USAID/Mozambique Trade and Investment Project (TIP)
Nathan Associates
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Briefing Note

The "Doing Business" Methodology for Rating Mozambique on Time to Trade[1]

1. Introduction

The World Bank's widely cited *Doing Business* report for 2007 ranked Mozambique 141st out of 175 countries in the ease of Trading across Borders. The Bank derived this ranking from a survey of experts for each country on the time required to import and export, the number of procedures required, and the formal cost of compliance, in the context of a standardized cargo of merchandise that is shipped by sea (as explained below).

According to the *Doing Business* report, 38 days are needed to complete the procedures to import the standard shipment, and 39 days to complete the required export procedures. These results provoked consternation among many informed observers in Mozambique, who believe that the report is greatly overstating the time needed for trade transactions, and thereby conveying an unduly negative picture of the trade regime to prospective investors and trading partners. In part, the controversy may reflect a lack of understanding of the Bank's methodology for compiling these estimates. But there are also legitimate concerns about the validity of the methodology.

The controversy centers on the estimated time for processing trade documents, as distinct from the time required for port clearance, customs clearance, and inland transportation to and from the port. On the export side, the Bank attributes 35 of 39 days to documentation requirements, or 90 percent of the total. On the import side, the Bank attributes 29 of 38 days to documentation, or 76 percent of the estimated Time to Trade.

The Bank's Doing Business website does not provide an itemized breakdown of the documentation time, though it does provide a list of required documents.[2] However, an economist from the Doing Business team recently gave a presentation in Maputo in which he offered an explanation of the estimates.[3] He showed that the documentation time for imports

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[1] This note has been written by Bruce Bolnick, Nathan Associates. The author gratefully acknowledges valuable assistance from Ashok Menon. Among other things, Mr. Menon obtained useful information from leading experts in Mozambique, including: Jennifer Garvey, Robert Walker, Auxilio Nhabanga, Keekobad Patel, Luis Filipe Rodrigues, Alibhai Dassat, and Audrey Adams. The author additional information from Michael Blakeley, Scott Jazynka, and Jane O'Dell, all of Nathan Associates; Caroline van Coppenolle at the World Bank; and Alistair Tite. Maureen Hinman assisted with the preparation of Appendix 1. Thanks are due to all, but the author bears sole responsibility for views expressed herein.

[2] See http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/Details.aspx?economyid=133 .

[3] PowerPoint presentation on "Trading Across Borders in Mozambique," by Allen Dennis, Economist in the World Bank's Doing Business office, April, 2007.

includes 15 days for pre-shipment inspection (PSI), followed by 14 days for arranging a Letter of Credit (L/C). The presentation indicated that the documentation time for exports also includes 14 days for securing a L/C; even though the presentation did not mention PSI as a component of the time to export, the Doing Business website shows that this procedure is included as a documentation requirement for exports from Mozambique.

With this background in mind, the present Briefing Note offers an assessment of the methodology used by the World Bank to gauge the Time to Trade in Mozambique, focusing on the documentation procedures that account for the lion's share of the time estimates – letters of credit, and pre-shipment inspection. The general conclusion from this analysis is that there are indeed serious shortcomings and ambiguities in the Doing Business methodology for estimating the documentation time for letters of credit and pre-shipment inspection.

Following this introduction, section 2 summarizes the Bank's methodology for estimating Time to Trade. Section 3 provides a critique of the methodology as it relates to letters of credit and pre-shipment inspection, with particular reference to Mozambique. Section 4 suggests steps that the World Bank may consider to sharpen the methodology on these two elements of Time to Trade. Finally, section 5 offers recommendations to the Government and other stakeholders in Mozambique for a constructive response to the Time to Trade ratings.

2. The Doing Business Methodology

To produce the Doing Business indicators, experts from the World Bank have collaborated with academic specialists to develop a survey questionnaire for each topic, based on a simple standardized business case. The questionnaire is sent annually to experts in each country such as lawyers, consultants, accountants, and government officials who are familiar with the relevant systems and procedures. After receiving the survey responses, the Doing Business team communicates with respondents to resolve data discrepancies and clarify the information. The standardized cases are clearly explained in the methodology section of the annual Doing Business reports, and also on the Doing Business website.

For Time to Trade indicators, the standardized case used for the 2007 report refers to a company that has at least 200 employees; is located in the country's largest city; manufactures an ordinary product involving no special health or security issues; is not operating in an export or industrial zone with special trade privileges; exports over 10 percent of its sales; and is involved in shipping a fully loaded container worth $20,000 through the nearest port (which may be in another country). For Time to Trade rankings, the primary respondents are international freight forwarding companies who are active in the respective countries.

The questionnaire asks respondents to identify every procedure that is "legally or in practice required" for an export or import transaction, "starting with agreement on the purchase contract," but excluding ocean shipping time.[4] For the standardized case, respondents are instructed to "assume that the method of payment will be a Letter of Credit (LC)." Thus, the L/C process is built into the analysis, regardless of whether this is "legally or in practice required." The questionnaire also provides a checklist of documents that may be needed for

[4] Unless otherwise noted, all quotations in this section are from the sources given in Appendix 2, which provides a more complete description of the methodology, drawing on all of the resource materials available to the public on the Doing Business website.

trade transactions; for both exports and imports, the first item on the list is: "Obtain bank-related documents (e.g., letter of credit, insurance etc), including the time for preparing documents to be submitted to the bank." The final clause of that sentence is important, because some critics may be thinking only about the time required for bank approval, as such, while neglecting the time needed to compile the L/C documentation. The checklist also includes pre-shipment inspection as an activity that is to be taken into account "if applicable."

Notably, the instructions ask the respondent to assume that the company in question "has full information on what is required and does not waste time when completing procedures." In addition, the specification that exports account for at least 10 percent of sales implies that "Management is familiar with all the trading rules and requirements."[5] Another key assumption is that the company uses "the fastest legal option available." The questionnaire also asks respondents to indicate activities that can be carried out simultaneously. All of these provisions are highly pertinent to the methodology assessment in the next section.

3. Assessment of the Time to Trade Methodology

The World Bank's Doing Business reports have gained enormous influence among policy makers, researchers, and the general public by providing an annual series of fact-based, internationally comparable indicators on important aspects of the business environment, covering nearly every country in the world. This data product provides the best available basis for quantifying, benchmarking, and monitoring institutional barriers to private sector development. In addition, the Doing Business team has done a superb job of packaging and disseminating both the results and information on the methodology.

A central feature of the methodology is the use of an illustrative business case to *standardize* ratings for each type of barrier to doing business. This procedure yields indicators that are directly comparable across countries at different levels of development, and with a variety of economic conditions. Equally important the Bank obtains the basic data from local experts and practitioners in each country, and actively follows up on the responses to clarify discrepancies from different sources.

An econometric study by World Bank researchers has shown that the resulting Time to Trade scores do have explanatory power as a measure of impediments to trade. They find that "each additional day that a product is delayed reduces trade by at least 1 percent," where the delay is measured by the Time to Trade score. [6] These findings, however, require confirmation by independent researchers.

The Bank acknowledges that the use of a standardized case also creates problems. In particular, the Doing Business website cites five shortcomings to the methodology:[7]

- The ratings apply to a business in the largest city, and may not representative conditions elsewhere in the country.

[5] Simeon Djankov, Caroline Freund, and Cong. S. Pham, *Trading on Time*, World Bank, January, 2006, p.6. See: http://www.doingbusiness.org/documents/trading_on_time_full_report.pdf.

[6] Djankov, Freund and Pham, p.4.

[7] See http://www.doingbusiness.org/MethodologySurveys/default2.aspx . In addition, the Bank recently created a page on which it will post and answer challenges to the methodology. See: http://www.doingbusiness.org/challengedata/ . As of July 31, 2007, Doing Business staff were still working on content for this feature.

- Larger or smaller businesses, and unincorporated enterprises, may encounter quite different regulatory hurdles than the ones applying to the standardized case.
- The standardized case addresses specific issues for each type of transaction, and may omit other important problems.
- Although the timing questions are well structured, the responses involve judgments which often result in a wide range of estimates.[8]
- By assuming that the company is knowledgeable about the procedures and deals with them efficiently, the methodology understates the actual time requirements faced by many businesses.

There are other problems, too. For example, the illustrative case for Time to Trade involves ocean shipping; hence, the results are of limited relevance for Mozambique, where most trade goes by road or rail. Indeed, the port of Maputo – which is the reference point for the Doing Business estimates – handled only 13 percent of total trade flows in 2004.[9] Similarly, the ratings may not be useful for an investor who intends to operate in a zone with special trade procedures.

In short, there are undeniable benefits from the use of a standardized case to assess the Time to Trade, but this advantage comes at the expense of narrowing the applicability of the results. In reality, many businesses can complete export and import transactions more quickly than the Doing Business ratings would suggest, while others require even more time.

Apart from these generic issues, important questions can be raised about the methodology used to assess the time needed for dealing with letters of credit and pre-shipment inspection, which together account for the bulk of the estimated Time to Trade for Mozambique.

Time for Letters of Credit

There are two major problems with the Doing Business estimates of the Time to Trade for the letter of credit procedure. First, one may question whether this procedure should be included in the ratings. And second, there is a serious lack of clarity in how the respondents should deal with this procedure.

Are letters of credit relevant for the Time to Trade rating?

The evident justification for including letters of credit (L/Cs) in the Time to Trade score is that L/Cs are widely used for international transactions, and represent the most secure form of payment for arms-length transactions.[10] Yet very few countries have regulations requiring businesses to use L/Cs. Hence, adding L/C time to the analysis is not entirely consistent with the basic objective of the Doing Business indicators, which is to measure the burden of business regulations.

Mozambique is an odd case in this respect. In fact a regulation is in force that limits prepayment for imports to exceptional cases, and otherwise requires the use of an L/C.[11] The central bank issued a new regulation in 2006 to tighten loopholes in the earlier version, but

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[8] The Bank's methodology documentation indicates that the Doing Business team makes an effort to clarify the differences, and then uses median values for the ratings.

[9] Calculation by Ashok Menon, using disaggregated Customs data.

[10] This explanation was given to the author in a telephone discussion with an economist involved with Time to Trade data in the Doing Business office at the World Bank.

[11] This passage refers to Aviso 6/2005 and Aviso 2/2006, respectively.

this has not been implemented due to protests over its rigid requirements. Despite the regulation, L/Cs are used for only a small fraction of trade transactions in Mozambique. Indeed, the World Bank presentation cited in footnote 3 states that L/Cs are used in no more than10 percent of these transactions, and that most are financed through advance payments or telegraphic transfers.

Furthermore, L/Cs are increasingly not regarded as the norm for trade payments worldwide, due to the vast expansion of intra-company trade and international supply-chain relationships that allow trading partners to minimize payment risk without incurring the extra bank charges and paperwork required for an L/C.

The World Bank is actually doing a favor for Mozambique by casting a spotlight on high fees in the banking system that limit the use of letters of credit, even where they would be an efficient device for reducing payment risk. Even so, it is misleading to include L/C's in the Time to Trade estimate if the instrument is not widely used.

How much time does an importer need for the L/C process?

Trade experts and bankers who provided background information for this paper emphasized that the time required to secure and execute a L/C can range from a few days to several months. The outcome depends, among other things, on whether the importer is a regular bank client with an established line of credit, as well as the efficiency of both the importer and exporter in specifying payment conditions and documenting compliance. If the exporter has to manufacture or procure the goods in question, he or she may even insist on getting an L/C weeks or months in advance of the shipment, as collateral for financing these operations.

Thus, the L/C process can be on a fast track or a slow track, or anything in between. The Doing Business methodology (as explained in section 2) unambiguously calls for a fast track estimate because the standardized case assumes that the businesses trade regularly, know the procedures, use the fastest legal option, and waste no time in undertaking the process. Furthermore, businesses of the designated size will probably have electronic systems for generating such documents. Indeed, the "fastest legal option" criterion clearly entails using a pre-arranged line of credit, at a bank that can efficiently handle international L/Cs.

Furthermore, international best practice calls for the respective traders to agree on terms and conditions for an L/C (when it is to be used) as part of the purchase contract negotiation.[12] Well informed traders therefore resolve the L/C specification and documentation conditions before the Time to Trade clock even begins to tick.

Under these conditions, it should take no more than (a) a few hours for an importer to compile the paperwork for a letter of credit, plus (b) anywhere from a few hours to a few days, at most, for the issuing bank to approve the L/C, plus (c) a day or two, at most, for the counterpart bank to advise the exporter that the L/C has been issued. Step (c), moreover, has nothing to do with business conditions in Mozambique, and depends on conditions in the country of the trade partner. Once the L/C is received by the exporter, later stages of the payment process have no affect on the time required for shipment and delivery of the merchandise. (Indeed, the Doing Business questionnaire specifically limits the estimate to time required "until the L/C is received.")

Given these assumptions, there should be no large variations across countries in the time required for the L/C process, aside from a handful of countries where no banks can handle an

[12] SITPRO International Trade Guides, *Letters of Credit: Best Practice*, revised July 2007.

L/C efficiently even for regular traders with an established line of credit. In Mozambique, the major commercial banks are owned by prominent international banking corporations and have automated information systems and modern international communications; in this situation, it is hard to understand how the Doing Business team ends up with an estimate of 14 days for the L/C process.

And an exporter?

In the framework outlined immediately above, only step (c) is relevant to business conditions in the country where the exporter is operating. The time needed for steps (a) and (b) in the L/C process depend on the operational efficiency of the importer and business conditions in the country to which the goods will be shipped. The Doing Business survey does not provide respondents with guidance on how to deal with procedural steps that occur fall on the shoulders of the partner to the export transaction, who operates in a country that is not even identified in the case study.

Focusing on step (c) alone, notification to the exporter by the advising bank might take slightly longer in Mozambique than in more developed countries. But the fastest legal procedure, assuming knowledgeable agents who deal with L/Cs regularly, would still be just a few minutes for an electronic message. Here, too, it is hard to see how Doing Business came up with an estimate of 14 days for the L/C procedure on a simple shipment of exports from Mozambique. The World Bank should not use this figure without a clear explanation.

How are respondents actually estimating the L/C time requirement?

The glaring lack of clarity on the methodology for estimating the time required for the L/C process invites a wide variety of interpretations. This is especially problematic for a process that can vary from extremely fast to extremely slow within a particular country.

The absence of detailed instructions in the questionnaire is presumably the reason for getting high estimates for Mozambique on the L/C process. It may also give rise to large and unwarranted inconsistencies between countries in the estimated Time to Trade. Indeed, the questionnaire does not even specify whether a lengthy delay is to be measured in calendar days or work days. Hence, some respondents might be reporting a two-week delay as 10 days, while others report 14 days.[13]

An important implication is that the World Bank should be much more open in providing information to the public about the range of responses for each indicator. Indeed, the Bank has pioneered this approach in its annual quality of Governance ratings. The statistical methods used with the Governance ratings would not be directly applicable for the Doing Business data; nonetheless, the Bank should not focus as much attention on the range of responses as on the median scores for each country.

Who are the respondents?

The World Bank receives survey responses from more than 5,000 experts in countries around the world. Those who agree to have their names released are identified on the Doing Business website. For Mozambique, the website currently lists 27 local sources, including many of the

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[13] The difference between calendar days and work days can also make a significant difference for computing the sum of delays across individual procedures. If there is a 2 week delay on one process, which gets reported as 14 days, followed by five 2-day delays, does this sequence sum to 20 days (10+10), or 24 days (14+10), or 28 days (14+14) in the final tally?

leading consulting companies and legal specialists.[14] For the present note, Nathan Associates contacted half of the listed respondents and found not a single one who had answered the questionnaire on Time to Trade. Several other leading experts on the export/import process also had no involvement in providing this information to the Bank.[15] When queried about the substantive issue, these experts confirmed that L/Cs are not widely used, are not the preferred form of payment for international transactions in Mozambique, and can usually be issued in 2-3 days rather than 14 days.

According to the World Bank, Time to Trade estimates are received mainly from trade facilitators such as freight forwarders and shipping agents, rather than local lawyers, consultants and business specialists. Hence, it is not surprising that most respondents listed on the website were not involved in this aspect of the Doing Business survey. The problem is that trade facilitators are not the best source, and perhaps not even a good source, for information on the L/C procedure, in which they have no direct involvement. Thus, the data quality may be particularly weak for the Time to Trade estimates on L/Cs.

Can L/Cs be processed in parallel with other Procedures?

From the available information, it appears that the Doing Business office is adding the time needed for an L/C to that required for other procedures. In other words, they assume that traders hold off on dealing with other procedures until the L/C has been secured. This may be so for some transactions, but it is unlikely to be the fastest procedure, especially for a recurring trade relationship. Recall that the standardized case involves a regular exporter.

The Doing Business questionnaire does ask respondents to indicate which activities can be carried out simultaneously. But the space provided is too small to allow busy respondents to provide detailed information without writing out separate pages for a lengthy answer.

Time for Pre-Shipment Inspection

Similar questions can be raised the about the pre-shipment inspection (PSI) process, which adds an estimated 15 days to the Time to Trade estimates for Mozambique. To avoid repetition, this section focuses on aspects of the methodology that are particular to PSI and have not been covered above.

Is PSI relevant for the Time to Trade rating?

The Doing Business questionnaire asks respondents to estimate the time required for PSI "if applicable." For exports, the applicability is dubious because PSI requirements stem from the country of destination, and have nothing to do with regulations in the exporter's home country – which the Doing Business indicators purport to measure. Thus, it is very surprising to find that the Time to Export ratings include PSI as one of the documentary requirements in dozens of countries. The list includes Mozambique and (oddly) the United States, but not Tanzania.

For imports, some countries require PSI for most or all clearances. In such cases the PSI process is clearly an element of the time to import. In countries that have no such regulation, PSI procedures would clearly not be applicable. Mozambique is an intermediate case in that the regulations require PSI for a limited "positive list" of imports. The list includes certain types of cloth, and used clothing, which could be viewed as appropriate types of merchandise

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[14] See http://www.doingbusiness.org/LocalPartners/SearchResults.aspx?economyid=133 .

[15] Thanks go to Ashok Menon for pursuing and reporting on these field inquiries.

for the Trading across Borders case. In this respect, it may be appropriate to include PSI in the time to import estimates, though this is a matter of judgment. Still, only 16 percent of total imports into Mozambique were subject to PSI, and just 8 percent for imports other than cars. These figures suggest that including PSI in the time to import estimate does not represent the actual barriers faced by most importers.

How much time does an importer need for the PSI process?

For cases where PSI is applicable to imports, the time requirement depends mainly on conditions in the country from which the product is shipped, not the country being rated. Suppose that Intertek (the company used by importers in Mozambique) is to inspect a product in China for shipment to XYZ. The time needed for this process should be the same whether XYZ happens to be Mozambique or Tanzania or Ecuador or Russia (for all of which PSI is included in the Doing Business tabulation for time to import). The PSI time might differ depending on whether imports originate in China, Bangladesh, or France, but these differences have nothing to do with conditions in the country of destination. In short, PSI procedures in the country of origin should not differentially affect time scores among importing countries that impose PSI requirements.

To be sure, there may be some variation in PSI time due to efficiency differences in handling and processing inspection reports in the country where the imports are arriving. Under the standard Doing Business assumptions – that the companies are well informed, engage in regular trade transactions with no special complications, waste no time in completing the process, and operate in the largest city – these differences are unlikely to exceed a few days, at most.

Can the PSI process run in parallel with other procedures?

The Doing Business scores for Mozambique (and other countries for which we have seen a detailed breakdown) assume that the time required for PSI is added to the time needed for other documentation procedures. In practical terms, it makes sense to assume that the PSI procedure is undertaken only after the exporter has secured the L/C. But other documentation procedures such as the preparation of invoices, packing lists, and bills of lading, would not normally be deferred until after the PSI is finished. Hence, the sum of the procedure times will overstate the actual time to import.

4. Recommendations for Improving the Time to Trade Methodology

The general conclusion of this paper is that the long time delays reported by Doing Business 2007 for documentation procedures in Mozambique – particularly for obtaining a letter of credit, and pre-shipment inspection – are based on a weak and ambiguous methodological foundation. Most of the problems discussed above apply to estimates for other countries as well.

Based on this analysis, the World Bank may wish to consider the following recommendations relating to letters of credit:

- The time needed to obtain an L/C should only be counted in the Time to Trade for countries where this step is required or regarded as common practice for the illustrative types of trade transactions.
- The methodology should provide much clearer guidance about the assumptions used for estimating the time required for the L/C process. For example, the questionnaire should

instruct respondents to assume that the trader is a regular bank client with an existing line of credit; that details of the L/C conditions and documentation requirements have been pre-determined during negotiation of the purchase and sale agreement; and that the trader is familiar the L/C process and deals with the procedures efficiently.

- Especially for export transactions, the methodology should have standardized guidance on how to estimate the time required for steps that occur in the trade partner country, rather than the country where the exporter operates. For example, it could be assumed for the standard case that the L/C is issued in the United States or Europe.
- The Doing Business publications (both hard copy reports and the website) should be transparent in showing a fully disaggregated breakdown of the Time to Trade estimates for each country, by type of procedure.
- The publications should also be transparent in reporting the diversity of estimates, rather than providing only a point estimate for each component of the Time to Trade.
- The website should provide a simple way for visitors to tabulate and view fully disaggregated data comparisons across countries in the Time to Trade estimates, by type of procedure.
- The Bank should be more transparent about the number and type of sources used to obtain data on the time needed for obtaining an L/C, including, if possible, the identity of the sources.
- The Bank should clarify whether delays are measured in calendar days or business days, and ensure that totals are defined consistently (if this is not already the case).

All of these recommendations apply, *mutatis mutandis*, to the Doing Business methodology for estimating the time needed for pre-shipment inspection. Unless these issues are either clarified or resolved, the Bank should be much more cautious in presenting the ratings to the public.

5. Implications for Mozambique

The analysis in this paper also has important implications for Mozambique. The most fundamental observation is that government officials and other stakeholders should take the Doing Business ratings very seriously as an impetus for further reform to reduce the administrative barriers to trade and enhance the environment for efficient private sector development. Despite the apparent imperfections in the Doing Business methodology, these ratings do help the country to identify areas where reforms are needed to create a more competitive business environment. There are many ways in which trade procedures can be greatly improved, such as:

- Developing electronic data interchange systems, with direct links between the shipping companies, the port operators, customs, and the banks, with provision for electronic transmission of shipping and customs documents and electronic payment of duties and taxes.
- Applying risk management techniques at ports, including green channel services to expedite clearances for regular traders who have a clean compliance record (subject to spot inspection and post-clearance audit)

- Pursuing and implementing border cooperation agreements, with harmonized transport and trade regulations.
- Reassessing the need for and coverage of pre-shipment inspection, while accelerating the development of local systems for customs valuation and verification of import declarations.
- Improving the infrastructure for sea and land entry points.

At the same time, leaders in Mozambique should take the initiative to ensure that the Doing Business ratings do not convey an unduly negative picture of the trade regime to prospective investors and trading partners. In this regard, nothing is achieved by simply arguing that the business case used in the ratings is not suitable for Mozambique. The use of a standardized case is the very basis for the international comparisons. Thus, the World Bank will not (and should not) change this aspect of the methodology. Still, there are many ways to respond constructively to deficiencies in the Doing Business ratings, possibly with donor support:

- The Government should compile and publish regular statistics on the actual time required for all of the main import and export procedures (not just customs operations).
- The Government, the Confederation of Mozambican Business Associations (CTA), and the Investment Promotion Center (CPI) should collaborate to develop a system that would be run by an independent contractor to monitor the accuracy of the Doing Business ratings and the Government's monitoring reports.
- The information systems suggested above should be extended to cover business centers outside of Maputo, starting with Beira and Nampula.
- The Government, the Confederation of Mozambican Business Associations (CTA), and the Investment Promotion Center (CPI) should convene an annual workshop to discuss the Doing Business ratings, identify substantive priorities for attention, and invite open discussion of the ratings themselves.
- Where particular Doing Business ratings are found to be inaccurate or misleading, the CTA and the CPI should collaborate on producing pubic information materials to clarify the actual conditions. The information should be disseminated locally and internationally through media reports and postings to relevant websites. It is especially important to provide this information to potential new investors, through the CPI.
- For specific problems that are found in the Doing Business ratings, CTA and the CPI should submit a note to the "Challenge" page on the World Bank's Doing Business website (see footnote 7) and obtain a response from the Bank.

Appendix 1. Time to Trade in Mozambique and Benchmark Comparisons

	Import Time, Days					Export Time, Days				
Country / Grouping	Documents Preparation	Total Customs	Terminal Handling	Inland Transport	Import Total	Document Preparation	Inland Carriage & Handling	Customs	Terminal Handling	Export Total
Mozambique	29	2	3	4	**38**	35	1	1	2	**39**
Sub Sahara Africa Median	26	6	8	4	**48**	21	5	4	5	**35**
South Africa	19	4	8	3	**34**	20	2	4	5	**31**
Tanzania	27	9	3	0	**39**	14	1	6	3	**24**
Zambia	33	6	7	16	**62**	36	9	10	5	**60**
Malawi	28	7	9	16	**60**	27	10	4	3	**44**
Swaziland	14	2	14	5	**35**	2	0	3	4	**9**
Global Top 10 Average	2	0.9	1	0.8	**6**	1.2	0.4	0.8	1	**3.2**
Global Bottom 10 Average	55.3	19.2	16.4	36.3	**108.7**	45.6	25.7	12	10.6	**78.4**

World Bank Doing Business 2007

Appendix 2

The Doing Business Methodology for Trading across Borders

This appendix presents the methodology used by the World Bank to compile the Doing Business indicators on Time to Import and Time to Export, as explained in publicly available Bank documents for the 2006, 2007 and 2008 (forthcoming) ratings. For 2006 and 2008, we refer to the questionnaires used to gather data from respondents. For 2007 (the latest published report), we use the methodology description included in the published report itself.

For present purposes, it is notable that the published methodology description does not mention letters of credit (L/Cs). The questionnaires, however, specifically cite L/Cs as a step to be included in the tabulation of Time to Trade. Passages relating to the L/C process are highlighted here with grey shading.

World Bank's general description of the Doing Business methodology.[16]

> 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 countries 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 5,000 local experts, including lawyers, business consultants, accountants, government officials and other professionals routinely administering or advising on legal and regulatory requirements. These experts have several (typically 4) rounds of interaction with the Doing Business team, involving conference calls, written correspondence and country visits… 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…. Because standard assumptions are used in the data collection, comparisons and benchmarks are valid across countries. And the data not only highlight the extent of obstacles to doing business but also help identify their source, supporting policymakers in designing reform.
>
> The Doing Business methodology has 5 limitations that should be considered when interpreting the data. First, the collected data refer to businesses in the country's most populous city and may not be representative of regulatory practices in other parts of the country. Second, the data often focus on a specific business form -- a limited liability company 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 study 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 case study. Fifth, 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.

[16] Source : http://www.doingbusiness.org/MethodologySurveys/default2.aspx .

Questionnaire on Global Logistics Indicators for Doing Business 2006 (data from 2005).[17] This is the original questionnaire that was administered in 2005. Most respondents were trade facilitators such as freight-forwarding companies, with at least two per country. The survey included customs officials and port authorities in about one-third of the countries.[18] The Time to Trade estimates were based on estimates of average requirements for the following Case Study:

> A medium size limited liability company "ABC" located in the most populous city (XXX) seeks to trade commercial products internationally. The trade with international partners takes place by ocean transportation. The closest or most used port by the most populous city will serve as the shipping point…. Please assume that the method of payment will be Letter of Credit (LC) and that the LC will specify a method of delivery based on INCOTERMS.
>
> **Assumptions about the Firm**
> The firm should:
>
> - be of medium size with 200 employees or more;
> - be located in the most populous city of the country;
> - be a private, limited liability company, formally registered, and operating under commercial laws and regulations of the country (not operating within an export processing zone or an industrial estate with special export and import privileges);
> - be domestically-owned with no foreign ownership;
> - export over 10% of their sales to international markets.
>
> **Assumptions about the Traded Goods**
> The goods being traded should be ordinary manufactured products, neither particularly high nor low in value. The product being imported or exported will travel in a dry cargo 20-foot FCL (full container load) container. It should not:
>
> - be a hazardous product or include military arms or equipment
> - require refrigeration or special environment
> - involve any special phyto-sanitary or environmental safety standards other than accepted international standards.
>
> To ensure comparability across countries please choose a product from the following SITC Revision 3 categories:
>
> - SITC 65: textile yarn, fabrics and made-up articles.
> - SITC 84: articles of apparel and clothing accessories.
> - SITC 07: coffee, tea, cocoa, spices and manufactures thereof.
>
> **Assumptions about procedures**
>
> - A "procedure" is defined as any interaction of the firm with external parties (government agencies/officials, inspection agencies/officials, port officials, customs, etc)…
> - All procedures that are legally or in practice required for trading/shipping a containerized product should be recorded even if they may be avoided in exceptional cases. It is assumed that 'ABC' follows the fastest legal option available.

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[17] Source: http://rru.worldbank.org/Documents/DoingBusiness/Methodology/TradingAcrossBorders/Logistics-survey.pdf

[18] Djankov, Freund and Pham (2007), p. 6.

The questionnaire states that "The time should start from the moment the procedure is initiated and ends when it is finally completed."

For imports, the first process listed explicitly in the questionnaire is: "Conclude purchase contract and transmit letter of credit (L/C)." For exports, the first process involves "securing" a L/C, rather than transmitting one. For both transactions, the questionnaire notes that the response is to "include time and official charge for all steps starting with agreement on purchase contract between exporter and importer, including all Bank procedures and charges/commissions, until L/C is received."

The questionnaire also asks respondents to indicate "which of the above activities are carried out simultaneously." Only a tiny amount of space is provided for the response, which probably limits the accuracy of this information.

The 2005 questionnaire has a short section on Pre-shipment inspection (PSI), to establish whether the country requires PSI, and the extent to which exports are subject to PSI. Interestingly, the 2007 questionnaire does not repeat this section.

Doing Business 2007 (data from 2006).[19] The Doing Business 2007 report describes the methodology for Trading across Borders as follows:

> Doing Business compiles procedural requirements for exporting and importing a standardized cargo of goods. Every official procedure for exporting and importing the goods is recorded—from the contractual agreement between the two parties to the delivery of goods—along with the time and cost necessary for completion. All documents required 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.
>
> Local freight forwarders, shipping lines, customs brokers and port officials provide information on required documents and cost as well as the time to complete each procedure. To make the data comparable across countries, several assumptions about the business and the traded goods are used.
>
> The assumptions about the business and assumptions about the traded goods are the same as those described above for the 2005 questionnaire.
>
> **Documents**
>
> All documents required 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 include bank documents, customs declaration and clearance documents, port filing documents, import licenses and other official documents exchanged between the concerned parties. Documents filed simultaneously are considered different documents but with the same time frame for completion.

[19] Source: http://www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx, and World Bank, Doing Business 2007, page 71 (these two sources have identical statements of the methodology).

Time

> Time 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, the fastest legal procedure is chosen. 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 for the purpose of measuring time. The waiting time between procedures (for example, during unloading of the cargo) is included in the measure.

Questionnaire on Trading across Borders for Doing Business 2008 (data from 2007). In requesting data for the forthcoming Doing Business 2008 report, the World Bank gave instructions to respondents that are nearly the same as those cited above.[20] Some minor differences appear in the following passages (underlining and bold are in the original):

> The Survey seeks to compute the time, documents and costs for trading across borders. We Measure the process for imports from the conclusion of a purchase contract to the arrival of goods at the importers warehouse. For exports we measure the process from the conclusion of a sales contract to the shipment of goods from the port of exit. We do not include the ocean transportation time.
>
> …Trade with international partners takes place by **ocean transportation**, through the closest or main port from the most populous city in your country. The port may be located in another city or country. The product should be imported or exported in a dry cargo 20-foot full container load (FCL), weghing 10 tons and valued at $20,000. Please assume that the method of payment will be a Letter of Credit (LC) and that the LC will specify a method of delivery based on INCOTERMS.
>
> **Company ABC**:
>
> - employs 100 workers or more;…

Section II of the questionnaire requests an estimate of the time to "obtain bank-related documents (e.g. letter of credit, insurance etc.), including the time for preparing documents to be submitted to the bank.

In Section IV, the questionnaire asks about the degree to which various constraints, impede trade logistics, on a scale of 0 to 3 (with 3 indicating "major obstacle"). The list of possible obstacles includes: "Slow processing of documents by **banks** (e.g. L/C, insurance, foreign exchange)."

[20] Source: http://www.doingbusiness.org/Documents/DBSurvey/FullSurveysDB08/Trading_Across_Borders_Survey2008.pdf