



# Doing Business

## in Veneto 2009

COMPARING REGULATION IN VENETO WITH 181 ECONOMIES GLOBALLY





# Doing Business in Veneto 2009

COMPARING REGULATION IN VENETO WITH 181 ECONOMIES GLOBALLY

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1818 H Street NW  
Washington, DC 20433  
Telephone 202-473-1000  
Internet [www.worldbank.org](http://www.worldbank.org)  
E-mail [feedback@worldbank.org](mailto:feedback@worldbank.org)

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Copies of *Doing Business 2009*, *Doing Business 2008*, *Doing Business 2007: How to Reform*, *Doing Business in 2006: Creating Jobs*, *Doing Business in 2005: Removing Obstacles to Growth* and *Doing Business in 2004: Understanding Regulations* and other subnational reports may be purchased at [www.doingbusiness.org](http://www.doingbusiness.org).

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*Doing Business in Veneto 2009* measures business regulations and their enforcement in the Italian region of Veneto, represented by the city of Padua. It is the first subnational report issued for a high income economy for the *Doing Business* series, which currently covers 181 economies around the world.

Comparisons with Rome and the rest of the world are based on the indicators in *Doing Business 2009*, the 6th in a series of annual reports published by the World Bank and the International Finance Corporation. The indicators in *Doing Business in Veneto 2009* are also comparable with the data in other subnational *Doing Business* reports. All *Doing Business* data and reports are available at [www.doingbusiness.org](http://www.doingbusiness.org).

*Doing Business* investigates the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators to measure the regulations affecting 10 stages of the life of a business: starting a business, dealing with construction permits,

employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. Data in *Doing Business in Veneto 2009* are current as of June 1, 2008.

The indicators are used to analyze economic outcomes and identify what reforms have worked, where and why. Other areas important to business—such as country's proximity to large markets, quality of infrastructure services (other than services related to trading across borders), 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 report was requested by the Government of the Veneto Region and has been prepared with the support of the Research Centre of *Unioncamere del Veneto*, the union of Veneto's Chambers of Commerce.

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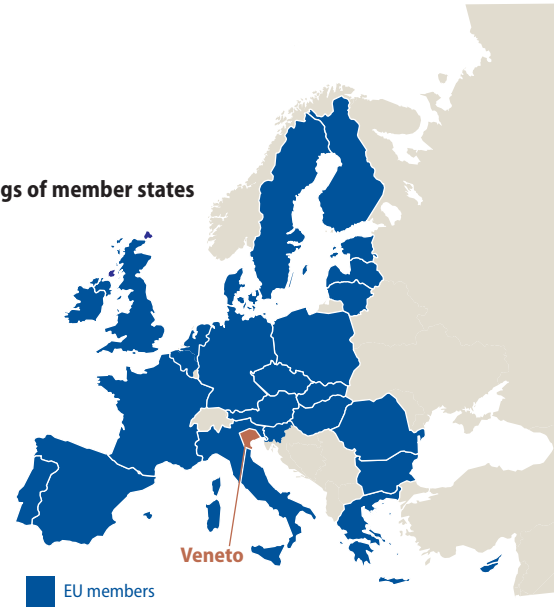
Interactive map on the ease of doing business  
<http://www.doingbusiness.org/map>

# Overview

TABLE 1.1  
Ease of doing business in the EU: global rankings of member states

5 Denmark	36 Slovakia
6 United Kingdom	41 Hungary
7 Ireland	45 Bulgaria
14 Finland	47 Romania
17 Sweden	48 Portugal
19 Belgium	49 Spain
22 Estonia	50 Luxembourg
25 Germany	54 Slovenia
26 Netherlands	<b>67 Padua (Veneto)</b>
27 Austria	<b>68 Rome</b>
28 Lithuania	75 Czech Republic
29 Latvia	76 Poland
31 France	96 Greece

Source: *Doing Business* database.



From the 13th to the 15th century, Venice was the trade capital of the world. For a long time, its institutional arrangements were looked upon as a model by philosophers and policy-makers. In fact, many of the innovations developed by Venetian traders—such as double-entry bookkeeping, the check and maritime insurance—are still in use today. Competition among merchants, and stable institutions that encouraged private investment allowed Venice to expand its commercial domination throughout the Mediterranean Sea and beyond. Yet, not all was perfect. Competition from new trade routes, banking crises and attacks from other nations all led to the decline of the Venetian empire.

Now Venice is the capital of the region of Veneto, which is the subject of this study. Over the last 40 years, Veneto has risen from its ashes to experience an economic miracle that has turned it into one of the richest and most industrialized regions of Italy. Veneto currently houses some of Italy's most famous multinationals, yet its economic engine is mainly fueled by thousands of small- and medium-sized enterprises. Organized in clusters, they cover almost all sectors—from the most traditional (food and wine, artistic ceramics and glassmaking, goldsmith and silversmith, furniture, fashion, technical apparel, tourism and machinery) to the most advanced (nanotechnology, biotechnology, information technology, astrophysics, aerospace and mechatronics). The entrepreneurs in Veneto are

among the most dynamic and innovative in Europe. National and local governments should try to help them by creating the regulatory environment that encourages their firms to start-up and grow.

*Doing Business* studies business regulations from the perspective of a small- to a medium-sized domestic firm. Rome, the most populated city in Italy, represents the country in the global *Doing Business* report. However, even in relatively centralized countries like Italy, local business regulations and their enforcement may differ across locations. *Doing Business in Veneto 2009* expands the indicators in 7 of the 10 *Doing Business* topics to the Veneto region, represented by the city of Padua. Three of the indicators—employing workers, protecting investors and getting credit—are based on the provisions contained on national laws. Therefore, no subnational analysis was conducted. This report presents the results for Italy in *Doing Business 2009* for these topics.

With 10.3 enterprises for every 100 inhabitants, the province of Padua ranks first in enterprise density among the 7 provinces of Veneto. Together with Venice and Treviso, Padua forms the so-called “Pa-Tre-Ve Metropolitan Area.” With a population of 2.5 million people, it is the economic and cultural heart of the region.<sup>1</sup>

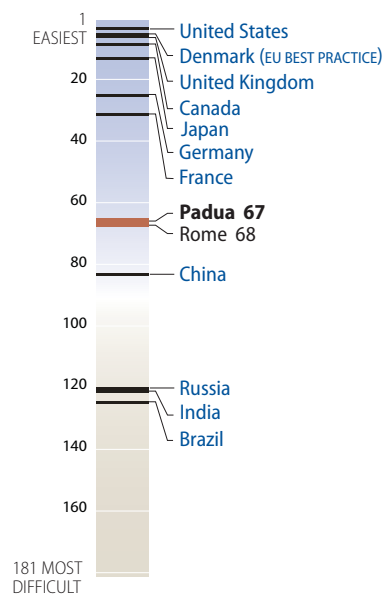
Compared to the 181 economies measured by *Doing Business* indicators around the globe, Veneto (represented by Padua) would rank 67th (figure 1.1)—ahead of Rome and 22 of the 25 EU

countries included in the *Doing Business* sample (table 1.1). Veneto's ranking varies across topics (figure 1.2). In starting a business, dealing with construction permits, registering property, trading across borders and closing a business, Padua stands ahead of Rome. Both metropolitan areas rank the same in regards to enforcing contracts. Padua ranks slightly lower than Rome on paying taxes.

*Doing Business* rankings do not tell the whole story about an economy's business environment. The indicators do not account for all factors important for

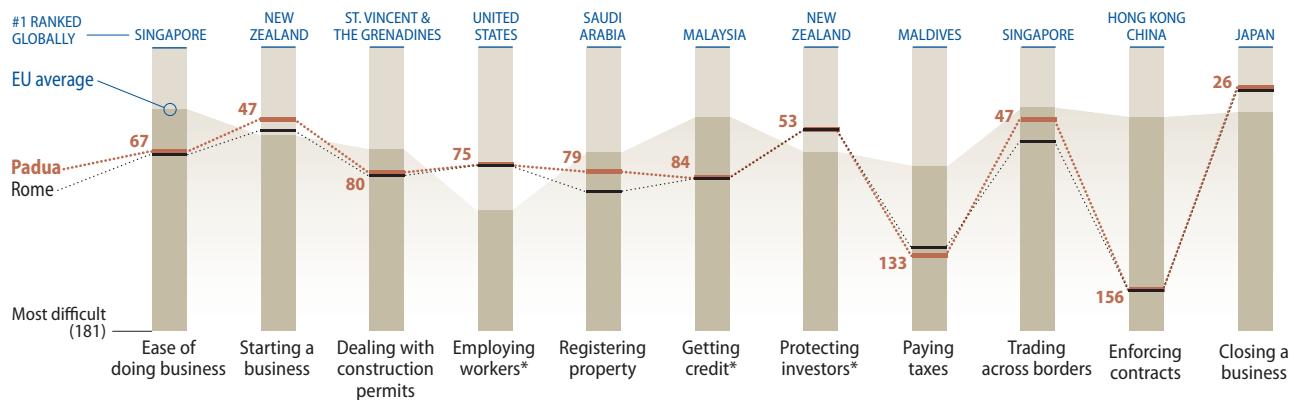
FIGURE 1.1  
How Veneto compares globally on the ease of doing business

Global ranking (1–181)



Note: Rankings on the ease of doing business are the average of the economy's rankings on the 10 topics covered in *Doing Business 2009*.  
Source: *Doing Business* database.

FIGURE 1.2

Global rankings on *Doing Business* topics—Padua, Rome and the EU compared

\* No subnational analysis was conducted for these topics. The rankings are based on *Doing Business 2009* and are the same for Padua and Rome.  
Source: *Doing Business* database.

doing business—for example, macroeconomic conditions, infrastructure, workforce skills or security. But improvements in an economy's ranking do indicate that its government is creating a regulatory environment that is more conducive to business. At the same time, being a top performer should not lead to government complacency. Both Singapore and New Zealand—numbers 1 and 2 on the ease of doing business—know this well. They introduced several reforms to ease business entry and operation between June 2007 and June 2008.

Since 2004, *Doing Business* has recorded almost 1,000 reforms worldwide—239 of those just last year (between June 2007 and June 2008). During the last 6 years, Italy (as represented by Rome) introduced 10 business environment reforms. Most of them were positive for business operations. Consolidated registration procedures at the Chamber of Commerce in Rome, substantially reduced the number of steps and time to register a company. Italy also reformed bankruptcy proceedings, shifting the focus from liquidation to corporate reorganization and restructuring. However, during that same time, labor regulations turned stricter, with the cost of dismissing redundant workers increasing.

Like Rome, Padua has also benefited from business start-up reforms. Registrations via a single notification at the Chamber of Commerce can be completed in just 2 days. National reforms—such

as reforms to bankruptcy procedures—have also applied to businesses in Veneto. However, implementation tends to vary due to different levels of efficiency in the local branches of national institutions. One example of regional variation is seen in the courts. Although Italy's Code of Civil Procedure applies to all regions, courts in Rome take significantly less time to resolve simple commercial disputes than those in Padua. Improving the business environment in Veneto requires reforms at the national and local level, as well as coordination among different levels of government to ensure effective implementation of reforms.

Publishing comparative indicators of business regulations and their enforcement inspires governments to act. Comparisons among cities within a country are even stronger drivers for reform. That was the case in Mexico where a subnational report covered 12 states in 2005. The study created competition to reform as governors and mayors had a difficult time explaining why it took longer or cost more to do business in their city. States that had not been included the first time asked to be measured in subsequent reports. The second benchmarking expanded the analysis to all 31 states and updated the indicators for the first 12, showing that 9 of the initial 12 states had implemented reforms in the areas covered by *Doing Business*. The third *Doing Business in Mexico* report, launched in 2008, shows that the impetus to reform

continues—28 of the 31 states introduced a total of 40 reforms. The conclusion: what gets measured gets done.

Research finds that countries with burdensome regulation have higher unemployment rates and slower economic growth. More recent research gives insights into the impact of reforms. One study reports some of the payoffs of reforms in Mexico: the number of registered businesses rose by nearly 6%, employment increased by 2.6% and prices fell by 1%, thanks to competition from new entrants.<sup>2</sup> Where regulation is transparent, efficient and implemented in a simple way, it is easier for aspiring entrepreneurs to operate within the rule of law and to benefit from the opportunities and protections that the law provides.

## NOTES

1. Located at the crossing of two important highways—the Venezia-Milano (A4) and the Bologna-Padova (A13)—Padua is well connected by road and railway to all the major cities in the country. A high-speed train connects it to Veneto's capital Venice (in 20 minutes) and to Italy's economic capital Milan (1 hour and 54 minutes). Airports and ports are accessible. Padua's logistic hub—the Interporto Intermodale—is one of the largest logistic hubs in Italy as well as an important gateway for trade not only with the rest of Europe but also with Asia and Africa. Padua's industrial zone (in the eastern part of the city) is one of the biggest in Europe.
2. Bruhn, Miriam. 2008. "License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico." Policy Research Working Paper 4538, World Bank, Washington, D.C.

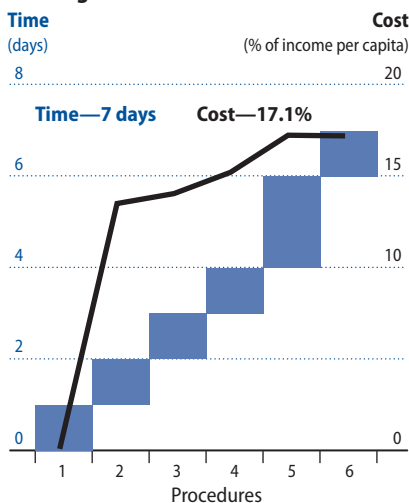
# Starting a business

The process of company registration varies substantially across the world. In New Zealand—the easiest place to register a company—the entire process takes just 1 procedure, 1 day and costs 160 New Zealand dollars (€ 87)—equivalent to just 0.4% of the country's income per capita. But in many other economies, entrepreneurs trying to set up a business face obstacles such as high costs, delays and procedural complexities.

In Padua, starting a business is relatively easy: it requires 6 steps, 7 days and costs 17.1% of Italy's income per capita (figure 2.1). The same number of procedures is required in Padua as in Rome, but in Rome the procedures take 3 days longer and cost the equivalent to 17.8% of Italy's income per capita. In addition, across Italy entrepreneurs must deposit

FIGURE 2.1

## Starting a business in Padua



Source: Doing Business database.

25% of the initial capital into a bank account. Together, the 4 business start-up indicators measured by *Doing Business* rank Veneto (represented by Padua) at 47th place among 181 economies globally (figure 2.2) and 14th within the European Union (EU). Although registering a company in Veneto is faster than in most EU economies, it costs 3 times the EU average (figure 2.3). The difference in cost is mainly due to high notary fees for incorporation documents.

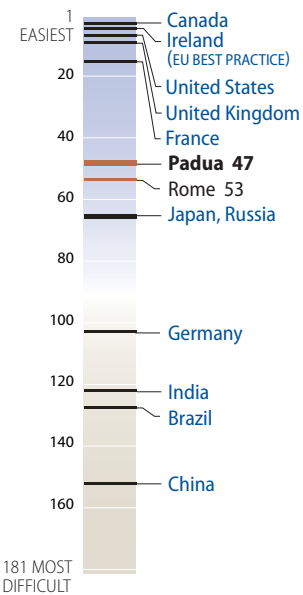
One reason governments should make business registration easier and more affordable is to encourage the creation of new companies. When France reformed its business registration to reduce the time and cost to start a business, business registrations increased by 18% the following year.<sup>1</sup> Furthermore, easier start-up procedures are correlated with higher productivity among existing firms. A recent study of 97 countries found that reducing entry costs by 90% of income per capita increased total factor productivity by an estimated 22%.<sup>2</sup> Simpler and faster business entry makes it easier for workers and capital to move across sectors when economies experience economic shocks. A recent study of 28 sectors in 55 countries found that sectoral employment reallocation is smoother in countries where starting a business is faster.<sup>3</sup> Finally, if it is easy to set up a business, companies that would otherwise operate in the informal sector are more likely to legalize their operations. Formally registered businesses grow larger and contribute to government revenues by paying taxes.<sup>4</sup>

Recognizing these benefits, countries around the world have developed innovative solutions to make starting a business easier. Italy is one of them. In April 2007, Law No. 40/2007 (the so-called "Bersani Law") significantly simplified the procedure for starting a business. The law tackled the issue of registrations with multiple agencies by establishing a single-notice registration (*Comunicazione Unica*). As a result, starting a business in Veneto has become much easier in 2008. The Chamber of

FIGURE 2.2

## How Veneto compares globally on starting a business

Global ranking (1–181)



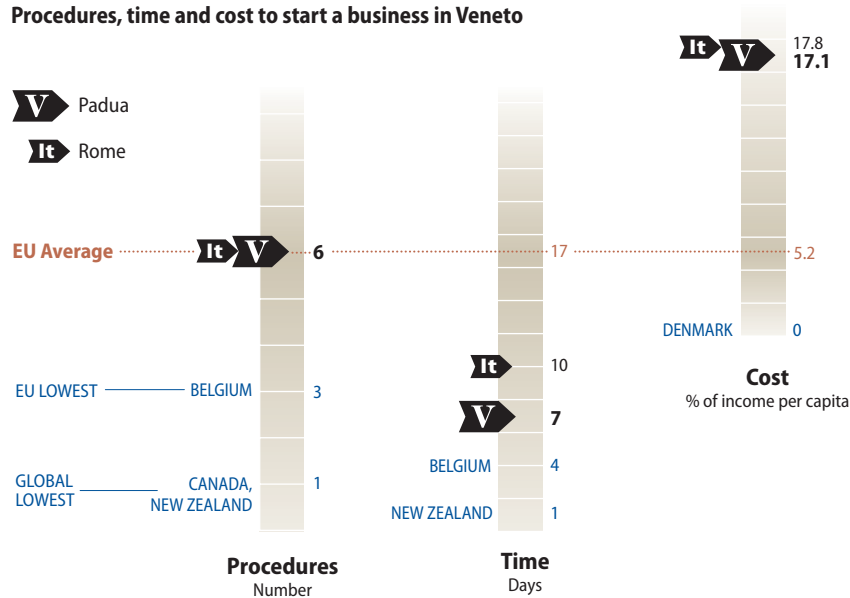
Note: Rankings are the average of the economy ranking on the procedures time, cost and paid-in minimum capital for starting a business. See Data notes for details.

Source: Doing Business database.

Commerce in Padua was one of the pilot locations to implement the unified registration procedure, starting from February 2008. Now, 4 of the procedures necessary to register a new business may be carried out with a single notice to the Registry of Enterprises based at the Chambers of Commerce. The notice is filed electronically. Immediately after filing, the official Registry of Enterprises issues a receipt, which enables the company to start its business. At the same time it communicates the registration of the new company to all the other relevant authorities—including the local tax office, Social Security Administration (INPS) and the Accident Insurance Office (INAIL). In Padua, registration with a single notification can be completed within 2 days. However, as in all other Italian cities that have implemented the new procedure, using the new system is not yet mandatory and the number of companies registering with a single notice remains very low.<sup>5</sup>



FIGURE 2.3  
Procedures, time and cost to start a business in Veneto



Source: Doing Business database.

## WHAT TO REFORM?

### ELIMINATE THE MINIMUM CAPITAL REQUIREMENT

Eliminating the paid-in minimum capital requirement would require amending article 2463, 2nd comma, 4 of the Italian Civil Code. Currently, businesses in Italy must have € 10,000 as start-up capital—25% of which must be deposited in a bank account prior to company's registration. This payment is equivalent to 9.7% of Italy's income per capita. Paid-in minimum capital requirements are justified by some countries on the grounds that they protect creditors by protecting the company from insolvency. However, bankruptcy recovery rates are no higher in countries with paid-in minimum capital requirements than in those without. In practice, minimum capital requirements, rather than protecting creditors, serve only as a barrier to entry since lenders base their decisions on commercial risks and not on government imposed minimum capital requirements. Eliminating or reducing minimum capital requirement has been one of the most popular reforms of business start-up world-wide: over the last 5 years, 22 economies have either reduced or abolished a minimum capital requirement—including Finland,

France and Hungary. Today, the 10 economies where registering companies is easiest have no paid-in minimum capital requirements.

### MAKE NOTARIZATION OPTIONAL FOR INCORPORATION DOCUMENTS

Article 2463, 2nd comma of the Italian Civil Code also requires that limited liability companies have a public deed of incorporation—including the company's bylaws—drafted and executed before a notary public. The cost of notarization of documents (averaging € 3,132) represents over 70% of the total cost to register a company in Padua.<sup>6</sup> Globally, 86 countries do not require notaries' involvement in the registration process. For example, in 2005 Portugal successfully made notary involvement optional for companies introducing standard incorporation documents provided by the registry. Of course, larger companies with more complex structures may still resort to professional consultation. Also, in the United Kingdom, a standard form for the memorandum and articles of association is publicly available. It can be purchased from accountants, solicitors, company formation agents, or freely downloaded online. Completed forms are then submitted to the Registrar of

Companies, with no notary's participation. The United Kingdom ranks among the top 10 economies globally for the ease of starting a business.

### FACILITATE THE TRANSITION TO THE SINGLE-NOTIFICATION SYSTEM

Although registration through a single notification has been available to companies in Padua since February 2008, very few have taken advantage of it so far. The single-notice registration (*Comunicazione Unica*) is soon due to become compulsory for all businesses, and the Chamber of Commerce and other relevant agencies must be prepared for the increase in use. A smooth transition to the single-notification registration system will also require a broad public campaign to educate entrepreneurs as well as the professionals assisting in company formation.

### NOTES

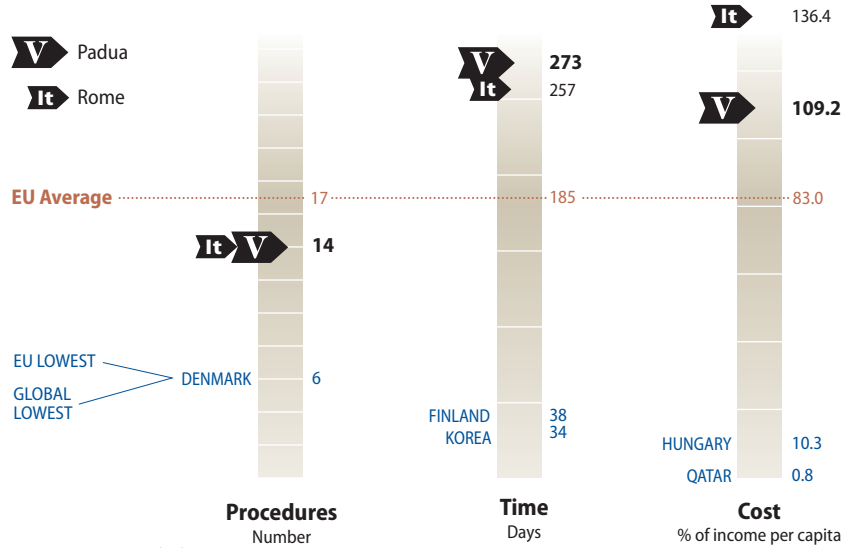
1. World Bank. 2004. *Doing Business in 2005: Removing Obstacles to Growth*. Washington, D.C.
2. Barseghyan, Levon. 2008. "Entry Costs and Cross-Country Differences in Productivity and Output." *Journal of Economic Growth* 13 (92): 145-67.
3. Ciccone, Antonio, and Elias Papaioannou. 2007. "Red Tape and Delayed Entry." *Journal of the European Economic Association* 5 (2-3): 444-58.
4. Djankov, Simeon, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer. 2002. "The Regulation of Entry." *Quarterly Journal of Economics* 117 (1): 1-37.
5. The experimental implementation of *Comunicazione Unica* started on February 19th 2008. From that day to September 4, 2008, a total of 217,828 new businesses were registered in Italy, out of which only 1,202 were registered through *Comunicazione Unica*. One fourth (302) of the *Comunicazione Unica* registrations were initiated in Veneto, including 48 in Padova. Source: *Infocamere*.
6. The costs are calculated for a company with a capital equal to 10 times Italy's income per capita (€ 258,630). For more details on methodology see the *Data notes* section.

# Dealing with construction permits

In the regulation of construction, striking the right balance between protecting the public while remaining transparent, efficient and affordable to the private sector has been a challenge for many governments. Some have succeeded. One success story is Singapore, where obtaining all construction permits and utility connections takes 11 steps, 38 days and costs just 21.2% of Singapore's income per capita.

The same process in Padua is much more lengthy and costly: 14 procedures take an average of 273 days and cost € 28,246—equal to 109% of Italy's income per capita (figure 3.1). Within Italy, Padua's process takes slightly longer but is less expensive than Rome's, where it takes 257 days and costs 136% of Italy's income per capita. Other economies within the EU are more efficient. On

FIGURE 3.2 Procedures, time and cost to deal with construction permits in Veneto



Source: Doing Business database.

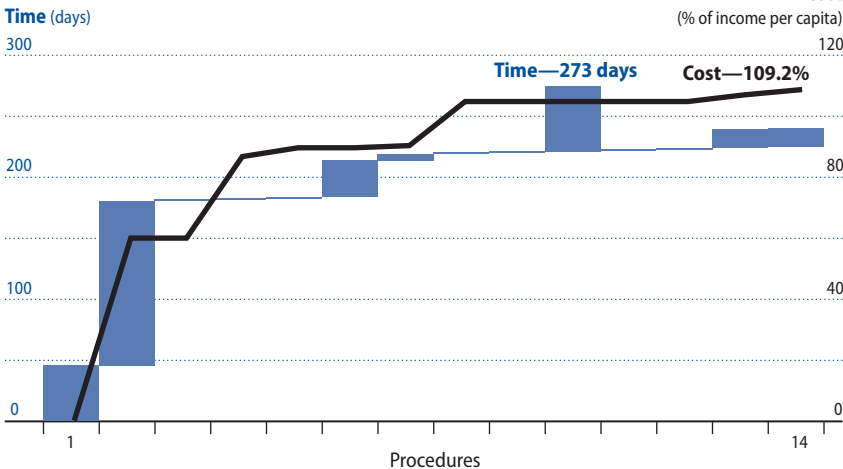
average, EU economies require construction permits that take 185 days and cost 83% their country's income per capita (figure 3.2). If you compare Padua to the 181 economies around the globe for which this *Doing Business* indicator is available, Padua ranks 80th overall (figure 3.3) and 18th within the EU.

The main cause for construction-related delays in Padua is the time to obtain a building permit. A building permit may legally take 135 days to be granted—as set in the Decree of the President of the Republic n. 380 June 06, 2001, Art. 20, cc. 3, 7, and 8.<sup>1</sup> The second bottleneck is clearance from the

Fire Department, which typically takes 45 days. After these hurdles are cleared, the process becomes more efficient. Mid-construction inspections in Padua conform to good international practices: structural and utility tests are conducted by independent, certified professionals, thus reducing administrative hassles for the builders. Finally, occupancy permits must be released within 30 days of their applications. After 30 days, a silence-is-consent rule applies to this procedure.

Stricter building rules and regulations result in fewer accidents. But where the process is too burdensome, fewer projects get started and construction can move to the informal economy, which does not serve the public interest. Streamlining the process to obtaining construction permits has several benefits. First, countries with simpler procedures and less costly regimes have larger construction sectors. Second, they have cheaper offices and warehouses for businesses. In Denmark and Germany—the 2 easiest countries in the EU to comply with building regulation and obtain utility connections—the rental prices for warehouse space are some of the lowest in the EU.<sup>2</sup> Third, reducing the cost and hassle of obtaining licenses keeps more businesses in the formal economy, therefore improving public safety. Finally,

FIGURE 3.1 Obtaining a building permit and utility connections in Padua

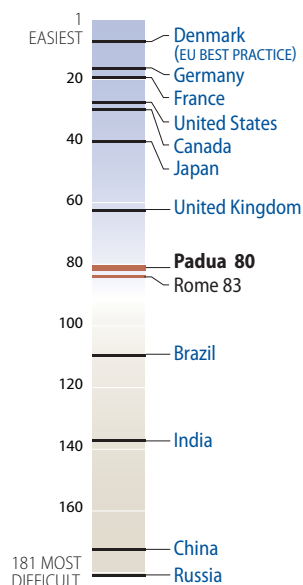


Source: Doing Business database.

FIGURE 3.3

**How Veneto compares globally on dealing with construction permits**

Global ranking (1–181)



Note: Rankings are the average of the economy rankings on the procedures, time and cost to comply with formalities to build a warehouse. See Data notes for details.

Source: Doing Business database.

governments can save money by administering fewer and simpler licenses and inspections to meet public safety needs.

Countries that score well on the ease of dealing with construction permits have rigorous but expeditious and transparent permitting regimes. Speedy approvals benefit property developers while also bringing in revenue to the government. A recent study in the United States shows that accelerating permit approvals by 3 months could increase local governments' property tax revenues by 16% and overall construction spending by 5.7%.<sup>3</sup>

**WHAT TO REFORM?****SHORTEN THE TIME LIMITS FOR ISSUING PERMITS**

According to Italian law, the time limit for issuing a building permit is 135 days, and in practice it may even take longer. This is extraordinarily long compared to other developed countries. In Germany, a building permit is issued within 25 days. In Denmark, the process takes 40 days. Other countries continue to set ambitious goals to shorten the time for permit

approvals. In Singapore, the agencies responsible for building permits have recently halved their internal time limits, making its system one of the most efficient in the world. Twenty-seven economies—including France and Hong Kong (China)—apply “silence-is-consent” rules to their permitting process, with time limits ranging from 2 to 4 weeks.<sup>4</sup>

**DIFFERENTIATE PERMIT REQUIREMENTS BY RISK LEVEL**

Today, all new construction projects in Veneto undergo a high level of scrutiny during the approval process. Another option is to differentiate permit requirements depending on the risk level of the construction project. This approach was adopted in the German state of Bavaria in 1994. For low-risk projects, qualified architects assume responsibility for the construction. Medium-risk projects require that an independent certified appraiser approve the plans. Only high-risk projects are fully reviewed by building authorities.<sup>5</sup> By 2002 Bavarian builders had saved an estimated € 154 million in building permit fees, while building authorities had 270 fewer employees on their payroll. This model has since been rolled out to the rest of Germany.<sup>6</sup> Introducing a similar system in Veneto and across Italy could limit the volume of permits that municipal agencies must review. At the same time, agencies could focus their resources on the expeditious handling of high-risk, complex projects. In a similar vein, only higher risk projects should be required to undergo reviews from the Fire Department and Public Health Agency before construction starts.

**INTRODUCE ONLINE PERMIT APPLICATIONS**

Currently, applications for building permits in Veneto are paper-based. In contrast, developers in Austria, Denmark, Iceland, Malaysia, Norway, Portugal and the United States can complete applications online. In Singapore, a new data management system provides easy access to the information needed for obtaining

a building permit and allows for efficient processing. Once an online application is submitted, builders receive regular updates on the status of their pending application via e-mail or text messaging. As a result of the online system, the time to deal with construction permits was reduced by two-thirds. This reform saves time for entrepreneurs and government officials alike and would benefit both groups in Veneto.

**NOTES**

1. The law set the time for issuance of building permits at 135 days for municipalities with more than 100,000 inhabitants, and 75 days for municipalities with less than 100,000 inhabitants.
2. DEOL Partners. 2007. *Overview of Warehouse Real Estate Market*.
3. PricewaterhouseCoopers. 2005. “The Economic Impact of Accelerating Permitting Process on Local Development and Government Revenues.” Report prepared for American Institute of Architects, Washington, DC.
4. World Bank. 2008. *Doing Business 2009*. Washington, D.C.
5. Bayerisches Staatsministerium des Innern. 2002. *Erfahrungsbericht BayBO 1998*. Munich.
6. World Bank. 2008. *Doing Business 2009*. Washington, D.C.

# Employing workers

Employment regulations support contracts between employers and workers while protecting workers from discriminatory or unfair treatment by employers. *Doing Business* measures the amount of flexibility in hiring regulations, working hours and dismissal in a manner consistent with the conventions of the International Labor Organization (ILO). An economy can have the most flexible labor regulations as measured by *Doing Business* while having ratified and being in compliance with all conventions directly relevant to the factors measured by *Doing Business* and with the ILO core labor standards. No economy can achieve a better score by failing to comply with these conventions.

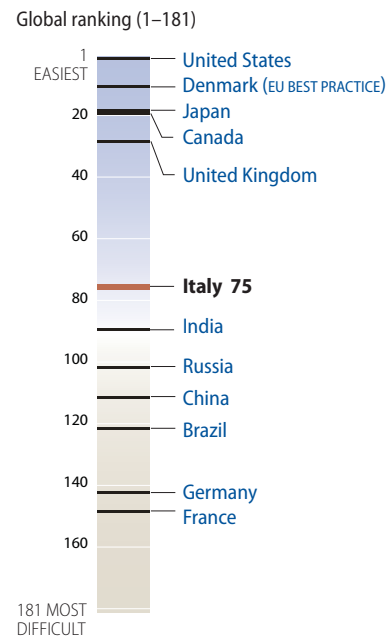
The employing workers indicator is made up of two measures: a rigidity of employment index and a firing cost measure. The rigidity of employment index is the average of three subindices: difficulty of hiring, rigidity of hours and difficulty of firing. Each index takes values between 0 and 100, with higher values indicating more rigid regulation. The firing cost indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary.

Because *Doing Business* employment indicators are based on the provisions contained in national labor laws, no subnational analysis was conducted for Veneto. This chapter presents the results for Italy in *Doing Business 2009*.

Among the economies analyzed by *Doing Business*, Italy's ease of employing workers ranks it 75th of 181 economies globally (figure 4.1) and 8th among the 25 EU members. Italy scores 38 out of 100 points on the rigidity of employment index—ahead of 15 EU countries, including Germany, France and Spain. There is no time limit on the use of fixed term contracts, but their scope is limited. Italian regulations determine that fixed term contracts should be used only when specific technical, productive or organizational reasons justify them. Labor regulations allow for a 6-day workweek and overtime. There are some restrictions on night work and the day of rest is by default Sunday except in specific cases provided by law. Redundancy is permitted as a basis for termination, but the law requires companies with more than 15 workers to notify the Ministry of Labor when redundancy lay-offs will affect 5 or more workers in a 120-day period. Also, the retraining or reassignment of a redundant worker is required before termination. In addition, national rules establish a set priority list for firing and rehiring. Dismissal costs amount to 11 weeks of salary (figure 4.2). Only 4 EU countries have lower firing costs: Denmark, Austria, Bulgaria and Romania.

Governments all over the world face the challenge of balancing worker protections and labor market flexibility. Analysis across economies shows that employment regulations generally increase the tenure and wages of incum-

FIGURE 4.1  
How Italy compares globally on employing workers



Note: Rankings are the average of the economy rankings on the difficulty of hiring, rigidity of hours, difficulty of firing and firing cost indices. See Data notes for details.

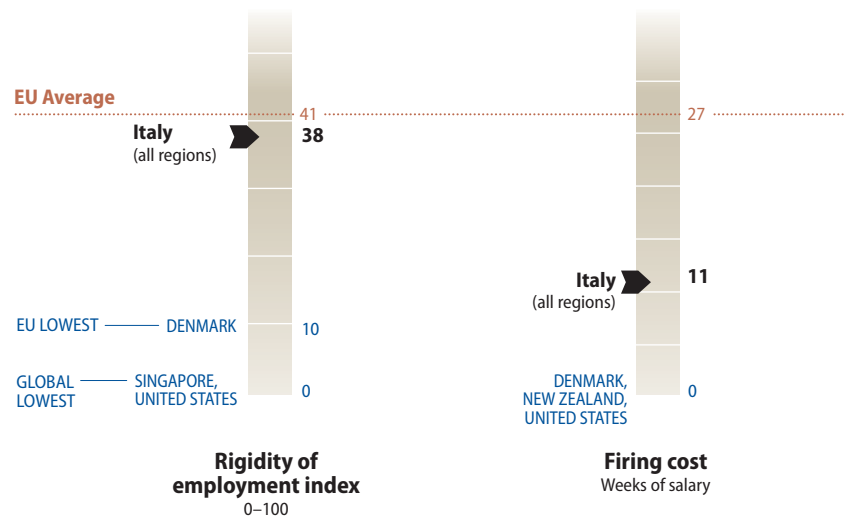
Source: *Doing Business* database.

bent workers, but overly rigid regulations come with undesirable side effects which may reduce productivity growth. Those undesirable side effects may include fewer new jobs, smaller company size, less investment in research and development, longer spells of unemployment and a larger informal sector. When economies err on the side of excessive rigidity, it is to the detriment of businesses and workers alike.

Denmark is a successful example of how job flexibility can be reconciled with employment security. Danish employers face no restrictions against laying off workers for economic reasons other than providing advance notice. Most Danish workers are well prepared by opting for voluntary unemployment insurance.<sup>1</sup> The flexible employment regulations benefit workers because they can transfer from one formal job to another with ease. In fact, 70% of Danes believe it is good to change jobs frequently.

Reforms of employment regulations are scarce. Since 2004, *Doing Business* has only registered 77 such reforms—of

FIGURE 4.2

**Rigidity of employment and firing cost in Italy**

Source: Doing Business database.

which 47 made labor regulations more flexible while 30 made them more rigid. One of the 47 reforms that introduced flexibility in the Italian labor market was the Legislative Decree 276/2003, the so-called “Biagi law.” It created flexible contracts and ended the government’s monopoly on job placement services.<sup>2</sup> The latest collective agreement for metal-mechanic workers made firing more difficult by increasing the notice period from 2 weeks to 75 days. The low number of labor reforms worldwide is not surprising given the high number of stakeholders involved. Support for reform often requires long tripartite consultations between governments, labor unions and employers’ associations.

### WHAT TO REFORM?

#### ALLOW FIXED-TERM CONTRACTS FOR PERMANENT TASKS

According to Italian law, employers are allowed to hire on fixed-term contracts only when there are “specific technical, productive, organizational or substitutive reasons.” Denmark, Switzerland and Belgium—Europe’s top performers on the ease of employing workers—allow fixed-term contracts for permanent tasks for added flexibility.

#### MAKE WORK HOURS MORE FLEXIBLE BY CUTTING RESTRICTIONS ON NIGHT WORK AND WEEKLY HOLIDAY

By law, night work cannot exceed 8 hours in a 24-hour period in Italy. Also, collective agreements require a premium for regular night work. In Canada and the UK, by contrast, there are no such restrictions on regular night hours. In addition, while having a weekly holiday is a global standard, countries with more flexible regulations—such as the United States and Denmark—do not determine the specific day of the week by statute. Italy could cut the requirement that Sunday is always the day of rest.

#### ELIMINATE THE SET PRIORITY LIST FOR FIRING AND REHIRING

In Italy, current labor laws set a priority list for firing and rehiring based on such factors as family responsibilities and seniority. Eliminating these rules would give employers more freedom to retain and rehire the most valuable members of their workforce in case of temporary economic difficulties—as seen in other European countries such as Belgium, Denmark, Spain and the UK.

#### NOTES

1. Data on the share of the labor force covered by unemployment insurance is from 2002. Clansen, Jochen and Elke Viebrock. 2008. “Voluntary Unemployment Insurance and Trade Union Membership: Investigating the Connections in Denmark and Sweden.” *Journal of Social Policy* 37(3): 433-51.
2. Provisions on part-time and fixed-term contracts were subsequently modified by Law No. 247/2007.

# Registering property

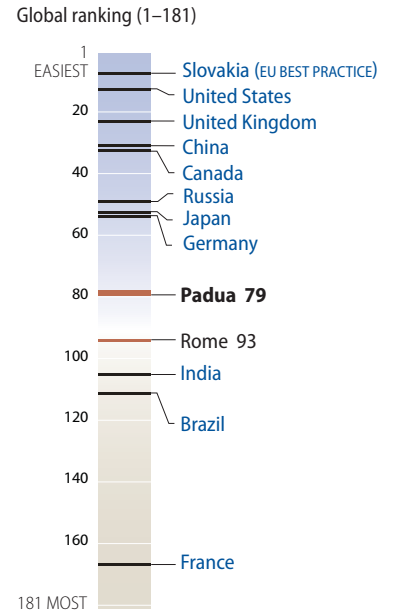
Efficient property registrations make transfers easier, less expensive and more secure. Titleholders can use their property as collateral for loans to start a business or expand operations. *Doing Business* measures the ease of registering property by recording the required procedures to transfer the property of a land and building between two businesses.

In Padua, it takes 8 steps, 19 days and 4.4% of the property value to complete a transfer (figure 5.1). A country with this performance would rank 79th of 181 economies, and 17th among EU members (figure 5.2). Registering property in Padua is faster than in Rome, where an entrepreneur spends 27 days to complete the same procedures. Padua is also 5 weeks faster than in the average EU country, where it takes 2 months (figure 5.3). However, EU countries require only

5 procedures to register property. Registering property is straightforward in Sweden; only 1 step is required. Among EU countries, only France and Greece require more procedures than Italy—9 and 11, respectively. Costs in Padua represent 4.4% of the property value and are slightly lower than in Rome, mainly due to lower notary fees. This is similar to the EU average, but over 4 times higher than the best practices in countries like Slovakia, Estonia, Lithuania, Poland and Denmark, where registering property costs less than 1% of the property value.

Economies that score well on the ease of registering property tend to have simple procedures, low transfer taxes, fixed registration fees, online registries and time limits for administrative procedures. They also make the use of notaries and lawyers optional. Reducing transac-

FIGURE 5.2  
How Veneto compares globally on registering property

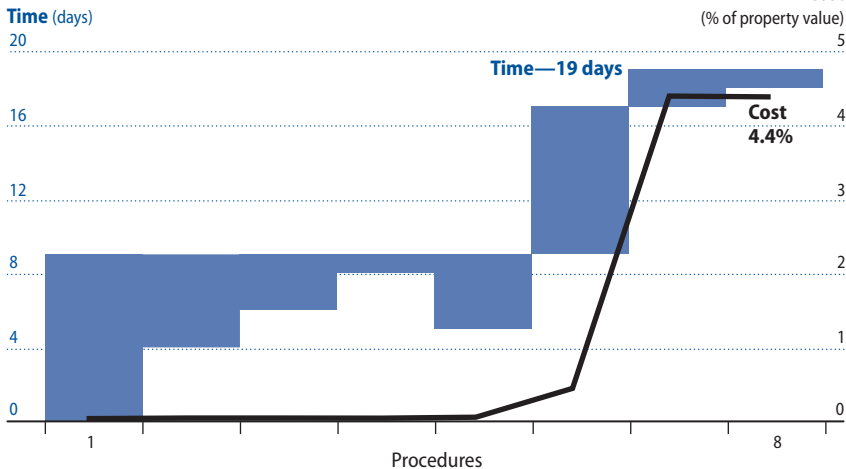


Note: Rankings are the average of the economy ranking on the procedures, time, and cost for a business to purchase, transfer and register property from another business. See Data notes for details. Source: *Doing Business* database.

tion costs by simplifying the procedures to transfer property increases the ability of companies to use their assets in the most efficient way. Land and buildings represent between half and three quarters of the wealth in most European countries and are often the preferred form of collateral by banks. Property registration plays an essential role in economic development.

In 2001, Italy made a positive reform by unifying its cadastre and land registry into a single agency—*Agenzia del Territorio*. In addition, investments in information technology and digitized records have made it possible for Italian agencies to offer online services—such as obtaining cadastral and non-encumbrance certificates. Records going back over 20 years are available online. A notary prepares and executes the public deed and typically handles the process of transferring the property on behalf of the buying and selling parties. An electronic system (called SISTER) allows a notary to file for registration with the Tax Authority (*Agenzia dell'Entrate*) and the Cadastre and Property Registry (*Agenzia*

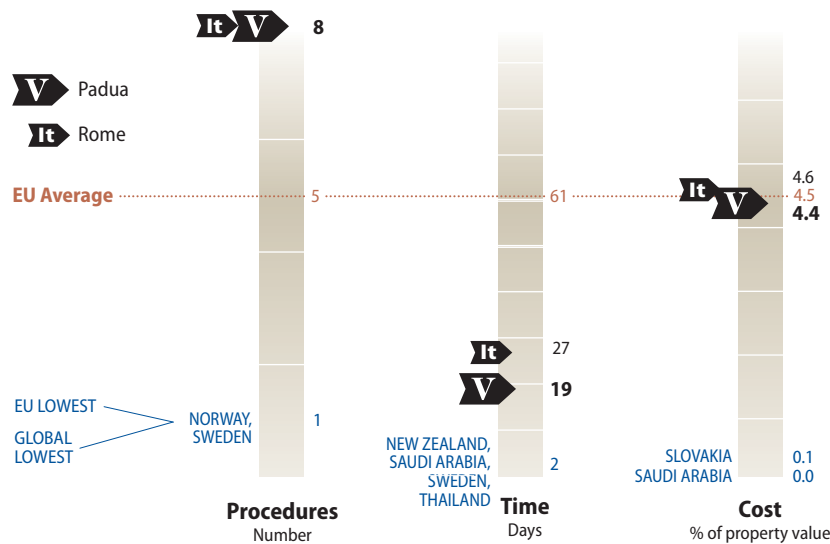
FIGURE 5.1  
Time and cost to register property in Padua



Source: *Doing Business* database.



FIGURE 5.3  
**Procedures, time and cost to register property in Veneto**



Source: Doing Business database.

*del Territorio*) and pay all related fees. The system returns a receipt and registration number almost immediately. Still, a paper copy of the public deed must be presented to complete the record of the transfer in the land registry, which then guarantees that the transfer is recognized by third parties.

Italy's Civil Code makes the notary public responsible for the veracity of the information in the public deed. This additional legal security comes at a cost. Notary fees can amount to € 4,600. The liberalization of professional fees in 2006<sup>1</sup> produced no effect on notary fees. Notaries are considered to perform a public function and therefore excluded from the principle of competition that applies to other professions.<sup>2</sup> Notaries continue to use the fee schedules established in the Ministerial Decree of 21 November 2001. At least, in smaller cities such as Padua, some competition among notaries keeps the fees at the lower end of the fee schedule. In addition, 2 registration taxes (the so-called *imposta ipo-catastale*) add up to 4% of the property value. The system is complex and different taxes and fees apply depending on the type of transaction. Legal experts such as notaries and lawyers acknowledge some degree of uncertainty when assessing the applicable regulations governing different

types of transactions. A summary of applicable official charges on property transfer shared with *Doing Business* by a notary included 39 different scenarios with different applicable fees and taxes. Not surprisingly, this degree of complexity may lead to different interpretations by public officials.

#### WHAT TO REFORM?

##### SIMPLIFY AND LOWER TRANSFER TAXES

Lowering fees is the easiest way to ease property registration. A moderate reform would be to unify the different transfer taxes and fees applicable for different types of property transfer and publish them. This would increase legal certainty by reducing the opportunities for varying interpretations in the current regime. Reforming the registration fees would require legislative changes at the national level.

##### INTRODUCE COMPETITION IN THE CONVEYANCING SERVICE MARKET

In Italy, notary involvement is required to register the deed in the land register which makes the title have effect towards third parties. As in other European countries with this Latin notary system, the notary profession is highly

regulated, with restrictions on entry as well as on the activities that the notaries can perform. Legal fees in these countries are on average 59% higher than in Nordic countries, where involvement of a legal professional is not mandatory and the use of standard contracts is widespread. There is no evidence that higher levels of regulation and higher prices for conveyancing services lead to higher levels of service quality.<sup>3</sup> The Netherlands provides an interesting case for reform. In 1999, it liberalized entry to the notary profession and their fees. Notary intervention was still required, but the fees to transfer property dropped by as much as 30%, while the quality of services improved and the security of property rights was not affected.<sup>4</sup> In the long run, Italy could consider allowing lawyers as well as other suitably qualified and licensed professionals to provide conveyancing services.

#### NOTES

1. Decree (D.L.223/2006, then Law 248/2006), which is the so-called "Bersani Law."
2. Sentence 9878/2008 of the *Corte di Cassazione*.
3. European Commission, 2007. *Conveyancing Services Market*. Led by the Centre of European Law and Politics (ZERP) at Bremen University.
4. *Idem*.

# Getting credit

Do women pay more for credit than men in Italy? The answer is yes, according to a recent study. The study found that small female-owned firms are charged higher interest rates than those owned by men—even after controlling for other factors such as firm type and risk. In fact, businesses owned by women are statistically less likely to fail than male-owned ones. One possible explanation is that the cost of credit is related to the level of trust and higher levels of trust in Italy benefit men more than women.<sup>1</sup> Better regulations that protect the rights of borrowers as well as lenders may help bridge this gap. Readily available credit information could help, too.

*Doing Business* measures two aspects of regulations that affect the availability of credit: the legal rights of borrowers and lenders and the sharing of credit information. First, the strength of legal rights is measured by looking at the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. Second, the sharing of credit information is measured by looking at the coverage, scope, quality and accessibility of credit information available through public and private registries. In Italy, both credit measures are determined at the national level, with regional variations and local reforms rare to impossible. As a result, data for Italy from *Doing Business 2009* stands in for Veneto in this chapter. Italy ranks 84th out of 181 economies on the ease of getting credit (figure 6.1). Only 3

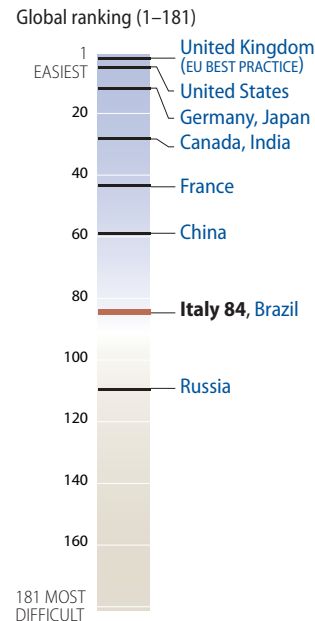
EU member countries lag behind.

Italy's relatively low position is driven by its weak protection of legal rights of lenders and borrowers based on the *Doing Business* measure. Italy scores 3 out of 10 possible points in the legal rights index (figure 6.2). This is the lowest score found among the EU members. The United Kingdom and Denmark have the highest legal protections for borrowers and lenders.

Italian law allows businesses to use movable assets as collateral for loans while keeping them in their possession in certain cases, including after-acquired assets. But the law also requires a specific description of the assets in the security agreement and does not permit a non-possessory security right over the combined assets of the company. No national collateral registry exists; special registers are kept at local tribunals (where the debtor is located). Secured creditors in Italy have no priority over other claims such as unpaid taxes or wages if the borrower becomes insolvent. This may make lenders less willing to grant loans in the first place. Similarly, out-of-court enforcements of secured rights cannot be agreed upon by the parties in security agreements—exposing creditors to the risk of lengthy court proceedings in the case of a default. This also may discourage lending.

Access to credit information is a brighter spot in Italy. Credit registries, the institutions that collect and distribute credit information on borrowers, include

FIGURE 6.1  
How Veneto compares globally on getting credit



Note: Rankings are based on the sum of the strength of legal rights index and the depth of credit information index. See Data notes for details.

Source: *Doing Business* database.

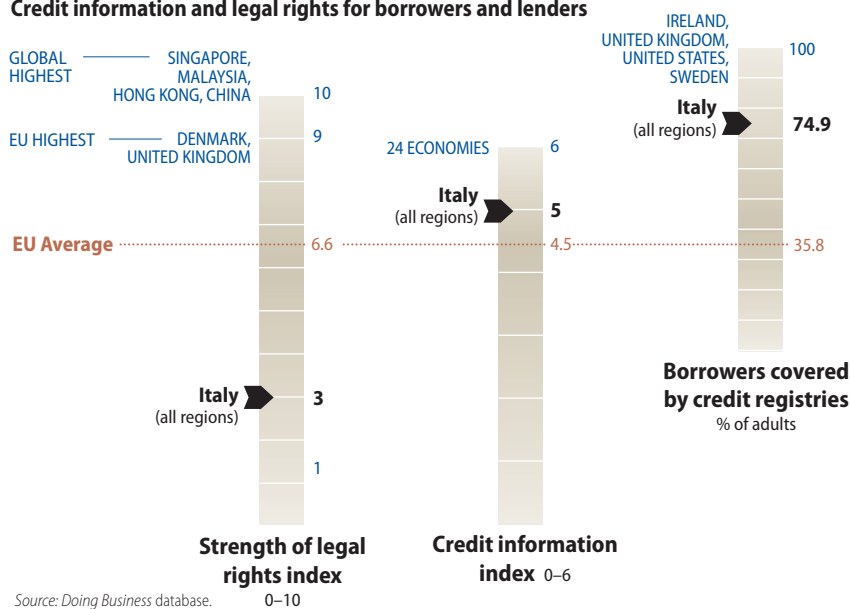
4 or more private credit bureaus and 1 public registry.<sup>2</sup> Coverage of the private credit bureaus reaches 75% of the adult population (figure 6.2). This coverage is much more impressive than in France or Spain, where coverage reaches less than a third or less than half, respectively. However, credit registries in Ireland, the United Kingdom, Sweden and Germany cover almost 100% of the population.

Credit bureaus in Italy collect a lot of useful information. They gather information from firms and individuals, store up to 3 years of historical data, cover small as well as big debts, distribute both positive and negative information, and protect consumer rights by allowing them to inspect their credit reports. However, they do not include information from trade creditors, retailers and utility companies. Countries like Austria, Germany, and the United Kingdom collect this information. As a result, Italy scores 5 out of 6 on the *Doing Business* depth of credit information index.

Credit registries can greatly expand access to credit. By sharing credit information, they help lenders assess risk



FIGURE 6.2

**Credit information and legal rights for borrowers and lenders**

Source: Doing Business database.

more accurately and allocate credit more efficiently. Furthermore, registries can free entrepreneurs from having to rely on their personal connections alone for credit. In 2005, Italy introduced a code of conduct for credit bureaus that stressed the reliability and timeliness of credit reports, but cut the time that historical data can be stored.<sup>3</sup> As a member of the European Union, Italy has until 2010 to implement the EU Directive on credit agreements for consumers that requires access to credit bureau databases in other member states.

Good credit information and laws that create and enforce collateral benefit lenders as well as borrowers. Borrowers benefit because credit opportunities increase. Both credit registries and creditor protections through the legal system are associated with higher private-credit-to-GDP ratios. For example, an increase of 1 point in the creditor's right index is associated with a 6.5% increase in the average annual growth rate of the private-credit-to-GDP ratio in the 3 years after the reform relative to the 3 years before.<sup>4</sup>

**WHAT TO REFORM?****EXPAND THE RANGE OF INFORMATION IN CREDIT REGISTRIES**

To expand the range of information available in credit registries, they could include information on payments from retailers and utility companies, such as telephone and electricity providers. This could allow potential borrowers who have never had a loan or a credit card to build a credit profile. It is important to note that some countries allow this but only with written consent from the consumers. This makes the data more difficult to collect.

**ALLOW ALL TYPES OF ASSETS TO BE USED AS COLLATERAL**

Providing acceptable collateral is one of the most difficult challenges for small- and medium-sized enterprises. Expanding the type of assets that can be used as collateral and facilitating their registration reassures lenders, thus facilitating access to credit. The best international practice is to permit general descriptions in loan agreements, allowing the use of all types of assets as collateral—present and future, tangible and intangible.

France and Denmark have done so in the last 4 years. When Slovakia allowed general descriptions, credit to the private sector jumped by 10%. More than 70% of new credit was secured by movables and receivables.

**ESTABLISH A UNIFIED CENTRALIZED REGISTRY FOR MOVABLE COLLATERAL**

Creating a unified collateral registry enables creditors to notify others of their claim. France launched a nationwide online registry of movable collateral 2 years ago. In Eastern Europe, 12 countries have created unified registries of collateral rights over movable assets.

**NOTES**

1. Alesina, Alberto, Francesca Lotti, and Paolo Emilio Mistrulli. 2008. "Do Women Pay More for Credit? Evidence from Italy." NBER Working Paper 14202. Cambridge, MA: National Bureau of Economic Research.
2. The public registry at the Bank of Italy collects both positive and negative information from supervised financial institutions for loans above € 30,000 and negative information for loans of all sizes.
3. "Codice di deontologia e di buona condotta per i sistemi informativi gestiti da soggetti privati in tema di crediti al consumo, affidabilità e puntualità nei pagamenti." Provvedimento del Garante n.8, published in the Gazzetta Ufficiale 23 dicembre 2004, n. 300, and corrected version published in Gazzetta Ufficiale 9 marzo 2005, n. 56.
4. Djankov, Simeon, Caralee McLiesh and Andrei Shleifer. 2007. Private Credit in 129 Countries. *Journal of Financial Economics* 84 (2):299-329.

# Protecting investors

Good protections for minority shareholders are associated with larger and more active stock markets. *Doing Business* uses a standard case of self-dealing—the use of corporate assets by company insiders for personal gain—to measure investor protections. Self-dealing is one of many corporate governance failures, but it is also one of the most important. Other investor protections—such as the elections of directors, disclosures of remuneration and rules on takeover bids—are not covered by this study but they are also relevant for the development of well-functioning stock markets.

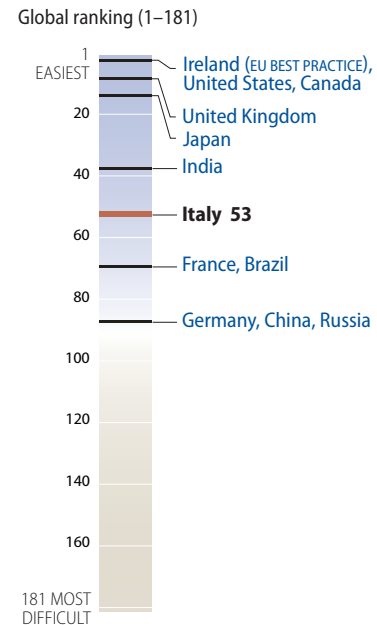
*Doing Business* considers the case of a company listed in a country's most important stock exchange. In Italy, related-party transactions are regulated by the Civil Code and the regulations issued by the regulatory body of the securities market—*Commissione Nazionale per le Società e la Borsa* (CONSOB). Because these protections occur at a national level, no subnational variations exist in the *Doing Business* indicator. As a result, data for Italy from *Doing Business 2009* stands in for Veneto in this chapter.

As a nation, Italy ranks 53rd out of 181 economies on the *Doing Business* investor protection index (figure 7.1). Among EU members, Italy shares the 10th position with Sweden and Finland. Ireland and the United Kingdom lead the EU ranking followed by recently added EU members such as Poland, Bulgaria and Romania. Large EU countries like France and Germany lag behind.

The *Doing Business* investor protection index puts a number to disclosure requirements of related-party transactions, the extent of the obligations for company directors and access to evidence by minority shareholders before and during the trial. Italy scores 7 out of 10 in the extent of disclosure portion of the index. According to the Italian Civil Code, board of directors' approval is required in case of related-party transactions. However, interested directors are allowed to participate in approval process. In contrast, approval requirements are more stringent in countries where related-party transactions are approved by shareholders with interested directors excluded from the vote. The United Kingdom and France are 2 countries with such requirements.

On the extent of director liability, Italy scores a 4 out of a possible 10 points. Slovenia is the EU country with the highest score—9 points—while France and Bulgaria sit at the bottom with 1 point a piece. In Italy, shareholders owning 2.5% of a company can sue directors involved in harmful related-party transactions. Directors are only liable if shareholders prove that they were negligent while approving the harmful related-party transaction. If directors are found liable, they have to pay the damages caused to the company. In countries with stronger investor protections—such as New Zealand or Singapore—directors have to comply with more stringent rules. For example, if they are found liable,

FIGURE 7.1  
How Italy compares globally on protecting investors



Note: Rankings are based on the strength of investor protection index. See Data notes for details.

Source: *Doing Business* database.

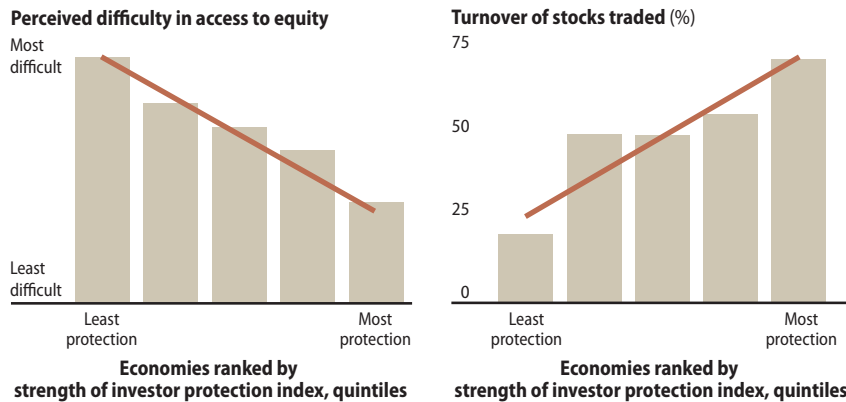
directors in New Zealand or Singapore pay the damages caused to a company and disgorge any profit made from the transaction. These countries also allow shareholders to request the rescission of prejudicial related-party transactions in court.

To measure the ease of shareholders' suits, *Doing Business* looks at the ease of compiling evidence by minority shareholders before and during a trial. On this measure, Italy achieves 6 of 10 points—ahead of Germany, France and Spain, but behind the United Kingdom and Poland. Before an insider-dealing trial in Italy, minority shareholders are allowed to request the appointment of an inspector to investigate the activities of the company. And during the trial, plaintiffs may access a wide range of evidence in possession of the opposing party.

Greater investor protections are associated with more equity investment. A study of private equity transactions found that in countries with good investor protections, 3 deals take place compared to just 2 in countries with higher risk of expropriation.<sup>1</sup> This tends to be

FIGURE 7.2

### More investor protections associated with greater access for firms to equity markets and faster stock turnover



Note: Relationships remain significant at the 5% level when controlling for income per capita. Economies are ranked on the perceived difficulty in access to equity, with 131 being the most difficult. See Data notes for details.

Source: *Doing Business* database; WEF (2007); World Bank, World Development Indicators database.

reflected in the size of a country's stock exchange, with higher shares of market capitalization-to-GDP ratios (figure 7.2).

Across regions, the most popular recent reform has been to require greater disclosure of related-party transactions. The results of a 2002 global survey on corporate governance provide one explanation: approximately 90% of the investors surveyed want more transparency in the day-to-day management of companies. What do they mean by more transparency? They want, for example, unified accounting standards, immediate disclosure of major transactions and more involvement of minority investors in major decisions and transactions.<sup>2</sup>

Italy increased its disclosure requirements in 2006. However, reporting of related-party transactions among listed companies is scarce: on average, only 17 cases are reported per year.<sup>3</sup> In April 2008, the regulator of Italy's securities market (CONSOB) opened to consultation new draft guidelines that would enhance the transparency and investor protections for related-party transactions, applicable to companies listed in the stock exchange.

## WHAT TO REFORM?

### MAKE DIRECTORS' RESPONSIBILITIES AND DUTIES EXPLICIT

The law should require that directors exercise appropriate diligence, care and loyalty when running a company. They should make informed decisions, avoid conflicts of interest and always put the interest of the corporation before those of directors or other individuals. In case of prejudicial related-party transactions, directors should pay any damages to a company and disgorge the profit made in violation of their duties to the corporation.

### REQUIRE SHAREHOLDER APPROVAL FOR RELATED-PARTY TRANSACTIONS

To better protect minority shareholders, large related-party transactions (representing more than 5% of company's assets) should be approved in shareholders' meetings. Moreover, interested directors should not be allowed to vote at any stage of the approval process.

## NOTES

1. Lerner, Josh and Antoinette Schoar. 2005. "Does Legal Enforcement Affect Financial Transactions? The Contractual Channel in Private Equity." *Quarterly Journal of Economics* 120 (1): 223-46.
2. World Bank. 2008. *Doing Business 2009*. Washington, D.C.
3. *Commissione Nazionale per le Società e la Borsa (CONSOB)*.

# Paying taxes

Taxes are vital for every economy. Without them there would be no funds to provide public infrastructure and essential services that help businesses and society to be more productive and better off. Yet the ease of paying taxes varies substantially from country to country. In Sweden, entrepreneurs file a single online form. In Romania, businesses make an average of 113 tax payments per year.

Globally, Veneto (represented by Padua) would rank 133rd amongst 181 economies (figure 8.1). In Padua, a typical medium-size company makes 15 payments, pays 73.6% of its commercial profit<sup>1</sup>, and spends 351 hours per year on tax compliance—including 266 hours for social security taxes and contributions, 48 hours for corporate income taxes, and 37 for value added tax (VAT). Meanwhile, in Rome, the number of payments is the same and total tax rate is slightly lower at 73.3% of commercial profit. The difference in the total tax rate between Padua and Rome reflects different tax rates on real estate (ICI)—0.7% of cadastral value for Padua and 0.5% for Rome. In addition, accountants reported a slightly shorter compliance time in Rome—334 hours per year.

Within the EU, only Poland and Romania make paying taxes more burdensome. Paying taxes is easiest in Ireland—it takes only 9 payments, 76 hours and the total tax rate amounts to just 28.8%. Although the 15 payments required in Italy is below the EU average of 18, the time that companies must

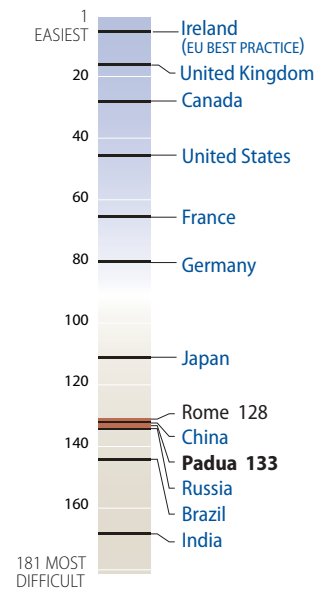
spend on tax compliance is substantially longer. At about 73%, Italy has the highest total tax rate in the EU, where the average is 46% (figure 8.2). In particular, labor taxes amount to 43.2% of commercial profits and corporate income taxes (IRES) amount to 20.1%.

Of course, governments must impose taxes to finance public services, but high tax rates do not always lead to high revenues. Studies bear this out. Between 1982 and 1999, the average profit tax rate worldwide fell from 46% to 33% of national income, while profit tax collection rose from 2.1% to 2.4% of income.<sup>2</sup> In fact, higher tax rates are associated with lower levels of private investment, fewer formal businesses per capita and lower rates of business start-ups. A recent study finds that a 10% increase in the effective corporate tax rate reduces a country's investment-to-GDP ratio by 2%.<sup>3</sup>

Paying taxes in Veneto and elsewhere in Italy has become easier in recent years. Today, several taxes can be filed and paid electronically, including corporate income taxes (IRES), regional taxes on productive activities (IRAP), social security contributions, VAT, property taxes and vehicle taxes. Italy has also recently lowered its corporate income tax rates. Specifically, Italy's budget law for fiscal year 2008 reduces IRES rate from 33% to 27.5% and IRAP rate from 4.25% to 3.9%.<sup>4</sup> In addition, starting in 2008, small companies with turnover below € 30,000, limited capital expenses and no employees will enjoy a special, simplified

FIGURE 8.1  
How Veneto compares globally on paying taxes

Global ranking (1–181)



Note: Rankings are the average of the economy rankings on the number of payments, time and total tax rate. See Data notes for details.

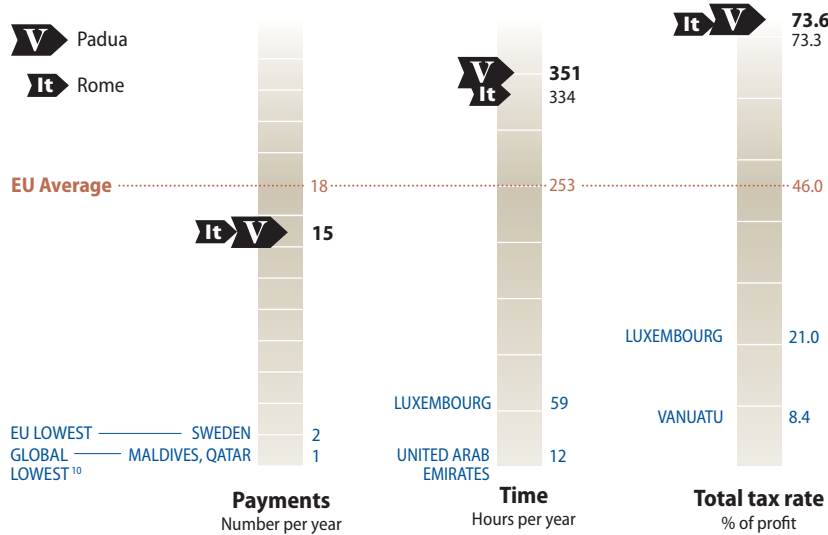
Source: Doing Business database.

fiscal regime—including a 20% flat tax on cash-determined profits and exception from personal income tax, IRAP and VAT.

Reducing corporate income tax rates has been one of the most popular reforms globally—among developed and developing countries. Since 2005, *Doing Business* has tracked more than 60 countries that have reduced corporate income tax rates. Especially when accompanied by an expansion of the tax base, lower tax rates tend to reduce the amount of tax evasion in an economy. Many countries have experienced increased tax revenues following a reduction of tax rates. Greece saw its corporate tax revenue grow from 4% of GDP to 5% after reducing the corporate tax rate in 2005.<sup>6</sup>

Although the focus of tax reform is often lowering rates, equally important for entrepreneurs is the administrative burden associated with tax compliance. The economies that rank highly on the ease of paying taxes indicator tend to have lower tax rates, but also they have simple administrative procedures for paying taxes and filing returns.

FIGURE 8.2  
Number of payments, time and total tax rate in Veneto



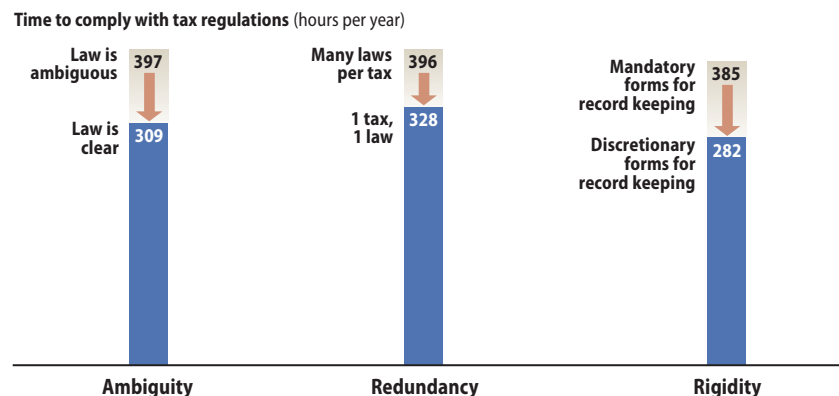
Source: Doing Business database.

**WHAT TO REFORM?\***

**CONSOLIDATE EXISTING TAX LAWS AND CLARIFY AMBIGUITIES**

Currently, Italian companies must refer to several laws to understand their tax obligations. For example, labor taxes and contributions are governed by 5 separate statutes.<sup>8</sup> In addition, changes in the tax laws are frequent, which makes longer term planning difficult for companies. Complicated and ambiguous laws may be harmful for governments. Studies show that complex tax rules tend to decrease tax revenues. Conversely, clear tax laws increase tax revenue by an average of 6%.<sup>9</sup> This is a long-term reform, which may need to be implemented gradually.

FIGURE 8.3  
More complexity, more time paying taxes



Source: Doing Business database.

However, consolidating existing tax and social security laws in Italy would be very beneficial for entrepreneurs and government officials who must navigate through a myriad of different laws and decrees at the moment.

**ELIMINATE MANDATORY TAX BOOKS FOR SMALL- AND MEDIUM-SIZED COMPANIES**

Companies in Italy are obliged to maintain 6 separate accounting books for tax compliance purposes—in addition to their standard accounting books. The 6 books relate to IRES, IRAP and VAT and are as follows: a journal, a depreciable assets book, a stocks accounting book, an inventory book, a book of issued invoices

and a book of received invoices. Meeting such stringent compliance requirements may strain company resources—especially small- and medium-sized company resources. The Italian government could consider exempting smaller business from these rules. On average, countries that require additional record-keeping for tax compliance purposes also require 37% more time to pay taxes than countries that do not (figure 8.3).

**NOTES**

- Commercial profits are net profits before all taxes borne—that is, the profits of the company before taking into account any taxes that affect its income statement for the year.
- Hines, James R., Jr. 2005. “Corporate Taxation and International Competition.” University of Michigan, Ross School of Business, Department of Accounting, Ann Arbor.
- Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer. 2008. The Effect of Corporate Taxes on Investment and Entrepreneurship. NBER Working Paper 13756. Cambridge, MA: National Bureau of Economic Research.
- These recent reforms are not reflected in the data, as the data presented in this report refers to the fiscal year 2007. The decrease of the tax rate will be reflected in *Doing Business 2010*. For more information on methodology, please see the Data notes section.
- World Bank. 2008. *Doing Business 2009*. Washington, D.C.
- World Bank. 2007. *Doing Business 2008*. Washington, D.C.
- It is beyond the scope of this report to provide recommendations regarding tax rates. Instead we focus on the recommendations that would simplify tax administration.
- These include: Italian Civil Code, Law no. 218 dated April 4, 1952, Presidential Decree no. 818 dated April 26, 1957, Law no. 355 dated August 8, 1995, Law Decree no. 252 dated December 5, 2005.
- World Bank, World Development Indicators database.
- The global best practice for time to file, prepare and pay taxes excludes Maldives, where it is 0 hours.



# Trading across borders

*Doing Business* compiles procedural requirements for trading a standard shipment of goods by ocean transport. Every procedure and the associated documents, time and cost, for importing and exporting the goods is recorded, starting with the contractual agreement between the two parties and ending with delivery of the goods.

The procedures required to export or import a container vary globally. Of the 181 economies examined by *Doing Business*, it is easiest to export or import a container in Singapore, while Padua which represents Veneto ranks 47th and Rome ranks 60th (figure 9.1). It is significantly easier to trade across borders in Italy's neighboring countries—such as Austria which ranks 19th, France (22nd) and Switzerland (39th). Meanwhile, it is more difficult to cross-border trade in Slovenia, which ranks 78th.

If you exported a container of apparel from Padua through the port of Venice, it would take 5 documents, 16 days and cost US\$ 1,204 (€ 927) (figure 9.2). To do the same in Rome, it would take 5 documents, 20 days and cost US\$ 1,305 (€ 1,004). Meanwhile, looking at the EU's best-practice examples, exporting a container requires only 2 documents in France, takes 5 days in Estonia and costs just US\$ 485 (€ 381) in Finland.

If you imported a 20-foot container to a warehouse in Padua through the port of Venice, it would take 5 documents, 15 days and cost US\$ 1,201 (€ 924) to com-

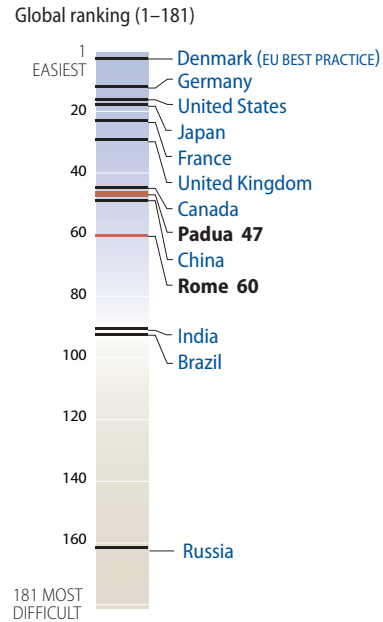
plete all procedures. In Rome, it would take 5 documents, 18 days and cost US\$ 1,305 (€ 1,004) (figure 9.2). Imports tend to take slightly longer and cost more than exports in the EU. On average, EU countries require approximately 5 documents, 12 days and cost US\$ 1,000 (€ 770) to export a container (figure 9.2). They require an average of 5 documents, 13 days, and cost US \$1,100 (€ 847) to import.

France requires just 2 documents for cross-border trade, while in Italy it requires 5 documents, which adds to the entrepreneur's time and cost. France only requires the bill of lading and the customs declaration. Italy requires the bill of lading, the certificate of origin, the commercial invoice, the customs declaration, and for certain products the export or import license. France eliminated filing or sending the customs declaration and replaced it with the electronic declaration which only requires the 2 above-mentioned documents.

In Veneto, it takes 4 days longer to export than in other EU countries on average, and it takes 2 days longer to import. The reason for this is that more than 50% of the total export and import time is spent on collecting all required trade documents. The importance of spending less time on trade is emphasized by a study that shows that "each additional day that a product is delayed prior to being shipped reduces trade by more than 1%. Put differently, each day is equivalent to a country distancing itself from its trade partners by about 70 km on average. Delays have an even greater impact on exports of time-sensitive goods, such as perishable agricultural products. For these, an extra day of delay reduces trade volumes by 3.5 percent."<sup>1</sup>

Thus, moving cargo quickly through a port terminal, customs, and putting it on the road to the client, is important for the livelihood of companies. This is especially true for Veneto as one of the most trade-oriented and industrialized regions in Italy. In fact, Veneto is the second most important economic region in Italy for trade—with a 13.3% share

FIGURE 9.1  
How Veneto compares globally on trading across borders



Note: Rankings are the average of the country rankings on the documents, time and cost required to import and export. See Data notes for details.

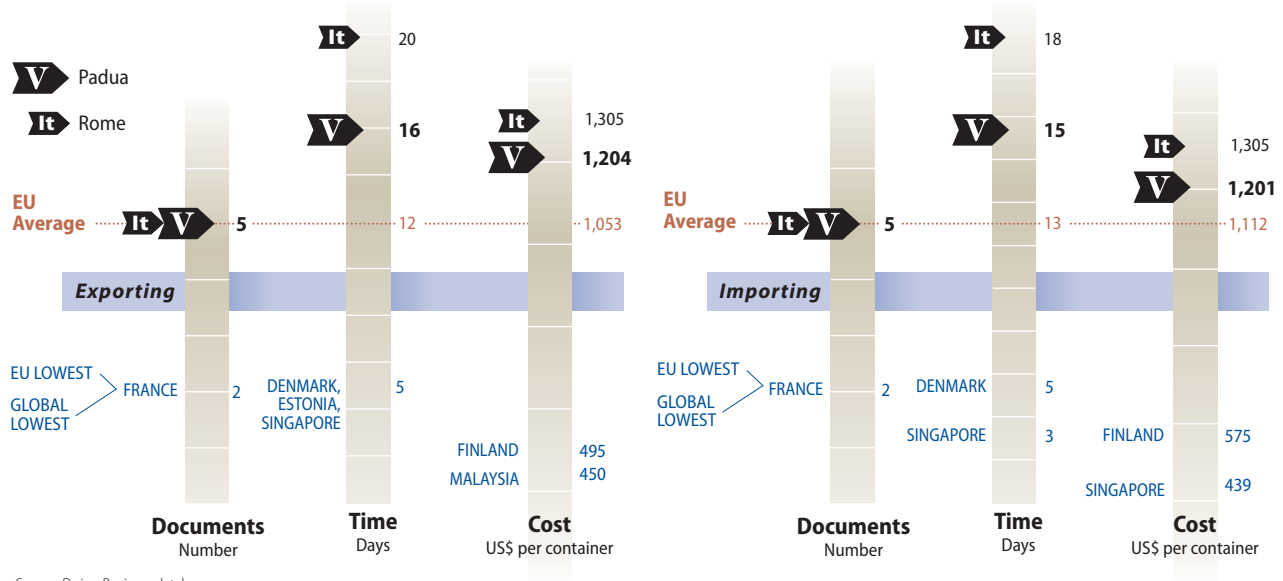
Source: *Doing Business* database.

of exports and a 10.4% share of imports for Italy in 2007. As one report puts it: Production in the region is characterized by a high number of small and medium-sized enterprises (SMEs). SMEs play an important role as an engine for the region's economy and contribute to economic growth as they take over 70% of the added value of the Veneto industry. Within Veneto, the provinces of Treviso and Vicenza are home to the largest number of exporters, while Verona and Vicenza house the largest number of importers.<sup>2</sup>

Exporting or importing into Veneto cost an additional US\$ 600 (€ 462) than in Finland where it costs on average US\$ 535 (€ 412). A competitive cost is good for business because clients seek the best service with the lowest possible price. The lower cost in Denmark is due to several factors—including fewer documents and their related costs, reduced costs for port and terminal handling and more efficient transportation.

Some highly successful improvements that have been carried out over the years have been, inter alia, the im-

FIGURE 9.2 Documents, time and cost to trade across borders in Veneto



Source: Doing Business database.

plementation of risk management, the introduction of Electronic Data Interchange (EDI), the implementation of the electronic signature, the construction of the “Passante di Mestre” highway and the improvement to the port infrastructure.

Firstly, inspections are carried out only on about 5-10% of all containers. As a result, clearing goods through customs requires only a few hours of an entrepreneur’s time, on average. In 2005, Italian customs implemented new software to ease the submissions of documentation and the clearing of goods. “It is much faster than it used to be,” comments one entrepreneur. “What really made an enormous impact on our business was the introduction of the electronic signature,” he explains. “Instead of having hardcopies of documents with our signature, we use an electronic signature to complete the document procedures.”

Furthermore, the relatively short distance from Padua to the port of Venice facilitates the transportation of a container and limits its obstacles. Although traffic may be bottlenecked at Mestre, an extra lane for trucks ensures that slow moving traffic does not hinder the fast-moving traffic. In fact, in recent years, local authorities have further increased efforts to create an efficient and ecologi-

cally friendly intermodal transportation system. They recently added to Veneto’s infrastructure by building a highway—the so-called “Passante di Mestre”—to divert beltway traffic heading anywhere else but Venice.

Lastly, Venice is the third largest port in Northern Italy, handling almost 10% of all port traffic in Italy. It handled over 329,000 TEUs in 2007, compared to over 460,000 TEUs in the port of Naples—the largest in all of Italy. Both ports have made investments to improve their efficiency and infrastructure in the recent years and both continue to maintain and develop their port terminal areas.<sup>3</sup>

### WHAT TO REFORM?

#### CUT THE NUMBER OF DOCUMENTS, AND SIMPLIFY PROCEDURES

If Italian traders spent less time collecting documents, they could make their businesses more efficient and profitable. This would benefit the economy as a whole. The time required could be diminished by reducing the number of documents needed to ship containerized goods. As mentioned above, EU’s best practice is in France which requires only 2 documents—the bill of lading and customs declaration—to import or export.

#### NOTES

1. Djankov, Simeon, Caroline Freund and Cong Pham. 2006. “Trading on Time.” *Review of Economics and Statistics* (forthcoming).
2. Regione del Veneto.
3. Port authority of Venice; port authority of Naples.

## Enforcing contracts

The primary role of the judiciary is to enhance justice, fairness and equity. But efficient courts do more—they help the economy grow. *Doing Business* tracks the efficiency of the judiciary in resolving a commercial dispute by following the step-by-step evolution of the dispute before local courts.

Worldwide, *Doing Business* has found that resolving a commercial dispute is easiest in Hong Kong (China), where it takes just 7 months and costs 14.5% of the value of the debt in dispute. Within Italy, not everyone bringing a commercial dispute to court can expect similar efficiency. In Padua, concluding a typical commercial case takes 41 procedural steps, lasts approximately 1,808 days and costs 27.3% of the value of the claim.<sup>1</sup> Enforcing contracts is slightly more expensive in Rome (29.9% of the value of the debt in dispute) but it also takes less time (approximately 1,210 days, on average). Globally, Veneto (represented by Padua) would rank 156th out of 181 economies on the efficiency of the court system—ex-aequo with Rome and last in the EU (figure 10.1). The reason for Veneto's relatively weak performance in the rankings is the extraordinarily long duration of court proceedings and debt enforcement. In Padua, it takes on average 30 days to file the case, another 1,406 days to conclude the trial and judgment stages and another 372 to enforce the judgment. Elsewhere in the EU, a commercial dispute is resolved more than 3 times faster than in Padua—

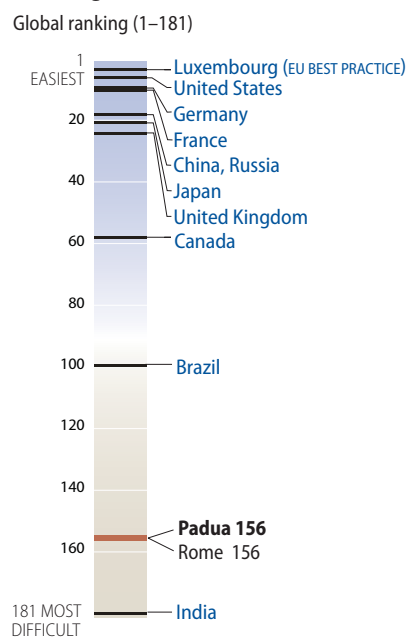
typically within 1.5 years (figure 10.2).

Courts serve businesses best when they are fast, affordable and fair. In the absence of efficient courts, firms undertake fewer investment and business transactions. They prefer to rely only on a small group of business partners who know each other from previous dealings. Studies on the effects of reforms find that when contracts can be enforced quickly and cheaply, small businesses get better financial terms on loans.<sup>2</sup> Other research finds that new technologies are adopted faster when courts are efficient.<sup>3</sup> Efficiency of the court system is also one of the main concerns of foreign investors.

The issue of exceptionally long duration of dispute resolution in Italy has come to the attention of the European Court of Human Rights in Strasbourg, which establishes in Article 6 of the European Convention on Human Rights that it is unacceptable for civil cases to take more than 3 years. The Italian justice system responded with the Law No. 89 of 24 March 2001 (the so-called “Pinto Act”) which introduced the possibility of lodging a complaint with the Italian courts in respect to excessively long proceedings. These types of complaints continue to increase across Italy—from 5,000 in 2003 to over 20,000 in 2006<sup>4</sup>—and are a very costly by-product of the inefficiencies of the judicial system.

Some steps to improve the efficiency of the Italian court system are underway. Italy reformed its Code of Civil Procedure in 2005<sup>5</sup> by reducing the number

FIGURE 10.1  
How Veneto compares globally on enforcing contracts



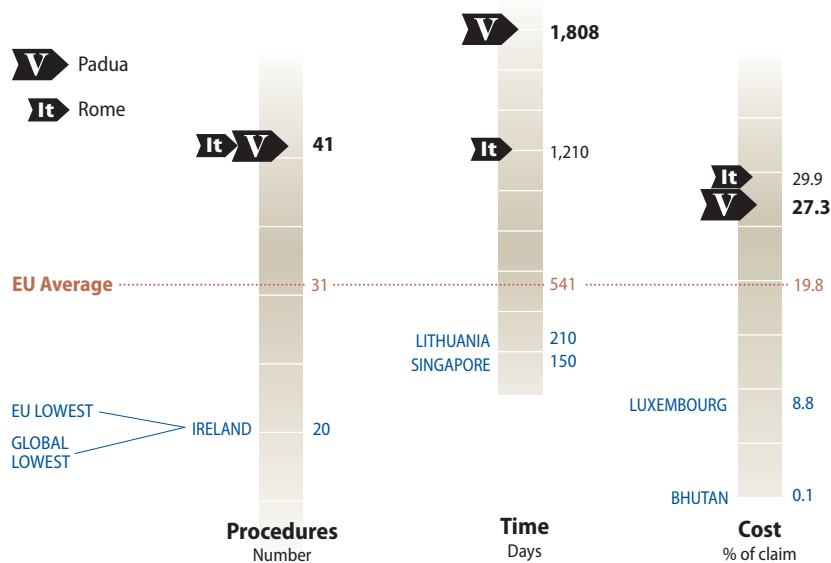
Note: Rankings are the average of the economy rankings on the procedures, time and cost to resolve a commercial dispute through the courts. See Data notes for details.  
Source: *Doing Business* database.

of hearings and deeds to be filed by the parties. The amended rules have also modified other aspects of the Italian Civil Procedure—such as the discipline of ad interim measures, enforcement procedures, the Supreme Court proceedings and arbitration rules. However, these changes have not yet significantly reduced the time to resolve a commercial dispute.

Another promising development is the introduction of On-line Civil Trial (*Processo Civile Telematico*).<sup>6</sup> Padua has been selected as one of the pilot cities to adopt the new electronic system. It was designed to allow the electronic filing of cases and to facilitate case monitoring and management by the court staff. Once fully implemented, the system should be an important time-saving tool for both lawyers and judges.



FIGURE 10.2

**Procedures, time and cost to enforce a contract in Veneto**

Source: Doing Business database.

**WHAT TO REFORM?****ELIMINATE CASE BACKLOG AND REDUCE COURT DELAYS BY EMPOWERING JUDGES**

One of the plagues of Italian courts is the backlog of old cases. The courts of Turin provide an excellent example of how backlogs can be tackled. Turin's reform started in 2001 when cases that had not been resolved for 3 or more years were identified. The courts then issued guidelines with practical advice for judges on how to expedite trials. The guidelines transformed judges into managers of the process and created a culture of efficiency. As a result, the backlog of cases was reduced by 27% between 2001 and 2006.<sup>7</sup> New case efficiency has improved, too. Today, 66% of all civil cases brought before the court of Turin are concluded in less than 1 year, and 93% within 3 years.<sup>8</sup>

**IMPLEMENT AN ELECTRONIC CASE MANAGEMENT SYSTEM**

The on-line civil trial project is very promising and efforts should be made to fully implement it as soon as possible. Introducing electronic case management is one of the most popular reforms of the court system amongst middle- and high-income countries. Austria provides a successful example. All filings from

lawyers in civil litigation and enforcement proceedings now go through an electronic data channel operated by the Ministry of Justice. Judgments are delivered by e-mail rather than by the old hard-copy notification process. Other countries with well-functioning electronic case management systems include Australia, Denmark, Finland, the Netherlands, Norway and Portugal.

**ENCOURAGE ALTERNATIVE METHODS OF DISPUTE RESOLUTION**

Today, the courts are inundated with cases of minor monetary value. Mediation services provided by the Chamber of Commerce—the so-called “*Conciliazione*”<sup>9</sup>—could handle small business disputes to lighten their burden on the court system. In fact, mediation could save money as well as time. Although there has been a steady and significant increase of the number of mediations conducted at the Chamber of Commerce in Padua (from 16 in 2003 to 182 in 2007), the volume of cases is still very low compared to where it could be. More companies should be made aware of this alternative to lengthy court proceedings and encouraged to opt for it whenever possible. Of course, cases with substantial money at stake can continue to use formal arbitration procedures.

**NOTES**

1. The time and cost of dispute resolution refer to filing, trial and debt enforcement.
2. Quian, Jun, and Philip Strahan. 2006. “How Laws and Institutions Shape Financial Contracts.” Wharton Financial Institutions Center, Philadelphia.
3. Cooley, Thomas, Ramon Marimon and Vincenzo Quadrini. 2004. “Aggregate Consequences of Limited Contract Enforceability.” *Journal of Political Economy* 112 (4): 817-47.
4. Corriere della Sera. “Gustizia, debiti record.” 15 Dicembre 2007.
5. Decree of March 14, 2005, enacted as of March 1, 2006.
6. [www.processotelematico.giustizia.it](http://www.processotelematico.giustizia.it)
7. Barbuto, Mario. 2008. The “Strasbourg Programme” for reducing backlogs and accelerating the processing of civil cases in the Turin Court. European Commission for the Efficiency of Justice. Newsletter No 3; July.
8. Abravanel, Roger. 2008. *Meritocrazia*. Garzanti Libri.
9. [www.conciliazione.camcom.it](http://www.conciliazione.camcom.it)

# Closing a business

In medieval Padua, insolvent debtors were punished severely: following a humiliating ritual at the Palazzo della Ragione, they were permanently banished from the city. Today, debtors in financial distress and their creditors can turn to courts to resolve the situation. Globally, Veneto (represented by Padua) ranks 26th, and 11th within the EU (figure 11.1). In Padua, recovering a debt from a bankrupt company takes on average 2 years and costs about 15% of the value of the estate (figure 11.2). Overall, creditors can expect to recover about 61 cents on every dollar borrowed. In Rome, the process tends to be slightly faster (averaging 1 year and 10 months), but also more expensive (22% of the value of the estate), allowing creditors in Rome to recover about 57 cents on every dollar borrowed. While the performance of both Padua and Rome is slightly ahead of the EU average of 56 cents recovered on the dollar, the Italian cities lag behind top performers in this area. For example, in Japan, creditors are likely to recover 92.5 cents on the dollar, and in Finland—where the recovery rates are highest in the EU—87.3 cents.

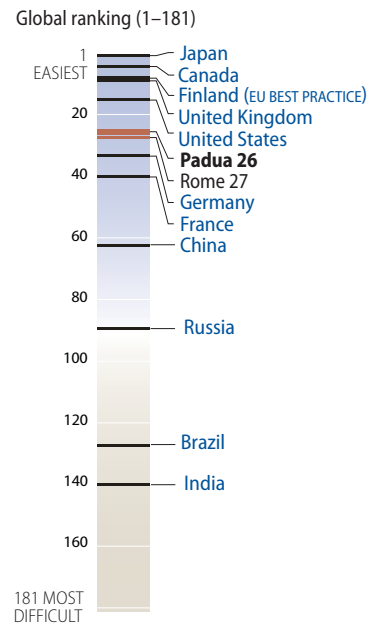
Efficient bankruptcy regulations improve access to credit. Where insolvency laws are more effective, creditors—confident that they will be able to collect on loans—are more likely to lend. Recent studies in Europe find that actual returns to creditors are 92% of the value of the loan in the United Kingdom, 80% in the Netherlands, 67% in Germany and 56%

in France.<sup>1</sup> This is not surprising, given that it takes only a year to finish the insolvency process in London, 13 months in Amsterdam, 15 months in Berlin, but almost 2 years in Paris.

Good bankruptcy laws achieve three main goals. They seek to rehabilitate viable businesses and liquidate unviable ones. They aim to maximize the value received by creditors, shareholders, employees and other stakeholders by requiring that businesses be turned around, sold as a going concern or liquidated—whichever generates the greatest total value. And they establish a system for clearly ranking creditors. Countries with laws meeting these 3 objectives achieve a higher recovery rate than countries without such laws.

Reforming a bankruptcy system can be very challenging. If banks cannot protect their credit, they lend less—and at a higher rate. On the other hand, if entrepreneurs believe that the law empowers creditors to push a company into insolvency, they will be reluctant to start new businesses. Italy has introduced gradual reforms of its bankruptcy system since 2003. The need for a reform was dire—the Italian bankruptcy law was over 60 years old at that time—but it was the corporate scandals that provided an immediate stimulus for reforms. The legal framework for bankruptcy in Italy was revised gradually through adopting various laws and decrees, including Law 347 of 2003, the so-called “Marzano Law”<sup>2</sup>, and Law 169 passed in September

FIGURE 11.1  
How Veneto compares globally on closing a business

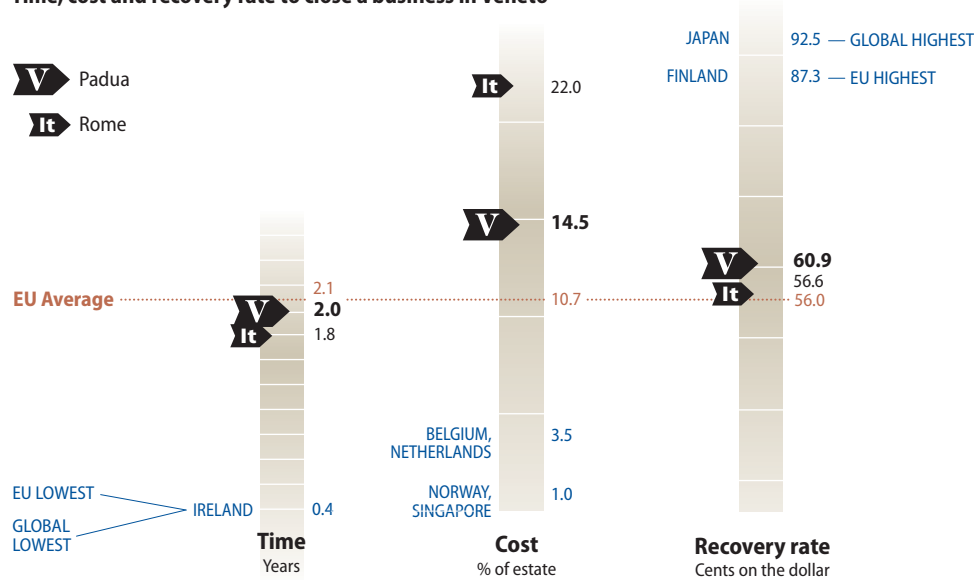


Note: Rankings are based on the recovery rate: how many cents on the dollar claimants (creditors, tax authorities and employees) recover from the insolvent firm. See Data notes for details.

Source: Doing Business database.

2007 and adopted on January 1, 2008. The emphasis shifted from punishing the debtor to restructuring viable businesses and maximizing creditors' recovery. The new legal framework is aimed at creating a process similar to Chapter 11 in the United States, transferring the focus of proceedings from liquidation to corporate reorganization and restructuring. The laws gave distressed firms tools to overcome the crisis, either through out-of-court agreements or through a formal rescue procedure (*concordato preventivo*)—a settlement between the debtor and creditors requiring court approval. The reform achieved 6 goals.<sup>3</sup> First, it redefined the scope of bankruptcy proceedings, moving from punishing debtors to satisfying creditors. Second, it expanded the role and scope of a creditors' committee. Third, it modified the rules on executory contracts in bankruptcy. Fourth, it allowed the bankrupt business' operations to continue as a going concern. Fifth, it introduced discharge from unpaid debt for natural persons. Sixth, it simplified the process of liquidating the assets and distributing

FIGURE 11.2

**Time, cost and recovery rate to close a business in Veneto**

the proceeds of that liquidation among the creditors. This framework strengthened creditors' rights, stimulating the flow of credit to small- and medium-sized firms. As a result of the reforms, the recovery rate has almost doubled from the 38 cents per euro owed, as estimated by the Italian Bankers Association in 2002.

In addition to the improvements of the Italian bankruptcy laws, parties involved in bankruptcy proceedings in Padua now benefit from a new website run by the Court of Padua ([www.falmentipadova.com](http://www.falmentipadova.com)). The website allows all interested parties (citizens, creditors, bankruptcy trustees, and judges) to access data on current bankruptcy proceedings and monitor their progress.

### WHAT TO REFORM?

#### GIVE COURTS THE POWER TO STOP LIQUIDATION PROCEEDINGS IN CASES WHERE THERE ARE NO ASSETS LEFT FOR CREDITORS TO RECOVER

Today the courts of Padua are flooded with cases where there is little to nothing for the creditors to recover. When liquidation proceedings start (as a result of filing a new liquidation procedure or as a result of an unsuccessful reorganization), the trustee inventories a debtor's assets

to find out how much is left to repay creditors. If the results of the inventory show that there is nothing for creditors to recover, and such a report is not questioned by them, the courts should have the power to terminate the proceedings. Currently, such a decision can only be made upon request of the trustee and the creditors' committee, which typically decide to continue with the liquidation proceeding regardless of the results of the inventory. However, if the courts were given the power to stop the liquidation proceeding, the main stakeholders (creditors and trustees) should still be allowed to appeal this decision—in a fast-track procedure—in order to properly safeguard the interests of creditors.

Although this reform may not have an immediate impact on *Doing Business* indicators, allowing the courts to stop liquidation proceedings that are not going to yield any benefit to the creditors should improve the overall efficiency of the courts in Padua and reduce the costs incurred in bankruptcy proceedings. First, it would save creditors legal expenses. Second, it would reduce the backlog of bankruptcy cases in the court system.

### NOTES

1. Davydenko, Sergei, and Julian Franks. 2008. "Do Bankruptcy Codes Matter? A Study of Defaults in France, Germany, and the UK." *Journal of Finance* 63 (2): 565-605; and de Jong, Abe, and Oscar Couwenberg. 2007. "Costs and Recovery Rates in the Dutch Liquidation-Based Bankruptcy System." Working paper, Faculty of Law, University of Groningen.
2. Named after Antonio Marzano, the Italian Minister for Productive Activities (2001-2005).
3. Beye, Mema and Joanna Nasr. 2008. "Repaying Creditors Without Imprisoning Debtors." In World Bank. 2008. *Celebrating Reform 2008*. Washington, D.C. World Bank and U.S. Agency for International Development.

# Data notes

## ECONOMY CHARACTERISTICS

### GROSS NATIONAL INCOME (GNI) PER CAPITA

*Doing Business in Veneto 2009* reports 2007 income per capita and population as published in the World Bank's *World Development Indicators 2008*. Income is calculated using the Atlas method (current US \$). For cost indicators expressed as a percentage of income per capita, 2007 GNI in local currency units is used as the denominator.

Italy's GNI per capita in 2007 = US \$ 33,540

### EXCHANGE RATE

The exchange rate used in this report is US \$ 1 = € 0.77

### REGION AND INCOME GROUP

*Doing Business* uses the World Bank regional and income group classifications, available at <http://www.worldbank.org/data/countryclass>.

The indicators presented and analyzed in *Doing Business in Veneto 2009* 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 degree of regulation, such as the number of procedures to start a business or to register and transfer commercial property. Second, they gauge regulatory outcomes, 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, they measure the flexibility of employment regulation. Finally, a set of indicators documents the tax burden on businesses. For details on how the rankings on these indicators are constructed, see *Ease of Doing Business*.

The data for all sets of indicators in *Doing Business in Veneto 2009* are for June 2008, except for Rome, which was updated as of December 2008. The data for paying taxes refer to January–December 2007.

### METHODOLOGY

The *Doing Business* data are collected in a standardized way. To start, the *Doing Business* team, with academic advisers, designs a survey. The survey 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. Surveys are administered through more than 6,700 local experts worldwide and 80 in Veneto, 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 in Veneto 2009* the team members visited Padua twice to verify data and recruit respondents and had multiple interactions with them either directly or through Centro Studi at Unioncamere del Veneto. The team also invited local government officials and judges to review the preliminary results and offered them a right of reply period. The data from surveys are subjected to numerous tests for robustness, which lead to revisions or expansions of the information collected.

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, as 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 *Doing Business* but also identify their source and point to what might be reformed.

### LIMITS TO WHAT IS MEASURED

The *Doing Business* methodology has 5 limitations that should be considered when interpreting the data. First, the collected data in *Doing Business 2009* refer to businesses in the economy's largest business city and may not be representative of regulation in other parts of the economy. The data collected for

the Veneto region refer to the city of Padua.

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 in Veneto 2009* could differ from the perceptions of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

### 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 surveys 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>.

*Doing Business* publishes 8,900 indicators each year. To create these indicators,

the team measures more than 52,000 data points, each of which is made available on the *Doing Business* website. Data time series for each indicator and economy are available on the website, beginning with the first year the indicator or economy was included in the report. To provide a comparable time series for research, the data set is back-calculated to adjust for changes in methodology and any revisions in data due to corrections. The website also makes available all original data sets used for background papers. The correction rate between *Doing Business 2008* and *Doing Business 2009* was 6%.

## STARTING A BUSINESS

*Doing Business* records all procedures that are officially required for an entrepreneur to start up and formally operate an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with relevant authorities.

After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures is developed, along with the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital requirements. Subsequently, local incorporation lawyers and government officials complete and verify the data.

Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all agencies involved in the start-up process function without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

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

### ASSUMPTIONS ABOUT THE BUSINESS

The business:

- Is a limited liability company (*società a responsabilità limitata, srl*).
- Operates in the economy's selected city.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Has start-up capital of 10 times income per capita at the end of 2007, paid in cash.
- Performs general industrial or commercial activities, such as the production

or sale to the public of products or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.

- Leases the commercial plant and offices and is not a proprietor of real estate.
- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees 1 month after the commencement of operations, all of them nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.

### PROCEDURES

A procedure is defined as any interaction of the company founders with external parties (for example, government agencies, lawyers, auditors or notaries). Interactions between company founders or company officers and employees are not counted as procedures. Procedures that must be completed in the same building but in different offices are counted as separate procedures. If founders have to visit the same office several times for different sequential procedures, each is counted separately. The founders are assumed to complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law. If the services of professionals are required, procedures conducted by such professionals on behalf of the company are counted separately. Each electronic procedure is counted separately. If 2 procedures can be completed through the same website but require separate filings, they are counted as 2 procedures.

Both pre- and postincorporation procedures that are officially required for an entrepreneur to formally operate a business are recorded.

Procedures required for official correspondence or transactions with public agencies are also included. For example, if a company seal or stamp is required on official documents, such as tax declarations, obtaining the seal or stamp is counted. Similarly, if a company must open a bank account before registering for sales tax or value added tax, this transaction is included as a procedure. Shortcuts are counted only if they fulfill 4 criteria: they are legal, they are available to the general public, they are used by the majority of companies, and avoiding them causes substantial delays.

Only procedures required of all businesses are covered. Industry-specific procedures are excluded. For example, procedures to comply with environmental regulations are included only when they apply to all businesses conducting general commercial or industrial activities. Procedures that the company undergoes to connect to electricity, water, gas and waste disposal services are not included.

### TIME

Time is recorded in calendar days. The measure captures the median duration that incorporation lawyers indicate is necessary to complete a procedure with minimum follow-up with government agencies and no extra payments. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). A procedure is considered completed once the company has received the final document, such as the company registration certificate or tax number. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. It is assumed that the entrepreneur does not waste time and commits to completing each remaining procedure without delay. The time that the entrepreneur spends on gathering information is ignored. It is assumed that the entrepreneur is aware of all entry regulations and their sequence from the beginning but has had no prior contact with any of the officials.

### COST

Cost is recorded as a percentage of the economy's income per capita. It includes all official fees and fees for legal or professional services if such services are required by law. Fees for purchasing and legalizing company books are included if these transactions are required by law. The company law, the commercial code and specific regulations and fee schedules are used as sources for calculating costs. In the absence of fee schedules, a government officer's estimate is taken as an official source. In the absence of a government officer's estimate, estimates of incorporation lawyers are used. If several incorporation lawyers provide different estimates, the median reported value is applied. In all cases the cost excludes bribes.

### PAID-IN MINIMUM CAPITAL

The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following in-



corporation and is recorded as a percentage of the economy's income per capita. The amount is typically specified in the commercial code or the company law. Many economies have a minimum capital requirement but allow businesses to pay only a part of it before registration, with the rest to be paid after the first year of operation. In Italy in June 2008, the minimum capital requirement for limited liability companies was €10,000, of which at least €2,500 was payable before registration. The paid-in minimum capital recorded for Italy is therefore €2,500, or 9.7% of income per capita.

*The data details on starting a business can be found for each economy at <http://www.doing-business.org>. This methodology was developed in Djankov, Simeon, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer. 2002. "The Regulation of Entry." Quarterly Journal of Economics 117 (1): 1-37; and is adopted here with minor changes.*

#### DEALING WITH CONSTRUCTION PERMITS

*Doing Business* records all procedures required for a business in the construction industry to build a standardized warehouse. These procedures include submitting all relevant project-specific documents (for example, building plans and site maps) to the authorities; obtaining all necessary clearances, licenses, permits and certificates; completing all required notifications; and receiving all necessary inspections. *Doing Business* also records procedures for obtaining connections for electricity, water, sewerage and a fixed land line. Procedures necessary to register the property so that it can be used as collateral or transferred to another entity are also counted. The survey divides the process of building a warehouse into distinct procedures and calculates the time and cost of completing each procedure in practice under normal circumstances.

Information is collected from experts in construction licensing, including architects, construction lawyers, construction firms, utility service providers and public officials who deal with building regulations, including approvals and inspections. To make the data comparable across economies, several assumptions about the business, the warehouse project and the utility connections are used.

#### ASSUMPTIONS ABOUT THE CONSTRUCTION COMPANY

The business (BuildCo):

- Is a limited liability company.
- Operates in the economy's selected city.
- Is 100% domestically and privately owned.
- Has 5 owners, none of whom is a legal entity.
- Is fully licensed and insured to carry out construction projects, such as building warehouses.
- Has 60 builders and other employees, all of them nationals with the technical expertise and professional experience necessary to obtain construction permits and approvals.
- Has at least 1 employee who is a licensed architect and registered with the local association of architects.
- Has paid all taxes and taken out all necessary insurance applicable to its general business activity (for example, accidental insurance for construction workers and third-person liability insurance).
- Owns the land on which the warehouse is built.

#### ASSUMPTIONS ABOUT THE WAREHOUSE

The warehouse:

- Will be used for general storage activities, such as storage of books or stationery. The warehouse will not be used for any goods requiring special conditions, such as food, chemicals or pharmaceuticals.
- Has 2 stories, both above ground, with a total surface of approximately 1,300.6 square meters (14,000 square feet). Each floor is 3 meters (9 feet, 10 inches) high.
- Has road access and is located in the periurban area of the economy's largest business city (that is, on the fringes of the city but still within its official limits).
- Is not located in a special economic or industrial zone. The zoning requirements for warehouses are met by building in an area where similar warehouses can be found.
- Is located on a land plot of 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry.
- Is a new construction (there was no previous construction on the land).

- Has complete architectural and technical plans prepared by a licensed architect.
- Will include all technical equipment required to make the warehouse fully operational.
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

#### ASSUMPTIONS ABOUT THE UTILITY CONNECTIONS

The electricity connection:

- Is 10 meters (32 feet, 10 inches) from the main electricity network.
- Is a medium-tension, 3-phase, 4-wire Y, 140-kVA connection. Three-phase service is available in the construction area.
- Will be delivered by an overhead service, unless overhead service is not available in the periurban area.
- Consists of a simple hookup unless installation of a private substation (transformer) or extension of network is required.
- Requires the installation of only one electricity meter.
- BuildCo is assumed to have a licensed electrician on its team to complete the internal wiring for the warehouse.
- The water and sewerage connection:
- Is 10 meters (32 feet, 10 inches) from the existing water source and sewer tap.
- Does not require water for fire protection reasons; a fire extinguishing system (dry system) will be used instead. If a wet fire protection system is required by law, it is assumed that the water demand specified below also covers the water needed for fire protection.
- Has an average water use of 662 liters (175 gallons) a day and an average wastewater flow of 568 liters (150 gallons) a day.
- Has a peak water use of 1,325 liters (350 gallons) a day and a peak wastewater flow of 1,136 liters (300 gallons) a day.
- Will have a constant level of water demand and wastewater flow throughout the year.

The telephone connection:

- Is 10 meters (32 feet, 10 inches) from the main telephone network.
- Is a fixed land line.

## PROCEDURES

A procedure is any interaction of the company's employees or managers with external parties, including government agencies, notaries, the land registry, the cadastre, utility companies, public and private inspectors and technical experts apart from in-house architects and engineers. Interactions between company employees, such as development of the warehouse plans and inspections conducted by employees, are not counted as procedures. Procedures that the company undergoes to connect to electricity, water, sewerage and telephone services are included. All procedures that are legally or in practice required for building a warehouse are counted, even if they may be avoided in exceptional cases.

## TIME

Time is recorded in calendar days. The measure captures the median duration that local experts indicate is necessary to complete a procedure in practice. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen. It is assumed that BuildCo does not waste time and commits to completing each remaining procedure without delay. The time that BuildCo spends on gathering information is ignored. It is assumed that BuildCo is aware of all building requirements and their sequence from the beginning.

## COST

Cost is recorded as a percentage of the economy's income per capita. Only official costs are recorded. All the fees associated with completing the procedures to legally build a warehouse are recorded, including those associated with obtaining land use approvals and preconstruction design clearances; receiving inspections before, during and after construction; getting utility connections; and registering the warehouse property. Nonrecurring taxes required for the completion of the warehouse project also are recorded. The building code, information from local experts and specific regulations and fee schedules are used as sources for costs. If several local partners provide different estimates, the median reported value is used.

*The data details on dealing with construction permits can be found for each economy at <http://www.doingbusiness.org>.*

## EMPLOYING WORKERS

*Doing Business* measures the regulation of employment, specifically as it affects the hiring and firing of workers and the rigidity of working hours.

In 2007 improvements were made to align the methodology for the employing workers indicators with the International Labour Organization (ILO) conventions. Only 4 of the 188 ILO conventions cover areas measured by *Doing Business*: employee termination, weekend work, holiday with pay and night work. The methodology was adapted to ensure full consistency with these 4 conventions. It is possible for an economy to receive the highest score on the ease of employing workers and comply with all relevant ILO conventions (specifically, the 4 related to *Doing Business*)—and no economy can achieve a better score by failing to comply with these conventions.

The ILO conventions covering areas related to the employing workers indicators do not include the ILO core labor standards—8 conventions covering the right to collective bargaining, the elimination of forced labor, the abolition of child labor and equitable treatment in employment practices. *Doing Business* supports the ILO core labor standards and this year includes information on their ratification. *Doing Business* does not measure or rank ratification or compliance with ILO conventions.

The data on employing workers are based on a detailed survey of employment regulations that is completed by local lawyers and public officials. Employment laws and regulations as well as secondary sources are reviewed to ensure accuracy. To make the data comparable across economies, several assumptions about the worker and the business are used.

## ASSUMPTIONS ABOUT THE WORKER

The worker:

- Is a 42-year-old, nonexecutive, full-time, male employee.
- Has worked at the same company for 20 years.
- Earns a salary plus benefits equal to the economy's average wage during the entire period of his employment.
- Is a lawful citizen who belongs to the same race and religion as the majority of the economy's population.
- Resides in the economy's largest business city.
- Is not a member of a labor union, unless membership is mandatory.

## ASSUMPTIONS ABOUT THE BUSINESS

The business:

- Is a limited liability company.
- Operates in the economy's largest business city.
- Is 100% domestically owned.
- Operates in the manufacturing sector.
- Has 201 employees.
- Is subject to collective bargaining agreements in economies where such agreements cover more than half the manufacturing sector and apply even to firms not party to them.
- Abides by every law and regulation but does not grant workers more benefits than mandated by law, regulation or (if applicable) collective bargaining agreement.

## RIGIDITY OF EMPLOYMENT INDEX

The rigidity of employment index is the average of 3 subindices: a difficulty of hiring index, a rigidity of hours index and a difficulty of firing index. All the subindices have several components. And all take values between 0 and 100, with higher values indicating more rigid regulation.

The difficulty of hiring index measures (i) whether fixed-term contracts are prohibited for permanent tasks; (ii) the maximum cumulative duration of fixed-term contracts; and (iii) the ratio of the minimum wage for a trainee or first-time employee to the average value added per worker. An economy is assigned a score of 1 if fixed-term contracts are prohibited for permanent tasks and a score of 0 if they can be used for any task. A score of 1 is assigned if the maximum cumulative duration of fixed-term contracts is less than 3 years; 0.5 if it is 3 years or more but less than 5 years; and 0 if fixed-term contracts can last 5 years or more. Finally, a score of 1 is assigned if the ratio of the minimum wage to the average value added per worker is 0.75 or more; 0.67 for a ratio of 0.50 or more but less than 0.75; 0.33 for a ratio of 0.25 or more but less than 0.50; and 0 for a ratio of less than 0.25. The average value added per worker is the ratio of an economy's GNI per capita to the working-age population as a percentage of the total population.

The rigidity of hours index has 5 components: (i) whether night work is unrestricted; (ii) whether weekend work is unrestricted; (iii) whether the workweek can consist of 5.5 days; (iv) whether the workweek can extend to 50 hours or more (including overtime) for 2 months a year to respond to a seasonal increase in production; and (v) whether paid annual vacation is 21 working days or fewer.

For each of these questions, if the answer is no, the economy is assigned a score of 1; otherwise a score of 0 is assigned.

The difficulty of firing index has 8 components: (i) whether redundancy is disallowed as a basis for terminating workers; (ii) whether the employer needs to notify a third party (such as a government agency) to terminate 1 redundant worker; (iii) whether the employer needs to notify a third party to terminate a group of 25 redundant workers; (iv) whether the employer needs approval from a third party to terminate 1 redundant worker; (v) whether the employer needs approval from a third party to terminate a group of 25 redundant workers; (vi) whether the law requires the employer to reassign or retrain a worker before making the worker redundant; (vii) whether priority rules apply for redundancies; and (viii) whether priority rules apply for reemployment. For the first question an answer of yes for workers of any income level gives a score of 10 and means that the rest of the questions do not apply. An answer of yes to question (iv) gives a score of 2. For every other question, if the answer is yes, a score of 1 is assigned; otherwise a score of 0 is given. Questions (i) and (iv), as the most restrictive regulations, have greater weight in the construction of the index.

#### FIRING COST

The firing cost indicator measures the cost of advance notice requirements, severance payments and penalties due when terminating a redundant worker, expressed in weeks of salary. If the firing cost adds up to 8 or fewer weeks of salary, a score of 0 is assigned for the purposes of calculating the aggregate ease of *Doing Business* ranking. If the cost adds up to more than 8 weeks of salary, the score is the number of weeks. One month is recorded as 4 and 1/3 weeks.

*The data details on employing workers can be found for each economy at <http://www.doing-business.org>. This methodology was developed in Botero, Juan C., Simeon Djankov, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer. 2004. "The Regulation of Labor." *Quarterly Journal of Economics* 119 (4):1339-82 and is adopted here with minor changes.*

### REGISTERING PROPERTY

*Doing Business* records the full sequence of procedures necessary for a business (buyer) to purchase a property from another business (seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, use the property as collateral in taking new loans or, if necessary, sell the property to another business. The process starts with obtaining the necessary documents, such as a copy of the seller's title if necessary, and conducting due diligence if required. The transaction is considered complete when the buyer can use the property as collateral for a bank loan.

Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer or must be completed by a third party on their behalf. Local property lawyers, notaries and property registries provide information on procedures as well as the time and cost to complete each of them.

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

#### ASSUMPTIONS ABOUT THE PARTIES

The parties (buyer and seller):

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

#### ASSUMPTIONS ABOUT THE PROPERTY

The property:

- Has a value of 50 times income per capita. The sale price equals the value.
- Is fully owned by the seller.
- Has no mortgages attached and has been under the same ownership for the past 10 years.
- 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.
- Consists of land and a building. The land area is 557.4 square meters (6,000 square feet). A 2-story warehouse of 929 square meters (10,000 square feet) is located on the land. The warehouse is 10 years old, is in good condition

and complies with all safety standards, building codes and other legal requirements. The property of land and building will be transferred in its entirety.

- Will not be subject to renovations or additional building following the purchase.
- Has no trees, natural water sources, natural reserves or historical monuments of any kind.
- Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
- Has no occupants (legal or illegal), and no other party holds a legal interest in it.

#### PROCEDURES

A procedure is defined as any interaction of the buyer or the seller or their agents (if an agent is legally or in practice required) with external parties, including government agencies, inspectors, notaries and lawyers. Interactions between company officers and employees are not considered. All procedures that are legally or in practice required for registering property are recorded, even if they may be avoided in exceptional cases. It is assumed that the buyer follows the fastest legal option available and used by the majority of property owners. Although the buyer may use lawyers or other professionals where necessary in the registration process, it is assumed that it does not employ an outside facilitator in the registration process unless legally or in practice required to do so.

#### TIME

Time is recorded in calendar days. The measure captures the median duration that property lawyers, notaries or registry officials indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is 1 day. Although procedures may take place simultaneously, they cannot start on the same day. It is assumed that the buyer does not waste time and commits to completing each remaining procedure without delay. If a procedure can be accelerated for an additional cost, the fastest legal procedure available and used by the majority of property owners is chosen. If procedures can be undertaken simultaneously, it is assumed that they are. It is assumed that the parties involved are aware of all regulations and their sequence from the beginning. Time spent on gathering information is not considered.



## COST

Cost is recorded as a percentage of the property value, assumed to be equivalent to 50 times income per capita. Only official costs required by law are recorded, including fees, transfer taxes, stamp duties and any other payment to the property registry, notaries, public agencies or lawyers. Other taxes, such as capital gains tax or value added tax, are excluded from the cost measure. Both costs borne by the buyer and those borne by the seller are included. If cost estimates differ among sources, the median reported value is used.

*The data details on registering property can be found for each economy at <http://www.doing-business.org>.*

## GETTING CREDIT

*Doing Business* constructs measures of the legal rights of borrowers and lenders and the sharing of credit information. The first set of indicators describes how well collateral and bankruptcy laws facilitate lending. The second set measures the coverage, scope, quality and accessibility of credit information available through public and private credit registries.

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. The data on credit information sharing are built in 2 stages. First, banking supervision authorities and public information sources are surveyed to confirm the presence of public credit registries and private credit information bureaus. Second, when applicable, a detailed survey on the public or private credit registry's structure, law and associated rules is administered to the credit registry. Survey responses are verified through several rounds of follow-up communication with respondents as well as by contacting third parties and consulting public sources. The survey data are confirmed through teleconference calls or on-site visits in all economies.

## STRENGTH OF LEGAL RIGHTS INDEX

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. Two case scenarios are used to determine the scope of the secured transactions system, involving a secured borrower, the company ABC, and a secured lender, BizBank.

Several assumptions about the secured borrower and lender are used:

- ABC is a domestic, limited liability company.
- ABC has its headquarters and only base of operations in the economy's largest business city.
- To fund its business expansion plans, ABC obtains a loan from BizBank for an amount up to 10 times income per capita in local currency.
- Both ABC and BizBank are 100% domestically owned.

The case scenarios also involve assumptions. In case A, as collateral for the loan, ABC grants BizBank a nonpossessory security interest in one category of revolving movable assets, for example, its accounts receivable or its inventory. ABC wants to keep both possession and ownership of the collateral. In economies in which the law does not allow nonpossessory security interests in movable property, ABC and BizBank use a fiduciary transfer-of-title arrangement (or a similar substitute for nonpossessory security interests).

In case B, ABC grants BizBank a business charge, enterprise charge, floating charge or any charge or combination of charges that gives BizBank a security interest over ABC's combined assets (or as much of ABC's assets as possible). ABC keeps ownership and possession of the assets.

The strength of legal rights index includes 8 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law. A score of 1 is assigned for each of the following features of the laws:

- Any business may use movable assets as collateral while keeping possession of the assets, and any financial institution may accept such assets as collateral.
- The law allows a business to grant a nonpossessory security right in a single category of revolving movable assets (such as accounts receivable or inventory), without requiring a specific description of the secured assets.
- The law allows a business to grant a nonpossessory security right in substantially all of its assets, without requiring a specific description of the secured assets.
- A security right may extend to future or after-acquired assets and may extend automatically to the products, proceeds or replacements of the original assets.
- General description of debts and obligations is permitted in collateral agreements and in registration documents,

so that all types of obligations and debts can be secured by stating a maximum rather than a specific amount between the parties.

- A collateral registry is in operation that is unified geographically and by asset type and that is indexed by the name of the grantor of a security right.
- Secured creditors are paid first (for example, before general tax claims and employee claims) when a debtor defaults outside an insolvency procedure.
- Secured creditors are paid first (for example, before general tax claims and employee claims) when a business is liquidated.
- Secured creditors are not subject to an automatic stay or moratorium on enforcement procedures when a debtor enters a court-supervised reorganization procedure.
- The law allows parties to agree in a collateral agreement that the lender may enforce its security right out of court.
- The index ranges from 0 to 10, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

## DEPTH OF CREDIT INFORMATION INDEX

The depth of credit information index measures rules affecting the scope, accessibility and quality of credit information available through either public or private credit registries. A score of 1 is assigned for each of the following 6 features of the public registry or the private credit bureau (or both):

- Both positive credit information (for example, loan amounts and pattern of on-time repayments) and negative information (for example, late payments, number and amount of defaults and bankruptcies) are distributed.
- Data on both firms and individuals are distributed.
- Data from retailers, trade creditors or utility companies as well as financial institutions are distributed.
- More than 2 years of historical data are distributed. Registries that erase data on defaults as soon as they are repaid obtain a score of 0 for this indicator.
- Data on loans below 1% of income per capita are distributed. A registry must have a minimum coverage of 1% of the adult population to score a 1 for this indicator.
- Regulations guarantee borrowers the right to access their data in the largest

registry in the economy.

- The index ranges from 0 to 6, with higher values indicating the availability of more credit information, from either a public registry or a private bureau, to facilitate lending decisions. If the registry is not operational or has coverage of less than 0.1% of the adult population, the score on the depth of credit information index is 0.

#### PUBLIC CREDIT REGISTRY COVERAGE

The public credit registry coverage indicator reports the number of individuals and firms listed in a public credit registry with information on repayment history, unpaid debts or credit outstanding from the past 5 years. The number is expressed as a percentage of the adult population (the population aged 15 and above according to the World Bank's *World Development Indicators 2008*). A public credit registry is defined as a database managed by the public sector, usually by the central bank or the superintendent of banks, that collects information on the creditworthiness of borrowers (persons or businesses) in the financial system and makes it available to financial institutions. If no public registry operates, the coverage value is 0.

#### PRIVATE CREDIT BUREAU COVERAGE

The private credit bureau coverage indicator reports the number of individuals and firms listed by a private credit bureau with information on repayment history, unpaid debts or credit outstanding from the past 5 years. The number is expressed as a percentage of the adult population (the population aged 15 and above according to the World Bank's *World Development Indicators 2008*). A private credit bureau is defined as a private firm or nonprofit organization that maintains a database on the creditworthiness of borrowers (persons or businesses) in the financial system and facilitates the exchange of credit information among banks and financial institutions. Credit investigative bureaus and credit reporting firms that do not directly facilitate information exchange among banks and other financial institutions are not considered. If no private bureau operates, the coverage value is 0.

*The data details on getting credit can be found for each economy at <http://www.doingbusiness.org>. This methodology was developed in Djankov, Simeon, Caralee McLiesh and Andrei Shleifer. 2007. "Private Credit in 129 Countries." *Journal of Financial Economics* 84 (2): 299-329 and is adopted here with minor changes.*

## PROTECTING INVESTORS

*Doing Business* measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The indicators distinguish 3 dimensions of investor protection: 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 data come from a survey of corporate lawyers and are based on securities regulations, company laws and court rules of evidence.

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

#### ASSUMPTIONS ABOUT THE BUSINESS

The business (buyer):

- Is a publicly traded corporation listed on the economy's most important stock exchange. If the number of publicly traded companies listed on that exchange is less than 10, or if there is no stock exchange in the economy, it is assumed that buyer is 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.
- Is a food manufacturer.
- Has its own distribution network.

#### ASSUMPTIONS ABOUT THE TRANSACTION

- Mr. James is buyer's controlling shareholder and a member of buyer's board of directors. He owns 60% of buyer and elected 2 directors to buyer's 5-member board.
- Mr. James also owns 90% of seller, a company that operates a chain of retail hardware stores. Seller recently closed a large number of its stores.
- Mr. James proposes to buyer that it purchase seller's unused fleet of trucks to expand buyer's distribution of its food products. Buyer agrees. The price is equal to 10% of buyer's assets and is higher than the market value.
- The proposed transaction is part of the company's ordinary course of business and is not outside the authority of the company.
- Buyer enters into the transaction. All required approvals are obtained, and all

required disclosures made (that is, the transaction is not fraudulent).

- The transaction is unfair to buyer. Shareholders sue Mr. James and the other parties that approved the transaction.

#### EXTENT OF DISCLOSURE INDEX

The extent of disclosure index has 5 components:

- What corporate body can provide legally sufficient approval for the transaction. A score of 0 is assigned if it is the CEO or the managing director alone; 1 if the board of directors or shareholders must vote and Mr. James is permitted to vote; 2 if the board of directors must vote and Mr. James is not permitted to vote; 3 if shareholders must vote and Mr. James is not permitted to vote.
- Whether immediate disclosure of the transaction to the public, the regulator or the shareholders is required. A score of 0 is assigned if no disclosure is required; 1 if disclosure on the terms of the transaction but not Mr. James's conflict of interest is required; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure in the annual report is required. A score of 0 is assigned if no disclosure on the transaction is required; 1 if disclosure on the terms of the transaction but not Mr. James's conflict of interest is required; 2 if disclosure on both the terms and Mr. James's conflict of interest is required.
- Whether disclosure by Mr. James to the board of directors is required. A score of 0 is assigned if no disclosure is required; 1 if a general disclosure of the existence of a conflict of interest is required without any specifics; 2 if full disclosure of all material facts relating to Mr. James's interest in the buyer-seller transaction is required.
- Whether it is required that an external body, for example, an external auditor, review the transaction before it takes place. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater disclosure.

**EXTENT OF DIRECTOR LIABILITY INDEX**

The extent of director liability index has 7 components:

- Whether a shareholder plaintiff is able to hold Mr. James liable for damage the buyer-seller transaction causes to the company. A score of 0 is assigned if Mr. James cannot be held liable or can be held liable only for fraud or bad faith; 1 if Mr. James can be held liable only if he influenced the approval of the transaction or was negligent; 2 if Mr. James can be held liable when the transaction is unfair or prejudicial to the other shareholders.
- Whether a shareholder plaintiff is able to hold the approving body (the CEO or board of directors) liable for damage the transaction causes to the company. A score of 0 is assigned if the approving body cannot be held liable or can be held liable only for fraud or bad faith; 1 if the approving body can be held liable for negligence; 2 if the approving body can be held liable when 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. A score of 0 is assigned if rescission is unavailable or is available only in case of fraud or bad faith; 1 if rescission is available when the transaction is oppressive or prejudicial to the other shareholders; 2 if 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. A score of 0 is assigned if no; 1 if yes.
- Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff. A score of 0 is assigned if no; 1 if yes.
- Whether fines and imprisonment can be applied against Mr. James. A score of 0 is assigned if no; 1 if yes.
- Whether shareholder plaintiffs are able to sue directly or derivatively for damage the transaction causes to the company. A score of 0 is assigned if suits are unavailable or are available only for shareholders holding more than 10% of the company's share capital; 1 if direct or derivative suits are available for shareholders holding 10% or less of share capital.

The index ranges from 0 to 10, with higher values indicating greater liability of directors.

**EASE OF SHAREHOLDER SUITS INDEX**

The ease of shareholder suits index has 6 components:

- What range of documents is available to the shareholder plaintiff from the defendant and witnesses during trial. A score of 1 is assigned for each of the following types of documents available: 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. A score of 0 is assigned if no; 1 if yes, with prior approval of the questions by the judge; 2 if yes, without prior approval.
- Whether the plaintiff can obtain categories of relevant documents from the defendant without identifying each document specifically. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital can request that a government inspector investigate the buyer-seller transaction without filing suit in court. A score of 0 is assigned if no; 1 if yes.
- Whether shareholders owning 10% or less of the company's share capital have the right to inspect the transaction documents before filing suit. A score of 0 is assigned if no; 1 if yes.
- Whether the standard of proof for civil suits is lower than for a criminal case. A score of 0 is assigned if no; 1 if yes.

The index ranges from 0 to 10, with higher values indicating greater powers of shareholders to challenge the transaction.

**STRENGTH OF INVESTOR PROTECTION INDEX**

The strength of investor protection index is the average of the extent of disclosure index, the extent of director liability index and the ease of shareholder suits index. The index ranges from 0 to 10, with higher values indicating more investor protection.

*The data details on protecting investors can be found for each economy at <http://www.doing-business.org>. This methodology was developed in Djankov, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer. 2008. "The Law and Economics of Self-Dealing." *Journal of Financial Economics* 88 (3): 430-65.*

**PAYING TAXES**

*Doing Business* records the taxes and mandatory contributions that a medium-size company must pay in a given year, as well as measures of the administrative burden of paying taxes and contributions. Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes and vehicle and road taxes.

*Doing Business* measures all taxes and contributions that are government mandated (at any level—federal, state or local), apply to the standardized business and have an impact in its income statements. In doing so, *Doing Business* goes beyond the traditional definition of a tax: as defined for the purposes of government national accounts, taxes include only compulsory, unrequited payments to general government. *Doing Business* departs from this definition because it measures imposed charges that affect business accounts, not government accounts. The main differences relate to labor contributions and value added tax. The *Doing Business* measure includes government-mandated contributions paid by the employer to a required private pension fund or workers' insurance fund. The indicator includes, for example, Australia's compulsory superannuation guarantee and workers' compensation insurance. It excludes value added taxes from the total tax rate because they do not affect the accounting profits of the business—that is, they are not reflected in the income statement.

*Doing Business* has prepared a case scenario to measure the taxes and contributions paid by a standardized business and the complexity of an economy's tax compliance system. This case scenario uses a set of financial statements and assumptions about transactions made over the year. Tax experts in each economy compute the taxes and contributions due in their jurisdiction based on the standardized case facts. Information is also compiled on the frequency of filing, tax audits and other costs of compliance. The project was developed and implemented in cooperation with PricewaterhouseCoopers.

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

**ASSUMPTIONS ABOUT THE BUSINESS**

The business:

- Is a limited liability, taxable company.
- Started operations on January 1, 2006. At that time the company purchased all the assets shown in its balance sheet and hired all its workers.
- Operates in the economy's selected city.
- Is 100% domestically owned and has 5 owners, all of whom are natural persons.
- Has a start-up capital of 102 times income per capita at the end of 2006.
- Performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco.
- At the beginning of 2007, owns 2 plots of land, 1 building, machinery, office equipment, computers and 1 truck and leases 1 truck.
- Does not qualify for investment incentives or any benefits apart from those related to the age or size of the company.
- Has 60 employees—4 managers, 8 assistants and 48 workers. All are nationals, and 1 manager is also an owner.
- Has a turnover of 1,050 times income per capita.
- Makes a loss in the first year of operation.
- Has a gross margin (pretax) of 20% (that is, sales are 120% of the cost of goods sold).
- Distributes 50% of its net profits as dividends to the owners at the end of the second year.
- Sells one of its plots of land at a profit during the second year.
- Has annual fuel costs for its trucks equal to twice income per capita.
- Is subject to a series of detailed assumptions on expenses and transactions to further standardize the case. All financial statement variables are proportional to 2005 income per capita. For example, the owner who is also a manager spends 10% of income per capita on traveling for the company (20% of this owner's expenses are purely private, 20% are for entertaining customers and 60% for business travel).

**ASSUMPTIONS ABOUT THE TAXES AND CONTRIBUTIONS**

All the taxes and contributions paid in the second year of operation (fiscal 2007) are recorded. A tax or contribution is considered distinct if it has a different name or is collected by a different agency. Taxes and contributions with the same name and agency, but charged at different rates depending on the business, are counted as the same tax or contribution.

The number of times the company pays taxes and contributions in a year is the number of different taxes or contributions multiplied by the frequency of payment (or withholding) for each one. The frequency of payment includes advance payments (or withholding) as well as regular payments (or withholding).

**TAX PAYMENTS**

The tax payments indicator reflects the total number of taxes and contributions paid, the method of payment, the frequency of payment and the number of agencies involved for this standardized case during the second year of operation. It includes consumption taxes paid by the company, such as sales tax or value added tax. These taxes are traditionally collected from the consumer on behalf of the tax agencies. Although they do not affect the income statements of the company, they add to the administrative burden of complying with the tax system and so are included in the tax payments measure.

The number of payments takes into account electronic filing. Where full electronic filing and payment is allowed and it is used by the majority of medium-size businesses, the tax is counted as paid once a year even if payments are more frequent. For taxes paid through third parties, such as tax on interest withheld at source by a financial institution or fuel tax paid by the fuel distributor, only one payment is included even if payments are more frequent. These are taxes withheld or paid at source where no filing is required of the company.

Where 2 or more taxes or contributions are filed for and paid jointly using the same form, each of these joint payments is counted once. For example, if mandatory health insurance contributions and mandatory pension contributions are filed for and paid together, only one of these contributions would be included in the number of payments.

**TIME**

Time is recorded in hours per year. The indicator measures the time taken to prepare, file and pay 3 major types of taxes and con-

tributions: the corporate income tax, value added or sales tax and labor taxes, including payroll taxes and social contributions. Preparation time includes the time to collect all information necessary to compute the tax payable. If separate accounting books must be kept for tax purposes—or separate calculations made—the time associated with these processes is included. This extra time is included only if the regular accounting work is not enough to fulfill the tax accounting requirements. Filing time includes the time to complete all necessary tax return forms and make all necessary calculations. Payment time considers the hours needed to make the payment online or at the tax authorities. Where taxes and contributions are paid in person, the time includes delays while waiting.

**TOTAL TAX RATE**

The total tax rate measures the amount of taxes and mandatory contributions borne by the business in the second year of operation, expressed as a share of commercial profit. *Doing Business in Veneto 2009* and *Doing Business 2009* report the total tax rate for fiscal 2007. The total amount of taxes borne is the sum of all the different taxes and contributions payable after accounting for allowable deductions and exemptions. The taxes withheld (such as personal income tax) or collected by the company and remitted to the tax authorities (such as value added tax, sales tax or goods and service tax) but not borne by the company are excluded. The taxes included can be divided into 5 categories: profit or corporate income tax, social contributions and labor taxes paid by the employer (in respect of which all mandatory contributions are included, even if paid to a private entity such as a required pension fund), property taxes, turnover taxes and other small taxes (such as municipal fees and vehicle and fuel taxes).

The total tax rate is designed to provide a comprehensive measure of the cost of all the taxes a business bears. It differs from the statutory tax rate, which merely provides the factor to be applied to the tax base. In computing the total tax rate, the actual tax payable is divided by commercial profit.

Commercial profit is essentially net profit before all taxes borne. It differs from the conventional profit before tax, reported in financial statements. In computing profit before tax, many of the taxes borne by a firm are deductible. In computing commercial profit, these taxes are not deductible. Commercial profit therefore presents a clear picture of the actual profit of a business before any of the taxes it bears in the course of the fiscal year.



Commercial profit is computed as sales minus cost of goods sold, minus gross salaries, minus administrative expenses, minus other expenses, minus provisions, plus capital gains (from the property sale) minus interest expense, plus interest income and minus commercial depreciation. To compute the commercial depreciation, a straight-line depreciation method is applied, with the following rates: 0% for the land, 5% for the building, 10% for the machinery, 33% for the computers, 20% for the office equipment, 20% for the truck and 10% for business development expenses. Commercial profit amounts to 59.4 times income per capita.

This methodology is consistent with the Total Tax Contribution framework developed by PricewaterhouseCoopers. This framework measures taxes that are borne by companies and affect their income statements, as does *Doing Business*. But while PricewaterhouseCoopers bases its calculation on data from the largest companies in the economy, *Doing Business* focuses on a standardized medium-size company.

*The data details on paying taxes can be found for each economy at <http://www.doingbusiness.org>. This methodology was developed in Djankov, Simeon, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer. 2008. The Effect of Corporate Taxes on Investment and Entrepreneurship. NBER Working Paper 13756. Cambridge, MA: National Bureau of Economic Research.*

## TRADING ACROSS BORDERS

*Doing Business* compiles procedural requirements for exporting and importing a standardized cargo of goods by ocean transport. Every official procedure for exporting and importing the goods is recorded—from the contractual agreement between the 2 parties to the delivery of goods—along with the time and cost necessary for completion. All documents needed by the trader for clearance of the goods across the border are also recorded. For exporting goods, procedures range from packing the goods at the factory to their departure from the port of exit. For importing goods, procedures range from the vessel's arrival at the port of entry to the cargo's delivery at the factory warehouse. The time and cost for ocean transport are not included. Payment is made by letter of credit, and the time, cost and documents required for the issuance of a letter of credit are taken into account.

Local freight forwarders, shipping lines,

customs brokers, port officials and banks provide information on required documents and cost as well as the time to complete each procedure. To make the data comparable across economies, several assumptions about the business and the traded goods are used.

### ASSUMPTIONS ABOUT THE BUSINESS

The business:

- Has 60 employees.
- Is located in the economy's selected city.
- Is a private, limited liability company. It does not operate in an export processing zone or an industrial estate with special export or import privileges.
- Is domestically owned with no foreign ownership.
- Exports more than 10% of its sales.

### ASSUMPTIONS ABOUT THE TRADED GOODS

- The traded product travels in a dry-cargo, 20-foot, full container load. It weighs 10 tons and is valued at \$20,000. The product:
  - Is not hazardous nor does it include military items.
  - Does not require refrigeration or any other special environment.
  - Does not require any special phytosanitary or environmental safety standards other than accepted international standards.

### DOCUMENTS

All documents required per shipment to export and import the goods are recorded. It is assumed that the contract has already been agreed upon and signed by both parties. Documents required for clearance by government ministries, customs authorities, port and container terminal authorities, health and technical control agencies and banks are taken into account. Since payment is by letter of credit, all documents required by banks for the issuance or securing of a letter of credit are also taken into account. Documents that are renewed at least annually and that do not require renewal per shipment (for example, an annual tax clearance certificate) are not included.

### TIME

The time for exporting and importing is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. If a procedure can be accelerated for an additional cost and is available to all trading companies,

the fastest legal procedure is chosen. Fast-track procedures applying to firms located in an export processing zone are not taken into account because they are not available to all trading companies. Ocean transport time is not included. It is assumed that neither the exporter nor the importer wastes time and that each commits to completing each remaining procedure without delay. Procedures that can be completed in parallel are measured as simultaneous. The waiting time between procedures—for example, during unloading of the cargo—is included in the measure.

### COST

Cost measures the fees levied on a 20-foot container in U.S. dollars. All the fees associated with completing the procedures to export or import the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include customs tariffs and duties or costs related to ocean transport. Only official costs are recorded.

*The data details on trading across borders can be found for each economy at <http://www.doingbusiness.org>. This methodology was developed in Djankov, Simeon, Caroline Freund and Cong Pham. Forthcoming. "Trading on Time." *Review of Economics and Statistics*; and is adopted here with minor changes.*

## ENFORCING CONTRACTS

Indicators on enforcing contracts measure the efficiency of the judicial system in resolving a commercial dispute. The data are built by following the step-by-step evolution of a commercial sale dispute before local courts. The data are collected through study of the codes of civil procedure and other court regulations as well as surveys completed by local litigation lawyers (and, in a quarter of the economies, by judges as well). The relevant court in Padua is *Tribunale di Padova*.

### ASSUMPTIONS ABOUT THE CASE

- The value of the claim equals 200% of the economy's income per capita.
- The dispute concerns a lawful transaction between 2 businesses (Seller and Buyer), located in the economy's selected city. Seller sells goods worth 200% of the economy's income per capita to Buyer. After Seller delivers the goods to Buyer, Buyer refuses to pay for the goods on the grounds that the

delivered goods were not of adequate quality.

- Seller sues Buyer to recover the amount under the sales agreement (that is, 200% of the economy's income per capita). Buyer opposes Seller's claim, saying that the quality of the goods is not adequate. The claim is disputed on the merits.
- A court in the economy's selected city with jurisdiction over commercial cases worth 200% of income per capita decides the dispute.
- Seller attaches Buyer's goods prior to obtaining a judgment because Seller fears that Buyer may become insolvent during the lawsuit.
- Expert opinions are given on the quality of the delivered goods. If it is standard practice in the economy for parties to call witnesses or expert witnesses to give an opinion on the quality of the goods, the parties each call one witness or expert witness. If it is standard practice for the judge to appoint an independent expert to give an opinion on the quality of the goods, the judge does so. In this case the judge does not allow opposing expert testimony.
- The judgment is 100% in favor of Seller: the judge decides that the goods are of adequate quality and that Buyer must pay the agreed price (200% of income per capita).
- Buyer does not appeal the judgment. The judgment becomes final.
- Seller takes all required steps for prompt enforcement of the judgment. The money is successfully collected through a public sale of Buyer's movable assets (for example, office equipment).

## PROCEDURES

The list of procedural steps compiled for each economy traces the chronology of a commercial dispute before the relevant court. A procedure is defined as any interaction between the parties, or between them and the judge or court officer. This includes steps to file the case, steps for trial and judgment and steps necessary to enforce the judgment.

The survey allows respondents to record procedures that exist in civil law but not common law jurisdictions, and vice versa. For example, in civil law countries the judge can appoint an independent expert, while in common law countries each party submits a list of expert witnesses to the court. To indicate the overall efficiency of court procedures, 1 procedure is now subtracted for economies that have specialized commercial courts and 1

procedure for economies that allow electronic filing of court cases. Procedural steps that take place simultaneously with or are included in other procedural steps are not counted in the total number of procedures.

## TIME

Time is recorded in calendar days, counted from the moment Seller files the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods between. The average duration of different stages of dispute resolution is recorded: the completion of filing and service of process and of pretrial attachment (time to file the case), the issuance of judgment (time for the trial and obtaining the judgment) and the moment of payment (time for enforcement of judgment).

## COST

Cost is recorded as a percentage of the claim, assumed to be equivalent to 200% of income per capita. No bribes are recorded. Three types of costs are recorded: court costs, enforcement costs and average attorney fees. Court costs include all costs Seller must advance to the court or to the expert regardless of the final cost to Seller. Expert fees, if required by law or necessary in practice, are included in court costs. Enforcement costs are all costs Seller must advance to enforce the judgment through a public sale of Buyer's movable assets, regardless of the final cost to Seller. Average attorney fees are the fees Seller must advance to a local attorney to represent Seller in the standardized case.

*The data details on enforcing contracts can be found for each economy at <http://www.doing-business.org>. This methodology was developed in Djankov, Simeon, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer. 2003. "Courts." *Quarterly Journal of Economics* 118 (2): 453-517; and is adopted here with minor changes.*

## CLOSING A BUSINESS

*Doing Business* studies the time, cost and outcomes of bankruptcy proceedings involving domestic entities. 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.

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

## ASSUMPTIONS ABOUT THE BUSINESS

The business:

- Is a limited liability company.
- Operates in the economy's selected city.
- Is 100% domestically owned, with the founder, who is also the chairman of the supervisory board, owning 51% (no other shareholder holds more than 5% of shares).
- Has downtown real estate, where it runs a hotel, as its major asset.
- Has a professional general manager.
- Has had average annual revenue of 1,000 times income per capita over the past 3 years.
- Has 201 employees and 50 suppliers, each of which is owed money for the last delivery.
- Borrowed from a domestic bank 5 years ago (the loan has 10 years to full repayment) and bought real estate (the hotel building), using it as security for the bank loan.
- Has observed the payment schedule and all other conditions of the loan till now.
- Has a floating charge or mortgage, with the value of its principal being exactly equal to the market value of the hotel.

## ASSUMPTIONS ABOUT THE CASE

The business is experiencing liquidity problems. The company's loss in 2007 reduced its net worth to a negative figure. There is no cash to pay the bank interest or principal in full, due tomorrow. The business therefore defaults on its loan. Management believes that losses will be incurred in 2008 and 2009 as well.

The bank holds a floating charge against the hotel in economies where floating charges are possible. If the law does not permit a floating charge but contracts commonly use some other provision to that effect, this provision is specified in the lending contract.

The business has too many creditors to negotiate an informal out-of-court workout. It has the following options: a judicial procedure aimed at the rehabilitation or reorganization of the business to permit its continued operation; a judicial procedure aimed at the liquidation or winding-up of the company; or a debt enforcement or foreclosure procedure aimed at selling the hotel either piecemeal or as a going concern, enforced either in court (or through a government authority like a debt collection agency) or out of court (for example, by appointing a receiver).

If an economy has had fewer than 5 cases a year over the past 5 years involving a judicial

reorganization, judicial liquidation or debt enforcement procedure, the economy receives a “no practice” mark. This means that creditors are unlikely to recover their debt through the legal process (in or out of court).

### TIME

Time for creditors to recover their debt is recorded in calendar years. Information is collected on the sequence of procedures and on whether any procedures can be carried out simultaneously. Potential delay tactics by the parties, such as the filing of dilatory appeals or requests for extension, are taken into consideration.

### COST

The cost of the proceedings is recorded as a percentage of the estate’s value. The cost is calculated on the basis of survey responses by insolvency practitioners and includes court fees as well as fees of insolvency practitioners, independent assessors, lawyers and accountants. Respondents provide cost estimates from among the following options: a specific percentage or less than 2%, 2–5%, 5–8%, 8–11%, 11–18%, 18–25%, 25–33%, 33–50%, 50–75% and more than 75% of the value of the business estate.

### RECOVERY RATE

The recovery rate is recorded as cents on the dollar recouped by creditors through the bankruptcy, insolvency or debt enforcement proceedings. The calculation takes into account whether the business emerges from the proceedings as a going concern as well as costs and the loss in value due to the time spent closing down. If the business keeps operating, no value is lost on the initial claim, set at 100 cents on the dollar. If it does not, the initial 100 cents on the dollar are reduced to 70 cents on the dollar. Then the official costs of the insolvency procedure are deducted (1 cent for each percentage of the initial value). Finally, the value lost as a result of the time the money remains tied up in insolvency proceedings is taken into account, including the loss of value due to depreciation of the hotel furniture. Consistent with international accounting practice, the depreciation rate for furniture is taken to be 20%. The furniture is assumed to account for a quarter of the total value of assets. The recovery rate is the present value of the remaining proceeds, based on end-2007 lending rates from the International Monetary Fund’s International Financial Statistics, supplemented with data from central banks. The recovery rate for economies with “no practice” is zero.

*This methodology was developed in Djankov, Simeon, Oliver Hart, Caralee McLiesh and Andrei Shleifer. 2006. Debt Enforcement around the World. NBER Working Paper 12807. Cambridge, MA: National Bureau of Economic Research.*

## EASE OF DOING BUSINESS

The ease of *Doing Business* index ranks economies from 1 to 181. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 10 topics covered in *Doing Business* 2009. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

If an economy has no laws or regulations covering a specific area—for example bankruptcy—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” or “not possible” mark puts the economy at the bottom of the ranking on the relevant indicator.

Higher rankings indicate simpler regulation and stronger protection of property rights. More complex aggregation methods—such as principal components and unobserved components—yield a nearly identical ranking. The choice of aggregation method has little influence on the rankings because the 10 sets of indicators in *Doing Business* provide sufficiently broad coverage across topics. So *Doing Business* uses the simplest method.

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 orders or construction permits), the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions. There remains a large unfinished agenda for research into what regulation constitutes binding constraints, what package of reforms is most effective and how these issues are shaped by the context of an economy. The *Doing Business* indicators provide a new empirical data set that may improve understanding of these issues.

*Doing Business* also uses a simple method to calculate the top reformers. First, it selects the economies that implemented reforms making it easier to do business in 3 or more of the 10 *Doing Business* topics. One reform is counted per topic. For example, if an

economy merged several procedures by creating a unified property registry and separately reduced the property transfer tax, this counts as 1 reform for the purposes of attaining the 3 reforms required to be a candidate for top reformer.

Second, *Doing Business* ranks these economies on the increase in their ranking on the ease of *Doing Business* from the previous year. Top reformers are economies that have implemented 3 or more reforms making it easier to do business and, as a result, improved their position in the ease of *Doing Business* more than other economies. The change in ranking is calculated by comparing this year’s ranking with last year’s back-calculated ranking. To ensure consistency over time, data sets for previous years are adjusted to reflect ant changes in methodology, additions of new economies and revisions in data.

## Doing business indicators

	Global best practice	Padua (Veneto)	Rome	EU average	G7 average	BRICs average
Ease of doing business (rank)	1-SINGAPORE	67	68	37.6	21.9	112.5
<b>STARTING A BUSINESS</b> (RANK)	1-NEW ZEALAND	47	53	55.3	35.6	116
Procedures (number)	1	6	6	6.2	5.9	13.3
Time (days)	1	7	10	17.2	11.7	62.8
Cost (% of income per capita)	0.4	17.1	17.8	5.2	4.8	22.3
Min. capital (% of income per capita)	0	9.7	9.7	30.3	7.4	40.1
<b>DEALING WITH CONSTRUCTION PERMITS</b> (RANK)	1-ST. VINCENT AND THE GRENADINES	80	83	61.7	38.7	150
Procedures (number)	11	14	14	17.1	15.1	32.3
Time (days)	74	273	257	184.9	134.3	418.8
Cost (% of income per capita)	8.4	109.2	136.4	83	60.4	943.1
<b>EMPLOYING WORKERS</b> (RANK)	1-UNITED STATES	75	75	102.4	61.3	105.5
Difficulty of hiring index (0-100)	0	33	33	32.4	22.1	30.5
Rigidity of hours index (0-100)	0	40	40	56	28.6	40
Difficulty of firing index (0-100)	0	40	40	33.2	22.9	40
Rigidity of employment (0-100)	0	38	38	40.5	24.7	36.8
Firing costs (weeks of wages)	0	11	11	27.1	23.7	50.3
<b>REGISTERING PROPERTY</b> (RANK)	1-SAUDI ARABIA	79	93	66.2	61.1	73.8
Procedures (number)	2	8	8	5.2	5.6	7.5
Time (days)	2	19	27	61.1	34.9	42
Cost (% of property value)	0	4.4	4.6	4.5	3.9	3.4
<b>GETTING CREDIT</b> (RANK)	1-MALAYSIA	84	84	41.6	26.6	70
Legal rights index (0-10)	10	3	3	6.6	6.7	5
Credit information index (0-6)	6	5	5	4.5	5.6	4.3
Private bureau coverage (% of adults)	52.9	11.8	11.8	11.1	5.8	19.8
Public bureau coverage (% of adults)	..	74.9	74.9	35.8	78.5	20.7
<b>PROTECTING INVESTORS</b> (RANK)	1-NEW ZEALAND	53	53	64.8	35	71
Disclosure index (0-10)	10	7	7	5.9	7.7	7.3
Director liability index (0-10)	9	4	4	4.4	5.9	3.5
Shareholder suits index (0-10)	10	6	6	6.4	6.9	5.3
Investor protection index (0-10)	9.7	5.7	5.7	5.6	6.8	5.3
<b>PAYING TAXES</b> (RANK)	1-MALDIVES	133	128	72.4	68	145
Payments (number)	1	15	15	18.4	11.7	25.5
Time (hours)	0	351	334	253.1	204	955.8
Profit tax (%)	0	28	28	13.2	23.3	16.7
Labor tax and contributions (%)	0	43.2	43.2	29.8	23.7	37.4
Other taxes (%)	9.1	2.1	2.1	3	5.5	13.3
Total tax rate (% profit)	9.1	73.6	73.3	46	52.5	67.4
<b>TRADING ACROSS BORDERS</b> (RANK)	1-SINGAPORE	47	60	38.5	28.1	97.8
Documents for export (number)	4	5	5	4.6	3.7	7.8
Time for export (days)	5	16	20	12.4	10.3	22
Cost to export (US\$ per container)	456	1,204	1,305	1,053	1,124.9	1,198.8
Documents for import (number)	4	5	5	5.4	4.3	8.8
Time for import (days)	3	15	18	13.4	10.9	24.8
Cost to import (US\$ per container)	439	1,201	1,305	1,112.4	1,266.7	1,232.5
<b>ENFORCING CONTRACTS</b> (RANK)	1-HONG KONG, CHINA	156	156	41.6	40.6	79
Procedures (number)	24	41	41	31.3	32.7	40.5
Time (days)	211	1,808	1,210	540.6	503.6	680.8
Cost (% of debt)	14.5	27.3	29.9	19.8	19.9	20.2
<b>CLOSING A BUSINESS</b> (RANK)	1-JAPAN	26	27	39	18.4	104.5
Time (years)	0.6	2	1.8	2.1	1.3	4.9
Cost (% of estate)	4	14.5	22	10.7	8.6	13
Recovery rate (cents on the dollar)	92.5	60.9	56.6	56	70.8	22.8

G7 = Canada, France, Germany, Italy, Japan, the United Kingdom and the United States

BRICs = Brazil, Russian Federation, India and China



# Indicator details

## Starting a business

City: Padua

Standard company legal form: limited liability company (*società a responsabilità limitata, s.r.l.*)

Minimum capital requirement: € 10,000

Minimum paid-up capital requirement: € 2,500

### Procedure 1. Deposit with a bank at least 25% of the amounts contributed in cash

**Time:** 1 day

**Cost:** nominal (bank commission)

**Comments:** At incorporation, 25% of the company's capital contributed in cash must be paid in and deposited in a bank account. The payment of the capital may be replaced by an insurance policy or by a bank guarantee for at least the same amount, though it is possible for the quota holders to pay in the due amount at any time. If the company capital is not wholly paid in at incorporation, the company has a credit against the founding shareholders for payment of the outstanding portion of the capital. The directors have power to claim the payment at any time.

### Procedure 2. Execute a public deed of incorporation and company bylaws before a public notary

**Time:** 1 day

**Cost:** € 3,444

**Comments:** A public deed of incorporation (*atto costitutivo*), including the company's bylaws (*statuto*) must be drafted and executed before a public notary by the quota holders or their authorized representatives.

The public notary drafts company bylaws on standard forms, which the notary provides. The cost of the forms and stamp duties are included in the notary fees.

Registration tax, due within 20 days of incorporation, is paid to the notary public, who will also provide the registered public deed of incorporation.

The costs include:

- Notary fee: € 2,610 + 20% VAT
- Stamps and expenses: € 311.90 (including € 90 for electronic registration, € 45.90 for archive tax, € 156 for stamps, and € 20 for postal expenses)

### Procedure 3. Buy corporate books and accounting books

**Time:** 1 day

**Cost:** € 134 for authentication fees for corporate books, including: € 14.62. stamp fee for each 100 pages, € 30 registration fee for each 500 pages

**Comments:** According to Article 2478 of the Italian Civil Code, a limited liability company must keep the following corporate books: shareholders' register, minute book of shareholders' meetings, minute book of board of directors' meetings, and minute book of board of auditors' meetings (the last one is mandatory for companies with capital of €120,000 and above). For each accounting and corporate book, the company pays a € 14.62 for stamp fee (for each 100 pages) and € 30 registration fee (for each 500 pages).

The company must also keep the accounting books indicated in section 2214 of the Italian Civil Code, i.e. journal book and inventory book. The company must not authenticate accounting books (according to Law No. 383/2001). All books are available in standard format at stationary supplies stores or through a notary public. However, entrepreneurs can also use a loose-leaf book at no additional cost.

The books may be duly stamped by either the notary public or the Registry of Enterprises. Stamp duties may be paid directly to the notary or to the Office of the Registry of Enterprises.

### Procedure 4. Pay government grant tax to the post office current account

**Time:** 1 day

**Cost:** € 309.87

**Comments:** The tax is due to the Office of Revenue every year. For companies with capital below € 516,456.90 the fee is € 309.87. For companies with capital exceeding € 516,456.90 the fee is € 516.46.

### Procedure 5. Register with the Registry of Enterprises (*Registro delle Imprese*) at the Padua Chamber of Commerce

**Time:** 2 days

**Cost:** € 523, including: € 168 (registration tax) + € 155 (registration with the Chamber of Commerce) + € 200 (membership fees)

**Comments:** The applicant can electronically file a single notice (*Comunicazione Unica*) with the Registry of Enterprises. This includes issuance of the tax identification number, VAT number, and registration with Social Security Administration (INPS) and Accident Insurance Office (INAIL). The company representative must attach the forms requested by (i) the Registry of Enterprises for the registration (ii) the Italian Tax Authorities for immediate starting of business, and (iii) by INPS and INAIL for the registration with these agencies.

After the single notice is filed, the firm must by law receive all the documents within 7 days. All notices, communications and receipts of filing are sent to the company's certified email address. In detail, the company receives:

- immediately, a reference number for the registration procedure, the receipt of the filing of the single notice with the Registry of Enterprises, as well as the tax identification number and the VAT number;
- within 2 business days, the confirmation of registration with the Registry of Enterprises, the INAIL documentation and the INPS documentation.

Since January 2008, membership fees are fixed at € 200. (Interministerial decree of February 1, 2008, published in the *Gazzetta Ufficiale* n. 54, of March 3, 2008).

### Procedure 6. Notify the competent Labor Office the employment of workers

**Time:** 1 day

**Cost:** no charge

**Comments:** The employer shall notify the Provincial Labor Office (*Centro per l'Impiego della Provincia di Padova - CPI*) about the hiring of personnel within 5 days from the start of the labor relationship.

## Dealing with construction permits

City: Padua

Value of project: € 1,040,000

### Procedure 1. Obtain project clearance from the Fire Department

**Time:** 45 days (90 days if the project is complicated)

**Cost:** € 441.81

**Comments:** Before construction, BuildCo must deliver project design drawings to the Fire Department in order to obtain a declaration of compliance. If Fire Department's declaration is not released within 45 days (or 90 days in case of complicated projects), the project must be considered rejected.

### Procedure 2. Obtain a building permit

**Time:** 135 days

**Cost:** € 15,366.62

**Comments:** The application for a building permit is filed with the Municipality of Padua. The company must file proof of title of ownership to the property for which the permit is requested, as well as the project design drawings signed by an engineer or an architect, including the drawings relating to electric system, heating and air conditioning system, water and draining system and the certificate of thermal insulation's class. The Municipality then requests project clearance to the Public Health Agency.

The fees for the issuance of the warehouse's building permit are calculated on the urbanization costs sustained by the municipality and on waste disposal. The urbanization costs and waste disposal's fees must be paid upon issuance of the building permit.

The fees are calculated for a warehouse located in the artisanal zone of Padua, and include:

- Primary urbanization: € 9,680
- Secondary urbanization: € 3,630
- Waste disposal: € 1,760
- Additional fees fees: € 180 (administrative fee), € 62 (clearance from the Public Health Agency), € 30 (technical inspection fee), € 14.62 (stamp duty), € 10 (folder cost)

The fee calculator is available on the website of the Municipality of Padua:

<http://serviziweb.comune.padova.it/oneri/urbanizzazione.do>

### Procedure 3. Pay building permit fees at

**a bank****Time:** 1 day**Cost:** No charge

**Comments:** The building permit fees are to be paid at a bank authorized by the Municipal Agency (*Cassa di Risparmio di Padova e Rovigo*).

**Procedure 4. Hire an independent engineer to test structure and utilities****Time:** 1 day**Cost:** € 6,875

**Comments:** The structure tests must be performed by an engineer or an architect not directly involved in the project. BuildCo must hire the engineer who tests the structures no later than 60 days after structures are completed. In addition to the final test on completed structures, the work site director must provide test results for the structural materials used to build the structures. In the case of reinforced concrete, the tests must be done on three samples taken on each day that concrete is poured and on one sample for each steel per file used in structures. The testing is based on per files traction and compression resistance and must be done by an authorized testing lab.

The cost of each test is € 25. When structures are completed, at least two load tests must be done on the warehouse's floors. The cost of each test is € 2,000. For the warehouse in this case, BuildCo can expect to pay € 875 for the structural lab tests (about 35 in total) and € 4,000 for the load tests.

**Procedure 5. Receive on-site inspection by the Fire Department****Time:** 1 day**Cost:** € 673.81

**Comments:** In order to obtain the occupancy permit, the warehouse must be inspected by the Fire Department.

**Procedure 6. Obtain an occupancy certificate****Time:** 30 days**Cost:** € 14.62

**Comments:** Within 15 days of the building's completion, the builder should file with the Municipality an application for occupancy certificate and: a) the request for cadastral registration; b) the work site director's statement attesting the compliance of the building with the project's specifications; c) the Fire Department's authorization or prevention set on fire's certificate; d) the conformity certificate issued by the Regional Office or approved by the Municipality; e) the work site director's statement (or the trained technician's statement) attesting the compliance of the building with measures to overcome architectural barriers; f) the conformity statement attesting the compliance of utilities with specifications of the Ministerial Decree n. 37/2008 and Law n. 311/07; g) registry certification of municipal numeration. The Municipality issues the occupancy certificate within 30 days after the application is filed.

**Procedure 7. Register the building****Time:** 5 days**Cost:** € 210**Procedure 8. Apply for water and sewage connection****Time:** 1 day**Cost:** No charge

**Comments:** The company should contact the local authority to obtain the water and sewerage connection. In Padua, the agency responsible for provision of water and sewerage connections is AceGas APS Padova. BuildCo has to address to AceGas APS Padova two different applications: one for water and another one for sewerage connection.

**Procedure 9. Receive on-site inspection and estimation of water and sewage installation costs****Time:** 1 day**Cost:** No charge**Procedure 10. Obtain water and sewage installation****Time:** 53 days**Cost:** € 3,720

**Comments:** The cost of water connection is € 3,600 and sewage connection € 120.

**Procedure 11.\* Apply for electricity connection****Time:** 1 day**Cost:** No charge

**Comments:** The company should apply for power connection with the electricity provider. The agency responsible for provision of electricity connections in ENEL Servizio Elettrico S.p.a.

**Procedure 12.\* Receive on-site inspection and obtain estimation of electricity connection costs by local electricity provider****Time:** 1 day**Cost:** No charge**Procedure 13.\* Obtain power connection installation****Time:** 15 days**Cost:** € 464**Procedure 14.\* Obtain telephone connection****Time:** 15 days**Cost:** € 480

**Comments:** The company should contact the telecommunication provider (TELECOM S.p.a.) to obtain a telephone connection.

\* This procedure can be completed simultaneously with previous procedures

## Employing workers

	Answer	Score
<b>Rigidity of employment index</b>		<b>38</b>
Difficulty of hiring index		<b>33</b>
<i>Are fixed-term contracts prohibited for permanent tasks?</i>	Yes	1
<i>What is the maximum duration of fixed-term contracts (including renewals)? (in months)</i>	No limit	0.0
<i>What is the ratio of mandated minimum wage to the average value added per worker?</i>	0.00	0.00
<b>Rigidity of hours index</b>		<b>40</b>
<i>Can the work week extend to 50 hours (including overtime) for 2 months per year to respond to a seasonal increase in production?</i>	Yes	0
<i>What is the maximum number of working days per week?</i>	6	0
<i>Are there restrictions on night work?</i>	Yes	1
<i>Are there restrictions on "weekly holiday" work?</i>	Yes	1
<i>What is the paid annual vacation (in working days) for an employee with 20 years of service?</i>	20	0
<b>Difficulty of firing index</b>		<b>40</b>
<i>Is the termination of workers due to redundancy legally authorized?</i>	Yes	0
<i>Must the employer notify a third party before terminating one redundant worker?</i>	No	0
<i>Does the employer need the approval of a third party to terminate one redundant worker?</i>	No	0
<i>Must the employer notify a third party before terminating a group of 25 redundant workers?</i>	Yes	1
<i>Does the employer need the approval of a third party to terminate a group of 25 redundant workers?</i>	No	0
<i>Is there a retraining or reassignment obligation before an employer can make a worker redundant?</i>	Yes	1
<i>Are there priority rules applying to redundancies?</i>	Yes	1
<i>Are there priority rules applying to re-employment?</i>	Yes	1
<b>Firing costs (weeks of salary)</b>		<b>10.8</b>
<i>What is the notice period for redundancy dismissal after 20 years of continuous employment? (weeks of salary)</i>		10.8
<i>What is the severance pay for redundancy dismissal after 20 years of employment? (weeks of salary)</i>		0.0
<i>What is the legally mandated penalty for redundancy dismissal? (weeks of salary)</i>		0.0

Note: Results for Italy in *Doing Business 2009*. No subnational analysis was conducted in Veneto.

## Registering property

City: Padua

Property value: € 1,293,152

### Procedure 1.\* Obtain copies of building and occupancy permits from the Municipality

**Time:** 9 days (simultaneous with procedures 2, 3, 4 and 5)

**Cost:** € 181.24 (€ 14.62 stamp duty for each survey + € 1 administrative fee + € 150 surveyor's fee)

**Comments:** The notary obtains a copy of the Building Permit, Occupancy Permit and of application(s) for Building Amnesty, if any, from the Municipality. Otherwise, the seller might provide them. Should those documents not be available the seller requests copies from the Municipality. This can be done by an instructed surveyor normally appointed and paid by the seller. It is not necessary to produce the Building Permit for buildings erected prior to the year 1967. Should a copy of such document not be available for buildings erected after that year it is sufficient that the seller mentions in the deed of conveyance the data of the relevant Building Permit, as long as the notary warns of the criminal sanctions which apply in case of false and reticent statements.

### Procedure 2.\* Obtain necessary surveys from Land Registry

**Time:** 5 days (simultaneous with procedures 1, 3, 4 and 5)

**Cost:** € 325 (cost of examination of surveys at the Land Registry), notary fees included in procedure 6

**Comments:** The notary public obtains a report from the Land Registry stating:

- (i) the ownership situation of the property in the last twenty years, and
  - (ii) that the property is free from any encumbrances.
- The notary needs to verify the Land Registry files (usually by means of an instructed surveyor) and extract the relevant information, that are then included in the report and are certified as truthful by the notary, since the issuance of an actual certificate from the Land Registry would require an extremely long time.

### Procedure 3.\* Obtain necessary surveys from the Cadastre

**Time:** 3 days (simultaneous with procedures 1, 2, 4, and 5)

**Cost:** € 50 for cadastral certificate, other documents are free

**Comments:** The notary public obtains from the Cadastre:

- (i) historical cadastral situation and Cadastral Certificate (€ 50, normally requested online)
- (ii) Cadastral Maps of the premises and maps of the land (general map including the land)

Since the cadastral data are available online it is possible to obtain a cadastral situation immediately, while the maps need to be requested to the Cadastral Offices.

### Procedure 4.\* Notary verifies the powers of relevant signatories

**Time:** 1 day (simultaneous with procedures 1, 2, 3, and 5)

**Cost:** € 17.50 (the fees can range from € 10 to € 30)

**Comments:** The notary public checks the Registry of Enterprises regarding the selling and purchasing companies and verifies the powers of the relevant signatories. Should it be required, according to the by-laws of the selling or purchasing company, that a resolution be adopted by the administrative body or by the shareholders' meeting to authorize the transaction, an extract of the minutes of said resolution, certified by a notary public, shall be provided. The Chamber of Commerce's certificate can be requested online.

### Procedure 5.\* Authentication of seller's documents

**Time:** 3 days (simultaneous with procedures 1, 2, 3, and 4)

**Cost:** € 10

**Comments:** The seller must provide the buyer with:

- (i) an authenticated copy of the seller's purchase documents and
- (ii) an authenticated copy of the Transcription Note

The documents are authenticated by a notary public, at a cost of about € 10. As of July 2006, all payments must be made with check or bank transfer, and the notary must indicate these details (check number, bank account, etc.) in the deed; in the same way in the final deed parties have to indicate all amounts paid to real estate agents. This increases slightly the time needed to complete this procedure.

### Procedure 6. A notary public drafts and executes the deed of sale

**Time:** 8 days

**Cost:** € 4,646 (€ 3,610 notary fees + 20% VAT + € 230 for stamps + € 84 for archive stamp + € 90 for transcription tax)

**Comments:** The notary public prepares and executes the deed of sale.

The Ministerial Decree of 21 November 2001 established the minimum fees for notary services at national level.

### Procedure 7.\* Registration of the deed at the Revenue Office (Agenzia delle Entrate)

**Time:** 2 days

**Cost:** € 168 (registration tax)

**Comments:** The notary public files on line the deed of sale and the transcription note (the file is called "Modello Unico"), with the Revenue Office corresponding to the location of the property, within the 30th day after the signature of the contract.

The notary will receive immediately a receipt with the date of registration, while the number of registration will be given after approximately 2 days. The notary then delivers a copy of the deed of sale and transcription note to the parties.

The Revenue Office has the purpose of granting deeds a certified date (data certa) and collecting the relative taxes. The "VAT Alternative Principle" states that either a property deed is subject to VAT (therefore having to pay the fixed registration tax) or to proportional Deed Registration Tax. As the envisaged deed is subject to 20% VAT, upon registration in the Revenue Office, only a fixed tax is due. Otherwise, a proportional Deed Registration Tax would be due (the ordinary rate is 7% of the consideration, which, in specific cases, can be reduced up to 1%).

### Procedure 8.\* Registration of the deed at the Cadastre and Land Registry (Agenzia del Territorio)

**Time:** 1 day (simultaneous with procedure 7)

**Cost:** € 51,726, including € 12,932 (3% of property value) for transcription tax and € 38,795 (1% of property value) for cadastral tax

**Comments:** The notary public files the deed of sale and the transcription note with the Land Registry. The copy of the deed with the registration date from the Revenue Office (procedure 7) is sufficient to deposit the deed in the Land Registry.

The Land Registry delivers immediately a receipt with the date and registration numbers. The Land Registry has the purpose of rendering deeds enforceable towards all third parties. Until a deed has been registered in the Land Registry, it is only enforceable between the parties thereto. The Italian Land Registry system is based on the principle of continuity of the registrations (*continuità delle trascrizioni*). This means that an individual or an entity may sell a property only if the relative deed of purchase has been registered beforehand in the Land Registry.

Registration at the cadastral office takes place automatically after registering the deed at the Land Registry, which the notary public does.

The notary also collects all due taxes from the parties and pays them through a bank transfer to the various public administration offices. In the case of a warehouse used for commercial purposes, sold by a company that is not in the construction business the cadastral tax is equal to 1% of sale price, and the transcription tax is equal to 3% of sale price.

The notary then delivers a copy of the deed of sale and transcription note to the parties.

\* This procedure can be completed simultaneously with previous procedures

## Getting credit

	Private credit bureau	Public credit registry	Score
<b>Credit information index</b>			<b>5</b>
<i>Are data on both firms and individuals distributed?</i>	Yes	Yes	1
<i>Are both positive and negative data distributed?</i>	Yes	Yes	1
<i>Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?</i>	No	No	0
<i>Are more than 2 years of historical credit information distributed?</i>	Yes	Yes	1
<i>Are data on all loans below 1% of income per capita distributed?</i>	Yes	Yes	1
<i>Is it guaranteed by law that borrowers can inspect their data in the largest credit registry?</i>	Yes	Yes	1
Coverage	74.9	11.8	
Number of individuals	..	4,732,260	
Number of firms	..	1,280,170	
<b>Legal rights index</b>			<b>3</b>
<i>Can any business use movable assets as collateral while keeping possession of the assets; and any financial institution accept such assets as collateral?</i>			Yes
<i>Does the law allow businesses to grant a non possessory security right in a single category of revolving movable assets, without requiring a specific description of the secured assets?</i>			No
<i>Does the law allow businesses to grant a non possessory security right in substantially all of its assets, without requiring a specific description of the secured assets?</i>			No
<i>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?</i>			Yes
<i>Is a general description of debts and obligations permitted in collateral agreements, so that all types of obligations and debts can be secured by stating a maximum amount rather than a specific amount between the parties?</i>			Yes
<i>Is a collateral registry in operation, that is unified geographically and by asset type, as well as indexed by the grantor's name of a security right?</i>			No
<i>Do secured creditors have absolute priority to their collateral outside bankruptcy procedures?</i>			No
<i>Do secured creditors have absolute priority to their collateral in bankruptcy procedures?</i>			No
<i>During reorganization, are secured creditors' claims exempt from an automatic stay on enforcement?</i>			No
<i>Does the law authorize parties to agree on out of court enforcement?</i>			No

Note: Results for Italy in Doing Business 2009. No subnational analysis was conducted in Veneto.



## Protecting investors

<b>Disclosure index</b>	<b>7</b>
<i>What corporate body provides legally sufficient approval for the transaction? (0-3)</i>	1
<i>Immediate disclosure to the public and/or shareholders (0-2)</i>	2
<i>Disclosures in published periodic filings (0-2)</i>	2
<i>Disclosures by Mr. James to board of directors (0-2)</i>	2
<i>Requirement that an external body review the transaction before it takes place (0=no, 1=yes)</i>	0
<b>Director liability index</b>	<b>4</b>
<i>Shareholder plaintiff's ability to hold Mr. James liable for damage the Buyer-Seller transaction causes to the company. (0-2)</i>	1
<i>Shareholder plaintiff's ability to hold the approving body (the CEO or board of directors) liable for damage to the company. (0-2)</i>	1
<i>Whether a court can void the transaction upon a successful claim by a shareholder plaintiff (0-2)</i>	0
<i>Whether Mr. James pays damages for the harm caused to the company upon a successful claim by the shareholder plaintiff (0=no, 1=yes)</i>	1
<i>Whether Mr. James repays profits made from the transaction upon a successful claim by the shareholder plaintiff (0=no, 1=yes)</i>	0
<i>Whether fines and imprisonment can be applied against Mr. James (0=no, 1=yes)</i>	0
<i>Shareholder plaintiff's ability to sue directly or derivatively for damage the transaction causes to the company (0-1)</i>	1
<b>Shareholder suits index</b>	<b>6</b>
<i>Documents available to the plaintiff from the defendant and witnesses during trial (0-4)</i>	4
<i>Ability of plaintiffs to directly question the defendant and witnesses during trial (0-2)</i>	1
<i>Plaintiff can request categories of documents from the defendant without identifying specific ones (0=no, 1=yes)</i>	0
<i>Shareholders owning 10% or less of Buyer's shares can request an inspector investigate the transaction (0=no, 1=yes)</i>	1
<i>Level of proof required for civil suits is lower than that for criminal cases (0=no, 1=yes)</i>	0
<i>Shareholders owning 10% or less of Buyer's shares can inspect transaction documents before filing suit (0=no, 1=yes)</i>	0
<b>Investor protection index</b>	<b>5.7</b>

Note: Results for Italy in *Doing Business 2009*. No subnational analysis was conducted in Veneto.

## Paying taxes

City: Padua

Tax or mandatory contribution	Payments (number)	Notes on Payments	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)	Notes on TTR
Social security contributions	1	online filing	266	34.19-39.3%	gross salaries	43.2	
Corporate income tax (IRES)	1	online filing	37	33.0%	taxable profit	20.1	
Regional tax on productive activities (IRAP)	1	online filing	-	4.3%	Difference between taxable revenues and deductible costs	7.8	
Fuel tax	1		-	various rates	per liter	1.1	
Property tax (ICI)	1	online filing	-	0.7%	cadastral value of property	1.2	
Tax on interest	0	withheld	-	27.0%	interest income	0.7	not included
Business license	1		-	€ 373 + % of previous year turnover	previous year turnover	0.1	
Fixed tax on legal and fiscal registries	1		-	EUR 516	fixed fee	0	
Stamp duty on property transfer	1		-		fixed fee	0	
Tax on check transactions	1		-	€ 74	per account held at an Italian Bank	0	
Stamp duty on contracts	1		-	various rates	pages of contracts		small amount
Value added tax (VAT)	1	online filing	48	20.0%	value added and land		not included
Vehicle tax	1	online filing	-	various rates	vehicle KW		small amount
Tax on insurance contracts	1		-	various rates	insurance premium		small amount
Advertising tax	1		-	various rates	type of advertising		small amount
Environmental tax	1		-	various rates			small amount
<b>Totals:</b>	<b>15</b>		<b>351</b>			<b>73.6</b>	

## Trading across borders

Padua trading through the Port of Venice

	Time (days)*	Cost (US\$ per container)
<b>Exporting</b>		
Documents preparation	9	363
Customs clearance and technical control	1	80
Ports and terminal handling	4	240
Inland transportation and handling	2	521
<b>Export total</b>	<b>16</b>	<b>1,204</b>
<b>Importing</b>		
Documents preparation	9	375
Customs clearance and technical control	2	105
Ports and terminal handling	2	200
Inland transportation and handling	2	521
<b>Import total</b>	<b>15</b>	<b>1,201</b>

### Export documents

- Bill of lading
- Certificate of origin
- Commercial invoice
- Customs declaration
- Export license

### Import documents

- Bill of lading
- Certificate of origin
- Commercial invoice
- Customs declaration
- Import license

\*for comparison reasons, the figures may be rounded up or down.

## Enforcing contracts

Court information: Tribunale Civile di Padova

Value of claim: EUR 51,726

Procedures (number)	41
Time (days)	1,808
<i>Filing and service</i>	30
<i>Trial and judgment</i>	1,406
<i>Enforcement of judgment</i>	372
Cost (% of claim)	27.3
<i>Attorney cost</i>	17.7
<i>Court cost</i>	7.2
<i>Enforcement cost</i>	2.5

## Closing a business

City: Padua

Time (years)	2
Cost (% of estate)	14.5
Recovery rate (cents on the dollar)	60.9

Note: For details on the methodology please see the Data Notes.

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## PUBLIC OFFICIALS AND BUSINESS ASSOCIATIONS

**AGENZIA DELLE DOGANE**

Paolo Di Roma  
 DIRETTORE REGIONALE (VENETO)  
 Michele Ventriglia  
 DIRETTORE UFFICIO DI PADOVA  
 Giuseppe Velleca  
 AUDIT INTERNO - DIREZIONE  
 REGIONALE VENETO  
 Pasquale Marotta  
 AUDIT INTERNO - DIREZIONE  
 REGIONALE VENETO

**AGENZIA DEL TERRITORIO**

Enrico Silvestri  
 DIRETTORE PROVINCIALE (PADOVA)

**CHAMBER OF COMMERCE OF  
PADUA**

Alessandro Selmin  
 SEGRETARIO GENERALE  
 Roberta Tonellato  
 DIRIGENTE AREA ANAGRAFICA -  
 CONSERVATORE DEL REGISTRO IMPRESE  
 Liana Benedetti  
 CAPO SERVIZIO

**COMUNE DI PADOVA**

Luigi Mariani  
 ASSESSORE ALL'URBANISTICA E  
 ALL'EDILIZIA PRIVATA  
 Roberto Cruciato  
 RESPONSABILE SUAP

**CORTE DI APPELLO DI VENEZIA**

Manuela Romei Pasetti  
 PRESIDENTE DELLA CORTE DI APPELLO  
 DI VENEZIA

**ORDINE DEGLI INGEGNERI  
DELLA PROVINCIA DI PADOVA**

Fabio Bonfà  
 PRESIDENTE

**PADOVA PROMEX - SPECIAL  
AGENCY OF THE PADUA  
CHAMBER OF COMMERCE FOR  
INTERNATIONAL ACTIVITIES**

Franco Conzato  
 DIRETTORE

**TRIBUNALE DI PADOVA**

Mario Fabiani  
 PRESIDENTE DEL TRIBUNALE DI PADOVA  
 Daniela Bruni  
 GIUDICE

## PRIVATE PROFESSIONALS

**APL ITALIA AGENCIES S.R.L.**

**BAGGIO S.P.A.**  
 Paolo Tagnin

**CASSA DI RISPARMIO DI  
VENEZIA S.P.A. - INTESA  
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Marino Scalco  
 Fabio Gislon

**CBA - STUDIO LEGALE E  
TRIBUTARIO**

Mattia Dalla Costa  
 Alessandro Grassetto  
 Silvia Frigo  
 Lucia Comisso  
 Nicola Bau  
 Tommaso Tamburino  
 Hannes Spinell  
 Michael Erschbaumer

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 Simeone Travagnin  
 Paola Alfonsi  
 Cristian Lorenzin  
 Silvia Gagno

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DI DOTTORI COMMERCIALISTI E  
AVVOCATI**

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 Elena Baliello

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 Vanni Sartorato

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Stefano Beghi  
 Stefania Sammartano  
 Elena Zanellato

**INDROESSE INFRASTRUTTURE  
S.P.A.**

Roberto Piccoli

**NET ENGINEERING  
INTERNATIONAL S.P.A.**

Patrizio Rigoni  
 Elisa Bertazzo

**NOTAIO DORIA**

Roberto Doria  
 Bevilacqua Roberta

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ASSOCIATI CON AGNOLI  
BERNARDI**

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 Lavinia F. Fanan  
 Davide Rubino  
 Leonardo Vannotti

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Bernardo Agostinelli

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 Paolo Brugnera  
 Marco Malipiero  
 Paolo Dominis  
 Giovanna Murador  
 Linda Ferraro  
 Ernesto Sellitto

**STUDIO BOGONI**

Renato Bogoni  
 Aldo Travain  
 Inge Binella

**STUDIO DI ARCHITETTURA  
LIONELLO**

Lionello Maurizia  
 Francesco Martini

**STUDIO ING. ANGELO VELO**

Angelo Velo

**STUDIO LEGALE TRIBUTARIO  
FRANCESCO MOSCHETTI**

Giovanni Moschetti  
 Maurizio Castelli

**STUDIO NOTAIO NICOLA  
CASSANO**

Nicola Cassano  
 Martina Menin

**STUDIO TECNA**

Pieluigi Cristaldi  
 Michela Zampiero  
 Franco Noventa

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 Paola Elisabetta Pedretti  
 Ivan Rigatti  
 Gianni Solinas

**U.P.A. SERVIZI S.P.A.**

Michele Fradellin

**ZERO SOCIETÀ DI GESTIONE  
RISPARMIO S.P.A.**

Gianluca Peonessa  
 Paolo Zanelli







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