

A Report on the ease of Doing Business in Africa

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Abstract

This report summarizes indicators of the ease of doing business compiled by the Doing Business project of the World Bank with especial focus on Africa. To evaluate the performance of Africa in a broader perspective, the indicators for the region are compared with those of two other developing regions - Latin America and East Asia. Comparison of the indicators for the regions reveals the difficulties involved in doing business in Africa. These include stringent bureaucratic hurdles for setting up and running a business, limited access to credit, inefficient business tax system, minimal protection to private sector participants, limited legal enforcement of business contracts, and generally less conducive environment for undertaking international trade. The region's performance is very low especially compared with East Asia and the Pacific region. The level of economic development and the type of legal system are among the factors that are usually held responsible for causing inter-country differences in the ease of doing business. In this regard, the ranking of countries on the basis of 'ease of doing business' indicator shows that all of the five best performers in Africa in 2003 (in descending order: Mauritius, South Africa, Namibia, Botswana, and Tunisia) are middle income countries. While South Africa, Namibia, and Botswana adopted/adapted the British Common law, Tunisia's legal system is based on the French legal tradition. On the other hand, the legal tradition of Africa's best performer (Mauritius) is an amalgam of the British and French legal traditions. Analysis of the ease of doing business over three years (2003-2005) reveals that most of the countries in Africa did not have reforms aimed at improving the ease with which the type of businesses analyzed by the Doing Business project are undertaken.

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1. Background

Explaining economic growth has long been at the heart of macroeconomic research. Savings, investment, geography, culture, population, macroeconomic fundamentals, politics, trade, or a combination of one or more of these are among the factors that are widely thought to explain economic growth. Though the importance of private sector as ‘engine’ of economic growth has long been recognized by development economists and agencies, specific efforts tailored towards enhancing its capacity have been limited at best in many parts of the developing world. It is a common belief that the ‘invisible hand’ is capable of creating a viable private sector. As a result, the focus of both governments and international institutions has mainly been on macro level interventions some of which were remotely related to private sector development (PSD) (Schulpen and Gibbon, 2001). Lately, however, there seems to be a renewed emphasis on the need for building the capacity of the sector to attain sustainable economic growth that has been missing from the scene in developing regions in general and in African in particular.

For example, the International Financial Cooperation (IFC) of the World Bank has been dealing with issues of private sector development since its inception in the 1950s. Besides, the Bank introduced its PSD policy in 1987. In recent years, however, there seems to be a renewed effort on the part of the Bank to help create an enabling environment for the private sector, especially in developing countries. World Bank Group (WBG) stated that “... the investment climate was a part of Bank Private Sector Development (PSD) strategies throughout the 1990s. Recently, however, the subject has risen to become one of the two pillars of the WBG’s corporate strategy for reducing

poverty and occupies center stage in the 2002 WBG Private Sector Development Strategy” (World Bank 2006:7). A number of other bilateral donors have also started explicitly formulating PSD policies and develop specific programs in the area of PSD. For example, while Norway brought out policy papers that explicitly and directly address private sector development in 1999, Australia and the Netherlands did the same in 2000 (Schulpen and Gibbon, 2002).

In line with its renewed emphasis on PSD, the World Bank has undertaken a series of surveys aimed at gathering information on factors that constrain or promote the growth of the sector. The Doing Business Surveys (DBS) and the Enterprise Surveys (IS) of the WBG are two complementary sources of data that address different aspects of PSD. While the DBS focus on gathering objective measures of the extent of business regulation of the private sector and their enforcement, the IS are based on the perceptions of enterprises on the main obstacles to their growth and the relative importance of various constraints. This report summarizes the 2005 Doing Business dataset with special focus on Africa.

A number of justifications are provided for government regulation of an economy in general and that of the private sector in particular. While some justify private sector regulation on efficiency grounds, others identify government regulation of the private sector as one way of extracting benefits by politicians and bureaucrats (De Soto 1990). Whatever the reasons may be, however, ‘excessive’ regulation of the sector could be a stumbling block on smooth business operation which in turn affects the growth of the sector. Various studies investigated the impact of business regulation and examined the factors behind cross-country variations in the extent of business regulation. A number of

them reported a negative association between the degree of business regulation and (growth of) income (World Bank 2003, 2004, and 2005a; Djankov *et al.* 2006; and Bolaky and Freund 2004). Some studies that did not control for the extent of business regulation have found a positive association between openness and economic growth (Edwards 1993; Sachs and Warner 1995; Frankel and Romer 1999; and Ben-David 1993). Contrary to the findings of these studies Bolaky and Freund (2004) reported inverse relation between openness and economic growth after controlling for business regulation.

Stringent business regulations were found to increase the share of the informal sector and unemployment of women and the youth. A positive (negative) association is also reported between business regulation and corruption (the share of private credit and investment as a percentage of GDP) (World Bank 2003, 2004, 2005a). Strict regulations that lead to delays in export time reduce exports, particularly of time sensitive goods (Freund *et al.* 2006). Besides, court regulations that result in delays in dispute resolution weaken the enforceability of contracts, increase corruption, and are associated with inconsistency and unfairness of dispute resolutions (Djankov *et al.* 2003). Optimal regulation does not mean avoiding regulation all together. Regulations targeted at enhancing the protection of investors from misappropriation play a positive role in facilitating investment by increasing the incentive people have in putting their wealth in business partnerships and/or publicly registered companies. Djankov *et al.* (2005) reported a positive association between investor protection and stock market development while McLiesh *et al.* (2005) found a positive association between private credit and credit right score, a measure of investor protection.

An efficient court system capable of enforcing business contracts and ensuring a smooth transfer of titles in the event of sale/purchase of property reduces the cost of doing business. The role of the judiciary in dealing with bankruptcy and resolutions of other disputes is also of considerable importance. Jappelli *et al.* (2002) have found a positive (negative) association between judicial efficiency (in enforcing debt contracts) and the volume of lending (proxies for credit rationing). Studies by McLiesh *et al.* (2005) and Jappelli *et al.* (2002) revealed statistically significant and positive association between court efficiency in handling debt contracts and total credit. Also, a study by Djankov *et al.* (2003) revealed a positive and significant relationship between procedural formalism of the court system on the one hand and duration of dispute resolution, weaker enforceability of contracts, corruption, inconsistency, and unfairness on the other.

Apart from assessing the impact of business regulations, a number of studies have also investigated the reasons behind the cross-country variation in business regulations. A couple of studies have reported a negative association between income and extent of business regulation and hence ease of doing business (World Bank 2003, 2004, 2005a; Djankov *et al.* 2006; and Bolaky and Freund 2004). Studies by Djankov *et al.* (2003, 2005, 2006), McLiesh *et al.* (2005), World Bank (2004), and Beck *et al.* (2002) have found legal tradition to have an important role in explaining variations in business regulation. In general, the studies have found that business regulations in countries with French civil law tend to be more stringent than regulations in Common law countries.

2. Doing Business in Africa

The development of a vibrant private sector is central to promoting economic growth and expanding opportunities for the poor (World Bank 2003). But the sector in most of the developing countries is weak and faces enormous challenges. So as to identify problems facing the private sector, the WBG has recently started gathering micro level data that provides objective measures of business regulations and their enforcement-Doing Business data.¹ Since the ease of doing business varies across countries, industries, business sizes, and business types and so as to allow cross country comparison, a number of assumptions were made while constructing each of the indicators of ease of doing business.² This report summarizes the indicators of the ease of doing business in Africa. In order to evaluate the performance of Africa in a broader perspective, the indicators for Africa are compared to that of two other developing regions-Latin America and Caribbean and East Asia and Pacific.

2.1 Starting a Business

The nature and extent of business entry regulations differ across countries depending on the objectives that governments intend to achieve through them. The easier and less cumbersome such regulations are, the more attractive the market will be for potential investors. Easy business entry procedures reduce the cost of doing business and enhance opportunities for competition and efficiency. The extent of entry regulations was one of the issues addressed by the Doing Business project. To this end, four indicators of ease of starting a business were constructed. Table 1 presents a summary of the four indicators for the three developing regions. On average, starting a business in East Asia

and the Pacific region requires fewer number of entry procedures, lower cost of complying with entry procedures (as a percentage of income per capita), and minimum start up capital requirement (as a percentage of income per capita) than those of the other two developing regions. There is no statistically significant difference between Africa and Latin America and the Caribbean in terms of the number of entry procedures and the time required to execute all the procedures. But the cost of dealing with entry procedures is higher in Latin America and Caribbean region while the minimum start up capital is higher in Africa.

Of the 41 African countries included in the 2005 Doing Business survey and for which data was available, starting a business requires 19 and 17 procedures in Chad and Uganda and 14 procedures in Angola, Algeria, and Mozambique while it takes only takes only 5 procedures in Morocco, 6 in Mauritius and Zambia, and 7 in Ethiopia. Also, while dealing with entry procedures requires more than 100 days in five countries - Sao Tome and Principe (192), Congo, Dem. Rep. (155), Mozambique (153), Angola (146), and Botswana (108) - it takes less than half a month in three countries with the lowest reported in Morocco (11 days). The reported time in Morocco is in fact one of the shortest in the world putting the country along side with the Netherlands and Hong Kong (China).

The official cost of implementing all the entry procedures (as a percentage of income per capita) is the highest in Zimbabwe (1442.5) and the lowest in South Africa (8.6). The cost of executing entry procedures in Mauritius, Tunisia, and Botswana is also one of the lowest in the world. In half of the countries, the minimum capital requirement (as a percentage of income per capita) is greater than the per capita income of the

respective country with Madagascar, Ethiopia, and Mauritania requiring 2158, 1532, and 877.5, respectively. On the other hand, there is no start up capital requirement in 12 countries among which are Botswana, Burundi, Kenya, Malawi, Mauritius, and Namibia.

2.2 Dealing with Licenses

Even after having a business registered legally, the need to ensure compliance with quality controls and/or environmental standards could hinder a smooth business operation, especially if it is ‘too much’. By focusing on the construction sector and based on a set of assumptions, three indicators of the ease of getting a license - the number of procedures, total time, and the cost of complying with the procedures - were constructed. Table 2 summarizes the information on the ease of dealing with licenses in Africa and in the other two developing regions. Over all, dealing with licenses appears to be more difficult in Africa than in the other two regions with a pronounced difference from the other two regions with respect to the cost of dealing with licenses.

There exists a substantial variation among countries in Africa with respect to both the number of procedures and the cost (as a percentage of income per capita) of executing all the procedures. While dealing with the kind of business licenses addressed by the Doing Business project takes 48, 46, and 42 procedures in Sierra Leone, Burkina Faso, and Botswana, respectively, it involves only 11 procedures in Nairobi and Windhoek. On the other hand, executing all the procedures takes more than a year in Cote d’Ivoire (569 days), Zimbabwe (481 days), Nigeria (465 days), and Cameroon (444 days) while it takes around 130 days in Ghana, Mauritius, and Ethiopia which is less than the average time required for OECD countries. On the other hand, while the cost of dealing with licenses

(as a percentage of income per capita) is only 16.7 in Mauritius and 37.5 in South Africa, the cost (as a percentage of income per capita) is more than 1000 in around half of the African countries included in the survey with the highest cost reported in Burundi (10,740).

2.3 Hiring and Firing of Workers

Governments do regulate markets in general and labor markets in particular for a number of reasons among which an efficiency argument is one. According to the proponents of this line of argument, free labor markets are imperfect resulting in economic rent in employment relations which in turn result in abuse of workers by employers in an attempt to extract the rent (La Porta *et al.* 2004). Though labor market flexibility is desirable from the point of view of employers, ‘too much’ flexibility comes at the expense of job instability and hence governments need to strike a reasonable balance between the two (World Bank 2003). Of course some argue that government labor market regulation is just a way of benefiting those who are already in power and at the expense of those who are out of power (La Porta *et al.* 2004). Based on a set of assumption, hiring index, rigidity of work hour index, and firing index are constructed so as to measure the difficulty of hiring, the extent of restrictions on expanding or contracting the number of work hours, and the ease of firing, respectively.³ The rigidity of employment index is then constructed from the simple average of these three indices. Information was also gathered about the cost of hiring and the cost of firing a redundant worker. Table 3 presents the summary of the indicators of ease of hiring and firing for Africa.

Comparing the three developing regions, the score of the rigidity of employment index is the highest in Africa implying a stricter employment regulation in the region with a marked difference between Africa and East Asia and Pacific. Also, an employer in Africa incurs a hiring cost that is , on average, 1.5 times more than that in East Asia and Pacific with no statistically significant variation in the cost of firing a redundant worker. The difference in the degree of employment regulation is marked among countries in Africa.

Democratic Republic of Congo, Niger, Burkina Faso, and Sierra Leone are among the countries with high level of employment rigidity in Africa. In fact these are the same group of countries with the most rigid employment regulation among the 155 countries included in the project. On the other hand, Zambia and Uganda have the most flexible employment regulation in Africa, an employment regulation that is even more flexible than that in Canada, United Kingdom, and Australia. While hiring a worker does not require a payment of any kind in Botswana, Ethiopia, and Lesotho, it requires a payment of more than 25% of salary in five African countries-Togo, Egypt, Guinea, Benin, and Algeria. Besides, while employers in Sierra Leone, Zambia, Egypt, and Mozambique have to pay more than 25 months of salary to see a worker leave, doing the same costs employers in Nigeria and Uganda only 1 month and 3 months of salary, respectively.

2.4 Property Registration

An efficient property registration system reduces transaction costs and minimizes opportunities for corruption and rent seeking. A smooth transfer of titles, for example, allows buyers to readily use properties for expanding business, as collateral, and/or to

enable them to easily resell properties to others (World Bank 2003). So as to assess the ease of property registration and based on a set of assumptions about the business and the property, three indicators of the ease of property registration were constructed. Table 4 presents the summary of the indicators for a hypothetical case that involves the transfer of property title from a buyer to a seller for the three comparable regions. On average, there is no statistically significant difference between Africa and Latin America and Caribbean both with respect to the number of procedures and the time that elapses while dealing with title transfer. On the other hand, the cost of property title transfer in Africa (as a percentage of property value) is a little bit less than three times that in Latin America and Caribbean.

Once again, there is a marked difference between Africa and East Asia and Pacific in all the three indicators with a much easier transfer of property title in the latter case. Within Africa, title transfer necessitates complying with more than 10 procedures in 5 countries with Nigeria coming at the top (21 procedures) followed by Ethiopia and Algeria (15 procedures each). In fact, Nigeria's requirement of 21 procedures is the highest among the 155 countries in the survey while that of Ethiopia and Algeria is the same as that of Brazil. On the other hand, title transfer of the kind of property studied by the Doing Business project takes only three procedures in Benin, Central African Republic, and Morocco which is one of the smallest in the world. Executing all the procedures involved in the transfer of title takes more than a year in Cote d'Ivoire (369 days), Rwanda (371 days), and Ghana (382 days) while it takes only 23 days in South Africa and 28 days in Namibia. The ease of dealing with licenses in Africa is in sharp

contrast with that of, say, Norway where title transfer involves only one procedure and can be accomplished within a day.

2.5 Access to Credit

In the absence of (easy) access to credit, investment will be restricted by the amount of capital individuals are able to raise through saving. This in turn imposes restrictions on the scale of investment and hence economic growth, especially in situations where (disposable) income is barely enough for subsistence as is the case in many developing countries. Better provision of quality credit information and a judiciary system capable of enforcing claims in the event of default are among the factors that improve the availability of credit and the efficient allocation of scarce resources among alternative users (McLiesh *et al.* 2005). While an easy access to quality credit information helps creditors identify the type of potential borrowers, a strong judiciary system guarantees lenders that at least a certain proportion of the debt will be recovered in times of (accidental or strategic) default. Both will in turn help increase the ex-ante willingness of creditors to extend loans and the conditions under which loans are extended (*ibid*). So as to assess the depth of the credit market, two indicators - an index for credit information and legal right index - were constructed.⁴ Besides, information on the incidence of public and private credit registries was gathered from 155 countries.

Comparison of the three developing regions shows that the incidence of both private and public registries is the highest in Latin America and Caribbean (see Table 5). There is also a better availability of quality credit information in the region. The difference in the ease of access to credit between Africa and East Asia and Pacific is not

statistically significant in all but one of the indicators. With in Africa, it appears that creditors in Gaborone and Nairobi have a better right (ensured through better collateral and bankruptcy laws) than those in Cairo and Kigali. In general, the incidence of both public and private credit bureaus is very low in Africa. While there are no public credit registries in half of the countries in the survey, private credit information registries exist only in South Africa, Botswana, Namibia, Kenya, and Nigeria with very insignificant coverage in the last two countries. This evidence presented here implies that improving access to credit is one of the most important areas where a lot of effort is needed in Africa.

2.6 Investor Protection

In developing countries where most companies have limited internal financial capabilities, external financing is often the main source of investment. Equity investment is one such source and presupposes the existence of well functioning financial markets. Laws that protect investors and a court system capable of enforcing the laws are important to expand equity investment. The extent to which the legal system protects minority and outside shareholders from possible misuse of the company's resources is of immense importance in boosting investors' confidence. Besides, the availability of timely access to information on ownership, business transactions, and financial position of the company is quite important (World Bank 2005a).

So as to investigate the extent of protection given to investors, an index of investor protection is constructed taking the simple average of three other indicators- disclosure index, director liability index, and shareholders suits index.⁵ Table 6 presents a summary of the indicators for the three developing regions. There is not statistically

significant variation in the extent of investor protection among the three regions though shareholders in East Asia and Pacific have a better ability to sue officers and directors for misconduct. Investors in Zambia, Mauritius, and South Africa are given a better protection than those in other African countries. In fact, these three countries are also among the top 15 in term of the strength of investor protection of the 155 countries included in the 2005 Doing Business survey. On the other hand, investors in Dar es Salaam and Addis Ababa are given the least protection in Africa. It might be of interest to note that though Kenya is at the top with respect to the rights of shareholders to sue wrongdoers on behalf of the company, that the country is among the bottom in terms of the extent of directors' liability and disclosure of ownership and financial information has put the country at the bottom in term of the general investor protection index.

2.7 Paying Business Taxes

An ideal tax structure is one that is simple, fast, and 'reasonable'. Besides, tax payers would like to receive government services commensurate with the tax they pay. Apart from increasing the chance of tax evasion, cumbersome and unreasonable tax system encourages participation in the informal sector and/or corruption. All these in turn lead to smaller tax revenue, less output, and/or creation of fewer employment opportunities in the formal sector than otherwise. Heavy and cumbersome tax system is one of the factors that encourages doing business behind the walls thereby creating unequal grounds for competition for businesses in the formal sector (World Bank 2004). Variation in the ease of tax payment across countries was one of the areas addressed by the Doing Business project.

Based on a set of assumptions about the type of business and business taxes, three indices of ease of business tax payment are computed- the number of business tax payments, the time it takes to prepare, file and pay taxes, and the total tax payable. Table 7 presents a summary of the information on the ease of paying business taxes. There is no statistically significant difference between Africa and Latin America and Caribbean with regard to all the three indicators. On the other hand, dealing with business taxes is easier in East Asia and Pacific than in Africa. Total tax payable (as a % of gross profit) in Africa is, for instance, almost twice that in East Asia and Pacific. Administrative requirements related to tax appear to be a burden in many of the countries in Africa. Business tax compliance requires more than 50 payments a year in 13 of the countries with large number of payments required in Cote d'Ivoire (71), Benin (75), and Republic of Congo (94). On the other hand, tax compliance in Mauritius takes only 7 payments - number of payment which is less than that in United Kingdom, Belgium, United States, and Canada. Besides, while tax compliance takes more than a month in Malawi, Sao Tome and Principe, Nigeria, and Cameroon, it takes only 2 days in Addis Ababa and Windhoek, a shorter time than that in France (3 days), Belgium (6.5 days), and Canada (5 days).

Business owners in all but two of countries in Africa for which data is available (Nigeria and Sao Tome and Principe) are required to make a tax payment worth more than 30% of gross profit. Tax payers in Burundi, Sierra Leone, and Democratic Republic of Congo are required to pay (as a percentage of gross profit) 174, 164, and 134, respectively. This implies that if owners of the type of business studied by the Doing Business project were not to evade tax in these three countries, they would have to resort

to other income sources and/or cut wage payment and use of raw materials since the tax requirement is more than gross profit. This in turn makes operating businesses in the formal sector difficult, at least in the most populous cities of the three countries, with all its implication for investment and hence economic growth.

2.8 Contract Enforcement

The efficiency and fairness with which commercial contracts are enforced is one of the factors that affect the willingness of creditors to deal with new borrowers and/or customers. An efficient court system that encourages a faster and less costly resolution of dispute facilitates new and more complex business transactions (World Bank 2004). In this regard, the World Bank stated that “long delays [in courts]...forces businesses to look for other means of resolving disputes. If going to the court is expensive ...fewer business transactions occur-and those that do involve only a small group of people linked by kinship, ethnicity or previous dealings. Less wealth is created” (World Bank 2005a: 63).

Three indices of the efficiency with which business contracts are enforced were constructed based on a set of assumptions. A hypothetical legal case involving resolution of dispute arising from a delay in debt repayment (worth 200 % of income per capita) was considered. While the first index measures the procedures that demand interactions between all the concerned parties, the second index measures the total time (in calendar days) that elapses between filing a lawsuit and settlement of the dispute. The cost of dispute resolution is the other index constructed to help measure the ease of contract enforcement. Table 8 presents a summary of the three indices for the three developing

regions. Dealing with the debt contract takes, on average, more than a year in all the three regions with no statistically significant difference among them. The cost of dealing with contracts seems to be the highest in East Asia and Pacific region.

There is a pronounced variation among countries in Africa, especially with respect to the number of procedures required and the cost of dealing with the debt contract. Dealing with the debt contract involves 58 procedures in Cameroon and Sierra Leone and 67 procedures in Sao Tome and Principe and the Sudan while it takes only 14 procedures in Tunisia, 15 in Uganda, and 16 in Malawi and Zambia. In fact, the countries in the latter group are among the best performers in the world in terms of the number of procedural requirements.⁶ Resolution of the debt contract takes more than a year in 27 African countries but less than a month in Tunis (27 days) - the shortest time recorded of all the 155 countries. Besides, enforcement of the debt contract requires (as a percentage of the debt) 92.5 in Burkina Faso, 136.5 in Malawi, and 256.7 in the Democratic Republic of Congo. That the cost of enforcement is greater than the debt in Malawi and Democratic Republic of Congo discourages plaintiffs from resorting to the court system to deal with such contracts. Enforcement of the same contract, on the other hand, takes (as a percentage of the debt) only 8.6 in Mauritius which is one the lowest in the world.

2.9 Trading Across Borders

The volume of trade across boarders is partly a reflection of the overall trade policy of governments. Apparently, tariff and non-tariff barriers as well as trade and customs regulations affect the competitiveness of a county's foreign trade sector. Doing Business project has investigated the ease of trading across borders focusing on trade and

customs regulations and considering traded goods of certain types.⁷ Table 9 summarizes six indicators constructed for measuring the ease of importing and exporting a cargo of goods for the three comparable developing regions. Comparison of all the indicators for the three developing region shows that the ease of trading across borders is one area where Africa is lagging behind the other two comparable regions.

Imports to and exports from countries in Africa are accompanied by large number of documents and signatures until they reach their final destination. The time spent on dealing with all the administrative procedures is also high. An export of a cargo of goods from Mauritius, South Africa, and Tunisia involves only 5 documents while that from Uganda, Rwanda, and Zambia involves 13, 14, and 16 documents, respectively. On the other hand, exports from Central African Republic, Nigeria, Republic of Congo, and Democratic Republic of Congo are accompanied by large number of signatures the opposite being true for Mauritius, Botswana, Namibia, and South Africa.

An import of a cargo of goods to Burundi, Niger, Rwanda, and Zambia necessitates 19 documents while the same import involves only 6 documents in Malawi and 7 documents in Mauritania, Mauritius, and Sierra Leone. Also, while only 4 signatures are required to import a cargo of goods to Mauritius, the associated number of signatures is 60 for Mali, 71 for Nigeria, 75 for Central African Republic, and 80 for Democratic Republic of Congo. Besides, while complying with all the import procedures takes (in days) 111 in Chad and the Sudan, 122 in Central African Republic, and 124 in Burundi, it takes less than a month in Mauritius, Namibia, Senegal, and Egypt. One important, but may be unsurprising, observation is that all the countries where both import and export procedures are more cumbersome are landlocked.

2.10 Closing a Business

The efficiency with which investors can deal with unviable businesses is another factor that can influence investment decisions. In times of bankruptcy, there is a need to reconcile the needs of creditors (secured or unsecured), tax authorities, and other claimants. The nature of bankruptcy laws and the efficiency with which they are implemented plays a considerable role in facilitating business closure. Apart from saving time and money, less costly and more efficient ways of dealing with business closure will leave more resources to be distributed among the different claimants (World Bank 2004). It also encourages entry of new firms (World Bank 2005a).

Based on responses to a survey administered to bankruptcy judges and attorneys of private law firms, three indicators of the efficiency of business closure were constructed - the average time (in calendar years) that elapses while dealing with bankruptcy procedures, the official costs of the bankruptcy proceedings, and the recovery rate. The last indicator captures the efficiency of foreclosure or bankruptcy procedures and refers to the amount of money (on a dollar) that claimants recover from the insolvent business. As presented in Table 10, there is no statistically significant difference between Africa and Latin America and Caribbean both in terms of the cost of dealing with bankruptcy and the time spent on dealing with such issue. Comparing the three developing regions, claimants in Latin America and Caribbean receive the highest amount per dollar from a bankrupt firm while there is no statistically significant difference in the amount received between Africa and East Asia and Pacific.

Dealing with business closure in Africa takes, on average, two years and half, costs 17% of the value of the bankrupt business, and enables claimants recover only 18 cents on a dollar. Resolving bankruptcy cases takes more than five years in Democratic Republic of Congo, Angola, and Mauritania but less than a year and half in Namibia and Tunisia. It costs more than half the value of the bankrupt business in Chad and Central African Republic but less than 10 percent in ten other countries. Also, while claimants get more than a third of a dollar from an insolvent firm in South Africa, Morocco, Lesotho, Ethiopia, Algeria, Uganda, Namibia, Tunisia, and Botswana (in an increasing order) , the recovery rate is zero in seven African countries - Central African Republic, Chad, Eritrea, Madagascar, Rwanda, Sao Tome and Principe, and the Sudan.

In general the evidence presented thus far shows that though the East Asia and Pacific region outperforms Africa in almost all the indicators of doing business, there does not seem to exist a significant variation in terms of the majority of ease of doing business indicators between Africa and Latin America and the Caribbean region. Also, there is a considerable variation in the ease of doing business among African countries with a few countries performing better than some countries of the developed world in terms of some of the indicators. According to the 2005 Doing Business database, for example, dealing with business licenses is easier in Kenya than in the United States, Canada, and Germany; employment regulation is more flexible in Uganda and Namibia than in United Kingdom and Australia; getting credit is easier in Botswana than in Germany, the Netherlands, or in the United States; there is a better investor protection in South Africa, Mauritius, and Namibia than that in Belgium and Norway; paying business taxes involves less hurdles in Mauritius, Ethiopia, and Namibia than that in the United

States and France. Of course the doing business indicators address only part of the story and these findings have to be interpreted cautiously.

3. Country Rankings

An overall index of ease of doing business was constructed by the Doing Business project using a simple average of countries' percentile rankings on each of the 10 indicators.⁸ Tables 11 and 12 present the list of the top and bottom 10 African countries, respectively. Mauritius is the best performer in Africa (and stood on 23rd in the world) followed by South Africa and Namibia (that stood 28th and 33rd in the world, respectively). Botswana, Tunisia, Zambia, Kenya, Uganda, Ghana, and Nigeria are in the top 10 list. Democratic Republic of Congo appears to be the most difficult place to do business both in Africa and in the world since the bottom 10 African countries are also the bottom ten in the world (see Table 12). Burkina Faso, Central African Republic, Chad, and the Sudan are also among the bottom ten.

That a country is among the top (bottom) 10 does not mean that it does very well (badly) on all the 10 indicators. Presented in Table 13 is the list of the top and bottom 10 African countries on each of the indicators. For example, South Africa is among the top ten in all but two of the indicators. It tops the list in terms of investor protection in Africa. In fact South Africa ranks at the 8th place of the 155 countries included in the Doing Business survey with respect to the strength of investor protection. It is argued that a better investor protection encourages the involvement of individuals with capital in business partnership and/or publicly listed companies (World Bank 2003). That investor protection is strong in South Africa is argued to have boosted investors' confidence in

spending their wealth on public equity. This is in fact among the factors that have made South Africa's stock market stand 18th in the world in terms of capitalization (Standards and Poor's 2004).

On the other hand, South Africa has lagged behind its comparators in Africa with respect to flexibility of employment regulation and ease of paying taxes. In fact, these two areas are among the five areas identified in the June 2005 South Africa's Investment Climate Assessment (ICA) as major obstacles and impediments to business operations (as perceived by the firms). The assessment was based on a survey of 800 formal private enterprises of different size and type engaged mainly in manufacturing (World Bank 2005c).

Although Mauritius is among the top five in terms of the majority of the indicators, it does not show up in the top 10 list with respect to dealing with business closures and property registration. Specifically, countries like Ethiopia, Algeria, and Lesotho have performed better than Mauritius on the ease of dealing with business closure. Also, Central African Republic, a country in the bottom 10 list, has performed better than Mauritius in the area of property registration.

Though Mali is in the bottom 10 list based on the 'ease of doing business' indicator, it is among the bottom 10 with regard to 3 of the indicators only - ease of starting a business, flexibility of employment regulation, and ease of trading across borders - In fact, according to the results of the 2004 ICA for Mali, government regulations and their enforcement is one of the key areas of concerns and uncertainty as perceived by 200 firms engaged in manufacturing, tourism, and transportation. Similar stories can be told about Sierra Leone, Morocco, and Nigeria.

While a number of socio-economic and political factors could explain the variation in the ease of doing business across countries (see Section I), the level of economic growth and legal tradition are the most commonly cited factors. The World Bank, for example, reported that income and legal origin explain more than 60% of the variation in business regulation across more than 130 countries (World Bank 2004). Of course there is no consensus on the direction of causation between level of economic growth and ease of doing business. As presented in Table 14, all of the bottom 10 performers in Africa are low income countries. On the other hand, while three of the top 10 performers (South Africa, Mauritius, and Botswana) are upper middle income countries, two of them (Tunisia and Zambia) are lower middle income countries. All the others in the top 10 list are low income countries.⁹

Djankov *et al.* (2003), for example, found out that 40% the variation in the procedural formality involved in the resolution of a simple business dispute is explained by legal origin. This finding may have a profound implication for African countries almost all of which adopted the legal tradition of their colonizers and have had limited reforms then after. In this regard, it is often argued that Europe's colonization of Africa has resulted in "a systematic variations in regulations that are not a consequence of either domestic political choice or the pressures toward regulatory efficiency" (World Bank 2003: xiv). Out of a total of 41 African countries in the 2004 Doing Business survey, 23 adopted the French civil law while the rest have a legal tradition shaped by that of the British (World Bank 2003).¹⁰ A number of studies disclosed that countries with French civil law have more stringent regulation of businesses than countries with common law tradition (see Section I).

Of the top ten best performers in Africa, eight of them adopted the British legal tradition, one has the French civil law, and the legal tradition of Mauritius (the best performer in Africa) is an amalgam of French and British legal traditions. On the other hand, all but one (the Sudan) of the countries in the bottom 10 list adopted/adapted the French legal tradition (See Table 14). The Sudan was left with the British legal tradition after independence from the British in 1956 that has been in place until mid 1960's after which the country has adopted a modified version of the Egyptian civil code that came to be called the Sudan civil law (Zaki 1973). That almost all the countries in the bottom 10 list are nations with French civil law is in line with previous findings where French civil legal tradition was found to be associated with more procedural formalism and hence more stringent business regulations.

4. 'Reformers' in Africa

The discussion thus far shows that doing business in most of the countries in Africa is not easy. Comparison of the three years data on doing business in Africa (2003-2005) may help shed light on whether the situation has been changing for the better though it may be too optimistic to expect meaningful changes in the indicators within such a short period of time. Apparently, only a few countries in Africa have undertaken 'reforms' that have affected one or more of the indicators. While Algeria, Benin, Ethiopia, Madagascar, Morocco, Egypt, Tunisia, and Nigeria have had reforms that reduced the number of entry procedures, Kenya increased the entry procedures by one from 2004 to 2005. As may be expected, the countries that have reduced the number of procedures have also achieved some reduction in the total time required to execute all the

entry procedures. Malawi and Democratic Republic of Congo had a reduction in total time, though not accompanied by reduction in the number of entry procedures (See Table 15).

There were also reductions in the cost of dealing with entry procedures in Angola, Democratic Republic of Congo, Ethiopia, Sierra Leon, and Zimbabwe. On the other hand, direct comparison of the minimum start up capital requirement in 2003 to that in 2004 and 2005 is not possible since there was a change in the way the variable was measured. While the variable measures the initial start up capital requirement in the 2003 survey, minimum start up capital requirement refers only to the up-front cost in the 2004 and 2005 surveys.¹¹ The comparison over two years (2004-2005) shows that there was a reduction in Tunisia. Though both the number of entry procedures and time have declined from 2004 to 2005 in Madagascar, there was a significant increase in the minimum start up capital over the same period.

Unlike the changes with regard to starting a business, only a few countries in Africa had reforms that affected the other indicators over the three years. For example, a few had reforms in the area of contract enforcement and property registration. Burundi (Rwanda) reduced the number of procedures involved in enforcing contracts from 51 to 47 (from 29 to 27) from 2004 to 2005 while Tanzania increased the number from 21 to 22 over the same period. There was also a reduction in the number of days required for enforcing a business contract in Rwanda (from 395 to 310), Sao Tome and Principe (from 505 to 405), and Burundi (from 512 to 433) over the same period. On the other hand, while Algeria has reduced the procedures involved in registering a property from 16 to 15 from 2004 to 2005, Kenya has increased it from 7 to 8 over the same period. The time

required to comply with all the procedures required for property registration also doubled in Kenya over the same period. Madagascar reduced the cost of dealing with property registration by half from 2004 to 2005 though there was no change both in the number of procedures and time involved in property registration. In general not only were there a few countries with reforms in these two areas, but the reforms had insignificant impact on the ease of property registration and enforcing contracts.

A few African countries had 'reforms' in the area of access to credit. For example, there was a one point increase (on a scale from 1 to 10) in the credit information index in Angola, Kenya, Mozambique, and Nigeria from 2004 to 2005. The score of the credit information index declined from 2 to 0 in Ghana over the same period implying worsening of the availability of quality credit information, at least in Accra. With regard to availability and coverage of credit registries, there was introduction of new public registries in 2004 and a marginal increase in coverage in 2005 in Central African Republic, Republic of Congo, Cameroon, and Mozambique. Also, the coverage of public registries has increased over the three years period in Tunisia (as a percentage of adults) from 0.4 to 9.3 and then to 8.2. On the other hand, the coverage of private registries (as a percentage of adults) increased from 46.5 to 63.6 from 2003 to 2004 in Johannesburg. The absence of private credit information registries has remained a bitter fact in most of the countries in Africa.

In general, the indicators of ease of doing business did not change at all in many African countries over the three years period. Even in those few reformer countries, the changes were not that significant. The countries that had reform in the area of starting a business and property registration, for example, the number of procedures were reduced

one or two (Tunisia, Benin, and Ethiopia). Even worse, 'reforms' in some countries have made doing business more difficult with respect to some of the indicators. A case in point is the increase in the number of procedures required to enforce a business contract in Kenya, a reduction in the credit information index in Ghana, and an increase in the minimum start up capital requirement in Madagascar all happening in 2004/2005. Although there were not many reforms in Africa over the 2003-2005 period, a recent report by the World Bank Group revealed that two third of counties in Sub Saharan Africa had at least one reform in 2005/2006 with Ghana and Tanzania ranking among the top 10 reforms in the world (World Bank 2006). Though this is a marked improvement over the previous three years, a lot remains to be done to enhance the capacity of the private sector to a level that will enable it play its role as an engine of economic growth.

5. Conclusion

The role of the private sector as an 'engine' of economic growth has long been recognized by development economists and agencies. But direct interventions targeted towards enhancing the capacity of the private sector remained minimal in the vast majority of developing countries. Lately, however, there seems to be a renewed emphasis on achieving poverty reduction through private sector development. Over the 1990's and thereafter, a number of bilateral and multilateral donors as well as development agencies have been working with specific private sector development strategy. For example, Norway, Australia, and the Netherlands came up with a strategy for the support of the private sector in developing countries at the turn of the millennium.

The World Bank, as one of the major development partners of developing countries, has been working to assist the private sector development endeavors in those countries. As part of this collective effort, it started gathering micro level data on business regulations and their enforcement from more than 130 countries - Doing Business dataset. The data collected under the Bank's project help to shed light on what it takes to do business in different regions of the world. This report summarizes the indicators of ease of doing business for countries in Africa. Comparison is also made to the situation in Latin America and the Pacific and East Asia and the Caribbean to as to assess the performance of Africa in a broader perspective.

While doing business, on average, is found out to be easier in East Asia and the Pacific than in the other two developing regions, the difference between Africa and Latin America and the Caribbean is not statistically significant with respect to most of the indicators. On the other hand, there is a significant variation in the indicators of ease of doing business within Africa a few countries performing better than some countries of the developed world in terms of some of the indicators. Country ranking based on the 'ease of doing business' indicator shows that all the bottom 10 and five of the top 10 performers in Africa are low income countries, three of the top 10 performers are upper middle income countries, and two are lower middle income countries. Besides, while all but one of the bottom 10 performers adopted/adapted the French legal tradition, 8 of the top 10 performers have the British Common law. Comparison of the ease of doing business over time shows that the majority of the countries in Africa did not have reforms targeted at improving the business environment.

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End Notes:

1. While the first round of the Doing Business survey in 2003 addressed five topics in the area of private sector development (starting a business, employment regulation, enforcing contracts, access to credit, and business closure), investors protection and property registration were included in the second round in 2004. The need to address additional aspects of private sector development has led to the inclusion of three more topics (dealing with licenses, taxation, and trading across borders) in the 2005 survey increasing the number of topics to ten (www.doingbusiness.org).
2. All the assumptions made while collecting information on each of the topics by the Doing Business project can be found at www.doingbusiness.org.
3. Detailed description of the way the indices are constructed can be found in World Bank 2005a: 80-81.
4. Detailed description of the way the two indices are constructed can be found in World Bank 2005a: 82-83.
5. Detailed description of the procedures employed to construct each of the indices can be found in World Bank 2005a: 84-85.
6. While Australia takes the lead with 11 procedural requirements only, Greece, Iceland, Norway, Samoa, Tunisia, and United Kingdom closely follow Australia each requiring only 14 procedures. Denmark and Uganda come next with 15 procedures each followed by four other countries with 16 procedural requirements two of which are Zambia and Malawi.
7. The specific assumptions about the traded good as well as the nature of the business can be found at www.doingbusiness.org.
8. See World Bank 2005a: 91-94.
9. The income classification is in line with that of the World Bank where economies are categorized based on GNI per capita of 2005. Low income refers to countries with per capita GNI of \$ 875 and less; lower middle income category includes countries with per capita GNI between \$876 and \$3465; upper middle income countries are those with GNI per capita between \$3466 and 10, 725; and high income countries are those with per capita GNI of \$10, 726 and above (www.doingbusiness.org).
10. While the French legal tradition (the Civil law) relies heavily on the use of substantive and procedural codes and less room is given to the role of decisions by judges, the English legal tradition (the Common Law) focuses on the decisions of independent judges and the ‘common law’ as opposed to codified written laws (La Porta *et al.* 2004).
11. A detailed explanation of the methodological changes in 2004 and 2005 can be found at www.doingbusiness.org.