



Overview

The strengthening of sustained and inclusive economic growth providing opportunities for all and reducing inequality is a key to achieving shared prosperity in Central America and the Dominican Republic. However, the countries in this region¹—except for Panama and Costa Rica—have not yet attained growth driven by high productivity. This is why many countries are including competitiveness improvement as a key goal in their development plans: Costa Rica in its National Development Plan (2011-2014), Guatemala in its National Competitiveness Agenda (2012-2021), Nicaragua in its National Human Development Plan (2012-2016) and the Dominican Republic in its National Development Strategy (2010-2030). For their part, El Salvador and Honduras have implemented work groups along the same lines.

The relatively small size of economies in Central America makes regional and international integration all the more important. Over the past decades, the region reduced its tariffs, made progress in regional integration and signed free trade agreements with the United States and the European Union. Exports increased more than 50% between 2008 and 2012, and intraregional trade grew faster than trade outside the region. Central America is currently the second export market for the majority of the countries in the region².

Despite these achievements, foreign trade grew less in Central America than in other regions³. Recent World Bank studies indicate that trade barriers include, among other factors, the high costs of internal transport, the lack of quality infrastructure, and bottlenecks at terrestrial borders⁴. Other studies reveal that the areas having the greatest impact on trade costs and volumes are information availability, process improvement through the use of online tools, and document simplification and streamlining⁵. Indeed, entrepreneurs in the region spend more than half of the total time for exporting and importing in preparing the necessary documents. Making foreign trade easier is especially important because the time and cost necessary for importing and exporting affect international trade volumes and export diversification.

The strengthening of the business environment is a key action within these countries' competitiveness and productivity agenda. If laws and regulations are clear, accessible and transparent, while at the same time they are enforceable before a court of justice if necessary, entrepreneurs will have more time to devote to productive activities and will feel more confident to run the risk of doing business with people they don't know, which may contribute to the expansion of their client and supplier network, thereby making their business grow.

MAIN FINDINGS

- There are substantial variations in business regulations and their implementation across countries in the region, and also among cities within the same country.
- In each country there are cities with good practices in at least one of the areas measured, while no city excels in all areas.
- It is easier to do business in Panama, San José de Costa Rica and Guatemala City. In Guatemala, Honduras and the Dominican Republic, there are broad differences among cities. In El Salvador and Nicaragua, the performance is more homogeneous.
- Best performing countries in the starting a business area have implemented one-stop shops and online systems but their capitals benefit the most from them. In general, medium-sized cities perform better in dealing with construction permits, the area with more subnational differences. In registering property, variations mainly occur due to national policies, such as the quality of cadastral information or the efficiency of property registries.
- In trading across borders, the region is divided into 2 groups: Panama, the Dominican Republic and Costa Rica are among the top 50 economies on the ease of trading across borders, while El Salvador, Guatemala, Honduras and Nicaragua require more time and documents to import and export.
- Peer to peer learning, with the support of regional bodies, would promote the convergence towards best practices in the region.

WHAT DOES DOING BUSINESS IN CENTRAL AMERICA AND THE DOMINICAN REPUBLIC 2015 MEASURE?

Doing Business measures business regulations that affect domestic small and medium-size companies. Capital cities and the main ports represent the six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama)⁶ and the Dominican Republic in the *Doing Business* annual report comparing 189 economies in the world. The countries in the region share a similar legal and regulatory framework. The creation of the Central American Integration System (SICA) evidences the aspirations of the region to work as a block at an economic, political and social level. In line with the importance of regional integration, *Doing Business in Central America and the Dominican Republic 2015* is the first regional study concerning business regulations and their practical implementation, that in addition collects data from 15 sub-national locations in five countries:

El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic (figure 1.1)⁷.

The study covers 3 areas of business regulation: starting a business, dealing with construction permits and registering property. The results of this comparison are presented below (table 1.1). The study also measures the trading across borders area, with reference to 7 main ports⁸ and 3 secondary ports⁹. In addition, *Doing Business in Central America and the Dominican Republic 2015* for the first time includes a gender perspective based on the study of the laws and regulations that impose differential treatment for women (box 1.1). The data are based on laws, regulations, decrees, administrative procedures and official fees, as well as on individual interviews with 290 local experts, including lawyers, notaries, accountants, architects, engineers, construction companies, professional associations, customs agents, freight forwarders and others who regularly carry out or advise firms on these procedures¹⁰.

A comparison of general rankings shows that Panama City and San José de Costa Rica are ranked in the top positions followed by Guatemala City. In Guatemala, differences across cities are outstanding, with 18 positions separating the capital and Escuintla, the city with the lowest performance. A similar situation may be observed in Honduras and the Dominican Republic. The cities in El Salvador and Nicaragua, however, show a more homogeneous performance, with cities in El Salvador being ranked in intermediate positions and cities in Nicaragua in still lower positions. Nevertheless in Nicaragua, León is the leader, and Estelí and Juigalpa are also ranked among the 10 best performers in this indicator.

In addition to the global ranking, the “distance to frontier” measure reflects the gap between each economy and the best global practice for each measured indicator. This measure not only ranks the economies in relation to each other, but also shows how far one is from the other. The average distance to frontier for the three measured indicators is significant and differs by almost 20 points between Panama City and Choluteca (Honduras). Another observation is that none of the 7 countries under study is outstanding in each one of the 3 measured areas. Even San José de Costa Rica and Panama City, which are ranked among the 6 top performers in all the areas, show distances between 7 and 11 points respectively, behind the best performance in at least one of the measured indicators¹¹.

A comparison of each one of the indicators on a separate basis yields even more varied results. For starting a business, for example, the countries leading the ranking are those that have implemented one-stop shops or online portals, and most of all it is the capitals that obtain the largest benefits from

FIGURE 1.1 Ten ports and 22 cities are measured in 7 countries

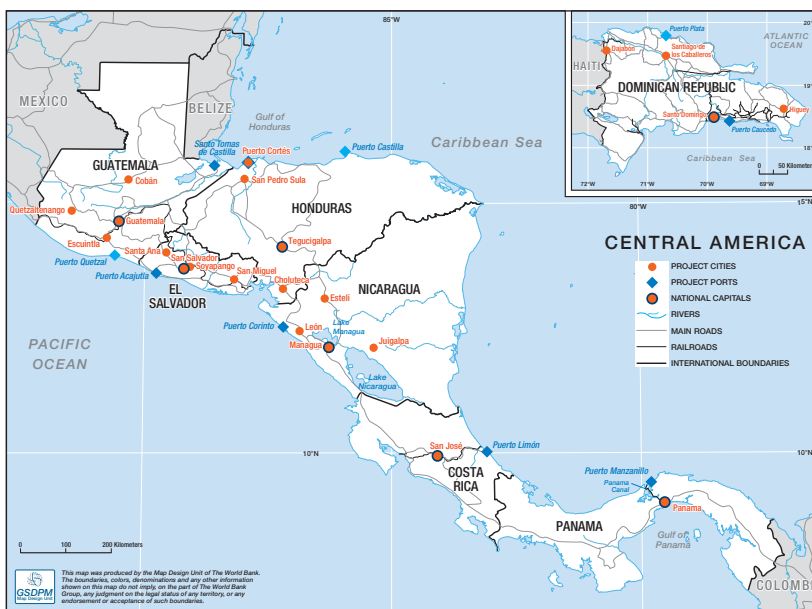


TABLE 1.1 How close are the 22 cities from the best regulatory practices in the world?

| Country | City | Average distance to frontier for 3 indicators (100 = highest efficiency) | Global ranking for 3 indicators (1-22) | Distance to frontier for starting a business (100 = highest efficiency) | Ranking in the ease of starting a business (1-22) | Distance to frontier for dealing with construction permits (100 = highest efficiency) | Ranking in the ease of dealing with construction permits (1-22) | Distance to frontier for registering property (100 = highest efficiency) | Ranking in the ease of registering property (1-22) |
|--------------------|----------------------------|--|--|---|---|---|---|--|--|
| Costa Rica | San José | 79.15 | 2 | 80.90 | 4 | 78.14 | 5 | 78.40 | 1 |
| El Salvador | Soyapango | 71.52 | 9 | 80.78 | 6 | 61.58 | 16 | 72.20 | 10 |
| | San Salvador | 70.90 | 11 | 79.87 | 10 | 57.19 | 19 | 75.65 | 2 |
| | Santa Ana | 70.29 | 12 | 66.19 | 20 | 71.30 | 8 | 73.39 | 9 |
| | San Miguel | 69.36 | 14 | 69.17 | 15 | 65.19 | 14 | 73.71 | 8 |
| Guatemala | Guatemala | 74.66 | 3 | 83.72 | 2 | 66.18 | 13 | 74.07 | 5 |
| | Quetzaltenango | 68.33 | 15 | 70.34 | 14 | 60.37 | 17 | 74.28 | 4 |
| | Cobán | 65.60 | 19 | 71.61 | 13 | 51.28 | 21 | 73.92 | 7 |
| | Escuintla | 64.84 | 21 | 77.55 | 11 | 42.91 | 22 | 74.07 | 5 |
| Honduras | Puerto Cortés | 73.97 | 5 | 68.04 | 16 | 82.02 | 3 | 71.84 | 11 |
| | San Pedro Sula | 73.85 | 6 | 67.38 | 17 | 82.65 | 2 | 71.51 | 12 |
| | Tegucigalpa | 71.43 | 10 | 74.84 | 12 | 69.37 | 12 | 70.09 | 13 |
| | Choluteca | 61.63 | 22 | 66.66 | 18 | 52.97 | 20 | 65.26 | 17 |
| Nicaragua | Estelí | 69.48 | 13 | 64.37 | 21 | 80.61 | 4 | 63.46 | 18 |
| | León | 67.88 | 16 | 62.89 | 22 | 85.24 | 1 | 55.52 | 22 |
| | Managua | 67.12 | 18 | 80.27 | 8 | 63.50 | 15 | 57.58 | 20 |
| | Juigalpa | 64.88 | 20 | 66.43 | 19 | 71.17 | 9 | 57.03 | 21 |
| Panama | Panama | 80.85 | 1 | 91.93 | 1 | 75.97 | 6 | 74.65 | 3 |
| Dominican Republic | Santo Domingo | 74.13 | 4 | 81.60 | 3 | 70.88 | 10 | 69.90 | 14 |
| | Higüey | 73.65 | 7 | 80.28 | 7 | 73.86 | 7 | 66.81 | 16 |
| | Dajabón | 72.49 | 8 | 80.23 | 9 | 70.24 | 11 | 67.00 | 15 |
| | Santiago de los Caballeros | 67.20 | 17 | 80.89 | 5 | 58.80 | 18 | 61.92 | 19 |

Note: The distance to frontier captures the difference between the performance of each economy and the best observed performance (the frontier) at a global level in each measure for the 3 indicators under study (starting a business, dealing with construction permits and registering property). An economy's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the best global practice or "the frontier". A higher score denotes a more efficient regulatory environment. This measure provides a more accurate view of the performance of each economy and how much progress it has made over time. The global ranking on the ease of doing business is based on an average of the distance to frontier for the 3 indicators. For more details, see the section About *Doing Business* and *Doing Business in Central America and the Dominican Republic 2015*. Source: *Doing Business* database.

this service. In the Dominican Republic, the use of a notary is optional, and there is no significant sub-national variation. In Honduras, it is faster to start a business in the cities where the chamber of commerce is in charge of the registration. In the registering property area, the ranking depends mostly on national policies such as the quality of cadastral information or the efficiency of property registries.

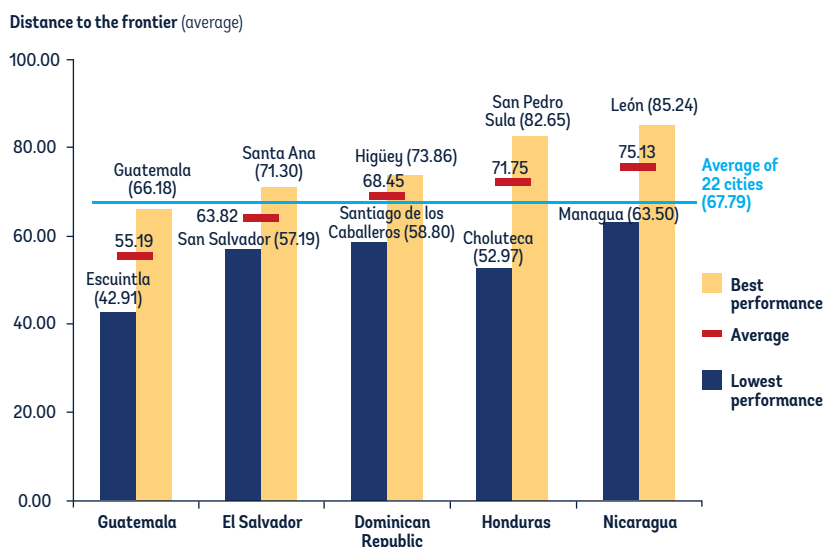
Variations within each country are a function of the different degrees of cadastre updating, delay differences at the local offices of the property registry and alternatives for obtaining the municipal clearance certificate (such as connection between the property registry and the municipality in San Salvador or the possibility of submitting the last receipt evidencing payment in Guatemala City).

However, the most remarkable performance differences are observed in the dealing with construction permits area. This should not be surprising, given that 72% of the procedures associated with construction permits are under departmental and municipal competence. The smallest cities¹² generally show the best performance in this area (figure 1.2). The complexity of environmental assessment studies and the

cost of the construction license are the factors that have the greatest impact on the total time and cost, followed by the system of inspections during construction.

In the trading across borders area, the region is divided into 2 groups. The first, comprised of Panama City, the Dominican Republic and Costa Rica, is among the 50 economies in the world where trading across borders is easiest, with required times and documents which are similar, on average, to OECD high-income countries and slightly lower costs. On the other hand, the second group, comprised of El Salvador, Guatemala, Honduras and Nicaragua, which ranks between 70 and 102 globally, requires an average of 16 days and between 6 and 7 documents for importing and exporting a container by maritime transport, which is similar to

FIGURE 1.2 There is a significant gap in the dealing with construction permits area, not only at a regional level, but also within the same country



Note: The ranking for the dealing with construction permits indicator is based on the distance to frontier scores in the 3 sub-indicators (procedures, time, and cost). Hong Kong SAR, China represents the best global practice in the dealing with construction permits indicator, with a score of 95.53.

Source: Doing Business database.

TABLE 1.2 How close is the region to the best regulatory practices in the world in the trading across borders area?

| Country (City and port of origin/destiny) | Distance to frontier for trading across borders (100 = highest efficiency) | Ranking in the ease of trading across borders (1-10) | Exports | | | Imports | | |
|---|--|--|--------------------|-------------|------------|--------------------|-------------|------------|
| | | | Documents (number) | Time (days) | Cost (USD) | Documents (number) | Time (days) | Cost (USD) |
| Panama (Panama City - Manganillo) | 91.25 | 1 | 3 | 10 | 665 | 3 | 9 | 1,030 |
| Dominican Republic (Santo Domingo - Puerto Caucedo) | 85.56 | 2 | 4 | 8 | 1,040 | 5 | 10 | 1,145 |
| Dominican Republic (Santiago de los Caballeros - Puerto Plata) | 85.04 | 3 | 4 | 8 | 1,113 | 5 | 11 | 1,140 |
| Costa Rica (San José - Puerto Limón) | 80.84 | 4 | 5 | 14 | 1,020 | 5 | 14 | 1,070 |
| Honduras (Tegucigalpa - Puerto Cortés) | 76.50 | 5 | 5 | 12 | 1,450 | 6 | 16 | 1,630 |
| El Salvador (San Salvador - Puerto de Acajutla) | 76.01 | 6 | 7 | 13 | 1,045 | 7 | 10 | 1,035 |
| Nicaragua (Managua - Puerto Corinto) | 75.84 | 7 | 5 | 21 | 1,140 | 5 | 20 | 1,245 |
| Guatemala (Guatemala City - Puerto Quetzal) | 72.79 | 8 | 8 | 16 | 977 | 6 | 16 | 1,115 |
| Honduras (Tegucigalpa - Puerto Castilla) | 71.15 | 9 | 5 | 13 | 2,308 | 6 | 15 | 2,359 |
| Guatemala (Guatemala City - Puerto Santo Tomás de Castilla) | 70.10 | 10 | 8 | 17 | 1,355 | 6 | 16 | 1,445 |

Note: The ranking for the trading across borders indicator is based on the distance to frontier scores in the 3 sub-indicators (documents, time, and cost for importing and exporting.) Singapore represents the best combined global practice concerning time, cost and documents, with a score of 96.47. For more details, see the section About Doing Business and Doing Business in Central America and the Dominican Republic 2015.

Source: Doing Business database.

BOX 1.1 WHAT IS THE LEGAL STATUS OF WOMEN IN CENTRAL AMERICA AND THE DOMINICAN REPUBLIC?ⁱ

During the last century, the role of women has been key for the world's economic development. The removal of legal obstacles for women—representing half the population and the potential human capital available in their countries—generates economic benefits beyond gender equalityⁱⁱ. In Central America and the Dominican Republic, more women of working age have entered the labour force over the past 12 years. However, out of the total number of women of working age, 48% participate in the labour force, a figure below the average for Latin America and the Caribbean (54%) and OECD high-income countries (55%)ⁱⁱⁱ. The study *Women, Business and the Law*, published every 2 years by the World Bank Group analyses the incentives and legal and regulatory restrictions affecting women when it comes to starting their own business or entering the labour market.

Between 1960 and 2010, 15 countries in Latin America and the Caribbean reduced approximately 84% of the legal restrictions on women to purchase and manage property and to act on their own, for example, obtaining financing, opening a checking account, or signing a contract^{iv}. Based on the evaluation carried out by *Women, Business and the Law*, in the Dominican Republic as well as in other 14 countries such as Canada and Spain there have been no differences in the law for men and women since 2013. However, in the six Central American countries, some restrictions diminishing women's legal status as head of household or restricting them access to certain jobs still persist^v. The civil legislation of Honduras^{vi}, for example, grants priority to men within marriage to act on behalf of the couple's young children. As for Nicaragua, a woman may act on behalf of her family only in the absence of the husband^{vii}. Concerning labour, laws in Costa Rica^{viii}, Honduras^{ix}, Panama^x and Nicaragua^{xi} forbid women's access to certain jobs. Limitations such as not being allowed to work night shifts, for example, as is the case in Costa Rica, could reduce women's involvement in labour in sectors operating 24 hours a day. In the Philippines, high labour demand at call centers encouraged the government to remove in 2011 the prohibition for women to work night shifts. In India, a legal exception was established to enable work at night for women hired by technology service companies.

Establishing by law a mandatory retirement age that is lower for women as compared to men may also limit their professional careers over time, thus negatively impacting their pensions and other retirement benefits. This happens in El Salvador, Honduras and Panama.

On the other hand, incentives such as the prohibition to fire a woman during pregnancy, compensated maternity or paternity leaves and laws protecting the equality principle in remuneration promote women's participation in the labour force. In the six Central American countries and the Dominican Republic, governments have adopted a good practice consisting of subsidizing maternity leave payment, with a percentage participation of employers; in El Salvador, the government subsidizes 100% of these leaves. Another incentive is granted through laws seeking to increase women's participation in high decision-making positions. In the six Central American countries and the Dominican Republic, laws establishing quotas for women's participation in electoral lists for seats in congress and at a municipal level have been approved.

The most significant challenge for the countries in the region is effective implementation of laws protecting women against violence. Despite the existence of all kinds of laws against domestic violence and different types of abuse (physical, sexual and psychological), the Economic Commission for Latin America and the Caribbean estimates that up to 40% of women in the region could be affected by physical violence^{xii}. In addition to the direct suffering of the victims, violence against women has economic consequences for society, including higher costs associated with health and justice systems and a loss of productivity for local companies.

ⁱ The study *Women, Business and the Law* is a World Bank Group publication that studies the legal and regulatory barriers affecting women's participation in economic activities and in the labor market in 143 economies in the world. The 3 studies in the series may be reviewed on the website <http://wbl.worldbank.org/>

ⁱⁱ Duflo, Esther, "Why Political Reservations?" *Journal of the European Economic Association* 3:2-3 (2005); Duflo, Esther, "Women Empowerment and Development", The National Bureau of Economic Research Working Paper 17702 (2011).

ⁱⁱⁱ *World Development Indicators 2014*, Washington, DC: World Bank.

^{iv} Hallward-Driemeier, Mary, Tazeen Hasan and Sarah Iqbal. 2013. *Historical Database of Women's Legal Capacity and Property Rights*. World Bank. As of 2010, four of the 15 countries in Latin America and the Caribbean that were analyzed in the study had a total of 5 restrictions; among them, Bolivia, Chile, Honduras and Nicaragua. These restrictions are related to a woman's status as head of household, the property rights of married women and women's capacity to get a job without the need to ask the permission of their spouse.

^v As considered under the methodology of the study *Women, Business and the Law*.

^{vi} Article 239, Honduras Civil Code.

^{vii} Article 151, Nicaragua Civil Code.

^{viii} Articles 87 and 88, Costa Rica Labor Code.

^{ix} Article 128, Honduras Labor Code.

^x Article 104, Panama Labor Code.

^{xi} Articles 12 and 16 of Ministerial Resolution on Health and Safety dated February 22, 2002 and Article 193 of Law 195, Labor Code.

^{xii} "Ni una más! Del dicho al hecho: ¿Cuánto falta por recorrer? Únete para poner fin a la violencia contra las mujeres". ECLAC. 2009

the average for Latin America and the Caribbean (table 1.2).

COMPARING REGULATIONS AND THEIR APPLICATION ACROSS CITIES AND COUNTRIES IN CENTRAL AMERICA AND THE DOMINICAN REPUBLIC

Starting a business

Starting a business is governed by commercial laws regulating the role of public registries, tax laws or regulations, and the labor and social security legislation. In the six Central American countries, the use of notaries is mandatory; in the Dominican Republic it is optional. Only Guatemala and the Dominican Republic do not require municipal registration or permits. In El Salvador, Guatemala, Honduras, and the Dominican Republic there is a minimum capital requirement, ranging from 2.7% of per capita income in El Salvador to 43% in the Dominican Republic. This practice has already been eliminated in more than half of the economies measured by *Doing Business*.

In all, 5 to 13 procedures are necessary to start a business—far from the single procedure required in Canada or New Zealand. Except for Panama, where starting a business requires only 5 procedures that take 6 days, twice the procedures and three times more time than in OECD high-income countries are required in the region on average. In addition, average costs are higher than in 80% of the economies measured by *Doing Business*.

Guatemala, El Salvador and Nicaragua have implemented one-stop shops located in their capitals. Furthermore, all the countries, with the exception of Honduras and Nicaragua, have online portals¹³. The online portal existing in Panama—a pioneer in the region—allows users to process the operation notification, which authorizes companies

to operate. In Costa Rica, registration in the registry of commerce is carried out fully online. Guatemala launched an online portal in 2013, whereby 21% of companies are currently opened online. The portal enables licensed notaries to make the enquiry concerning the availability of the proposed company name¹⁴, obtain fee settlement and deliver the title deed with all the other documents for registration and the designation of a tax identification number online. Moreover, employer registration with the Guatemala Social Security Institute and the Ministry of Labor may also be completed. However, in spite of the fact of being theoretically available throughout the national territory, its use is concentrated in the capital, where the registry of commerce has promoted the portal more intensively and has trained notaries.

In El Salvador the portal was launched in April 2013, but it is scarcely used¹⁵. Notaries in the capital and the neighboring city of Soyapango visit the registry of commerce of San Salvador, which operates as a one-stop shop. The one-stop shop processes the registration of the company, its authorization by the national taxpayer registry and its registration with the Salvadoran Social Security Institute and the Ministry of Labor. The same as at municipalities in Guatemala (except for the capital), notaries in Santa Ana and San Miguel visit the registry of commerce at the capital only to register a company. Instead of processing all other requirements through the one-stop shop at the capital, they prefer to carry out all other procedures at local offices because, according to them, it is easier for entrepreneurs to carry out the procedures and follow up on them locally than to travel to the capital.

All the measured cities in Honduras have 12 requirements. In Choluteca and Puerto Cortés an additional procedure is carried out with the notary who must prepare a separate official letter authorizing the entrepreneur

to deposit the minimum capital in a bank account. However, while the 12 procedures take 14 days in total at Tegucigalpa, twice the time is required in Choluteca, Puerto Cortés and San Pedro Sula. This is due to the fact that chambers of commerce registering companies in the registry of commerce in Tegucigalpa and San Pedro Sula are more expeditious than in Choluteca and Puerto Cortés, where this is carried out by the Property Institute. In San Pedro Sula, the procedure takes longer because 20 days are required to obtain the municipal operation permit.

In all the cities in the Dominican Republic, 7 procedures that take between 19.5 days in the capital and 24.5 days in Higüey are required. In Dajabón, no procedure is carried out online, and the cost is higher due to the need to travel to the capital or to Santiago de los Caballeros to register the commercial name at the National Industrial Property Office and the registry of commerce. Although no notary fee costs are incurred in the Dominican Republic, registration costs¹⁶ and the minimum capital are the most expensive in the region.

Companies in Nicaragua are directly registered in the registry in each one of the measured cities. In Managua—the second fastest city after Panama—there is a one-stop shop, where the company is registered in the registry of commerce, the single taxpayer number is obtained, registration with the social security agency is carried out and a municipal pre-registration fee is paid. In León and Estelí the registration is carried out in two phases: first, the company is registered, and then, the books and the business category are registered. In Juigalpa, the company and the books may be registered in just one step but, the same as in León and Estelí, the legal representative authorization document is also registered. This system increases the registration cost as well as costs on account of professional fees.

Dealing with construction permits

In Central American countries, the study and approval of construction permits are carried out by municipalities¹⁷. All construction projects in the Dominican Republic are approved by the Ministry of Public Works after a review by municipalities. As part of the study of the projects, the legal status of the property where the construction is to be carried out is certified, as well as authorized land uses and feasibility for public service connections. In addition, an environmental assessment study is required in the majority of Central American countries, Panama being the only country that requires a certification of this study before a notary. In the Dominican Republic, environmental requirements are only applied in Santiago de los Caballeros, and in Nicaragua, only in Estelí.

Compared to the average for OECD high-income and Latin America and the Caribbean countries, a higher number of procedures (15) is required in the region on average, but the process takes fewer days (128). In the 22 cities, more than half of the procedures correspond to the phase prior to construction. Although 8 procedures are required on average, in the capital of El Salvador these procedures may reach 14, including the zoning certificate and the environmental approval, public service feasibility procedures and inspections. Puerto Cortés, in Honduras, and Guatemala City have managed to consolidate procedures and make project approval more efficient through one-stop shops. In Puerto Cortés the one-stop shop consolidates both the environmental authority and public service companies. The one-stop shop in Guatemala City approves construction permits as well as environmental assessment studies. Besides one-stop shops, the cities of San Pedro Sula in Honduras and San José de Costa Rica adopted another strategy. The technical review of the projects in these

cities is carried out in partnership with private sector associations.

The two factors that have greatest impact on the time required for dealing with construction permits are the permit and the environmental assessment study. While in the three cities in Nicaragua (Estelí, Juigalpa and León) the construction permit is issued within no more than 10 days, at least 2 months are required for this in the Dominican Republic. Differences also exist in environmental assessment studies. Although the countries have regulations qualifying environmental risk and establishing simpler procedures for low-risk constructions, the lack of drinking water services and sewage networks, requiring the construction of septic tanks and drilled wells, changes environmental risk qualification and results in a more complex procedure. In Guatemala City, for example, the Ministry of the Environment approves projects within 14 days, while in the other municipalities in the country 2 months are required and even 4 in Escuintla, where builders must submit, together with the environmental assessment study, a hydrogeological study whose approval takes 3 weeks.

The average cost is 5.3% of the commercial warehouse value, three times the average for OECD high-income countries and twice that for Latin America and the Caribbean. Across cities, the cost ranges from 1.7% of the warehouse value in San José (Costa Rica) to 17.6% in Choluteca (Honduras). The construction permit represents the major share of the cost—48% on average. However, in San Pedro Sula (Honduras) it amounts to 90%. Investment in adjustments to water and sewage services makes dealing with construction permits even more costly in the region. For example, in Escuintla, the environmental assessment study represents 49% of the total cost, and in Choluteca the construction of water wells adds up to 32%.

Registering property

The regulation that governs real estate sales transactions is largely the same across the countries, with regulations established in civil codes as well as in registry and cadastre laws. Except for Guatemala, the countries have a single property registry, which generally has local offices in each city. In the Dominican Republic and Panama, all the procedures required for transferring a property are managed by central government agencies, while in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua the municipal cadastre in each city is also involved. In Costa Rica, El Salvador, Guatemala and Panama, the property registry operates on a fully online basis, and the time required for registration is 13 days on average, which is less than half the time required in Honduras and the Dominican Republic, where the online system is still under implementation. For its part, Nicaragua uses paper-based documents, and the registry takes 10 days on average. However, in none of these countries are the registries able to cover 100% of the properties. In Nicaragua, the Dominican Republic and Guatemala, 1 to 3 procedures must be completed for the evaluation of the property used for the estimation of the transfer tax.

An average of 7 procedures taking 41 days are required to complete a property transfer in Central America and the Dominican Republic. The region's performance is better than that for Latin America and the Caribbean, where an equal number of procedures and 63 days are required, but it is ranked behind OECD high-income countries, where only 5 procedures and 24 days are required. In San José de Costa Rica, it is easier to register a property thanks to the online property registry, enabling online issuance of the cadastral map together with the clearance certificate having legal validity. Entrepreneurs require 19 days and 5 procedures at a cost of 3.4% of the property value. In contrast, in

the Nicaraguan cities of Juigalpa and León, 9 and 10 procedures are required respectively, and a municipal clearance certificate, the preparation of a map, a valuation, a procedure where the notary inserts in the deed all processed documents and a notification to the municipality must be added. The complete process takes three times more than in San José and costs between 4.2 and 4.4% of the property value.

In each country, differences across cities are due to the different degrees of cadastre updating and variations in response times by property registry offices. In Nicaragua, Estelí has an updated cadastre and does not require the preparation of a property map, in contrast to León and Juigalpa, or that the General Tax Department carries out an inspection, as required in Managua. In San Salvador, the municipal clearance certificate, which is necessary in the other 3 cities in the country, is not required because the property registry has access to data on municipal debtors. In Honduras, the procedures are the same in all the cities, but the property registry has different response times, particularly in Choluteca, where a digitalization process under development is creating delays. In the Dominican Republic,

the procedures are the same in all the cities, but registries are the slowest in the region, with delays between 25 and 60 days for deed registration. Indeed, in Higüey and Dajabón, registry offices receive the documents, but these are processed in other cities. In Guatemala City, the last tax payment certificate can be submitted as proof of payment, while in the other cities in the country a specific certificate must be requested. In the property registry offices of Cobán and Escuintla, registration applications are received and scanned, but are processed in a centralized manner at the Guatemala City registry. In Quetzaltenango (Guatemala), a second office independent from the property registry is in operation, having slightly different response times.

The costs for transferring property in the region are comparable with those for OECD high-income countries and lower than those for Latin America and the Caribbean. They range from 2.4% of the property value in Panama City to 5.7% in Tegucigalpa, Honduras. The highest cost is represented by the property title transfer tax, ranging from 1.5 to 4% of the property value, followed by notary fees, reaching up to 4% of the sale in Honduras, and public registry fees.

Trading across borders

The performance of the region in the trading across borders area is heterogeneous. In Panama, which is ranked closer to the regulatory frontier of most efficient practices in trading across borders, the import of a container requires 3 documents, 9 days and USD 1,030 and its export requires 3 documents, 10 days and USD 665. The Dominican Republic and Costa Rica also show a performance similar to that of OECD high-income countries. For their part, in El Salvador, Guatemala, Honduras, and Nicaragua, importing requires on average 6 documents, 16 days and USD 1,472, while exporting requires 6 documents, 15 days and USD 1,379. This is similar to the average for Latin America and the Caribbean, but relatively more burdensome than in OECD high-income countries, where 4 and 5 documents, between 6 and 4 days less, and expenses between 25 and 22% lower are required.

The number of necessary documents shows significant variation. In Guatemala, twice the documents than in Panama are needed for importing and exporting a container by maritime transport. In addition, the systems implemented for importers and exporters to process the documents show different sophistication levels

TABLE 1.3 The implementation of systems to make foreign trade easier varies across countries

| Country | What countries have an online Foreign Trade One-Stop Shop? | | Customs entry with customs authorities | |
|--------------------|--|---------|--|---|
| | Import | Export | What documents are submitted to the Customs Office online? | Is there an Authorized Economic Operator program? |
| Costa Rica | × | ✓ | Customs entry + supporting documents and without physical copies to the customs office | ✓ |
| El Salvador | × | ✓ | Only customs entry (with physical copy to the customs office) | × |
| Guatemala | × | ✓ | | ✓ |
| Honduras | × | Partial | | × |
| Nicaragua | × | Partial | | × |
| Panama | × | ✓ | | ✓ |
| Dominican Republic | × | × | Customs entry + supporting documents and with physical copies to the customs office | ✓ |

Note: The one-stop shop in Honduras is implemented only for a limited number of documents, among them the FAUCA and certificates of origin. The Nicaraguan one-stop shop enables the processing of many of the required export procedures, but a visit to the office is still necessary.

Source: Doing Business database.

from one country to the other (table 1.3). The system for document filing with the General Customs Department in Costa Rica has the highest digitalization level, while paper-based procedures are predominant in the rest of the region. On the other hand, foreign trade one-stop shops in Costa Rica, El Salvador and Guatemala have managed to automate a larger number of procedures and enable exporters to obtain a higher number of documents online without the need to directly visit an agency.

The same divergences are found in the region concerning the necessary time for importing and exporting. In Panama, 9 days are required for importing and 10 for exporting, while in Nicaragua the required days are 20 and 21, respectively. However, a common feature for all these countries is

that half of the time necessary for exporting and importing is related to the preparation of the necessary documents. In addition, the fact that during the last 10 years all the countries in the region have reduced the time necessary for exporting by 40% must be highlighted, while the average reduction in Latin America and the Caribbean was 17%.

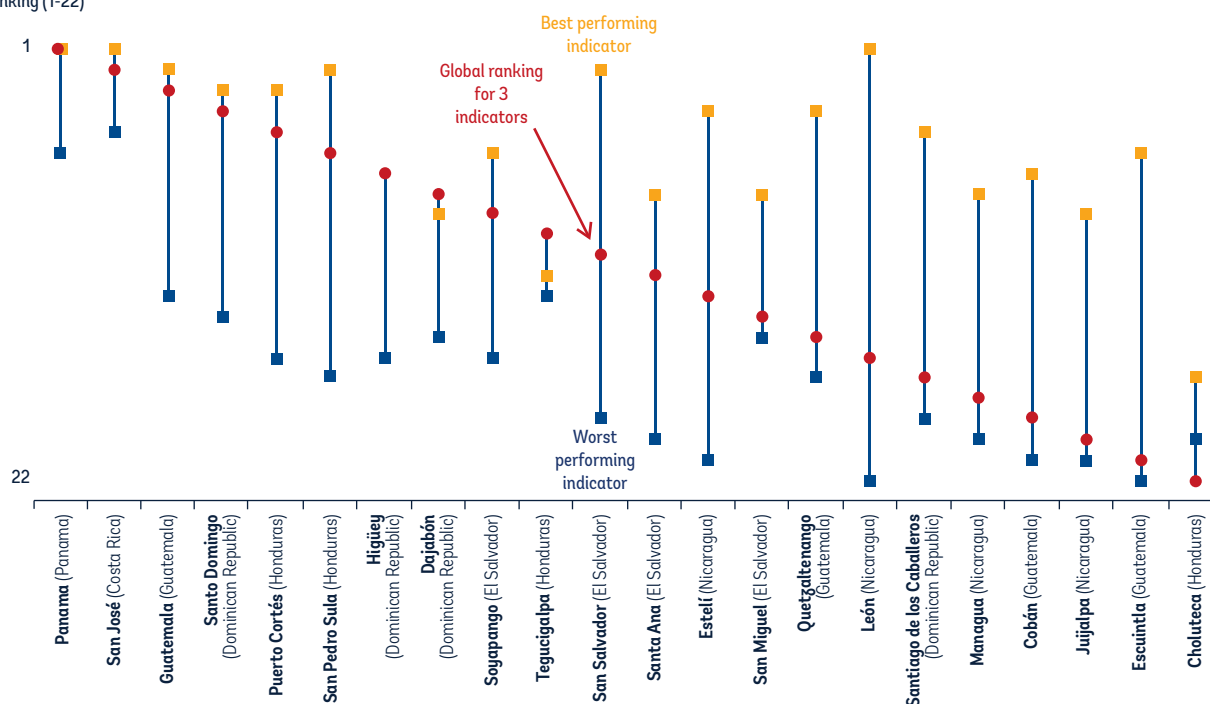
The cost for trading across borders also varies significantly; the cost for exporting ranges from USD 665 in Panama to USD 2,308 in Puerto Castilla (Honduras). The cost of land transport represents between 48% for importing and 53% for exporting. One of the factors that may potentially increase costs in the region is the lack of competitiveness in the land transport sector.

PROMOTING REGULATORY IMPROVEMENT THROUGH PEER-LEARNING AT LOCAL, REGIONAL AND GLOBAL LEVELS

From the point of view of public policies, the uneven performance across the three areas measured in each city reveals improvement opportunities as well as opportunities for sharing successful practices (figure 1.3). Besides the efforts to find new ways of improving the regulatory environment for companies, another way of progressing is to reproduce good practices already existing in another city in the same country or even in another country within the region. Peer-learning not only makes reforms easier, but also prevents effort duplication.

FIGURE 1.3 Uneven performance across the different areas measured in each city reveals opportunities for reform and exchange of good practices

Ranking (1-22)



Note: The performance by indicator depends on the "distance to frontier" score for each city compared to that attained by the others. In addition, the global ranking is the average of the distance to frontier score for each city in the 3 indicators (starting a business, dealing with construction permits and registering property). For example, in Choluteca (Honduras), despite the fact that its lowest performance is in the dealing with construction permits area (20th position), its average score in the 3 indicators is 61.63, the lowest across the 22 cities.

Source: Doing Business database.

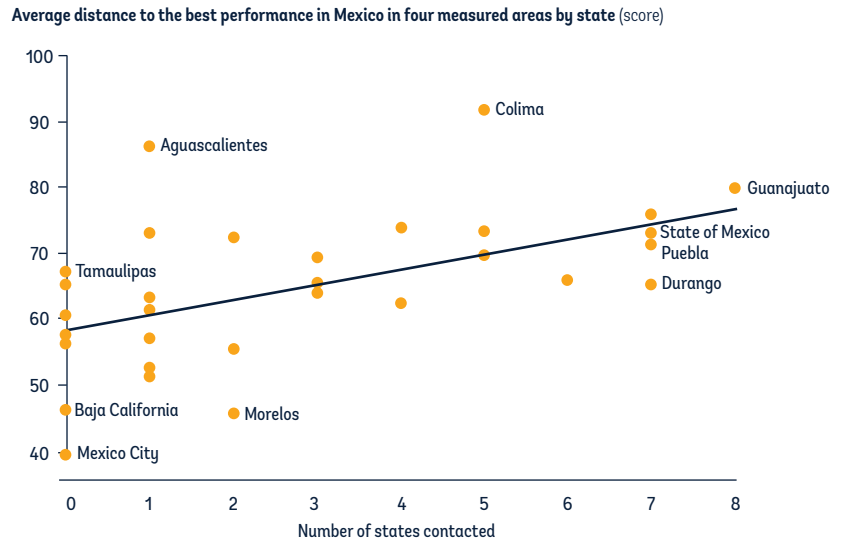
The Mexican experience may serve as an example. A consultation carried out in 2013 to public officials from the 31 Mexican states showed that peer-learning is an important regulatory improvement tool. The *Doing Business in Mexico* series and the bi-annual meetings organized by the Federal Regulatory Improvement Commission (COFEMER) were identified by the states and municipalities as the main tools for detecting best practices. Not surprisingly, the states receiving the largest number of enquiries were those that consistently maintain and develop good practices. The data also show that peer-learning works: the states with the best performance are those that make the most efforts to contact others (figure 1.4)¹⁸.

Collaboration and experience exchange events area already being generated between the region and Mexico. The Federal Regulatory Improvement Commission (COFEMER), for example, has already signed collaboration agreements with Costa Rica and El Salvador. The countries are also taking advantage of existing good practices in the region, such as El Salvador, which used components from a Nicaraguan housing law for its new construction permit streamlining law.

It is also important for national governments to have leadership so that it is not only their capitals that are able to take advantage of regulatory reforms. The data shows that there is a risk that, even when theoretically an improvement may apply to an entire country, it is not implemented outside the capitals. For example, while in Guatemala City the percentage of companies registering through the registry of commerce online portal has been increasing, the portal is not well known among notaries in the other cities¹⁹. This may be explained by a lack of promotion, training or resources.

The gap between the maximum and minimum scores in the 22 cities in the region with respect to the distance to frontier is almost 20 points (figure 1.5).

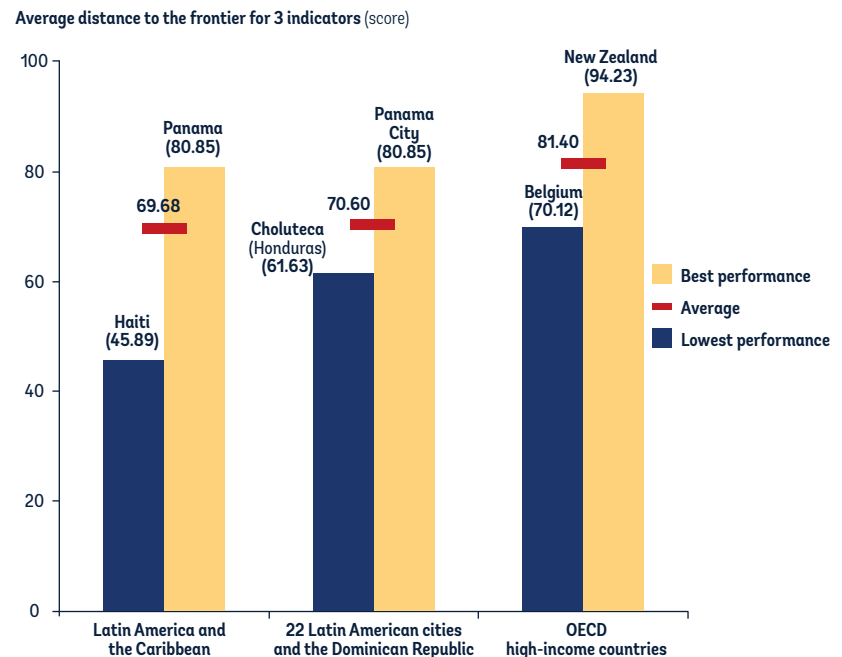
FIGURE 1.4 The Mexican states that make the most efforts to maintain an active dialogue with their peers have a better business regulatory environment



Note: The correlation between the distance to frontier and the number of states that were contacted by each federal state is 0.52. The relationship is significant at the 1% level.

Source: *Doing Business* database and a consultation carried out to state authorities invited to "right of reply" meetings in November 2013.

FIGURE 1.5 On a global basis, there is a significant gap between the highest and the lowest score for the region



Note: For more details, see the sections Data notes and About *Doing Business* and *Doing Business in Central America and the Dominican Republic 2015*.

Source: *Doing Business* database.

TABLE 1.4 Suggested reforms to improve the ease of doing business in Central America and the Dominican Republic

| Suggested Reform | | Involved Entities/Groups |
|---|---|---|
| The information on each reform is presented in the last section of each chapter | | |
| Within 1 year | More than 1 year | |
| Starting a business | | |
| <ul style="list-style-type: none"> Promote the exchange of experiences with one-stop shops and online portals across countries Promote the use of online systems Promote the implementation of reforms under implementation beyond the capitals in each country Streamline requirements across cities in a country (e.g. across registry offices and across municipalities for obtaining municipal licenses and registrations) Make standard incorporation documents available to the public Unify the company's registration application and data in a single form | <ul style="list-style-type: none"> Eliminate the minimum capital requirement Analyze the possibility of reducing the costs associated with the registration based on the administrative cost of this process management Coordinate with other institutions the incorporation of employee registration with social security and pension fund institutions into online portals Replace the requirement to authorize accounting books with online accounting Make the involvement of a notary optional for simple company incorporation processes Replace the publication of edicts or name registrations on physical supports with online publications accessible to the public | <ul style="list-style-type: none"> Commerce Registries Chambers of Commerce Tax Administrations Municipalities Social Security and Pension Fund Institutions Ministries of Labor Notaries, lawyers, accountants |
| Dealing with construction permits | | |
| <ul style="list-style-type: none"> Promote the exchange of experiences and good practices across municipalities in each country Make construction regulations, zonation criteria and applicable fees more accessible to the public Avoid duplicity of the approvals required for the construction permit to be granted Strengthen coordination among municipal entities and departments | <ul style="list-style-type: none"> Develop risk-based criteria for constructions and environmental procedures Make the environmental study more efficient Define clear regulations on construction permits (requirements, inspections and rates) Establish zonation and urban development regulations Implement one-stop shops Improve the inspection system in accordance with construction complexity and risk-based criteria | <ul style="list-style-type: none"> Municipalities (Ministry of Public Works in the Dominican Republic, Vice Ministry of Housing and Urban Development in El Salvador) Environmental Ministries and Authorities Engineers' and Architects' Professional Associations Public Utility Companies |
| Registering property | | |
| <ul style="list-style-type: none"> Promote the exchange of good practices and lessons learned concerning reforms across property registries and cadastres Offer optional "fast-track" procedures Replace clearance certificates with the submission of the last payment receipts or with online data exchange Analyze the benefit of reducing costs, fees or taxes based on the administrative cost of this process management Offer standardized documents for simple sales transactions | <ul style="list-style-type: none"> Link cadastres with the property registry for them to operate based on the same updated information Continue to make information management and access easier at the public property registry Maintain updated information on cadastres and make the property valuation process easier | <ul style="list-style-type: none"> Property Registries National Cadastres Municipal Cadastres Tax Departments Notaries, lawyers |
| Trading across borders | | |
| <ul style="list-style-type: none"> Make progress in regional integration and coordination Reduce the number of required documents by sharing information across agencies, the use of technologies and form unification Continue improving one-stop shop systems and services Strengthen dialogue platforms with private sector users | <ul style="list-style-type: none"> Make control systems more expeditious through risk analysis and concurrent inspections Improve digital information systems for customs authorities Allow anticipated customs clearance Eliminate the mandatory involvement of a customs agent Promote free competition in the land transport sector | <ul style="list-style-type: none"> Central American Economic Integration Secretariat (SIECA) Customs Authorities Institutions in charge of One-stop Shops Port Authorities and Operators Ministries of Transport Other entities involved in the exporting/importing process (e.g. Ministries of Agriculture, Finance) Private sector: customs agents, shipping companies, transport associations |

Note: The explanation of each suggested reform is presented in the section What to Reform in chapters starting a business, dealing with construction permits, registering property and trading across borders. Cost and time details per procedure or step may be reviewed in the sections List of Procedures and Details on Trading across Borders.

Source: Doing Business database.

Panama City has the best performance, slightly lower than the average for OECD high-income countries. Twelve of these cities are closer to the regulatory frontier than Belgium, the country that is farthest from the regulatory frontier among OECD high-income countries. Only by adopting practices within the region, the rest of the cities could start working in order to attain a level equal to that of OECD countries. The promotion of this convergence between the countries and cities with the lowest performance and those with the best performance, thereby improving the ease of doing business throughout the region, is a pending challenge. Central American countries and the Dominican Republic could mobilize intervention and coordination with regional agencies, such as SIECA, which have already achieved tangible results, such as a common customs regulation or online connection among customs authorities.

An example worth following is the "Ease of Doing Business Action Plan", launched in 2009 by the Asia-Pacific Economic Corporation Forum (APEC). This action plan established ambitious collective improvement goals and promotes exchange between member countries by means of annual meetings organized by the countries that are designated as "champions" due to their good practices in each one of the focus areas. Between 2009 and 2013, APEC member countries improved their performance in the 5 indicators²⁰ by 11.3%, but there are still many opportunities for improvement and for attaining the targeted 15% by the established date (2015).

Regional integration is especially important to make trading across borders easier in Central America and the Dominican Republic. Some reform actions must necessarily be taken in a coordinated manner, such as, for example, the adoption of certain aspects of the World Trade Organization (WTO) Agreement on Trade Facilitation in Bali,

such as the mandatory use of customs agents, which would imply an amendment to the Central American Uniform Customs Code or streamlining of the customs requirements established in the Association Agreement between Central America and the European Union.

Learning from good regulatory practices at all levels could encourage governments to be more ambitious in modernizing the regulatory framework not only incrementally, but also implementing bold comprehensive measures (table 1.4). This could accelerate the strengthening of the business environment and promote higher productivity and competitiveness, which in turn, would help meet the challenges posed by poverty, violence and inequality.

NOTES

1. In this report, the "region" includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic.
2. "Estado de Situación de la Integración Económica Centroamericana". December 2013. SIECA.
3. The percentage of global trade in the region decreased from 0.36% in 2000 to around 0.30% in 2011. Cunha, Barbara and Jaramillo, Felipe. 2013. "Trade and Logistics in Central America. A Survey of Recent Analytical Work Sponsored by The World Bank". World Bank.
4. Unha and Jaramillo, Osborne et al, Chaherli and Nash.
5. Moisés, E., and Silvia Sorescu. 2013. "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade." OECD Trade Policy Paper 144, Organisation for Economic Co-operation and Development, Paris.
6. Although geographically Belize is part of Central America, it was not included in this regional study. The references to Central America include the 6 countries measured in the study.
7. The global *Doing Business* study measures one city in each one of these countries. The regional study added 15 new cities.
8. Acajutla (El Salvador), Caucedo (Dominican Republic), Corinto (Nicaragua), Limón (Costa Rica), Manganillo (Panama), Puerto Cortés (Honduras) and Santo Tomás de Castilla (Guatemala).
9. Puerto Quetzal (Guatemala), Puerto Castilla (Honduras) and Puerto Plata (Dominican Republic).
10. Please review the sections *About Doing Business* and *Doing Business in Central America and the Dominican Republic 2015*, *Data notes*, and the list of contributors in the *Acknowledgments* section.
11. In starting a business, San José (Costa Rica) is ranked 11 points from Panama City; in dealing with construction permits, Panama and Costa Rica are ranked 10 and 7 points respectively from León (Nicaragua), the best performance in the region.
12. Except for the capital of Guatemala.
13. In the Dominican Republic, the online portal is not operating for 100% of the chambers of commerce.
14. Legal name or denomination.
15. Based on information from the registry of commerce, 94% of the new companies carried out the registration through a personal visit or physical documents until April 2014.
16. Including the registration of the trade name with ONAPI, the incorporation tax to be paid to DGII and the registration with local chambers of commerce.
17. In El Salvador, the municipalities that do not have local development land-use plans must request the approval of construction and plot division permits from the Vice Ministry of Housing and Urban Development. In San Salvador and Soyapango, this corresponds to the Planning Office of the Metropolitan Area of San Salvador (OPAMMS).
18. World Bank. 2014. *Doing Business in Mexico 2014: Understanding Regulations for Small and Medium-size Enterprises*. Washington, D.C.: World Bank Group
19. The Registry of Commerce of Guatemala has plans to implement a training program addressed to notaries working in locations other than the capital since August 2014.
20. The 5 indicators are: starting a business, dealing with construction permits, contract enforcement, trading across borders and getting credit.