Assessing the Business Environment in West Bank and Gaza: A Regional Perspective

By DAI

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INTRODUCTION

Since 2003, the World Bank/IFC's annual *Doing Business* publication has ranked countries according to selected indicators of the business environment. The latest issue of this report, *Doing Business in 2008*, presents data on 10 indicators of the business environment for 178 countries and ranks them accordingly. The upcoming report (*Doing Business in 2009*, to be released in September 2008) is expected to expand coverage to 180 countries, and to add two other indicators—for transparency and infrastructure, respectively. The *Doing Business* rankings have received growing attention by development practitioners and in particular by donors. In fact, each publication of the latest ratings in September has become something of a report card on regulatory reforms. The principal argument is that "you can't manage what you can't measure." There are of course some reservations whether these indicators fully capture the regulatory burden on business, but the attention they receive also suggests that any reform strategy should also include an element of "managing what is being measured." If reforms are in fact proceeding, why not get some recognition in terms of the *Doing Business* rankings?

This strategic review examines the performance of the Palestinian economy on the 10 business environment indicators reported in the latest edition of the *Doing Business* series, which is based on data gathered in early 2007. The approach is *strategic* in the sense of identifying and prioritizing possible interventions to move regulatory reform forward and to gain recognition in the cross-country comparisons. Basically, this review seeks to drill deeper in analyzing detailed data used in the calculation of the indicators and subindicators to highlight specific opportunities for reform that will be reflected in changes in the *Doing Business* rankings.[1] It examines the reported business environment indicators for the West Bank and Gaza in a regional context, relating the evidence to the same measures for selected countries in the Middle East and in the Maghreb—Jordan, Egypt, and Lebanon (the "JEL" countries), as well the Maghreb countries, Tunisia and Morocco. For comparison purposes, the analysis also contrasts the business environment performance of the Palestinian economy to that for Israel.

The analysis here precedes indicator by indicator, 10 in all. For several of these indicators, the *Doing Business* approach is based on estimates of the number of procedures, time and cost for selected transactions, like "starting a business" or getting the permits for building a warehouse and securing utilities ("dealing with licenses"). Other indicators are estimated on the basis of qualitative responses, including responses on a yes-no basis, sometimes weighting them, and then scaling the results to yield an index over a particular range. The sources of the information are law firms or other intermediaries familiar with the respective processes. In other words, the *Doing Business* indicators are *not* based on statistically representative surveys, but reflect inputs from key informants, aggregated into a composite measure. Key to changes in the indicators is

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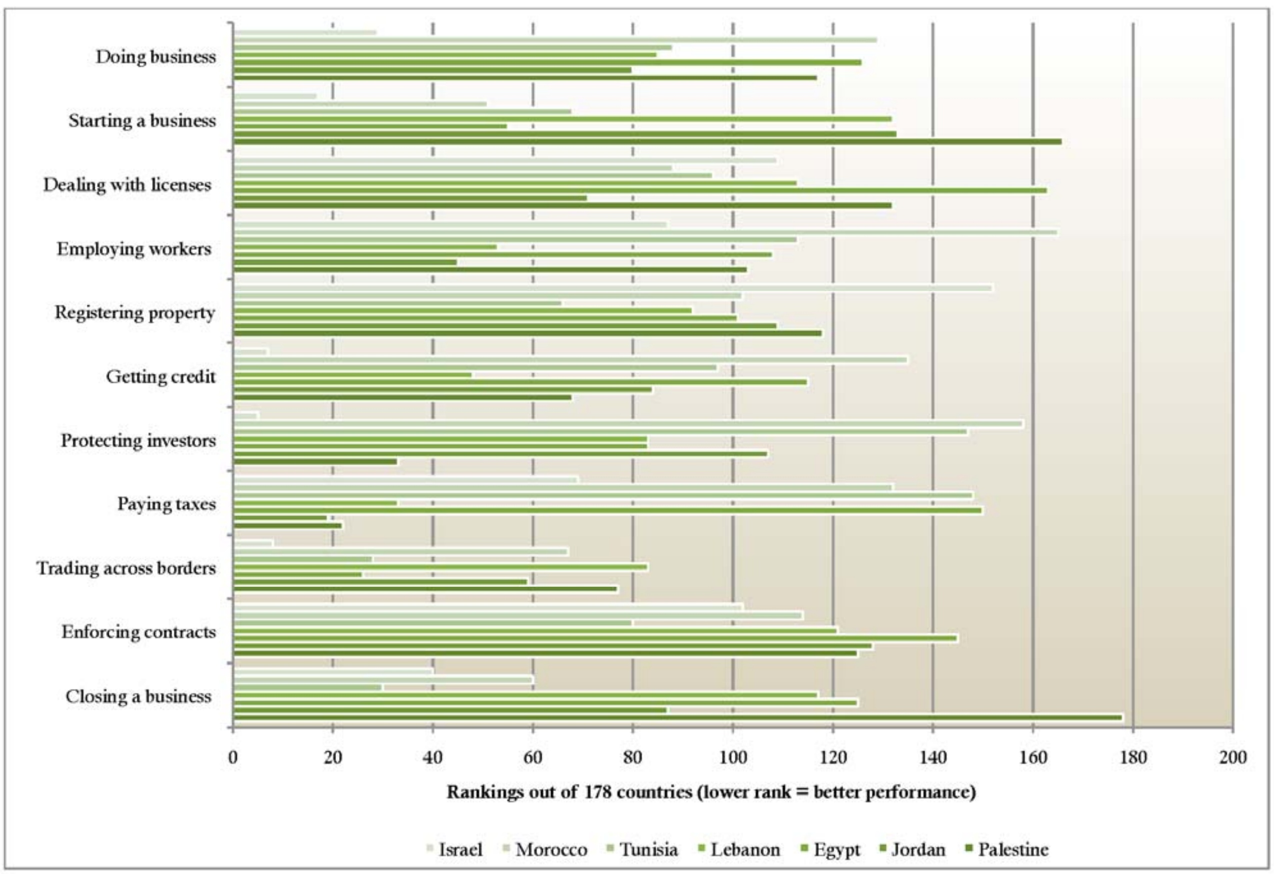
[1] In 2007, the *Doing Business* team has published reports on each one of the 178 countries ranked that provide a detailed presentation of individual data elements—procedures, time, cost, etc., for each indicator. The report for West Bank and Gaza offers more detail needed for interpreting the comparisons. All data used here were obtained from the *Doing Business* web site, www.doingbusiness.org.

therefore the specific *experience* of these key informants in their daily practice. That aspect needs be kept in mind in translating the findings of the analysis here into strategic interventions.

Interpreting the individual indicators requires an understanding of the specific cases that define the parameters of the transaction, especially since some of the broad labels may not always fully represent the elements used to construct them. For example, "starting a business" refers to a very specific type of business, with five partners, a certain level of paid-in capital, etc. In order to comprehend each one of the measures, it is imperative to be fully aware of the underlying definitions. A brief summary description of the key parameters therefore precedes the analysis of each of the indicators.

Specifically, the review here is designed to provide some guidance as to what steps affecting procedures, duration, costs or the presence/absence of particular provisions may be required to improve the country's *Doing Business* rankings. The web site maintained by the *Doing Business* team offers a "rankings simulator"—researchers can specify what reforms are to be made and obtain an estimate of the improvement in the overall ranking of the country among the 178 countries. These simulations assume, of course, that there are no changes in the indicators for other countries. In reality, other countries do reform, which keeps raising the bar.

FIGURE 1: OVERALL DB RANKINGS BY MAIN INDICATORS



THE OVERALL RANKINGS

Figure 1 shows the overall rankings for "ease of doing business" at the top of the chart, and for the 10 individual indicators. In terms of the summary measure that combines all 10 indicators, the Palestinian economy attains a rank of 117 out of 178 countries (66th percentile), far behind Israel at rank 29 (16th percentile). Both Morocco and Egypt rank below West Bank and Gaza at 126 and 129,[2] while Tunisia, Lebanon and Jordan show higher ranks between 80 and 88. Palestine ranks worst in terms of the "closing a business" indicator, which reportedly is due to "no practice" regarding bankruptcy proceedings, so there is no score reported at all. Its next worst score is in "starting a business," followed by "dealing with licenses," "enforcing contracts" and "registering property." The Palestinian economy is doing relatively best in terms of "paying taxes" and "protecting investors," at ranks 22 and 33, respectively. Both starting and closing a business are of course critical to a vibrant economy since they facilitate a dynamic adaptation to changing circumstances.

STARTING A BUSINESS

DEFINITIONS[3]

Four subindicators describe the burden associated with starting up and formally operating an industrial or commercial business. The activities include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with the relevant authorities. The procedures refer to the establishment of a limited liability company with five owners who are nationals of the country; one of the owners is a legal entity. The company does not require special permits or licenses, such as a pharmacy. The company has a start-up capital 10 times the per capita income, and will have 10 to 50 employees one month after commencement of operations.

A *procedure* is defined as any interaction of the company founders with external parties (for example, government agencies, lawyers, auditors or notaries). The founders are assumed to complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law. Procedures that must be completed in the same building but in different offices are counted as separate procedures. If founders have to visit the same office several times for different sequential procedures, each step is counted separately as a "procedure."

Time is recorded in calendar days. The minimum time required for each procedure is one day. While procedures may take place simultaneously, they are counted as starting on consecutive days. The estimation of the time required ignores any activity linked to gathering information: the company founders are assumed to be aware of all entry regulations and their sequence from the beginning. *Cost* includes all official fees and fees for legal or professional services if such services are required by law, and is expressed as a percentage of the country's income per capita. In all cases the cost excludes any bribes. The *paid-in minimum* capital requirement reflects the

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2 Egypt was declared the "leading reformer" for 2007 by the *Doing Business* team. It moved from the equivalent rank of 152 in *Doing Business in 2007* to rank 126 in *Doing Business in 2008*.

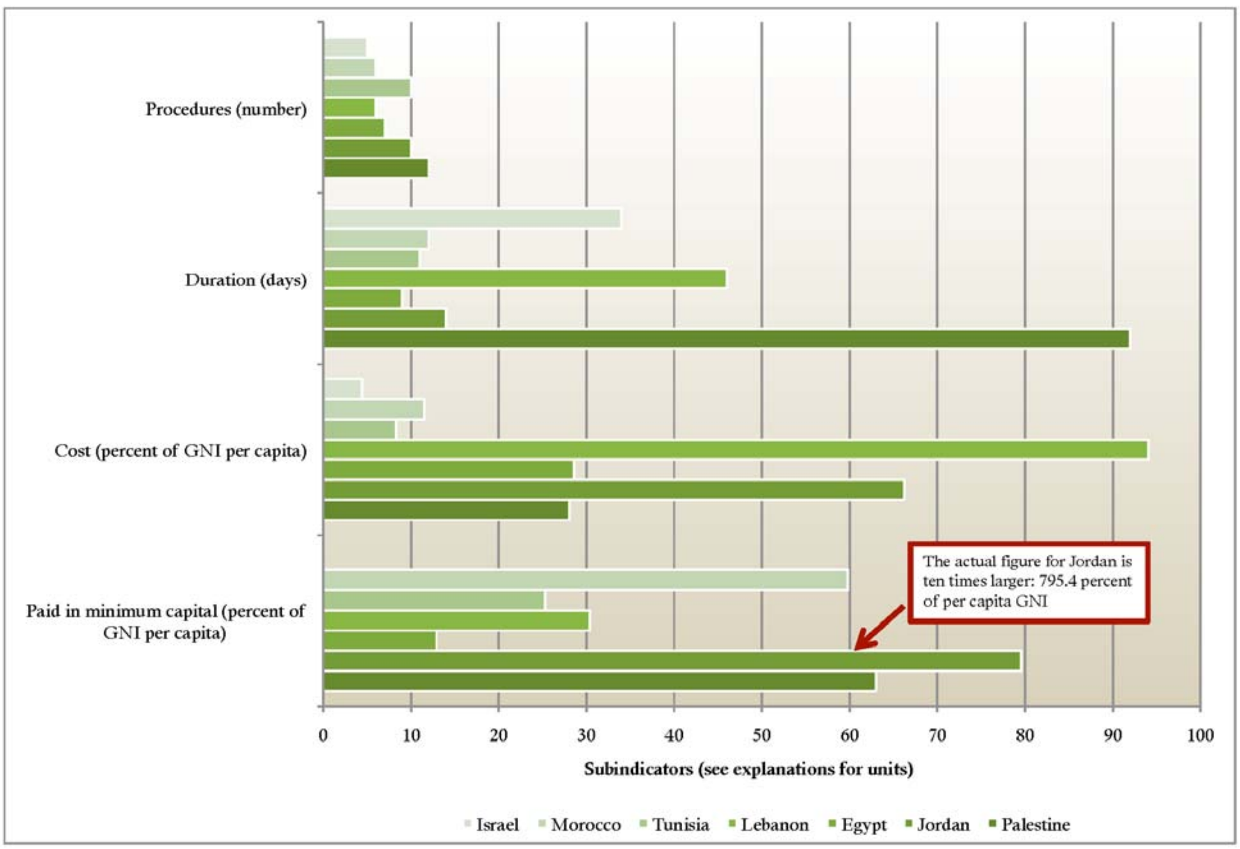
3 The summaries here draw, sometimes verbatim, on the definitions provided in *Doing Business in 2008*.

amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to three months following incorporation. It is recorded as a percentage of the country's income per capita.

PERFORMANCE ON SUBINDICATORS

Figure 2 provides a comparison of the four subindicators that shape the ranking of countries on the "starting a business" measure. The Palestinian economy ranks very low here, at rank 166, or the 93rd percentile; only its ranking on the "closing a business" or bankruptcy indicator is lower, which is effectively based a "not applicable" score. As Figure 2 illustrates, the major issue is in terms of both duration and cost. It takes exactly twice as long to start a business in the West Bank and Gaza as in the second-worst case, Lebanon. The total cost of starting a business is 4.4 times the average for the JEL countries! For the number of procedures, West Bank and Gaza also records the highest value of the seven countries. Palestine ranks on the high end with respect to the minimum capital, expressed in relation to the GNI per capita, about the same as Morocco; only the exorbitant value reported for Jordan—795.4 percent of per capita GNI—is higher.

FIGURE 2: SUBINDICATORS FOR "STARTING A BUSINESS"



What are the factors explaining the relatively poor performance of the Palestinian economy with respect to the "starting a business" indicator? Table 1 provides additional evidence. Regarding the duration, the main "culprits" are the time it takes to register the company with the Companies Registry and the registration with the Chamber of Commerce. It is unclear whether part of this process involves "vetting" the company, but there is no reference to that aspect in the detailed notes and explanations that accompany the report. A strategy specifically focusing on advancing regulatory reform and getting recognition internationally in terms of the *Doing Business* ratings there needs to find ways to reduce these times. There may be some fundamental legal or regulatory requirements that account for these times, but it is also likely that they reflect some bureaucratic sloth or lack of attention.

With respect to the total cost of registering a business, the reported 280.4 percent of per capita GNI translates into a total amount of $3,140. Unfortunately, it seems difficult to come up with that total looking at the individual rows in Table 1. There are some references in the notes to each of the items that suggest that the total is based on broader data, but further investigation is required.

TABLE 1: THE COMPONENTS FOR THE "STARTING A BUSINESS" SUBINDICATORS

Procedure	Duration	Cost
Search for company name and reserve proposed name	3 days	ILS* 87
Obtain temporary copy of certificate of registration from Ministry	2 days	USD 44
Local lawyer signs company documents	1-3 days	USD 500-700
Register with Companies Registry	30-40 days	variable
Deposit initial capital	1 day (simultaneous with previous procedure)	variable
Payment of registration fee	2 days (simultaneous with previous procedure)	no charge
Register for income and VAT tax	7 days	no charge
Register with Chamber of Commerce	14-21 days	USD 175
Obtain approval from fire department	1-3 days	18 USD per square meter
Obtain approval from health authorities	1-2 days	no charge
Obtain business license from municipality	7-14 days	USD 100-500
Obtain and legalize special company books	7-14 days	30 USD per transaction

*Israeli shekel

Similar considerations apply to the minimum capital required, as well as the cost of registering a company. A number of countries, including Morocco, have improved their ranking by slashing the requirement for a relatively high minimum capital. (Incidentally, the reported figure for Israel is $0 which explains its absence in the lower part of the graph.) In terms of cost, targets for further investigation include the fees for a lawyer signing company documents, and the cost of obtaining a business license from the municipality. For the latter, it may represent a source of revenue for municipalities, but it also discourages the formation of new companies.

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

The rankings simulator provided by the *Doing Business* team on their web site allows for an assessment of the impact of specific reforms on the ranking of a particular economy—always assuming, of course, that other countries do not reform at the same time. In the case of the Palestinian economy, the potential impact of changing certain subindicators is rather impressive. However, there is a problem. The rankings simulator offers one subindicator that differs from the one reported elsewhere on the *Doing Business* website. While other reports for West Bank and Gaza show a minimum capital of some 63 percent of the gross national income (GNI) per capita, the rankings simulator shows a figure of 9 percent. It also shows a 79th percentile (as opposed to the 92nd percentile based on the data reported in the main report); in fact, it also suggests that the Palestinian economy ranks in the 55th percentile, as opposed to the 66th percentile which is based on dividing 117 by 178.[4] Obviously, some correction may be required, so the results of the simulation below need to be interpreted with some caution.

Without touching the measure of the minimum capital required, suppose that the Palestinian economy were to achieve the average of the other three Middle Eastern countries, the JEL countries, with 8 procedures, duration of 23 days, and a cost of 63 percent of per capita GNI. With such a reform, West Bank and Gaza would move from rank 117 to rank 102, a change of 15 places. Even if we assume that the reforms are more modest, 8 procedures, 54 days duration (based on assuming that the 2 major elements can be reduced to 5 days each), and a cost of 100 percent of per capita GNI, the Palestinian economy would still advance 10 places to rank 107.

DEALING WITH LICENSES

DEFINITIONS

The subindicators for the "dealing with licenses" indicator refer to all procedures required for a business in the construction industry to build and equip a standardized warehouse. These procedures include:

- Submitting all relevant project-specific documents, such as building plans, to the authorities;
- Obtaining all necessary clearances, licenses, permits and certificates;
- Completing all required notifications;
- Receiving all necessary inspections;
- Obtaining all utility connections; and
- Registering the property so it can be used as collateral or transferred.

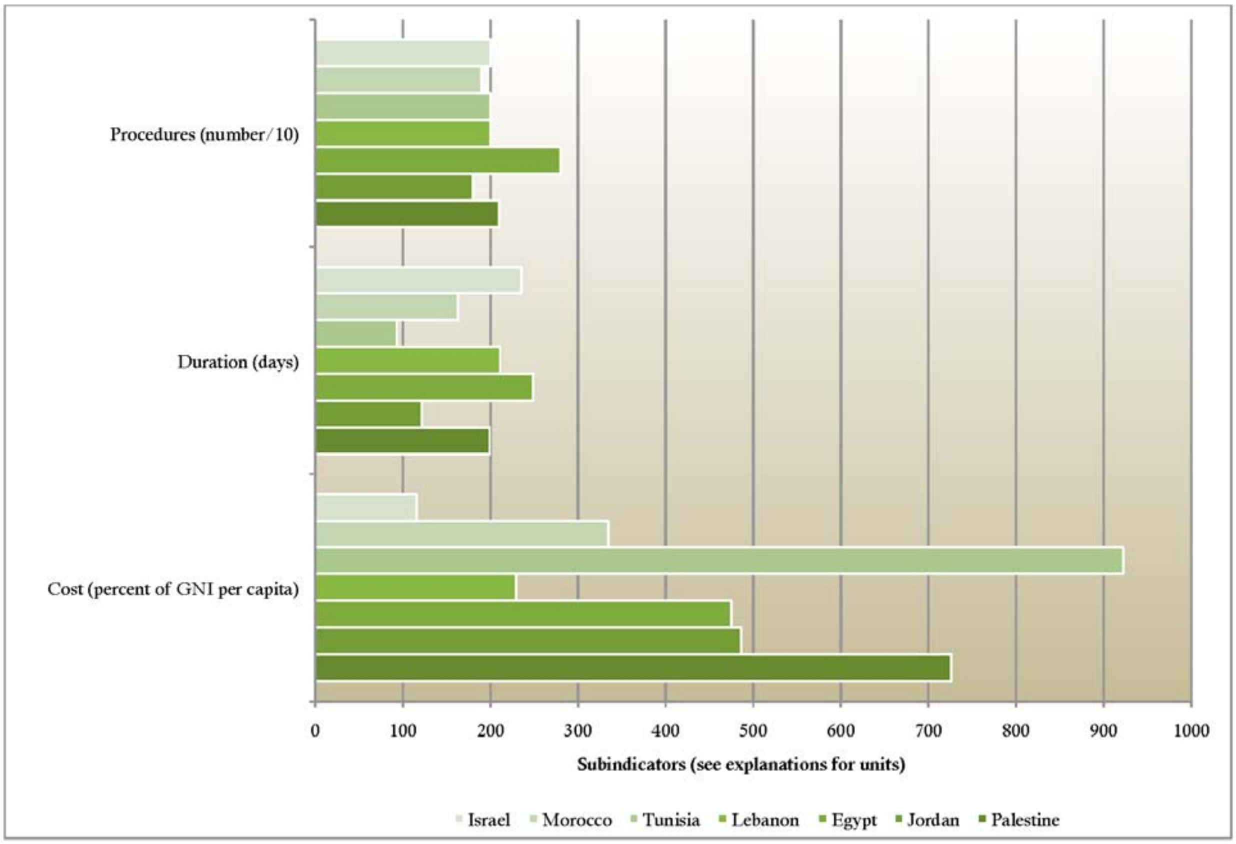
The assumptions include characteristics of the warehouse (14,000 square feet on two stories, located in a periurban area, etc.), and of the company that is building it (BuildCo). The definition of the subindicators is very similar to that for the "starting a business" measure. They include the number of procedures, total duration, and the associated cost.

4 The percentile reported in the rankings simulator is the average of the percentiles for individual indicators.

COMPARISONS BY SUBINDICATOR

On this indicator, the Palestinian economy actually ranks lower than its overall score, at rank 132 (or the 74th percentile). The data summarized in Figure 3 suggests that this low ranking is primarily attributable to the cost element, where West Bank and Gaza trails only Tunisia. Aside from Israel, both Morocco and Lebanon record low scores on that measure, with Egypt and Jordan reporting an intermediate value. Generally, the rationale behind requiring significant outlays on capital for a new company may not hold up to close scrutiny.

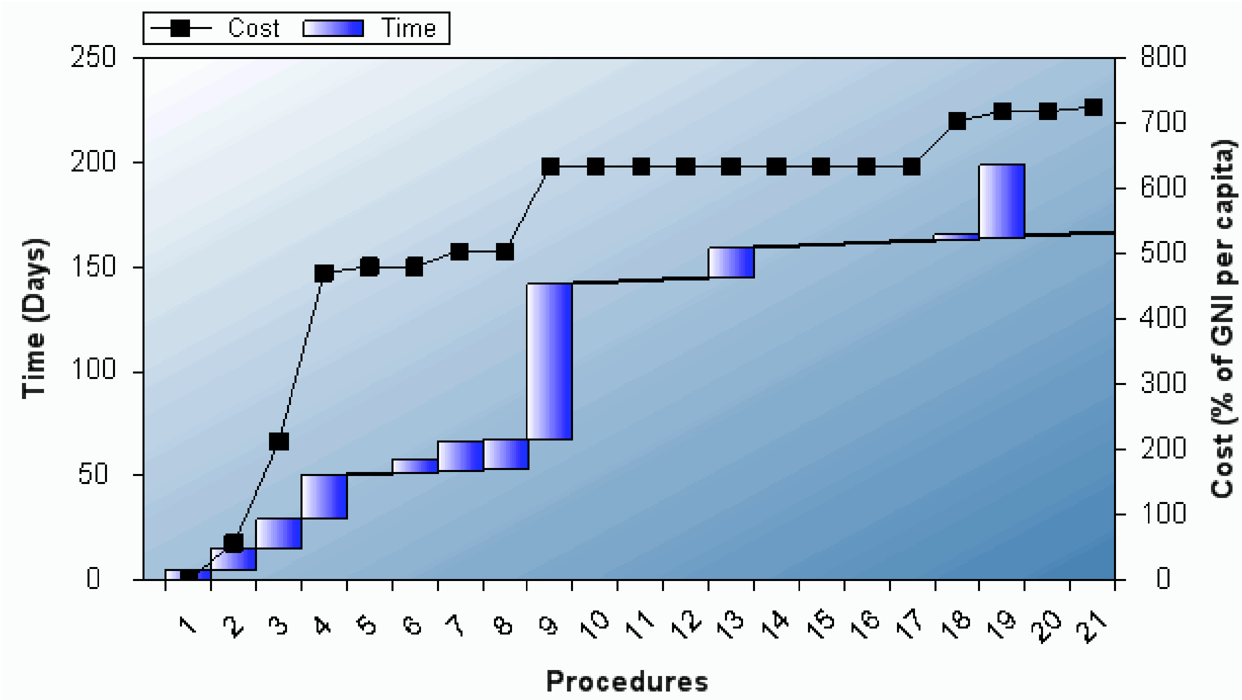
FIGURE 3: SUBINDICATORS FOR "DEALING WITH LICENSES"



Note: The number of procedures has been inflated by a factor of 10 to allow for a single graph. All figures are around 20 procedures.

With respect to the other two subindicators, West Bank and Gaza does not differ much from the regional average. That comparison, however, does not mean that a strategy aimed at improving the *Doing Business* rankings of the Palestinian economy should skip over these measures. Figure 4 is an illustration from the report on West Bank and Gaza that shows the time and cost requirements for the 21 steps involved in getting all the permits for building (and occupying) a warehouse. A major element in determining both duration and cost is Procedure 9, “obtain environmental permit,” which reportedly takes 75 days. Clearly, this may well be a target for further analysis to determine what can be done to reduce this time.

FIGURE 4: PROCEDURES, DURATION, AND COST OF "DEALING WITH LICENSES"



EXPLORING THE IMPACT OF REFORMS ON RANKINGS

For an illustration of the likely impact of reforms on the *Doing Business* rankings of the Palestinian economy, let's make the following assumptions:

- The number of procedures is reduced from 21 to 15 through the use of one-stop shop principles and streamlined administrative procedures;
- The total duration is reduced by 54 days to 140 days, by lowering the requirement for obtaining an environmental permit to 21 days;
- And the cost is lowered to 400 percent of per capita GNI, corresponding to the average for the "JEL" countries.

These three assumptions together produce an improvement in total rankings by 11 places, from 117 to 106. Again, in interpreting these results, remember that they are based on other things being equal; that is, other countries are assumed not to reform.

EMPLOYING WORKERS

DEFINITIONS

The subindicators for "employing workers" seek to characterize the regulation of employment, especially as it relates the hiring and firing of workers and the rigidity of working hours. The worker is assumed to be a 42-year old male who has been with the same company for 20 years in a non-executive position. He is assumed to earn a wage corresponding to the country's average wage.

The subindicators are calculated differently from the procedure-oriented approach used for "starting a business" and "dealing with licenses." Specifically, some of them are in effect estimated as an index based on the presence or absence of specific regulations. Others, such as non-wage labor cost, are estimated on the basis of available regulations. Specifically, the "employing workers" indicator combines the following subindicators:

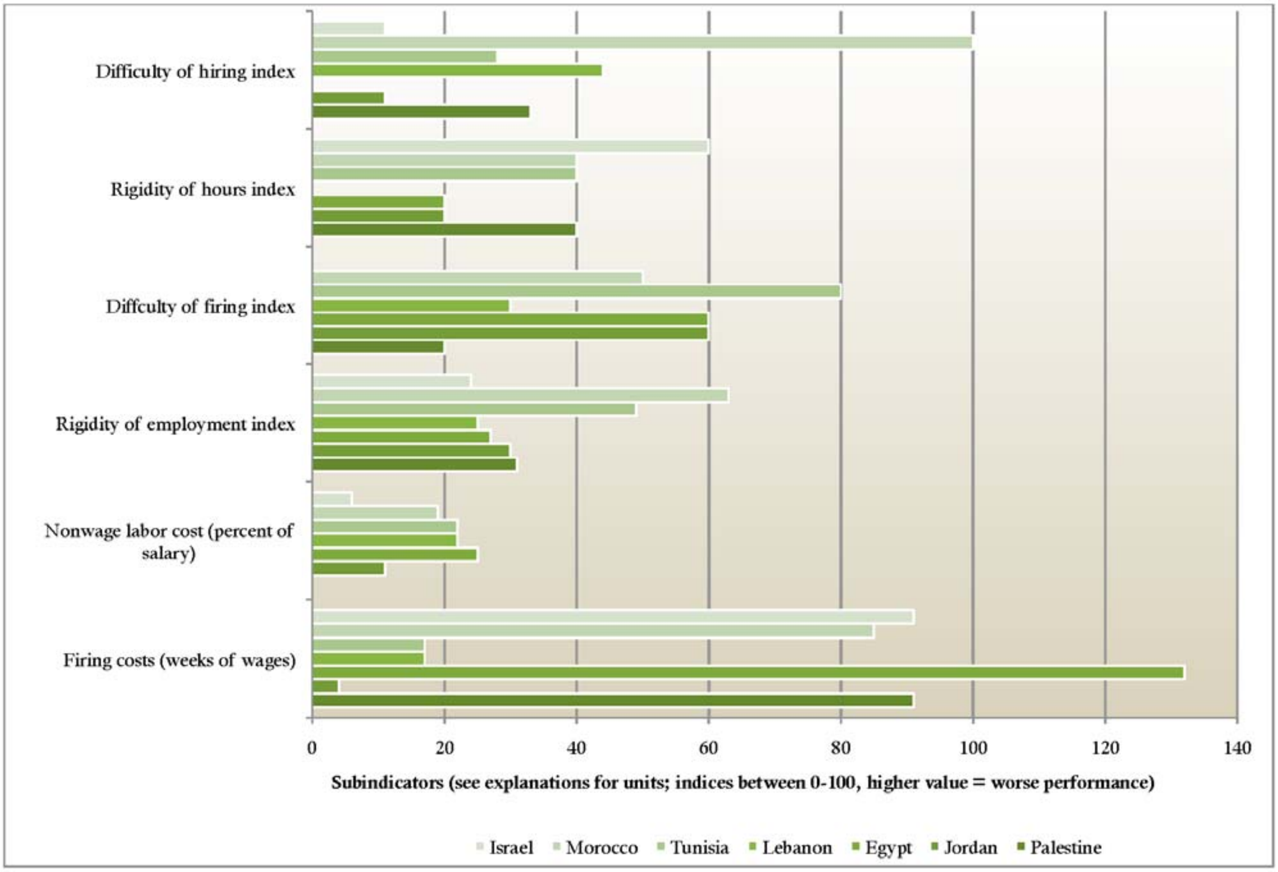
- The rigidity of employment index, basically the average of the following three subindicators;
    - The difficulty of hiring index which reflects whether fixed-term contracts are prohibited for permanent tasks, the maximum cumulative duration of fixed-term contracts, and the ratio of the mandated minimum wage to the average value added per worker; the responses are scored, and averaged to obtain an index between 0 and 100;
    - The rigidity of hours index comprises five components—whether night work is restricted, whether weekend work is restricted, whether the workweek can consist of 5.5 days, whether the workweek can extend to 50 hours or more for seasonal increases in production, and whether paid annual vacation is 21 days or fewer; again, the responses are scored and averaged to obtain an index between 0 and 100;
    - The difficulty of firing index comprises eight components—whether redundancy is disallowed as a basis for terminating workers; whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; whether the employer needs to notify a third party to terminate a group of 25 redundant workers; whether the employer needs approval from a third party to terminate 1 redundant worker; whether the employer needs approval from a third party to terminate a group of 25 redundant workers; whether the law requires the employer to consider reassignment or retraining options before redundancy termination; whether priority rules apply for redundancies; and whether priority rules apply for reemployment; again, the responses are scored and averaged to obtain an index between 0 and 100.
- Non-wage labor costs combines all social charges as a percent of the employee's salary; and
- Firing cost refers to any advance notice requirements, severance payments and penalties for terminating a redundant worker, expressed in terms of weekly wages.

COMPARISONS BY SUBINDICATOR

Figure 5 presents the comparison of the various subindicators for "employing workers." Overall, the Palestinian economy scores better than its average ranking, with a rank of 103 (58th percentile), roughly the same as Egypt and Tunisia, worse than Jordan and Lebanon, but better than Morocco. The graph shows that there are several scores of 0 (best performance): Egypt for "difficulty of hiring," Lebanon for "rigidity of hours," Israel for "difficulty of firing," and West Bank and Gaza for "non-wage labor costs."

There are significant differences in terms of "firing costs," expressed as weeks of wages. The worst performance is reported for Egypt, with 132 weeks of wages, followed by Israel, Morocco, and the West Bank at around 90 weeks.

FIGURE 5: SUBINDICATORS FOR "EMPLOYING WORKERS"



EXPLORING THE IMPACT OF REFORMS ON RANKINGS

Regulations related to labor tend to be politically highly sensitive, particularly given the level of poverty that currently exists in the West Bank and Gaza. However, some thought should be given to introduce greater flexibility in the labor market. For example, high firing costs can make it difficult for firms to enter into employment commitments. Especially in an environment where unemployment runs high, and business uncertainty imposes frequent shifts in levels of activity, it may be easier to forge a constituency for reforms that allows employers greater flexibility in dealing with employment issues. We understand that the private sector intends to work on amending the current labor law. These initiatives may provide greater flexibility, and may reduce the firing cost.

For illustration, assume that the cost of firing workers is brought down from 91 weeks' worth of wages to, say, 60 weeks. While this represents a significant change in a key parameter, its impact on the overall ranking would be negligible. The West Bank and Gaza would remain at rank 117.

Only more drastic changes would yield some movement; for example, a rate of 17 weeks (like Tunisia and Lebanon) would improve the overall ranking from 117 to 108—9 places.

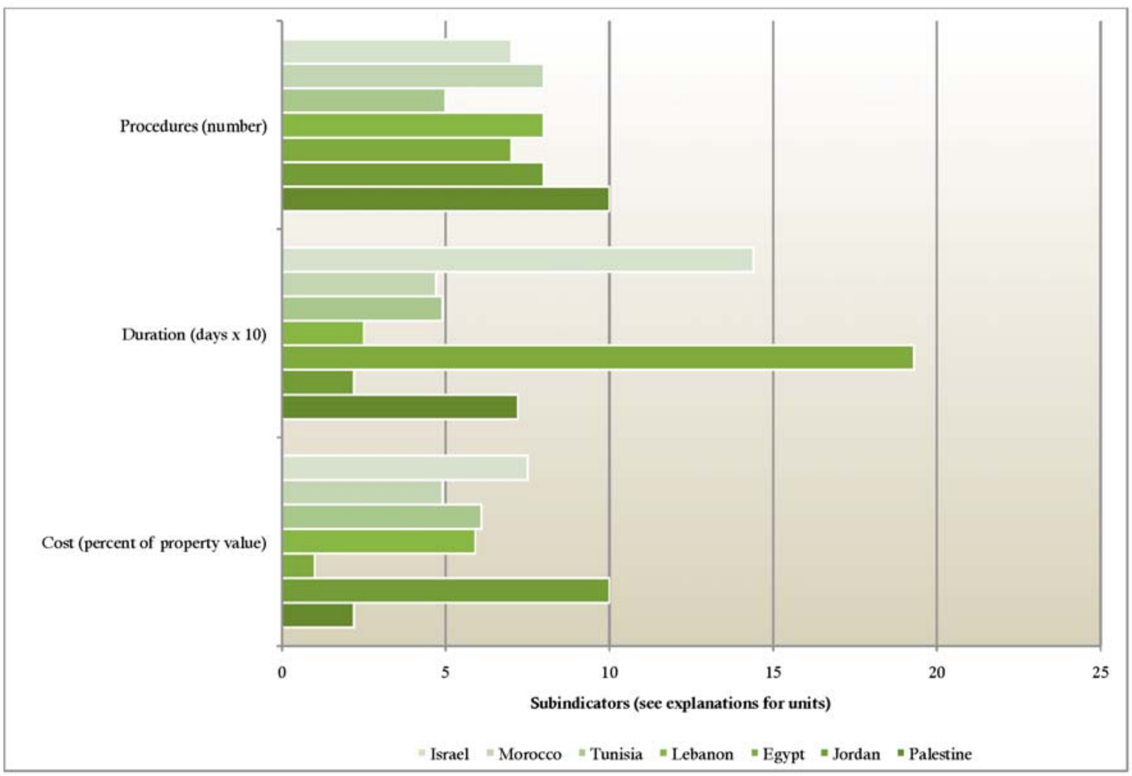
REGISTERING PROPERTY

DEFINITIONS

This indicator records the full sequences of procedures necessary when a business purchases land and a building to transfer the property title from another business to enable the buyer to use the property to expand activities, as collateral for any new loans, or to sell to another business. Every procedure required by law or administrative practice is included, whether it is the responsibility of the seller or seller.

Both parties (seller and buyer) are limited liability companies with 50 employees. The property has a value 50 times income per capita, and is free of any liens or occupants.

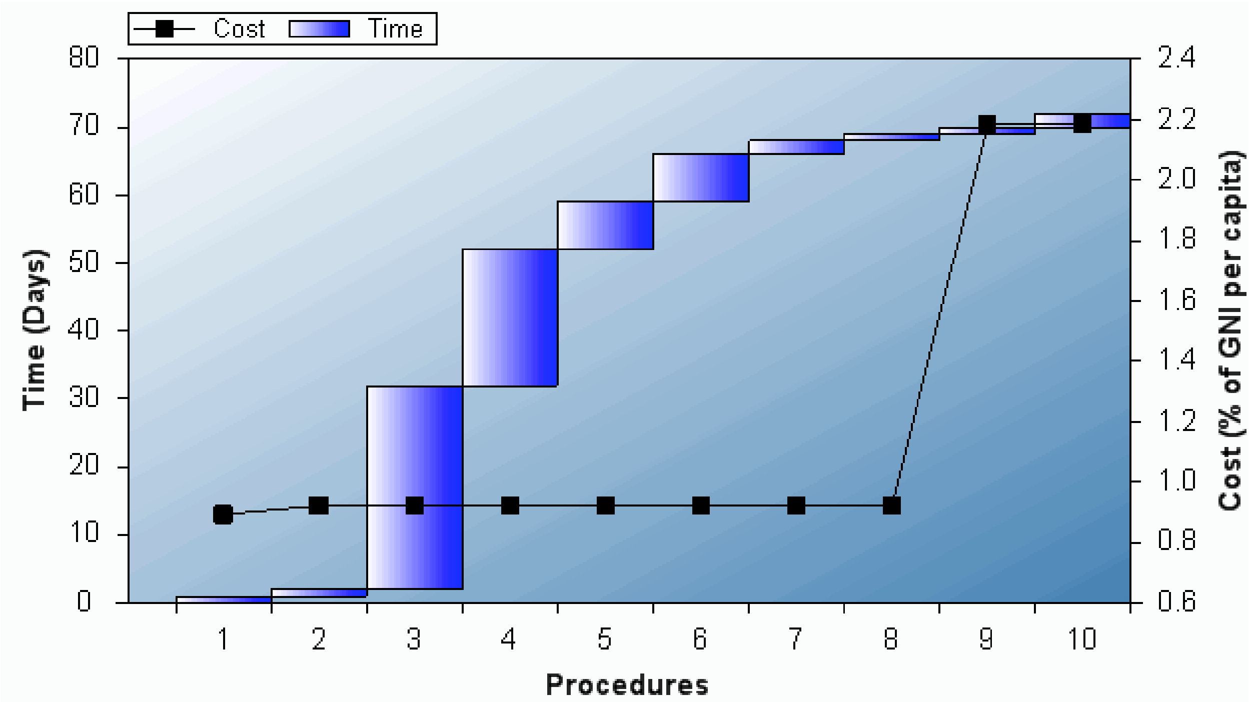
FIGURE 6: SUBINDICATORS FOR "REGISTERING PROPERTY"



COMPARISONS BY SUBINDICATOR

The scores for the three different subindicators for the "registering property" measure are shown in Figure 6. In terms of the "registering property" indicator, the Palestinian economy ranks about the same as on the aggregate "ease of doing business"—at 118 (66th percentile). It lags behind all of the comparator countries, except Israel. The principal factor in explaining this low ranking is the number of procedures, 10 vs. a maximum of 8 for Jordan, Lebanon and Morocco. In terms of duration, West Bank and Gaza scores slightly higher than Morocco and Tunisia. However, in both Lebanon and Jordan it takes less than half the time to register property.

FIGURE 7: REGISTERING PROPERTY IN WEST BANK AND GAZA



The relatively best performance of the Palestinian economy is on the cost of registration, expressed as a percent of the value of the property. The score of 2.2 percent is double what it takes in Egypt, but significantly less than in all other comparator countries.

Figure 7 and Table 2 provide additional information on the factors behind the relatively long duration. The two procedures that take the most time involve opening the transaction file at the land registry (30 days) and the evaluation of the property by the land registry, neither of which involves any cost to the parties in the transaction. There may well be important legal reasons for these processes to take that long, but it would seem that they might amenable to *administrative* streamlining.

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

Land registration is perhaps one of the most urgent regulatory reforms needed in Palestine, but it is also a very sensitive issue politically. Significant changes may be technically doable, but implementation is likely to face stiff hurdles. For illustrative purposes, suppose that the application of one-stop shop principles collapses the number of procedures to 8 (combining the land registry, the municipality and the tax service of the Ministry of Finance), and the total duration is reduced from 72 days to 65 days. These two assumptions yield an improvement in the rankings by 3 places, from 117 to 114. If the duration could be brought down to the Jordanian level, 22 days, the overall ranking would improve by another 7 places, to 107.

TABLE 2: PROCEDURES, DURATION, AND COST ("REGISTERING PROPERTY")

No:	Procedure	Time to complete	Cost to complete
1	Execute powers of attorney at lawyer's office	1 day	$500 (legal fees)
2	Notarize powers of attorney	1 day	$12-20 (notary fees)
3	Open the transaction file at the land registry	30 days	no cost
4	Land registry valuates property	20 days	no cost
5	Obtain tax clearance certificate from the Municipality	7 days	no cost
6	Obtain tax clearance certificate from the Ministry of Finance	7 days	no cost
7	Submit tax clearance certificates to the land registry	1-2 days	no cost
8	Proceed to land registry to sign valuation	1 day	no cost
9	Pay taxes at commercial bank 1 day	1% + 0.2% property value (transfer taxes) + $30 –	$40 (stamp duties)
10	Bring receipts to land registry and finalize the transaction	1-2 days	no cost

GETTING CREDIT

DEFINITIONS

This indicator is based on measures of the legal rights of borrowers and lenders, and the sharing of credit information. *Doing Business* constructs a *legal rights* index which measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. This index ranges from 0 to 10, depending on the answers to specific questions about legislation or institutions (like a unified registry of liens on movable property) in place. There are 10 questions, and a score of 1 is assigned if the law/institution exists.

A depth of credit information index is calculated in a similar manner by adding up the number of positive responses on six questions about the availability of credit data and their coverage. The index therefore ranges from 0 to 6. It is actually closely linked to the coverage of public credit registry and private credit bureau coverage. Obviously, if a country has no credit bureau coverage, this index is automatically equal to zero.

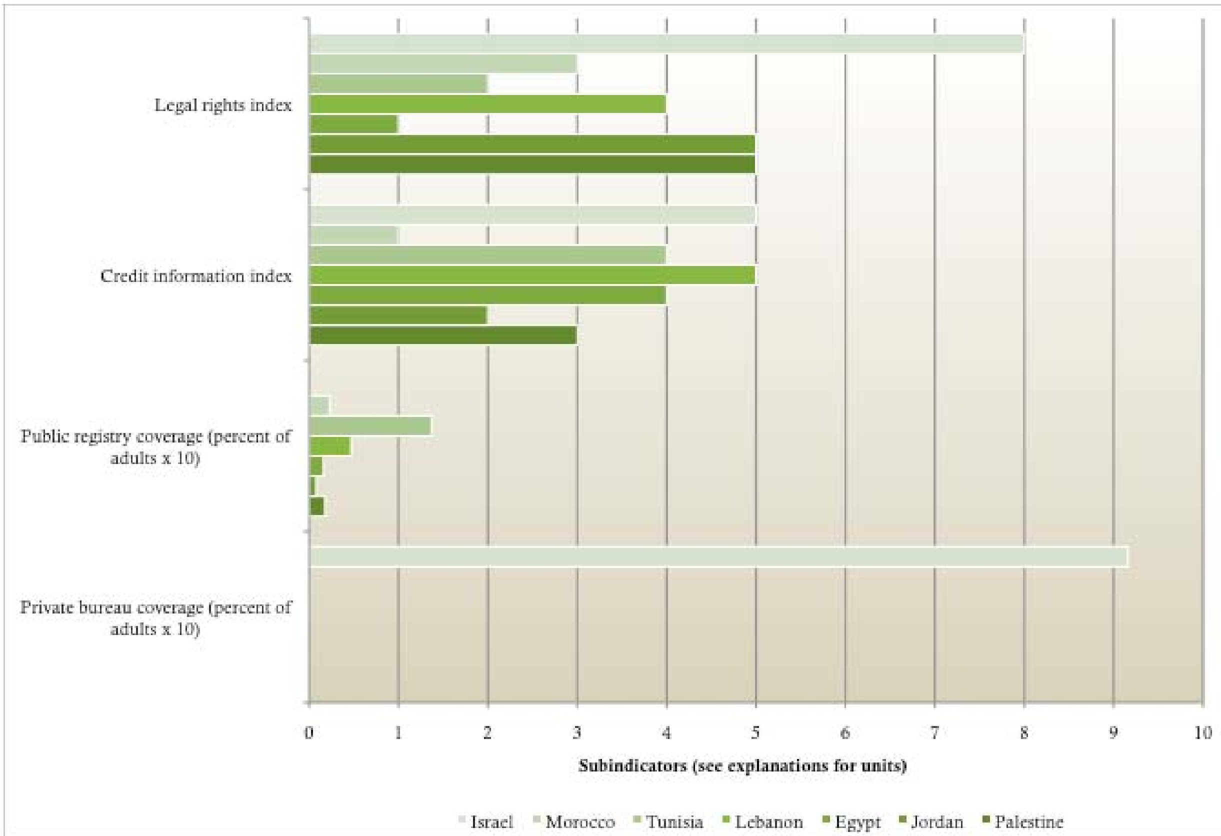
The other two elements of the "getting credit" indicator refer to the coverage of public and private credit bureaus.

The measures for "getting credit" focus on fairly narrow aspects of the issues related to access to credit for businesses in a given country. While credit bureau coverage, the quality of the information provided by these bureaus, and the existence of an adequate legal framework for lending are of course critical, there are aspects that other observers would consider important.

Comparisons by Subindicator

The Palestinian economy ranks much better on the "getting credit" indicator as compared to its average rank, although it has very limited public credit bureau coverage. Its public credit bureau covers 1.8 percent of the adult population which is below the average percentage for the JEL countries of 2.4 percent and Morocco's 2.3 percent, and significantly below that Tunisia of 13.7. None of the countries have any private bureau coverage, with the exception of Israel where private credit bureaus cover just about 92 percent of the adult population.

FIGURE 8: SUBINDICATORS FOR "GETTING CREDIT"



West Bank and Gaza is doing fairly well in terms of the "legal rights index," with the same score as the one for Jordan, and only trailing the much higher index for Israel. In terms of the "credit information index," the absence of any significant coverage is reflected in a relatively low score, although ahead of Morocco and Jordan.

Exploring the Impact of Reforms on Rankings

Obviously, without any progress regarding the establishment of a public credit registry or the creation of private credit bureaus, there is little that is likely to change the overall ranking of West Bank and Gaza on this indicator. However, the overall ranking is actually quite sensitive to changes in the legal rights index. For example, if the Palestinian Authority adopted legislation to create positive responses to two more of the categories to get closer to the score for Israel, the country's ranking would improve from 117 to 107, a total of 10 places.

PROTECTING INVESTORS

DEFINITIONS

The indicator is designed to measure the strength of minority shareholder protection against directors' misuse of corporate assets for personal gain. The indicators distinguish three dimensions of investor protection: the *extent of disclosure* index reflects the transparency of related-party transactions; the *extent of director liability index* describes the liability for self-dealing; and the *shareholder suits index* refers to the ability of shareholders to sue officers and directors for misconduct.

The Buyer is a publicly traded corporation (if there is a stock exchange), otherwise a large private company with multiple shareholders. The transaction involves a shareholder, Mr. James, who owns 60 percent of the company, is a member of the board of directors, and elected two directors to the five-member board. Mr. James also owns 90 percent of the Seller. He proposes to Buyer that it purchase Seller's unused fleet of trucks to expand Buyer's distribution of its food products. Buyer agrees. The price is equal to 10 percent of Buyer's assets and is higher than the market value. Buyer enters into the transaction. All required approvals are obtained, and all required disclosures made (that is, the transaction is not fraudulent). The transaction is unfair to Buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

The three indices are calculated on the basis of particular responses to a number of questions. The notes in the individual country reports explain the scoring methods in greater detail; all of these reports, one for each country, can be downloaded from www.doingbusiness.org.

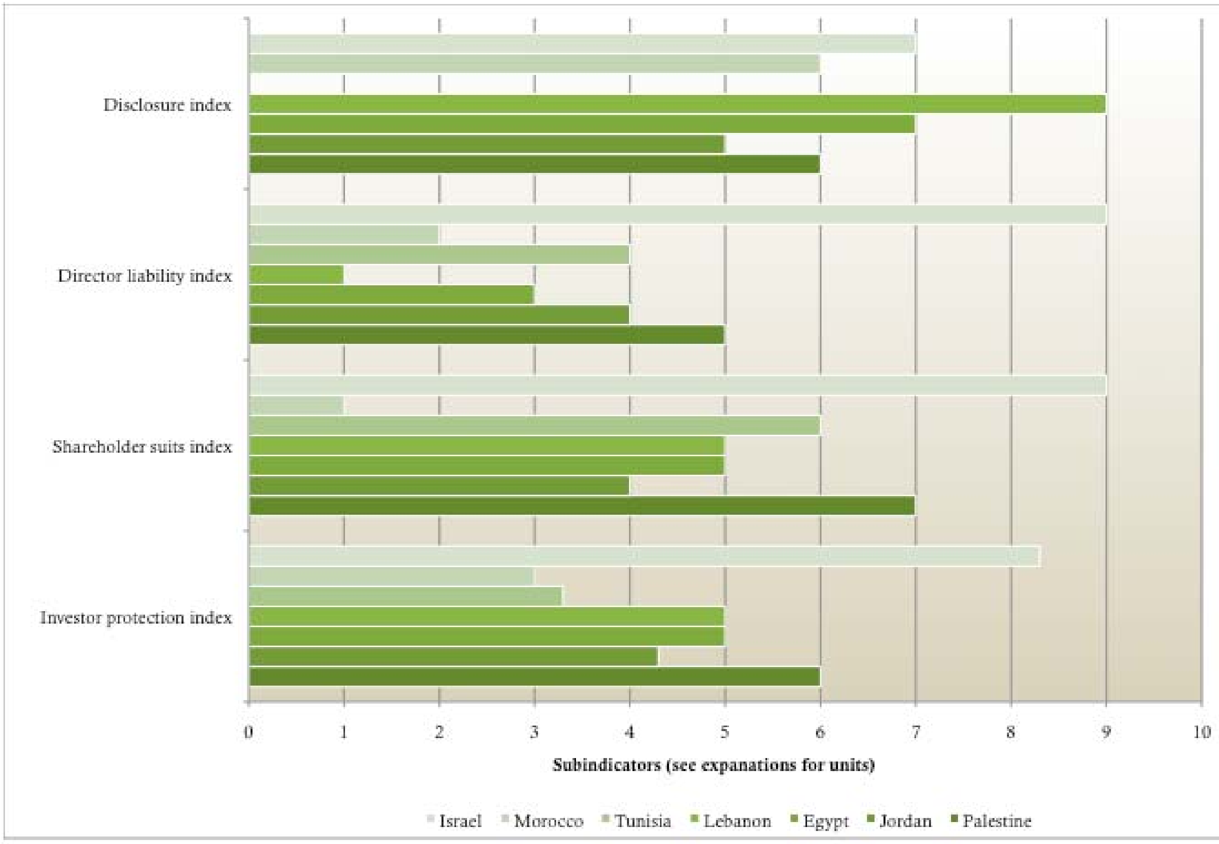
COMPARISONS BY SUBINDICATOR

Overall, West Bank and Gaza ranks relatively high on the "protecting investors" indicator, at rank 33 (or the 19th percentile). In three of the four subindicators, the country is second only to Israel with respect to protecting investors. The only exception is the "disclosure index" where the Palestinian economy lags behind Lebanon, Israel and Egypt. The *Doing Business* measurement approach may focus on a particular situation. But however it is characterized, it is important for a hospitable business environment to offer significant protection of minority investors to build the kind of value network that demands the participation of foreign investors, especially given the generally high level of risk.

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

As in the case of labor laws, the revision of the legal, regulatory and judicial framework governing the protection of minority shareholders will require systematic and comprehensive reforms, and possibly changes in the business culture. The complexity of this particular measure is illustrated quite vividly in Table 3. Even without going into detail on them here, the information provided suggests that reforms will require further analysis to track down the features in the legal and regulatory system that determine the reported outcomes.

FIGURE 9: SUBINDICATORS FOR "PROTECTING INVESTORS"



However, in terms of the effects on overall ranking, significant gains are possible for any changes in the individual categories. It may not be possible to identify opportunities for reform in the short run, but to give an illustration: if reforms could be implemented to achieve a gain of 2 for the "disclosure index," moving from 6 to 8, the economy's rank would improve by 10 points, from 117 to 107.

Somewhat surprisingly, improving on the other scores for the other two subindicators would not affect the overall ranking. According to the rankings simulator provided by the *Doing Business* team, raising the "director liability index" from 5 to 7, or increasing the "shareholder suits index" by a score of 1 does not change the overall standing.

TABLE 3: ELEMENTS OF THE "PROTECTING INVESTORS" INDICATOR

Disclosure Index	**6**
What corporate body provides legally sufficient approval for the transaction? (0-3; see notes)	1
Immediate disclosure to the public and/or shareholders (0-2; see notes)	2
Disclosures in published periodic filings (0-2; see notes)	2
Disclosures by Mr. James to board of directors (0-2; see notes)	1
Requirement that an external body review the transaction before it takes place (0=no, 1=yes)	0

Director Liability Index	5
Shareholder plaintiff's ability to hold Mr. James liable for damage the Buyer-Seller transaction causes to the company. (0-2; see notes)	1
Shareholder plaintiff's ability to hold the approving body (the CEO or board of directors) liable for damage to the company. (0-2; see notes)	1
Whether a court can void the transaction upon a successful claim by a shareholder plaintiff (0-2; see notes)	0
Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff (0=no, 1=yes)	1
Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff (0=no, 1=yes)	1
Whether fines and imprisonment can be applied against Mr. James (0=no, 1=yes)	0
Shareholder plaintiff's ability to sue directly or derivatively for damage the transaction causes to the company (0-1; see notes)	1
Shareholder Suits Index	**7**
Documents available to the plaintiff from the defendant and witnesses during trial (0-4; see notes)	3
Ability of plaintiffs to directly question the defendant and witnesses during trial (0-2; see notes)	2
Plaintiff can request categories of documents from the defendant without identifying specific ones (0=no, 1=yes)	0
Shareholders owning 10% or less of Buyer's shares can request an inspector investigate the transaction (0=no, 1=yes)	0
Level of proof required for civil suits is lower than that for criminal cases (0=no, 1=yes)	1
Shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit (0=no, 1=yes)	1
Investor Protection Index	**6.0**

Note: The notes refer to the individual *Doing Business* report for West Bank and Gaza.

PAYING TAXES

DEFINITIONS

The "paying taxes" indicator seeks to measure the burden associated with the tax regime and its administration. Specifically, it focuses on the taxes and mandatory contributions that a medium-sized company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes and contributions, as imposed by government at any level. These taxes and contributions include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, the dividend tax, the capital gains tax, the financial transactions tax, waste collection taxes and vehicle and road taxes. The concept of taxes is broad, since it includes labor contributions and value added tax.

Estimating the subindicators refers to a very precisely defined company, assumed to have started operations on January 1, 2005 (and making a loss in the first year). It has five owners, a start-up capital of 102 times the per capita income, and a turnover of 1,050 times the per capita income. There are further specific case characteristics, down to the distribution of the money spent on traveling for the company—assumed to be 10 percent of per capita income, with 20 percent purely private, 20 percent for entertaining customers, and 60 percent for business travel.

COMPARISONS BY SUBINDICATOR

The Palestinian economy achieves its best rank on this indicator, 22 out of 178 countries, or the 12th percentile. In terms of payments, it ranks about average for the region. The time required to paying taxes is at the lower end of the spectrum. The profit tax is lower than for the one for Israel and Morocco, but higher than for the rest of the comparator countries, in particular the JEL countries. But where the Palestinian business environment "shines" is with respect to labor tax and contributions, reportedly 0, and a very low total tax rate (as percent of profit)—roughly 50 percent of the next-lowest rate for Jordan.

FIGURE 10: SUBINDICATORS FOR "PAYING TAXES"

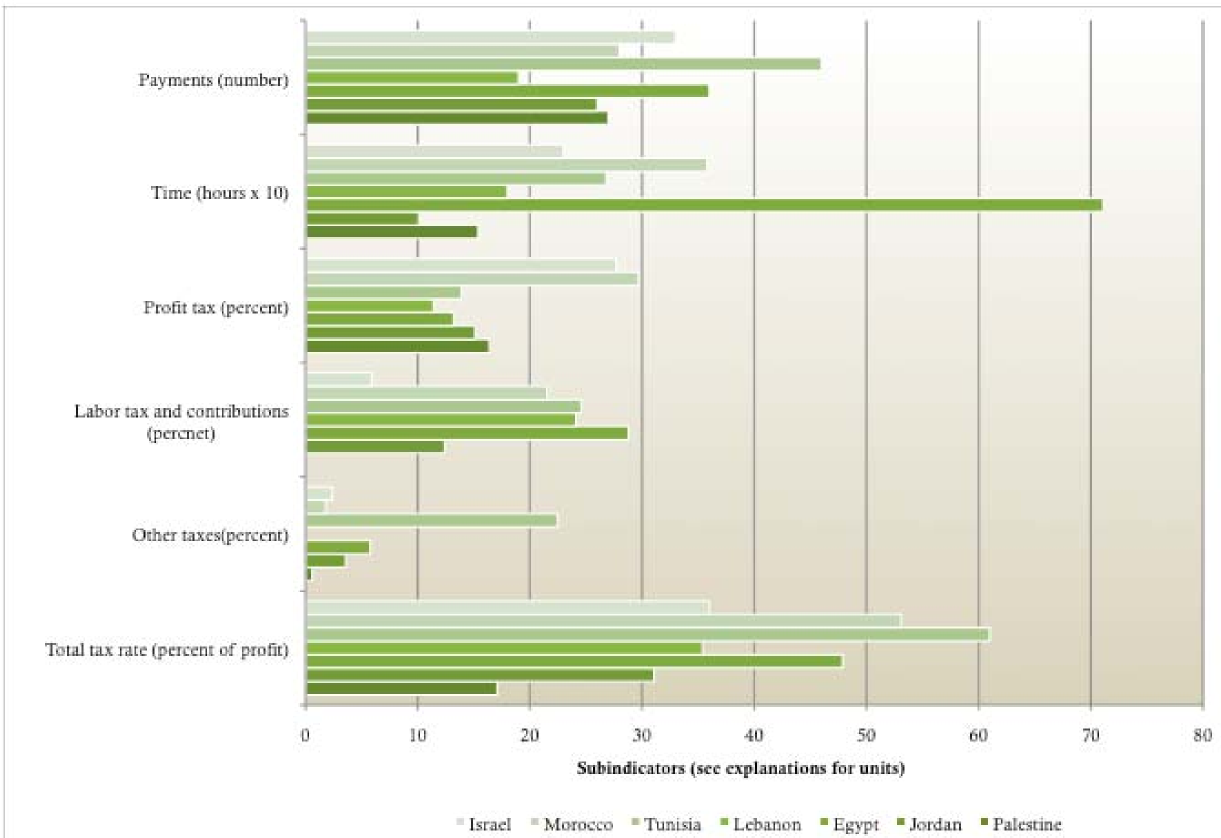


Table 4 provides an overview of the elements of the "paying taxes" indicator for the Palestinian economy. The principal driver for the number of payments is the monthly payment of the VAT and of the corporate income tax (together with an annual payment). Since the other indicators are fairly low, reform efforts might focus on what it would take to reduce this figure.

TABLE 4: COMPONENTS OF THE "PAYING TAXES" INDICATORS

Tax or mandatory contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)
Value added tax (VAT)	12		48	16% and 14.5%	value added	
Personal income tax	0	withheld	96		taxable personal income	
Fuel tax (Irrecoverable VAT)	0	paid jointly		16% and14.5%	value of fuel consumption	0.34
Municipal business tax	1			17.0%	rental value of building	0.54
Capital gains tax	1			15.0%	capital gain	0.76
Corporate income tax	13		10	15.0%	taxable profits	15.67
Totals	**27**		**154**			**17.1**

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

As in some of the other indicators, fundamental reforms may require more than a "stroke of the pen" change in the underlying system. In order to reduce the burden of paying taxes, critical regulatory and administrative reforms are required. However, the overall ranking tends to be fairly sensitive to such changes. One option might be to move to a quarterly payment of VAT and the corporate income tax. It should be noted that the PA covers about 75 percent of its budget from the VAT payments and depends on it for its cash flow, so implementing this kind of reform would require significant reforms in financial management. Such a reform would reduce the number of payments from 27 to 11. That single change would result in a gain of 5 places, from rank 117 to rank 112. Other options include efforts to streamline tax filing, bringing down the number of hours required. For example, cutting the time required by a third, to 104 hours, would yield an improvement in the overall ranking by 8 places, from 117 to 109.

TRADING ACROSS BORDERS

DEFINITIONS

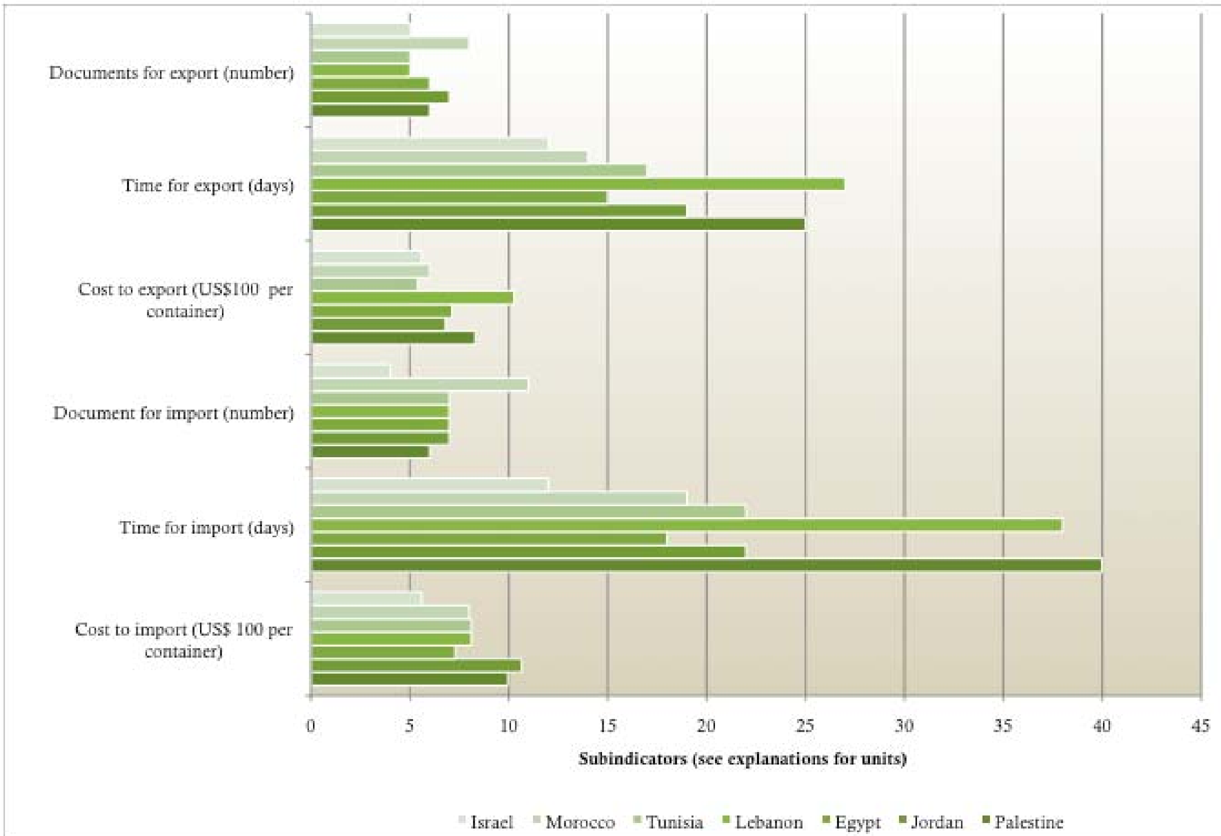
The "trading across borders" indicator comprises measures of the procedural and cost requirements for exporting and importing a standardized cargo of goods by ocean transport. Every official procedure for exporting and importing the goods is recorded—from the contractual agreement between the two parties to the delivery of goods—along with the time and cost necessary for completion.

The business involved has 100 or more employees, and exports more than 10 percent of its sales. The traded product travels in a dry-cargo, 20-foot, full container load. The goods are neither hazardous nor perishable, and do not pose any environmental issues; that is, do not require any special phytosanitary or environmental safety standards.

COMPARISONS BY SUBINDICATOR

In spite of restrictions on access and movement, the Palestinian economy scores reasonably well on the "trading across borders" indicator. Its overall rank is 77 (the 43rd percentile). That score, though, lags behind the regional average; only Lebanon has a lower rank. Aside from Israel, Egypt and Tunisia show greater openness to cross-border trade.

FIGURE 11: SUBINDICATORS FOR "TRADING ACROSS BORDERS"



In terms of individual subindicators, there is fairly little variation across the countries in the number of documents needed for export, which ranges from 5 to 8. In most of the countries, imports require between 6 and 7 documents, except for Morocco (11) and Israel (4). Procedurally, at least, West Bank and Gaza differs little from the comparator countries. However, with respect to the time required for imports and exports, the Palestinian economy lags behind other countries in the region. For exports, it scores just below the figure for Lebanon, both significantly above the average for the other countries. In terms of time for imports, Palestine ranks last of the seven countries included here, followed by Lebanon. The time required for imports is about double the value estimated for Jordan, Egypt, Tunisia and Morocco. Finally, with respect to the cost per container for exports and imports, West Bank and Gaza also shows higher values than most, although the differences are not as pronounced as for the time requirements.

The disaggregation of the individual elements shown in Table 5 suggest that the main factor for the length of time for imports is the time required for the preparation of documents, which is double the reported value for exports; the cost for import document preparation is more than triple the value for exports. Customs clearance reportedly takes two days for exports, but eight days for imports, and costs half for exports compared to imports. The estimate of the time for port handling is about the same for exports and imports, and the costs are the same. Finally, inland transportation and handling takes more time and costs more for exports than for imports.

TABLE 5: ELEMENTS OF "TRADING ACROSS BORDERS"

Nature of Export Procedures (2007)	Duration (days)	US$ Cost
Documents preparation	12	95
Customs clearance and technical control	2	60
Ports and terminal handling	5	250
Inland transportation and handling	6	425
Totals	*25*	*830*
Nature of Import Procedures (2007)	**Duration (days)**	**US$ Cost**
Documents preparation	24	300
Customs clearance and technical control	8	120
Ports and terminal handling	4	250
Inland transportation and handling	4	325
Totals	**40**	**995**

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

Without understanding the elements that shape the time and cost required for document preparation and other subindicators for the "trading across borders" measure, it is difficult to present a plausible scenario for possible reforms, especially since Palestinians do not have control over border procedures. However, to obtain some notion of the sensitivity of the rankings to changes, suppose that the Palestinian economy could move from where it is (or was in 2007) to attain regional minimum values for the JEL or Maghreb countries: 5 documents for export (Tunisia), 14 days for export (Morocco), a cost to export of $540 per container (Tunisia), 6 documents for import (West Bank and Gaza), 18 days for import (Egypt) and $800 per import container (Morocco). Applying these assumptions to overall rankings yields an improvement by 12 places, from 117 to 105.

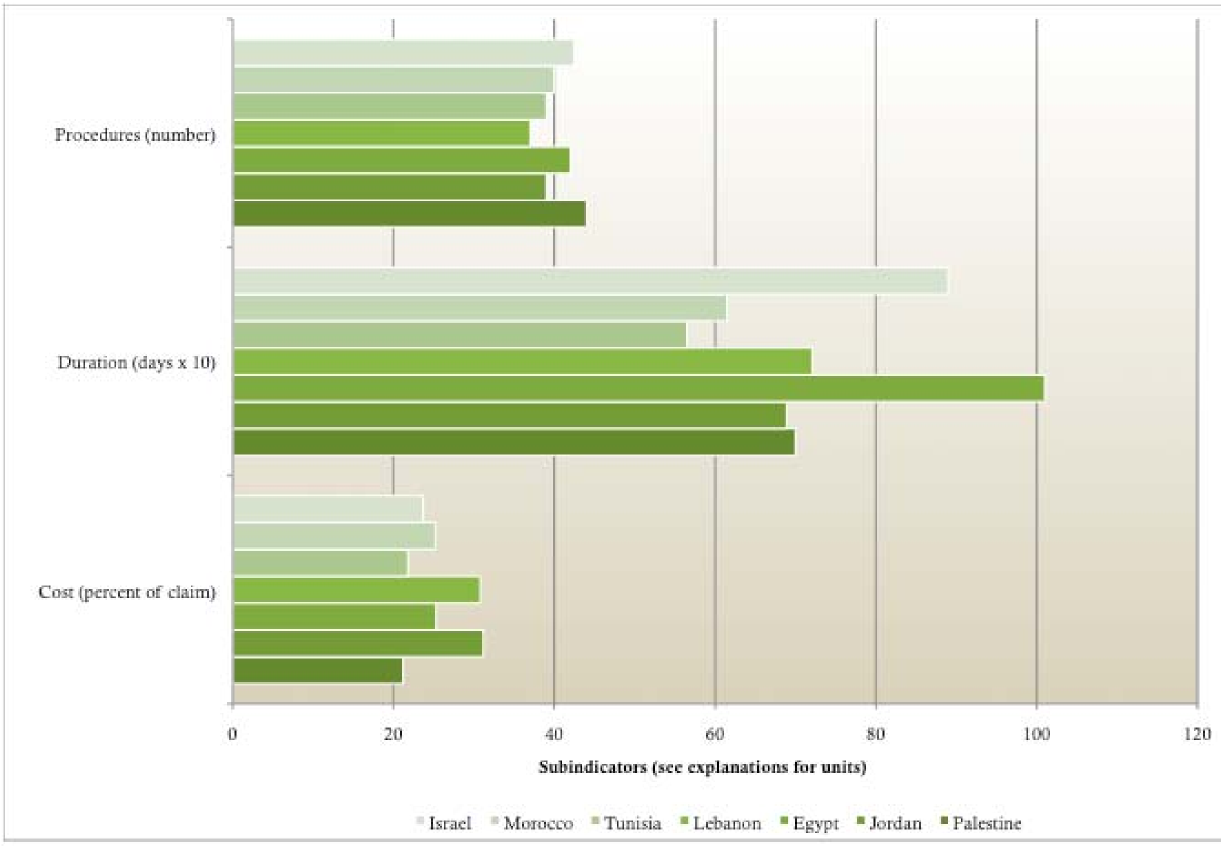
ENFORCING CONTRACTS

DEFINITIONS

The "enforcing contracts" indicator is designed to measure the efficiency of the judicial system in resolving a commercial dispute. The measures follow the step-by-step evolution of a commercial sale dispute before local courts. The dispute concerns a lawful transaction between two businesses, company A and company B (seller and buyer). Company A sells goods worth 200 percent of the country's per capita income to company B. After the goods are delivered, company B does not pay for the goods on the grounds that the delivered goods were not of adequate quality.

Company A sues the buyer to recover the amount under the sales agreement, and attaches company B's goods prior to obtaining a judgment. Expert opinions are given on the quality of the goods. The judgment is 100 percent in favor of company A: the judge decides that the goods are of adequate quality and that company B must pay the agreed price. Company A takes all required steps for prompt enforcement of the judgment.

FIGURE 12: SUBINDICATORS FOR "ENFORCING CONTRACTS"



COMPARISONS BY SUBINDICATOR

West Bank and Gaza ranks worse on the "enforcing contracts" indicator than its overall score, at rank 125 (70th percentile). However, it does not differ much from the other countries in the region, with the exception of Tunisia, which ranks highest of the seven comparator countries. Figure 12 provides the comparison of the scores on the three subindicators, procedures, time and cost. Virtually all of the countries in the region record similar values for total procedures, between 37 and 44; West Bank/Gaza accounts for the maximum at 44. (By comparison the average value for the OECD countries is a little over 31 procedures.)

In terms of duration, West Bank and Gaza finds itself in the middle range, between the 1,010 days reported for Egypt and 565 days for Tunisia. In terms of the cost, expressed as a percentage of the claim, West Bank/Gaza actually is slightly ahead of the rest of the pack, with 21.2 percent, followed by Tunisia with 21.8 percent.

TABLE 6: ELEMENTS OF "ENFORCING CONTRACTS"

Nature of procedure (2007)	Indicator
Procedures (number)	44
Duration (days)	700
Filing and service	25
Trial and judgment	600
Enforcement of judgment	75
Cost (% of claim)*	21.2
Attorney cost (% of claim)	17.0
Court cost (% of claim)	3.2
Enforcement cost (% of claim)	1.0

* Claim is assumed to be 200 percent of GNI per capita, or $2,240.

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

The forces that shape each of these subindicators reflect legal, regulatory, judicial and administrative elements in combination. The Palestinian judicial system is weak in terms of the number of judges, training, and backlog of cases. A plausible reform scenario requires a better understanding of these forces. Assessing the impact of reforms on the overall ranking therefore is once again illustrative. Suppose a scenario with 35 procedures, duration of 645 days, achieved by reducing the number of days for filing and service by 10 and enforcement by 45 days, and a cost of 20 percent of the claim. Achieving these scores would improve the overall ranking for West Bank and Gaza by 10 places—from 117 to 107.

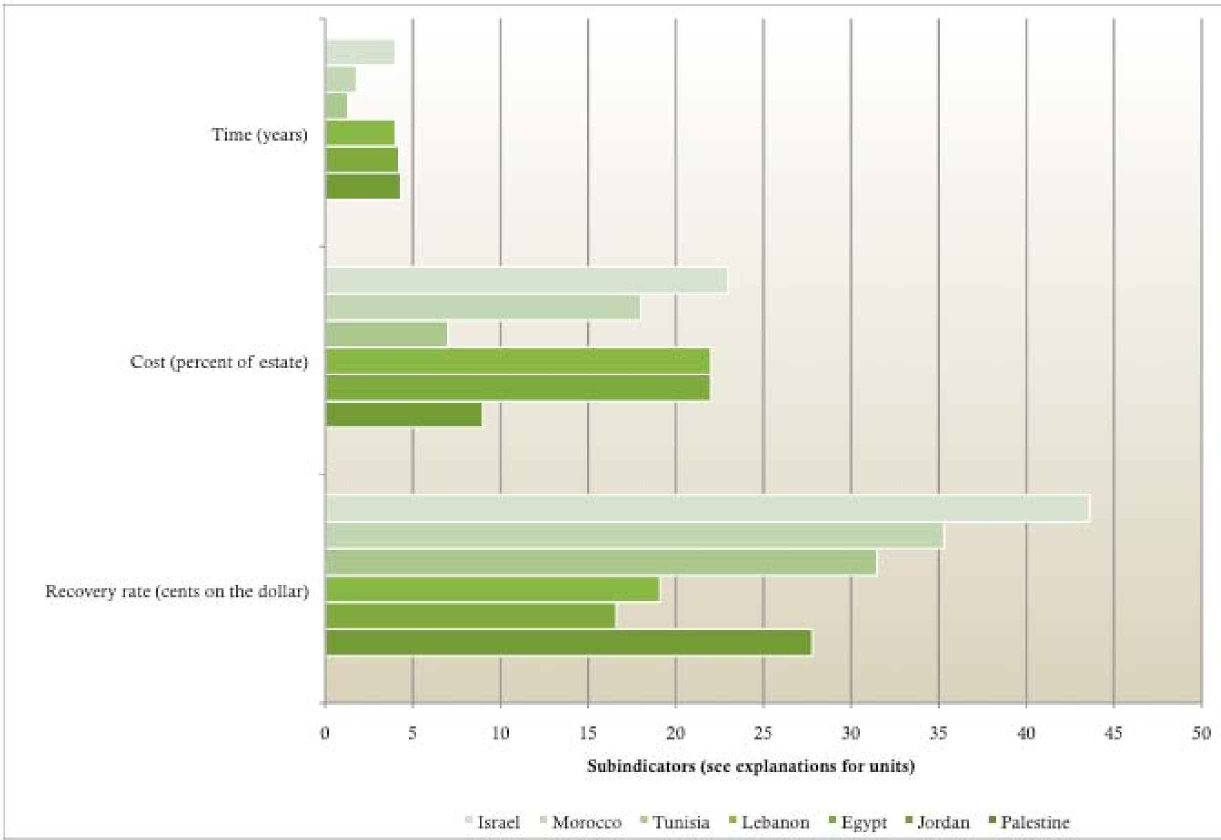
CLOSING A BUSINESS

DEFINITIONS

The "closing a business" indicator comprises measures of the time, cost and outcomes of bankruptcy proceedings involving domestic entities. The business in question is 100-percent domestically owned, and had an average annual revenue of 1,000 times the per capita income. It also had 201 employees and 50 suppliers, to whom it owes money for the last delivery. The business borrowed from a domestic bank five years ago with a total repayment period of 10 years, using its real estate as a security, and a mortgage exactly equal to the market value of the hotel.

The business is experiencing liquidity problems. The company's loss in 2006 reduced its net worth to a negative figure. There is no cash to pay the bank interest or principal. The business has the following options: a judicial procedure aimed at the rehabilitation or reorganization of the business to permit its continued operation; a judicial procedure aimed at the liquidation or winding up of the company; or a debt enforcement or foreclosure procedure aimed at selling the hotel either piecemeal or as a going concern, enforced either in court (or through a government authority like a debt collection agency) or out of court (for example, by appointing a receiver).

FIGURE 13: SUBINDICATORS FOR "CLOSING A BUSINESS"



COMPARISONS BY SUBINDICATOR

According to the *Doing Business* investigation, there is "no practice" in West Bank and Gaza for the closing of a business. We therefore lack any data for this indicator (which results in ranking the economy dead last on this measure).

Figure 13 shows the results for the comparator countries, suggesting that there is considerable variation for time, ranging from 1.3 years (Tunisia, also the OECD average) to 4.3 years (Jordan); the cost varies from 7 percent (Tunisia) to 23 percent (Israel) of the estate; and the recovery rate goes from 17 cents on the dollar (Egypt) to 44 cents (Israel—compared to 74 cents for the OECD average).

EXPLORING THE IMPACT OF REFORMS ON RANKINGS

Since reportedly there is no practice, concocting any kind of scenario at this point seems unacceptable. Further investigation is required to identify what may be possible. At the same time, reforms here are essential—greater ease in starting and closing a business is critical for accelerating economic dynamism.

SUMMARY: WHAT MAY BE POSSIBLE THROUGH STRATEGIC FOCUS

Clearly, the analysis here has only briefly touched on some of the underlying forces. However, at the beginning we raised the question—how can West Bank and Gaza gain greater recognition of any regulatory reform efforts through the *Doing Business* indicators? Throughout the discussion, the analysis has provided some examples, sometimes with a realistic focus, sometimes merely for illustrative purposes. Now is the time to explore the combined impact of the realistic scenarios, where improved administrative efficiency can produce gains. In this combined analysis, the possibility of legislative changes or of speeding up the judicial process is viewed as a longer-term priority.

In order to get the combined impact of changes, the simulation of rankings applies the following assumptions:

- **Starting a Business:** reduce the number of procedures by 4 (through the application of one-stop shop principles), trimming the time for filing documents drastically to 23 days, and bringing down the cost to 63 percent of per capita GNI;
- **Dealing with Licenses:** cut the number of procedures to 15, reduce the duration by 54 days to 145, and lower the cost to the average for the JEL countries, some 400 percent of GNI;
- **Employing Workers:** no changes, since the rules and legal requirements are rooted in culture and legislation;
- **Registering Property:** reduce the number of procedures from 10 to 8, reduce the duration by 7 days, from 72 to 65;
- **Getting Credit:** any changes here depend on the impact on the expansion of the coverage of public credit bureaus, or the launch of a private credit bureau;
- **Protecting Investors:** any impact will require legislative changes and improved functioning of the judiciary;
- **Paying Taxes:** assume quarterly filing for VAT and for corporate income taxes, bringing down the number of procedures from 27 to 11;
- **Trading Across Borders:** no change assumed, given the lack of Palestinian control over border procedures;
- **Enforcing Contracts:** changes will require new legislation and improved efficiency of the judicial system;
- **Closing a Business:** longer term legislative action and institutional development are required to have an impact on this indicator.

Combining these assumptions in the rankings simulator results in changes in the overall ranking of West Bank and Gaza from 117 to 78, a rather dramatic improvement of 39 places. Obviously, while the scenario tries to focus on areas that may not require major legislative and institutional changes, the combination may be far from realistic. But it does describe the range of the *possible*. It may be worth recalling that the 2007 reform champion, Egypt, managed to advance by 26 places.