



VERITÉ
RESEARCH

Analysis of Sri Lanka's improved position in the 'Doing Business Index' 2012

1. Introduction

The World Bank published the 'Doing Business 2012: Doing Business in a More Transparent World'.¹ The initial goal of the 'Doing Business Index' is to provide an objective basis for understanding and improving the regulatory environment for doing business around the world.² It measures the regulations required for domestic small and medium size companies over a range of indicator sets. The Index provides benchmarks for reforms and is a source of information for those interested in the business climate of each country.³

This Index was initially published in 2003, in which it covered 5 indicator sets in 133 economies. This year, the report covers 10 indicator sets in 183 economies. The 10 indicator sets covered in 2012 are listed in Table 1.

2. Position of Sri Lanka

- 2.1 Sri Lanka's overall ranking in the 'Doing Business Index' had risen by 9 places from a ranking of 98 in 2011 to a ranking of 89th in 2012 (from a universe of 183 economies).

Overview

Sri Lanka has made considerable advances in some areas in facilitating business activity as major gains in the *strengthening investor protection* category (28 points) demonstrates and has gone up 9 places in the overall rankings as a result of this dramatic improvement. This does not however suggest an improvement across the board as the jump in 9 places in the rankings (from 98th to 89th) might suggest.

A closer look at the indicators shows that Sri Lanka continues to do poorly or even decline in several key indicators. The *starting a business* category declined from the relatively strong position by 3 points (35th to 38th place) while enforcing contracts remains at poor 136th position and *registering property* has fallen from its already poor ranking of 158th to 161st. Paying taxes is the worst ranked indicator sliding down 2 places from 171st to 173rd.

¹ <http://www.doingbusiness.org/~media/FPKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

² <http://www.doingbusiness.org/about-us>

³ <http://www.doingbusiness.org/about-us>

- 2.2** This has been highlighted and welcomed as a positive development by the Central Bank Governor, the Ceylon Chamber of Commerce, and various government Ministers and sources.⁴
- 2.3** However, even though the overall picture shows an improvement, the disaggregated information in the index gives a different picture. As seen in Table 1, Sri Lanka recorded a drop in the rankings of 5 of the 10 indicators, had no change in 2 indicators, and improved ranking in only 3 of the 10 indicators. A very large increase in a single indicator (associated with disclosure rules in the stock market) has resulted in the overall picture being shown as significantly positive, despite the disaggregated results showing more negative than positive developments in the rankings of these indicators. (See table 1).

Mixed Reviews

The difficulty in considering the overall ranking as indicative is the fact that it is made up of a combination of extremes. Sri Lanka performs very well in some indicators and very poorly in others. This discrepancy holds true in other comparative categories as well including economic (**lower middle income countries**) and geographic comparisons (**South Asia**).

Sri Lanka is one of the better performing **lower middle income countries** with an overall ranking of 12th (out of 54). In individual categories however it ranks highly in some such as in *starting a business* (6th of 54), *protecting investors* (5th of 54) and *trading across borders* (5th of 54) but ending up close to the bottom in the *paying taxes* category (49th of 54) and *registering property* (47th of 54).

The trend remains constant in a **South Asian** regional comparison ranking 1st (out of 8) in *getting electricity* and *trading across borders* but 8th (of 8) in *paying taxes*.

Problem in Paying Taxes:

- The most worrying indicator for Sri Lanka is its already very low ranking of 171st in the *paying taxes* category has sunk a further 2 points to occupy the 173rd position in the rankings.
- Sri Lanka is now the worst in South Asia in paying taxes and **one of just 5 countries of the 183 surveyed where the total tax rate exceeds 100% of post tax profit levels** (combination of labour contributions and taxes, land taxes and profit taxes).
- The difficulties in paying taxes are compounded for businesses as they are required to make **71 different tax payments throughout the year** (the 4th highest in the 183 countries surveyed).

⁴ <http://www.dailynews.lk/2011/10/21/bus01.asp>

Table 1: Summary of Doing Business 2011, 2012 Data for Sri Lanka⁵

Topic Rankings	Change in Rank	DB 2012 Rank	DB 2011 Rank
Starting a Business	↓ -3	38	35
Dealing with Construction Permits	↓ -1	111	110
Getting Electricity	↑ +2	95	97
Registering Property	↓ -3	161	158
Getting Credit	↓ -3	78	75
Protecting Investors	↑ +28	46	74
Paying Taxes	↓ -2	173	171
Trading Across Borders	No Change	53	53
Enforcing Contracts	No Change	136	136
Resolving Insolvency	↑ +2	42	44

The data provided in the Index report for 2012 is current as of June 2011.⁶

The Narration in section 3 provides details on what is measured by each of the indicators.

3. A deeper insight into what is measured by the indicators.⁷

3.1 Strengthening Investor Protection: Rank improved by 28 points, by jumping from the 74th position last year to 46th in 2012.

3.1.1 Measure of three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. Higher values indicate greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection

3.1.2 The improvement in Sri Lanka has resulted from requiring greater corporate disclosure on transactions between interested parties.⁸

⁵ <http://www.doingbusiness.org/data/exploreeconomies/sri-lanka/#starting-a-business>

⁶ <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

⁷ <http://www.doingbusiness.org/data/exploreeconomies/sri-lanka/#starting-a-business>

⁸ <http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

3.2 Paying Taxes: Fell by 2 points, from 171 in 2011 Rank to 173 in 2012.

3.2.1 Measure of the tax that a medium-size company must pay or withhold in a given year, and the administrative burden in paying taxes. Includes the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

3.2.3 This fall in rank occurred despite the reduction on taxes on business. Payment of taxes were made less costly for businesses by abolishing the turnover tax and social security contribution and by reducing corporate income tax, value added tax and nation building tax.⁹

3.3 Starting a Business in Sri Lanka: Fell by 3 points, from 35th position in 2011 to 38th position in 2012.

- This is a measure of the number of steps entrepreneurs must take to launch a business, the time it takes on average and the cost and minimum capital required as a percentage of the Gross National Income (GNI) per capita.

3.4 Dealing with Construction Permits: Fell by 1 point, from 110th position in 2011 to 111 in 2012.

- Measure of the procedures, time, and costs to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

3.5 Registering Property: Fell by 3 points, from 158th position in 2011 to 161 in 2012.

- Measure of the ease with which businesses can secure rights to property. This includes the number of steps, time, and cost involved in registering property.

3.6 Getting Credit: Fell by 3 points, from 75th position in 2011 to 78 in 2012.

- Measure of the scope, access and quality of credit information available through public registries or private bureaus. A higher value indicates that more credit information is available from a public registry or private bureau.

3.7 Trading across Borders: No change in rank. Remains at 53rd position.

⁹ <http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>
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- Measure of the costs and procedures involved in importing and exporting a standardized shipment of goods. This is carried out by counting documents associated with every official procedure, starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

3.8 Enforcing Contracts: No change in rank. Remains at 136th position.

- Measure of the ease or difficulty of enforcing commercial contracts. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

3.9 Resolving Insolvency: Improvement in rank by 2 points from 44th position in 2011 to 42 in 2012.

- Measure of the time and cost required to resolve bankruptcies. Identifies the weaknesses of the existing bankruptcy law and the main procedural and administrative difficulties in the bankruptcy process. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is also shown.

3.10 Getting Electricity: Improvement in ranks by 2 points, from 97th position in 2011 to 95 in 2012.

- Measure of the number of days, time and cost to obtain a permanent electricity connection.