Doing Business

THE WORLD BANK IFC

2012

Economy Profile:

Timor-Leste

Doing business in a
more transparent world

COMPARING REGULATION FOR DOMESTIC FIRMS IN 183 ECONOMIES

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The World Bank
1818 H Street NW
Washington, DC 20433
Telephone 202-473-1000
Internet www.worldbank.org

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INTRODUCTION

Doing Business sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in regulations affecting 10 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

In a series of annual reports *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies, from Afghanistan to Zimbabwe, over time. The data set covers 46 economies in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 24 in East Asia and the Pacific, 24 in Eastern Europe and Central Asia, 18 in the Middle East and North Africa and 8 in South Asia, as well as 31 OECD high-income economies. The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why.

This economy profile presents the *Doing Business* indicators for Timor-Leste. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June 1, 2011 (except for the paying taxes indicators, which cover the period January–December 2010).

The *Doing Business* methodology has limitations. Other areas important to business—such as an economy's proximity to large markets, the quality of its infrastructure services (other than those related to trading across borders and getting electricity), the security of property from theft and looting, the transparency of government procurement, macroeconomic conditions or the underlying strength of institutions—are not directly studied by *Doing Business*. The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. The data not only highlight the extent of obstacles to doing business; they also help identify the source of those obstacles, supporting policy makers in designing regulatory reform.

More information is available in the full report. *Doing Business 2012* presents the indicators, analyzes their relationship with economic outcomes and recommends regulatory reforms. The data, along with information on ordering *Doing Business 2012*, are available on the *Doing Business* website at http://www.doingbusiness.org.

THE BUSINESS ENVIRONMENT

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies. *Doing Business* provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 183 by the ease of doing business index. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 10 topics included in the index in *Doing Business 2012*: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The ranking on each topic is the simple average of the percentile rankings on its component indicators (see the data notes for more details).[1]

The aggregate ranking on the ease of doing business benchmarks each economy's performance on the indicators against that of all other economies in the *Doing Business* sample (figure 1.1). While this ranking tells much about the business environment in an economy, it does not tell the whole story. The ranking on the ease of doing business, and the underlying indicators, do not measure all aspects of the business environment that matter to firms and investors or that affect the competitiveness of the economy. Still, a high ranking does mean that the government has created a regulatory environment conducive to operating a business.

ECONOMY OVERVIEW

Region: East Asia & Pacific

Income category: Lower middle income

Population: 1,171,163

GNI per capita (US$): 2,200.00

DB2012 rank: 168

DB2011 rank: 169

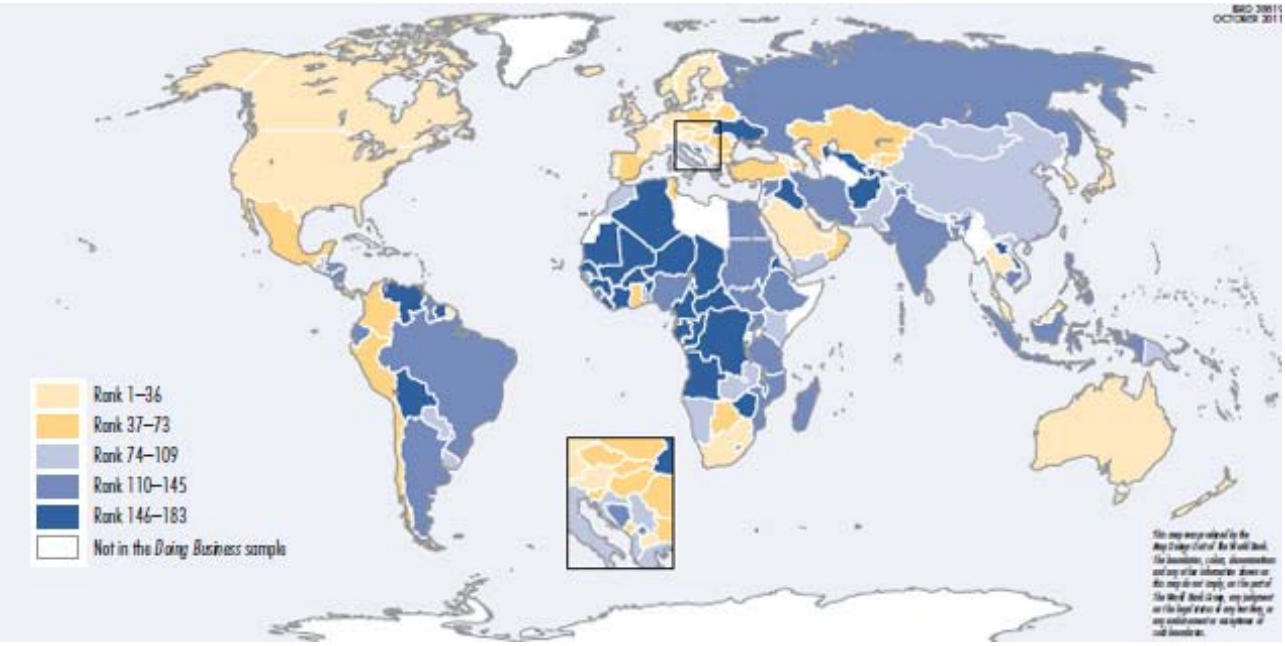
Change in rank: 1

Note: See the data notes for sources and definitions.

[1] Except for the ease of getting credit, for which the percentile rankings on its component indicators are weighted, the depth of credit information index at 37.5% and the strength of legal rights index at 62.5%.

THE BUSINESS ENVIRONMENT

Figure 1.1 Where economies stand in the global ranking on the ease of doing business

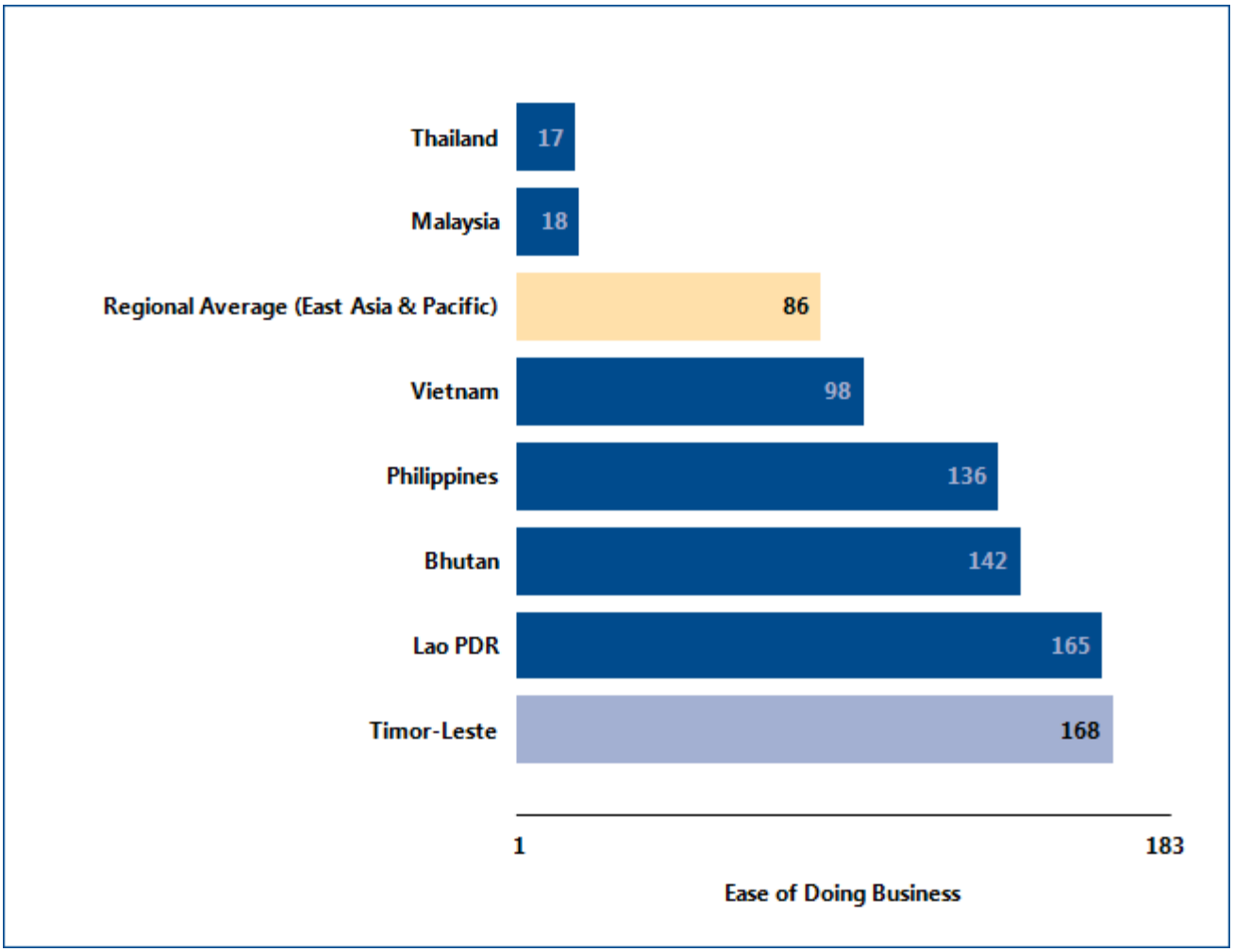


Source: Doing Business database.

THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks compared with other economies and compared with the regional average (figure 1.2). The economy's rankings on the topics included in the ease of doing business index provide another perspective (figure 1.3).

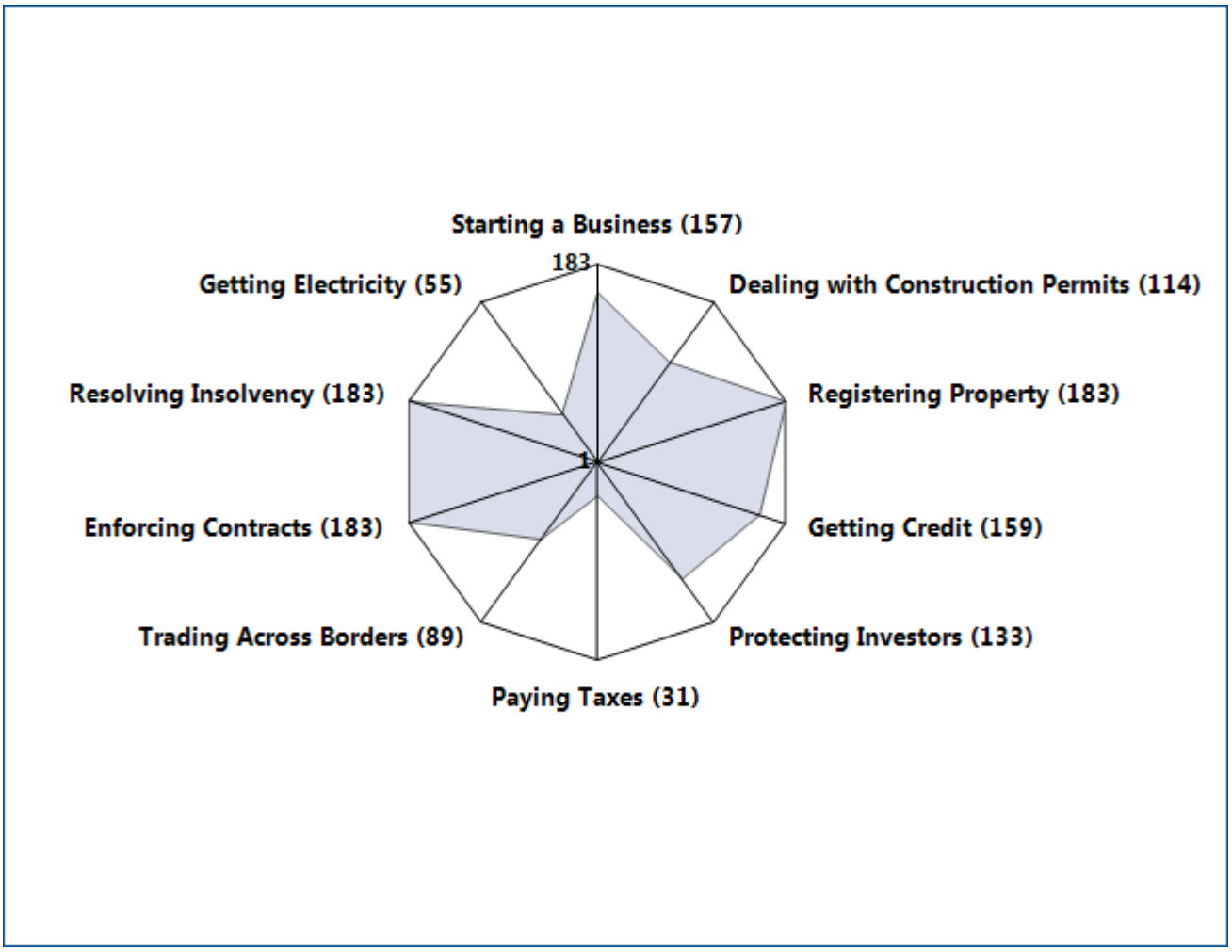
Figure 1.2 How Timor-Leste and comparator economies rank on the ease of doing business



Source: Doing Business database.

THE BUSINESS ENVIRONMENT

Figure 1.3 How Timor-Leste ranks on *Doing Business* topics



Source: Doing Business database.

THE BUSINESS ENVIRONMENT

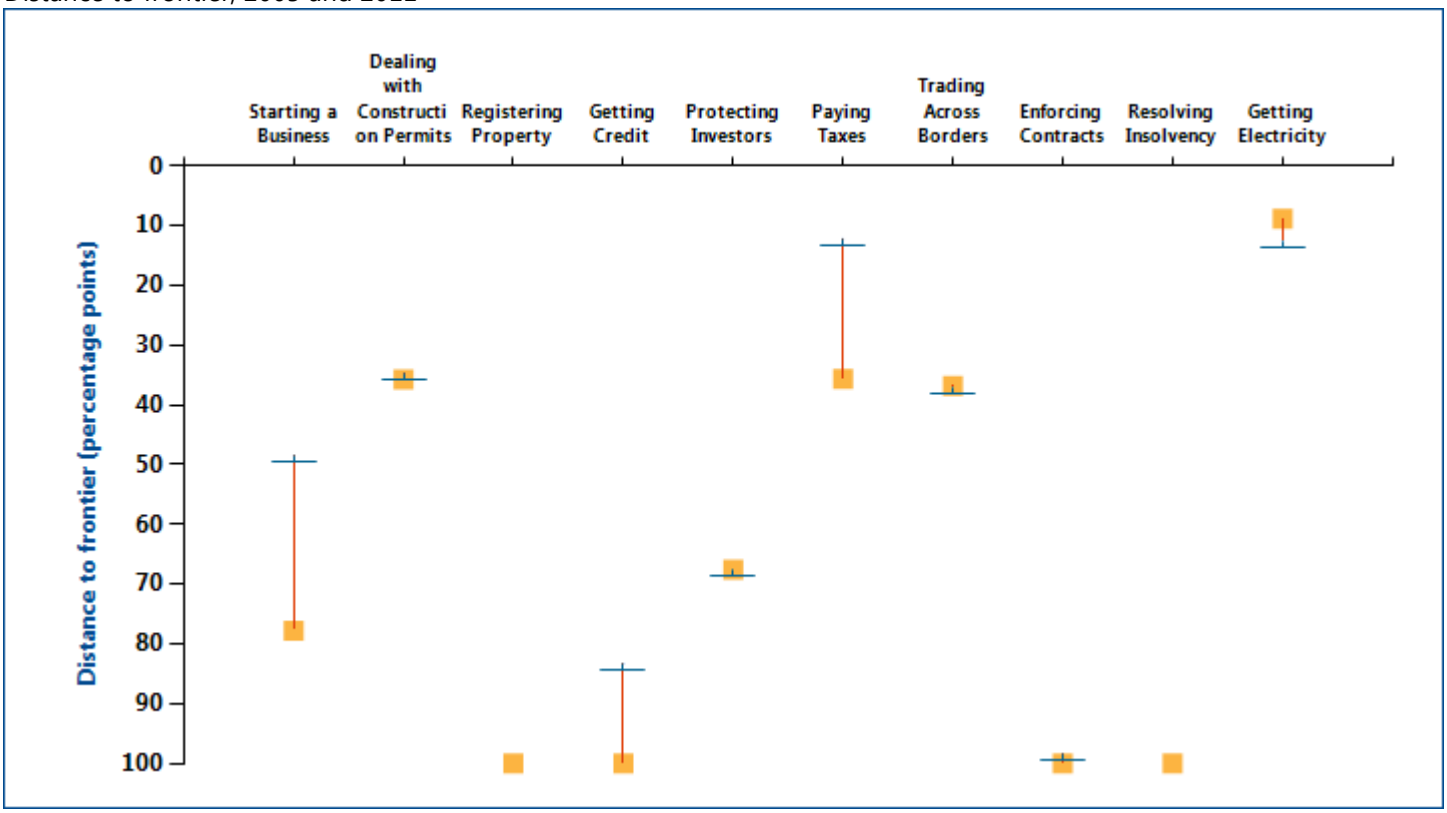
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy's regulatory environment for firms, but they are always relative. An economy's ranking might change because of developments in other economies. An economy that implemented business regulation reforms may fail to rise in the rankings (or may even drop) if it is passed by others whose business regulation reforms had a more significant impact as measured by *Doing Business*.

Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes, *Doing Business 2012* introduces the distance to frontier measure.

This measure shows the distance of each economy to the "frontier," a synthetic measure based on the most efficient practice or highest score observed for each *Doing Business* indicator across all economies and years included in the *Doing Business* sample since 2005. Nine areas of business regulation are covered.

Comparing the measure for an economy at 2 points in time allows users to assess how much the economy's regulatory environment as measured by *Doing Business* has changed over time—how far it has moved toward (or away from) the most efficient practices and strongest regulations in areas covered by *Doing Business* (figure 1.4). The results may show that the pace of change varies widely across the areas measured. They also may show that an economy is relatively close to the frontier in some areas and relatively far from it in others.

Figure 1.4 How far has Timor-Leste come in the areas measured by *Doing Business*?
Distance to frontier, 2005 and 2011



Note: For economies added to the *Doing Business* sample after 2005, the starting point is the year in which they were added: 2006 for Montenegro; 2007 for Brunei Darussalam, Liberia and Luxembourg; 2008 for The Bahamas, Bahrain and Qatar; and 2009 for Cyprus and Kosovo. See the data notes for more details on the distance to frontier measure.
Source: Doing Business database.

THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of business regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Timor-Leste

Indicator	Timor-Leste DB2012	Timor-Leste DB2011	Bhutan DB2012	Lao PDR DB2012	Malaysia DB2012	Philippines DB2012	Thailand DB2012	Vietnam DB2012	Best performer globally DB2012
Starting a Business (rank)	157	152	83	89	50	158	78	103	New Zealand (1)
Procedures (number)	10	10	8	7	4	15	5	9	Canada (1)*
Time (days)	103	147	36	93	6	35	29	44	New Zealand (1)
Cost (% of income per capita)	4.5	5.0	7.2	7.6	16.4	19.1	6.2	10.6	Denmark (0.0)*
Paid-in Min. Capital (% of income per capita)	227.3	247.5	0.0	0.0	0.0	5.2	0.0	0.0	82 Economies (0.0)*
Dealing with Construction Permits (rank)	114	112	135	80	113	102	14	67	Hong Kong SAR, China (1)
Procedures (number)	19	19	22	23	22	30	8	10	Denmark (5)
Time (days)	238	238	180	108	260	85	157	200	Singapore (26)*
Cost (% of income per capita)	25.0	27.2	108.6	52.4	7.1	110.5	9.5	109.0	Qatar (1.1)

Indicator	Timor-Leste DB2012	Timor-Leste DB2011	Bhutan DB2012	Lao PDR DB2012	Malaysia DB2012	Philippines DB2012	Thailand DB2012	Vietnam DB2012	Best performer globally DB2012
Getting Electricity (rank)	55	39	145	138	59	54	9	135	Iceland (1)
Procedures (number)	3	3	6	5	6	5	4	5	Germany (3)*
Time (days)	63	39	101	134	51	50	35	142	Germany (17)
Cost (% of income per capita)	1818.2	1980.2	1265.4	2381.6	95.5	762.0	77.6	1343.0	Japan (0.0)
Registering Property (rank)	183	183	83	72	59	117	28	47	New Zealand (3)
Procedures (number)	no practice	no practice	3	5	5	8	2	4	Portugal (1)*
Time (days)	no practice	no practice	92	98	48	39	2	57	Portugal (1)
Cost (% of property value)	no practice	no practice	5.0	1.1	3.3	4.8	6.3	0.6	Slovak Republic (0.0)
Getting Credit (rank)	159	177	126	166	1	126	67	24	United Kingdom (1)*
Strength of legal rights index (0-10)	2	2	3	4	10	4	5	8	New Zealand (10)*
Depth of credit information index (0-6)	3	0	4	0	6	3	5	5	Japan (6)*
Public registry coverage (% of adults)	1.8	0.0	6.4	0.0	49.4	0.0	0.0	29.8	Portugal (86.2)
Private bureau coverage (% of adults)	0.0	0.0	0.0	0.0	83.4	8.2	41.7	0.0	New Zealand (100.0)*
Protecting Investors (rank)	133	131	147	182	4	133	13	166	New Zealand (1)
Extent of disclosure index (0-10)	3	3	4	2	10	2	10	6	France (10)*

Indicator	Timor-Leste DB2012	Timor-Leste DB2011	Bhutan DB2012	Lao PDR DB2012	Malaysia DB2012	Philippines DB2012	Thailand DB2012	Vietnam DB2012	Best performer globally DB2012
Extent of director liability index (0-10)	4	4	3	1	9	2	7	1	Singapore (9)*
Ease of shareholder suits index (0-10)	5	5	4	2	7	8	6	2	New Zealand (10)*
Strength of investor protection index (0-10)	4.0	4.0	3.7	1.7	8.7	4.0	7.7	3.0	New Zealand (9.7)
Paying Taxes (rank)	31	27	67	123	41	136	100	151	Canada (8)
Payments (number per year)	6	6	6	34	13	47	23	32	Norway (4)
Time (hours per year)	276	276	274	362	133	195	264	941	Luxembourg (59)
Trading Across Borders (rank)	89	89	169	168	29	51	17	68	Singapore (1)
Documents to export (number)	6	6	8	9	6	7	5	6	France (2)
Time to export (days)	25	25	38	44	17	15	14	22	Hong Kong SAR, China (5)*
Cost to export (US$ per container)	1010	1010	2230	1880	450	630	625	580	Malaysia (450)
Documents to import (number)	7	7	12	10	7	8	5	8	France (2)
Time to import (days)	26	26	38	46	14	14	13	21	Singapore (4)
Cost to import (US$ per container)	1015	1015	2805	2035	435	730	750	670	Malaysia (435)
Enforcing Contracts (rank)	183	183	35	110	31	112	24	30	Luxembourg (1)

Indicator	Timor-Leste DB2012	Timor-Leste DB2011	Bhutan DB2012	Lao PDR DB2012	Malaysia DB2012	Philippines DB2012	Thailand DB2012	Vietnam DB2012	Best performer globally DB2012
Time (days)	1285	1285	225	443	425	842	479	295	Singapore (150)
Cost (% of claim)	163.2	163.2	0.1	31.6	27.5	26.0	12.3	28.5	Bhutan (0.1)
Procedures (number)	51	51	47	42	29	37	36	34	Ireland (21)*
Resolving Insolvency (rank)	183	183	183	183	47	163	51	142	Japan (1)
Time (years)	no practice	no practice	no practice	no practice	1.5	5.7	2.7	5.0	Ireland (0.4)
Cost (% of estate)	no practice	no practice	no practice	no practice	15	38	36	15	Singapore (1)*
Recovery rate (cents on the dollar)	0.0	0.0	0.0	0.0	44.6	4.7	43.3	16.5	Japan (92.7)

Note: The methodology for the paying taxes indicators changed in *Doing Business 2012*; see the data notes for details. For these indicators, the best performer globally is the economy that has implemented the most efficient practices in its tax system and is not necessarily the one with the highest ranking. For more information on "no practice" marks, see the data notes for details.

* Two or more economies share the top ranking on this indicator. A number shown in place of an economy's name indicates the number of economies that share the top ranking on the indicator. For a list of these economies, see the *Doing Business* website (http://www.doingbusiness.org).

Source: Doing Business database.

STARTING A BUSINESS

Formal registration of companies has many immediate benefits for the companies and for business owners and employees. Legal entities can outlive their founders. Resources are pooled as several shareholders join forces to start a company. Formally registered companies have access to services and institutions from courts to banks as well as to new markets. And their employees can benefit from protections provided by the law. An additional benefit comes with limited liability companies. These limit the financial liability of company owners to their investments, so personal assets of the owners are not put at risk. Where governments make registration easy, more entrepreneurs start businesses in the formal sector, creating more good jobs and generating more revenue for the government.

What do the indicators cover?

Doing Business measures the ease of starting a business in an economy by recording all procedures that are officially required or commonly done in practice by an entrepreneur to start up and formally operate an industrial or commercial business—as well as the time and cost required to complete these procedures. It also records the paid-in minimum capital that companies must deposit before registration (or within 3 months). The ranking on the ease of starting a business is the simple average of the percentile rankings on the 4 component indicators: procedures, time, cost and paid-in minimum capital requirement.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the procedures. It assumes that all information is readily available to the entrepreneur and that there has been no prior contact with officials. It also assumes that all government and nongovernment entities involved in the process function without corruption. And it assumes that the business:

- Is a limited liability company, located in the largest business city.
- Conducts general commercial or industrial activities.
- Has a start-up capital of 10 times income per capita.
- Has a turnover of at least 100 times income per capita.
- Does not qualify for any special benefits.
- Does not own real estate.
- Is 100% domestically owned.

WHAT THE STARTING A BUSINESS INDICATORS MEASURE

Procedures to legally start and operate a company (number)

Preregistration (for example, name verification or reservation, notarization)

Registration in the economy's largest business city

Postregistration (for example, social security registration, company seal)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

No professional fees unless services required by law

Paid-in minimum capital (% of income per capita)

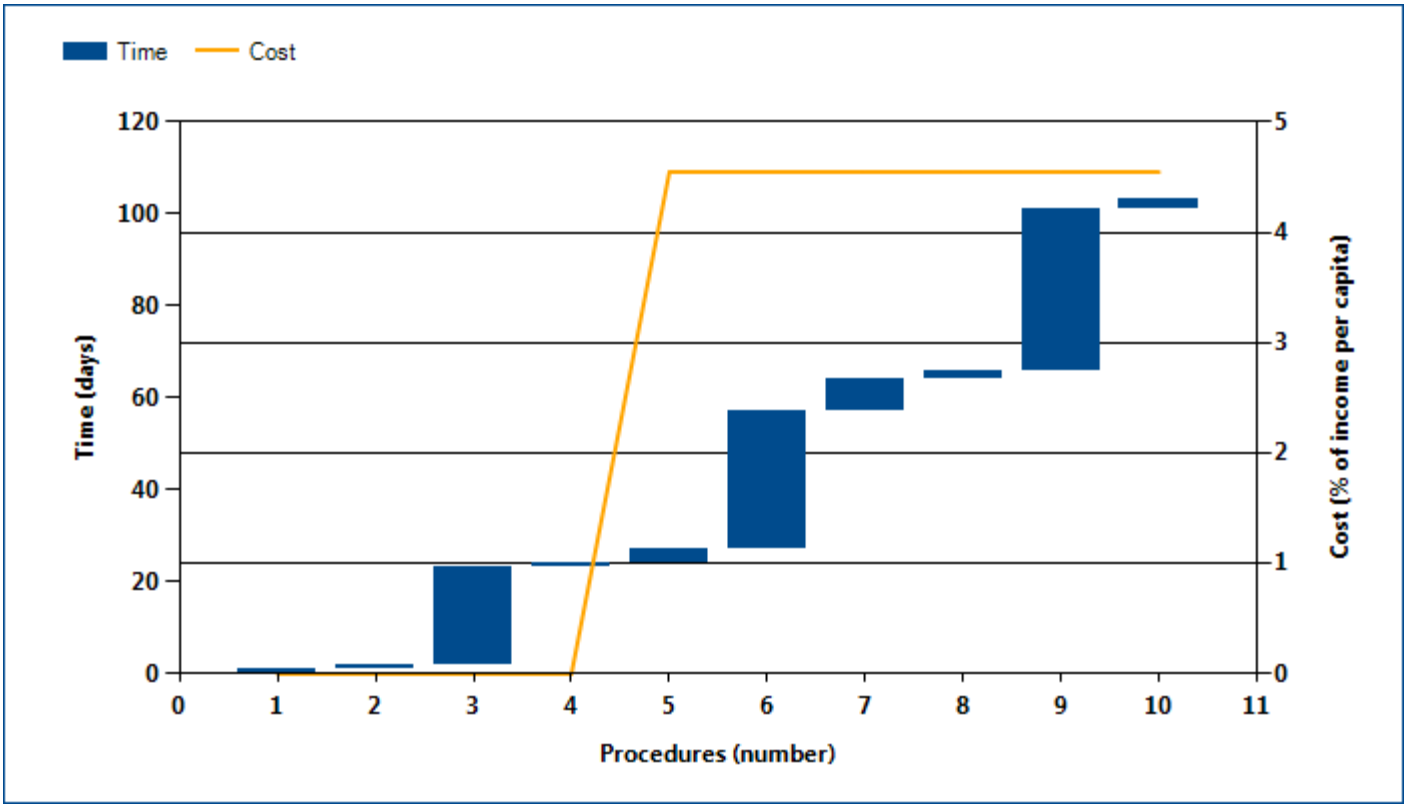
Deposited in a bank or with a notary before registration (or within 3 months)

STARTING A BUSINESS

Where does the economy stand today?

What does it take to start a business in Timor-Leste? According to data collected by *Doing Business*, starting a business there requires 10 procedures, takes 103 days, costs 4.5% of income per capita and requires paid-in minimum capital of 227.3% of income per capita (figure 2.1).

Figure 2.1 What it takes to start a business in Timor-Leste
Paid-in minimum capital (% of income per capita): 227.3

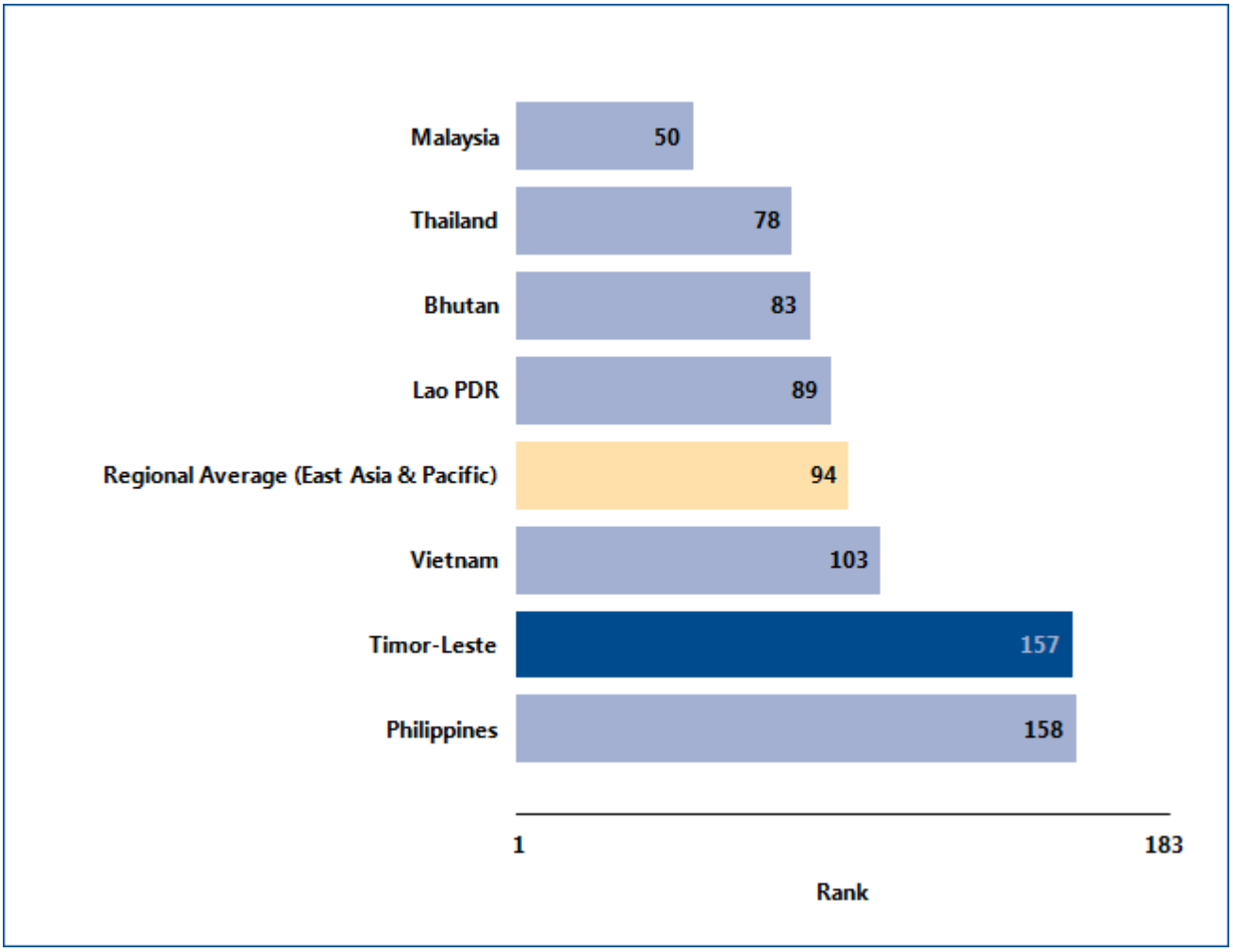


Note: For details on the procedures reflected here, see the summary at the end of this chapter.
Source: Doing Business database.

STARTING A BUSINESS

Globally, Timor-Leste stands at 157 in the ranking of 183 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Timor-Leste to start a business.

Figure 2.2 How Timor-Leste and comparator economies rank on the ease of starting a business



Source: Doing Business database.

STARTING A BUSINESS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to start a business in Timor-Leste today, data over time show which aspects of the process have changed—and which have not (table 2.1). That can help identify where the potential for improvement is greatest.

Table 2.1 The ease of starting a business in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	..	152	157
Procedures (number)	n.a.	10	10	10	9	10	10	10	10
Time (days)	n.a.	92	157	157	147	147	147	147	103
Cost (% of income per capita)	n.a.	154.8	125.4	83.3	11.9	6.6	21.3	5.0	4.5
Paid-in Min. Capital (% of income per capita)	n.a.	1,190.5	909.1	666.7	595.2	331.1	1,066.6	247.5	227.3

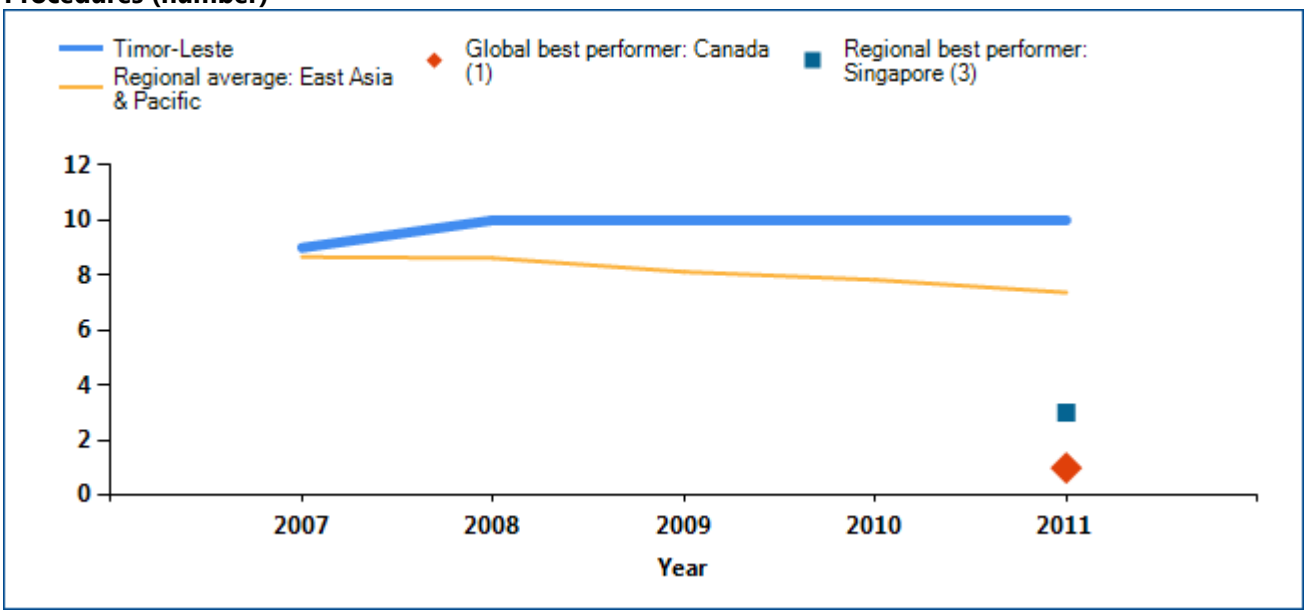
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology.
Source: Doing Business database.

STARTING A BUSINESS

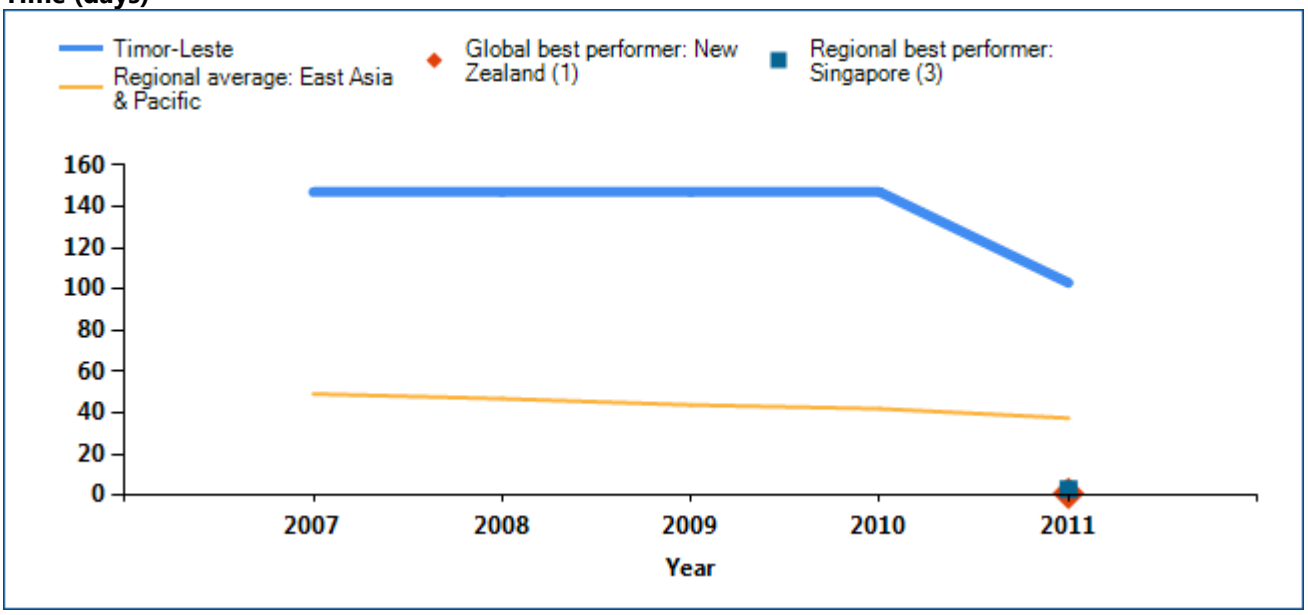
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the procedures, time, cost or paid-in minimum capital required to start a business (figure 2.3). These economies may provide a model for Timor-Leste on ways to improve the ease of starting a business. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

Figure 2.3 Has starting a business become easier over time?

Procedures (number)

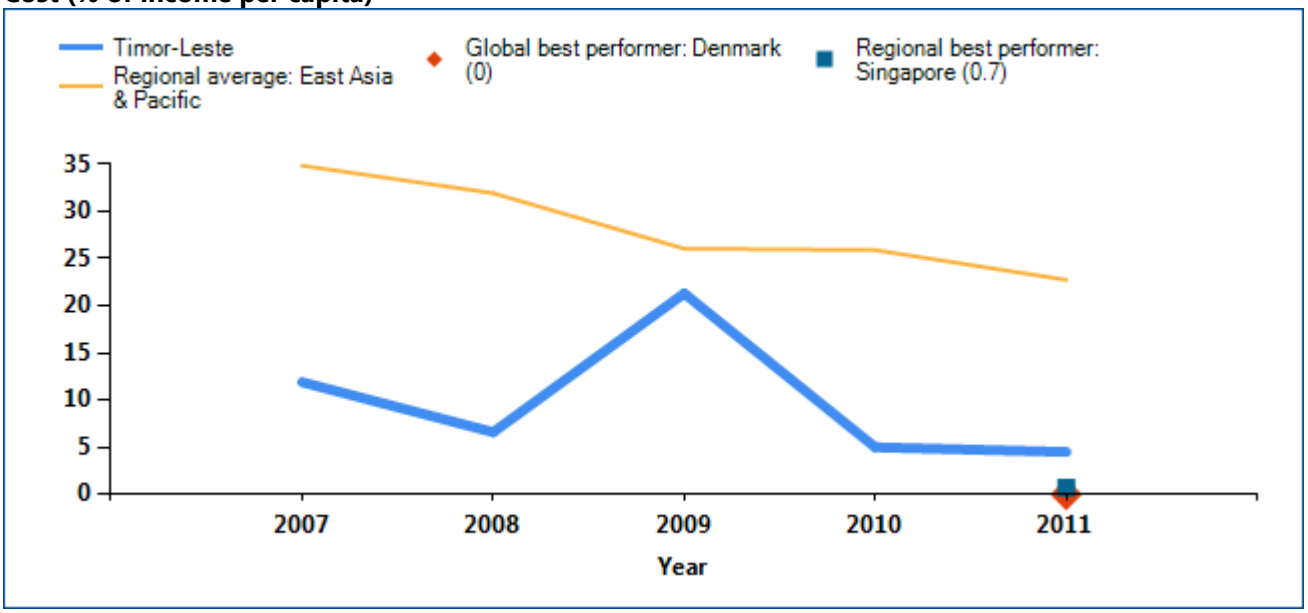


Time (days)

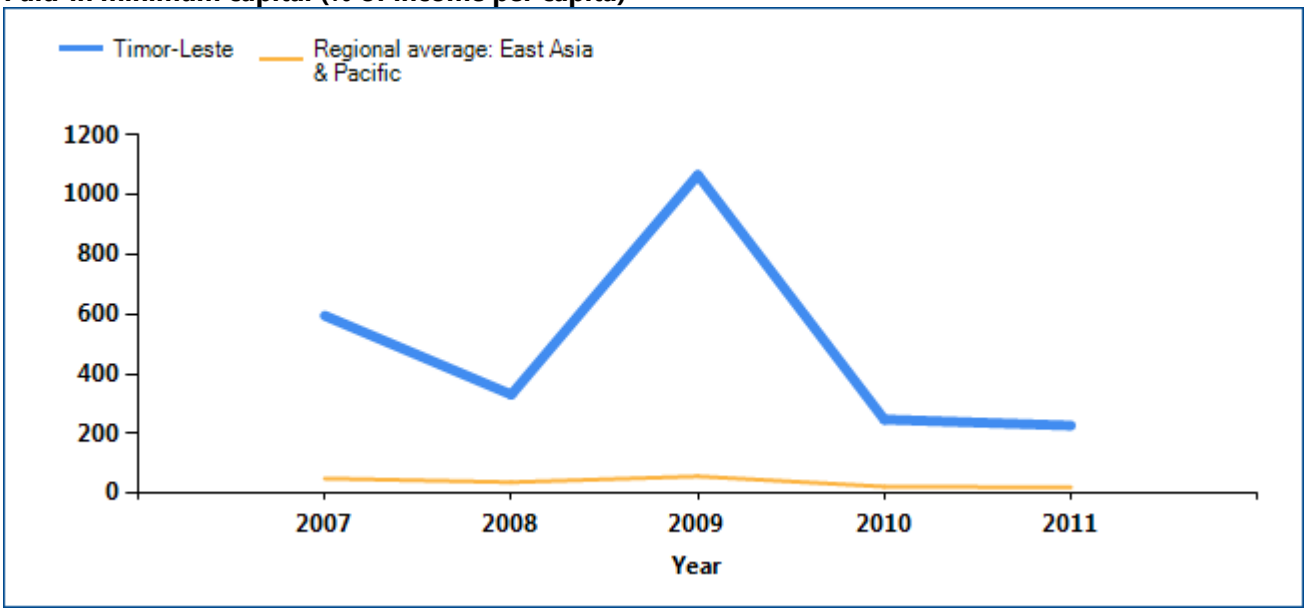


STARTING A BUSINESS

Cost (% of income per capita)



Paid-in minimum capital (% of income per capita)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator. In the case of paid-in minimum capital, 82 economies globally and economies in East Asia & Pacific have no paid-in minimum capital.
Source: Doing Business database.

STARTING A BUSINESS

Economies around the world have taken steps making it easier to start a business—streamlining procedures by setting up a one-stop shop, making procedures simpler or faster by introducing technology and reducing or eliminating minimum capital requirements. Many have undertaken business registration reforms in stages—and they often are part of a larger regulatory reform program. Among the benefits have been greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Timor-Leste (table 2.2)?

Table 2.2 How has Timor-Leste made starting a business easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	Timor-Leste made starting a business faster by improving the registration process.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

STARTING A BUSINESS

What are the details?

Underlying the indicators shown in this chapter for Timor-Leste is a set of specific procedures—the bureaucratic and legal steps that an entrepreneur must complete to incorporate and register a new firm. These are identified by *Doing Business* through collaboration with relevant local professionals and the study of laws, regulations and publicly available information on business entry in that economy. Following is a detailed summary of those procedures, along with the associated time and cost. These procedures are those that apply to a company matching the standard assumptions (the "standardized company") used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators measure).

STANDARDIZED COMPANY

City: **Dili**

Legal Form: **Private Limited Liability Company**

Start-up capital: **10 times GNI per capita**

Paid-in minimum capital (% of income per capita): **227.3**

Summary of procedures for starting a business in Timor-Leste—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	**Pay registration fees and deposit minimum capital at the Bank (BNU)** Registration fees are paid at a branch of Banco Nacional Ultramarino in Timor Leste, a government-designated bank. The minimum capital requirement is prescribed by the Commercial Registry Code, Articles 16 and 188.	1 day	no charge
2	**Obtain criminal record clearance from Ministry of Justice** The criminal record clearance is required for each founder of the company, shareholder, director and every person who have a role in the ownership, management and control of the future company.	1 day	no charge
3	**Verify uniqueness of company name and register at the Public Registry Department of the Ministry of Justice** According to Article 29 of the Commercial Registry Code, within 10 days, a company must verify the uniqueness of the company name and register at the Commercial Registry at the Ministry of Justice. The MOJ recently took over the process of name approval.	21 days	no charge
4	**Get proof of Business address from the Department of Land** The entrepreneur needs to get a proof of business address - a lease or title to the property-which must be certified by the Department of Land and Property. The Department of Land and Property must be supplied with a map of the address and they will be required to visit the address before issuing the certification.	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
5	**File company statute at the Ministry of Justice** According to Article 34 of the Commercial Registry Code, a company must register by filing the following documents with the Commercial Registry at the Ministry of Justice: - Company statutes (notarization is not mandatory according to Article 34). - Information on company shareholders and managers. - Proof of deposit of initial capital. Article 55 sets a time limit of 15 days. To register, the applicant also needs to submit the following: - A completed application form; - Identification of shareholders and two photos of all managers; - Proof of payment at the bank; - Proof of Business adress; - Good Conduct Certificate; - Civil identity documents and civil registration certificates for the purpose of civil identification and civil status proof of shareholders and holders of positions in the company's bodies; - Minutes of approval of the incorporation by the company's General Meeting and Directors' Board; - Certificate proving the existence or non existence of fiscal debts, as well as other documents required for the purpose of State 's granting of economic benefits and incentives regarding investment operations or for the purpose of State's private immovable property lease; - Proof of the patrimony allocated to the company;	3 days	USD 100
6	**Publish statutes in the official gazette** According to Article 72 of the Commercial Registry Code, promoters must publish company statutes in the Official Gazette. According to Article 73, the publication should be done through the registrar within 30 days. In practice, this procedure is not enforced.	30 days	no charge
7	**Apply to tax identification number (TIN)** The business registration certificate and identification card are required. The tax identification number is used for various business taxes. The East Timor Revenue Service will issue a form for tax payment to a designated or authorized bank.	7 days	no charge
8	**Notify labor department** Although not legally mandated, it is common practice for companies to notify the Labor Department. The company contacts the Labor Department to verify whether the employment contracts comply with regulations. Most firms simply use the standard contract provided by the Labor Department.	2 days	no charge
9	**Apply for temporary business license at the Ministry of Tourism, Commerce and Industry**	35 days	no charge

No.	Procedure	Time to complete	Cost to complete
	All companies are required to get a business license from the Commerce Division of the Ministry of Tourism, Commerce and Industry. Other licenses are granted by the relevant sectoral Ministry and signed by the Minister.		
10	**Make a company seal** By law, books must be legalized by the Commercial Registry. This legal requirement is defined by the Article 113 of the Commercial Registry Code. A time limit of 48 hours is applicable.	2 days	no charge

* Takes place simultaneously with another procedure.
Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

Regulation of construction is critical to protect the public. But it needs to be efficient, to avoid excessive constraints on a sector that plays an important part in every economy. Where complying with building regulations is excessively costly in time and money, many builders opt out. They may pay bribes to pass inspections or simply build illegally, leading to hazardous construction that puts public safety at risk. Where compliance is simple, straightforward and inexpensive, everyone is better off.

What do the indicators cover?

Doing Business records the procedures, time and cost for a business to obtain all the necessary approvals to build a simple commercial warehouse in the economy's largest business city, connect it to basic utilities and register the property so that it can be used as collateral or transferred to another entity.

The ranking on the ease of dealing with construction permits is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the warehouse, including the utility connections.

The business:

- Is a limited liability company operating in the construction business and located in the largest business city.
- Is domestically owned and operated.
- Has 60 builders and other employees.

The warehouse:

- Is a new construction (there was no previous construction on the land).
- Has complete architectural and technical plans prepared by a licensed architect.
- Will be connected to water, sewerage (sewage system, septic tank or their equivalent) and a fixed telephone line. The connection to each utility network will be 10 meters (32 feet, 10 inches) long.
- Will be used for general storage, such as of books or stationery (not for goods requiring special conditions).
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE

Procedures to legally build a warehouse (number)

Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates

Completing all required notifications and receiving all necessary inspections

Obtaining utility connections for water, sewerage and a fixed telephone line

Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of income per capita)

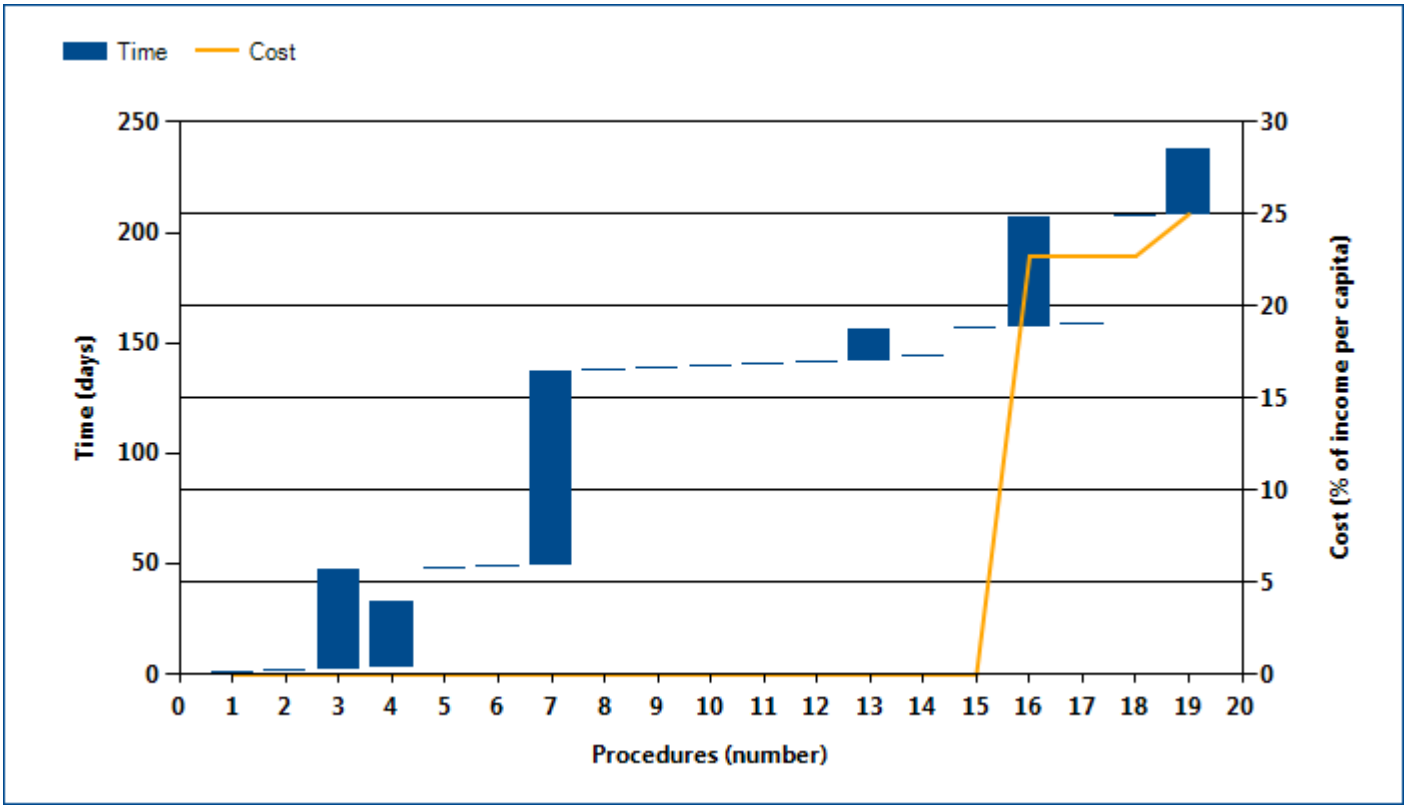
Official costs only, no bribes

DEALING WITH CONSTRUCTION PERMITS

Where does the economy stand today?

What does it take to comply with the formalities to build a warehouse in Timor-Leste? According to data collected by *Doing Business*, dealing with construction permits there requires 19 procedures, takes 238 days and costs 25.0% of income per capita (figure 3.1).

Figure 3.1 What it takes to comply with formalities to build a warehouse in Timor-Leste

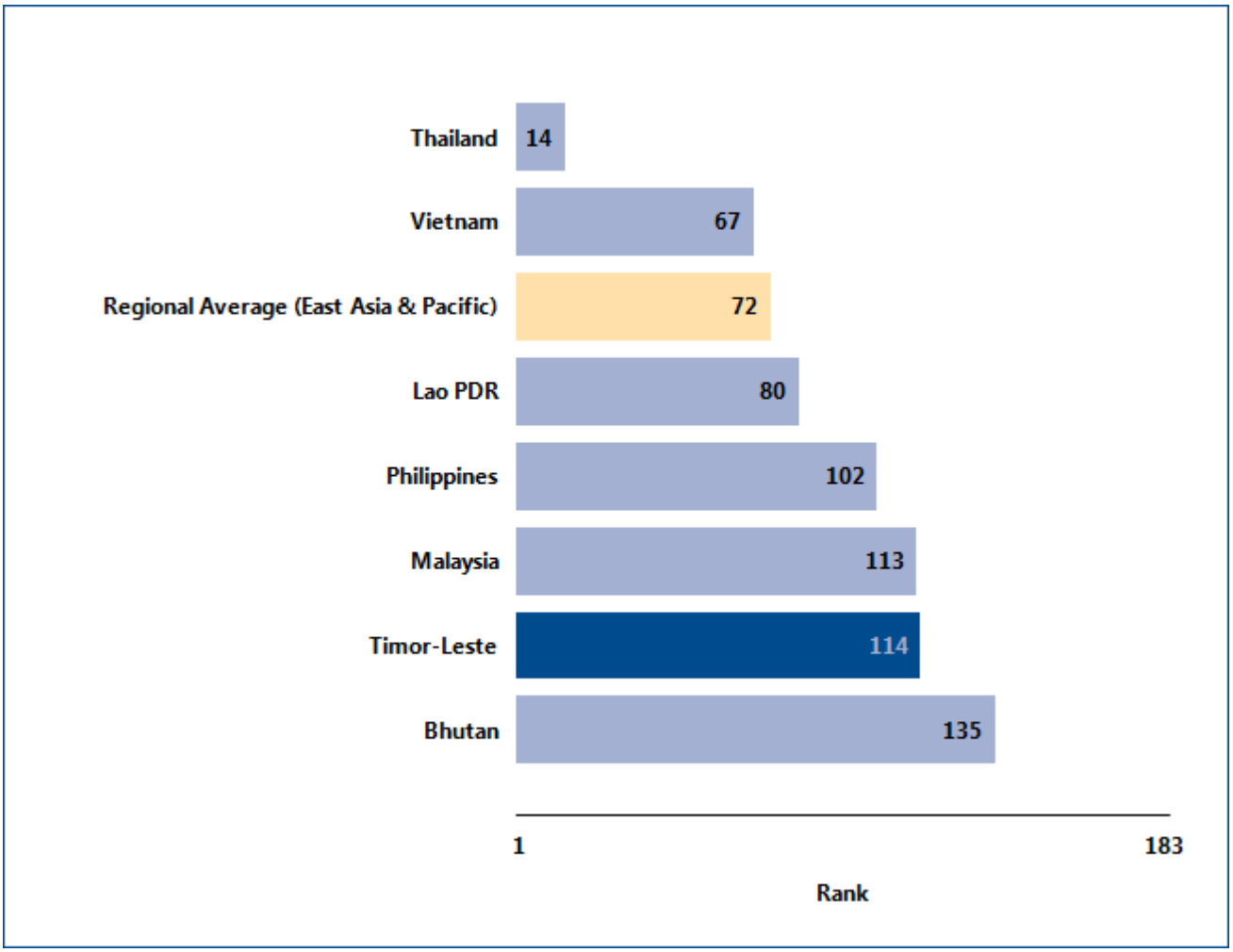


Note: For details on the procedures reflected here, see the summary at the end of this chapter.
Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

Globally, Timor-Leste stands at 114 in the ranking of 183 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Timor-Leste to legally build a warehouse.

Figure 3.2 How Timor-Leste and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to deal with construction permits in Timor-Leste today, data over time show which aspects of the process have changed—and which have not (table 3.1). That can help identify where the potential for improvement is greatest.

Table 3.1 The ease of dealing with construction permits in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	112	114
Procedures (number)	19	19	19	19	19	19	19
Time (days)	238	238	238	238	238	238	238
Cost (% of income per capita)	100.0	73.3	65.5	36.4	22.3	27.2	25.0

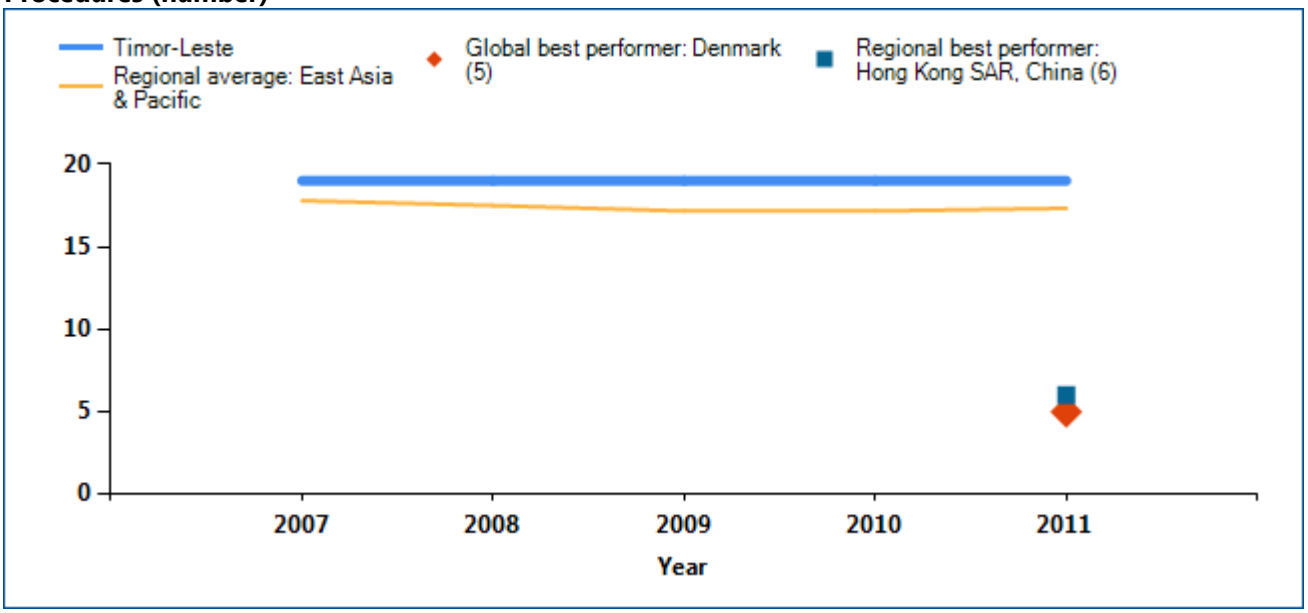
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology. For more information on "no practice" marks, see the data notes for details.
Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

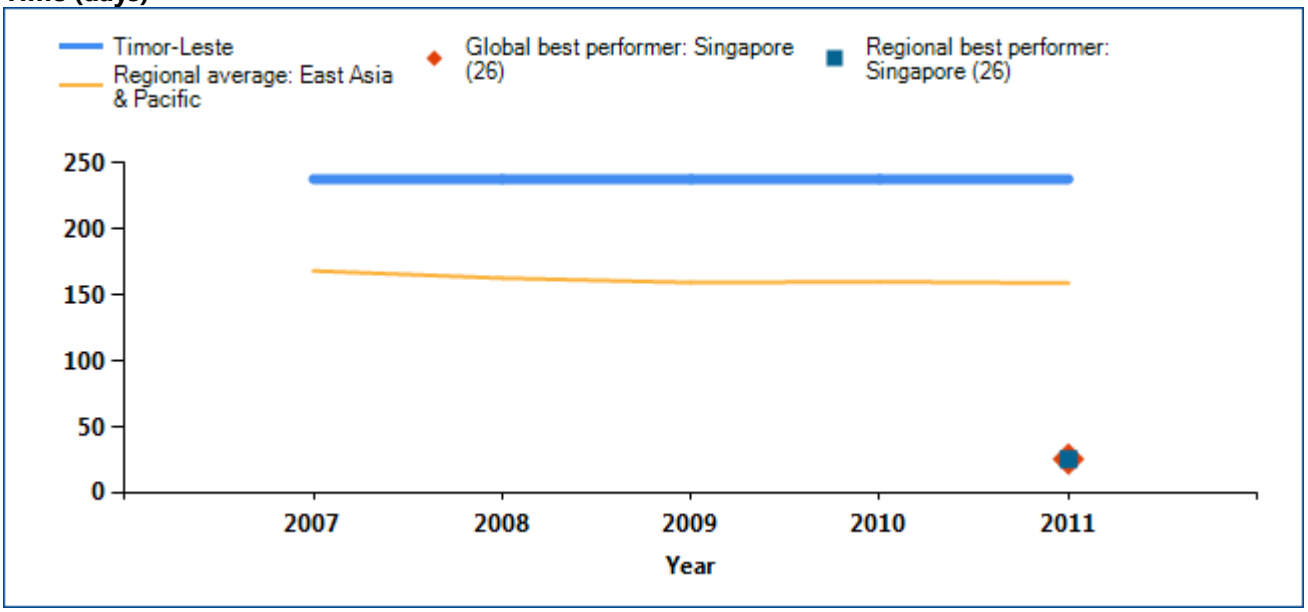
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the procedures, time or cost required to deal with construction permits (figure 3.3). These economies may provide a model for Timor-Leste on ways to improve the ease of dealing with construction permits. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

Figure 3.3 Has dealing with construction permits become easier over time?

Procedures (number)

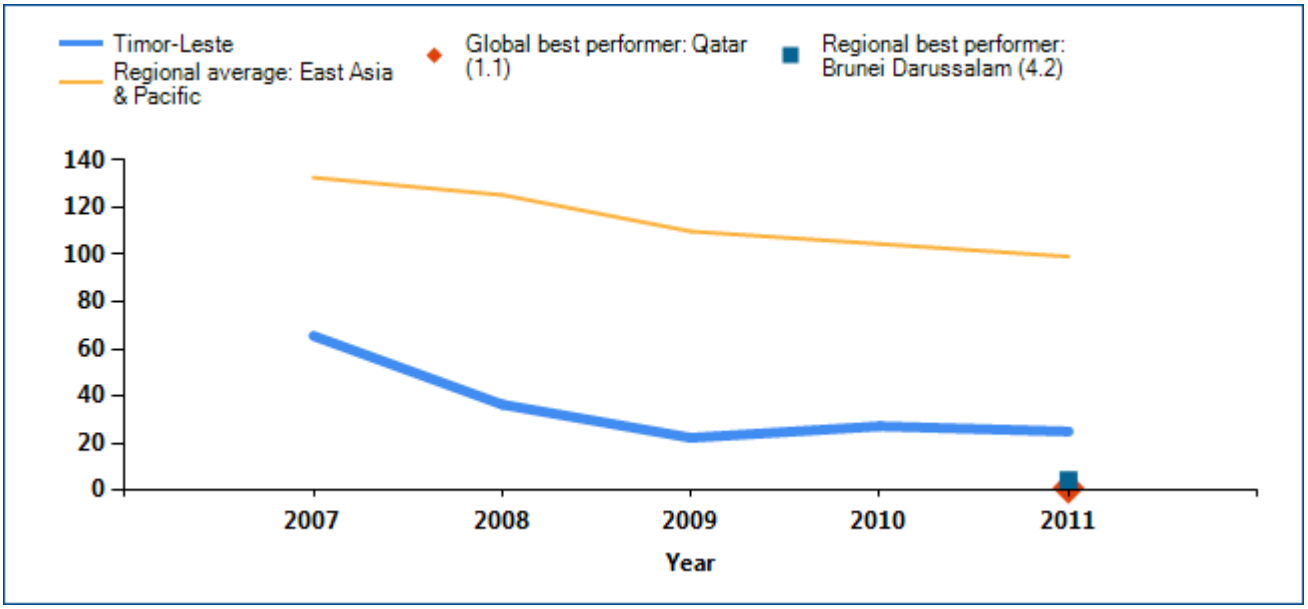


Time (days)



DEALING WITH CONSTRUCTION PERMITS

Cost (% of income per capita)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator. In cases where no data are displayed above for the economy, this indicates that the economy has received a "no practice" mark; see the data notes for details.
Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

Smart regulation ensures that standards are met while making compliance easy and accessible to all. Coherent and transparent rules, efficient processes and adequate allocation of resources are especially important in sectors where safety is at stake. Construction is one of them. In an effort to ensure building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. What construction permitting reforms has *Doing Business* recorded in Timor-Leste (table 3.2)?

Table 3.2 How has Timor-Leste made dealing with construction permits easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

What are the details?

The indicators reported here for Timor-Leste are based on a set of specific procedures—the steps that a company must complete to legally build a warehouse—identified by *Doing Business* through information collected from experts in construction licensing, including architects, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations. These procedures are those that apply to a company and structure matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

BUILDING A WAREHOUSE	
City :	**Dili**
Estimated Warehouse Value :	**USD 30,000**

The procedures, along with the associated time and cost, are summarized below.

Summary of procedures for dealing with construction permits in Timor-Leste —and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	**Request a "no objection" letter from the Land and Property Department**	1 day	no charge
2	**Receive inspection certificate from the Land and Property Department** The Land and Property Department does not issue certificates of ownership or right of use of land. It issues a no-objection letter because it is not yet able to issue titles. The time to obtain this document varies from 1–2 weeks if the applicant knows the right people, up to 6 months if the applicant is an outsider. A reasonable estimate is 1–2 months. The Land and Property Department performs a site inspection before issuing the letter.	1 day	no charge
3	**Obtain a "no objection" letter from the Land and Property department**	45 days	no charge
4	*** Obtain project clearance from the Department of Environment and Development**	30 days	no charge
5	**Submit application for building permit**	1 day	no charge
6	**Receive inspection from the Public Works office**	1 day	no charge
7	**Obtain building permit**	88 days	no charge

No.	Procedure	Time to complete	Cost to complete
	The building permit is issued at no change. To obtain the permit, the investor needs to submit the no-objection letter from the Land and Property Department, the environmental clearance, and the architectural and engineering plans/drawings. It takes 2 to 3 weeks to obtain a permit in the best-case scenario and if the investor constantly follows up. Otherwise, it takes an average of 3 months to receive a building permit.		
8	**Receive excavation work inspection**	1 day	no charge
9	**Receive foundations work inspection**	1 day	no charge
10	**Receive concrete work inspection**	1 day	no charge
11	**Receive labor inspection** A labor inspection occurs on a random basis. It often results from a complaint filed by the workers with the Ministry of Labor. If there is no complaint, this inspection is less likely to occur.	1 day	no charge
12	**Receive final inspection**	1 day	no charge
13	**Obtain approval upon completion of project from the Public Works and municipality**	14 days	no charge
14	*** Apply for water and sewerage connection**	1 day	no charge
15	**Receive water and sewerage inspection**	1 day	no charge
16	**Obtain water and sewerage connection**	50 days	USD 500
17	*** Request telephone line from Timor Telecom** To obtain a telephone connection, the investor sends a letter requesting connection to Timor Telecom. A couple of weeks later, Timor Telecom sends a technician out to inspect the site. For a simple local line, the cost is USD 50 (USD 10 for monthly fee, USD 20 for activation and USD 20 for installation).	1 day	no charge
18	**Receive inspection from Timor Telecom**	1 day	no charge
19	*** Obtain phone connection**	30 days	USD 50

No.	Procedure	Time to complete	Cost to complete

* Takes place simultaneously with another procedure.
Source: Doing Business database.

GETTING ELECTRICITY

Access to reliable and affordable electricity is vital for businesses. To counter weak electricity supply, many firms in developing economies have to rely on self-supply, often at a prohibitively high cost. Whether electricity is reliably available or not, the first step for a customer is always to gain access by obtaining a connection.

What do the indicators cover?

Doing Business records all procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. These procedures include applications and contracts with electricity utilities, clearances from other agencies and the external and final connection works. The ranking on the ease of getting electricity is the simple average of the percentile rankings on its component indicators: procedures, time and cost. To make the data comparable across economies, several assumptions are used.

The warehouse:

- Is located in the economy's largest business city, in an area where other warehouses are located.
- Is not in a special economic zone where the connection would be eligible for subsidization or faster service.
- Has road access. The connection works involve the crossing of a road or roads but are carried out on public land.
- Is a new construction being connected to electricity for the first time.
- Has 2 stories, both above ground, with a total surface of about 1,300.6 square meters (14,000 square feet), and is built on a plot of 929 square meters (10,000 square feet).

The electricity connection:

- Is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.
- Is 150 meters long.
- Is to either the low-voltage or the medium-voltage distribution network and either overhead or underground, whichever is more common in the economy and in the area where the warehouse is located. The length of any connection in the customer's private domain is negligible.
- Involves installing one electricity meter. The monthly electricity consumption will be 0.07 gigawatt-hour (GWh). The internal electrical wiring has been completed.

WHAT THE GETTING ELECTRICITY INDICATORS MEASURE

Procedures to obtain an electricity connection (number)

Submitting all relevant documents and obtaining all necessary clearances and permits

Completing all required notifications and receiving all necessary inspections

Obtaining external installation works and possibly purchasing material for these works

Concluding any necessary supply contract and obtaining final supply

Time required to complete each procedure (calendar days)

Is at least 1 calendar day

Each procedure starts on a separate day

Does not include time spent gathering information

Reflects the time spent in practice, with little follow-up and no prior contact with officials

Cost required to complete each procedure (% of income per capita)

Official costs only, no bribes

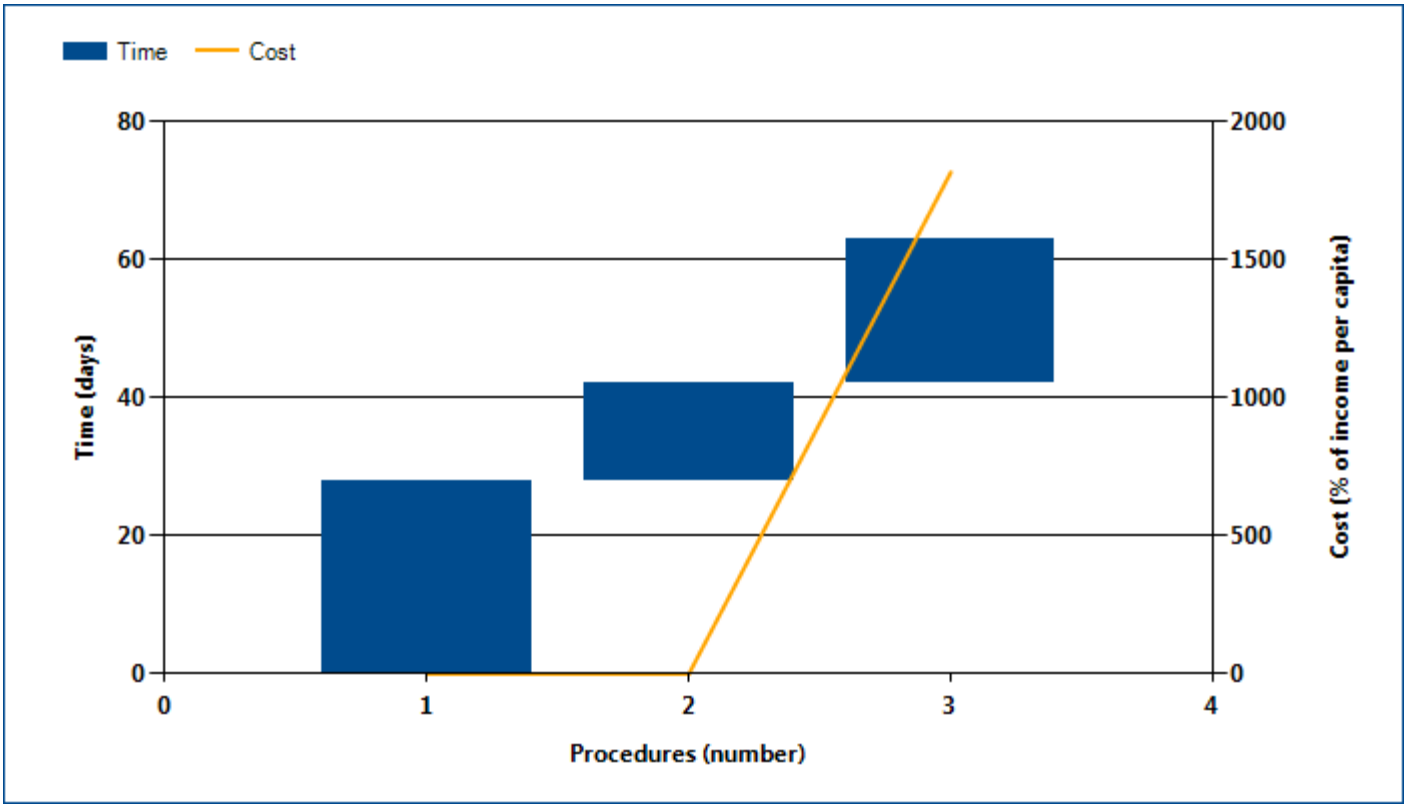
Excludes value added tax

GETTING ELECTRICITY

Where does the economy stand today?

What does it take to obtain a new electricity connection in Timor-Leste? According to data collected by *Doing Business,* getting electricity there requires 3 procedures, takes 63 days and costs 1818.2% of income per capita (figure 4.1).

Figure 4.1 What it takes to obtain an electricity connection in Timor-Leste

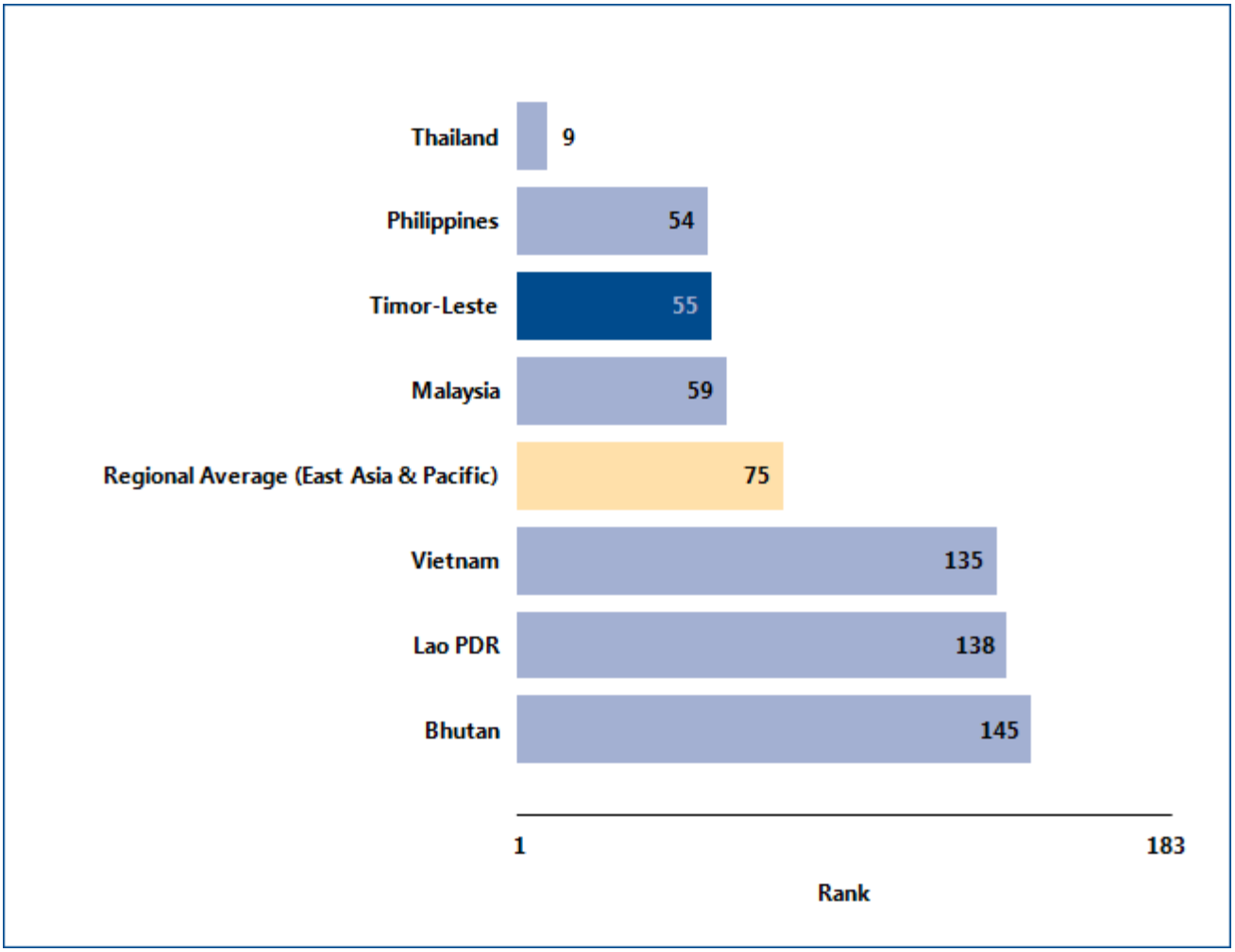


Note: For details on the procedures reflected here, see the summary at the end of this chapter.
Source: Doing Business database.

GETTING ELECTRICITY

Globally, Timor-Leste stands at 55 in the ranking of 183 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the regional average ranking provide another perspective in assessing how easy it is for an entrepreneur in Timor-Leste to connect a warehouse to electricity.

Figure 4.2 How Timor-Leste and comparator economies rank on the ease of getting electricity



Source: Doing Business database.

GETTING ELECTRICITY

Even more helpful than rankings for other economies may be the indicators underlying those rankings (table 4.1). If obtaining a new electricity connection requires fewer procedures, less time or less cost in other economies, the practices of their utilities may provide a model for Timor-Leste on ways to improve the ease of getting electricity. Regional and global averages on these indicators may provide useful benchmarks.

Table 4.1 The ease of getting electricity in Timor-Leste and comparator economies

Indicator	Timor-Leste	Bhutan	Lao PDR	Malaysia	Philippines	Thailand	Vietnam	East Asia & Pacific average	Global average
Rank	55	145	138	59	54	9	135	75	..
Procedures (number)	3	6	5	6	5	4	5	5	5
Time (days)	63	101	134	51	50	35	142	88	111
Cost (% of income per capita)	1818.2	1265.4	2381.6	95.5	762.0	77.6	1343.0	1,079.4	1,942.3

Source: Doing Business database.

GETTING ELECTRICITY

What are the details?

The indicators reported here for Timor-Leste are based on a set of specific procedures—the steps that an entrepreneur must complete to get a warehouse connected to electricity by the local distribution utility—identified by *Doing Business*. Data are collected from the distribution utility, then completed and verified by electricity regulatory agencies and independent professionals such as electrical engineers, electrical contractors and construction companies. The electricity distribution utility surveyed is the one serving the area (or areas) in which warehouses are located. If there is a choice of distribution utilities, the one serving the largest number of customers is selected.

OBTAINING AN ELECTRICITY CONNECTION	
City:	**Dili**
Name of Utility:	**Electricidade de Timor-Leste**

The procedures are those that apply to a warehouse and electricity connection matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). The procedures, along with the associated time and cost, are summarized below.

Summary of procedures for getting electricity in Timor-Leste—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	**Submit an application for electricity connection to EDTL and await estimate of the connection fees.** The application can be submitted by mail or in person. With the application a customer has to submit: location of site, proposed building location, proposed service location, estimated load requirement and a registration of the business ant the National Direction of Commerce (EDTL has different tariffs according to different type of business activities, this will also help EDTL to assign the correct tariff). Since the power required is more than 4500 VA, EDTL requires an installation wiring project. This project concerns the internal wiring. The documents do not require notarization. The supply contract is signed the same day the application is submitted. All departments of Electricidade de Timor-Leste are located in one building and the customer service in one part of the building takes care of applications and supply contracts. The day the customer signs the contract he has to make a declaration, accepting all terms and conditions given by EDTL for use of electricity. This will be among others, to never make an illegal connection, to never damage meters, to allow EDTL staff to inspect the installation whenever needed, and use electricity according the load required submitted to EDTL. In 14 days the utility works on the plan of the connection and provides an estimate to the applicant. According to a private contributor this procedure can take "a little bit longer" depending on the number of requests. Hence code 21 days.	28 calendar days	no charge

No.	Procedure	Time to complete	Cost to complete
	The applicant fee is 100 USD. The application fee will be 100 USD provided that the distance from the pole to the connection point is less or equal to 30m (thirty meters) from 30m ahead, an additional fee will be paid depending of the distance to the connection point.		
2	**External Inspection by the utility** Someone from the applicant's party is required to be present during the inspection.	14 calendar days	no charge
3	**External connection works carried out by the utility and final connection.** The utility is in charge of designing the connection and carrying out the physical connection works. It might higher a subcontractor to complete the works. A customer has to await external connection works depending on availability of material. All the material is provided either by the utility and the applicant is charged at the end for the expenses or the customer can buy the materials on his own. If the material is not available external connection works take 3 months. According to the utility all material is available more than 50% of the time although there is a problem with the lack of materials. The meter is installed by the utility at the same time as when the connection is done. The electricity starts flowing at the moment the connection is done. An additional load of 140 kVA will require construction of a new substation. The cost of the transformer is paid after the estimate is provided and before any external connection works can start. The applicant is not charged for cost of the labor or any other materials. He pays just the cost of the transformer. The meter is installed by the utility and electricity starts flowing as soon as the external connection works are over and the fees have been paid.	21 calendar days	USD 40,000.0

* Takes place simultaneously with another procedure.

Source: Doing Business database.

REGISTERING PROPERTY

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans—limiting access to finance.

What do the indicators cover?

Doing Business records the full sequence of procedures necessary for a business to purchase property from another business and transfer the property title to the buyer's name. The transaction is considered complete when it is opposable to third parties and when the buyer can use the property, use it as collateral for a bank loan or resell it. The ranking on the ease of registering property is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

To make the data comparable across economies, several assumptions about the parties to the transaction, the property and the procedures are used.

The parties (buyer and seller):

- Are limited liability companies, 100% domestically and privately owned.
- Are located in the periurban area of the economy's largest business city.
- Have 50 employees each, all of whom are nationals.
- Perform general commercial activities.

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.
- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. The property will be transferred in its entirety.

WHAT THE REGISTERING PROPERTY INDICATORS MEASURE

Procedures to legally transfer title on immovable property (number)

Preregistration (for example, checking for liens, notarizing sales agreement, paying property transfer taxes)

Registration in the economy's largest business city

Postregistration (for example, filing title with the municipality)

Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

Cost required to complete each procedure (% of property value)

Official costs only, no bribes

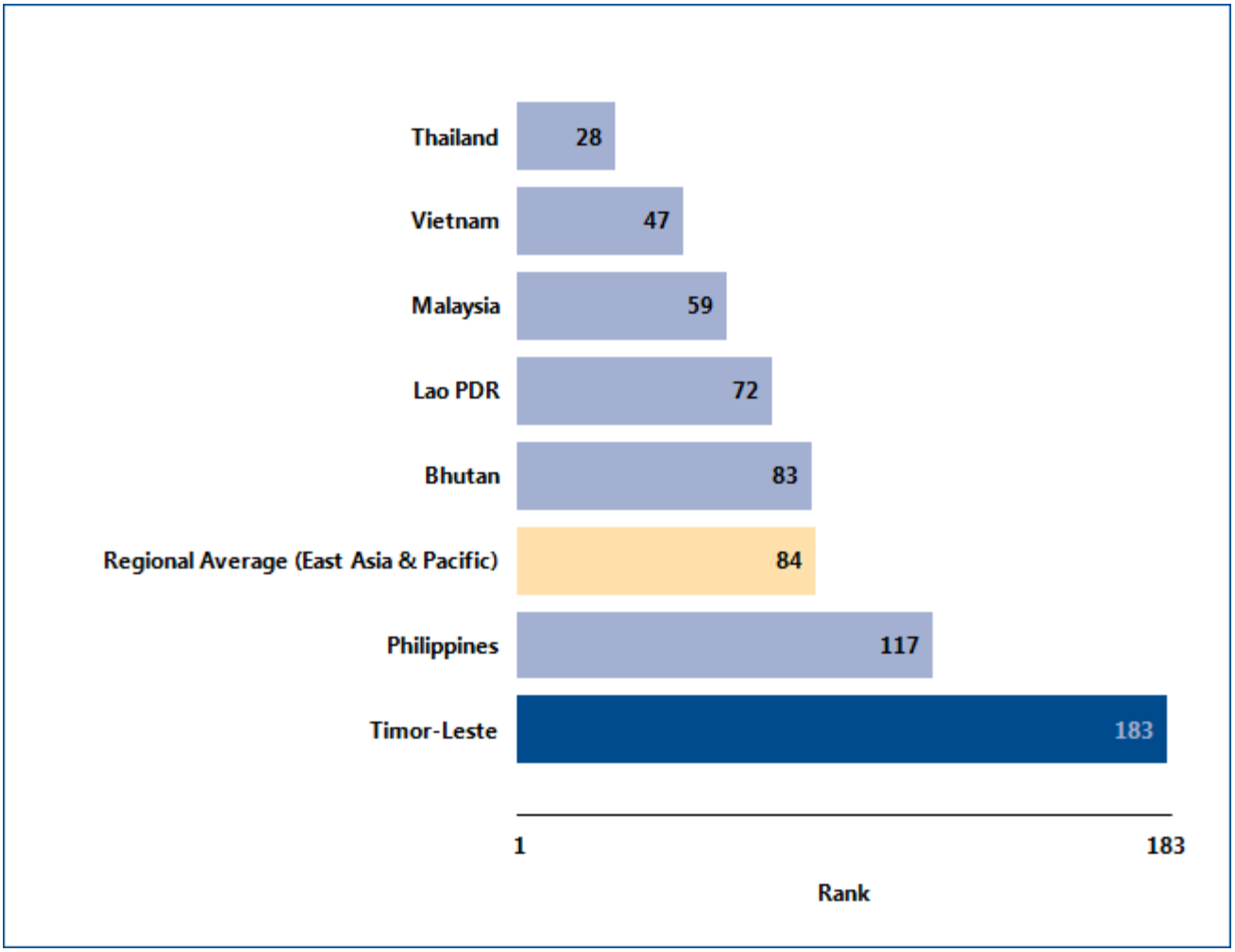
No value added or capital gains taxes included

REGISTERING PROPERTY

Where does the economy stand today?

What does it take to complete a property transfer in Timor-Leste? According to data collected by *Doing Business*, Timor-Leste receives a "no practice" mark. See the data notes for further details. Globally, Timor-Leste stands at 183 in the ranking of 183 economies on the ease of registering property (figure 5.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Timor-Leste to transfer property.

Figure 5.1 How Timor-Leste and comparator economies rank on the ease of registering property



Source: Doing Business database.

REGISTERING PROPERTY

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to register property in Timor-Leste today, data over time show which aspects of the process have changed—and which have not (table 5.1). That can help identify where the potential for improvement is greatest.

Table 5.1 The ease of registering property in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	183	183
Procedures (number)	n.a.	no practice	no practice	no practice	no practice	no practice	no practice	no practice
Time (days)	n.a.	no practice	no practice	no practice	no practice	no practice	no practice	no practice
Cost (% of property value)	n.a.	no practice	no practice	no practice	no practice	no practice	no practice	no practice

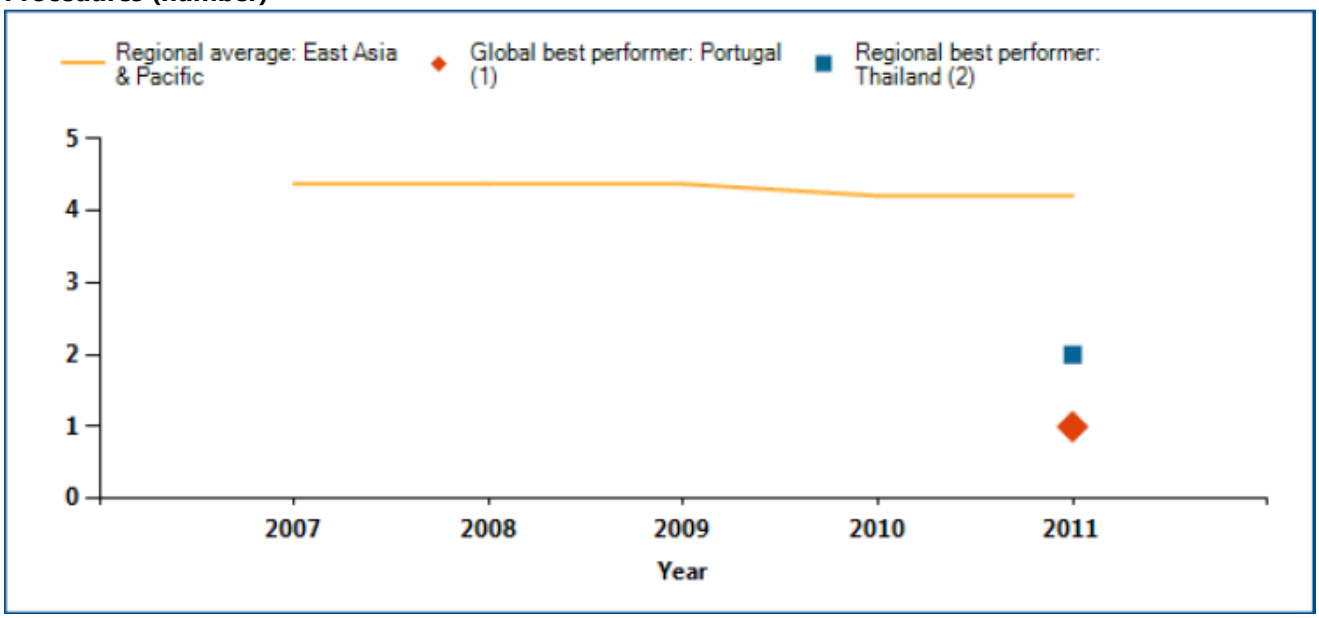
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology. For more information on "no practice" marks, see the data notes for details.
Source: Doing Business database.

REGISTERING PROPERTY

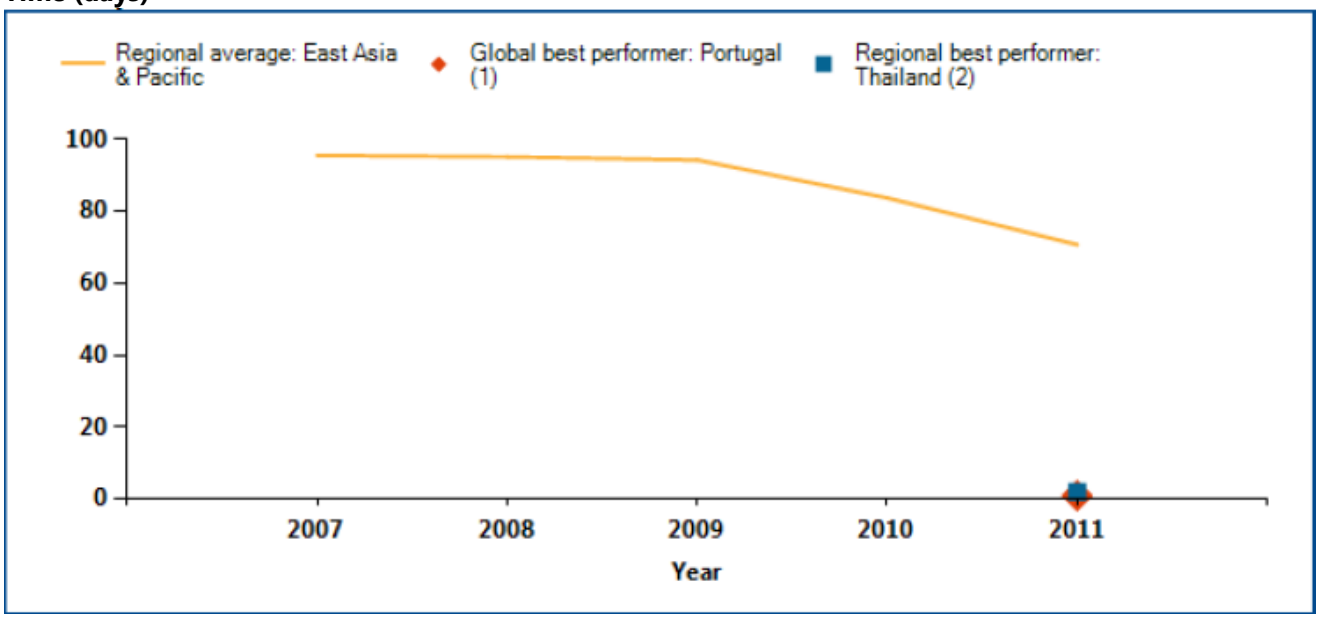
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the procedures, time or cost required to complete a property transfer (figure 5.2). These economies may provide a model for Timor-Leste on ways to improve the ease of registering property. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

Figure 5.2 Has registering property become easier over time?

Procedures (number)

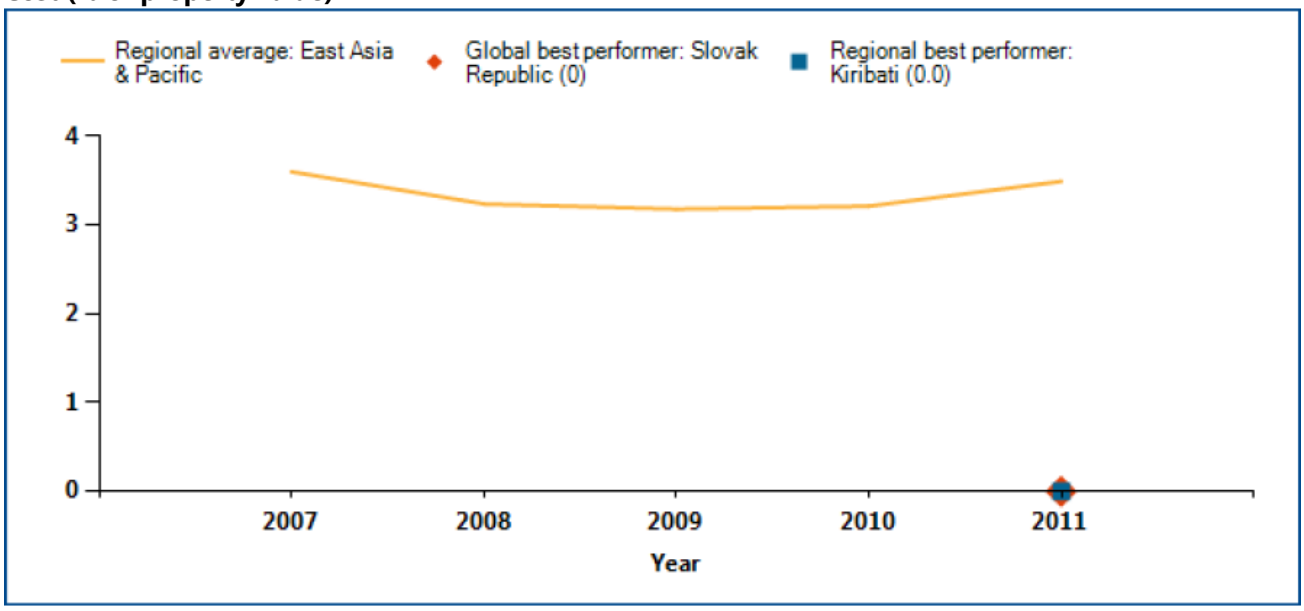


Time (days)



REGISTERING PROPERTY

Cost (% of property value)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator. In cases where no data are displayed above for the economy, this indicates that the economy has received a "no practice" mark; see the data notes for details.
Source: Doing Business database.

REGISTERING PROPERTY

Economies worldwide have been making it easier for entrepreneurs to register and transfer property—such as by computerizing land registries, introducing time limits for procedures and setting low fixed fees. Many have cut the time required substantially—enabling buyers to use or mortgage their property earlier. What property registration reforms has *Doing Business* recorded in Timor-Leste (table 5.2)?

Table 5.2 How has Timor-Leste made registering property easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and the legal rights of borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders to view a potential borrower's financial history (positive or negative)—valuable information to consider when assessing risk. And they permit borrowers to establish a good credit history that will allow easier access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as security to generate capital—while strong creditors' rights have been associated with higher ratios of private sector credit to GDP.

What do the indicators cover?

Doing Business assesses the sharing of credit information and the legal rights of borrowers and lenders with respect to secured transactions through 2 sets of indicators. The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through a public credit registry or a private credit bureau. The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. *Doing Business* uses case scenarios to determine the scope of the secured transactions system, involving a secured borrower and a secured lender and examining legal restrictions on the use of movable collateral. These scenarios assume that the borrower:

- Is a private, limited liability company.
- Has its headquarters and only base of operations in the largest business city.
- Has 100 employees.
- Is 100% domestically owned, as is the lender.

The ranking on the ease of getting credit is based on the percentile rankings on its component indicators: the depth of credit information index (weighted at 37.5%) and the strength of legal rights index (weighted at 62.5%).

WHAT THE GETTING CREDIT INDICATORS MEASURE

Strength of legal rights index (0–10)

Protection of rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

Depth of credit information index (0–6)

Scope and accessibility of credit information distributed by public credit registries and private credit bureaus

Public credit registry coverage (% of adults)

Number of individuals and firms listed in public credit registry as percentage of adult population

Private credit bureau coverage (% of adults)

Number of individuals and firms listed in largest private credit bureau as percentage of adult population

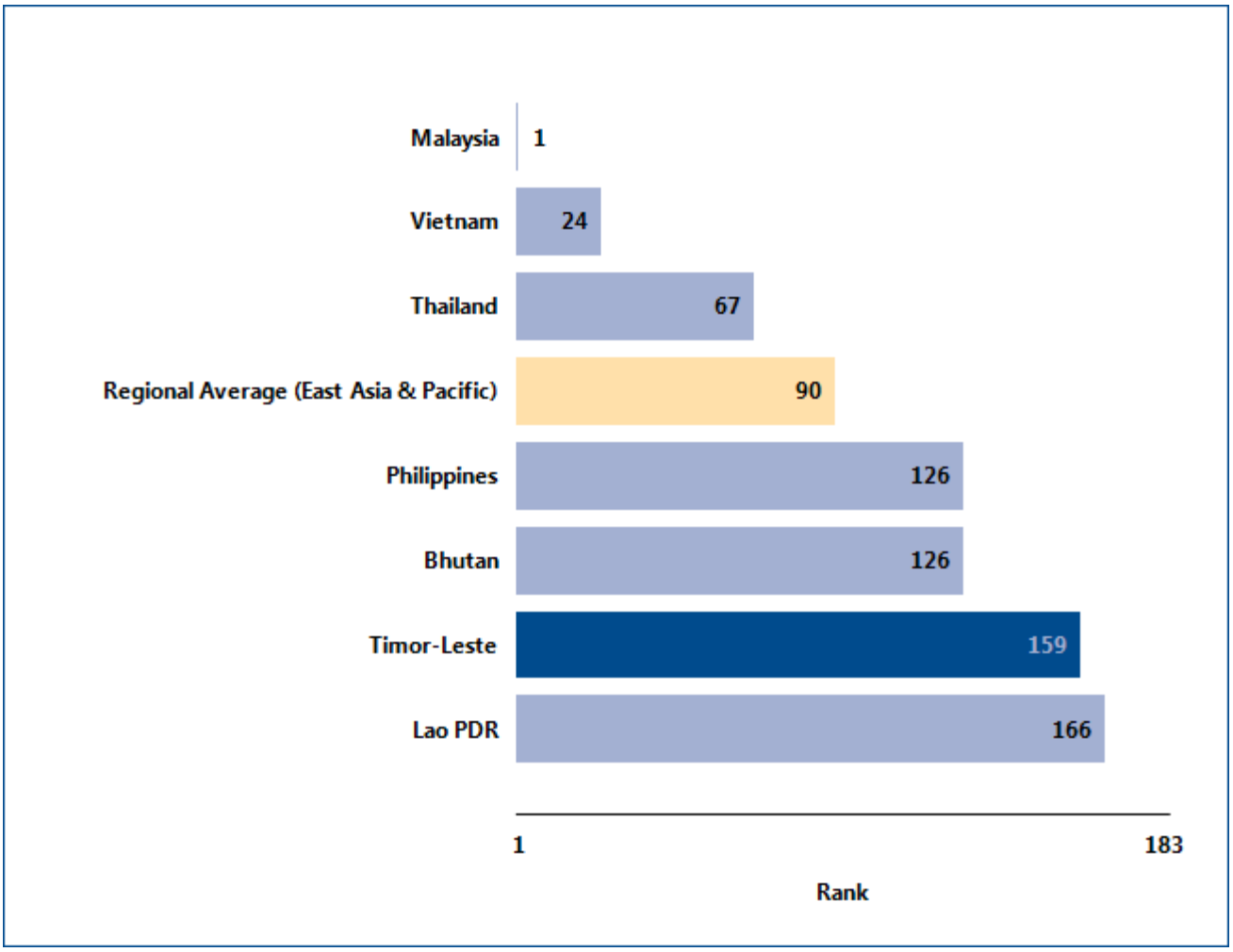
GETTING CREDIT

Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Timor-Leste facilitate access to credit? The economy has a score of 3 on the depth of credit information index and a score of 2 on the strength of legal rights index (see the summary of scoring at the end of this chapter for details). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders.

Globally, Timor-Leste stands at 159 in the ranking of 183 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how well regulations and institutions in Timor-Leste support lending and borrowing.

Figure 6.1 How Timor-Leste and comparator economies rank on the ease of getting credit



Source: Doing Business database.

GETTING CREDIT

What are the changes over time?

While the most recent *Doing Business* data reflect how well the credit information system and collateral and bankruptcy laws in Timor-Leste support lending and borrowing today, data over time can help show where institutions and regulations have been strengthened—and where they have not (table 6.1). That can help identify where the potential for improvement is greatest.

Table 6.1 The ease of getting credit in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	177	159
Strength of legal rights index (0-10)	2	2	2	2	2	2	2	2
Depth of credit information index (0-6)	0	0	0	0	0	0	0	3
Public registry coverage (% of adults)	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	1.8
Private bureau coverage (% of adults)	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0

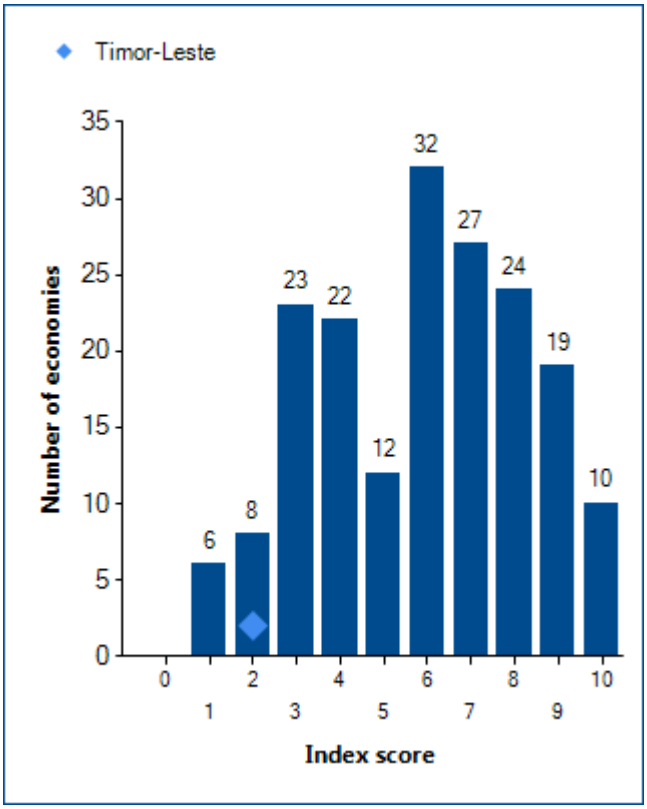
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology.
Source: Doing Business database.

GETTING CREDIT

One way to put an economy's getting credit indicators into context is to see where the economy stands in the distribution of scores across other economies. Figure 6.2 highlights the score on the strength of legal rights index for Timor-Leste in 2011 and shows the number of other economies having the same score in 2011. Figure 6.3 shows the same thing for the depth of credit information index.

Figure 6.2 Have legal rights for borrowers and lenders become stronger?

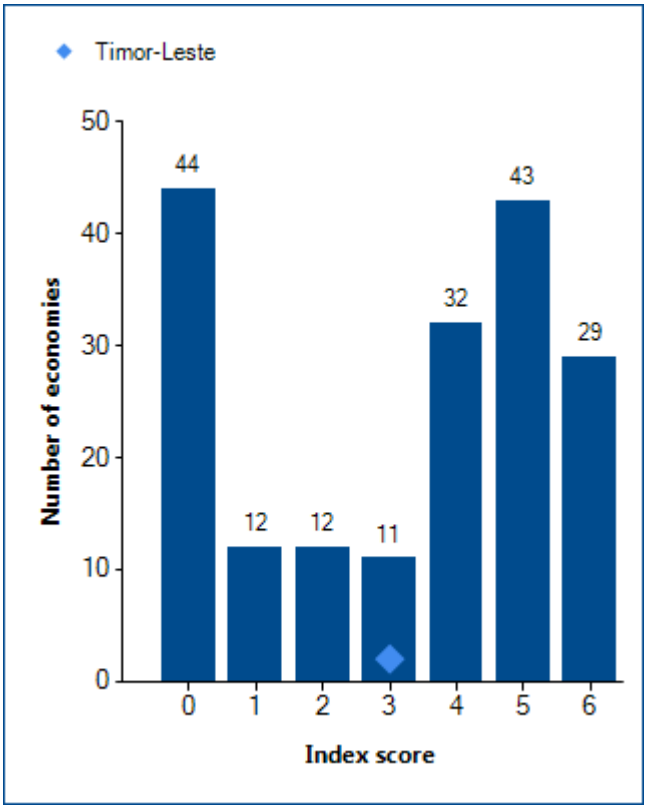
Number of economies with each score on strength of legal rights index (0–10), 2011



Source: Doing Business database.

Figure 6.3 Have the coverage and accessibility of credit information grown?

Number of economies with each score on depth of credit information index (0–6), 2011



Source: Doing Business database.

GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Timor-Leste (table 6.2)?

Table 6.2 How has Timor-Leste made getting credit easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	Timor-Leste improved its credit information system by establishing a public credit registry.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

GETTING CREDIT

What are the details?

The getting credit indicators reported here for Timor-Leste are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a public credit registry or private credit bureau (if one exists). To construct the depth of credit information index, a score of 1 is assigned for each of 6 features of the public credit registry or private credit bureau (see summary of scoring below).

The data on the legal rights of borrowers and lenders are gathered through a survey of financial lawyers and verified through analysis of laws and regulations as well as public sources of information on collateral and bankruptcy laws. For the strength of legal rights index, a score of 1 is assigned for each of 8 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law.

Summary of scoring for the getting credit indicators in Timor-Leste

Indicator	Timor-Leste	East Asia & Pacific	OECD high income
Strength of legal rights index (0-10)	2	7	7
Depth of credit information index (0-6)	3	2	5
Public registry coverage (% of adults)	1.8	10.3	9.5
Private bureau coverage (% of adults)	0.0	18.1	63.9

Strength of legal rights index (0–10)	Index score: 2
Can any business use movable assets as collateral while keeping possession of the assets; and any financial institution accept such assets as collateral ?	Yes
Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	No
Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?	No
May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets ?	No
Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?	No
Is a collateral registry in operation, that is unified geographically and by asset type, with an electronic database indexed by debtor's names?	No
Are secured creditors paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	No

Strength of legal rights index (0–10)	Index score: 2
Are secured creditors paid first (i.e. before general tax claims and employee claims) when a business is liquidated?	No
Are secured creditors either not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure, or the law provides secured creditors with grounds for relief from an automatic stay or	Yes
Does the law allow parties to agree in a collateral agreement that the lender may enforce its security right out of court, at the time a security interest is created?	No

Depth of credit information index (0–6)	Private credit bureau	Public credit registry	Index score: 3
Are data on both firms and individuals distributed?	No	No	1
Are both positive and negative data distributed?	No	No	0
Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?	No	No	0
Are more than 2 years of historical credit information distributed?	No	No	0
Is data on all loans below 1% of income per capita distributed?	No	No	1
Is it guaranteed by law that borrowers can inspect their data in the largest credit registry?	No	No	1

Note: An economy receives a score of 1 if there is a "yes" to either private bureau or public registry.

Coverage	Private credit bureau	Public credit registry
Number of firms	0	..
Number of individuals	0	..

Source: Doing Business database.

PROTECTING INVESTORS

Investor protections matter for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. If the laws do not provide such protections, investors may be reluctant to invest unless they become the controlling shareholders. Strong regulations clearly define related-party transactions, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set clear standards of accountability for company insiders.

What do the indicators cover?

Doing Business measures the strength of minority shareholder protections against directors' use of corporate assets for personal gain—or self-dealing. The indicators distinguish 3 dimensions of investor protections: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index) and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index). The ranking on the strength of investor protection index is the simple average of the percentile rankings on these 3 indices. To make the data comparable across economies, a case study uses several assumptions about the business and the transaction.

The business (Buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange (or at least a large private company with multiple shareholders).
- Has a board of directors and a chief executive officer (CEO) who may legally act on behalf of Buyer where permitted, even if this is not specifically required by law.

The transaction involves the following details:

- Mr. James, a director and the majority shareholder of the company, proposes that the company purchase used trucks from another company he owns.
- The price is higher than the going price for used trucks, but the transaction goes forward.
- All required approvals are obtained, and all required disclosures made, though the transaction is prejudicial to Buyer.
- Shareholders sue the interested parties and the members of the board of directors.

WHAT THE PROTECTING INVESTORS INDICATORS MEASURE

Extent of disclosure index (0–10)

Who can approve related-party transactions

Disclosure requirements in case of related-party transactions

Extent of director liability index (0–10)

Ability of shareholders to hold interested parties and members of the approving body liable in case of related-party transactions

Available legal remedies (damages, repayment of profits, fines, imprisonment and rescission of the transaction)

Ability of shareholders to sue directly or derivatively

Ease of shareholder suits index (0–10)

Access to internal corporate documents (directly or through a government inspector)

Documents and information available during trial

Strength of investor protection index (0–10)

Simple average of the extent of disclosure, extent of director liability and ease of shareholder suits indices

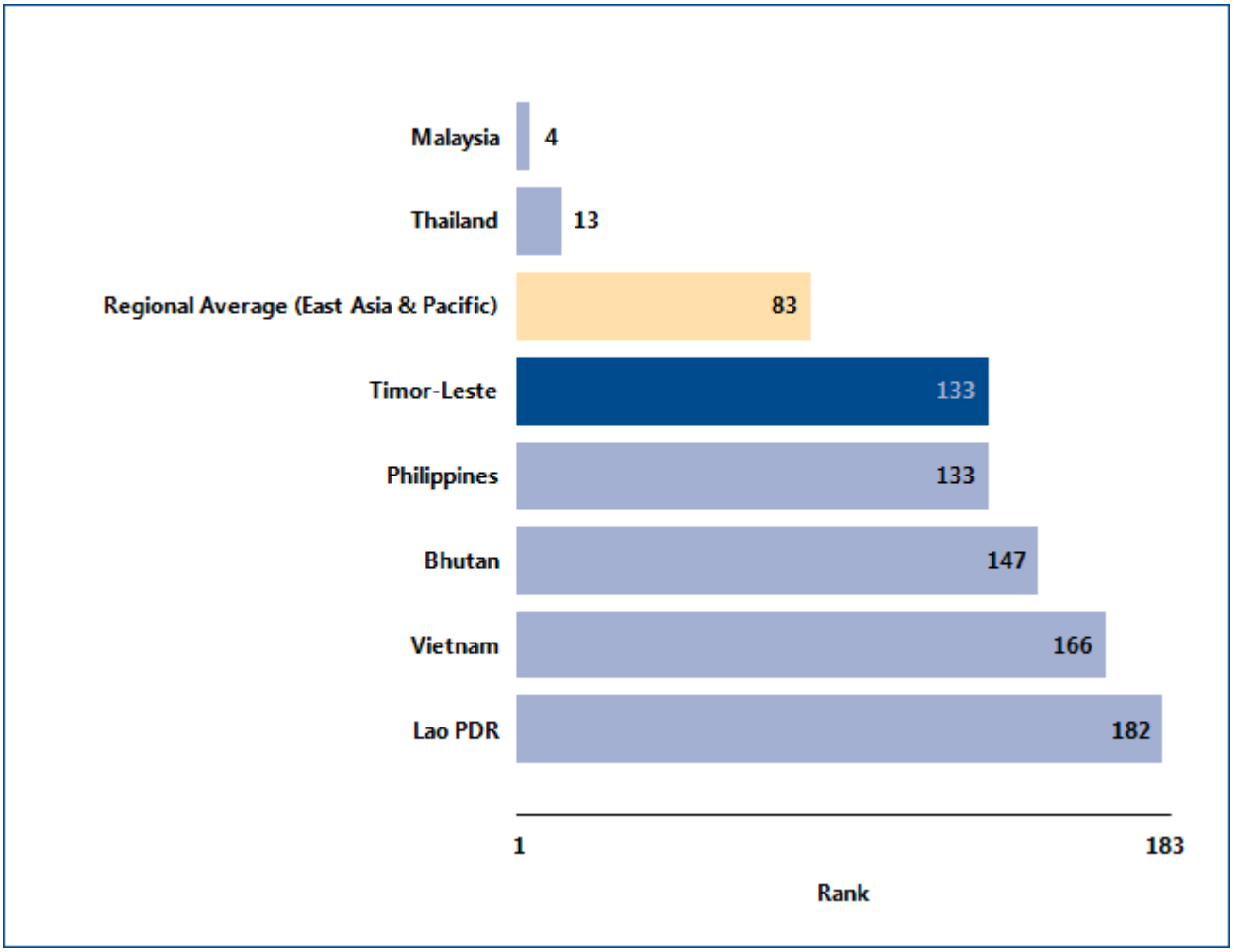
PROTECTING INVESTORS

Where does the economy stand today?

How strong are investor protections in Timor-Leste? The economy has a score of 4.0 on the strength of investor protection index, with a higher score indicating stronger protections (see the summary of scoring at the end of this chapter for details).

Globally, Timor-Leste stands at 133 in the ranking of 183 economies on the strength of investor protection index (figure 7.1). While the indicator does not measure all aspects related to the protection of minority investors, a higher ranking does indicate that an economy's regulations offer stronger investor protections against self-dealing in the areas measured.

Figure 7.1 How Timor-Leste and comparator economies rank on the strength of investor protection index



Source: Doing Business database.

PROTECTING INVESTORS

What are the changes over time?

While the most recent *Doing Business* data reflect how well regulations in Timor-Leste protect minority investors today, data over time show whether the protections have been strengthened (table 7.1). And the global ranking on the strength of investor protection index over time shows whether the economy is slipping behind other economies in investor protections—or surpassing them.

Table 7.1 The strength of investor protections in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	131	133
Extent of disclosure index (0-10)	3	3	3	3	3	3	3
Extent of director liability index (0-10)	4	4	4	4	4	4	4
Ease of shareholder suits index (0-10)	5	5	5	5	5	5	5
Strength of investor protection index (0-10)	4.0	4.0	4.0	4.0	4.0	4.0	4.0

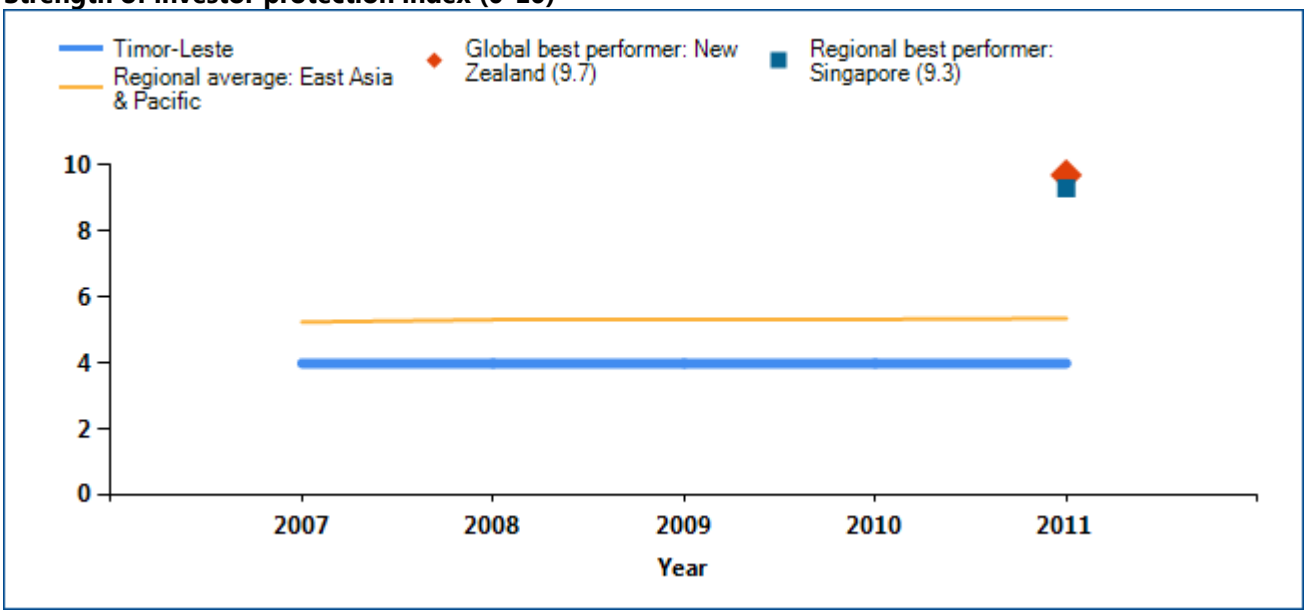
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology.
Source: Doing Business database.

PROTECTING INVESTORS

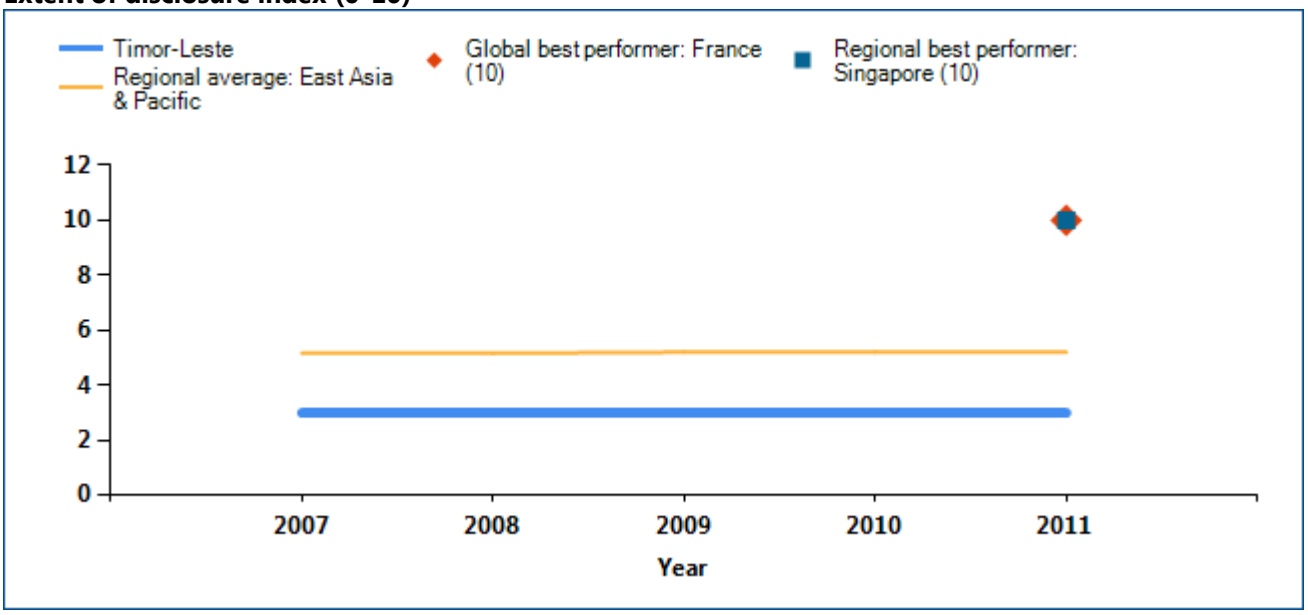
But the overall ranking on the strength of investor protection index tells only part of the story. Economies may offer strong protections in some areas but not others. So the scores recorded over time for Timor-Leste on the extent of disclosure, extent of director liability and ease of shareholder suits indices may also be revealing (figure 7.2). Equally interesting may be the changes over time in the regional average scores for those indices.

Figure 7.2 Have investor protections become stronger?

Strength of investor protection index (0-10)

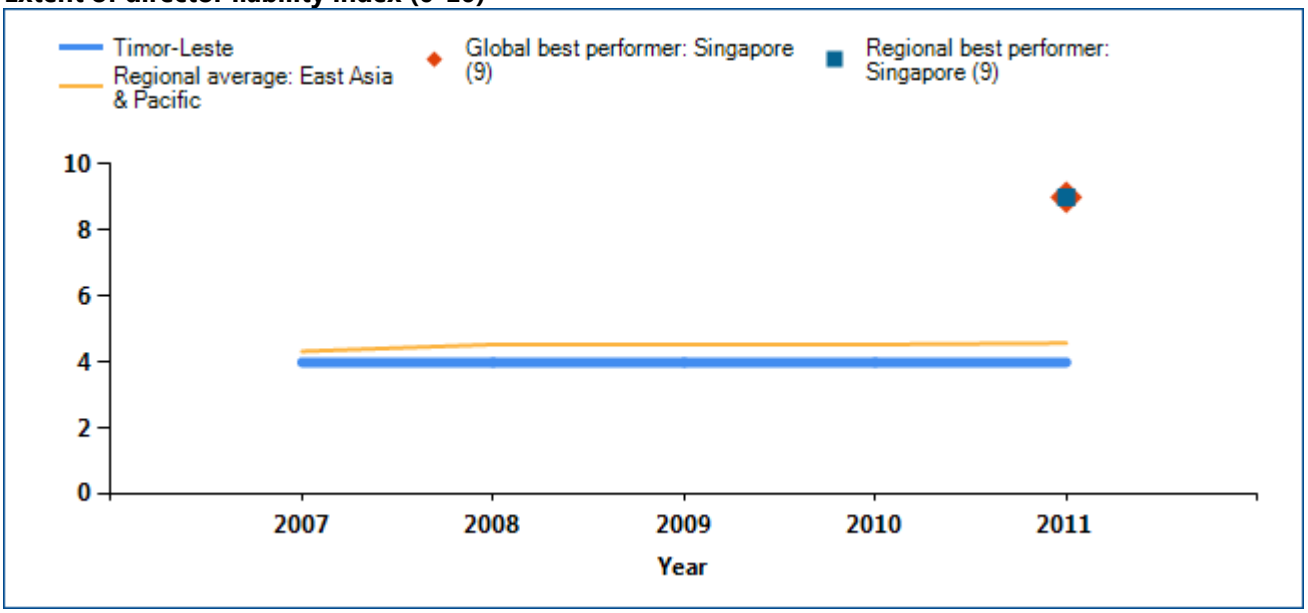


Extent of disclosure index (0-10)

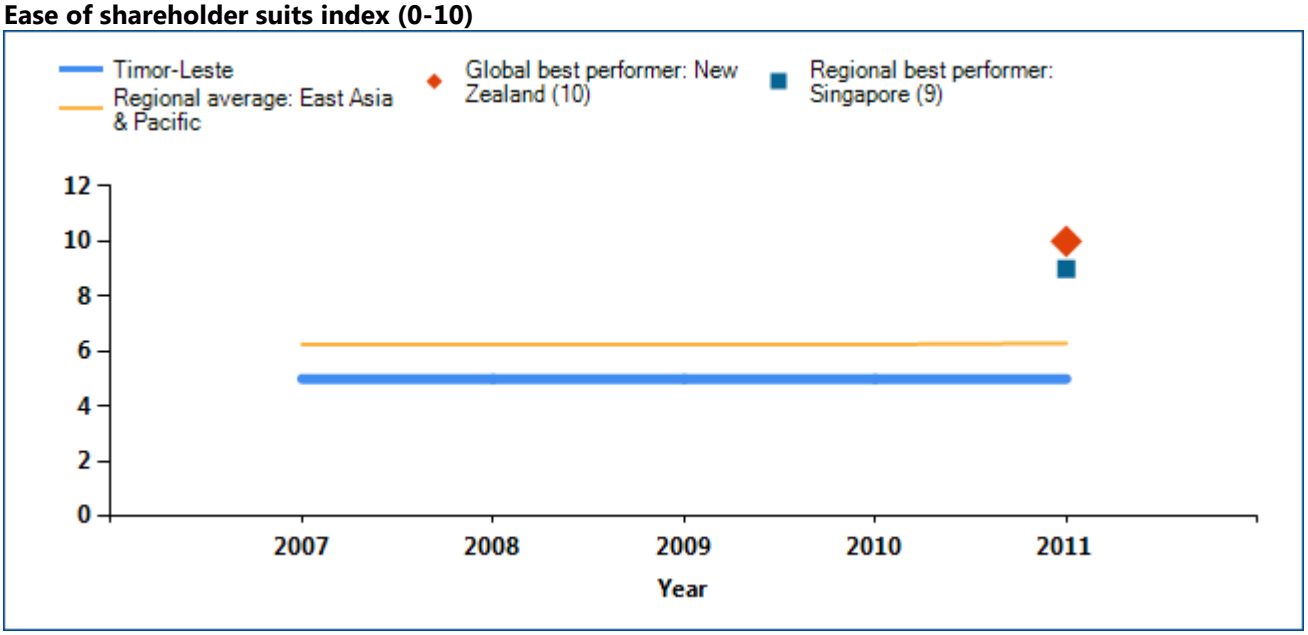


PROTECTING INVESTORS

Extent of director liability index (0-10)



Ease of shareholder suits index (0-10)



Note: The higher the score, the stronger the investor protections. The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator.
Source: Doing Business database.

PROTECTING INVESTORS

Economies with the strongest protections of minority investors from self-dealing require more disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority investors the means to prove their case and obtain a judgment within a reasonable time. So reforms to strengthen investor protections may move ahead on different fronts—such as through new or amended company laws or civil procedure rules. What investor protection reforms has *Doing Business* recorded in Timor-Leste (table 7.2)?

Table 7.2 How has Timor-Leste strengthened investor protections—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

PROTECTING INVESTORS

What are the details?

The protecting investors indicators reported here for Timor-Leste are based on detailed information collected through a survey of corporate and securities lawyers and are based on securities regulations, company laws and court rules of evidence. To construct the extent of disclosure, extent of director liability and ease of shareholder suits indices, a score is assigned for each of a range of conditions relating to disclosure, director liability and shareholder suits in a standard case study transaction (see the notes at the end of this chapter). The summary below shows the details underlying the scores for Timor-Leste.

Summary of scoring for the protecting investors indicators in Timor-Leste

Indicator	Timor-Leste	East Asia & Pacific	OECD high income
Extent of disclosure index (0-10)	3	5	6
Extent of director liability index (0-10)	4	5	5
Ease of shareholder suits index (0-10)	5	6	7
Strength of investor protection index (0-10)	4.0	5.4	6.0

	Score
Extent of disclosure index (0-10)	3
What corporate body provides legally sufficient approval for the transaction?	1
Whether disclosure of the conflict of interest by Mr. James to the board of directors is required?	0
Whether immediate disclosure of the transaction to the public and/or shareholders is required?	0
Whether disclosure of the transaction in published periodic filings (annual reports) is required?	1
Whether an external body must review the terms of the transaction before it takes place?	1
Extent of director liability index (0-10)	4
Whether shareholders can sue directly or derivatively for the damage that the Buyer-Seller transaction causes to the company?	1
Whether shareholders can hold Mr. James liable for the damage that the Buyer-Seller transaction causes to the company?	1
Whether shareholders can hold members of the approving body liable for the damage that the Buyer-Seller transaction causes to the company?	1
Whether a court can void the transaction upon a successful claim by a shareholder plaintiff?	0

	Score
Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff?	1
Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff?	0
Whether fines and imprisonment can be applied against Mr. James?	0
Ease of shareholder suits index (0-10)	5
Whether shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit?	1
Whether shareholders owning 10% or less of Buyer's shares can request an inspector to investigate the transaction?	1
Whether the plaintiff can obtain any documents from the defendant and witnesses during trial?	3
Whether the plaintiff can request categories of documents from the defendant without identifying specific ones?	0
Whether the plaintiff can directly question the defendant and witnesses during trial?	0
Whether the level of proof required for civil suits is lower than that of criminal cases?	0
Strength of investor protection index (0-10)	4.0

Source: Doing Business database.

Notes:

Extent of disclosure index (0–10)

Scoring for the extent of disclosure index is based on 5 components:

Which corporate body can provide legally sufficient approval for the transaction
0 = CEO or managing director alone; 1 = shareholders or board of directors vote and Mr. James can vote; 2 = board of directors votes and Mr. James cannot vote; 3 = shareholders vote and Mr. James cannot vote.

Whether disclosure of the conflict of interest by Mr. James to the board of directors is required
0 = no disclosure; 1 = disclosure of the existence of a conflict without any specifics; 2 = full disclosure of all material facts.

Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required
0 = no disclosure; 1 = disclosure on the transaction only; 2 = disclosure on the transaction and Mr. James's conflict of interest.

Whether disclosure of the transaction in the annual report is required
0 = no disclosure; 1 = disclosure on the transaction only; 2 = disclosure on the transaction and Mr. James's conflict of interest.

Whether it is required that an external body (for example, an external auditor) review the transaction before it takes place
0 = no; 1 = yes.

Extent of director liability index (0–10)

Scoring for the extent of director liability index is based on 7 components:

Whether shareholders can sue directly or derivatively for the damage that the Buyer-Seller transaction causes to the company
0 = suits are unavailable or available only for shareholders holding more than 10% of the company's share capital; 1 = direct or derivative suits available for shareholders holding 10% of share capital or less.

Whether shareholders can hold Mr. James liable for the damage that the transaction causes to the company
0 = Mr. James is not liable or is liable only if he acted fraudulently or in bad faith; 1 = Mr. James is liable if he influenced the approval or was negligent; 2 = Mr. James is liable if the transaction is unfair or prejudicial to the other shareholders.

Whether shareholders can hold the approving body (the CEO or members of the board of directors) liable for the damage that the transaction causes to the company
0 = members of the approving body are either not liable or liable only if they acted fraudulently or in bad faith; 1 = liable for negligence in the approval of the transaction; 2 = liable if the transaction is unfair or prejudicial to the other shareholders.

Whether a court can void the transaction upon a successful claim by a shareholder plaintiff
0 = rescission is unavailable or available only in case of Seller's fraud or bad faith; 1 = rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 = rescission is available when the transaction is unfair or entails a conflict of interest.

Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff
0 = no; 1 = yes.

Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff
0 = no; 1 = yes.

Whether both fines and imprisonment can be applied against Mr. James
0 = no; 1 = yes.

Ease of shareholder suits index (0–10)

Scoring for the ease of shareholder suits index is based on 6 components:

What range of documents is available to the plaintiff from the defendant and witnesses during trial
Score of 1 for each of the following: information that the defendant has indicated he intends to rely on for his defense; information that directly proves specific facts in the plaintiff's claim; any information relevant to the subject matter of the claim; and any information that may lead to the discovery of relevant information.

Whether the plaintiff can directly examine the defendant and witnesses during trial
0 = no; 1 = yes, with prior approval by the court of the questions posed; 2 = yes, without prior approval.

Whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each document specifically
0 = no; 1 = yes.

Whether shareholders owning 10% or less of the company's share capital can request that a government inspector investigate the transaction without filing suit in court
0 = no; 1 = yes.

Whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit
0 = no; 1 = yes.

Whether the standard of proof for civil suits is lower than that for a criminal case
0 = no; 1 = yes.

Strength of investor protection index (0–10)

Simple average of the extent of disclosure, extent of director liability and ease of shareholder suits indices.

PAYING TAXES

Taxes are essential. They fund the public amenities, infrastructure and services that are crucial for a properly functioning economy. But the level of tax rates needs to be carefully chosen—and needless complexity in tax rules avoided. According to *Doing Business* data, in economies where it is more difficult and costly to pay taxes, larger shares of economic activity end up in the informal sector—where businesses pay no taxes at all.

What do the indicators cover?

Using a case scenario, *Doing Business* measures the taxes and mandatory contributions that a medium-size company must pay in a given year as well as the administrative burden of paying taxes and contributions. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Information is also compiled on the frequency of filing and payments as well as time taken to comply with tax laws. The ranking on the ease of paying taxes is the simple average of the percentile rankings on its component indicators: number of annual payments, time and total tax rate, with a threshold being applied to the total tax rate.[2] To make the data comparable across economies, several assumptions about the business and the taxes and contributions are used.

- TaxpayerCo is a medium-size business that started operations on January 1, 2009.
- The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded.
- Taxes and mandatory contributions are measured at all levels of government.
- Taxes and mandatory contributions include corporate income tax, turnover tax and all labor taxes and contributions paid by the company.
- A range of standard deductions and exemptions are also recorded.

WHAT THE PAYING TAXES INDICATORS MEASURE

Tax payments for a manufacturing company in 2010 (number per year adjusted for electronic or joint filing and payment)

- Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)
- Method and frequency of filing and payment

Time required to comply with 3 major taxes (hours per year)

- Collecting information and computing the tax payable
- Completing tax return forms, filing with proper agencies
- Arranging payment or withholding
- Preparing separate tax accounting books, if required

Total tax rate (% of profit before all taxes)

- Profit or corporate income tax
- Social contributions and labor taxes paid by the employer
- Property and property transfer taxes
- Dividend, capital gains and financial transactions taxes
- Waste collection, vehicle, road and other taxes

[2] The threshold is defined as the highest total tax rate among the top 30% of economies in the ranking on the total tax rate. It will be calculated and adjusted on a yearly basis. The threshold is not based on any underlying theory. Instead, it is intended to mitigate the effect of very low tax rates on the ranking on the ease of paying taxes.

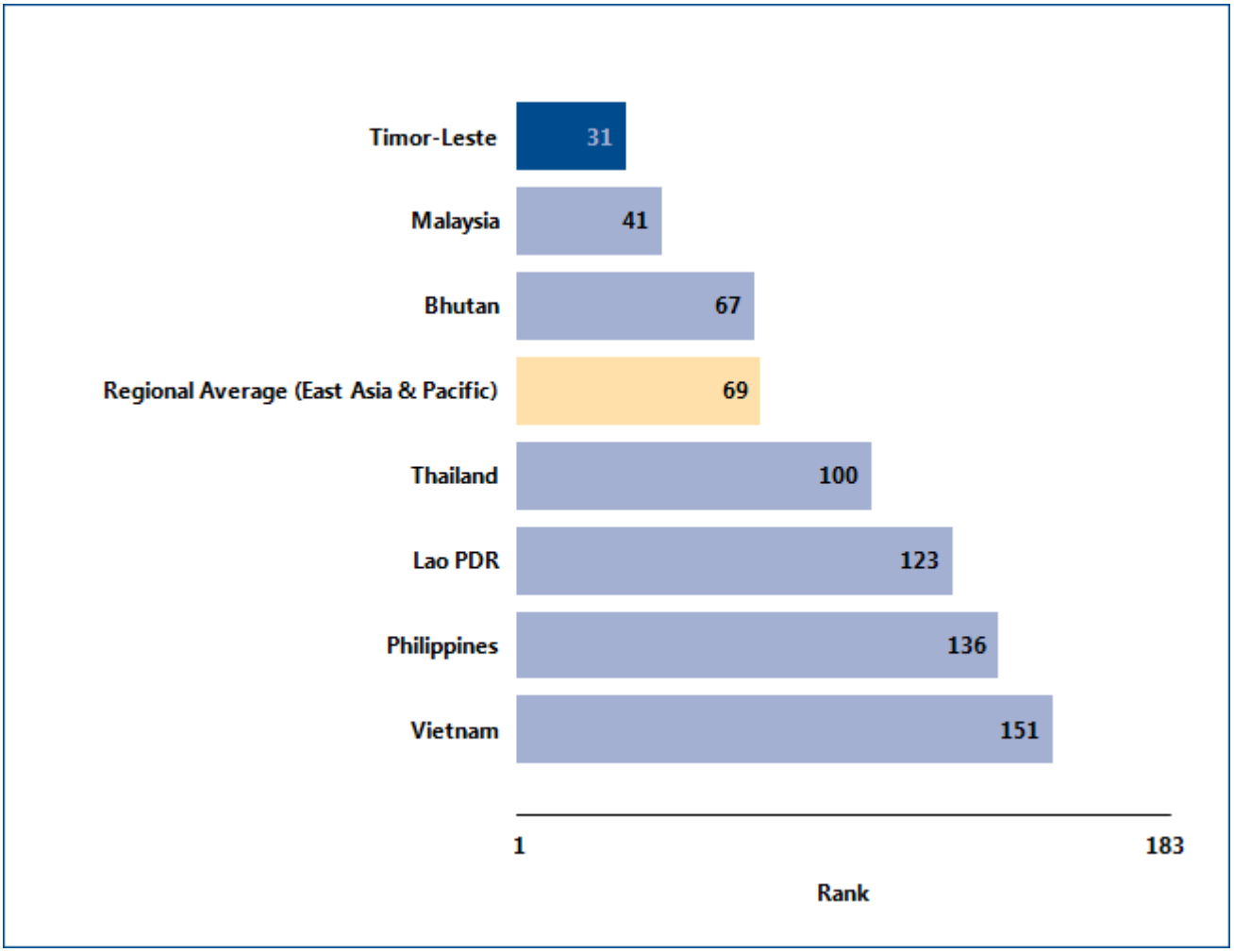
PAYING TAXES

Where does the economy stand today?

What is the administrative burden of complying with taxes in Timor-Leste—and how much do firms pay in taxes? On average, firms make 6 tax payments a year, spend 276 hours a year filing, preparing and paying taxes and pay total taxes amounting to 0.0% of profit (see the summary at the end of this chapter for details).

Globally, Timor-Leste stands at 31 in the ranking of 183 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in Timor-Leste.

Figure 8.1 How Timor-Leste and comparator economies rank on the ease of paying taxes



Note: DB2012 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 32.5% applied in DB2012, the total tax rate is set at 32.5% for the purpose of calculating the ranking on the ease of paying taxes.

Source: Doing Business database.

PAYING TAXES

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to comply with tax rules in Timor-Leste today, data over time show which aspects of the process have changed — and which have not (table 8.1). That can help identify where the potential for easing tax compliance is greatest.

Table 8.1 The ease of paying taxes in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	27	31
Payments (number per year)	15	15	15	15	6	6	6
Time (hours per year)	640	640	640	640	276	276	276
Total tax rate (% profit)	28.3	28.3	28.3	28.3	0.2	0.2	0.2

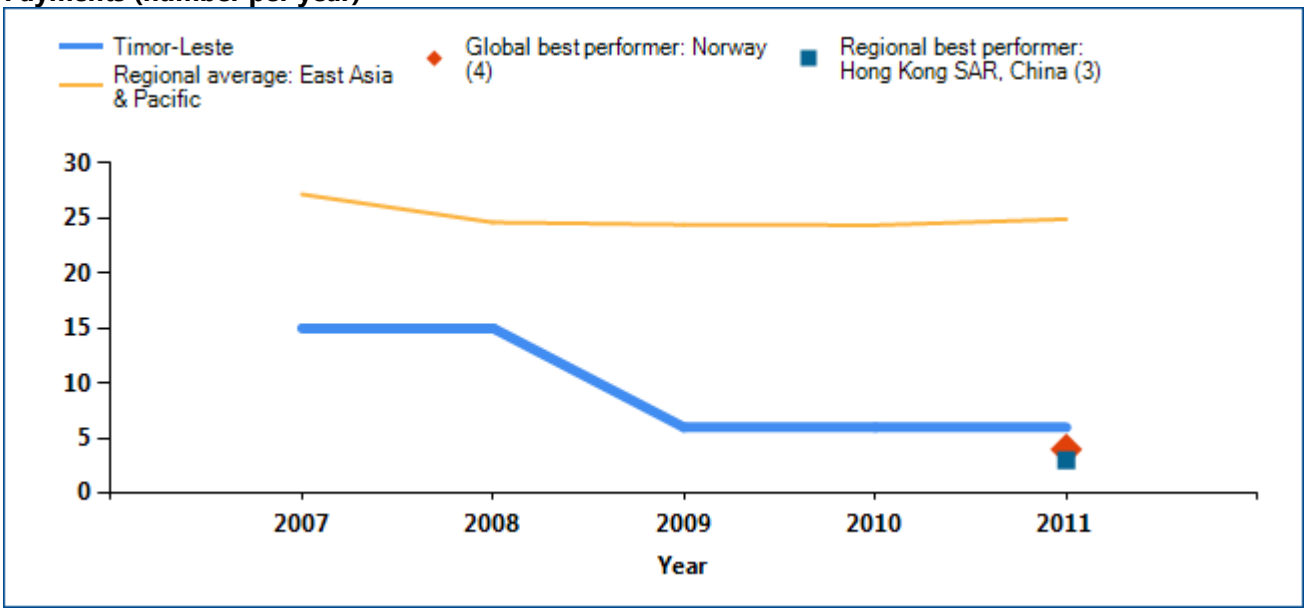
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 32.5% applied in DB2012, the total tax rate is set at 32.5% for the purpose of calculating the rank on the ease of paying taxes.
Source: Doing Business database.

PAYING TAXES

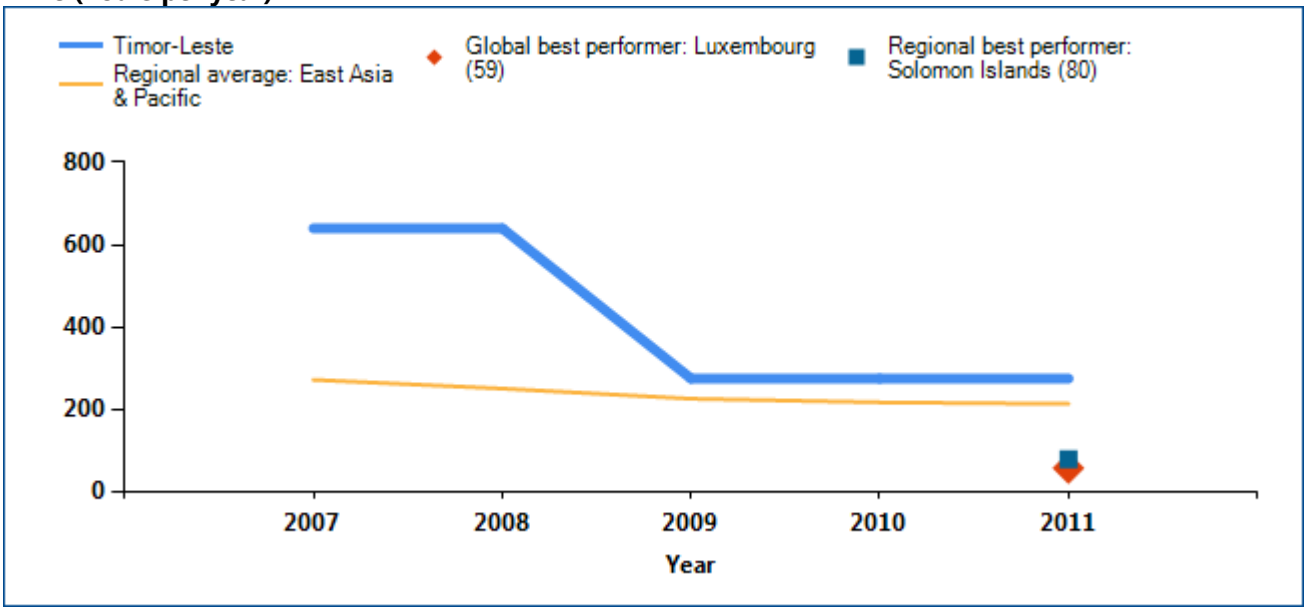
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the number of payments or the time required to prepare and file taxes (figure 8.2). These economies may provide a model for Timor-Leste on ways to ease the administrative burden of tax compliance. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

Figure 8.2 Has paying taxes become easier over time?

Payments (number per year)

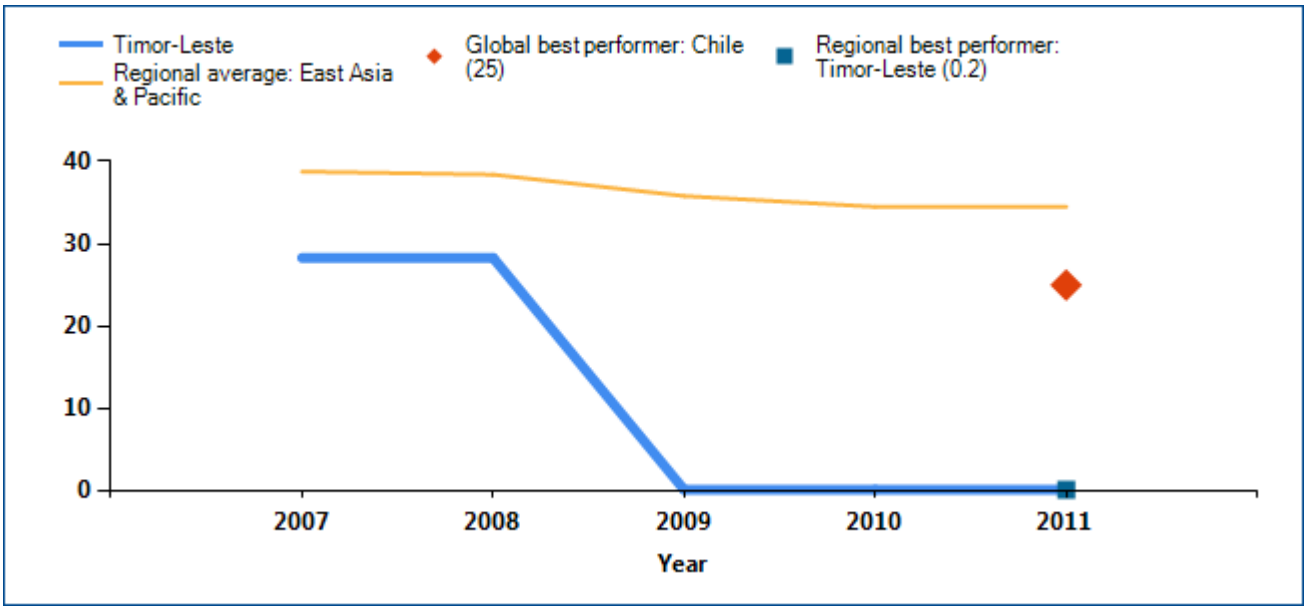


Time (hours per year)



PAYING TAXES

Total tax rate (% of profit)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. The best performer globally on an indicator has implemented the most efficient practices in its tax system but is not necessarily the one with the highest ranking on the indicator. In some cases 2 or more economies share the top regional ranking on an indicator. DB2012 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 32.5% applied in DB2012, the total tax rate is set at 32.5% for the purpose of calculating the ranking on the ease of paying taxes.
Source: Doing Business database.

PAYING TAXES

Economies around the world have made paying taxes faster and easier for businesses—such as by consolidating filings, reducing the frequency of payments or offering electronic filing and payment. Many have lowered tax rates. Changes have brought concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Timor-Leste (table 8.2)?

Table 8.2 How has Timor-Leste made paying taxes easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	A new tax law was adopted in July 2008. The law cut the profit tax rate from 30 percent to 10 percent and abolished the alternative minimum tax and the withholding tax on interest. Meanwhile, corporate income tax is now paid in quarterly installments when turnover is less than $1 million.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

PAYING TAXES

What are the details?

The indicators reported here for Timor-Leste are based on a standard set of taxes and contributions that would be paid by the case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review standard financial statements as well as a standard list of transactions that the company completed during the year. Respondents are asked how much in taxes and mandatory contributions the business must pay and what the process is for doing so. The taxes and contributions paid are listed in the summary below, along with the associated number of payments, time and tax rate.

Summary of tax rates and administrative burden in Timor-Leste

Indicator	Timor-Leste	East Asia & Pacific	OECD high income
Payments (number per year)	6	25	13
Time (hours per year)	276	215	186
Profit tax (%)	0.0	16.8	15.4
Labor tax and contributions (%)	0.0	10.7	24.0
Other taxes (%)	0.2	6.9	3.2
Total tax rate (% profit)	0.2	34.5	42.7

Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Fuel tax	1		0	USD 0.06	per liter	0.2	
Corporate income tax	5		132	10%	taxable profits	0	
Employee paid - Personal income tax	0	withheld	144			0	withheld
Totals	**6**		**276**			**0.2**	

Note: DB2012 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 32.5% applied in DB2012, the total tax rate is set at 32.5% for the purpose of calculating the ranking on the ease of paying taxes.
Source: Doing Business database.

TRADING ACROSS BORDERS

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential. Research shows that exporters in developing countries gain more from a 10% drop in their trading costs than from a similar reduction in the tariffs applied to their products in global markets.

What do the indicators cover?

Doing Business measures the time and cost (excluding tariffs) associated with exporting and importing a standard shipment of goods by ocean transport, and the number of documents necessary to complete the transaction. The indicators cover procedural requirements such as documentation requirements and procedures at customs and other regulatory agencies as well as at the port. They also cover trade logistics, including the time and cost of inland transport to the largest business city. The ranking on the ease of trading across borders is the simple average of the percentile rankings on its component indicators: documents, time and cost to export and import.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the traded goods.

The business:

- Is of medium size and employs 60 people.
- Is located in the periurban area of the economy's largest business city.
- Is a private, limited liability company, domestically owned, formally registered and operating under commercial laws and regulations of the economy.

The traded goods:

- Are not hazardous nor do they include military items.
- Do not require refrigeration or any other special environment.
- Do not require any special phytosanitary or environmental safety standards other than accepted international standards.
- Are one of the economy's leading export or import products.
- Are transported in a dry-cargo, 20-foot full container load.

WHAT THE TRADING ACROSS BORDERS INDICATORS MEASURE

Documents required to export and import (number)

- Bank documents
- Customs clearance documents
- Port and terminal handling documents
- Transport documents

Time required to export and import (days)

- Obtaining all the documents
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Does not include ocean transport time

Cost required to export and import (US$ per container)

- All documentation
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Official costs only, no bribes

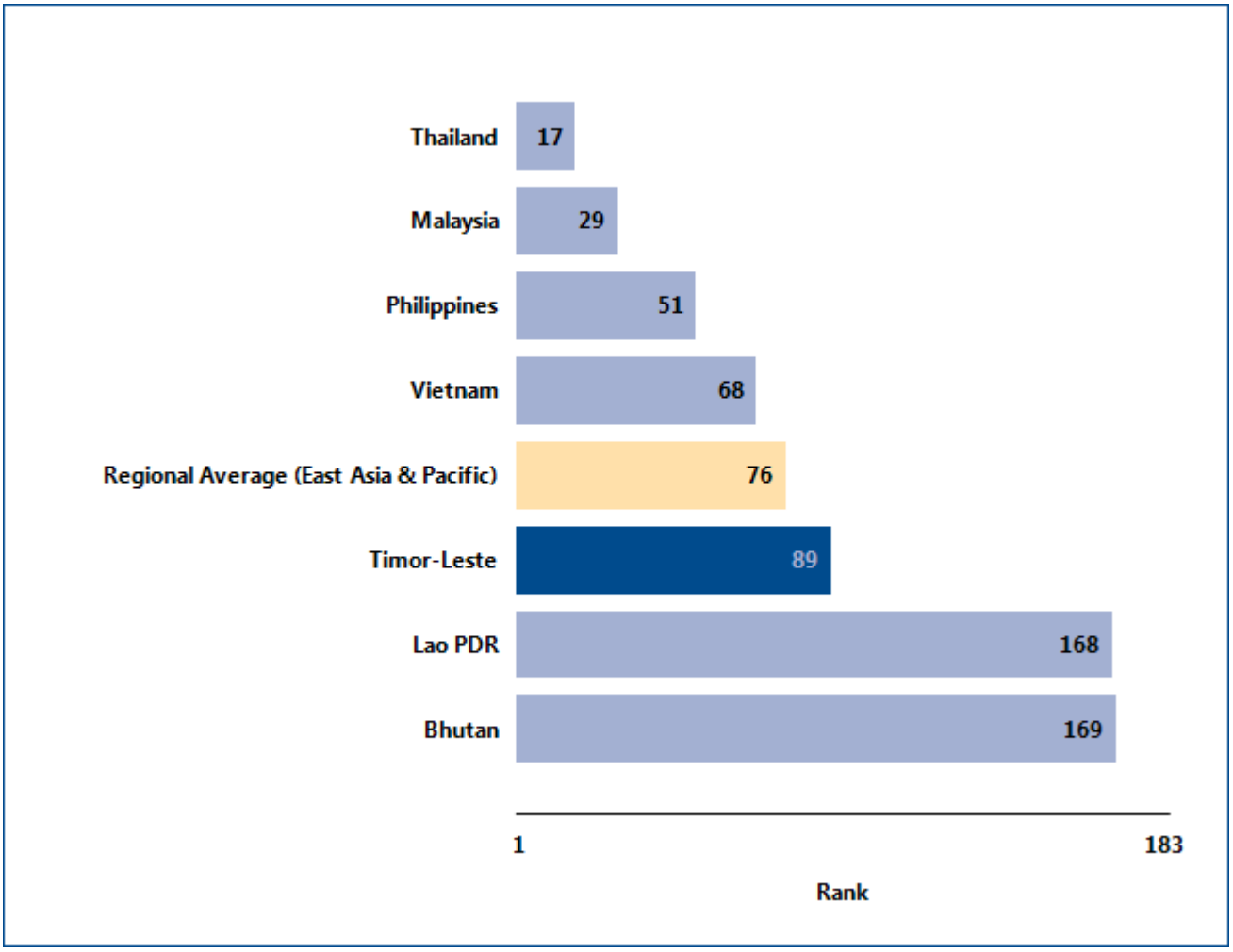
TRADING ACROSS BORDERS

Where does the economy stand today?

What does it take to export or import in Timor-Leste? According to data collected by *Doing Business*, exporting a standard container of goods requires 6 documents, takes 25 days and costs $1010. Importing the same container of goods requires 7 documents, takes 26 days and costs $1015 (see the summary of procedures and documents at the end of this chapter for details).

Globally, Timor-Leste stands at 89 in the ranking of 183 economies on the ease of trading across borders (figure 9.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for a business in Timor-Leste to export and import goods.

Figure 9.1 How Timor-Leste and comparator economies rank on the ease of trading across borders



Source: Doing Business database.

TRADING ACROSS BORDERS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to export or import in Timor-Leste today, data over time show which aspects of the process have changed—and which have not (table 9.1). That can help identify where the potential for improvement is greatest.

Table 9.1 The ease of trading across borders in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	89	89
Documents to export (number)	6	6	6	6	6	6	6
Time to export (days)	25	25	25	25	25	25	25
Cost to export (US$ per container)	990	990	990	1,010	1,010	1,010	1,010
Documents to import (number)	7	7	7	7	7	7	7
Time to import (days)	26	26	26	26	26	26	26
Cost to import (US$ per container)	995	995	995	1,015	1,015	1,015	1,015

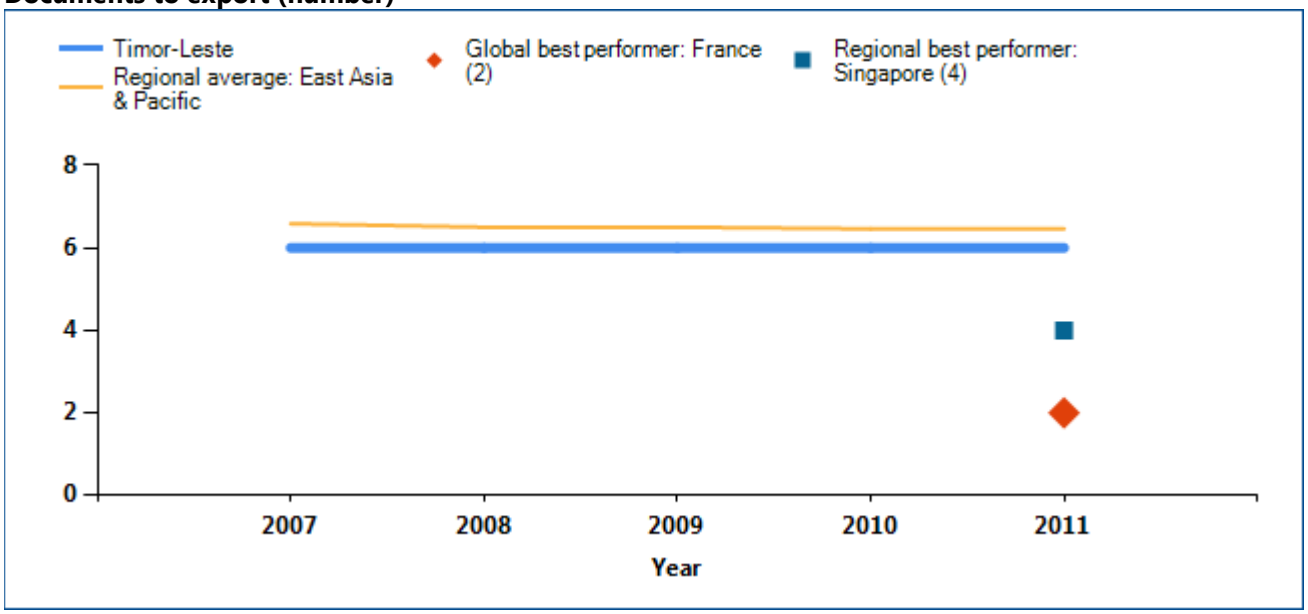
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology.
Source: Doing Business database.

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the documents, time or cost required to export or import (figure 9.2). These economies may provide a model for Timor-Leste on ways to improve the ease of trading across borders. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

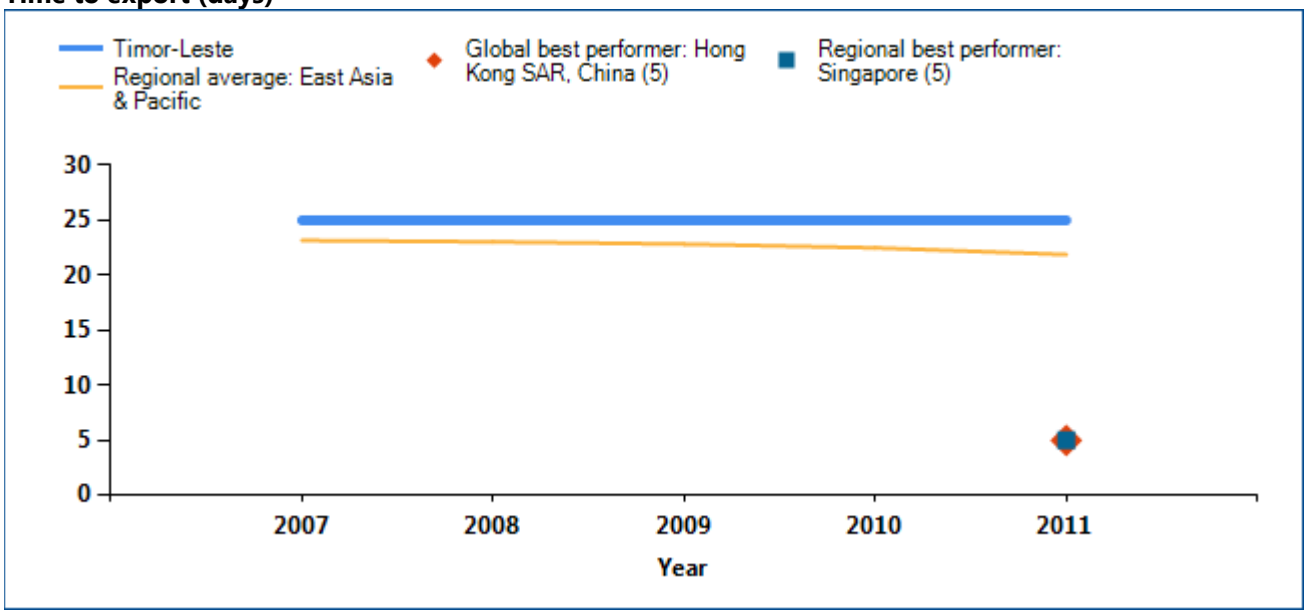
TRADING ACROSS BORDERS

Figure 9.2 Has trading across borders become easier over time?

Documents to export (number)

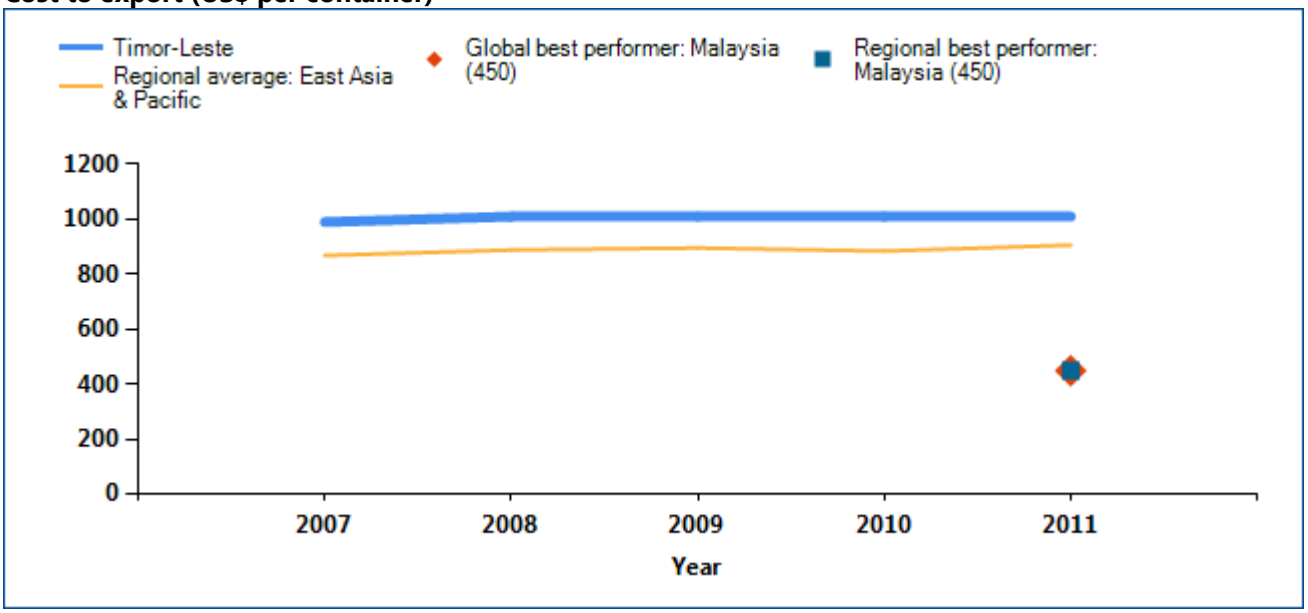


Time to export (days)

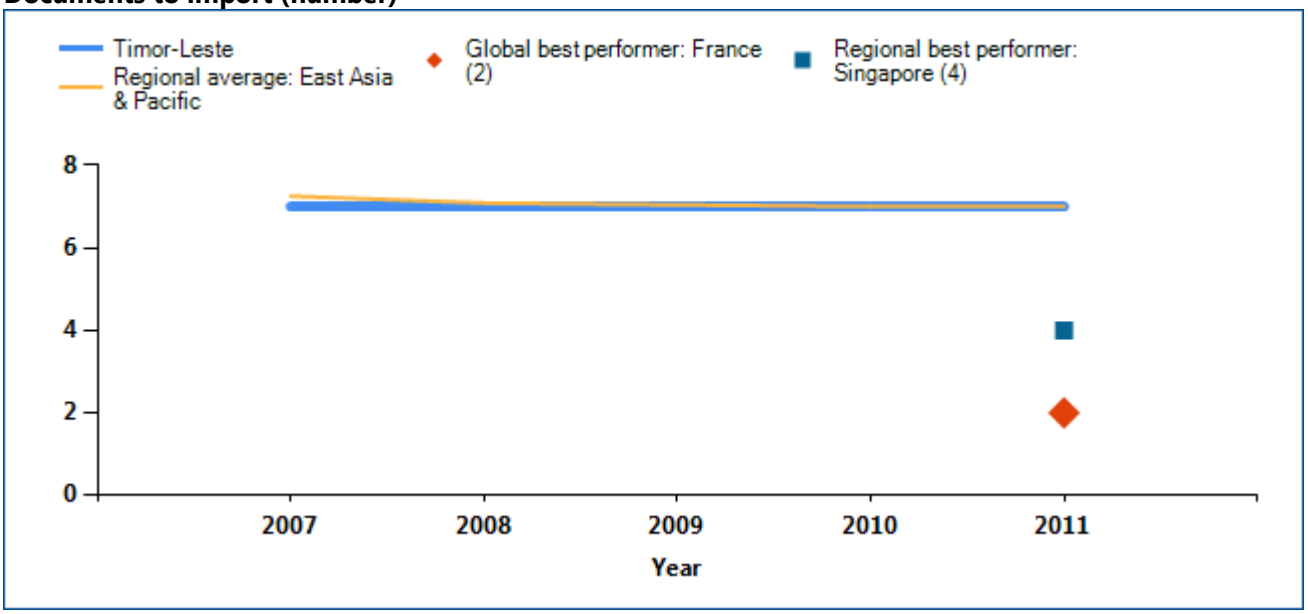


TRADING ACROSS BORDERS

Cost to export (US$ per container)

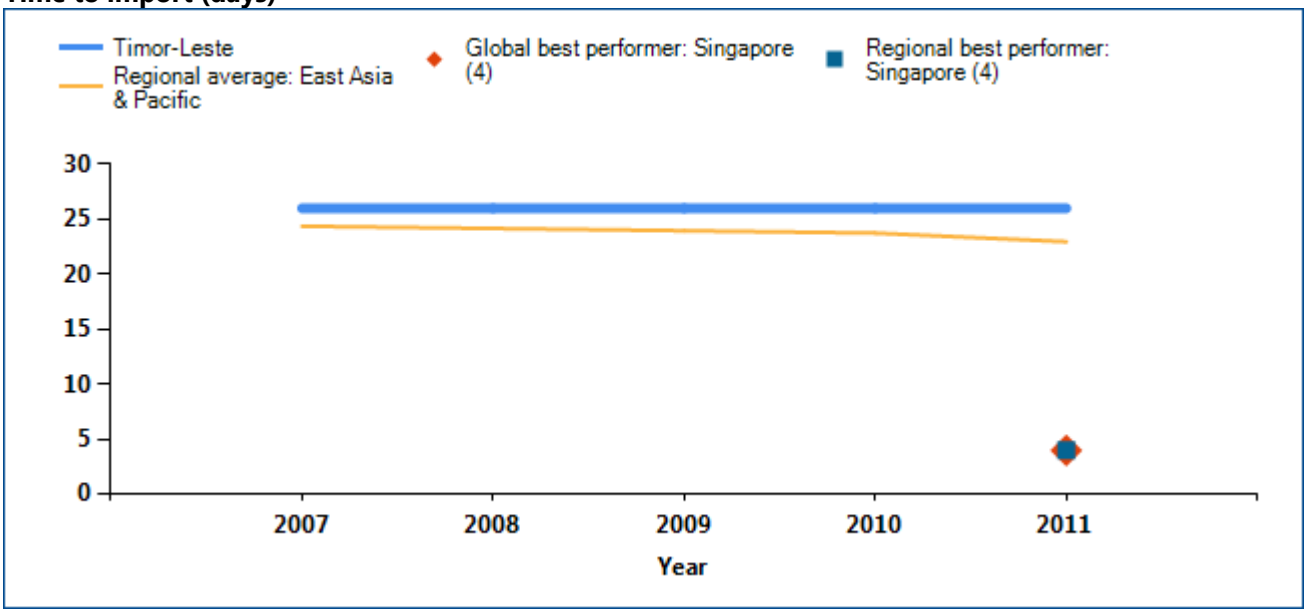


Documents to import (number)

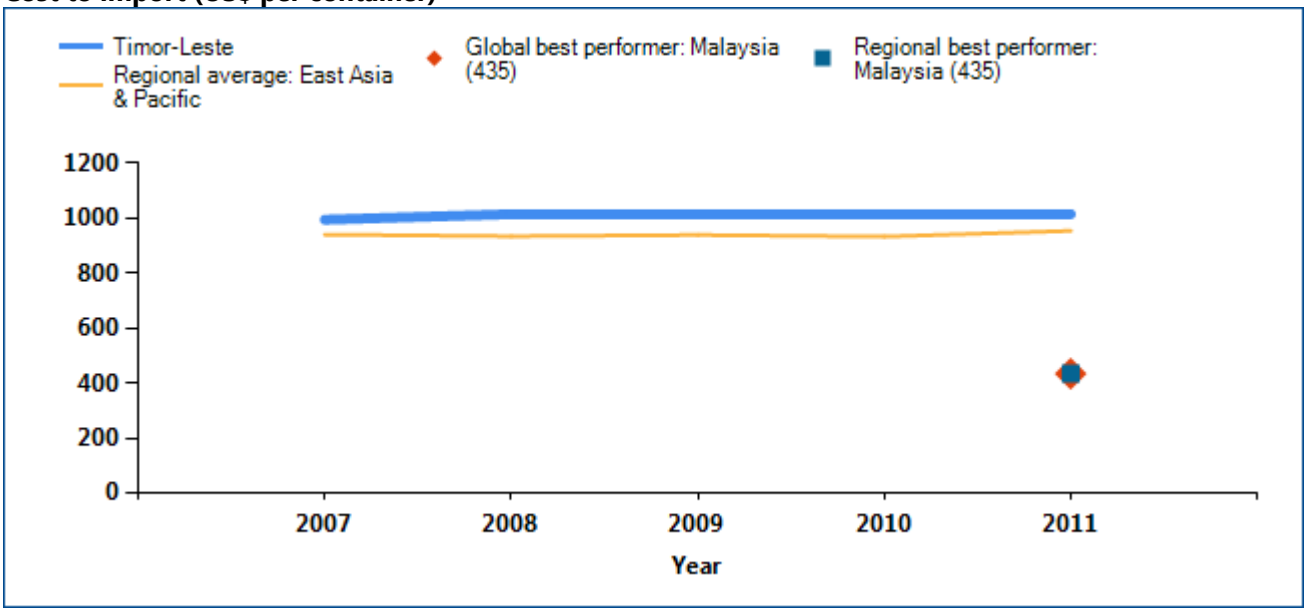


TRADING ACROSS BORDERS

Time to import (days)



Cost to import (US$ per container)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator.
Source: Doing Business database.

TRADING ACROSS BORDERS

In economies around the world, trading across borders as measured by *Doing Business* has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange systems. These changes help improve the trading environment and boost firms' international competitiveness. What trade reforms has *Doing Business* recorded in Timor-Leste (table 9.2)?

Table 9.2 How has Timor-Leste made trading across borders easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2006), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

TRADING ACROSS BORDERS

What are the details?

The indicators reported here for Timor-Leste are based on a set of specific procedural requirements for trading a standard shipment of goods by ocean transport (see the section in this chapter on what the indicators cover). Information on the procedures as well as the required documents and the time and cost to complete each procedure is collected from local freight forwarders, shipping lines, customs brokers, port officials and banks. The procedural requirements, and the associated time and cost, for exporting and importing a standard shipment of goods are listed in the summary below, along with the required documents.

Summary of procedures and documents for trading across borders in Timor-Leste

Indicator	Timor-Leste	East Asia & Pacific	OECD high income
Documents to export (number)	6	6	4
Time to export (days)	25	22	10
Cost to export (US$ per container)	1010	906	1,032
Documents to import (number)	7	7	5
Time to import (days)	26	23	11
Cost to import (US$ per container)	1015	954	1,085

Procedures to export	Time (days)	Cost (US$)
Documents preparation	9	140
Customs clearance and technical control	4	50
Ports and terminal handling	10	350
Inland transportation and handling	2	470
Totals	25	1010

Procedures to import	Time (days)	Cost (US$)
Documents preparation	12	145
Customs clearance and technical control	5	50
Ports and terminal handling	7	350
Inland transportation and handling	2	470
Totals	26	1015

TRADING ACROSS BORDERS

Documents to export
Technical standard/health certificate
Bill of Lading
Customs export declaration
Commercial invoice
Inspection report
Packing list

Documents to import
Customs import declaration
Inspection report
Packing list
Terminal handling receipts
Bill of Lading
Cargo release order
Commercial invoice

ENFORCING CONTRACTS

Well-functioning courts help businesses expand their network and markets. Without effective contract enforcement, people might well do business only with family, friends and others with whom they have established relationships. Where contract enforcement is efficient, firms are more likely to engage with new borrowers or customers, and they have greater access to credit.

What do the indicators cover?

Doing Business measures the efficiency of the judicial system in resolving a commercial dispute before local courts. Following the step-by-step evolution of a standardized case study, it collects data relating to the time, cost and procedural complexity of resolving a commercial lawsuit. The ranking on the ease of enforcing contracts is the simple average of the percentile rankings on its component indicators: procedures, time and cost.

The dispute in the case study involves the breach of a sales contract between 2 domestic businesses. The case study assumes that the court hears an expert on the quality of the goods in dispute. This distinguishes the case from simple debt enforcement. To make the data comparable across economies, *Doing Business* uses several assumptions about the case:

- The seller and buyer are located in the economy's largest business city.
- The buyer orders custom-made goods, then fails to pay.
- The seller sues the buyer before a competent court.
- The value of the claim is 200% of income per capita.
- The seller requests a pretrial attachment to secure the claim.
- The dispute on the quality of the goods requires an expert opinion.
- The judge decides in favor of the seller; there is no appeal.
- The seller enforces the judgment through a public sale of the buyer's movable assets.

WHAT THE ENFORCING CONTRACTS INDICATORS MEASURE

Procedures to enforce a contract through the courts (number)

Any interaction between the parties in a commercial dispute, or between them and the judge or court officer

Steps to file and serve the case

Steps for trial and judgment

Steps to enforce the judgment

Time required to complete procedures (calendar days)

Time to file and serve the case

Time for trial and obtaining judgment

Time to enforce the judgment

Cost required to complete procedures (% of claim)

No bribes

Average attorney fees

Court costs, including expert fees

Enforcement costs

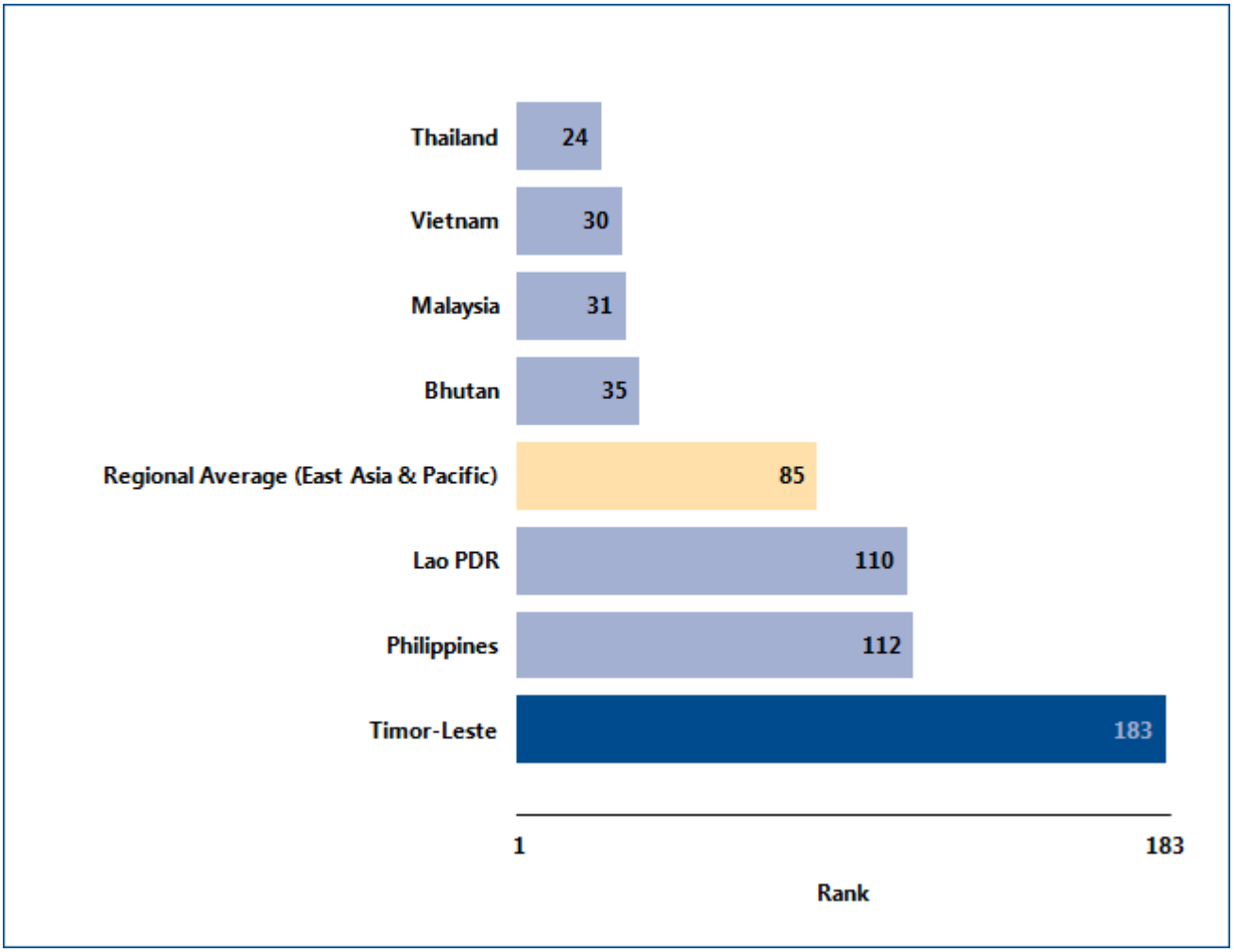
ENFORCING CONTRACTS

Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Timor-Leste? According to data collected by *Doing Business*, enforcing a contract requires 51 procedures, takes 1285 days and costs 163.2% of the value of the claim (see the summary at the end of this chapter for details).

Globally, Timor-Leste stands at 183 in the ranking of 183 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Timor-Leste.

Figure 10.1 How Timor-Leste and comparator economies rank on the ease of enforcing contracts



Source: Doing Business database.

ENFORCING CONTRACTS

What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to enforce a contract in Timor-Leste today, data on the underlying indicators over time help identify which areas have changed and where the potential for improvement is greatest (table 10.1).

Table 10.1 The ease of enforcing contracts in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	..	183	183
Time (days)	n.a.	1,800	1,800	1,800	1,800	1,800	1,435	1,285	1,285
Cost (% of claim)	n.a.	163.2	163.2	163.2	163.2	163.2	163.2	163.2	163.2
Procedures (number)	n.a.	51	51	51	51	51	51	51	51

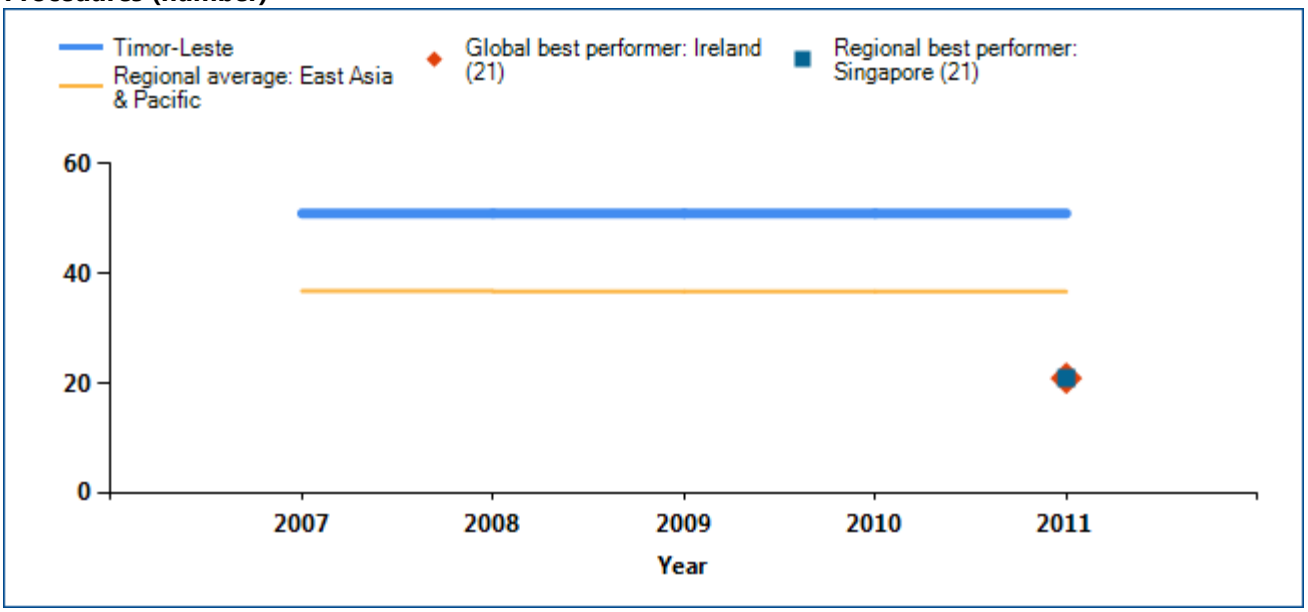
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology.
Source: Doing Business database.

ENFORCING CONTRACTS

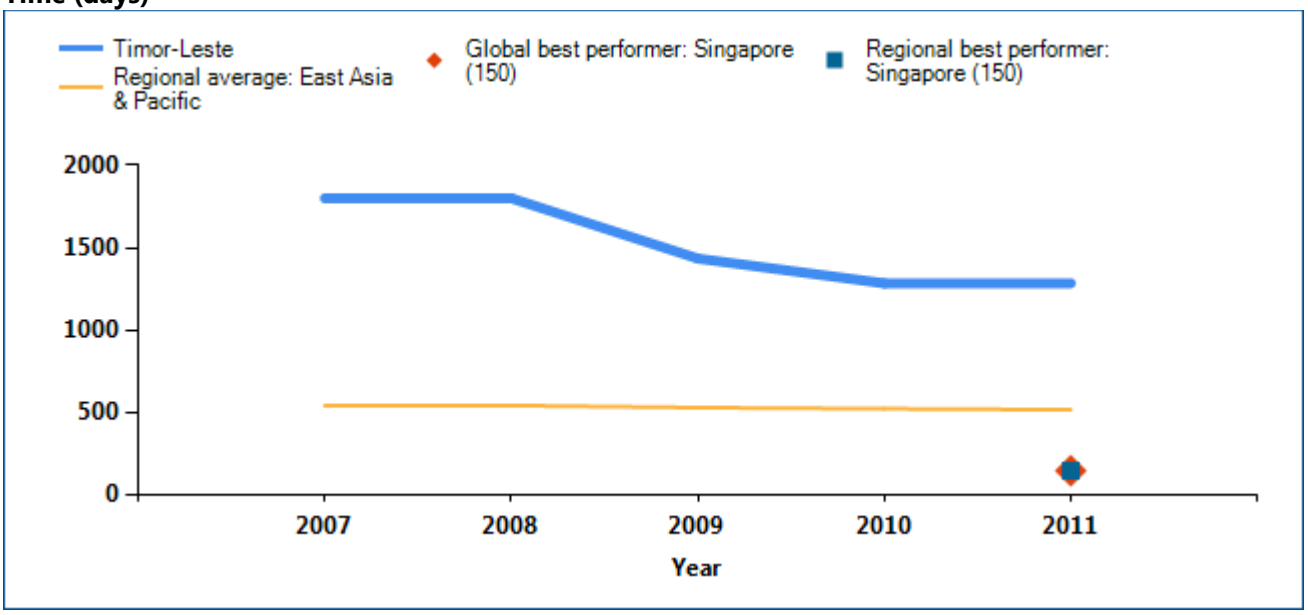
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the number of steps, time or cost required to enforce a contract through the courts (figure 10.2). These economies may provide a model for Timor-Leste on ways to improve the efficiency of contract enforcement. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

Figure 10.2 Has enforcing contracts become easier over time?

Procedures (number)

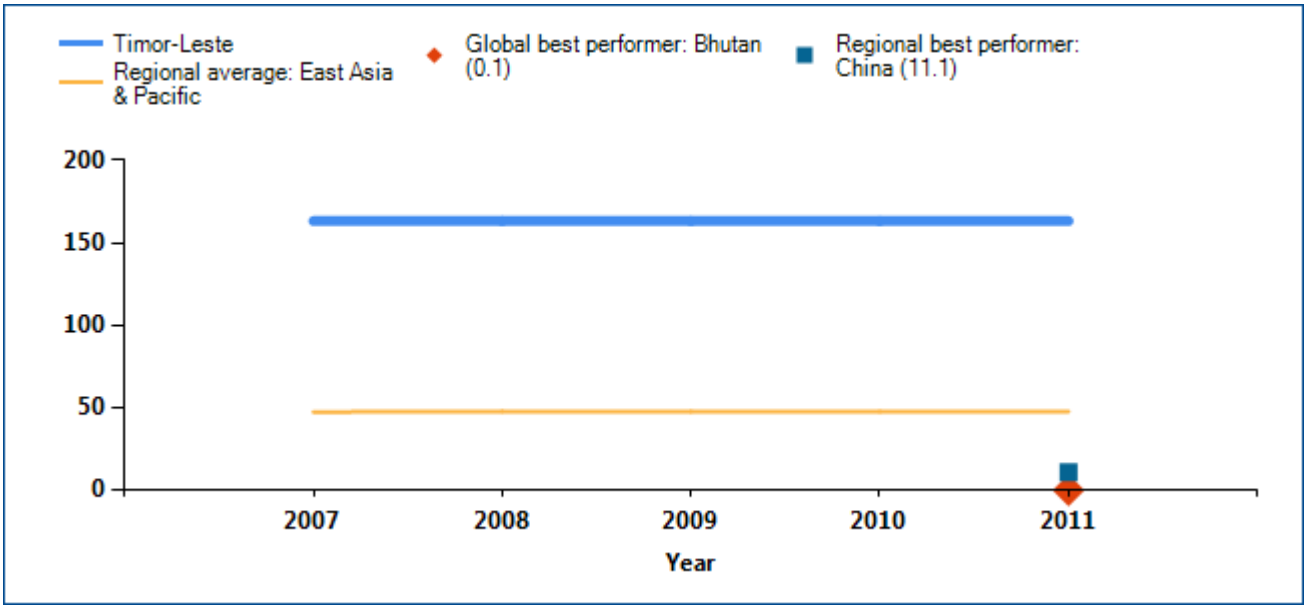


Time (days)



ENFORCING CONTRACTS

Cost (% of claim)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator.
Source: Doing Business database.

ENFORCING CONTRACTS

Economies in all regions have improved contract enforcement in recent years. A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies often work on reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making procedures faster. What reforms making it easier (or more difficult) to enforce contracts has *Doing Business* recorded in Timor-Leste (table 10.2)?

Table 10.2 How has Timor-Leste made enforcing contracts easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	Timor-Leste increased court efficiency by training and appointing new judges and passing a new civil procedure code.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

ENFORCING CONTRACTS

What are the details?

The indicators reported here for Timor-Leste are based on a set of specific procedural steps required to resolve a standardized commercial dispute through the courts (see the section in this chapter on what the indicators cover). These procedures, and the time and cost of completing them, are identified through study of the codes of civil procedure and other court regulations, as well as through surveys completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well). The procedures for resolving a commercial lawsuit, and the associated time and cost, are listed in the summary below.

Summary of procedures for enforcing a contract in Timor-Leste—and the time and cost

Indicator	Timor-Leste	East Asia & Pacific	OECD high income
Time (days)	1285	518.71	518.03
Filing and service	140		
Trial and judgment	1055		
Enforcement of judgment	90		
Cost (% of claim)	163.2	47.79	19.71
Attorney cost (% of claim)	155.7		
Court cost (% of claim)	4		
Enforcement Cost (% of claim)	3.5		
Procedures (number)	51	36.75	31.42

Source: Doing Business database.

RESOLVING INSOLVENCY

A robust bankruptcy system functions as a filter, ensuring the survival of economically efficient companies and reallocating the resources of inefficient ones. Fast and cheap insolvency proceedings result in the speedy return of businesses to normal operation and increase returns to creditors. By improving the expectations of creditors and debtors about the outcome of insolvency proceedings, well-functioning insolvency systems can facilitate access to finance, save more viable businesses and thereby improve growth and sustainability in the economy overall.

What do the indicators cover?

Doing Business studies the time, cost and outcome of insolvency proceedings involving domestic entities. It does not measure insolvency proceedings of individuals and financial institutions. The data are derived from survey responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on bankruptcy systems.

The ranking on the ease of resolving insolvency is based on the recovery rate, which is recorded as cents on the dollar recouped by creditors through reorganization, liquidation or debt enforcement (foreclosure) proceedings. The recovery rate is a function of time, cost and other factors, such as lending rate and the likelihood of the company continuing to operate.

To make the data comparable across economies, *Doing Business* uses several assumptions about the business and the case. It assumes that the company:

- Is a domestically owned, limited liability company operating a hotel.
- Operates in the economy's largest business city.
- Has 201 employees, 1 main secured creditor and 50 unsecured creditors.
- Has a higher value as a going concern—and the efficient outcome is either reorganization or sale as a going concern, not piecemeal liquidation.

WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

Time required to recover debt (years)

Measured in calendar years

Appeals and requests for extension are included

Cost required to recover debt (% of debtor's estate)

Measured as percentage of estate value

Court fees

Fees of insolvency administrators

Lawyers' fees

Assessors' and auctioneers' fees

Other related fees

Recovery rate for creditors (cents on the dollar)

Measures the cents on the dollar recovered by creditors

Present value of debt recovered

Official costs of the insolvency proceedings are deducted

Depreciation of furniture is taken into account

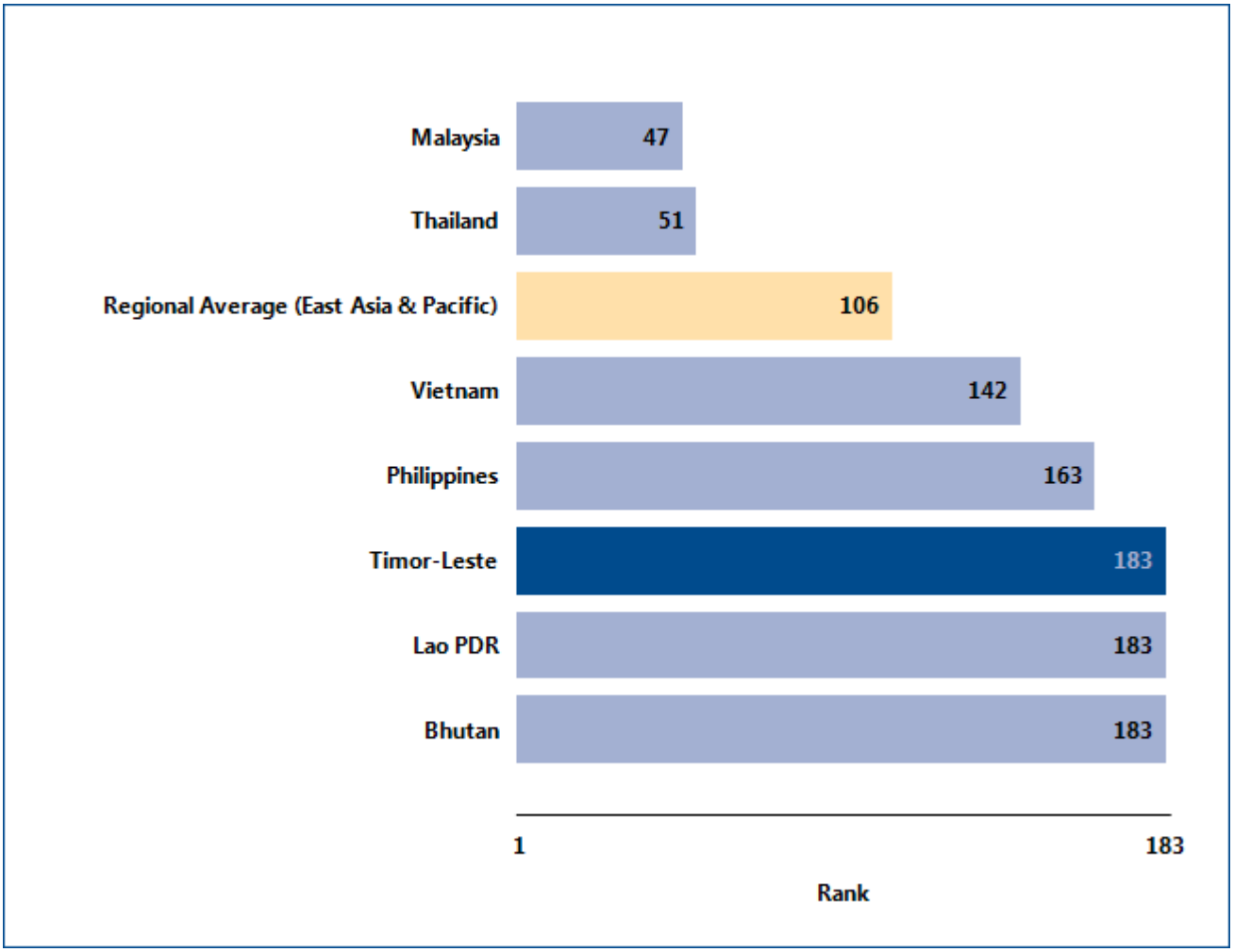
Outcome for the business (survival or not) affects the maximum value that can be recovered

RESOLVING INSOLVENCY

Where does the economy stand today?

Speed, low costs and continuation of viable businesses characterize the top-performing economies. How efficient are insolvency proceedings in Timor-Leste? According to data collected by *Doing Business*, this economy receives a "no practice" mark for resolving insolvency, indicating that in each of the previous 5 years there were no cases involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure). Globally, Timor-Leste stands at 183 in the ranking of 183 economies on the ease of resolving insolvency (figure 11.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of insolvency proceedings in Timor-Leste.

Figure 11.1 How Timor-Leste and comparator economies rank on the ease of resolving insolvency



Source: Doing Business database.

RESOLVING INSOLVENCY

What are the changes over time?

While the most recent *Doing Business* data reflect the efficiency of insolvency proceedings in Timor-Leste today, data over time show where the efficiency has changed—and where it has not (table 11.1). That can help identify where the potential for improvement is greatest.

Table 11.1 The ease of resolving insolvency in Timor-Leste over time
By *Doing Business* report year

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	..	183	183
Time (years)	n.a.	no practice	no practice	no practice	no practice	no practice	no practice	no practice	no practice
Cost (% of estate)	0	no practice	no practice	no practice	no practice	no practice	no practice	no practice	no practice
Recovery rate (cents on the dollar)	n.a.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

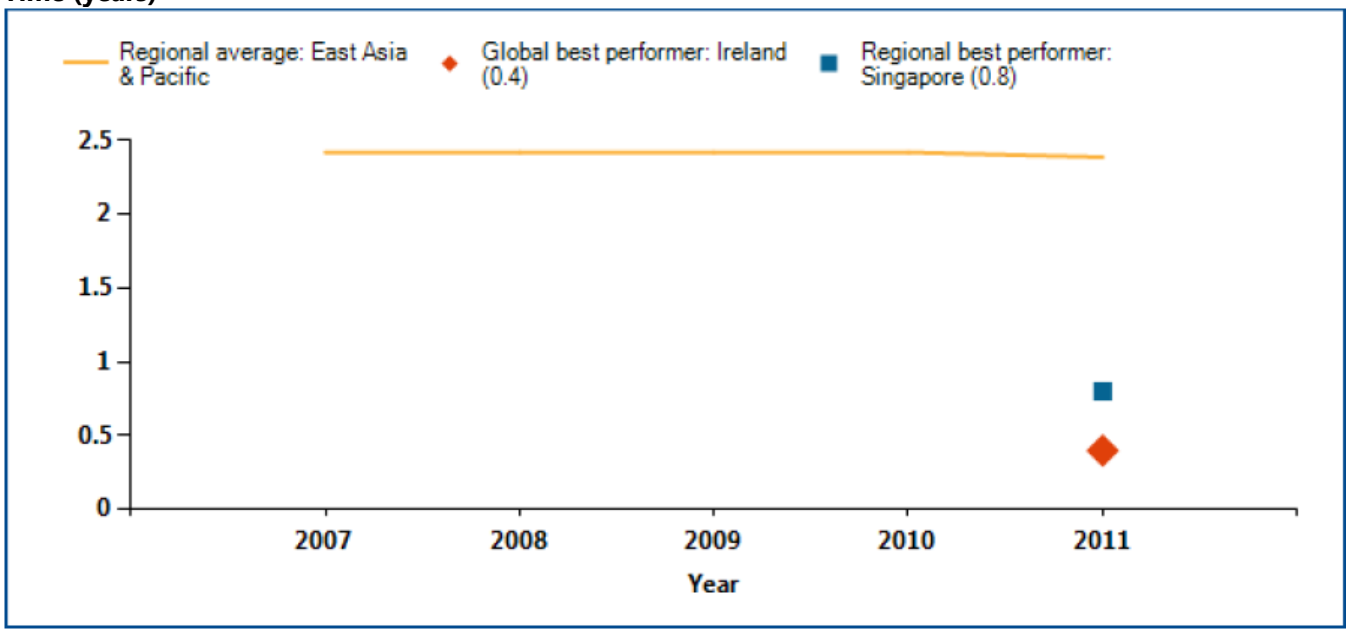
Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2012 rankings reflect changes to the methodology. "No practice" indicates that in each of the previous 5 years the economy had no cases involving a judicial reorganization, judicial liquidation or debt enforcement procedure (foreclosure). This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for "no practice" economies is 0.
Source: Doing Business database.

RESOLVING INSOLVENCY

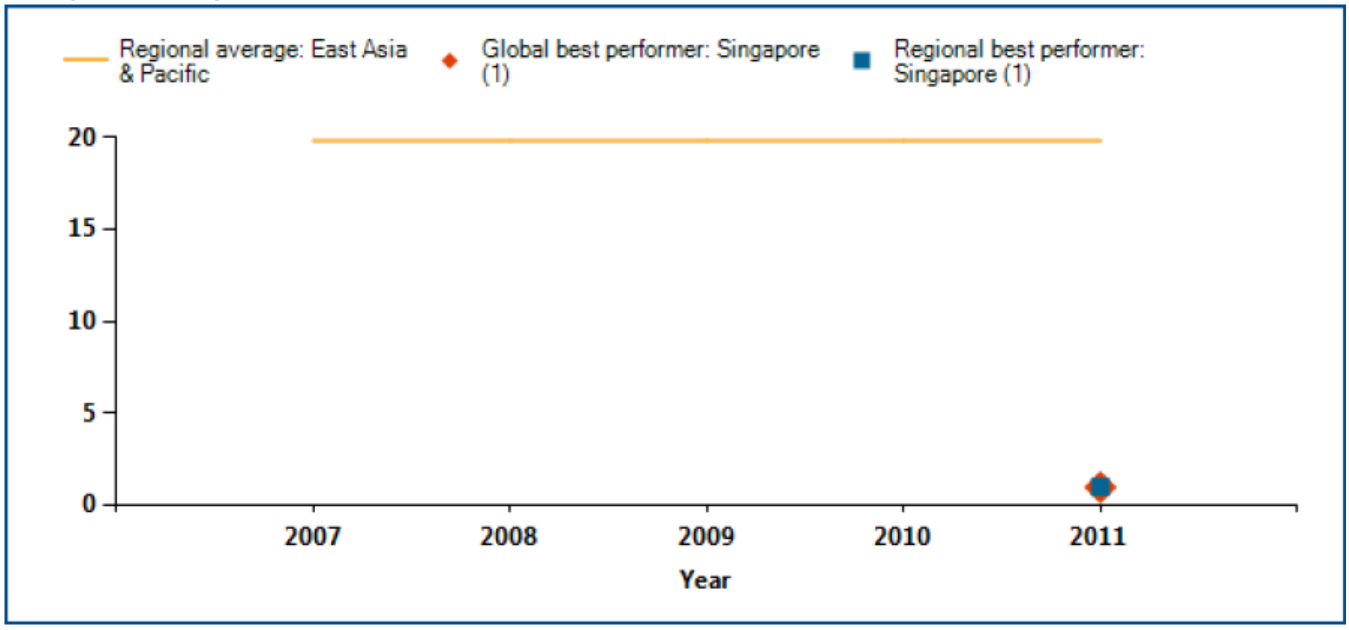
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the time or cost of insolvency proceedings or on the recovery rate (figure 11.2). These economies may provide a model for Timor-Leste on ways to improve the efficiency of insolvency proceedings. And changes in regional averages can show where Timor-Leste is keeping up—and where it is falling behind.

Figure 11.2 Has resolving insolvency become easier over time?

Time (years)

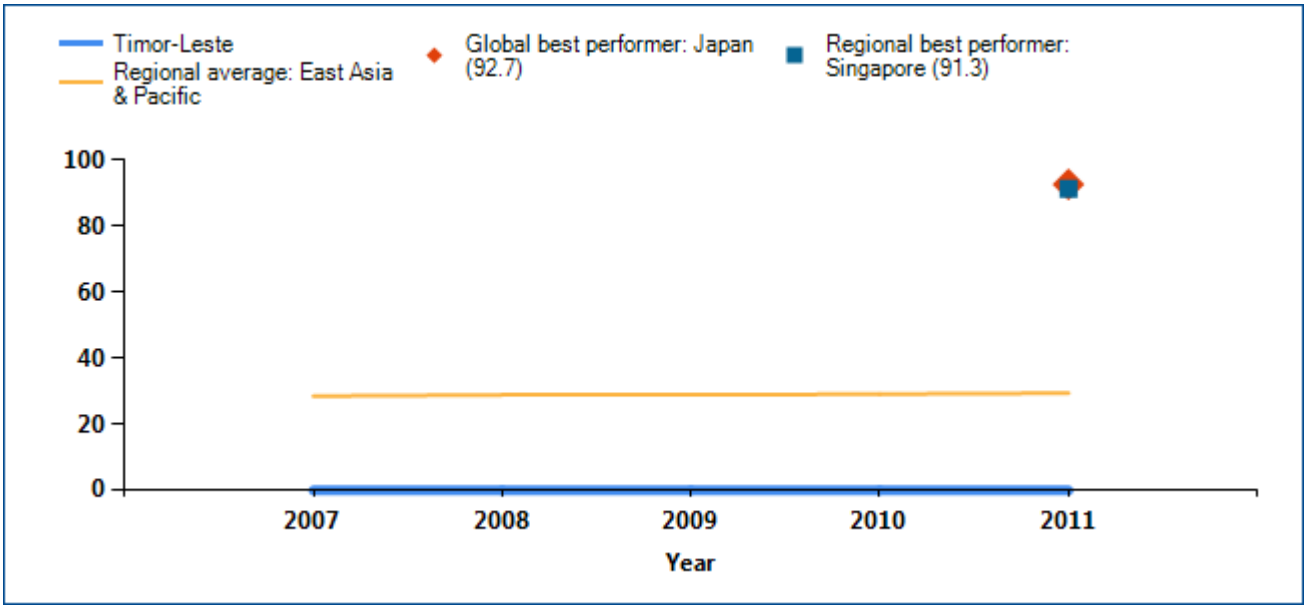


Cost (% of estate)



RESOLVING INSOLVENCY

Recovery rate (cents on the dollar)



Note: The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator. In cases where no data are displayed above for the economy, this indicates that the economy has received a "no practice" mark; see the data notes for details.
Source: Doing Business database.

RESOLVING INSOLVENCY

A well-balanced bankruptcy system distinguishes companies that are financially distressed but economically viable from inefficient companies that should be liquidated. But in some insolvency systems even viable businesses are liquidated. This is starting to change. Many recent reforms of bankruptcy laws have been aimed at helping more of the viable businesses survive. What insolvency reforms has *Doing Business* recorded in Timor-Leste (table 11.2)?

Table 11.2 How has Timor-Leste made resolving insolvency easier—or not?
By *Doing Business* report year

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	No reform.
DB2009	No reform.

Note: For information on reforms in earlier years (back to DB2005), see the *Doing Business* reports for these years, available at http://www.doingbusiness.org.
Source: Doing Business database.

DATA NOTES

The indicators presented and analyzed in *Doing Business* measure business regulation and the protection of property rights—and their effect on businesses, especially small and medium-size domestic firms. First, the indicators document the complexity of regulation, such as the number of procedures to start a business or to register and transfer commercial property. Second, they gauge the time and cost of achieving a regulatory goal or complying with regulation, such as the time and cost to enforce a contract, go through bankruptcy or trade across borders. Third, they measure the extent of legal protections of property, for example, the protections of investors against looting by company directors or the range of assets that can be used as collateral according to secured transactions laws. Fourth, a set of indicators documents the tax burden on businesses. Finally, a set of data covers different aspects of employment regulation.

The data for all sets of indicators in *Doing Business 2012* are for June 2011.[3]

Methodology

The *Doing Business* data are collected in a standardized way. To start, the *Doing Business* team, with academic advisers, designs a questionnaire. The questionnaire uses a simple business case to ensure comparability across economies and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Questionnaires are administered through more than 9,028 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements. These experts have several rounds of interaction with the *Doing Business* team, involving conference calls, written correspondence and visits by the team. For *Doing Business 2012* team members visited 40 economies to verify data and recruit respondents. The data from questionnaires are subjected to numerous rounds of verification, leading to revisions or expansions of the information collected.

[3] The data for paying taxes refer to January – December 2010.

ECONOMY CHARACTERISTICS

Gross national income (GNI) per capita

Doing Business 2012 reports 2010 income per capita as published in the World Bank's *World Development Indicators 2011*. Income is calculated using the Atlas method (current US$). For cost indicators expressed as a percentage of income per capita, 2010 GNI in U.S. dollars is used as the denominator. Data were not available from the World Bank for Afghanistan; Australia; The Bahamas; Bahrain; Brunei Darussalam; Canada; Cyprus; Djibouti; the Islamic Republic of Iran; Kuwait; New Zealand; Oman; Puerto Rico (territory of the United States); Qatar; Saudi Arabia; Suriname; Taiwan, China; the United Arab Emirates; West Bank and Gaza; and the Republic of Yemen. In these cases GDP or GNP per capita data and growth rates from the International Monetary Fund's World Economic Outlook database and the Economist Intelligence Unit were used.

Region and income group

Doing Business uses the World Bank regional and income group classifications, available at http://www.worldbank.org/data/countryclass. The World Bank does not assign regional classifications to high-income economies. For the purpose of the *Doing Business* report, high-income OECD economies are assigned the "regional" classification *OECD high income*. Figures and tables presenting regional averages include economies from all income groups (low, lower middle, upper middle and high income).

Population

Doing Business 2012 reports midyear 2010 population statistics as published in *World Development Indicators 2011*.

The *Doing Business* methodology offers several advantages. It is transparent, using factual information about what laws and regulations say and allowing multiple interactions with local respondents to clarify potential misinterpretations of questions. Having representative samples of respondents is not an issue;

Doing Business is not a statistical survey, and the texts of the relevant laws and regulations are collected and answers checked for accuracy. The methodology is inexpensive and easily replicable, so data can be collected in a large sample of economies. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across economies. Finally, the data not only highlight the extent of specific regulatory obstacles to business but also identify their source and point to what might be reformed.

Information on the methodology for each *Doing Business* topic can be found on the *Doing Business* website at http://www.doingbusiness.org/methodology/.

Limits to what is measured

The *Doing Business* methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the economy's largest business city and may not be representative of regulation in other parts of the economy. To address this limitation, subnational *Doing Business* indicators were created (see the section on subnational *Doing Business* indicators). Second, the data often focus on a specific business form—generally a limited liability company (or its legal equivalent) of a specified size—and may not be representative of the regulation on other businesses, for example, sole proprietorships. Third, transactions described in a standardized case scenario refer to a specific set of issues and may not represent the full set of issues a business encounters. Fourth, the measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

Finally, the methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing a procedure may take longer if the business lacks information or is unable to follow up promptly. Alternatively, the business may choose to disregard some burdensome procedures. For both reasons the time delays reported in *Doing Business 2012* would differ from the recollection of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

Subnational *Doing Business* indicators

This year *Doing Business* published a subnational study for the Philippines and a regional report for Southeast Europe covering 7 economies (Albania, Bosnia and Herzegovina, Kosovo, the former Yugoslav Republic of Macedonia, Moldova, Montenegro and Serbia) and 22 cities. It also published a city profile for Juba, in the Republic of South Sudan.

The subnational studies point to differences in business regulation and its implementation—as well as in the pace of regulatory reform—across cities in the same economy. For several economies subnational studies are now periodically updated to measure change over time or to expand geographic coverage to additional cities. This year that is the case for the subnational studies in the Philippines; the regional report in Southeast Europe; the ongoing studies in Italy, Kenya and the United Arab Emirates; and the projects implemented jointly with local think tanks in Indonesia, Mexico and the Russian Federation.

Besides the subnational *Doing Business* indicators, *Doing Business* conducted a pilot study this year on the second largest city in 3 large economies to assess within-country variations. The study collected data for Rio de Janeiro in addition to São Paulo in Brazil, for Beijing in addition to Shanghai in China and for St. Petersburg in addition to Moscow in Russia.

Changes in what is measured

The methodology for 3 of the *Doing Business* topics was updated this year—getting credit, dealing with construction permits and paying taxes.

First, for getting credit, the scoring of one of the 10 components of the strength of legal rights index was amended to recognize additional protections of secured creditors and borrowers. Previously the highest score of 1 was assigned if secured creditors were not subject to an automatic stay or moratorium on enforcement procedures when a debtor entered a court-supervised reorganization procedure. Now the highest score of 1 is also assigned if the law provides secured creditors with grounds for relief from an

automatic stay or moratorium (for example, if the movable property is in danger) or sets a time limit for the automatic stay.

Second, because the ease of doing business index now includes the getting electricity indicators, procedures, time and cost related to obtaining an electricity connection were removed from the dealing with construction permits indicators.

Third, a threshold has been introduced for the total tax rate for the purpose of calculating the ranking on the ease of paying taxes. All economies with a total tax rate below the threshold (which will be calculated and adjusted on a yearly basis) will now receive the same ranking on the total tax rate indicator. The threshold is not based on any underlying theory. Instead, it is meant to emphasize the purpose of the indicator: to highlight economies where the tax burden on business is high relative to the tax burden in other economies. Giving the same ranking to all economies whose total tax rate is below the threshold avoids awarding economies in the scoring for having an unusually low total tax rate, often for reasons unrelated to government policies toward enterprises. For example, economies that are very small or that are rich in natural resources do not need to levy broad-based taxes.

Data challenges and revisions

Most laws and regulations underlying the *Doing Business* data are available on the *Doing Business* website at http://www.doingbusiness.org. All the sample questionnaires and the details underlying the indicators are also published on the website. Questions on the methodology and challenges to data can be submitted through the website's "Ask a Question" function at http://www.doingbusiness.org.

Ease of doing business and distance to frontier

This year's report presents results for 2 aggregate measures: the aggregate ranking on the ease of doing business and a new measure, the "distance to frontier." While the ease of doing business ranking compares economies with one another at a point in time, the distance to frontier measure shows how much the regulatory environment for local entrepreneurs in each economy has changed over time.

Ease of doing business

The ease of doing business index ranks economies from 1 to 183. For each economy the ranking is calculated as the simple average of the percentile rankings on each of the 10 topics included in the index in *Doing Business 2012*: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency and, new this year, getting electricity. The employing workers indicators are not included in this year's aggregate ease of doing business ranking. In addition to this year's ranking, *Doing Business* presents a comparable ranking for the previous year, adjusted for any changes in methodology as well as additions of economies or topics.[4]

Construction of the ease of doing business index

Here is one example of how the ease of doing business index is constructed. In the Republic of Korea it takes 5 procedures, 7 days and 14.6% of annual income per capita in fees to open a business. There is no minimum capital required. On these 4 indicators Korea ranks in the 18th, 14th, 53rd and 0 percentiles. So on average Korea ranks in the 21st percentile on the ease of starting a business. It ranks in the 12th percentile on getting credit, 25th percentile on paying taxes, 8th percentile on enforcing contracts, 7th percentile on resolving insolvency and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Korea's percentile rankings on all topics is 21st. When all economies are ordered by their average percentile rankings, Korea stands at 8 in the aggregate ranking on the ease of doing business.

More complex aggregation methods—such as principal components and unobserved components—

[4] In case of revisions to the methodology or corrections to the underlying data, the data are back-calculated to provide a comparable time series since the year the relevant economy or topic was first included in the data set. The time series is available on the *Doing Business* website (http://www.doingbusiness.org). The *Doing Business* report publishes yearly rankings for the year of publication as well as the previous year to shed light on year-to-year developments. Six topics and more than 50 economies have been added since the inception of the project. Earlier rankings on the ease of doing business are therefore not comparable.

yield a ranking nearly identical to the simple average used by *Doing Business*.[5] Thus, *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.[6]

If an economy has no laws or regulations covering a specific area—for example, insolvency—it receives a "no practice" mark. Similarly, an economy receives a "no practice" or "not possible" mark if regulation exists but is never used in practice or if a competing regulation prohibits such practice. Either way, a "no practice" mark puts the economy at the bottom of the ranking on the relevant indicator.

The ease of doing business index is limited in scope. It does not account for an economy's proximity to large markets, the quality of its infrastructure services (other than services related to trading across borders and getting electricity), the strength of its financial system, the security of property from theft and looting, its macroeconomic conditions or the strength of underlying institutions.

Variability of economies' rankings across topics

Each indicator set measures a different aspect of the business regulatory environment. The rankings of an economy can vary, sometimes significantly, across indicator sets. The average correlation coefficient between the 10 indicator sets included in the aggregate ranking is 0.36, and the coefficients between any 2 sets of indicators range from 0.17 (between protecting investors and getting electricity) to 0.57 (between starting a business and protecting investors). These correlations suggest that economies rarely score universally well or universally badly on the indicators.

Consider the example of Canada. It stands at 12 in the aggregate ranking on the ease of doing business. Its ranking is 3 on both starting a business and resolving insolvency, and 5 on protecting investors. But its ranking is only 59 on enforcing contracts, 42 on trading across borders and 156 on getting electricity.

Variation in performance across the indicator sets is not at all unusual. It reflects differences in the degree of priority that government authorities give to particular areas of business regulation reform and the ability of different government agencies to deliver tangible results in their area of responsibility.

Economies that improved the most across 3 or more Doing Business *topics in 2010/11*

Doing Business 2012 uses a simple method to calculate which economies improved the most in the ease of doing business. First, it selects the economies that in 2010/11 implemented regulatory reforms making it easier to do business in 3 or more of the 10 topics included in this year's ease of doing business ranking.[7] Thirty economies meet this criterion: Armenia, Burkina Faso, Burundi, Cape Verde, the Central African Republic, Chile, Colombia, the Democratic Republic of Congo, Côte d'Ivoire, The Gambia, Georgia, Korea, Latvia, Liberia, FYR Macedonia, Mexico, Moldova, Montenegro, Morocco, Nicaragua, Oman, Peru, Russia, São Tomé and Príncipe, Senegal, Sierra Leone, Slovenia, the Solomon Islands, South Africa and Ukraine. Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of doing business from the previous year using comparable rankings.

Selecting the economies that implemented regulatory reforms in at least 3 topics and improved the most in the aggregate ranking is intended to highlight economies with ongoing, broad-based reform programs.

Distance to frontier measure

This year's report introduces a new measure to illustrate how the regulatory environment for local businesses in each economy has changed over time. The distance to frontier measure illustrates the distance of an economy to the "frontier" and shows

[5] See Simeon Djankov, Darshini Manraj, Caralee McLiesh and Rita Ramalho, "*Doing Business* Indicators: Why Aggregate, and How to Do It" (World Bank, Washington, DC, 2005). Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among indicators do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.

[6] A technical note on the different aggregation and weighting methods is available on the *Doing Business* website (http://www.doingbusiness.org).

[7] *Doing Business* reforms making it more difficult to do business are subtracted from the total number of those making it easier to do business.

the extent to which the economy has closed this gap over time. The frontier is a score derived from the most efficient practice or highest score achieved on each of the component indicators in 9 *Doing Business* indicator sets (excluding the employing workers and getting electricity indicators) by any economy since 2005. In starting a business, for example, New Zealand has achieved the highest performance on the time (1 day), Canada and New Zealand on the number of procedures required (1), Denmark and Slovenia on the cost (0% of income per capita) and Australia on the paid-in minimum capital requirement (0% of income per capita).

Calculating the distance to frontier for each economy involves 2 main steps. First, individual indicator scores are normalized to a common unit. To do so, each of the 32 component indicators y is rescaled to $(y - \text{min})/(\text{max} - \text{min})$, with the minimum value (min) representing the frontier—the highest performance on that indicator across all economies since 2005. Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score. An economy's distance to the frontier is indicated on a scale from 0 to 100, where 0 represents the frontier and 100 the lowest performance.

The difference between an economy's distance to frontier score in 2005 and its score in 2011 illustrates the extent to which the economy has closed the gap to the frontier over time.

The maximum (max) and minimum (min) observed values are computed for the 174 economies included in the *Doing Business* sample since 2005 and for all years (from 2005 to 2011). The year 2005 was chosen as the baseline for the economy sample because it was the first year in which data were available for the majority of economies (a total of 174) and for all 9 indicator sets included in the measure. To mitigate the effects of extreme outliers in the distributions of the rescaled data (very few economies need 694 days to complete the procedures to start a business, but many need 9 days), the maximum (max) is defined as the 95th percentile of the pooled data for all economies and all years for each indicator.

Take Colombia, which has a score of 0.21 on the distance to frontier measure for 2011. This score indicates that the economy is 21 percentage points away from the frontier constructed from the best performances across all economies and all years. Colombia was further from the frontier in 2005, with a score of 0.43. The difference between the scores shows an improvement over time.

RESOURCES ON THE *DOING BUSINESS* WEBSITE

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http://www.doingbusiness.org

Rankings
How economies rank—from 1 to 183
http://www.doingbusiness.org/rankings/

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Access to *Doing Business* reports as well as subnational and regional reports, reform case studies and customized economy and regional profiles
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Abstracts of papers on *Doing Business* topics and related policy issues
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***Doing Business* reforms**
Short summaries of DB2012 business regulation reforms, lists of reforms since DB2008 and a ranking simulation tool
http://www.doingbusiness.org/reforms/

Historical data
Customized data sets since DB2004
http://www.doingbusiness.org/custom-query/

Law library
Online collection of business laws and regulations relating to business and gender issues
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