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The Enabling Policy and Regulatory Framework as a Foundation for Developing the Supply-Capacity of Sri Lanka.

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ABSTRACT

Since 1977 the government of Sri Lanka implemented a series of economic reforms to create a more open economic environment and integrate the economy with the global trading system with the ultimate objective of creating an enabling economic environment so that production and other resources are used more efficiently to improve the living standards of people. The benefits of trade liberalisation, however, do not seem sommensurate with the extent of reforms in comparison to other countries that introduced similar reform measures. This paper argues that one of the main reasons for the failure in Sri Lanka's poor attention to the creation of an enabling policy and regulatory framework that would have enhanced the supply capacity of the country. Without paying adequate attention to the creation of an enabling policy and regulatory framework, Sri Lanka will not be able to reap the benefits of freer international trading environment of domestic trade liberalization.

1. Introduction

Since 1977 the government of Sri Lanka implemented a series of economic reforms to create a more open economic environment and integrate the economy with the global trading system with the ultimate objective of creating an enabling economic environment so that production and other resources are used more efficiently to improve the living standards of people. Among others the reforms included the removal of quantitative restrictions to trade, tariff reduction and rationalization, removal of preferential rates applicable to state owned enterprises, and the removal of exchange rate restrictions on current account transactions and the privatization of state owned enterprises. In addition, Sri Lanka entered into a number of bilateral and regional trade agreements with key trading partners and liberalized trade in goods and some services under the multilateral trade agreements under the World Trade Organization (WTO). Liberalisation in the subsequent periods concentrated mostly on domestic market reforms, aimed at further consolidation of the gains of early trade and investment liberalisation. These reforms included the opening up of the economy for foreign investment with higher equity participation; the grating automatic approval of foreign investment projects subject to specific equity participation requirements; liberalisation of outbound investment; introduction of domestic competition laws in line with international norms; and the removal of exchange controls that prevented the full convertibility of currencies. The global economic environment became more competitive as the two most populous largest nations in the world - India and China - entered into the free-market folder. With these changes, many expected that Sri Lanka would have much brighter prospects for economic growth and development through export-led industrialization.

Sri Lanka recorded an impressive growth of exports, and imports, immediately after trade liberalization in 1977. Exports as a percentage of GDP, which jumped from 20 percent in 1975 to about 30 percent immediately after the trade liberalization, reached the 40 percent mark at the turn of the century. It is notable, however, that this was the same level that prevailed at 1950. The average rate of growth of exports from 1997 to 2006 was 3.86 percent per annum (EDB, 2007), which is quite lacklustre when it juxtaposed with that of many Asian players such as India, China, Malaysia and Thailand during their post-liberalization periods. For example, India's export growth surpassed 10 percent throughout the 1990s, reaching 25 percent during 2002-2005 (Veeramani, 2007). Thailand's post-1985 economic performance is virtually unparalleled; since 1986 improving commodity prices and a 40 percent annual growth in manufactured exports have led to a 30 percent annual growth in total exports and double-digit GDP growth (Narongchai, Dapice and Flatter, 1991); on average Thailand's exports grew by 16 percent per annum between 1980-93, South Korea, Malaysia and Singapore all recorded on average 12 percent rates of growth. South Asia, in contrast grew by about 8 percent per annum during the same period. A clearly identifiable stylized fact of the export growth performance of these countries is that they have been able to maintain their growth momentum at a steady growth path without much yearly fluctuations, whereas exports growth fluctuated from year to year in Sri Lanka.

This paper delves on one of the fundamental weaknesses of the policy framework pursued in Sri Lanka; inadequate attention to the development of an enabling policy and regulatory framework. The paper is organized as follows. The next section provides a theoretical foundation of policy and regulatory framework, while section three discusses the regulatory framework in comparative perspective vis-à-vis a number of countries in Asia and the Pacific. Section four concludes the paper and provides recommendations for future action.

2. Elements of an Effective Policy and Regulatory Framework

The mere opening up of markets is neither sufficient nor adequate for meeting import demand form overseas buyers, but the country's exporters must be able to meet three basic requirements: they must be able to supply at the time, in the quantity and quality of the goods demanded. This capacity depends on a number of factors; some of which are fundamental while others serve as important pillars (UNESCAP, 2004). The enabling policy and regulatory framework, efficient institutions and general education are considered fundamental factors. In addition, two pillars consisting of a number of factors within each have been identified: the factors that improve productive capacity, and each factors that reduce cost of conducting trade. The improvement of productivity is contingent upon managerial and technical skills, the availability of finance for small-scale enterprises, the extent of business support services, linkages to global supply chains made possible by the presence of marketing channels and access to investible funds, and technology through domestic savings or through foreign direct investment. Cost reductions related to international trade are realized through better transport and information and communication technology (ICT) services, marketing services and contracting, efficient trade procedures and documentation and trade finance. While all these aspects are important for creating a better supply-capacity, the subsequent sections focus only on the policy and regulatory framework.

The creation of an environment conducive for efficient functioning of a market economy, as the neo-classical economic foundation asserts, requires state involvement in providing three most fundamental elements: the maintenance of law and order, guarantee of property rights, and enforcement of contracts. These three factors provide the foundation for entrepreneurs to specialize in their areas of expertise and sectors where they have comparative advantage, which in turn expands the size of markets. These two forces-specialization and expansion of markets-continuously support each other allowing the economy to grow. It is clear that this does not require the presence of an international market. However, the existence of an international market that allows the absorption of products and services allow firms to specialise more in a small set of products and services and serve a much larger market. The ability to serve in a very large value chain, as the case in many producers in the world today, enables even small producers to specialise. This in turn gives them the ability to acquire modern technology, and further enhance their capacity to serve even bigger and more sophisticated markets.

The first element of the three prerequisites mentioned above - the provision of law and order- is a broad concept than the mere provision of simple justice. As the World Development Report (2005) has shown "war or other widespread violence spells the end of almost all productive investment, and a reasonable level of political and macroeconomic stability is a threshold requirement for other policy improvements to gain much traction" (p. 9). Part of the law and order is to ensure that crimes are kept to a minimum, through regular policing or community involvement in such activities. For the rule of law to take effect, people must have trust in the judiciary, legal system should be cost effective, and the lawsuits should end up in firm resolutions.

The second prerequisite - stronger property rights framework- guarantees the resource owners for their effort. The neoclassical foundation asserts that "the better protected these rights,... the stronger the link between effort and reward, and thus the greater the incentives to open new businesses, to invent more in existing ones, and simply to work harder" (World Bank 2005, p.9). The opposite to the stable property rights unstable property rights- has always created disincentives for firms to invest in new businesses and work harder, as the link between effort and reward is not strong. The economic history abound with examples for faster economic growth with stronger property rights regimes. A major part of a stronger property rights regime is the need to minimize the unnecessary expropriation of property, especially without adequate compensation. Obviously, governments reserve the right to expropriate private property for greater public welfare, but those activities need to be transparent and methodical so that private individuals have the confidence in investing in the country.

The third element - enforcement of contracts- enhances the confidence of the businesses community to engage in market activities. The lack of confidence in the courts of law to enforce contracts among the entrepreneurs often results in the use of alternatives than markets or to curtail their engagement in economic activities. The use of alternative mechanisms than the markets is often costly, which reduces the efficient function of markets.

The need to regulate market activities, the other major element discussed in the paper, emerges due to a number of reasons: the need to correct market failures; to protect the vulnerable sections of the society; to protect consumers from uncompetitive behaviour; and the need to protect the environment. The difference between the economic environment conducive for businesses and one that discourages such activities depends on how governments regulate the market. Prudent and sound regulatory regimes address market failures without inhibiting business activities and reconcile the interests of firms and wider social goals. Therefore, implementation of regulatory frameworks is more of an art than a science in which the government has to balance between the needs of firms and wider social objectives. Often governments fail to realize the true objectives of imposing regulations; they often increase costs of doing businesses, open up for corruption, create unnecessary delays, increase uncertainty and risk of investment, and thereby inhibit competition. Regulatory regimes sometimes create more damage to local business initiatives when regulatory requirements are eased for foreign investments without any concessions to domestic firms. The regulatory provisions need be clearer, minimize options for interpretations by officials at different times, locations and based on individuals. It is obvious that households operating at subsistence level or family businesses are unable to engage in export businesses in the present global environment. The government regulatory mechanisms determine how easy it is to enter into markets and exit from them, which determine the extent of competitiveness of the business environment. Regulatory policies create a better competitive environment and reduce costs of trade (transaction costs) that are important for sustaining interactions among producers, exporters and importers.

The policy environment and regulatory framework of a country affects the capacity of exports of firms in developing countries in the key areas for the sustainability of a firm: the utilization of natural resources, the availability of financial capital, efficient use of human capital, access to and the efficient use of physical assets and a better social environment. The specific combination that a firm uses these resources in producing exportable surplus or providing services demanded by foreign buyers depends on the nature of the regulatory framework of the country in relation to these services. That will also determine how much capital is used in production processes or how much employment is generated, thereby employment level of the country.

The need for human resources has become stronger in the knowledge-based economy, where production, as well as international competitiveness, is increasingly dependant on the ability of workers to use new technology and knowledge. In endogenous growth theory, labour force embodying human capital is considered to have higher capability in creating, implementing, and adopting new technologies, thereby generating growth.[1] The extent of human resources available in a country is a result of several interrelated policy decisions of the government.

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1 UNCTAD (1999) provides a brief overview of education and human resources development East Asia, especially Japan, South Korea, Taiwan, and China.

Regulations governing the labour market play a critical role in the development of a sustainable export economy. This is particularly true under the present international market environment where competitive edge is determined by technological advancements and labour market conditions. One of the primary concerns of the state is to maintain the balance between worker rights and the need to maintain a disciplined labour force, free of ad-hoc interference in production activities through union action such as strikes, work-to-rule, work stoppage, etc. In addition to these costs entrepreneurs face a number of problems, which include low labour productivity and the inability to maintain consistent production targets, which negatively affect their competitiveness in international markets. The regulatory framework also determines the nature of sub-contracting in a country. In the present globalized system of production, efficiency of production depends largely on sub-contracting.

The availability of natural resources can certainly help, but more important factor is the way in which the available resources are utilised. Again it depends on the nature of regulations on the use of natural resources[2].

The regulating financial market for the efficient functioning of an economy is well known. Financial resources guarantee the smooth functioning of markets; they play the role of 'lubricant' in an economy, and as such, minimise the friction that may otherwise arise when resources flow from owners to users. It is noteworthy that divergent categories of products and services require financial requirements because of time span of investments, the size of investment required and the time it takes from the inception to exporting a commodity or product. Some commodities and services require huge investments while others require little investment but their gestation periods can be very long. For example, an exporter of raw material requires only a limited amount of capital while the production venture aimed at producing motor cars will require very high amount of fixed capital. The collateral requirements also hinges on the differences risk ratings and the size of capital. Weak financial institutions undermine and work as a major constraint in developing productive capacity of firms in developing countries.

The availability of efficient infrastructure is a critical factor for development; among others such critical infrastructure includes adequate

2 Natural resources are essential for producing commodities and providing certain services. Lack of natural resources, however, is not a prima facie reason for poor export performance since many countries that have been successful in international trade are those with very poor natural resource endowments (e.g. Japan ad Singapore). On the other hand, having a large stock of natural resources does not guarantee the success in international markets either as evidenced by the cases of the Soviet Union and India.

road networks, efficient communication networks, efficient harbour and airport facilities and better links to international markets. As the private sector is unable to provide these services efficiently themselves, they rely on the state to provide the critical services. Often it is an area of concern. While the private sector has expanded in many different ways, the provision of infrastructure by the state in many developing countries is weak, affecting the performance of the private sector.

Social environment, which includes compensation mechanisms and sanctions for anti-firm or anti-social behaviour, the governance structures within and outside the firm, social norms, customs, beliefs and institutions that govern their interactions, determines the ability for a firm to function efficiently in an economy and thus the supply capacity. The link between the social environment and the regulatory framework is not direct, but the nature of control exercised by the government can make an impact on several aspects that are critical for the functioning markets. This is mainly due to the fact that firms are organizations that attempt at minimizing transaction costs in production of commodities and delivery of services. The nature of social interactions is so vital for efficiency of firms including information sharing, coordination and corporation and expansion of economic activities. There is anecdotal evidence to suggest that some communities thrive in business activities while others are inept in running businesses. The root cause of such differences often lies in the way these communities are organized and their impact on transaction costs.

3. The Policy and Regulatory Framework in Sri Lanka in Comparative Perspective

This section looks at the empirical evidence on the policy and regulatory framework across a number of countries in South Asia and East Asia. There are several reliable sources of information for comparing regulatory framework across countries, which include the Enterprises Survey and the Doing Business Survey of the World Bank. The next section evaluates the above discussed factors against the available empirical evidence.

It is often allege that Sir Lanka has not shown much importance to the maintenance of law and order. However, as the World Bank Enterprise Survey 2006 shows, 68% of the business firms surveyed in Sri Lanka have indicated that they have confidence in the in the judiciary, compared to 17% in Bangladesh, 37% in Pakistan, 70% in India, 66% in East Asia and the Pacific and 74% in high income OECD countries (Table 1). Another way to look at the efficiency of the judiciary is to look at the time it takes for disputes o be resolved through the judiciary system. As far as firms are concerned, the survey has estimated that it take 7.13 weeks in Sri Lanka to resolve a business dispute compared to 16.3 weeks in Bangladesh, 8.66 in

East Asia & the Pacific, 14.82 in high income OECD countries. As for the overdue payments, 91 percent of cases ended up with no resolution in the judiciary system in Sri Lanka, in comparison to 66 per cent in East Asia, 60 percent in high-income OECD countries. As Table 1 shows, senior management of companies in Sri Lanka spends on average 3.51 percent of their time dealing with requirements of regulations, which is only 3 percent in high income OECD countries, 7.52 percent in East Asia & the Pacific. Another measure of bureaucracy, the consistency of officials' interpretation of regulations, shows that South Asia's officials interpret the regulations in a consistent manner than the officials in East Asia and the OECD countries.

On the question of property rights, three good indicators to guage the regulatory system of a country are (i) the number of procedures for registering property, (ii) time it takes, and (iii) the cost. Table 2 shows the average conditions across the main regions of the world an South Asian. New Zealand shows the best conditions among the 155 countries that have been included in the survey. A firm in Sri Lanka has to follow eight procedures, spend 63 days and 5.1 percent of property value to register a property in comparison to two procedures two days and 0.1 percent of property value in New Zealand.

The 3 shows the number of procedures to follow in collecting overdue debt in Sri Lanka and similar set of countries and regions. Accordingly, a Sri Lankan business firm has to follow 17 procedures to complete to enforce a contract related to overdue debt, while Norway, which recorded the best conditions under this category, has 14 procedures. The number of procedures itself does not mean that the situation is business-friendly as demonstrated in the case of Sri Lanka, where a firm seeking remedy through the judiciary has to spend 440 days and pay 21.3 percent of the total debt. A lender in Norway, on the other hand, would have to spend only 87 days and 4.2 percent of the total debt to recover. The higher the cost of recovery, the higher the lending cost will be, which discourages the development of an efficient credit market.

The regulatory framework applicable for starting up and closing business activities in Sri Lanka is comparable to the level of regulations that prevail in other regions including East Asia and Europe (Table 4).In Sri Lanka, there are close to eight procedures to complete when one wants to set up a firm, takes 50 days and has to spend 10.4 percent of per capital national income. An East Asian needs to complete 8.2 procedures, spend 52.6 days and 42.9 percent of national income per capita and 109.2 percent of minimum capital as a percentage of GNP per capita. Although one could say that the cost of setting up a businesses firm and the minimum capital requirement are relatively low in Sri Lanka, it may perhaps be a deliberate attempt to force them to set up larger firms to reap economies of scale and thereby withstand international competition. Therefore, the regulatory framework on starting up businesses does not seem to explain the apparent slow progress of South Asia in international trade.

Closing up businesses is relatively restrictive in Sri Lanka compared to other countries in South Asia but the time and cost are lower, compared to East Asian average (Table 5) . In comparison to the benchmark country, Ireland in this case, Sri Lanka needs to make further liberalization so that an insolvent business firm can close down within a shorter period and at low cost thereby encourage firms to set up businesses without having fear in unnecessary regulatory burdens. If one were to dissolve its company for some reason, the investor can recover only a small proportion of their investment. However, as indicated above, as East Asia's situation is similar or worse than the conditions in Sri Lanka, one cannot attribute the slow progress and poor supply capacity of the country to the poor regulatory framework related to setting up and closing down business enterprises.

Table 6 provides a comparative view of the licensing regime including all procedures required for a business in the construction industry to build a standardized warehouse in Sri Lanka. Sri Lankan firm has follow 18 procedures, spend 167 days in fulfilling them and at a cost of 144 percent of income per capita. Again, the licensing regime in East Asia is not as flexible as one would expect them to be.

What is the regulatory mechanism governing investment is Sri Lanka? As disclosed in Table 7, Sri Lanka 's regulatory mechanism is not as bad in relative terms as many tend to ponder although there is room for improvement. Sri Lanka's score on the Investment Protection Index (IPI) in 2006 was 5.3 in a total score of 10. New Zealand, the benchmark case here, has scored 9.7, while East Asia and the Pacific scored only 5.3 and highincome OECD countries 5.9. This index consists of three other indicators: disclosure index, director liability index and shareholder suits index. Sri Lanka scored 4 , 5 and 7 in these three indices in comparison to 5.6 , 4.2 , and 6.2 in East Asia, respectively. Similarly, Sri Lanka scored higher in the shareholder suits index than East Asia & the Pacific. The values are as close to values for the OECD as well. Again , the poor export performance is not attributable to the poor regulatory framework in comparative terms, as many tend to believe.

As shown earlier, the ability of business firms to be efficient Producers and maintain competitiveness in the international markets hinges on their ability to make use of the five types of resources. This section discusses the potential impact of the regulatory regime in Sri Lanka on these key resources. Regulations governing the labour market play perhaps the most critical role in the development of a sustainable export economy. This is particularly true under the present international market environment where competitive edge is determined perhaps equally by technological advancements, productivity and labour market conditions. One of the primary concerns of any government is to maintain the balance between worker rights and the need to maintain a disciplined labour force, free of ad-hoc interference in production activities through union action such as strikes, work-to-rule, work stoppage, etc. Business community in South Asia maintains that the labour regulations are too flexible and the workers have more rights than the employers. The World Bank's Doing Business Survey 2006 shows that it is relatively too difficult to hire or fire workers in Sri Lanka in comparison to the situation in East Asia and other parts of the world. The hiring cost, which includes such payments as social security payments (retirement fund; sickness, maternity and health insurance; workplace injury; family allowance; and other obligatory contributions) and payroll taxes is as high as 16.3% of the salary in Sri Lanka , 12.3 % in India in comparison to 8.8% in East Asia and the Pacific and 20.7 in OECD (Table 8) . The cost of firing a worker is as high as 175.7 weeks of pay in Sri Lanka with an average of 75 weeks of pay in South Asia, in comparison to 35.1 in high - income OECD countries, 44.2 in East Asia & the Pacific and a mere 12.9 in Hong Kong , the benchmark case.

Sri Lanka's entrepreneurs also experience far too many labour union actions such as strikes and work-to-rule campaigns. The number of actual holidays of working in Sri Lanka is staggeringly high if one were to add the number of days lost due to strike actions and the already too high number of holidays. In Sri Lanka, if the number of holidays officially granted for religious and other reasons (21 days in 2005) is added to the number of weekends (105 days in 2004) and the entitlements for medical and casual leave (42 days), a Sri Lankan worker could have stayed home for 168 days in 2005. A spate of strikes or work stoppage conducted for political and labour-related reasons during 2005 aggravated the situation further.

The proper use of land is a fundamental requirement for economic development of any country. To achieve this objective, South Asian governments need to adopt a scientific land use policy (e.g., land use zoning, land resource inventory); decentralization of land management for balanced, sustainable regional development; and the modification of land laws to meet current needs. Best practices of land use management of South Asia needs to be learnt from one another and adapt to country conditions for effective implementation.

The legal rights index, which measures the legal rights of lenders , is not as well developed in Sri Lanka as in East Asia or the high-income OECD countries, and much lower in comparison to the benchmark country in this case - the United Kingdom (Table 9). The available data suggest that rules and regulations are adequate relating to information disclosure, but no so in terms of the development of actual listing of individuals or business firms in either public or private credit bureaus.

Sri Lanka along with many other developing countries adopted financial market liberalization with the particular objective of making financial institutions more competitive and hence efficient. Although financial institutions have become competitive and technologically advanced, whether benefits have percolated to the business community is questionable given the high cost of finance that prevails in Sri Lanka. Almost all the financial institutions provide trade finance because of low risk, but they do not extent the same facilities to industrial activities that normally carry a high risk. High collateral requirement are another concern for business ventures. While large enterprises find it easier to get credit given their ability to provide collateral, smaller and medium enterprises often find it difficult to do so, limiting their capacity to develop businesses. Financial liberalisation and privatization initiatives in Sri Lanka have further eroded exporters' access to financial resources as some 'development banks' have become too 'commercially' oriented[3]. There is lack of understanding between exporters and bank officials on new projects and their financial needs. This situation has severely constrained the entry of new exporters and entrepreneurs into export business, which is essential for coming out of lacklustre export performance and entry into new areas of production and niche markets. The most critical question is why financial costs are so high in developing countries. One of the main reasons is the relative underdevelopment of financial sector and options.

5. Conclusion

Trade liberalization and domestic market reforms have enabled firms in Sri Lanka to improve market access in foreign countries and attract foreign direct investment. These reforms have enabled the business sector to improve market linkages, penetrate important international value chains and achieve technological advancements. The benefits of trade liberalization, however, do not seem commensurate with the extent of reforms in comparison to other countries that introduced similar reform

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[3] For example, many claim that the Development Finance Corporation of Ceylon has abandoned its original intention of providing development finance and has become another 'commercial' bank after the divesture.

measures, particularly in East Asia. The reasons for this apparent failure are debatable. This paper argues that one of the critical factors that have not adequately kept pace with the reform process is the supply capacity, without which Sri Lanka cannot maintain international competitiveness and penetrate international markets even when markets are fully open for goods and services. A number of factors collectively determine the supply-capacity in any country. However, a common understanding that has emerged in economics literature is the primacy of the enabling economic environment and the regulatory framework in determining the supply capacity. These two factors together with the institutions and governance lay the foundation for an efficient economic structure enabling firms to supply goods and services to international markets.

This paper provided a theoretical discussion on what might constitute an enabling environment and the importance of the regulatory framework and evaluated the position of Sri Lanka in comparative perspective.

The paper considered the legal foundation in Sri Lanka measured by confidence in the judiciary, the extent to which property rights are guaranteed, enforcement of contracts, flexibility in starting up and closing down businesses, licensing procedures, framework of protecting investments and the impact of these regulatory mechanisms

On the efficient use of firm-specific resources. Although Sri Lanka has to improve its legal foundation and the regulatory framework substantially compared to the best-performing nations in the world, the situation is as comparable to the conditions that prevail in East Asia. Therefore, the paper argues that the poor economic environment and the regulatory framework are not the main reasons for weaker supply- capacity in Sri Lanka .The discussion needs to be broadened taking into account other factors that may have been discussed in the literature and make an assessment as to what may constitute the major factors in constraining the supply capacity of Sri Lankan enterprises.

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Table 1: Bureaucracy, Corruption, Courts and Crime in Comparative perspective

Bureaucracy	**Bangladesh**	**India**	**Pakistan**	**Sri Lanka**	**South Asia**	**East Asia & Pacific**	**High income OECD**	**All countries**
Senior management time spent dealing with requirements of regulations (%)	3.71	12.91	8.69	3.54	7.21	7.52	2.97	6.4
Consistency of officials' interpretations of regulations	78.64	64.11	35.17	71.11	62.26	54.22	57.52	49.31
Corruption								
Unofficial payments for firms to get things done (% of sales)	2.1	..	1.61	0.14	1.28	1.81	0.13	1.33
Firms expected to give gifts in meetings with tax inspectors (%)	85.8	..	..	2.74	44.27	33.59	28.26	31.85
Value of gift expected to secure government contract (% of contract)	4.05	..	..	0.03	2.04	1.52	0.55	2.29
Courts								
Confidence in the judiciary system (%)	17.02	70.63	37.41	68.83	48.47	66.32	73.6	58.96
Dispute resolution time (weeks)	16.3	..	..	7.13	11.71	8.66	14.82	12.46
No resolutions in courts for overdue payments (%)	92.05	..	..	91.23	91.64	66.07	60.49	69.02
Crime								
Security costs (% of sales)	0.51	..	1.09	0.82	0.81	3.12	0.82	1.39
Losses due to crime (% of sales)	0.41	..	0.08	0.54	0.34	0.49	0.21	0.82

Source: The World Bank (2006) Enterprises Survey 2006

Table 2 Indicators of registering property[1]

Region / Economy	Procedures (number)	Time (days)	Cost (% of Property value)
East Asia & Pacific	4.6	62.2	5
Europe & Central Asia	6.5	127.1	3
Latin America & Caribbean	6.7	76.5	4.8
Middle East & North Africa	6.3	52.2	6.8
OECD	4.7	32.2	4.8
South Asia	6.9	124	6.3
Sub-Saharan Africa	7.1	117.8	12.6
New Zealand	**2**	**2**	**0.1**
Bangladesh	11	363	11
Bhutan	5	72	1
India	6	67	7.9
Maldives	..	..	..
Nepal	2	2	6.2
Pakistan	5	49	3.2
Sri Lanka	8	63	5.1

Source: World Bank and International Finance Corporation (2006), Doing Business in 2006: Creating Jobs, World Bank: Washington D.C.

Notes:

1. All procedures necessary when a business purchases land and a building to transfer the property title from the seller to the buyer, including whether it is the responsibility of the seller or the buyer or required to be completed by a third party on their behalf.

Table 3 Enforcing Contracts[1]

Region / Economy	Procedures (number) [2]	Time (days)	Cost (% of debt)[3]
East Asia & Pacific	29.8	406.8	61.7
Europe & Central Asia	29.8	393	17.4
Latin America & Caribbean	35.4	461.3	23.3
Middle East & North Africa	39.5	432.1	17.7
OECD	19.5	225.7	10.6
South Asia	29.9	385.5	36.7
Sub-Saharan Africa	35.9	438.5	41.6
Norway	**14**	**87**	**4.2**
Bangladesh	29	365	21.3
Bhutan	21	275	113.8
India	40	425	43.1
Maldives	28	434	8.7
Nepal	28	350	25.8
Pakistan	46	395	35.2
Sri Lanka	17	440	21.3

Source: World Bank and International Finance Corporation (2006), Doing Business in 2006: Creating Jobs, World Bank: Washington D.C.

Notes:

1. Indicators on enforcing contracts measure the efficiency of the judicial (or administrative) system in the collection of overdue debt.
2. All procedures mandated by law or court regulation that demand interaction between the parties, or between them and the judge (or administrator) or court officer
3. The official cost of going through court procedures, including court costs and attorney fees where the use of attorneys is mandatory or common, or the costs of an administrative debt recovery procedure, expressed as a percentage of the debt value

Table 4. Indicators of starting a business[1]

Region / Economy	Procedures (number) [2]	Duration (days)	Cost (%GNI per capita)	Min. Capital (% GIN per capita
East Asia & Pacific	8.2	52.6	42.9	109.2
Europe & Central Asia	9.6	36.4	13.5	49.1
Latin America & Caribbean	11.4	63	56.2	24.1
Middle East & North Africa	10.1	45.4	64.2	859.3
OECD	6.5	19.5	6.8	41
South Asia	7.9	35.3	40.5	0.8
Sub-Saharan Africa	11	63.8	215.3	297.2
Canada	**2**	**3**	**0.9**	**0**
Bangladesh	8	35	81.4	0
Bhutan	11	62	10.7	0
India	11	71	61.7	0
Maldives	6	12	12.4	6.6
Nepal	7	21	69.9	0
Pakistan	11	24	24.4	0
Sri Lanka	8	50	10.4	0

Source: World Bank (2006), Doing Business in 2006: Creating Jobs, World Bank and International Finance Corporation: Washington D.C.

Notes:
1. Refers to a limited liability company with start-up capital of 10 times that of income per capita
2. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions with external parties (government agencies, lawyers, auditors, notaries).

Table 5. Closing a Business

Region / Economy	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)[1]
East Asia & Pacific	3.4	28.8	24
Europe & Central Asia	3.5	14	29.8
Latin America & Caribbean	3.5	17	28.2
Middle East & North Africa	3.8	13.4	28.8
OECD	1.5	7.4	73.8
South Asia	4.2	7.3	19.7
Sub-Saharan Africa	3.3	19.5	16.1
Ireland	**0.4**	**9**	**88**
Bangladesh	4	8	24.3
Bhutan	..	..	0
India	10	9	12.8
Maldives	6.7	4	18
Nepal	5	9	24
Pakistan	2.8	4	44.3
Sri Lanka	2.2	18	33.9

Source: World Bank (2006), Doing Business in 2006: Creating Jobs, World Bank and International Finance Corporation: Washington D.C.

Notes:

1. The recovery rate measures the efficiency of foreclosure or bankruptcy procedures. It estimates how many cents on the dollar claimants creditors, tax authorities and employees recover from an insolvent firm.

Table 6. Dealing with Licenses[1]

Region / Economy	Procedures (number)	Time (days)	Cost (% of income per capita)
East Asia & Pacific	18	157.7	137.4
Europe & Central Asia	21.4	251.8	668.9
Latin America & Caribbean	16.3	206.2	381.2
Middle East & North Africa	19.9	216.1	469.7
OECD	14.1	146.9	75.1
South Asia	15.7	195.3	385.9
Sub-Saharan Africa	20.1	251.5	1,597.30
New Zealand	**7**	**65**	**29.3**
Bangladesh	13	185	290.9
Bhutan	26	249	62.5
India	20	270	678.5
Maldives	9	131	40.3
Nepal	12	147	314.7
Pakistan	12	218	1,170.70
Sri Lanka	18	167	144

Source: World Bank (2006), Doing Business in 2006: Creating Jobs, World Bank and International Finance Corporation: Washington D.C.

Notes:

1. All procedures required for a business in the construction industry to build a standardized warehouse, which include obtaining all necessary licenses and permits, completing all required notifications and inspections and submitting the relevant documents (for example, building plants and site maps, utility connections, such as electricity, telephone, water and sewerage) to the authorities.

Table 7. Protecting Investors

Region / Economy	Disclosure Index [1]	Director Liability Index[2]	Shareholder Suits Index [3]	Investor Protection Index [4]
East Asia & Pacific	5.6	4.2	6.2	5.3
Europe & Central Asia	4.5	4.3	5.6	4.8
Latin America & Caribbean	4.1	3.8	5.7	4.5
Middle East & North Africa	5.5	4.7	3.5	4.6
OECD	6.1	5.1	6.6	5.9
South Asia	4.1	4.6	6.4	5
Sub-Saharan Africa	5.4	4.6	5	5
New Zealand	**10**	**9**	**10**	**9.7**
Bangladesh	6	7	7	6.7
Bhutan	6	6	4	5.3
India	7	4	7	6
Maldives	0	8	8	5.3
Nepal	4	1	9	4.7
Pakistan	6	6	7	6.3
Sri Lanka	4	5	7	5.3

Source: World Bank (2006), Doing Business in 2006: Creating Jobs, World Bank and International Finance Corporation: Washington D.C.

Notes:

1. The extent of disclosure index measures (i) what corporate body can provide legally sufficient approval for the transaction; (ii) whether immediate disclosure of the transaction to the public, the shareholders or both is required; (iii) whether disclosure in the annual report is required; (iv) whether disclosure to the board of directors is; and (v) whether it is required that an external body, for example, an external auditor, review the transaction before it takes place. The index ranges from 0 to 10, with higher values indicating greater disclosure.
2. This measures seven aspects related to measuring the extent of liability of a director for damages to the company. The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction. This measures how easy for a shareholder to file a lawsuit and collect information from company documents. The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction.
3. The shareholder suits index measures how easy it is for a shareholder to collect information and directly examine the documents form the company, and the values range from 0 to 10 with 0 indicating the lowest and the 10 the highest.
4. This combines all the three dimensions of investor protection: transparency of transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct. The index ranges from 0 to 10, with higher values indicating better investor protection.

Table 8. Hiring & Firing Workers

Region/Economy	Difficulty of Hiring Index [1]	Rigidity of Hours Index [2]	Difficulty of Firing Index [3]	Rigidity of Employment Index [4]	Hiring cost [5] (% of salary)	Firing costs [6] (weeks of wages)
East Asia & Pacific	26	29.6	23	26.2	8.8	44.2
Europe & Central Asia	34.5	56.9	41.5	44.3	29.6	32.8
Latin America & Caribbean	40.5	50.9	29.5	40.3	15.9	62.9
Middle East & North Africa	30.8	55	35	40.2	15.9	62.4
OECD	30.1	49.6	27.4	35.8	20.7	35.1
South Asia	41.9	35	42.5	39.9	5.1	75
Sub-Saharan Africa	48.1	63.2	47.8	53.1	11.8	53.4
Hong Kong, China	**0**	**0**	**0**	**0**	**5**	**12.9**
Bangladesh	11	40	20	24	0	47
Bhutan	78	60	0	46	0	94
India	56	40	90	62	12.3	79
Maldives	0	20	0	7	0	20
Nepal	56	20	90	55	0	90
Pakistan	67	40	30	46	12	90
Sri Lanka	0	40	80	40	16.3	175.7

Source: World Bank (2006), Doing Business in 2006: Creating Jobs, World Bank and International Finance Corporation: Washington D.C

Notes:

1. The difficulty of hiring index measures (i) whether term contracts can be used only for temporary tasks; (ii) the maximum duration of term contracts; and (iii) the ratio of the mandated minimum wage (or apprentice wage, if available) to the average value added per worker.
2. The rigidity of hours index has 5 components: (i) whether night work is unrestricted; (ii) whether weekend work is allowed; (iii) whether the workweek can consist of 5.5 days; (iv) whether the workday can extend to 12 hours or more (including overtime); and (v) whether the annual paid vacation days are 21 or fewer.
3. The difficulty of firing index has 8 components: (i) whether redundancy is not considered fair grounds for dismissal; (ii) whether the employer needs to notify the labour union or the labour ministry to fire 1 redundant worker; (iii) whether the employer needs to notify the labour union or the labour ministry for group dismissals; (iv) whether the employer needs approval from the labour union or the labour ministry for firing 1 redundant worker; (v) whether the employer needs approval from the labour union or the labour ministry for group dismissals; (vi) whether the law mandates training or replacement before dismissal; (vii) whether priority rules apply for dismissals; and (viii) whether priority rules apply for reemployment
4. The average of three sub-indices: a difficulty of hiring index, a rigidity of hours index and a difficulty of firing index. All take values between 0 and 100, with higher values indicating more rigid regulation
5. The hiring cost indicator measures all social security payments (including retirement fund; sickness, maternity and health insurance; workplace injury; family allowance; and other obligatory contributions) and payroll taxes associated with hiring an employee.
6. The firing cost indicator measures the cost of advance notice requirements, severance payments and penalties due when dismissing a redundant worker, expressed in weekly wages.

Table 9. Getting Credit

Region / Economy	Legal Right Index [1]	Credit Information Index[2]	Public registry coverage (% adults)[3]	Private bureau coverage (% adults)
East Asia & Pacific	5.3	1.8	1.7	9.6
Europe & Central Asia	5.6	2.5	1.4	6.6
Latin America & Caribbean	3.8	4.5	11.5	31.2
Middle East & North Africa	4.1	2	1.9	1.7
OECD	6.3	5	7.5	59
South Asia	3.8	1.8	0.1	0.6
Sub-Saharan Africa	4.4	1.5	0.8	3.5
New Zealand	**10**	**6**	**0**	**76.2**
Bangladesh	7	2	0.4	0
Bhutan	3	0	0	0
India	5	2	0	1.7
Maldives	4	0	0	0
Nepal	4	3	0	0.1
Pakistan	4	4	0.3	0.9
Sri Lanka	3	3	0	2.2

Source: World Bank (2006), Doing Business in 2006: Creating Jobs, World Bank and International Finance Corporation: Washington D.C.

Notes:

1. This measures the degree to which collateral and bankruptcy laws facilitate lending, calculated based on collateral and insolvency laws, supported by the responses to a survey on secured transactions laws. The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.
2. This index measures rules affecting the scope, accessibility and quality of credit information available through either public or private bureaus. The index ranges from 0 to 6, with higher values indicating that more credit information is available from either a public registry or a private bureau to facilitate lending decisions.
3. The coverage indicator reports the number of individuals and firms listed in the public credit registry with current information on repayment history, unpaid debts or credit outstanding. The number is expressed as a percentage of the adult population. If no public registry operates, the coverage value is 0.
4. The coverage indicator reports the number of individuals or firms listed by the private credit bureau with current information on repayment history, unpaid debts or credit outstanding. The number is expressed as a percentage of the adult population. If no private bureau operates, the coverage value is 0.