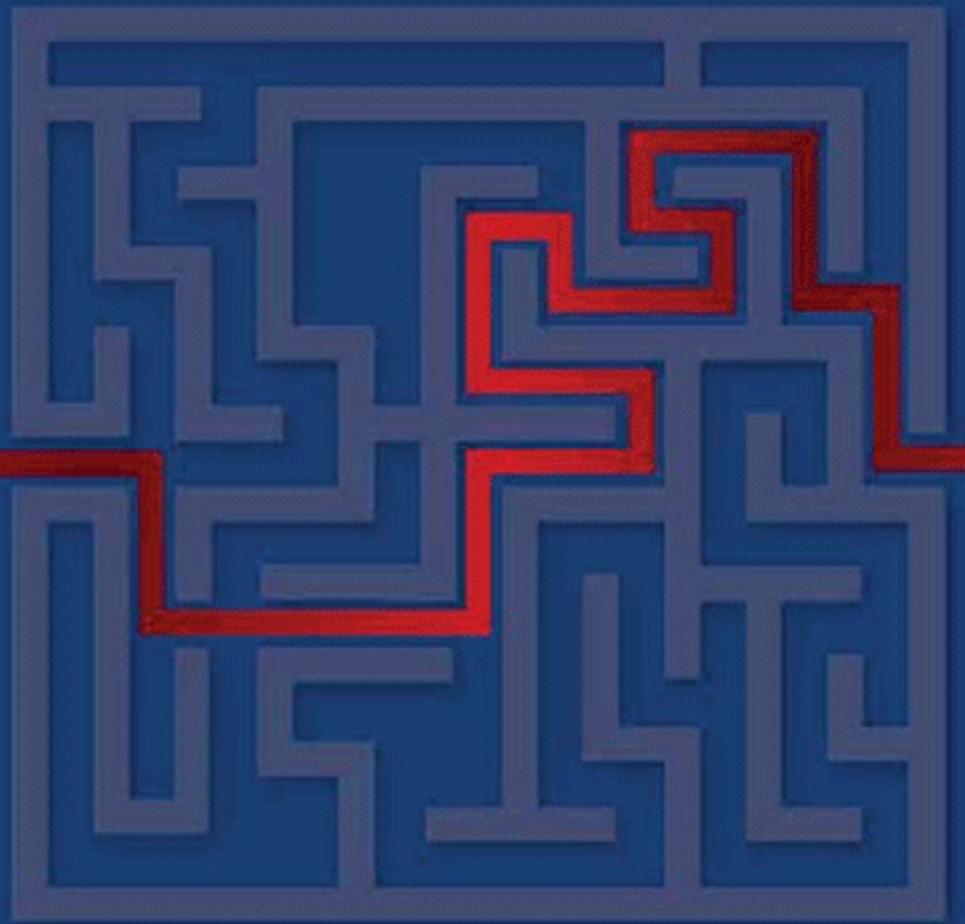




Doing Business 2014

Economy Profile: Nicaragua



Comparing Business Regulations for Domestic Firms in 189 Economies

11TH EDITION

A World Bank Group Corporate Flagship

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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 11 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, resolving insolvency and employing workers.

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 189 economies, from Afghanistan to Zimbabwe, over time. The data set covers 47 economies in Sub-Saharan Africa, 33 in Latin America and the Caribbean, 25 in East Asia and the Pacific, 25 in Eastern Europe and Central Asia, 20 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 Nicaragua. 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, 2013 (except for

the paying taxes indicators, which cover the period January–December 2012).

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 2014* presents the indicators, analyzes their relationship with economic outcomes and presents business regulatory reforms. The data, along with information on ordering *Doing Business 2014*, 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 189 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 2014*: 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). The employing workers indicators are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile.

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: Latin America & Caribbean

Income category: Lower middle income

Population: 5,991,733

GNI per capita (US\$): 1,650

DB2014 rank: 124

DB2013 rank: 123*

Change in rank: -1

DB 2014 DTF: 58.47

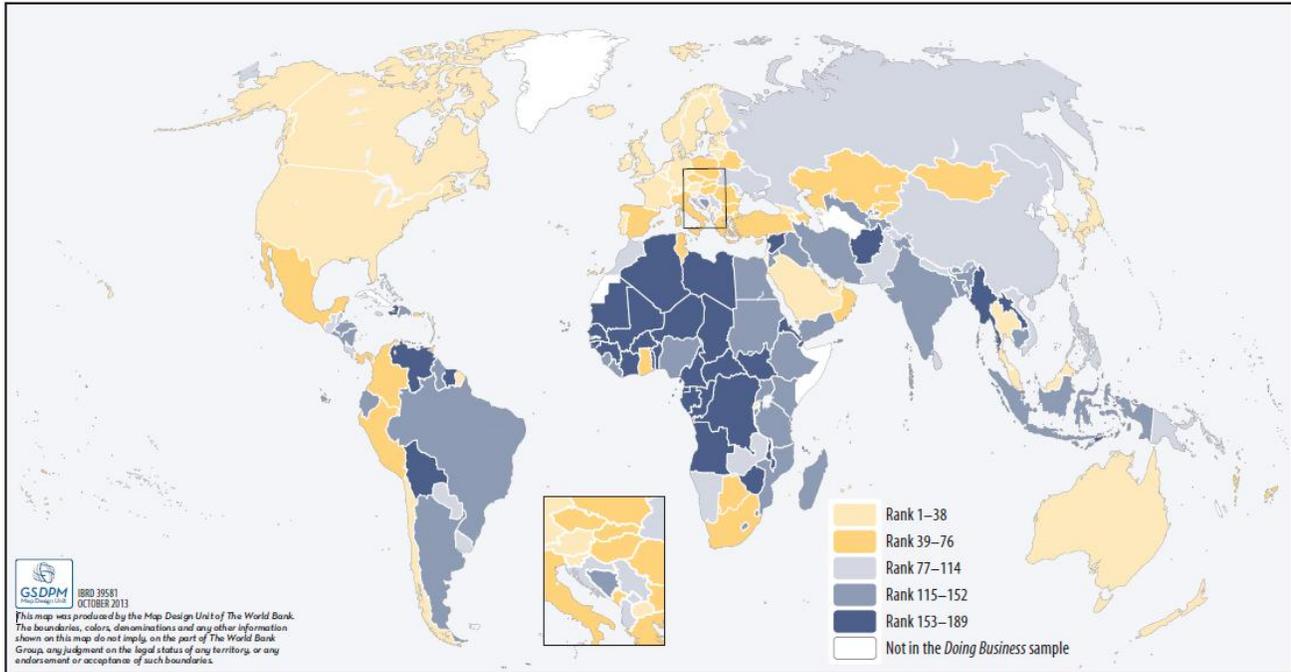
DB 2013 DTF: 57.47

Change in DTF: 0.97

* DB2013 ranking shown is not last year's published ranking but a comparable ranking for DB2013 that captures the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year. See the data notes for sources and definitions.

THE BUSINESS ENVIRONMENT

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



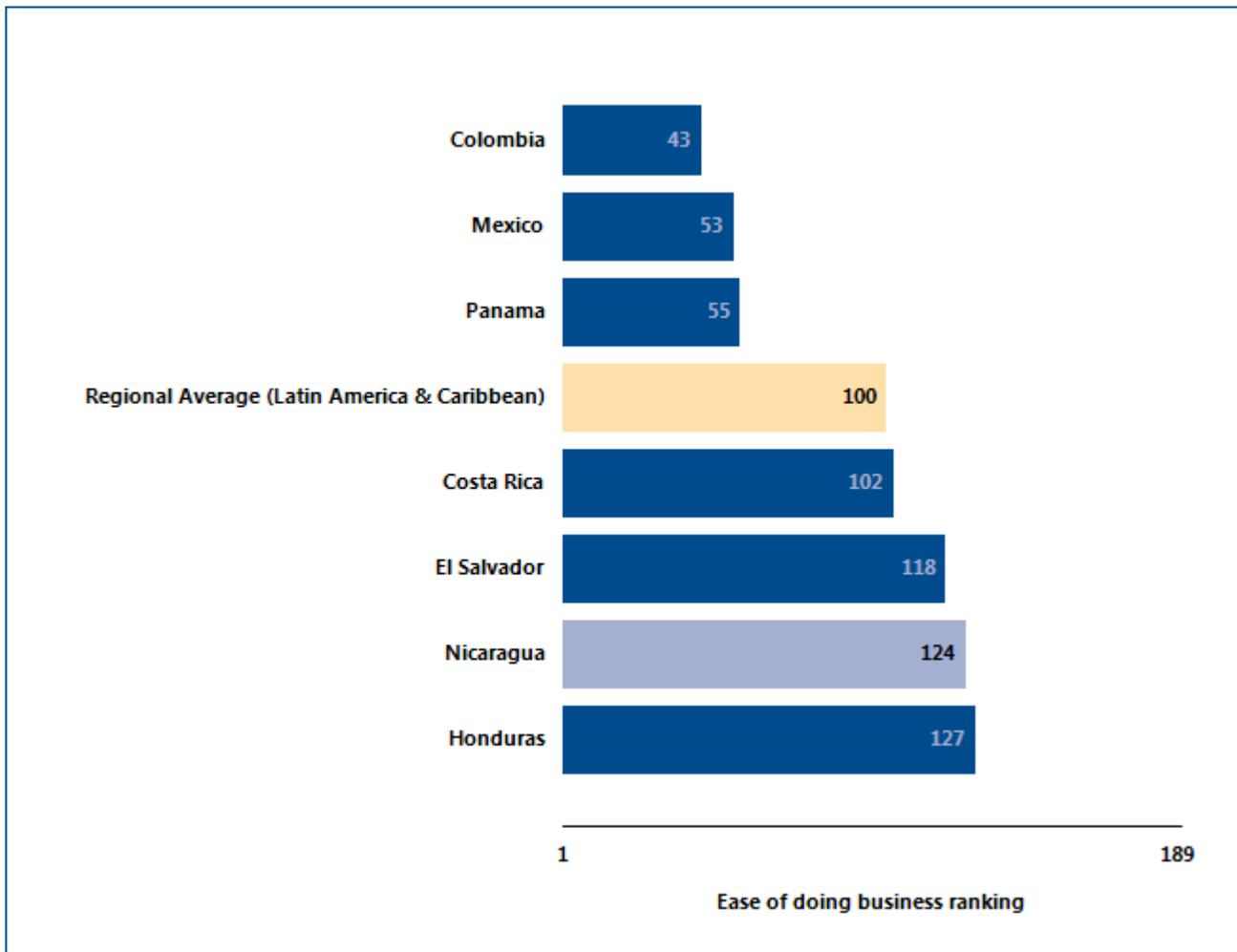
Source: *Doing Business* database.

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 relative to comparator economies and

relative to 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).

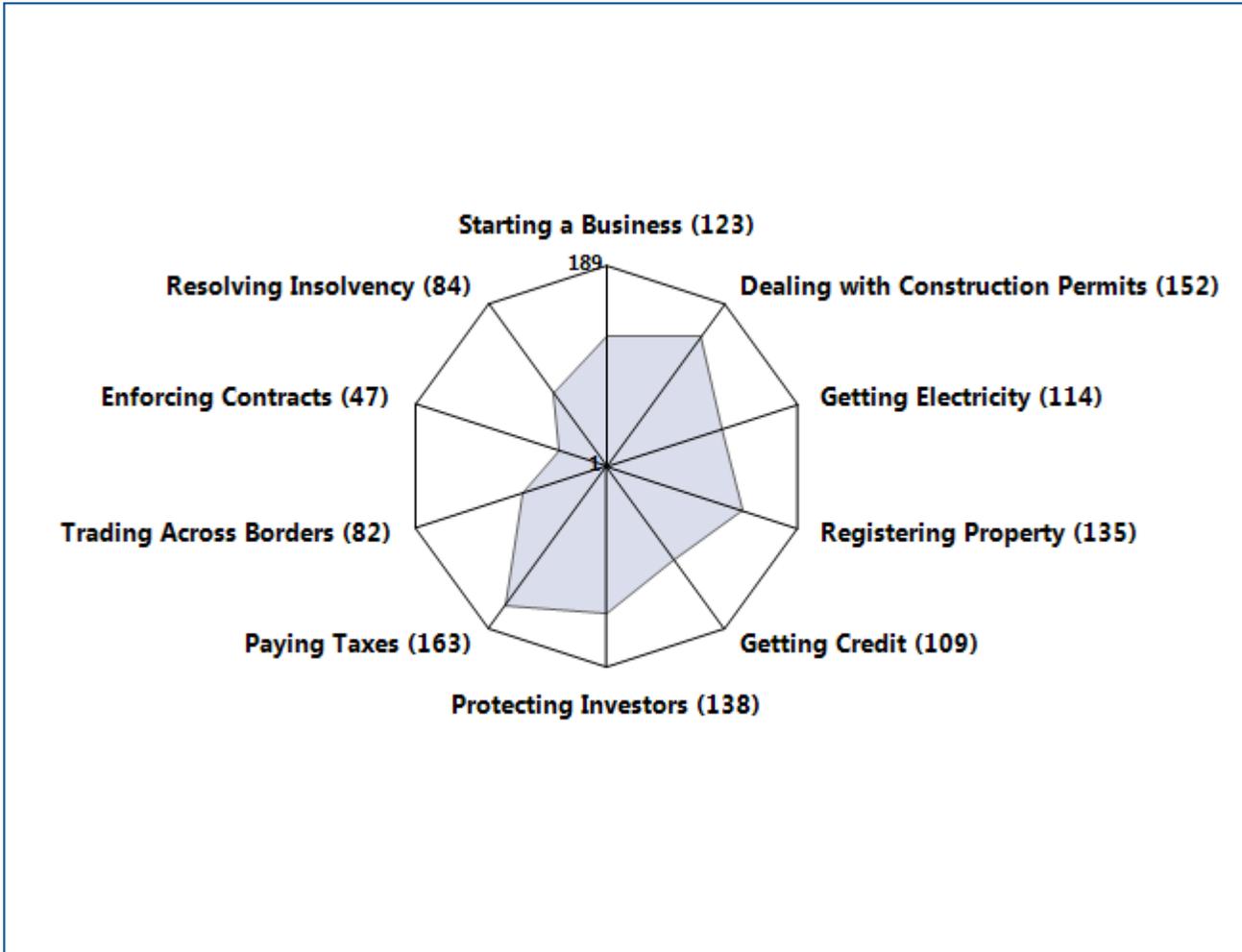
Figure 1.2 How Nicaragua and comparator economies rank on the ease of doing business



Source: Doing Business database.

THE BUSINESS ENVIRONMENT

Figure 1.3 How Nicaragua ranks on *Doing Business* topics



Source: *Doing Business* database.

THE BUSINESS ENVIRONMENT

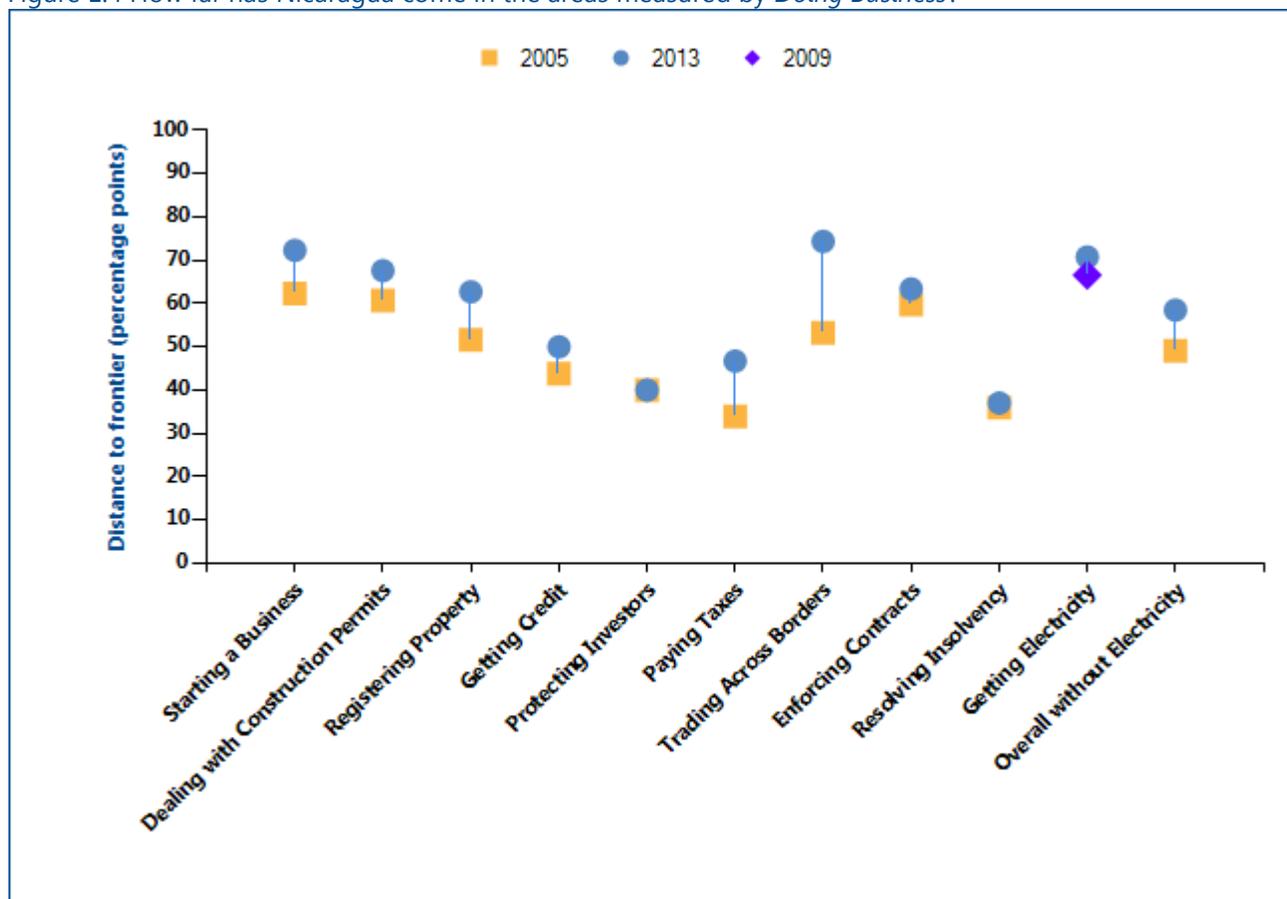
Just as the overall ranking on the ease of doing business tells only part of the story, so do changes in that ranking. Yearly movements in rankings can provide some indication of changes in an economy’s regulatory environment for firms, but they are always relative.

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 introduced the distance to frontier measure. This measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005, except for the getting electricity indicators, which were introduced in 2009.

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).

Figure 1.4 How far has Nicaragua come in the areas measured by *Doing Business*?



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each *Doing Business* indicator since 2005, except for the getting electricity indicators, which were introduced in 2009. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the first 9 indicator sets shown in the figure and does not include getting electricity. Data on the overall distance to frontier including getting electricity is available at <http://www.doingbusiness.org/data/distance-to-frontier>. 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 Nicaragua

Indicator	Nicaragua DB2014	Nicaragua DB2013	Colombia DB2014	Costa Rica DB2014	El Salvador DB2014	Honduras DB2014	Mexico DB2014	Panama DB2014	Best performer globally DB2014
Starting a Business (rank)	123	131	79	102	148	162	48	25	New Zealand (1)
Procedures (number)	7	8	9	9	8	13	6	5	New Zealand (1)*
Time (days)	36.0	39.0	15.0	24.0	16.5	14.0	6.0	6.0	New Zealand (0.5)
Cost (% of income per capita)	77.0	100.6	7.5	9.5	45.5	45.3	19.7	7.2	Slovenia (0.0)
Paid-in Min. Capital (% of income per capita)	0.0	0.0	0.0	0.0	2.8	15.2	0.0	0.0	112 Economies (0.0)*
Dealing with Construction Permits (rank)	152	156	24	82	144	83	40	62	Hong Kong SAR, China (1)
Procedures (number)	16	16	8	14	24	13	11	16	Hong Kong SAR, China (6)
Time (days)	208.0	208.0	54.0	123.0	144.0	109.0	82.0	99.5	Singapore (26.0)

Indicator	Nicaragua DB2014	Nicaragua DB2013	Colombia DB2014	Costa Rica DB2014	El Salvador DB2014	Honduras DB2014	Mexico DB2014	Panama DB2014	Best performer globally DB2014
Cost (% of income per capita)	249.4	370.1	295.4	137.0	157.0	350.9	353.1	66.0	Qatar (1.1)
Getting Electricity (rank)	114	131	101	47	154	125	133	16	Iceland (1)
Procedures (number)	6	6	5	5	8	8	7	5	10 Economies (3)*
Time (days)	55	70	105	62	88	33	85	35	Germany (17)
Cost (% of income per capita)	1,082.5	1,526.6	541.6	226.9	563.1	968.5	369.1	10.3	Japan (0.0)
Registering Property (rank)	135	128	53	46	59	94	150	74	Georgia (1)
Procedures (number)	8	8	7	5	5	7	7	7	4 Economies (1)*
Time (days)	49.0	49.0	13.0	19.0	31.0	23.0	74.0	29.5	New Zealand (1.0)*
Cost (% of property value)	5.0	5.0	2.0	3.4	3.8	5.7	5.3	2.3	5 Economies (0.0)*
Getting Credit (rank)	109	105	73	86	55	13	42	55	Malaysia (1)*
Strength of legal rights index (0-10)	3	3	5	3	5	8	6	5	10 Economies (10)*
Depth of credit information index (0-6)	5	5	5	6	6	6	6	6	31 Economies (6)*
Public registry coverage (% of adults)	16.0	10.8	0.0	25.4	27.3	21.1	0.0	0.0	Portugal (100.0)*
Private bureau coverage (% of adults)	32.3	29.5	83.8	100.0	83.3	31.9	100.0	60.8	22 Economies (100.0)*
Protecting Investors (rank)	138	137	6	170	170	170	68	80	New Zealand (1)
Extent of disclosure	1	1	9	2	3	0	8	4	10 Economies (10)*

Indicator	Nicaragua DB2014	Nicaragua DB2013	Colombia DB2014	Costa Rica DB2014	El Salvador DB2014	Honduras DB2014	Mexico DB2014	Panama DB2014	Best performer globally DB2014
index (0-10)									
Extent of director liability index (0-10)	5	5	8	5	0	5	5	4	Cambodia (10)
Ease of shareholder suits index (0-10)	6	6	8	2	6	4	4	8	3 Economies (10)*
Strength of investor protection index (0-10)	4.0	4.0	8.3	3.0	3.0	3.0	5.7	5.3	New Zealand (9.7)
Paying Taxes (rank)	163	162	104	136	165	144	118	175	United Arab Emirates (1)
Payments (number per year)	42	42	10	22	53	47	6	52	Hong Kong SAR, China (3)*
Time (hours per year)	207	207	203	226	320	224	334	417	United Arab Emirates (12)
Trading Across Borders (rank)	82	82	94	44	64	84	59	11	Singapore (1)
Documents to export (number)	5	5	4	5	7	5	4	3	Ireland (2)*
Time to export (days)	21	21	14	13	13	12	11	10	5 Economies (6)*
Cost to export (US\$ per container)	1,140	1,140	2,355	1,015	980	1,345	1,450	625	Malaysia (450)
Documents to import (number)	5	5	6	5	7	7	4	3	Ireland (2)*
Time to import (days)	20	20	13	14	10	16	11	9	Singapore (4)
Cost to import (US\$ per container)	1,245	1,245	2,470	1,070	970	1,500	1,740	965	Singapore (440)
Enforcing Contracts (rank)	47	47	155	130	68	182	71	127	Luxembourg (1)

Indicator	Nicaragua DB2014	Nicaragua DB2013	Colombia DB2014	Costa Rica DB2014	El Salvador DB2014	Honduras DB2014	Mexico DB2014	Panama DB2014	Best performer globally DB2014
Time (days)	409	409	1,288	852	786	920	400	686	Singapore (150)
Cost (% of claim)	26.8	26.8	47.9	24.3	19.2	35.2	31.0	50.0	Bhutan (0.1)
Procedures (number)	37	37	34	40	34	47	38	32	Singapore (21)*
Resolving Insolvency (rank)	84	79	25	124	90	136	26	112	Japan (1)
Time (years)	2.2	2.2	1.7	3.0	3.5	3.8	1.8	2.5	Ireland (0.4)
Cost (% of estate)	15	15	6	15	12	15	18	25	Norway (1)
Outcome (0 as piecemeal sale and 1 as going concern)	0	0	1	0	0	0	1	0	
Recovery rate (cents on the dollar)	34.9	36.0	70.3	24.5	32.8	19.5	67.6	27.5	Japan (92.8)

Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year. For more information on "no practice" marks, see the data notes.

* 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 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 the entrepreneur will pay no bribes. And it assumes that the business:

- Is a limited liability company, located in the largest business city and is 100% domestically owned.
- Has between 10 and 50 employees.
- Conducts general commercial or industrial activities.

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 (2 procedures cannot start on the same day). Procedures that can be fully completed online are an exception to this rule.

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)

- 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.

STARTING A BUSINESS

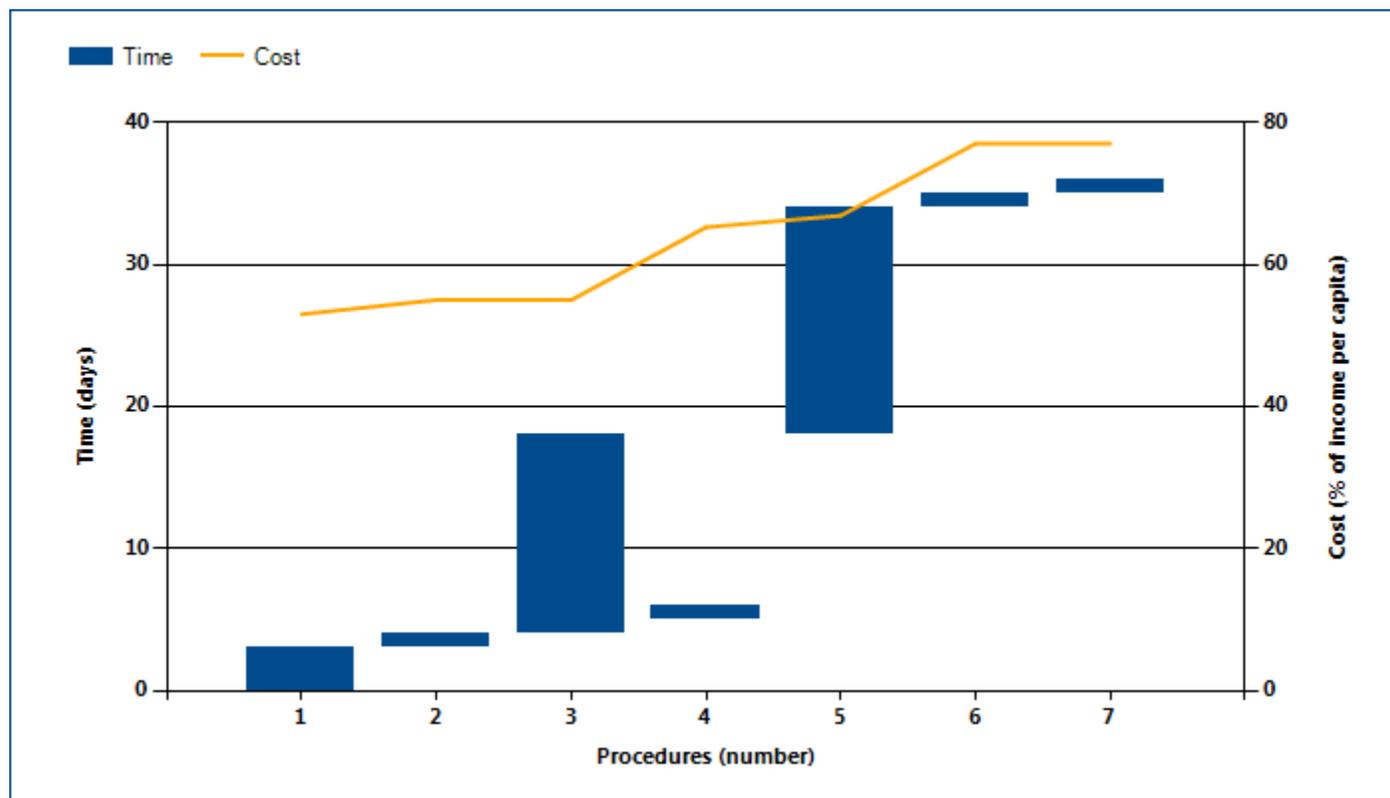
Where does the economy stand today?

What does it take to start a business in Nicaragua? According to data collected by *Doing Business*, starting a business there requires 7 procedures, takes 36.0

days, costs 77.0% of income per capita and requires paid-in minimum capital of 0.0% of income per capita (figure 2.1).

Figure 2.1 What it takes to start a business in Nicaragua

Paid-in minimum capital (% of income per capita): 0.0



Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the starting a business indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

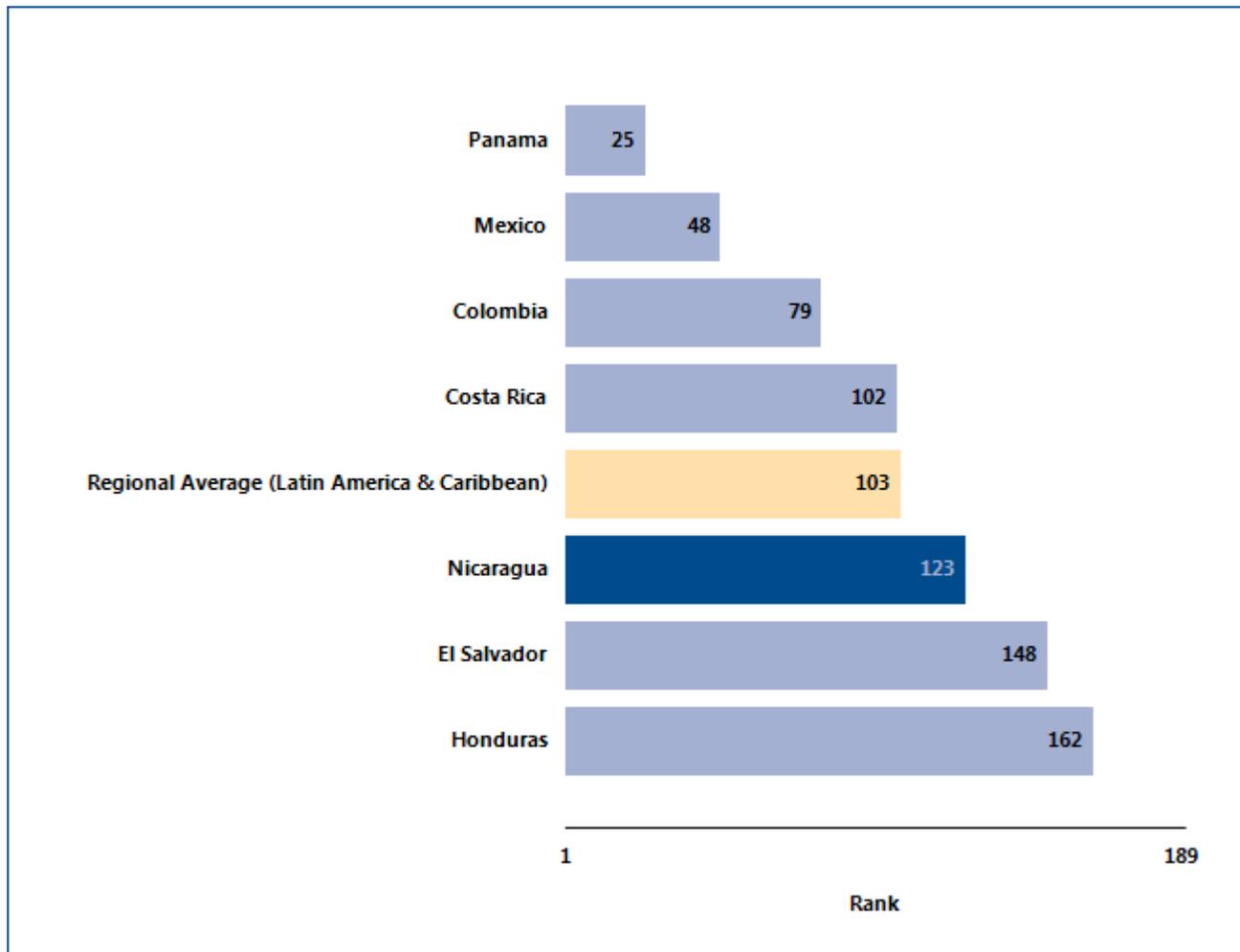
Source: *Doing Business* database.

STARTING A BUSINESS

Globally, Nicaragua stands at 123 in the ranking of 189 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 Nicaragua to start a business.

Figure 2.2 How Nicaragua and comparator economies rank on the ease of starting a business



Source: *Doing Business* database.

STARTING A BUSINESS

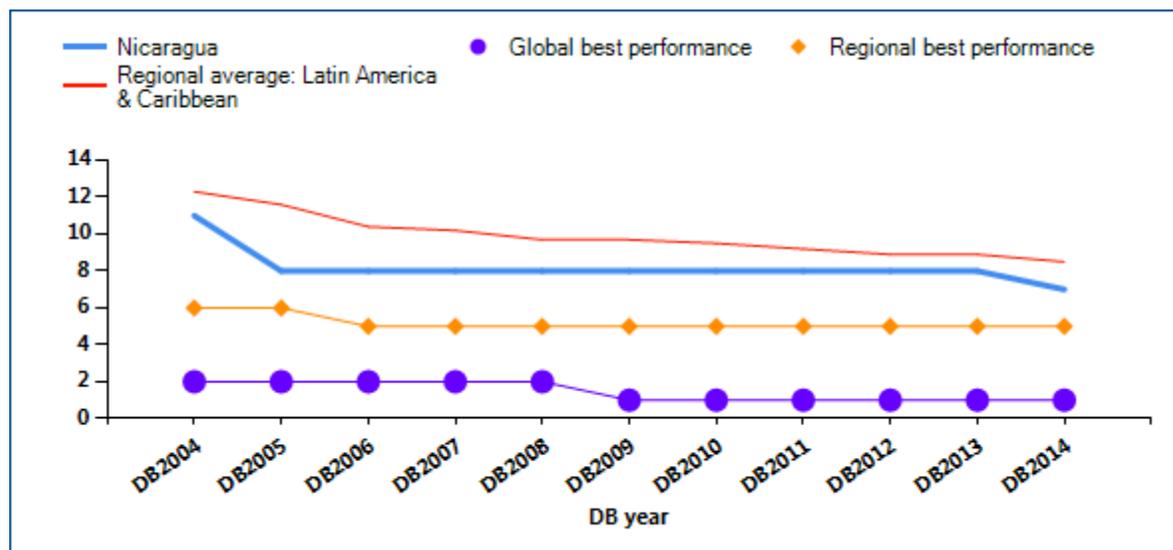
What are the changes over time?

The benchmarks provided by the economies that over time have had the best performance regionally or globally on the procedures, time, cost or paid-in minimum capital required to start a business (figure

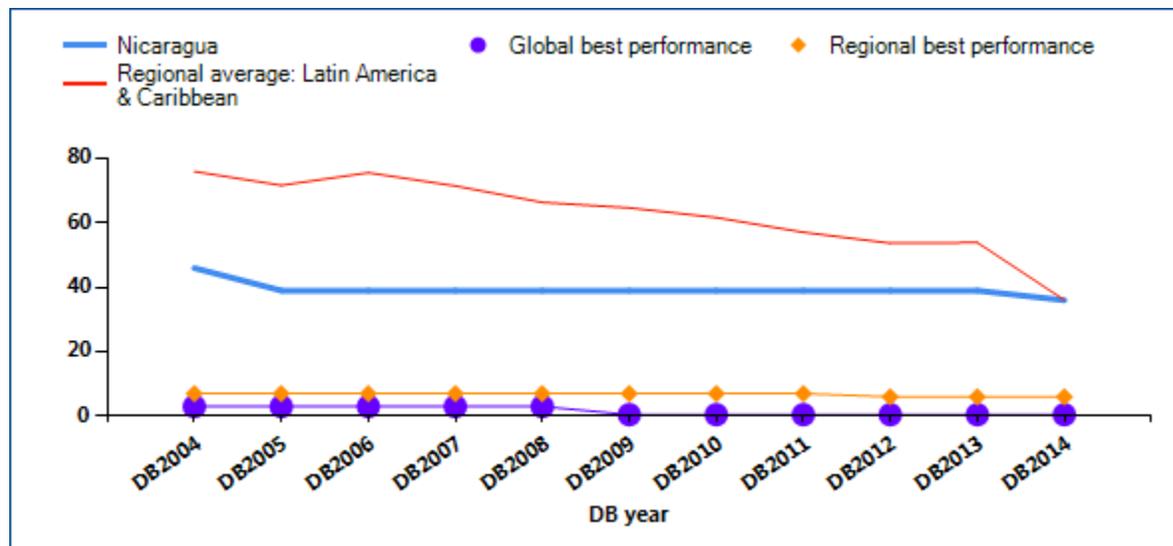
2.3) can help show what is possible in making it easier to start a business. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

Figure 2.3 Has starting a business become easier over time?

Procedures (number)

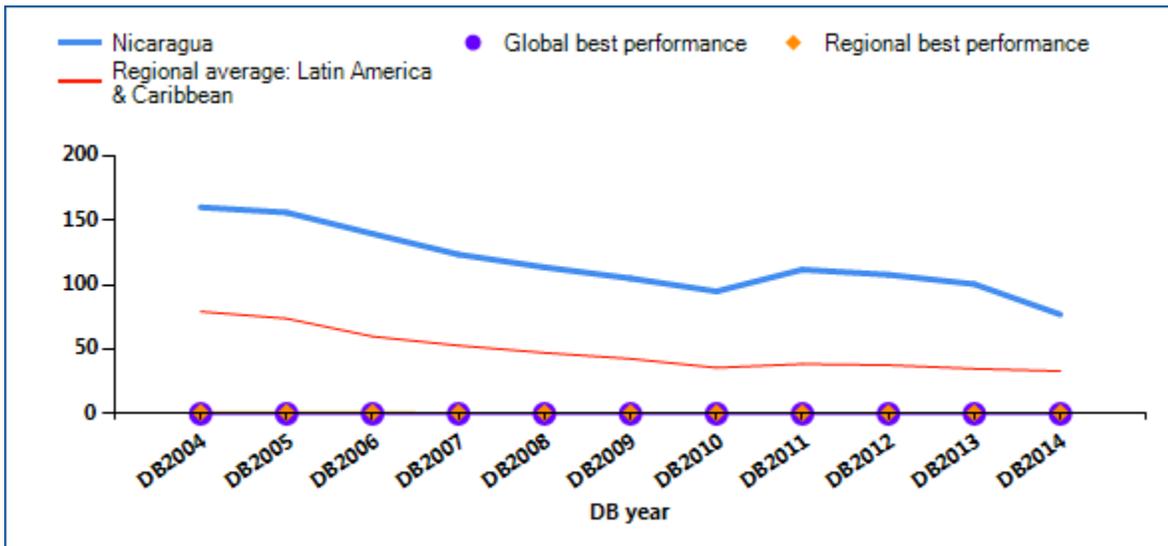


Time (days)

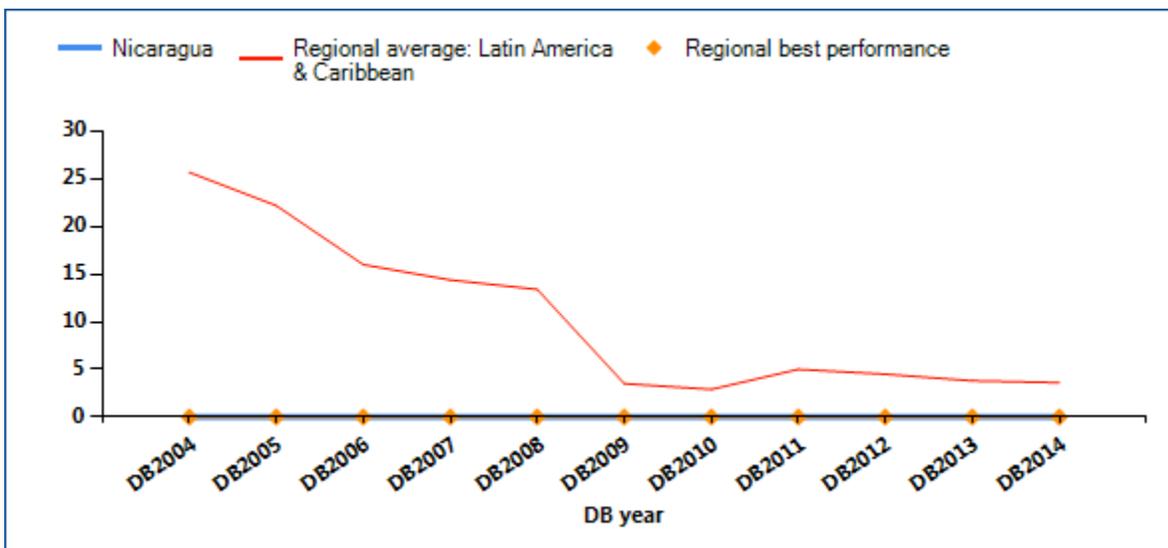


STARTING A BUSINESS

Cost (% of income per capita)



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



Note: Ninety economies globally have no paid-in minimum capital requirement. DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year.

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 Nicaragua (table 2.1)?

Table 2.1 How has Nicaragua made starting a business easier—or not?
By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	Nicaragua made starting a business easier by merging the procedures for registering with the revenue authority and with the municipality and by reducing the time required for incorporation.

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 Nicaragua 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: Managua

Legal Form: Sociedad Anónima (S.A.) - Corporation

Paid in Minimum Capital Requirement: None

Start-up Capital: 10 times GNI per capita

Summary of procedures for starting a business in Nicaragua—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>Sign the incorporation papers before a notary public</p> <p>The documents of incorporation and the company bylaws must be drafted by a notary public. It is customary to include the company bylaws in the document of incorporation. Most notaries will also perform the remaining steps (explained in the following steps) in the incorporation process, for a fee of USD 200 (average). The notary cost is in between USD 750–1,000.</p>	3 days	USD 875
2	<p>Buy company accounting books and corporate books</p> <p>All companies must keep four corporate books: two accounting books (diary and ledger) and two corporate books (minute book and share book). The cost of the books may vary from one bookstore to another.</p>	1 day	NIO 800
3	<p>File incorporation statutes (acta constitutiva) with the Commercial Registry (Registro Comercial) at the one-stop shop (Ventanilla Unica)</p> <p>In January 2004, the government created in the Ministry of Commerce (Ministerio de Fomento, Industria y Comercio) a one-stop shop, the Unique Office for Investment (Ventanilla Unica de Inversiones), in which companies can file commercial and tax registrations. The one-stop shop cannot process any registrations but forwards the documentation daily to the relevant agencies. The one-stop shop provides information on four procedures and rationalizes them: (a) company registration; (b) tax</p>	2 weeks	included in procedure 4

No.	Procedure	Time to complete	Cost to complete
	<p>registration at the Dirección General de Ingresos (DGI); (c) municipal registration; and (d) for foreign companies, the Foreign Secretary (Secretario Exterior).</p> <p>The cost for commercial registration is 1% of capital (with a minimum of NIO 1,000, maximum of NIO 30,000) and the following fees:</p> <ul style="list-style-type: none"> - Inscription of constitution of internal books: NIO 100. - Registration fee for books (diario, mayor, actas y acciones) NIO 350.00. - Application (inscripcion como comerciante): NIO 350. - Form for municipal license (matricula): NIO 5. - Municipal license: for social capital lower than NIO 50,000 is NIO 500; higher than NIO 50,000 is 1% of capital. - Municipal license document (constancia de matricula): 1% of license fee. <p>The payment must be made in Banpro or Banco de Finanzas, and the payment receipt must be presented at the one-stop shop. Regardless whether the company has income, it must declare before the Nicaraguan Tax Authority (Dirección General de Impuestos) each month. If the company has no sales, it will not pay any taxes. However, it will have to pay the fees for the services performed by their representative in Nicaragua before the DGI.</p>		
4	<p>* Pay the inscription fees</p> <p>Fees must be paid into any bank and the receipt presented to the one-stop shop (see Procedure 5). There is a commercial bank within the Commercial Registry where the payment can be made.</p>	1 day (simultaneous with previous procedure)	1% of capital (Commercial Registration) within a minimum of NIO 1,000 and a maximum of NIO 30,000 + NIO 100 (inscription of internal books)
5	<p>Register accounting books (sellado de libros) and register as a trader (inscripcion como comerciante) with the Commercial Registry at the one-stop shop (Ventanilla Unica)</p> <p>The company needs to register its accounting books and needs to register as a trader in the one-stop shop or Ventanilla Unica.</p>	16 days	NIO 350 (registration of accounting books) + NIO 300 (application as a trader)
6	<p>Obtain the DUR (Documento Unico de Registro), a single document that allows registering at the same time for sales of taxes (RUC), social security (INSS), and the pre-municipal license (pre-matricula) at the one-stop shop or at the DGI (Dirección General</p> <p>On June 1, 2012, the municipality of Managua, created the DUR (Documento Único de Registro), a single document that allows to register at the same time for sales of taxes (RUC), social security (INSS), and the pre-municipal license (pre-matricula) at the one-stop shop or at</p>	1 day	1% of capital (municipal license fee) + 1% of municipal license fee (municipal license document) + NIO 5 (form for

No.	Procedure	Time to complete	Cost to complete
	the DGI (Dirección General de Ingresos). In addition, the payment of the pre-municipal license is now made at the one-stop shop with DUR.		municipal license)
7	<p>* Obtain a municipal license (matrícula)</p> <p>The entrepreneur must go to the delegation of the Municipality (Alcaldía) at the one-stop shop to obtain the official license (matrícula). The municipal license is issued on the same day.</p> <p>After June 2012, the request and payment of the pre-municipal license is made with the application of DUR and not with the delegation of Municipality (Alcaldía) at the one-stop shop.</p>	1 day (simultaneous with previous procedure)	no charge

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

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 in the construction industry to obtain all the necessary approvals to build a 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 or engineer.

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

Submitting all required notifications and receiving all necessary inspections

Obtaining utility connections for water, sewerage and a land 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. Procedures that can be fully completed online are an exception to this rule.

Procedure considered 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

- 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).

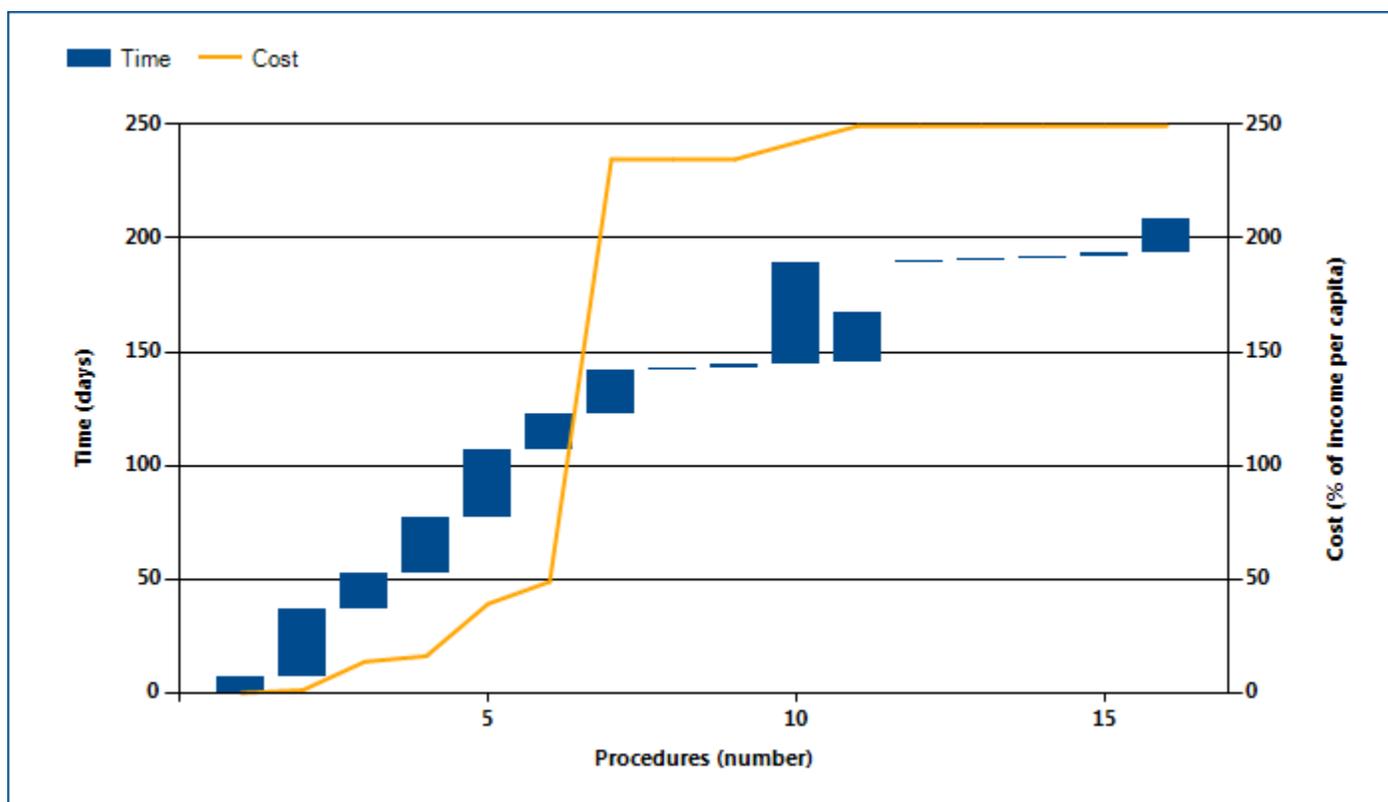
DEALING WITH CONSTRUCTION PERMITS

Where does the economy stand today?

What does it take to comply with the formalities to build a warehouse in Nicaragua? According to data collected by *Doing Business*, dealing with construction

permits there requires 16 procedures, takes 208.0 days and costs 249.4% of income per capita (figure 3.1).

Figure 3.1 What it takes to comply with formalities to build a warehouse in Nicaragua



Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the dealing with construction permits indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

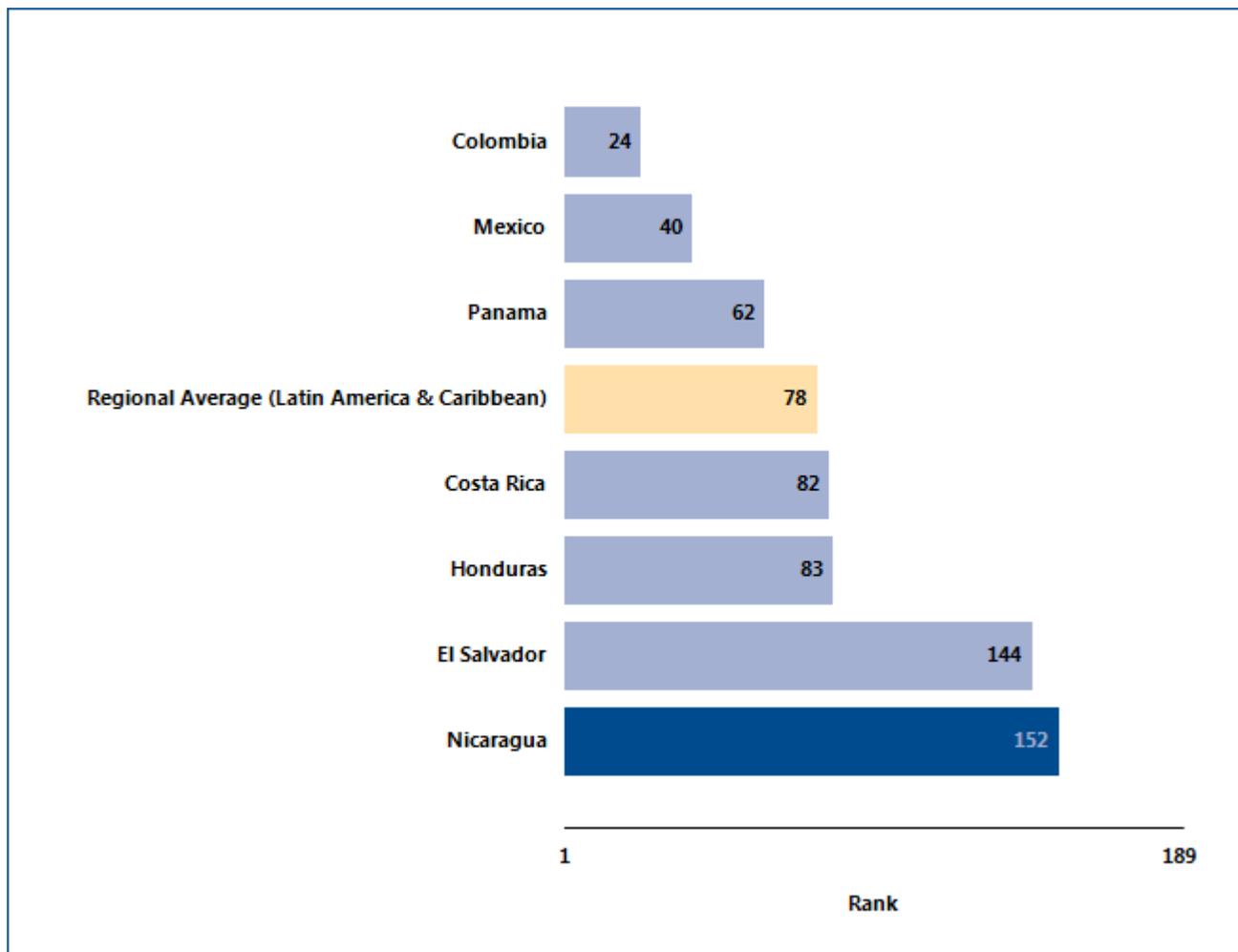
Source: *Doing Business* database.

DEALING WITH CONSTRUCTION PERMITS

Globally, Nicaragua stands at 152 in the ranking of 189 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 Nicaragua to legally build a warehouse.

Figure 3.2 How Nicaragua and comparator economies rank on the ease of dealing with construction permits



Source: Doing Business database.

DEALING WITH CONSTRUCTION PERMITS

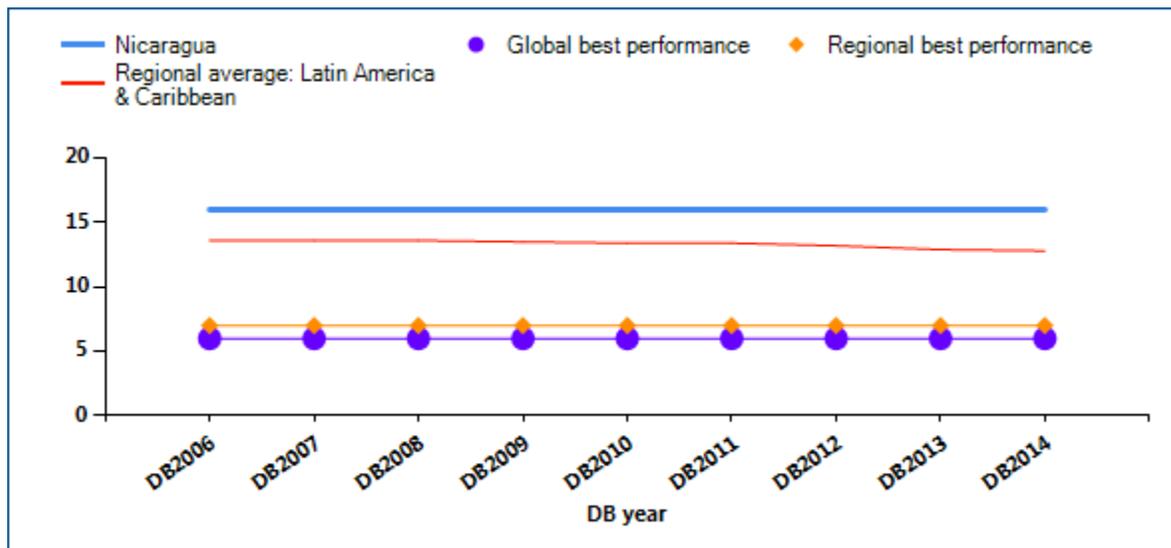
What are the changes over time?

The benchmarks provided by the economies that over time have had the best performance regionally or globally on the procedures, time or cost required to deal with construction permits (figure 3.3) help show

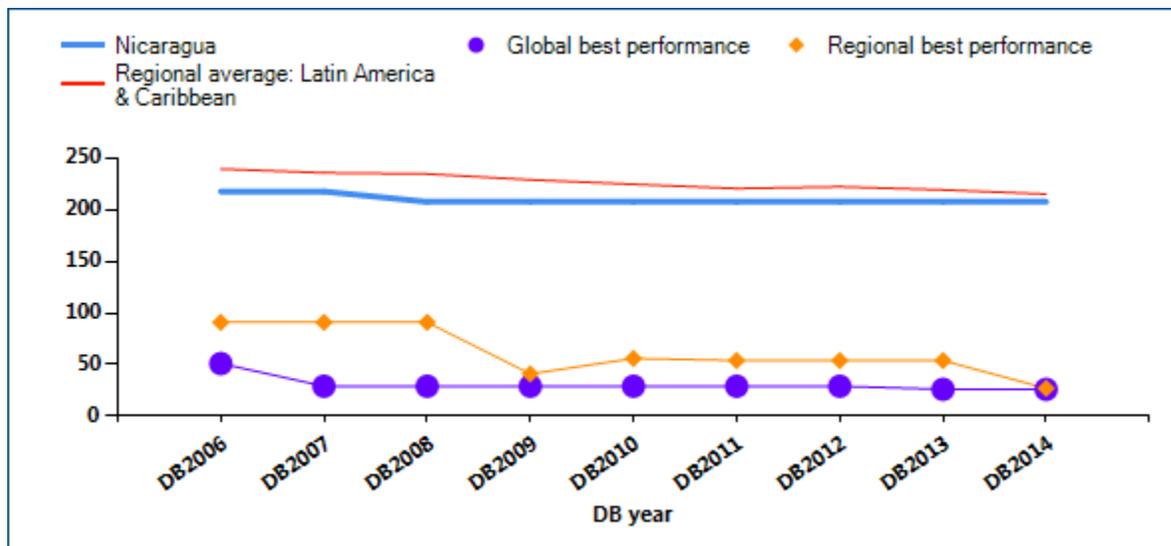
what is possible in making it easier to deal with construction permits. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

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

Procedures (number)

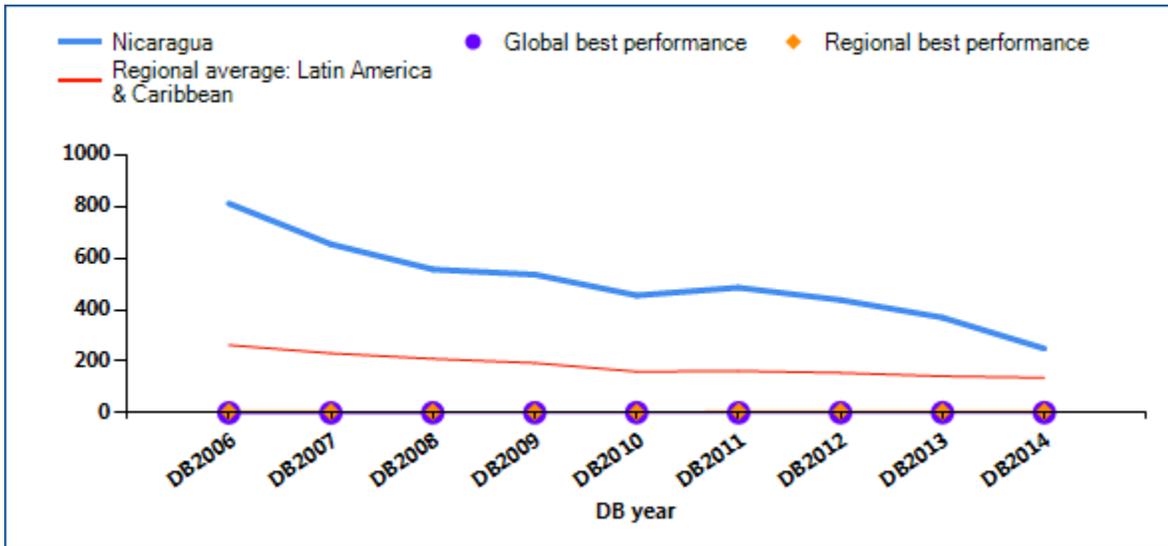


Time (days)



DEALING WITH CONSTRUCTION PERMITS

Cost (% of income per capita)



Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year. For more information on "no practice" marks, see the data notes.

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 Nicaragua (table 3.1)?

Table 3.1 How has Nicaragua made dealing with construction permits easier—or not?
By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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 Nicaragua 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, civil engineers, 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 : Managua

Estimated Warehouse Value : NIO 9,500,000

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

Summary of procedures for dealing with construction permits in Nicaragua —and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>Request and obtain consultations with Municipality of Managua (Alcaldía de Managua - ALMA) over the Urban Plans</p> <p>It is common practice to have an initial consultation with the Technical Urban Planning Committee (Comité Técnico Urbanístico) to verify all conditions before submitting any document.</p>	7 days	no charge
2	<p>Request and obtain the land use certificate (constancia de uso de suelo) from the Municipality of Managua (Alcaldía de Managua – ALMA)</p> <p>After the certificate is received, a record number is created (to be used for the following procedures until the project is approved). The documents to be submitted at this stage are an application form, a copy of the location map, a site map, and the cadastral number of the property.</p> <p>If the applicant does not agree with the decision, an appeal may be filed with the Technical Urban Planning Committee (Comité Técnico Urbanístico).</p>	30 days	NIO 500
3	<p>Request feasibility analysis from ENACAL and UNION FENOSA, at ALMA (One-Stop Shop)</p> <p>A feasibility analysis from the Union FENOSA is required to determine whether the site can be connected to the electrical network. The following documents are needed: the (original) location map, a specification of the electrical capacity to be installed, and the estimated starting date of construction work.</p>	15 days	NIO 5,000

No.	Procedure	Time to complete	Cost to complete
	<p>The feasibility analysis is done at no charge. Measurement of pressures at each coupling point - NIO 2,000 Gauging sewage in each probably discharge point: NIO 3,000 Total = 5,000</p> <p>The costs are based on Resolution No. CD-RT-028-2008 published in Official Gazette No. 212 of November 4, 2008 published in Official Gazette No. 212 of November 4, 2008</p> <p>A feasibility analysis (ENACAL) is required to determine whether the site can be connected to water and sewerage services. If no sewage system exists, an alternative would be a treatment system approved by the MARENA (Environmental Impact Assessment, Ministry of the Environment and Natural Resources).</p> <p>The documents to be submitted are an application form, the land use certificate, a project description (physical modulation and activities), a plot plan on a scale of 1:10,000, the water demand and use statement, and specifications of the inflow rate and the sewage characteristics.</p>		
4	<p>Request and obtain preliminary design approval from ALMA</p> <p>The company must obtain an approval stating that the proposed preliminary designs conform to the Regulating Plan of the Municipality of Managua and to the land-use certificate.</p> <p>The required documents are the land-use certificate; a notarized deed certifying ownership of the land; the feasibility analyses by the Nicaraguan Institute of Energy (INE) and the Nicaraguan Company of Water and Sewage (ENACAL); a local fault study endorsed by the Nicaraguan Institute of Territorial Studies INETER, if required by the land use certificate; and two sets of maps, each consisting of a location map on a scale of 1:10,000; a site map on a scale of 1:10,000, 1:500, or 1:200; a contour map; an architectural layout; exterior work drawings; and area frames.</p>	25 days	NIO 1,000
5	<p>Request and obtain project approval ENACAL approval (water and sewage), all at ALMA (One-Stop Shop)</p> <p>A project approval is a decision stating that the project conforms to the Regulating Plan of the Municipality of Managua. The fee for obtaining the approval is NIO 3.00 per sq. m., and payment can be made either in cash or in two equal installments. The required documents are three sets of plans and the approved preliminary designs.</p> <p>Union FENOSA provides a review, design approval, and authorization, and issues a decision stating that the proposed project conforms with the Manual of Norms of Construction of Distribution (Manual de Normas de Construcción de Distribución) of the Unión FENOSA, the electrical power supply company. The following documents are required:</p> <ul style="list-style-type: none"> • Design license • Electrical specifications 	30 days	NIO 9,212

No.	Procedure	Time to complete	Cost to complete
	<ul style="list-style-type: none"> • Stack-out sheet • List of materials • Project drawings • Photocopy of the electrical power and light contract • Photocopy of the feasibility certificate <p>The INE approves projects that involve heating system or the use of hydrocarbon materials for this purpose.</p> <p>The ENACAL approval certificate covers the project conceptualization and indicates that the project is compliant with the standards and regulations. The required documents are a project identification title page, topographic maps, an urban development plan, an existing infrastructure plan, design drawings, detail drawings, and a descriptive report.</p>		
6	<p>Request and obtain approval from DGB (Dirección General de Bomberos)</p> <p>Indoor electrical layout drawings must be reviewed and be found to conform to all fire protection standards. For construction projects with commercial and service purposes, the fee is NIO 3.00 per sq. m.</p> <p>The required documents are electrical installation layouts, fire protection system plans, safety measures, or plans provided for the construction work. Because the national firefighting system (SINACOI) no longer exists, the institution in charge of this procedure is now DGB (Dirección General de Bomberos).</p>	15 days	NIO 3,902
7	<p>Request and obtain building permit from ALMA</p> <p>The building permit authorizes the start of construction.</p> <p>The cost of a building permit includes a tax of 1.1 % of the total market value of the construction (NIO 70,620.20, in this case). This tax must be paid in full at the start of construction work.</p> <p>Buildings are also subject to an inspection fee, as follows:</p> <ul style="list-style-type: none"> • NIO 2.00 per sq. m. for areas between 100 and 200 sq. m. • NIO 3.00 per sq. m. for areas between 201 and 1,000 sq. m. (in the care considered here, NIO 3.00 x 1,300.6 = NIO 3,901.80). <p>The required documents are a project approval, an annual real estate tax (solvenca de bienes inmuebles), the registration number with ALMA (the business registration), a tax clearance certificate (solvenca municipal) for the project owner and builder, a builder's license granted by the Ministry of Transportation and Infrastructure (Ministerio de Transporte e Infraestructura, MTI), the builder's signature on the construction plans, bank guarantees, and official payment receipts. The building permit carries the same weight as a public deed.</p> <p>Inspections may occur during construction. However, these are rare due to a shortage of inspectors. Even if an inspection is carried out, the</p>	20 days	NIO 74,522

No.	Procedure	Time to complete	Cost to complete
	inspector would simply verify that the building permit is valid.		
8	<p>Request fire inspection</p> <p>The cost of a fire and electricity inspection is included in the inspection fee, which is paid at the Dirección General de Bomberos (DGB). A site visit may be scheduled, but it is not a rigid procedure.</p>	1 day	no charge
9	<p>* Receive fire inspection</p>	1 day	no charge
10	<p>* Request and connect to water and sewage services</p> <p>This cost covers the installation and can be higher or lower depending on a possible rupture of pipelines.</p>	45 days	NIO 3,000
11	<p>* Request and connect to a fixed telephone line</p> <p>For telephone service connection, the following steps must be taken:</p> <ul style="list-style-type: none"> • Apply for a new telephone line at ENITEL (cell phone provider) • Submit an identity card • Complete a form • Pay USD 45 for the procedure, which may take up to a month <p>If no telephone line is available, the money is refunded. Otherwise, the remainder of the installation fee must be paid, which in this case would be USD 135.00. Thus, the total cost amounts to USD 180.00.</p> <p>Another option would be to buy a cellular phone or a cellular telephone plan, with either a post-payment plan (12 to 50 minutes, free equipment, pre-paid cards) or a pre-payment plan (coded cards costing between USD 5.00 and USD 50.00 and equipment costing from USD 99.00 to USD 300.00).</p>	22 days	NIO 2,920
12	<p>Receive inspection from Municipality</p> <p>Municipal inspection is a random inspection that may occur at least once during the 30-week construction period. Thus, no request is needed. An inspection report is drafted and provided to the company. The construction work is not stopped during the inspection, and no costs are associated with this procedure.</p>	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
13	<p>Receive inspection from Ministry of Labor</p> <p>Inspection by the Ministry of Labor is a random inspection that may occur at least once during the 30-week construction period. Thus, no request is needed. An inspection report is drafted and provided to the company. The construction work is not stopped during the inspection, and no costs are associated with this procedure.</p>	1 day	no charge
14	<p>Receive inspection from National Commission of Hygiene and Occupational Security</p> <p>Inspection by the National Commission of Hygiene and Occupational Safety is a random inspection that may occur at least once during the 30-week construction period. Thus, no request is needed. An inspection report is drafted and provided to the company. The construction is not stopped during the inspection, and no costs are associated with this procedure.</p>	1 day	no charge
15	<p>Receive inspection from National Social Security Institute</p> <p>Inspection by the National Social Security Institute is a random inspection that may occur at least once during the 30-week construction period. Thus, no request is needed. An inspection report is drafted and provided to the company. The construction work is not stopped during the inspection, and no costs are associated with this procedure.</p>	1 day	no charge
16	<p>Register the building with the Real Estate Appraisal Office (Avalúo de Bienes Inmuebles, ALMA)</p>	15 days	no charge

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

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 150 meters long and is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.

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
- 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 area where the warehouse is located. The length of any connection in the customer's private domain is negligible.
- Requires crossing of a 10-meter road but all the works are carried out in a public land, so there is no crossing into other people's private property.
- Involves installing one electricity meter. The monthly electricity consumption will be 0.07 gigawatt-hour (GWh). The internal electrical wiring has been completed.

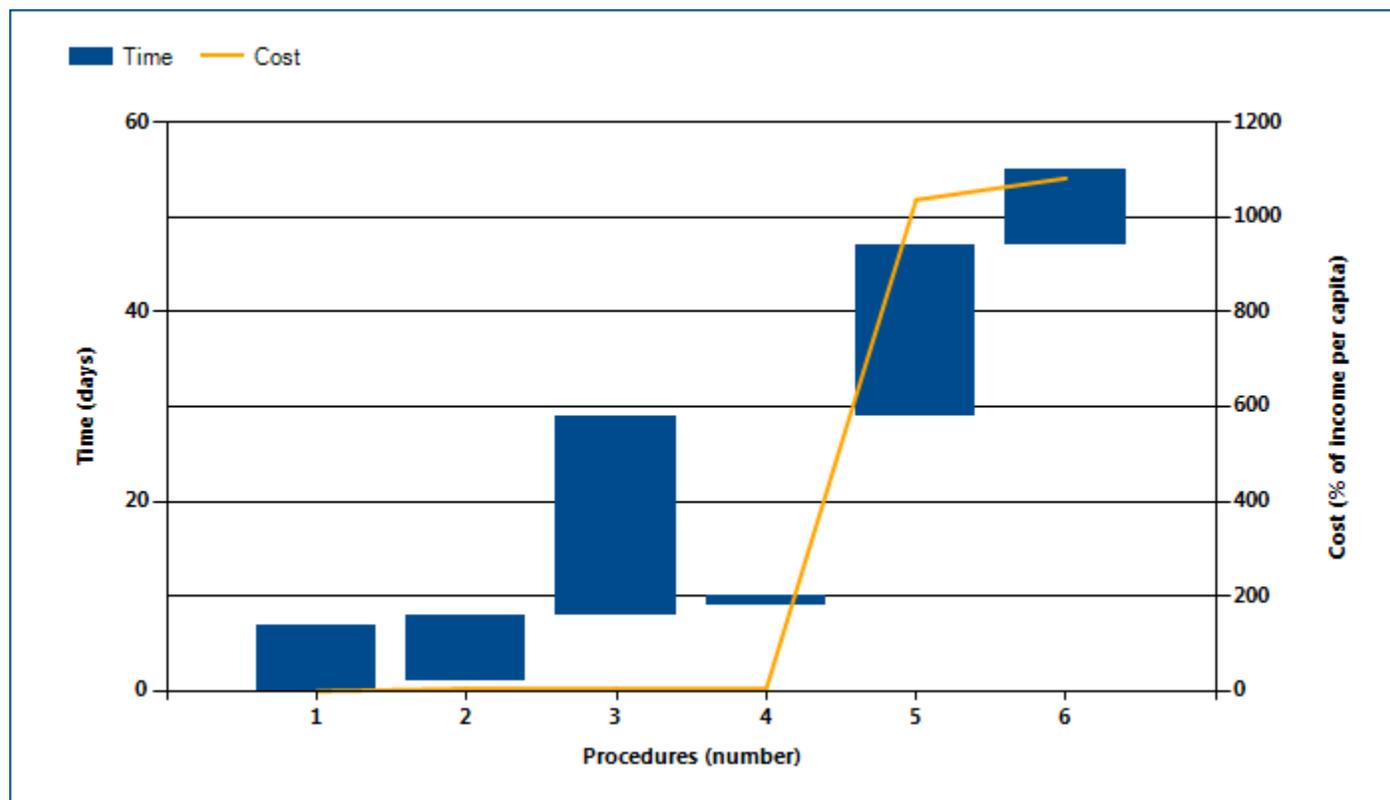
GETTING ELECTRICITY

Where does the economy stand today?

What does it take to obtain a new electricity connection in Nicaragua? According to data collected by *Doing Business*, getting electricity there requires 6

procedures, takes 55 days and costs 1082.5% of income per capita (figure 4.1).

Figure 4.1 What it takes to obtain an electricity connection in Nicaragua



Note: Time shown in the figure above may not reflect simultaneity of procedures. For more information on the methodology of the getting electricity indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

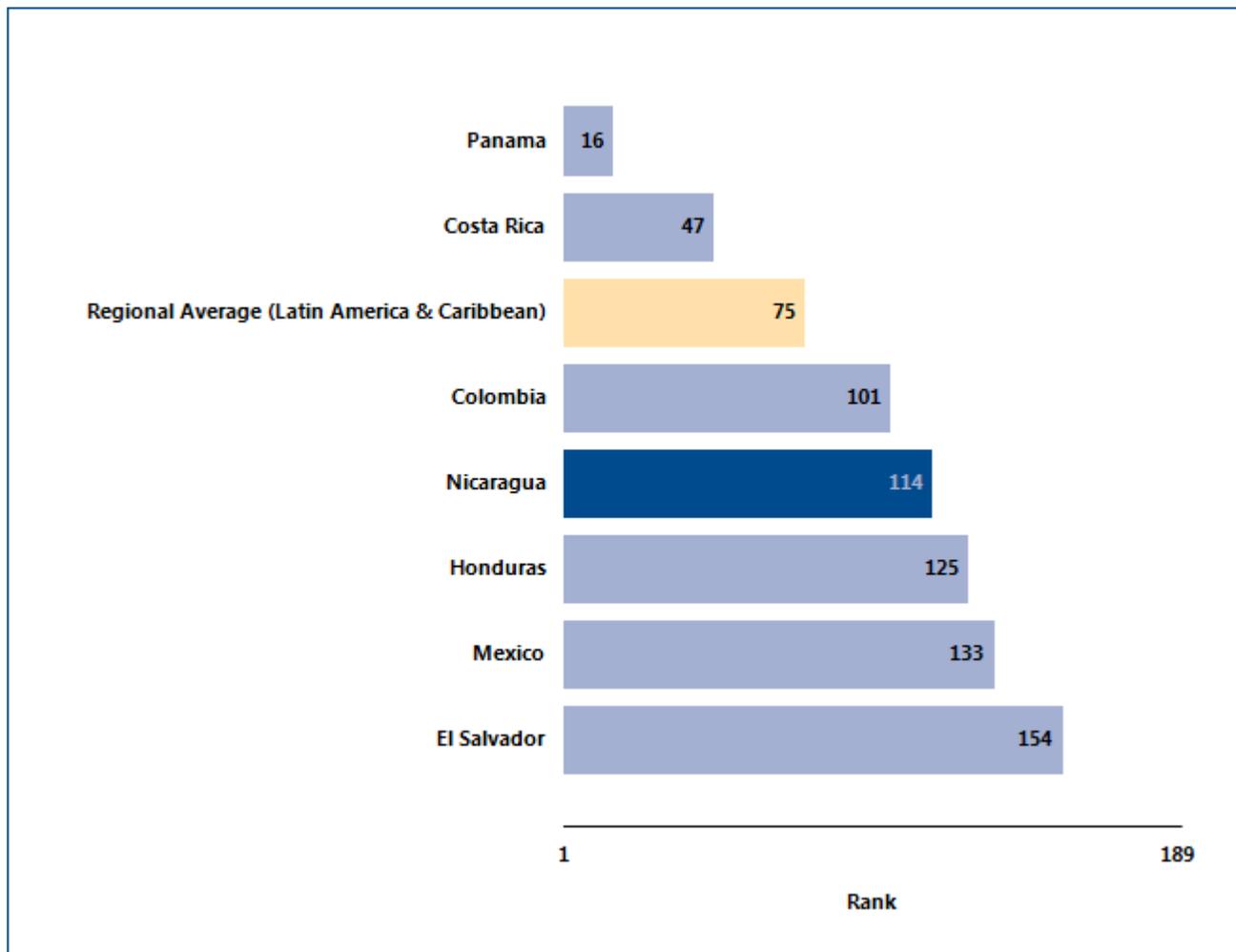
Source: *Doing Business* database.

GETTING ELECTRICITY

Globally, Nicaragua stands at 114 in the ranking of 189 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 Nicaragua to connect a warehouse to electricity.

Figure 4.2 How Nicaragua and comparator economies rank on the ease of getting electricity



Source: Doing Business database.

GETTING ELECTRICITY

Even more helpful than rankings on the ease of getting electricity may be the indicators underlying those rankings (table 4.1). And regional and global best performers on these indicators may provide useful benchmarks.

Table 4.1 The ease of getting electricity in Nicaragua

Indicator	Nicaragua DB2014	Nicaragua DB2013	Best performer in Latin America & Caribbean DB2014	Best performer globally DB2014
Rank	114	131	Trinidad and Tobago (10)	Iceland (1)
Procedures (number)	6	6	St. Vincent and the Grenadines (3)	10 Economies* (3)
Time (days)	55	70	St. Kitts and Nevis (18)	Germany (17)
Cost (% of income per capita)	1,082.5	1,526.6	Trinidad and Tobago (7.0)	Japan (0.0)

Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year.

* Two or more economies share the top ranking on this indicator. For a list of these economies, see the *Doing Business* website (<http://www.doingbusiness.org>).

Source: *Doing Business* database.

GETTING ELECTRICITY

Obtaining an electricity connection is essential to enable a business to conduct its most basic operations. In many economies the connection process is complicated by the multiple laws and regulations involved—covering service quality, general safety, technical standards, procurement practices and internal wiring installations. In an effort to ensure

safety in the connection process while keeping connection costs reasonable, governments around the world have worked to consolidate requirements for obtaining an electricity connection. What reforms in getting electricity has *Doing Business* recorded in Nicaragua (table 4.2)?

Table 4.2 How has Nicaragua made getting electricity easier—or not?
By *Doing Business* report year

DB year	Reform
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	Nicaragua reduced the time required for getting electricity by increasing efficiency in granting approval of the connection design and by informing the customer in advance what the amount of the security deposit will be.

Source: *Doing Business* database.

GETTING ELECTRICITY

What are the details?

The indicators reported here for Nicaragua 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: Managua

Name of Utility: DISNORTE - DISSUR

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 Nicaragua—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>The customer submits an informal application with DISNORTE-DISSUR to establish the feasibility of the project</p> <p>The customer submits a first informal application to DISNORTE-DISSUR indicating the required electricity load and the location of the business that is to be connected. The Planning Department of the utility will prepare a feasibility study based on its own plans for the primary distribution lines in Managua and the existing demand in the system. No inspection of the site is necessary if the connection point is within 150 meters.</p>	7 calendar days	no charge
2	<p>The client obtains a compliance certificate regarding the internal wiring from the official or the voluntary Fire Department (Dirección General de Bomberos and Benemérito Cuerpo de Bomberos, respectively)</p> <p>The customer has to obtain a certification of the internal wiring installations from the Fire Department. The Fire Department (Dirección General de Bomberos) certifies that the internal wiring has been done in accordance with the relevant standards for buildings as specified by the ""Norma CIEN"" (Código de instalaciones Eléctricas de Nicaragua). This certification has to be obtained before applying for a new electricity connection with the utility.</p> <p>In order to prepare the certification of the internal wiring the Fire Department (Dirección General de Bomberos) will visit the site.</p>	7 calendar days	USD 86.3

No.	Procedure	Time to complete	Cost to complete
3	<p>The customer submits in person the design and the service application at DISNORTE-DISSUR and awaits that the utility approves the design plans</p> <p>The customer submits the service application together with the designs in person. The following documents have to accompany the application: |</p> <ul style="list-style-type: none"> • Name, address and telephone number of the applicant | • Photocopy of national identity card or power of attorney | • Photocopy of the property title or rental contract | • Inspection certificate from the Fire Department indicating that the internal wiring installation complies with the norms established by the CIEN (Código de instalaciones Eléctricas de Nicaragua). | • Photocopy of the social security number or business registration number of the customer (RUC - Registro único del contribuyente) | • Photocopy of the company registration of the firm (used to assess which electricity tariff is applicable). | <p>DISNORTE-DISSUR has a list of approved firms that will realize the design of the actual connection works. In order to be part of the list, firms have to be approved every year by the utility. In most cases the design is done by the same firm that also will later do the works. |</p> <p>The utility will also approve the designs that have been prepared by the approved firm and work hand in hand with the executing firm. |</p>	21 calendar days	no charge

No.	Procedure	Time to complete	Cost to complete
4	<p>Dissnorte-Dissur inspects the site to validate the design of the works</p> <p>The utility inspects the site to approve the design</p>	1 calendar day	no charge
5	<p>The private firm hired by the customer to prepare the design for the connection works carries out the actual works</p> <p>The works are done according to the relevant standards. They can be done either by a construction firm or an approved electrical design firm. The customer can decide who he wants to delegate the works to. The works are supervised by the technical department of the utility.</p>	18 calendar days	USD 17,025.0
6	<p>The customer signs the supply contract and DISNORTE-DISSUR installs the meter and energizes the project</p> <p>Once the works are finalized, the meter and metering accessories are installed by the distribution utility and remain property of the utility. The meter is installed in a location that can be accessed from outside the premise of the customer for inspections and meter reading. Otherwise the customer has to given a written consent that the distribution utility can enter the premise. |</p> <p>The customer has to deposit a security that is calculated on the basis of one month of the future consumption of the customer. The security deposit is returned with interest (average deposit rate in the country) after 18 months if the customer had no late payment in this period. |</p>	8 calendar days	NIO 18,237.7

* 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 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 cadastral, or both, and is free of title disputes.
- Is located in a periurban commercial zone,

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. Procedures that can be fully completed online are an exception to this rule.

Procedure considered 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

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. There is no heating system. The property will be transferred in its entirety.

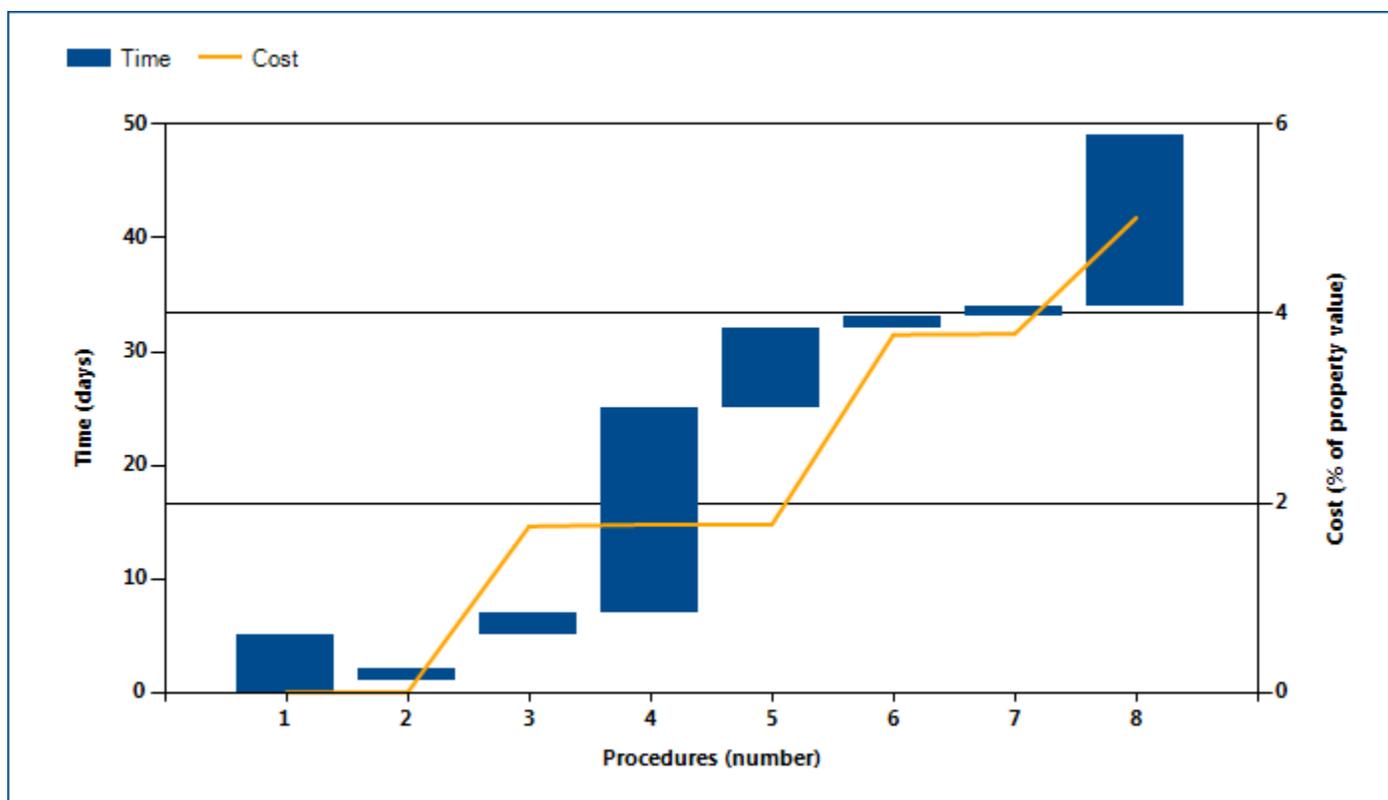
REGISTERING PROPERTY

Where does the economy stand today?

What does it take to complete a property transfer in Nicaragua? According to data collected by *Doing Business*, registering property there requires 8

procedures, takes 49.0 days and costs 5.0% of the property value (figure 5.1).

Figure 5.1 What it takes to register property in Nicaragua



Note: Time shown in the figure above may not reflect simultaneity of procedures. Online procedures account for 0.5 days in the total time calculation. For more information on the methodology of the registering property indicators, see the *Doing Business* website (<http://www.doingbusiness.org>). For details on the procedures reflected here, see the summary at the end of this chapter.

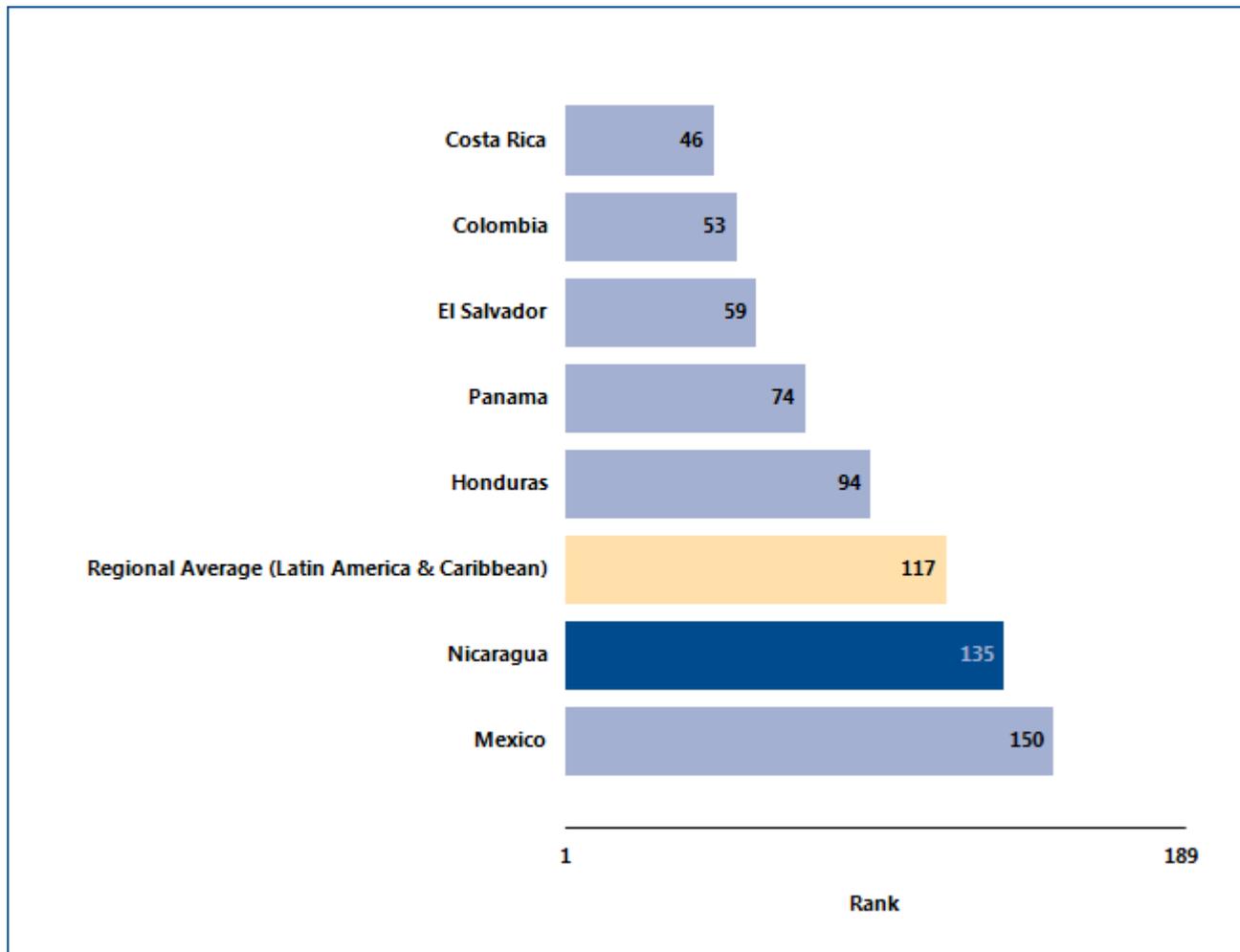
Source: *Doing Business* database.

REGISTERING PROPERTY

Globally, Nicaragua stands at 135 in the ranking of 189 economies on the ease of registering property (figure 5.2). The rankings for comparator economies and the

regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Nicaragua to transfer property.

Figure 5.2 How Nicaragua and comparator economies rank on the ease of registering property



Source: *Doing Business* database.

REGISTERING PROPERTY

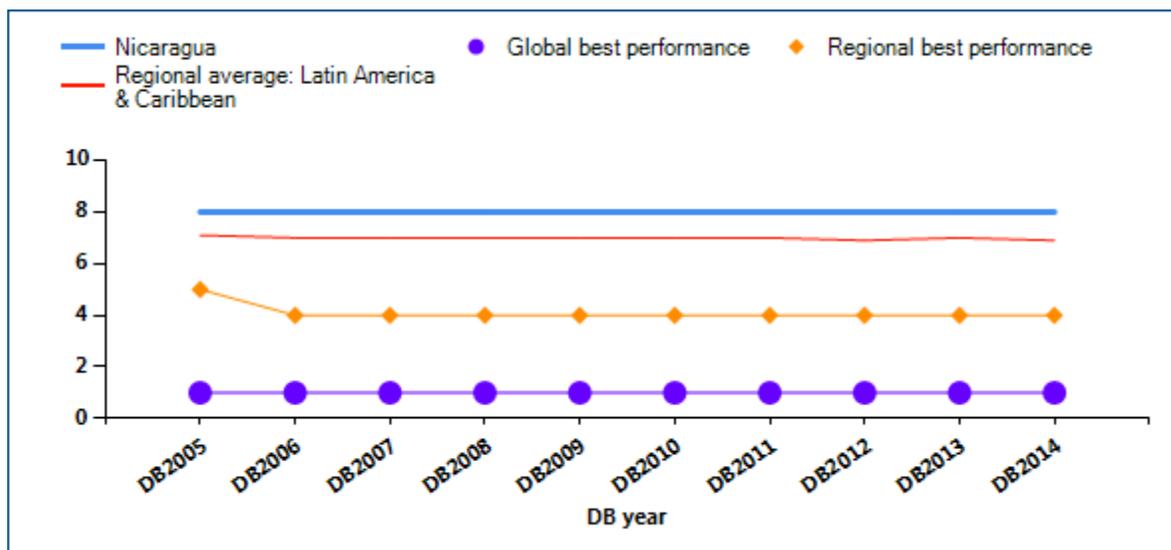
What are the changes over time?

The benchmarks provided by the economies that over time have had the best performance regionally or globally on the procedures, time or cost required to complete a property transfer (figure 5.3) help show

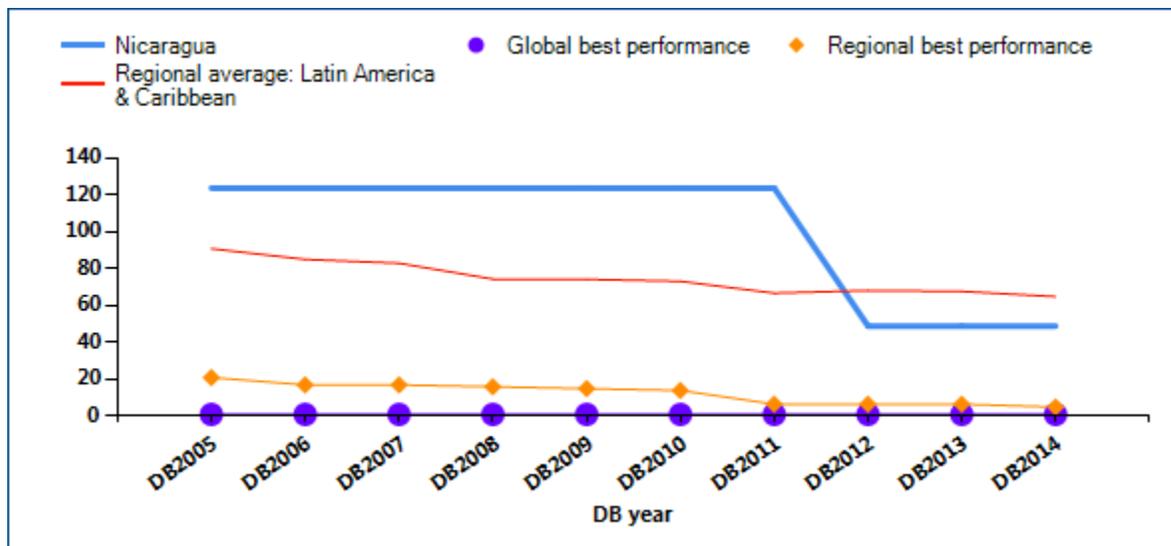
what is possible in making it easier to register property. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

Figure 5.3 Has registering property become easier over time?

Procedures (number)

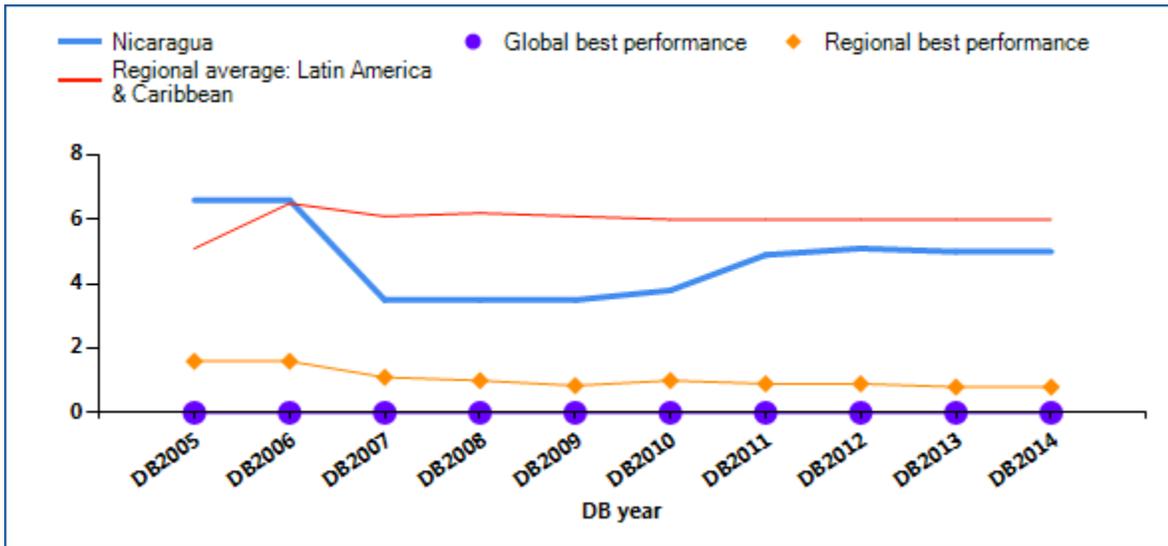


Time (days)



REGISTERING PROPERTY

Cost (% of property value)



Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year. For more information on "no practice" marks, see the data notes.

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 Nicaragua (table 5.1)?

Table 5.1 How has Nicaragua made registering property easier—or not?
By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	Nicaragua made transferring property more efficient by introducing a fast-track procedure for registration.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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.

REGISTERING PROPERTY

What are the details?

The indicators reported here are based on a set of specific procedures—the steps that a buyer and seller must complete to transfer the property to the buyer’s name—identified by *Doing Business* through information collected from local property lawyers, notaries and property registries. These procedures are those that apply to a transaction matching the standard assumptions used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover).

STANDARD PROPERTY TRANSFER

City:	Managua
Property Value:	NIO 2,006,143

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

Summary of procedures for registering property in Nicaragua—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p>* Obtain a non-encumbrance certificate ("Libertad de gravamen") from Land registry</p> <p>The non-encumbrance certificate (libertad de gravamen) is an official document that shows all the encumbrances that the real property currently has and the owners of the real property since its first annotation or since the time that the interested person wants to know. The certificate must be obtained by the seller before starting the transaction formally. The "certificado a manera de titulo" (cost of NIO 100) can also be obtained from the registry, if the original title has been lost. The "certificado de historia registral" (cost NIO 100 + NIO 50 for every additional past transaction) that list all previous transactions related to the property can also be obtained.</p>	5 days (simultaneous with procedure 2)	NIO 100
2	<p>* Obtain tax clearance from the Municipality (Solvencia Municipal)</p> <p>A tax clearance certificate (Municipal Solvency) must be obtained by the seller from the municipality. The timing of 1 day assumes that the seller is up-to-date with tax payments on the property, and that he pays a fee of NIO 20. If he were to wait till the next business day to obtain it, it would be free of charge.</p>	1 day (simultaneous with procedure 1)	NIO 20

No.	Procedure	Time to complete	Cost to complete
3	<p>A notary prepares and signs the public deed</p> <p>A notary public prepares and notarizes the public deed of purchase and sell between seller and buyer. The preparation of the deed is an exclusive act of the notary. The notary will review all past transactions from the record book on the Land Registry with the documents obtained above, to verify the ownership of the property. In practice, the notaries estimate their fees for this type of contract based on a percent, which varies between 1.5 and 2% of the property value according to agreement between the parties and notary.</p>	2 days	1.5 – 2.0% of property value (notary's fees)
4	<p>Obtain the Cadastre Certificate and valuation at the Cadastre</p> <p>Parties must obtain the Cadastre Certificate and request a valuation from an inspector. In practice, the Cadastre requires a special power granted to notaries or any other person when the interested parties cannot realize this procedure. The parties can go to the Cadastre directly, in which case they do not need to present a special power. The Cadastre requests to see original property title (of the Seller). In case a special power is needed, the costs rise about C\$ 2,000 as the fees for the person who will go to the Cadastre, and C\$ 1,000 for the notary who will previously authorize and issue the special power.</p>	14 – 21 days	Cadastre Certificate NIO 300 + Cadastral valuation constancy NIO 100
5	<p>Inspector visits property to assess value</p> <p>After the cadastral certificate is obtained, an inspector visits the property to assess the value. In practice, one picks up the inspector and drives him/her to the property. It will take the inspector about one week to write the report on the value.</p>	7 days	NIO 20 (but must provide transportation to inspector)
6	<p>Payment of Income/Transfer Tax</p> <p>Payment of Income/Transfer Tax at the Tax Administration Office, an agency of the Treasury Ministry. This percent is established depending on the Cadastre Value.</p> <p>The Cadastre value generally is not the same as the market price. For the payment of the transfer taxes, the fiscal authority takes as a base of calculation the highest value between the sale price in the public deed of purchase and Cadastral value.</p> <p>Fees of NIO 4 + 2 stamps of NIO 10 need to be paid to make the payment.</p> <p>The transfer tax rate of 1% was established by an injunction ("amparo") declaring the increase of the 2003 Ley de Queda Fiscal unconstitutional. An amendment to the Nicaraguan fiscal law entered into force on January 1st, 2010 (Law 712 published in the official Gazette No. 241 of December 21st 2009), changing the tax according to the following</p>	1 day	According to Article 87 of the new Tax, the property the transfer tax is calculated and paid as follows: 1% for properties with a value between USD1.00 and USD 50,000.00, 2% for values between USD 50,000.01 and USD 100,000.00

No.	Procedure	Time to complete	Cost to complete
	sliding scale, from 1% of the value of the property to the following percentages: 1% for properties with a value between US\$1.00 and US\$50,000.00, 2% for values between US\$50,000.01 and US\$100,000.00 and 3% for values above US\$100,000.01.		and 3% for values between USD 100,000.01 and USD 200,000.00 and 4% for values above USD 200,001. Fees of NIO 4 + 2 stamps of NIO 10 need to be paid to make the payment.
7	<p>The documents obtained from the Office of Cadastre are inserted in the public deed</p> <p>A notary will insert the documents obtained from the Offices of Cadastre in the public deed.</p>	1 day	NIO 200 (Notary's fees)
8	<p>Apply for registration of the public deed at the Land Registry</p> <p>Parties file the public deed at the Land Registry for its proper registration. The amount is calculated based on 1% of the cadastral value, with a maximum fee of NIO 30,000. This payment is made directly in the branch of a commercial bank that is located inside the Land Registry Office. The notary applying for registration will charge C\$500 as fees.</p> <p>At submission, the request for transfer is recorded, signaling priority rights over the property. When finalized, the Land registry will write in the original deed, the book and page where the transfer was recorded. This document is then returned to the notary with all the other certificates provided.</p> <p>The Land registry operates with paper documents. However, the sale deeds are scanned and almost all past records are digitalized in Managua. In the rest of the departments in the country, records are not always accessible digitally. Newer transactions (less than 1 year) are not always digitalized. Any person can access past deeds with computers at the Land registry at no cost.</p>	15 days (expedited procedure)	1% of cadastral value (registration fee) + NIO 500 (Notary's fees) + 20% of the registration fee for the expedited procedure

* Takes place simultaneously with another procedure.

Note: Online procedures account for 0.5 days in the total time calculation.

Source: Doing Business database.

GETTING CREDIT

Two types of frameworks can facilitate access to credit and improve its allocation: credit information systems and borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders' rights 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 whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. *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, incorporated, limited liability company.
- Has its headquarters and only base of operations in the largest business city.

WHAT THE GETTING CREDIT INDICATORS MEASURE

Strength of legal rights index (0–10)

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

- Has up to 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 the sum of its component indicators: the depth of credit information index and the strength of legal rights index.

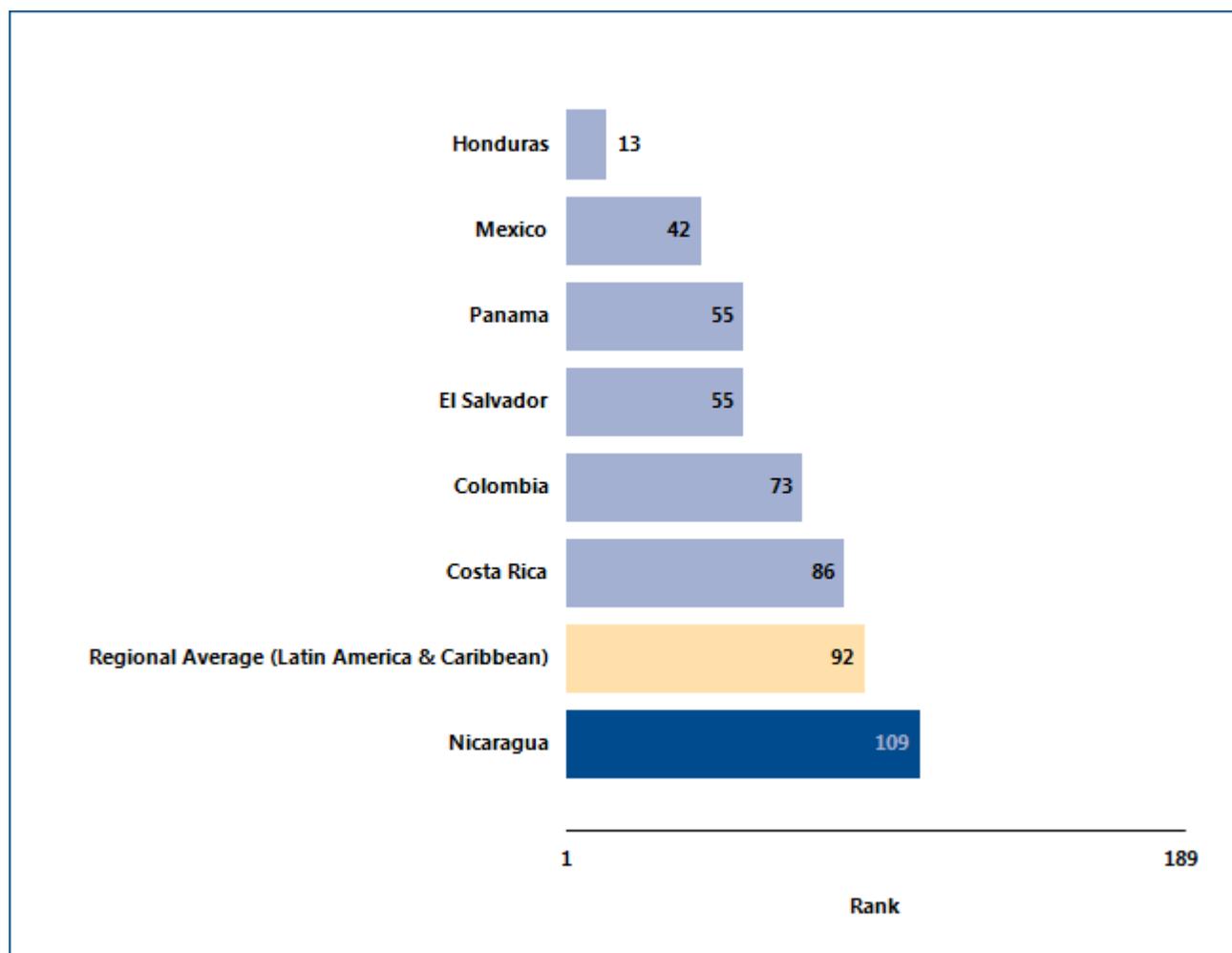
GETTING CREDIT

Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Nicaragua facilitate access to credit? The economy has a score of 5 on the depth of credit information index and a score of 3 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, Nicaragua stands at 109 in the ranking of 189 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 Nicaragua support lending and borrowing.

Figure 6.1 How Nicaragua 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 Nicaragua 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 Nicaragua over time
By *Doing Business* report year

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013	DB2014
Rank	..	..	..	..	..	..	..	..	105	109
Strength of legal rights index (0-10)	3	3	3	3	3	3	3	3	3	3
Depth of credit information index (0-6)	3	4	5	5	5	5	5	5	5	5
Public registry coverage (% of adults)	6.2	8.1	12.5	14.8	13.4	16.0	14.0	10.5	10.8	16.0
Private bureau coverage (% of adults)	0.0	0.0	3.4	100.0	27.9	28.4	21.4	31.9	29.5	32.3

Note: n.a. = not applicable (the economy was not included in *Doing Business* for that year). DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year.

Source: *Doing Business* database.

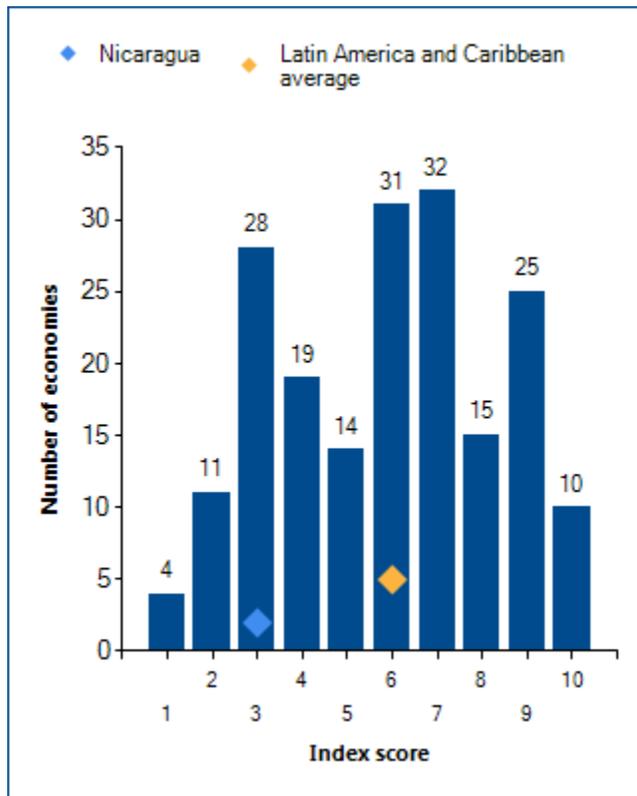
GETTING CREDIT

One way to put an economy's score on the getting credit indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 6.2 highlights the score on the strength of legal rights index for Nicaragua in 2013

and shows the number of economies with this score in 2013 as well as the regional average score. Figure 6.3 shows the same thing for the depth of credit information index.

Figure 6.2 How strong are legal rights for borrowers and lenders?

Number of economies with each score on strength of legal rights index (0–10), 2013

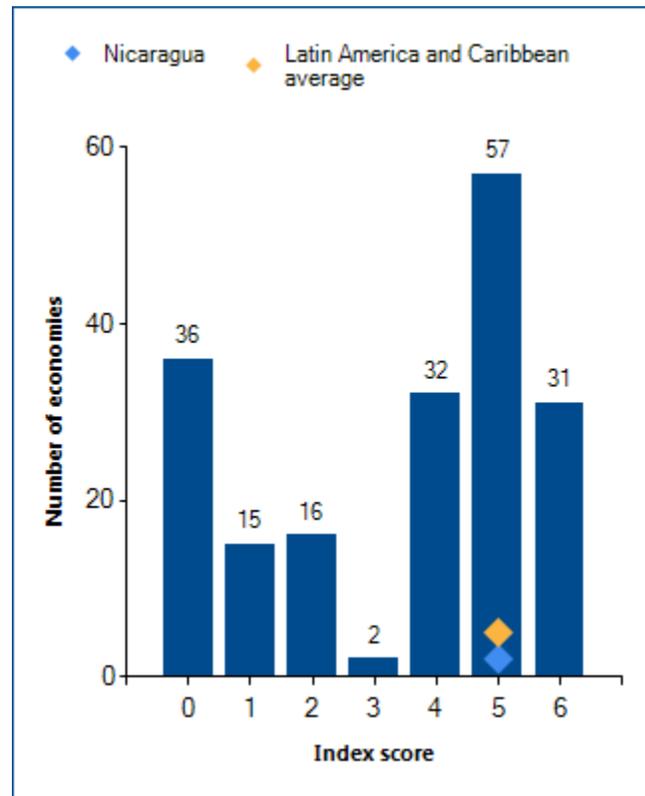


Note: Higher scores indicate that collateral and bankruptcy laws are better designed to facilitate access to credit.

Source: Doing Business database.

Figure 6.3 How much credit information is shared—and how widely?

Number of economies with each score on depth of credit information index (0–6), 2013



Note: Higher scores indicate the availability of more credit information, from either a credit registry or a credit bureau, to facilitate lending decisions. Regional averages for the depth of credit information index exclude economies with no credit registry or credit bureau.

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 Nicaragua (table 6.2)?

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

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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 Nicaragua are based on detailed information collected in that economy. The data on credit information sharing are collected through a survey of a credit registry and/or 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 credit registry or 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 Nicaragua

Indicator	Nicaragua	Latin America & Caribbean average	OECD high income average
Strength of legal rights index (0-10)	3	6	7
Depth of credit information index (0-6)	5	5	5
Public registry coverage (% of adults)	16.0	31.5	42.9
Private bureau coverage (% of adults)	32.3	63.1	73.9

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once. Regional averages for the depth of credit information index exclude economies with no credit registry or credit bureau. Regional averages for the credit registry coverage exclude economies with no credit registry. Regional averages for the credit bureau coverage exclude economies with no credit bureau.

Strength of legal rights index (0-10)	Index score: 3
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

Strength of legal rights index (0–10)	Index score: 3
Are secured creditors paid first (i.e. before tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	Yes
Are secured creditors paid first (i.e. before tax claims and employee claims) when a business is liquidated?	No
Are secured creditors either not subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure, or does the law provide secured creditors with grounds for relief from an automatic stay or/and sets a time limit to it?	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)	Credit bureau	Credit registry	Index score: 5
Are data on both firms and individuals distributed?	Yes	Yes	1
Are both positive and negative data distributed?	Yes	Yes	1
Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?	Yes	No	1
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?	Yes	Yes	1
Is it guaranteed by law that borrowers can inspect their data in the largest credit registry?	Yes	Yes	1

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

Coverage	Credit bureau (% of adults)	Credit registry (% of adults)
Number of firms	1,458	3,414
Number of individuals	1,200,215	589,198

Source: Doing Business database.

PROTECTING INVESTORS

Protecting investors matters for the ability of companies to raise the capital they need to grow, innovate, diversify and compete. If the laws do not protect minority shareholders, investors may be reluctant to provide funding to companies through the purchase of shares unless they become the controlling shareholders. Effective regulations define related-party transactions precisely, promote clear and efficient disclosure requirements, require shareholder participation in major decisions of the company and set detailed 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 minority shareholders' access to evidence before and during trial (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

WHAT THE PROTECTING INVESTORS INDICATORS MEASURE

Extent of disclosure index (0–10)

Approval process for related-party transactions

Disclosure requirements in case of related-party transactions

Extent of director liability index (0–10)

Ability of minority shareholders to file a direct or derivative lawsuit

Ability of minority shareholders to hold interested parties and members of the approving body liable for prejudicial related-party transactions

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

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

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.

PROTECTING INVESTORS

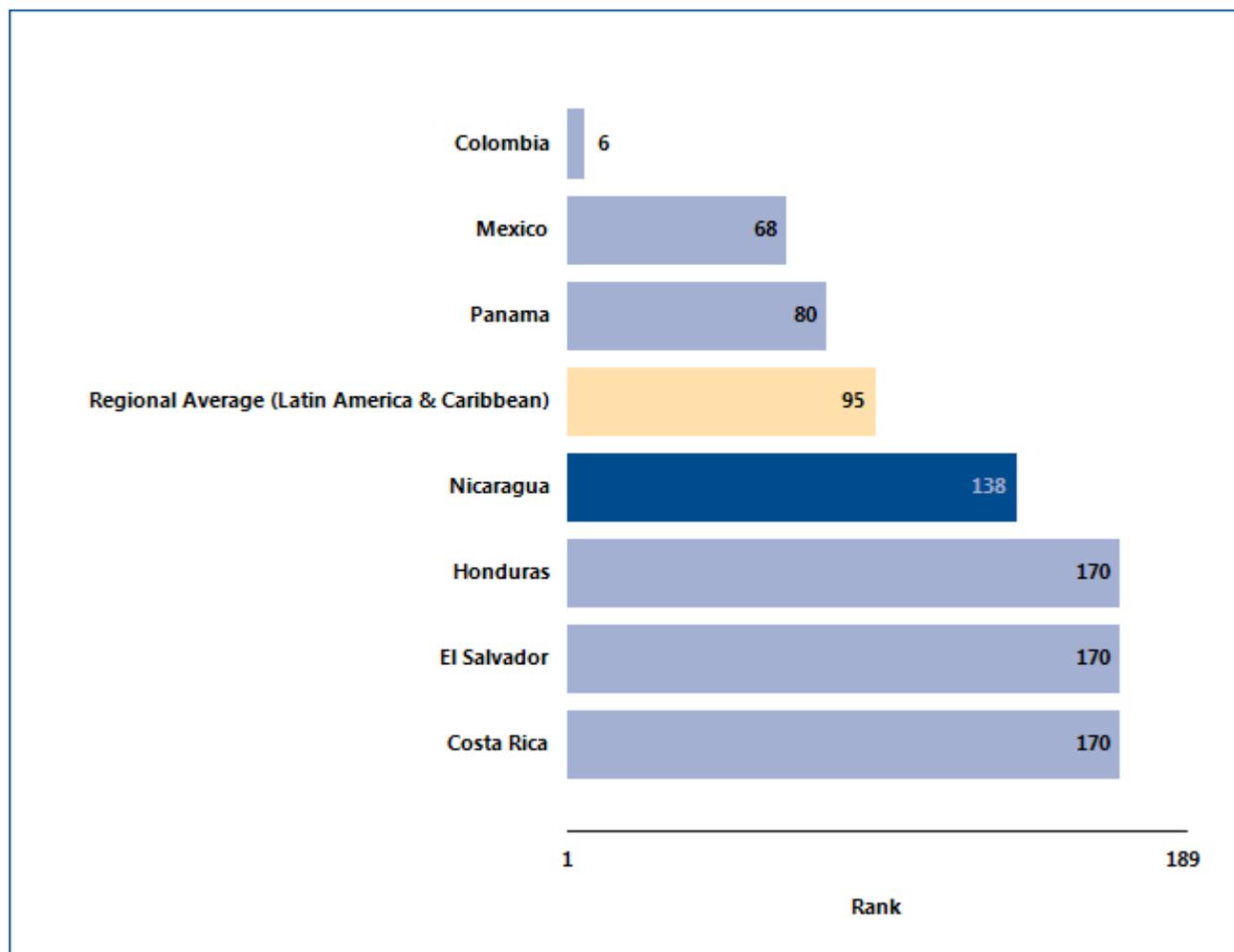
Where does the economy stand today?

How strong are investor protections against self-dealing in Nicaragua? 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, Nicaragua stands at 138 in the ranking of 189 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 Nicaragua 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 Nicaragua 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 Nicaragua over time
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012	DB2013	DB2014
Rank	..	..	..	..	..	..	..	137	138
Extent of disclosure index (0-10)	1	1	1	1	1	1	1	1	1
Extent of director liability index (0-10)	5	5	5	5	5	5	5	5	5
Ease of shareholder suits index (0-10)	6	6	6	6	6	6	6	6	6
Strength of investor protection index (0-10)	4.0	4.0	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). DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year.

Source: *Doing Business* database.

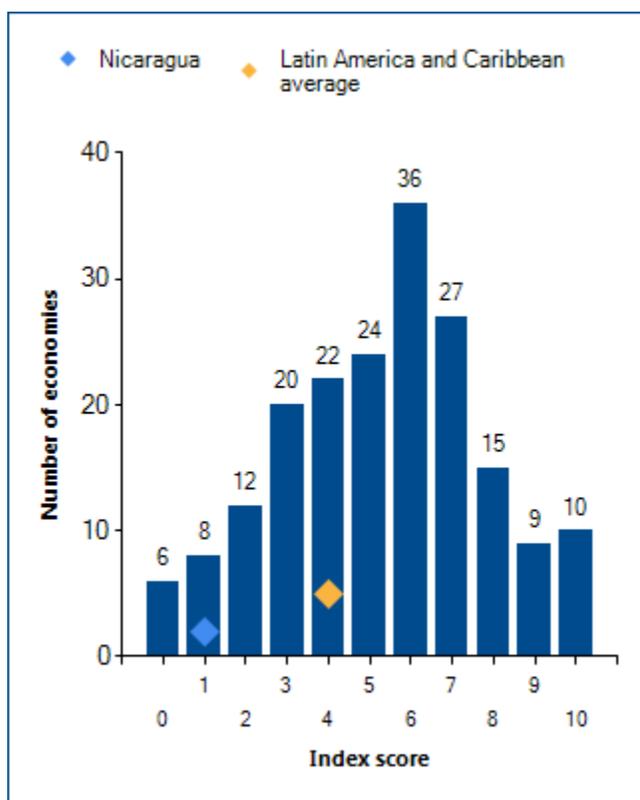
PROTECTING INVESTORS

One way to put an economy's scores on the protecting investors indicators into context is to see where the economy stands in the distribution of scores across economies. Figure 7.2 highlights the score on the extent of disclosure index for Nicaragua in 2013 and

shows the number of economies with this score in 2013 as well as the regional average score. Figure 7.3 applies to the extent of director liability index, and figure 7.4 to the ease of shareholder suits index.

Figure 7.2 How strong are disclosure requirements?

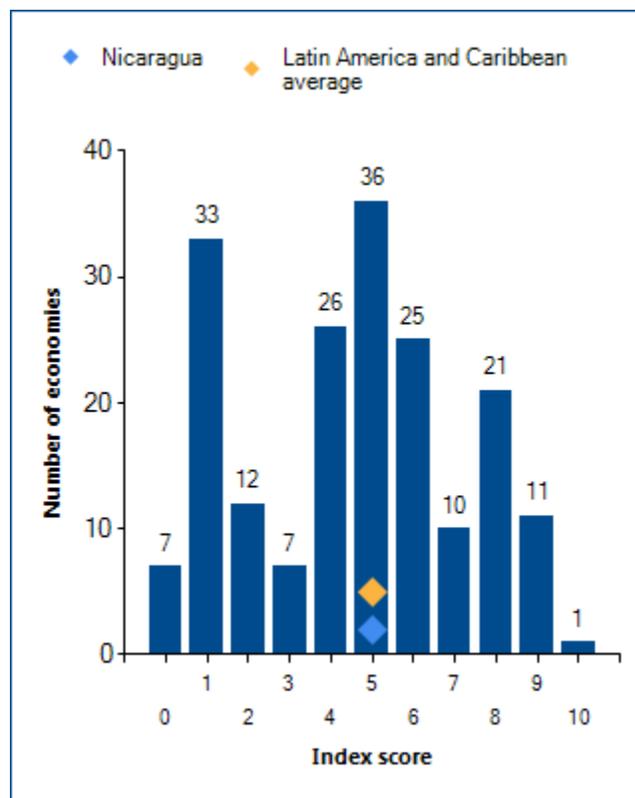
Number of economies with each score on the extent of disclosure index (0–10), 2013



Note: Higher scores indicate greater disclosure.
Source: Doing Business database.

Figure 7.3 How strong is the liability regime for directors?

Number of economies with each score on the extent of director liability index (0–10), 2013

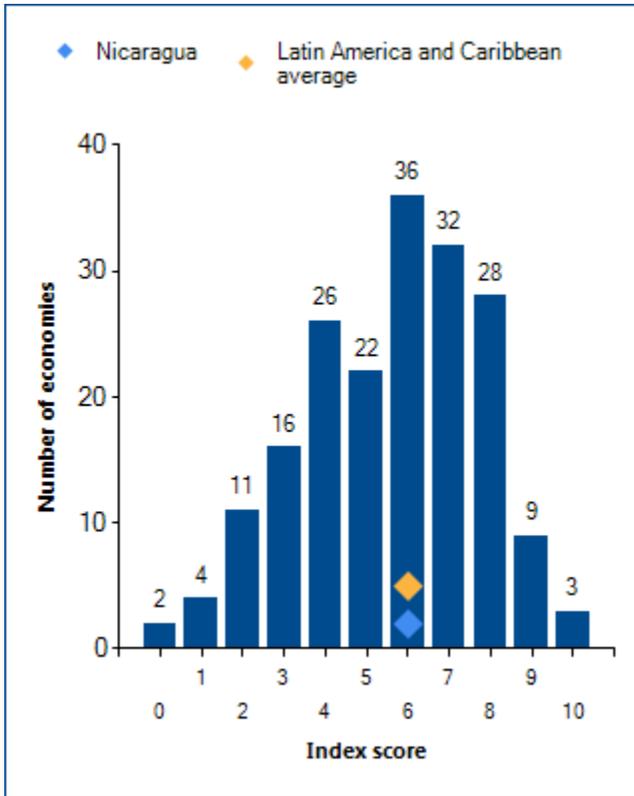


Note: Higher scores indicate greater liability of directors.
Source: Doing Business database.

PROTECTING INVESTORS

Figure 7.4 How easy is accessing internal corporate documents?

Number of economies with each score on the ease of shareholder suits index (0–10), 2013



Note: Higher scores indicate greater minority shareholder access to evidence before and during trial.

Source: *Doing Business* database.

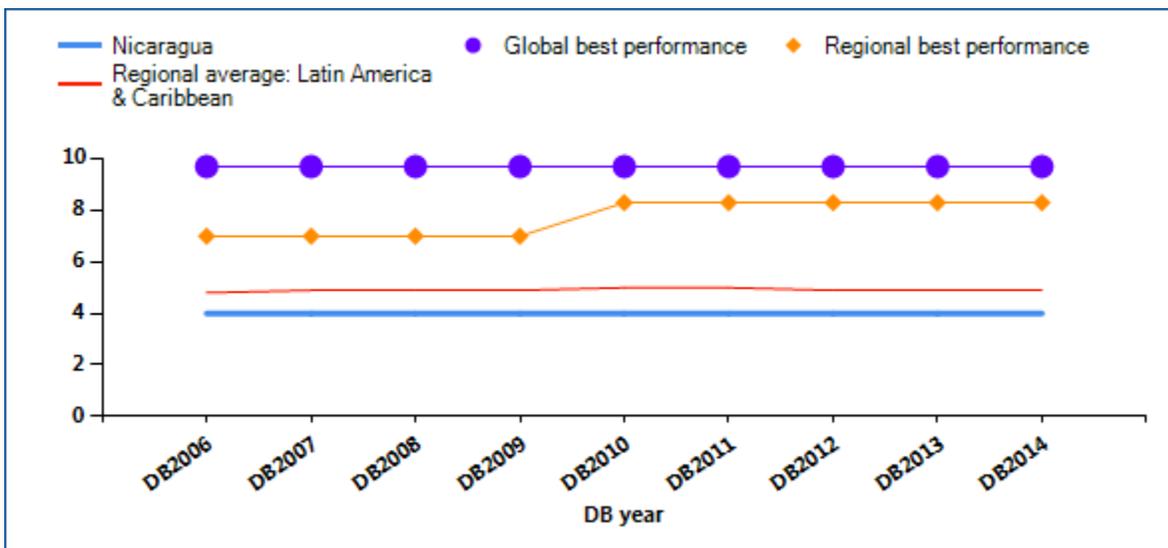
PROTECTING INVESTORS

The scores recorded over time for Nicaragua on the strength of investor protection index may also be revealing (figure 7.5). Equally interesting may be the

changes over time in the regional average score on this index.

Figure 7.5 Have investor protections become stronger over time?

Strength of investor protection index (0–10)



Note: The higher the score, the stronger the protections.
 Source: Doing Business database.

PROTECTING INVESTORS

Economies with the strongest protections of minority investors from self-dealing require detailed disclosure and define clear duties for directors. They also have well-functioning courts and up-to-date procedural rules that give minority shareholders the means to prove their case and obtain a judgment within a

reasonable time. As a result, reforms to strengthen investor protections may move ahead on different fronts—such as through new or amended company laws, securities regulations or civil procedure rules. What investor protection reforms has *Doing Business* recorded in Nicaragua (table 7.2)?

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

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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 Nicaragua are based on detailed information collected through a survey of corporate and securities lawyers about securities regulations, company laws and court rules of evidence and procedure. To construct the extent of disclosure, extent of director liability and

ease of shareholder suits indices, scores are assigned to each based on a range of conditions relating to disclosure, director liability and shareholder suits in a standard case study transaction (see the data notes at the end of this chapter). The summary below shows the details underlying the scores for Nicaragua.

Summary of scoring for the protecting investors indicators in Nicaragua

Indicator	Nicaragua	Latin America & Caribbean average	OECD high income average
Extent of disclosure index (0-10)	1	4	7
Extent of director liability index (0-10)	5	5	5
Ease of shareholder suits index (0-10)	6	6	7
Strength of investor protection index (0-10)	4.0	4.9	6.2

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

	Score	Score description
Extent of disclosure index (0-10)	1	
What corporate body provides legally sufficient approval for the transaction?	1	Shareholders meeting and Mr. James is allowed to vote
Whether disclosure of the conflict of interest by Mr. James to the board of directors is required?	0	No disclosure obligation
Whether immediate disclosure of the transaction to the public and/or shareholders is required?	0	No disclosure obligation
Whether disclosure of the transaction in published periodic filings (annual reports) is required?	0	No disclosure obligation
Whether an external body must review the terms of the transaction before it takes place?	0	No
Extent of director liability index (0-10)	5	
Whether shareholders can sue directly or derivatively for the damage that the Buyer-Seller transaction causes to the company?	1	Yes
Whether shareholders can hold Mr. James liable for the damage that the Buyer-Seller transaction causes to the company?	1	Liable for negligence or influencing the approval of the transaction
Whether shareholders can hold members of the approving body liable for the damage that the Buyer-Seller transaction causes to the company?	1	Liable for negligence

	Score	Score description
Whether a court can void the transaction upon a successful claim by a shareholder plaintiff?	1	Possible when the transaction is oppressive or prejudicial to minority shareholders
Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff?	1	Yes
Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff?	0	No
Whether fines and imprisonment can be applied against Mr. James?	0	No
Ease of shareholder suits index (0-10)	6	
Whether shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit?	1	Yes
Whether shareholders owning 10% or less of Buyer's shares can request an inspector to investigate the transaction?	1	Yes
Whether the plaintiff can obtain any documents from the defendant and witnesses during trial?	3	Any information that is relevant to the subject matter of the claim
Whether the plaintiff can request categories of documents from the defendant without identifying specific ones?	0	No
Whether the plaintiff can directly question the defendant and witnesses during trial?	0	No
Whether the level of proof required for civil suits is lower than that of criminal cases?	1	Yes
Strength of investor protection index (0-10)	4.0	

Source: Doing Business database.

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.¹ 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, 2011.
- 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.

WHAT THE PAYING TAXES INDICATORS MEASURE

Tax payments for a manufacturing company in 2012 (number per year adjusted for electronic and 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

- 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.

¹ The threshold is defined as the highest total tax rate among the top 15% of economies in the ranking on the total tax rate. It is calculated and adjusted on a yearly basis. The threshold is not based on any economic theory of an "optimal tax rate" that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). This year's threshold is 25.5%.

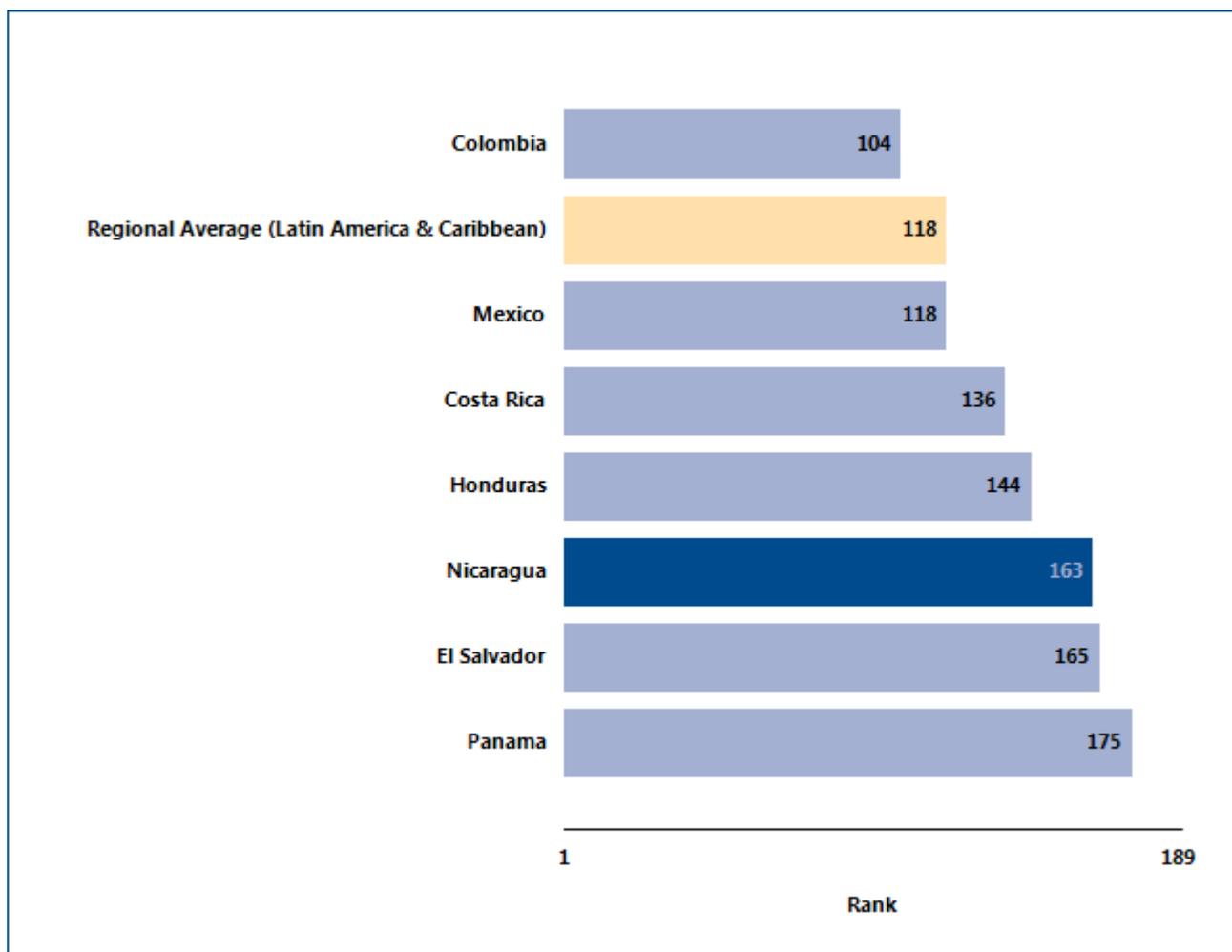
PAYING TAXES

Where does the economy stand today?

What is the administrative burden of complying with taxes in Nicaragua—and how much do firms pay in taxes? On average, firms make 42 tax payments a year, spend 207 hours a year filing, preparing and paying taxes and pay total taxes amounting to 64.9% of profit (see the summary at the end of this chapter for details).

Globally, Nicaragua stands at 163 in the ranking of 189 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average provide other useful information for assessing the tax compliance burden for businesses in Nicaragua.

Figure 8.1 How Nicaragua and comparator economies rank on the ease of paying taxes



Source: Doing Business database.

PAYING TAXES

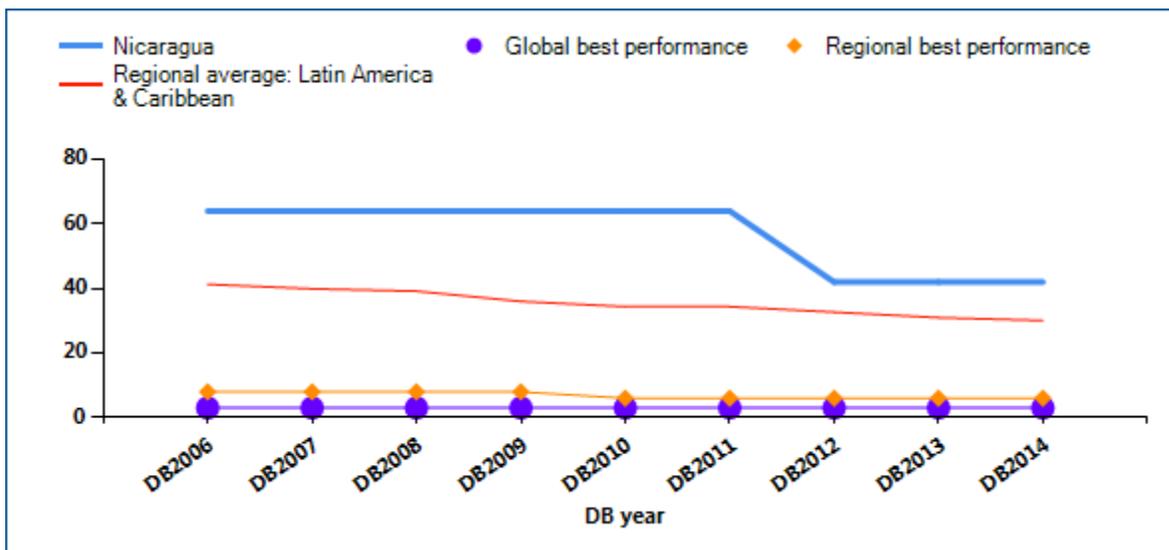
What are the changes over time?

The benchmarks provided by the economies that over time have had the best performance regionally or globally on the number of payments or the time required to prepare and file taxes (figure 8.2) help

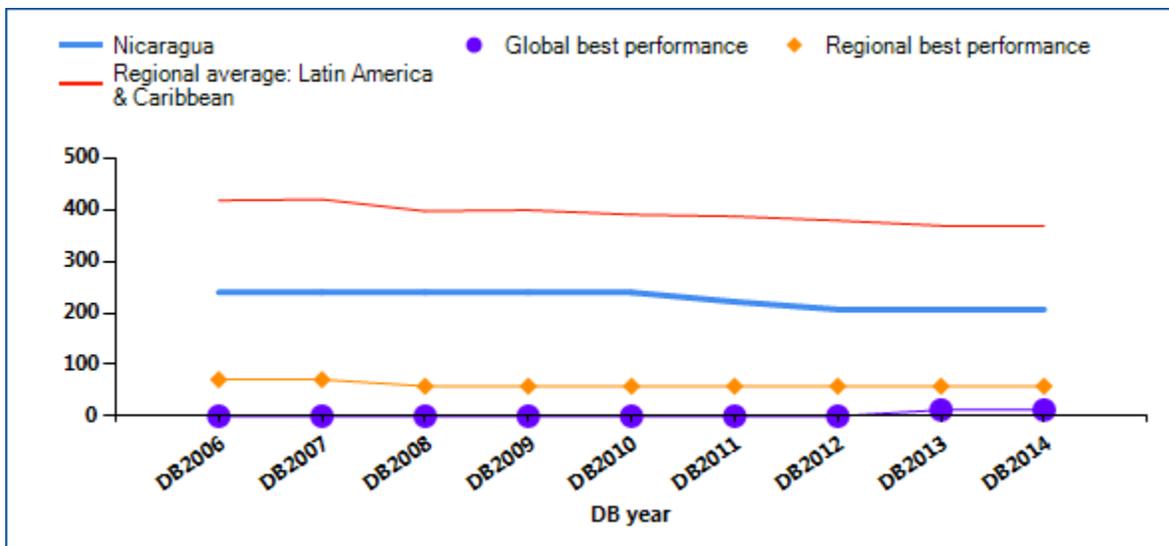
show what is possible in easing the administrative burden of tax compliance. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

Figure 8.2 Has paying taxes become easier over time?

Payments (number per year)

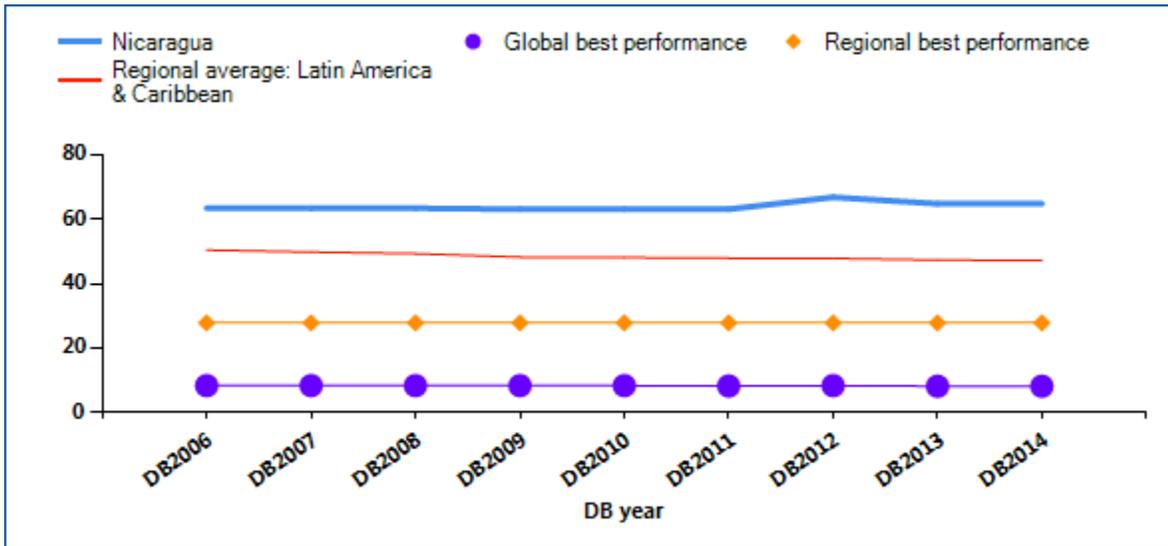


Time (hours per year)



PAYING TAXES

Total tax rate (% of profit)



Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year. DB2013 rankings reflect changes to the methodology. For all economies with a total tax rate below the threshold of 25.5% applied in DB2014, the total tax rate is set at 25.5% 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 Nicaragua (table 8.1)?

Table 8.1 How has Nicaragua made paying taxes easier—or not?
By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	Nicaragua increased taxes on firms by raising social security contribution rates and introducing a 10% withholding tax on the gross interest accrued from deposits. It also improved electronic payment of taxes through bank transfer.
DB2012	Nicaragua made paying taxes easier for companies by promoting electronic filing and payment of the major taxes, an option now used by the majority of taxpayers.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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 Nicaragua 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.

LOCATION OF STANDARDIZED COMPANY

City: Managua

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 Nicaragua

Indicator	Nicaragua	Latin America & Caribbean average	OECD high income average
Payments (number per year)	42	30	12
Time (hours per year)	207	369	175
Profit tax (%)	23.0	20.5	16.1
Labor tax and contributions (%)	20.3	14.7	23.1
Other taxes (%)	21.5	12.1	2.0
Total tax rate (% profit)	64.9	47.3	41.3

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

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
Corporate income tax	1	online filing	67	30%	taxable income	23	
Employer paid - Social security contributions	12		76	16%	gross salaries	18	
Turnover tax	12		0	1%	sales (purchase cost)	17.7	

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
Assets tax	1		0	1%	assessed total asset value	4.7	included in other taxes
Dividend tax	1		0	10%	distributed profits	2.7	
Employer paid - Training tax	12		0	2%	gross salaries	2.3	
Real estate tax	1		0	1%	property value	1.2	
Value added tax (VAT)	1	online filing	64	15%	value added	0	not included
Fuel tax	1		0	0.6985%	fuel consumption	0	small amount
Totals	42		207			64.9	

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 and the time and cost for sea transport) associated with exporting and importing a standard shipment of goods by sea 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

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, filling out and submitting all the documents
- Inland transport and handling
- Customs clearance and inspections
- Port and terminal handling
- Does not include sea 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

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.

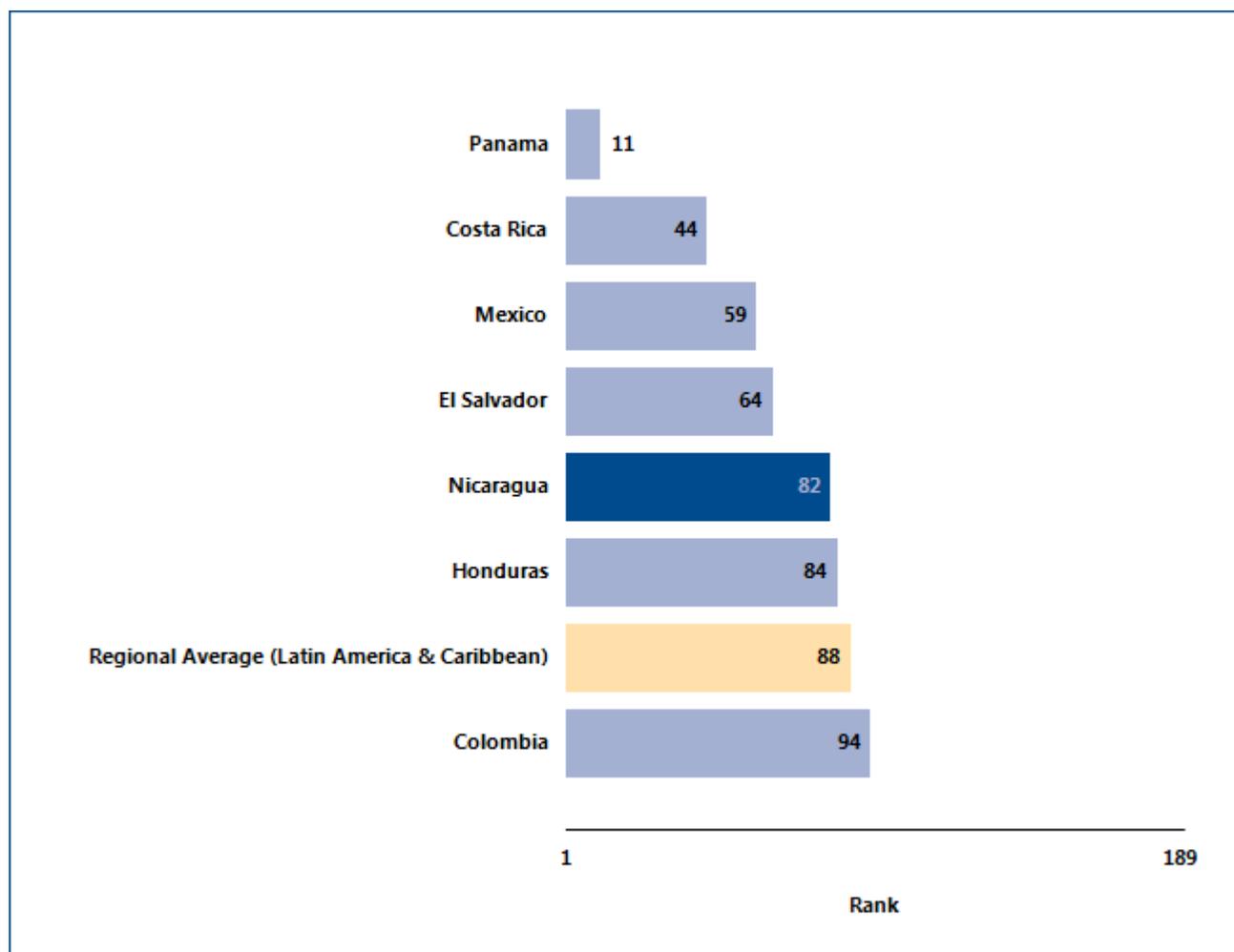
TRADING ACROSS BORDERS

Where does the economy stand today?

What does it take to export or import in Nicaragua? According to data collected by *Doing Business*, exporting a standard container of goods requires 5 documents, takes 21 days and costs \$1140. Importing the same container of goods requires 5 documents, takes 20 days and costs \$1245 (see the summary of procedures and documents at the end of this chapter for details).

Globally, Nicaragua stands at 82 in the ranking of 189 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 Nicaragua to export and import goods.

Figure 9.1 How Nicaragua and comparator economies rank on the ease of trading across borders



Source: *Doing Business* database.

TRADING ACROSS BORDERS

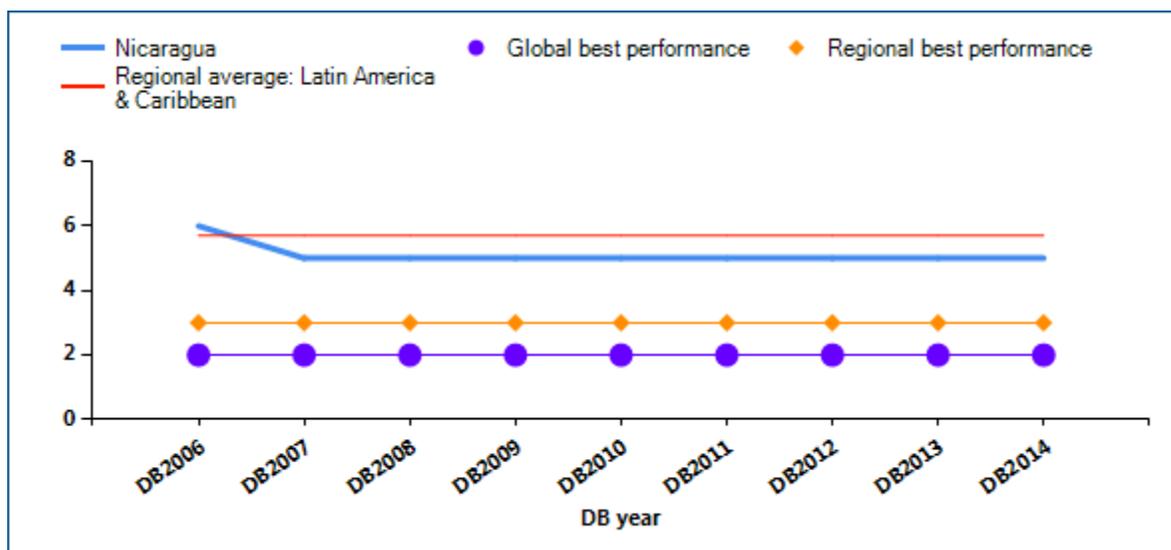
What are the changes over time?

The benchmarks provided by the economies that over time have had the best performance regionally or globally on the documents, time or cost required to export or import (figure 9.2) help show what is

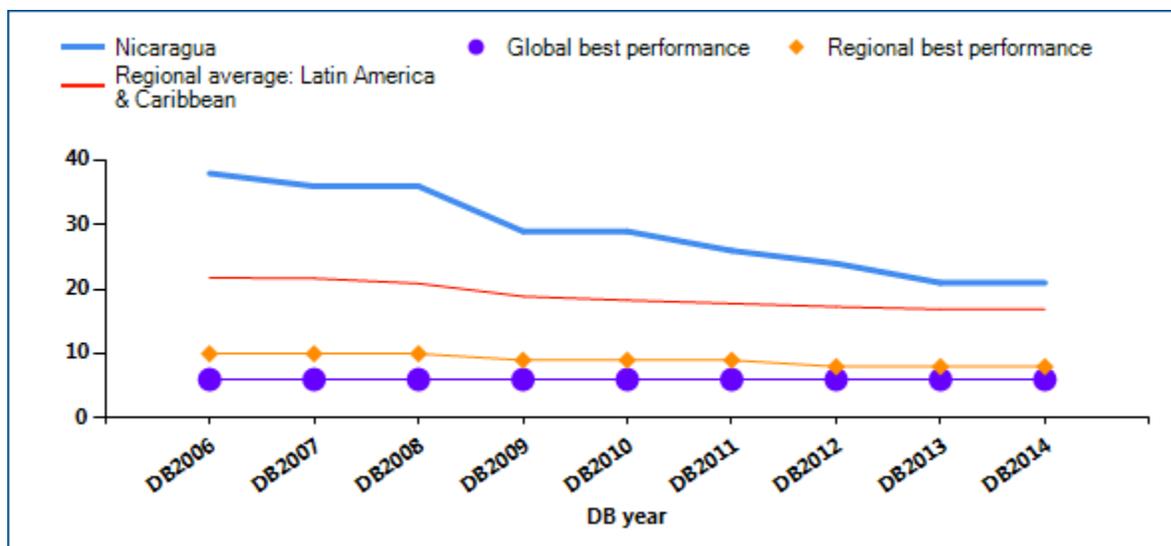
possible in making it easier to trade across borders. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

Figure 9.2 Has trading across borders become easier over time?

Documents to export (number)

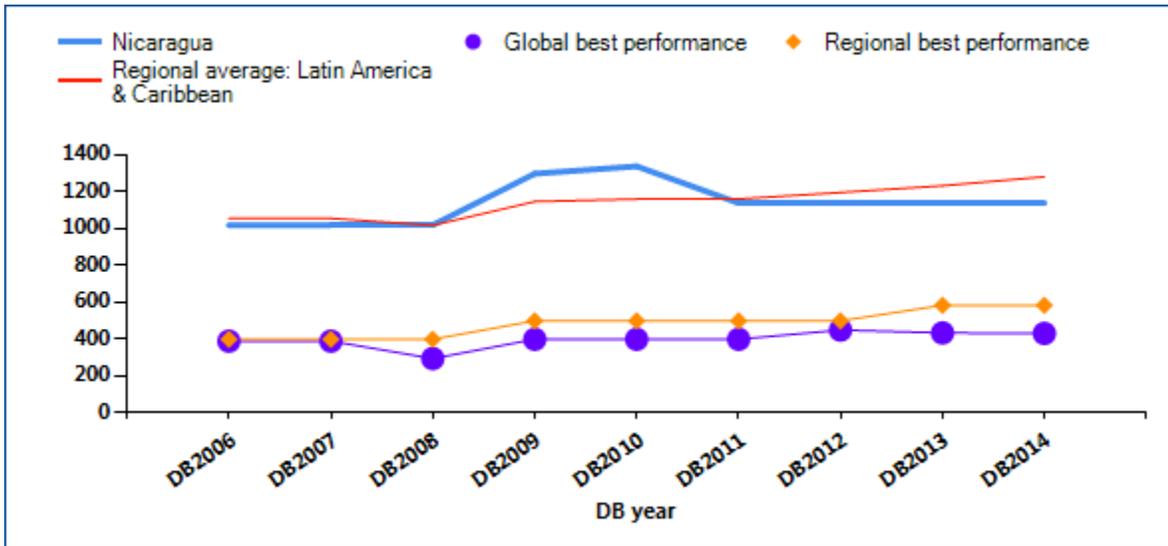


Time to export (days)

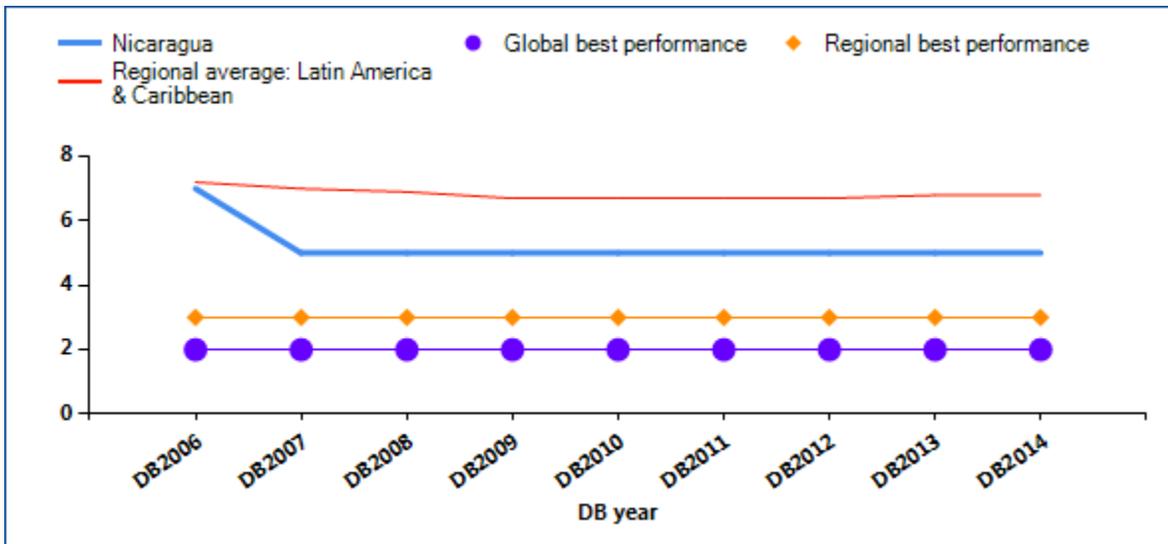


TRADING ACROSS BORDERS

Cost to export (US\$ per container)

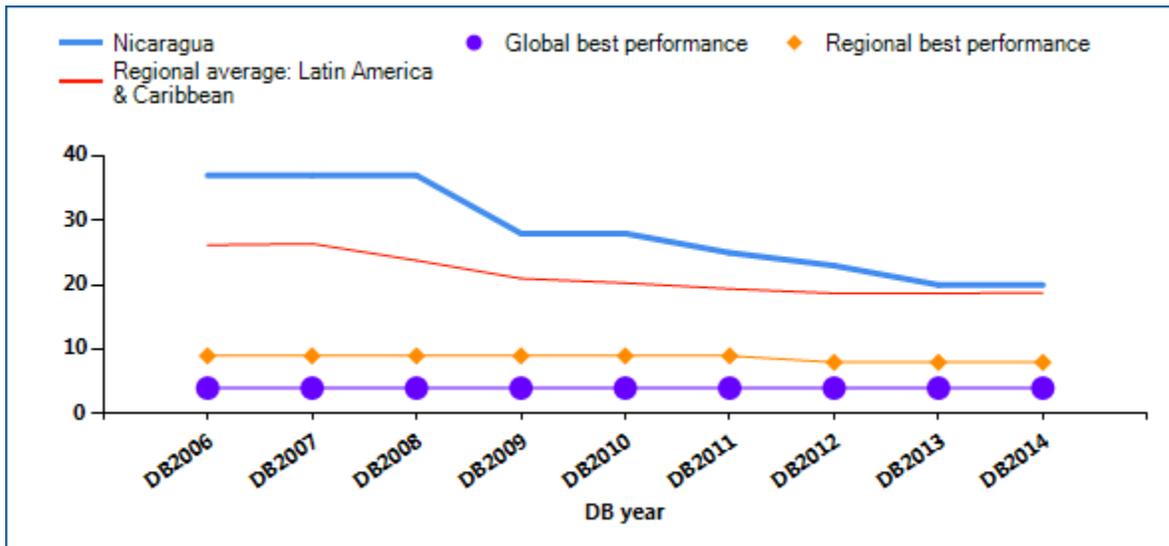


Documents to import (number)

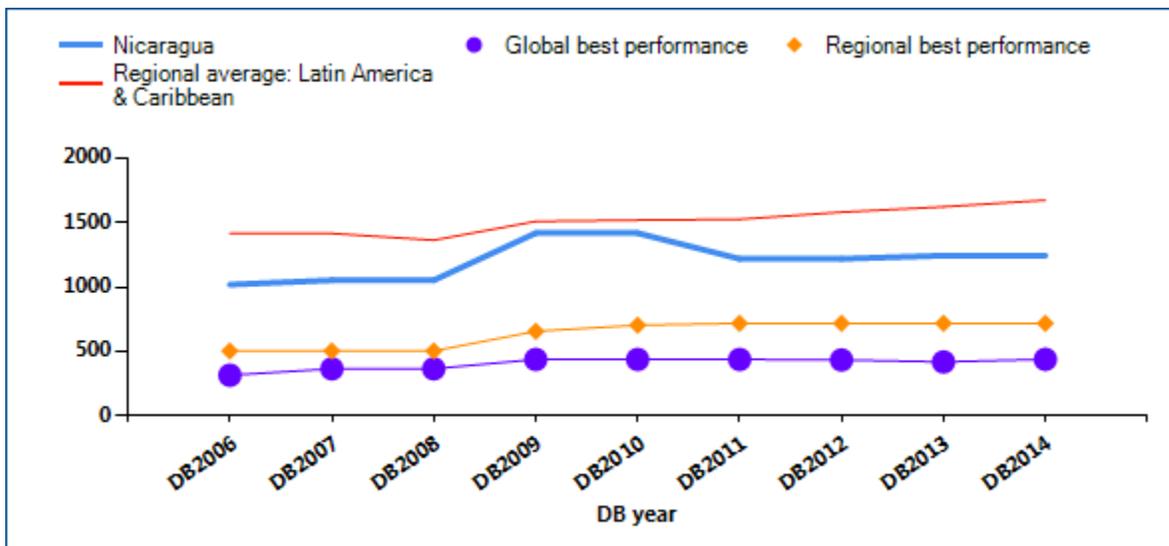


TRADING ACROSS BORDERS

Time to import (days)



Cost to import (US\$ per container)



Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year.

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 Nicaragua (table 9.1)?

Table 9.1 How has Nicaragua made trading across borders easier—or not?
By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	Nicaragua expedited trade by migrating to a new electronic data interchange system for customs, setting up a physical one-stop shop for exports and investing in new equipment at the port of Corinto.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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 Nicaragua 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.

LOCATION OF STANDARDIZED COMPANY

City: Managua

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 Nicaragua

Indicator	Nicaragua	Latin America & Caribbean average	OECD high income average
Documents to export (number)	5	6	4
Time to export (days)	21	17	11
Cost to export (US\$ per container)	1,140	1,283	1,070
Documents to import (number)	5	7	4
Time to import (days)	20	19	10
Cost to import (US\$ per container)	1,245	1,676	1,090

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

Procedures to export	Time (days)	Cost (US\$)
Documents preparation	10	310
Customs clearance and technical control	3	110
Ports and terminal handling	3	120
Inland transportation and handling	5	600
Totals	21	1,140

Procedures to import	Time (days)	Cost (US\$)
Documents preparation	11	325

Procedures to import	Time (days)	Cost (US\$)
Customs clearance and technical control	4	200
Ports and terminal handling	3	120
Inland transportation and handling	2	600
Totals	20	1,245

Documents to export
Bill of lading
Certificate of origin
Commercial invoice
Customs export declaration (FUE)
Quality Certificate

Documents to import
Bill of lading
Commercial invoice
Customs import declaration
Fiscal Solvency
Packing list

Source: Doing Business database.

ENFORCING CONTRACTS

Effective commercial dispute resolution has many benefits. Courts are essential for entrepreneurs because they interpret the rules of the market and protect economic rights. Efficient and transparent courts encourage new business relationships because businesses know they can rely on the courts if a new customer fails to pay. Speedy trials are essential for small enterprises, which may lack the resources to stay in business while awaiting the outcome of a long court dispute.

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)

- 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)

- Average attorney fees
- Court costs
- Enforcement costs

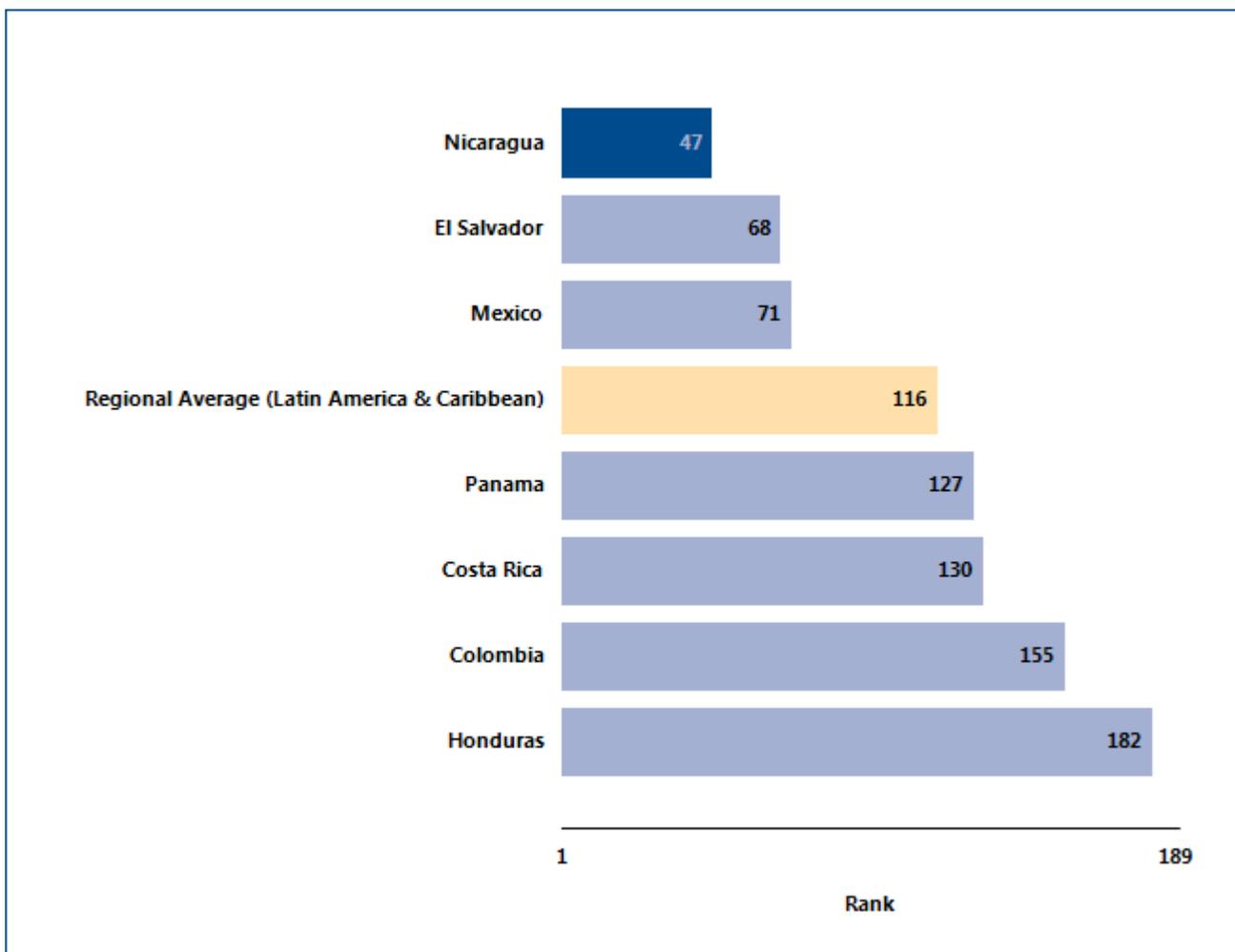
ENFORCING CONTRACTS

Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Nicaragua? According to data collected by *Doing Business*, contract enforcement takes 409 days, costs 26.8% of the value of the claim and requires 37 procedures (see the summary at the end of this chapter for details).

Globally, Nicaragua stands at 47 in the ranking of 189 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 Nicaragua.

Figure 10.1 How Nicaragua and comparator economies rank on the ease of enforcing contracts



Source: *Doing Business* database.

ENFORCING CONTRACTS

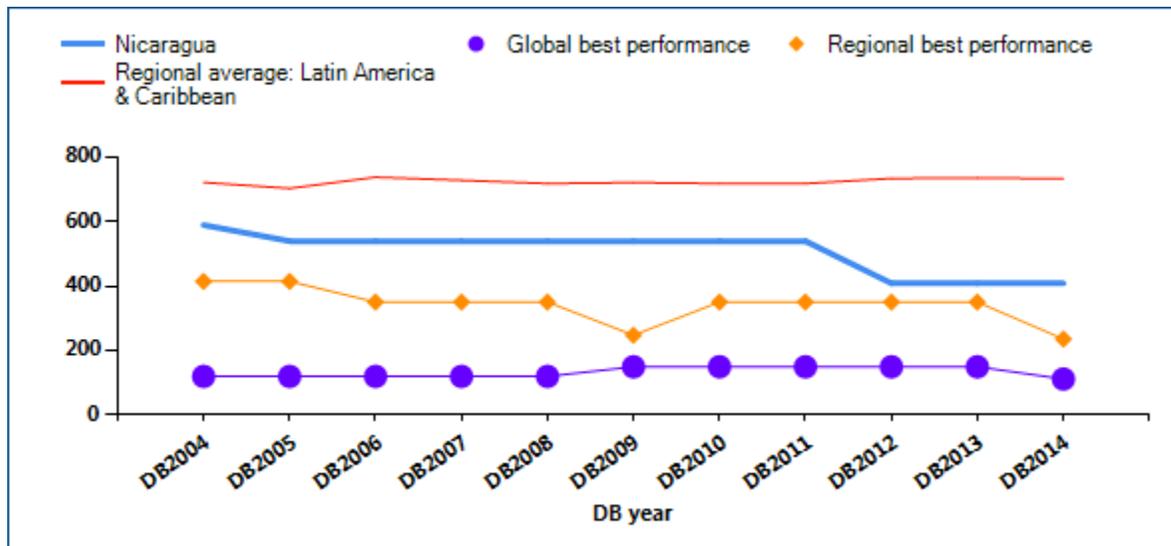
What are the changes over time?

The benchmarks provided by the economies that over time have had 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)

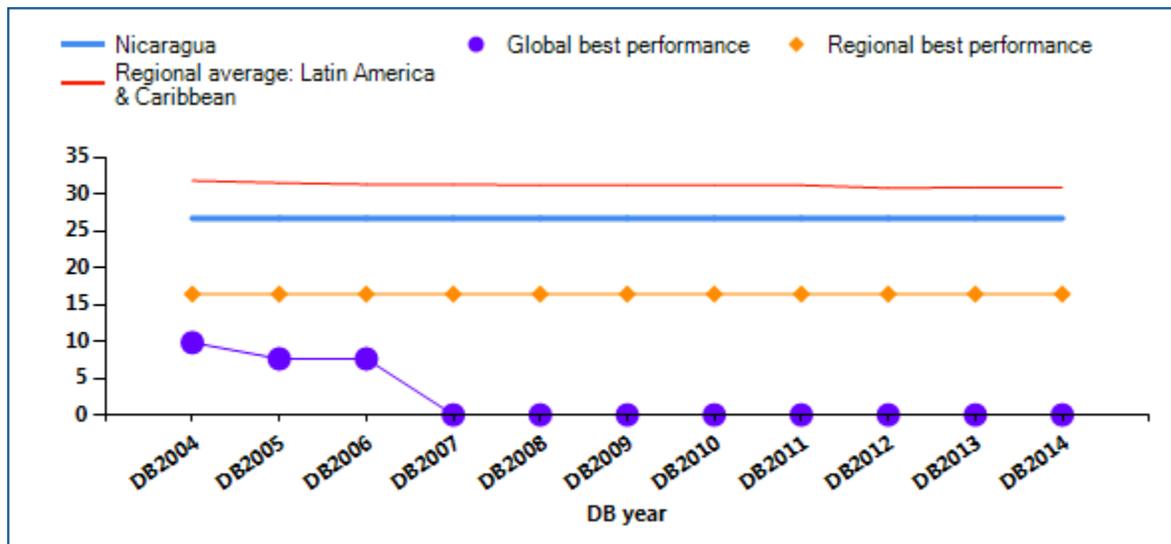
help show what is possible in improving the efficiency of contract enforcement. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

Figure 10.2 Has enforcing contracts become easier over time?

Time (days)

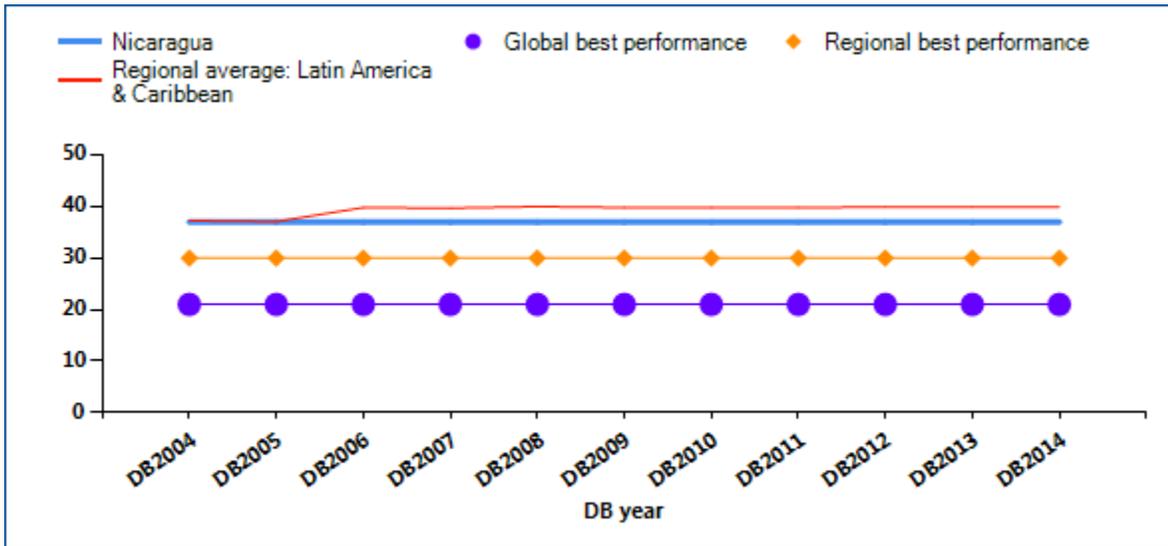


Cost (% of claim)



ENFORCING CONTRACTS

Procedures (number)



Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year.

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 Nicaragua (table 10.1)?

Table 10.1 How has Nicaragua made enforcing contracts easier—or not?

By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	Nicaragua raised the monetary threshold for commercial claims that can be brought to the Managua local civil court, leaving lower-value claims in the local courts, where proceedings are simpler and faster.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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 Nicaragua 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).

COURT NAME

City: Managua

Claim Value LCU: 54068

Court Name: Managua Local Civil Court

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 Nicaragua—and the time and cost

Indicator	Nicaragua	Latin America & Caribbean average	OECD high income average
Time (days)	409	734	529
Filing and service	89		
Trial and judgment	230		
Enforcement of judgment	90		
Cost (% of claim)	26.8	31.0	21.0
Attorney cost (% of claim)	16.3		
Court cost (% of claim)	5.5		
Enforcement Cost (% of claim)	5.0		
Procedures (number)	37	40	31

Note: In cases where an economy's regional classification is "OECD high income," regional averages above are only displayed once.

ENFORCING CONTRACTS

No.	Procedure
	Filing and service:
1	A third person formally notifies Defendant: A person other than the Plaintiff or his lawyer, such as a notary public, formally notifies Defendant of Plaintiff's request for payment.
2	Plaintiff's hiring of lawyer: Plaintiff hires a lawyer to represent him before the court.
*	Plaintiff's filing of summons and complaint: Plaintiff files his summons and complaint with the court, orally or in writing.
*	Plaintiff's payment of court fees: Plaintiff pays court duties, stamp duties, or any other type of court fee.
3	Registration of court case: The court administration registers the lawsuit or court case. This includes assigning a reference number to the lawsuit or court case.
*	Assignment of court case to a judge: The court case is assigned to a specific judge through a random procedure, automated system, ruling of an administrative judge, court officer, etc.
*	Judge admits summons and complaint: After verifying the formal requirements, the judge decides to admit Plaintiff's summons and complaint.
4	Delivery of summons and complaint to person authorized to perform service of process on Defendant: The judge or a court officer delivers the summons to a summoning office, officer, or authorized person (including Plaintiff), for service of process on Defendant.
5	First attempt at physical delivery: A first attempt to physically deliver summons and complaint to Defendant is successful in the majority of cases.
6	Second attempt at physical delivery: If a first attempt was not successful, a second attempt to physically deliver the summons and complaint to Defendant is required by law or standard practice.
7	Application for substituted service: Because physical delivery is not successful in the majority of cases, Plaintiff applies for substituted service. Substituted service can include, but is not limited to, service by publication in newspapers or affixing of a notice in court or on public bul
8	Court order regarding substituted service: The judge in a court order defines acceptable means for substituted service.
9	Substituted service: Substituted service is accomplished by publication in newspapers, by affixing a notice in court or on public bulletin boards, etc.
*	Application for pre-judgment attachment: Plaintiff submits an application in writing for the attachment of Defendant's property prior to judgment. (see assumption 5)
*	Decision on pre-judgment attachment: The judge decides whether to grant Plaintiff's request for pre-judgment attachment of Defendant's property and notifies Plaintiff and Defendant of the decision. This step may include requesting that Plaintiff submit guarantees or bonds to secure Defendant
10	Pre-judgment attachment.: Defendant's property is attached prior to judgment. Attachment is either physical or achieved by registering, marking, debiting or separating assets. (see assumption 5)

No.	Procedure
	Trial and judgment:
*	Defendant's filing of preliminary exemptions: Defendant presents preliminary exemptions to the court. Preliminary exemptions differ from answers on the merits of the claim. Examples of preliminary exemptions are statute of limitations, jurisdictions, etc.
*	Plaintiff's answer to preliminary exemptions: Plaintiff responds to the preliminary exemptions raised by Defendant.
11	Judge's resolution on preliminary exemptions: Judge decides on preliminary exemptions separately from the merits of the case.
12	Defendant's filing of defense or answer to Plaintiff's claim: Defendant files a written pleading which includes his defense or answer on the merits of the case. Defendant's written answer may or may not include witness statements, expert statements, the documents Defendant relies on as evidence and the legal authori
*	Court appointment of independent expert: Judge appoints, either at the parties' request or at his own initiative, an independent expert to decide whether the quality of the goods Plaintiff delivered to Defendant is adequate. (see assumption 6-b of this case)
13	Notification of court-appointment of independent expert: The court notifies both parties that the court is appointing an independent expert. (see assumption 6-b of this case)
*	Delivery of expert report by court-appointed expert: The independent expert appointed by the court delivers his or her expert report to the court. (see assumption 6-b of this case)
*	Setting of date for mediation hearing: The judge sets a date for a mediation hearing, sometimes also called a 'pre-trial conference,' and notifies the parties of the hearing date.
14	Mediation hearing: The judge during this informal meeting with the parties encourages them to settle the case. The judge acts as mediator. If the case cannot be settled, the judge may draft a pre-trial conference report, after which the case may be allocated to another judg
*	List of (expert) witnesses: The parties file a list of (expert) witnesses with the court. (see assumption 6-a)
15	Summoning of (expert) witnesses: The court summons (expert) witnesses to appear in court for the oral hearing or trial. (see assumption 6-a)
16	Oral hearing (prevalent in civil law): The parties argue the merits of the case at an oral hearing before the judge. Witnesses and a court-appointed independent expert may be heard and questioned at the oral hearing.
17	Judgment date: The judge sets a date for delivery of the judgment.
18	Writing of judgment: The judge produces a written copy of the judgment.
19	Registration of judgment: The court office registers the judgment after receiving a written copy of the judgment.
20	Court notification of availability of the written judgment: The court notifies the parties that the written judgment is available at the courthouse.

No.	Procedure
21	Notification of Defendant of judgment: Plaintiff or court formally notifies the Defendant of the judgment. The appeal period starts to run the day the Defendant is formally notified of the judgment.
22	Appeal period: By law, Defendant has the opportunity to appeal the judgment during a period specified in the law. Defendant decides not to appeal. Judgment becomes final the day the appeal period ends.
23	Reimbursement by Defendant of Plaintiff's court fees: The judgment obliges Defendant to reimburse Plaintiff for the court fees Plaintiff has advanced, because Defendant has lost the case.
Enforcement of judgment:	
*	Plaintiff's hiring of lawyer: Plaintiff hires a lawyer to enforce the judgment or continues to be represented by a lawyer during the enforcement of judgment phase.
24	Plaintiff's advancement of enforcement fees: Plaintiff pays the fees related to the enforcement of the judgment.
*	Plaintiff's request for physical enforcement: As Plaintiff fears that Defendant might physically resist the attachment of its movable goods, Plaintiff addresses a request to the judge or to the police authorities to obtain police assistance during the attachment of Defendant's movable goods.
25	Judge's order for physical enforcement: The judge orders the police to assist with the physical enforcement of the attachment of Defendant's movable goods.
26	Identification of Defendant's assets for attachment by court official or Defendant: Judge, a court enforcement officer, a (private) bailiff or the Defendant himself identifies Defendant's movable assets for attachment.
27	Plaintiff's identification of Defendant's assets for attachment: Plaintiff identifies Defendant's assets for attachment.
28	Attachment: Defendant's movable goods are attached (physically or by registering, marking or separating assets).
29	Report on execution of attachment: A court enforcement officer or private process server delivers a report on the attachment of Defendant's movable goods to the judge.
30	Valuation or appraisal of attached movable goods: The court or court appointed valuation expert evaluates the attached goods.
31	Enforcement disputes before court: The enforcement of the judgment is delayed because Defendant opposes aspects of the enforcement process before the judge.
32	Call for public auction: The judge calls a public auction by, for example, advertising or publication in the newspapers.
33	Sale through public auction: The Defendant's movable property is sold at public auction.
34	Judge's decision on bids: The judge determines the adequacy of the bids presented at public auction.
35	Distribution of proceeds: The proceeds of the public auction are distributed to various creditors (including Plaintiff), according to the rules of priority.
36	Reimbursement of Plaintiff's enforcement fees: Defendant reimburses Plaintiff's enforcement fees which Plaintiff had advanced previously.

No.	Procedure
37	Payment: Court orders that the proceeds of the public auction or the direct sale be delivered to Plaintiff.

* Not counted in the total number of procedures.

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.

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

Outcome

Whether business continues operating as a going concern or business assets are sold piecemeal

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

- Has a higher value as a going concern—and the efficient outcome is either reorganization or sale as a going concern, not piecemeal liquidation.

RESOLVING INSOLVENCY

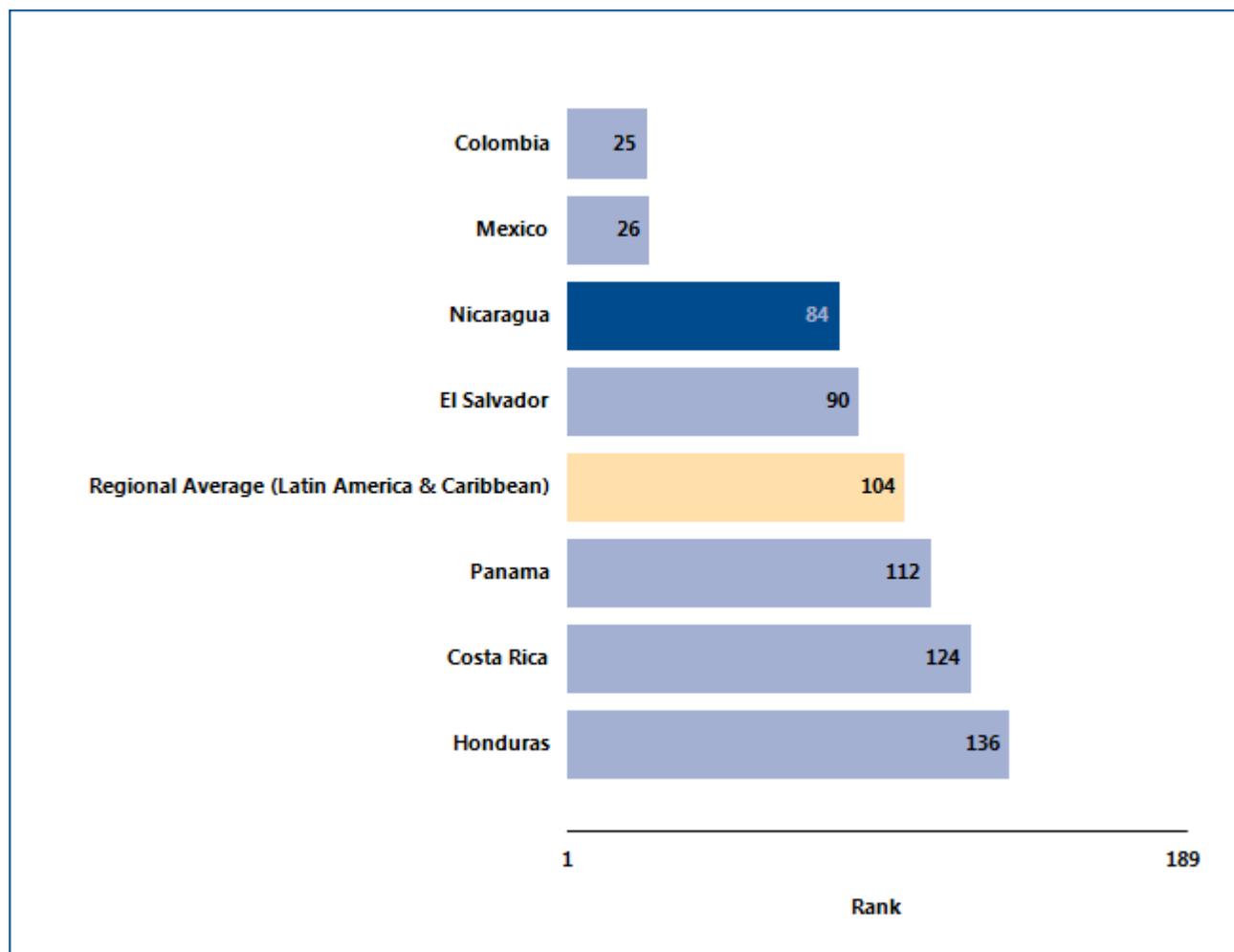
Where does the economy stand today?

Speed, low costs and continuation of viable businesses characterize the top-performing economies. How efficient are insolvency proceedings in Nicaragua? According to data collected by *Doing Business*, resolving insolvency takes 2.2 years on average and costs 15% of the debtor’s estate, with the most likely outcome being that the company will be sold as

piecemeal sale. The average recovery rate is 34.9 cents on the dollar.

Globally, Nicaragua stands at 84 in the ranking of 189 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 Nicaragua.

Figure 11.1 How Nicaragua and comparator economies rank on the ease of resolving insolvency



Source: *Doing Business* database.

RESOLVING INSOLVENCY

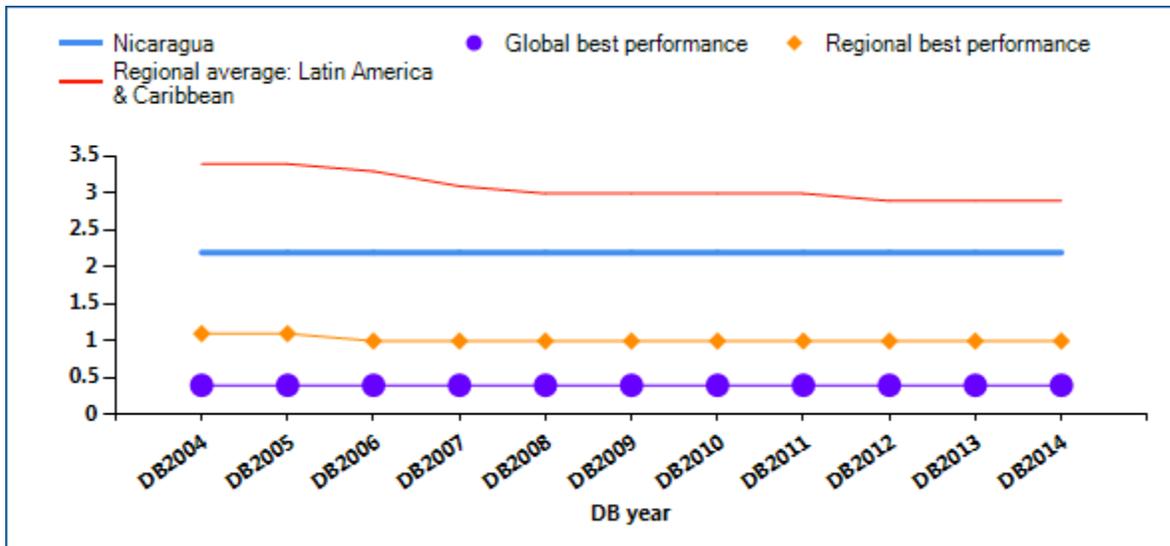
What are the changes over time?

The benchmarks provided by the economies that over time have had the best performance regionally or globally on the time or cost of insolvency proceedings or on the recovery rate (figure 11.2) help show what is

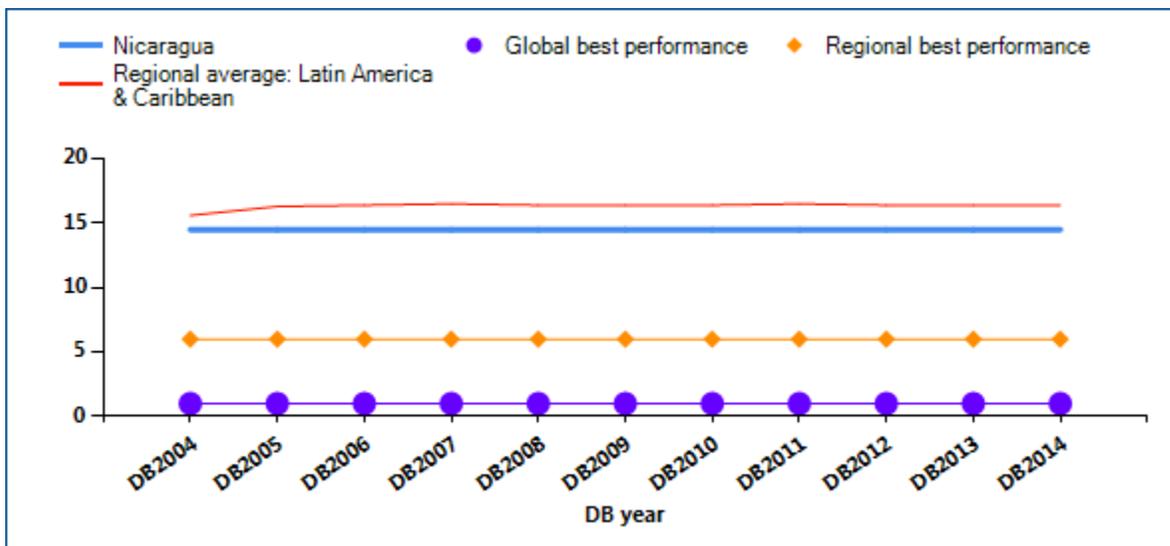
possible in improving the efficiency of insolvency proceedings. And changes in regional averages can show where Nicaragua is keeping up—and where it is falling behind.

Figure 11.2 Has resolving insolvency become easier over time?

Time (years)

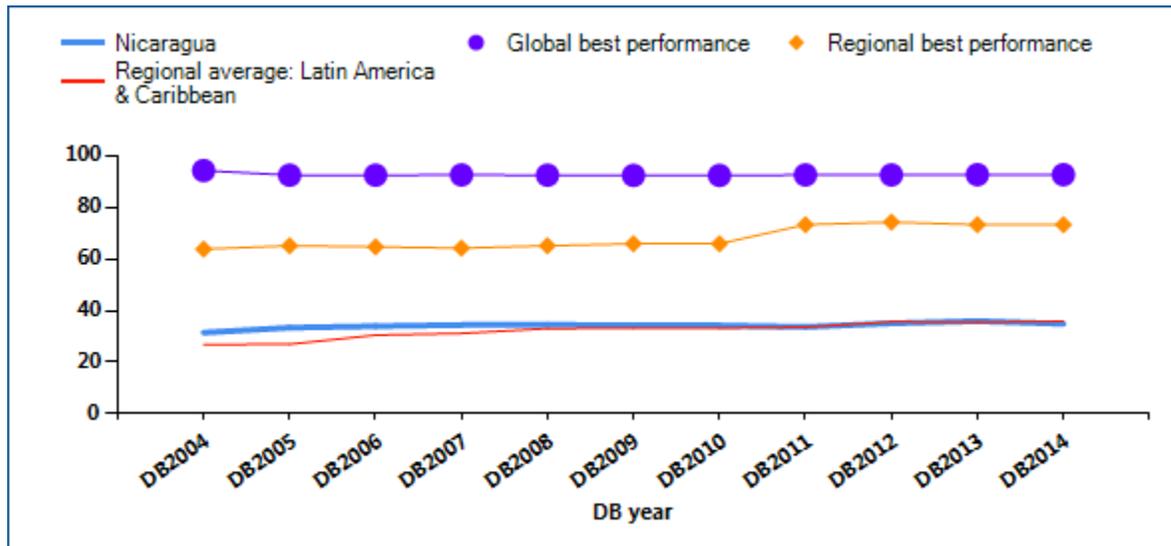


Cost (% of estate)



RESOLVING INSOLVENCY

Recovery rate (cents on the dollar)



Note: DB2013 rankings shown are not last year's published rankings but comparable rankings for DB2013 that capture the effects of such factors as data corrections and the addition of 4 economies (Libya, Myanmar, San Marino and South Sudan) to the sample this year. "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. Regional averages on time and cost exclude economies with a "no practice" mark.

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 Nicaragua (table 11.1)?

Table 11.1 How has Nicaragua made resolving insolvency easier—or not?

By *Doing Business* report year

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

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.

EMPLOYING WORKERS

Doing Business measures flexibility in the regulation of employment, specifically as it affects the hiring and redundancy of workers and the rigidity of working hours. Over the period from 2007 to 2011 improvements were made to align the methodology for the employing workers indicators with the letter and spirit of the International Labour Organization (ILO) conventions. Only 4 of the 188 ILO conventions cover areas measured by *Doing Business*: employee termination, weekend work, holiday with pay and night work. The *Doing Business* methodology is fully consistent with these 4 conventions. The ILO conventions covering areas related to the Employing Workers indicators do not include the ILO core labor standards—8 conventions covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices.

Between 2009 and 2011 the World Bank Group worked with a consultative group—including labor lawyers, employer and employee representatives, and experts from the ILO, OECD, civil society and the private sector—to review the employing workers methodology and explore future areas of research.ⁱ A full report with the conclusions of the consultative group is available at <http://www.doingbusiness.org/methodology/employing-workers>.

This year *Doing Business* continued research collecting additional data on regulations covering the probationary period for new employees.

Doing Business 2014 presents the data on the employing workers indicators in an annex. The report does not present rankings of economies on the employing workers indicators nor include the topic in the aggregate ranking on the ease of doing business. Detailed data collected on labor regulations and the

employing workers methodology proposed by the consultative group are available on the *Doing Business* website (<http://www.doingbusiness.org>). The data on employing workers are based on a detailed survey of employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

To make the data comparable across economies, several assumptions about the worker and the business are used.

The worker:

- Earns a salary plus benefits equal to the economy's average wage during the entire period of his employment.
- Has a pay period that is the most common for workers in the economy.
- Is a lawful citizen who belongs to the same race and religion as the majority of the economy's population.
- Resides in the economy's largest business city.
- Is not a member of a labor union, unless membership is mandatory.

The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned.
- Operates in the manufacturing sector.
- Has 60 employees.
- Is subject to collective bargaining agreements in economies where such agreements cover more than half the manufacturing sector and apply even to firms not party to them.
- Abides by every law and regulation but does not grant workers more benefits than mandated by law, regulation or (if applicable) collective bargaining agreement.

EMPLOYING WORKERS

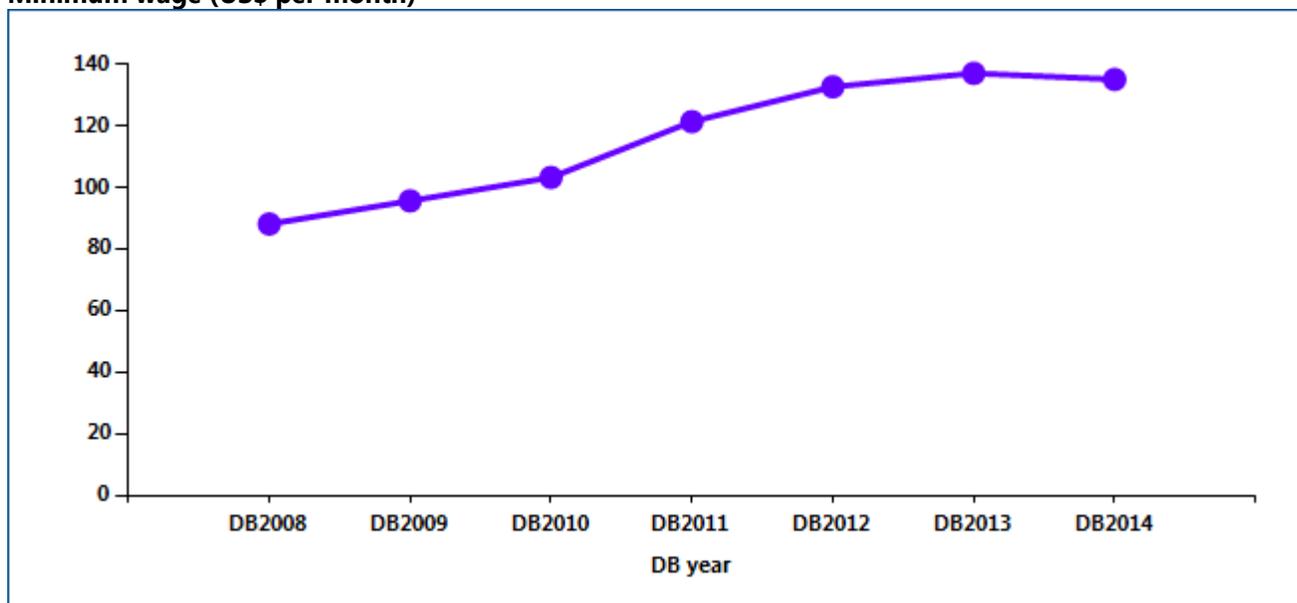
What do some of the data show?

One of the employing workers indicators is the difficulty of hiring index. This measure assesses, among other things, the minimum wage for a 19-year-old

worker in his or her first job. *Doing Business* data show the trend in the minimum wage applied by Nicaragua (figure 12.1).

Figure 12.1 Has the minimum wage for a 19-year-old worker or an apprentice increased over time?

Minimum wage (US\$ per month)



Note: A horizontal line along the x-axis of the figure indicates that the economy has no minimum wage.

Source: *Doing Business* database.

EMPLOYING WORKERS

Employment laws are needed to protect workers from arbitrary or unfair treatment and to ensure efficient contracting between employers and workers. Many economies that changed their labor regulations in the

past 5 years did so in ways that increased labor market flexibility. What changes did Nicaragua adopt that affected the *Doing Business* indicators on employing workers (table 12.1)?

Table 12.1 What changes did Nicaragua make in employing workers in 2013?

DB year	Reform
DB2009	No reform as measured by Doing Business.
DB2010	No reform as measured by Doing Business.
DB2011	No reform as measured by Doing Business.
DB2012	No reform as measured by Doing Business.
DB2013	No reform as measured by Doing Business.
DB2014	No reform as measured by Doing Business.

Source: *Doing Business* database.

EMPLOYING WORKERS

What are the details?

The data on employing workers reported here for Nicaragua are based on a detailed survey of employment regulations that is completed by local

lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy.

Rigidity of employment index

The rigidity of employment index measures 3 areas of labor regulation: difficulty of hiring, rigidity of hours and difficulty of redundancy.

Difficulty of hiring index

The difficulty of hiring index measures whether fixed-term contracts are prohibited for permanent tasks; the maximum cumulative duration of fixed-term contracts; and the ratio of the minimum wage for a trainee or first-time employee to the average value added per

worker. (The average value added per worker is the ratio of an economy's gross national income per capita to the working-age population as a percentage of the total population.)

Difficulty of hiring index	Data
Fixed-term contracts prohibited for permanent tasks?	No
Maximum length of a single fixed-term contract (months)	No limit
Maximum length of fixed-term contracts, including renewals (months)	No limit
Minimum wage for a 19-year old worker or an apprentice (US\$/month)	135.2
Ratio of minimum wage to value added per worker	0.61

Source: *Doing Business* database.

EMPLOYING WORKERS

Rigidity of hours index

The rigidity of hours index has 5 components: whether there are restrictions on night work; whether there are restrictions on weekly holiday work; whether the workweek can consist of 5.5 days or is more than 6 days; whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year to

respond to a seasonal increase in production; and whether the average paid annual leave for a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is more than 26 working days or fewer than 15 working days.

Rigidity of hours index	Data
Standard workday in manufacturing (hours)	8 hours -- Art. 51
50-hour workweek allowed for 2 months a year in case of a seasonal increase in production?	Yes
Maximum working days per week	6.0
Premium for night work (% of hourly pay) in case of continuous operations	0%
Premium for work on weekly rest day (% of hourly pay) in case of continuous operations	100%
Major restrictions on night work in case of continuous operations?	Yes
Major restrictions on weekly holiday in case of continuous operations?	Yes
Paid annual leave for a worker with 1 year of tenure (in working days)	30.0
Paid annual leave for a worker with 5 years of tenure (in working days)	30.0
Paid annual leave for a worker with 10 years of tenure (in working days)	30.0
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	30.0

Source: *Doing Business* database.

EMPLOYING WORKERS

Difficulty of redundancy index

The difficulty of redundancy index has 8 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 9 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 9 redundant workers; whether the law requires the employer to reassign or retrain a worker before making the worker redundant; whether priority rules apply for redundancies; and whether priority rules apply for reemployment.

Difficulty of redundancy index	Data
Dismissal due to redundancy allowed by law?	Yes
Third-party notification if 1 worker is dismissed?	No
Third-party approval if 1 worker is dismissed?	No
Third-party notification if 9 workers are dismissed?	No
Third-party approval if 9 workers are dismissed?	No
Retraining or reassignment obligation before redundancy?	No
Priority rules for redundancies?	No
Priority rules for reemployment?	No

Source: *Doing Business* database.

EMPLOYING WORKERS

Redundancy cost

The redundancy cost indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. The average value of

notice requirements and severance payments applicable to a worker with 1 year of tenure, a worker with 5 years and a worker with 10 years is used to assign the score.

Redundancy cost indicator	Data
Notice period for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	0.0
Notice period for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	0.0
Notice period for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	0.0
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	0.0
Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)	4.3
Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)	18.8
Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)	21.7
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	14.9

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 to achieve a regulatory goal or comply 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 11 sets of indicators measured in *Doing Business* were added over time, and the sample of economies expanded.

The data for all sets of indicators in *Doing Business 2014* are for June 2013.²

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 to more than 10,200 local experts, including lawyers, business consultants, accountants, freight forwarders, government officials and other professionals routinely administering or advising on legal and regulatory requirements (table 21.2). 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 2014* team members visited 33 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.

ECONOMY CHARACTERISTICS

Gross national income per capita

Doing Business 2014 reports 2012 income per capita as published in the World Bank's *World Development Indicators 2013*. Income is calculated using the Atlas method (current U.S. dollars). For cost indicators expressed as a percentage of income per capita, 2012 gross national income (GNI) in U.S. dollars is used as the denominator. GNI data were not available from the World Bank for Afghanistan, The Bahamas, Bahrain, Barbados, Brunei Darussalam, Djibouti, the Islamic Republic of Iran, Kuwait, Libya, Myanmar, New Zealand, Oman, San Marino, the Syrian Arab Republic, West Bank and Gaza, and the Republic of Yemen. In these cases GDP or GNP per capita data and growth rates from other sources, such as 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://data.worldbank.org/about/country-classifications>. 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 2014 reports midyear 2012 population statistics as published in *World Development Indicators 2013*.

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

² The data for paying taxes refer to January – December 2012.

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 (which in some economies differs from the capital) and may not be representative of regulation in other parts of the economy. To address this limitation, subnational *Doing Business* indicators were created (box 21.1). 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 2014* would differ from the recollection of

entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

This year *Doing Business* completed subnational studies in Colombia, Italy and the city of Hargeisa (Somaliland) and is currently updating indicators in Egypt, Mexico and Nigeria. *Doing Business* also published regional studies for the g7+ and the East African Community. The g7+ group is a country-owned and country-led global mechanism established in April 2010 to monitor, report and draw attention to the unique challenges faced by fragile states. The member countries included in the report are Afghanistan, Burundi, the Central African Republic, Chad, the Comoros, the Democratic Republic of Congo, Côte d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, Sierra Leone, the Solomon Islands, South Sudan, Timor-Leste and Togo.

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 all the subnational studies published.

Changes in what is measured

The methodology for 2 indicator sets—trading across borders and paying taxes—was updated this year. For trading across borders, documents that are required purely for purposes of preferential treatment are no longer included in the list of documents (for example, a certificate of origin if the use is only to qualify for a preferential tariff rate under trade agreements). For paying taxes, the value of fuel taxes is no longer included in the total tax rate because of the difficulty of computing these taxes in a consistent way across all economies covered. The fuel tax amounts are in most cases very small, and measuring these amounts is often complicated because they depend on fuel consumption. Fuel taxes continue to be counted in the number of payments.

In a change involving several indicator sets, the rule establishing that each procedure must take at least 1 day was removed for procedures that can be fully completed online in just a few hours. This change affects the time indicator for starting a business,

dealing with construction permits and registering property.³ For procedures that can be fully completed online, the duration is now set at half a day rather than a full day.

The threshold for the total tax rate introduced in 2011 for the purpose of calculating the ranking on the ease of paying taxes was updated. All economies with a total tax rate below the threshold (which is calculated and adjusted on a yearly basis) receive the same ranking on the total tax rate indicator. The threshold is not based on any economic theory of an “optimal tax rate” that minimizes distortions or maximizes efficiency in the tax system of an economy overall. Instead, it is mainly empirical in nature, set at the lower end of the distribution of tax rates levied on medium-size enterprises in the manufacturing sector as observed through the paying taxes indicators. This reduces the bias in the indicators toward economies that do not need to levy significant taxes on companies like the *Doing Business* standardized case study company because they raise public revenue in other ways—for example, through taxes on foreign companies, through taxes on sectors other than manufacturing or from natural resources (all of which are outside the scope of the methodology). This year the threshold is 25.5%.

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

Doing Business 2014 presents results for 2 aggregate measures: the aggregate ranking on the ease of doing business and the distance to frontier measure. The ease of doing business ranking compares economies

with one another, while the distance to frontier measure benchmarks economies to the frontier in regulatory practice, measuring the absolute distance to the best performance on each indicator. Both measures can be used for comparisons over time. When compared across years, the distance to frontier measure shows how much the regulatory environment for local entrepreneurs in each economy has changed over time in absolute terms, while the ease of doing business ranking can show only relative change.

Ease of doing business

The ease of doing business index ranks economies from 1 to 189. 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 2014*: 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 employing workers indicators are not included in this year’s aggregate ease of doing business ranking.

Construction of the ease of doing business index

Here is one example of how the ease of doing business index is constructed. In Denmark it takes 4 procedures, 5.5 days and 0.2% of annual income per capita in fees to open a business. The minimum capital requirement is 24% of annual income per capita. On these 4 indicators Denmark ranks in the 12th, 11th, 1st and 79th percentiles. So on average Denmark ranks in the 25th percentile on the ease of starting a business. It ranks in the 21st percentile on getting credit, 19th percentile on paying taxes, 27th percentile on enforcing contracts, 5th percentile on resolving insolvency and so on. Higher rankings indicate simpler regulation and stronger protection of property rights. The simple average of Denmark’s percentile rankings on all topics is 17th. When all economies are ordered by their average percentile rankings, Denmark stands at 5 in the aggregate ranking on the ease of doing business.

More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly identical to the simple average

³ For getting electricity the rule that each procedure must take a minimum of 1 day still applies because in practice there are no cases in which procedures can be fully completed online in less than a day. For example, even though in some cases it is possible to apply for an electricity connection online, additional requirements mean that the process cannot be completed in less than 1 day.

used by *Doing Business*.⁴ Thus, *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.

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, 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 0.38, and the coefficients between any 2 sets of indicators range from 0.18 (between getting electricity and getting credit) to 0.58 (between trading across borders and resolving insolvency and between trading across borders and getting electricity). These correlations suggest that economies rarely score universally well or universally badly on the indicators.

Consider the example of Canada. It stands at 19 in the aggregate ranking on the ease of doing business. Its ranking is 2 on starting a business, 4 on protecting investors, and 8 on paying taxes. But its ranking is only

⁴ 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.

58 on enforcing contracts, 116 on dealing with construction permits and 145 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.

Distance to frontier measure

A drawback of the ease of doing business ranking is that it can measure the regulatory performance of economies only relative to the performance of others. It does not provide information on how the absolute quality of the regulatory environment is improving over time. Nor does it provide information on how large the gaps are between economies at a single point in time.

The distance to frontier measure is designed to address both shortcomings, complementing the ease of doing business ranking. This measure illustrates the distance of an economy to the “frontier,” and the change in the measure over time shows the extent to which the economy has closed this gap. The frontier is a score derived from the most efficient practice or highest score achieved on each of the component indicators in 10 *Doing Business* indicator sets (excluding the employing workers indicators) by any economy. In starting a business, for example, Canada and New Zealand have achieved the highest performance on the number of procedures required (1) and on the time (0.5 days), Denmark and Slovenia on the cost (0% of income per capita) and Chile, Zambia and 99 other economies on the paid-in minimum capital requirement (0% of income per capita) (table 22.2).

Calculating the distance to frontier for each economy involves 2 main steps. First, individual indicator scores are normalized to a common unit: except for the total tax rate, each of the 31 component indicators y is rescaled to $(\max - y)/(\max - \min)$, with the minimum value (\min) representing the frontier—the highest performance on that indicator across all economies since 2003 or the first year the indicator was collected.⁵ For the total tax rate, consistent with the calculation of

⁵ Even though scores for the distance to frontier are calculated from 2005, data from as early as 2003 are used to define the frontier

the rankings, the frontier is defined as the total tax rate at the 15th percentile of the overall distribution of total tax rates for all years. Second, for each economy the scores obtained for individual indicators are aggregated through simple averaging into one distance to frontier score, first for each topic and then across all topics. An economy's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier.

The maximum (max) and minimum (min) observed values are computed for all economies included in the *Doing Business* sample since 2003 and for all years (from 2003 to 2013). 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. The exceptions are the getting credit, protecting investors and resolving insolvency indicators, whose construction precludes outliers. In addition, the cost to export and cost to import for each year are divided by the GDP deflator, so as to take the general price level into account when benchmarking these absolute-cost indicators across economies with different inflation trends. The base year for the deflator is 2013 for all economies.

The difference between an economy's distance to frontier score in any previous year and its score in 2013 illustrates the extent to which the economy has closed the gap to the frontier over time. And in any given year the score measures how far an economy is from the highest performance at that time.

Take Colombia, which has a score of 70.5 on the distance to frontier measure for 2014. This score indicates that the economy is 29.5 percentage points away from the frontier constructed from the best performances across all economies and all years. Colombia was further from the frontier in 2009, with a score of 66.2. The difference between the scores shows an improvement over time.

The distance to frontier measure can also be used for comparisons across economies in the same year, complementing the ease of doing business ranking. For example, Colombia stands at 63 this year in the ease of doing business ranking, while Peru, which is 29.3 percentage points from the frontier, stands at 42.

Economies that improved the most across 3 or more Doing Business topics in 2012/13

Doing Business 2014 uses a simple method to calculate which economies improved the most in the ease of doing business. First, it selects the economies that in 2012/13 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.⁶ Twenty-nine economies meet this criterion: Azerbaijan, Belarus, Burundi, Côte d'Ivoire, Croatia, Djibouti, Gabon, Guatemala, Guinea, Italy, Kosovo, Latvia, the former Yugoslav Republic of Macedonia, Malaysia, Mauritius, Mexico, Moldova, Mongolia, Morocco, Panama, the Philippines, the Republic of Congo, Romania, the Russian Federation, Rwanda, Sri Lanka, Ukraine, Uzbekistan and the United Arab Emirates. Second, *Doing Business* sorts these economies on the increase in their distance to frontier measure from the previous year using comparable data.

Selecting the economies that implemented regulatory reforms in at least 3 topics and improved the most in the distance to frontier measure is intended to highlight economies with ongoing, broadbased reform programs. The criterion for identifying the top improvers was changed from last year. The improvement in ease of doing business ranking is no longer used. The improvement in the distance to frontier measure is used instead because under this measure economies are sorted according to their absolute improvement instead of relative improvement.

⁶ *Doing Business* reforms making it more difficult to do business are subtracted from the total number of those making it easier to do business.

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Contributors

More than 10,200 specialists in 189 economies who participate in *Doing Business*
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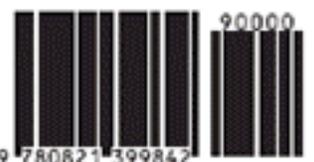


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