



## Economy Profile: **Philippines**

Doing business in a  
**more transparent world**

COMPARING REGULATION FOR DOMESTIC FIRMS IN 183 ECONOMIES

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## INTRODUCTION

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

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

This economy profile presents the *Doing Business* indicators for Philippines. To allow useful comparison, it also provides data for other selected economies (comparator economies) for each indicator. The data in this report are current as of June 1, 2011 (except for

the paying taxes indicators, which cover the period January–December 2010).

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

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

## THE BUSINESS ENVIRONMENT

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

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

### ECONOMY OVERVIEW

**Region:** East Asia & Pacific

**Income category:** Lower middle income

**Population:** 93,616,853

**GNI per capita (US\$):** 2,050.00

**DB2012 rank:** 136

**DB2011 rank:** 134

**Change in rank:** -2

*Note:* See the data notes for sources and definitions.

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

## THE BUSINESS ENVIRONMENT

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



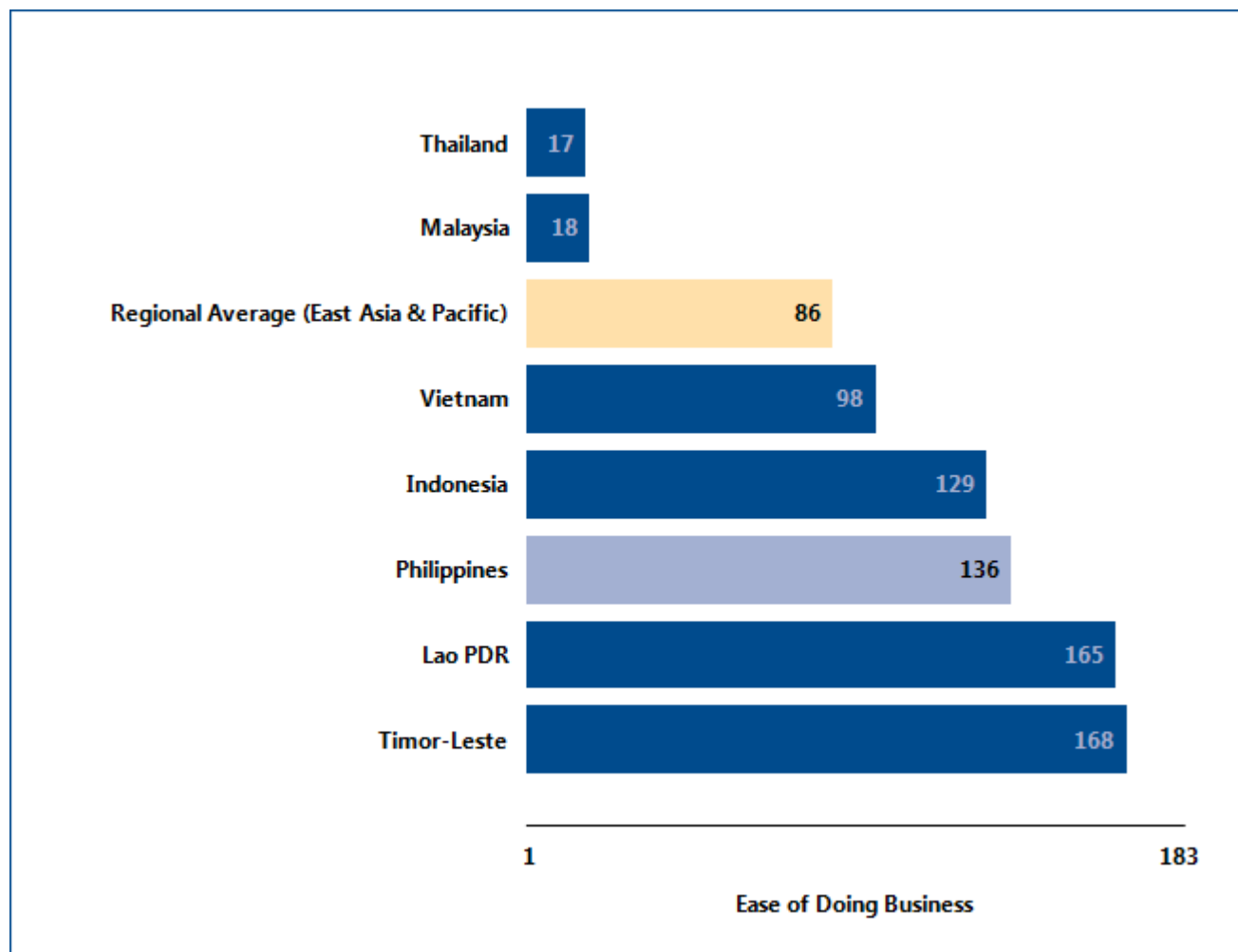
Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

For policy makers, knowing where their economy stands in the aggregate ranking on the ease of doing business is useful. Also useful is to know how it ranks compared with other economies and compared with

the regional average (figure 1.2). The economy's rankings on the topics included in the ease of doing business index provide another perspective (figure 1.3).

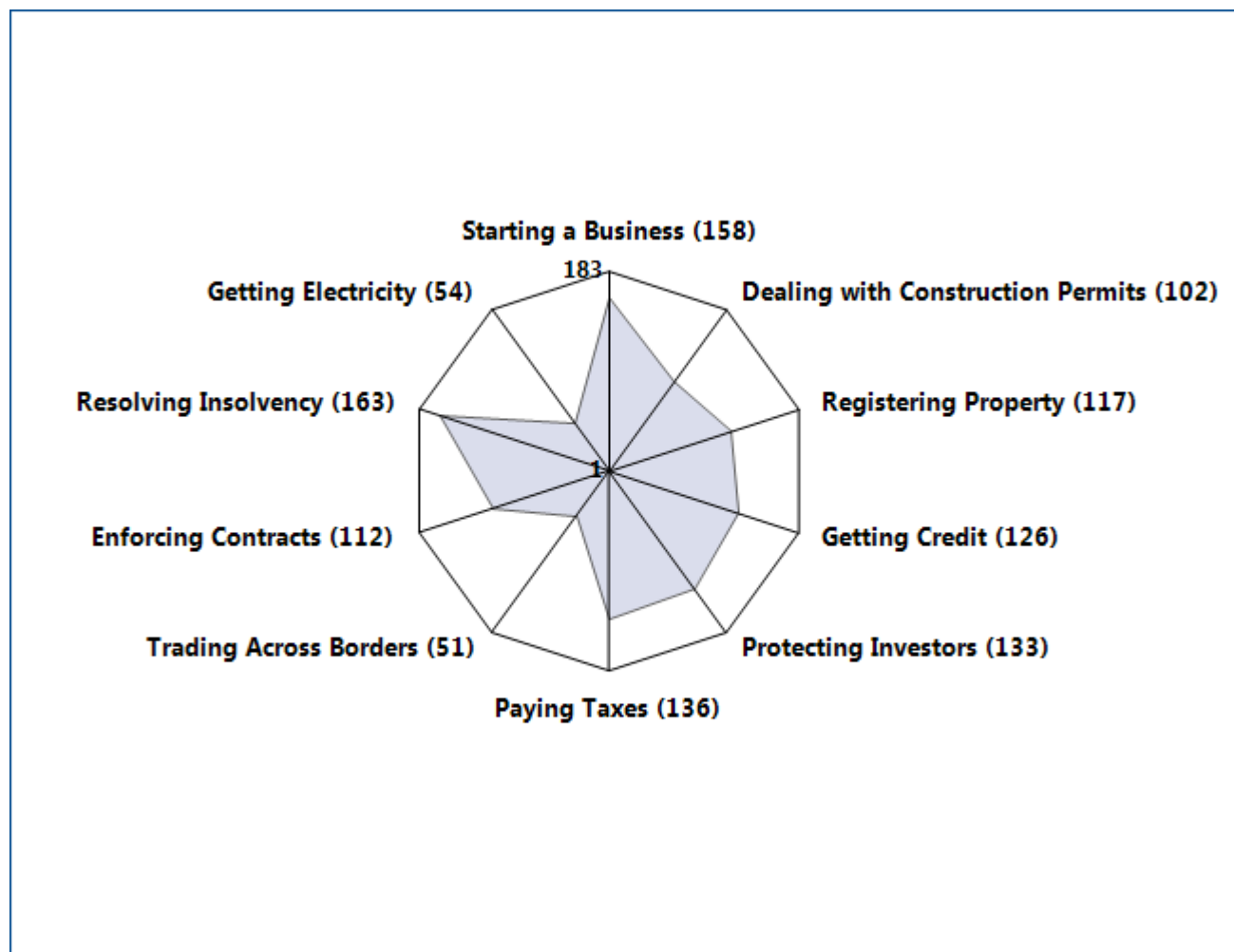
Figure 1.2 How Philippines and comparator economies rank on the ease of doing business



Source: Doing Business database.

## THE BUSINESS ENVIRONMENT

Figure 1.3 How Philippines ranks on *Doing Business* topics



Source: *Doing Business* database.



## THE BUSINESS ENVIRONMENT

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

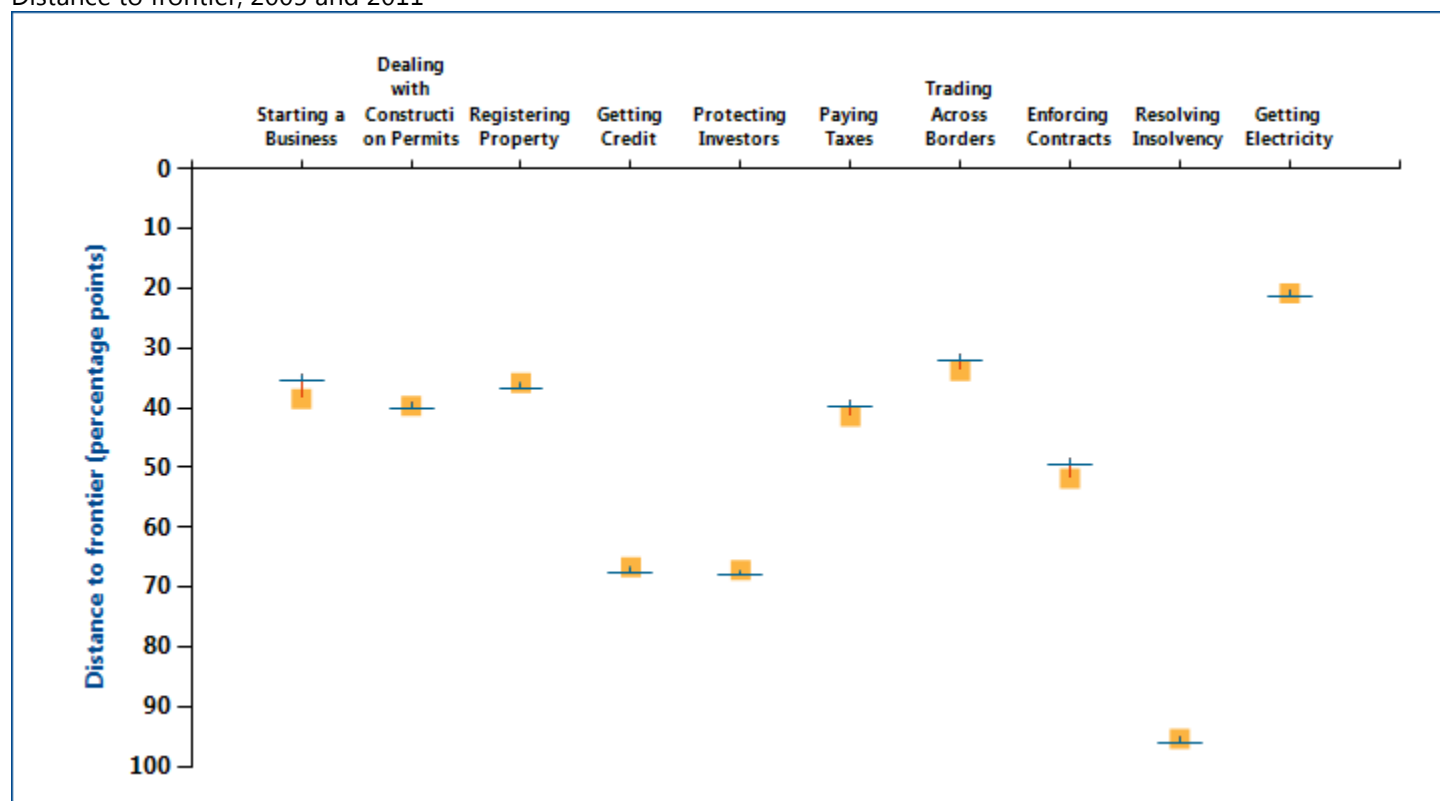
Moreover, year-to-year changes in the overall rankings do not reflect how the business regulatory environment in an economy has changed over time—or how it has changed in different areas. To aid in assessing such changes, *Doing Business 2012* introduces the distance to frontier measure.

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

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

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

Distance to frontier, 2005 and 2011



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

Source: *Doing Business* database.

## THE BUSINESS ENVIRONMENT

The absolute values of the indicators tell another part of the story (table 1.1). The indicators, on their own or in comparison with the indicators of a good practice economy or those of comparator economies in the region, may reveal bottlenecks reflected in large numbers of procedures, long delays or high costs. Or they may reveal unexpected strengths in an area of

business regulation—such as a regulatory process that can be completed with a small number of procedures in a few days and at a low cost. Comparison of the economy's indicators today with those in the previous year may show where substantial bottlenecks persist—and where they are diminishing.

Table 1.1 Summary of *Doing Business* indicators for Philippines

Indicator	Philippines DB2012	Philippines DB2011	Indonesia DB2012	Lao PDR DB2012	Malaysia DB2012	Thailand DB2012	Timor-Leste DB2012	Vietnam DB2012	Best performer globally DB2012
<b>Starting a Business (rank)</b>	158	155	155	89	50	78	157	103	New Zealand (1)
<b>Procedures (number)</b>	15	16	8	7	4	5	10	9	Canada (1)*
<b>Time (days)</b>	35	36	45	93	6	29	103	44	New Zealand (1)
<b>Cost (% of income per capita)</b>	19.1	22.1	17.9	7.6	16.4	6.2	4.5	10.6	Denmark (0.0)*
<b>Paid-in Min. Capital (% of income per capita)</b>	5.2	6.0	46.6	0.0	0.0	0.0	227.3	0.0	82 Economies (0.0)*
<b>Dealing with Construction Permits (rank)</b>	102	98	71	80	113	14	114	67	Hong Kong SAR, China (1)
<b>Procedures (number)</b>	30	30	13	23	22	8	19	10	Denmark (5)
<b>Time (days)</b>	85	85	158	108	260	157	238	200	Singapore (26)*
<b>Cost (% of income per capita)</b>	110.5	127.6	105.3	52.4	7.1	9.5	25.0	109.0	Qatar (1.1)

Indicator	Philippines DB2012	Philippines DB2011	Indonesia DB2012	Lao PDR DB2012	Malaysia DB2012	Thailand DB2012	Timor-Leste DB2012	Vietnam DB2012	Best performer globally DB2012
Getting Electricity (rank)	54	57	161	138	59	9	55	135	Iceland (1)
Procedures (number)	5	5	7	5	6	4	3	5	Germany (3)*
Time (days)	50	50	108	134	51	35	63	142	Germany (17)
Cost (% of income per capita)	762.0	895.1	1379.0	2381.6	95.5	77.6	1818.2	1343.0	Japan (0.0)
Registering Property (rank)	117	109	99	72	59	28	183	47	New Zealand (3)
Procedures (number)	8	8	6	5	5	2	no practice	4	Portugal (1)*
Time (days)	39	39	22	98	48	2	no practice	57	Portugal (1)
Cost (% of property value)	4.8	4.8	10.8	1.1	3.3	6.3	no practice	0.6	Slovak Republic (0.0)
Getting Credit (rank)	126	116	126	166	1	67	159	24	United Kingdom (1)*
Strength of legal rights index (0-10)	4	4	3	4	10	5	2	8	New Zealand (10)*
Depth of credit information index (0-6)	3	3	4	0	6	5	3	5	Japan (6)*
Public registry coverage (% of adults)	0.0	0.0	31.8	0.0	49.4	0.0	1.8	29.8	Portugal (86.2)
Private bureau coverage (% of adults)	8.2	7.4	0.0	0.0	83.4	41.7	0.0	0.0	New Zealand (100.0)*
Protecting Investors (rank)	133	131	46	182	4	13	133	166	New Zealand (1)

Indicator	Philippines DB2012	Philippines DB2011	Indonesia DB2012	Lao PDR DB2012	Malaysia DB2012	Thailand DB2012	Timor-Leste DB2012	Vietnam DB2012	Best performer globally DB2012
Extent of disclosure index (0-10)	2	2	10	2	10	10	3	6	France (10)*
Extent of director liability index (0-10)	2	2	5	1	9	7	4	1	Singapore (9)*
Ease of shareholder suits index (0-10)	8	8	3	2	7	6	5	2	New Zealand (10)*
Strength of investor protection index (0-10)	4.0	4.0	6.0	1.7	8.7	7.7	4.0	3.0	New Zealand (9.7)
Paying Taxes (rank)	136	127	131	123	41	100	31	151	Canada (8)
Payments (number per year)	47	47	51	34	13	23	6	32	Norway (4)
Time (hours per year)	195	195	266	362	133	264	276	941	Luxembourg (59)
Trading Across Borders (rank)	51	54	39	168	29	17	89	68	Singapore (1)
Documents to export (number)	7	7	4	9	6	5	6	6	France (2)
Time to export (days)	15	15	17	44	17	14	25	22	Hong Kong SAR, China (5)*
Cost to export (US\$ per container)	630	630	644	1880	450	625	1010	580	Malaysia (450)
Documents to import (number)	8	8	7	10	7	5	7	8	France (2)
Time to import (days)	14	14	27	46	14	13	26	21	Singapore (4)
Cost to import (US\$ per container)	730	730	660	2035	435	750	1015	670	Malaysia (435)

Indicator	Philippines DB2012	Philippines DB2011	Indonesia DB2012	Lao PDR DB2012	Malaysia DB2012	Thailand DB2012	Timor-Leste DB2012	Vietnam DB2012	Best performer globally DB2012
<b>Enforcing Contracts (rank)</b>	112	114	156	110	31	24	183	30	Luxembourg (1)
<b>Time (days)</b>	842	842	570	443	425	479	1285	295	Singapore (150)
<b>Cost (% of claim)</b>	26.0	26.0	122.7	31.6	27.5	12.3	163.2	28.5	Bhutan (0.1)
<b>Procedures (number)</b>	37	37	40	42	29	36	51	34	Ireland (21)*
<b>Resolving Insolvency (rank)</b>	163	161	146	183	47	51	183	142	Japan (1)
<b>Time (years)</b>	5.7	5.7	5.5	no practice	1.5	2.7	no practice	5.0	Ireland (0.4)
<b>Cost (% of estate)</b>	38	38	18	no practice	15	36	no practice	15	Singapore (1)*
<b>Recovery rate (cents on the dollar)</b>	4.7	4.5	13.8	0.0	44.6	43.3	0.0	16.5	Japan (92.7)

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

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

*Source:* *Doing Business* database.



## STARTING A BUSINESS

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

### What do the indicators cover?

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

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

- Is a limited liability company, located in the largest business city.
- Conducts general commercial or industrial activities.

### WHAT THE STARTING A BUSINESS INDICATORS MEASURE

#### Procedures to legally start and operate a company (number)

- Preregistration (for example, name verification or reservation, notarization)
- Registration in the economy's largest business city
- Postregistration (for example, social security registration, company seal)

#### Time required to complete each procedure (calendar days)

- Does not include time spent gathering information
- Each procedure starts on a separate day
- Procedure completed once final document is received
- No prior contact with officials

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

- Official costs only, no bribes
- No professional fees unless services required by law

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

- Deposited in a bank or with a notary before registration (or within 3 months)
- Has a start-up capital of 10 times income per capita.
- Has a turnover of at least 100 times income per capita.
- Does not qualify for any special benefits.
- Does not own real estate.
- Is 100% domestically owned.

## STARTING A BUSINESS

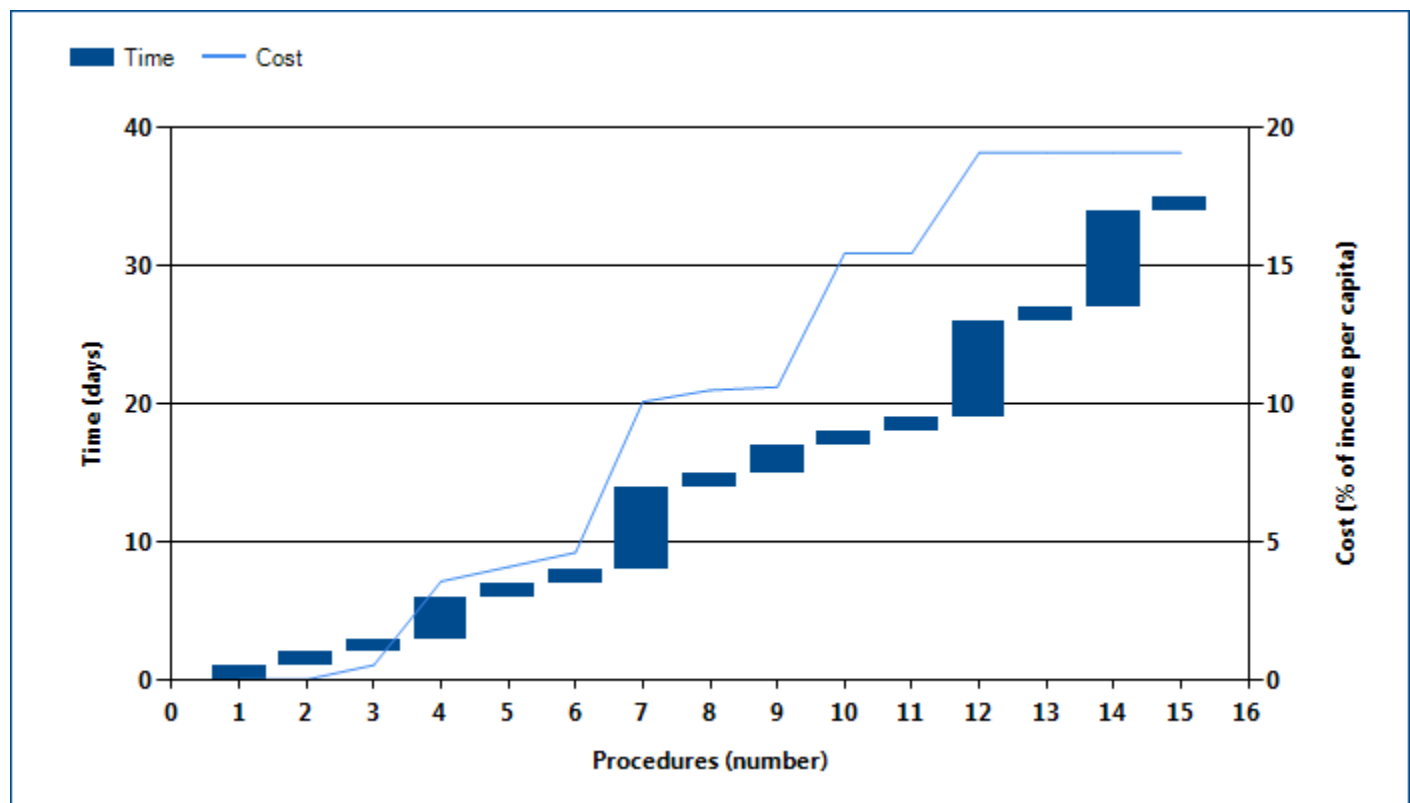
### Where does the economy stand today?

What does it take to start a business in Philippines? According to data collected by *Doing Business*, starting a business there requires 15 procedures, takes 35 days,

costs 19.1% of income per capita and requires paid-in minimum capital of 5.2% of income per capita (figure 2.1).

Figure 2.1 What it takes to start a business in Philippines

Paid-in minimum capital (% of income per capita): 5.2



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

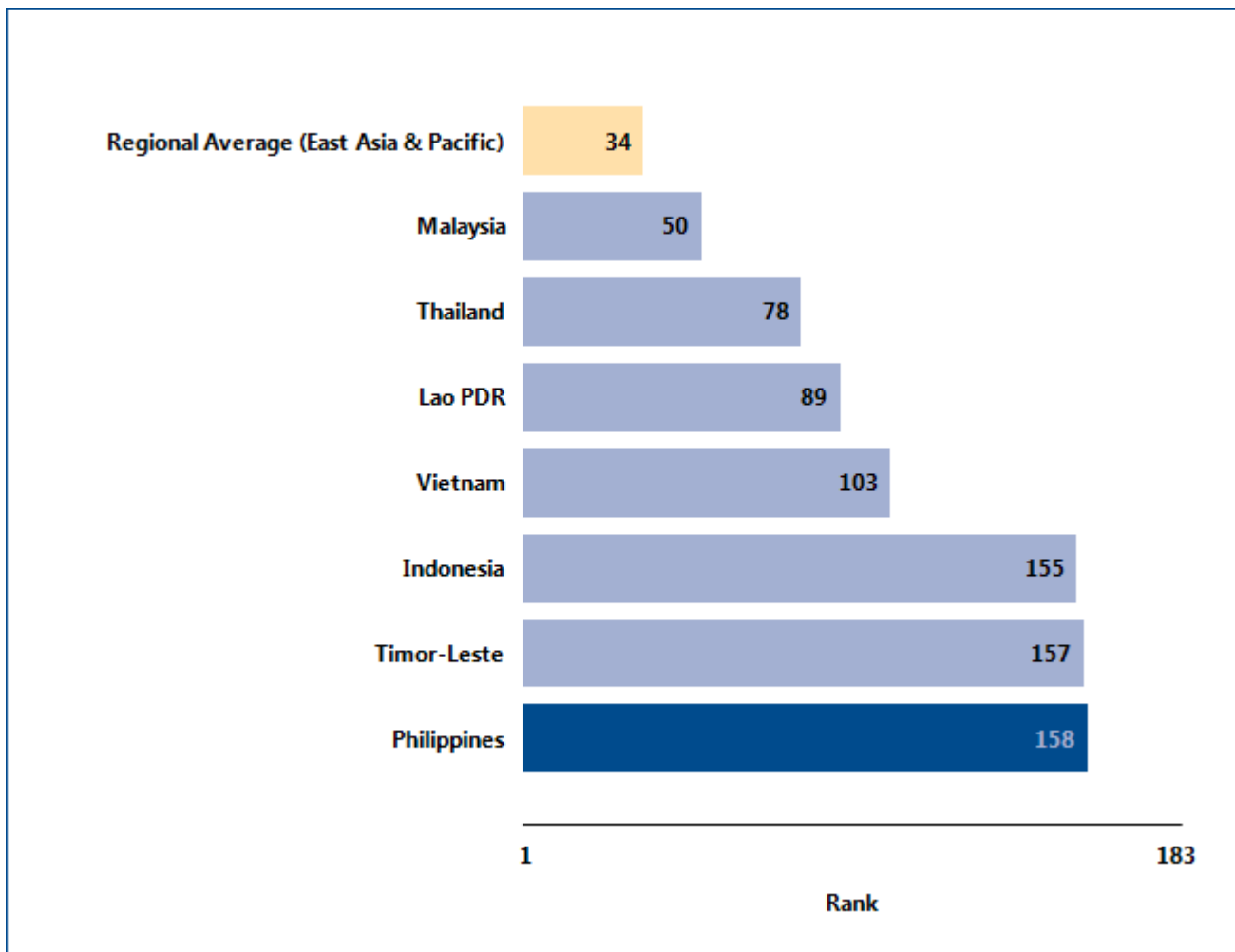
Source: *Doing Business* database.

## STARTING A BUSINESS

Globally, Philippines stands at 158 in the ranking of 183 economies on the ease of starting a business (figure 2.2). The rankings for comparator economies

and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Philippines to start a business.

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



Source: Doing Business database.

## STARTING A BUSINESS

### What are the changes over time?

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

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

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
<b>Rank</b>	..	..	..	..	..	..	..	155	158
<b>Procedures (number)</b>	17	17	17	17	17	17	17	16	15
<b>Time (days)</b>	49	49	47	47	47	41	41	36	35
<b>Cost (% of income per capita)</b>	28.6	24.1	23.9	22.2	24.1	22.7	21.6	22.1	19.1
<b>Paid-in Min. Capital (% of income per capita)</b>	2.3	2.2	2.0	1.8	6.9	6.0	5.5	6.0	5.2

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

*Source:* *Doing Business* database.

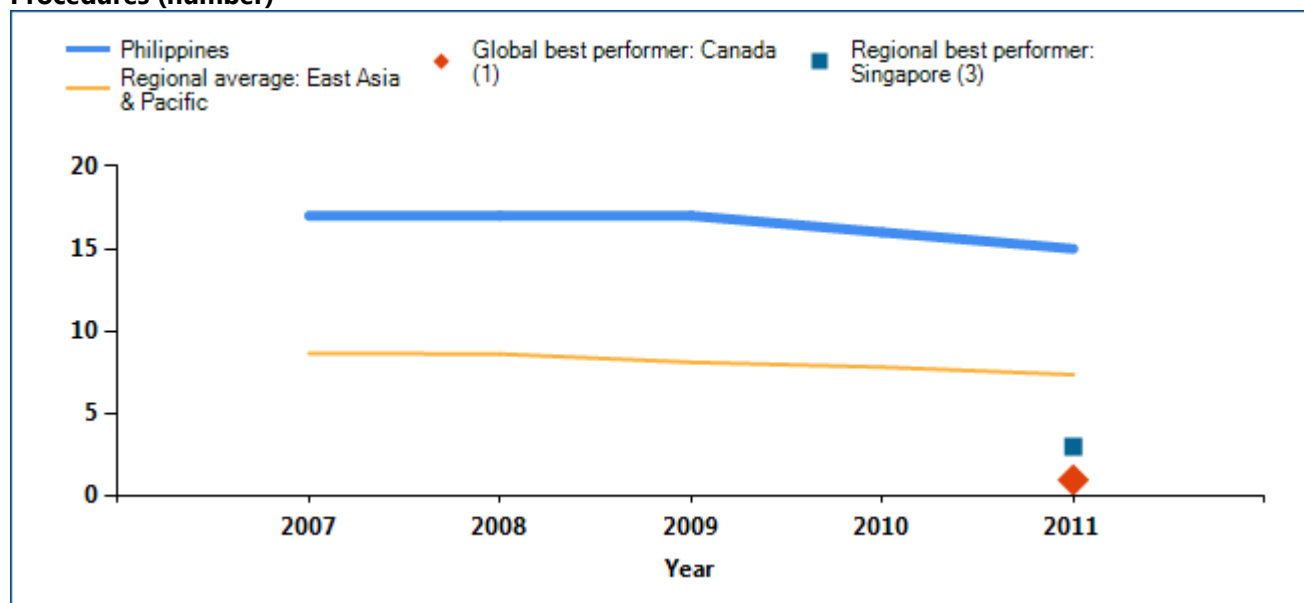
## STARTING A BUSINESS

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the procedures, time, cost or paid-in minimum capital required to start a business (figure 2.3). These economies may provide a model for

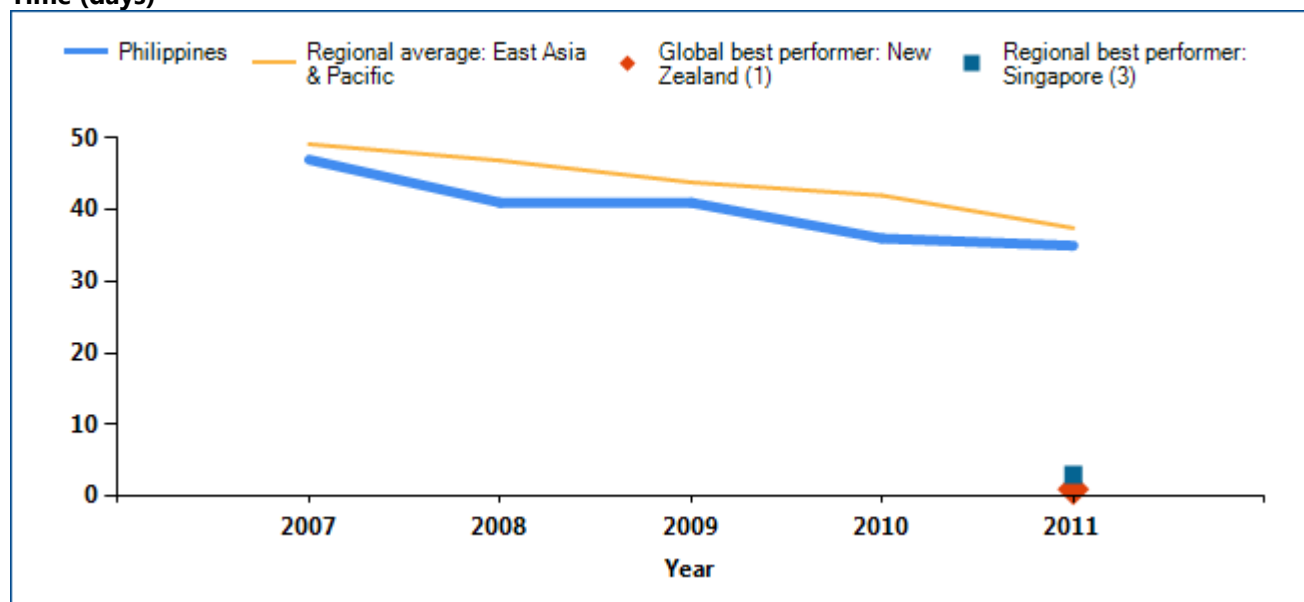
Philippines on ways to improve the ease of starting a business. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

Figure 2.3 Has starting a business become easier over time?

### Procedures (number)



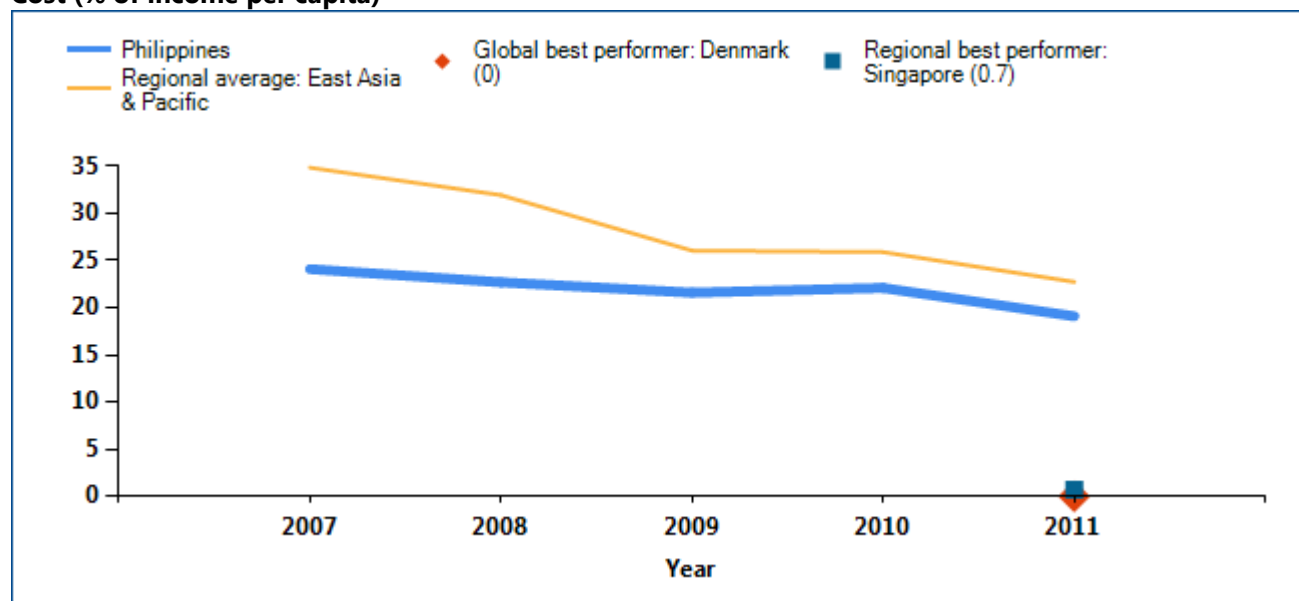
### Time (days)



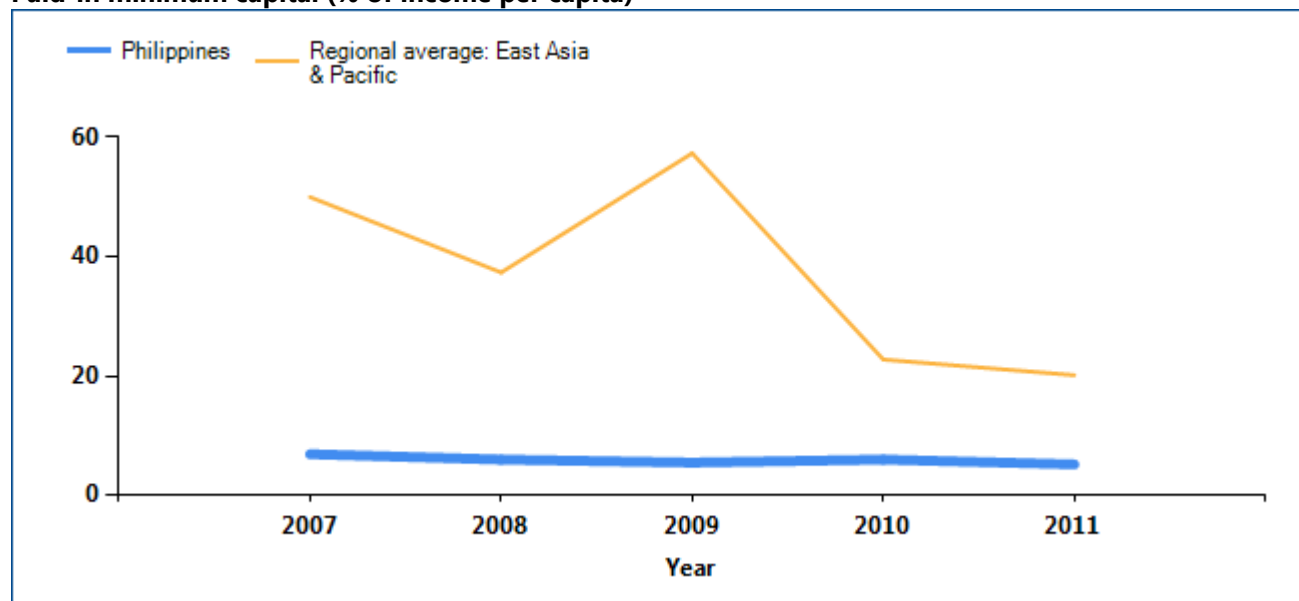


## STARTING A BUSINESS

## Cost (% of income per capita)



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



*Note:* The economy with the best performance regionally on each indicator, and the economy with the best performance globally, are included as benchmarks. In some cases 2 or more economies share the top regional or global ranking on an indicator. In the case of paid-in minimum capital, 82 economies globally and 14 economies in East Asia & Pacific have no paid-in minimum capital.

*Source:* Doing Business database.

## STARTING A BUSINESS

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

greater firm satisfaction and savings and more registered businesses, financial resources and job opportunities.

What business registration reforms has *Doing Business* recorded in Philippines (table 2.2)?

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

DB Year	Reform
<b>DB2012</b>	No reform.
<b>DB2011</b>	The Philippines eased business startup by setting up a one-stop shop at the municipal level.
<b>DB2010</b>	No reform.
<b>DB2009</b>	No reform.

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

*Source:* *Doing Business* database.

## STARTING A BUSINESS

### What are the details?

Underlying the indicators shown in this chapter for Philippines 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:** Quezon city

**Legal Form:** Corporation

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

**Paid-in minimum capital (% of income per capita):** 5.2

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

No.	Procedure	Time to complete	Cost to complete
1	<b>Verify and reserve the company name with the Securities and Exchange Commission (SEC)</b>  The availability of the proposed company name can be verified via the SEC's online verification system at no charge. Reservation of the name, once approved by the SEC, costs Php40/month for the first 30 days. The company name can be reserved for a maximum of 120 days for a fee of PHP 120, which is renewable upon expiration of the period.	1 day	PHP 40
2	<b>Deposit paid-up capital in the Authorized Agent Bank (AAB) and obtain bank certificate of deposit</b>  The company is required by law to deposit paid-up capital amounting to at least 6.25% of the authorized capital stock of the corporation. This paid-up capital must not be less than PHP 5,000. Some banks in Manila charge a fee up to PHP 105 for each certificate of deposit.	1 day	no charge
3	<b>Notarize articles of incorporation and treasurer's affidavit at the notary</b>  According to Section 14 and 15 of the Corporation Code, articles of incorporation should be notarized before filing with the SEC.	1 day	PHP 500
4	<b>Register the company with the SEC and receive pre-registered Taxpayer Identification Number (TIN)</b>  The company can register online through SEC i-Register but must pay on site at the SEC. The following documents are required for SEC registration:	3 days	(PHP 1,667.99 filing fee equivalent to 1/5 of 1% of the authorized capital stock or the subscription price of

No.	Procedure	Time to complete	Cost to complete
	a. Company name verification slip; b. Articles of incorporation (notarized) and by-laws; c. Treasurer's affidavit (notarized); d. Statement of assets and liabilities; e. Bank certificate of deposit of the paid-in capital; f. Authority to verify the bank account; g. Registration data sheet with particulars on directors, officers, stockholders, and so forth; h. Written undertaking to comply with SEC reporting requirements (notarized); i. Written undertaking to change corporate name (notarized). The SEC Head Office issues pre-registered TINs only if the company's application for registration has been approved. The company must still register with the Bureau of Internal Revenue (BIR) in order to identify applicable tax types, pay an annual registration fee, obtain and stamp sales invoices, receipts and the books of accounts.		the subscribed capital stock, whichever is higher but not less than PHP 1,000 + PHP 16.68 legal research fee (LRF) equivalent to 1% of filing fee but not less than PHP 10 + PHP 500 By-laws + PHP 150 for registration of stock and transfer book (STB) required for new corporations + PHP 320 STB + PHP 10 registration for SEC bulletin)
5	<b>Obtain barangay clearance</b>  This clearance is obtained from the Barangay where the business is located, and is required to obtain the business permit from the city or municipality. Barangay fees vary for each Barangay since they have the discretion to impose their own fees and charges for as long as these fees are reasonable and within the limits set by the Local Government Code and city ordinances. The fee charged by the Barangay depends on the company's paid-up capital and the land area it occupies - a PHP 500 minimum plus PHP 300 for the Barangay clearance plate.	1 day	PHP 500
6	<b>Pay the annual community tax and obtain the community tax certificate (CTC) from the City Treasurer's Office (CTO)</b>  To obtain a Barangay clearance, a company must obtain a community tax certificate. The company is assessed a basic and an additional community tax. The basic community tax rate depends on whether the company legal form is a corporation, partnership, or association (PHP 500 or lower). The additional community tax (not to exceed Php 10,000.00) depends on the assessed value of real property the company owns in the Philippines at the rate of Php 2.00 for every Php 5,000.00 and on its gross receipts, including dividends or earnings, derived from business activities in the Philippines during the preceding year, at the rate of Php 2.00 for every Php 5,000.00.	1 day	PHP 500
7	<b>Obtain the business permit to operate from the BPLO</b>  The fees vary depending on the LGU issuing the permit. The rate of license fee imposed in Quezon City is 25% of 1% of the authorized capital stock. Other permits, such as locational clearance, fire safety and inspection certificate, sanitary permit, certificate of electrical inspection, mechanical permit, and other clearances or certificates	6 days	(PHP 2,084.98 business tax (25% of 1% of paid-up capital) + PHP 200 mayor's permit + PHP 150 sanitary inspection

No.	Procedure	Time to complete	Cost to complete
	<p>required depending on the nature of business, are also imposable. The rate of these fees depends on the nature of business and land area occupied by the proposed corporation.</p> <p>The barangay clearance is a prerequisite for the issuance of business permit to operate.</p>		<p>fee + PHP 50 signboard fee + PHP 250 business plate + PHP 100 QCBRB + PHP 545 zoning clearance + PHP 1,300 garbage fee+ PHP 259.5 FSIC (10% of all regulatory fees))</p>
8	<p><b>Buy special books of account at bookstore</b></p> <p>Special books of accounts are required for registering with the BIR. The books of accounts are sold at bookstores nationwide. One set of journals consisting of four books (cash receipts account, disbursements account, ledger, general journal) costs about PHP 400.</p> <p>If the company has a computerized accounting system (CAS), it may opt to register its CAS under the procedures laid out in BIR Revenue Memorandum Order Nos. 21-2000 and 29-2002. The BIR Computerized System Evaluation Team is required to inspect and evaluate the company's CAS within 30 days from receipt of the application form (BIR Form No. 1900) and complete documentary requirements.</p>	1 day	PHP 400
9	<p><b>Apply for Certificate of Registration (COR) and TIN at the Bureau of Internal Revenue (BIR)</b></p> <p>After the taxpayer obtains the TIN, the company must pay the annual registration fee of PHP 500 at any duly accredited bank, using payment form BIR Form 0605). To register the BIR taxpayer must first accomplish BIR Form 1903 and submit the same together with the required attachments to the Revenue District Office having jurisdiction over the registered address of the business establishment. Moreover, the BIR now requires the submission of the Authority to Print Receipts (BIR Form 1906) as an additional requirement for registration.</p> <p>Companies may be assessed various taxes: VAT, a community tax, a local tax, and income tax. When a company registers as a taxpayer, it must indicate in the application the types of taxes it expects to be liable for, including VAT.</p>	2 days	PHP 100 (certification fee) and PHP 15 (documentary stamp tax, in loose form to be attached to Form 2303)
10	<p><b>Pay the registration fee and documentary stamp taxes (DST) at the AAB</b></p> <p>The rate of documentary stamp tax on original issuance of shares of stock shall be Php 1.00 for every Php 200.00 or fractional part thereof, of the par value, of such shares of stock.</p> <p>The documentary stamp tax return shall be filed and the tax paid on or before the fifth (5th) day after the close of the month of approval of</p>	1 day	(PHP 500 registration fee + PHP 4,169.97 DST on original issuance of shares of stock. DST on the lease contract is not included in the computation of the



No.	Procedure	Time to complete	Cost to complete
	SEC registration.		cost)
11	<p><b>Obtain the authority to print receipts and invoices from the BIR</b></p> <p>The authority to print receipts and invoices must be secured before the sales receipts and invoices may be printed. The company can ask any authorized printing company to print its official forms, or it can print its own forms (i.e., it uses its computers to print loose-leaf invoice forms) after obtaining a permit from BIR for this purpose. To obtain the authority to print receipts and invoices from the BIR, the company must submit the following documents to the Revenue District Office (RDO):</p> <ul style="list-style-type: none"> <li>a. Duly completed application for authority to print receipts and invoices (BIR Form No. 1906);</li> <li>b. Job order;</li> <li>c. Final and clear sample of receipts and invoices (machine-printed);</li> <li>d. Application for registration (BIR Form No. 1903); and</li> <li>e. Proof of payment of annual registration fee (BIR Form No. 0605).</li> </ul>	1 day	no charge
12	<p><b>Print receipts and invoices at the print shops</b></p> <p>The cost is based on the following specifications of the official receipt: 1/2 bond paper (8 ½ x 5 ½ cm) in duplicate, black print, carbonless. The minimum print volume is 25 booklets.</p>	7 days	PHP 3,500
13	<p><b>Have books of accounts and Printer's Certificate of Delivery (PCD) stamped by the BIR</b></p> <p>After the printing of receipts and invoices, the printer issues a Printer's Certificate of Delivery of Receipts and Invoices (PCD) to the company, which must submit this to the appropriate BIR RDO (i.e., the RDO which has jurisdiction over the company's principal place of business) for registration and stamping within thirty (30) days from issuance. The company must also submit the following documents:</p> <ul style="list-style-type: none"> <li>a. All required books of accounts;</li> <li>b. VAT registration certificate;</li> <li>c. SEC registration;</li> <li>d. BIR Form W-5;</li> <li>e. Certified photocopy of the ATP; and</li> <li>f. Notarized taxpayer-user's sworn statement enumerating the responsibilities and commitments of the taxpayer-user.</li> </ul> <p>The company must also submit a copy of the PCD to the BIR RDO having jurisdiction over the printer's principal place of business.</p>	1 day	no charge
14	<p><b>Register with the Social Security System (SSS)</b></p> <p>To register with the SSS, the company must submit the following documents:</p> <ul style="list-style-type: none"> <li>a. Employer registration form (Form R-1);</li> </ul>	7 days	no charge

No.	Procedure	Time to complete	Cost to complete
	<p>b. Employment report (Form R-1A);  c. List of employees, specifying their birth dates, positions, monthly salary and date of employment; and  d. Articles of incorporation, by-laws and SEC registration.</p> <p>Upon submission of the required documents, the SSS employer and employee numbers will be released. The employees may attend an SSS training seminar after registration. SSS prefers that all members go through such training so that each member is aware of their rights and obligations.</p>		
15	<p><b>Register with the Philippine Health Insurance Company (PhilHealth)</b></p> <p>To register with PhilHealth, the company must submit the following documents:</p> <p>a. Employer data record (Form ER1);  b. Report of employee-members (Form ER2);  c. SEC registration;  d. BIR registration; and  e. Copy of business permit.</p> <p>Upon submission of the required documents, the company shall get the receiving copy of all the forms as proof of membership until PhilHealth releases the employer and employee numbers within three months.</p>	1 day	no charge

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

## DEALING WITH CONSTRUCTION PERMITS

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

### What do the indicators cover?

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

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

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

The business:

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

The warehouse:

- Is a new construction (there was no previous construction on the land).
- Has complete architectural and technical plans prepared by a licensed architect.

### WHAT THE DEALING WITH CONSTRUCTION PERMITS INDICATORS MEASURE

#### Procedures to legally build a warehouse (number)

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

Completing all required notifications and receiving all necessary inspections

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

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

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

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

Official costs only, no bribes

- 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).

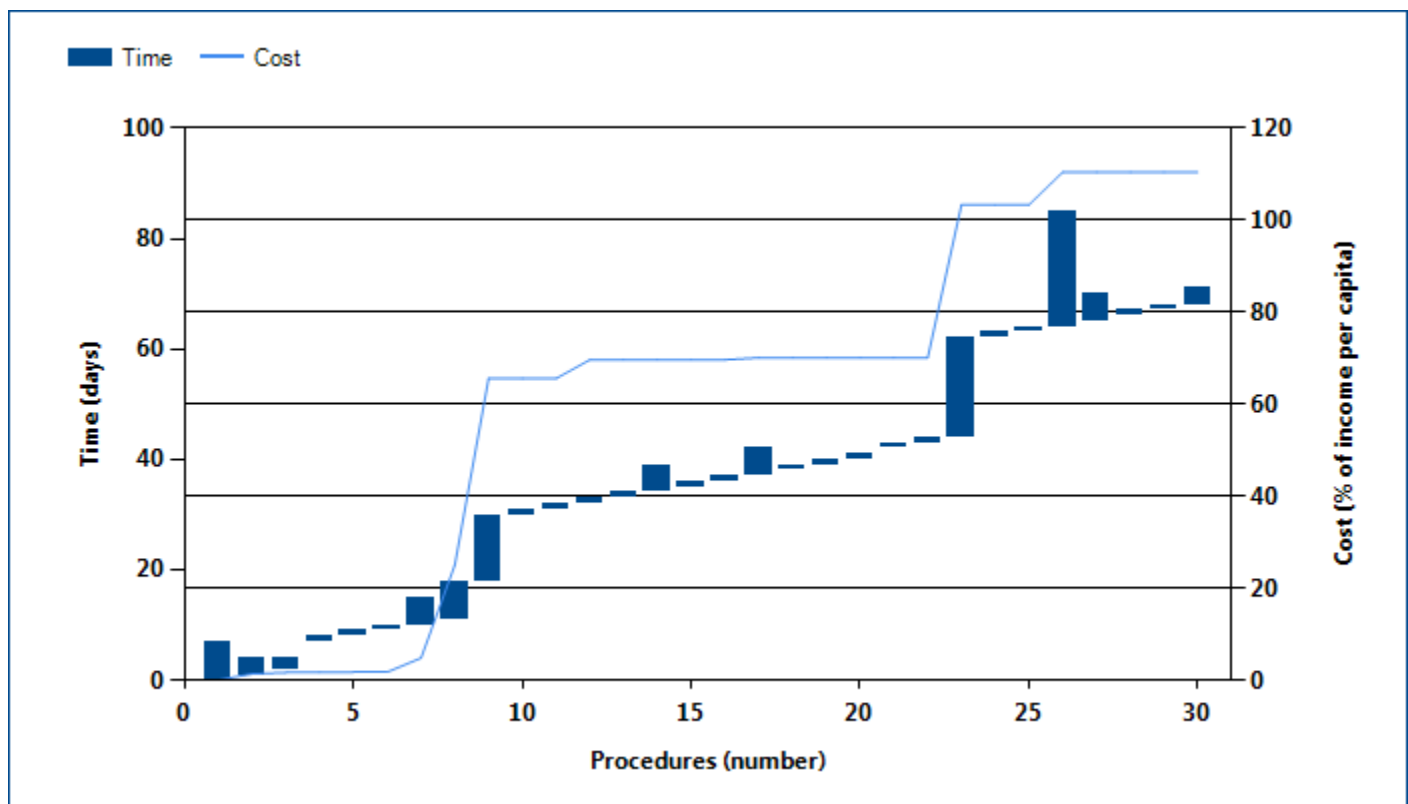
## DEALING WITH CONSTRUCTION PERMITS

### Where does the economy stand today?

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

permits there requires 30 procedures, takes 85 days and costs 110.5% of income per capita (figure 3.1).

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



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

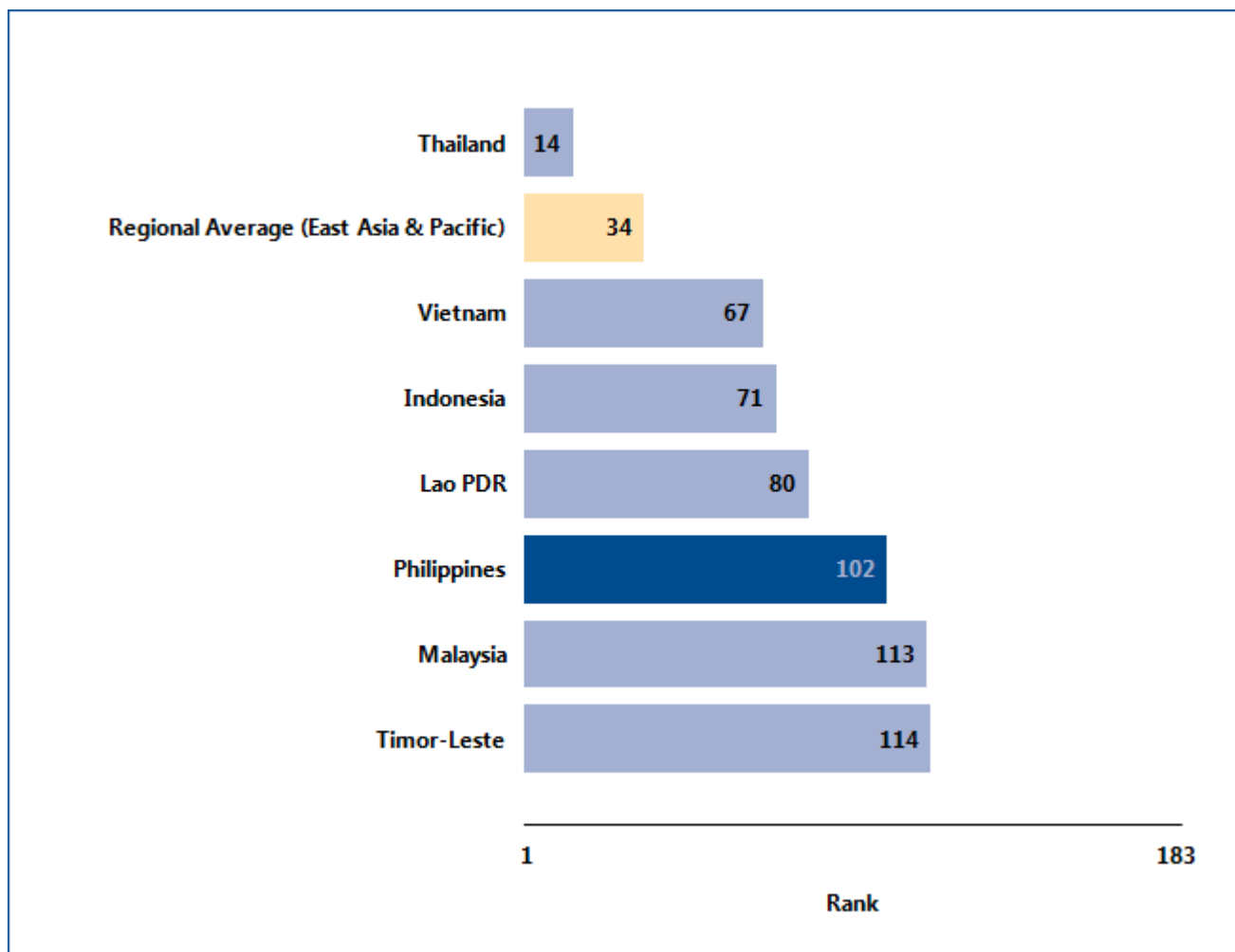
Source: *Doing Business* database.

## DEALING WITH CONSTRUCTION PERMITS

Globally, Philippines stands at 102 in the ranking of 183 economies on the ease of dealing with construction permits (figure 3.2). The rankings for comparator economies and the regional average

ranking provide other useful information for assessing how easy it is for an entrepreneur in Philippines to legally build a warehouse.

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



Source: Doing Business database.



## DEALING WITH CONSTRUCTION PERMITS

### What are the changes over time?

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

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

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	98	102
Procedures (number)	30	30	30	30	30	30	30
Time (days)	85	85	85	85	85	85	85
Cost (% of income per capita)	169.7	153.0	146.0	128.6	116.5	127.6	110.5

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

Source: *Doing Business* database.

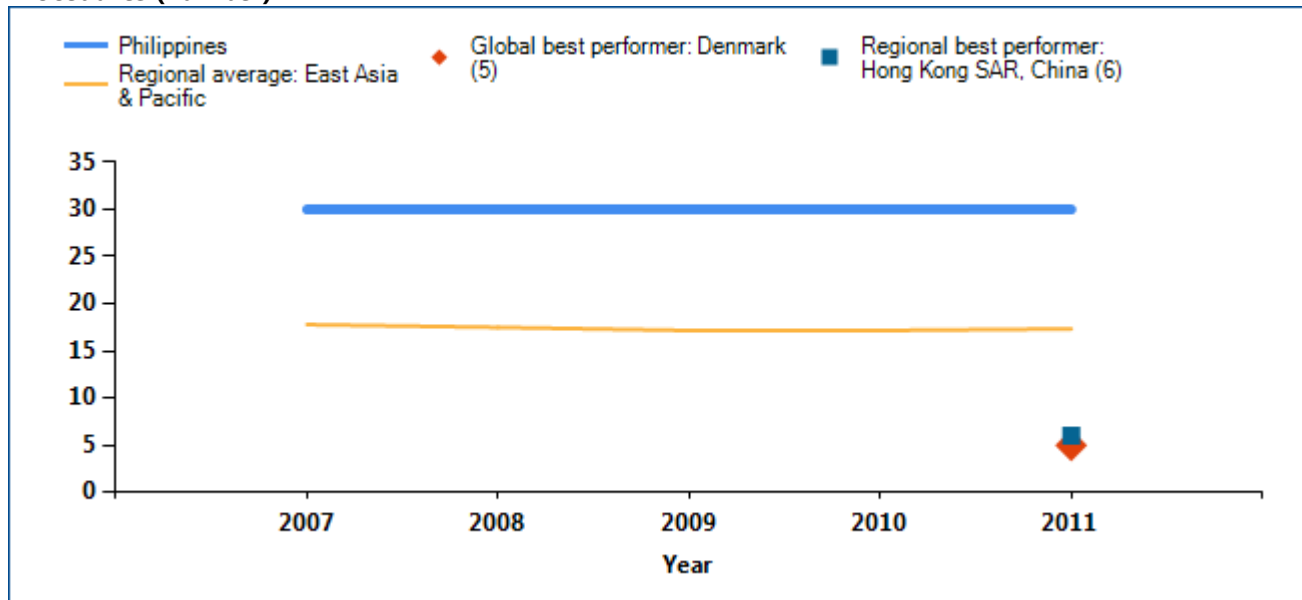
## DEALING WITH CONSTRUCTION PERMITS

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the procedures, time or cost required to deal with construction permits (figure 3.3). These economies may provide a model for Philippines

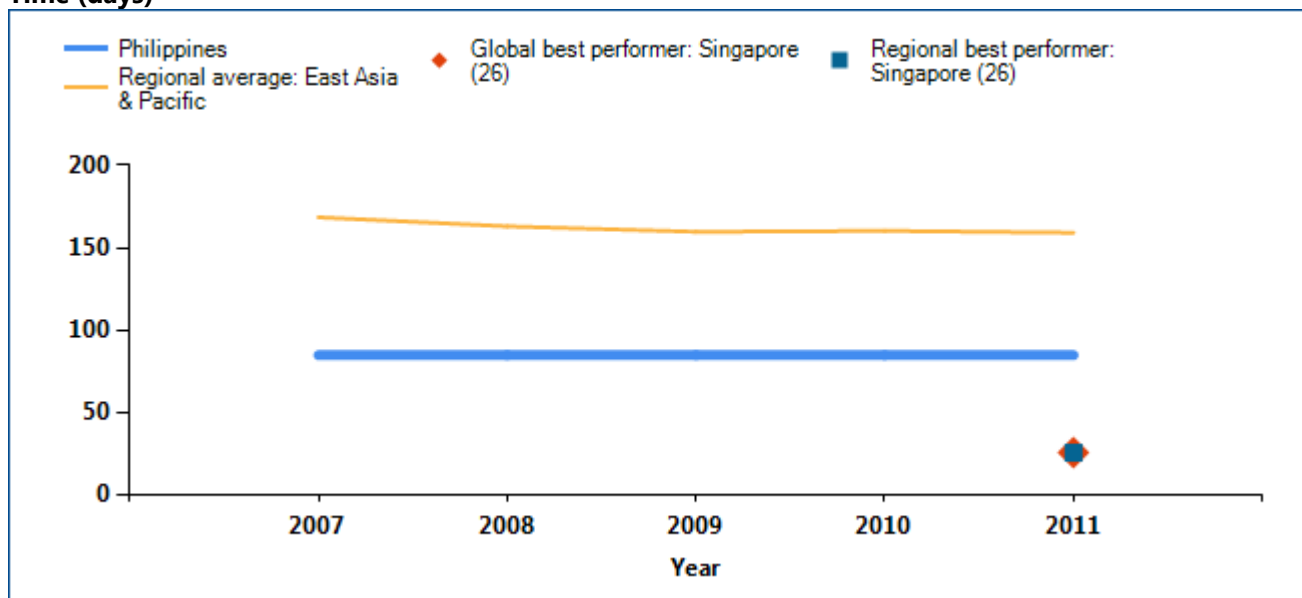
on ways to improve the ease of dealing with construction permits. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

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

### Procedures (number)

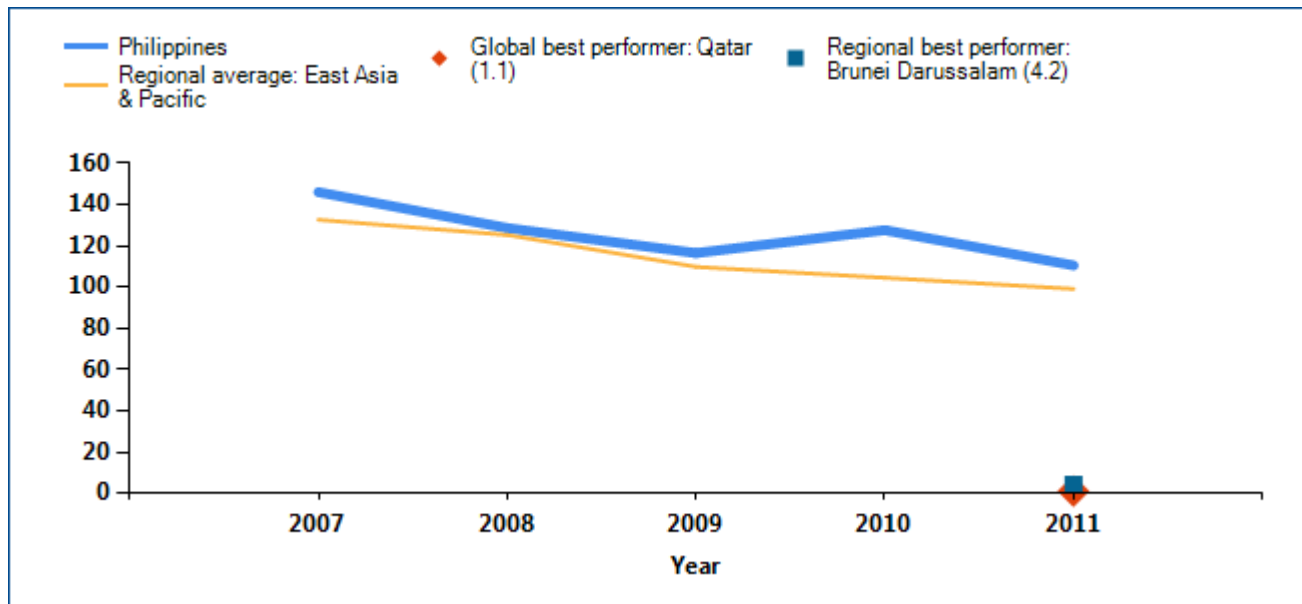


### Time (days)



## DEALING WITH CONSTRUCTION PERMITS

Cost (% of income per capita)



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

*Source:* Doing Business database.

## DEALING WITH CONSTRUCTION PERMITS

Smart regulation ensures that standards are met while making compliance easy and accessible to all. Coherent and transparent rules, efficient processes and adequate allocation of resources are especially important in sectors where safety is at stake. Construction is one of them. In an effort to ensure

building safety while keeping compliance costs reasonable, governments around the world have worked on consolidating permitting requirements. What construction permitting reforms has *Doing Business* recorded in Philippines (table 3.2)?

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

DB Year	Reform
<b>DB2012</b>	No reform.
<b>DB2011</b>	The Philippines made construction permitting more cumbersome through updated electricity connection costs.
<b>DB2010</b>	No reform.
<b>DB2009</b>	No reform.

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

*Source:* *Doing Business* database.

## DEALING WITH CONSTRUCTION PERMITS

### What are the details?

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

#### BUILDING A WAREHOUSE

**City :** Quezon city

**Estimated Warehouse Value :** PHP 19,500,000

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

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

No.	Procedure	Time to complete	Cost to complete
1	<b>Obtain certified true copy of the land title from the Register of Deeds (RD)</b>  The certified true copy of the land title serves as proof of ownership of the land on which the warehouse is to be built.	7 days	PHP 160
2	<b>* Obtain lot plan with site map from the geodetic engineer</b>  The company must obtain the lot plan with site map from a geodetic engineer to confirm the location of the land purported to be in the land title. A lot plan with site map is signed, sealed, and prepared after a meticulous geodetic survey, or at least after an analysis has been conducted of the lot technical description appearing on the title.	3 days	PHP 1,250
3	<b>* Obtain barangay clearance</b>  The barangay clearance is generally a requirement for obtaining the locational clearance. The costs for barangay clearances vary as barangays have the discretion to impose their own fees for as long as such fees are reasonable and within the limits imposed by the Local Government Code and city ordinances.	2 days	PHP 300
4	<b>Apply for the locational clearance at the City Planning and Development Office (CPDO)</b>  The locational clearance is required to ensure that the construction conforms to the city's Comprehensive Land Use Plan and zoning ordinances.  The applicant must submit the following requirements: a. Notarized locational clearance application form; b. Barangay clearance; c. Transfer Certificate of Title (TCT);	1 day	PHP 45

No.	Procedure	Time to complete	Cost to complete
	d. Latest real property tax receipt; and e. Architectural plan.		
5	<b>Notarize the locational clearance application form at the notary</b>	1 day	PHP 50
6	<b>Receive inspection for the locational clearance from the CPDO</b>	1 day	no charge
7	<b>Obtain the locational clearance from the CPDO</b>  The applicant pays the locational clearance fee at the City Treasurer's Office (CTO) and obtains the locational clearance at the CPDO.	5 days	PHP 2,926
8	<b>* Apply and obtain Fire Safety Evaluation Clearance (FSEC) from the local Fire Marshall at the Bureau of Fire Protection (BFP)</b>  The FSEC is a clearance with a fire safety checklist that enumerates the life and fire safety requirements of the Fire Code.  The City Fire Marshall evaluates one set of plans and specifications submitted by the applicant to ensure that they conform to the fire safety and control requirements of the Fire Code. The applicant must also submit 3 sets of the Fire and Life Safety Assessment Report (FALAR) 1 (which documents the fire and life safety features of the building) prepared by an architect who is duly certified by the BFP to prepare this report.	7 days	PHP 19,500
9	<b>Apply and obtain the building permit and ancillary permits at the Office of the Building Official (OBO)</b>  The ancillary permits consist of: (1) the architectural permit, (2) civil/structural permit, (3) electrical permit, (4) mechanical permit, (5) sanitary permit, (6) plumbing permit, and (7) electronics permit.  The applicant must submit the following requirements: a. Certified true copy of Original Certificate of Title (OCT)/TCT on file with the Registry of Deeds; b. Photocopy of tax declaration; c. Building permit application form; d. Five (5) sets of survey plans, design plans, specifications and other related documents (i.e., architectural documents, civil/structural documents, electrical documents, mechanical documents, sanitary documents, plumbing documents, electronics documents, geodetic documents, and clearances from other agencies); and e. Locational clearance from the CPDO.  After the building permit application is approved, the building official makes an assessment and issues an order of payment for the company to pay at the CTO. Once the company has paid the building permit fees, it will present the official receipt to the Receiving/Releasing Section of the OBO which will then issue the permit.	12 days	PHP 39,018

No.	Procedure	Time to complete	Cost to complete
10	<b>Receive inspection from the BFP during construction</b> The BFP conducts an inspection during construction to ensure that the plans and fire safety precautions are observed.	1 day	no charge
11	<b>Receive inspection from the OBO during construction</b> During the construction of the warehouse, the OBO conducts an inspection to ensure that the construction follows the approved building plans and design.	1 day	no charge
12	<b>Apply for the Fire Safety Inspection Certificate (FSIC) at the BFP</b> Once construction has been completed, the company requests the BFP to inspect the site to certify that the required fire safety construction, fire protective and/or warning systems are properly installed and in good working condition. The applicant must submit a Fire and Life Safety Assessment Report 2 (which certifies that the construction of the building was in accordance with FALAR 1), prepared by an architect who is duly certified by the BFP to prepare this report.	1 day	PHP 3,901
13	<b>Receive final inspection for the FSIC from the BFP</b>	1 day	no charge
14	<b>Obtain the FSIC from the BFP</b>	5 days	no charge
15	<b>* Apply for health certificate at the City Health Office (CHO)</b>	1 day	no charge
16	<b>* Receive inspection for the health certificate from the CHO</b>	1 day	no charge
17	<b>* Obtain the health certificate from the CHO</b>	5 days	PHP 400
18	<b>* Apply for the Certificate of Final Electrical Inspection (CFEI) at the OBO</b> The CFEI certifies that a final inspection of the electrical installation has been conducted and that such installation has been completed in accordance with the approved plans and specifications on file with the OBO and the provisions of the Philippine Electrical Code.	1 day	no charge
19	<b>* Receive final inspection for the CFEI from the OBO</b>	1 day	no charge
20	<b>* Obtain the CFEI from the OBO</b>	1 day	no charge
21	<b>Apply for the Certificate of Occupancy at the OBO</b> In applying for a Certificate of Occupancy, the applicant must submit the following to the OBO: a. Application for Certificate of Occupancy;	1 day	no charge

No.	Procedure	Time to complete	Cost to complete
	b. FSIC; c. Health certificate; d. Duly notarized certificate of completion; e. Construction logbook; f. As-built plans and specifications; and g. Building inspection sheet,  all signed and sealed by the architect or engineer who undertook the full-time inspection and supervision of the construction.		
22	<b>Receive final inspection for the Certificate of Occupancy from the OBO</b>  The OBO conducts a final inspection to check the building based on the certificate of completion, construction logbook, building inspection sheets, original and as-built plans and specifications.	1 day	no charge
23	<b>Obtain the Certificate of Occupancy from the OBO</b>  After the OBO has processed the application and conducted the inspection, it then issues an assessment and order of payment. The OBO issues the Certificate of Occupancy after the applicant has paid the corresponding fees.	18 days	PHP 32,000
24	<b>Apply for water and sewage connection at Maynilad Water Services, Inc. (Maynilad) or Manila Water Company, Inc. (Manila Water)</b>  There are two private water providers for Quezon City. Maynilad services the west zone and Manila Water services the east zone. The company visits the water company to request the connection and pays PHP 7,455 for Maynilad or PHP 6,855 for Manila Water. Inspection takes place within a week and the connection is effected some days after the inspection. The case study assumes that the company will request water from Manila Water as this is the option favorable to the company.	1 day	no charge
25	<b>* Receive inspection for water and sewage connection from Maynilad or Manila Water</b>	1 day	no charge
26	<b>* Obtain water and sewage connection from Maynilad or Manila Water</b>	21 days	PHP 6,855
27	<b>* Obtain telephone connection from the telephone company</b>  There are four telephone companies providing landline services in Quezon City. The cost is PHP 1,500 for Philippine Long Distance Co. (PLDT), PHP 749 for Bayantel and PHP 2,500 for Digitel. Globelines requires proof of financial capability but does not charge any fee. There is a lock-in period of 12 months for PLDT and Globelines, and 30 months for Digitel. Bayantel offers no lock-in period for regular phone line. The case study assumes that the company will request services from Globelines as this is the option favorable to the company.	5 days	no charge



No.	Procedure	Time to complete	Cost to complete
28	<p><b>* Apply for the tax declaration of improvement at the City Assessor's Office (CAO)</b></p> <p>The company must update its official records to include the newly built warehouse for tax purposes. The OBO furnishes the CAO with a copy of the building plan and Certificate of Occupancy to notify them of the new building construction. The company must submit the floor plan and as-built plan to the CAO.</p>	1 day	no charge
29	<p><b>* Receive inspection from the Appraiser of CAO</b></p> <p>The company should request the technical conditions for making the necessary utility connections. At this point, the company also starts negotiations on conditions for the supply of these utilities.</p> <p>Article 34, paragraph 3, subparagraph 3, of the Building Law Act, states the following: "Depending on the needs, the technical project must include the declarations of suppliers about assuring delivery of the energy, water, heat and gas, and sewage connections; and about the possibility of connecting that building to the water mains, sewage, thermal, gas, energy, and telecommunications networks, and land roads."</p> <p>This step is necessary to ensure compliance of the building project with regulations of the Building Code. Some suppliers require payment for a declaration assuring the delivery of electric power and stating the conditions of connection to the network. One of the Warsaw electric power suppliers requires PLN 146.4 (or PLN 292.8, depending on technical conditions) pre-payment, which is counted toward future payment for concluding an agreement with the supplier.</p> <p>A supplier of electricity has 14 days to ensure delivery of power and indicate the conditions of connection to the network. This time line can be 30 days depending on the technical conditions. In any case, this period is defined by the Ministry of Economy and Labor, which defines the conditions of connecting to electric power networks and of operating and exploiting these networks.</p>	1 day	no charge
30	<p><b>* Obtain the tax declaration of improvement from the CAO</b></p> <p>BuildCo should request the technical conditions for making the necessary utility connections. At this point, the company also starts negotiations on conditions for the supply of these utilities.</p> <p>The Warsaw water authority requires payment for defining the conditions of a connection to the water network (the payment may be up to PLN 100). The connection conditions are defined within 14 days of the request date, and the declaration is sent by mail after another 14 days.</p>	3 days	no charge

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

## GETTING ELECTRICITY

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

### What do the indicators cover?

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

The warehouse:

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

The electricity connection:

- Is a 3-phase, 4-wire Y, 140-kilovolt-ampere (kVA) (subscribed capacity) connection.

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

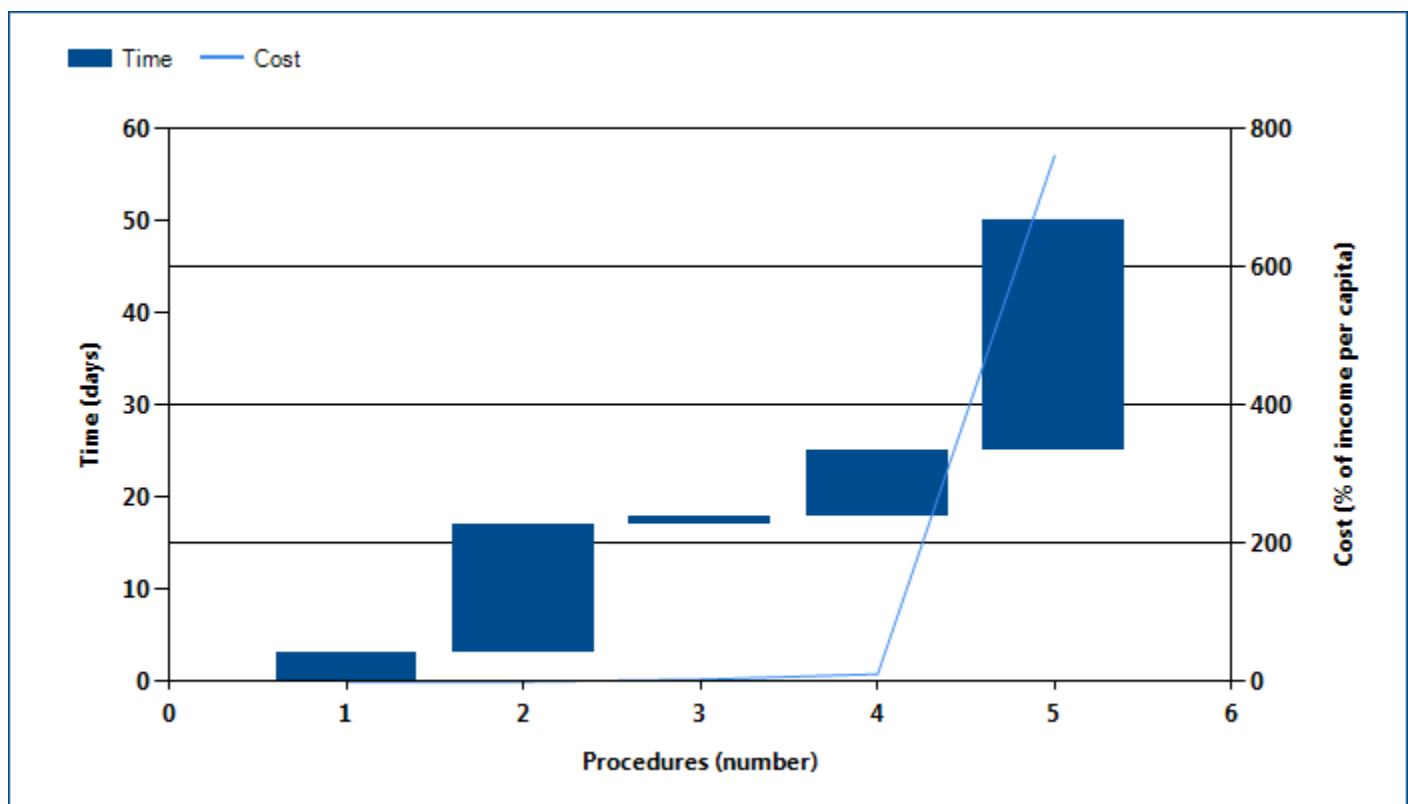
## GETTING ELECTRICITY

## Where does the economy stand today?

What does it take to obtain a new electricity connection in Philippines? According to data collected by *Doing Business*, getting electricity there requires 5

procedures, takes 50 days and costs 762.0% of income per capita (figure 4.1).

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



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

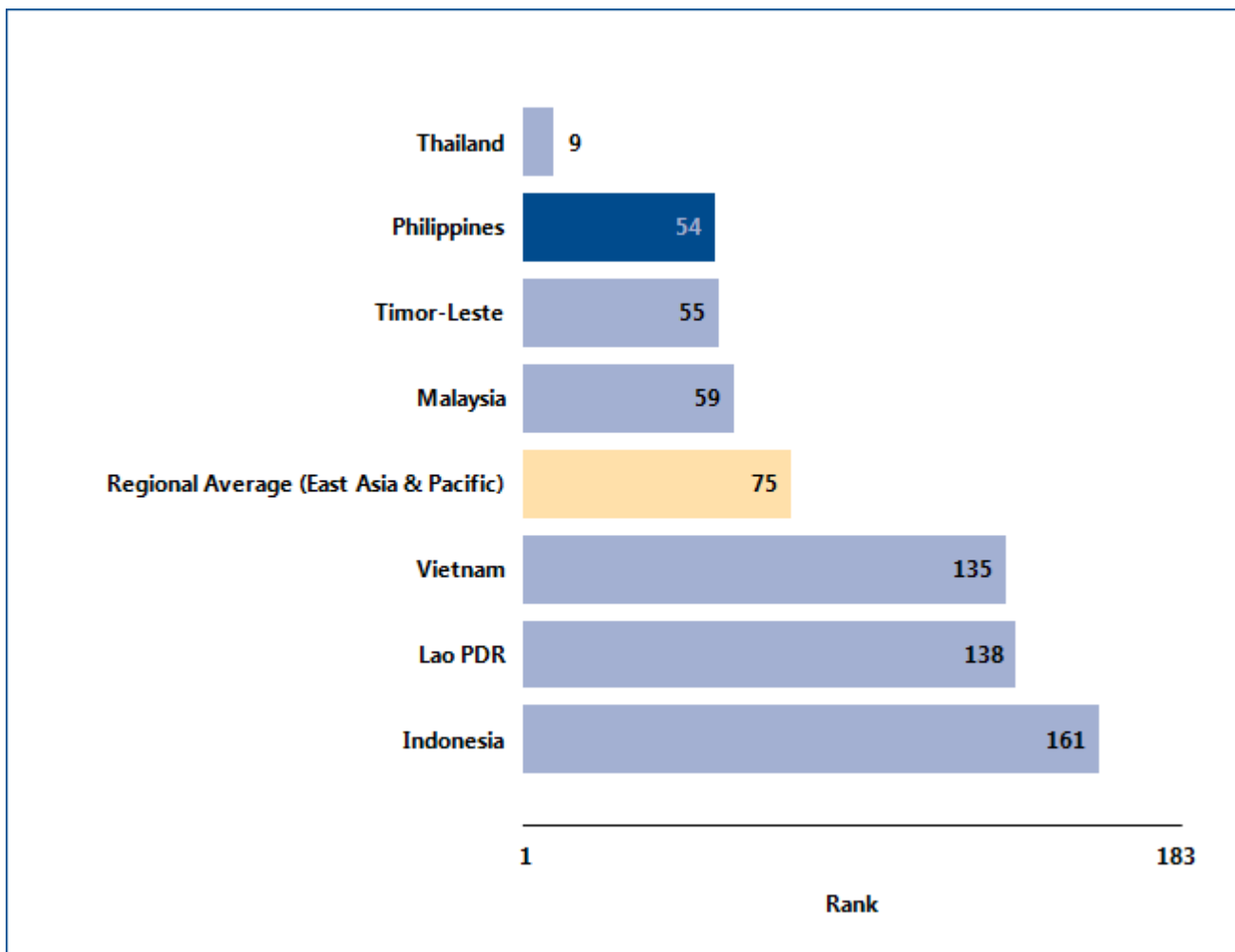
Source: *Doing Business* database.

## GETTING ELECTRICITY

Globally, Philippines stands at 54 in the ranking of 183 economies on the ease of getting electricity (figure 4.2). The rankings for comparator economies and the

regional average ranking provide another perspective in assessing how easy it is for an entrepreneur in Philippines to connect a warehouse to electricity.

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



Source: *Doing Business* database.

## GETTING ELECTRICITY

Even more helpful than rankings for other economies may be the indicators underlying those rankings (table 4.1). If obtaining a new electricity connection requires fewer procedures, less time or less cost in other

economies, the practices of their utilities may provide a model for Philippines on ways to improve the ease of getting electricity. Regional and global averages on these indicators may provide useful benchmarks.

Table 4.1 The ease of getting electricity in Philippines and comparator economies

Indicator	Philippines	Indonesia	Lao PDR	Malaysia	Thailand	Timor-Leste	Vietnam	East Asia & Pacific average	Global average
Rank	54	161	138	59	9	55	135	75	..
Procedures (number)	5	7	5	6	4	3	5	5	5
Time (days)	50	108	134	51	35	63	142	88	111
Cost (% of income per capita)	762.0	1379.0	2381.6	95.5	77.6	1818.2	1343.0	1,079.4	1,942.3

Source: Doing Business database.

## GETTING ELECTRICITY

### What are the details?

The indicators reported here for Philippines 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:** Quezon city

**Name of Utility:** MERALCO

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 Philippines—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Submit application to MERALCO and await site inspection</b></p> <p>No notarization required on approval for any other body. MERALCO evaluates the application, and sends engineer to site inspection and inspection of service entrance. Requirements along with application include:</p> <p>Initial requirement to start the Service Application Process</p> <ul style="list-style-type: none"> <li>- Formal request letter</li> <li>- Complete service application form</li> <li>- Electrical Plan signed &amp; sealed by Professional Electrical Engineer (load schedule, list of loads, single line diagram, location sketch)</li> </ul> <p>Other requirements to follow on or before contracting</p> <ul style="list-style-type: none"> <li>- Wiring Permit (Original/Meralco Copy for issuance of meter base)</li> <li>- Valid ID card with picture ( Driver's license, GSIS ID, SSS ID, Passport, TIN Card, Firearm's License, Philhealth ID, PRC License, Original NBI Clearance, Pag-ibig ID)</li> <li>- TIN Card / BIR Certificate of Registration</li> <li>- SEC Registration with Articles of Incorporation or DTI Registration</li> <li>- Company's Latest General Information Sheet (GIS)</li> <li>- Secretary's Certificate</li> <li>- Contract of Lease / Transfer Certificate Title (TCT) / Deed of Sale / Condominium Title Certificate (CTC) / Contract to Sell</li> <li>- Depending on the nature of your business and location, a PEZA or BOI Certification for Zero VAT Rating</li> </ul>	3 calendar days	no charge

No.	Procedure	Time to complete	Cost to complete
	Other requirements to follow on or before energization -CFEI -Payment of service deposit		
2	<b>Receive site visit from MERALCO and await estimate</b>	14 calendar days	no charge
3	<b>Hire Registered Master Electrician/Registered Electrical Engineer or a Professional Electrical Engineer to conduct inspection and he signs "Completion of Certificate of Electrical Installation"</b>  This is done once all electrical installation/internal wiring is complete. Owner is required to engage the services of a Registered Master Electrician, Registered Electrical Engineer or a Professional Electrical Engineer to conduct inspections which will be signed by the electrical professional involved.	1 calendar day	PHP 3,000.0
4	<b>Request and receive Certificate of Electrical Inspection (CEI) from City of Manila</b>  Request for Certificate of Electrical Inspection (CEI) from City of Manila. This can be done once the electrical installations are completed and engineer in-charge of installation signs the "Completion Certificate of Electrical Installation" and submitted together with the application for CEI to the City.	7 calendar days	PHP 7,500.0
5	<b>Submit Certificate of Inspection to MERALCO and MERALCO completes external connection, meter installation and electricity starts flowing</b>  Once Service Contract is signed with Meralco and fees/deposits are signed, Meralco starts installation of power service connection and metering system necessary for the external connection. The CEI is received by MERALCO, and the meter is released for customer after this. Security deposit charged can be refunded by the customer, including the accumulated interest, only upon the termination of the service contract or if the account is transferred to another owner. Interest rate fluctuates with the current central bank rate, and is accrued to the account.	25 calendar days	PHP 723,503.8

\* Takes place simultaneously with another procedure.

Source: Doing Business database.

## REGISTERING PROPERTY

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

### What do the indicators cover?

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

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

The parties (buyer and seller):

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

The property (fully owned by the seller):

- Has a value of 50 times income per capita. The sale price equals the value.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone, and no rezoning is required.

### WHAT THE REGISTERING PROPERTY INDICATORS MEASURE

#### Procedures to legally transfer title on immovable property (number)

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

Registration in the economy's largest business city

Postregistration (for example, filing title with the municipality)

#### Time required to complete each procedure (calendar days)

Does not include time spent gathering information

Each procedure starts on a separate day

Procedure completed once final document is received

No prior contact with officials

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

Official costs only, no bribes

No value added or capital gains taxes included

- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Consists of 557.4 square meters (6,000 square feet) of land and a 10-year-old, 2-story warehouse of 929 square meters (10,000 square feet). The warehouse is in good condition and complies with all safety standards, building codes and legal requirements. The property will be transferred in its entirety.



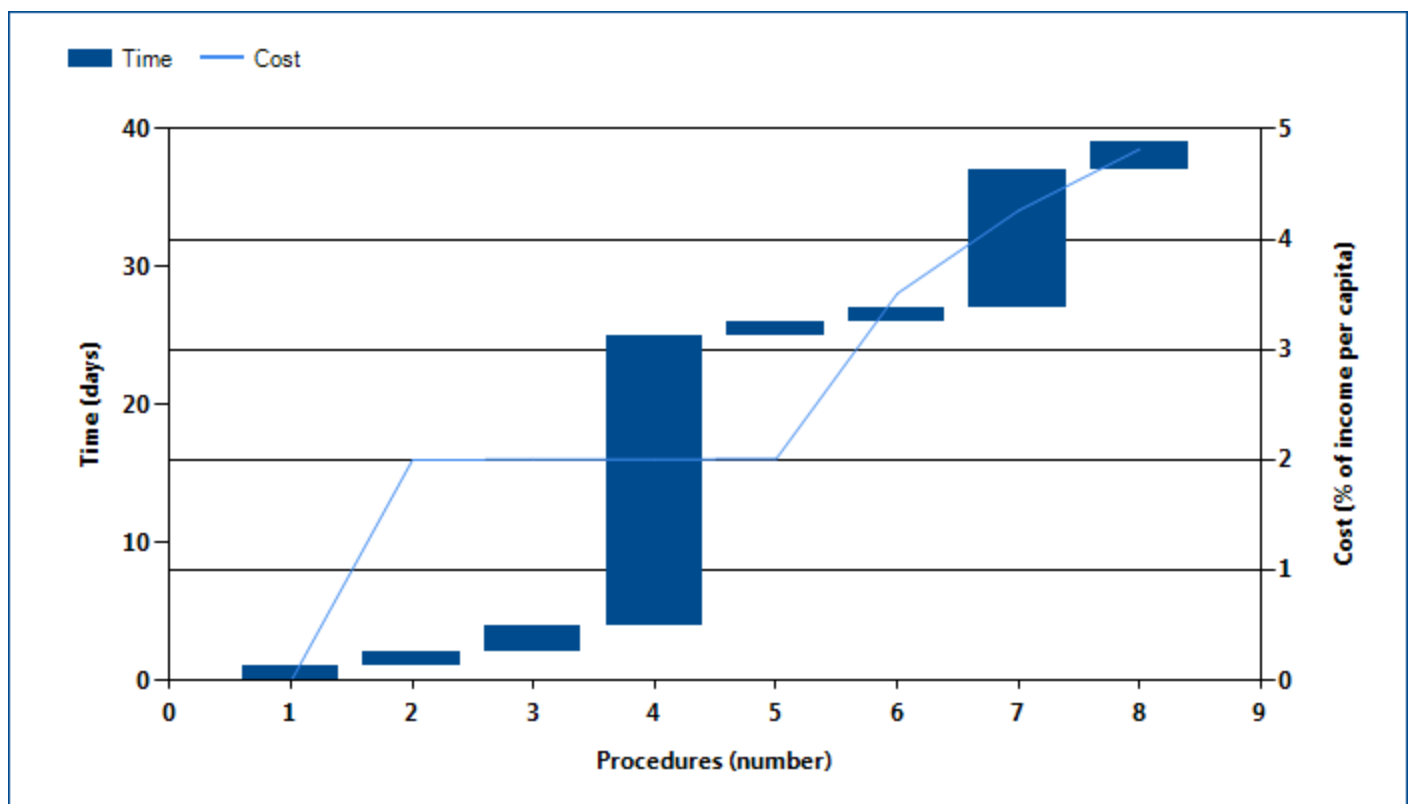
## REGISTERING PROPERTY

### Where does the economy stand today?

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

procedures, takes 39 days and costs 4.8% of the property value (figure 5.1).

Figure 5.1 What it takes to register property in Philippines



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

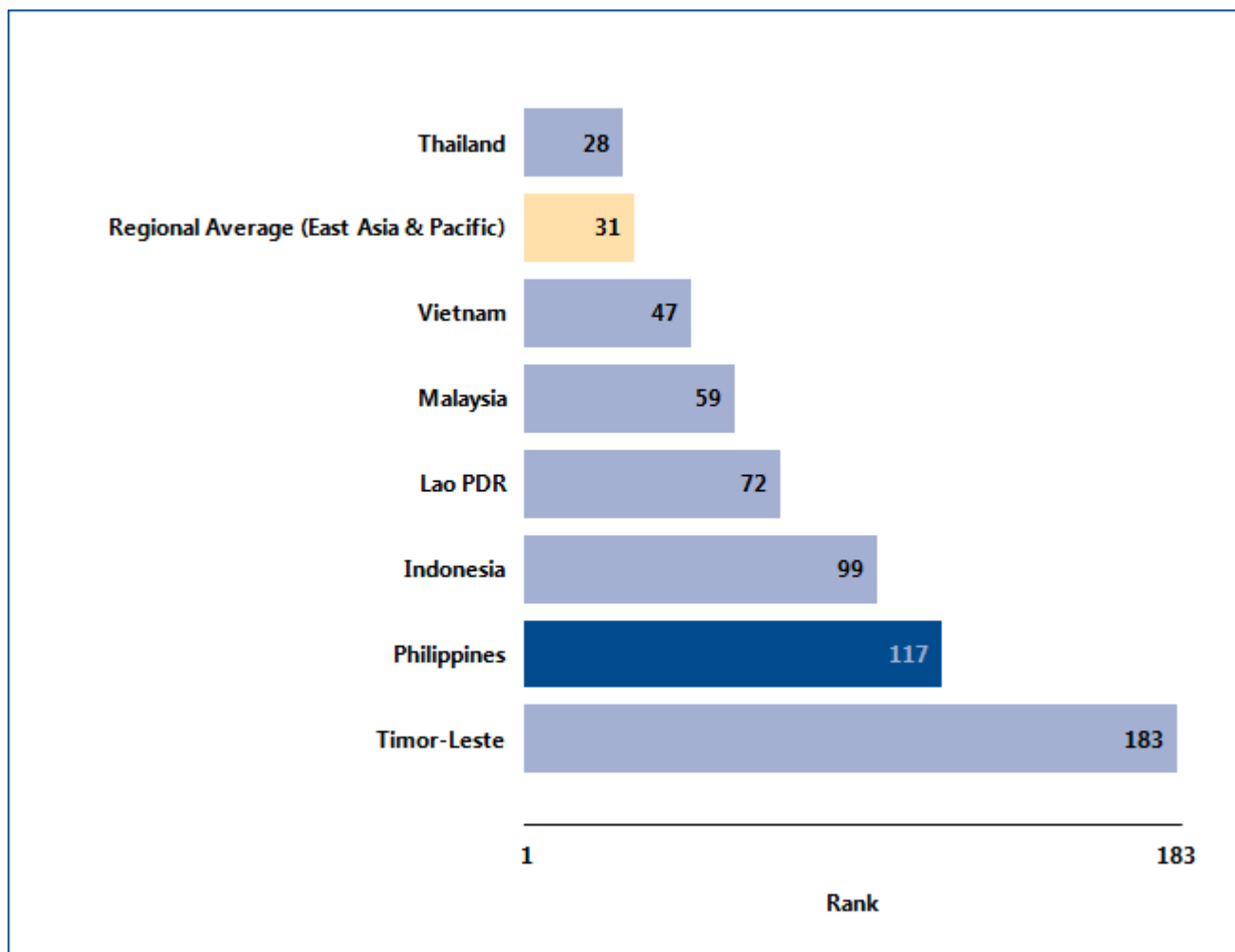
Source: *Doing Business* database.

## REGISTERING PROPERTY

Globally, Philippines stands at 117 in the ranking of 183 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 Philippines to transfer property.

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



Source: Doing Business database.

## REGISTERING PROPERTY

### What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to register property in Philippines today, data over time show which aspects of the

process have changed—and which have not (table 5.1). That can help identify where the potential for improvement is greatest.

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

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
<b>Rank</b>	..	..	..	..	..	..	109	117
<b>Procedures (number)</b>	8	8	8	8	8	8	8	8
<b>Time (days)</b>	39	39	39	39	39	39	39	39
<b>Cost (% of property value)</b>	4.8	4.8	4.7	4.8	4.8	4.1	4.8	4.8

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

*Source:* *Doing Business* database.

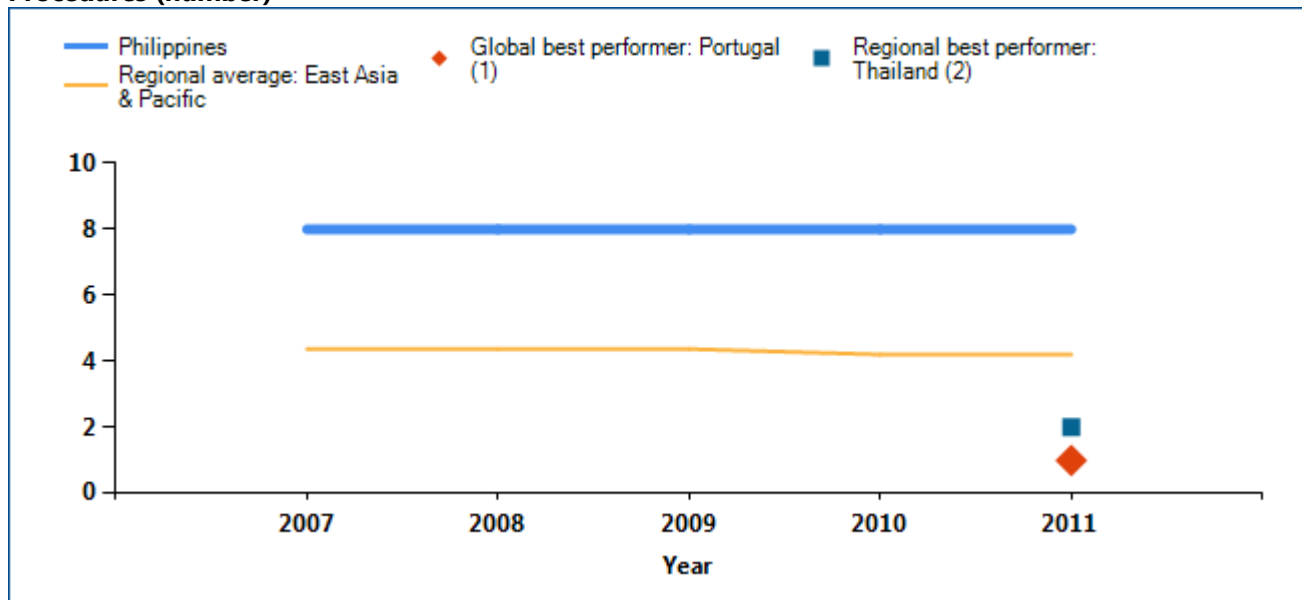
## REGISTERING PROPERTY

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the procedures, time or cost required to complete a property transfer (figure 5.3). These economies may provide a model for Philippines

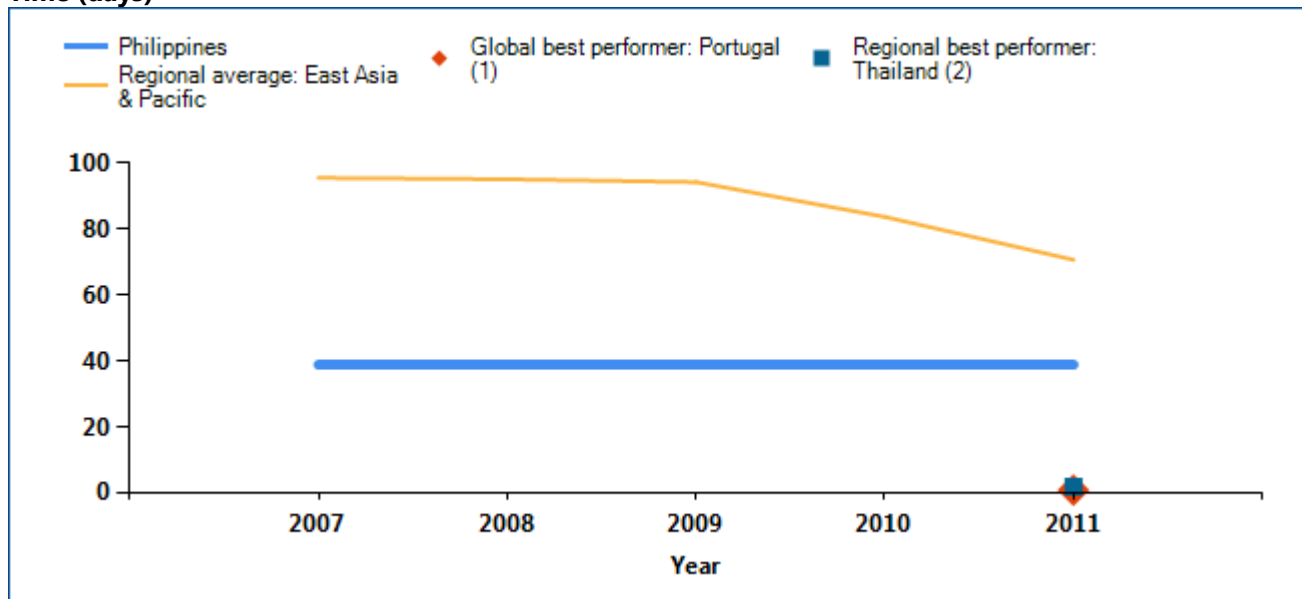
on ways to improve the ease of registering property. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

Figure 5.3 Has registering property become easier over time?

### Procedures (number)

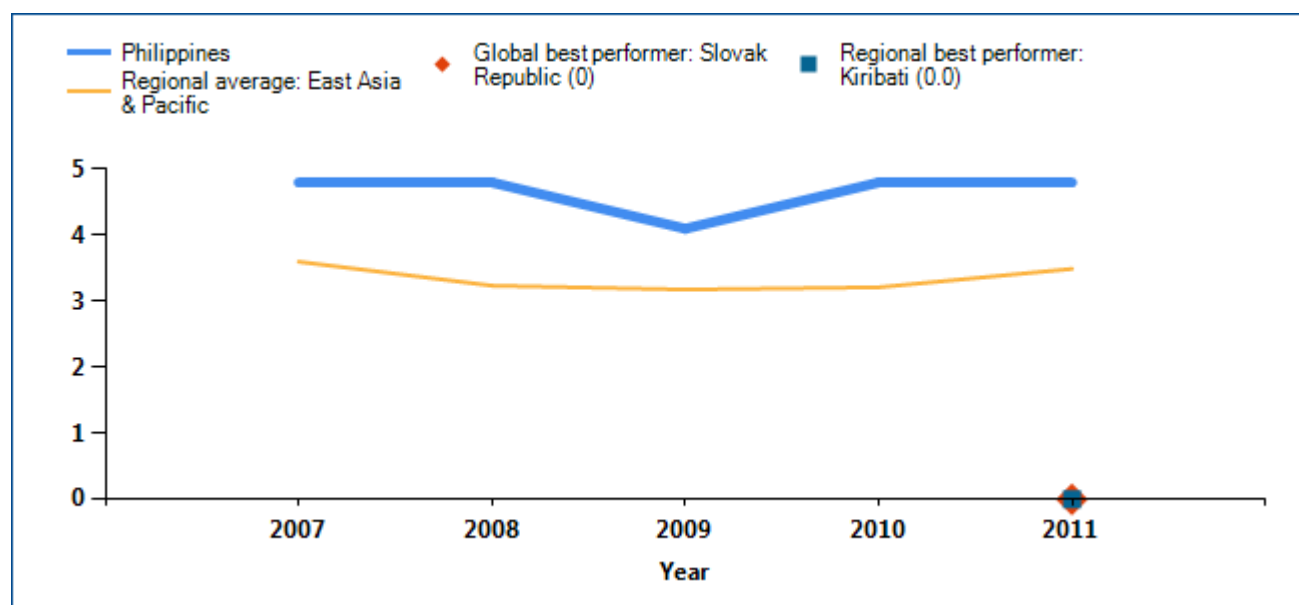


### Time (days)



## REGISTERING PROPERTY

## Cost (% of property value)



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

*Source:* *Doing Business* database.

## REGISTERING PROPERTY

Economies worldwide have been making it easier for entrepreneurs to register and transfer property—such as by computerizing land registries, introducing time limits for procedures and setting low fixed fees. Many

have cut the time required substantially—enabling buyers to use or mortgage their property earlier. What property registration reforms has *Doing Business* recorded in Philippines (table 5.2)?

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

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

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

*Source:* *Doing Business* database.

## 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:** Quezon city  
**Property Value:** 4,816,106.0

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

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

No.	Procedure	Time to complete	Cost to complete
1	<p><b>Prepare the notarized deed of sale and related documents</b></p> <p>While the deed of sale can be prepared by anyone, it must be executed before and notarized by a notary public. In many instances, the notary public drafts the deed of sale and conducts the whole process on behalf of the parties.</p> <p>In addition to the deed of sale, the Register of Deeds also requires both the buyer and the seller to submit notarized secretary's certificates containing the resolution of their board of directors approving the sale. The buyer must also produce a certificate from the Securities and Exchange Commission (SEC) stating that its articles of incorporation have been registered with the SEC.</p>	1 day	1 - 3% property value for notarization
2	<p><b>* Obtain certified true copy of latest tax declaration and certificate of "with improvement" from the City Assessor's Office (CAO)</b></p> <p>The seller obtains a certified true copy of the latest tax declaration from the Assessor's Office of Manila.</p>	1 day	PHP 275 (PHP 70 per RPU (land(1RPU), Building (1RPU)) + PHP 90 for certificate of "with improvement" + PHP 45 (PHP 15 documentary stamp tax per RPU/document)
3	<p><b>* Obtain tax clearance certificate of real property taxes from the Land Tax Division of the City Treasurer's Office (CTO)</b></p> <p>The seller, after paying any arrears, obtains a tax clearance certificate from the CTO.</p> <p>The documentation shall include an original of the official receipt</p>	2 days	PHP 65 (PHP 50 for tax clearance and PHP 15 for documentary stamp tax)

No.	Procedure	Time to complete	Cost to complete
	evidencing payment by seller of realty taxes.		
4	<p><b>Obtain Certificate Authorizing Registration (CAR) from the Bureau of Internal Revenue (BIR)</b></p> <p>The Certificate Authorizing Registration (CAR) is a certification issued by the BIR that the transfer and conveyance of the property was reported and the taxes due have been fully paid.</p> <p>The taxpayer/applicant must submit the following documents to the BIR:</p> <ul style="list-style-type: none"> <li>a. Tax identification number (TIN) of seller and buyer;</li> <li>b. Notarized deed of absolute sale/document of transfer, but only photocopied document shall be retained by the BIR;</li> <li>c. Certified true copy of the latest tax declaration issued by the City Assessor's Office for the land and improvement applicable to the taxable transaction;</li> <li>d. Owner's copy (for presentation purposes only) and photocopy (for authentication) of the Original Certificate of Title (OCT), or the certified true copy of the Transfer Certificate of Title (TCT);</li> <li>e. Sworn declaration of "with Improvement" by at least one (1) of the transferees, or certificate of "with Improvement" issued by the City Assessor's Office.</li> </ul> <p>All documents submitted must also include 2 photocopies.</p> <p>The Certificate Authorizing Registration that will be released will be accompanied by the following documents:</p> <p>The Original copy of the Deed of Absolute Sale stamped received by the BIR</p> <p>Original Copies of the BIR Return Forms 1706 (CGT) and 2000 (DST) stamped received by the BIR</p>	21 days	PHP 115 (PHP 100 certification fee + PHP 15 documentary tax)
5	<p><b>Pay documentary stamp tax and final capital gains tax for the transfer of real property</b></p> <p>The seller files the Documentary Stamp Tax return and Capital Gains Tax return with the authorized agent bank in the Revenue District of Manila. This is done within 5 days after the close of the month when the taxable document was signed or within 30 days after the sale, whichever is earlier. The taxes are paid at the authorized bank to the account of the Bureau of Internal Revenue. The Capital Gains Tax is 6% of capital gains based on selling price, fair market value or zonal value, whichever is higher.</p> <p>The Documentary Stamp Tax is 1.5% based on selling price or fair market value, whichever is higher. The seller may opt to have the taxing authority assess and compute the Capital Gains Tax and the Documentary Stamp Tax prior to payment to ensure accuracy of the amount of taxes due.</p>	1 day	1.5% of property value (Documentary Stamp Tax)



No.	Procedure	Time to complete	Cost to complete
	<p>The documentation shall include:</p> <ul style="list-style-type: none"> <li>Original copy and photocopy of notarized deed of sale of building (obtained in Procedure 1)</li> <li>Certified true copy of transfer certificate of title (in the name of seller)</li> <li>Certified true copy of latest tax declaration (in the name of seller) (obtained in Procedure 2)</li> <li>Photocopy of the latest realty tax receipt</li> <li>Letter-request</li> <li>Identification card of the person requesting</li> </ul> <p>Prior to payment, applicant accomplishes BIR forms 2000-OT and 1706 for DST and CWT respectively, based on the ONETT computation sheets prepared by the BIR ONETT team. The applicant files the DST return and CWT return and pays the taxes at the AAB of the Revenue District Office. Payment must be made through either a manager's check or cashier's check within 5 days after the close of the month when the taxable document was signed or within 30 days from the sale, whichever is earlier.</p> <p>Upon receipt of proof of tax payment from the taxpayer/applicant, the BIR immediately issues a claim slip.</p>		
6	<p><b>Pay the transfer tax at the CTO</b></p> <p>The transfer tax must be paid at the CTO.</p> <p>The documentation shall include:</p> <ul style="list-style-type: none"> <li>a. Certificate Authorizing Registration from the Bureau of Internal Revenue (obtained in Procedure 4);</li> <li>b. Tax clearance certificate from the Treasurer's Office of Manila (obtained in Procedure 5);</li> <li>c. Official receipt of the Bureau of Internal Revenue (for documentary stamp tax) (obtained in Procedure 4).</li> </ul>	1 day	0.75% of property price (transfer tax) + PHP 125 (certificate of payment)
7	<p><b>Apply for registration with the Register of Deeds</b></p> <p>The buyer applies for registration with the Register of Deeds. The documentation shall include:</p> <ul style="list-style-type: none"> <li>a. Copy of deed of absolute sale;</li> <li>b. Official receipt evidencing payment of transfer tax;</li> <li>c. Certificate Authorizing Registration from the BIR (CAR) including official receipts for payment of DST and CWT;</li> <li>d. Real property tax clearance from the City Treasurer's Office;</li> <li>e. Original copy of owner's duplicate of TCT (in the name of the seller);</li> <li>f. Original or certified true copy of the latest tax declaration;</li> <li>g. Notarized secretary's certificate containing resolution of the board of directors of the seller approving the sale;</li> <li>h. Notarized secretary's certificate containing resolution of the board of directors of the buyer approving the sale;</li> <li>i. Articles of incorporation of the buyer and by-laws; and</li> </ul>	About 10 days	Registration fee consisting of PHP 8,796 for first PHP 1,700,000 + PHP 90 for every PHP 20,000 or fraction thereof in excess of PHP 1,700,000 + PHP 199.56 legal research fee (1% of the registration fee) + PHP 30 judicial form fee + PHP 2,419.2 IT fee (PHP

No.	Procedure	Time to complete	Cost to complete
	j. Certificate from the SEC that the articles of incorporation of the buyer have been registered.		
8	<p><b>Obtain new tax declaration over the building and the land in the name of buyer from CAO</b></p> <p>The buyer applies with the CAO for the issuance of a new tax declaration over the building in his name. The documentation shall include:</p> <ul style="list-style-type: none"> <li>a. Photocopy of notarized deed of sale (obtained in Procedure 1);</li> <li>b. Copy of latest tax declaration (in the name of seller) (obtained in Procedure 2);</li> <li>c. Tax clearance certificate of real property taxes from the CTO (obtained in Procedure 3);</li> <li>d. Certificate authorizing registration from the BIR (obtained in Procedure 4);</li> <li>e. Photocopy of official receipt of transfer tax payment (original copy to be presented) (obtained in Procedure 6); and</li> <li>f. The transfer certificate of title (TCT) issued by the RD (in the name of the buyer) (obtained in Procedure 7).</li> </ul>	2 days	no cost

\* Takes place simultaneously with another procedure.

Source: *Doing Business* database.

## GETTING CREDIT

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

### What do the indicators cover?

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

- Is a private, limited liability company.
- Has its headquarters and only base of operations in the largest business city.

### WHAT THE GETTING CREDIT INDICATORS MEASURE

#### Strength of legal rights index (0–10)

Protection of rights of borrowers and lenders through collateral laws

Protection of secured creditors' rights through bankruptcy laws

#### Depth of credit information index (0–6)

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

#### Public credit registry coverage (% of adults)

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

#### Private credit bureau coverage (% of adults)

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

- Has 100 employees.
- Is 100% domestically owned, as is the lender.

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

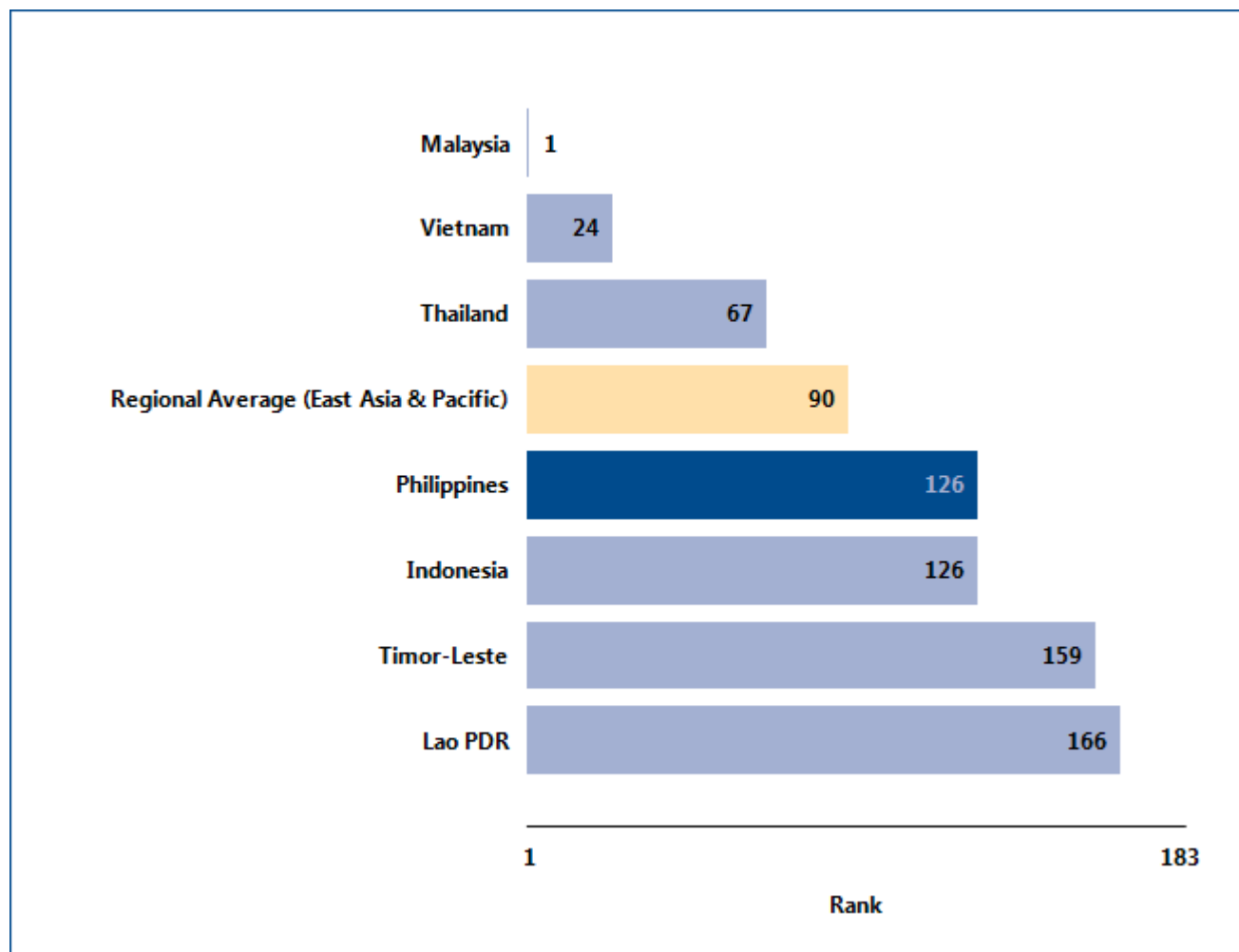
## GETTING CREDIT

### Where does the economy stand today?

How well do the credit information system and collateral and bankruptcy laws in Philippines facilitate access to credit? The economy has a score of 3 on the depth of credit information index and a score of 4 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, Philippines stands at 126 in the ranking of 183 economies on the ease of getting credit (figure 6.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how well regulations and institutions in Philippines support lending and borrowing.

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

Indicator	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	116	126
Strength of legal rights index (0-10)	4	4	4	4	4	4	4	4
Depth of credit information index (0-6)	3	3	3	3	3	3	3	3
Public registry coverage (% of adults)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private bureau coverage (% of adults)	3.4	3.7	4.8	5.5	5.4	6.1	7.4	8.2

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

Source: *Doing Business* database.

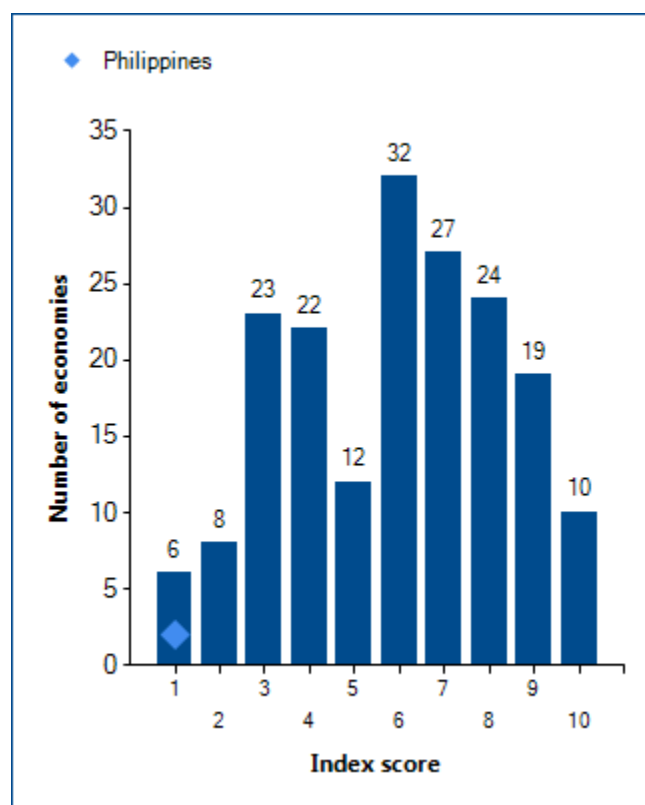
## GETTING CREDIT

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

index for Philippines in 2011 and shows the number of other economies having the same score in 2011. Figure 6.3 shows the same thing for the depth of credit information index.

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

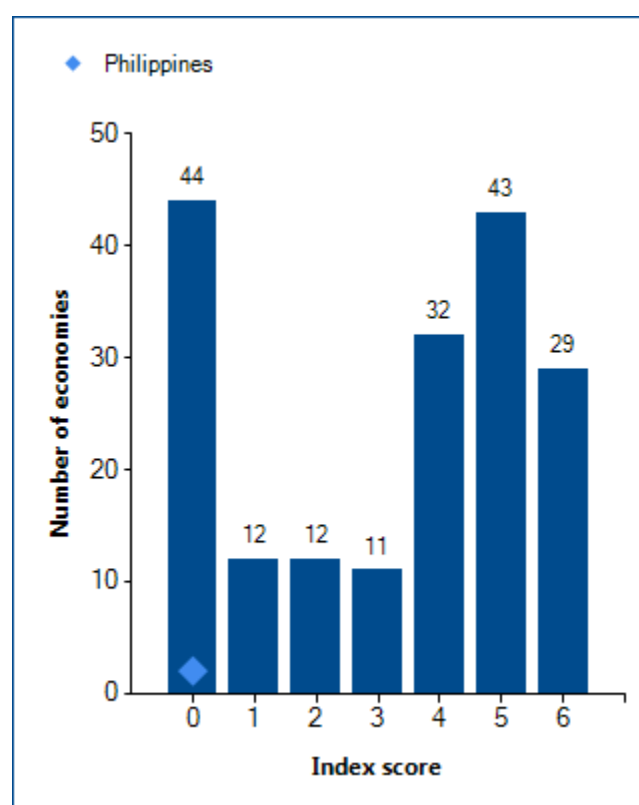
Number of economies with each score on strength of legal rights index (0–10), 2011



Source: Doing Business database.

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

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



Source: Doing Business database.

## GETTING CREDIT

When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of

credit information, they can increase entrepreneurs' access to credit. What credit reforms has *Doing Business* recorded in Philippines (table 6.2)?

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

DB Year	Reform
<b>DB2012</b>	No reform.
<b>DB2011</b>	No reform.
<b>DB2010</b>	Access to credit was enhanced with a new credit information act that regulates the operations and services of a credit information system.
<b>DB2009</b>	No reform.

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

*Source:* *Doing Business* database.

## GETTING CREDIT

### What are the details?

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

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

#### Summary of scoring for the getting credit indicators in Philippines

Indicator	Philippines	East Asia & Pacific	OECD high income
<b>Strength of legal rights index (0-10)</b>	4	7	7
<b>Depth of credit information index (0-6)</b>	3	2	5
<b>Public registry coverage (% of adults)</b>	0.0	10.3	9.5
<b>Private bureau coverage (% of adults)</b>	8.2	18.1	63.9

<b>Strength of legal rights index (0–10)</b>	<b>Index score: 4</b>
Can any business use movable assets as collateral while keeping possession of the assets; and any financial institution accept such assets as collateral ?	Yes
Does the law allow businesses to grant a non possessory security right in a single category of movable assets, without requiring a specific description of collateral?	No
Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of collateral?	No
May a security right extend to future or after-acquired assets, and may it extend automatically to the products, proceeds or replacements of the original assets ?	No
Is a general description of debts and obligations permitted in collateral agreements; can all types of debts and obligations be secured between parties; and can the collateral agreement include a maximum amount for which the assets are encumbered?	No
Is a collateral registry in operation, that is unified geographically and by asset type, with an electronic database indexed by debtor's names?	No
Are secured creditors paid first (i.e. before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure?	Yes



<b>Strength of legal rights index (0–10)</b>	<b>Index score: 4</b>
Are secured creditors paid first (i.e. before general tax claims and employee claims) when a business is liquidated?	No
Are secured creditors either not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure, or the law provides secured creditors with grounds for relief from an automatic stay or	Yes
Does the law allow parties to agree in a collateral agreement that the lender may enforce its security right out of court, at the time a security interest is created?	Yes

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

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

<b>Coverage</b>	<b>Private credit bureau</b>	<b>Public credit registry</b>
<b>Number of firms</b>	..	0
<b>Number of individuals</b>	..	0

*Source:* Doing Business database.

## PROTECTING INVESTORS

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

### What do the indicators cover?

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

The business (Buyer):

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

The transaction involves the following details:

- Mr. James, a director and the majority shareholder of the company, proposes that

### WHAT THE PROTECTING INVESTORS INDICATORS MEASURE

#### Extent of disclosure index (0–10)

- Who can approve related-party transactions
- Disclosure requirements in case of related-party transactions

#### Extent of director liability index (0–10)

- Ability of shareholders to hold interested parties and members of the approving body liable in case of related-party transactions
- Available legal remedies (damages, repayment of profits, fines, imprisonment and rescission of the transaction)
- Ability of shareholders to sue directly or derivatively

#### Ease of shareholder suits index (0–10)

- Access to internal corporate documents (directly or through a government inspector)
- Documents and information available during trial

#### Strength of investor protection index (0–10)

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

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

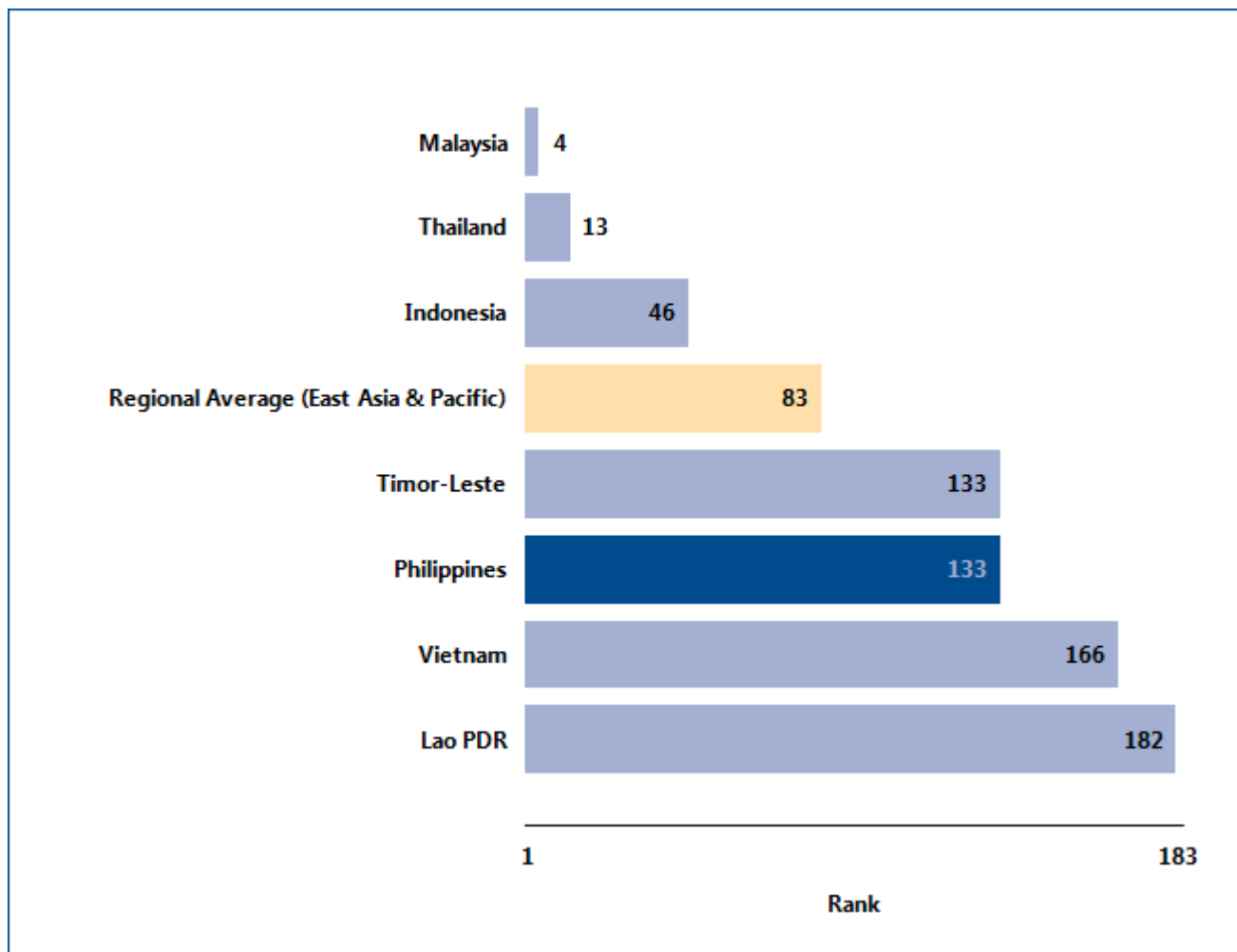
### Where does the economy stand today?

How strong are investor protections in Philippines? 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, Philippines stands at 133 in the ranking of 183 economies on the strength of investor protection

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

Figure 7.1 How Philippines 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 Philippines 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 Philippines over time  
By *Doing Business* report year

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	131	133
Extent of disclosure index (0-10)	2	2	2	2	2	2	2
Extent of director liability index (0-10)	2	2	2	2	2	2	2
Ease of shareholder suits index (0-10)	8	8	8	8	8	8	8
Strength of investor protection index (0-10)	4.0	4.0	4.0	4.0	4.0	4.0	4.0

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

Source: *Doing Business* database.

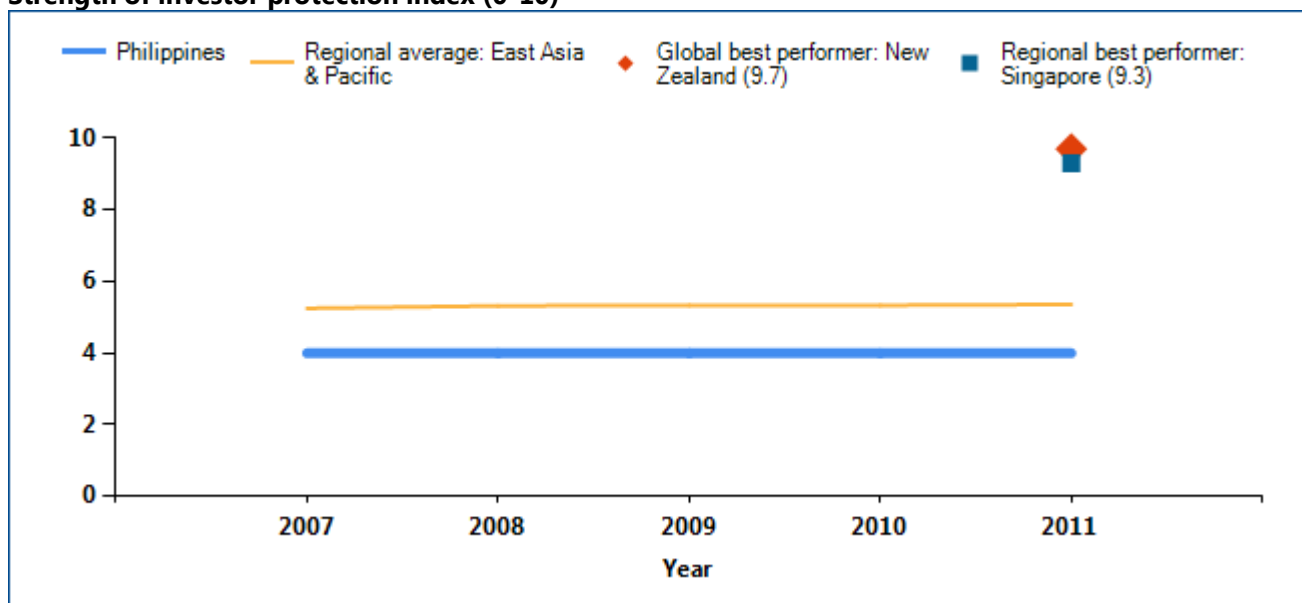
## PROTECTING INVESTORS

But the overall ranking on the strength of investor protection index tells only part of the story. Economies may offer strong protections in some areas but not others. So the scores recorded over time for Philippines on the extent of disclosure, extent of

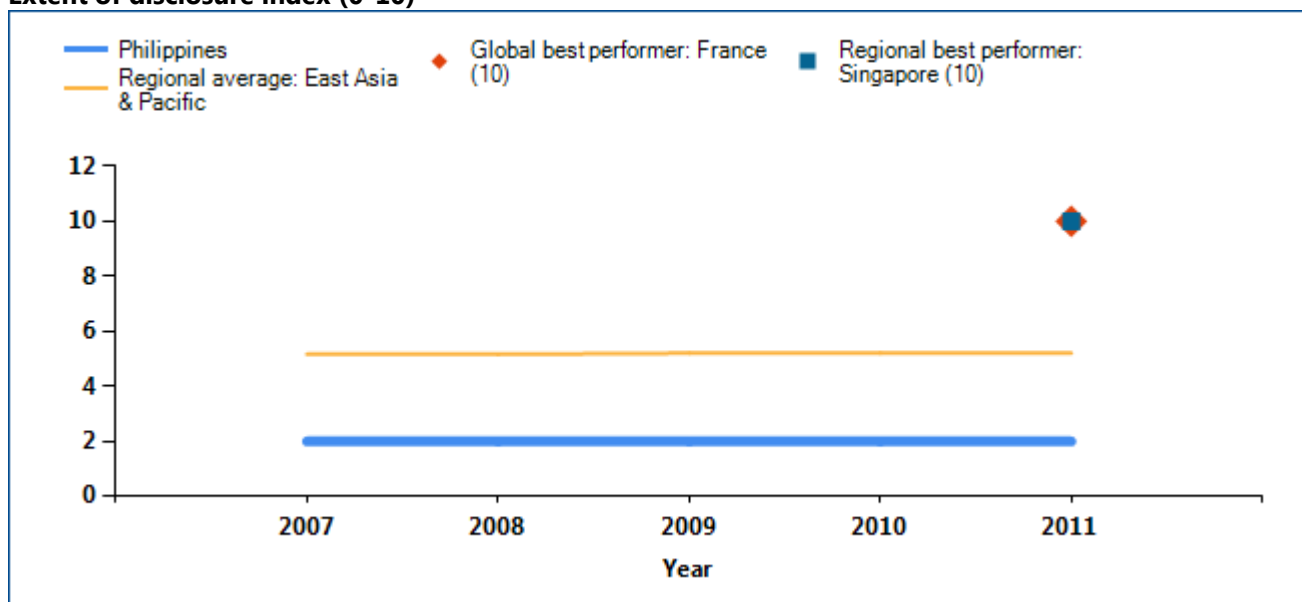
director liability and ease of shareholder suits indices may also be revealing (figure 7.2). Equally interesting may be the changes over time in the regional average scores for those indices.

Figure 7.2 Have investor protections become stronger?

### Strength of investor protection index (0-10)

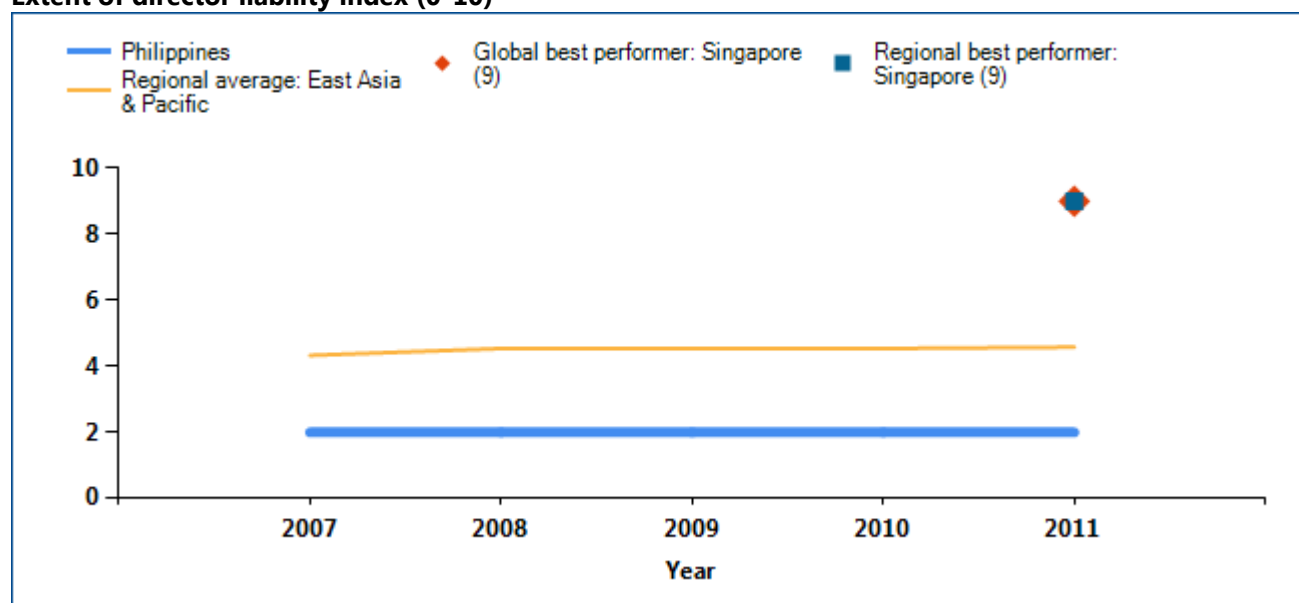


### Extent of disclosure index (0-10)

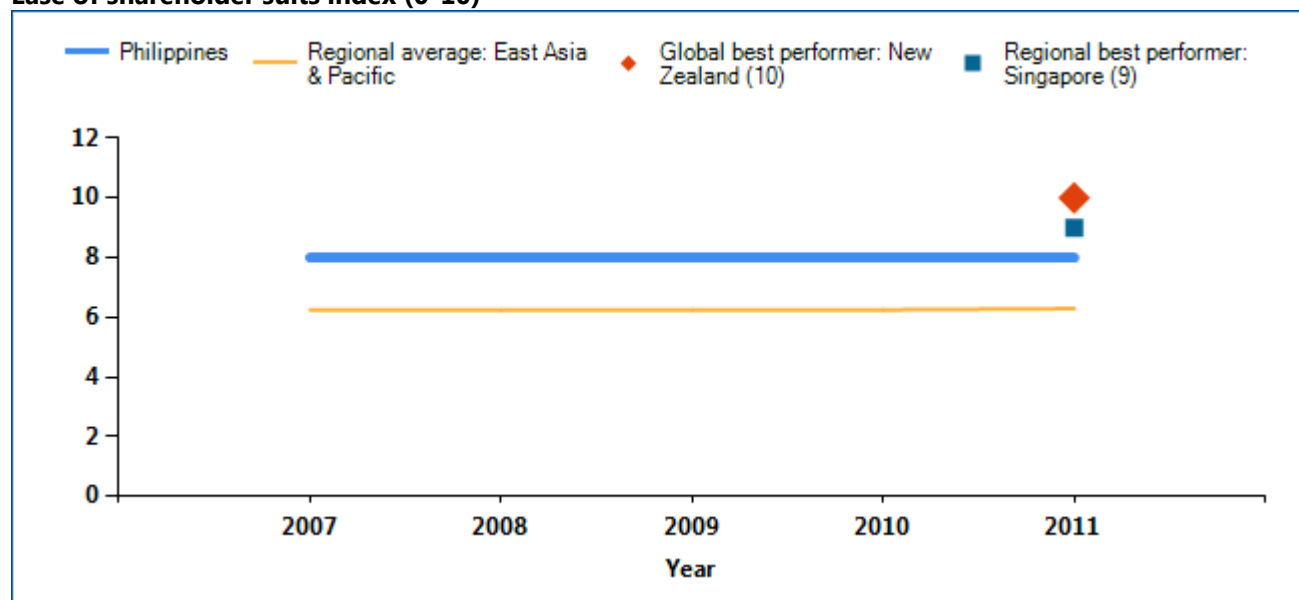


## PROTECTING INVESTORS

## Extent of director liability index (0-10)



## Ease of shareholder suits index (0-10)



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

*Source:* *Doing Business* database.

## PROTECTING INVESTORS

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

time. So reforms to strengthen investor protections may move ahead on different fronts—such as through new or amended company laws or civil procedure rules. What investor protection reforms has *Doing Business* recorded in Philippines (table 7.2)?

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

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

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

Source: *Doing Business* database.

## PROTECTING INVESTORS

### What are the details?

The protecting investors indicators reported here for Philippines are based on detailed information collected through a survey of corporate and securities lawyers and are based on securities regulations, company laws and court rules of evidence. To construct the extent of disclosure, extent of director liability and ease of

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

#### Summary of scoring for the protecting investors indicators in Philippines

Indicator	Philippines	East Asia & Pacific	OECD high income
<b>Extent of disclosure index (0-10)</b>	2	5	6
<b>Extent of director liability index (0-10)</b>	2	5	5
<b>Ease of shareholder suits index (0-10)</b>	8	6	7
<b>Strength of investor protection index (0-10)</b>	4.0	5.4	6.0

	Score
Extent of disclosure index (0-10)	2
What corporate body provides legally sufficient approval for the transaction?	0
Whether disclosure of the conflict of interest by Mr. James to the board of directors is required?	0
Whether immediate disclosure of the transaction to the public and/or shareholders is required?	0
Whether disclosure of the transaction in published periodic filings (annual reports) is required?	2
Whether an external body must review the terms of the transaction before it takes place?	0
Extent of director liability index (0-10)	2
Whether shareholders can sue directly or derivatively for the damage that the Buyer-Seller transaction causes to the company?	1
Whether shareholders can hold Mr. James liable for the damage that the Buyer-Seller transaction causes to the company?	0
Whether shareholders can hold members of the approving body liable for the damage that the Buyer-Seller transaction causes to the company?	0
Whether a court can void the transaction upon a successful claim by a shareholder plaintiff?	0



	Score
Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff?	1
Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff?	0
Whether fines and imprisonment can be applied against Mr. James?	0
Ease of shareholder suits index (0-10)	8
Whether shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit?	1
Whether shareholders owning 10% or less of Buyer's shares can request an inspector to investigate the transaction?	1
Whether the plaintiff can obtain any documents from the defendant and witnesses during trial?	3
Whether the plaintiff can request categories of documents from the defendant without identifying specific ones?	0
Whether the plaintiff can directly question the defendant and witnesses during trial?	2
Whether the level of proof required for civil suits is lower than that of criminal cases?	1
Strength of investor protection index (0-10)	4.0

Source: Doing Business database.

## Notes:

### Extent of disclosure index (0–10)

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

*Which corporate body can provide legally sufficient approval for the transaction*

0 = CEO or managing director alone; 1 = shareholders or board of directors vote and Mr. James can vote; 2 = board of directors votes and Mr. James cannot vote; 3 = shareholders vote and Mr. James cannot vote.

*Whether disclosure of the conflict of interest by Mr. James to the board of directors is required*

0 = no disclosure; 1 = disclosure of the existence of a conflict without any specifics; 2 = full disclosure of all material facts.

*Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required*

0 = no disclosure; 1 = disclosure on the transaction only; 2 = disclosure on the transaction and Mr. James's conflict of interest.

*Whether disclosure of the transaction in the annual report is required*

0 = no disclosure; 1 = disclosure on the transaction only; 2 = disclosure on the transaction and Mr. James's conflict of interest.

*Whether it is required that an external body (for example, an external auditor) review the transaction before it takes place*

0 = no; 1 = yes.

#### **Extent of director liability index (0–10)**

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

*Whether shareholders can sue directly or derivatively for the damage that the Buyer-Seller transaction causes to the company*

0 = suits are unavailable or available only for shareholders holding more than 10% of the company's share capital; 1 = direct or derivative suits available for shareholders holding 10% of share capital or less.

*Whether shareholders can hold Mr. James liable for the damage that the transaction causes to the company*

0 = Mr. James is not liable or is liable only if he acted fraudulently or in bad faith; 1 = Mr. James is liable if he influenced the approval or was negligent; 2 = Mr. James is liable if the transaction is unfair or prejudicial to the other shareholders.

*Whether shareholders can hold the approving body (the CEO or members of the board of directors) liable for the damage that the transaction causes to the company*

0 = members of the approving body are either not liable or liable only if they acted fraudulently or in bad faith; 1 = liable for negligence in the approval of the transaction; 2 = liable if the transaction is unfair or prejudicial to the other shareholders.

*Whether a court can void the transaction upon a successful claim by a shareholder plaintiff*

0 = rescission is unavailable or available only in case of Seller's fraud or bad faith; 1 = rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 = rescission is available when the transaction is unfair or entails a conflict of interest.

*Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff*

0 = no; 1 = yes.

*Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff*

0 = no; 1 = yes.

*Whether both fines and imprisonment can be applied against Mr. James*

0 = no; 1 = yes.

#### **Ease of shareholder suits index (0–10)**

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

*What range of documents is available to the plaintiff from the defendant and witnesses during trial*

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

*Whether the plaintiff can directly examine the defendant and witnesses during trial*

0 = no; 1 = yes, with prior approval by the court of the questions posed; 2 = yes, without prior approval.

*Whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each document specifically*

0 = no; 1 = yes.

*Whether shareholders owning 10% or less of the company's share capital can request that a government inspector investigate the transaction without filing suit in court*

0 = no; 1 = yes.

*Whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit*

0 = no; 1 = yes.

*Whether the standard of proof for civil suits is lower than that for a criminal case*

0 = no; 1 = yes.

#### **Strength of investor protection index (0–10)**

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

## PAYING TAXES

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

### What do the indicators cover?

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

- TaxpayerCo is a medium-size business that started operations on January 1, 2009.
- The business starts from the same financial position in each economy. All the taxes and mandatory contributions paid during the second year of operation are recorded.
- Taxes and mandatory contributions are measured at all levels of government.

### WHAT THE PAYING TAXES INDICATORS MEASURE

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

Total number of taxes and contributions paid, including consumption taxes (value added tax, sales tax or goods and service tax)

Method and frequency of filing and payment

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

Collecting information and computing the tax payable

Completing tax return forms, filing with proper agencies

Arranging payment or withholding

Preparing separate tax accounting books, if required

#### Total tax rate (% of profit before all taxes)

Profit or corporate income tax

Social contributions and labor taxes paid by the employer

Property and property transfer taxes

Dividend, capital gains and financial transactions taxes

Waste collection, vehicle, road and other taxes

- 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.

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

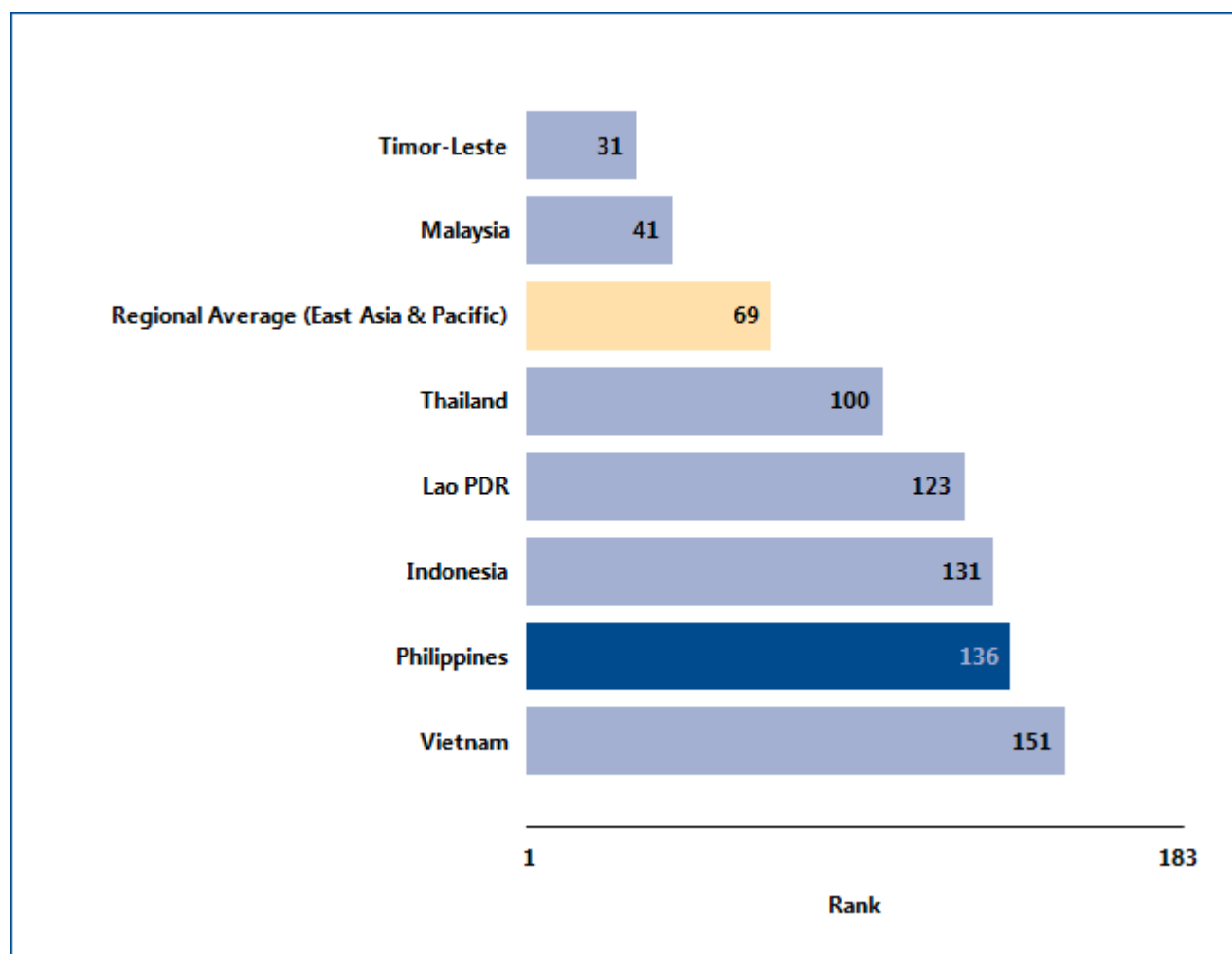
## PAYING TAXES

### Where does the economy stand today?

What is the administrative burden of complying with taxes in Philippines—and how much do firms pay in taxes? On average, firms make 47 tax payments a year, spend 195 hours a year filing, preparing and paying taxes and pay total taxes amounting to 21.0% of profit (see the summary at the end of this chapter for details).

Globally, Philippines stands at 136 in the ranking of 183 economies on the ease of paying taxes (figure 8.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing the tax compliance burden for businesses in Philippines.

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



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

Source: *Doing Business* database.

## PAYING TAXES

### What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to comply with tax rules in Philippines today, data over time show which aspects

of the process have changed — and which have not (table 8.1). That can help identify where the potential for easing tax compliance is greatest.

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

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	127	136
Payments (number per year)	48	48	47	47	47	47	47
Time (hours per year)	195	195	195	195	195	195	195
Total tax rate (% profit)	49.8	50.2	51.3	49.4	49.4	45.8	46.5

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

Source: *Doing Business* database.

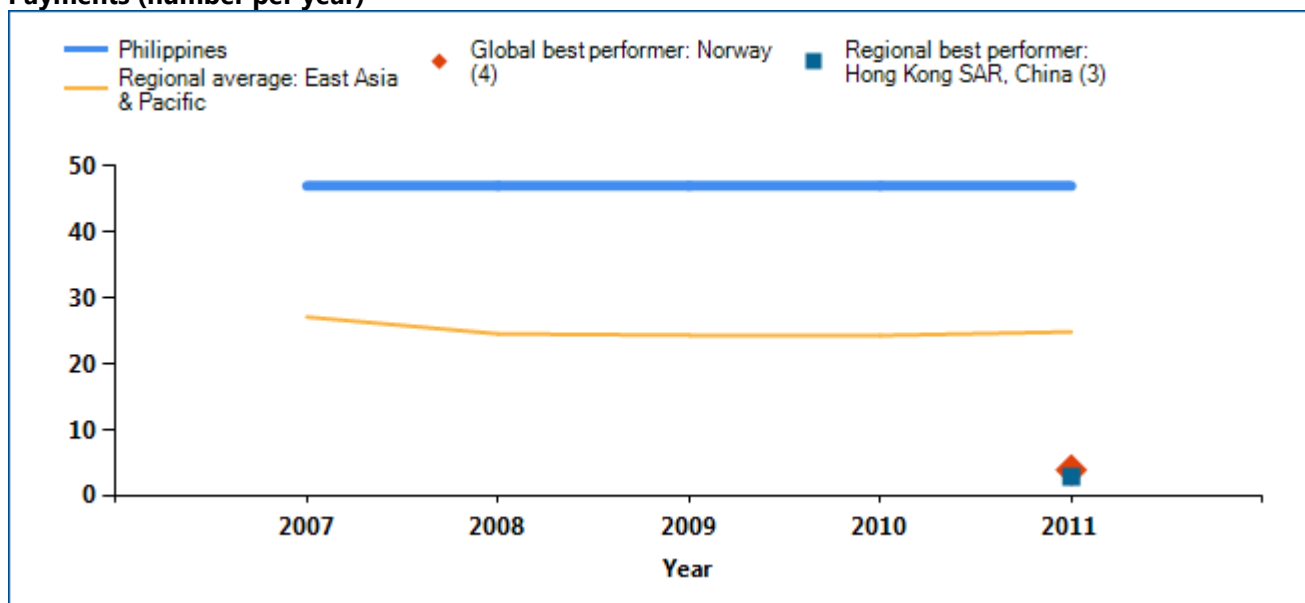
## PAYING TAXES

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the number of payments or the time required to prepare and file taxes (figure 8.2). These economies may provide a model for Philippines

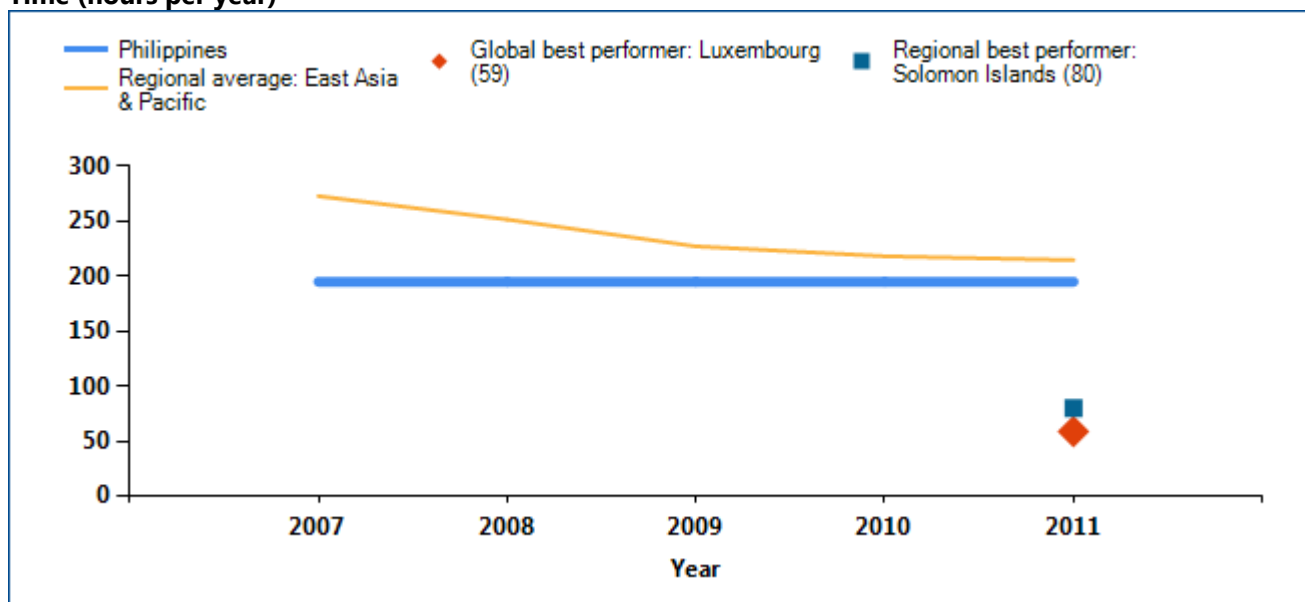
on ways to ease the administrative burden of tax compliance. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

Figure 8.2 Has paying taxes become easier over time?

### Payments (number per year)

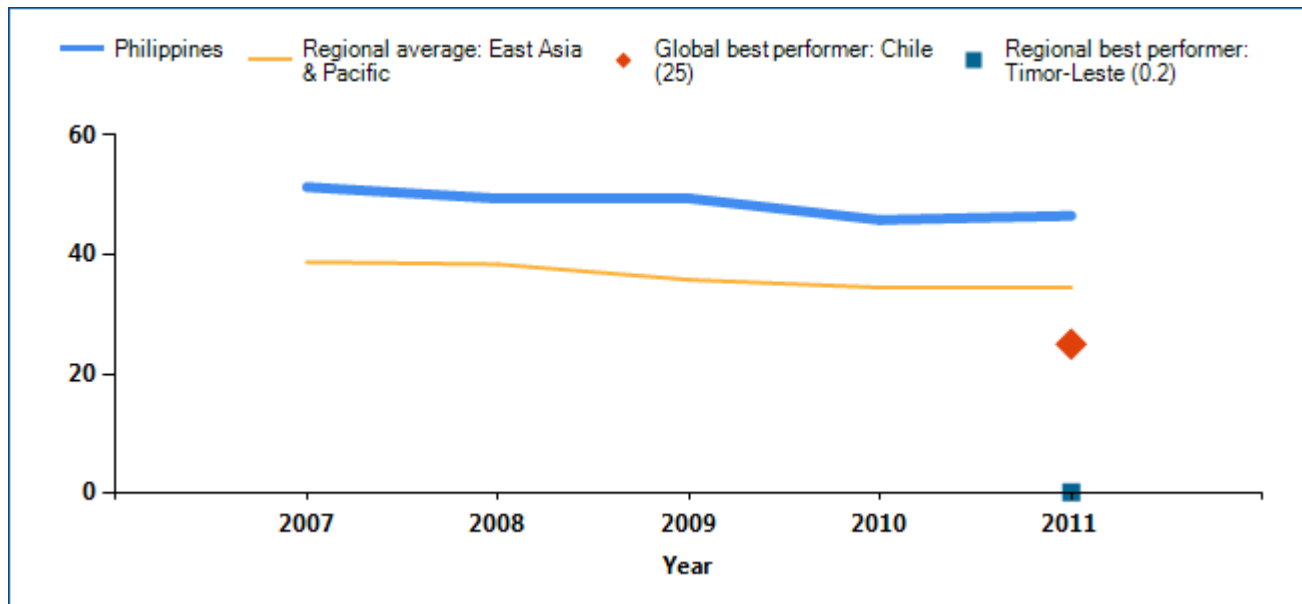


### Time (hours per year)



## PAYING TAXES

## Total tax rate (% of profit)



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

*Source:* Doing Business database.



## PAYING TAXES

Economies around the world have made paying taxes faster and easier for businesses—such as by consolidating filings, reducing the frequency of payments or offering electronic filing and payment. Many have lowered tax rates. Changes have brought

concrete results. Some economies simplifying tax payment and reducing rates have seen tax revenue rise. What tax reforms has *Doing Business* recorded in Philippines (table 8.2)?

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

DB Year	Reform
DB2012	No reform.
DB2011	No reform.
DB2010	The corporate income tax rate was cut from 35 percent to 30 percent of profit.
DB2009	No reform.

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

*Source:* *Doing Business* database.

## PAYING TAXES

### What are the details?

The indicators reported here for Philippines are based on a standard set of taxes and contributions that would be paid by the case study company used by *Doing Business* in collecting the data (see the section in this chapter on what the indicators cover). Tax practitioners are asked to review standard financial statements as well as a standard list of transactions

that the company completed during the year. Respondents are asked how much in taxes and mandatory contributions the business must pay and what the process is for doing so. The taxes and contributions paid are listed in the summary below, along with the associated number of payments, time and tax rate.

#### Summary of tax rates and administrative burden in Philippines

Indicator	Philippines	East Asia & Pacific	OECD high income
Payments (number per year)	47	25	13
Time (hours per year)	195	215	186
Profit tax (%)	21.0	16.8	15.4
Labor tax and contributions (%)	11.3	10.7	24.0
Other taxes (%)	14.2	6.9	3.2
Total tax rate (% profit)	46.5	34.5	42.7

Tax or mandatory contribution	Payments (number)	Notes on payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% of profit)	Notes on total tax rate
Corporate income tax	1	online filing	37	30.0%	taxable profits	21	
Local business tax	1		0	0.50%	previous year turnover	8.8	
Employer paid - Social security contributions	12		38	7.02% to 7.45%	gross salaries	7.6	
Real property tax	1		0	2.00%	assessed property value	4.2	
Employer paid - Health insurance	12		0	1.12157%-1.24615%	gross salaries	1.7	

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
Employer paid - Housing development fund	12		0	2% or PHP 100 per worker	gross salaries	1.7	
Tax on interest	1		0	20.00%	interest	0.5	
Community tax certificate	1		0	fixed fee (PHP 10,500)		0.3	
Environmental tax	1		0	PHP 10,000		0.2	
Employer paid - Employer's compensation	0	paid jointly	0	PHP 10	per employee per month	0.2	
Vehicle tax	1		0	basic fee + 24%	vehicle's weight	0.1	
BIR certificate	0	paid jointly	0	fixed fee (PHP 500)		0	
Tax on check transactions	1		0	PHP 1.5 per check	number of checks	0	
Tax on insurance contracts	1		0	P 0.5 per each P 4	insurance premium	0	small amount
Stamp duty	1		0	various rates	contract value	0	small amount
Value added tax (VAT)	1	online filing	120	12.0%	value added	0	not included
<b>Totals</b>	<b>47</b>		<b>195</b>			<b>46.5</b>	

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

Source: Doing Business database.

## TRADING ACROSS BORDERS

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

### What do the indicators cover?

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

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

The business:

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

The traded goods:

- Are not hazardous nor do they include military items.

### WHAT THE TRADING ACROSS BORDERS INDICATORS MEASURE

#### Documents required to export and import (number)

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

#### Time required to export and import (days)

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

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

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

- 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.

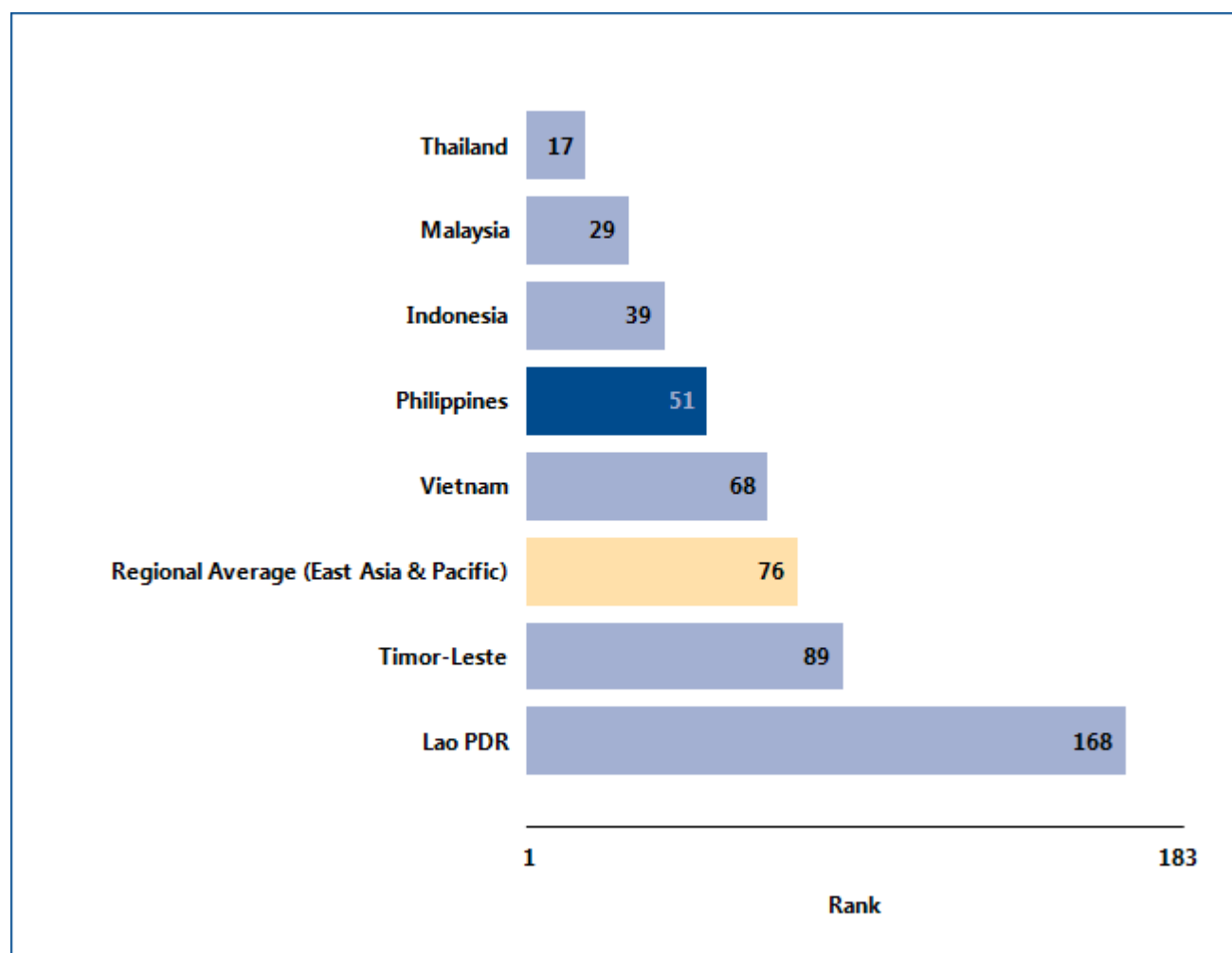
## TRADING ACROSS BORDERS

### Where does the economy stand today?

What does it take to export or import in Philippines? According to data collected by *Doing Business*, exporting a standard container of goods requires 7 documents, takes 15 days and costs \$630. Importing the same container of goods requires 8 documents, takes 14 days and costs \$730 (see the summary of procedures and documents at the end of this chapter for details).

Globally, Philippines stands at 51 in the ranking of 183 economies on the ease of trading across borders (figure 9.1). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for a business in Philippines to export and import goods.

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



Source: *Doing Business* database.

## TRADING ACROSS BORDERS

### What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to export or import in Philippines today, data over time show which aspects of the

process have changed—and which have not (table 9.1). That can help identify where the potential for improvement is greatest.

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

Indicator	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	54	51
Documents to export (number)	7	7	7	7	7	7	7
Time to export (days)	17	17	17	16	16	15	15
Cost to export (US\$ per container)	755	755	755	771	771	630	630
Documents to import (number)	8	8	8	8	8	8	8
Time to import (days)	18	18	18	16	16	14	14
Cost to import (US\$ per container)	800	800	800	819	819	730	730

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

Source: *Doing Business* database.

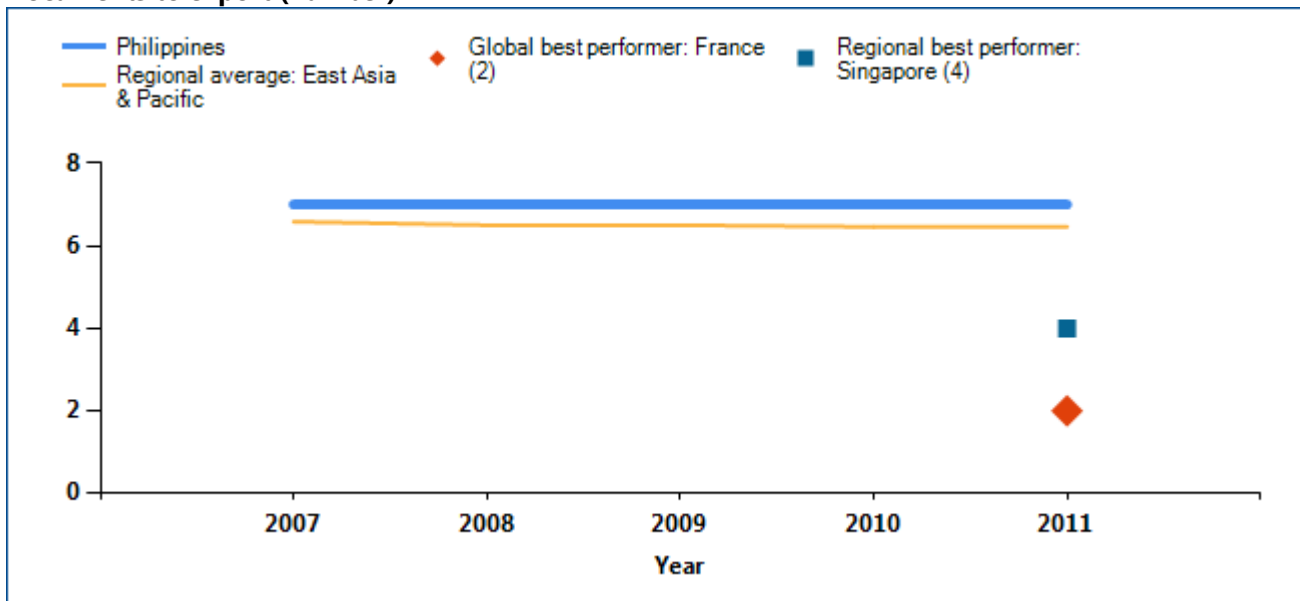
Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the documents, time or cost required to export or import (figure 9.2). These economies may provide a model for Philippines on

ways to improve the ease of trading across borders. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

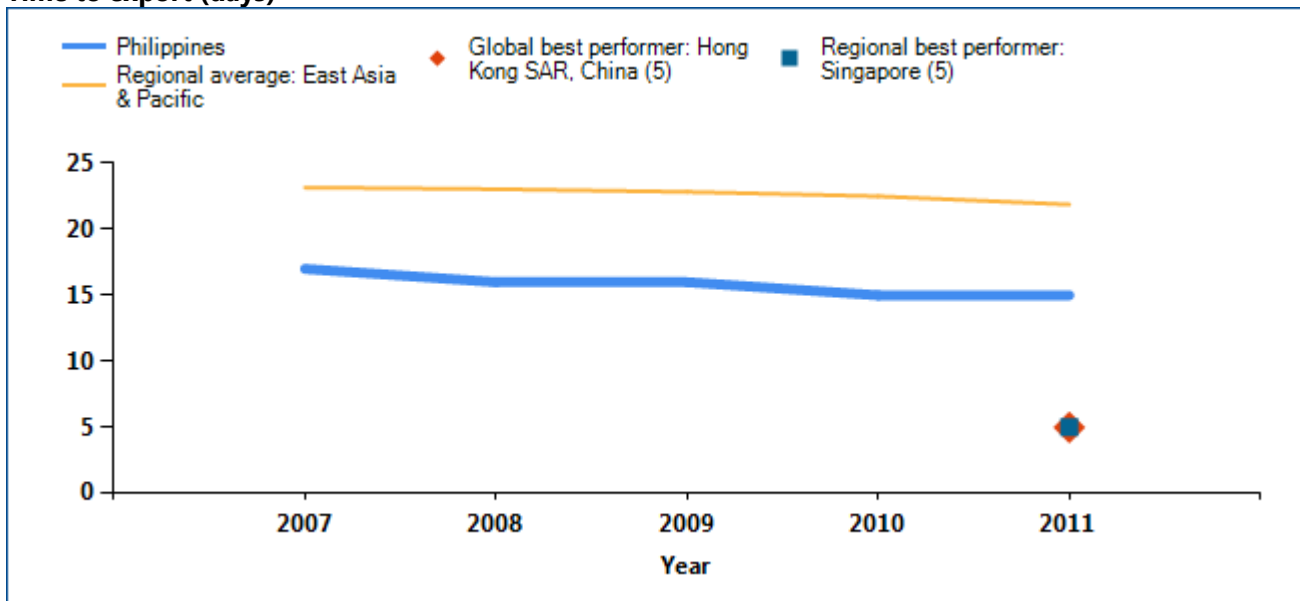
## TRADING ACROSS BORDERS

Figure 9.2 Has trading across borders become easier over time?

## Documents to export (number)

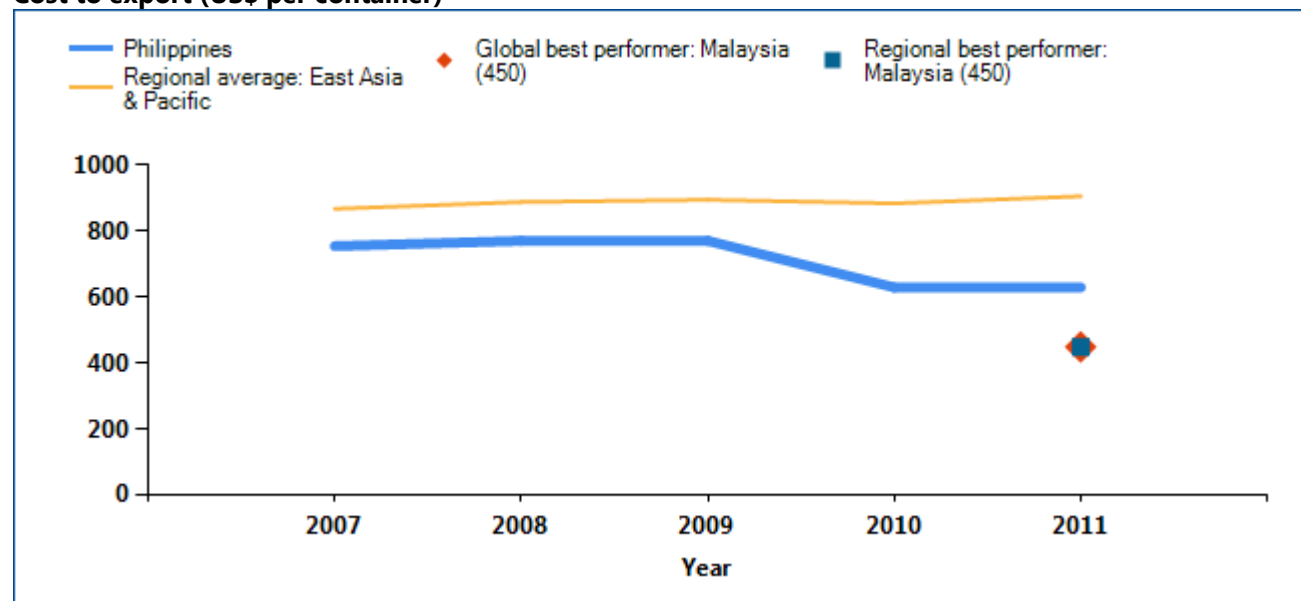


## Time to export (days)

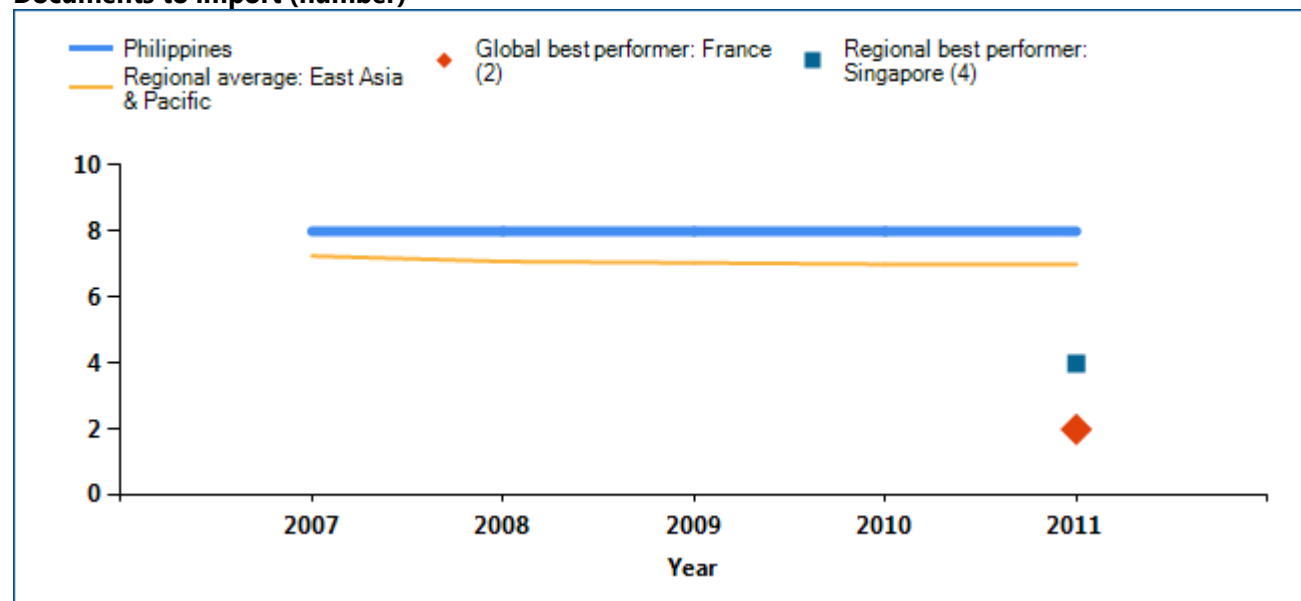


## TRADING ACROSS BORDERS

## Cost to export (US\$ per container)



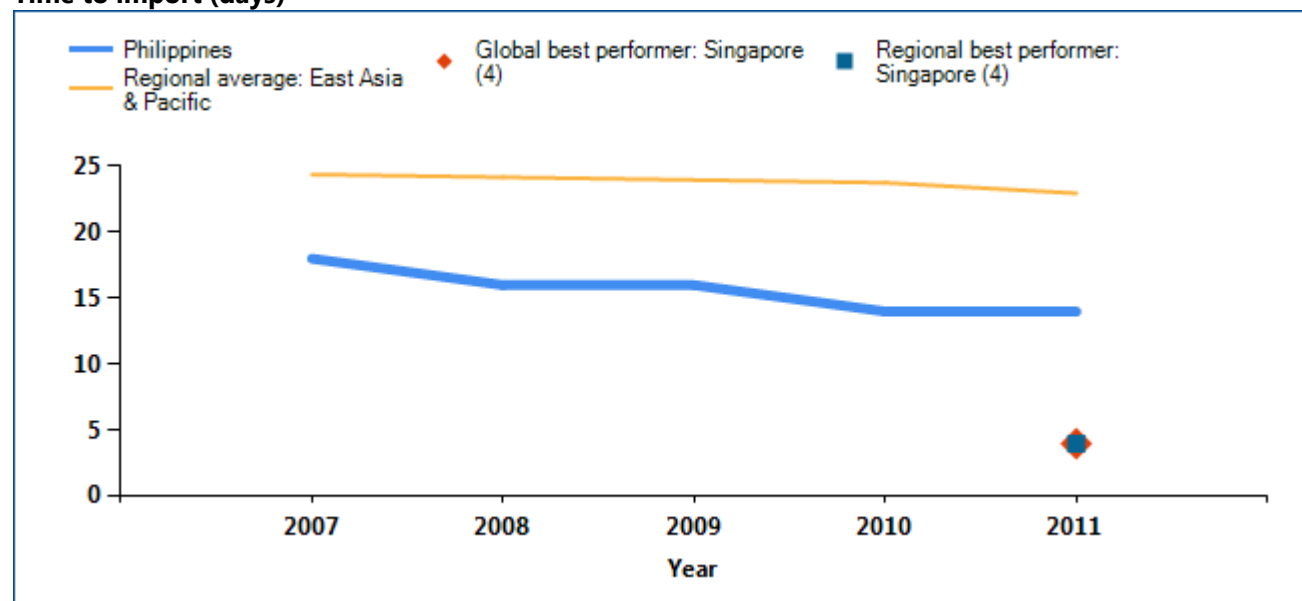
## Documents to import (number)



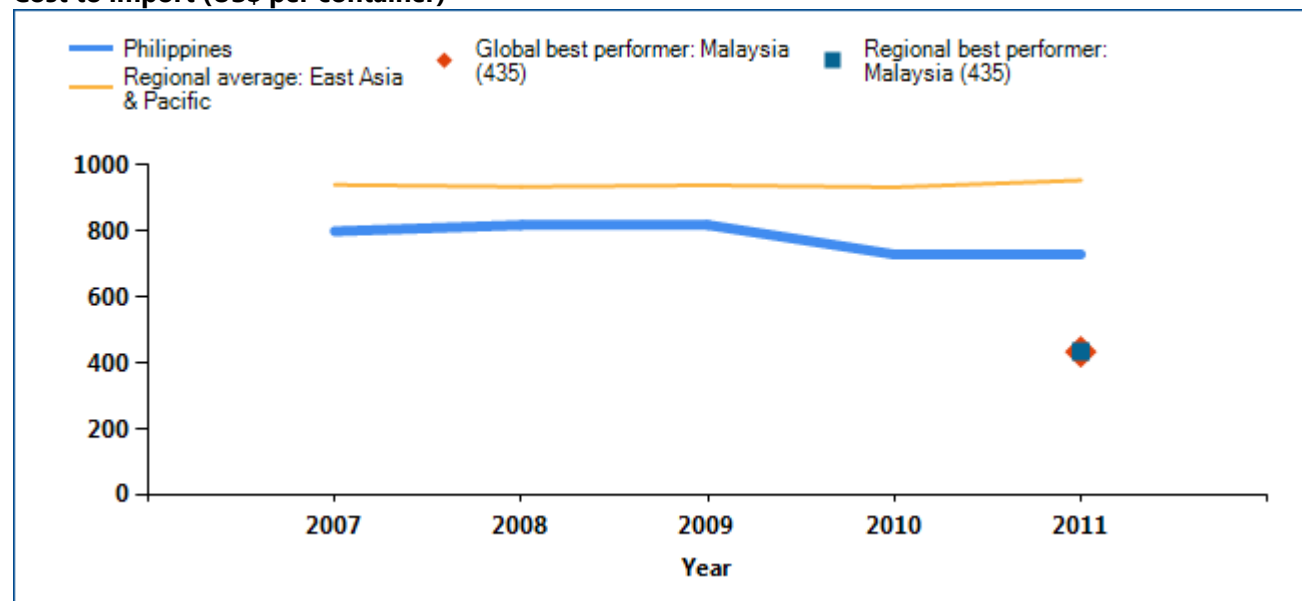


## TRADING ACROSS BORDERS

## Time to import (days)



## Cost to import (US\$ per container)



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

*Source:* Doing Business database.

## TRADING ACROSS BORDERS

In economies around the world, trading across borders as measured by *Doing Business* has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange

systems. These changes help improve the trading environment and boost firms' international competitiveness. What trade reforms has *Doing Business* recorded in Philippines (table 9.2)?

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

DB Year	Reform
<b>DB2012</b>	No reform.
<b>DB2011</b>	The Philippines reduced the time and cost to trade by improving its electronic customs systems, adding such functions as electronic payments and online submission of declarations.
<b>DB2010</b>	No reform.
<b>DB2009</b>	The risk management and electronic data interchange system for customs were upgraded, reducing the time to import.

*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 Philippines are based on a set of specific procedural requirements for trading a standard shipment of goods by ocean transport (see the section in this chapter on what the indicators cover). Information on the procedures as well as the required documents and the time and cost to complete each procedure is collected from local

freight forwarders, shipping lines, customs brokers, port officials and banks. The procedural requirements, and the associated time and cost, for exporting and importing a standard shipment of goods are listed in the summary below, along with the required documents.

#### Summary of procedures and documents for trading across borders in Philippines

Indicator	Philippines	East Asia & Pacific	OECD high income
<b>Documents to export (number)</b>	7	6	4
<b>Time to export (days)</b>	15	22	10
<b>Cost to export (US\$ per container)</b>	630	906	1,032
<b>Documents to import (number)</b>	8	7	5
<b>Time to import (days)</b>	14	23	11
<b>Cost to import (US\$ per container)</b>	730	954	1,085

Procedures to export	Time (days)	Cost (US\$)
Documents preparation	8	150
Customs clearance and technical control	2	85
Ports and terminal handling	3	225
Inland transportation and handling	2	170
Totals	15	630

Procedures to import	Time (days)	Cost (US\$)
Documents preparation	8	160
Customs clearance and technical control	2	185
Ports and terminal handling	3	200
Inland transportation and handling	1	185
Totals	14	730

## TRADING ACROSS BORDERS

Documents to export
Bill of lading
Customs export declaration
Commercial Invoice
Certificate of origin
Packing List
Technical standard/health certificate
Terminal handling receipts

Documents to import
Bill of lading
Cargo release order
Certificate of origin
Commercial invoice
Customs import declaration
Packing list
Technical standard/health certificate
Terminal handling receipts

## ENFORCING CONTRACTS

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

### What do the indicators cover?

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

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

- The seller and buyer are located in the economy's largest business city.
- The buyer orders custom-made goods, then fails to pay.
- The seller sues the buyer before a competent court.
- The value of the claim is 200% of income per capita.
- The seller requests a pretrial attachment to secure the claim.

### WHAT THE ENFORCING CONTRACTS INDICATORS MEASURE

#### Procedures to enforce a contract through the courts (number)

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

Steps to file and serve the case

Steps for trial and judgment

Steps to enforce the judgment

#### Time required to complete procedures (calendar days)

Time to file and serve the case

Time for trial and obtaining judgment

Time to enforce the judgment

#### Cost required to complete procedures (% of claim)

No bribes

Average attorney fees

Court costs, including expert fees

Enforcement costs

- 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.

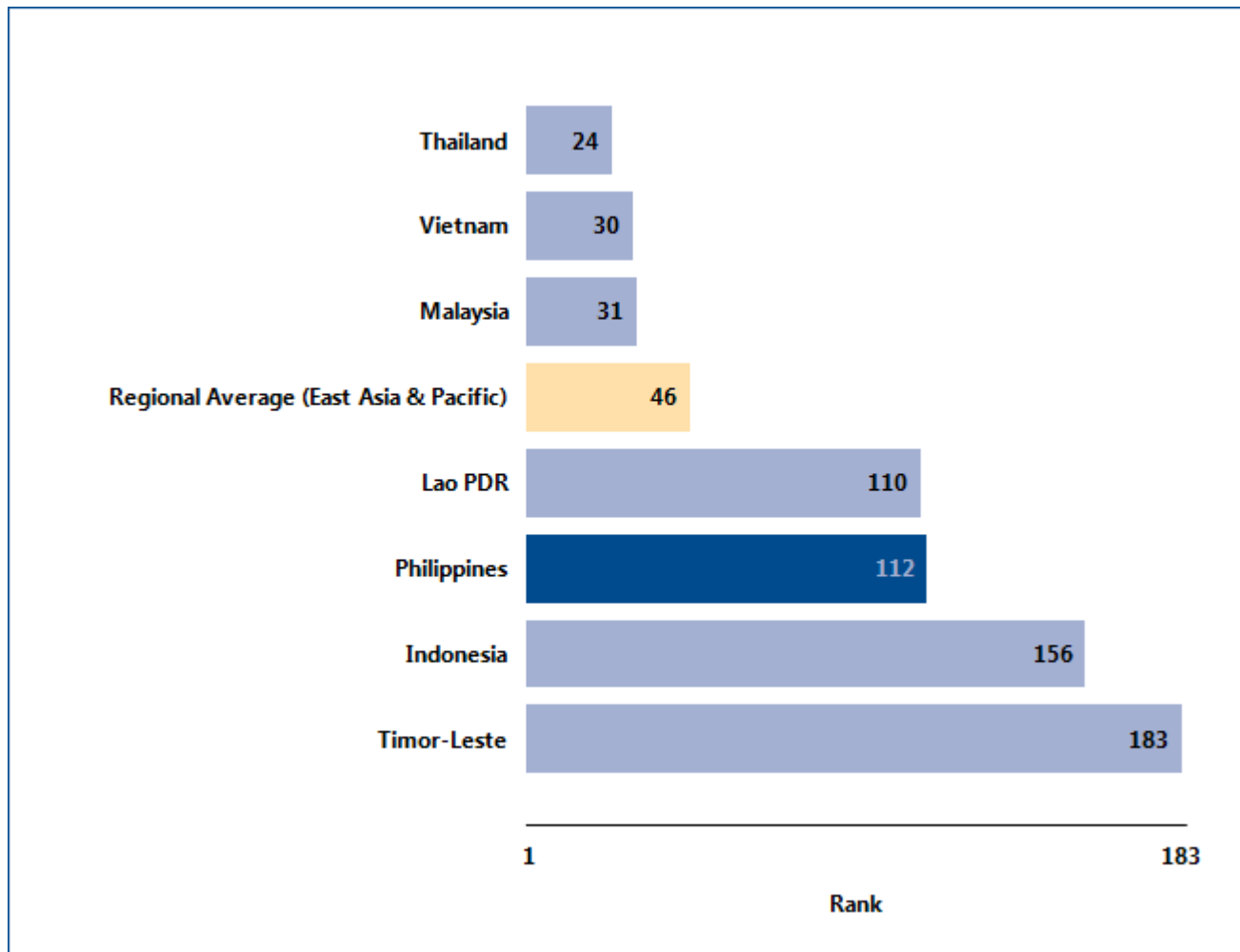
## ENFORCING CONTRACTS

### Where does the economy stand today?

How efficient is the process of resolving a commercial dispute through the courts in Philippines? According to data collected by *Doing Business*, enforcing a contract requires 37 procedures, takes 842 days and costs 26.0% of the value of the claim (see the summary at the end of this chapter for details).

Globally, Philippines stands at 112 in the ranking of 183 economies on the ease of enforcing contracts (figure 10.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of contract enforcement in Philippines.

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



Source: *Doing Business* database.

## ENFORCING CONTRACTS

### What are the changes over time?

While the most recent *Doing Business* data reflect how easy (or difficult) it is to enforce a contract in Philippines today, data on the underlying indicators

over time help identify which areas have changed and where the potential for improvement is greatest (table 10.1).

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

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	..	114	112
Time (days)	982	862	842	842	842	842	842	842	842
Cost (% of claim)	24.8	24.8	24.8	26.0	26.0	26.0	26.0	26.0	26.0
Procedures (number)	37	37	37	37	37	37	37	37	37

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

Source: *Doing Business* database.

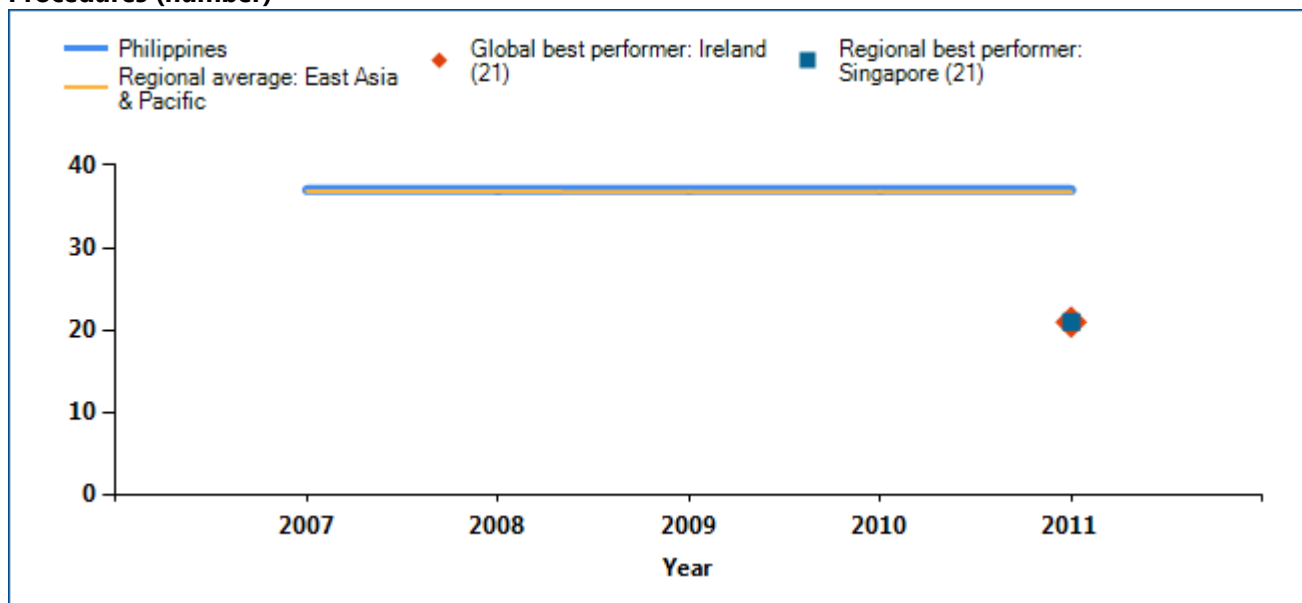
## ENFORCING CONTRACTS

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the number of steps, time or cost required to enforce a contract through the courts (figure 10.2). These economies may provide a model

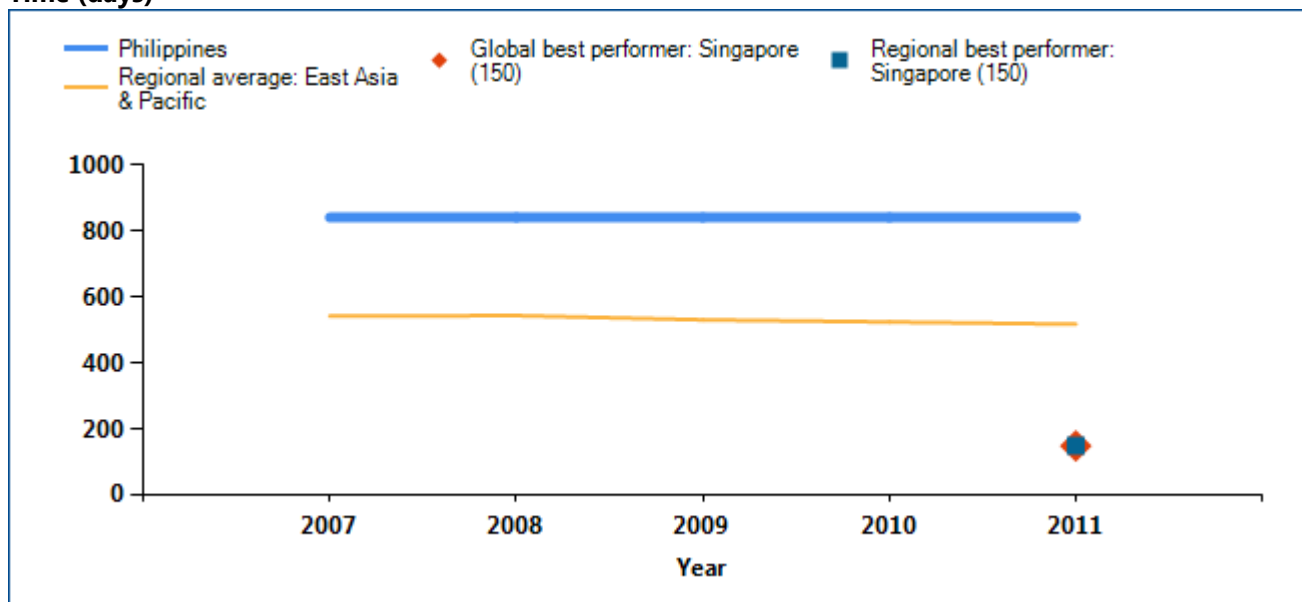
for Philippines on ways to improve the efficiency of contract enforcement. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

Figure 10.2 Has enforcing contracts become easier over time?

### Procedures (number)



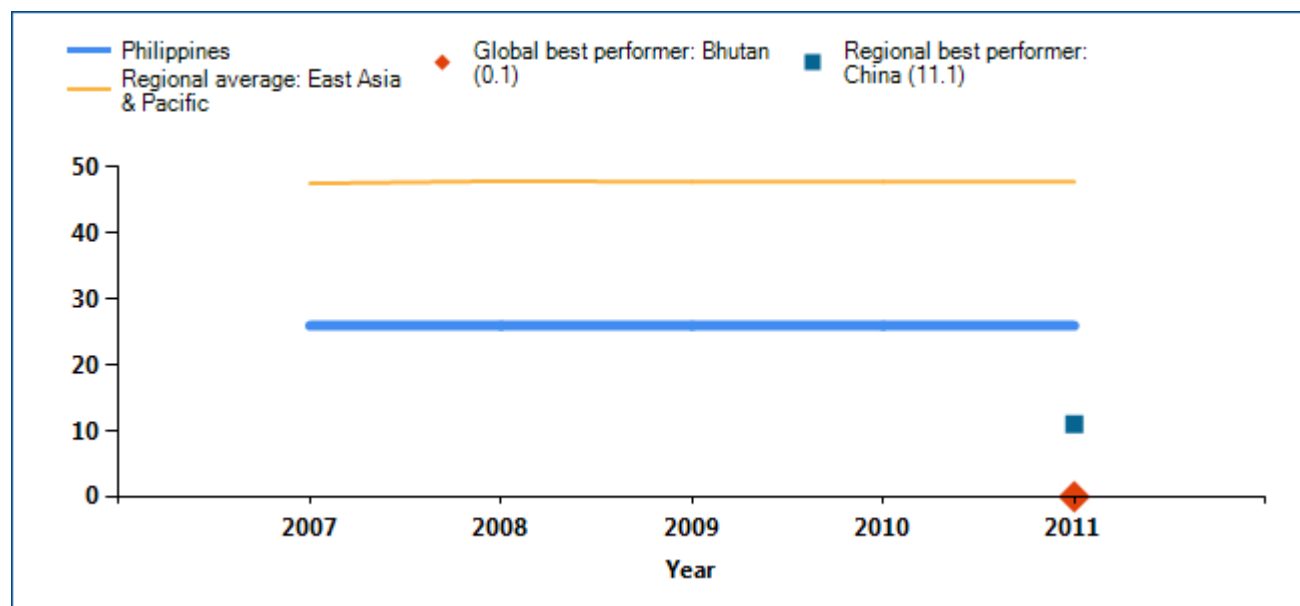
### Time (days)





## ENFORCING CONTRACTS

## Cost (% of claim)



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

*Source:* *Doing Business* database.

## ENFORCING CONTRACTS

Economies in all regions have improved contract enforcement in recent years. A judiciary can be improved in different ways. Higher-income economies tend to look for ways to enhance efficiency by introducing new technology. Lower-income economies

often work on reducing backlogs by introducing periodic reviews to clear inactive cases from the docket and by making procedures faster. What reforms making it easier (or more difficult) to enforce contracts has *Doing Business* recorded in Philippines (table 10.2)?

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

DB Year	Reform
<b>DB2012</b>	No reform.
<b>DB2011</b>	No reform.
<b>DB2010</b>	No reform.
<b>DB2009</b>	No reform.

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

*Source:* *Doing Business* database.

## ENFORCING CONTRACTS

### What are the details?

The indicators reported here for Philippines are based on a set of specific procedural steps required to resolve a standardized commercial dispute through the courts (see the section in this chapter on what the indicators cover). These procedures, and the time and cost of completing them, are identified through study of the codes of civil procedure and other court

regulations, as well as through surveys completed by local litigation lawyers (and, in a quarter of the economies covered by *Doing Business*, by judges as well). The procedures for resolving a commercial lawsuit, and the associated time and cost, are listed in the summary below.

#### Summary of procedures for enforcing a contract in Philippines—and the time and cost

Indicator	Philippines	East Asia & Pacific	OECD high income
<b>Time (days)</b>	842	518.71	518.03
<b>Filing and service</b>	58		
<b>Trial and judgment</b>	580		
<b>Enforcement of judgment</b>	204		
<b>Cost (% of claim)</b>	26	47.79	19.71
<b>Attorney cost (% of claim)</b>	10		
<b>Court cost (% of claim)</b>	6		
<b>Enforcement Cost (% of claim)</b>	10		
<b>Procedures (number)</b>	37	36.75	31.42

Source: *Doing Business* database.

## RESOLVING INSOLVENCY

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

### What do the indicators cover?

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

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

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

- Is a domestically owned, limited liability company operating a hotel.
- Operates in the economy's largest business city.

### WHAT THE RESOLVING INSOLVENCY INDICATORS MEASURE

#### Time required to recover debt (years)

Measured in calendar years

Appeals and requests for extension are included

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

Measured as percentage of estate value

Court fees

Fees of insolvency administrators

Lawyers' fees

Assessors' and auctioneers' fees

Other related fees

#### Recovery rate for creditors (cents on the dollar)

Measures the cents on the dollar recovered by creditors

Present value of debt recovered

Official costs of the insolvency proceedings are deducted

Depreciation of furniture is taken into account

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

- Has 201 employees, 1 main secured creditor and 50 unsecured creditors.
- Has a higher value as a going concern—and the efficient outcome is either reorganization or sale as a going concern, not piecemeal liquidation.

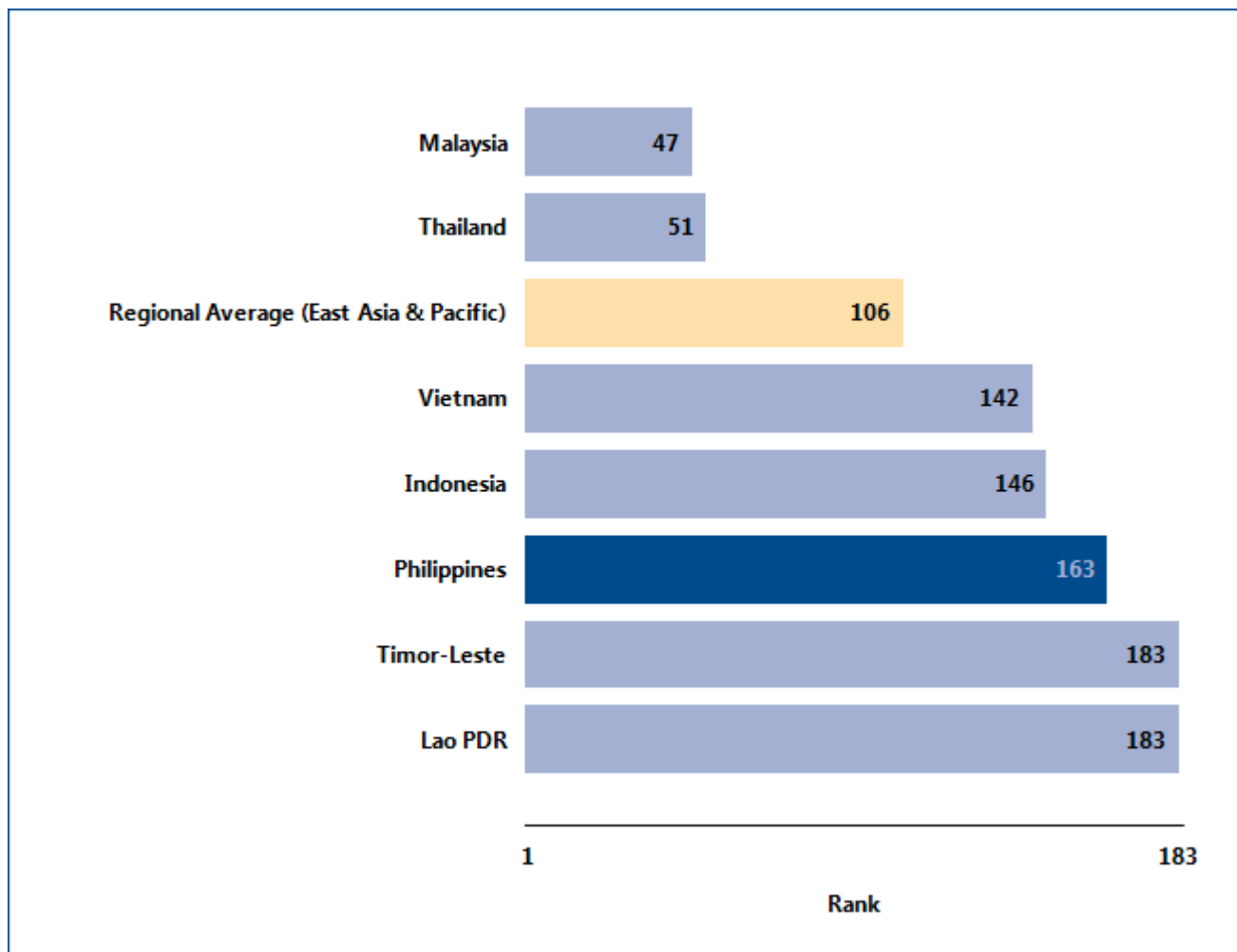
## RESOLVING INSOLVENCY

### 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 Philippines? According to data collected by *Doing Business*, resolving insolvency takes 5.7 years on average and costs 38% of the debtor's estate. The average recovery rate is 4.7 cents on the dollar.

Globally, Philippines stands at 163 in the ranking of 183 economies on the ease of resolving insolvency (figure 11.1). The rankings for comparator economies and the regional average ranking provide other useful benchmarks for assessing the efficiency of insolvency proceedings in Philippines.

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



Source: *Doing Business* database.

## RESOLVING INSOLVENCY

### What are the changes over time?

While the most recent *Doing Business* data reflect the efficiency of insolvency proceedings in Philippines today, data over time show where the efficiency has

changed—and where it has not (table 11.1). That can help identify where the potential for improvement is greatest.

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

Indicator	DB2004	DB2005	DB2006	DB2007	DB2008	DB2009	DB2010	DB2011	DB2012
Rank	..	..	..	..	..	..	..	161	163
Time (years)	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Cost (% of estate)	38	38	38	38	38	38	38	38	38
Recovery rate (cents on the dollar)	4.3	3.8	4.1	4.0	4.2	4.4	4.4	4.5	4.7

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

Source: *Doing Business* database.

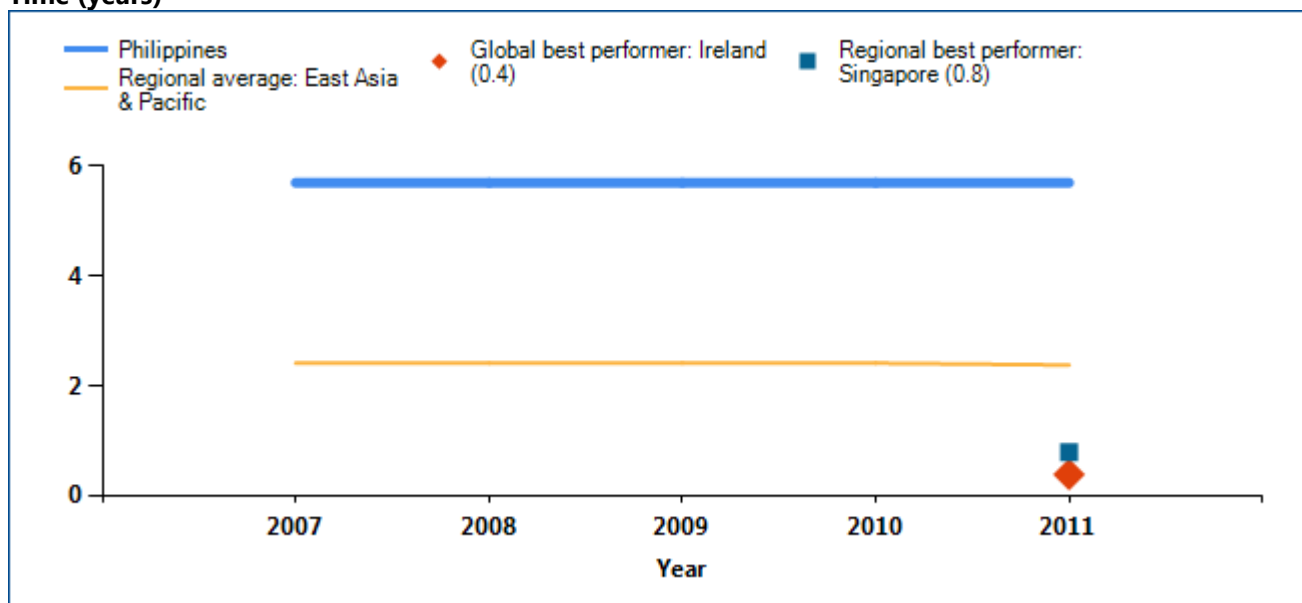
## RESOLVING INSOLVENCY

Equally helpful may be the benchmarks provided by the economies that today have the best performance regionally or globally on the time or cost of insolvency proceedings or on the recovery rate (figure 11.2). These economies may provide a model for Philippines

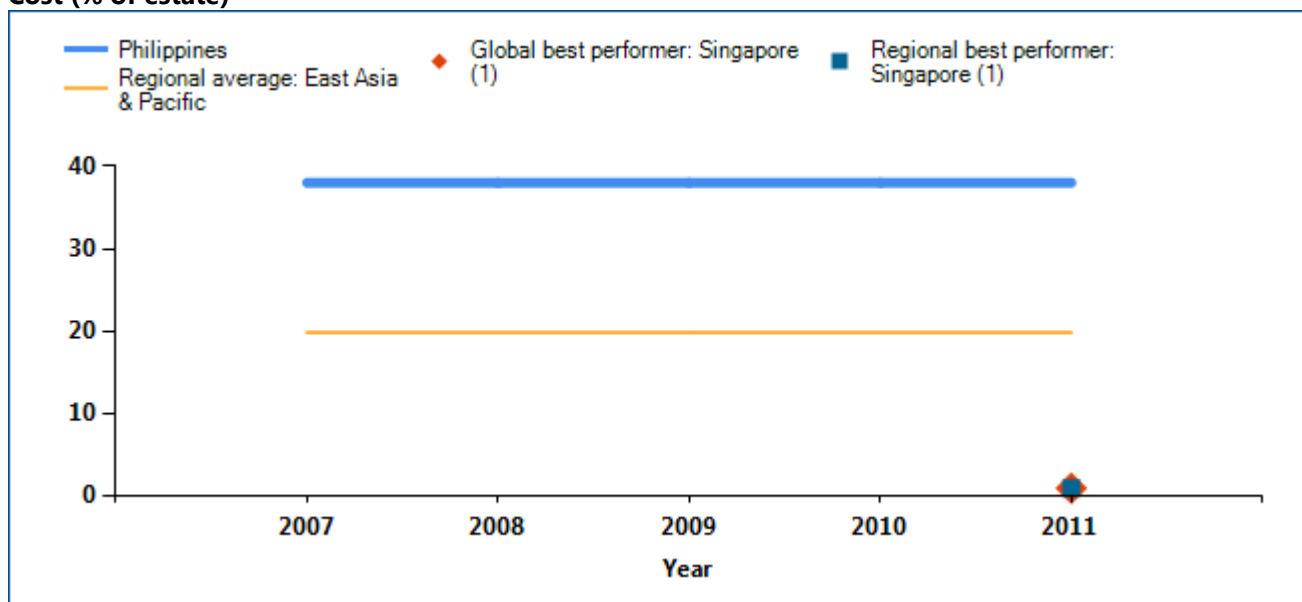
on ways to improve the efficiency of insolvency proceedings. And changes in regional averages can show where Philippines is keeping up—and where it is falling behind.

Figure 11.2 Has resolving insolvency become easier over time?

### Time (years)

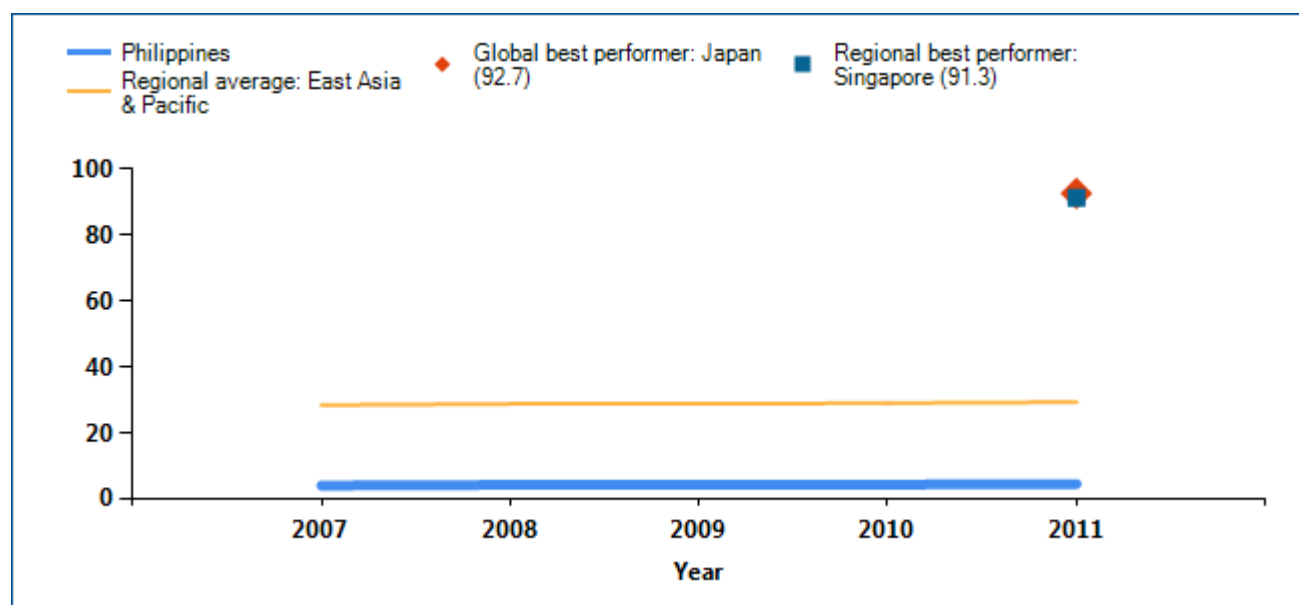


### Cost (% of estate)



## RESOLVING INSOLVENCY

## Recovery rate (cents on the dollar)



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

*Source:* *Doing Business* database.



## RESOLVING INSOLVENCY

A well-balanced bankruptcy system distinguishes companies that are financially distressed but economically viable from inefficient companies that should be liquidated. But in some insolvency systems even viable businesses are liquidated. This is starting to

change. Many recent reforms of bankruptcy laws have been aimed at helping more of the viable businesses survive. What insolvency reforms has *Doing Business* recorded in Philippines (table 11.2)?

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

DB Year	Reform
<b>DB2012</b>	The Philippines adopted a new insolvency law that provides a legal framework for liquidation and reorganization of financially distressed companies.
<b>DB2011</b>	No reform.
<b>DB2010</b>	Reorganization procedures were promoted by introducing prepackaged reorganizations and regulating the receiver profession.
<b>DB2009</b>	No reform.

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

*Source:* *Doing Business* database.

## DATA NOTES

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

The data for all sets of indicators in *Doing Business 2012* are for June 2011.<sup>3</sup>

### Methodology

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

<sup>3</sup> The data for paying taxes refer to January – December 2010.

## ECONOMY CHARACTERISTICS

### Gross national income (GNI) per capita

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

### Region and income group

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

### Population

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

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

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

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

## Limits to what is measured

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

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

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

## Subnational *Doing Business* indicators

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

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

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

## Changes in what is measured

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

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

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

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

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

## Data challenges and revisions

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

## Ease of doing business and distance to frontier

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

regulatory environment for local entrepreneurs in each economy has changed over time.

### Ease of doing business

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

### Construction of the ease of doing business index

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

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

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

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

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

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

#### *Variability of economies’ rankings across topics*

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

<sup>5</sup> 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.

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

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

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

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

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

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

#### *Distance to frontier measure*

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

<sup>7</sup> *Doing Business* reforms making it more difficult to do business are subtracted from the total number of those making it easier to do business.

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

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

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

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

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



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