Economy Profile

Latin America

Doing Business 2007

How to reform

COMPARING REGULATION IN 175 ECONOMIES

A project of the World Bank and the IFC comparing business regulations in 175 economies

Economy Profile

Doing Business 2007 **Latin America**

A Project Benchmarking the Regulatory Cost of Doing Business in 175 Countries

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To order copies of the *Doing Business 2007: How to Reform* Report, please visit http://www.doingbusiness.org and click on “Now Available: Doing Business 2007: How to Reform”.

Contents

Introduction

Doing Business 2007: How to Reform is the fourth in a series of annual reports investigating regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 175 economies—from Afghanistan to Zimbabwe—and over time.

Regulations affecting ten areas of everyday business are measured: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The indicators are used to analyze economic outcomes and identify what reforms have worked, where, and why.

The data for all sets of indicators are benchmarked to April 2006. Based on research of laws and regulations, with input and verification from local government officials, lawyers, business consultants, accountants and other professionals routinely administering or advising on legal and regulatory requirements, this methodology offers several advantages. It uses factual information and allows for multiple interactions with local respondents, clarifying potential misinterpretations of questions. It is inexpensive, so data can be collected in a large sample of economies.

Because the same standard assumptions are applied in the data collection, which are transparent and easily replicable, comparisons and benchmarks are valid across economies. And the data highlight not only the extent of obstacles, but also help identify their source, supporting policymakers in designing reform.

The methodology has limitations. Other areas important to business—such as a country's proximity to large markets, quality of infrastructure services (other than services related to trading across borders), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not studied directly by *Doing Business*. To make the data comparable across economies, the indicators refer to a specific type of business—generally a limited liability company operating in the largest business city.

The data set covers 175 economies and is benchmarked to April 2006. The sample includes 23 high-income OECD economies as benchmarks, 45 from Sub-Saharan Africa, 23 from East Asia and the Pacific region, 28 economies from Europe and Central Asia, 31 from Latin America, 17 from the Middle East and North Africa, and 8 from South Asia.

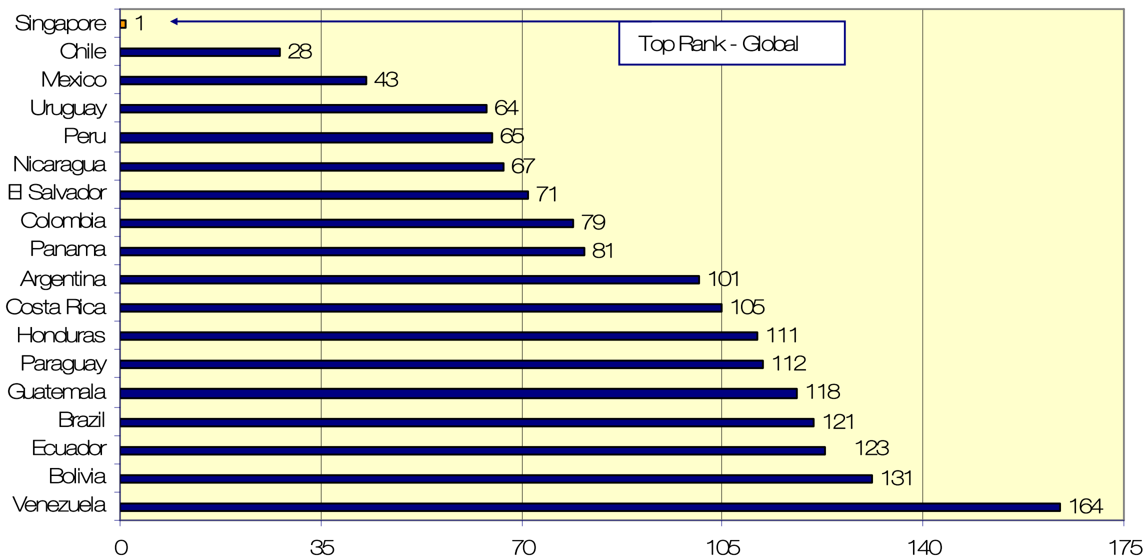
The following pages present the summary *Doing Business* indicators for the Latin America region. Further information is available in the full report *Doing Business 2007: How to Reform.* which presents the indicators, analyses their relationships with economic outcomes and recommends reforms. The data, and information on ordering the report, is also available online at http://www.doingbusiness.org.

Economy Rankings—Ease of Doing Business

Latin America—Compared to Global Best / Selected Economies

Aggregate Rankings of Doing Business Indicators

Source: Doing Business Database



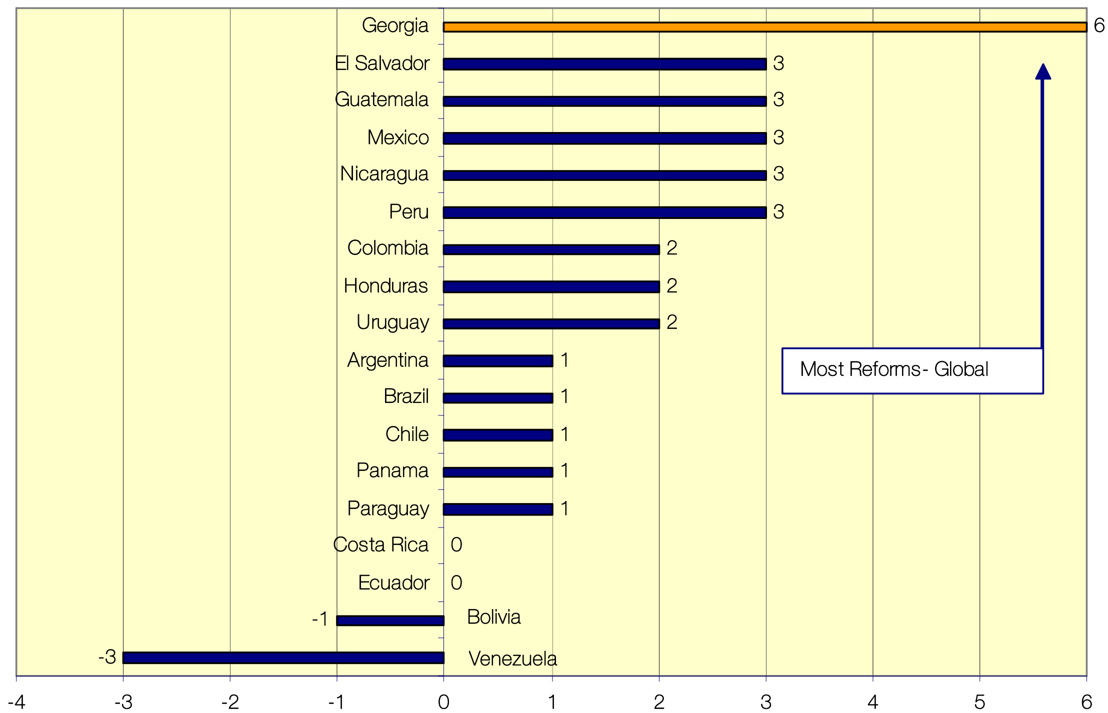
Note: The ease of doing business index averages economy rankings across the 10 topics covered in *Doing Business 2007*. The methodologies for some indicators have changed. Previous year rankings have been recalculated with the new method and are available on the website: www.doingbusiness.org.

Reforms—Who is reforming?

Latin America—Compared to Global Best / Selected Other Economies

Net number of reforms that improve a set of *Doing Business* Indicators

Source: Doing Business Database



Note: A value of 1 is assigned when an economy introduces a reform that improves its performance on one of the sets of *Doing Business* indicators between 2005 and 2006. For example, if an economy reforms to reduce the procedures and time to start a business, and the cost to register property, it is recorded as having 2 reforms: one to the *Starting a Business* indicators, and one to the *Registering Property* indicators. Negative reforms are counted in the same way–if an economy imposes regulation that negatively impacts a set of *Doing Business* indicators, a value of -1 is assigned. To count net reforms, both positive and negative reforms are added.

Starting a Business: Entry Regulation

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

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

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

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

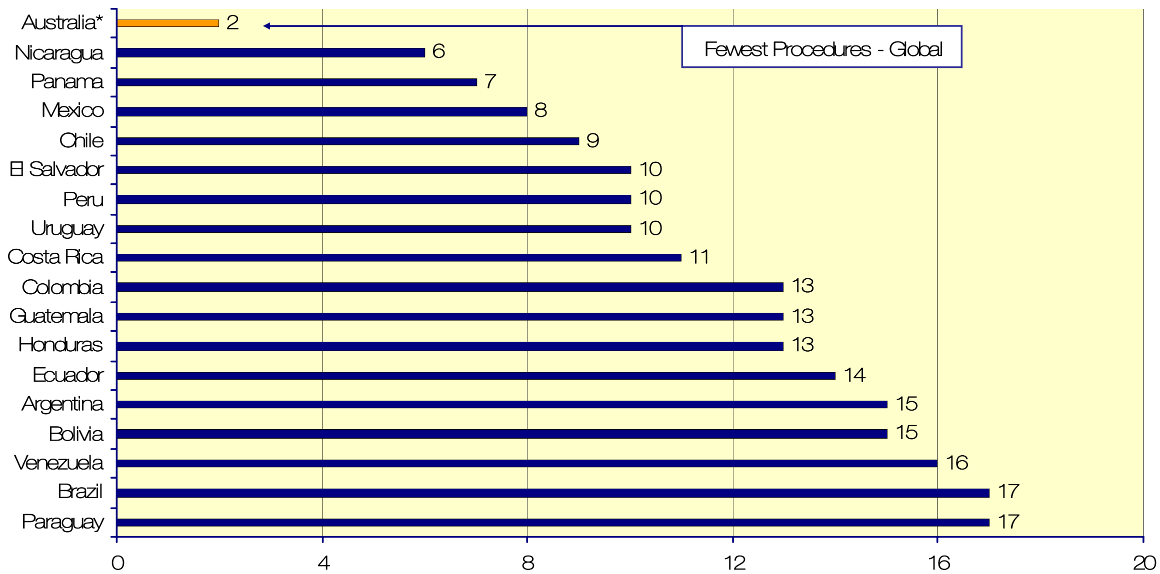
Across countries, cumbersome entry procedures are associated with more corruption, particularly in developing countries. Each procedure is a point of contact—an opportunity to extract a bribe. Analysis shows that burdensome entry regulations do not increase the quality of products, make work safer, or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

Benchmarking—Entry Regulation

Latin America—Compared to Global Best / Selected Other Economies

Procedures to Start a Business

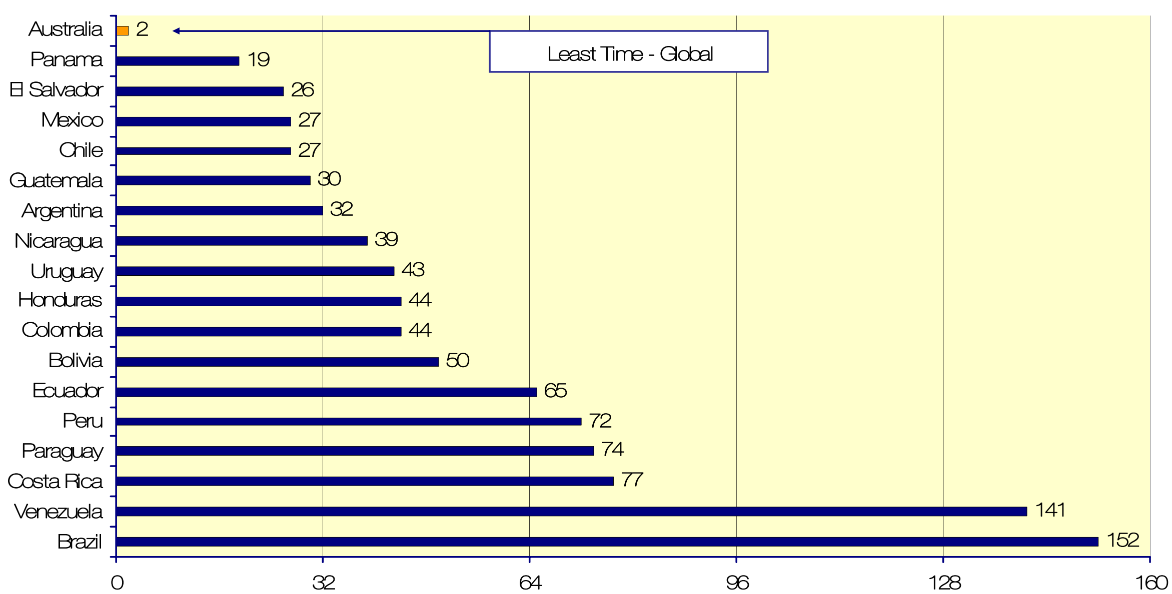
Source: Doing Business Database



*Other economies with the fewest procedures are Canada and New Zealand.

Time to Start a Business (days)

Source: Doing Business Database

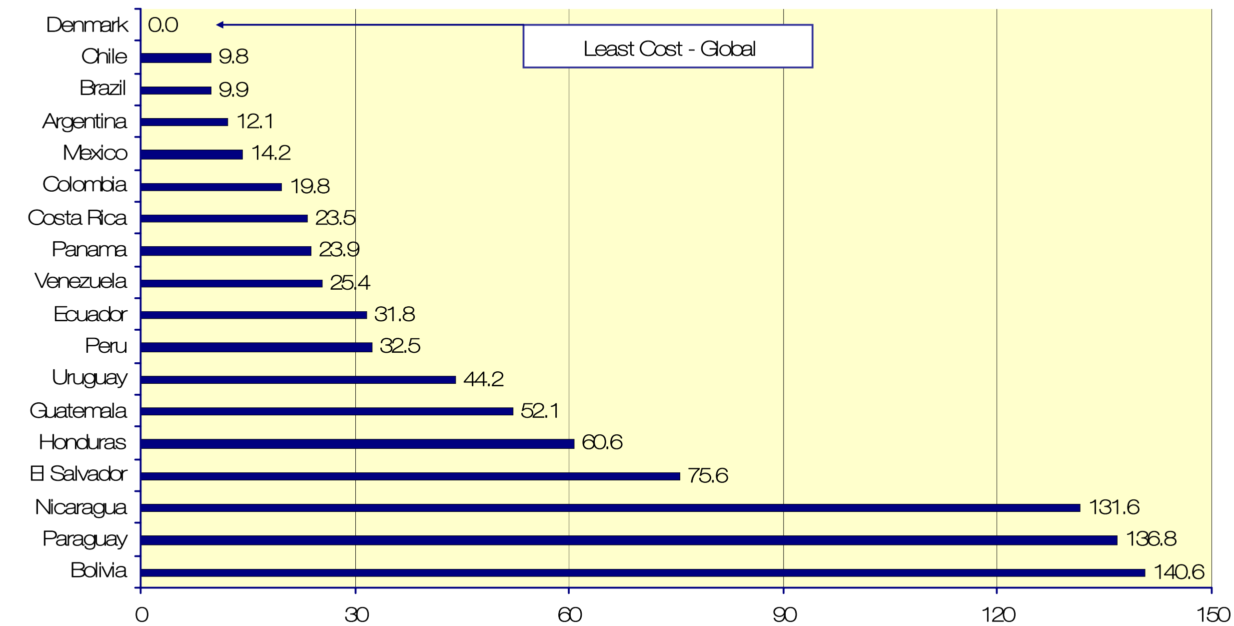


Benchmarking—Entry Regulation

Latin America—Compared to Global Best / Selected Other Economies

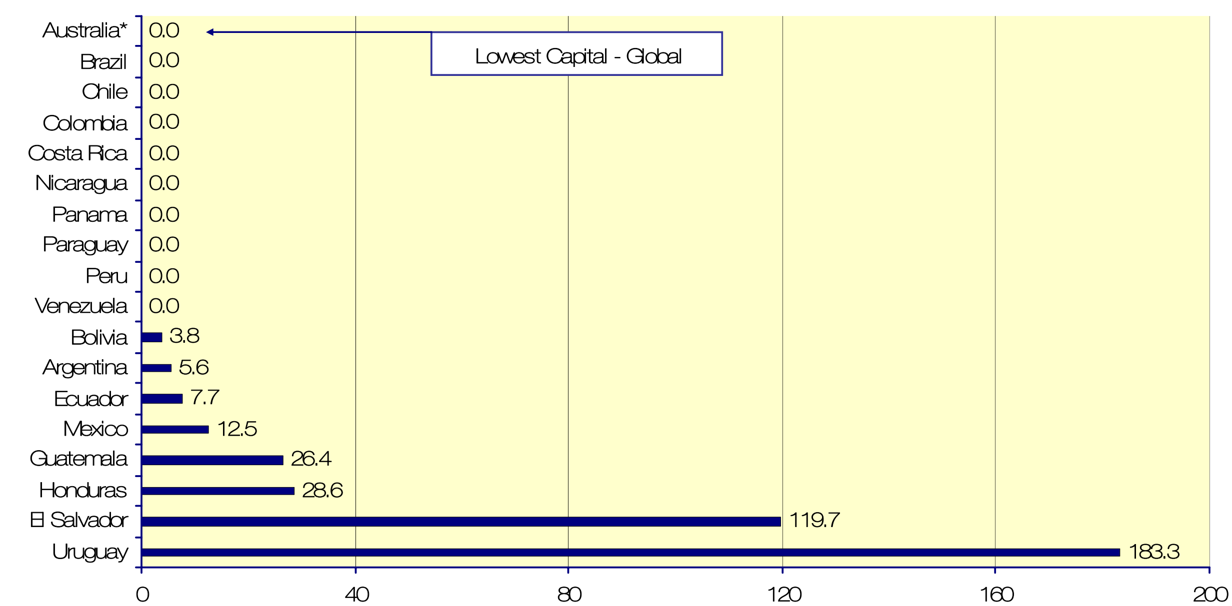
Cost to Start a Business (% of income per capita)

Source: Doing Business Database



Minimum Capital to Start a Business (% income per capita)

Source: Doing Business Database



*Other economies with no minimum capital requirements include Canada, Nepal, Thailand and the United States.

Dealing with Licenses: Building a Warehouse

Once an entrepreneur has registered a business, what are the regulations to operate it? *Doing Business* measures the regulation of operations in the case of the construction sector. Construction companies are under constant pressure—from customers to be quick and cost-effective, and from government to comply with inspections, licensing and safety regulations. There is a trade-off, however, between protecting the lives of people, including construction workers, tenants and passer-bys, and the cost of building.

In many countries, mostly poor, it is so difficult to comply with the building rules that many opt out. Builders may pay bribes to avoid inspections, or just build illegally, constructing hazardous buildings. In others, the process is straightforward, easily followed, and inexpensive—yielding better results.

The dealing with licenses indicators record all procedures officially required for an entrepreneur in the construction industry to build a warehouse. These include obtaining all necessary licenses and permits and completing any required notifications, inspections, and document (plans and maps) submission with relevant authorities. The survey also investigates procedures associated with obtaining utility connections, such as electricity, telephone, water and sewage. The costs and time necessary for each procedure under normal circumstances are calculated. All the official fees associated with legally completing the procedures are included. Time is recorded in calendar days. The survey assumes the entrepreneur is aware of all existing regulations and does not use an intermediary to complete the procedures, unless required by law.

To make the data comparable across economies, several assumptions about the business and the nature of its operations are employed: The business (BuildCo) is a small-medium limited liability company, located in the most populous city, domestically owned and operated, in the construction business, with 20 qualified employees, and a turnover of at least 100 times income per capita. The warehouse to be built:

- Has two stories and is approximately 14,000 square feet (1,300.6 square meters).
- Is located in the peri-urban area of the largest business city in the country.
- Is located in land owned 100 percent by BuildCo, has a plot size of 8,000 square feet (743.2 square meters), and is accurately registered in the cadastre and land registry.
- Is a new construction (there was no previous construction on the land).
- Has complete architectural and technical plans.
- Will be connected to the following utilities: electrical power, water, sewage and one regular phone line;
- Will be used for storing books or stationary, but not for food-handling activities, chemical or pharmaceutical production or storage.

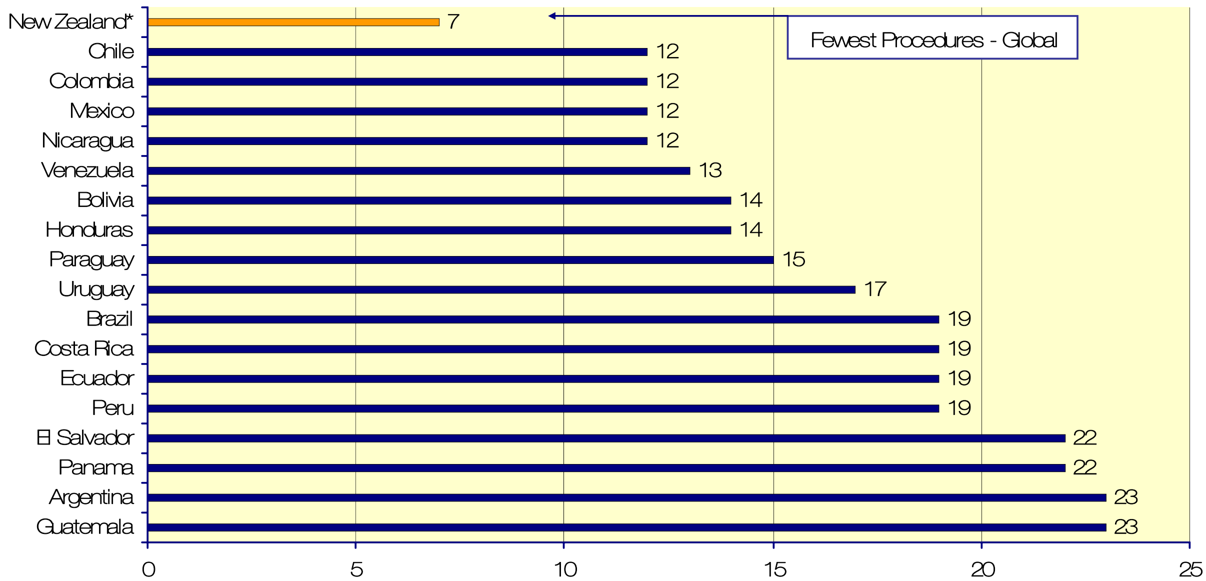
Faced with high regulatory burden, entrepreneurs move their activity to the informal economy. There, they operate with less concern for safety, leaving everyone worse off.

Benchmarking—Dealing with Licenses

Latin America—Compared to Global Best / Selected Other Economies

Procedures to Obtain a License

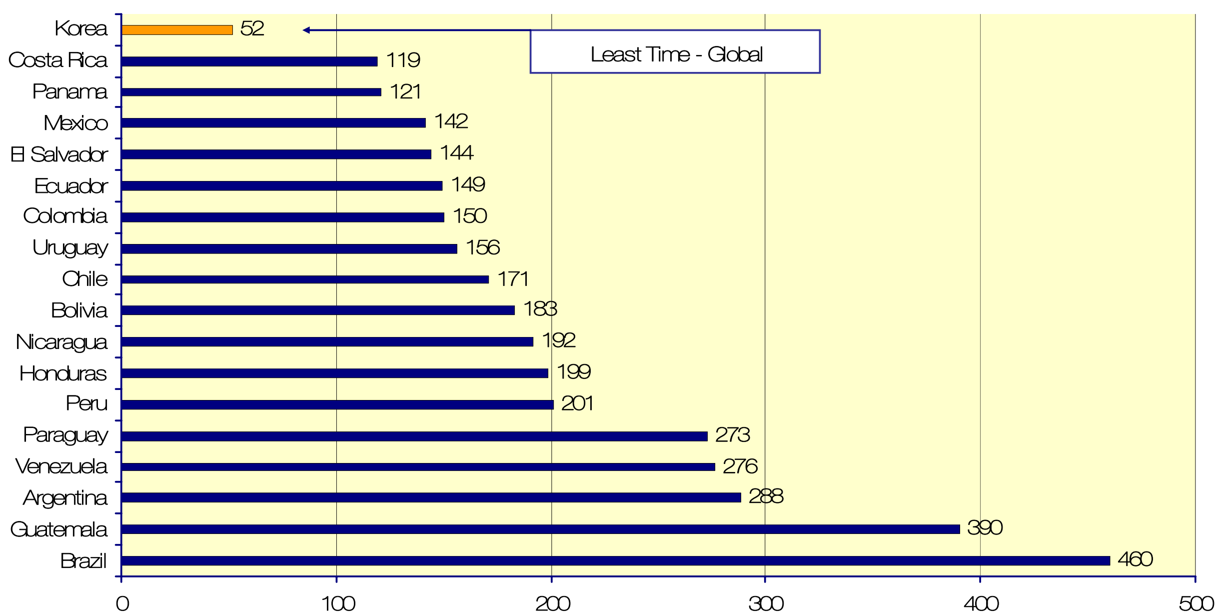
Source: Doing Business Database



*Another economy with the fewest procedures is Denmark.

Time to Obtain a License (days)

Source: Doing Business Database

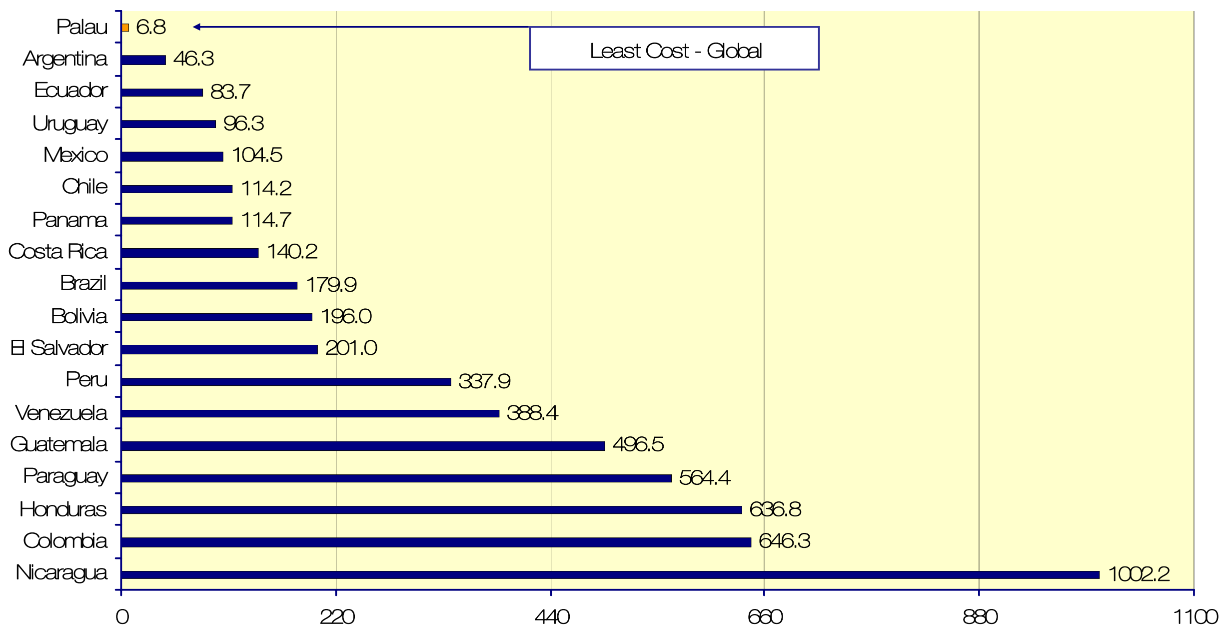


Benchmarking—Dealing with Licenses

Latin America—Compared to Global Best / Selected Other Economies

Cost to Obtain a License (% income per capita)

Source: Doing Business Database



Employing Workers: Labor Regulation

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

Three measures are presented: a rigidity of employment index, a nonwage labor cost measure and a cost of firing measure. The rigidity of employment index is an average of three sub-indices: difficulty of hiring, rigidity of hours, and difficulty of firing. Each index takes values between 0 and 100, with higher values implying more rigid regulation. Difficulty of hiring measures the flexibility of contracts and the ratio of minimum wage to the value-added per worker. Rigidity of hours covers restrictions on weekend and night work, working time and workweek requirements, and mandated days of annual leave with pay. Difficulty of firing covers workers' legal protections against dismissal, including the grounds for dismissal, and procedures for dismissal (individual and collective). Nonwage labor costs cover all social security payments and payroll taxes associated with hiring a new employee, expressed as a percentage of the worker's salary. A cost of firing indicator measures the cost of advance notice requirements, severance payments and penalties due when firing a worker, expressed in terms of weekly wages.

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

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

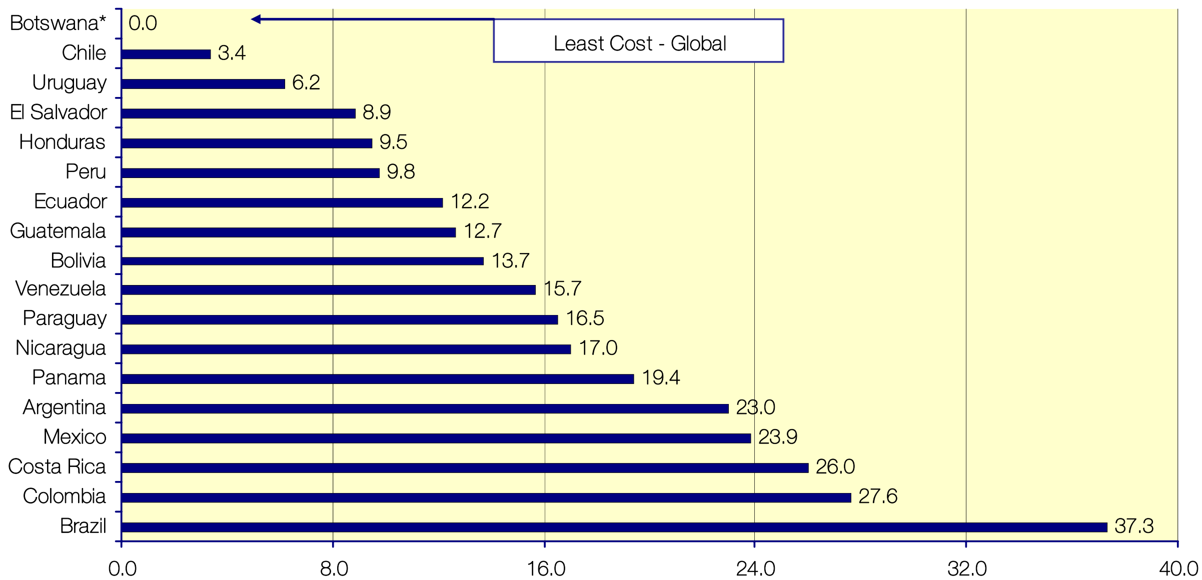
Although most employment regulations are enacted in response to market failures, it does not mean that today's regulations are optimal. Analysis of the indicators across countries shows that while employment regulation generally increases the tenure and wages of incumbent workers, rigid regulations have many undesirable side effects, including less job creation, longer unemployment spells and the related skill obsolescence of workers, less R&D investment and smaller company size—all of which may reduce productivity growth. Many countries err on the side of excessive rigidity, to the detriment of businesses and workers alike.

Benchmarking—Labor Regulation

Latin America—Compared to Global Best / Selected Other Economies

Nonwage labor costs (% salary)

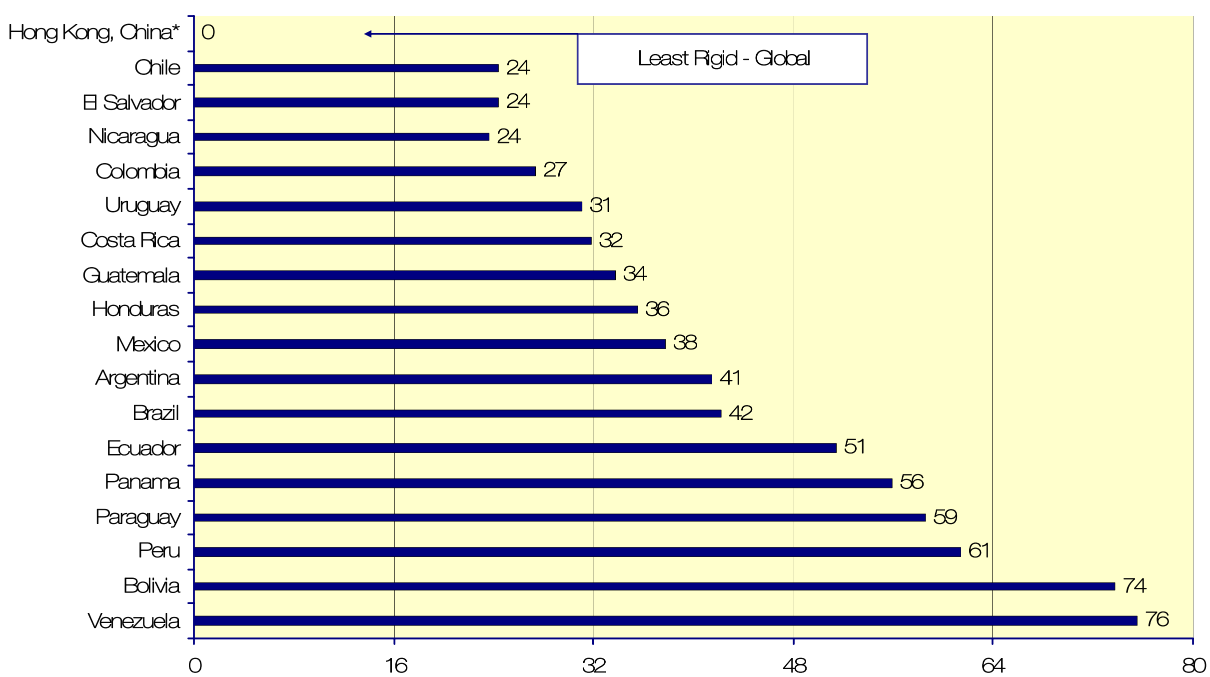
Source: Doing Business Database



*Other economies with the least cost include Ethiopia, Namibia and Nepal.

Rigidity of Employment Index (0 – 100)

Source: Doing Business Database



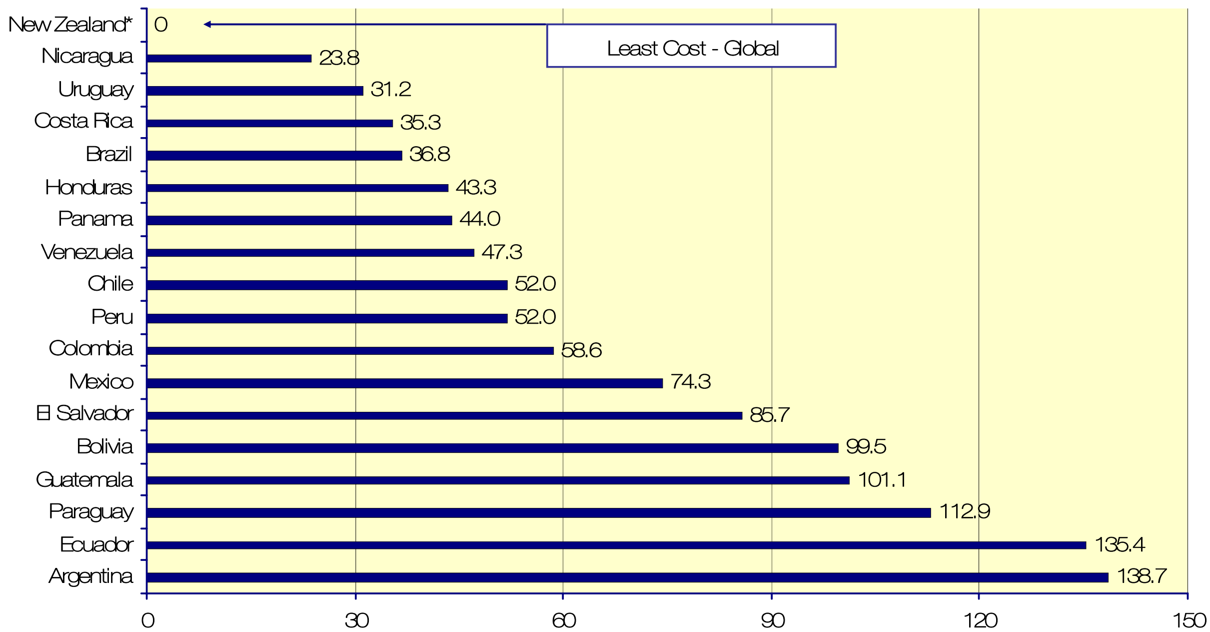
*Other economies that offer the least rigid conditions are Singapore and the United States.

Benchmarking—Labor Regulation

Latin America—Compared to Global Best / Selected Other Economies

Cost of Firing (weekly wages)

Source: Doing Business Database



*Another economy with the least cost is the United States.

Registering Property: Regulation of Property Transfers

Property registries were first developed to help raise tax revenue. Defining and publicizing property rights through registries has proven good for entrepreneurs as well. Land and buildings account for between half and three-quarters of country wealth in most economies. Securing rights to this property strengthens incentives to invest and facilitates trade. And with formal property titles, entrepreneurs can obtain mortgages on their homes or land and start businesses.

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

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

Based on the responses, three indicators are constructed:

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

A large proportion of property in developing countries is not formally registered, limiting the financing opportunities for businesses. Recognizing these obstacles, governments have embarked on extensive property titling programs in developing countries. Yet bringing assets into the formal sector is of little value unless they stay there. Many titling programs in Africa were futile because people bought and sold property informally—neglecting to update the title records in the property registry. Why? *Doing Business* shows that in the average African country a simple formal property transfer in the largest business city costs 12% of the value of the property and takes more than 100 days. Worse, the property registries are so poorly organized that they provide little security of ownership. For both reasons, formalized titles quickly go informal again.

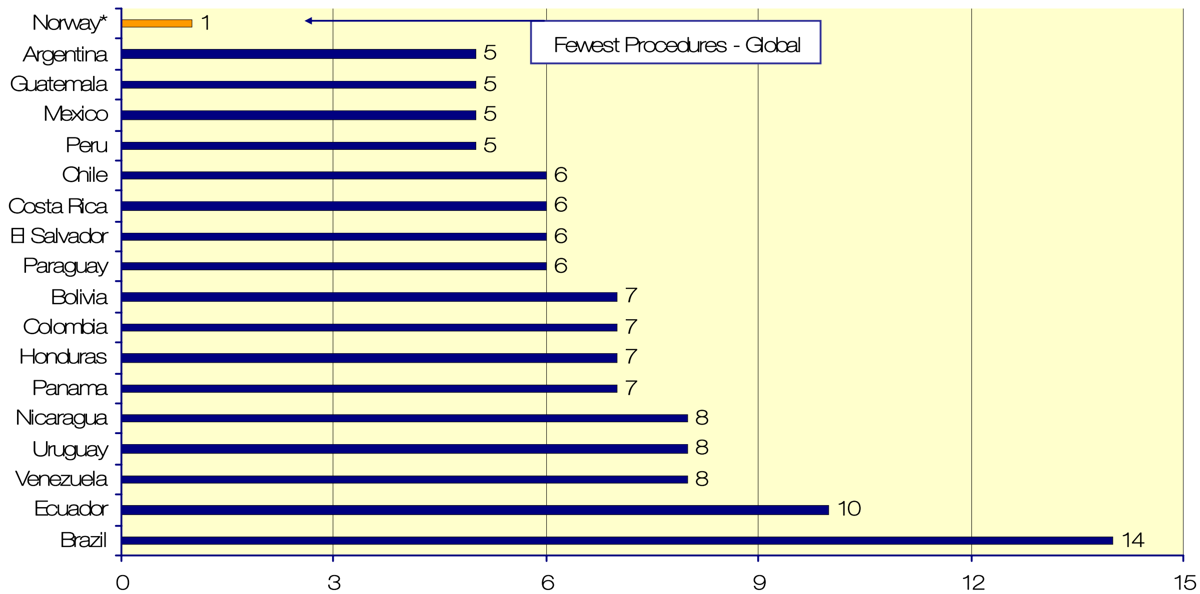
Efficient property registration reduces transaction costs and helps keep formal titles from slipping to informal status. Simple procedures to register property are also associated with more perceived security of property rights and less corruption. This benefits all entrepreneurs, especially women, the young and the poor. The rich have few problems protecting their property rights. They can afford the costs of investing in security systems and other measures to defend their property. But small entrepreneurs cannot. Reform can change this.

Benchmarking—Registering Property

Latin America—Compared to Global Best / Selected Other Economies

Procedures to Register Property

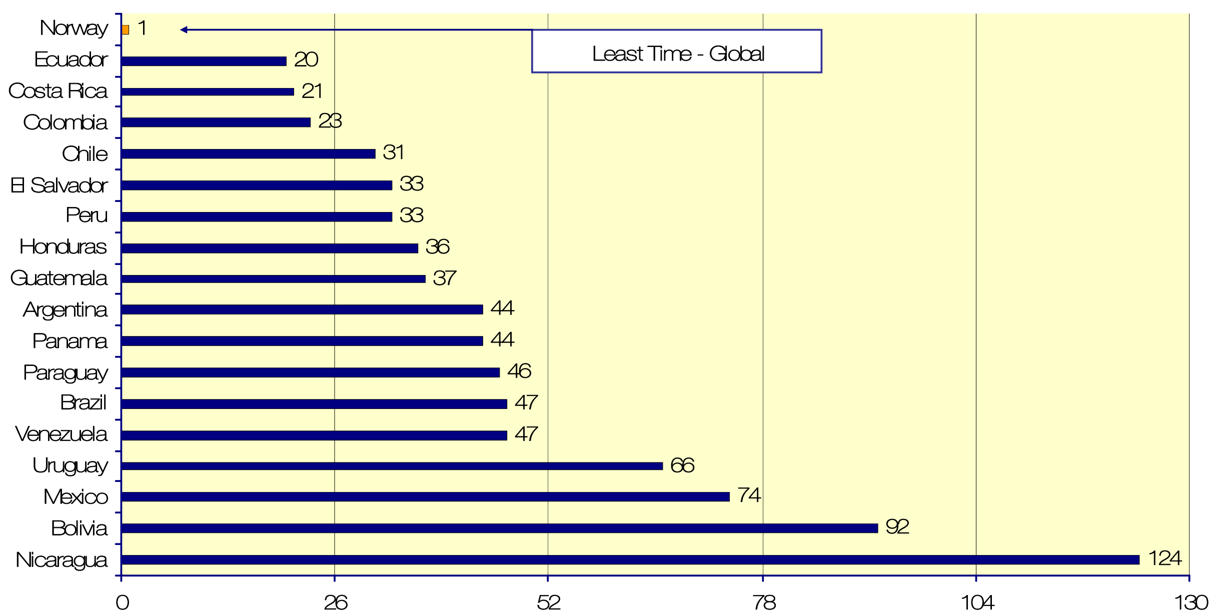
Source: Doing Business Database



*Another economy with the fewest procedures to register is Sweden.

Time to Register Property (days)

Source: Doing Business Database

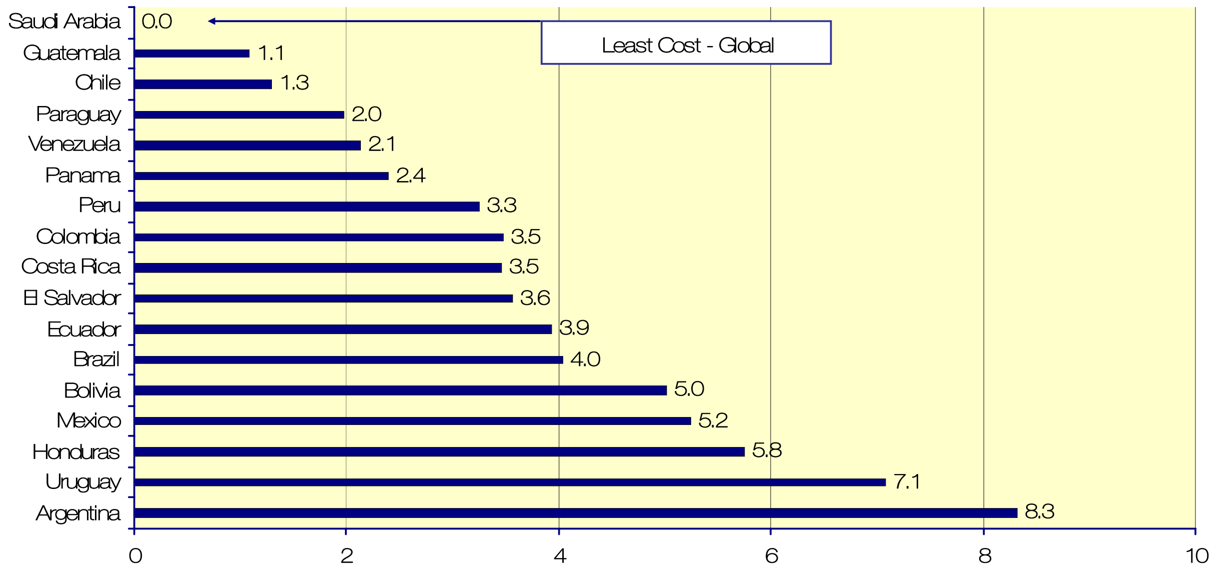


Benchmarking—Registering Property

Latin America—Compared to Global Best / Selected Other Economies

Cost to Register Property (% of property value)

Source: Doing Business Database



*Another economy with the least cost to register is Bhutan.

Getting Credit: Legal Rights & Credit Information

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

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

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

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

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

A minimum score of 0 represents weak legal rights and the maximum score of 10 represents strong legal rights. Data were obtained from by examining collateral and bankruptcy laws and legal summaries, and verified through a survey of financial lawyers.

These two measures are important indicators of well-functioning credit markets. Across countries, more credit is extended when legal rights are stronger and quality credit information is available. And benefits flow beyond access to credit—non-performing loans are lower. Women, small firms, and low-income benefit the most. And with better functioning credit markets, unemployment is lower.

Benchmarking–Credit Information Indicators

Latin America—Compared to Global Best / Selected Other Economies

Source: Doing Business Database

Economy	Public registry coverage (borrowers /% adults)	Private bureau coverage (borrowers /% adults)	Credit Information Index **
Portugal	72.0 (highest coverage)	9.1	4
*United States	0	100.0 (highest coverage)	6
Chile	31.3	19.3	6
El Salvador	30.5	79.6	6
Argentina	25.4	100.0	6
Peru	19.2	28.6	6
Guatemala	16.1	9.2	5
Ecuador	15.2	43.7	5
Uruguay	13.2	85.3	6
Nicaragua	12.5	3.4	5
Bolivia	11.5	32.3	5
Paraguay	10.6	52.2	6
Brazil	9.2	43.0	5
Honduras	8.3	18.7	5
Costa Rica	2.5	39.2	6
Mexico	0.0	69.5	6
Panama	0.0	59.8	6
Colombia	0.0	28.3	4
Venezuela	0.0	0.0	0

* Other economies that offer the most coverage globally include Australia, Canada, Iceland, Ireland, Israel, New Zealand, Norway and Sweden.

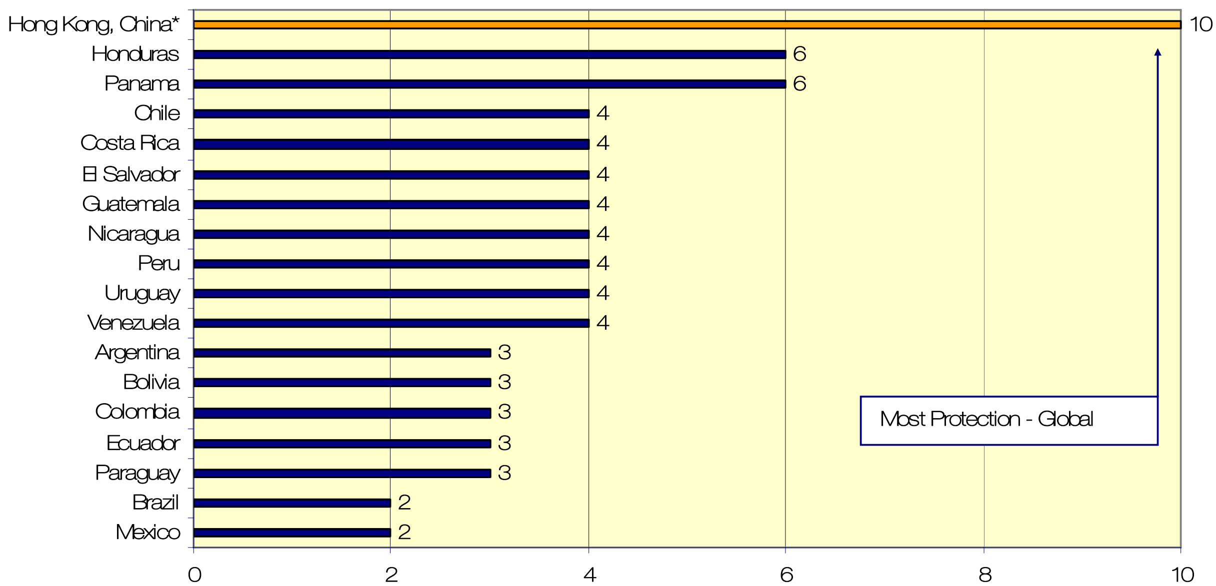
**The index measures whether either public or private credit registries have: both positive information, meaning loans outstanding and payment behavior on accounts in good standing—as well as negative information, meaning defaults and arrears; data on both firms and individuals; data from retailers, utilities and financial institutions; more than 2 years of historical data distributed, data on all loans above 1% of income per capita, and legal guarantees for the consumer's right to inspect their data. The index varies between 0 and 6, with higher values indicating broader information sharing.

Benchmarking–Legal Rights Indicator

Latin America–Compared to Global Best / Selected Other Economies

Legal Rights Index

Source: Doing Business Database



*Another economy with the most protection globally is the United Kingdom.

Protecting Investors: Corporate Governance

Officials at Elf Aquitaine, France's largest oil company, awarded business deals in return for large side payments. Along with the extra cash, they got seven years in jail and a €2 million fine for abuse of power. Russian oil firm Gazprom purchased materials for new pipelines through intermediaries owned by company officers. The high cost raised eyebrows, but not court battles.

Big cases make headlines. But looting by corporate insiders occurs every day on a smaller scale, and often goes unnoticed. To document the protections investors have, *Doing Business* measures how countries regulate a standard case of self-dealing—use of corporate assets for personal gain.

The case facts are simple. Mr. James, the majority shareholder and director of a public company, proposes to purchase used trucks from another company he owns. The price is higher than the going price for used trucks. Mr. James enters into the transaction. All required approvals were obtained and all the required disclosures made, though the transaction was unfair to Mr. James' public company. Shareholders sue the interested parties and the members of the Board of Directors.

Several questions arise. Who approves the transaction? What information must be disclosed? What company documents can investors access? What do minority shareholders have to prove for the transaction to be stopped or to receive compensation from Mr. James? Three indices of investor protection are constructed based on these and other answers. All indices vary from 0 to 10 with higher values indicating more protections or higher disclosure.

- The extent of directors liability index comprises the ability of investors to hold Mr. James and the directors' board liable for damages; the ability to rescind the transaction; fines and jail time associated with self-dealing; availability of derivative or direct suits and the requirement that Mr. James pays back his personal profits made on the transaction.
- The extent of disclosure index comprises approval procedures, immediate disclosure to the public and shareholders of proposed transactions, disclosure in periodic filings and reports, and availability of external review of transactions before they take place.
- The ease of shareholder suits index comprises the availability of documents that can be used during trial, the ability of the investor to examine the defendant and other witnesses, the legality of inspection of company documents, who appoints an inspector, and the standard of proof.
- Finally, the strength of investor protection index is the average of extent of directors liability index, the extent of disclosure index, and the ease of shareholder suits index. The index ranges between 0 and 10, with higher values indicating better investor protection.

If the rights of investors are not protected, majority ownership in a business is the only way to eliminate expropriation. But then investors must devote more oversight attention to fewer investments. The result: entrepreneurship is suppressed and fewer profitable investment projects are undertaken. Where self-dealing is curbed, equity investment is higher, ownership concentration is lower and trust of the business sector is deeper. Investors gain portfolio diversification, and entrepreneurs gain access to cash.

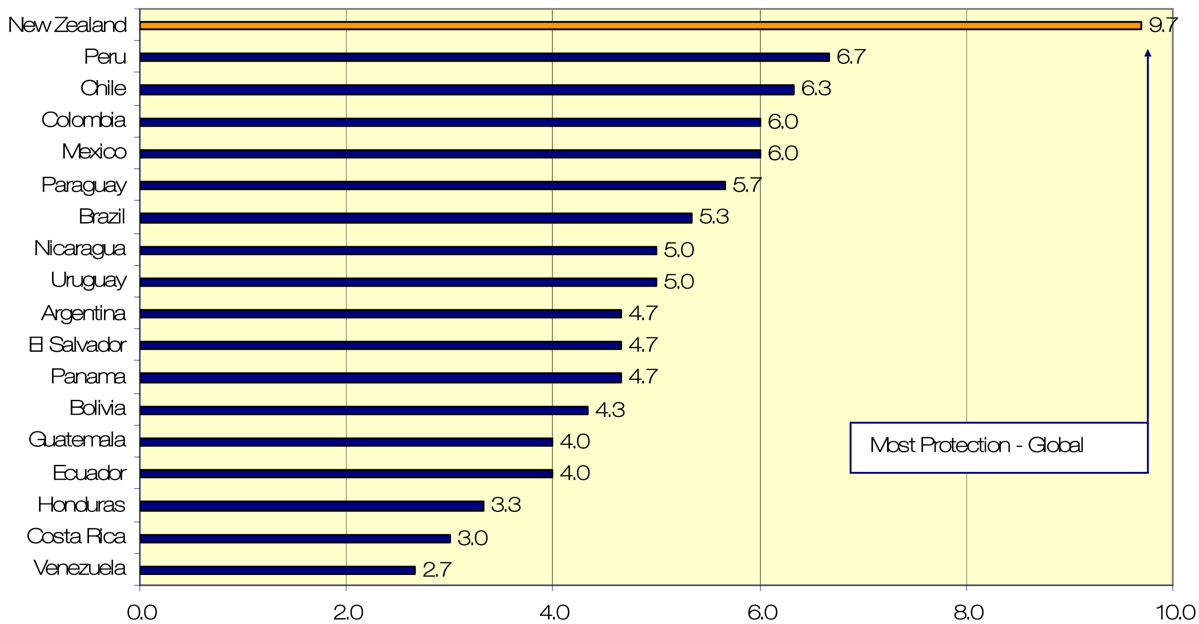
Latin America

Benchmarking—Corporate Governance

Latin America–Compared to Global Best / Selected Other Economies

Investor Protection Index

Source: Doing Business Database



Trading Across Borders: Imports and Exports

The benefits of trade are well-documented—as are the obstacles to trade. Distance from large markets, tariffs and quotas greatly increase the costs of goods or altogether prevent trading. But with faster ships and bigger planes, the world is shrinking. Global or regional agreements have brought down trade barriers. Yet Africa's share of global trade is lower today than 25 years ago. So is the Middle East's, excluding oil exports. The reason is simple: many entrepreneurs face numerous hurdles to exporting or importing goods. They often give up. Others never try.

Doing Business compiles procedural requirements for trading a standardized shipment of goods. Every official procedure—and the associated documents, time and cost—for importing and exporting the goods is recorded, starting from the final contractual agreement between the two parties and ending on delivery of the goods. For importing the goods, the procedures measured range from the vessel's arrival at the port of entry to the shipment's delivery at the factory warehouse. For exporting the goods, the procedures measured range from the packing of the goods at the factory to their departure from the port of exit.

To make the data comparable across countries, several assumptions about the business and the traded goods are employed. The business: is of medium size with 100 employees or more; located in a peri-urban area of the country's most populous city; is a private, limited liability company, domestically-owned, formally registered, and operating under commercial laws and regulations of the country. It does not operate within an export processing zone or an industrial estate with special export or import privileges and it exports over 10% of its sales. The traded goods: are ordinary, legally manufactured products; travel in a dry cargo, 20-foot FCL (full container load) container. They are not a hazardous product nor include military arms or equipment, do not require refrigeration or any other special environment, nor involve any special phytosanitary or environmental safety standards other than accepted international standards. Respondents chose to consider goods from one of the following SITC categories: Textile yarn, Fabrics, Made-up Articles; Articles of Apparel and Clothing Accessories; Coffee, Tea, Cocoa, Spices, and Manufactures Thereof.

Documentation includes port filing documents, customs declaration and clearance documents, and official documents exchanged between the concerned parties. Time is in calendar days, from start to finish of each procedure. Cost is a percentage of a fixed cargo value of $20,000. All the fees associated with completing the procedures to export or import the goods are included, such as costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or trade taxes.

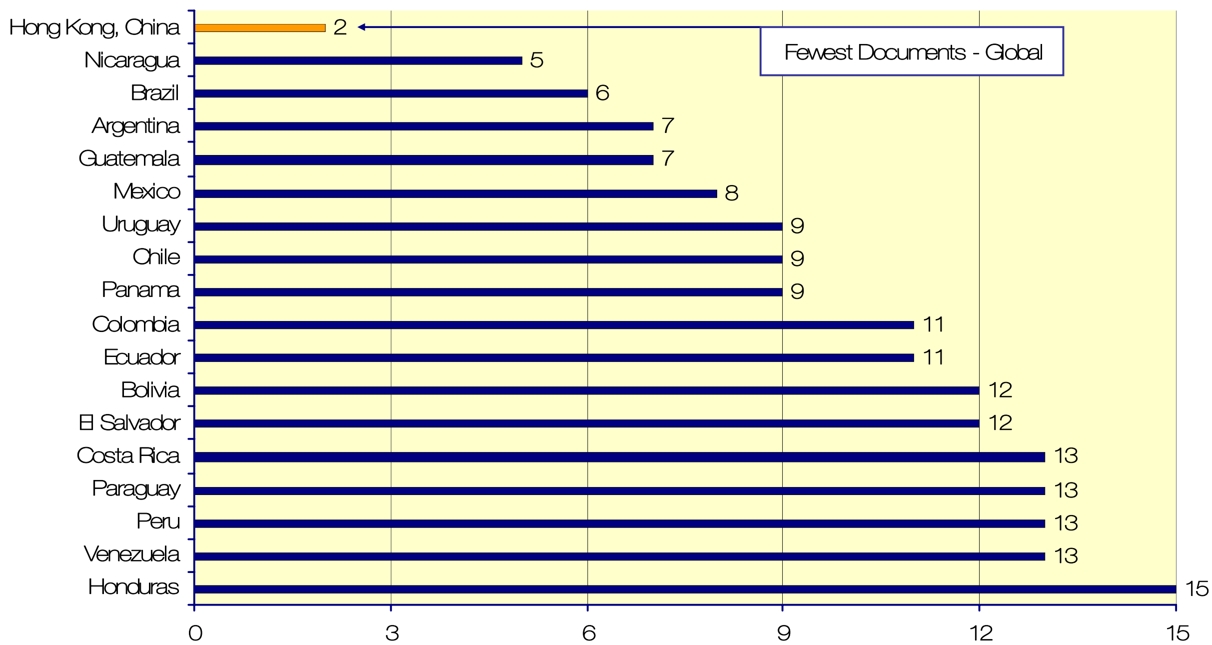
Countries that have efficient customs and trade transport—fewer documents, low cost, less time necessary to comply with various procedures—also export more. And exports are associated with faster growth and more jobs. Having to file many documents is associated with more corruption in customs. Faced with long delays and frequent demands for bribes, many traders avoid customs altogether. Instead, they smuggle goods across the border, which defeats the very reason to have border control of trade–ensure high quality of goods and levy taxes.

Benchmarking—Trading Across Borders

Latin America–Compared to Global Best / Selected Other Economies

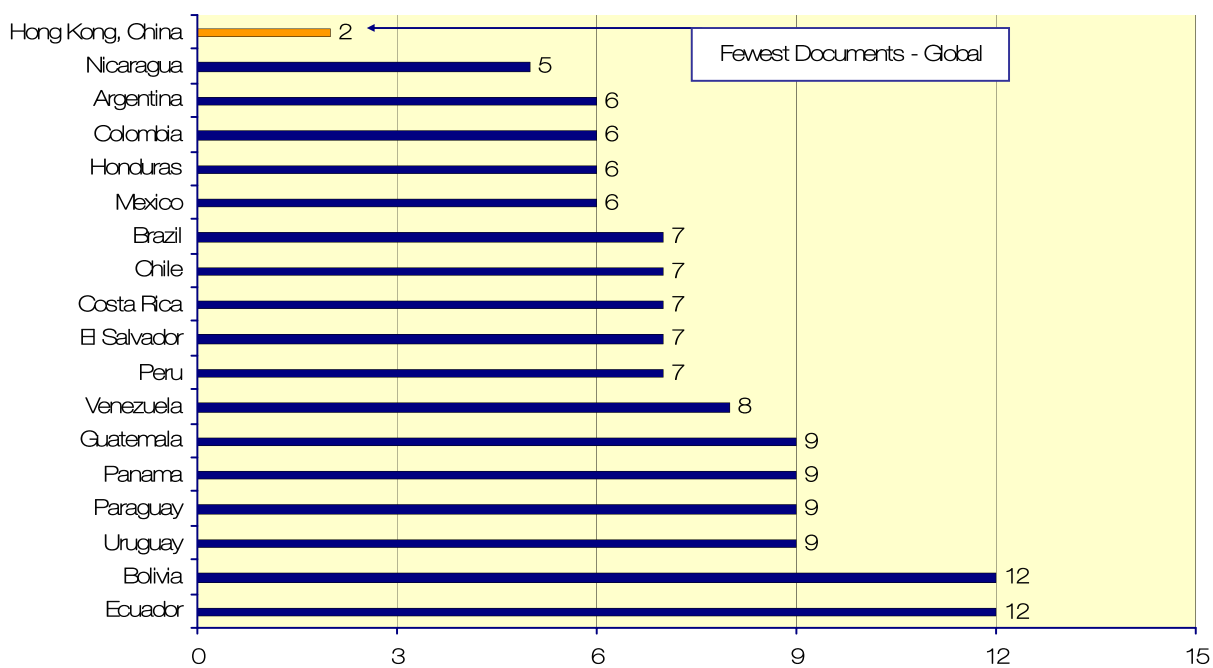
Documents to Import

Source: Doing Business Database



Documents to Export

Source: Doing Business Database

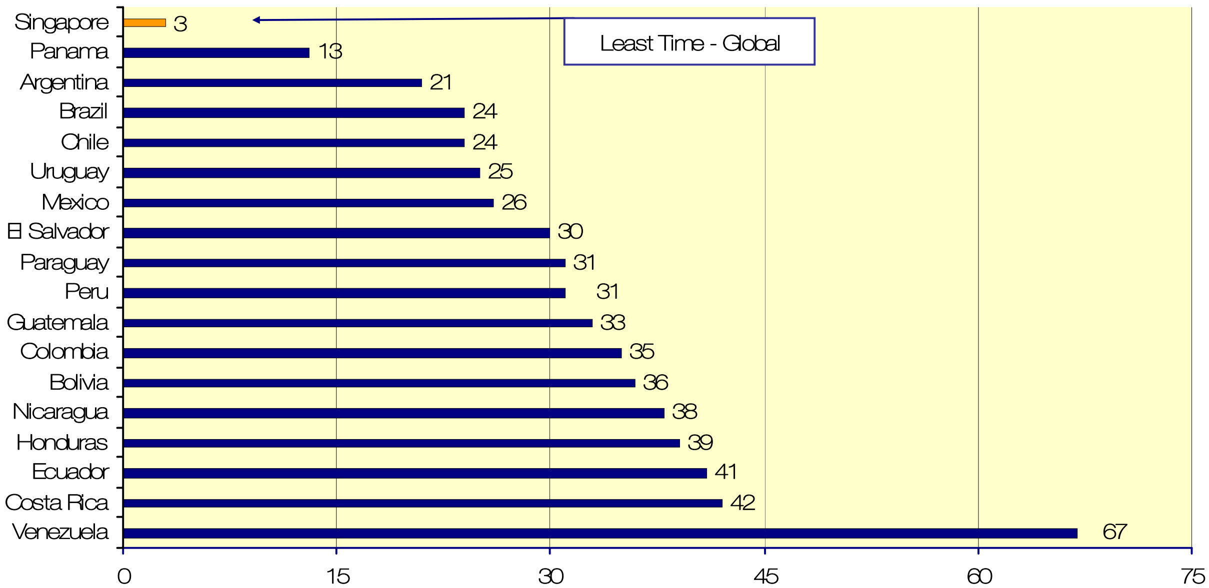


Benchmarking—Trading Across Borders

Latin America–Compared to Global Best / Selected Other Economies

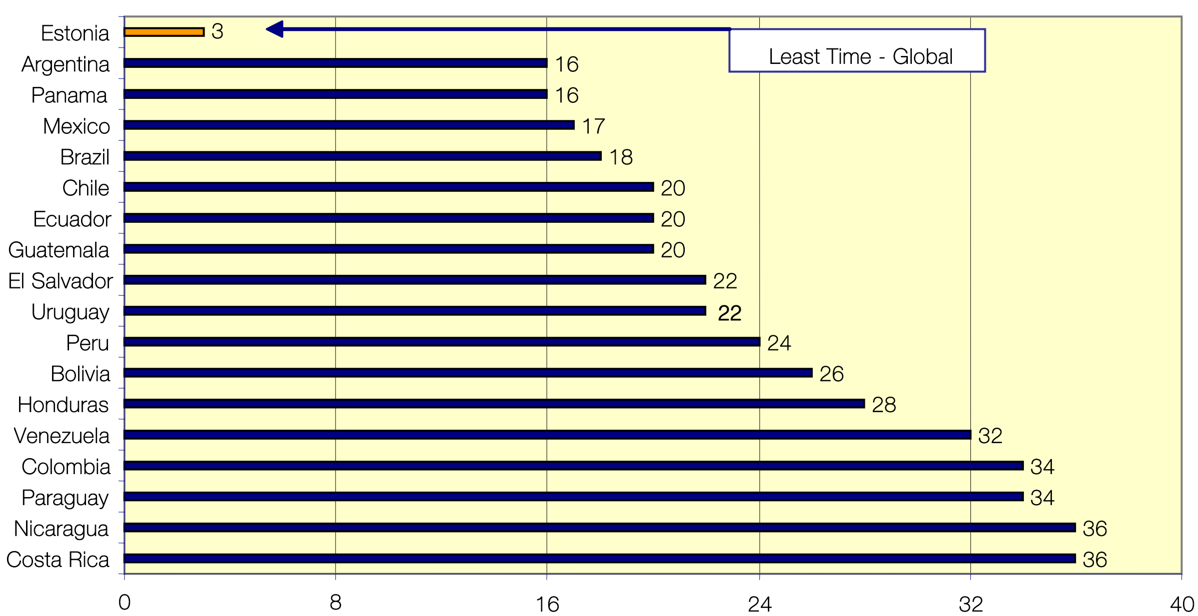
Time to Import (days)

Source: Doing Business Database



Time to Export (days)

Source: Doing Business Database

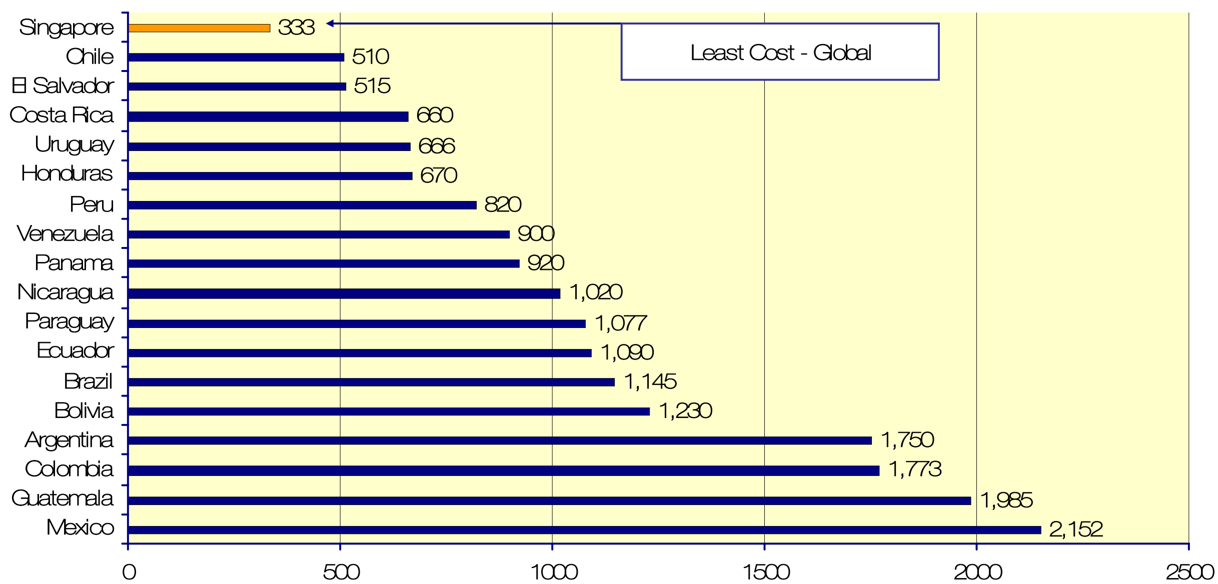


Benchmarking—Trading Across Borders

Latin America–Compared to Global Best / Selected Other Economies

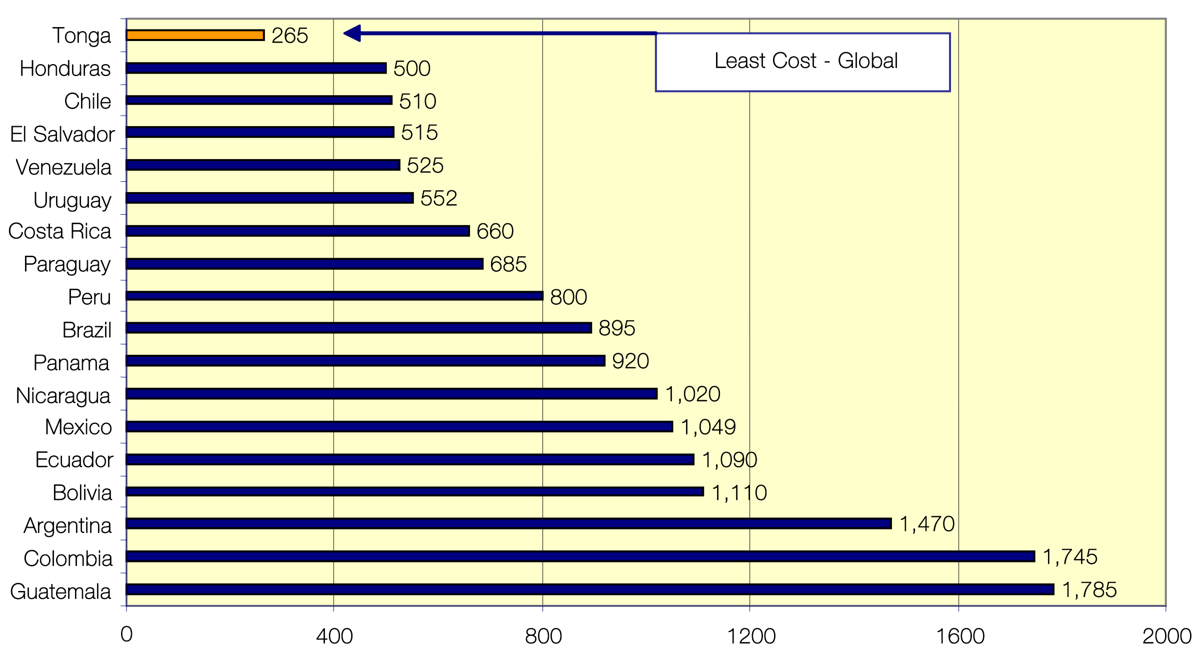
Cost to Import (US $ per container)

Source: Doing Business Database



Cost to Export (US $ per container)

Source: Doing Business Database



Enforcing Contracts: Court Efficiency

Efficient contract enforcement encourages businesses to engage with new borrowers or customers. *Doing Business* tracks the efficiency of contract enforcement through the courts, looking at simple transactions of relevance to the average firm in everyday business activity.

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

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

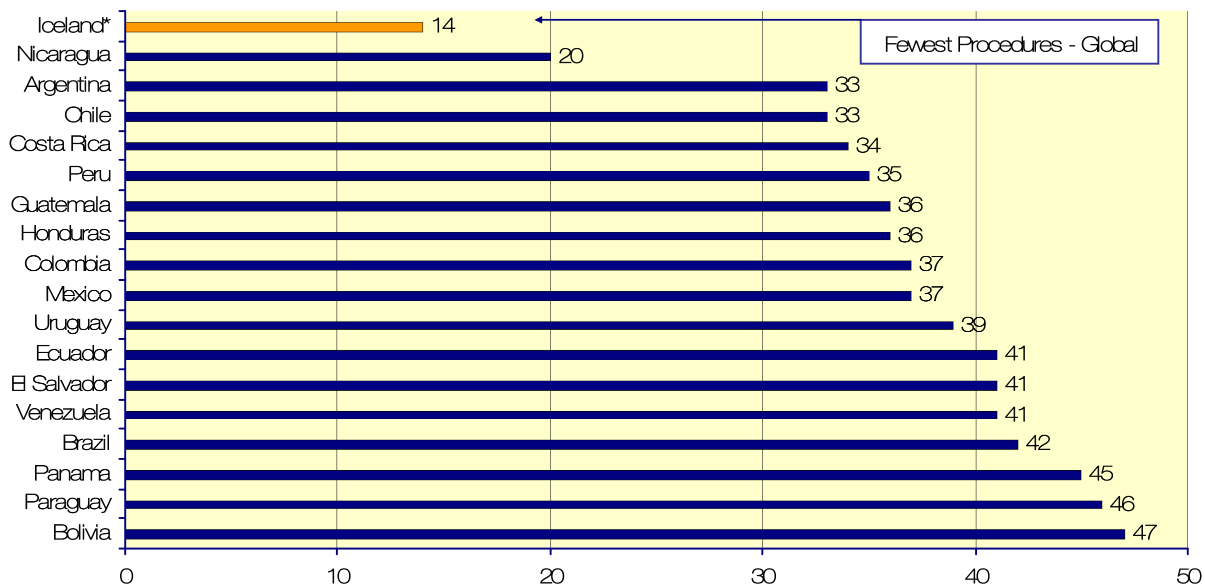
Businesses that have little or no access to efficient courts must rely on other mechanisms—both formal and informal, such as trade associations, social networks, credit bureaus or private information channels—to decide with whom to do business and under what conditions. Businesses may also adopt conservative business practices and deal only with a small group of people linked through kinship, ethnic origin, or previous dealings. Transactions are then structured to forestall disputes. Whichever alternative is chosen, economic and social value may be lost. The main reason to regulate procedures in commercial dispute resolution is that informal justice is vulnerable to subversion by the rich and powerful. But heavy regulation of dispute resolution backfires. Across countries, the more procedures it takes to enforce a contract, the longer the delays and the higher the cost. Less wealth is created.

Benchmarking—Contract Enforcement

Latin America—Compared to Global Best / Selected Other Economies

Procedures to Enforce a Contract

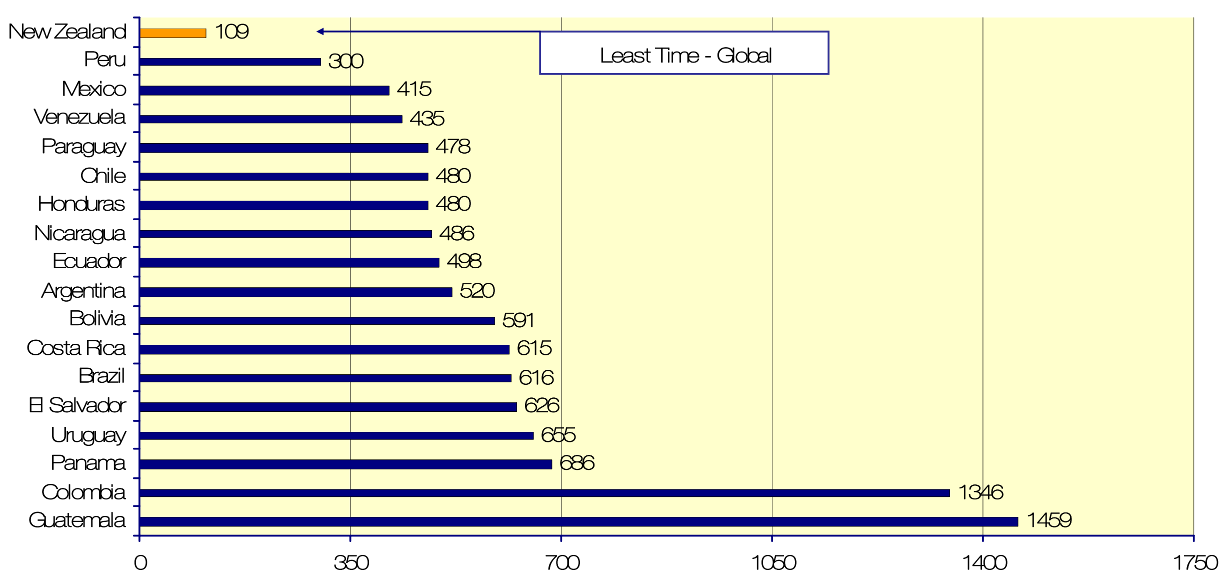
Source: Doing Business Database



* Another economy with the fewest procedures is Norway.

Time to Enforce a Contract (days)

Source: Doing Business Database

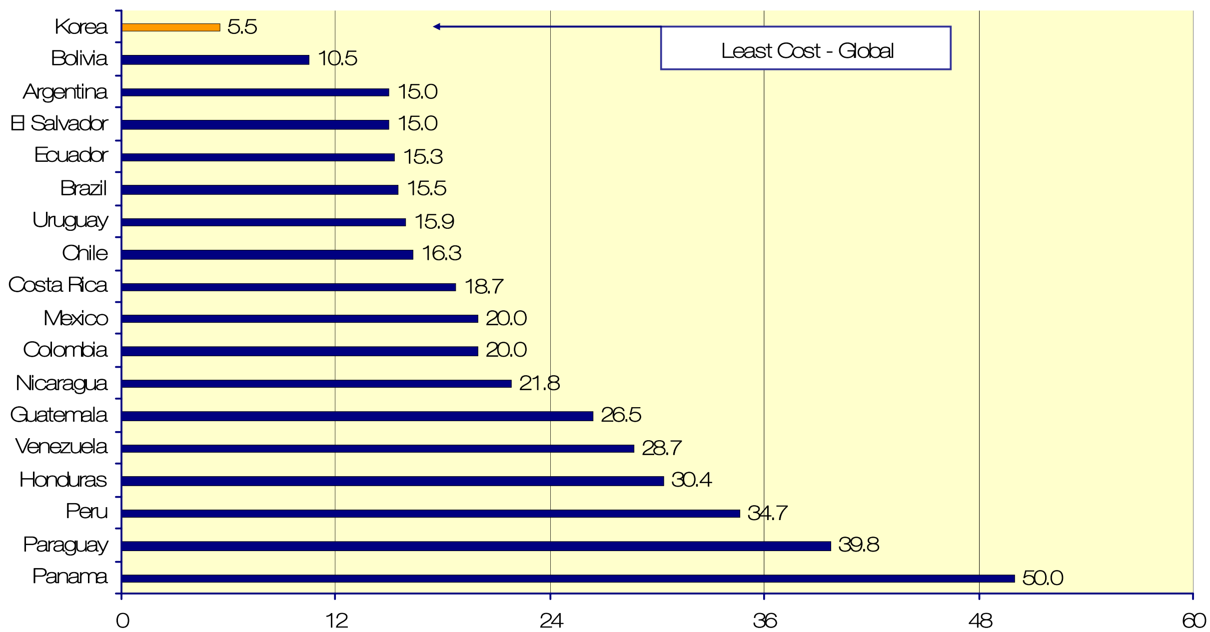


Benchmarking—Contract Enforcement

Latin America—Compared to Global Best / Selected Other Economies

Cost to Enforce a Contract (% of claim)

Source: Doing Business Database



Paying Taxes: Tax Payable and Compliance

Taxes are essential. Without them, there would be no money to fund schools, hospitals, courts, roads, water, waste collection and other public services that help businesses to be more productive. Still, there are good ways and bad ways to collect tax.

The *Doing Business* tax survey records the effective tax that a company must pay and the administrative costs of doing so. Imagine a medium-sized business—TaxpayerCo—that started operations last year. *Doing Business* asked accountants in 175 economies to review TaxpayerCo's financial statements and a list of standard transactions it made throughout the year. Respondents were asked the total amount of tax that must be paid by the business and the process to do so.

The business starts from the same financial position in each country. All the taxes paid within the second year of operations are recorded. Taxes are measured at all levels of government and include corporate income tax, turnover tax, all labor contributions paid by the company, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax and vehicle tax. A range of standard deductions and exemptions is also recorded.

The indicators are measured as follows:

- The total tax rate indicator measures the total amount of taxes payable by the company within the second year of operation. The total amount of taxes is the sum of all the different taxes payable after accounting for various deductions and exemptions. The total amount of taxes payable is presented as proportional to commercial profits.
- The total number of tax payments, which takes into account the method of payment/withholding, frequency of payment/withholding, and the number of agencies involved for the standardized case study.
- The time indicator measures the total hours per year necessary to prepare, file and pay corporate income, VAT, and labor taxes.

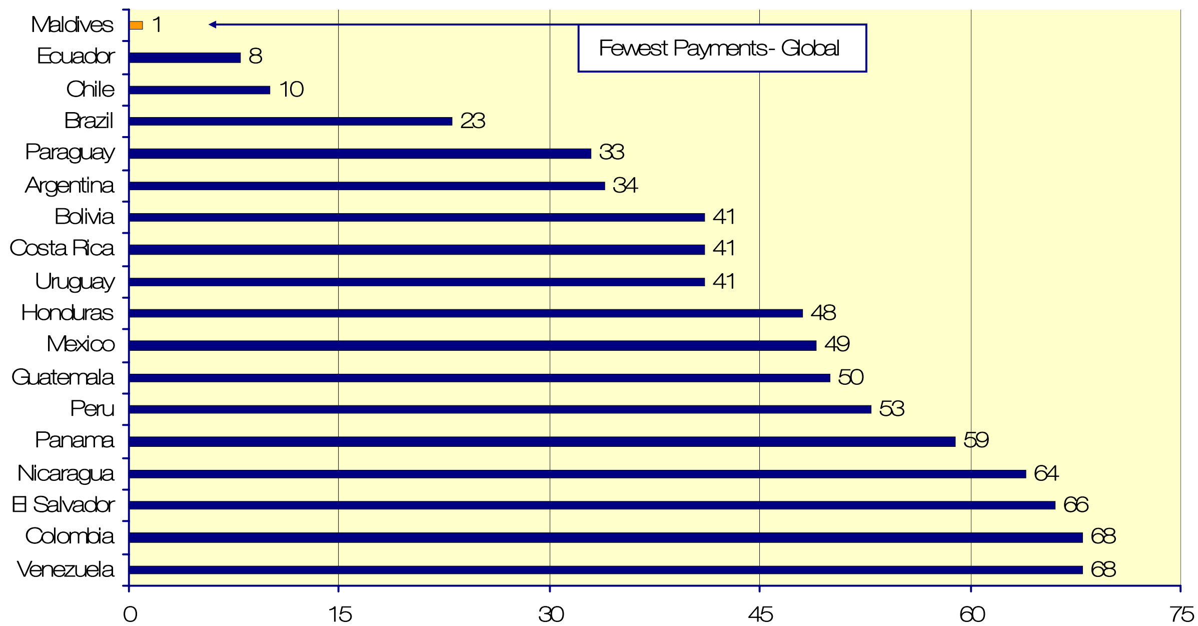
Businesses care about what they get for their taxes, such as quality of infrastructure and social services. Poor countries tend to use businesses as a collection point for taxes, whereas rich countries tend to charge less and have less complexity. And rich countries get more for their money. Simple, moderate taxes and fast and cheap administration mean less hassle for business—but also more revenue collected and better public services. More burdensome taxes provide an incentive to evade.

Benchmarking—Paying Taxes

Latin America—Compared to Global Best / Selected Other Economies

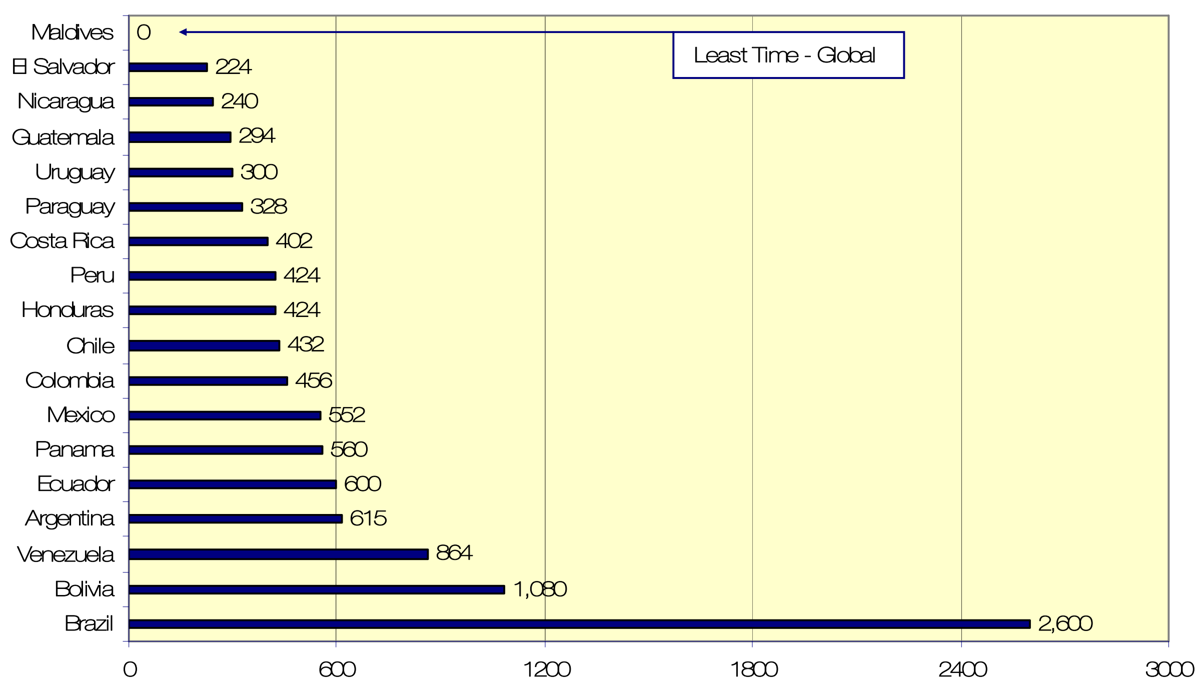
Number of Payments (per year)

Source: Doing Business Database



Time to Pay Taxes (hours per year)

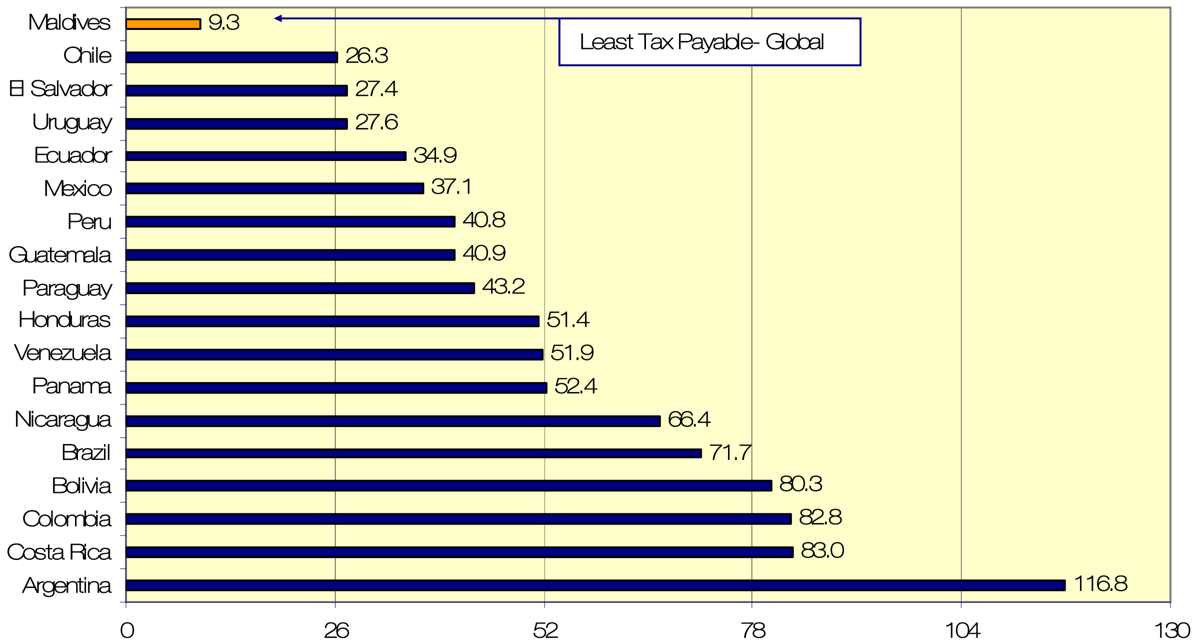
Source: Doing Business Database



Benchmarking—Paying Taxes
Latin America—Compared to Global Best / Selected Other Economies

Total Tax Rate (% commercial profits)

Source: Doing Business Database



Closing a Business: Bankruptcy

Recent economic crises in emerging markets, from East Asia, to Latin America, to Russia and Mexico, have raised concerns about the design of bankruptcy systems and the ability of such systems to help reorganize viable companies and close down unviable ones. In countries where bankruptcy is inefficient, unviable businesses linger around for years, not allowing assets and human capital to be reallocated to more productive uses.

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

The closing a business data track the step-by-step procedures for a standardized company to go through the bankruptcy process. It is assumed that the company is a domestically owned limited liability corporation, operating a hotel in the most populous city. The company has 201 employees, 1 main secured creditor and 50 unsecured creditors. Detailed assumptions about the debt structure and future cash flows are made. It is assumed that the company becomes insolvent on January 1. The case is designed so that the company has a higher value as a going concern—that is, the efficient outcome is either reorganization or sale as a going concern but not piecemeal liquidation. The indicators are derived from questionnaires answered by attorneys at private law firms and bankruptcy judges. Most respondents are members of the International Bar Association.

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

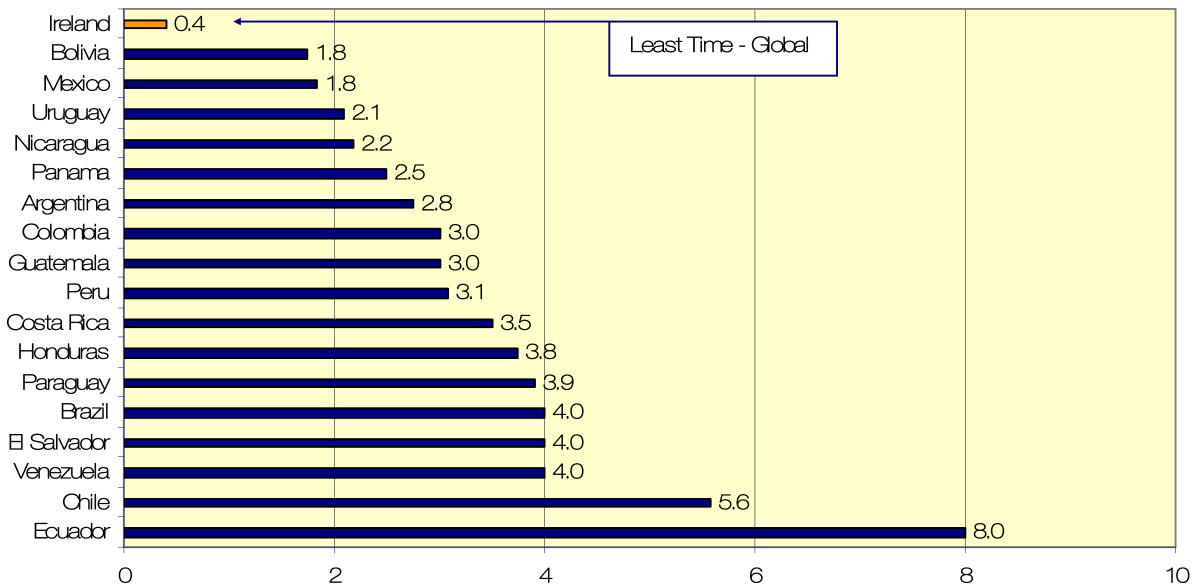
Bottlenecks in bankruptcy cut the amount that claimants can recover. In countries where bankruptcy is used, this is a strong deterrent to investment. Access to credit shrinks, and nonperforming loans and financial risk rise because creditors cannot recover overdue loans. Even in poor countries, where bankruptcy is rarely used, efficient laws can serve as a threat and encourage debtors to negotiate and restructure outside of bankruptcy. Bankruptcy laws can also encourage entrepreneurs. The freedom to fail, and do so through an efficient process, puts people and capital to its most effective use. The result is more productive businesses, and more jobs.

Benchmarking—Bankruptcy

Latin America—Compared to Global Best / Selected Other Economies

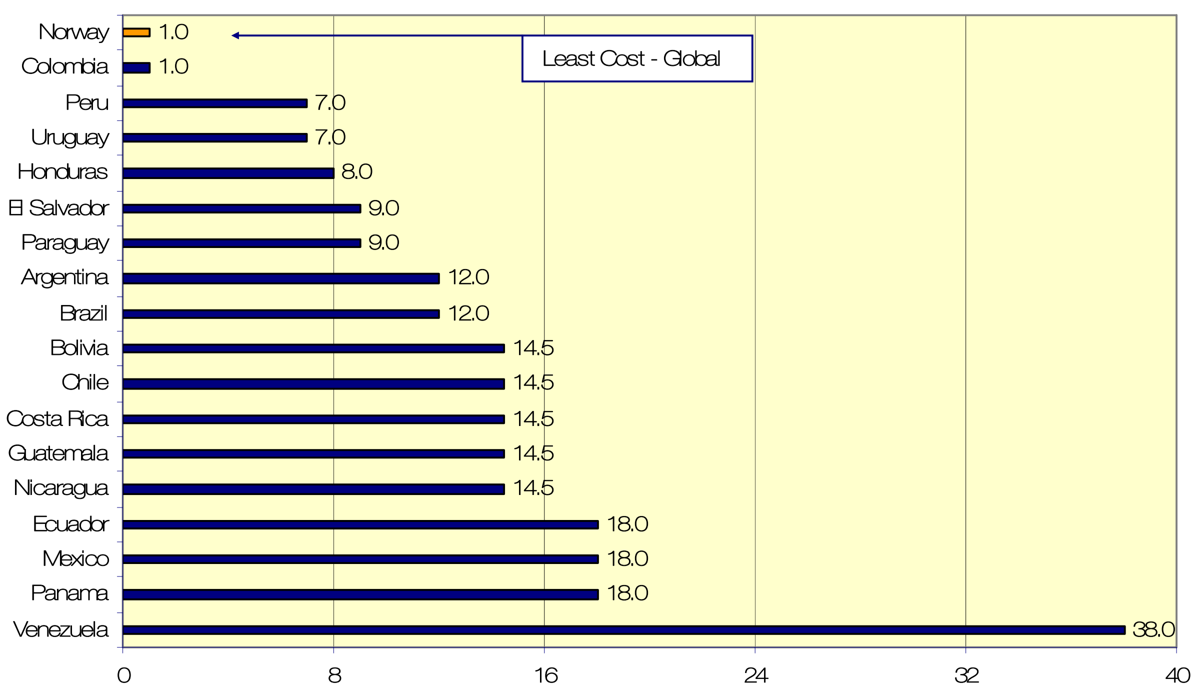
Time to go through Insolvency (years)

Source: Doing Business Database



Cost of Insolvency (% of estate)

Source: Doing Business Database



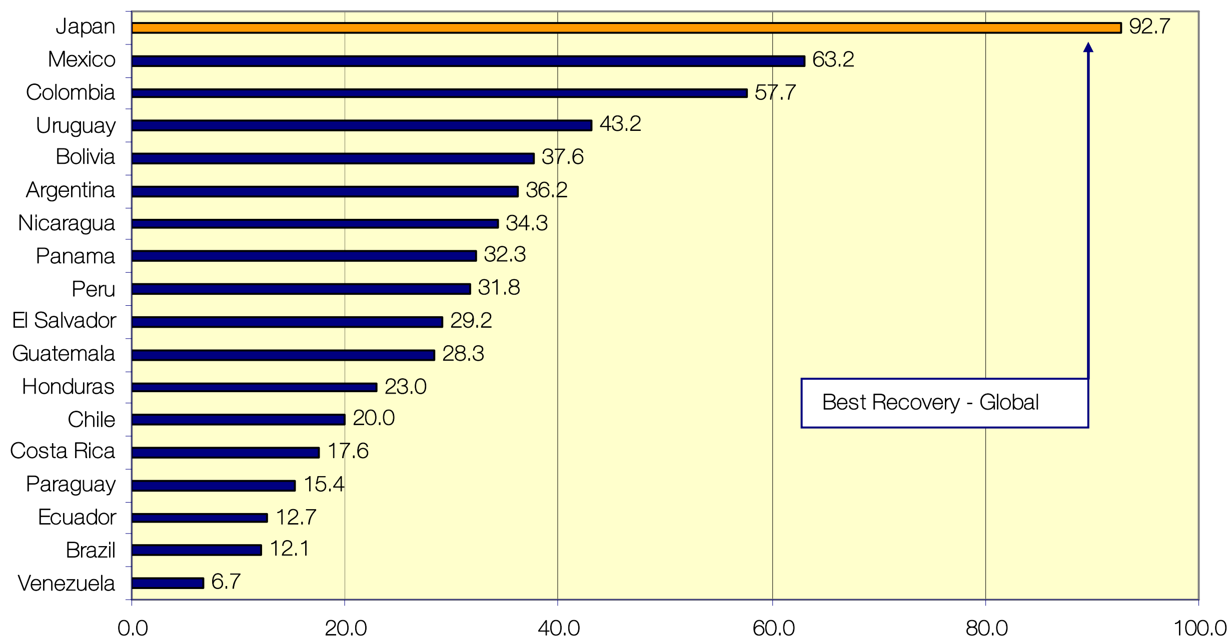
*Other economies with the least cost are Antigua & Barbuda, Kuwait, Netherlands and Singapore.

Benchmarking—Bankruptcy

Latin America—Compared to Global Best / Selected Other Economies

Recovery Rate (cents on the dollar)

Source: Doing Business Database



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