

Overview

Starting a business

Dealing with construction permits

Employing workers

Registering property

Getting credit

Protecting investors

Paying taxes

Trading across borders

Enforcing contracts

Closing a business

Cañaño, a Venezuelan company exporting handicrafts, is eager to supply larger clients—preferably, large U.S. department stores. It has the capacity to fill orders within 2 weeks. But there is one problem: bureaucracy. “I need to get a labor compliance certificate from the Ministry of Labor, but before issuing the certificate the ministry demands 4 other documents from municipal authorities. For each export consignment I need to inform the authorities of my intention to export, confirm the exports and get a letter confirming that I have refunded the foreign exchange earned to the central bank,” says Bruno, the company’s owner.

Getting through all the paperwork can take 2–6 months on average. Faced with this long and unpredictable export process, Cañaño has little chance of entering the U.S. market.

TABLE 9.1

Where is trading easy—and where not?

Easiest	RANK	Most difficult	RANK
Singapore	1	Angola	172
Hong Kong, China	2	Burkina Faso	173
Denmark	3	Azerbaijan	174
Finland	4	Central African Republic	175
Estonia	5	Congo, Rep.	176
Sweden	6	Tajikistan	177
Norway	7	Iraq	178
Panama	8	Afghanistan	179
Israel	9	Kazakhstan	180
Thailand	10	Kyrgyz Republic	181

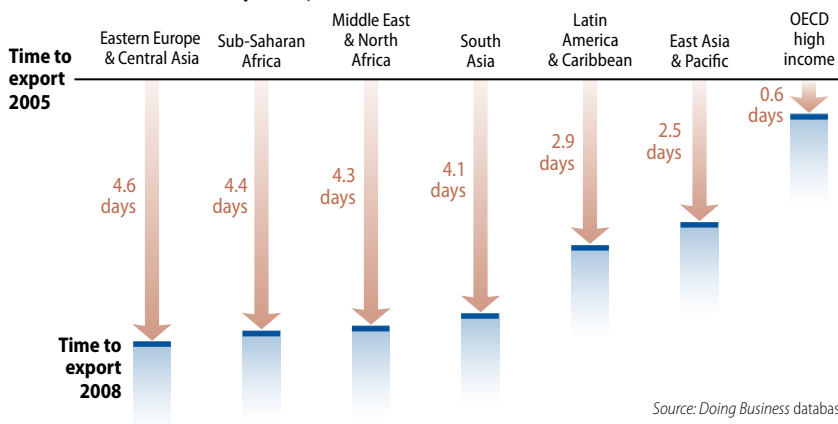
Note: Rankings are the average of the economy rankings on the documents, time and cost required to export and import. See Data notes for details.

Source: Doing Business database.

FIGURE 9.1

Speeding trade—especially in Eastern Europe & Central Asia

Reduction in the time to export (days)



Source: Doing Business database.

Exporters in landlocked Rwanda have a better chance, thanks to ongoing reforms. Indeed, baskets from Gahaya Links, a Kigali-based business run by sisters Janet and Joy, are already available to U.S. households in Macy’s department stores.¹ It wasn’t easy at first, with high shipping costs and inadequate roads to the port city of Mombasa, Kenya. But the government has reformed 2 years in a row, and exporting is becoming easier.

Doing Business measures the procedural requirements, including the number of necessary documents and the associated time and cost (excluding trade tariffs) for exporting and importing.

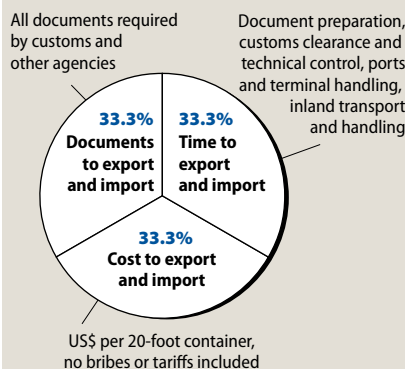
The more time consuming the export or import process, the less likely that a trader will be able to reach markets in a timely fashion. This affects the ability to expand businesses and create jobs. Recognizing this, many economies have worked to introduce practices that reduce the time and costs associated with trade. These include providing electronic filing of trade documents (through electronic data interchange systems), allowing shippers to declare manifests online, reducing document requirements and using risk-based inspections. Another good approach is to provide a single window for obtaining different permits and authorizations, which reduces the time spent preparing documents. An efficient banking system also helps, by speeding the processing of trade financing instruments such as letters of credit.

Implementing these practices has reduced the time to trade. The average time to export has fallen by 3 days since 2005. The biggest decline was in Eastern Europe and Central Asia—almost 5 days (figure 9.1). The time to export dropped by 4 days in Africa, the Middle East and North Africa and South Asia. It declined by less than 3 days in East Asia and Pacific and Latin America. The longest average export delays are in Central Asia (58 days) and Central Africa (48 days), where most countries are landlocked.

The top performers on the ease of trading across borders continually consult export businesses on how to make trading easier (table 9.1). In Denmark, for example, 3 main trade documents (bill of lading, commercial invoice and customs declaration) suffice to cover most trade transactions. And these are

FIGURE 9.2

Rankings on trading across borders are based on 3 subindicators



Note: See Data notes for details.

TABLE 9.2

Electronic data interchange—the most popular reform feature in 2007/08

Introduced or improved electronic data interchange system	Botswana, Brazil, Colombia, Dominican Republic, El Salvador, France, India, Kenya, Madagascar, Mali, Mongolia, Morocco, Palau, Philippines, Rwanda, Senegal, Syria, Thailand, Uruguay
Introduced or improved risk-based inspections	Brazil, Colombia, Dominican Republic, El Salvador, Haiti, Kenya, former Yugoslav Republic of Macedonia, Madagascar, Mali, Mongolia, Philippines, Rwanda, Senegal
Improved procedures at ports	Benin, Croatia, Djibouti, Ecuador, Egypt, El Salvador, Eritrea, Kenya, Liberia, Madagascar, Nigeria, Ukraine
Reduced number of trade documents	Djibouti, Ecuador, El Salvador, France, Honduras, former Yugoslav Republic of Macedonia, Senegal, Sierra Leone, Thailand
Improved customs administration	Belarus, Botswana, Egypt, Kenya, Liberia, former Yugoslav Republic of Macedonia, Rwanda, Senegal, Thailand
Introduced or improved single window	El Salvador, Korea, Madagascar, Mongolia, Senegal
Implemented border cooperation agreements	Botswana, Mali

Source: *Doing Business* database.

transmitted online. Traders can begin the clearance process before goods arrive at the port. Because risk-based inspections apply, only about 2% of cargo is physically inspected. It takes only 5 days for goods to leave the factory, clear customs and be on a vessel heading to its destination.

Other countries might take note. A recent study of 126 economies calculates the loss from export delays at around 1% of trade for each extra day. For perishable agricultural products the cost is nearly 3% of the volume of trade for each day's delay.² Some nonagricultural products are time-sensitive too, such as fashion apparel and consumer electronics.

Another study finds that each extra signature an exporter has to collect reduces trade by 4.2%. For high-end exports the reduction is nearly 5%.³ High trade costs constrain participation in global trade for many countries, particularly in Africa. One study finds that preferences under the tariff-free regimes for the U.S. market (under the African Growth and Opportunity Act) and the European Union (under the Cotonou agreement) are significantly underused.⁴

Delays and cumbersome procedures in importing hurt economies too. Many

exports are part of global supply chains. To be part of these chains, producers depend on timely delivery of imported inputs. Imported materials account for a third of China's export value for electronic products, for example. They account for 55% of export value for Ireland, 65% for Thailand.⁵ Economies that reduce delays can integrate more rapidly in global trade.

WHO REFORMED IN 2007/08?

Thirty-four economies made it easier to trade in 2007/08. Making it possible to submit customs documents electronically was the most popular reform feature, done in 19 economies (table 9.2).

Africa had the most reforms in easing trade. Senegal was the top reformer, easing the administrative requirements for trading across borders. One big change: linking those involved in the clearance process—customs, customs brokers, banks, the treasury, traders and several government ministries—through an electronic single-window system. Traders no longer need to visit each of these entities to obtain the required clearances. Instead, they can fill out a single form. In addition, customs has

implemented a risk-based inspection regime and extended its operating schedule by 4 hours.

Reforms to ease trade were extended to neighboring countries. Senegal signed a border cooperation agreement with Mali, harmonizing trade documents between the 2 countries. Once goods are cleared at Dakar, Malian traders need no additional documents. And the number of checkpoints between Dakar and Bamako has dropped from 25 to 4. Trips that used to take 7–10 days now take only 1 or 2. Recognizing this, Malian traders increasingly use the port of Dakar rather than Abidjan. Mali also abolished a requirement for an official escort to the border for all cargo trucks carrying exports—something that had inevitably meant big delays.

In Madagascar traders can now submit customs declarations and payments online, thanks to the Madagascar Community Network (figure 9.3). Sierra Leone abolished the requirement for an export license for coffee. Rwanda extended the end of customs operating hours at its borders from 6:00 p.m. to 10:00 p.m. Now fewer trucks stay at the border overnight.

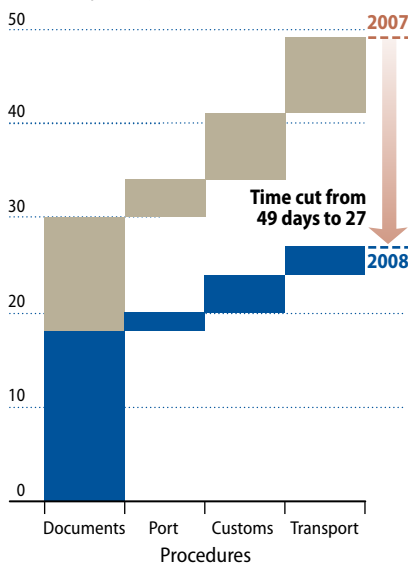
Botswana licensed more customs brokers, spurring competition and leading to lower customs brokerage fees. Liberia cut the customs administrative fee from 3% of the cargo value to 1.5%. Kenya extended ports' operating schedule to 24 hours. In addition, postclearance audits allow some traders to fast-track their cargo for clearance. Nigeria is beginning to reap the rewards from concessioning its container terminals to private operators: clearing goods at the port of Apapa now takes 2 days less.

In Latin America, El Salvador made it easier to trade for the second year running. It set up a single window between customs, government ministries and tax and social security authorities. That cut the number of documents traders need to submit by 2. Guatemala reduced the share of goods that are physically inspected from 54% to 33%, thanks to ongoing implementation of its risk man-

FIGURE 9.3

Madagascar speeds imports

Time to import (days)



Source: Doing Business database.

agement system. Uruguay completed its automated customs system. Now traders can send documents to customs from their own office. Brazil introduced an electronic manifest system, allowing customs clearance to begin before the cargo arrives.

In East Asia and Pacific, Korea and Thailand carried out the most comprehensive reforms. Both introduced internet-based electronic data interchange systems and online issuance of trade documents. Traders can submit customs declarations from anywhere. Singapore, already the leader in trade facilitation, is going a step further. It is upgrading its system to a 3-dimensional trade platform allowing traders to interface with government agencies as well as local and international businesses.

In Indonesia a single window started operating in December 2007 in the port of Jakarta. The Philippines introduced new scanners, reducing the level of physical inspection at the ports. In addition, traders can submit customs declarations electronically through value added service providers. In Palau and Tonga traders can file customs declarations on a USB drive. Customs no longer needs to reenter the data, saving time.

In the Middle East and North Africa,

Egypt continued to reform. It now allows customs clearance on companies' premises. It also monitors the performance of border agencies to enhance service delivery. Djibouti cut the documents required to trade from 8 to 5. Saudi Arabia cut port fees by 50%. Morocco is bringing together different border agencies through a port community network to speed the clearance of goods.

Eastern Europe and Central Asia kept up the pace of reform. Georgia implemented a risk management system, reducing the share of merchandise inspected to 10%. Belarus introduced legislative changes that cut the maximum time allowed for customs clearance from 10 days to 1. The former Yugoslav Republic of Macedonia purchased 4 mobile scanners, reducing the number of physical inspections carried out.

OECD high-income economies also carried out reforms. In France traders can now submit documents electronically. Fast-track clearance procedures were also put into place. Belgium introduced a paperless customs clearance system. Denmark improved its online customs system. In Austria it is now possible to use an electronic letter of credit.

Reforms in some countries made things more complicated. In Equatorial Guinea traders used to take their consignments from the ports while completing customs formalities. This is no longer possible. In Burkina Faso the threshold value triggering inspections has been lowered, even though prices are on the rise. Now more consignments need to be inspected, slowing the process. The Gambia reinstated compulsory scanning fees. Traders complain that they have to pay the scanning fee even when their cargo is not scanned.

WHAT ARE THE REFORM TRENDS?

The number of economies implementing new reforms to facilitate trade has been on the increase globally. In 2005 there were 25 reformers. In 2007/08 there were 34. Africa increasingly took the lead (figure 9.4). In 2005, 5 African

economies reformed. In 2007/08, 11 did. Ghana, Kenya, Mauritius, Rwanda and Tanzania reformed in multiple years. In the Middle East and North Africa on average, 4 economies reformed each year. In Latin America and the Caribbean reforms ranged from 3 to 8.

SPEEDING CLEARANCE

The most popular reform feature in facilitating trade has been to implement an electronic data interchange system (figure 9.5). Electronic transmission of documents not only speeds the clearance of goods; it often reduces the possibilities for paying bribes. "There is an old saying—don't pay me a salary, put me in customs," remarks a Honduran freight forwarder. That changed with the advent of electronic data processing. But to avoid a dual electronic and manual customs clearance process, the new systems must be complemented by supporting legislation authorizing electronic transactions.

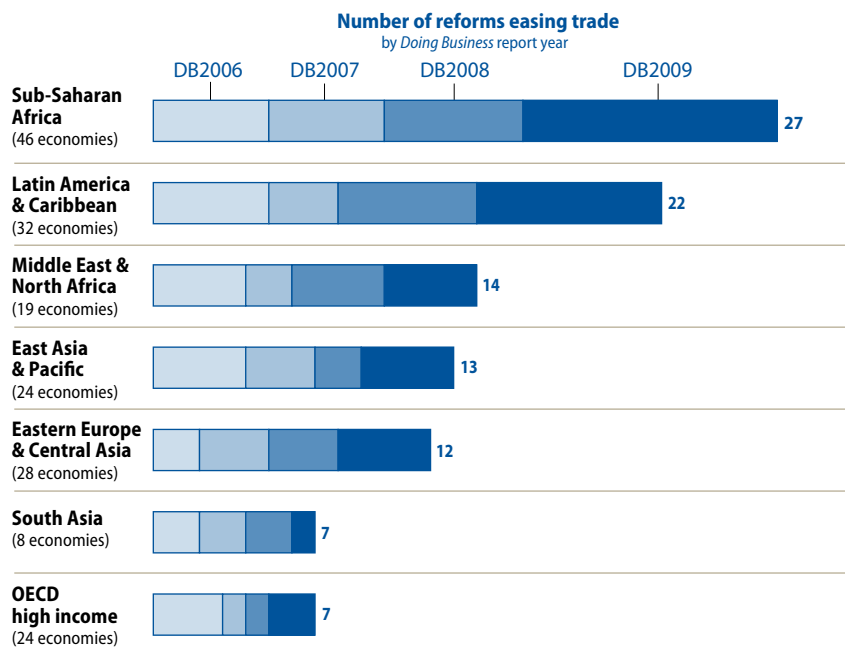
Economies implementing an electronic data interchange system saw the time to clear goods cut by 3 days on average. The reform also helps increase predictability in clearance times. Before Pakistan implemented its electronic system, only 4.3% of goods were cleared within a day; for a quarter of the goods, clearance took a week. Now 93% of goods are cleared within a day.⁶

Where electronic data interchange systems are in place, it is easier to apply risk management to customs clearance, another popular reform. Thirteen economies, including Colombia, Madagascar and Mongolia, have introduced risk-based inspections alongside electronic transmission of documents. In economies that use risk-based inspections, 19% of containers are inspected on average; in economies that do not, 53% are.

LOOKING BEYOND CUSTOMS

While customs reform remains most important to trading across borders, several other reforms also play a part. Indeed, in the *Doing Business* sample, customs clearance accounts for less than 20% of the time to export, from the time

FIGURE 9.4
Africa has reformed the most



Note: A reform is counted as 1 reform per reforming economy per year.
Source: Doing Business database.

the export contract is concluded to the time the goods leave the port. Approvals from ministries, health authorities, security agencies, inspection agencies, port authorities, banks and immigration authorities account for most delays.

Countries increasingly recognize the importance of a comprehensive approach to trade facilitation. Korea has brought together 69 government agencies as well as private participants through its single-window system. Senegal has brought together 15 agencies. El Salvador has linked 3 government departments and continues to expand this network.

FINDING INEXPENSIVE REFORMS

Some needed trade reforms are expensive, such as building roads or port infrastructure. But much can be done without heavy spending. Clarifying the rules is an important start. “Sometimes they demand this document, and other times they don’t. We are at the mercy of the officials,” says a trader in Uzbekistan. “We had to go back to South Africa to retrieve the right form before we could get permission for the truck to leave the

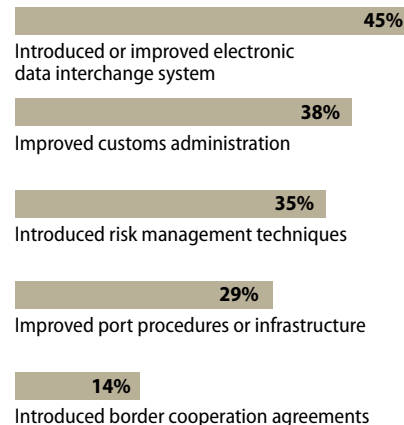
border,” complains a clearing agent in Botswana.

More publicity, training and regular meetings with exporters on the clearance process can also make a difference. In Jamaica, where such efforts are in place, customs brokers with low error rates are rewarded with access to fast-track clearance procedures, while those with high error rates face more scrutiny. “Because I want my goods cleared quickly, I do not accept all documents sent to me by my clients. I sometimes ask them to bring a clearer invoice,” says Loraine, a customs broker in Jamaica.

Payment of customs duties need not delay the release of cargo. Why not introduce a bond or financial guarantee, allowing goods to be released pending completion of the paperwork? Many economies, such as Malaysia, have done just that.

Countries save costs by synchronizing documents and procedures at the border. Thanks to a border cooperation agreement with Sweden and Finland, Norway is estimated to have avoided more than \$9 million a year in costs to customs

FIGURE 9.5
Top 5 reform features in trading across borders
Reforms including feature since DB2006 (%)



Note: A reform may include several reform features.
Source: Doing Business database.

authorities and \$48 million a year in costs to economic operators.⁷

In some regions trade is hindered by bureaucratic hurdles at borders. In Africa and Central Asia border crossings account for significant delays in trade. But change has begun. South Africa and Mozambique are creating a one-stop border post at the Lebombo–Ressano Garcia crossing. Indeed, regional approaches to trade facilitation may yield the biggest benefits in both regions.

NOTES

1. This example is from the World Bank’s *Doing Business: Women in Africa* (2008a), a collection of case studies on African entrepreneurs.
2. Djankov, Freund and Pham (forthcoming).
3. Sadikov (2007).
4. Bureau, Chakir and Gallezot (2007).
5. Nordas, Pinali and Geloso-Grosso (2006).
6. Ahmad (2008).
7. WTO (2005).

TABLE 9.3

Who makes exporting easy—and who does not?

<i>Documents (number)</i>			
Fewest		Most	
France	2	Namibia	11
Estonia	3	Mauritania	11
Panama	3	Burkina Faso	11
Canada	3	Congo, Rep.	11
Micronesia	3	Kazakhstan	11
Singapore	4	Malawi	12
Hong Kong, China	4	Angola	12
Denmark	4	Afghanistan	12
Finland	4	Fiji	13
Sweden	4	Kyrgyz Republic	13
<i>Time (days)</i>			
Fastest		Slowest	
Singapore	5	Central African Republic	57
Denmark	5	Niger	59
Estonia	5	Kyrgyz Republic	64
Hong Kong, China	6	Angola	68
Netherlands	6	Afghanistan	74
United States	6	Chad	78
Luxembourg	6	Uzbekistan	80
Norway	7	Tajikistan	82
Germany	7	Kazakhstan	89
Ireland	7	Iraq	102
<i>Cost (US\$ per container)</i>			
Least		Most	
Malaysia	450	Kazakhstan	3,005
Singapore	456	Azerbaijan	3,075
China	460	Uganda	3,090
Finland	495	Uzbekistan	3,100
Pakistan	611	Tajikistan	3,150
United Arab Emirates	618	Rwanda	3,275
Hong Kong, China	625	Niger	3,545
Thailand	625	Iraq	3,900
Brunei	630	Central African Republic	5,121
Tonga	650	Chad	5,367

Who makes importing easy—and who does not?

<i>Documents (number)</i>			
Fewest		Most	
France	2	Burkina Faso	11
Denmark	3	Afghanistan	11
Sweden	3	Congo, Rep.	12
Thailand	3	Fiji	13
Singapore	4	Russian Federation	13
Hong Kong, China	4	Eritrea	13
Estonia	4	Kazakhstan	13
Norway	4	Kyrgyz Republic	13
Panama	4	Azerbaijan	14
Israel	4	Central African Republic	18
<i>Time (days)</i>			
Fastest		Slowest	
Singapore	3	Venezuela	71
Hong Kong, China	5	Burundi	71
Denmark	5	Zimbabwe	73
Estonia	5	Kyrgyz Republic	75
United States	5	Kazakhstan	76
Sweden	6	Afghanistan	77
Netherlands	6	Tajikistan	83
Luxembourg	6	Iraq	101
Norway	7	Chad	102
Germany	7	Uzbekistan	104
<i>Cost (US\$ per container)</i>			
Least		Most	
Singapore	439	Niger	3,545
Malaysia	450	Burkina Faso	3,630
China	545	Burundi	3,705
Finland	575	Iraq	3,900
São Tomé and Príncipe	577	Zimbabwe	3,999
United Arab Emirates	587	Tajikistan	4,550
Israel	605	Uzbekistan	4,600
Fiji	630	Rwanda	5,070
Hong Kong, China	633	Central African Republic	5,074
Qatar	657	Chad	6,020

Source: Doing Business database.