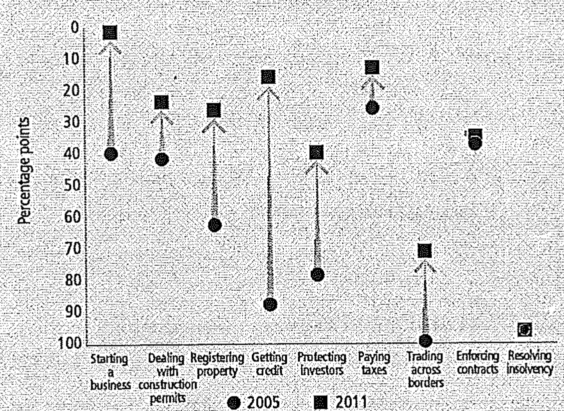
Source: Doing Business database.

BOX 1.3 Broad approach to regulatory reform over time in Rwanda and Georgia

Rwanda's broad and sustained approach to regulatory reform shows up in progress toward the frontier in a range of areas (see figure on Rwanda). The economy has undertaken ambitious land and judicial reforms, often years in the making. Since 2001 it has introduced new corporate, insolvency, civil procedure and secured transactions laws. And it has streamlined and remodeled institutions and processes for starting a business, registering property, trading across borders and enforcing a contract through the courts.

Rwanda's broad approach to making regulation business-friendly

Distance to frontier, 2005 and 2011



Source: Doing Business database.

Georgia too has pursued broad-ranging business regulation reform (see figure on Georgia). Since 2005 the economy has introduced a new company law and customs code. A new property registry replaced a confusing system requiring duplicate approvals by multiple agencies. The economy's first credit information bureau and large-scale judicial reforms followed.

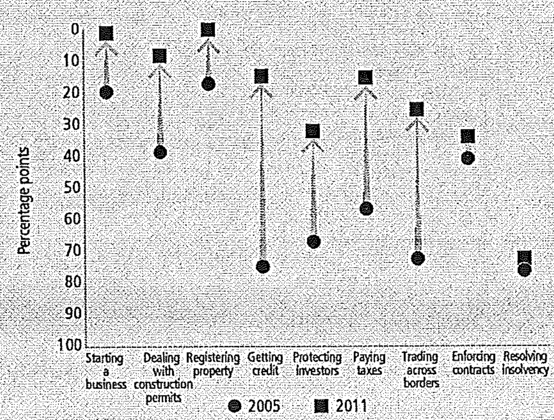
In 2008 Georgian firms recognized the low levels of bureaucracy and flexible business environment in enterprise surveys. Senior managers reported spending less than 2% of their time dealing with government regulations, down from about 10% in 2002 and the smallest share among economies in Eastern Europe and Central Asia. Only 4% of firms expected to make informal payments to public officials to get things done, compared with a regional average of 17%.

Georgian firms participating in survey rounds in both 2005 and 2008 reported adding an average of 23 permanent workers (increasing the average from 61 to 84) during that period.[1] They also reported a big drop in visits from or required meetings with tax officials, from an average of 8 in 2005 to only 0.4 in 2008. This result may be related to a new tax code that took effect at the start of 2005, reducing the categories of taxes from 21 to 9.

Yet more remains to be done to improve the overall business environment. Enterprise surveys show that security and infrastructure remain among the top concerns of businesses in Georgia.

How Georgia is closing the distance to the frontier

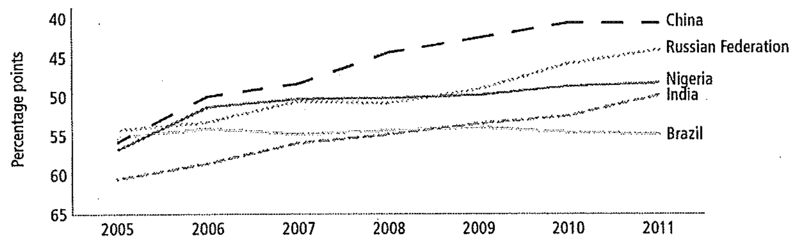
Distance to frontier, 2005 and 2011



Source: Doing Business database.

1. World Bank 2009c.

FIGURE 1.11 China has been making steady progress toward the frontier
Distance to frontier, 2005–11



Source: Doing Business database.

Among the 12 economies improving the most in the ease of doing business in 2010/11, two-thirds are low- or lower-middle-income economies. All implemented regulatory reforms making it easier to do business in 3 or more of the 10 areas included in this year's aggregate ranking (table 1.2).

THE ADVANTAGE OF BEING A LATE STARTER

Many economies have the advantage today of being able to learn from the experience of others. And many are already adopting good practices from other economies (table 1.3). To help identify such practices, this year *Doing Business* is electronically publishing topic chapters that provide an overview of what has worked and why in 11 areas of business regulation, from business entry to exit. These chapters also provide insights into the importance of each area and show global trends.[19]

WHAT TO EXPECT NEXT?

Doing Business has been measuring and tracking business regulation around the world for the past 9 years. During this time most economies have made their regulatory environment for local firms more business-friendly. Firms create jobs, and policy makers play a key role in creating a regulatory environment that encourages their creation, growth and investment.

A friendly competition has emerged as economies adopt proven regulatory practices from others. Lessons from others have proved invaluable for such economies as Colombia, Georgia, the former Yugoslav Republic of Macedonia and Rwanda. Within larger economies good practices can often be found across state borders (see the case study on Mexico).

Practitioners interested in learning from others have more resources to turn to. This year's topic chapters provide the basis for web content and a new online database on practices and experiences in business regulation reform around the world. A series of case studies will explore how economies have integrated regulatory reform into broader competitiveness strategies or approached regulatory reform more generally. This year's report presents the cases of Korea, FYR Macedonia, Mexico and the United Kingdom.

These expanding resources, including a growing time series of data on business regulation, are allowing more empirical research that sheds light on synergies among different areas of regulation and on the effect of regulatory reform on such economic outcomes as informality, corruption, employment and economic growth. The evidence is encouraging. It suggests that if key bottlenecks

TABLE 1.2 Economies that improved the most across 3 or more areas measured by *Doing Business* in 2010/11

		Ease of doing business rank			Reforms making it easier to do business									
		DB2012	DB2011	Improvement	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
1	Morocco	94	115	-21		√				√	√			
2	Moldova	81	99	-18	√				√				√	√
3	Macedonia, FYR	22	34	-12		√		√	√					√
4	São Tomé and Príncipe	163	174	-11	√	√		√				√		
5	Latvia	21	31	-10	√		√	√						√
	Cape Verde	119	129	-10				√	√					√
6	Sierra Leone	141	150	-9					√			√	√	√
7	Burundi	169	177	-8		√				√	√			√
8	Solomon Islands	74	81	-7	√			√		√				√
	Korea, Rep.	8	15	-7	√						√		√	
9	Armenia	55	61	-6	√	√			√		√			√
10	Colombia	42	47	-5	√						√			√

Note: Economies are ranked on the number of their net reforms and on how much they improved in the ease of doing business ranking. First, *Doing Business* selects the economies that implemented reforms making it easier to do business in 3 or more of the 10 topics included in this year's aggregate ranking (see box 1.2). Regulatory reforms making it more difficult to do business are subtracted from the number of those making it easier to do business. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings. The larger the improvement, the higher the ranking as the most improved.

Source: Doing Business database.

TABLE 1.3 Good practices around the world, by *Doing Business* topic

Topic	Practice	Economies[a]	Examples
Making it easy to start a business	Putting procedures online	110	Hong Kong SAR, China; Kuwait; FYR Macedonia; New Zealand; Peru; Puerto Rico (U.S.); Singapore
	Having a one-stop shop	83	Bahrain; Burkina Faso; Georgia; Republic of Korea; Uruguay; Vietnam
	Having no minimum capital requirement	82	Kenya; Madagascar; Portugal; Rwanda; United Arab Emirates; United Kingdom
Making it easy to deal with construction permits	Having an organized set of building rules	116	Croatia; Kenya; New Zealand; Republic of Yemen
	Using risk-based building approvals	86	Armenia; Germany; Mauritius; Singapore
	Having a one-stop shop	26	Bahrain; Chile; Hong Kong SAR, China; Rwanda
Making it easy to register property	Using an electronic database for encumbrances	108	Jamaica; Sweden; United Kingdom
	Setting effective time limits for registration	54	Botswana; Guatemala; Indonesia
	Offering cadastre information online	50	Denmark; Lithuania; Malaysia
	Offering expedited procedures	16	Azerbaijan; Bulgaria; Georgia
	Setting fixed transfer fees	15	New Zealand; Russian Federation; Rwanda
Making it easy to get credit	Allowing out-of-court enforcement	123	Australia; India; Nepal; Peru; Russian Federation; Serbia; Sri Lanka; United States
	Distributing data on loans below 1% of income per capita	119	Brazil; Bulgaria; Germany; Kenya; Malaysia; Sri Lanka; West Bank and Gaza
	Distributing both positive and negative credit information	100	China; Croatia; India; Italy; Jordan; Panama; South Africa
	Allowing a general description of collateral	91	Cambodia; Canada; Chile; Nigeria; Romania; Singapore; Vanuatu; Vietnam
	Maintaining a unified registry	68	Bosnia and Herzegovina; Guatemala; Honduras; Marshall Islands; Federated States of Micronesia; Montenegro; New Zealand; Romania; Solomon Islands
	Distributing credit information from retailers, trade creditors or utilities as well as financial institutions	54	Fiji; Lithuania; Nicaragua; Rwanda; Saudi Arabia; Spain
Protecting investors	Allowing rescission[b] of prejudicial related-party transactions	70	Brazil; Mauritius; Rwanda; United States
	Regulating approval of related-party transactions	60	France; Iceland; Indonesia; Lebanon; United Kingdom
	Requiring detailed disclosure	52	Hong Kong SAR, China; Israel; New Zealand; Singapore
	Allowing access to all corporate documents during the trial	45	Chile; Ireland; Morocco; Peru; Poland
	Defining clear duties for directors in case of related-party transactions	45	Colombia; Malaysia; Mexico; United States; Vietnam
	Requiring external review of related-party transactions	41	Australia; Burundi; Arab Republic of Egypt; Norway
	Allowing access to all corporate documents *before* the trial	31	Greece; Japan; South Africa; Sweden
Making it easy to pay taxes	Allowing self-assessment	145	Argentina; Canada; China; Arab Republic of Egypt; Rwanda; Sri Lanka; Turkey
	Allowing electronic filing and payment	66	Australia; Colombia; India; Lithuania; Mauritius; Singapore; Tunisia
	Having one tax per tax base	49	Hong Kong SAR, China; FYR Macedonia; Morocco; Namibia; Paraguay; United Kingdom
Making it easy to trade across borders[c]	Using electronic data interchange	130[d]	Belize; Chile; Estonia; Pakistan; Turkey
	Using risk-based inspections	97	Morocco; Nigeria; Palau; Suriname; Vietnam
	Providing a single window	49[e]	Colombia; Ghana; Republic of Korea; Singapore
Making it easy to enforce contracts	Making judgments publicly available	122[f]	Australia; Austria; Chile; Dominican Republic; Greece; Mozambique; Nigeria; Uruguay
	Maintaining specialized commercial court, division or judge	87	Burkina Faso; France; Lesotho; Saudi Arabia; Sierra Leone; Singapore
	Allowing electronic filing of complaints	16	Australia; Republic of Korea; Malaysia; Russian Federation; United Kingdom
Making it easy to resolve insolvency	Allowing creditors' committees a say in relevant decisions	103	Bulgaria; Philippines; South Africa
	Requiring professional or academic qualifications for insolvency administrators by law	64	Cape Verde; Namibia
	Providing a legal framework for out-of-court workouts	45	Italy; Philippines

Note: Good practices making it easy to get electricity will be included in *Doing Business 2013.*

a. Among 183 economies surveyed, unless otherwise specified.
b. The right of parties involved in a contract to return to a state identical to that before they entered into the agreement.
c. Among 159 economies surveyed for electronic data interchange, 152 for risk-based inspections and 150 for single window.
d. Twenty-six have a full electronic data interchange system, 104 a partial one.
e. Twenty have a single-window system that links all relevant government agencies, 29 a system that does not.
f. Among 175 economies surveyed.

Source: Doing Business database; for starting a business, also World Bank (2009b).

are identified, targeted changes can have a substantial effect on new firm creation, productivity and employment. Because many regulations interact, implementing regulatory reform in several areas has synergistic effects. It is also important to recognize that regulatory reforms can take time to translate into changes in the economy. [20]

Other World Bank Group initiatives provide data complementing the *Doing Business* resources. Two global data sets support the exploration of other areas of analysis—one focusing on laws and regulations specific to women's participation in the economy and the other on those relating to foreign companies' engagement in the domestic economy.[21] Enterprise surveys covering 125 economies over 9 years allow researchers and policy makers to assess what the private sector looks like in an economy at a given time—in terms of firm size, sector of activity and geographic location.[22] Through direct interviews with more than 130,000 firms around the world, these surveys examine a range of issues relating to the business environment, including the biggest constraints as perceived by businesses.

The agenda for research into what regulations constitute binding constraints, what package of regulatory reforms is most effective and how these issues are shaped by the context in an economy is still unfinished. To stimulate new research in this area, *Doing Business* plans to hold a conference in the fall of 2012. Its aim will be to deepen our understanding of the links between business regulation reforms and broader economic outcomes.

NOTES

1. Narayan and others 2000.
2. Ayyagari, Demirgüç-Kunt and Maksimovic 2011.
3. Only 27% of all regulatory reforms recorded by *Doing Business* for economies in the Middle East and North Africa over the past 6 years were in the areas of getting credit, protecting investors, enforcing contracts and resolving insolvency. In Eastern Europe and Central Asia 38% of all regulatory reforms recorded were in these areas.
4. Research shows that business regulations of the type measured by *Doing Business* affect the creation of new firms in the local market, the productivity levels of those firms and the creation of employment. Cross-country studies show that greater ease of entry is associated with a higher firm entry rate and greater business density on average. Encouraging evidence from economies as diverse as Colombia, India, Mexico and Portugal also supports these findings. For more on this and other relevant research, see the chapter "About *Doing Business*: measuring for impact."
5. Public procurement, while not covered by any of the *Doing Business* indicators, is another area in which a growing number of governments are using electronic platforms. The aim is to increase transparency in the relationships between public officials and suppliers.
6. Nineteen U.K. government departments participated in the program, which started with an extensive quantification exercise in the summer of 2005. In May 2010 the target was met: a total cost reduction for businesses of £3.5 billion. Based on this experience, a new target was set: to cut the ongoing costs of regulation by another £6.5 billion by 2015 (http://www.bis.gov.uk).
7. European Commission 2011.
8. The assignment was to compile the latest research findings on regulatory burden, regulatory simplification and regulatory impact on business and to examine what effects direct and indirect costs have on businesses and the economy (Swedish Agency for Growth Policy Analysis 2010).
9. http://www.businesslink.gov.uk.
10. This pattern of relatively large variation across indicator sets is not specific to *Doing Business*. A similar pattern can be discerned in, for example, the World Economic Forum's Global Competitiveness Index, a broader measure capturing such factors as macroeconomic stability, the soundness of public institutions, aspects of human capital and the sophistication of the business community. The United States and Japan, as leaders in technology, score extremely well on measures of innovation. But with large budget deficits and high levels of public debt, they do less well on measures of macroeconomic stability.
11. Some members of the Corporate Registrars Forum are Australia; Bangladesh; Bermuda; Botswana; the British Virgin Islands; Burkina Faso; Canada; the Cook Islands; Croatia; Hong Kong SAR, China; India; Jordan; FYR Macedonia; Malawi; Malaysia; Mauritius; Nepal; the Netherlands; New Zealand; Nigeria; Pakistan; Rwanda; Samoa; Singapore; South Africa; Sri Lanka; Tunisia; the United Arab Emirates; the United Kingdom; and Vanuatu. (http://www.corporateregistersforum.org/member-jurisdictions).
12. See also World Bank (2009a, 2010a).
13. Aghion and others 2008.
14. Bruhn 2011.
15. Kaplan, Piedra and Seira 2007.
16. Eifert 2009.
17. Rauch 2010.
18. These include economies across regions: In East and South Asia, India; Malaysia; Sri Lanka; Taiwan, China; Thailand; and Vietnam. In the Middle East and North Africa, Egypt; Morocco; Saudi Arabia; the United Arab Emirates; and the Republic of Yemen. In Eastern Europe and Central Asia, Georgia; Kazakhstan; the Kyrgyz Republic; Moldova; and Tajikistan. In Sub-Saharan Africa, Botswana; Burundi; the Central African Republic; the Comoros; the Democratic Republic of Congo; Kenya; Liberia; Malawi; Mali; and Zambia. And in Latin America, Guatemala; Mexico; and Peru.
19. Topic chapters are available on the *Doing Business* website (http://www.doingbusiness.org).
20. For more information on relevant research, see the chapter "About *Doing Business*: measuring for impact."
21. The databases are Women, Business and the Law (http://wbl.worldbank.org/) and Investing Across Borders (http://iab.worldbank.org/).
22. World Bank Enterprise Surveys (http://www.enterprisesurveys.org).

About *Doing Business*: measuring for impact

A vibrant private sector—with firms making investments, creating jobs and improving productivity—promotes growth and expands opportunities for poor people. To foster a vibrant private sector, governments around the world have implemented wide-ranging reforms, including price liberalization and macroeconomic stabilization programs. But governments committed to the economic health of their country and opportunities for its citizens focus on more than macroeconomic conditions. They also pay attention to the quality of laws, regulations and institutional arrangements that shape daily economic activity.

Until 10 years ago, however, there were no globally available indicator sets for monitoring such microeconomic factors and analyzing their relevance. The first efforts to address this gap, in the 1980s, drew on perceptions data from expert or business surveys that capture often one-time experiences of businesses. Such surveys can be useful gauges of economic and policy conditions. But few perception surveys provide indicators with a global coverage that are updated annually.

The *Doing Business* project takes a different approach from perception surveys. It looks at domestic, primarily small and medium-size companies and measures the regulations applying to them through their life cycle. Based on standardized case studies, it presents quantitative indicators on business regulation that can be compared across 183 economies and over time. This approach complements the perception surveys in exploring the major constraints for businesses, as experienced by the businesses themselves and as set out in the regulations that apply to them.

Rules and regulations are under the direct control of policy makers—and policy makers intending to change the experience and behavior of businesses will often start by changing rules and regulations that affect them. *Doing Business* goes beyond identifying that a problem exists and points to specific regulations or regulatory procedures that may lend themselves to reform (table 2.1). And its quantitative measures of business regulation enable research on how specific regulations affect firm behavior and economic outcomes.

The first *Doing Business* report, published in 2003, covered 5 indicator sets and 133 economies. This year's report covers 11 indicator sets and 183 economies. Ten topics are included in the aggregate ranking on the ease of doing business and other summary measures.[1] The project has benefited from feedback from governments, academics, practitioners and reviewers.[2] The initial goal remains: to provide an objective basis for understanding and improving the regulatory environment for business.

WHAT *DOING BUSINESS* COVERS

An entrepreneur's willingness to try a new idea may be influenced by many factors, including perceptions of how easy (or difficult) it will be to deal with the array of rules that define and underpin the business environment. Whether the entrepreneur decides to move forward with the idea, to abandon it or to take it elsewhere might depend in large part on how simple it is to comply with the requirements for opening a new business or getting a construction permit and how efficient the mechanisms are for resolving commercial disputes or dealing with insolvency. *Doing Business* provides quantitative measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency—as they apply to domestic small and medium-size enterprises.[3] It also looks at regulations on employing workers.

A fundamental premise of *Doing Business* is that economic activity requires good rules. These include rules that establish and clarify property rights and reduce the cost of resolving disputes, rules that increase the predictability of economic interactions and rules that provide contractual partners with core protections against abuse. The objective: regulations designed to be simple and efficient in implementation and accessible

TABLE 2.1 *Doing Business* methodology allows an objective but limited global comparison

Advantages	Limitations
Transparent, based on factual information about laws and regulations (with an element of judgment on time estimates)	*Limited in scope: focuses on 11 areas of regulation affecting local businesses; does not measure all aspects of business environment or all areas of regulation*
Comparison and benchmarking valid thanks to standard assumptions	*Based on standardized case: transactions described in case scenario refer to specific set of issues and type of company*
Inexpensive and easily replicable	*Focuses on formal sector*
Actionable: data highlight extent of specific obstacles, identify source, point to what might be changed	*Only reforms related to indicators can be tracked*
Multiple interactions with local respondents to clarify potential misinterpretation	*Assumes that business has full information on what is required and does not waste time when completing procedures*
Nearly complete coverage of world's economies	*Part of data obtained refer to an economy's largest business city only*

to all who need to use them. Accordingly, some *Doing Business* indicators give a higher score for more regulation, such as stricter disclosure requirements in related-party transactions. Some give a higher score for a simplified way of implementing existing regulation, such as completing business start-up formalities in a one-stop shop.

The *Doing Business* project encompasses 2 types of data. The first come from readings of laws and regulations by both the local expert respondents and *Doing Business*. The second are time-and-motion indicators that measure the efficiency in achieving a regulatory goal (such as granting the legal identity of a business). Within the time-and-motion indicators, cost estimates are recorded from official fee schedules where applicable. A regulatory process such as starting a business or registering property is broken down into clearly defined steps and procedures. The time estimates for each procedure are based on the informed judgment of expert respondents who routinely administer or advise on the relevant regulations.[4] Here, *Doing Business* builds on Hernando de Soto's pioneering work in applying the time-and-motion approach first used by Frederick Taylor to revolutionize the production of the Model T Ford. De Soto used the approach in the 1980s to show the obstacles to setting up a garment factory on the outskirts of Lima.[5]

WHAT *DOING BUSINESS* DOES NOT COVER

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

Limited in scope

Doing Business focuses on 11 topics, with the specific aim of measuring the regulation relevant to the life cycle of a domestic firm (table 2.2). Accordingly:

- *Doing Business* does not measure all aspects of the business environment that matter to firms or investors—or all factors that affect competitiveness. It does not, for example, measure security, corruption, market size, macroeconomic stability, the state of the financial system, the labor skills of the population or all aspects of the quality of infrastructure. Nor does it focus on regulations specific to foreign investment.
- While *Doing Business* focuses on the quality of the regulatory framework, it is not all-inclusive; it does not cover all regulations in any economy. As economies and technology advance, more areas of economic activity are being regulated. For example, the European Union's body of laws (*acquis*) has now grown to no fewer than 14,500 rule sets. *Doing Business* covers 11 areas of a company's life cycle, through 11 specific sets of indicators. These indicator sets do not cover all aspects of regulation in the area of focus. For example, the indicators on starting a business or protecting investors do not cover all aspects of commercial legislation. The employing workers indicators do not cover all areas of labor regulation. The current set of indicators does not, for example, include measures of regulations addressing safety at work or the right of collective bargaining.
- *Doing Business* also does not attempt to measure all costs and benefits of a particular law or regulation to society as a whole. The paying taxes indicators, for example, measure the total tax rate, which is a cost to business. The indicators do not measure, nor are they intended to measure, the social and economic programs funded through tax revenues. Measuring business laws and regulations provides one input into the debate on the regulatory burden associated with achieving regulatory objectives. Those objectives can differ across economies.

TABLE 2.2 *Doing Business*—measuring 11 areas of business regulation

Start-up	Expansion	Operations	Insolvency
• Starting a business *Minimum capital requirement* *Procedures, time and cost*	• Registering property *Procedures, time and cost* • Getting credit *Credit information systems* *Movable collateral laws* • Protecting investors *Disclosure and liability in related-party transactions* • Enforcing contracts *Procedures, time and cost to resolve a commercial dispute*	• Dealing with construction permits *Procedures, time and cost* • Getting electricity *Procedures, time and cost* • Paying taxes *Payments, time and total tax rate* • Trading across borders *Documents, time and cost* • Employing workers	• Resolving insolvency *Time, cost and recovery rate*
ENTRY	PROPERTY RIGHTS ACCESS TO CREDIT INVESTOR PROTECTIONS	ADMINISTRATIVE BURDEN FLEXIBILITY IN HIRING	RECOVERY RATE REALLOCATION OF ASSETS

Based on standardized case scenarios

Doing Business indicators are built on the basis of standardized case scenarios with specific assumptions, such as the business being located in the largest business city of the economy. Economic indicators commonly make limiting assumptions of this kind. Inflation statistics, for example, are often based on prices of a set of consumer goods in a few urban areas.

Such assumptions allow global coverage and enhance comparability. But they come at the expense of generality. *Doing Business* recognizes the limitations of including data on only the largest business city. Business regulation and its enforcement, particularly in federal states and large economies, may differ across the country. Recognizing governments' interest in such variation, *Doing Business* has complemented its global indicators with subnational studies in a range of economies (box 2.1). This year *Doing Business* also conducted a pilot study on the second largest city in 3 large economies to assess within-country variations.

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

Focused on the formal sector

In constructing the indicators, *Doing Business* assumes that entrepreneurs are knowledgeable about all regulations in place and comply with them. In practice, entrepreneurs may spend considerable time finding out where to go and what documents to submit. Or they may avoid legally required procedures altogether—by not registering for social security, for example. Where regulation is particularly onerous, levels of informality are higher. Informality comes at a cost: firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and their workers remain outside the protections of labor law.[6] All this may be even more so for female-owned businesses, according to country-specific research.[7] Firms in the informal sector are also less likely to pay taxes. *Doing Business* measures one set of factors that help explain the occurrence of informality and give policy makers insights into potential areas of regulatory reform. Gaining a fuller understanding of the broader business environment, and a broader perspective on policy challenges, requires combining insights from *Doing Business* with data from other sources, such as the World Bank Enterprise Surveys.[8]

WHY THIS FOCUS

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

One way to test whether *Doing Business* serves as a proxy for the broader business environment and for competitiveness is to look at correlations between the *Doing Business* rankings and other major economic benchmarks. Closest to *Doing Business* in what it measures is the set of indicators on product market regulation compiled by the Organisation for Economic Co-operation and Development (OECD). These indicators are designed to help assess the extent to which the regulatory environment promotes or inhibits competition. They include measures of the extent of price controls, the licensing and permit system, the degree of simplification of rules and procedures, the administrative burdens and legal and regulatory barriers, the prevalence of discriminatory procedures and the degree of government control over business enterprises.[9] The rankings on these indicators—for the 39 countries that are

BOX 2.1 Comparing regulation within economies: subnational *Doing Business* indicators and a multicity pilot study

Subnational *Doing Business* studies are conducted at the request of a government and capture differences in business regulation across cities within the same economy or region. They build local capacity by involving government partners and local think tanks. Since 2005 subnational *Doing Business* reports have compared business regulation in states and cities within such economies as Brazil, China, Colombia, Egypt, India, Indonesia, Kenya, Mexico, Morocco, Nigeria, Pakistan and the Philippines.[1]

Subnational studies increasingly are being periodically updated to measure progress over time or to expand geographic coverage to additional cities. This year that is the case for the subnational studies in the Philippines; the regional report in Southeast Europe; the ongoing studies in Italy, Kenya and the United Arab Emirates; and the projects implemented jointly with local think tanks in Indonesia, Mexico and the Russian Federation.

In 2011 *Doing Business* published subnational indicators for the Philippines and a regional report for 7 economies in Southeast Europe (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Moldova, Montenegro and Serbia) that covers 22 cities. It also published a city profile for Juba, in the Republic of South Sudan.

To further explore variations in business regulation within economies, *Doing Business* this year collected data on all 10 indicator sets included in the ease of doing business ranking in an additional city in 3 large economies: in Rio de Janeiro in Brazil (in addition to São Paulo), Beijing in China (in addition to Shanghai) and St. Petersburg in the Russian Federation (in addition to Moscow). Subnational studies usually cover only a subset of indicators.

The results show no variation between cities within each economy in areas governed by laws or regulations such as the civil procedure code, listing rules for companies and incorporation rules. For rules governing secured transactions, for example, entrepreneurs in Brazil all refer to the Civil Code of 2002, those in China to the Property Rights Law of 2007 and those in Russia to the Civil Code of 1994 and Law on Pledge of 1992.

But the efficiency of regulatory processes—such as starting a business or dealing with construction permits—and that of institutions do differ across cities, because of differences either in local regulations or in the capacity of institutions to respond to business demand. In Russia, dealing with construction permits is more complex in Moscow than in St. Petersburg. In Brazil, starting a business, dealing with construction permits and getting electricity take less time in Rio de Janeiro than in the larger São Paulo. But property registration is slightly more efficient in São Paulo than in Rio de Janeiro. This is thanks to São Paulo's digitized cadastre.

In all 3 economies the number of taxes and contributions varies between cities. In China businesses in both cities have to comply with 3 state-administered taxes (value added tax, corporate tax and business tax). But while companies in Beijing need to comply with 6 locally administered taxes, those in Shanghai must comply with 7. Distance to the port plays a role in the time to import and export. The cities housing a main port—Rio de Janeiro, Shanghai and St. Petersburg—have faster and cheaper inland transport than those where entrepreneurs need to hire someone to go to another city to ship or receive their cargo—São Paulo (to Santos), Beijing (to Tianjin) and Moscow (to St. Petersburg).

1. Subnational reports are available on the *Doing Business* website at http://www.doingbusiness.org/reports/subnational-reports.

Protecting minority shareholders to boost investment

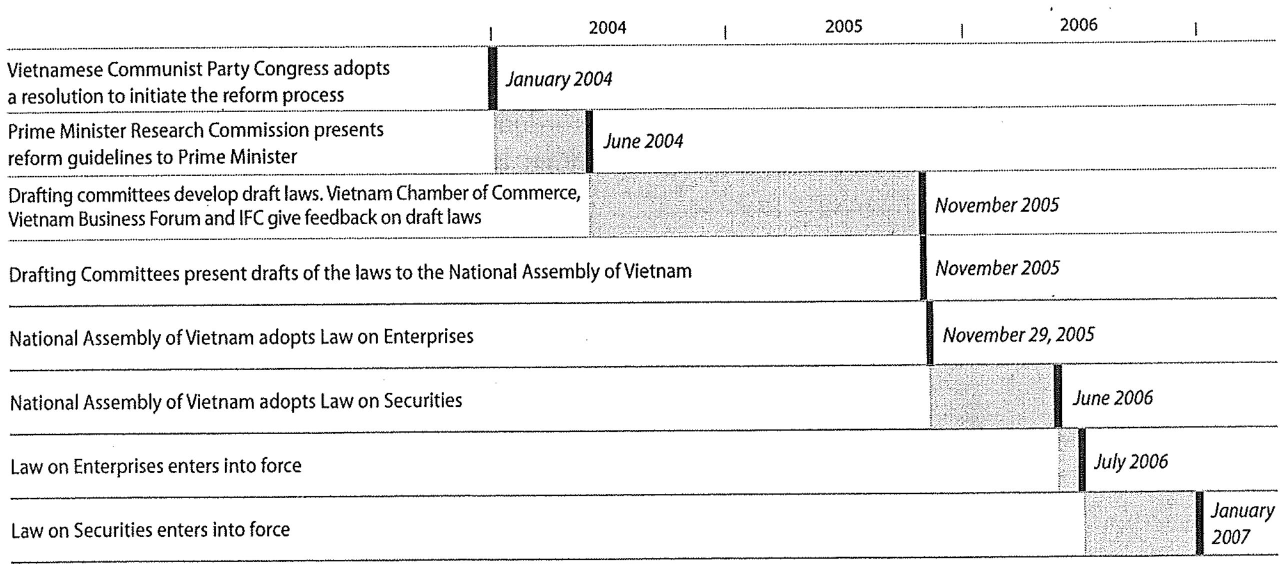
JEAN MICHEL LOBET

Investors used to be afraid to put their money in Vietnam. Why? Fear that company management would misuse the funds for personal benefit. The previous laws lacked clear rules for transparency and directors' obligations. And the regulatory system governing companies was fragmented and opaque: there was a law for domestic companies (Law on Enterprises 2000), a law for state-owned enterprises (Law on State Owned Enterprises 2003), a law for foreign-owned companies (Law on Foreign Investment 2000), and a law for agricultural companies (Law on Cooperatives 2003).

Vietnam also lacked clear legislation regulating the securities market, with the result that the informal stock exchange was much bigger than the Ho Chi Min Stock Exchange. Several state-owned companies were partially privatized by issuing shares to employees, managers, and the public. They in turn sold them through the Internet and in private deals with family, friends, and acquaintances.[1] An estimated 60–100 trades with VND 15–25 million ($10,000–16,000) took place every day in the unregulated stock market in 2005. While legal, this gray stock market could not protect investors or ensure orderly, fair, and efficient market mechanisms.

FIGURE 1
Timeline of investors' protection reform in Vietnam

Source: Doing Business database.



These shortcomings spurred reform—a new law on securities and an updated law on enterprises. The reform improved Vietnam's *Doing Business* protecting investors indicator ranking from 170 to 165 and its overall ease of *Doing Business* ranking from 104 to 91. But implementation remains a challenge.

Building on earlier reforms

The first reform, the Law on Enterprises of 2000, was an important step in developing the country's private sector. Thanks to that reform, business registrations boomed, creating almost a million jobs.[2] But the law was weak in regulating such fundamental issues as protecting minority investors. The government knew that the first reform effort was not sufficient and that they needed to go farther in the reform process. "Vietnam needed to show to the world that it was ready to offer higher standards and protections for investors," says a government official.

Ambitious targets—a spur to reform

To meet the targeted 2006–2010 gross domestic product (GDP) growth rate of 7.5–8% a year, the government recognized that it had to integrate its economy internationally, making unfettered access to world markets a government priority.

Vietnam also needed to create jobs since half of its population was under 40. The government had to accommodate 1.5 million young people entering the work force annually.

Vietnam's application to join the World Trade Organization was another key driver for legal reform. The accession process required that Vietnam's laws and legal institutions be transparent, rule-based, and neutral in their application to domestic and foreign business. The gaps in investor protections were large.

Vietnam's domestic private sector has also repeatedly called for a transparent, predictable, stable business environment with clear laws that do not discriminate on the basis of size or status—domestic or foreign, state or private. A government official explains, "The goals were defined; now, the challenge was to start the reform process."

Everyone lends a hand

The reform process had to be quick—the deadlines to fulfill the World Trade Organization accession requirements were tight. In about 20 months Vietnam's policymakers developed 2 big pieces of legislation: the Law on Enterprises and the Law on Securities.

The process started in early 2004 after the Communist Party Congress approved a resolution about developing the private sector. To lead the reform process, the government set up the Prime Minister Research Commission—a think tank responsible for designing economic, social, and administrative reforms, the first in Vietnam's history.

The commission presented its first report in June 2004, outlining the reform project to the Prime Minister. Regulatory drafting committees were then established by the Ministry of Planning and Investment. The committees prepared more than 20 drafts before submitting them to the National Assembly.

Many groups—the Chamber of Commerce, international donors, and international law firms—participated in drafting the legislation. "We received high qualified technical support from the private and public sector," explains a member of the commission.

The Vietnam Chamber of Commerce and Industry was the primary facilitator for business-oriented reforms. Through its website, it invited private and foreign investors to provide feedback on the proposals discussed at the National Assembly, facilitating private sector involvement. During the drafting process the chamber ran conferences that attracted nearly a million participants from the private and public sectors.

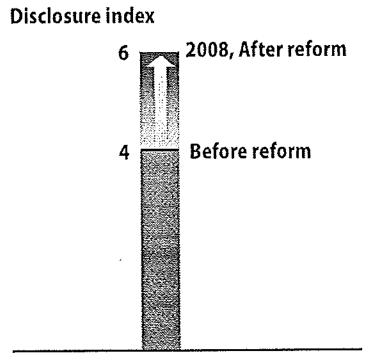
The Vietnam Business Forum—an association founded by international donors in conjunction with the Ministry of Planning and Investment—facilitated dialogue among donors, the private business community, and government leaders. The dialogues gave business representatives privileged, direct access to the Prime Minister and key policymakers before they presented the drafts to the Assembly. The Vietnam Business Forum also published position papers on drafts to commentary and debate.

Many international law firms also provided technical advice to the government. "Their input was fundamental," explains a reformer, "since they represented two different positions at the same time: first, as practitioners, and second, as representatives of the private sector."

The donor community, including the U.S. Agency for International Development, the World Bank and the International Finance Corporation, participated in the reform as well. Donors offered technical assistance and assigned several thousand dollars to the reform process—$100,000 from the International Finance Corporation alone.

On 29 November 2005 the National Assembly adopted the Law on Enterprises, which came into force on 1 July 2006. In June 2006 the National Assembly passed the Law on Securities, which came into force on 1 January 2007.

FIGURE 2
More disclosure after reform



Source: Doing Business database.

Unified and strong laws on corporate governance

The Law on Enterprises unifies the regulatory system for different corporate structures. A single law now regulates all companies regardless of ownership or corporate form. To protect minority investors against directors' misuse of corporate assets, the law mandates special approval processes and transparency requirements for transactions between interested parties.

The law also increases shareholders' participation in approving important company decisions. Shareholders must approve transactions exceeding 35% of the assets of the company. And directors are required to manage companies more transparently, making publicly available relevant information about important transactions.

For the first time the law introduces director duties—rights and obligations that directors must fulfill during their appointment. But no mechanism for enforcing these duties has yet been adopted. And there is no way to sue directors if they do not fulfill their duties because commercial tribunals lack jurisdiction over these cases.

Shareholders or groups of shareholders holding 10% of the total shares now have the right to review corporate records and financial reports, to request that the board of directors examine management and operational problems, and to convene shareholder meetings if management violates shareholder rights or directors' duties, or makes decisions beyond its power.

When additional ordinary shares are issued, the law also provides pre-emptive rights to ordinary shareholders—the right to maintain their fractional ownership by buying a proportional number of shares of the future issue.

The new Law on Securities promotes transparency in day-to-day management, detailing reporting and disclosure obligations for public companies, listed institutions, securities firms, fund management companies, the Securities Trading Center, and the Securities Exchange. Companies must inform the shareholders and stakeholders of fundamental decisions through mass media, institutional and corporate publications, the State Securities Commission, the Securities Exchange, and the Securities Trading Center.

Finally, the law establishes the Securities Exchange and the Securities Trading Center as the 2 main trading venues. The Securities Exchange is a central securities trading market, and the Securities Trading Center is an over-the-counter market (to counter the gray market) for companies that do not meet Securities Exchange listing requirements.

Overcoming internal opposition

Among provincial governments, big opposition grew to the one-stop process for incorporating a company. The new law radically reduced provincial authorities' involvement—and thus their control.

The reform law also created apprehension in the management of state-owned companies. A key goal was to unify the legislation regulating domestic companies, state-owned companies, and foreign-owned companies. Managers of state-owned companies feared losing their privileged status. And directors of state-owned companies and private companies were reluctant about disclosure, transparency, and liability for mismanagement.

How were these difficulties overcome? First, "Vietnam did not have much of a choice," says a government official. The reforms were among the several requirements for gaining access to the World Trade Organization and a bilateral trade agreement with the United States. Second, reformers showed that the 2000 reform of the enterprise law prompted a boom in business. In just a few years about 60,000 new businesses had been registered, creating about a million jobs. The government explained that by improving securities regulations and attracting domestic and foreign investment, reform "will help industry create $10–15 billion by 2010 and turn the securities sector into an important channel for mobilizing capital."[3]

More attractive capital markets for investors

The initial impact of the reform is greater confidence, evident in market indicators. Vietnam's stock market in 2005 consisted of only 41 listed firms, with a market capitalization of less than $1 billion, or 1.2 percent of GDP. Today, 107 firms are listed on the Ho Chi Min Stock Exchange. And Vietnam's primary index (VNINDEX) has trended steadily up.

Foreign direct investment is also up from $6.2 billion in 2005 to $10.2 billion in 2006. In the first quarter of 2007 foreign direct investment commitments were 55% above the same period in 2006. And private investment funds increased radically during 2006–07. Finally, today three of the largest investment funds in Vietnam are managing almost 4 billion USD.

The World Trade Organization accession in January 2007, new legislation on foreign investment, and the boom in the real estate market make it difficult to attribute these movements directly to the new enterprise and securities regulations. But it is clear that Vietnam has become more attractive to investors. Vietnam's accession to the World Trade Organization has created a better environment for investment, building confidence that the government will adhere to regulations that respect international standards.

Implementation—delicate

Implementation is the most delicate point of the reform. Private sector representatives believe that the implementing decrees and circulars for some sectors deviate from the law, even though a main objective of the new legislation was to unify the previously fragmented system. Despite the stronger corporate governance and investor protections, implementation and compliance are likely to take time.

The Enterprises Law does not contain sufficient enforcement mechanisms. Commercial tribunals do not have jurisdiction over corporate governance matters. Only a few judges specialize in commercial law; fewer still, in corporate governance. Judges may be influenced by the stronger party. And there is a significant case backlog, as many as 80,000 in Hanoi alone. So, enforcement is time consuming and expensive—and the outcome is uncertain.[4] Most disputes are still solved informally with negotiation. If minority shareholders cannot negotiate a satisfactory outcome, they are more likely to sell the shares and terminate the relationship than to seek relief in court.

Infrastructure limitations are also a problem: although the Securities Law has significant disclosure and reporting requirements, the systems to store and monitor the information electronically do not yet exist.

Exploiting momentum for change

Vietnam, in a short time, has reformed the 2 pillars of its legal framework regulating the life of companies—and thus the destiny of private sector. The government built on the success of previous business law reforms to promote future reforms—as a reformer explains, "reform success breeds reform success." Increased legal certainty because of the new securities and enterprises laws will draw more investors and capital to Vietnam.

Notes

1. http://www.time.com/time/magazine/article/0,9171,1592579,00.html?iid=chix-sphere
2. UNDP, http://content.undp.org/go/newsroom/choices-one-million-jobs-created-by-new-enterprise-law-in-viet-nam2003-06.en?categoryID=349425&lang=en
3. Securities Law: Turning Securities Market into Important Capital Mobilization Channel (http://www.cpv.org.vn/details_e.asp?topic=58&subtopic=156&id=BT2650661466)
4. Clifford Chance VILAF-Hong Duc, Vietnam Investment and Legal Guide (2006)