

Unblocking business

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A helpful exercise in quantifying business regulations and their costs

Tale of the tape			
Regulation of business start-ups			
Number of procedures required			
Lowest		Highest	
Afghanistan	1	Chad	19
Australia	2	Uganda	17
Number of days needed			
Lowest		Highest	
Australia	2	Haiti	203
Canada	3	Laos	198
Cost, % of income per person			
Lowest		Highest	
Denmark	0.0	Zimbabwe	1,442
New Zealand	0.2	Sierra Leone	835
Minimum capital requirement			
Lowest			
46 countries			nil
Highest	% of income per person	\$	
Syria	5,112	60,832	
Yemen	2,703	15,408	
Source: World Bank			

SERBIA does not often come top of global economic league tables. But according to the World Bank's latest report on "Doing Business" around the globe, the country slashed more red tape last year than any of the 154 other countries in the study. This January, Serbian entrepreneurs needed 15 days and a deposit of €500 (\$650) to start a business, compared with 51 days and €5,000 a year earlier. Taxes are now easier to pay, debts easier to collect and temporary workers

easier to hire. As a result, start-ups have boomed: the number of registered firms leapt by 42% in 2004.

Starting a business is always a “leap of faith,” the report says. But that faith is needlessly tested by misguided regulations. In Laos, it takes 198 days to start a business, and not because the queue of budding entrepreneurs is terribly long. In Sierra Leone, a firm foolish enough to pay its taxes in full would have to part with 164% of its gross profits—ie, everything it earns and more. Those bold enough to import goods into Africa lose eight days on average to the continent's ill-equipped ports and nine to its poorly-surfaced roads; but they lose an epochal 43 days to paperwork and customs inspections.

In a free market, companies prosper by making better use of resources than their rivals. In the poorest parts of the world, where resources are scarce, this function is more vital than anywhere else. Unfortunately, African governments do more than any others to inhibit the spirit of competitive capitalism. The 16 countries of West Africa managed just two reforms between them last year. Mauritania was the only country in the world to raise its corporate income tax in 2004.

Heavy strictures on business often fail even on their own terms. In poor countries, stringent building codes do not always produce safer habitation; higher tax rates do not always pull in more revenue; and the most tightly regulated labour markets do not afford the best protection to workers. Often, such burdens simply drive firms and workers into the shadow economy, beyond the reach of inspectors, trade unions and the taxman.

Furthermore, firms pushed underground are less productive: they cannot take advantage of economies of scale, because they must stay small to stay hidden. On average, the Bank reckons, formal companies produce 40% more than informal enterprises in the same industries.

Burkina Faso is one of the worst examples. The country's name means “land of honest and upright people”, but only 50,000 of its 12m population work in the formal sector. This is partly because the cost of firing someone is so high: equivalent to 57 weeks' wages. It is also needlessly difficult for Burkinabes to make an honest business out of their grey-market enterprises. The minimum capital a firm must deposit is nearly five times the country's average income per person. Burkina Faso's people may be upright, but its businesses stoop in the shadows.

Thankfully, the Bank's indicators are helping to solve the problems they measure. "It is like sports," says Simeon Djankov, an author of the report, "If you keep score, no one wants to lose." In the past, the Bank has been coy about publishing its full league table, for fear of offending the governments at the bottom. But this year there is nowhere for the losers, such as Burkina Faso (ranked 154th), Egypt (141st) or even Italy (70th, below Kenya) to hide.

Mr Djankov reckons that 21 different reforms over the past two years were inspired by the "Doing Business" audit, which costs just \$2m to carry out and disseminate. It is, in short, a promising way for the World Bank itself to do business.