

# Doing Business in San Pedro Sula 2020

Comparing Business Regulation  
for Domestic Firms in San Pedro Sula  
with 190 Economies

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# Doing Business in San Pedro Sula 2020

AT A GLANCE

The second benchmark of San Pedro Sula\*

Full report: [www.doingbusiness.org/sanpedrosula](http://www.doingbusiness.org/sanpedrosula)

**D**oing Business in San Pedro Sula 2020 focuses on business regulations and their enforcement across four *Doing Business* areas. It goes beyond Tegucigalpa to benchmark San Pedro Sula across four regulatory areas.

This report contains data current as of September 30, 2019 and includes comparisons with Tegucigalpa and other economies based on data from *Doing Business 2020*.

*Doing Business* measures aspects of regulation that enable or hinder entrepreneurs in starting, operating or expanding a business—and provides recommendations and good practices for improving the business environment.

\* The regional study *Doing Business in Central America and the Dominican Republic 2015* benchmarked San Pedro Sula in starting a business, dealing with construction permits and registering property.

## Four *Doing Business* indicator sets covering areas of local jurisdiction or practice



### Starting a business

Records the procedures, time, cost and paid-in minimum capital required for a small or medium-size domestic limited liability company to formally operate; includes a gender dimension to account for any gender discriminatory practices.



### Registering property

Records the procedures, time and cost required to transfer a property title from one domestic firm to another so that the buyer can use the property to expand its business, use it as collateral or, if necessary, sell it; assesses the quality of the land administration system; includes a gender dimension to account for any gender discriminatory practices.



### Dealing with construction permits

Records the procedures, time and cost required for a business in the construction industry to build a warehouse; assesses the quality of building regulations.



### Enforcing contracts

Records the time and cost for resolving a commercial dispute through a local first-instance court, which hears arguments on the merits of the case and appoints an expert to provide an opinion on the quality of the goods in dispute; assesses the existence of good practices in the court system.

## Advantages and limitations of the *Doing Business* methodology

### Focus on the law and practice

Makes the indicators “actionable” because the law is what policy makers can change.

### Reliance on expert respondents

Reflects knowledge of those with most experience.

### Use of standardized case scenarios

Enables comparability across locations, but reduces the scope of the data.

### Focus on domestic and formal sector

Keeps attention on the formal sector, where firms are most productive, but does not reflect the informal sector or foreign firms.

## *Doing Business* does not cover:

- ✗ Security
- ✗ Market size
- ✗ Macroeconomic stability
- ✗ State of the financial system
- ✗ Prevalence of bribery and corruption
- ✗ Level of training and skills of the labor force

A collaboration of the World Bank Group (WBG) and the Municipality of San Pedro Sula (MSPS).

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## Executive summary

### MAIN FINDINGS

- San Pedro Sula outperforms the average economy in Latin America and the Caribbean when it comes to dealing with construction permits and registering property, and it is on par with the region in enforcing contracts. However, it falls short in starting a business.
- Compared globally, San Pedro Sula scores above average only on the ease of registering property.
- On a national level, there are performance gaps between San Pedro Sula and Tegucigalpa on all the indicators. These gaps tend to be wider for the two indicators for which the municipality plays a more important role—starting a business and dealing with construction permits. Tegucigalpa scores better in the former category; in the latter, San Pedro Sula does better.
- Entrepreneurs in San Pedro Sula have to go through many steps to start a business (11 procedures) and obtain a construction permit (17 procedures).
- On a global scale, San Pedro Sula has room to improve on the quality indices for dealing with construction permits, registering property and enforcing contracts—for example, in the use of new technologies, final quality control over construction projects, geographic coverage of the land registry or cadastral system and users' access to information. Regulatory quality depends to a large extent on national regulations, but local governments also play an important role.

San Pedro Sula is considered the industrial capital of Honduras; it is the second largest city,<sup>1</sup> after Tegucigalpa. Generating more than one third of the country's gross domestic product (GDP), San Pedro Sula's economy is based primarily on manufacturing (26%) and commercial activity (25%); in the future, tourism is expected to grow and become another important factor driving the city's economy. Despite its key role in the Honduran economy, San Pedro Sula is no stranger to the challenges of the country as a whole. In recent decades, economic growth in Honduras has been constrained by the small size of its domestic market, its exposure to natural hazards,<sup>2</sup> a drop in the production and price of coffee<sup>3</sup>—its main export product—and political and fiscal instability. On top of that, the country's high crime rate<sup>4</sup> and migration<sup>5</sup> have hurt productivity and weakened private sector growth and job creation in high-value economic sectors.<sup>6</sup> As a result, Honduras continues to face high rates of poverty and inequality,<sup>7</sup> with 70% to 80% of total employment concentrated in the informal sector.

Under these circumstances, strengthening business as an engine of job creation and economic growth is critical, and small and medium-size enterprises (SMEs) play a leading role. Of the approximately 29,000 companies established in San Pedro Sula, 94% of them are SMEs. Improving the business climate for these companies is an essential step toward greater competitiveness and productivity, not only nationally but at the municipal level, since cities are also responsible for creating regulations and implementing national laws locally. Having clear, accessible and transparent rules that can be enforced in court saves entrepreneurs time and allows them to focus on productive activity. Moreover, knowing that the courts will resolve any dispute consistently and quickly gives entrepreneurs more confidence to take risks and establish new business relationships, which can help them expand their network of clients and providers and grow their businesses.

With an eye to accelerating economic growth, in 2017 San Pedro Sula designed the Master Plan for Municipal Development (PMDM for its Spanish acronym),<sup>8</sup> which has a 25-year time horizon and aims to transform the metropolitan area into a smart, resilient city, with a focus on urban policies that foster economic growth and improved quality of life through sustainable development. One of the main goals of the PMDM is to improve competitiveness in various areas (for example, land use, area planning, infrastructure development and water and waste management). The municipal government is thus aiming to create a better local business environment and support the development of the private sector.

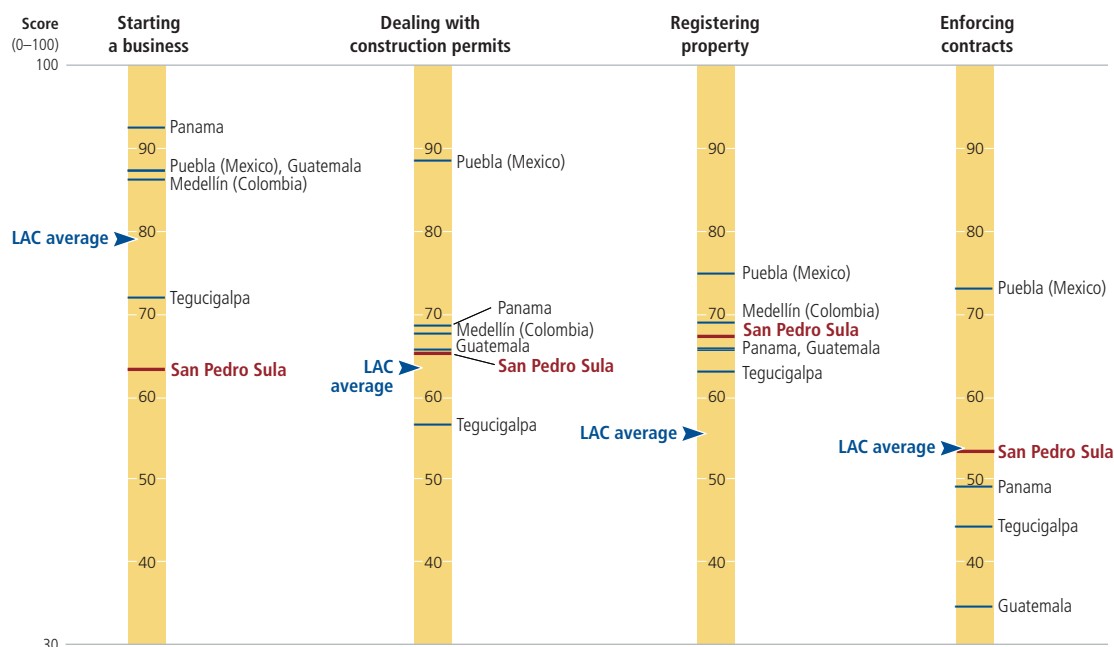
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## **WHAT DOES DOING BUSINESS IN SAN PEDRO SULA MEASURE?**

*Doing Business* analyzes business regulations from the standpoint of small and medium-size enterprises and uses indicators to measure the ease of doing business across economies. The indicators reveal important aspects of the business and regulatory climate that have an impact on a country's economic activities; however, they do not cover the full range of factors, policies and institutions that affect the business environment.



**FIGURE 1.1** Compared with Latin America and the Caribbean, San Pedro Sula performs the same or better in three areas but falls short in starting a business



LAC = Latin America and the Caribbean

Source: *Doing Business* database.

Note: The ease of doing business score ranges from 0 to 100 (y axis), with 0 representing the worst performance and 100 the best. The *Doing Business* ranking (0-190) of each economy or location follows in parentheses, using the same scoring system. Guatemala, Panama and the cities of Medellín (Colombia) and Puebla (Mexico) share certain physical, demographic and social characteristics with San Pedro Sula. The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD, is excluded. The city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

Tegucigalpa represents Honduras in the global *Doing Business* study published every year, which compares the country with 189 other economies around the world. *Doing Business in San Pedro Sula* is the second subnational assessment of the city that does a comparative analysis of the regulatory environment for doing business in Honduras beyond Tegucigalpa. It measures three of the *Doing Business* indicators for the second time—starting a business, dealing with construction permits and registering property—and measures enforcing contracts for the first time.<sup>2</sup>

The data are based on official codes, laws, decrees, resolutions, administrative procedures and fee schedules, as well as on consultations with local experts who understand and have experience with the procedures being measured; these experts include lawyers, notaries, accountants, architects, engineers, construction companies and professional associations. Local government officials also participated in the data collection process. The information on San Pedro Sula is current as of September 30, 2019.

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## WHAT DO THE DATA SHOW?

**SAN PEDRO SULA OUTPERFORMS THE AVERAGE ECONOMY IN LATIN AMERICA AND THE CARIBBEAN WHEN IT COMES TO DEALING WITH CONSTRUCTION PERMITS AND REGISTERING PROPERTY, AND IT IS ON PAR WITH THE REGION IN ENFORCING CONTRACTS. HOWEVER, IT FALLS SHORT IN STARTING A BUSINESS<sup>10</sup>** (figure 1.1). And globally, its performance is above average only on the ease of registering property. This is the only one of the four indicators where San Pedro Sula scores higher than the average of the 190 economies measured by *Doing Business*.<sup>11</sup>

San Pedro Sula stands out on the ease of registering property indicator; the process of transferring a property requires six procedures, takes 26.5 days and costs 3.7% of the value of the property. If San Pedro Sula had been included among the economies measured for *Doing Business 2020*, it would have ranked number 76—better than the average for Latin America and the Caribbean and also better than the global average. Transferring a property takes five fewer weeks in San Pedro Sula than in an average economy in the region, in addition to the process being less complex and less expensive. On the quality of the land administration system, San Pedro Sula scores 13.5 points (out of the 30 possible), slightly outperforming the regional average (12 points).

Obtaining a construction permit in San Pedro Sula requires 17 procedures, takes 112 days and represents a cost of 5.3% of the warehouse value—a performance equivalent to position 122 in the *Doing Business 2020* study, in other words in the third quartile of the economies measured. Although the process in San Pedro Sula is almost 11 weeks shorter than the average for Latin America and the Caribbean, it costs more. Plus, it is more complex than the average of the 190 economies measured by *Doing Business*, requiring two additional steps. On the building quality control index, San Pedro Sula scores 9 points (out of the 15 possible), the same as the average for Latin America and the Caribbean. The city still has room to improve to make the process more efficient. In Puebla (Mexico), by contrast, the process of obtaining a construction permit requires seven procedures, takes 28 days, costs 3.8% of the warehouse value and scores 12 points on the quality control index, a performance equivalent to position 4 on the *Doing Business* global ranking in 2020.

Resolving a commercial dispute in San Pedro Sula takes 596 days and costs 38.8% of the claim value, which would place the city in position 123. The process in San Pedro Sula is almost six months faster than the regional average, but the cost is 6.8 percentage points higher. San Pedro Sula's score on the quality of judicial processes index—7.5 out of the 18 possible points—is 1.5 points below the average for Latin America and the Caribbean. The main bottleneck is the trial stage, and future reforms should focus on shortening this period, reducing adjournments, implementing procedures better suited to oral trials, providing even more training to judges and judicial staff and improving automation in the courts.

Where San Pedro Sula falls most short is in the ease of starting a business. Entrepreneurs who open a small or medium-size business in San Pedro Sula

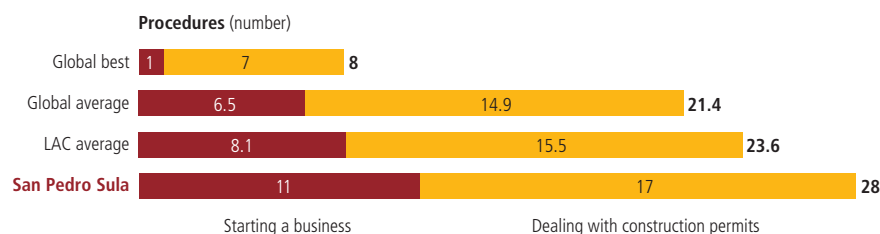
undergo a cumbersome process (11 procedures) that costs 36.8% of income per capita and takes on average 72 days—more than double the time it would take in an average economy in Latin America and the Caribbean. If San Pedro Sula were to be included in the *Doing Business 2020* study, its ranking on this indicator would place it in position 180 among the 190 economies measured globally. Obtaining a municipal business license represents more than 80% of the total time it takes to get a business off the ground, in a single procedure; moreover, the cost of starting a business in San Pedro Sula is one of the highest among the Central American economies. Replacing a business license with a declaration of responsibility in the case of activities that pose a low risk for the environment and public health, as well as streamlining the process by consolidating procedures, would go a long way toward improving the process.

When compared with better-performing cities in the region, such as Puebla, San Pedro Sula has room to improve on each of the four indicators studied, which is why Puebla can serve as a model for implementing improvements. Panama, meanwhile, has a very efficient process for starting a business. It has the best performance in Central America on the three aspects of the indicator—it takes only five procedures, six days and 5.8% of income per capita to start a business there—and ranks number 51 in *Doing Business 2020*.

**THE DATA POINT TO THE DIFFERENCE IN PERFORMANCE BETWEEN SAN PEDRO SULA AND TEGUCIGALPA, MAINLY ON TIME AND COST.** The differences show how two cities in the same country, operating under the same legal framework, have different ways of addressing demands for services. The differences seen in the ease of starting a business and the ease of obtaining a building permit highlight the key role of municipalities in the process. Starting a business is 30 days faster in Tegucigalpa and costs 8.7 percentage points less in income per capita. Municipal requirements account for these differences. In Tegucigalpa the municipality requires a procedure not required in San Pedro Sula prior to applying for a business license (obtaining a zoning certificate); even still, getting a business license takes less time. The main bottleneck in San Pedro Sula is, in fact, the municipal business license, which takes two months to get—nearly 80% of the total time required to start a business. It takes only a day to obtain a business license in Tegucigalpa, although obtaining the zoning certificate takes a month.

The process of dealing with construction permits takes 20 days longer in Tegucigalpa and costs more than double (11.4% of the warehouse value) than in San Pedro Sula. In Tegucigalpa the geotechnical study/soil test is an essential requirement to apply for a construction permit, due to the precarious terrain in the capital; in San Pedro Sula that is not the case.<sup>12</sup> Municipal regulations in San Pedro Sula require the builder to request a certificate of use or occupancy when the project is finished. Another notable difference is the role that professional associations play in San Pedro Sula in the technical review process. In Tegucigalpa these associations do not have agreements with the municipality for the technical review of the project file, and their role is simply to verify that the professionals involved in the project are duly registered in their relevant professional association. In Tegucigalpa the process is more expensive, largely because of the procedures involved in the geotechnical study

**FIGURE 1.2** The large number of procedures needed to start a business and obtain a construction permit puts San Pedro Sula behind its peers and behind best global practices



LAC = Latin America and the Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The rest of the data are based on *Doing Business 2020*.

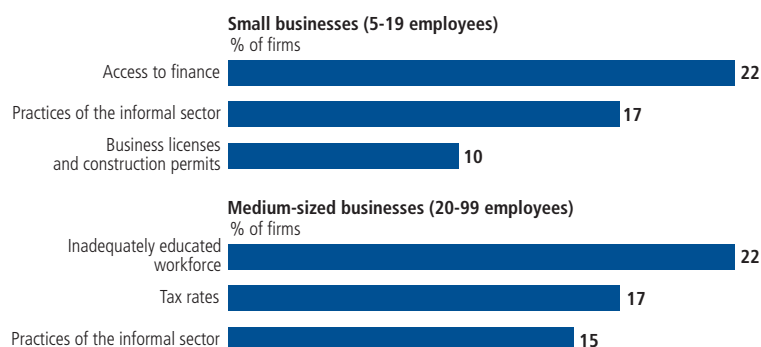
and the connections for water and sewer services, due to the shortage of potable water in the city. Both cities score the same on the quality index; however, there are differences in the enforcement of inspections and the transparency and quality of regulations.<sup>13</sup>

Market factors make the process of transferring real estate less expensive in San Pedro Sula, where the process costs 3.7% of the property value—2 percentage points below what it costs in Tegucigalpa. Following the reform that reduced the minimum percentage for notary fees, notaries in San Pedro Sula lowered their fees, generally charging the established minimum rate (2% of the value of the transaction). In Tegucigalpa—where the negotiating power of the parties, the complexity of the process and the risks related to property ownership are different—notaries charge between 3% and 5% of the property value. In both cities, notary fees account for the biggest percentage of expenses incurred by entrepreneurs.

Enforcing contracts is easier in San Pedro Sula than in Tegucigalpa due to the difference in trial time. There are no differences in the cost or in the quality of judicial processes index. In Tegucigalpa lawsuits take around 11 months longer to resolve, and the delay is seen mainly at the trial stage. A backlog of cases in the lower courts (*juzgados de letras*) is a problem in Honduras. Of the 15,313 civil cases filed in these courts in 2018, only 48% were resolved that same year.<sup>14</sup> Added to that year's unresolved cases are the case files that were already pending at the beginning of the year, which do not show up in these data. The perception of the public and of judicial experts is that the judicial backlog in Tegucigalpa is even higher, not just because of efficiency issues but also because of corrupt practices and influence peddling (since informal payments or pressures to speed up a case can cause delays in other cases).

**ENTREPRENEURS IN SAN PEDRO SULA HAVE TO GO THROUGH COMPLEX PROCEDURES TO START A BUSINESS AND DEAL WITH CONSTRUCTION PERMITS** (figure 1.2). An analysis of these two indicators shows that entrepreneurs are required to go through a great many steps. Only 13 of the 190 economies measured by *Doing Business* require more procedures to start a business. Eleven

**FIGURE 1.3** Business licenses and construction permits are among the main obstacles small businesses encounter in Honduras



Source: World Bank, *Enterprise Surveys* in Honduras, 2016.

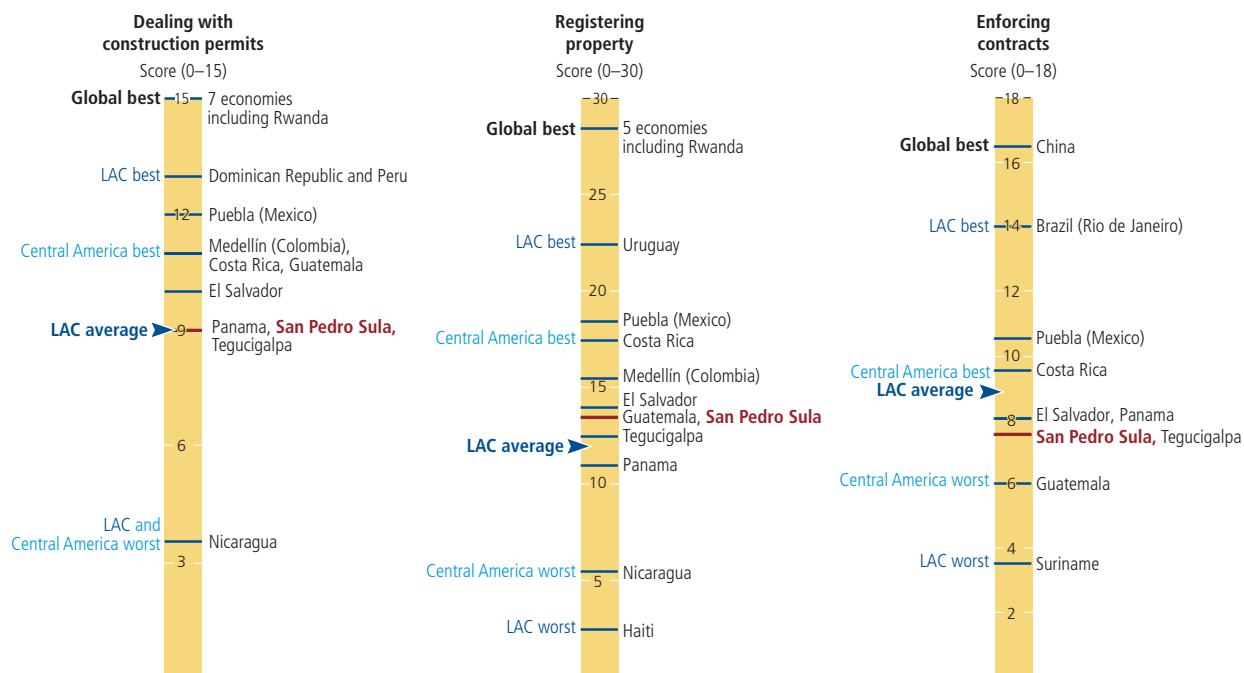
of them require 12 or 13 procedures, while Venezuela and Equatorial Guinea are the two economies that require the most steps to start a business—20 and 16, respectively. In San Pedro Sula the most complicated part of the process is the postregistration phase. Most of the procedures (8 of the 11) take place during this phase; only two are done prior to registration and the other during. Of the eight postregistration procedures, three have to do with labor affiliations and social security matters. In other economies, such as El Salvador, Nicaragua and Panama, this phase can be completed in one step. In terms of construction permits, the preconstruction phase accounts for nearly 60% of the procedures in San Pedro Sula, that is, 10 of the 17. Worldwide, only around 10% of the 190 economies require more procedures.

It is no surprise, then, that SMEs in Honduras identify business licenses and construction permits among the main obstacles to doing business (figure 1.3).

**THE QUALITY INDICES RELATED TO DEALING WITH CONSTRUCTION PERMITS, REGISTERING PROPERTY AND ENFORCING CONTRACTS ALL HAVE ROOM FOR IMPROVEMENT<sup>15</sup>** (figure 1.4). With respect to the building quality control index, municipal regulations in San Pedro Sula require inspections at various stages of construction, and these are not based on risk criteria. Nor, in practice, are all projects inspected during construction or in the final stage. The professionals who review or supervise construction projects in Honduras do not need to pass a certification exam or have a minimum number of years of experience. Nor is there a legal requirement to obtain a building insurance policy to cover structural defects once the building is in use.

On the quality of land administration index, the areas where San Pedro Sula needs the most improvement are related to geographic coverage and transparency of information. For example, the documents needed to validate the deed, as well as the deadlines for validation and registration, are not listed publicly. Nor are official statistics published, and access to cadastral plans is not free of charge. Both in San Pedro Sula and at the national level, the property registry and cadastre have incomplete coverage; rural areas lag furthest behind.

FIGURE 1.4 San Pedro Sula also has room to improve on the quality indices



LAC = Latin America and the Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*. Chile also scores 13 points on the building quality control index, along with the Dominican Republic and Peru.

San Pedro Sula also has room to improve on the quality of judicial processes index, especially in case management and court automation. To better manage cases there should be procedural rules that determine the maximum number of times a judge can postpone a hearing or proceeding; the rules should also specify that adjournments may be granted only in the case of unforeseen and exceptional circumstances. Nor are there electronic case management systems in place to support the work of the judges or lawyers.

## WHAT HAS CHANGED SINCE 2015?

Today it is cheaper and easier to start a business in San Pedro Sula than in 2015; transferring a property is also less expensive and takes a day less than before. The process of obtaining a construction permit has also started to be simplified, and the quality index has improved.

In terms of starting a business, the Law on Employment Generation, Promotion of Entrepreneurship, Business Formalization and Protection of Invest-

tors' Rights, approved in June 2014, eliminated the need to publish the company's articles of incorporation in a newspaper of national circulation. This reform cut one step out of the process and did away with the paid-in minimum capital requirement, which previously amounted to 11.5% of income per capita.<sup>16</sup> In San Pedro Sula the costs of establishing a business have gone down, thanks to Agreement No. 001-2018 of the Union of Notaries of Honduras, which updated the notary fee schedule and reduced the minimum fee from 3% to 2% of share capital. This decrease was offset by an increase of HNL 3,000 (\$126) in the cost of the business license.

The Law on Support for Micro and Small Enterprises, approved in late 2018, was designed to encourage the creation of new businesses and the formalization of existing ones. One of the benefits is the potential for a business to qualify for exemptions for certain fees and taxes—although these apply only to the minority of businesses that are set up online, using the portal *Mi Empresa en Línea*. Despite this benefit, most businesses are still started using the services of a notary, though use of the portal is increasing little by little. As for institutions, in 2017 the Revenue Administration Service (*Servicio de Administración de Rentas, SAR*) replaced the Executive Directorate of Revenue (*Dirección Ejecutiva de Ingresos, DEI*) as the agency responsible for taxes and contributions. Many believe that the change improved customer service but also resulted in a more aggressive approach to tax collection.

Builders in San Pedro Sula have seen quality improvements in the process of dealing with construction permits and have seen some procedures simplified. Forms and procedural guidelines were improved, the requirement to “pre-review” a project was eliminated and new information was added to the design guidelines, which means that the builder can draw up project plans without consulting the municipal government first. In addition, the municipality tightened up requirements for those responsible for reviewing construction projects, requiring them to have a university degree in architecture or engineering. However, the benefits achieved—a reduction of one procedure and a 2-point increase in the building quality control index—were offset by the creation of two new procedures that made the process more complex. In 2016 the San Pedro Sula Fire Department went from being a municipal entity to become part of the national Fire Department of Honduras, which changed the way the institution operates and strengthened building safety procedures. As a result, the approval of evacuation and fire safety plans became mandatory, as did a final inspection after construction to verify safety systems and ensure that the contingency plan guidelines were followed. The combined effect of all the measures adopted made the construction permitting process less efficient by adding a step and a new expense for builders to cover the Fire Department review (0.2% of the value of the project). However, performance on the building quality control index improved.

San Pedro Sula also reduced the cost and time it takes to transfer property. It is no longer necessary to go in person to the Property Institute (*Instituto de la Propiedad, IP*) to obtain a comprehensive certification of title history (*certificación integral*) and a non-encumbrance certificate (*certificado de libertad de gravámenes*). Verification of the property history can now be done

online and free of charge through the Unified System of Registries (Sistema Unificado de Registros, SURE). The cost of transferring property has also gone down by a percentage point (from 4.7% of the property value) due to the notary fee schedule update in 2018.

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## WHAT CAN BE IMPROVED?

In each indicator chapter *Doing Business in San Pedro Sula 2020* identifies opportunities for improvement and global good practices that can help show the way forward. Some of these reforms include administrative measures that can be implemented in the short term because they do not require significant regulatory changes—but they can make a big difference in the life of a small or medium-size business. Other changes may be more complex, as they require more financial and human resources or greater technical capacity.

Cross-cutting issues also emerge that in many cases require political leadership at both the national and the local level. Following are a few observations that apply to different aspects examined in this study.

**INTER-AGENCY COORDINATION COULD SIMPLIFY OR REDUCE THE NUMBER OF PROCEDURES AND WOULD BE A GOOD FIRST STEP TOWARD ONE-STOP-SHOPS IN SOME AREAS.** In the processes for starting a business and dealing with construction permits, entrepreneurs need to go through 11 and 17 procedures, respectively. Streamlining the business start-up process by combining procedures is an essential step; the number of procedures to start a business in Honduras is not only the highest in Central America but among the highest in the world. The task of streamlining the process will require a long-term commitment, one that will be difficult for the municipality to take on alone, as procedures also depend on government agencies at the national level. Currently, the one-stop-shop for builders continues to operate only in person and is limited to certain municipal departments. Some challenges also remain, such as the limited availability of representatives of the professional associations that participate in the technical review process. In terms of registering property, the national and municipal cadastral systems are not set up to exchange information systematically, even though both have undertaken parallel efforts, but not in coordination with each other, to implement technological tools to manage and maintain their records. The creation of one-stop-shops that simplify the process can succeed and produce efficiency gains only if there is greater coordination, whether automatic or manual, between the different agencies.

**AUTOMATING MORE PROCEDURES AND CREATING SHARED DATABASES—OR EXCHANGING DATA AND INFORMATION—WOULD REDUCE THE NUMBER OF PROCEDURES AND DAYS.** The implementation of digital procedures or the adoption of electronic windows could result in a faster, more convenient process for builders. An electronic process would allow for more efficient interactions between the different players involved. For example, both the professional associations and municipal staff could have access to the construction project file at the same time for their respective reviews, reducing the number of procedures and the time it takes to obtain a construction permit. In the area of



registering property, the municipal cadastre continues to require an affidavit to update information on the title of the property and the physical characteristics of the lot. Linking the national and municipal cadastral systems and allowing automatic updates between the two would make it possible to detect all title changes or physical changes to the property, even if the parties fail to notify the municipality of the change in ownership. In starting a business, creating a single business registry would also prevent two companies from registering under the same name, avoiding potential problems down the line, such as in the tax registration system. Likewise, if judicial services such as court notifications, filings and handling of cases were done electronically, it would help make the work of judges and judicial staff more efficient. Generally speaking, electronic files and databases increase the security of records and data. In some cases, data exchange is easier to implement than shared databases and is also an efficient and appropriate way to streamline a process.

**ANALYZING PROCESSES, ASSESSING RESOURCES AND IMPROVING THE TECHNICAL CAPACITY OF STAFF WOULD HELP TO CLOSE THE GAP BETWEEN THE LAW AND ITS IMPLEMENTATION.** For example, for a transfer of property, recording the transfer in the registry takes 21 calendar days, even though the legal deadline is 10 business days. The lack of standardization of procedures and the shortage of resources, along with complex legal issues surrounding registration rights in some areas, are part of the problem. In resolving business disputes, the lower courts are not meeting all the deadlines established in the Code of Civil Procedure. During the trial stage, the main problems found are the delays in scheduling evidentiary hearings. In the past decade, Honduras went from written to oral trials, but this change is taking time to show results (such as, for example, a reduction in bureaucracy and the creation of opportunities for more-direct contact between the judges and the parties, the simplification of procedures, the correction of deficiencies, the requirement to record the hearings, the avoidance of delaying tactics and the holding of preliminary hearings to encourage conciliation). In addition to the resources available and the way cases are handled, technical capacity can make a big difference. Training both judges and judicial staff and litigants in how to better implement oral business trials could help to reduce the time the process takes.

**INCREASING TRANSPARENCY AND PROVIDING MORE INFORMATION TO USERS AND CITIZENS ABOUT THE PROCESS IS KEY.** It would especially be beneficial to improve communication about requirements so that procedures handled in person can be completed more quickly. For example, the process of obtaining a business license for a new business can take months. Although the slow pace is partly due to the complexity of the underlying regulations, another critical factor is that the private sector often does not know what documents will be needed or what requirements must be met, which slows down the process of submitting a complete application. When it comes to registering property, the land registry's internal rules often require additional documents that are not listed publicly. In addition, the Regulations to the Property Law specify the time frames for validating and registering the property deed, but the information about how to fulfill this requirement is not clearly explained on public boards or online. Another way to increase transparency would be to publish

statistics on transactions and disputes (related to property) or on court-by-court performance (in enforcing contracts). This type of information is essential to measure performance on efficiency and identify areas that need more support. Providing the user with clear and accessible information about regulations and procedures is important in all areas of the business environment and doesn't necessarily take a great deal of resources. When users lack such information, it is much harder for them to hold government agencies accountable for failures in the provision of services, a situation that leads to informality and corruption. Campaigns to raise awareness about processes would also hold the private sector accountable for filing applications on time and in proper form.

**IMPLEMENTING EFFECTIVE PUBLIC COMMUNICATION STRATEGIES IS IMPORTANT TO IMPROVE COMPLIANCE WITH EXISTING REGULATIONS AND TO PUBLICIZE NEW INITIATIVES SUCH AS MI EMPRESA EN LÍNEA.** It is essential to ensure that people know about reforms or about processes in general. Thanks in part to the tax incentives, the percentage of businesses using Mi Empresa en Línea is growing; however, it is still more common to establish a business using the services of a notary. To further increase the use of Mi Empresa en Línea for the start-up process, the Honduran government should continue its dissemination efforts through a publicity campaign that highlights the benefits of registering online.

**INCORPORATING THE GLOBAL GOOD PRACTICE OF RISK ASSESSMENT IN ISSUING LICENSES WOULD HELP TO REDUCE THE ADMINISTRATIVE BURDEN AND ENCOURAGE BETTER USE OF MUNICIPAL RESOURCES.** For starting a business, low-risk activities still require a business license issued by the municipality. The municipal authorities apply a standard and level of scrutiny that is the same or similar for a small business as for a large company with complex operations. A good practice internationally is to adopt a risk-based approach and require licenses only for activities that could pose a risk to public health, safety or the environment. Since the overwhelming majority of businesses established in San Pedro Sula are SMEs, the process should be geared toward them first and foremost; it can then be adjusted to create a more thorough review process for large companies. The same thing happens in the case of municipal construction permits. Many economies have adopted risk classification to regulate the system for inspecting construction sites, establishing standards based on complexity and risk. Meanwhile, the use in San Pedro Sula of a notary to set up a business or to draft a conveyance deed for transfer of property ownership accounts for more than 50% of the total costs on both indicators. Making the use of notaries optional in both processes would result in significant savings for entrepreneurs in San Pedro Sula.<sup>17</sup> This would also save them time: 1.5 of the 72 total days needed to start a business and 2 of the 26.5 days needed to register property. Worldwide, the participation of notaries or third parties has dropped significantly in this area, especially for the establishment of simple businesses. The number of economies in which third parties participate in the process of starting a business has gone down substantially—from 126 economies in 2006 to 79 in 2018.<sup>18</sup> In the 47 economies that eliminated the use of third parties, the average time required to start a business dropped from 47 days to just 12 days. The change has been slower in the area of registering


property, but even so, online platforms have been implemented for real estate transactions. Between 2006 and 2018, only seven economies made the use of a third party optional for registering property. However, these seven economies have managed to slash the average time to register a property—from 60 days in 2006 to just 7 days in 2018.

**ALONG THE SAME LINES AS INCORPORATING GOOD GLOBAL PRACTICES, A SIMPLE BUT NECESSARY STEP WOULD BE TO ELIMINATE REGULATORY REQUIREMENTS THAT MAY SEEM OBSOLETE OR UNSUITABLE.** For example, as part of the business start-up process in San Pedro Sula, a company’s accounting ledgers must be authorized by the municipality. And in the construction permitting process, a builder who needs a technical review of a project from the various professional associations must first purchase the required stamps from each association, as well as the logbooks for the person overseeing the project, and obtain proof of solvency. Simplifying these procedures would be an easy way to reduce the number of procedures and the cost in both cases.

**PROMOTING PEER-TO-PEER LEARNING WOULD GIVE DECISION-MAKERS WHO DESIGN LEGAL REGULATIONS AND NATIONAL AND LOCAL PUBLIC POLICIES THE OPPORTUNITY TO SHARE CHALLENGES AND BEST PRACTICES.** The results would benefit everyone. Designing and implementing a reform plan to improve the business climate in a country can be a challenging task that requires the participation of many government agencies, as well as coordination and technical capacity. The government of Honduras has begun to make strides in that direction with the implementation of reforms, and it should continue along that path. Tegucigalpa and San Pedro Sula are home to nearly a fourth of the country’s population, so the exchange of good practices between them could also turn out to be a beneficial strategy.

## NOTES

1. San Pedro Sula's population is 777,877. National Institute of Statistics. 2018 (<https://www.ine.gob.hn/V3/imag-doc/2019/08/San-Pedro-Sula-Cortes.pdf>). The population of Tegucigalpa (Central District) is 1,259,646.
2. Honduras is exposed to heavy rains and drought. For example, in 1998 Hurricane Mitch caused between 11,000 and 18,000 deaths and destroyed 70% of the country's crops and 70% of its transportation infrastructure—a level of economic damage estimated at around 81% of GDP.
3. *Financial Times*. April 16, 2019. "Traders wake up to cost of coffee crisis: Low prices lead coffee growers to abandon farms while others turn to coca." Available at <https://www.ft.com/content/21907ea6-5f98-11e9-a27a-fdd51850994c>.
4. Honduras has one of the highest homicide rates in the world, at 41 homicides per 100,000 inhabitants (2017).
5. Pew Research Center. "Rise in U.S. Immigrants From El Salvador, Guatemala and Honduras Outpaces Growth From Elsewhere. Available at <https://www.pewresearch.org/hispanic/2017/12/07/rise-in-u-s-immigrants-from-el-salvador-guatemala-and-honduras-outpaces-growth-from-elsewhere/>.
6. Hernandez Ore, Marco Antonio, Liliana D. Sousa and J. Humberto Lopez. 2016. *Honduras: Unlocking Economic Potential for Greater Opportunities*. Washington, D.C.: World Bank Group. Please refer to Appendix E of this report.
7. Although the country's poverty rate decreased from 60.8% in 2005 to 52.6% in 2017, the rate of extreme poverty (17.2%) is the highest in Latin America and the Caribbean after Haiti. Honduras has a high rate of inequality (50.5 on the Gini index in 2017, among the highest inequality rates in the region and the world), and its middle class is among the smallest in the region (11% in 2015, compared with the average of 35% for Latin America and the Caribbean). World Bank Group.
8. The Master Plan for Municipal Development (Plan Maestro de Desarrollo Municipal) is available online at <https://www.sanpedrosula.hn/pmdm.html>.
9. The regional study *Doing Business in Central America and the Dominican Republic 2015*, published in 2015, measured San Pedro Sula's performance on the starting a business, dealing with construction permits and registering property indicators.
10. The difference in performance can be analyzed based on the ease of doing business score, which shows how close an economy is to the best global practice recorded. A higher score indicates a performance that is closer to good practices observed worldwide.
11. San Pedro Sula scores 66.6 on the ease of registering property, in other words more than 5 points above the global average.
12. San Pedro Sula requests a geotechnical study/soil test in practice for projects involving housing developments, shopping centers or other large-scale projects.
13. In Tegucigalpa regulations governing the sector are not available to the public, but once construction is complete there is a more rigorous oversight process, in the form of final inspections. In San Pedro Sula final inspections do not always take place.
14. Boletín Estadístico 2018. Statistics Unit. Specialized Center for Documentation, Research and Judicial Information (Centro Especializado de Documentación, Investigación e Información Judicial, CEDIJ).
15. Of the four indicators measured in this study, only starting a business does not have a quality index.
16. The law (Ley de Apoyo a la Micro y Pequeña Empresa) also introduced other changes that benefit businesses created through Mi Empresa en Línea; for example, it eliminated the requirement to authorize accounting ledgers and also made the use of a notary optional.
17. For starting a business, the creation of a limited liability company through the online portal Mi Empresa en Línea, without the paid-in minimum capital requirement and without the need to go to a notary to draft the articles of incorporation, already eliminates the notary fees (HNL 11,132, or \$466).
18. Coste, Cyriane Marie, Marie Lily Delion, Adrián F. González, Frédéric Meunier, Nathalie Reyes Benjumea, Yuriy Valentinovich Avramov. 2019. *The Involvement of Third-Party Professionals in Business Registration and Property Transfer*. Indicators Group Research Note No. 2. Centro Regional de Investigación y Desarrollo del Banco Mundial en Chile. Washington, D.C.: World Bank Group.



## About *Doing Business* and *Doing Business in* *San Pedro Sula 2020*

- *Doing Business in San Pedro Sula 2020* covers 4 *Doing Business* indicators: starting a business, dealing with construction permits, registering property and enforcing contracts.
- *Doing Business* measures aspects of business regulation through 11 indicators affecting small and medium-size domestic firms based on standardized case scenarios and located in the largest business city of 190 economies. In addition, for 11 economies a second city is covered.
- *Doing Business* covers 12 areas of business regulation. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency—are included in the ease of doing business score and ease of doing business ranking. *Doing Business* also measures regulation on employing workers and contracting with the government, which are not included in these two measures.
- *Doing Business* and *Doing Business in San Pedro Sula 2020* rely on four main sources of information: the relevant laws and regulations, expert respondents, public officials from the economies and cities covered and World Bank Group regional staff.
- *Doing Business* data are widely used by governments, researchers, international organizations and think tanks to guide policies, conduct research and develop new indexes.

**D**oing Business is founded on the principle that economic activity benefits from clear and coherent rules: rules that allow voluntary exchanges between economic actors, set out strong property rights, facilitate the resolution of disputes and provide contractual partners with protections against arbitrariness and abuse. Such rules are much more effective in promoting growth and development when they are efficient, transparent and accessible to those for whom they are intended. The strength and inclusivity of the rules also have a crucial bearing on how societies distribute the benefits and finance the costs of development strategies and policies.

Good rules create an environment where new entrants with drive and innovative ideas can get started in business and where productive firms can invest, expand and create new jobs. The role of government policy in the daily operations of small and medium-size domestic firms is a central focus of the *Doing Business* data. The objective is to encourage regulation that is efficient, transparent and easy to implement so that aspiring entrepreneurs can compete on equal footing. *Doing Business* uses standardized case studies to provide objective, quantitative measures that can be compared across 190 economies.

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### **What does *Doing Business* and *Doing Business in San Pedro Sula 2020* measure?**

*Doing Business* captures several important dimensions of the regulatory environment affecting domestic firms. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. *Doing Business* also measures aspects of employing workers and contracting with the government (public procurement) which are reported as a separate section and not included in the ranking (table 2.1).

*Subnational Doing Business* focuses on indicators that are most likely to vary from city to city, such as those on dealing with construction permits or registering property. Indicators that use a legal scoring methodology, such as those on getting credit or protecting minority investors, are typically excluded because they mostly look at national laws with general applicability.

This first *Doing Business* report in San Pedro Sula measures four areas of regulation that affect the business environment: starting a business, dealing with construction permits, registering property and enforcing contracts. The first 3 indicators are measured for the second time—they were first measured in *Doing Business in Central America and the Dominican Republic 2015*.

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### **The ease of doing business score and ease of doing business ranking**

*Doing Business* presents results for two aggregate measures: the ease of doing business score and the ease of doing business ranking, which is based on the ease of doing business score. The ease of doing business ranking compares

**TABLE 2.1** What *Doing Business* measures—12 areas of business regulation

Indicator set	What is measured
Starting a business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company for men and women
Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time, and cost to get connected to the electrical grid; the reliability of the electricity supply; and the transparency of tariffs
Registering property	Procedures, time, and cost to transfer a property and the quality of the land administration system for men and women
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time, and total tax and contribution rate for a firm to comply with all tax regulations as well as postfiling processes
Trading across borders	Time and cost to export the product of comparative advantage and to import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome, and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Employing workers	Flexibility in employment regulation
Contracting with the government	Procedures and time to participate in and win a works contract through public procurement and the public procurement regulatory framework

*Note:* The employing workers and contracting with the government indicator sets are not part of the ease of doing business ranking in *Doing Business 2020*.

cities with one another in each of the three countries; the ease of doing business scores benchmark cities with respect to regulatory best practice, showing the proximity to the best regulatory performance on each *Doing Business* indicator.

When compared across years, the ease of doing business score shows how much the regulatory environment for local entrepreneurs in an economy has changed over time in absolute terms, while the ease of doing business ranking can show only how much the regulatory environment has changed relative to that in other economies.

The ease of doing business score measures a city's performance with respect to a measure of regulatory best practice for the 5 topics. For starting a business, for example, Georgia and New Zealand have the lowest number of procedures required (1). New Zealand also holds the shortest time to start a business (0.5 days), while Slovenia and Rwanda have the lowest cost (0.0). Australia, Colombia, Mauritius and 117 other economies (like Honduras) have no paid-in minimum capital requirement (table 2.2).

### Calculation of the ease of doing business score

Calculating the ease of doing business score for each city involves two main steps. In the first step individual component indicators are normalized to a common unit where each of the 19 component indicators  $y$  is rescaled using the linear transformation  $(\text{worst} - y)/(\text{worst} - \text{best})$ . In this formulation

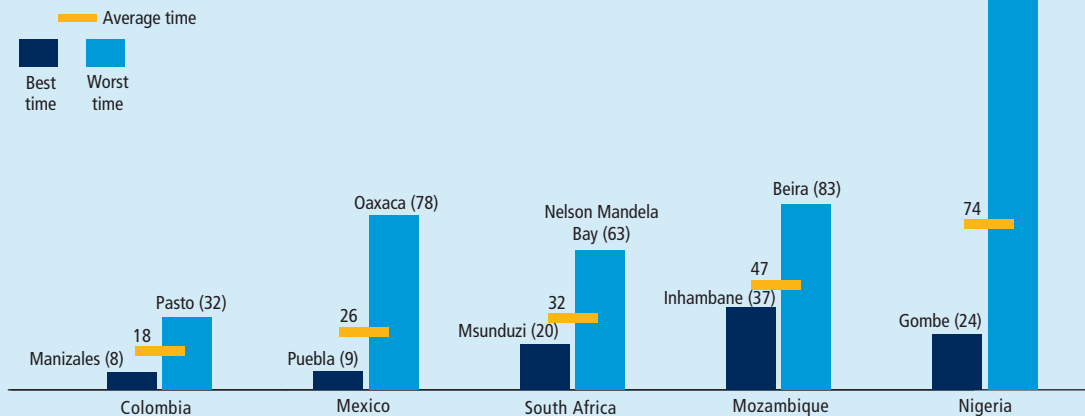
### Benchmarking business regulations at the local level: *Subnational Doing Business*

Subnational studies expand the *Doing Business* analysis beyond the largest business city of an economy. They measure variation in regulations or in the implementation of national laws across locations within an economy (as in Colombia and Spain) or a region (as in Central America and the Dominican Republic and the European Union countries). Projects are undertaken at the request of governments.

Data collected by subnational studies over the past three years show that there can be substantial variation within an economy. For example, in Mexico in 2016, the transfer of a property took only 9 days in the state of Puebla and up to 78 in Oaxaca. Within the same economy, it is possible to find cities that are positioned at the level of the top 20 economies in the ease of registering a property and cities that are at the level of the bottom 40 in that same indicator.

#### Different locations, different regulatory processes, same economy

Time to register property (days)



Source: *Subnational Doing Business* database.

Note: The average time shown for each economy is based on all locations covered by the data: 11 cities in Kenya in 2016, 32 states in Mexico in 2016, 18 cities in Poland in 2015, 9 cities in South Africa in 2015 and 19 cities in Spain in 2015.

The *subnational Doing Business* studies create disaggregated data on business regulation. But they go beyond a data collection exercise. They have proved to be strong motivators for regulatory reform at the local level:

- The data produced are comparable across locations within the economy and internationally, enabling locations to benchmark their results both locally and globally. Comparisons of locations that are within the same economy and therefore share the same legal and regulatory framework can be revealing: local officials find it hard to explain why doing business is more difficult in their jurisdiction than in a neighboring one.
- Pointing out good practices that exist in some locations but not others within an economy helps policy makers recognize the potential for replicating these good practices. This can prompt discussions of regulatory reform across different levels of government, providing opportunities for local governments and agencies to learn from one another and resulting in local ownership and capacity building.

Since 2005 subnational reports have covered 543 locations in 78 economies, including Poland, Spain, Colombia, the Arab Republic of Egypt, Brazil, Mozambique and Serbia. Twenty economies—including South Africa, the United Arab Emirates, Kazakhstan, Indonesia, Kenya, Mexico, Nigeria, the Philippines and the Russian Federation—have undertaken two or more rounds of subnational data collection to measure progress over time. Ongoing studies include those of Malaysia (six cities and four ports), Peru (12 cities), Brazil (27 cities), China (Chongqing), the European Union (Austria, Belgium and the Netherlands) and the United Arab Emirates (Abu Dhabi).

The *subnational Doing Business* reports are available at: <http://www.doingbusiness.org/subnational>.



**TABLE 2.2** Which economies set the best regulatory performance?

Topic and indicator	Economy establishing best regulatory performance	Best regulatory performance	Worst regulatory performance
<b>Starting a business</b>			
Procedures (number)	Georgia; New Zealand	1	18 <sup>a</sup>
Time (days)	New Zealand	0.5	100 <sup>b</sup>
Cost (% of income per capita)	Slovenia; Rwanda	0.0	200.0 <sup>b</sup>
Minimum capital (% of income per capita)	Australia; Colombia; Mauritius <sup>c</sup>	0.0	400.0 <sup>b</sup>
<b>Dealing with construction permits</b>			
Procedures (number)	No economy was a best performer as of May 1, 2019. <sup>d</sup>	5	30 <sup>a</sup>
Time (days)	No economy was a best performer as of May 1, 2019. <sup>d</sup>	26	373 <sup>b</sup>
Cost (% of warehouse value)	No economy was a best performer as of May 1, 2019. <sup>d</sup>	0.0	20.0 <sup>b</sup>
Building quality control index (0–15)	China; Luxembourg; United Arab Emirates. <sup>e</sup>	15	0 <sup>f</sup>
<b>Registering property</b>			
Procedures (number)	Georgia; Norway; Portugal <sup>g</sup>	1	13 <sup>a</sup>
Time (days)	Georgia; Qatar	1	210 <sup>b</sup>
Cost (% of property value)	Saudi Arabia	0.0	15.0 <sup>b</sup>
Quality of land administration index (0–30)	No economy has reached the best performance yet.	30	0 <sup>f</sup>
<b>Enforcing contracts</b>			
Time (days)	Singapore	120	1,340
Cost (% of claim)	Bhutan	0.1	89.0 <sup>b</sup>
Quality of judicial processes index (0–18)	No economy has reached the best performance yet.	18	0 <sup>f</sup>

a. Worst performance is defined as the 99th percentile among all economies in the *Doing Business* sample.

b. Worst performance is defined as the 95th percentile among all economies in the *Doing Business* sample.

c. Another 117 economies also have a paid-in minimum capital requirement of 0.0.

d. No economy was a best performer as of May 1, 2019, due to data revisions.

e. Another three economies score 15 out of 15 on the building quality control index.

f. Worst performance is the worst value recorded.

g. Two more economies record one procedure to register property.

Source: *Doing Business* database.

the highest score represents the best regulatory performance on the indicator across all economies covered by *Doing Business* since 2005 or the third year in which data for the indicator were collected. Both the best regulatory performance and the worst regulatory performance are established every five years<sup>1</sup> based on the *Doing Business* data for the year in which they are established and remain at that level for the five years regardless of any changes in data in interim years.

Thus, an economy may establish the best regulatory performance for an indicator even though it may not have the highest score in a subsequent year. Conversely, an economy may score higher than the best regulatory performance if the economy reforms after the best regulatory performance is set.

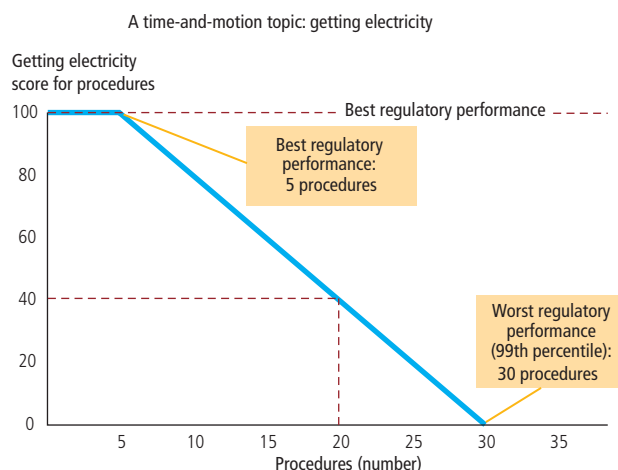
For example, the best regulatory performance for the time to get electricity is set at 18 days. In the Republic of Korea it now takes 13 days to get electricity while in the United Arab Emirates it takes just seven days. Although the two economies have different times, both economies score 100 on the time to get electricity because they have exceeded the threshold of 18 days.

For scores on indexes such as the building quality control index or the quality of land administration index, the best regulatory performance is set at the highest possible value (although no economy has yet reached that value in the case of the latter).

In the same formulation, to mitigate the effects of extreme outliers in the distributions of the rescaled data for most component indicators (very few economies need 700 days to complete the procedures to start a business, but many need nine days), the worst performance is calculated after the removal of outliers. The definition of outliers is based on the distribution for each component indicator. To simplify the process two rules were defined: the 95th percentile is used for the indicators with the most dispersed distributions (including minimum capital and the time and cost indicators), and the 99th percentile is used for number of procedures. No outlier is removed for component indicators bound by definition or construction, including legal index scores (such as the reliability of supply and transparency of tariffs index or the quality of judicial processes index) (figure 2.1).

In the second step for calculating the ease of doing business score, the scores obtained for individual indicators for each city are aggregated through simple averaging into one score, first for each topic and then across all topics. More complex aggregation methods—such as principal components and unobserved components—yield a ranking nearly identical to the simple average used by *Doing Business*.<sup>2</sup> Thus *Doing Business* uses the simplest method: weighting all topics equally and, within each topic, giving equal weight to each of the topic components.

**FIGURE 2.1** How are ease of doing business scores calculated for indicators?



Source: *Doing Business* database.

A city's score is indicated on a scale from 0 to 100, where 0 represents the worst regulatory performance and 100 the best regulatory performance. All score calculations are based on a maximum of five decimals. However, topic ranking calculations and the ease of doing business ranking calculations are based on two decimals.

### **Ease of doing business ranking**

The ease of doing business ranking ranges from 1 to 190 in *Doing Business 2020*. The ranking of economies is determined by sorting the aggregate ease of doing business scores, rounded to two decimals.

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## **Advantages and limitations of the methodology**

The *Doing Business* methodology is designed to be an easily replicable way to benchmark specific characteristics of business regulation—how they are implemented by governments and experienced by private firms on the ground. Its advantages and limitations should be understood when using the data (table 2.3).

Ensuring comparability of the data across a global set of economies is a central consideration for the *Doing Business* indicators, which are developed using standardized case scenarios with specific assumptions. One such assumption is the location of a standardized business—the subject of the *Doing Business* case study—in the largest business city of the economy. The reality is that business regulations and their enforcement may differ within a country, particularly in federal states and large economies. But gathering data for every relevant jurisdiction in each of the 190 economies covered by *Doing Business* is infeasible. Nevertheless, where policy makers are interested in generating data at the local level, beyond the largest business city, and learning from local good practices, *Doing Business* has complemented its global indicators with subnational studies. Also, coverage was extended to the second largest business city in economies with a population of more than 100 million (as of 2013) in *Doing Business 2015*.

*Doing Business* recognizes the limitations of the standardized case scenarios and assumptions. But while such assumptions come at the expense of generality, they also help to ensure the comparability of data. Some *Doing Business* topics are complex, and so it is important that the standardized cases are defined carefully. For example, the standardized case scenario usually involves a limited liability company or its legal equivalent. There are two reasons for this assumption. First, private limited liability companies are the most prevalent business form (for firms with more than one owner) in many economies around the world. Second, this choice reflects the focus of *Doing Business* on expanding opportunities for entrepreneurship: investors are encouraged to venture into business when potential losses are limited to their capital participation.

Another assumption underlying the *Doing Business* indicators is that entrepreneurs have knowledge of and comply with applicable regulations. In

TABLE 2.3 Advantages and limitations of the *Doing Business* methodology

Feature	Advantages	Limitations
Use of standardized case scenarios	Makes data comparable across economies and methodology transparent	Reduces scope of data; only regulatory reforms in areas measured can be systematically tracked
Focus on largest business city <sup>a</sup>	Makes data collection manageable (cost-effective) and data comparable	Reduces representativeness of data for an economy if there are significant differences across locations
Focus on domestic and formal private sector	Keeps attention on formal sector—where regulations are relevant and firms are most productive	Unable to reflect reality for informal sector—important where that is large—or for foreign firms facing a different set of constraints
Reliance on expert respondents	Ensures that data reflect knowledge of those with most experience in conducting types of transactions measured	Indicators less able to capture variation in experiences among entrepreneurs
Focus on the law	Makes indicators “actionable” —because the law is what policy makers can change	Where systematic compliance with the law is lacking, regulatory changes will not achieve full results desired

a. In economies with a population of more than 100 million as of 2013, *Doing Business* covers business regulation in both the largest and second largest business city. *Subnational Doing Business* studies go beyond the largest business cities within countries or regions.

practice, entrepreneurs may not be aware of what needs to be done or how to comply with regulations and may lose considerable time trying to find out. Alternatively, they may intentionally avoid compliance—by not registering for social security, for example. Firms may opt for bribery and other informal arrangements intended to bypass the rules where regulation is particularly onerous—an aspect that helps explain differences between the de jure data provided by *Doing Business* and the de facto insights offered by the World Bank Enterprise Surveys.<sup>3</sup> Levels of informality tend to be higher in economies with particularly burdensome regulation. Compared with their formal sector counterparts, firms in the informal sector typically grow more slowly, have poorer access to credit and employ fewer workers—and these workers remain outside the protections of labor law and, more generally, other legal protections embedded in the law.<sup>4</sup> Firms in the informal sector are also less likely to pay taxes. *Doing Business* measures one set of factors that help explain the occurrence of informality and provides policy makers with insights into potential areas of regulatory reform.

Many important policy areas are not covered by *Doing Business*; even within the areas it covers its scope is narrow. *Doing Business* does not measure the full range of factors, policies and institutions that affect the quality of an economy’s business environment or its national competitiveness. It does not, for example, capture aspects of macroeconomic stability, development of the financial system, market size, the incidence of bribery and corruption or the quality of the labor force.

The focus is deliberately narrow even within the relatively small set of indicators included in *Doing Business*. The time and cost required for the logistical process of exporting and importing goods is captured in the trading across borders indicators, for example, but they do not measure the cost of tariffs or international transport. Similarly, all aspects of commercial legislation are not covered by those on starting a business or protecting minority investors. Given that *Doing Business* measures only a few features of each area that it covers, business regulatory reforms should not focus only on these

areas and should be evaluated within a broader perspective.

*Doing Business* provides a starting point for this discussion and should be used in conjunction with additional data sources. Other World Bank Group databases that provide comprehensive data related to some areas of *Doing Business* include: Women, Business and the Law, which measures legal restrictions on women's economic opportunities in 187 economies; the Logistic Performance Index, which benchmarks the performance of trade logistics in 160 economies; the World Governance Indicators, which provides data on different dimensions of governance in 214 economies; and Country Policy and Institutional Assessments, which measure the quality of policies and institutions in International Development Association (IDA) economies.<sup>5</sup>

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## Data collection in practice

The *Doing Business* data are based on a detailed reading of domestic laws, regulations and administrative requirements as well as their implementation in practice as experienced by private professionals. The report covers 190 economies—including some of the smallest and poorest economies, for which little or no data are available from other sources. The data are collected through several rounds of communication with expert respondents (both private sector practitioners and government officials), through responses to questionnaires, conference calls, written correspondence and visits by the team. *Doing Business* relies on four main sources of information: the relevant laws and regulations, *Doing Business* respondents, the governments of the economies covered and the World Bank Group regional staff. For a detailed explanation of the *Doing Business* methodology (please see the Data Notes of this report as well as [www.doingbusiness.org/methodology](http://www.doingbusiness.org/methodology)).

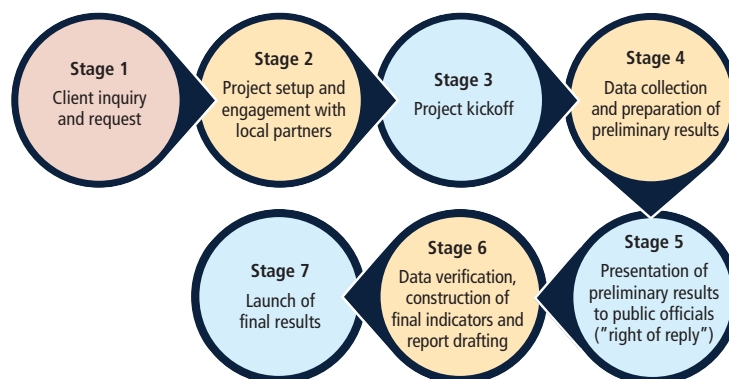
*Subnational Doing Business* follows similar data collection methods. However, subnational *Doing Business* studies are driven by client demand and do not follow the same timeline as global *Doing Business* publications (figure 2.2).

## Relevant laws and regulations

Indicators presented in *Doing Business in San Pedro Sula 2020* are based on laws and regulations. Besides participating in interviews or filling out written questionnaires, expert respondents provided references to the relevant laws, regulations and fee schedules, which were collected and analyzed by the *Subnational Doing Business* team.

The team collects the texts of the relevant laws and regulations and checks the questionnaire responses for accuracy. The team examines the civil procedure code, for example, to check the maximum number of adjournments in a commercial court dispute.

Extensive consultations with multiple contributors are conducted by the team to minimize measurement errors for the rest of the data. For some indicators—for example, those on dealing with construction permits and enforcing contracts—the time component and part of the cost component (where fee schedules are lacking) are based on actual practice rather than the law on the

**FIGURE 2.2** Typical stages of a subnational *Doing Business* project

books. This introduces a degree of judgment by respondents on what actual practice looks like. When respondents disagree, the time indicators reported represent the median values of several responses given under the assumptions of the standardized case.

### Expert respondents

For *Doing Business in San Pedro Sula 2020*, about 60 professionals assisted in providing the data that inform the four areas covered. The Subnational *Doing Business* website and the acknowledgments section of this report list the names and credentials of those respondents wishing to be acknowledged. Selected on the basis of their expertise, respondents are professionals who routinely administer or advise on the legal and regulatory requirements in the specific areas covered this report. Because of the focus on legal and regulatory arrangements, most of the respondents are legal professionals such as lawyers or notaries. Architects, engineers, and other professionals answered the questionnaires related to dealing with construction permits. Information incorporated in the indicators was also provided by certain public officials (such as registrars from the company or property registry). Government officials and the judiciary also provided information that is incorporated in the indicators.

The *Doing Business* approach is to work with legal practitioners or other professionals who regularly undertake the transactions involved. Following the standard methodological approach for time-and-motion studies, *Doing Business* breaks down each process or transaction, such as starting a business or registering a building, into separate steps to ensure a better estimate of time. The time estimate for each step is given by practitioners with significant and routine experience in the transaction.

There are two main reasons that *Doing Business* does not survey firms. The first relates to the frequency with which firms engage in the transactions captured by the indicators, which is generally low. For example, a firm goes through the start-up process once in its existence, while an incorporation lawyer may carry out 10 such transactions each month. The incorporation lawyers and

other experts providing information to *Doing Business* are therefore better able to assess the process of starting a business than are individual firms. They also have access to current regulations and practices, while a firm may have faced a different set of rules when incorporating years before. The second reason is that the *Doing Business* questionnaires mostly gather legal information, which firms are unlikely to be fully familiar with. For example, few firms will know about all the main legal procedures involved in resolving a commercial dispute through the courts, even if they have gone through the process themselves. But a litigation lawyer should have little difficulty in providing the requested information on all the procedures.

### **Governments and World Bank Group regional staff**

After analyzing laws and regulations and conducting follow-up interviews with respondents for *Doing Business in San Pedro Sula 2020*, the Subnational *Doing Business* team shared preliminary findings of the report with governments and public agencies operating at the national and local levels. Through this process, government authorities had the opportunity to comment on the preliminary data, in meetings with World Bank Group staff as well as in writing (“right of reply” period). Having public officials discuss and comment on the preliminary results has proven to be an important activity, not only to improve the quality of the report but also to enhance the dialogue between the local governments and the World Bank Group at the subnational level.

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## **Uses of the *Doing Business* data**

*Doing Business* was designed with two main types of users in mind: policy makers and researchers. It is a tool that governments can use to design sound business regulatory policies. Nevertheless, the *Doing Business* data are limited in scope and should be complemented with other sources of information. *Doing Business* focuses on a few specific rules relevant to the specific case studies analyzed. These rules and case studies are chosen to be illustrative of the business regulatory environment, but they are not a comprehensive description of that environment. By providing a unique data set that enables analysis aimed at better understanding the role of business regulation in economic development, *Doing Business* is also an important source of information for researchers.

### **Governments and policy makers**

*Doing Business* offers policy makers a benchmarking tool useful in stimulating policy debate, both by exposing potential challenges and by identifying good practices and lessons learned. Despite the narrow focus of the indicators, the initial debate in an economy on the results they highlight typically turns into a deeper discussion on areas where business regulatory reform is needed, including areas well beyond those measured by *Doing Business*. In economies where subnational studies are conducted, the *Doing Business* indicators go one step further in offering policy makers a tool to identify good practices that can be adopted within their economies.

The *Doing Business* indicators can be considered “actionable.” For example, governments can set the minimum capital requirement for new firms, invest in company and property registries to increase their efficiency, or improve the efficiency of tax administration by adopting the latest technology to facilitate the preparation, filing and payment of taxes by the business community. And they can undertake court reforms to shorten delays in the enforcement of contracts. But some *Doing Business* indicators capture procedures, time and costs that involve private sector participants, such as lawyers, notaries, architects, electricians or freight forwarders. Governments may have little influence in the short run over the fees these professions charge, though much can be achieved by strengthening professional licensing regimes and preventing anticompetitive behavior. And governments have no control over the geographic location of their economy, a factor that can adversely affect businesses.

While the *Doing Business* indicators are actionable, this does not necessarily mean that they are all “action-worthy” in a particular context. Business regulatory reforms are only one element of a strategy aimed at improving competitiveness and establishing a solid foundation for sustainable economic growth. There are many other important goals to pursue—such as effective management of public finances, adequate attention to education and training, adoption of the latest technologies to boost economic productivity and the quality of public services, and appropriate regard for air and water quality to safeguard public health. Governments must decide what set of priorities best suits their needs. To say that governments should work toward a sensible set of rules for private sector activity (as embodied, for example, in the *Doing Business* indicators) does not suggest that doing so should come at the expense of other worthy policy goals.

Over the past decade governments have increasingly turned to *Doing Business* as a repository of actionable, objective data providing unique insights into good practices worldwide as they have come to understand the importance of business regulation as a driving force of competitiveness. To ensure the coordination of efforts across agencies, economies such as Colombia, Malaysia and the Russian Federation have formed regulatory reform committees. These committees use the *Doing Business* indicators as one input to inform their programs for improving the business environment. More than 70 other economies have also formed such committees. Governments have reported more than 3,800 regulatory reforms, 1,322 of which have been informed by *Doing Business* since 2003.<sup>6</sup>

Many economies share knowledge on the regulatory reform process related to the areas measured by *Doing Business*. Among the most common venues for this knowledge sharing are peer-to-peer learning events—workshops where officials from different governments across a region or even across the globe meet to discuss the challenges of regulatory reform and to share their experiences.



## NOTES

1. The next update will be published in *Doing Business 2021* along with several other methodological changes such as the introduction of the contracting with the government indicators.
2. See Djankov, Simeon, Darshini Manraj, Caralee McLiesh and Rita Ramalho. 2005. “*Doing Business* Indicators: Why Aggregate, and How to Do It.” World Bank, Washington, DC. Principal components and unobserved components methods yield a ranking nearly identical to that from the simple average method because both these methods assign roughly equal weights to the topics, since the pairwise correlations among topics do not differ much. An alternative to the simple average method is to give different weights to the topics, depending on which are considered of more or less importance in the context of a specific economy.
3. Mary Hallward-Driemeier and Lant Pritchett, “How Business Is Done in the Developing World: Deals versus Rules,” *Journal of Economic Perspectives* 29, no. 3 (2015): 121–40.
4. Friedrich Schneider, “The Informal Sector in 145 Countries” (Department of Economics, University Linz, Linz, 2005). See also Rafael La Porta and Andrei Shleifer, “The Unofficial Economy and Economic Development,” Tuck School of Business Working Paper 2009-57 (Dartmouth College, Hanover, NH, 2008), available at Social Science Research Network (SSRN), <http://ssrn.com/abstract=1304760>.
5. For more information on these databases, see their websites: Women, Business and the Law (<https://wbl.worldbank.org/>); Logistic Performance Index (<https://lpi.worldbank.org/>); World Governance Indicators (<http://info.worldbank.org/governance/wgi/#home>); Country Policy and Institutional Assessments (<https://datacatalog.worldbank.org/dataset/country-policy-and-institutional-assessment>).
6. These are reforms for which *Doing Business* is aware that information provided by *Doing Business* was used in shaping the reform agenda.





## Starting a business

### MAIN FINDINGS

- The process of starting up a business in San Pedro Sula continues to be cumbersome. It requires 11 procedures, takes 72 days and costs 36.8% of income per capita.
- If San Pedro Sula were to represent Honduras on the ease of starting a business ranking in the global *Doing Business 2020* study, it would rank as number 180 out of the 190 economies measured. In Latin America and the Caribbean, only Venezuela—which ranks last globally—has a worse performance.
- In the past five years, entrepreneurs in San Pedro Sula have seen the cost and complexity of starting a business go down, thanks to a reduction in notary fees and the elimination of the requirement to publish the company's articles of incorporation in a general-circulation newspaper.
- Starting a business is more complex than in the average economy of Central America or Latin America and the Caribbean, requiring three more procedures on average. Tegucigalpa also requires 11 procedures, but the process takes 30 days less and costs 8.7 percentage points less than in San Pedro Sula. Municipal requirements are what make the difference.
- Obtaining a municipal business license is the main bottleneck in San Pedro Sula, taking on average two months—more than 80% of the total time it takes to start a business.
- The cost of starting a business in San Pedro Sula is one of the highest among the economies of Central America.
- Online systems have been implemented since 2015 to set up businesses—the national portal *Mi Empresa en Línea* (My Business Online) and a municipal platform to apply for a business license. However, both still require the entrepreneur to appear at an office in person at some point in the process. *Mi Empresa en Línea* allows an entrepreneur to create a limited liability company with no paid-in minimum capital, but users of this online system are still in the minority.

Complex laws and confusing administrative practices hamper business creation, encourage informality, reduce the tax base and further corruption. In Honduras 79.9% of workers are in some kind of informal work situation—one of the highest rates of informality in Central America (where the average is 58%).<sup>1</sup> The Honduran Council for Private Enterprise (Consejo Hondureño para la Empresa Privada, COHEP) estimates that close to a million micro, small and medium-size businesses (MSMEs)<sup>2</sup> in Honduras operate informally, and only about 250,000 of them have been legally established.<sup>3</sup> Informality is usually linked to precarious working conditions, a lack of rights and an absence of a social safety net.<sup>4</sup> One of the main challenges, then, for Honduras and particularly for San Pedro Sula is to reduce informality both in terms of employment and in the creation of new businesses.

Making it easier for new, formally established businesses to enter the market—through legislation that is simple, with quick procedures and a moderate tax burden—not only fosters economic growth; it also encourages the transition to formal employment and reduces the risk of social exclusion and poverty.

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## HOW DOES STARTING A BUSINESS WORK IN SAN PEDRO SULA?

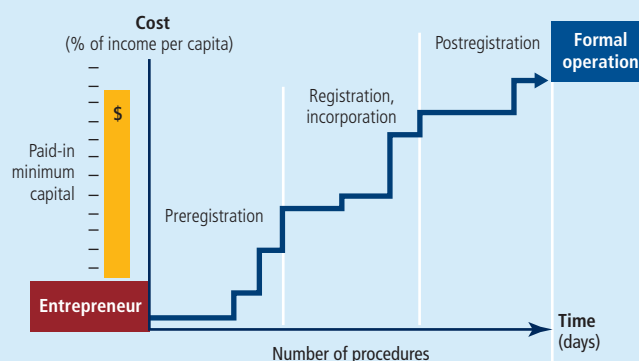
The legal framework that governs business creation in Honduras is essentially a national one, though the process of applying for and obtaining a business license is governed by each municipality's Tax Plan (Plan de Arbitrios). This plan covers local matters and may vary from one city to another.<sup>5</sup>

Entrepreneurs in San Pedro Sula and Tegucigalpa can create a business by following one of two paths, each of which is governed by a different regulatory framework. The first is via the Commercial Code, which establishes a minimum capital of HNL 5,000<sup>6</sup> (\$209) to create a limited liability company; the other way to create a business is through the portal Mi Empresa en Línea (My Business Online),<sup>7</sup> which has no paid-in minimum capital requirement<sup>8</sup> and does not require the entrepreneur to go to a notary to set up the company. This second option takes less time (1.5 days less) and also eliminates the notary fee (HNL 11,132, or \$466).<sup>9</sup>

Despite the advantages of this new legal framework, it is still more common in both San Pedro Sula and Tegucigalpa to use the services of a notary to establish a limited liability company. Of the businesses that registered in San Pedro Sula in 2018, 88.6% did so using the services of a notary public.<sup>10</sup> Lawyers consulted about this process indicated that entrepreneurs still believe that the notary route provides more legal certainty—even though there is no difference in legal validity compared with the portal—and offers more flexibility in terms of amending articles of incorporation. They also claimed that the time saved by using the portal is not significant, only 1.5 days. That said, there was a notable increase in the use of Mi Empresa en Línea in 2019; through June of that year, the number of new businesses established in San Pedro Sula using that platform represented nearly half of the total.<sup>11</sup>

Setting up a company without using the online option takes 11 steps. Be-

## WHAT DOES STARTING A BUSINESS MEASURE?



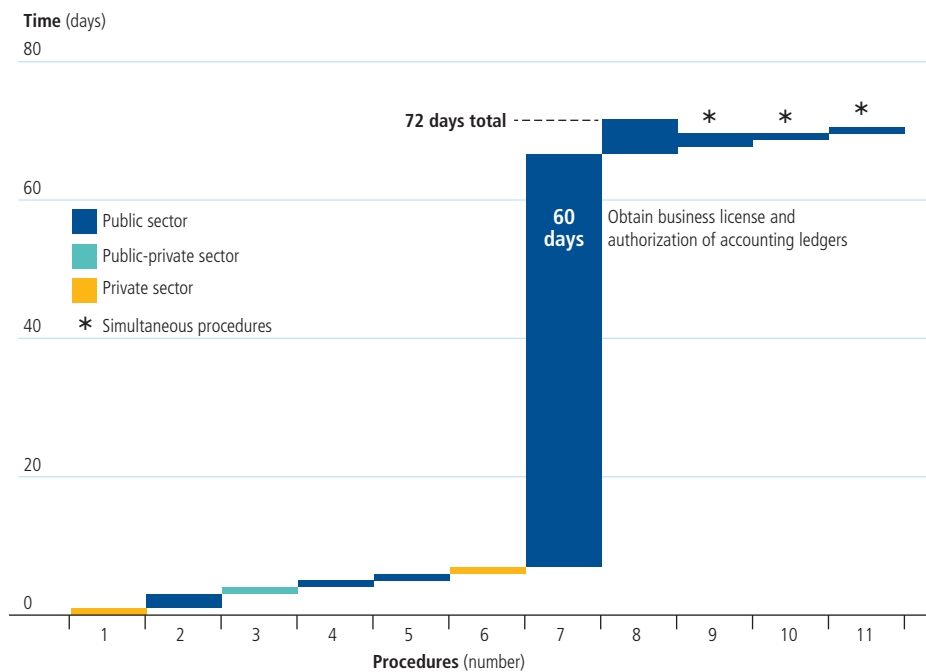
*Doing Business* records all procedures required for an entrepreneur to start up and formally operate a business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement (see figure). To make the data comparable across locations in the same country and across the 190 economies measured globally, *Doing*

*Business* uses a standardized case study of a limited liability company—*sociedad de responsabilidad limitada* (S.R.L.) in the case of Honduras—that engages in general industrial or commercial activities, has start-up capital equivalent to 10 times income per capita and employs between 10 and 50 people.<sup>a</sup>

a. For more information about assumptions for the case study, see the Data notes.

fore establishing a company, an entrepreneur in San Pedro Sula needs to (1) deposit a certified check with the company's start-up capital in a commercial bank (figure 3.1). After (2) establishing the company before a notary—who draws up the articles of incorporation—the entrepreneur must (3) register the company with the business registry (*registro mercantil*), which in San Pedro Sula is managed by the Chamber of Commerce and Industry (CCI) of Cortés, the department where the city is located (box 3.1). Once the documents are filed, the entrepreneur can track the registration via the appropriate CCI website, using the reference number from the registry. The next step is to (4) request a national tax identification number (RTN) for the company from the Honduran Revenue Administration Service (Servicio de Administración de Rentas, SAR) and select the billing system to be used.<sup>12</sup> Obtaining an RTN is one of the prerequisites to be able to (5) register the company with the CCI,<sup>13</sup> which aims to maintain a database of existing companies and if necessary charge a registration fee; these fees provide a source of funding for the Chambers of Commerce. The company (6) buys its accounting ledgers in a stationery store. (Accounting records can be presented electronically, although in San Pedro Sula it is still more common to use paper forms.) At the municipal level, the entrepreneur must (7) obtain a business license to be able to operate. In San Pedro Sula it has been possible since 2017 to apply for the license online, through the municipality's Electronic Management System;<sup>14</sup> however, it is still necessary to present supporting documentation in person. At that point the accounting ledgers are also authorized. Once the business license is secured, (10) the entrepreneur notifies

**FIGURE 3.1** Starting a business takes 11 steps and involves five public agencies at the national and local level, in addition to the local Chamber of Commerce and Industry



*Note:* The Property Law of Honduras establishes that an “Associated Center” affiliated with the business registry—under the supervision of the Chamber of Commerce and Industry of Cortés—may manage the department’s business registry under a public-private agreement (box 3.1); in other words, the service is public, but it is run by a private entity.

*Source:* *Doing Business* database.

the SAR that it is beginning operations and presents the company’s first bill of sale. This can be done at the same time as the three workforce enrollments: the registration of the company and its employees with (8) the Honduran Social Security Institute (Instituto Hondureño de Seguridad Social, IHSS), (9) the Social Housing Fund (Régimen de Aportaciones Privadas, RAP), and (11) the Professional Training Institute (Instituto de Formación Profesional, INFOP).

### How does San Pedro Sula compare regionally and globally?

Starting up a business in San Pedro Sula requires 11 procedures that take 72 days at a cost of HNL 20,466 (\$857), which represents 36.8% of income per capita in Honduras. An entrepreneur in Tegucigalpa must complete the same number of procedures, but the process there takes 30 fewer days and costs 28.1%<sup>15</sup> of the country’s income per capita. A limited liability company can be created using Mi Empresa en Línea without having to provide start-up capital.

Compared with neighboring economies, the process in San Pedro Sula is more complex, takes longer and costs more than the average for Central America, where starting a business requires 8.1 procedures, takes 25.6 days and costs 29.8% of income per capita (figure 3.2). San Pedro Sula is the third most expensive place in Central America to start a business, after Nicaragua (65.7% of income per capita) and El Salvador (43.3%), and it is the Central American

## BOX 3.1

**Public-private partnerships to improve services**

In most economies, business registration is the purview of the public sector, but the Property Law of Honduras approved in 2004 includes a model to decentralize and outsource these services. In December 2005 regulations were passed related to the governing structure and operations of the “Associated Centers” (Centros Asociados) that would manage the business registry; this option was open to any Chamber of Commerce and Industry (CCI) that demonstrates the appropriate technical and operational capacity. Under these regulations, the CCI of Francisco Morazán (known as the CCIT, Tegucigalpa) and the CCI of Cortés (CCIC, San Pedro Sula) are Associated Centers—responsible for administering the fees for services, the training of registrars and the management of personnel. This model has had high levels of acceptance and user satisfaction in San Pedro Sula.

One achievement of the CCIC has been to modernize the business registry through the implementation of an automated registration system that allows documents to be submitted and recorded through an orderly, transparent process with a one-day response time. The documents recorded in the system are digitized; this facilitates access and transparency, as the documents can be consulted online, ensuring the principle of public disclosure. The registry uses an internal system to evaluate the service and do quality control through user satisfaction surveys. The CCIC business registry is incorporated into the Unified Registry System (Sistema Unificado de Registros, SURE), which operates under the online platform of the National Property Administration System (Sistema Nacional de Administración de la Propiedad, SINAP), run by the Property Institute (IP)

economy where the process takes the most time.

Compared globally, San Pedro Sula’s performance on the starting a business indicator is very poor. If the city were to represent Honduras in the global *Doing Business* study, it would rank in position 180 of the 190 economies measured.<sup>16</sup> It also falls well behind Panama, the best performer in Central America on the three aspects of the indicator, with five procedures, six days and 5.8% of income per capita to start a business—a result that places that economy in position 51 in the global *Doing Business* ranking.

**How does San Pedro Sula compare on the number of procedures?**

To start up a business in San Pedro Sula, an entrepreneur needs to complete 11 procedures. Globally, in only 13 of the 190 economies measured by *Doing Business*<sup>17</sup> are more procedures necessary. In 11 of those economies it takes 12 or 13 procedures to start a business, while Venezuela and Equatorial Guinea are the two where the most procedures are required—20 and 16, respectively.

San Pedro Sula and Tegucigalpa require the same number of procedures but with some differences. In Tegucigalpa it is no longer necessary to buy accounting ledgers—most companies handle their bookkeeping electronically—but entrepreneurs in the capital must complete one other procedure: obtaining a zoning certificate (*constancia de compatibilidad*), which is required to apply for a business license. (Both procedures are completed at the municipality.)

In San Pedro Sula the most complex part of the process happens after the business is registered. Most of the procedures (8 of the 11) occur during the postregistration phase (figure 3.3); only two are completed in the preregis-

FIGURE 3.2 Starting a business in Central America and in Latin America and the Caribbean—where is it easiest?



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

tration phase and the other during registration. Of the eight postregistration procedures, three are related to workforce and social security enrollments. In other economies, such as El Salvador, Nicaragua and Panama, this phase can be completed with a single procedure, although in Medellín it takes up to five.

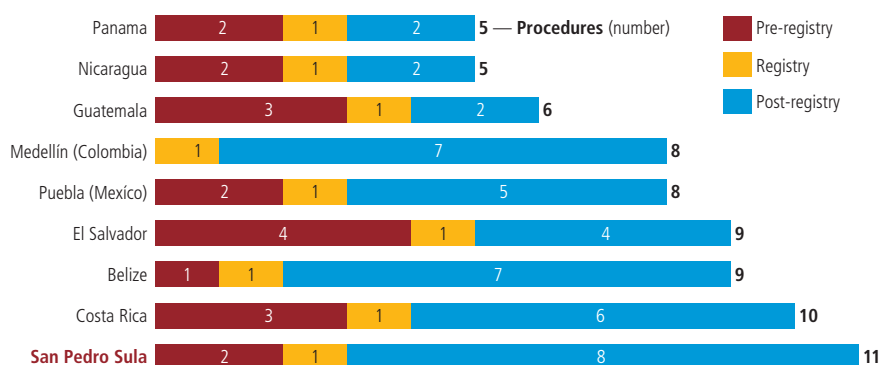
### How does San Pedro Sula compare in terms of time?

At 72 days—46 more than the Central American average—the time to it takes to start a business in San Pedro Sula is the highest among the economies of Central America, followed by Belize, with 48 days. The process takes just six days in Panama and nine in Medellín (Colombia) and Puebla (Mexico).

The main obstacle in San Pedro Sula is the time it takes to obtain a municipal business license (figure 3.4 and box 3.2)—two months, equivalent to 83% of the total time needed to start a business. In Tegucigalpa it takes only one day to get a business license, although that city requires a zoning certificate, which takes an average of 30 days; this step is not usually required in San Pedro Sula. It is the municipal procedures, then, that explain the big difference in time between the two cities.



**FIGURE 3.3** On average in Central America, the postregistration phase includes 4.4 procedures, half the number as in San Pedro Sula



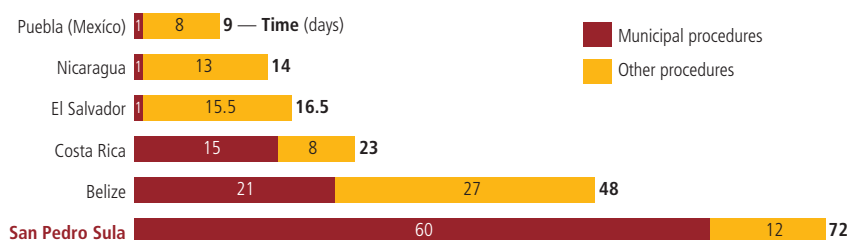
Source: *Doing Business* database.

Note: The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

The procedures to register a company in the business registry or with the CCIC, obtain an RTN and select a billing system,<sup>18</sup> as well as provide notice of commencement of operations with the SAR and register the company in the INFOP, take one day each. An entrepreneur must present documentation at the business registry in person but can check and track the registration electronically<sup>19</sup>—on the same website where users can also check registration fees, which are calculated based on stated share capital.

The rest of the procedures take one to two days, except for registering the company and enrolling its employees in the IHSS social security system,<sup>20</sup> which can be completed in an average of five days. No procedure can be completed entirely online without having to submit documents in person.

**FIGURE 3.4** In contrast with other economies in the region, more than 80% of the time required to start a business in San Pedro Sula is tied to the business license



Source: *Doing Business* database.

Note: In the examples shown here (except for San Pedro Sula), the municipal procedures take on average eight days, or one third the total time.

## BOX 3.2

**Challenges in obtaining a business license**

Since 2017, entrepreneurs in San Pedro Sula have been able to apply for a business license through the Electronic Management System, where the applicant registers, states the date the business will open and provides an affidavit of expected sales, which will serve as the basis for calculating the taxes and fees required to obtain the business license. Once the payment of the fees is reflected in the system, the various departments<sup>a</sup> evaluate the information provided<sup>b</sup> and perform the relevant inspections, which are recorded on a single inspection form. Once the information has been verified and all the departments involved have signed off, the municipality contacts the entrepreneur so he or she can provide the required documentation on paper and pick up the business license.

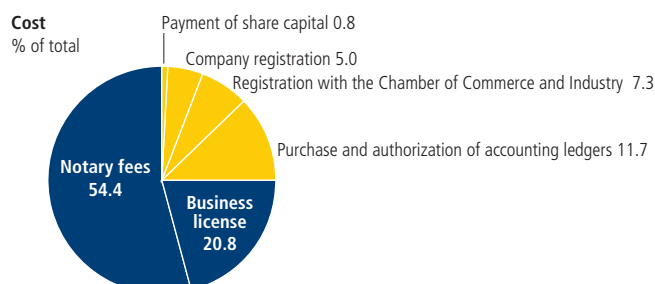
The process to obtain the license—which according to the municipality ideally takes seven days—usually ends up taking two months in practice, making it the main obstacle to setting up a business in San Pedro Sula. Many factors account for the slow pace: a system in transition, a shortage of personnel for inspections, complex or impossible requirements,<sup>c</sup> the rigidity of a system that does not establish different and appropriate criteria depending on the type of business, the growing number of licenses and the frequent use of people who hire themselves out to take care of procedures, who benefit from a drawn-out process.

At the same time, entrepreneurs are often unfamiliar with the documents and formalities the municipality requires, and so they take a long time to provide the documentation or pay the fees.

Despite the lengthy, complex process, the data show an increase in the number of businesses operating legally in San Pedro Sula. Between 2016 and 2018, 2,637 micro to large companies<sup>d</sup> obtained business licenses; of these, 43% were issued in 2018. As of September 2019, 665 new licenses had been issued for the year.<sup>e</sup> The licenses issued by the municipality in 2018 represent 60% of the businesses listed in the San Pedro Sula business registry,<sup>f</sup> which may indicate that many businesses register but never start to operate or else operate informally.

- a. For the *Doing Business* case study, the departments that would usually be involved are related to the mapping system (cadastre), urban planning, and industry and commerce.
- b. Annual affidavit pertaining to the tax on industry, commerce and services; photocopy of the applicant's identity document; copy of the RTN belonging to the applicant and/or the applicant's partners; photocopy of the articles of incorporation; copy of a lease that has been signed and registered with the Tenancy Department (Departamento Administrativo de Inquilinato, DAI). The municipality may also require other documentation it deems appropriate.
- c. It would be difficult, for example, to comply with the obligation to present a lease. A small or medium-size business would be unlikely to obtain a formal lease before having a business license; the license would generally be required before the entrepreneur could sign a lease or obtain a bank loan. Entrepreneurs who work out of their home cannot provide such a document either.
- d. This according to the municipal government's statistics. The San Pedro Sula Tax Plan categorizes microenterprises as those with a sales volume of up to HNL 180,000 (\$7,535).
- e. From 2016 through September 2019, 93% (41,231) of the business licenses issued were renewals.
- f. According to CCIC statistics.

**FIGURE 3.5** Notary fees and fees for a business license represent three fourths of the total cost in San Pedro Sula



Source: *Doing Business* database.

### How does San Pedro Sula compare in terms of cost?

San Pedro Sula is the third most expensive location in Central America to start a business—36.8% of income per capita—after Nicaragua and El Salvador. Notary fees and fees to obtain a business license account for three fourths of the costs of starting a business in San Pedro Sula.

Despite a recent reduction in rates, notary fees continue to be the most expensive item, accounting for more than half the total cost. Notary fee schedules, which are set by law,<sup>21</sup> apply nationally and are calculated based on the company's share capital. In other Central American economies notary fees represent on average 35% of the total cost.<sup>22</sup> In Puebla it is over 89%.

Obtaining a business license is the second highest expense, at 20.8% of the total cost (figure 3.5). In the Central American region—except for in Belize and Nicaragua, where the costs are higher<sup>23</sup>—municipal expenses account for only 2.4% of the total cost.

Getting a business license at the municipality costs HNL 4,250 (\$178). This includes several fees and taxes that must be paid as a prerequisite to obtain a license. First, there is a charge of HNL 300 (\$13) for administrative fees and HNL 2,000 (\$84) for the license. In addition, an entrepreneur must pay HNL 1,950 (\$82)<sup>24</sup> for the tax on industry, commerce and services, equivalent to one month of sales. To calculate this tax the applicant must present an affidavit providing a reasonable estimate of the volume of sales, revenues or production for the new company's first quarter of operations.<sup>25</sup> That statement is used to calculate the fees and taxes the company must pay for the business license.

Of the 11 procedures required in San Pedro Sula, 7 involve some sort of cost, although some of these are low—the fee for registering the company in the business registry (HNL 1,033, or \$43) and with the CCIC (HNL 1,500, or \$63). Both fees are calculated based on the company's share capital. Finally, the entrepreneur must purchase accounting ledgers (HNL 900, or \$38), pay the fees for their authorization (HNL 1,500, or \$63) and buy a certified check (HNL 150, or \$6) to deposit the minimum capital in the bank.

There are some differences between San Pedro Sula and Tegucigalpa in

terms of the cost of starting a business. It is more expensive to register with the CCIT (Tegucigalpa) than with the CCIC; it costs HNL 350 (\$15) more in the capital city. On the other hand, the business license costs HNL 3,000 (\$126) more in San Pedro Sula. Since Tegucigalpa does not require authorization of accounting ledgers, that cost does not apply there.

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## WHAT HAS CHANGED SINCE 2015?

Since the publication in 2015 of *Doing Business in Central America and the Dominican Republic 2015*—which measured San Pedro Sula as part of a regional study—entrepreneurs have seen a reduction in the cost and number of procedures to start a business, along with the elimination of the paid-in minimum capital requirement for some businesses. The Law on Employment Generation, Promotion of Entrepreneurship, Business Formalization and Protection of Investors’ Rights, approved in June 2014,<sup>26</sup> eliminated the need to publish a company’s articles of incorporation in a newspaper of national circulation—eliminating one step—and did away with the obligation to pay in minimum capital, which previously amounted to 11.5% of income per capita. It also introduced other changes that benefit businesses set up through the online portal Mi Empresa en Línea; for example, it eliminated the requirement to authorize accounting ledgers and also made the use of a notary optional.

In addition, the costs of starting a business have gone down, thanks to Agreement No. 001-2018 of the Union of Notaries of Honduras, which updated the notary fee schedule and reduced the minimum fee from 3% to 2% of the company’s share capital.<sup>27</sup> This lowered the cost by HNL 3,357 (\$140) compared with 2015. However, this reduction in cost was offset by an increase of HNL 3,000 (\$126) in the cost of a business license.

Another benefit that now applies only to the minority of companies that are established using Mi Empresa en Línea is the potential for a company to qualify for exemptions from fees and taxes, thus reducing costs. The Law on Support for Micro and Small Enterprises approved in late 2018<sup>28</sup>—which introduced this improvement—was designed to encourage the formation of new businesses and the formalization of existing ones. Uptake has already been promising in the short term, though it still represents a minority: in 2019<sup>29</sup> only 292 of the 649 businesses created in San Pedro Sula through Mi Empresa en Línea took advantage of these benefits.

Changes have also been seen at an institutional level. The SAR began operations in January 2017, replacing the Executive Directorate of Revenue (DEI)<sup>30</sup> as the agency responsible for all tax-related matters. A new Tax Code was also approved.<sup>31</sup> Even though these changes have not altered the data from the standpoint of the *Doing Business* case study, many maintain that the SAR has professionalized and modernized the system and improved customer service.

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## WHAT CAN BE IMPROVED?

### REPLACE THE BUSINESS LICENSE WITH A DECLARATION OF RESPONSIBILITY OR NOTICE OF COMMENCEMENT OF OPERATIONS IN THE CASE OF LOW-RISK ACTIVITIES

Getting a business license is the main bottleneck in the process of starting a business in San Pedro Sula; it takes more than 80% of the total time and is the second biggest expense, accounting for 20.8% of the total cost. Even though the municipality created a website to apply for the license, the process is lengthy and confusing. A good practice from higher-performing economies is to replace the business license with a declaration of responsibility or notice of commencement of operations for new businesses whose activities pose no risk to public health, safety or the environment.

Panama has led the way on this in Central America. Through the website Panamá Emprende,<sup>32</sup> companies can process the “notice of operation” online in just one day. This notifies the authorities that the company is beginning operations and dispenses with commercial licenses, health permits or municipal registrations for those businesses that do not have a legal obligation to comply with additional requirements. This notice also serves to register the company in the single taxpayer registry. Since 2012 the Ministry of Commerce and Industry and the municipality of Panama City have been interconnected through this portal. In Nicaragua it is possible to obtain a municipal license in two days through a single registration document; the entrepreneur requests a “pre-license,” along with tax and social security registrations, through a one-stop shop (one day). The final license is later obtained from the municipality (one day). In Puebla<sup>33</sup> the municipal authorization takes one day. The entrepreneur applies at the Comprehensive Service Center to enroll in the Puebla Registry of Accredited Users (PUAM) and receives a username and password to be able to go online to complete the notice of commencement of operations.<sup>34</sup>

Simplifying the process and replacing the current license with a declaration of responsibility does not mean that the municipality would lose control over the formalization of businesses or over the revenues stemming from that process. A simple, fast and economical licensing or declaration process would show a clear commitment at the municipal level to business formalization. Verifying the license after the fact could optimize available resources and allow them to be directed toward higher-risk activities.

The municipality could use the existing online system to submit the notice of commencement of operations. Since 93% of the licenses granted are renewals,<sup>35</sup> which themselves can take several weeks to issue, the renewal process and the rationale for it could be reviewed with an eye to allocating resources to processing notices of commencement of operations.

The municipality should also publicize in simple terms the requirements for documentation and the applicable fees to obtain a business license. The relevant information is hard to find, as it is spread out across the 84 pages of the San Pedro Sula Tax Plan. Requirements for obtaining the license could also be differentiated by the nature of the business—for example, depending on the

type of activity, size and sector, among other factors. Currently there is a single set of requirements, which do not always apply to all businesses.

### **STREAMLINE THE PROCESS BY UNIFYING PROCEDURES AND IMPLEMENTING AN ELECTRONIC ONE-STOP SHOP**

It takes 11 steps to start up a business in San Pedro Sula. Honduras has the most procedures of any economy in Central America. Streamlining the process will require a long-term commitment, one that will be hard for the municipality to take on by itself, as procedures also depend on government agencies at the national level. Several economies in the region have reduced the number of steps required and have eliminated some procedures that are still mandatory in San Pedro Sula. Costa Rica, for example, amended its Commercial Code in 2014, making authorization of the company's accounting ledgers voluntary. This procedure is not mandatory in San Pedro Sula for businesses created via *Mi Empresa en Línea*. However, it continues to be usual practice for the municipality to authorize the ledgers.

Making the process more efficient does not necessarily mean eliminating requirements but rather consolidating procedures to simplify the process. San Pedro Sula could follow the example of some nearby economies that have unified several procedures into one step. In 2015, for example, Nicaragua simplified business creation by combining several procedures: the company's articles of incorporation, authorization of accounting ledgers and business registration. In Medellín the Business Services Center (CAE) consolidated several procedures into a single step at one place: registering the company in the business registry, obtaining a copy of the certificate of existence of partners and their legal representation, buying and registering the company's accounting ledgers, registering the company in the Single Tax Registry and obtaining a taxpayer identification number. It is also possible to pay the departmental registration tax, obtain the pro-development stamp, enroll in the industry and commerce registry, check the availability of the company name, check land use regulations and provide notice of commencement of operations to the Fire Department and the city government's Secretariats of Planning, Health and Governance. Other Central American economies use online systems to combine procedures at different levels of government (table 3.1).

### **BUILD ON AND EXPAND THE SERVICES OFFERED VIA MI EMPRESA EN LÍNEA TO BROADEN ITS USE**

There are several possible routes San Pedro Sula could follow to integrate the business creation process and consolidate procedures. Each would require an in-depth analysis of each agency's technical capacity, legal framework and political will.

Right now an entrepreneur can apply to register the company in the business registry and apply for an RTN via *Mi Empresa en Línea*—though in both cases it is necessary to appear in person to sign the company's articles of incorporation before a registrar or to pick up the tax identification document at the SAR offices. Short-term efforts should focus on making it possible to carry out both procedures completely online. In the long term, *Mi Empresa en*

TABLE 3.1 Central American economies are using online systems to facilitate the process of starting a business

	Panama (PanamaEmprende.gob.pa)	Costa Rica (CcrearEmpresas.go.cr)	Guatemala (MiNegocio.gt)	El Salvador (MiEmpresa.gob.sv)
Opening date	January 2007	February 2012	March 2013	April 2013
<b>Functions</b>	Check legal name		✓	
	Register in the business registry	✓	✓	✓
	Register as taxpayer (tax authority)	✓		✓
	Workforce enrollments			✓
	Municipal procedures	✓		N.A.
<b>Users</b>	Entrepreneur	✓	✓	✓
	Notary public (if applicable)		✓	✓

Source: *Doing Business* database.

Note: The extent of uptake varies among these economies.

Línea ideally could serve as an electronic one-stop shop where entrepreneurs could complete all the steps related to starting a business. The single registration form<sup>36</sup>—currently used for inscription in the business registry—can be implemented jointly for that purpose by all the agencies involved. Among the possible procedures that could be incorporated would be the business license and the various registrations with the SAR, the IHSS, the INFOP and the RAP. Most economies that have made a successful transition to a fully electronic registration system did so sequentially over the long term.

The CCIC created the Portal Empresarial (Business Portal)<sup>37</sup> in 2008 to expedite the business start-up process. Various institutions have a presence on this portal—including the municipality, the IHSS and the RAP<sup>38</sup>—as does a commercial bank. Nevertheless, the portal still does not function as a one-stop shop; it simply provides information but does not enable procedures to be completed online.<sup>39</sup> One way to avoid duplication and improve efficiency would be to combine the Portal Empresarial and Mi Empresa en Línea to create a true one-stop shop where all procedures can be completed in one interaction.

### **FURTHER PROMOTE MI EMPRESA EN LÍNEA AS A WAY TO SET UP A BUSINESS**

Thanks in part to the fiscal incentives<sup>40</sup>—exemption from registration and business license fees, as well as from the municipal tax on industry, commerce and services—the proportion of companies using Mi Empresa en Línea is on the rise. However, it is still more common in San Pedro Sula to go through the entire process using a notary. To increase the use of Mi Empresa en Línea for setting up a business, the Honduran government should continue its efforts to get the word out through a publicity campaign designed to emphasize the benefits of registering online and educating those who may be interested. Financial incentives have been used successfully in many economies to encourage the acceptance of online systems among users. Enlisting the support of the

Chambers of Commerce and Industry is a critical step to ensure that a majority of businesses use the portal.

Additionally, the Law on Support for Micro and Small Enterprises, intended to foster business creation through *Mi Empresa en Línea*, imposes various conditions for a business to be able to access the available benefits. In the short term, the benefits offered under this law could be extended beyond the legally established deadline of 2019. In addition, the pool of companies that could benefit from the law could be expanded to try to increase the number of formal businesses. But before expanding the benefits to more companies, it would make sense to evaluate the effect these incentives have had on new businesses, to see if they have met their objectives.

#### **EVALUATE MUNICIPAL FEES AND NOTARY COSTS WITH A VIEW TO LOWERING THE COST OF STARTING A BUSINESS**

The cost of starting a business in San Pedro Sula is more than six times higher than in Panama (where the cost is 5.8% of income per capita), placing the Honduran city among the three economies in Central America where this process is most expensive. Notary fees have decreased by 23.2% since 2015; however, they are still among the highest in the region. In the short term, notary fees could continue to go down and could be delinked from a company's share capital; fixed fees could be introduced instead, or the law could establish a maximum fee just as it does a minimum. In the long term, *Mi Empresa en Línea*—which makes it possible to draft articles of incorporation free of charge—could be expanded even further to offer standardized forms for articles of incorporation to use when setting up a business in person, as well as information and support services for starting a business.

In addition, to encourage the creation of formal businesses and the formalization of many others, another step might be to simplify the fees for obtaining a business license—currently the second highest cost for starting a business in San Pedro Sula<sup>41</sup>—by delinking it from the tax on industry, commerce and services and establishing a single fee based on the type of activity the business will perform. SMEs are financially vulnerable in the first months and even years of existence; therefore, it seems counterproductive to establish the payment of this tax as a condition for obtaining a license in the context of formalizing a business. In 158 of the 190 economies in the global *Doing Business* study, either no business license is required or it does not cost anything.

#### **ELIMINATE THE PAID-IN MINIMUM CAPITAL REQUIREMENT TO ESTABLISH A MICRO OR SMALL BUSINESS IN ALL CASES**

Since the implementation of *Mi Empresa en Línea*, limited liability companies created through this portal have not been required to pay in minimum capital. However, this continues to be mandatory for businesses that are established using a notary public. To simplify the process of starting a business and reduce the costs, it would be advisable to make the payment of start-up capital voluntary for all new companies, regardless of how they are established. To do that, the two existing legal frameworks could be combined to simplify the criteria for creating a business, and the current Commercial Code could be



revised to eliminate the minimum share capital requirement regardless of what method is used to set up the business. The five highest-ranked economies in Latin America and the Caribbean do not require paid-in minimum capital to establish a business.<sup>42</sup>

### **CREATE A SINGLE BUSINESS REGISTRY AND IMPROVE PUBLIC ACCESS TO REGISTRY INFORMATION**

Under Article 407 of the Commercial Code, the business registry should be public. However, in Honduras it is difficult to get access to information from the registry because only the San Pedro Sula and Tegucigalpa registries have digitized files. And even though the files are in digital form, the registries do not share information in a common database.<sup>43</sup> To access information online<sup>44</sup> it is necessary to know details such as the business registration number, which creates an obstacle since most citizens would not have that information.

Creating a single shared registry where national searches could be done by using the name of the business would improve the transparency of the system and ensure the principle of disclosure. It would also prevent two companies from registering under the same name, avoiding problems down the road with other procedures, such as at the tax registry. In nearby economies such as El Salvador<sup>45</sup> or Costa Rica<sup>46</sup> it is possible to verify the availability of a company name through online portals, at no cost and in half a day.

## NOTES

1. International Labour Organization (ILO). 2018. *Women and Men in the Informal Economy: A Statistical Picture* (Third Edition). Geneva: ILO. The study includes data on the agricultural and non-agricultural sector. This study considers Mexico a Central American economy.
2. In Honduras there is no consensus on how to define the micro, small and medium-size enterprise (MSME). Different definitions are used based on the nature and objectives of the institutions, projects or programs.
3. *Diario La Prensa*. January 19, 2019. “Informalidad laboral, principal problema para encontrar empleo.” Available at <https://www.laprensa.hn/economia/1251430-410/informalidad-laboral-principal-problema-para-encontrar-empleo>.
4. International Labour Organization (ILO). 2018. *Women and Men in the Informal Economy: A Statistical Picture*.
5. Every municipality in Honduras has its own Tax Plan, which is approved annually. These plans share a common legal foundation—the Municipalities Law—but there may be differences between the different municipal plans in terms of the requirements and the rates applied to obtain a business license.
6. Article 70 of the Commercial Code of Honduras establishes the following: “Share capital shall not be less than five thousand lempiras; it shall be divided into shares that may be of unequal value and rank but that in all cases shall be either one hundred lempiras or a multiple of one hundred.”
7. To date, Mi Empresa en Línea is set up to work in Tegucigalpa and San Pedro Sula, where the Chambers of Commerce and Industry are authorized to manage the business registries. See <https://www.miempresaenlinea.org/>.
8. Article 5 of Decree No. 284-2013 of June 5, 2013, states: “The establishment of a paid-in minimum capital amount at the time a company is created shall be strictly voluntary.”
9. For now, the only procedure that can be done electronically through Mi Empresa en Línea is drafting the articles of incorporation, through a corporate contract (in 0.5 days); this is equivalent to establishing a company using the services of a notary, as in procedure 2. However, it is still necessary, as a next step, to go in person to the business registry at the Chamber of Commerce and Industry to sign the contract before the registrar.
10. This according to statistics provided by the Chamber of Commerce and Industry of Cortés (CCIC) for companies similar to the one in the *Doing Business* case study.
11. *Ibid.*
12. The type of billing system is selected using form SAR-926.
13. Article 384 of the Commercial Code states: “Every merchant shall register in the respective Chamber of Commerce and Industry.”
14. The municipal Electronic Management System (Sistema de Gestión Electrónica) is available at <https://licencias.sanpedrosula.hn/.292>.
15. In Tegucigalpa the process takes 42 days and costs HNL 15,616 (\$654)—in other words, HNL 4,850 (\$203) less than in San Pedro Sula.
16. *Doing Business* does not measure San Pedro Sula for the global ranking. The city that represents Honduras is Tegucigalpa.
17. The economies where more procedures are required are Algeria, Argentina, Bolivia, Bosnia and Herzegovina, Equatorial Guinea, Eritrea, Eswatini, Haiti, Indonesia (Surabaya), the Philippines, South Sudan, Uganda and Venezuela.
18. The selection of the billing system is done at the SAR Virtual Office, by filling out form SAR-926 on one of the computers that SAR makes available to applicants.
19. The website for the business registry is <https://www.ccichonduras.org/website/registro-mercantil/>.
20. This procedure can be done at the same time as notifying the SAR of commencement of operations (one day) and registering the company in the INFOP (one day) and the RAP (two days). Having simultaneous procedures saves about four days.
21. Agreement No. 001-2018 of the Union of Notaries of Honduras, June 20, 2018.
22. This is the average across five Central American economies: Costa Rica, El Salvador, Guatemala, Nicaragua and Panama. In Belize a notary is not involved in the process.
23. Municipal fees represent 72.9% of the total cost in Belize and 42.1% in Nicaragua.
24. The entrepreneur must also pay HNL 4,636 (\$194) for payment of public services to the municipality; these are not included in this study because they

are monthly payments, although the first one is due when the business opens. The amounts to be paid appear in the San Pedro Sula Tax Plan.

25. Article 50 of the San Pedro Sula Tax Plan.
26. Ley para la Generación de Empleo, Fomento a la Iniciativa Empresarial, Formalización de Negocios y Protección a los Derechos de los Inversionistas, approved by Decree No. 284-2013 of June 5, 2014.
27. Article 15 of Agreement No. 001-2018 establishes 2% as the fee for share capital of HNL 500,000 to 5 million (\$20,930 to \$209,303). Under the *Doing Business* case study, the start-up capital in Honduras is HNL 556,609 (\$23,300), 10 times the national income per capita.
28. Ley de Apoyo a la Micro y Pequeña Empresa, approved by Decree No. 145-2018 of December 28, 2018.
29. According to statistics provided by the Chamber of Commerce and Industry of Cortés. Data through June 2019.
30. Executive Decree No. PCM 083-2015 of February 10, 2016, replaced the DEI, and Executive Decree No. PCM 084-2015 of February 27, 2016, created the SAR.
31. Decree No. 170-2016 of December 28, 2016.
32. For more information on Panamá Emprende, visit the website: [www.panamaemprende.gob.pa](http://www.panamaemprende.gob.pa).
33. Visit the website for the city of Puebla: <http://www.pueblacapital.gob.mx/>.
34. This procedure is established legally in Articles 629 and 630 of the Municipality of Puebla Statutory Code, which entered into force in 2015.
35. The San Pedro Sula Tax Plan requires licenses to be renewed every year.
36. Created by Decree No. 284-2013 of June 5, 2014.
37. See the CCIC Portal Empresarial: <https://www.ccichonduras.org/website/portal-empresarial/>.
38. The Executive Directorate of Revenue (Dirección Ejecutiva de Ingresos, DEI) used to have a presence on the portal. The SAR, which replaced the DEI, currently does not.
39. For example, every day a municipal employee physically retrieves the information received on the portal for the municipality.
40. Simplifying the tax burden is one of the chief demands of the private sector, which maintains that the complexity of the tax system is one of the main barriers to formalizing a business in Honduras. EFE. August 2, 2019. “Empresarios hondureños proponen simplificar el pago de impuestos.” Available at <https://www.efc.com/efc/america/economia/empresarios-hondurenos-proponen-simplificar-el-pago-de-impuestos/20000011-4035731>.
41. In Central America, only in Belize and Nicaragua is it necessary to invest more to obtain a business license.
42. The five top-ranked economies in the region are Jamaica, Panama, Puerto Rico (United States), Uruguay and Dominica. Source: *Doing Business*.
43. While the business registry in San Pedro Sula is connected to the Property Institute’s unified system (SINAP) via SURE, Tegucigalpa has its own system and is not linked to SINAP.
44. The Tegucigalpa and San Pedro Sula registries are available at the following websites: <https://ccit.hn/registromercantil/> and [https://www.ccichonduras.org/website/app/consulta-registro-mercantil/Consulta\\_de\\_empresas.htm](https://www.ccichonduras.org/website/app/consulta-registro-mercantil/Consulta_de_empresas.htm), respectively.
45. El Salvador’s online portal is at <https://www.miem-presa.gob.sv/>.
46. Costa Rica’s online portal is at <https://www.rnp-digital.com/>.





## Dealing with construction permits

### MAIN FINDINGS

- Dealing with construction permits in San Pedro Sula requires 17 procedures, which take 112 days and cost 5.3% of the warehouse value. Tegucigalpa requires the same number of procedures, but the process takes longer (132 days) and is more costly (11.4%).
- If San Pedro Sula were to represent Honduras on the ease of dealing with construction permits ranking in the global Doing Business 2020 study, it would rank 122 out of 190 economies, 36 positions ahead of Tegucigalpa but behind other economies in the region such as Costa Rica (78) or the Dominican Republic (80).
- Preconstruction procedures are the main bottlenecks for builders, accounting for 10 of the procedures and more than 50% of the time involved. Medellín (Colombia) requires half the procedures, while Puebla (Mexico) requires only one procedure before construction.
- San Pedro Sula and Tegucigalpa perform the same on the building quality control index (9 out of the 15 possible points). However, there are differences between the two in the enforcement of inspections and the transparency and quality of regulations.
- Since 2015, San Pedro Sula has implemented some changes that make it easier to obtain construction permits, but it still has room to improve to make the process more efficient. Among the main challenges: simplifying the steps before construction and opting for new technologies.

A smart city—in other words, one that makes the individual the focus of sustainable development and incorporates information and communication technologies as part of urban management<sup>1</sup>—requires a fully functioning construction sector. In Honduras this sector accounts for 5.5% of the GDP,<sup>2</sup> creates jobs and builds an industrial and civil infrastructure that allows business to thrive. In San Pedro Sula the construction sector generates a significant number of direct and indirect jobs, with a growth rate in the last two years of between 5% and 6%.<sup>3</sup> However, builders in this city still encounter numerous bureaucratic obstacles to complete the 17 steps it takes to obtain a construction permit, in addition to facing delays in the process.

A construction permitting system that is simple and at the same time promotes building safety is important for economic growth and public safety. Various studies have shown that delays in issuing these permits can lead to higher transaction costs and fewer construction projects.<sup>4</sup> However, it is not always easy to find the right balance between safety and efficiency in regulating construction. Regulations that are too complex can act as a disincentive to a formal construction process, undermining their intention. The challenge for the authorities in San Pedro Sula is to create sensible regulations that ensure safety without imposing requirements that are disproportionate to the type of building project.

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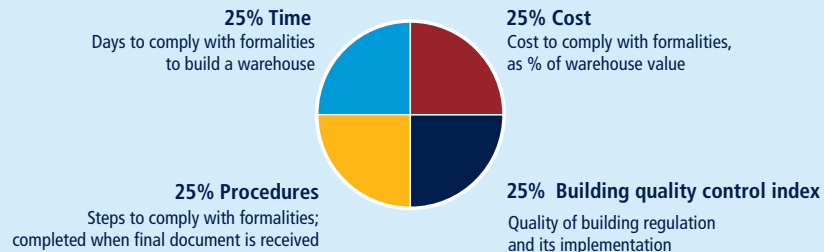
## HOW DOES CONSTRUCTION PERMITTING WORK IN SAN PEDRO SULA?

The process of examining and issuing construction permits in Honduras is the responsibility of municipal governments.<sup>5</sup> In San Pedro Sula the regulatory instruments that establish the guidelines for examining and granting local construction permits are the Zoning and Urban Planning Ordinance (*Ordenanza de Zonificación y Urbanización*) and the Tax Plan (*Plan de Arbitrios*).

Seventeen procedures are required to obtain the necessary approvals to build a warehouse and connect it to water and sewage services in San Pedro Sula. Ten of these procedures are carried out before construction, three during and four after the project is finished (figure 4.1). The first step is to (1) obtain the design guidelines at the municipality. The guidelines provide information about zoning, permitted uses and the total area available for construction, among other necessary elements for designing the building plans. With these guidelines, the builder (2) requests the water and sewer connection points from the municipal Environment Directorate (formerly the DIMA).<sup>6</sup> This office reviews the application and sends it on to the local utility, Aguas de San Pedro (private concessionaire), for confirmation of the feasibility of the service and the points of connection. At the same time, (3) the builder requests a topographical study from a private laboratory. To request a technical review of the project from the relevant professional associations,<sup>7</sup> the builder first (4) purchases the required stamps from each association, as well as the logbooks for the person overseeing the project, and obtains the proof of solvency, as well as (5) a review of the planned evacuation routes and electrical system by the San Pedro Sula

## WHAT DOES DEALING WITH CONSTRUCTION PERMITS MEASURE?

Rankings are based on scores for four indicators



To measure the ease of dealing with construction permits, *Doing Business* records the procedures, time and cost required for a small or medium-size business to obtain the approvals needed to build a commercial warehouse and connect it to water and sewerage. This includes all inspections and certificates needed before, during and after construction of the warehouse. To make the data comparable across locations, it is assumed that the warehouse is in the periurban area of the analyzed business city, that it is not in a special

economic or industrial zone and that it will be used for the general storage of nonhazardous materials. Procedures that apply to housing constructions are not considered.

In addition, *Doing Business* compiles a building quality control index that measures the underlying quality of construction regulations and controls. The index accounts for one-fourth of the ease of doing business score for dealing with construction permits (see figure).<sup>a</sup>

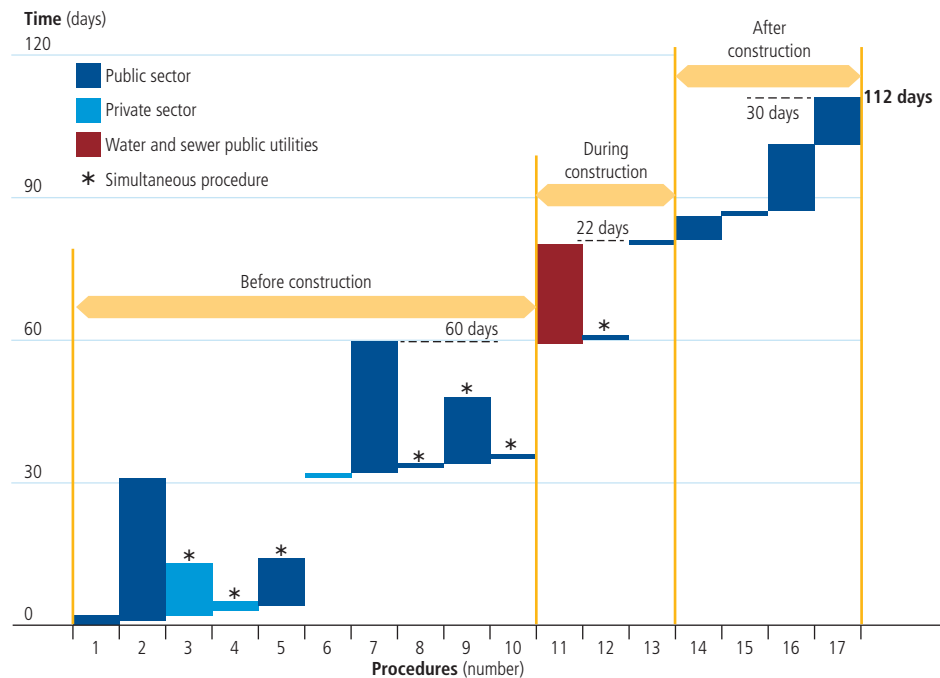
a. For more information about assumptions for the case study, see the Data notes.

Fire Department. With these initial documents and the draft blueprints in hand, the builder (6) requests a technical review from the professional associations to verify that the existing standards and codes in the country are being applied correctly. There are two options for this step. The builder can either go to each of the three professional associations separately or else go to the municipality to have the plans reviewed by representatives of the associations in one place. In practice, it is more common for builders to choose the latter option.

After obtaining the technical review, the builder applies for a construction permit at the city's one-stop shop for such procedures, the Ventanilla Única de Atención de Trámites (box 4.1). To do this, the builder brings in three folders with the building plans. The first is for the Environment Directorate, which (7) reviews the hydraulic plans, generates cost information on incorporating the water and sewer system and (8) inspects the building site before completing the environmental review. The other two folders are for the Department of Buildings and Construction Permits (Departamento de Edificaciones y Permisos de Construcción), which (9) reviews the project and (10) also does a site inspection to ensure that construction has not begun before the permit is issued. If no comments are made on the project documents, the municipality proceeds to issue the permit.

During the construction stage, the builder (11) requests the final connection of water and sewer services from Aguas de San Pedro and (12) undergoes

**FIGURE 4.1** Dealing with construction permits in San Pedro Sula involves 17 steps, most of them before construction begins



Source: Doing Business database.

Note: This diagram shows the basic steps for dealing with construction permits in San Pedro Sula. For detailed information about each procedure, see the list of procedures.

at least one inspection from the municipality. Before construction is finished, the builder (13) receives another inspection from the Fire Department to verify that the security systems are in line with the contingency plan.

Once the building is finished, the builder (14) returns the construction permit, or a copy of it, to the municipality. After the permit is returned, the project (15) receives a final inspection from the municipality to verify that the building follows the blueprints that were authorized in the construction permit. If the inspection shows that to be the case, the municipality then (16) issues the certificate of use or occupancy that authorizes the building to be occupied. The certificate is sent internally to the municipal cadastre to be recorded. Although these last procedures with the municipality are required under local statutes, they rarely occur in practice due to a lack of municipal oversight and builders' lack of awareness about the requirements. A builder must also (17) register the new structure with the Property Institute of Honduras. This last procedure enables the building to be legally recognized, facilitates its transfer in the future and provides a valuation.

### How does San Pedro Sula compare regionally and globally?

The 17 procedures needed to obtain the permits to build a warehouse and connect it to water and sewer services take 112 days and cost HNL 147,581



## BOX 4.1

**One-stop shop in San Pedro Sula: a first step toward simplifying the construction permitting process**

In late 2015 San Pedro Sula opened a one-stop shop (Ventanilla Única de Atención de Trámites) to handle construction permits, among other procedures. The initiative falls under a transparency and modernization process underway in the city and aims to avoid excessive bureaucracy and irregularities when it comes to issuing construction permits. It requires the builder to comply with and present all the requirements included on the single form used to apply for the permit.

One of the main advantages of the one-stop shop is convenience. Instead of making separate trips to the offices of the Environment Directorate and the Department of Buildings and Construction Permits, the builder can turn in all the documents to each of the offices in the same building.<sup>a</sup> The one-stop shop has also made it easier for different municipal offices to exchange information. The Municipal Revenue

Division makes information available to the Department of Buildings and Construction Permits related to whether the taxpayers owe the city money, which facilitates internal consultations within the one-stop shop. Likewise, once a month the Department of Buildings and Construction Permits notifies the municipal cadastre about the projects that have been approved and the use certificates issued.

Currently, the one-stop shop functions as an in-person mechanism and is limited to certain municipal departments. Through a strategic project under the Municipal Development Master Plan,<sup>b</sup> the municipality has begun conversations to expand the one-stop shop to include other areas—for example, the Fire Department—and to work on an online version of the one-stop shop.

- a. The San Pedro Sula municipal offices are located in the Galerías del Valle Mall.
- b. The Municipal Development Master Plan 2018-2042 lays out guidelines to help transform the metropolitan area of San Pedro Sula into a smart, resilient city. The strategy is linked to a platform of the smart city as a way to make Honduras more competitive in the next two decades.

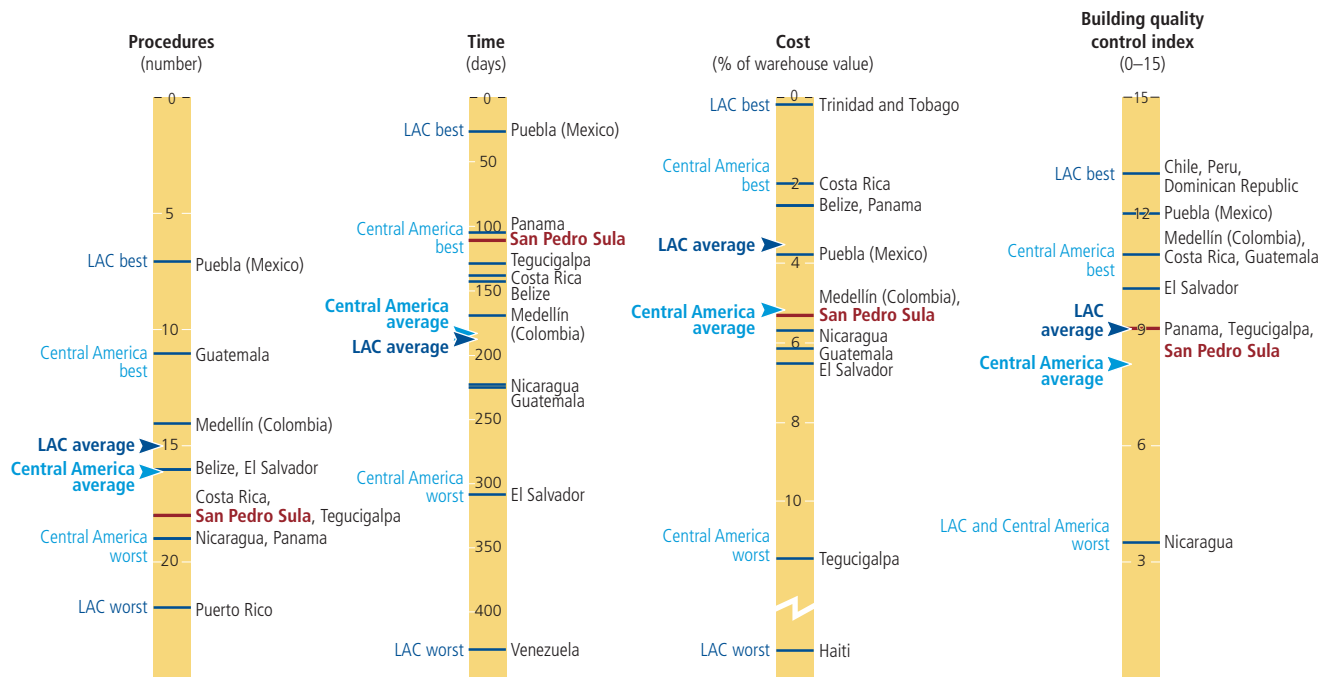
(\$6,178), or 5.3% of the warehouse value. Although this process is 11 weeks faster than the average for Latin America and the Caribbean, it is nearly 50% more expensive and is more complex than the global average (15 procedures) among the 190 economies measured by *Doing Business*. On the building quality control index, San Pedro Sula scores 9 out of the 15 possible points—the same as the average for Tegucigalpa and for Latin America and the Caribbean but below economies such as Puebla (Mexico) or El Salvador (figure 4.2).

**How does San Pedro Sula compare on the number of procedures?**

As in Nicaragua and Tegucigalpa, the preconstruction stage in San Pedro Sula is the most complex part of the process; it requires 10 procedures, nearly 60% of the total. Globally, 86% of the 190 economies measured by *Doing Business* require fewer procedures for the same process. Economies such as Puebla, to cite one example, require just one procedure to apply for a construction permit, thanks to the consolidation of previous procedures into a single project file<sup>8</sup> (figure 4.3).

Even though San Pedro Sula and Tegucigalpa require the same number of procedures, the types of procedures vary, mainly due to municipal requirements. In Tegucigalpa the geotechnical study/soil test is an essential step in requesting a construction permit due to the precarious terrain in that city,<sup>2</sup> while in San Pedro Sula that is not the case; this step applies in practice only for housing development projects, shopping centers or other large-scale projects.

**FIGURE 4.2** Dealing with construction permits in Central America and in Latin America and the Caribbean—where is it easiest?



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/> subnational). The rest of the data are based on *Doing Business 2020*.

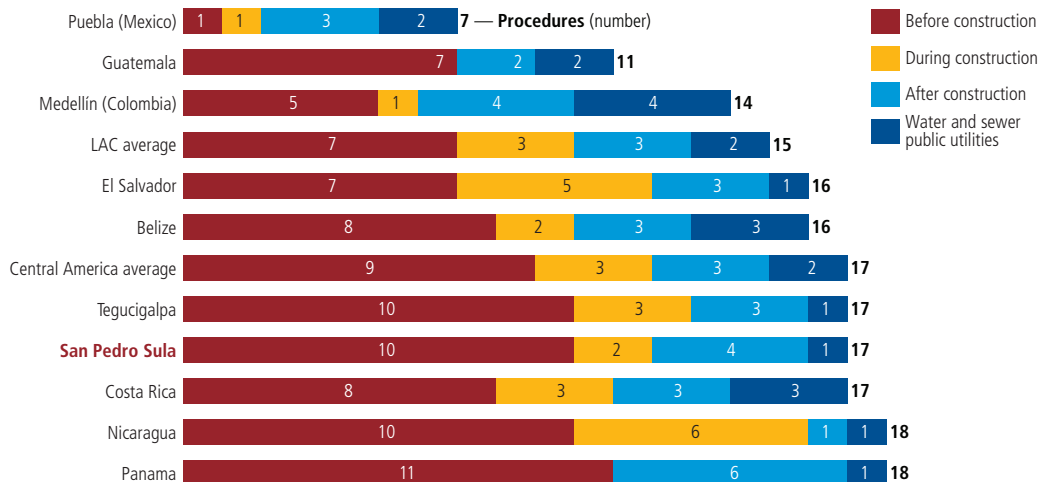
In San Pedro Sula both the Tax Plan and the Zoning and Urban Planning Ordinance require a certificate of use or occupancy at the end of the construction project; regulations in Tegucigalpa do not require this as part of the process.<sup>10</sup>

One of the most notable differences compared with the capital city is the participation of professional associations in the technical review process. In Tegucigalpa these associations do not have agreements with the municipality for the technical review of the project file; their participation is limited to verifying that the architect or engineer in charge of the project is duly registered with the relevant professional association. However, in San Pedro Sula or in economies such as Peru, the professional associations participate in the approval process for construction permits, reviewing the building plans related to their specialty.

### How does San Pedro Sula compare in terms of time?

The time needed to obtain a construction permit in San Pedro Sula (112 days) is nearly three weeks faster than in Tegucigalpa and nearly four and seven months faster than in the neighboring economies of Guatemala and El Salvador, respectively. However, there is still room to improve when compared with

**FIGURE 4.3** The preconstruction phase represents nearly 60% of the procedures in San Pedro Sula and is more complex than the average for Latin America and the Caribbean



LAC = Latin America and Caribbean

Source: *Doing Business* database.

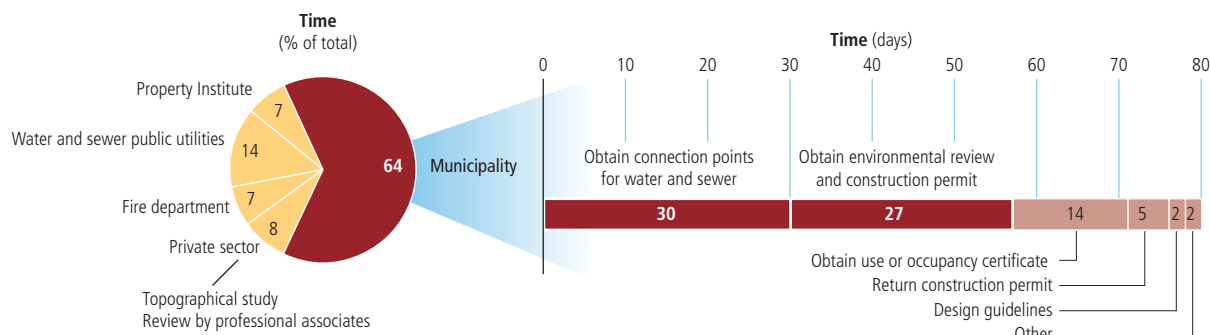
Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

other economies; for example, the process takes nearly three months longer in San Pedro Sula than in Puebla. Municipal procedures account for 64% of the total time in San Pedro Sula, making them the main source of delays during the process (figure 4.4).

Officials and construction professionals often cite administrative bureaucracy and lack of coordination with other municipal services as the main factors that slow down the process. In fact, to obtain the connection points for water and sewer, the builder starts out at the Environment Directorate. Once the application has been reviewed, an official from that office sends the project file to Aguas de San Pedro. The utility reviews and returns the file with the information on the connection points to the Environment Directorate, which then informs the builder. In the best of cases, the process takes 15 days at each entity.

In addition, after a technical review by the professional associations and the Fire Department, the project file goes to the municipality to be reviewed by the Department of Buildings and Construction Permits and the Environment Directorate. Even though there are more than 20 staff members who among them approve an average of 70 construction permits per month,<sup>11</sup> additional delays come up due to poorly coordinated internal procedures (including two separate inspections by these municipal departments before a construction permit is issued) and a lack of uniform standards among the personnel who review the files.

**FIGURE 4.4** Obtaining connection points for public services and an environmental review of the blueprints from the municipality are the steps that take the longest time in the entire process, at 57 days



Source: *Doing Business* database.

Note: Municipal procedures that take place simultaneously with other procedures are not reflected in the bar figure. For detailed information, see the section "List of procedures".

### How does San Pedro Sula compare in terms of cost?

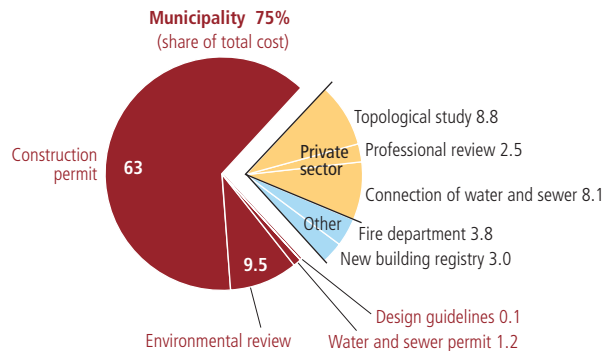
The cost of dealing with construction permits is less than half for a builder in San Pedro Sula (5.3% of the warehouse value) than in Tegucigalpa (11.4%). However, in Belize, Costa Rica or Panama the builder would in turn pay less than half of what it costs in San Pedro Sula.

The expense of obtaining a construction permit in San Pedro Sula includes different categories: costs paid to the private sector, including those associated with the professional associations and with Aguas de San Pedro; those paid to the municipality; and costs the builder pays to national entities such as the Property Institute and the Fire Department (figure 4.5).

Processing fees paid to municipal agencies are the most onerous costs; taken together, they represent nearly three fourths of the total. The cost of obtaining a construction permit—HNL 7,000 (\$293) per square meter of construction—is the biggest portion and is determined based on the cost table in the San Pedro Sula Tax Plan. Based on the project budget, the builder may present an affidavit declaring a higher value than that established in the Tax Plan. The resulting value is used to determine the rate for the construction permit (1% of the value of the project + HNL 1,850, equivalent to \$77, for a review fee). The next highest costs at the municipality are for reviewing the hydraulic plans and for calculating the connection fees for water and sewer service, which come to HNL 14,015 (\$587). These costs vary depending on the number of connections, residents per unit and the projected level of use of the service.

The process is costlier in Tegucigalpa, largely because of the geotechnical study/soil test and the procedures involved in the water and sewer connections, due to the characteristics of the terrain and the shortage of potable water in the capital.<sup>12</sup> The cost per square meter is also higher—HNL 8,500 (\$356). However, the expense for topographical studies is similar to that in San Pedro Sula, and the costs for registering the new structure do not vary between the cities because they are established nationally.

**FIGURE 4.5** Procedures at the municipality represent nearly 75% of the total cost of the process



Source: *Doing Business* database.

### Building quality control index

The building quality control index measures whether quality control and safety mechanisms exist across six areas whose potential scores add up to 15 points: transparency and quality of building regulations (2 points); quality control at three stages—before (1 point), during (3 points) and after construction (3 points); liability and insurance regimes (2 points); and certifications of professionals involved in the process (4 points). Although San Pedro Sula scores the same as the capital city—9 points—there are differences in the implementation of the quality control mechanisms and in the transparency and quality of regulations.

### TRANSPARENCY AND QUALITY OF BUILDING REGULATIONS

San Pedro Sula's ranking on transparency and quality of regulation is on par with the averages for the Latin American economies and the OECD high-income economies. Municipal regulations are accessible to the public free of charge (1 point). Additionally, the list of requirements for obtaining a building permit, the fees to be paid and all required prior procedures are available for consultation online or at the request of the interested party by mail, e-mail, telephone or in person (1 point). In Tegucigalpa, although the builder may request the list of requirements for obtaining a building permit (1 point), regulations for the sector are not available free of charge to the public, which makes access difficult (0 points).

### QUALITY CONTROL BEFORE, DURING AND AFTER CONSTRUCTION

When reviews and approvals of building designs and plans are carried out by qualified personnel, this can mitigate the risk of future structural defects. Both in San Pedro Sula and in Tegucigalpa, architecture and engineering professionals are part of the team that reviews and approves projects (1 point).

During construction, municipal regulations in San Pedro Sula and Tegucigalpa require inspections at different stages of the process (1 point), although these are not based on risk criteria (0 points). In practice, neither of the cities inspects all construction projects (0 points).

After construction, 94% of the world's economies legally mandate a final inspection by an in-house supervising engineer, an external engineer or a government agency. San Pedro Sula and Tegucigalpa are included in that majority (2 points). However, among the economies that require a final inspection, only 26% carry it out in practice. In Honduras, Tegucigalpa exercises more rigorous final control, carrying out all final inspections; San Pedro Sula does not always perform the final inspections (0 points).

#### **LIABILITY AND INSURANCE REGIMES**

When a structural defect is discovered during construction, it can be corrected in time. But some defects occur or are discovered some time after the building has been finished and occupied and can end up causing harm to the occupants or to others. Construction regulations in both San Pedro Sula and Tegucigalpa specify up front that the architect or engineer who designed the plans, the supervisor who is in charge and the construction company are liable for structural defects (1 point). However, there is no legal requirement to obtain an insurance policy to cover structural defects once the building is in use (0 points).

#### **CERTIFICATIONS OF PROFESSIONALS INVOLVED IN THE PROCESS**

It is important for professionals in the construction sector to have appropriate technical qualifications. In San Pedro Sula and Tegucigalpa both the professionals who review the plans and those who supervise the construction projects must have a university degree in architecture or engineering and be registered in a professional association (2 points). Economies such as Chile or the Dominican Republic, which attain the maximum score in this area (4 points), also require a minimum number of years of experience.

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## **WHAT HAS CHANGED SINCE 2015?**

Since the publication in 2015 of the study *Doing Business in Central America and the Dominican Republic 2015*—which measured San Pedro Sula as part of a regional study—builders in San Pedro Sula have seen an improvement in quality in the construction permitting process and the simplification of some procedures. However, they have also seen new procedures and costs added.

Before 2016, the municipality of San Pedro Sula required a pre-review of projects before the technical review could be requested from the professional associations. In late 2015, as part of its Management Improvement and Modernization Program, San Pedro Sula did a survey of its internal processes and determined areas in which there were duplications. As a result, it eliminated the pre-review requirement and introduced the F-01 single form and procedural guidelines.<sup>13</sup> The municipality added new information to the design guidelines,<sup>14</sup> which made it possible for the builder to draw up building plans in line with the current guidelines without having to consult the municipality beforehand. This procedure became optional, and builders generally request it only for larger-scale projects.

This process of improvement also included changes in quality. Before, some staff members at the municipality had basic skills at the secondary school level,

and the head of the Department of Buildings and Construction Permits did not have a team of architecture and engineering professionals to take part in the decision-making process. In 2016 the municipality began a process to professionalize the department. It put in place a requirement that those in charge of reviewing projects had to have at least a university degree in architecture or engineering; it also brought in students majoring in architecture or civil engineering to assist in the decision-making process. The entire project review process follows a pyramid decision-making structure until the documents reach the director of the department, who authorizes the projects.

Despite these steps forward—which cut out one procedure and led to an increase of 2 points on the building quality control index—two new procedures were also added, which made the process more complex. In 2016, due to administrative changes and attempts at greater efficiency, the San Pedro Sula Fire Department went from being a municipal entity to become part of the national Fire Department of Honduras. The new administration changed the way the institution operates and strengthened safety procedures for construction. A builder working on a project for commercial, industrial or service-related use must now have the Fire Department review safety plans—evacuation routes and electrical systems. A final inspection is also required to verify the safety systems and ensure that the guidelines for contingency plans have been followed. Even though this did not result in a net change in terms of time, the builder’s cost went up due to the review by the Fire Department (0.2% of the cost of the project).

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## WHAT CAN BE IMPROVED?

### **SIMPLIFY PRECONSTRUCTION PROCEDURES AND IMPROVE COORDINATION AMONG OFFICES**

Simplifying and expediting preconstruction procedures can provide incentives for obtaining construction permits, resulting in a larger number of legal, safe buildings. Currently a builder who wants to get a construction permit in San Pedro Sula needs to interact with the professional associations, private laboratories, the Fire Department, the Environment Directorate and the Department of Buildings and Construction Permits.

Although the municipality’s one-stop shop has sought to reduce the number of interactions, challenges remain. Representatives of the professional associations are available at the municipal one-stop shop only on Monday, Wednesday and Friday mornings. Builders who cannot accommodate their schedules accordingly must visit each professional association separately, complicating the permitting process. Moreover, even though the builder goes to only one building to apply for the permit, it is still necessary to proceed in turn and present the documents separately at each department window at the municipality. In Puebla, for example, the city government facilitated the process of obtaining construction permits by joining five procedures into one file. It also eliminated the need for a prior visit to issue a construction license and exempted low-impact projects from an authorization from the Fire Department.

In the short and medium term, the municipality of San Pedro Sula could continue to improve coordination with the various institutions that are involved in the process. For example, if the conversations about including the Fire Department in the municipality's one-stop shop were brought to fruition, this would not only simplify the process but also save the builder around 10 days. To be able to do this, it is important to unify the criteria for evaluating projects, since there is currently no standardized risk classification used by the Fire Department, the professional associations and the municipality. Similarly, information on the feasibility of the public services and points of connection could be reconciled at the municipality's Environment Directorate, avoiding the internal interaction with Aguas de San Pedro and trimming the total process by at least two weeks. In the long term, San Pedro Sula could improve inter-agency coordination even more by digitizing zoning maps through a working geographic information system (GIS)<sup>15</sup> tied to the municipality's Zoning and Urban Planning Ordinance. In 2016 the city of Tunja (Colombia) eliminated three procedures related to obtaining a certificate of land use and replaced them with an internal consultation through the municipal government GIS; it also eliminated an additional procedure by combining the certification of availability of water and sewer connections with the approval of connection points and utility hookup data. A similar system in San Pedro Sula would enable builders to superimpose their project blueprints on zoning plans, as well as on requirements for planning and public services, and would help to speed up the approval process for low-risk projects.

#### **INTRODUCE IMPROVEMENTS TO MAKE THE ONE-STOP SHOP MORE EFFICIENT**

With the introduction of a one-stop shop in 2015, San Pedro Sula has made important strides toward ensuring coordinated and consistent steps in the process to obtain construction permits. However, logistical and coordination issues among the relevant offices are still making it difficult for the improvements that were introduced to be translated into shorter times for builders. Improving the one-stop shop through more efficient coordination among the various offices and standardizing the criteria on which to evaluate projects is the first step if the current service is to function as a true one-stop shop and reduce the builder's interactions with the various departments. Later, the municipality could consider gradually adopting an electronic platform that would allow the process to be handled online from the time a construction permit is requested until it is delivered, bringing additional benefits to builders in San Pedro Sula (figure 4.6). But some economies have been able to move directly to exchanging information electronically without first resorting to the in-person option, as long as the procedures are suitable and well designed.

Globally, Serbia stands out on the dealing with construction permits indicator because of the significant progress it has made in recent years; it went from being among the worst 10 economies in *Doing Business 2015* to among the top 10 in the 2019 edition. In 2016 this economy implemented an electronic platform to improve the preconstruction process, and interconnected the various offices that were relevant to the system. In just three years, Serbia managed to cut the time to get a construction permit from 11 months in 2016 to just 3 in 2019.



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**FIGURE 4.6** A one-stop shop for a more efficient construction permitting process


An electronic construction permitting process in San Pedro Sula would allow for more efficient interactions among the various players involved—builder, municipality, professional associations, utility and public registry. For example, both the representatives of the professional associations and municipal government staff could have access to the project file at the same time to perform their respective reviews, eliminating at least one procedure and reducing the time the process now takes. Similarly, an agreement between the municipality and the Property Institute of Honduras would enable information on the new construction project to be updated on the spot, without placing that burden on the builder. Finally, the certificate of use or occupancy could be issued online, saving the builder time and steps. The municipality could continue to analyze the workflow to eliminate redundancies and identify bottlenecks, in order to improve the application monitoring process. These steps, combined with a risk-based approach, could reduce approval times without compromising safety.

However, the success of an electronic platform in San Pedro Sula will require not just good coordination among the different offices involved but also a considerable investment in the city's infrastructure networks. In general, migrating toward electronic procedures is tied to ambitious regulatory reforms and e-government programs. Municipal staff members also need to be trained in how to operate and maintain the new electronic systems.

### **INTRODUCE MANDATORY INSURANCE FOR LATENT DEFECTS**

In San Pedro Sula none of the parties involved in the construction process—architect, construction company, engineer overseeing the project—is required to obtain a latent defect liability insurance policy to cover possible structural flaws or problems with the building once it is in use. A functional liability regime should be combined with a mandatory insurance system for the parties involved. In Colombia, for example, a new reform in 2016 made builders liable for any defect in the building once construction has been completed.<sup>16</sup> This guarantee of coverage lasts 10 years (decennial liability insurance) after the occupancy certificate has been issued. In economies such as Australia and France liability

is shared between the builder and the architect who designed the plans. Both parties must buy decennial construction liability insurance. Having legally mandated insurance not only incentivizes construction by creating an efficient restitution mechanism; it also is important for small and medium-size companies, as it helps them protect themselves from the high costs of structural damage.

**ESTABLISH INSPECTION CRITERIA BASED ON COMPLEXITY AND RISK AND CONSIDER GETTING THE PRIVATE SECTOR INVOLVED IN CARRYING OUT INSPECTIONS**

One of the main challenges for San Pedro Sula to be able to improve the quality of the process of obtaining construction permits is quality control in the field. Inspections during construction are not always carried out in practice and are not risk-based. Adopting a classification system to regulate the project inspection system would help to optimize the time, resources and personnel allocated, in line with the needs of each project. Globally, a number of economies ensure quality control through risk-based inspections of construction projects. In Austria, New Zealand and the United Arab Emirates, for example, the frequency of inspections is related to the complexity of the project and its associated risks, without compromising public safety. Certainly, projects that are less complex and less risky require less oversight than structures that are more complex. However, inspections based on complexity and risk criteria demand stricter requirements related to the technical capabilities and qualifications of those performing them.

San Pedro Sula already has mechanisms to establish the professional qualifications of those who review architectural plans and oversee construction projects. These could be adapted so that private sector professionals involved in the projects could carry out these types of tasks, given that the municipality does not have enough qualified personnel to inspect all the projects underway. A nearby example is Mexico, where the directors in charge of the projects, as members of professional associations, are assigned oversight of the construction project at every stage. Similar strategies have been implemented successfully in economies such as Germany and Australia, but these experiences have shown that transparent and strict liability and sanction mechanisms are also needed, in case of a failure to comply.

**STRENGTHEN THE SYSTEMS FOR FINAL QUALITY CONTROL OF THE PROJECT AND EVALUATE THE EFFECTIVENESS OF HOW THE CERTIFICATE OF USE OR OCCUPANCY IS HANDLED**

Municipal regulations in San Pedro Sula require the builder to request a certificate of use or occupancy when the project is finished. This document certifies that the new building is in compliance with the terms approved in the construction permit. However, in practice builders do not apply for the certificate, nor do the authorities exercise oversight over finished works.

Under the current scheme, obtaining this certificate takes on average 14 days due to the wait time between the return of the construction permit and the final inspection. In economies with good practices in final quality control, such as Canada or Portugal, the inspector turns in the certificate when the

inspection is completed if the project was carried out in line with what was approved in the construction permit.

Reviewing and strengthening the criteria for systematizing and requiring the certificate of use or occupancy would enable the municipal authorities in San Pedro Sula not only to improve urban planning but also to help update the city's cadastral data and strengthen municipal finances through the collection of taxes.

## NOTES

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4. Hamman, Sonia. 2014. Housing Matters. Policy Research Working Paper 6876. Washington, DC: World Bank.
5. Honduras has no national regulatory framework for urban planning and construction. Although there is a Honduran Construction Code, developed by the professional associations, this is limited to general characteristics and design aspects of buildings and has fallen into disuse. It was last updated in 2012.
6. In late 2018, as part of a restructuring in which the municipal government sought to put its processes in order and improve services, San Pedro Sula authorities, among other things, changed the name of the office from the Municipal Environment Division (DIMA) to the Environment Directorate (Gerencia de Ambiente).
7. In 1996 an agreement for reciprocal cooperation and assistance was signed between the Municipal Corporation of San Pedro Sula, the College of Civil Engineers of Honduras (CICH), the College of Architects of Honduras (CAH) and the College of Mechanical Engineers, Electricians and Chemists of Honduras (CIMEQH), establishing the roles of these professional associations in order to simplify the construction permitting process (Agreement No. 05 of Act 48, October 31, 1996).
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9. El Heraldo. June 20, 2017. “Al menos 17 fallas geológicas amenazan el Distrito Central.” Available at <https://www.elheraldo.hn/>.
10. Regulations on Zoning, Construction Projects and Land Use in the Central District, approved in 2014 through Agreement No. 017, and its amendments, approved in 2017 through Agreement No. 002.
11. Statistics on meters approved by use, permits approved per month and personnel (2015–2019). Department of Buildings and Construction Permits. Municipality of San Pedro Sula.
12. La Tribuna. October 12, 2019. “Preocupación en el Sanaa [Servicio Autónomo Nacional de Acueductos y Alcantarillados] por baja reserva para 2020.” Available at <https://www.latribuna.hn/2019/10/12/preocupacion-en-el-sanaa-por-baja-reserva-para-2020/>.
13. Form F-01 includes all the requirements for requesting a construction permit and is available in both digital and paper format.
14. Before, the guidelines provided information only on building setbacks, in other words the places where construction is prohibited, and on zoning. The new changes included information on occupancy rate, setback ratios, rights of way and number of parking spaces, among other specifications.
15. A GIS is an integrated system of equipment, programs and trained personnel capable of assembling, storing, manipulating and displaying topographical and demographic data, data related to public services, images and other resources that may be geographically referenced.
16. Promulgation of Law 1796 of 2016, which regulates the operation of the General System for Social Security in Health and includes other provisions.



## Registering property

### MAIN FINDINGS

- The process of transferring property in San Pedro Sula requires six procedures, takes 26.5 days and costs 3.7% of the property value.
- The process is five weeks shorter in San Pedro Sula than in the average economy in Latin America and the Caribbean, in addition to being less complex and less expensive.
- If San Pedro Sula were to represent Honduras in the rankings on the ease of registering property in the global Doing Business 2020 study, it would rank in position 76 out of 190 economies—better than Panama (87) or El Salvador (79).
- Entrepreneurs in San Pedro Sula pay less to transfer a property today than they did four years ago, thanks to lower notary fees and online verification of historical property records.
- Some neighboring economies are more efficient in transferring property. The process in Costa Rica and Puebla (Mexico) is two weeks shorter; in Medellín (Colombia) it takes just 15 days, even though there are eight procedures. The process is also less onerous in Guatemala and Panama than in San Pedro Sula.
- On the quality of land administration index, San Pedro Sula scores 13.5 out of the 30 possible points, slightly above the average for Latin America and the Caribbean. Even so, it has room to improve in terms of geographic coverage in land ownership registration and cadastral mapping, as well as in transparency of information.

**H**onduras has undertaken many efforts to ensure legal certainty over the rights to own and transfer property. In 2004 it created the Property Institute (Instituto de la Propiedad, IP)<sup>1</sup> as the governing agency responsible for creating and operating an integrated system that includes property registration, the national cadastral system and the National Land Regularization Program (Programa Nacional de Regularización Predial). This reform helped to improve the geographic coverage of the land registry and the cadastre, as well as the disclosure, coordination and reliability of the data; it also laid the groundwork for the digitization of property records, assigning registration numbers and gradually eliminating the use of books or volumes.

An efficient system for transferring and registering immovable property, by establishing and clarifying property rights, leads to more investment and higher productivity and spurs economic growth over the long term.<sup>3</sup> Having legal certainty in the form of access to land and assertion of property rights is essential to reverse the effects of complex circumstances, such as forced displacements of people due to natural disasters or situations involving violence or conflict.

Governments also benefit from an efficient, high-quality system for registry and cadastral information. Having current information on the land use system is not only essential to assess and collect tax revenues; it also facilitates the identification and administration of the land. Up-to-date land registry information also allows governments to plan strategically in terms of service delivery, infrastructure and urban growth.

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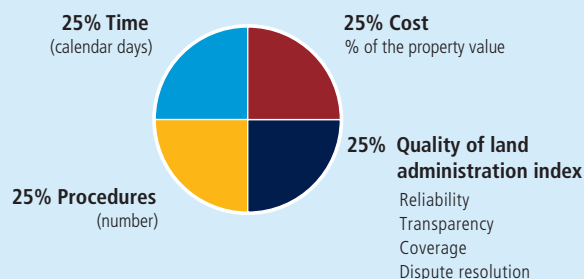
## **HOW DOES REGISTERING PROPERTY WORK IN SAN PEDRO SULA?**

Land administration responsibilities in Honduras are divided between national and municipal jurisdictions. At the national level, the Property Institute of Honduras has a network of 24 land registry offices distributed throughout the country's 18 departments, 16 of which are digitalized and operate using the Unified Registry System (Sistema Unificado de Registros, SURE). This system operates as part of the online platform of the National Property Administration System (Sistema Nacional de Administración de la Propiedad, SINAP), which provides access to property-related data, mapping and rules and regulations governing land-use planning. In 2004 the Property Law laid the foundation for these electronic platforms and converted the registration system from one based on individual names (in which information was indexed by owner) to a registry based on the property (in which all entries related to the same piece of real estate are grouped together), to make it easier to unify information and facilitate legal recognition of ownership rights. Today San Pedro Sula has a digitalized registry office with one of the highest levels of regularization of property rights in the country.<sup>2</sup>

The Property Institute of Honduras not only handles land registration; it also administers the national mapping system (cadastre) with geographic information related to property. However, municipalities also have parallel tracks

## WHAT DOES REGISTERING PROPERTY MEASURE?

Rankings are based on scores for four indicators



*Doing Business* records the full sequence of procedures necessary for a business to purchase a property from another business and formally transfer the property title to the buyer's name so that the buyer can use the property to expand the business, use it as collateral or, if necessary, sell it to another company. It also measures

the time and cost required to complete every procedure. The indicator also includes the quality of land administration index, which measures reliability of the system's infrastructure, transparency of information, geographic coverage and land dispute resolution (see figure).<sup>a</sup>

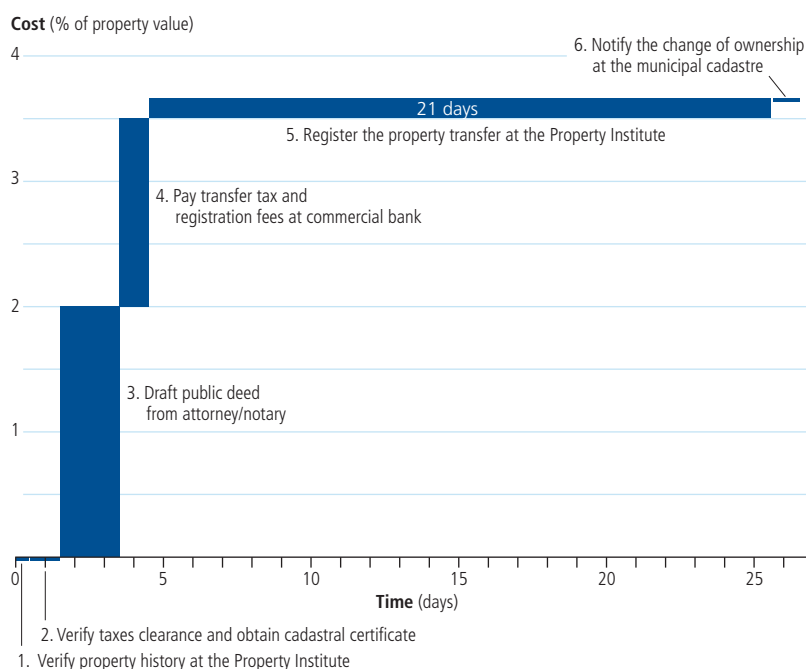
a. For more information about assumptions for the case study, see the Data notes.

Note: The index also looks at equal access to property rights, which measures whether the law treats men and women (single and married) differently; this is not the case in Honduras.

for creating and maintaining cadastral information, mainly for tax collection purposes. In recent years, after the Honduran Land Administration Program (PATH) ended, an agreement was signed to transfer measurement equipment from the Property Institute—where it had been used in the land regularization process—to the municipal cadastre in San Pedro Sula. This has led to the development of a data infrastructure that has helped to strengthen the collection of property taxes (*impuestos sobre bienes inmuebles*, IBI) and the demarcation of territory. The Property Institute's current decentralization and outsourcing system contemplates certifying the municipal cadastre in San Pedro Sula as an "Associated Municipal Center" (Centro Asociado Municipal, CAM). This certification would enable the municipal cadastre to directly feed into a single database belonging to the Property Institute's national mapping system, increasing the reliability of the data and thus users' legal certainty.

Transferring a property in San Pedro Sula requires six procedures carried out in two public offices and two private sector offices. The process begins with (1) the online verification, via SINAP, of the property's judicial and legal status. Next, (2) it is necessary to verify in person whether payments of municipal taxes and fees are current and obtain the cadastral certificate with the property value at the municipal cadastre. The notary then (3) prepares all the documentation and proceeds to draw up the deed or title.<sup>3</sup> After that, (4) the buyer pays the property transfer tax (1.5% of the property value) and registration fees at a commercial bank. At the Property Institute, the property registrar takes the notary deed and (5) validates the documentation and proceeds to register it in the public record. Finally, with a copy of the deed, (6) the ownership records are updated in the municipal cadastre (figure 5.1).

FIGURE 5.1 Transferring a property requires six procedures and involves two public agencies



Source: *Doing Business* database.

### How does San Pedro Sula compare regionally and globally?

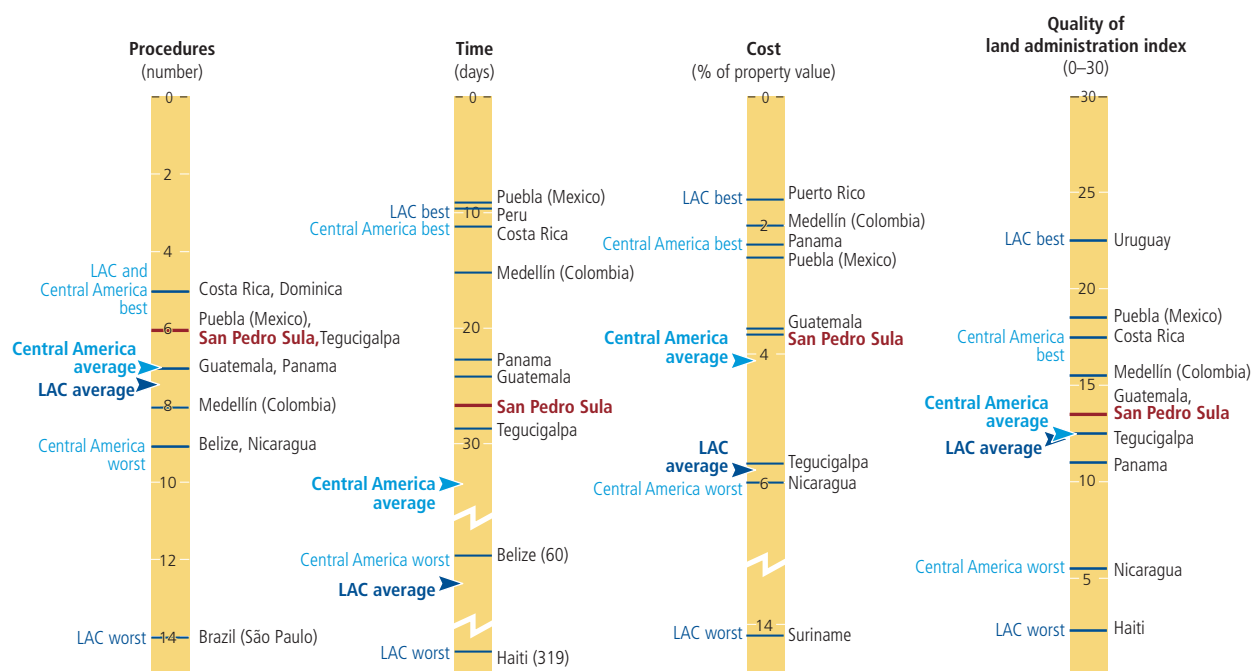
Transferring a property in San Pedro Sula—which requires six procedures, takes 26.5 days and costs 3.7% of the property value—is easier than in the average global economy. If San Pedro Sula were to represent Honduras in the global ranking on the ease of registering property in the *Doing Business 2020* study, it would come in at number 76 among 190 economies—better than Panama (87) or El Salvador (79).

Entrepreneurs who transfer a property in San Pedro Sula have certain advantages over those who do so in Tegucigalpa (position 101 in the global ranking). The process requires six procedures in both cities. However, in San Pedro Sula the cost is 3.7% of the property value—2 percentage points less than in Tegucigalpa—due to the implementation of reduced notary fees.<sup>4</sup> In addition, a real estate purchase takes two days longer in Tegucigalpa than in San Pedro Sula, where entrepreneurs save one day in verifying payment of municipal taxes and another in notifying the change of ownership at the municipal cadastre.

San Pedro Sula performs better on efficiency and quality than the average economy in Central America and, more broadly, in Latin America and the Caribbean (figure 5.2). Entrepreneurs in San Pedro Sula complete fewer procedures, one less than the average economy in Central America. San Pedro Sula also performs better than the regional average on time and cost; registering property takes five weeks longer in Latin America and the Caribbean (63.7 days on average) and the cost is higher (5.9% of the property value).



FIGURE 5.2 Transferring property in Central America and in Latin America and the Caribbean—where is it easiest?



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

Despite its relatively stronger performance, San Pedro Sula still has a way to go to catch up with best practices in the region. Transferring a property in Costa Rica requires just five procedures that take less than two weeks. Companies in Medellín (Colombia) go through eight procedures in just 15 days. Puebla (Mexico), with the same number of procedures as San Pedro Sula, needs two weeks less.<sup>5</sup> In these two cities the costs that businesses incur in the process are also lower (2% of the property value in Medellín and 2.5% in Puebla)—similar to the low cost in Panama (2.3%).

In terms of the quality of the land administration system, San Pedro Sula's performance (13.5 out of 30 points) is better than the average for Central America and for Latin America and the Caribbean. Still, the most advanced economies in the region on the quality indicator include Costa Rica with 17.5 points and Uruguay with 22.5. Puebla and Medellín also score higher than San Pedro Sula (with 18.5 and 15.5 points more, respectively), thanks to more transparency and a more complete geographic coverage.

### **How does San Pedro Sula compare on the number of procedures?**

The process is similar in San Pedro Sula and Tegucigalpa, with six procedures each. The only difference is that in San Pedro Sula the buyer requests a cadastral certificate stating the property value (to verify transfer taxes), which implicitly serves as a tax clearance certificate, confirming that municipal taxes are not owed on the property; Tegucigalpa requires only a tax clearance certificate. Although the law requiring a municipal tax clearance verification to register property was repealed in 2019,<sup>6</sup> the Municipalities Law still includes that requirement, as does the Tegucigalpa Tax Plan (Plan de Arbitrios).<sup>7</sup>

Among the economies of Latin America and the Caribbean, only Costa Rica and Dominica have fewer procedures. Costa Rica's national registry, by way of example, has two divisions, one for property registration and the other for cadastral matters, with databases that are different but interconnected. After an affidavit of deed is recorded in the general land registry, this information is sent through an internal procedure to the cadastral division to update the change of ownership, without the entrepreneur having to go through a separate procedure.

### **How does San Pedro Sula compare in terms of time?**

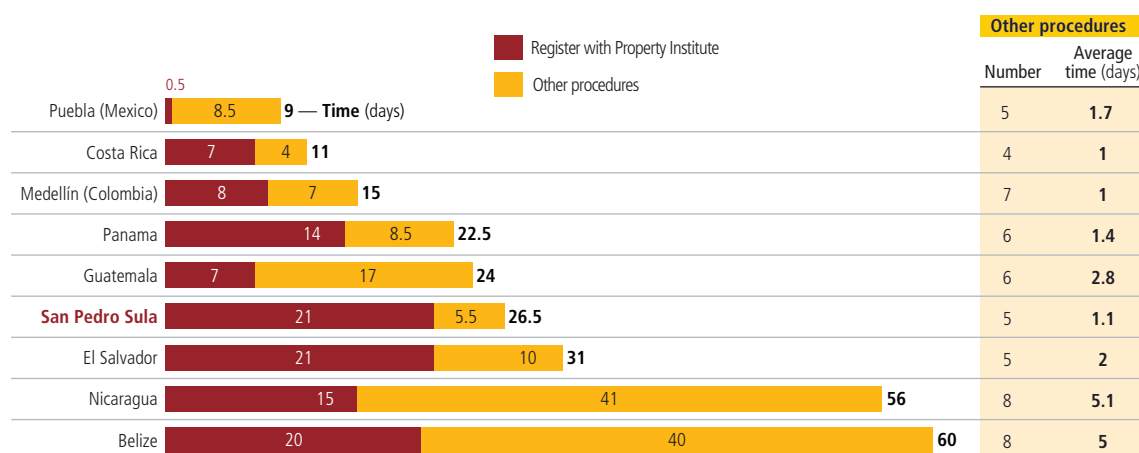
The time it takes to record the transfer of property in the land registry is by far the biggest factor slowing down the process; it takes nearly 80% of the total time. The legal deadline for this registration is 10 business days from the time the documents were submitted, except in cases in which mistakes have been flagged.<sup>8</sup> In practice, this deadline is not met and the process takes 21 calendar days—the same as in Tegucigalpa. Since the Property Institute is a national registry, the times are very similar.

Among the problems that lead to delays are communication difficulties between registry offices, the different criteria used for evaluating applications and the lack of opportunity to provide direct service to the public. The staff who provide legal advice, evaluate applications and handle registrations work in silos with little coordination among each other. Registrars often report errors in the documents presented and request corrections. Although it is possible to track a document online, sometimes the details needed to correct the error are not clear and the entrepreneur needs to go to the offices of the Property Institute and wait in long lines to find out the exact status of the registration. An assistant to the registrar waits on the public Wednesday mornings, but that has not kept up with demand. It used to be possible to speak directly with those handling evaluations and registrations, but that practice was banned to reduce the risk of informal payments.

The lack of coordination between the Property Institute and other agencies is also a roadblock. Under their regulations, notaries may, in a single certification, authenticate the signatures on one or more documents that may be used in the same transaction.<sup>9</sup> However, internal IP rules establish that each document must be authenticated separately, which can increase the cost of transferring property due to the need to pay extra notary fees.

Sometimes the details needed to correct an error are not clear and the

**FIGURE 5.3** In San Pedro Sula nearly 80% of the time is for recording the property transfer in the land registry



Source: *Doing Business* database.

Note: The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

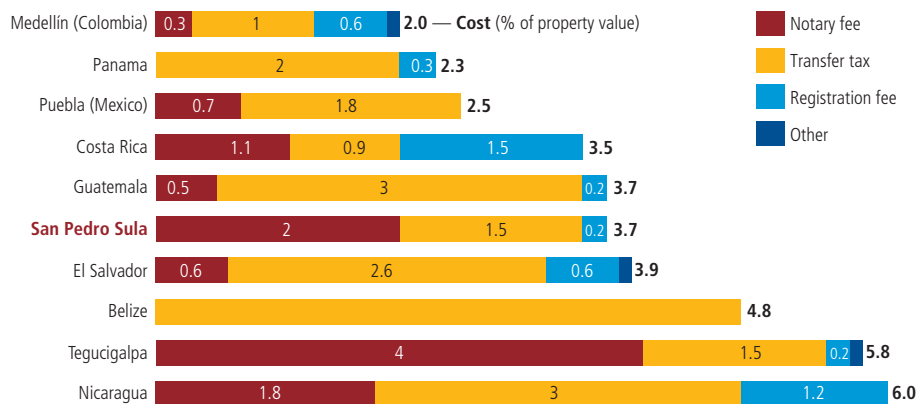
requirements go against current law. The Administrative Simplification Law establishes that no agency may require individuals to present certifications, verifications or documents that are already, or should already be, in the records of the same agency. However, during the evaluation process the Property Institute may require the user to present the cadastral certification issued by the IP itself to verify geographic information about the property or assign a new cadastral code. Obtaining that certification can also take time, if a final inspection of the site is required.

The slow pace of the registration process at the land registry (21 days) contrasts with the average of 12.6 days for the Central American economies together with Medellín and Puebla (figure 5.3). In San Pedro Sula the registrar receives all the documentation on paper and scans it before the process can move on to validation and registration in the registry. In Puebla—where the registration process takes less than a day—the notary records the deed directly into an online system.

The other five procedures in San Pedro Sula take on average one day each. Verifying the historical property records takes half a day in San Pedro Sula—as in Tegucigalpa, Costa Rica, Medellín and Puebla—as these can be viewed online. In Puebla four of the six procedures for transferring a property can be completed online: the non-encumbrance certificate, certificate of non-indebtedness for water, preemptive notice and registration in the public registry.

In San Pedro Sula the change in title (affidavit of real estate) must be recorded at the municipal cadastre within 30 business days after the property transfer.<sup>10</sup> The entrepreneur provides notice of title change at the municipal cadastre in one day. However, due to internal cadastral procedures—which may include a site inspection—it can take up to a month for the information to appear in the records, exceeding the legal deadline of 10 business days.

**FIGURE 5.4** The cost of notary fees to transfer a property in Honduras is higher than in other economies in the region



Source: *Doing Business* database.

Note: The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

### How does San Pedro Sula compare in terms of cost?

Notary fees for registering a transfer contract account for more than half the total cost of transferring a property in San Pedro Sula. In 2018 the Union of Notaries of Honduras reduced the minimum value of this service from 3% to 2% of the property value, without establishing a maximum charge.<sup>11</sup> Notaries in San Pedro Sula lowered their fees, in general charging the established minimum. However, in Tegucigalpa—where the parties’ negotiating power, the complexity of the process and the risks related to property tenure are different—notaries charge between 3% and 5% of the property value (figure 5.4). Notary fees or fee schedules are relatively high in Honduras in relation to the total cost of transferring property, especially when compared regionally. In the seven Central American economies, notary costs account proportionally for less than half of what they do in San Pedro Sula ((20.5% on average of the total cost in Central America, compared with 54.7% in San Pedro Sula). In Tegucigalpa they represent an even higher percentage (64.4% of the total cost).

The second highest cost is the tax on transfer of title, which accounts for 41% of the total cost of transferring a property. This cost has been established nationally and is equivalent to a fixed rate of 1.5% of the property value,<sup>12</sup> compared with 1% in Medellín and 1.8% in Puebla. The Central American average for this tax is higher—2.5% of the property value<sup>13</sup>—although in Belize it is nearly 5% and in Guatemala and Nicaragua, 3%.

Registration rights or fees are set by the Property Institute for the whole country; they amount to just 0.2% of the property value, less than 5% of the total cost of the process.

There are other minor costs involved in transferring property, stemming from applications for certifications. In the case of municipal certifications, the

rates are established in each municipality's Tax Plan. In San Pedro Sula, for example, the municipal cadastre updates the name of the property owner at no charge, while Tegucigalpa charges HNL 250 (\$10). In San Pedro Sula it costs HNL 200 (\$8) to issue any certificate except for those verifying non-ownership of assets, which cost HNL 150 (\$6). If a municipal non-encumbrance certificate is required, this costs HNL 50 (\$2).

### **Quality of land administration index**

A good land administration system should not only be efficient—in terms of the number of procedures and the time and cost of transactions—but should also ensure legal certainty and provide a complete physical identification of the immovable property. The quality of land administration index analyzes four basic qualitative aspects in the registration process: reliability of infrastructure in the land registry and mapping system (cadastre), transparency of information, geographic coverage of the registry and cadastre and dispute resolution related to land transactions (figure 5.5). While San Pedro Sula has an acceptable score on dispute resolution (6 out of the 8 possible points) and reliability of infrastructure (5 points), it has ample room to improve on transparency of information (2.5) and even more so on geographic coverage (0).

### **RELIABILITY OF INFRASTRUCTURE**

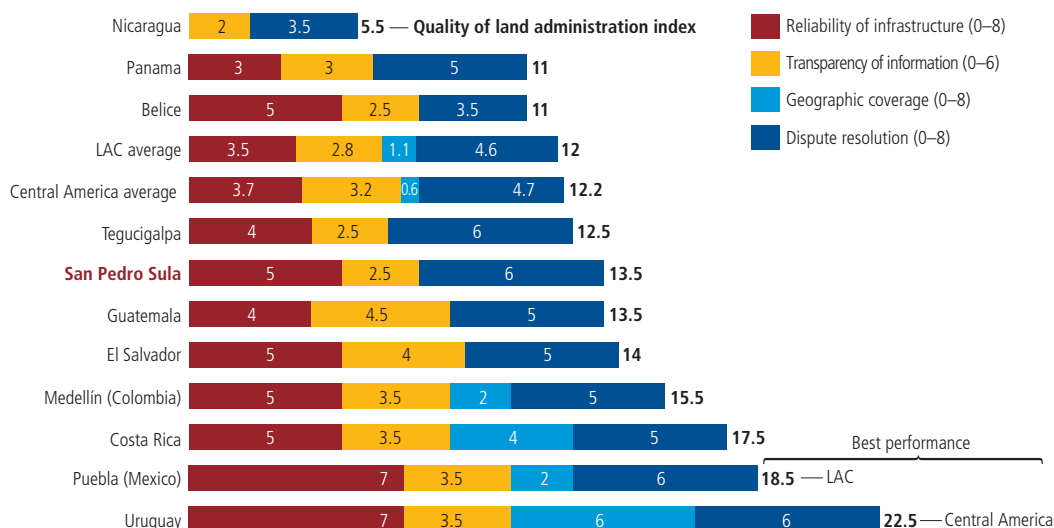
To ensure legal certainty and prevent potentially fraudulent operations, a land administration system must provide clear, reliable information about property tenure. The most reliable systems have land registries and cadastres that are completely digitalized and whose databases are interconnected.

In Honduras the SINAP platform allows for online verification of judicial and legal status related to charges or liens on the property (1 point). It also has an integrated geographic information system (GIS) for managing mapping databases, which allows the public to do searches free of charge (1 point). In San Pedro Sula the IP's land registry and cadastral records are largely scanned (2 points) and although the databases have different systems for identifying properties (0 points), they are interoperable (1 point). Additionally, the municipal fiscal cadastre—managed by the municipality—is in a different database than the IP's databases for registry and cadastral records. Panama, for its part, facilitated the transfer of property by connecting land registry and cadastral records in 2014. In Colombia the mapping information is connected to local geographic information through GIS technology.

### **TRANSPARENCY OF INFORMATION**

Facilitating transparency in access to information related to land registry and cadastral records helps to simplify and expedite the registration process, avoiding delays due to information asymmetries. SINAP makes it possible to check on the judicial and legal status of real estate online (1 point). The IP also has a web page with information on the requirements needed to complete a property transfer (0.5 points) and the related costs (0.5 points), but the registry's internal regulations often require other documents that are not listed publicly. In the cadastral service offered by the IP, legally valid cadastral plans may be obtained only by paying a fee (0.5 points), and it is not possible to get them

FIGURE 5.5 Scores on the quality of land administration index



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellin on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

online (0 points). The Regulations to the Property Law specify the time frames for validating and registering property, but information on this service standard is not clear and accessible either on a public board or online (0 points). The IP does not publish official statistics, nor does it have a specific and independent mechanism for filing complaints (0 points). The cadastral service follows the same pattern in terms of time frames, statistics and complaint mechanisms (0 points).

Lack of transparency and failure to communicate relevant information can result in additional costs for the user. Guatemala is the Central American economy that scores highest in this aspect (4.5 points)—followed by El Salvador (4 points)—since it has an online system for applying for certifications and for uploading and receiving documents. El Salvador has a website that provides all the information related to the property transfer process and lays out the costs, documents and time frames in systematic, clear detail. It also has menus of services that explain users' rights and responsibilities, inform the public about quality commitments and describe the different ways that users can submit suggestions and complaints.<sup>14</sup>

### GEOGRAPHIC COVERAGE

Only a quarter of the world's economies, approximately, have a land registry and cadastre with complete coverage. When coverage does not extend to 100% of the territory, companies and individuals cannot have legal assurance

or certainty regarding the physical data related to the property. San Pedro Sula has modern, digitalized registry offices; its challenge, then, is to achieve full coverage of all urban and rural properties, as well as to link the cadastral and registry information. With more than 193,000 urban lots covering 126 square kilometers registered in the SURE system, San Pedro Sula is surpassed in size only by the Central District (Tegucigalpa and Comayagüela), with its 207,000 urban lots.<sup>15</sup> Both the national cadastre (SURE) and the municipal one have a high coverage rate (95% of properties in the urban area), but the two systems continue to operate with little coordination and have a much poorer track record updating information in rural areas (0 points). The same thing happens at the national level, where the registry and cadastre lack geographic coverage for the entire territory (0 points). Although the average for Central America is low (0.6 points), Costa Rica scores 4 points thanks to its complete registry and cadastral coverage in the capital city.

### LAND DISPUTE RESOLUTION

Honduran law requires all property sale transactions to be recorded at the immovable property registry to make them opposable to third parties (1.5 points). Although the property registry provides legal certainty<sup>16</sup> regarding property rights (0.5 points), there is no specific compensation mechanism to cover losses in a transaction carried out in good faith based on erroneous information (0 points). The legal system requires verification of the legal validity of the documents,<sup>17</sup> as well as verification of the identity of the parties<sup>18</sup> (1 point). There is a national database to verify the accuracy of government-issued identity documents (1 point). Legal disputes over property ownership are heard in civil courts of first instance and take between one and two years (2 points). There are no statistics on the number of land disputes in court (0 points). In Honduras it is estimated that between 10% and 30% of the cases in the judicial system have to do with property disputes.<sup>19</sup> San Pedro Sula has the highest score in Central America, along with Tegucigalpa.

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## WHAT HAS CHANGED SINCE 2015?

Since the publication of *Doing Business in Central America and the Dominican Republic 2015*—in which San Pedro Sula was measured as part of a regional study—San Pedro Sula reduced the cost and time required to transfer property. It is no longer necessary to obtain a comprehensive certification or the non-encumbrance certificate in person at the Property Institute, which used to take a day and cost HNL 500 (\$20). The SURE system now makes it possible to verify the historical records of the property online and at no charge. Although it is necessary to pick up physical copies in person for the property title to be legally valid, the property transfer transaction can be carried out based on the online consultation. The cost of transferring property has also gone down by a percentage point (from 4.7% of the property value in 2015), due to the notary fee schedules having been updated in 2018.

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## WHAT CAN BE IMPROVED?

### ESTABLISH BETTER PRACTICES IN THE LAND REGISTRY OFFICE

Recording a property transfer in San Pedro Sula takes 21 days (nearly 80% of the total time), more than twice the legally established deadline of 10 days. The lack of standardized procedures and remedies,<sup>20</sup> along with the legal complexity surrounding registration rights in some areas, are part of the problem. These problems are not exclusive to San Pedro Sula; *Doing Business 2018* noted that the land registry in Tegucigalpa had reduced the number of employees, thus slowing down the process.

The Property Institute could improve user satisfaction by making regulations more standardized and providing staff with more training. As an example, in the Mexican states of Michoacán and Veracruz, where the land registry is based on paper, it takes one and four days, respectively, to record a deed in the public registry, thanks to efficient procedures and ongoing staff training.

Honduran law allows for outsourcing to public and private entities, a model that has already been implemented for the business registry in the department of Cortés, where the local Chamber of Commerce and Industry (CCIC) manages the entire registration process, including staff registrars and access to SURE by private actors. Although there are other variations on outsourcing—such as the Satellite Regional Offices (Oficinas Registrales Periféricas, ORP) in banks—no identical model yet exists for registering property; feasibility studies are underway. In a context of governance risk, it is advisable to evaluate and determine the degree of outsourcing desired, whether it would consist of outsourcing only customer services or the entire process, as with the business registry.

### OPTIMIZE EFFECTIVE COORDINATION BETWEEN THE MUNICIPAL AND NATIONAL CADASTRES

Although numerous references exist in various legal provisions<sup>21</sup> indicating that exchange of information is mandatory, the cadastral systems in Honduras do not coordinate with each other. The IP (which manages the national cadastre) and the municipality of San Pedro Sula (which handles the municipal cadastre) have made efforts, though not always in coordinated fashion, to implement technological tools to administer and maintain data and carry out georeferencing procedures<sup>22</sup> and mapping surveys. In 2012 the Honduran Land Administration Program mapped out 100% of San Pedro Sula and conveyed that information to the municipal cadastre system in order to merge their cadastral codes, but the municipal system did not enter the data in its database. Plus, up until 2015 the IP had municipal cadastral staff in its offices to collect information and update the data in the municipality.

The upkeep of the cadastre is very expensive and requires a long-term commitment, one that would be difficult for the two institutions to take on separately, without a joint work plan and without the common objective of effective data coordination. SINAP has a tool that allows municipal governments to view transactions and update the cadastral databases in their area. San Pedro Sula has still not asked the IP for this service, which could be a first step toward



regular coordination between the two entities.

Another potential pathway for better coordination would be to certify the municipal cadastre as an Associated Municipal Center.<sup>23</sup> Under this arrangement, the municipal cadastre would feed information into a single national cadastral database (SURE) and would charge for the service. This optimization of resources—similar to what can already be seen with the business registry—would benefit both institutions. The San Pedro Sula municipal cadastre could build on the mapping and cadastral foundation not just to improve tax collection but also to create a multipurpose cadastre that could also facilitate construction permits. The cadastral data could be made available on the platform for land use planning and urban infrastructure that the municipality is already planning to develop, with its own funds, under its current Municipal Development Plan. This would open the door to significant savings, as it would no longer be necessary to develop a geographic information system different than the one the SURE system already has. The Property Institute, for its part, could ease its workload and strengthen the reliability and integrity of its data, from both the physical and the legal standpoint. The municipalities of Comayagua and Siguatepeque already operate as CAMs.

#### **CONSOLIDATE THE ISSUANCE OF CERTIFICATES BY THE MUNICIPAL CADASTRE FOR GREATER EFFICIENCY**

Municipal cadastral certification is done only for fiscal purposes; it is necessary for verifying the base value on which the property will be taxed. A municipal non-encumbrance certificate can be requested online<sup>24</sup> and the cadastral certificate only in person, but both need to be picked up in person. The municipal cadastre in San Pedro Sula issues different cadastral certificates.<sup>25</sup> The one most requested is for property valuation, with more than 6,000 issued every year. There are other certificates which provide related information and which the IP may require, such as those related to ownership of assets, property boundaries, location, valuation by square meter, registry data and fee simple, among others. Issuing a comprehensive certificate would facilitate the transfer of property in the IP by incorporating all the available cadastral information into a single document.

#### **EXPEDITE INFORMATION UPDATES IN THE MUNICIPAL CADASTRE**

The municipal cadastre continues to be updated based on affidavits related to property title and the physical characteristics of the lot—even though there is increasingly more geographic technology available, through satellite images, aerial photographs and drones, to verify information about the property. Although it is mandatory to present the affidavit, it is estimated that of all the properties recorded in the registry, only 20% to 25% of the new owners update their information at the municipality. With the delinquency rate for property taxes (IBI) falling, these taxes are an ever more important source of income for the municipality (box 5.1). Connecting the national cadastre (at the Property Institute) with the municipal one and enabling the two to automatically update each other's records would make it possible to detect all the physical changes to properties as well as title changes, even if the parties fail to notify the municipality of the change in ownership. In Medellín, as in

## BOX 5.1

**Puebla implemented successful reforms for registering property, especially in the cadastral area**

Of the 32 states measured in the series of subnational *Doing Business in Mexico* studies, the state of Puebla (measured by its city of the same name) was the one that most improved over time (2005 to 2015) on the ease of registering property. It went from position 28 in the second study (2007), which measured all 32 states for the first time, to position 3 a decade later (*Doing Business in Mexico 2016*). Puebla's performance would place it in the top quartile of the 190 economies measured by *Doing Business* (position 46).

Puebla professionalized land registration duties, updated cadastral information and enabled procedures to be done online (for example, obtaining a certificate of non-indebtedness for water). In 2012 the Registry and Cadastral Institute of Puebla (IR-

CEP) began training staff and improving its hiring process. It later created a committee to improve communication between different areas within the agency. As a result, the time to record deeds dropped significantly. Digitalizing the municipal mapping system also helped reduce the time for cadastral valuations by 64%, from 11 to 4 days. Since then, updating the cadastral data has meant that it is no longer necessary to visit the site to do valuation inspections. Today, cadastral plans are completely digital and are the most advanced in Mexico; before, the information was in different formats and was outdated, based on mapping from 1993. The cadastre also has a system now to manage and track procedures, as well as a portal to get information on properties, which shows three-dimensional maps of the site.

*Note:* The six *Doing Business in Mexico* studies are available at <https://www.doingbusiness.org/subnational>.

Bogotá and Cali (Colombia), once a property is recorded with the registry office, the new title is updated in the cadastral records,<sup>26</sup> as the registry office automatically sends the information to the cadastre through an internal procedure.

**MAKE NOTARY SERVICES MORE COMPETITIVE**

In San Pedro Sula a notary prepares and certifies the conveyance deed between the parties. *Doing Business* data show that worldwide, three of every four economies administer land registration without requiring the use of a lawyer or notary by law. In Honduras the costs of legal services represent more than half the total cost of registering a property. These costs come on top of others, such as taxes on transfers of property and registration fees.

In many of the economies where companies can transfer a property without the assistance of legal professionals, standardized contract forms for property transfers are provided online or at the land registry. The use of such documents helps to speed up the work of notaries and reduce the cost of their services, since they spend less time drawing up deeds; it also helps reduce errors. Portugal has successfully implemented a system in which the participation of a notary is optional for companies that wish to transfer a property; the parties need only to sign the contract in person at the land registry. As a result of this reform, notary fees in Portugal decreased by 28% to 60% in less than a year. Colombia did the same thing in 2010. In Honduras, where there is room to improve the quality of the land administration system, going to professionals mitigates risks and offers greater legal certainty. Whether or not to dispense with third-party participation depends on the maturity of the system. A first step toward reform, then, would be to regulate notary fees. In Honduras, unlike in other economies, the regulation establishes only a minimum, instead of ranges with

caps or specific values; this can, in some cases, lead to abuse of fees, considering the system's information asymmetries. In this sense, the certification of new notaries would also help to improve this situation.

### **STRENGTHENING TRANSPARENCY BY PUBLISHING STATISTICS**

Economies with transparent land administration systems provide more efficient services and enjoy greater public trust in the system, which is conducive to investment. Honduras would improve the transparency of the system by publishing statistics on property transactions and on land disputes in each civil court of first instance. The statistics should always be up to date and ideally published online.

### **INTRODUCE MECHANISMS FOR COMPLAINTS AND CLAIMS**

Citizens should be able to lodge anonymous complaints regarding land registry and cadastral services. Honduras lacks an independent, autonomous mechanism for presenting these complaints and claims. In Spain, which has such a mechanism, registration rates carry a 30% discount if the process takes more than 15 days and the delay is not objectively justified.

Having an independent mechanism for lodging complaints or claims can help to increase efficiency in the way these are handled and minimize corruption or unnecessary disputes related to property registration. This not only helps ensure transparency; it also serves as a barometer to identify weaknesses in the land registration system. Correcting administrative errors in registering property can potentially avoid the need to go to court to resolve problems, a costly effort both for the claimants and for the public authorities.

For example, the Registration Service of the State of Mexico (Instituto de la Función Registral del Estado de México, IFREM) has an internal comptroller's office, which functions independently. This office is responsible for receiving, processing and resolving complaints and claims presented in cases involving flaws in property registration services.

## NOTES

1. Besides its role in the area of real estate, the IP includes other registries, including for business, vehicles and intellectual property.
2. Data on property regularization presented by Alain Paz Quesada at the Land and Poverty Conference organized by the World Bank in 2018.
3. Article 27 of the Property Law, Articles 1500, 1574 and 1575 of the Civil Code.
4. Although better than Tegucigalpa, the cost in San Pedro Sula continues to be higher than in some economies in Latin America and the Caribbean: Puerto Rico (1.6%), Paraguay (1.8%), Colombia (2%) and Ecuador (2.1%), among others.
5. According to *Doing Business in Mexico 2016*, Puebla is the fastest place to transfer property in Mexico; it takes 9 days, compared with the average of 26 days in Mexico's 32 states.
6. Decree 191-2018 repealed Article 191 of the General Budget of Revenues and Expenses of the Republic.
7. Article 113 (Inscription in the Land Registry) of the Municipalities Law and Article 17 of the 2019 Central District Tax Plan.
8. Articles 122 and 117 of the Regulations to the Property Law (Resolution C.D.-IP- 003-2010).
9. Article 39 (Certified Photocopies) and Article 40 (Certified Photocopies and Signatures) of the Regulations of the Notary Code.
10. Article 26.1.b (Obligations of Taxpayers to Present Affidavit) and Article 27 (Fines for Failure to Comply with Formal Duties) of the 2019 San Pedro Sula Tax Plan.
11. Article 3 of Agreement No. 001-2018 of the Union of Notaries of Honduras. Fee Limits: Notaries shall not charge fees lower than those established in this fee schedule. However, they may charge more upon written agreement between the parties.
12. Article 2 of the Property Law (Legislative Decree 150-2010).
13. Belize has no notary fees as notaries are not involved in the process.
14. Website of the government of El Salvador's National Registry Center: <https://www.cnr.gob.sv/>.
15. Data from SURE presented by Alain Paz Quesada at the Land and Poverty Conference organized by the World Bank in 2018.
16. Article 1 of the Property Law.
17. Articles 113 to 133 on validation activity as established under the Regulations to the Property Law.
18. Article 114 of the Regulations to the Property Law.
19. Information extracted from World Bank. *Land Governance Assessment Framework (LGAF 2014)*. Available at <http://documents.worldbank.org/curated/en/597891504869368334/Mejora-de-la-gobernanza-de-la-tierra-en-Honduras>.
20. Property registries tend to be financially self-sustainable through the fees they generate.
21. Article 62 of the Property Law; Article 86 of the Municipalities Law and Article 92 of its regulations; and Article 13 of the Law on Transparency and Access to Public Information.
22. The latest reform to the Property Law in 2014 made it mandatory to include georeferenced information about the property in the property transfer record, as well as any information that would entail physical changes, in order to ensure agreement between the data on the property's physical status and legal status. A certification process for professionals involved in cadastral services is underway; the first examination session was held on May 31, 2019, and results are pending.
23. PATH II approved a manual of procedures for technical certification of municipalities as CAMs. Currently technical and legal analyses are underway to study the viability of doing this in San Pedro Sula.
24. For more information about the process, see <http://www.licencias.sanpedrosula.hn>.
25. Article 235 (Payments for Certificates) of the 2019 San Pedro Sula Tax Plan. The issuance of any certificate costs HNL 200 (\$8), with the exception of certificates of non-ownership of assets (HNL 150, or \$6).
26. In Medellín, as in Bogotá and Cali, the cadastres are managed independently from the national agency (Instituto Geográfico Agustín Codazzi, IGAC) but are under its general and technical supervision.



## Enforcing contracts

### MAIN FINDINGS

- The process of resolving a commercial dispute in San Pedro Sula takes 596 days and costs 38.8% of the claim value. This is eight months faster than the average for Central America, but in terms of the claim value, it is 8.7 percentage points more expensive.
- San Pedro Sula's score on the quality of judicial processes index (7.5 out of the 18 possible points) is on par with the Central American average (7.6), although it falls short when compared with the average for Latin America and the Caribbean.
- If San Pedro Sula were to represent Honduras in the global *Doing Business* study, its performance on the ease of enforcing contracts would place it in position 123 out of the 190 economies measured—better than Panama (141) or Guatemala (176).
- Enforcing a contract is easier in San Pedro Sula than in Tegucigalpa; thanks to the relative speed of the lower courts, the process is 11 months shorter. The difference lies mainly in the trial stage.
- Future reforms should focus on shortening the trial stage by reducing adjournments, implementing proceedings better suited to oral trials, providing even more training to judges and court staff and improving automation in the courts.

Late payments are a burden for small and medium-size enterprises (SMEs); they jeopardize their ability to pay their debts in the short term and limit the funds they have available to respond to new business opportunities. One way to obtain an overdue payment from a client is to ask the courts to intervene to resolve the dispute. A business in San Pedro Sula would have to wait more than a year and a half for a judgment and enforcement of the court order. This may not be a problem for large companies, which tend to have liquid assets. However, for an SME this type of delay may mean that it cannot repay its own loans and may even lead to insolvency. Therefore, it is critical to give local businesses the capacity to enforce contracts quickly and effectively.

Resolving a commercial dispute efficiently helps to create a good business climate and improve productivity. The courts are essential to interpret the rules of the market and enforce existing legal provisions to protect economic rights. When they know the courts are efficient and transparent, entrepreneurs are more willing to expand their business relationships beyond a small circle, because they know they can rely on the judicial system if other parties fail to meet their obligations.

The government of Honduras, in a bid to make civil proceedings more efficient, introduced a new Code of Civil Procedure (CPC), which entered into force in 2010, replacing a code that dated back to 1906. The new CPC, in line with the latest judicial trends in the region, seeks to expedite and simplify the judicial process by holding oral proceedings, to reduce the time it takes to resolve a case. Despite the good intentions behind this change and notwithstanding the progress made so far, in practice the resolution of commercial disputes continues to face challenges, especially in terms of the time the process takes.

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## HOW DOES ENFORCING CONTRACTS WORK IN SAN PEDRO SULA?

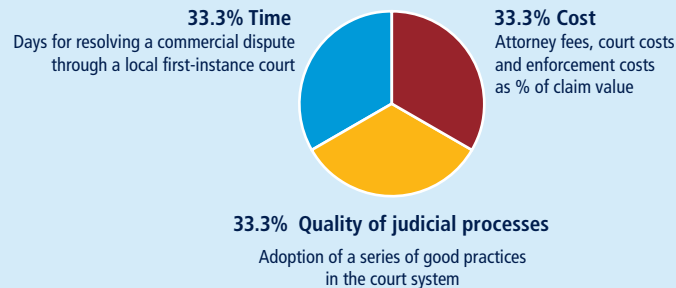
The Honduran judiciary consists of the Supreme Court—the highest judicial authority—as well as the courts of appeal, courts of first instance and other judicial bodies established by law. In addition to the subject matter, the size of a claim determines what court has jurisdiction and what type of proceedings will be followed to resolve the dispute.

It is incumbent upon civil judges in the lower courts to resolve disputed and voluntary civil claims—including commercial matters—that are not under the express jurisdiction of other courts. The matter put forward in the *Doing Business* case study—the buyer’s failure to pay for goods purchased through a sales contract for merchandise worth HNL 120,173—would be resolved in a court of first instance by civil judges, in accordance with ordinary procedure.<sup>1</sup> The San Pedro Sula Lower Civil Court (Juzgado de Letras de lo Civil de San Pedro Sula) has 11 judges who have jurisdiction in the department of Cortés (except for in the cities of Puerto Cortés and Omoa). Matters below the amount of HNL 100,000 are handled by small claims courts (*juzgados de paz*).

To examine the efficiency of enforcing a contract in local courts, *Doing Business* measures the time and cost associated with three stages of a claim: the

## WHAT DOES THE ENFORCING CONTRACTS INDICATOR MEASURE?

Rankings are based on scores for three indicators



*Doing Business* measures the time and cost for resolving a commercial dispute between two local businesses through a local first-instance court. The case study involves a buyer's failure to pay for goods purchased through a sales agreement whose value is equivalent to 200% of the economy's income per capita or \$5,000, whichever is greater. The case assumes that the judge's decision is supported by an expert opin-

ion on the quality of the goods that have been purchased, which distinguishes the case from a simple debt enforcement. The indicator also measures the quality of judicial processes to assess whether a location has adopted good practices in its court system in four areas: court structure and proceedings, case management, court automation and alternative dispute resolution (see figure).<sup>a</sup>

a. For more information about assumptions for the case study, see the Data notes.

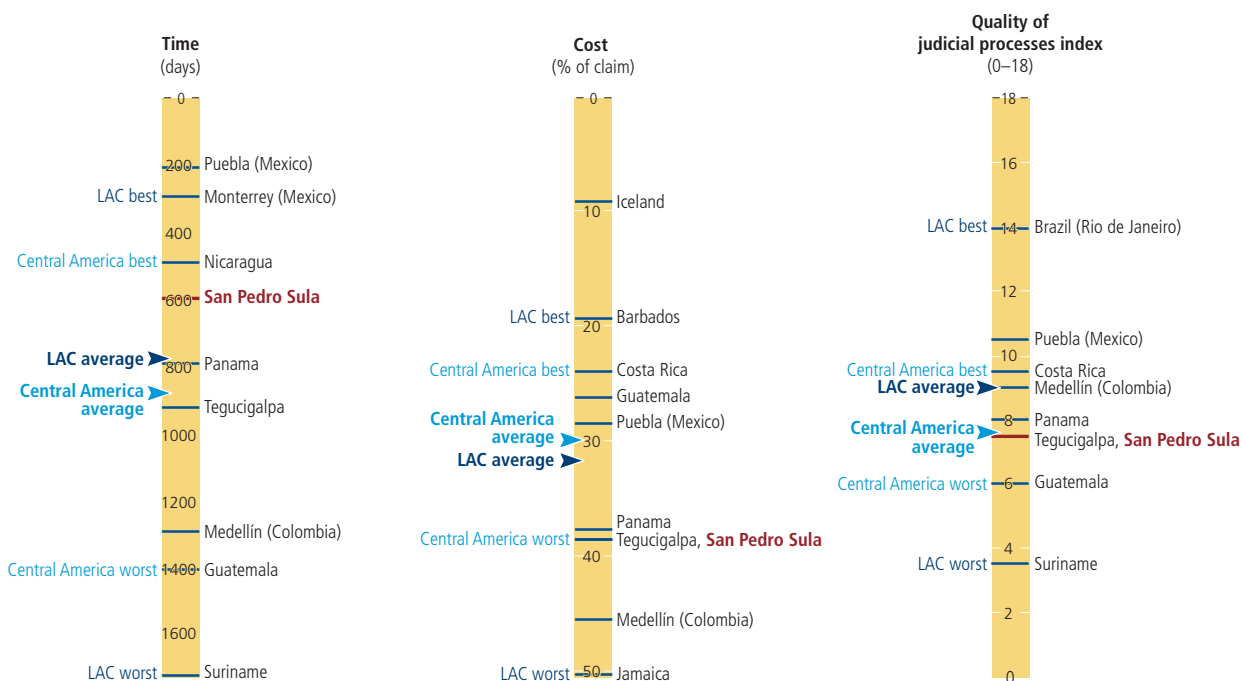
filing and service of the complaint (including the seller's attempt to obtain payment out of court and the preparation of the complaint); the trial, which ends in a judgment in favor of the plaintiff; and a third stage in which the judgment is enforced through the auction of the losing party's movable assets. To evaluate good practices in judicial systems, a scale has been established ranging from 0 to 18 points.

### How does San Pedro Sula compare regionally and globally?

At 596 days, enforcing a contract in the San Pedro Sula Lower Civil Court is eight months faster than the average time in Central America (857 days). But at a cost of 38.8% of the claim value, the expense is nearly a third higher (figure 6.1). On the quality of judicial processes index, San Pedro Sula's performance (7.5 out of the 18 possible points) is on par with the Central American average (7.6) although below the average for Latin America and the Caribbean (8.8). One of the weakest areas has to do with court automation—where San Pedro Sula scores no points—as well as case management.

A small or medium-size business can resolve a claim in court much more efficiently in San Pedro Sula than in Tegucigalpa; the process is nearly 11 months faster. This is due primarily to a faster trial phase. However, there is no difference in the cost associated with the process, or in the quality of judicial processes index.

FIGURE 6.1 Enforcing contracts in Central America and in Latin America and the Caribbean—where is it easiest?



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*.

### How does San Pedro Sula compare in terms of time?

In San Pedro Sula it takes a total of 596 days to enforce a contract, with 60% of the time concentrated in the trial phase itself. San Pedro Sula has room to improve if it wants to be on the same level as Mexico, for example, and achieve the 207 days seen in Puebla, 295 days in Monterrey or 350 days in Mexico City (figure 6.2). Cases in Mexico are handled through oral proceedings, and it takes less than a year to enforce a contract (average of 275 days),<sup>2</sup> placing this economy among the seven fastest in the world on this indicator.

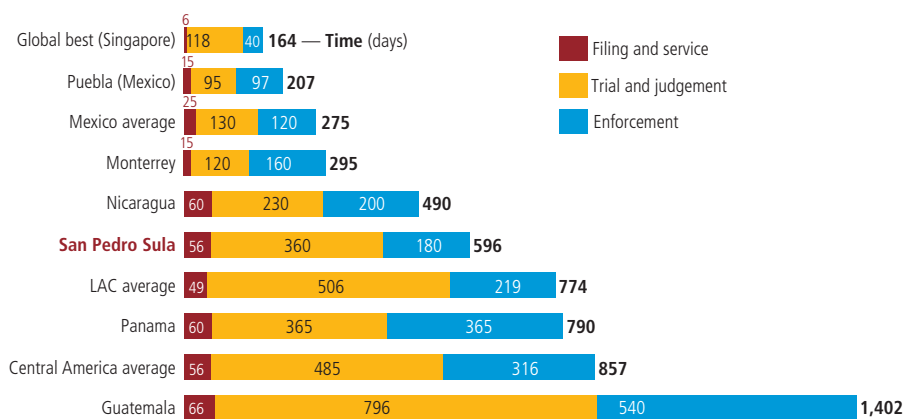
### FILING AND SERVICE OF THE COMPLAINT

The filing and service phase takes 56 days in San Pedro Sula—very similar to the time in Tegucigalpa (60 days). Although San Pedro Sula has a centralized system that receives and serves complaints for all the courts, not just civil courts—unlike in Tegucigalpa—in practice this does not significantly affect notification times. Litigants in both cities have to follow up so that a judiciary official provides notice that the complaint has been admitted.

Although practices vary depending on each law firm, the time it takes to try



**FIGURE 6.2** San Pedro Sula outperforms the Central American average on the time it takes for a trial, but it has a long way to go to reach the average time in Mexico



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD, high-income is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla are based on the *Doing Business in Mexico 2016* study and those on Medellín on *Doing Business in Colombia 2017* (<https://www.doingbusiness.org/subnational>). The rest of the data are based on *Doing Business 2020*. In *Doing Business in Mexico 2016*, the state of Campeche had the best performance, with a total time of 160 days, and 6 of the 32 federal entities had faster times than Puebla.

to obtain payment out of court tends not to last more than a week, as this is considered a mere formality with little chance of success. Next, it takes about a week for the lawyer to prepare the complaint and the pretrial motion for attachment of assets. During this time the defendant's solvency is investigated (whether there are movable assets that can be seized and sold to enforce the judgment), to verify that it is worth requesting an attachment of assets, and evidence is gathered to include with the brief.<sup>3</sup>

The person who logs in the complaint or petition assigns it randomly and distributes it by hand to one of the 11 judges. The part of this stage that takes the longest, around one month, is the admission of the complaint and of the motion for attachment of assets, as well as the seizure itself. Once the court has received the complaint, a clerk—a law student in practicum—checks to see that the formal requirements are in order. If there are defects in the complaint, a request is made for it to be corrected; if not, the court issues an order admitting the complaint, accepts the motion for pretrial attachment of assets and communicates with the plaintiff's lawyer.<sup>4</sup> Reviewing the motion for attachment of assets takes about two weeks, between the time the initial complaint is filed and the admission of the complaint is received.<sup>5</sup> The seizure of the assets also takes approximately two weeks.

Once the complaint has been admitted, the defendant is served (in person). If the legal representative of the company being sued cannot be located, the judge may order, at the request of the plaintiff, that a secondary notification be

served on any person older than 14 years of age who is at the defendant's place of residence. Because process servers (*receptores*) lack resources, it is common in San Pedro Sula for the plaintiff to provide transportation for the service of process. However, the biggest challenge is identifying the defendant's place of residence, and so this phase often takes 10 days.

### **TRIAL AND JUDGMENT**

This is the slowest stage in the process, lasting a year—nearly 11 months faster than in Tegucigalpa. The biggest difference between the cities is in the trial phase, which takes almost twice as much time in Tegucigalpa (680 days). The backlog of court cases in Honduras (box 6.1) explains, in a sense, the trial delays throughout the country. In both cities the main difficulties found during the trial phase are the delays in the scheduling of evidentiary hearings, the filing of expert testimony and the issuance of the decision by the judge.

The preliminary hearing, which is set once the complaint is answered, usually takes place during the legal time frame of 20 business days from the notice of hearing. Unlike in Tegucigalpa, this deadline is met in most cases in San Pedro Sula. During this hearing an attempt is made to reach a settlement between the parties, resolve procedural issues and precisely define the claim, so as to then put forward and admit the evidence that the parties will avail themselves of during the evidentiary hearing. The vast majority of cases do not end in a settlement but continue in litigation.

The scheduling of evidentiary hearings is one of the main hurdles in the process and can take up to six months. The first such hearing usually takes place within the legally established time frame of 60 business days following the preliminary hearing. However, this stage can require additional hearings, and these can be held one to three months apart. Factors cited for the delays include the number of cases clogging the courts, as well as the frequent use of continuances and adjournments of hearings.

The difficulties in the evidentiary stage consist in notifying expert witnesses that they have been selected and getting them to agree to the appointment and the fees. The parties identify to the court the witnesses and experts that should be summoned by the court office. It is customary for each party to propose one private expert witness and for the judge to propose a third. The notification of the experts and their acceptance of the position (and the fees) can take several weeks and can go on until five business days before the evidentiary hearing.<sup>6</sup> Expert witnesses may attend the evidentiary hearing in the event that the judge or the parties wish to obtain more information on the case. Once the evidence has been laid out, and before the evidentiary hearing comes to a close, the parties are given an opportunity to make final arguments.

The judgment must be handed down in writing within 10 business days following the last evidentiary hearing and must be notified within three business days of the decision. The same process servers (*receptores*) in charge of serving notice of the complaint are responsible for this notification. In practice, the phase of issuing the judgment and carrying out the notification tends to take up to two or three months. Finally, after receiving the notification the defendant has 10 business days in which to appeal the judgment.<sup>7</sup>

## BOX 6.1

**Moving to eliminate the court backlog in Honduras**

The problem of judicial delays in different types of courts has been an important challenge in recent decades, both in Honduras and in other countries. In the Ibero-American context, the issue has been described this way: “Judicial delays, understood as the failure to meet deadlines or the time lag with respect to the reasonable duration of any case until its conclusion, are a necessary target for elimination to achieve timely and effective justice.”<sup>a</sup> The Office of the President of the Honduran Supreme Court, mindful of the magnitude of the problem across the country, in 2016 issued Agreement No. PCSJ 8-2016, ordering the development of the National Plan to Eliminate Judicial Delays (Plan Nacional de Erradicación de la Mora Judicial). The technical group designated to do the assessment found that the delay in resolving judicial cases was attributable to a whole set of factors: the annual budget allocation; the existence of a longstanding backlog of cases; excessive demand; a shortage of human, material and technological resources; procedural mechanisms that are inadequate, contradictory, insufficient or excessively formalistic; procedures that are conducive to abuse of court proceedings by the parties; uneven workloads; and inadequate selection processes for judicial and administrative staff. Under the former civil code, the period for a claim to lapse was three years. What would happen is that as the deadline approached, the parties would file any sort of documents so that the case would not lapse. In 2010 the new Code of Civil Procedure reduced the time for claims to lapse to one year.

According to the official report issued by the Honduran Supreme Court, in July 2016 more than 185,000 cases were identified as backlogged. Official figures indicate that as of mid-2019, the backlog had been reduced by about two thirds on a national level; 64,013 cases remained pending.<sup>b</sup> To achieve this substantial reduction, the institution employed a data-collection tool in which 606 judges throughout the country could enter their judgments and important variables. The departments of Francisco Morazán (which has jurisdiction over Tegucigalpa) and Cortés (San Pedro Sula) represent 48% of the case files eliminated from the national backlog,<sup>c</sup> with most of these cases coming from small claims courts, the lower courts and to a lesser degree, courts of appeal.

A series of projects are being implemented under the plan. The Hearing Management System (Sistema de Gestión por Audiencias) has operated in the lower criminal courts since March 2019 in Tegucigalpa and since May in San Pedro Sula. This system has three pillars: reorganization of the judicial office, oral proceedings for parties’ petitions and audio and video recordings of hearings. On a parallel track, the Electronic Judicial File System (Sistema de Expediente Judicial Electrónico, SEJE) is being gradually implemented through a pilot project in the national jurisdiction for organized-crime cases, judicial circuits handling corruption and extortion, and the court that oversees forfeiture of illicit assets. Once the system has been evaluated and adjusted, it is expected to be implemented in the rest of the country’s courts.

- a. Cancún Declaration, issued (in Spanish) in the framework of the VII Ibero-American Judicial Summit, held in Mexico in 2002.
- b. *El Heraldo*. August 11, 2019. “La mora judicial se ha reducido en un 65 por ciento en Honduras” (<https://www.elheraldo.hn/pais/1309320-466/la-mora-judicial-se-ha-reducido-en-un-65-por-ciento-en>).
- c. *Proceso Digital*. March 7, 2019. “Reducción de mora judicial en un 61.6 % reporta la CSJ” (<https://www.proceso.hn/actualidad/7-actualidad/reduccion-de-mora-judicial-en-un-61-6-reporta-la-csj.html>).

The backlog of cases in the lower civil courts is a problem in Honduras. Of the 15,313 civil cases filed in these courts in 2018, only 48% were resolved that same year.<sup>8</sup> Added to that year’s unresolved cases are the cases from previous years that were already pending, which do not show up in these data. The perception of the public and of judicial experts is that the judicial backlog in Tegucigalpa is even bigger than in San Pedro Sula, not just because of efficiency issues but also because of corrupt practices<sup>2</sup> and influence peddling (since informal payments or pressures to speed up a case can cause delays in other cases). These problems persist despite reforms, which tend to reach the lower courts less frequently.

### ENFORCEMENT OF THE JUDGMENT

It takes six months to enforce a judgment in San Pedro Sula, the same as in Tegucigalpa. Enforcement is handled by the same judge who heard the case and begins from the moment the judge verifies that the judgment is final and orders it to be enforced through the sale of attached property. The judge requires the debtor to begin fulfilling the obligation within the established time frame of 10 business days.<sup>10</sup> In addition to the appeal carried out during the period for the trial (the *Doing Business* case study assumes that the judgment is not appealed), the defendant may also oppose the enforcement of the judgment, adding time to the process.<sup>11</sup> The main difficulties in carrying out the judgment lie in the assessment of the value of the movable assets and the time it takes to advertise and hold the auctions.

The auction of assets is held at the court by the judge who heard the case; however, considering that auctions are not that common, the process is slow.<sup>12</sup> By law the creditor must advertise the auction in a national newspaper with a large circulation as well as in the place where the court is located. The auction must be advertised at least 15 business days before it is held. There is no timetable or specific frequency for auctions—they happen at the judge’s discretion. In addition to the judge, this process requires the involvement of experts to assess the value of the assets being auctioned, as well as a trustee and the person the judge had delegated to seize the defendant’s assets prior to judgment. In practice, more than one auction is required to sell the assets. This increases the displacement, logistics and opportunity costs in the scheduling of the auctions and results in potential delays.

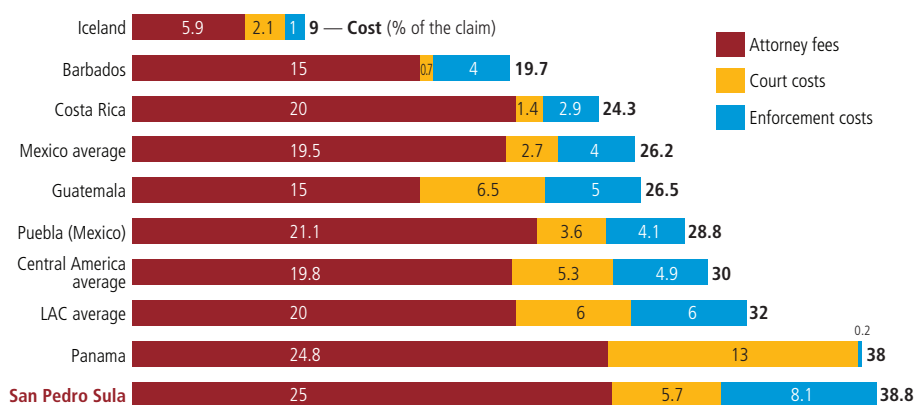
### How does San Pedro Sula compare in terms of cost?

The cost to resolve a lawsuit and enforce the judgment in San Pedro Sula amounts to 38.8% of the claim value (HNL 46,627, or \$1,952), the same as in Tegucigalpa. The cost of enforcing a contract includes three components: the fees for the attorney representing the plaintiff; the court costs associated with the trial stage, including judicial fees and expert witness fees; and the costs the plaintiff must advance to enforce the judgment. The cost in Honduras is the highest in all of Central America, at a percentage of claim value that is more than 8 points higher than the global *Doing Business* average.

### ATTORNEY FEES

Attorney fees represent 25% of the claim value (HNL 30,044, or \$1,258)—in other words, nearly two thirds of the total cost (figure 6.3). These are regulated by the Fee Schedule for Legal Professionals (Arancel del Profesional del Derecho) issued by the College of Lawyers of Honduras, which sets the minimum fees lawyers can charge.<sup>13</sup> This cost includes the general power of attorney for lawsuits, as well as any other expense, such as authentications, photocopies and notifications, and is one of the highest when compared with the other economies in the region.

FIGURE 6.3 Attorney fees represent two thirds of the total cost of enforcing a contract



LAC = Latin America and Caribbean

Source: *Doing Business* database.

Note: The averages for Latin America and the Caribbean are based on economy-level data for 32 economies; Chile, which the World Bank Group considers part of the OECD high-income, is excluded. The averages for Central America are based on economy-level data for seven economies (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). For this study, data for San Pedro Sula and Tegucigalpa have been included in the averages for Honduras and Central America; however, the city that represents Honduras in the global *Doing Business* ranking is Tegucigalpa. The data referring to Puebla and the average for Mexico are based on the *Doing Business in Mexico 2016* study (<https://www.doingbusiness.org/en/reports/subnational-reports>). The rest of the data are based on *Doing Business 2020*.

## COURT COSTS

Article 303 of the Constitution of Honduras recognizes that the power to impart justice must be exercised free of charge in the name of the state. In this regard, both in San Pedro Sula and in Tegucigalpa the only charge that comes directly from the court is the displacement fee for service of the complaint (HNL 300, or \$13).<sup>14</sup> This supposedly covers the cost of service, but in many cases the legal representative ends up using his or her own vehicle to transport the process server.

However, the largest portion of the court cost is related to the expert witnesses involved in the case (HNL 6,849, or \$287)—equivalent to 5.7% of the claim value.

## ENFORCEMENT COSTS

The total cost of enforcing a judgment in San Pedro Sula is equivalent to 8.1% of the claim value (HNL 9,734, or \$407). This includes the cost of assessing the value of the seized assets (this charge averages HNL 4,234, or \$177); the cost of notifying the parties (HNL 300, or \$13); the publication of the advertisement for the auction in a large-circulation newspaper (HNL 2,900, or \$121); and a bond for the assets, if the judge requires it (on average HNL 1,300, or \$54). In addition, the creditor must advance the cost of transporting the seized assets (HNL 1,000, or \$42) and, if the creditor is not the trustee, the storage costs.

### Quality of judicial processes index

The quality of judicial processes index evaluates whether an economy has adopted a series of good practices in its court system in four areas: court structure and proceedings, case management, court automation and alternative dispute resolution (table 6.1). The results of this quality index do not differ between San Pedro Sula and Tegucigalpa. With an average of 7.5 points, the two cities score below the average for Latin America and the Caribbean (9 points) and below the global *Doing Business* average (8.8 points).

#### COURT STRUCTURE AND PROCEEDINGS

This index evaluates how new cases are assigned among the courts and whether jurisdiction is assigned based on the subject matter or the size of the claim. Honduras does not have specialized commercial courts (0 points). For cases involving small claims, a simplified, fast-track procedure is in place (*proceso abreviado*) and is handled through a court of first instance (1.5 points). By law it is possible to obtain pretrial attachment of assets (1 point), and the system for assigning cases to judges is random but not fully automated (0.5 points). The law does not establish differentiated treatment based on gender in court proceedings.

#### CASE MANAGEMENT

This index looks at whether there are legal tools and electronic case management systems in place to support the work of the courts. Rules and regulations under Honduran civil law establish deadlines for complying with the main procedural steps, and these are respected in most civil cases in the city of San Pedro Sula (1 point), but there are no provisions determining the maximum number of adjournments or continuances for hearings or procedures. Although the Specialized Center for Documentation, Research and Judicial Information (Centro Especializado de Documentación, Investigación e Información Judicial, CEDIJ) publishes management reports<sup>15</sup> and information related to court caseloads, there are no reports broken down on a court-by-court basis (0 points). In Honduras there is a pretrial conference (preliminary hearing) that attempts to conciliate a settlement between the parties (1 point). There is no electronic case management system to assist judges (0 points) or lawyers (0 points) in their tasks.

#### COURT AUTOMATION

The court automation index (0-4 points) measures whether it is possible to complete certain procedures electronically. In San Pedro Sula it is not possible to file the initial complaint, serve the complaint or pay court fees electronically (0 points). However, the Electronic Judicial File System (SEJE) is being gradually implemented through a pilot project being carried out in the national jurisdiction for organized-crime cases, judicial circuits handling corruption and extortion, and the court that oversees forfeiture of illicit assets. For commercial cases, the judiciary does not publish judgments electronically.

**TABLE 6.1** There is room to improve on the quality of judicial processes index, particularly in court automation and case management

		Puebla (Mexico)	LAC best Rio de Janeiro (Brazil)	Honduras (San Pedro Sula & Tegucigalpa)
<b>Quality of judicial processes index</b>		<b>10.5</b>	<b>14</b>	<b>7.5</b>
Court structure and proceedings index (-1 to 5 points)	Specialized commercial court or division	●	●	
	Small claims court or fast-track procedure		●	●
	Pretrial attachment	●	●	●
	Randomized case assignment	●	●	○
	Evidentiary weight of woman's testimony	●	●	●
Court structure and proceedings index (0 to 6 points)	Legal time standards for key events	●	○	●
	Legal limits on adjournments	○		
	Performance reports		●	
	Pretrial conference	●		●
	Electronic CMS features for judges	●	●	
Court automation index (0 to 4 points)	Electronic CMS features for lawyers	●	●	
	Electronic filing		●	
	Electronic service			
	Electronic payment of court fees		●	
Alternative dispute resolution index (0 to 3 points)	Electronic publication of judgments		●	
	Consolidated law for commercial arbitration	●	●	●
	Limitations on arbitration matters	●	●	●
	Enforcement of valid arbitration clauses	●	●	●
	Voluntary mediation	●	●	●
	Regulation of voluntary mediation	●	●	●
	Financial incentives for mediation		●	

LAC = Latin America and Caribbean ● Total ○ Partial

Source: *Doing Business* database.

Note: A score of -1 is assigned if the law differentiates between the evidentiary value of a woman's testimony and that of a man's in any type of civil case, including family cases; 0 if it does not.

## ALTERNATIVE DISPUTE RESOLUTION

Finally, this index evaluates the availability of alternative dispute resolution mechanisms, any incentives in place to encourage their use and the validity of the settlements reached by this means. Honduras has comprehensive rules and regulations in place covering mediation and conciliation (2.5 points) but no financial incentives for parties to attempt conciliation to settle disputes (0 points).

## WHAT CAN BE IMPROVED?

### CARRY OUT AN ASSESSMENT OF THE JUDICIAL PROCESS TO IDENTIFY BOTTLENECKS

In San Pedro Sula the trial and judgment phase takes almost a year, and it is where the most delays are seen. The large number of proceedings, the adjournments granted, the lack of resources and training, as well as inefficient internal processes, are where some of the bottlenecks occur. The country as a whole faces a general backlog of cases that weakens the performance of the courts and

must be resolved before any measures to increase efficiency can have a significant impact on new cases that arise. Process mapping is a useful tool to employ to increase efficiency in this phase.

Doing an assessment of internal processes that are carried out in practice, recording the time each step takes, will make it possible to set objectives and criteria for improvement and measure performance indicators to reach efficiency objectives and reduce trial times. The existence of high-quality data allows new organizational structures to be designed, including the elimination of obsolete processes and the creation of new ones that are more suited to the existing needs and caseload. Moreover, process mapping at every step of the judicial process, both at the administrative level and in the resolution and trial of all types of cases and jurisdictions, will help identify potential synergies and eliminate hurdles. This type of mapping would also lead to a better and more efficient development and implementation of other measures such as the Electronic Judicial File System and oral proceedings.

#### **LIMIT THE NUMBER OF ADJOURNMENTS**

One of the main causes of delay during the trial stage is the excessive use of adjournments. The current Code of Civil Procedure does not limit the number of adjournments the parties may request, nor does it indicate that these can be requested only in the case of unforeseen or exceptional circumstances. The parties tend to request adjournments to buy time to prepare their defense or to delay the issuance of a final judgment in order to reach agreements. Attorneys, for their part, have an incentive to delay the trial as a strategy to manage their own workload or to increase their fees. Judges tend to be lenient in granting adjournments.

Establishing a maximum number of adjournments that may be granted during the case would be a first step to prevent delays and reduce the cost of litigation. According to *Doing Business 2020*, no economy in Latin America and the Caribbean<sup>16</sup> has rules limiting the number of adjournments, despite this being an internationally recognized practice. Globally, however, 41 economies follow this good practice and legally limit adjournments to unforeseen or exceptional circumstances, and such rules are respected in more than 50% of cases. Six of these economies also establish a maximum number of adjournments within each trial. Part of what is involved in good case management, to preserve procedural fairness, is to establish and make available to the public clear rules concerning continuances; prepare, in consultation with the parties, a clear, reasonable and realistic schedule of hearings for each case; and schedule a new hearing date at the same proceeding as the one in which the adjournment is granted.

One way to discourage the excessive use of adjournments is to establish penalties for failure to comply. In New South Wales, Australia, the Civil Procedures Act permits the adjournment of proceedings only to a “specified day” and only in exceptional cases. When an adjournment is granted, the party responsible is usually ordered to pay the additional costs incurred by the other party.<sup>17</sup> In the Slovak Republic the Bratislava District Court is obligated to try to decide a case on the first hearing; adjournments are allowed only for serious reasons, and they are announced by the judge to the parties and put on the re-



cord. In Chile the Code of Civil Procedure (Article 64) indicates that “the parties, at any stage of the trial, may agree to suspend the proceedings up to two times per level of jurisdiction, whether or not for an equal period of time, up until a maximum period of ninety days in each level of jurisdiction.” This allows the parties by mutual agreement to request adjournments on two occasions. All parties must agree to the continuance, otherwise the judge will not grant it.

In parallel to reviewing the matter of adjournments, it would also be important to examine judicial capacity, case management and infrastructure problems. Judges may be inclined to grant adjournments due to the large volume of cases for which they are responsible. In the absence of effective management techniques or an automated case management system, for example, adjournments may seem like an attractive way to manage the volume of cases. That is why the courts should control the grounds for granting such adjournments. Simply introducing this oversight practice can help to build a culture of predictability throughout the trial process and improve the times for resolving cases.

#### **ENCOURAGE THE USE OF CONCILIATION TO REDUCE THE JUDICIAL BURDEN**

The Code of Civil Procedure of Honduras establishes that conciliation should be the first goal of the preliminary hearing, to avoid congestion of the courts. But in practice, few disputes are resolved through conciliation. The experts consulted have identified the reluctance of users to engage in conciliation as one of the main obstacles to the success of this option, which is viewed as a mere formality. But other factors that affect the success of conciliation proceedings should also be examined, such as incentives for the parties, judges’ abilities and training as mediators and the suitability of the physical environment in which these proceedings take place. San Pedro Sula also offers the option of conciliation out of court provided by the Center for Conciliation and Mediation of the Chamber of Commerce and Industry of Cortés (Centro de Conciliación y Arbitraje de la Cámara de Comercio e Industrias de Cortés, CCIC).<sup>18</sup> Lawyers consulted by *Doing Business* perceive that in the few cases handled through the CCIC, the conciliation process has been fast and relatively effective. However, this option is considered expensive when compared with judicial proceedings, which have lower costs (only for process service and if expert witnesses are used). In addition to reviewing the operating standards and qualifications of judges and mediators (in the case of the Center for Conciliation and Mediation), it is advisable to raise public awareness about the availability and benefits of conciliation. It would also be advisable to consider financial incentives to encourage the use of this mechanism. In Italy parties receive a tax benefit to cover the cost of having gone to conciliation. Another 37 economies measured by *Doing Business* have established these types of incentives through legislation.

Early conciliation can lead to lower attorney fees if the parties reach a friendly settlement. It also allows for fewer cases in the courts, easing the existing delays and helping to mitigate future ones. Studies in Latin America and the United States indicate that alternative dispute resolution can help increase efficiency in the court system by reducing the number of cases that would otherwise need to go to court and, therefore, can reduce the number of cases and delays, streamline trials and cut costs.<sup>19</sup>

### **PROVIDE TRAINING TO JUDGES AND LITIGANTS TO REAP THE BENEFITS OF COMMERCIAL ORAL TRIALS**

The modernization of the justice system in Honduras is following the trend in Latin America to go from written to oral trials, but this change has been slow to show results. It would be worth checking to see whether judges received enough training during the transition period and whether they are at the right level. When the new Code of Civil Procedure was introduced, oral proceedings were encouraged and many of the requirements for having written briefs at each hearing were eliminated; still, these principles are not always applied consistently. Oral proceedings are supposed to eliminate bureaucracy and create opportunities for more-direct contact between the judges and the parties, simplify procedures, correct deficiencies, require recorded hearings and prevent delaying tactics. Particularly important is the preliminary hearing in which, in a single procedure and in the presence of a judge, conciliation between the parties is encouraged—assuming that the judge has already studied the complaint and the statement of defense. However, only in a few cases have judges managed to successfully bring about conciliation in the preliminary hearing. Given the effort made to supply video and audio recording equipment to the courts and provide training to judges—as was done in the Lower Civil Court of San Pedro Sula—it appears there is still some way to go toward full oral proceedings. San Pedro Sula could also benefit from lessons learned through pilot projects in other courts, such as the Hearing Management System now in operation in the lower criminal courts in Tegucigalpa and San Pedro Sula (box 6.1).

Training for judges and court officers is an essential foundation for the effective functioning of the justice system in general—although, as in other economies, the Honduran justice system operates with limited budgets and few resources to invest in training.<sup>20</sup> For example, it is still common to seek protection of fundamental rights through an *amparo* action;<sup>21</sup> it is easy to file, especially because some judges continue to rule on legal aspects during the preliminary hearing. Until the *amparo* action is resolved, the case cannot proceed,<sup>22</sup> which exacerbates the delays.

### **INCREASE TRANSPARENCY AND THE AVAILABILITY OF INFORMATION**

In Honduras there are no public performance reports specific to each court. This information is essential to increase transparency in the judicial system, measure judicial performance in terms of efficiency, identify areas in which the courts need more support and track efficiency differences. These measures not only help develop approaches designed to resolve cases faster; they also increase the accountability of judges and court staff in their job performance.

In terms of performance reports, each court should regularly report its statistical data. The regular bulletins issued by the judiciary provide information on court caseloads, with the numbers of cases that are filed and resolved. However, there is no basic information available on the time it takes to resolve cases, the age of pending cases or the progress made in an individual case. This makes it impossible to detect where the delays occur. Within Latin America, Brazil, Colombia, Mexico and Paraguay publish at least two types of reports that show how their courts are performing.

Honduras does not publish court rulings either. To make business transactions more predictable and help judges be more consistent in enforcing laws that affect companies, Honduras should consider publishing judgments in business-related cases. The judiciaries in Argentina, Brazil and Chile publish the judgments of every level of jurisdiction, maintaining protection of personal data and confidential information. Making all judgments from all courts publicly available, as well as performance reports, is an important mechanism for controlling the quality and consistency of judicial decisions, as well as the speed with which they are produced. This practice will be even more important when it comes to evaluating and harmonizing the criteria that judges use to apply oral proceedings in civil cases. Experts consulted in San Pedro Sula say that due to a lack of clear case law, there is room for the courts in different cities to interpret the law differently.

### **IMPLEMENT DIGITALIZATION AND CASE MANAGEMENT SYSTEMS**

Effective case management reduces the cost of services—lawyers spend less time in court and judges exercise better control over the failure to comply with deadlines. During the trial phase, through computerized systems, judges and support staff can check information related to milestones in a case, such as trial dates, process service and judgments, which can help them plan their workload. Case management succeeds when support functions—tracking and monitoring cases and generating statistics to be able to produce reports that contribute to the quality of the work—are carried out automatically.

Electronic court services can also increase the security of records. Electronic archives reduce the potential to lose documents and facilitate the restriction of access to confidential documents in the case. The best practice identified globally is an integrated system that gives judges access to laws and judgments across the entire judicial system; automatically generates hearing schedules; allows the status of individual cases to be tracked and provides background information; provides access to details and documents on cases (for example, evidence, motions and summaries); assists in drafting judgments; generates court orders semi-automatically; and sends notifications to the parties. The ideal system would also allow lawyers to view and manage case documents, file reports and documents with the court and have access to court orders, among other characteristics. Automated case assignment could also help to better balance the workload among judges, ensuring that objective criteria are applied across the board and speeding up the assignment process. Given that all these automation initiatives imply a cost, the implementation of each of these recommendations will require a prior evaluation of cost implications.

Besides the trial, process services and notifications also turn into a bottleneck, especially due to the difficulty in finding addresses, the lack of resources for process servers and inefficient practices involved in providing notice to parties. Electronic notifications speed up interactions between the parties and the courts and minimize the risk of fraud or misplacement. Ideally, all litigants—at least in areas with good technology infrastructure and internet access—would receive all notifications electronically. The judiciary could consider the experience of nearby countries such as Colombia, where the civil procedures law

made it possible to serve documents electronically. However, electronic filing of the initial complaint is among the least common judicial practices seen worldwide and is implemented in only 35 of the 190 economies measured by *Doing Business*. In the case of corporations and merchants, this is easier if they have registered an electronic address in a business registry.

Case management systems are also critical in terms of information related to the overall performance of the judicial system. It is often difficult to determine the reasons for delays or problems without having data available. These systems represent a first step in gathering such information and using it to support policy-making.

## NOTES

1. The Law on the Organization and Powers of the Courts in Honduras (Ley de Organización y Atribuciones de los Tribunales de Honduras) establishes HNL 50,000 (\$2,093) as the sum at which civil lawsuits are heard by courts of first instance. The Code of Civil Procedure, along with a Supreme Court judgment of September 13, 2016 (published in Gazette No. 34.137), establishes that in ordinary proceedings the lower courts of first instance will hear claims above HNL 100,000 (\$4,186).
2. According to the average of the 32 cities measured in *Doing Business in Mexico 2016*.
3. By law the complaint must be filed no later than 10 business days after the motion for pretrial attachment of assets.
4. Currently only the lawyer may be notified by e-mail.
5. The lawyer first requests the pretrial attachment of the defendant's assets and then must file the complaint with the court—within 10 business days after the attachment of assets has been carried out.
6. Although in proceedings in which a complaint may be answered in writing, the defendant must provide a written opinion along with the answer to the complaint. If this cannot be done during the period for service of the complaint, the defendant must provide grounds for being unable to obtain the opinion within the time provided to answer the complaint.
7. This deadline is established in Article 709 of the Code of Civil Procedure.
8. Boletín Estadístico 2018. Electronic Center for Documentation and Judicial Information. Statistics Unit, CEDIJ.
9. United Nations. Office of the High Commissioner for Human Rights. “Honduras needs urgent action to end corruption and guarantee independent judiciary, says UN rights expert.” Available at <https://www.ohchr.org/SP/NewsEvents/Pages/DisplayNews.aspx?NewsID=24911&LangID=E>.
10. This deadline is established in Article 871 of the Code of Civil Procedure.
11. Article 763 of the Code of Civil Procedure. The debtor may oppose the enforcement on various grounds (i.e. lack of jurisdiction of the court; lack of character, representation or legitimate status of the creditor or debtor; lack of legal requirements in the title, etc.)
12. Article 846 of the Code of Civil Procedure: “The disposition of the seized assets through court auction shall be agreed upon ex officio when the other methods used cannot be employed or have proved to be ineffective.”
13. The latest fee schedule in force is dated April 30, 2017. The current fee is applied in ordinary, civil and commercial declaratory proceedings.
14. Regulations on Subpoenas and Summonses, Article 55 (No. 11, Acta No. 29, dated August 27, 2007).
15. Statistics Unit, CEDIJ: <http://www.poderjudicial.gob.hn/CEDIJ/Paginas/EstadisticasJudiciales.aspx>.
16. Chile is an exception but is considered by the World Bank Group as part of the OECD—not Latin America and the Caribbean.
17. Gramckow, Heike, and Omniah Ebeid, with Erica Bosio and Jorge Luis Silva Mendez. 2016. *Good Practices for Courts: Helpful Elements for Good Court Performance and the World Bank's Quality of Judicial Process Indicators*. Washington, DC: World Bank.
18. With regard to commercial litigation, there is a clause in corporate contracts (or in commercial contracts) that indicates how disputes will be resolved (whether by judicial means, which is the most common option, or through the CCIC Center for Conciliation and Mediation). But this seems to be flexible; if the clause contemplates the Center for Conciliation and Mediation and a request is made through the judicial system, the judge will not reject it.
19. Jorquiera, Carlos Eugenio, and Gabriel Dabdoub Alvarez. 2005. “The Cost of Disputes in Companies and the Use of ADR Methods: Lessons from Nine Latin American Countries.” Alternative Dispute Resolution Network. Washington, DC: Multilateral Investment Fund; Amsler, Lisa Blomgren, Tina Nabatchi, Jeffrey M. Senger and Michael Scott Jackman. 2009. “Dispute Resolution and the Vanishing Trial: Comparing Federal Government Litigation and ADR Outcomes.” *Ohio State Journal on Dispute Resolution* 24, No. 2: 225–62.
20. In terms of the infrastructure needed for oral proceedings, San Pedro Sula has four courtrooms, three of which have recording and computer equipment.
21. The *amparo* action is an institution of constitutional procedural law conceived as a mechanism of constitutional control whose primary objective is to protect the human rights or fundamental rights of persons subject to the Honduran jurisdiction from abuse of power by public authorities. This remedy is established in the 1982 Constitution of Honduras.
22. Around 74% of the cases filed in the Constitutional Chamber were *amparo* cases.



# Data notes

## Economy characteristics

### Gross national income per capita

*Doing Business in San Pedro Sula 2020* reports 2018 income per capita as published in the World Bank's World Development Indicators 2019. Income is calculated using the Atlas method (in current U.S. dollars). For cost indicators expressed as a percentage of income per capita, 2018 gross national income (GNI) per capita in current U.S. dollars is used as the denominator. Honduras' income per capita for 2018 is US\$2,330 (HNL 55,661).

### Region and income group

*Doing Business* uses the World Bank regional and income group classifications, available at <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>.

### Exchange rate

The exchange rate is: US\$1 = HNL 23.88881

The indicators presented and analyzed in *Doing Business in San Pedro Sula 2020* measure business regulation, the quality and strength of legal frameworks, the protection of property rights—and their effect on businesses, especially small and medium domestic firms. First, the indicators document the complexity of regulation, such as the number of procedures to start a business or to register a transfer of commercial property. Second, they gauge the time and cost to achieve a regulatory goal or comply with regulation, such as the time and cost to deal with construction permits or enforce a contract. Third, they measure the extent of legal protections of property, for example, the protections of property rights.

The data for all sets of indicators in *Doing Business in San Pedro Sula* are current as of September 30, 2019. The data for 189 other economies used for comparison are based in *Doing Business 2020*, the 17<sup>th</sup> in a series of annual reports published by the World Bank Group.

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## METHODOLOGY

The data for *Doing Business in San Pedro Sula 2020* were collected in a standardized way. To start, the team customized the *Doing Business* questionnaires for the specific study. The questionnaire uses a simple business case to ensure comparability across locations and economies and over time—with assumptions about the legal form of the business, its size, its location and the nature of its operations. Questionnaires were administered to local experts, including lawyers, notaries, magistrates, accountants, architects, engineers, construction companies, professional associations, government officials and other professionals who routinely administering or advising on legal and regulatory requirements. These experts have several rounds of interaction with the project team, involving physical meetings, conference calls and written correspondence by the team. The data from questionnaires were subjected to numerous rounds of verification, leading to revisions or expansions of the information collected. In July 2019, the *subnational Doing Business* team organized a data collection mission to meet with private sector collaborators and public sector collaborators. In September 2019, virtual right-of-reply meetings (through VC) were organized, in which local public actors were invited to review preliminary data in a confidential manner. The comments and observations, as well as the information sent as a reply by the governments, were subsequently contrasted with the private sector.

The *Doing Business* methodology offers several advantages. It is transparent, using factual information about what laws and regulations say and allowing multiple interactions with local respondents to clarify potential misinterpretations of questions.

Having representative samples of respondents is not an issue; *Doing Business* is not a statistical survey, and the texts of the relevant laws and regulations are collected, and answers checked for accuracy. The methodology is easily replicable, so data can be collected in a large sample of economies. Because standard assumptions are used in the data collection, comparisons and benchmarks



are valid across economies. Finally, the data not only highlight the extent of specific regulatory obstacles to business but also identify their source and point to what might be reformed.

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## LIMITS TO WHAT IS MEASURED

The *Doing Business* methodology applied to *Doing Business in San Pedro Sula 2020* has four limitations that should be considered when interpreting the data. First, the data often focus on a specific business form—generally a limited liability company (or its legal equivalent) of a specified size—and may not be representative of the regulation on other businesses (for example, sole proprietorships). Second, transactions described in a standardized case scenario refer to a specific set of issues and may not represent the full set of issues that a business encounters. Third, the measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median values of several responses given under the assumptions of the standardized case.

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

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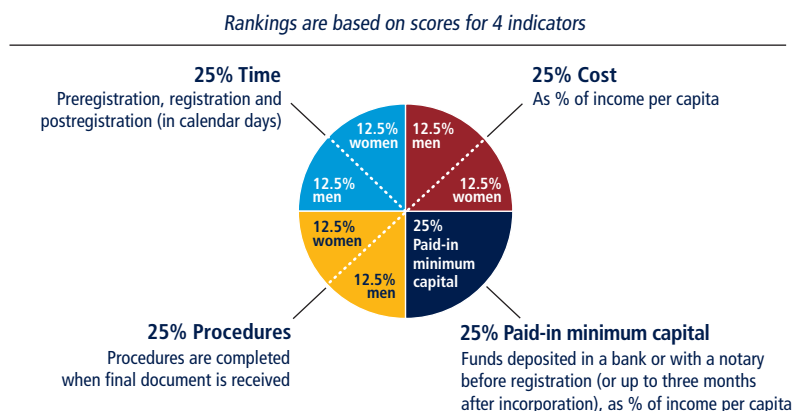
## STARTING A BUSINESS

*Doing Business* records all procedures officially required, or commonly done in practice, for an entrepreneur to start up and formally operate an industrial or commercial business, as well as the time and cost to complete these procedures and the paid-in minimum capital requirement. These procedures include the processes entrepreneurs undergo when obtaining all necessary approvals, licenses, permits and completing any required notifications, verifications or inspections for the company and employees with relevant authorities.

The ranking of locations on the ease of starting a business is determined by sorting their scores for starting a business. These scores are the simple average of the scores for each of the component indicators (figure 7.1).

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

Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that the entre-

**FIGURE 7.1 Starting a business: getting a local limited liability company up and running**

*Note:* Two types of local limited liability companies are considered under the starting a business methodology. They are identical in all aspects, except that one company is owned by five married women and the other by five married men. The score for each indicator is the average of the scores obtained for each of the component indicators for both of these standardized companies. In Honduras, there are no differences between those two companies.

preneur will pay no bribes. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across locations, several assumptions about the businesses and the procedures are used.

### Assumptions about the business

The business:

- Is a limited liability company (L.L.C.; or its legal equivalent). If there is more than one type of limited liability company in the economy, the limited liability form most common among domestic firms is chosen. Information on the most common form is obtained from incorporation lawyers or the statistical office.
- Operates in the selected city.
- Performs general industrial or commercial activities such as the production or sale to the public of goods or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.
- Does not qualify for investment incentives or any special benefits.
- Is 100% domestically owned.
- Has five business owners, none of whom is a legal entity. One business owner holds 30% of the company shares, two owners have 20% of shares each, and two owners have 15% of shares each.
- Is managed by one local director.
- Has between 10 and 50 employees one month after the commencement of operations, all of them domestic nationals.

- Has start-up capital of 10 times income per capita.
- Has an estimated turnover of at least 100 times income per capita.
- Leases the commercial plant or offices and is not a proprietor of real estate. Has an annual lease for the office space equivalent to one income per capita.
- Is in an office space of approximately 929 square meters (10,000 square feet).
- Has a company deed that is 10 pages long.

The owners:

- Have reached the legal age of majority and are capable of making decisions as an adult. If there is no legal age of majority, they are assumed to be 30 years old.
- Are in good health and have no criminal record.
- Are married, the marriage is monogamous and registered with the authorities.
- Where the answer differs according to the legal system applicable to the woman or man in question (as may be the case in economies where there is legal plurality), the answer used will be the one that applies to the majority of the population.

### Procedures

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

Approvals from spouses to own a business or leave the home are considered procedures if required by law or if by failing to obtain such approval the spouse will suffer consequences under the law, such as the loss of right to financial maintenance. Obtaining permissions only required by one gender for company registration and operation, or getting additional documents only required by one gender for a national identification card are considered additional procedures. In that case, only procedures required for one spouse but not the other are counted. Both pre- and post-incorporation procedures that are officially required or commonly done in practice for an entrepreneur to formally operate a business are recorded (table 7.1).

Procedures required for official correspondence or transactions with public agencies are also included. For example, if a company seal or stamp is required

**TABLE 7.1** What do the starting a business indicators measure?

<b>Procedures to legally start and formally operate a company (number)</b>
Preregistration (for example, name verification or reservation, notarization)
Registration in the selected location
Post-registration (for example, social security registration, company seal)
<b>Time required to complete each procedure (calendar days)</b>
Does not include time spent gathering information
Each procedure starts on a separate day (two procedures cannot start on the same day except online procedures)
Registration process considered completed once final incorporation document is received or company can officially start operating
No prior contact with officials takes place
<b>Cost required to complete each procedure (% of income per capita)</b>
Official costs only, no bribes
No professional fees unless services required by law or commonly used in practice
<b>Paid-in minimum capital (% of income per capita)</b>
Funds deposited in a bank or with a notary before registration (or up to three months after incorporation)

on official documents, such as tax declarations, obtaining the seal or stamp is counted. Similarly, if a company must open a bank account in order to complete any subsequent procedure—such as registering for value added tax or showing proof of minimum capital deposit—this transaction is included as a procedure. Shortcuts are counted only if they fulfill four criteria: they are legal, they are available to the general public, they are used by the majority of companies, and avoiding them causes delays.

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

### **Time**

Time is recorded in calendar days. The measure captures the median duration that incorporation lawyers or notaries indicate is necessary in practice to complete a procedure with minimum follow-up with government agencies and no unofficial payments. It is assumed that the minimum time required for each procedure is one day, except for procedures that can be fully completed online, for which the minimum time required is recorded as half a day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). A registration process is considered completed once the company has received the final incorporation document or can officially commence business operations. If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen if that option is more beneficial to the location's score. When obtaining a spouse's approval, it is assumed that permission is granted at no additional cost unless the permission needs to be notarized. It is assumed that the entrepre-

neur does not waste time and commits to completing each remaining procedure without delay. The time spent by the entrepreneur preparing information to fill in forms is not measured. It is assumed that the entrepreneur is aware of all entry requirements and their sequence from the beginning but has had no prior contact with any of the officials involved.

### **Cost**

Cost is recorded as a percentage of the economy's income per capita. It includes all official fees and fees for legal or professional services if such services are required by law or commonly used in practice. Fees for purchasing and legalizing company books are included if these transactions are required by law. Although value added tax registration can be counted as a separate procedure, value added tax is not part of the incorporation cost. The company law, the commercial code and specific regulations and fee schedules are used as sources for calculating costs. In the absence of fee schedules, a government officer's estimate is taken as an official source. In the absence of a government officer's estimate, estimates by incorporation experts are used. If several incorporation experts provide different estimates, the median reported value is applied. In all cases the cost excludes bribes.

### **Paid-in minimum capital**

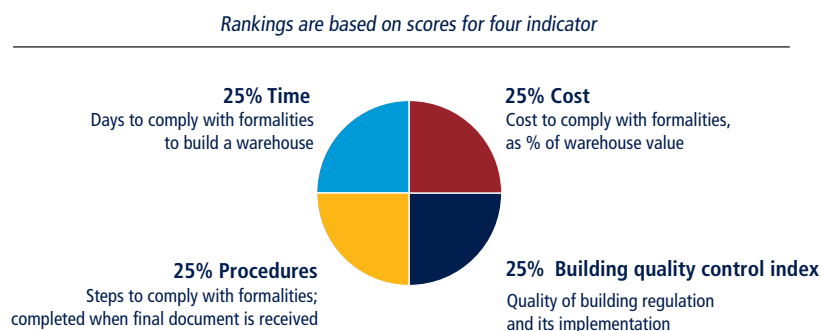
The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank or with a third party (for example, a notary) before registration or up to three months after incorporation. It is recorded as a percentage of the economy's income per capita. The amount is typically specified in the commercial code or the company law. The legal provision needs to be adopted, enforced and fully implemented. Many economies require minimum capital but allow businesses to pay only a part of it before registration, with the rest to be paid after the first year of operation.

*The data details on starting a business can be found at <http://www.doingbusiness.org>. This methodology was developed by Simeon Djankov, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer ("The Regulation of Entry," Quarterly Journal of Economics 117, no. 1 [2002]: 1–37) and is adopted here with minor changes.*

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## **DEALING WITH CONSTRUCTION PERMITS**

*Doing Business* records all procedures required for a business in the construction industry to build a warehouse, along with the time and cost to complete each procedure. In addition, *Doing Business* measures the building quality control index, evaluating the quality of building regulations, the strength of quality control and safety mechanisms, liability and insurance regimes, and professional certification requirements. Information is collected through a questionnaire administered to experts in construction licensing, including architects, civil engineers, construction lawyers, construction firms, utility service providers, and public officials who deal with building regulations, includ-

**FIGURA 7.2** Rankings are based on scores for 4 indicator

ing approvals, permit issuance and inspections.

The ranking of locations on the ease of dealing with construction permits is determined by sorting their scores for dealing with construction permits. These scores are the simple average of the scores for each of the component indicators (figure 7.2).

## Efficiency of construction permitting

*Doing Business* divides the process of building a warehouse into distinct procedures in the questionnaire and solicits data for calculating the time and cost to complete each procedure. These procedures include, but are not limited to:

- Obtaining all plans and surveys required by the architect and the engineer to start the design of the building plans (for example, topographical surveys, location maps or soil tests).
- Obtaining and submitting all relevant project-specific documents (for example, building plans, site maps and certificates of urbanism) to the authorities.
- Hiring external third-party supervisors, consultants, engineers or inspectors (if necessary).
- Obtaining all necessary clearances, licenses, permits and certificates.
- Submitting all required notifications for the start and end of construction and for inspections.
- Requesting and receiving all necessary inspections (unless completed by a hired private, third-party inspector).
- *Doing Business* also records procedures for obtaining connections for water and sewerage. Procedures necessary to register the warehouse so that it can be used as collateral or transferred to another entity are also counted.
- To make the data comparable across locations, several assumptions about the construction company, the warehouse project and the utility connections are used.

### **Assumptions about the construction company**

The construction company (BuildCo):

- Is a limited liability company (or its legal equivalent).
- Operates in the selected city.
- Is 100% domestically and privately owned.
- Has five owners, none of whom is a legal entity.
- Is fully licensed and insured to carry out construction projects, such as building warehouses.
- Has 60 builders and other employees, all of them nationals with the technical expertise and professional experience necessary to obtain construction permits and approvals.
- Has a licensed architect and a licensed engineer, both registered with the local association of architects or engineers, where applicable. BuildCo is not assumed to have any other employees who are technical or licensed specialists, such as geological or topographical experts.
- Has paid all taxes and taken out all necessary insurance applicable to its general business activity (for example, accidental insurance for construction workers and third-person liability).
- Owns the land on which the warehouse will be built and will sell the warehouse upon its completion.

### **Assumptions about the warehouse**

The warehouse:

- Will be used for general storage activities, such as storage of books or stationery. The warehouse will not be used for any goods requiring special conditions, such as food, chemicals, or pharmaceuticals.
- Will have two stories, both above ground, with a total constructed area of approximately 1,300.6 square meters (14,000 square feet). Each floor will be 3 meters (9 feet, 10 inches) high.
- Will have road access and be located in the periurban area of the selected city (that is, on the fringes of the city but still within its official limits).
- Will not be located in a special economic or industrial zone.
- Will be located on a land plot of approximately 929 square meters (10,000 square feet) that is 100% owned by BuildCo and is accurately registered in the cadastre and land registry where freehold titles exist. However, when the land is owned by the government and leased by BuildCo, it is assumed that BuildCo will register the land in the cadastre or land registry or both, whichever is applicable, at the completion of the warehouse.
- Is valued at 50 times income per capita.
- Will be a new construction (with no previous construction on the land), with no trees, natural water sources, natural reserves, or historical monuments of any kind on the plot.

- Will have complete architectural and technical plans prepared by a licensed architect and a licensed engineer. If preparation of the plans requires such steps as obtaining further documentation or getting prior approvals from external agencies, these are counted as separate procedures.
- Will include all technical equipment required to be fully operational.
- Will take 30 weeks to construct (excluding all delays due to administrative and regulatory requirements).

#### **Assumptions about the utility connections**

The water and sewerage connections:

- Will be 150 meters (492 feet) from the existing water source and sewer tap. If there is no water delivery infrastructure in the location, a borehole will be dug. If there is no sewerage infrastructure, a septic tank in the smallest size available will be installed or built.
- Will not require water for fire protection reasons; a fire extinguishing system (dry system) will be used instead. If a wet fire protection system is required by law, it is assumed that the water demand specified below also covers the water needed for fire protection.
- Will have an average water use of 662 liters (175 gallons) a day and an average wastewater flow of 568 liters (150 gallons) a day. Will have a peak water use of 1,325 liters (350 gallons) a day and a peak wastewater flow of 1,136 liters (300 gallons) a day.
- Will have a constant level of water demand and wastewater flow throughout the year.
- Connection pipes will be 1 inch in diameter for water and 4 inches in diameter for sewerage.

#### **Procedures**

A procedure is any interaction of the building company's employees, managers, or any party acting on behalf of the company with external parties, including government agencies, notaries, the land registry, the cadastre, utility companies, public inspectors, and the hiring of external private inspectors and technical experts where needed. Interactions between company employees, such as development of the warehouse plans and inspections by the in-house engineer, are not counted as procedures. However, interactions with external parties that are required for the architect to prepare the plans and drawings (such as obtaining topographic or geological surveys), or to have such documents approved or stamped by external parties, are counted as procedures. Procedures that the company undergoes to connect the warehouse to water and sewerage are included. All procedures that are legally required and done in practice by the majority of companies to build a warehouse are recorded, even if they may be avoided in exceptional cases. For example, obtaining technical conditions for electricity or a clearance of the electrical plans are counted as separate procedures if they are required for obtaining a building permit (table 7.2).



**TABLE 7.2** What do the indicators on the efficiency of construction permitting measure?

<b>Procedures to legally build a warehouse (number)</b>
Submitting all relevant documents and obtaining all necessary clearances, licenses, permits and certificates
Submitting all required notifications and receiving all necessary inspections
Obtaining utility connections for water and sewerage
Registering the warehouse after its completion (if required for use as collateral or for transfer of the warehouse)
<b>Time required to complete each procedure (calendar days)</b>
Does not include time spent gathering information
Each procedure starts on a separate day (two procedures cannot start on the same day except online procedures)
Procedure considered completed once final document is received
No prior contact with officials
<b>Cost required to complete each procedure (% of warehouse value)</b>
Official costs only, no bribes

### Time

Time is recorded in calendar days. The measure captures the median duration that local experts indicate is necessary to complete a procedure in practice. It is assumed that the minimum time required for each procedure is one day, except for procedures that can be fully completed online, for which the time required is recorded as half a day. Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days), again with the exception of procedures that can be fully completed online. If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen if that option is more beneficial to the location's score. It is assumed that BuildCo does not waste time and commits to completing each remaining procedure without delay. The time that BuildCo spends on gathering information is not taken into account. It is assumed that BuildCo follows all building requirements and their sequence as required.

### Cost

Cost is recorded as a percentage of the warehouse value (assumed to be 50 times income per capita). Only official costs are recorded. All fees associated with completing the procedures to legally build a warehouse are recorded, including those associated with obtaining land use approvals and preconstruction design clearances; receiving inspections before, during, and after construction; obtaining utility connections; and registering the warehouse at the property registry. Nonrecurring taxes required for the completion of the warehouse project are also recorded. Sales taxes (such as value added tax) or capital gains taxes are not recorded. Nor are deposits that must be paid up front and are later refunded. The building code, information from local experts, specific regulations and fee schedules are used as sources for costs. If several local partners provide different estimates, the median reported value is used.

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## Building quality control

The building quality control index is based on six indices—the quality of building regulations, quality control before, during and after construction, liability and insurance regimes, and professional certifications indices (table 7.3). The indicator is based on the same case study assumptions as the measures of efficiency.

### Quality of building regulations index

The quality of building regulations index has two components:

- Whether building regulations are easily accessible. A score of 1 is assigned if building regulations (including the building code) or regulations dealing with construction permits are available on a website that is updated as new regulations are passed; 0.5 if the building regulations are available free of charge (or for a nominal fee) at the relevant permit-issuing authority; 0 if the building regulations must be purchased or if they are not made easily accessible anywhere.
- Whether the requirements for obtaining a building permit are clearly specified. A score of 1 is assigned if the building regulations (including the building code) or any accessible website, brochure, or pamphlet clearly specifies the list of required documents to submit, the fees to be paid, and all required preapprovals of the drawings (example: electrical, water and sewerage, environmental) or plans by the relevant agencies; 0 if none of these sources specify any of these requirements or if these sources specify fewer than the three requirements mentioned above.

The index ranges from 0 to 2, with higher values indicating clearer and more transparent building regulations. In New Zealand, for example, all relevant legislation can be found on an official government website (a score of 1). The legislation specifies the list of required documents to submit, the fees to be paid, and all required preapprovals of the drawings or plans by the relevant agencies (a score of 1). Adding these numbers gives New Zealand a score of 2 on the quality of building regulations index.

### Quality control before construction index

The quality control before construction index has one component:

- Whether by law, a licensed architect or licensed engineer is part of the committee or team that reviews and approves building permit applications and whether that person has the authority to refuse an application if the plans are not in conformity with regulations. A score of 1 is assigned if the national association of architects or engineers (or its equivalent) must review the building plans, if an independent firm or expert who is a licensed architect or engineer must review the plans, if the architect or engineer who prepared the plans must submit an attestation to the permit-issuing authority stating that the plans are in compliance with the building regulations or if a licensed architect or engineer is part of the committee or team that approves the plans at the relevant permit-issuing authority; 0 if no licensed

<b>TABLE 7.3 What do the indicators on building quality control measure?</b>
<b>Quality of building regulations index (0 to 2)</b>
Accessibility of building regulations
Clarity of requirements for obtaining a building permit
<b>Quality control before construction index (0 to 1)</b>
Whether licensed or technical experts approve building plans
<b>Quality control during construction index (0 to 3)</b>
Types of inspections legally mandated during construction
Implementation of legally mandated inspections in practice
<b>Quality control after construction index (0 to 3)</b>
Final inspection legally mandated after construction
Implementation of legally mandated final inspection in practice
<b>Liability and insurance regimes index (0 to 2)</b>
Parties held legally liable for structural flaws after building occupancy
Parties legally mandated to obtain insurance to cover structural flaws after building occupancy or insurance commonly obtained in practice
<b>Professional certifications index (0 to 4)</b>
Qualification requirements for individual who approves building plans
Qualification requirements for individual who supervises construction or conducts inspections
<b>Building quality control index (0 to 15)</b>
Sum of the quality of building regulations, quality control before construction, quality control during construction, quality control after construction, liability and insurance regimes, and professional certifications indices

architect or engineer is involved in the review of the plans to ensure their compliance with building regulations.

The index ranges from 0 to 1, with higher values indicating better quality control in the review of the building plans. In Rwanda, for example, the city hall in Kigali must review the building permit application, including the plans and drawings, and both a licensed architect and a licensed engineer are part of the team that reviews the plans and drawings. Rwanda therefore receives a score of 1 on the quality control before construction index.

#### **Quality control during construction index**

The quality control during construction index has two components:

- Whether inspections are mandated by law during the construction process. A score of 2 is assigned if (i) a government agency is legally mandated to conduct technical inspections at different stages during the construction or an in-house engineer (that is, an employee of the building company), an external supervising engineer or firm is legally mandated to conduct technical inspections at different stages during the construction of the building and is required to submit a detailed inspections report at the completion of the construction; and (ii) it is legally mandated to conduct risk-based inspections. A score of 1 is assigned if a government agency is legally mandated to conduct only technical inspections at different stages during the construction or if an in-house engineer (that is, an employee of the

building company), an external supervising engineer or an external inspections firm is legally mandated to conduct technical inspections at different stages during the construction of the building and is required to submit a detailed inspections report at the completion of the construction. A score of 0 is assigned if a government agency is legally mandated to conduct un-scheduled inspections, or if no technical inspections are mandated by law.

- Whether inspections during construction are implemented in practice. A score of 1 is assigned if the legally mandated inspections during construction always occur in practice; 0 if the legally mandated inspections do not occur in practice, if the inspections occur most of the time but not always or if inspections are not mandated by law regardless of whether they commonly occur in practice.

The index ranges from 0 to 3, with higher values indicating better quality control during the construction process. In Antigua and Barbuda, for example, the Development Control Authority is legally mandated to conduct phased inspections under the Physical Planning Act of 2003 (a score of 1). However, the Development Control Authority rarely conducts these inspections in practice (a score of 0). Adding these numbers gives Antigua and Barbuda a score of 1 on the quality control during construction index.

#### **Quality control after construction index**

The quality control after construction index has two components:

- Whether a final inspection is mandated by law in order to verify that the building was built in compliance with the approved plans and existing building regulations. A score of 2 is assigned if an in-house supervising engineer (that is, an employee of the building company), an external supervising engineer or an external inspections firm is legally mandated to verify that the building has been built in accordance with the approved plans and existing building regulations, or if a government agency is legally mandated to conduct a final inspection upon completion of the building; 0 if no final inspection is mandated by law after construction and no third party is required to verify that the building has been built in accordance with the approved plans and existing building regulations.
- Whether the final inspection is implemented in practice. A score of 1 is assigned if the legally mandated final inspection after construction always occurs in practice or if a supervising engineer or firm attests that the building has been built in accordance with the approved plans and existing building regulations; 0 if the legally mandated final inspection does not occur in practice, if the legally mandated final inspection occurs most of the time but not always, or if a final inspection is not mandated by law regardless of whether or not it commonly occurs in practice.
- The index ranges from 0 to 3, with higher values indicating better quality control after the construction process. In Haiti, for example, the Municipality of Port-au-Prince is legally mandated to conduct a final inspection under the National Building Code of 2012 (a score of 2). However, the final

inspection does not occur in practice (a score of 0). Adding these numbers gives Haiti a score of 2 on the quality control after construction index.

### **Liability and insurance regimes index**

The liability and insurance regimes index has two components:

- Whether any parties involved in the construction process are held legally liable for latent defects such as structural flaws or problems in the building once it is in use. A score of 1 is assigned if at least two of the following parties are held legally liable for structural flaws or problems in the building once it is in use: the architect or engineer who designed the plans for the building, the professional or agency that conducted technical inspections, or the construction company; 0.5 if only one of the parties is held legally liable for structural flaws or problems in the building once it is in use; 0 if no party is held legally liable for structural flaws or problems in the building once it is in use, if the project owner or investor is the only party held liable, if liability is determined in court, or if liability is stipulated in a contract.
- Whether any parties involved in the construction process is legally required to obtain a latent defect liability—or decennial (10 years) liability—insurance policy to cover possible structural flaws or problems in the building once it is in use. A score of 1 is assigned if the architect or engineer who designed the plans for the building, the professional or agency that conducted the technical inspections, the construction company, or the project owner or investor is required by law to obtain either a decennial liability insurance policy or a latent defect liability insurance to cover possible structural flaws or problems in the building once it is in use or if a decennial liability insurance policy or a latent defect liability insurance is commonly obtained in practice by the majority of any of these parties even if not required by law. A score of 0 is assigned if no party is required by law to obtain either a decennial liability insurance or a latent defect liability insurance, and such insurance is not commonly obtained in practice by any party, if the requirement to obtain an insurance policy is stipulated in a contract, if any party must obtain a professional insurance or an all risk insurance to cover the safety of workers or any other defects during construction but not a decennial liability insurance or a latent defect liability insurance that would cover defects after the building is in use, or if any party is required to pay for any damages caused on their own without having to obtain an insurance policy.

The index ranges from 0 to 2, with higher values indicating more stringent latent defect liability and insurance regimes. In Madagascar, for example, under article 1792 of the Civil Code both the architect who designed the plans and the construction company are legally held liable for latent defects for a period of 10 years after the completion of the building (a score of 1). However, there is no legal requirement for any party to obtain a decennial liability insurance policy to cover structural defects, nor do most parties obtain such insurance in practice (a score of 0). Adding these numbers gives Madagascar a score of 1 on the liability and insurance regimes index.

### Professional certifications index

The professional certifications index has two components:

- The qualification requirements of the professional responsible for verifying that the architectural plans or drawings are in compliance with the building regulations. A score of 2 is assigned if national or state regulations mandate that the professional must have a minimum number of years of practical experience, must have a university degree (a minimum of a bachelor's) in architecture or engineering, and must also either be a registered member of the national order (association) of architects or engineers or pass a qualification exam. A score of 1 is assigned if national or state regulations mandate that the professional must have a university degree (a minimum of a bachelor's) in architecture or engineering and must also either have a minimum number of years of practical experience or be a registered member of the national order (association) of architects or engineers or pass a qualification exam. A score of 0 is assigned if national or state regulations mandate that the professional must meet only one of the above requirements, if they mandate that the professional must meet two of the requirements but neither of the two is to have a university degree, or if no national or state regulation determines the professional's qualification requirements.
- The qualification requirements of the professional who conducts the technical inspections during construction. A score of 2 is assigned if national or state regulations mandate that the professional must have a minimum number of years of practical experience, must have a university degree (a minimum of a bachelor's) in engineering, and must also either be a registered member of the national order of engineers or pass a qualification exam. A score of 1 is assigned if national or state regulations mandate that the professional must have a university degree (a minimum of a bachelor's) in engineering and must also either have a minimum number of years of practical experience or be a registered member of the national order (association) of engineers or pass a qualification exam. A score of 0 is assigned if national or state regulations mandate that the professional must meet only one of the requirements, if they mandate that the professional must meet two of the requirements but neither of the two is to have a university degree, or if no national or state regulation determines the professional's qualification requirements.

The index ranges from 0 to 4, with higher values indicating stricter professional certification requirements. In Albania, for example, the professional conducting technical inspections during construction must have a minimum number of years of experience, a relevant university degree and must be a registered architect or engineer (a score of 2). However, the professional responsible for verifying that the architectural plans or drawings are in compliance with building regulations must only have a minimum number of years of experience and a university degree in architecture or engineering (a score of 1). Adding these numbers gives Albania a score of 3 on the professional certifications index.

### **Building quality control index**

The building quality control index is the sum of the scores on the quality of building regulations, quality control before construction, quality control during construction, quality control after construction, liability and insurance regimes, and professional certifications indices. The index ranges from 0 to 15, with higher values indicating better quality control and safety mechanisms in the construction regulatory system.

*The data details on dealing with construction permits can be found at <http://www.doing-business.org>.*

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## **REGISTERING PROPERTY**

*Doing Business* records the full sequence of procedures necessary for a limited liability company (the buyer) to purchase a property from another business (the seller) and to transfer the property title to the buyer's name so that the buyer can use the property for expanding its business, as collateral in taking out new loans or, if necessary, to sell the property to another business. It also measures the time and cost to complete each of these procedures. *Doing Business* also measures the quality of the land administration system in each location. The quality of land administration index has five dimensions: reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution and equal access to property rights.

The ranking of locations on the ease of registering property is determined by sorting their scores for registering property. These scores are the simple average of the scores for each of the component indicators (figure 7.3).

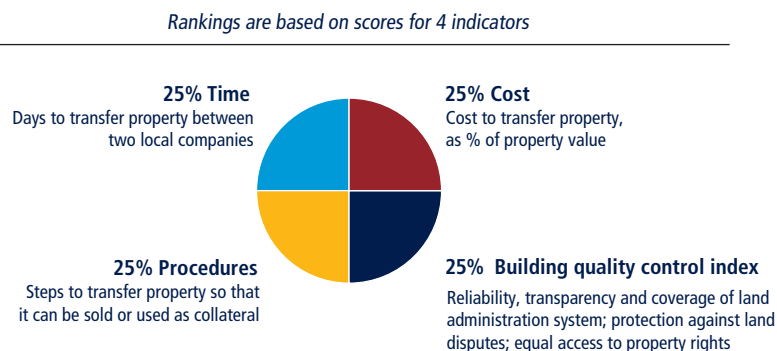
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### **Efficiency of transferring property**

As recorded by *Doing Business*, the process of transferring property starts with obtaining the necessary documents, such as a recent copy of the seller's title if necessary, and conducting due diligence as required. The transaction is considered complete when it is opposable to third parties, and when the buyer can use the property for expanding his or her business as collateral for a bank loan or resell it (figure 7.3). Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer or must be completed by a third party on their behalf. Local property lawyers, notaries and property registries provide information on procedures as well as the time and cost to complete each of them.

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

**FIGURE 7.3 Registering property: efficiency and quality of land administration system**



#### Assumptions about the parties

The parties (buyer and seller):

- Are limited liability companies (or their legal equivalent).
- Are located in the periurban (that is, on the outskirts of the city but still within its official limits) area of the selected city.
- Are 100% domestically and privately owned.
- Perform general commercial activities.

#### Assumptions about the property

- Has a value of 50 times income per capita, which equals the sale price.
- Is fully owned by the seller.
- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Is registered in the land registry or cadastre, or both, and is free of title disputes.
- Is located in a periurban commercial zone (that is, on the outskirts of the city but still within its official limits), and no rezoning is required.
- Consists of land and a building. The land area is 557.4 square meters (6,000 square feet). A two-story warehouse of 929 square meters (10,000 square feet) is located on the land. The warehouse is 10 years old, is in good condition, has no heating system and complies with all safety standards, building codes and other legal requirements. The property, consisting of land and a building, will be transferred in its entirety.
- Will not be subject to renovations or additional construction following the purchase.
- Has no trees, natural water sources, natural reserves or historical monuments of any kind.



**TABLE 7.4** What do the indicators on the efficiency of transferring property measure?**Procedures to legally transfer title on immovable property (number)**

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

Registration procedures in the selected location

Postregistration procedures (for example, filing title with municipality)

**Time required to complete each procedure**

Does not include time spent gathering information

Each procedure starts on a separate day (two procedures cannot start on the same day except online procedures)

Procedure considered completed once final document is received

No prior contact with officials

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

Official costs only (such as administrative fees, duties and taxes), no bribes

Value added tax and capital gains tax are excluded

- Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
- Has no occupants, and no other party holds a legal interest in it.

**Procedures**

A procedure is defined as any interaction of the buyer, the seller or their agents (if an agent is legally or in practice required) with external parties, including government agencies, inspectors, public notaries, architects, surveyors, among others. Interactions between company officers and employees are not considered. All procedures that are legally or in practice required for registering property are recorded, even if they may be avoided in exceptional cases (table 7.4). Each electronic procedure is counted as a separate procedure. Payment of capital gains tax can be counted as a separate procedure but is excluded from the cost measure. If a procedure can be accelerated legally for an additional cost, the fastest procedure is chosen if that option is more beneficial to the location's score and if it is used by the majority of property owners. Although the buyer may use lawyers or other professionals where necessary in the registration process, it is assumed that the buyer does not employ an outside facilitator in the registration process unless legally or in practice required to do so.

**Time**

Time is recorded in calendar days. The measure captures the median duration that property lawyers, notaries or registry officials indicate is necessary to complete a procedure. It is assumed that the minimum time required for each procedure is one day, except for procedures that can be fully completed online, for which the time required is recorded as half a day. Although procedures may take place simultaneously, they cannot start on the same day (again except for procedures that can be fully completed online). It is assumed that the buyer does not waste time and commits to completing each remaining procedure without delay. If a procedure can be accelerated for an additional cost, the fastest legal procedure available and used by the majority of property owners is chosen.

Although procedures may take place simultaneously, they cannot start on the same day (that is, simultaneous procedures start on consecutive days). It is assumed that the parties involved are aware of all requirements and their sequence from the beginning. Time spent on gathering information is not considered. If time estimates differ among sources, the median reported value is used.

### **Cost**

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

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## **Quality of land administration**

The quality of land administration index is composed of five other indices: the reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution and equal access to property rights (table 7.5). Data are collected for each of the selected cities.

### **Reliability of infrastructure index**

- The reliability of infrastructure index has six components:
- In what format past and newly-issued land records are kept at the immovable property registry of the selected city. A score of 2 is assigned if the land title certificates are fully digital; 1 if scanned; 0 if kept in paper format.
- Whether there is a comprehensive and functional electronic database for checking all encumbrances, charges or privileges affecting a registered property's encumbrances. A score of 1 is assigned if yes; 0 if no.
- In what format past and newly-issued cadastral plans are kept at the mapping agency of the selected city. A score of 2 is assigned if the cadastral plans are fully digital; 1 if scanned; 0 if kept in paper format.
- Whether there is a geographic information system (a fully digital geographic representation of the land plot)—an electronic database for recording boundaries, checking plans and providing cadastral information. A score of 1 is assigned if yes; 0 if no.
- Whether the land ownership registry and mapping agency are linked. A score of 1 is assigned if information about land ownership and maps is kept in a single database or in linked databases; 0 if there is no connection between different databases.
- How immovable property is identified. A score of 1 is assigned if both the immovable property registry and the mapping agency use the same identification number for properties; 0 if there are multiple identifiers.

**TABLE 7.5** What do the indicators on the quality of land administration measure?

<b>Reliability of infrastructure index (0 to 8)</b>
Type of system for archiving information on land ownership
Availability of electronic database to check for encumbrances
Type of system for archiving maps
Availability of geographic information system
Link between property ownership registry and mapping system
How immovable property is identified
<b>Transparency of information index (0 to 6)</b>
Accessibility of information on land ownership
Accessibility of maps of land plots
Publication of fee schedules, lists of registration documents, service standards
Availability of a specific and separate mechanism for complaints
Publication of statistics about the number of property transactions
<b>Geographic coverage index (0 to 8)</b>
Coverage of land registry at the level of the selected location and the economy
Coverage of mapping agency at the level of the selected location and the economy
<b>Land dispute resolution index (0 to 8)</b>
Legal framework for immovable property registration
Mechanisms to prevent and resolve land disputes
<b>Equal access to property rights index (-2 to 0)</b>
Unequal ownership rights to property between unmarried men and women
Unequal ownership rights to property between married men and women
<b>Quality of land administration index (0 to 30)</b>
Sum of the reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution and equal access to property rights indices

The index ranges from 0 to 8, with higher values indicating a higher quality of infrastructure for ensuring the reliability of information on property titles and boundaries. In Turkey, for example, the land registry offices in Istanbul maintain titles in a fully digital format (a score of 2) and have a fully electronic database to check for encumbrances (a score of 1). The Cadastral Directorate offices in Istanbul have fully digital maps (a score of 2), and the Geographical Information Directorate has a public portal allowing users to check the plans and cadastral information on parcels along with satellite images (a score of 1). Databases about land ownership and maps are linked to each other through the TAKBIS system, an integrated information system for the land registry offices and cadastral offices (a score of 1). Finally, there is a unique identifying number for properties (a score of 1). Adding these numbers gives Turkey a score of 8 on the reliability of infrastructure index.

### **Transparency of information index**

The transparency of information index has 10 components:

- Whether information on land ownership is made publicly available. A score of 1 is assigned if information on land ownership is accessible by anyone; 0

if access is restricted.

- Whether the list of documents required for completing all types of property transactions is made publicly available. A score of 0.5 is assigned if the list of documents is accessible online or on a public board; 0 if it is not made available to the public or if it can be obtained only in person.
- Whether the fee schedule for completing all types of property transactions is made easily available to the public. A score of 0.5 is assigned if the fee schedule is easily accessible online or on a public board free of charge; 0 if it is not made available to the public or if it can be obtained only in person.
- Whether the immovable property agency formally specifies the time frame to deliver a legally binding document proving property ownership. A score of 0.5 is assigned if such service standard is accessible online or on a public board; 0 if it is not made available to the public or if it can be obtained only in person.
- Whether there is a specific and independent mechanism for filing complaints about a problem that occurred at the agency in charge of immovable property registration. A score of 1 is assigned if there is a specific and independent mechanism for filing a complaint; 0 if there is only a general mechanism or no mechanism.
- Whether there are publicly available official statistics tracking the number of transactions at the immovable property registration agency in the selected city. A score of 0.5 is assigned if statistics are published about property transfers in the selected city in the past calendar year at the latest on May 1st of the following year; 0 if no such statistics are made publicly available.
- Whether maps of land plots are made publicly available. A score of 0.5 is assigned if cadastral plans are accessible by anyone; 0 if access is restricted.
- Whether the fee schedule for accessing cadastral plan is made easily available to the public. A score of 0.5 is assigned if the fee schedule is easily accessible online or on a public board free of charge; 0 if it is not made available to the public or if it can be obtained only in person.
- Whether the mapping agency formally specifies the time frame to deliver an updated cadastral plan. A score of 0.5 is assigned if the service standard is accessible online or on a public board; 0 if it is not made available to the public or if it can be obtained only in person.
- Whether there is a specific and independent mechanism for filing complaints about a problem that occurred at the mapping agency. A score of 0.5 is assigned if there is a specific and independent mechanism for filing a complaint; 0 if there is only a general mechanism or no mechanism.

The index ranges from 0 to 6, with higher values indicating greater transparency in the land administration system. In the Netherlands, for example, anyone who pays a fee can consult the land ownership database (a score of 1). Information can be obtained at the office, by mail or online using the Kadaster website (<http://www.kadaster.nl>). Anyone can also easily access the information online about the list of documents to submit for property registration (a score of 0.5), the fee schedule for registration (a score of 0.5) and the service

standards (a score of 0.5). And anyone facing a problem at the land registry can file a complaint or report an error by filling out a specific form online (a score of 1). In addition, the Kadaster makes statistics about land transactions available to the public, reporting a total of 34,908 property transfers in Amsterdam in 2018 (a score of 0.5). Moreover, anyone who pays a fee can consult online cadastral maps (a score of 0.5). It is also possible to get public access to the fee schedule for map consultation (a score of 0.5), the service standards for delivery of an updated plan (a score of 0.5) and a specific mechanism for filing a complaint about a map (a score of 0.5). Adding these numbers gives the Netherlands a score of 6 on the transparency of information index.

### **Geographic coverage index**

The geographic coverage index has four components:

- How complete the coverage of the land registry is at the level of the selected city. A score of 2 is assigned if all privately held land plots in the city are formally registered at the land registry; 0 if not.
- How complete the coverage of the land registry is at the level of the economy. A score of 2 is assigned if all privately held land plots in the economy are formally registered at the land registry; 0 if not.
- How complete the coverage of the mapping agency is at the level of the selected city. A score of 2 is assigned if all privately held land plots in the city are mapped; 0 if not.
- How complete the coverage of the mapping agency is at the level of the economy. A score of 2 is assigned if all privately held land plots in the economy are mapped; 0 if not.

The index ranges from 0 to 8, with higher values indicating greater geographic coverage in land ownership registration and cadastral mapping. In Japan, for example, all privately held land plots are formally registered at the land registry in Tokyo and Osaka (a score of 2) and the economy as a whole (a score of 2). Also, all privately held land plots are mapped in both cities (a score of 2) and the economy as a whole (a score of 2). Adding these numbers gives Japan a score of 8 on the geographic coverage index.

### **Land dispute resolution index**

The land dispute resolution index assesses the legal framework for immovable property registration and the accessibility of dispute resolution mechanisms. The index has eight components:

- Whether the law requires that all property sale transactions be registered at the immovable property registry to make them opposable to third parties. A score of 1.5 is assigned if yes; 0 if no.
- Whether the formal system of immovable property registration is subject to a guarantee. A score of 0.5 is assigned if either a state or private guarantee over immovable property registration is required by law; 0 if no such guarantee is required.
- Whether there is a specific, out-of-court compensation mechanism to cover

for losses incurred by parties who engaged in good faith in a property transaction based on erroneous information certified by the immovable property registry. A score of 0.5 is assigned if yes; 0 if no.

- Whether the legal system requires verification of the legal validity of the documents (such as the sales, transfer or conveyance deed) necessary for a property transaction. A score of 0.5 is assigned if there is a review of legal validity, either by the registrar or by a professional (such as a notary or a lawyer); 0 if there is no review.
- Whether the legal system requires verification of the identity of the parties to a property transaction. A score of 0.5 is assigned if there is verification of identity, either by the registrar or by a professional (such as a notary or a lawyer); 0 if there is no verification.
- Whether there is a national database to verify the accuracy of government-issued identity documents. A score of 1 is assigned if such a national database is available; 0 if not.
- How much time it takes to obtain a decision from a court of first instance (without an appeal) in a standard land dispute between two local businesses over tenure rights worth 50 times income per capita and located in the selected city. A score of 3 is assigned if it takes less than one year; 2 if it takes between one and two years; 1 if it takes between two and three years; 0 if it takes more than three years.
- Whether there are publicly available statistics on the number of land disputes in the local first instance court. A score of 0.5 is assigned if statistics are published about land disputes in the past calendar year; 0 if no such statistics are made publicly available.

The index ranges from 0 to 8, with higher values indicating greater protection against land disputes. In the United Kingdom, for example, according to the Land Registration Act 2002 property transactions must be registered at the land registry to make them opposable to third parties (a score of 1.5). The property transfer system is guaranteed by the state (a score of 0.5) and has a compensation mechanism to cover losses incurred by parties who engaged in good faith in a property transaction based on an error by the registry (a score of 0.5). In accordance with the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2007, a lawyer verifies the legal validity of the documents in a property transaction (a score of 0.5) and the identity of the parties (a score of 0.5). The United Kingdom has a national database to verify the accuracy of identity documents (a score of 1). In a land dispute between two British companies over the tenure rights of a property worth US\$2,066,500, the Land Registration division of the Property Chamber (First-tier Tribunal) gives a decision in less than one year (a score of 3). Finally, statistics about land disputes are collected and published; there were a total of 1,030 land disputes in the country in 2018 (a score of 0.5). Adding these numbers gives the United Kingdom a score of 8 on the land dispute resolution index.

### Equal access to property rights index

The equal access to property rights index has two components:

- Whether unmarried men and unmarried women have equal ownership rights to property. A score of  $-1$  is assigned if there are unequal ownership rights to property;  $0$  if there is equality.
- Whether married men and married women have equal ownership rights to property. A score of  $-1$  is assigned if there are unequal ownership rights to property;  $0$  if there is equality.

Ownership rights cover the ability to manage, control, administer, access, encumber, receive, dispose of and transfer property. Each restriction is considered if there is a differential treatment for men and women in the law considering the default marital property regime. For customary land systems, equality is assumed unless there is a general legal provision stating a differential treatment.

The index ranges from  $-2$  to  $0$ , with higher values indicating greater inclusiveness of property rights. In Mali, for example, unmarried men and unmarried women have equal ownership rights to property (a score of  $0$ ). The same applies to married men and women who can use their property in the same way (a score of  $0$ ). Adding these numbers gives Mali a score of  $0$  on the equal access to property rights index—which indicates equal property rights between men and women. By contrast, in Tonga unmarried men and unmarried women do not have equal ownership rights to property according to the Land Act [Cap 132], Sections 7, 45 and 82 (a score of  $-1$ ). The same applies to married men and women who are not permitted to use their property in the same way according to the Land Act [Cap 132], Sections 7, 45 and 82 (a score of  $-1$ ). Adding these numbers gives Tonga a score of  $-2$  on the equal access to property rights index—which indicates unequal property rights between men and women.

### Quality of land administration index

The quality of land administration index is the sum of the scores on the reliability of infrastructure, transparency of information, geographic coverage, land dispute resolution and equal access to property indices. The index ranges from  $0$  to  $30$  with higher values indicating better quality of the land administration system.

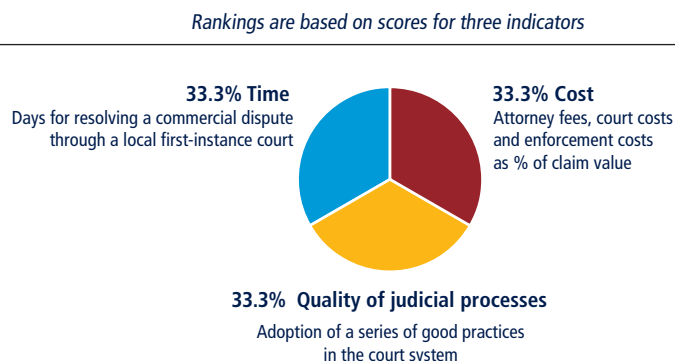
*The data details on registering property can be found for each economy at <http://www.doingbusiness.org>.*

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## ENFORCING CONTRACTS

*Doing Business* measures the time and cost for resolving a commercial dispute through a local first-instance court and the quality of judicial processes index, evaluating whether each location has adopted a series of good practices that promote quality and efficiency in the court system. The data are collected through study of the codes of civil procedure and other court regulations as well as questionnaires completed by local litigation lawyers and judges. The

**FIGURE 7.4 Enforcing contracts: efficiency and quality of commercial dispute resolution.**



ranking of locations on the ease of enforcing contracts is determined by sorting their scores for enforcing contracts. These scores are the simple average of the scores for each of the component indicators (figure 7.4).

### Efficiency of resolving a commercial dispute

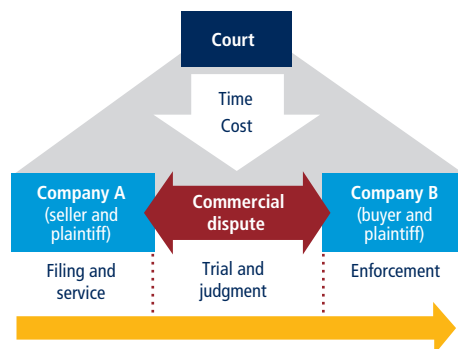
The data on time and cost are built by following the step-by-step evolution of a commercial sale dispute (figure 7.5). The data are collected for a specific court for each city covered, under the assumptions about the case described below. The “competent court” is the one with jurisdiction over disputes worth 200% of income per capita or US\$5,000, whichever is greater. Whenever more than one court has original jurisdiction over a case comparable to the standardized case study, the data are collected based on the court that would be used by litigants in the majority of cases. The name of the relevant court in San Pedro Sula is: Juzgado de Letras de lo Civil. The name of the relevant court in each economy is published on the *Doing Business* website at <http://www.doingbusiness.org/data/exploretopics/enforcing-contracts>.

#### Assumptions about the case

- The value of the claim is equal to 200% of the economy’s income per capita or US\$5,000, whichever is greater.
- The dispute concerns a lawful transaction between two businesses (Seller and Buyer), both located in the selected city. Pursuant to a contract between the businesses, Seller sells some custom-made furniture to Buyer worth 200% of the economy’s income per capita or US\$5,000, whichever is greater. After Seller delivers the goods to Buyer, Buyer refuses to pay the contract price, alleging that the goods are not of adequate quality. Because they were custom-made, Seller is unable to sell them to anyone else.
- Seller (the plaintiff) sues Buyer (the defendant) to recover the amount under the sales agreement. The dispute is brought before the court located in the selected city with jurisdiction over commercial cases worth 200% of income per capita or US\$5,000, whichever is greater.



**FIGURE 7.5** What are the time and cost to resolve a commercial dispute through the courts?



- At the outset of the dispute, Seller decides to attach Buyer's movable assets (for example, office equipment and vehicles) because Seller fears that Buyer may hide its assets or otherwise become insolvent.
- The claim is disputed on the merits because of Buyer's allegation that the quality of the goods was not adequate. Because the court cannot decide the case on the basis of documentary evidence or legal title alone, an expert opinion is given on the quality of the goods. If it is standard practice in the economy for each party to call its own expert witness, the parties each call one expert witness. If it is standard practice for the judge to appoint an independent expert, the judge does so. In this case the judge does not allow opposing expert testimony.
- Following the expert opinion, the judge decides that the goods delivered by Seller were of adequate quality and that Buyer must pay the contract price. The judge thus renders a final judgment that is 100% in favor of Seller.
- Buyer does not appeal the judgment. Seller decides to start enforcing the judgment as soon as the time allocated by law for appeal lapses.
- Seller takes all required steps for prompt enforcement of the judgment. The money is successfully collected through a public sale of Buyer's movable assets (for example, office equipment and vehicles). It is assumed that Buyer does not have any money on her/his bank account, making it impossible for the judgment to be enforced through a seizure of the Buyer's accounts.

### Time

Time is recorded in calendar days, counted from the moment Seller decides to file the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods in between. The average duration of the following three different stages of dispute resolution is recorded: (i) filing and service; (ii) trial and judgment; and (iii) enforcement. Time is recorded considering the case study assumptions detailed above and only as applicable to the competent court. Time is recorded in practice, regardless of time limits set by law if such time limits are not respected in the majority of cases.

The filing and service phase includes:

- The time for Seller to try and obtain payment out of court through a non-litigious demand letter, including the time to prepare the letter and the deadline that would be provided to Buyer to comply.
- The time necessary for a local lawyer to write the initial complaint and gather all supporting documents needed for filing, including authenticating or notarizing them, if required.
- The time necessary to file the complaint at the court.
- The time necessary for Buyer to be served, including the processing time at the court and the waiting periods between unsuccessful attempts if more than one attempt is usually required.

The trial and judgment phase includes:

- The time between the moment the case is served on Buyer and the moment a pre-trial conference is held, if such pre-trial conference is part of the case management techniques used by the competent court.
- The time between the pre-trial conference and the first hearing, if a pre-trial conference is part of the case management techniques used by the competent court. If not, the time between the moment the case is served on Buyer and the moment the first hearing is held.
- The time to conduct all trial activities, including exchanges of briefs and evidence, multiple hearings, waiting times in between hearings and obtaining an expert opinion.
- The time necessary for the judge to issue a written final judgment once the evidence period has closed.
- The time limit for appeal.

The enforcement phase includes:

- The time it takes to obtain an enforceable copy of the judgment and contact the relevant enforcement office.
- The time it takes to locate, identify, seize and transport the losing party's movable assets (including the time necessary to obtain an order from the court to attach and seize the assets, if applicable).
- The time it takes to advertise, organize and hold the auction. If more than one auction would usually be required to fully recover the value of claim in a case comparable to the standardized case study, then the time between multiple auction attempts is recorded.
- The time it takes for the winning party to fully recover the value of the claim once the auction is successfully completed.

### **Cost**

Cost is recorded as a percentage of the claim value, assumed to be equivalent to 200% of income per capita of Honduras or US\$5,000, whichever is greater.

Three types of costs are recorded: average attorney fees, court costs and enforcement costs.

Average attorney fees are the fees that Seller (plaintiff) must advance to a local attorney to represent Seller in the standardized case, regardless of final reimbursement. Court costs include all costs that Seller (plaintiff) must advance to the court, regardless of the final cost borne by Seller. Court costs include the fees that the parties must pay to obtain an expert opinion, regardless of whether they are paid to the court or to the expert directly. Enforcement costs are all costs that Seller (plaintiff) must advance to enforce the judgment through a public sale of Buyer's movable assets, regardless of the final cost borne by Seller. Bribes are not taken into account.

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## Quality of judicial processes

The quality of judicial processes index measures whether each location has adopted a series of good practices in its court system in four areas: court structure and proceedings, case management, court automation and alternative dispute resolution (table 7.6).

### Court structure and proceedings index

The court structure and proceedings index has five components:

- Whether a specialized commercial court, section or division dedicated solely to hearing commercial cases is in place. A score of 1.5 is assigned if yes; 0 if no.
- Whether a small claims court and/or a fast-track procedure for small claims is in place. A score of 1 is assigned if such a court or procedure is in place, it is applicable to all civil cases and the law sets a cap on the value of cases that can be handled through this court or procedure. The point is assigned only if this court applies a simplified procedure or if the procedure for small claims is simplified. An additional score of 0.5 is assigned if parties can represent themselves before this court or during this procedure. If no small claims court or fast-track procedure is in place, a score of 0 is assigned.
- Whether plaintiffs can obtain pretrial attachment of the defendant's movable assets if they fear the assets may be moved out of the jurisdiction or otherwise dissipated. A score of 1 is assigned if yes; 0 if no.
- Whether cases are assigned randomly and automatically to judges throughout the competent court. A score of 1 is assigned if the assignment of cases is random and automated; 0.5 if it is random but not automated; 0 if it is neither random nor automated.
- Whether a woman's testimony carries the same evidentiary weight in court as a man's. A score of -1 is assigned if the law differentiates between the evidentiary value of a woman's testimony and that of a man in any type of civil case, including family cases; 0 if it does not.

The index ranges from 0 to 5, with higher values indicating a more sophisticated and streamlined court structure. In Bosnia and Herzegovina, for example,

**TABLE 7.6** What do the indicators on the quality of judicial processes measure?

<b>Court structure and proceedings index (-1 to -5)</b>
Availability of specialized commercial court, division or section
Availability of small claims court or simplified procedure for small claims
Availability of pretrial attachment
Criteria used to assign cases to judges
Evidentiary weight of a woman's testimony
<b>Case management index (0 to 6)</b>
Regulations setting time standards for key court events
Regulations on adjournments or continuances
Availability of performance measurement reports
Availability of pretrial conference
Availability of electronic case management system for judges
Availability of electronic case management system for lawyers
<b>Court automation index (0 to 4)</b>
Ability to file initial complaint electronically
Ability to serve initial complaint electronically
Ability to pay court fees electronically
Publication of judgments
<b>Alternative dispute resolution index (0 to 3)</b>
Arbitration
Voluntary mediation or conciliation
<b>Quality of judicial processes index (0 to 18)</b>
Sum of the court structure and proceedings, case management, court automation and alternative dispute resolution indices

a specialized commercial court is in place (a score of 1.5), and small claims can be resolved through a dedicated division in which self-representation is allowed (a score of 1.5). Plaintiffs can obtain pretrial attachment of the defendant's movable assets if they fear dissipation during trial (a score of 1). Cases are assigned randomly through an electronic case management system (a score of 1). A woman's testimony carries the same evidentiary weight in court as a man's (a score of 0). Adding these numbers gives Bosnia and Herzegovina a score of 5 on the court structure and proceedings index.

### **Case management index**

The case management index has six components:

- Whether any of the applicable laws or regulations on civil procedure contain time standards for at least three of the following key court events: (i) service of process; (ii) first hearing; (iii) filing of the statement of defense; (iv) completion of the evidence period; (v) filing of testimony by expert; and (vi) submission of the final judgment. A score of 1 is assigned if such time standards are available and respected in more than 50% of cases; 0.5 if they are available but not respected in more than 50% of cases; 0 if

there are time standards for less than three of these key court events or for none.

- Whether there are any laws regulating the maximum number of adjournments or continuances that can be granted, whether adjournments are limited by law to unforeseen and exceptional circumstances and whether these rules are respected in more than 50% of cases. A score of 1 is assigned if all three conditions are met; 0.5 if only two of the three conditions are met; 0 if only one of the conditions is met or if none are.
- Whether there are any publicly available performance measurement reports about the competent court to monitor the court's performance, to track the progress of cases through the court and to ensure compliance with established time standards. A score of 1 is assigned if at least two of the following four reports are made publicly available: (i) time to disposition report (measuring the time the court takes to dispose/adjudicate its cases); (ii) clearance rate report (measuring the number of cases resolved versus the number of incoming cases); (iii) age of pending cases report (providing a snapshot of all pending cases according to case type, case age, last action held and next action scheduled); and (iv) single case progress report (providing a snapshot of the status of one single case). A score of 0 is assigned if only one of these reports is available or if none are.
- Whether a pretrial conference is among the case management techniques used in practice before the competent court and at least three of the following issues are discussed during the pretrial conference: (i) scheduling (including the time frame for filing motions and other documents with the court); (ii) case complexity and projected length of trial; (iii) possibility of settlement or alternative dispute resolution; (iv) exchange of witness lists; (v) evidence; (vi) jurisdiction and other procedural issues; and (vii) narrowing down of contentious issues. A score of 1 is assigned if a pretrial conference in which at least three of these events are discussed is held within the competent court; 0 if not.
- Whether judges within the competent court can use an electronic case management system for at least four of the following purposes: (i) to access laws, regulations and case law; (ii) to automatically generate a hearing schedule for all cases on their docket; (iii) to send notifications (for example, e-mails) to lawyers; (iv) to track the status of a case on their docket; (v) to view and manage case documents (briefs, motions); (vi) to assist in writing judgments; (vii) to semi-automatically generate court orders; and (viii) to view court orders and judgments in a particular case. A score of 1 is assigned if an electronic case management system is available that judges can use for at least four of these purposes; 0 if not.
- Whether lawyers can use an electronic case management system for at least four of the following purposes: (i) to access laws, regulations and case law; (ii) to access forms to be submitted to the court; (iii) to receive notifications (for example, e-mails); (iv) to track the status of a case; (v) to view and manage case documents (briefs, motions); (vi) to file briefs and documents with the court; and (vii) to view court orders and decisions in

a particular case. A score of 1 is assigned if an electronic case management system that lawyers can use for at least four of these purposes is available; 0 if not.

The index ranges from 0 to 6, with higher values indicating a more qualitative and efficient case management system. In Australia, for example, time standards for at least three key court events are established in applicable civil procedure instruments and are respected in more than 50% of cases (a score of 1). The law stipulates that adjournments can be granted only for unforeseen and exceptional circumstances and this rule is respected in more than 50% of cases (a score of 0.5). A time to disposition report, a clearance rate report and an age of pending cases report can be generated about the competent court (a score of 1). A pretrial conference is among the case management techniques used before the District Court of New South Wales (a score of 1). An electronic case management system satisfying the criteria outlined above is available to judges (a score of 1) and to lawyers (a score of 1). Adding these numbers gives Australia a score of 5.5 on the case management index, the highest score attained by any economy on this index.

#### **Court automation index**

The court automation index has four components:

- Whether the initial complaint can be filed electronically through a dedicated platform (not e-mail or fax) within the competent court. A score of 1 is assigned if such a platform is available and litigants are not required to follow up with a hard copy of the complaint; 0 if not. Electronic filing is acknowledged regardless of the percentage of users, as long as no additional in-person interactions are required, and local experts have used it enough to be able to confirm that it is fully functional.
- Whether the initial complaint can be served on the defendant electronically, through a dedicated system or by e-mail, fax or short message service (SMS), for cases filed before the competent court. A score of 1 is assigned if electronic service is available and no further service of process is required; 0 if not. Electronic service is acknowledged regardless of the percentage of users, as long as no additional in-person interactions are required, and local experts have used it enough to be able to confirm that it is fully functional.
- Whether court fees can be paid electronically for cases filed before the competent court, either through a dedicated platform or through online banking. A score of 1 is assigned if fees can be paid electronically and litigants are not required to follow-up with a hard copy of the receipt or produce a stamped copy of the receipt; 0 if not. Electronic payment is acknowledged regardless of the percentage of users, as long as no additional in-person interactions are required, and local experts have used it enough to be able to confirm that it is fully functional.
- Whether judgments rendered by local courts are made available to the general public through publication in official gazettes, in newspapers or on the internet. A score of 1 is assigned if judgments rendered in commercial cases at all levels are made available to the general public; 0.5 if only judgments

rendered at the appeal and supreme court level are made available to the general public; 0 in all other instances. No points are awarded if judgments need to be individually requested from the court, or if the case number or parties' details are required in order to obtain a copy of a judgment.

The index ranges from 0 to 4, with higher values indicating a more automated, efficient and transparent court system. In Estonia, for example, the initial summons can be filed online (a score of 1), it can be served on the defendant electronically (a score of 1), and court fees can be paid electronically as well (a score of 1). In addition, judgments in commercial cases at all levels are made publicly available through the internet (a score of 1). Adding these numbers gives Estonia a score of 4 on the court automation index.

### **Alternative dispute resolution index**

The alternative dispute resolution index has six components:

- Whether domestic commercial arbitration is governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all its aspects. A score of 0.5 is assigned if yes; 0 if no.
- Whether commercial disputes of all kinds—aside from those dealing with public order, public policy, bankruptcy, consumer rights, employment issues or intellectual property—can be submitted to arbitration. A score of 0.5 is assigned if yes; 0 if no.
- Whether valid arbitration clauses or agreements are enforced by local courts in more than 50% of cases. A score of 0.5 is assigned if yes; 0 if no.
- Whether voluntary mediation, conciliation or both are a recognized way of resolving commercial disputes. A score of 0.5 is assigned if yes; 0 if no.
- Whether voluntary mediation, conciliation or both are governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all their aspects. A score of 0.5 is assigned if yes; 0 if no.
- Whether there are any financial incentives for parties to attempt mediation or conciliation (for example, if mediation or conciliation is successful, a refund of court filing fees, an income tax credit or the like). A score of 0.5 is assigned if yes; 0 if no.

The index ranges from 0 to 3, with higher values associated with greater availability of alternative dispute resolution mechanisms. In Israel, for example, arbitration is regulated through a dedicated statute (a score of 0.5), all relevant commercial disputes can be submitted to arbitration (a score of 0.5), and valid arbitration clauses are usually enforced by the courts (a score of 0.5). Voluntary mediation is a recognized way of resolving commercial disputes (a score of 0.5), it is regulated through a dedicated statute (a score of 0.5), and part of the filing fees is reimbursed if the process is successful (a score of 0.5). Adding these numbers gives Israel a score of 3 on the alternative dispute resolution index.

### **Quality of judicial processes index**

The quality of judicial processes index is the sum of the scores on the court structure and proceedings, case management, court automation and alternative dispute resolution indices. The index ranges from 0 to 18, with higher values indicating better and more efficient judicial processes.

*The data details on enforcing contracts can be found for each economy at <http://www.doingbusiness.org>. This methodology was initially developed by Simeon Djankov, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer ("Courts," Quarterly Journal of Economics 118, no. 2 [2003]: 453–517) and is adopted here with several changes.*



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# List of procedures

## Starting a business

Standard company legal form: Limited liability company (*sociedad de responsabilidad limitada, S.R.L.*)

Paid-in minimum capital requirement: HNL 0

Data as of: September 30, 2019

### Procedure 1. Pay the initial capital and obtain the certificate of the deposit or show by certified check that it is available

**Agency:** Bank

**Time:** 1 day

**Cost:** HNL 150 (purchase a bank check)

**Procedure details:** Article 70 of the Honduran Commercial Code establishes that the minimum capital required to create a limited liability company (*sociedad de responsabilidad limitada, S.R.L.*) is HNL 5,000. The entrepreneur needs to pay the initial capital in a local bank and obtain the certificate of the deposit. The minimum capital requirement can be met in two ways: by making a deposit in a bank account or, more commonly, by issuing a certified check in the name of the new company. The certified check is attached to the company's articles of incorporation (affidavit). Article 5 of Decree No. 284-2013 of June 5, 2014, removes the minimum capital requirement for companies created and registered through the online portal Mi Empresa en Línea.

### Procedure 2. Establish the company by drawing up the articles of incorporation

**Agency:** Notary

**Time:** 2 days

**Cost:** HNL 11,132 (notary fees of 2% of share capital)

**Procedure details:** According to the Honduran Commercial Code, the articles of incorporation of a limited liability company are recorded in a deed of incorporation (*escritura de constitución*), issued by a notary. The requirements for the deed of incorporation are established in Article 14 of the Commercial Code (amended by Article 13 of Decree No. 284-2013 of June 5, 2014).

The cost to draw up articles of incorporation before a notary depends on the company's share capital. The new fee schedule is regulated by Article 15 of Agreement No. 001-2018 of the Union of Notaries of Honduras (UNH):

- up to HNL 100,000, the percentage of the share capital to be applied is 5%;
- from HNL 100,001 to HNL 500,000, 3%;
- from HNL 500,001 to HNL 5,000,000, 2%;
- more than HNL 5,000,001, 1%.

Decree No. 284-2013 of June 5, 2014, introduced the possibility of creating a company without the participation of a notary. Through Mi Empresa en Línea, a company can be created through a private corporate contract (*contrato societario*). However, most entrepreneurs still prefer to visit the notary office to establish the company.

### Procedure 3. File the articles of incorporation with the business registry

**Agency:** Chamber of Commerce and Industry of Cortés (CCIC)

**Time:** 1 day

**Cost:** HNL 1,033 (HNL 200 for the first HNL 1,000 of capital + HNL 1.5 per HNL 1,000 of capital or fraction thereof)

**Procedure details:** It is necessary to register the deed of incorporation with the business registry at the Chamber of Commerce and Industry of Cortés.

To register the company the entrepreneur must present:

- Original and copy of the deed of incorporation;
- Payment receipt of the registration fees.

Registration fees and registration status can be consulted online (<https://www.ccichonduras.org/webseite/app/consulta-registro-mercantil/index.htm>).

### Procedure 4. Apply for the tax identification number (registro tributario nacional, RTN)

**Agency:** Revenue Administration Service (Servicio de Administración de Rentas, SAR)

**Time:** 1 day

**Cost:** No cost

**Procedure details:** All natural or legal persons must apply for a tax identification number (RTN) at the Ministry of Finance's Revenue Administration Service (SAR).

To obtain the company's RTN, the entrepreneur must present:

- Annex to Form 410-B (Declaración Jurada de Inscripciones, Inicio de Actividades y Actualización al Registro Tributario Nacional);
- Form SAR-410 (Declaración Jurada de Inscripciones, Inicio de Actividades y Actualización del Registro Tributario Nacional);
- Original and copy of the deed of incorporation;
- Personal RTN of the head of the company and partners, if they are Honduran; passport, if they are foreign;
- Proof of address, original and copy of one of the following documents: public utility receipt; tenancy contract; certificate from the municipality or property tax receipt; private services contract (internet, cable, telephone service).

The SAR issues a card with the name of the company, its activity and the RTN code. Both the list of requirements and the forms are available online (<http://www.sar.gob.hn>).

After obtaining the RTN, the entrepreneur needs to go to the Virtual Office (Oficina Virtual), in the same building, to fill out Form SAR-926 related to the company's billing system and the type of invoices used (paper or electronic format). If the company chooses paper billing, the entrepreneur needs to select one of the printers authorized by the SAR to print the invoice books. Paper billing is still the most used method.

### Procedure 5. Register with the Chamber of Commerce and Industry of Cortés

**Agency:** Chamber of Commerce and Industry of Cortés

**Time:** 1 day

**Cost:** HNL 1,500 (registration fee for companies with share capital from HNL 100,001 to HNL 600,000)

**Procedure details:** According to Article 384 of the Honduran Commercial Code, every merchant must register in the local Chamber of Commerce and Industry. The cost to register depends on the company's share capital.

The company must submit:

- Registration application;
- Copy of the company's RTN;
- Certification of the company registration in the business registry;
- Payment receipt of the registration fee.

The list of requirements and fees is available on the website of the Chamber of Commerce and Industry of Cortés (<http://www.ccichonduras.org>).

### Procedure 6. Acquire accounting ledgers

**Agency:** Stationery shop

**Time:** 1 day

**Cost:** HNL 900 (HNL 300 each ledger book)

**Procedure details:** The company must acquire three ledger books in a stationery shop. The cost may vary depending on the shop.

### Procedure 7. Obtain the business license and the authorization of the accounting ledgers

**Agency:** Municipality

**Time:** 60 days

**Cost:** HNL 5,750 (HNL 300 for the administrative fee for the business license + HNL 1,950 for the tax on expected sales + HNL 2,000 for the business license + HNL 1,500: HNL 5 per sheet for three ledger books of approx. 100 sheets each)

**Procedure details:** Since 2017, it has been possible to apply for a business license online (<https://licencias.sanpedrosula.hn/>). The entrepreneur needs to register on the portal and indicate the date of commencement of operations. In addition, the entrepreneur must submit an affidavit with a reasonable estimate of the sales, revenue or production volume that the company expects to obtain during the first quarter of operations. This will provide the basis for calculating the fees and taxes to obtain a business license. The amounts of such fees and taxes are available for consultation in the San Pedro Sula Tax Plan (Plan de Arbitrios). Once all the departments involved have signed off and after the various inspections are done, the business license is granted and the entrepreneur must submit the following paper documentation:

- a. Affidavit of annual taxable revenue (Declaración Jurada Anual del Impuesto sobre Industrias, Comercio y Servicios);
- b. Copy of applicant's or applicants' IDs;
- c. Copy of applicant's and/or partners' RTN;
- d. Copy of the deed of incorporation;
- e. Copy of the tenancy agreement signed and registered in the Tenancy Department (Departamento Administrativo de Inquilinato, DAI).

The company's accounting ledgers need be authorized by the municipality. Ledger books can be on paper or in electronic format. Companies that choose to keep electronic accounting ledgers need to first notify the SAR. In practice, it is still more common to use manual accounting.

Companies created through Mi Empresa en Línea are not required to submit ledger books for authorization (Decree No. 284-2013 of June 5, 2014).

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### Procedure 8. Register with the Social Security Institute

**Agency:** Honduran Social Security Institute (Instituto Hondureño de Seguridad Social, IHSS)

**Time:** 5 days

**Cost:** No cost

**Procedure details:** The employer must register the company with the Honduran Social Security Institute (IHSS) for the subsequent registration of its employees in order to cover their health care through social security.

It is necessary to present the following documentation:

- a. Employer registration form;
- b. Copy of the company deed of incorporation;
- c. Business license from the municipality;
- d. ID of the company's legal representative;
- e. Address and sketch showing the company's location;
- f. Tenancy agreement of the venue where the activity takes place;
- g. Company's RTN;
- h. Employee information, including: name, hiring date, salary and position, copy of ID.

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### Procedure 9.\* Register with the Social Housing Fund

**Agency:** Social Housing Fund (Régimen de Aportaciones Privadas, RAP)

**Time:** 2 days

**Cost:** No cost

**Procedure details:** Companies with 10 or more employees must contribute 1.5% of each employee's salary to the Social Housing Fund (Régimen de Aportaciones Privadas, RAP), which aims to create a pension fund and other labor-related employee benefits, as well as provide loans and grants for access to housing.

To register the company, the entrepreneur must submit:

- a. Application form for employer affiliation (Formulario de Solicitud de Registro de Afiliación Patronal), signed and stamped;
- b. Copy of the company deed of incorporation;
- c. Copy of the ID of the company's legal representative;
- d. Copy of the company's RTN.

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### Procedure 10.\* Provide notice of commencement of operations

**Agency:** Revenue Administration Service (Servicio de Administración de Rentas, SAR)

**Time:** 1 day

**Cost:** No cost

**Procedure details:** The company must provide notice of commencement of operations to the Revenue Administration Service (SAR) within 40 days of issuing its first invoice, so that the agency can check the company's sales and revenue.

The entrepreneur must present:

- a. Form SAR-410 (Declaración Jurada de Inscripciones, Inicio de Actividades y Actualización del Registro Tributario Nacional);
- b. Copy of the first invoice issued;
- c. Copy of the ID of the company's legal representative.

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### Procedure 11.\* Register with the Professional Training Institute

**Agency:** Professional Training Institute (Instituto Nacional de Formación Profesional, INFOP)

**Time:** 1 day

**Cost:** No cost

**Procedure details:** The company must register with the Professional Training Institute (INFOP) and earmark 1% of the company's total monthly payroll to a fund for the professional training of employees.

The company must submit:

- a. Registration form, signed and sealed;
- b. Copy of the company deed of incorporation;
- c. Municipal business license;
- d. Company's RTN;
- e. ID of the company's manager or legal representative.

## Dealing with construction permits

*Warehouse value: HNL 2,783,046 (\$116,500)*

*Data as of: September 30, 2019*

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### Procedure 1. Obtain design guidelines

**Agency:** Municipality

**Time:** 2 days

**Cost:** HNL 200

**Procedure details:** This procedure is the starting point for the design of the construction project and is requested at the Department of Buildings and Construction Permits (Departamento de Edificaciones y Permisos de Construcción). The document, which is valid for one year, provides information about zoning, permitted uses, minimum areas, lateral setbacks and total area available for construction, among other specifications. The required documents for this procedure are:

- a. Copy of the deed;
- b. Cadastral certificate;
- c. Personal ID;
- d. Application form.

This procedure is in line with regulations on construction permits, based on the provisions of the Zoning and Urban Planning Ordinance (Ordenanza de Zonificación y Urbanización). Its cost is determined in accordance with the current San Pedro Sula Tax Plan (Plan de Arbitrios).

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### Procedure 2. Obtain water and sewer connection points

**Agency:** Municipality

**Time:** 30 days

**Cost:** HNL 1,800

\*Takes place simultaneously with previous procedure.

**Procedure details:** The builder requests the water and sewer connection points at the Environment Directorate (Gerencia de Ambiente, formerly the DIMA). After reviewing the request, this office sends the documents to the private concessionaire Aguas de San Pedro (water and sewer utility) to obtain confirmation of the feasibility of the service and the points of connection. This procedure involves an on-site inspection by the company. Finally, Aguas de San Pedro sends the results to the Environment Directorate, which then informs the builder.

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### Procedure 3.\* Obtain results of topographical study

**Agency:** Private laboratory

**Time:** 11 days

**Cost:** HNL 13,000

**Procedure details:** Concurrently, the builder requests a topographical study from a private laboratory, to measure ground levels and limitations, information that will be useful in preparing the building plans. It is a general technical requirement when building the type of structure specified in the case study.

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### Procedure 4.\* Buy stamps and logbooks and obtain proof of solvency

**Agency:** Professional associations

**Time:** 2 days

**Cost:** HNL 3,630 (stamps: HNL 2,130 and logbooks: HNL 1,500)

**Procedure details:** The builder must purchase the necessary stamps and logbooks and obtain the proof of solvency (*constancia de solvencia*) before the relevant professional associations (*colegios profesionales*), depending on the profession of the project overseer.

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### Procedure 5.\* Obtain approval of evacuation and fire safety plans

**Agency:** San Pedro Sula Fire Department

**Time:** 10 days

**Cost:** HNL 5,566 (0.2% of the warehouse value)

**Procedure details:** The San Pedro Sula Fire Department reviews the construction plans (evacuation routes, electrical system) of commercial, industrial and service projects, in accordance with the construction categories.

---

### Procedure 6. Obtain technical review of the project

**Agency:** Municipality

**Time:** 1 day

**Cost:** No cost

**Procedure details:** Once the construction plans have been prepared, they must be reviewed by representatives of the various professional associations: College of Civil Engineers of Honduras (CICH), the College of Architects of Honduras (CAH) and the College of Mechanical, Electrical and Chemical Engineers of Honduras (CIMEQH). Through this process, the professional associations verify if the designs are in accordance with the construction standards established by the municipality. Representatives of each professional association visit the municipal government offices three times a week (Monday, Wednesday and Friday), allowing all the reviews to be done on the same day. Although it is common for builders to go to the municipality to complete the procedure, another option is to go directly to each of the professional associations. At the municipality, a city government representative (from the municipal cadastre) is present for the review, which allows for validation or correction of the cadastral number presented. Although the review itself is free of charge, construction plans require stamps from each professional association.

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### Procedure 7. Obtain environmental review of the hydraulic plans

**Agency:** Municipality

**Time:** 27 days

**Cost:** HNL 14,015

**Procedure details:** After the technical review is completed, the builder submits the application for the construction permit to the municipality's one-stop shop for such procedures (Ventanilla Única de Atención de Trámites). To do this, the builder brings in three folders with the building plans. The first is for the Environment Directorate and the other two are for the Department of Buildings and Construction Permits. The Environment Directorate verifies that the hydraulic plans are in line with the municipal and national environmental regulations and looks into any possible environmental impact. At the end of the review, this municipal authority also calculates the costs of connecting to the water and sewer system.

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### Procedure 8.\* Receive environmental inspection

**Agency:** Municipality

**Time:** 1 day

**Cost:** No cost

**Procedure details:** Before obtaining the costs of connecting to the water and sewer system, an inspection by a representative of the Environment Directorate is required.

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### Procedure 9.\* Obtain building permit

**Agency:** San Pedro Sula Municipality

**Time:** 14 days

**Cost:** HNL 92,892 [Warehouse value: HNL 9,104,200 (HNL 7,000/m<sup>2</sup> x 1,300.6 m<sup>2</sup>) x building permit fee: 1% + HNL 1,850 review fee]

**Procedure details:** The Department of Buildings and Construction Permits ensures that the project file is complete and ready for review. The requirements for obtaining the construction permit for a new construction project greater than 43.00 m<sup>2</sup> are:

- a. Completed Form F-01;
- b. Copy of the property deed;
- c. Copy of the ID of the owner or legal representative;
- d. Copy of company's deed of incorporation or declaration of sole proprietorship;
- e. Tax identification number (RTN) of the company;
- f. Municipal solvency (*constancia de solvencia municipal*) of the owner and legal representative;
- g. Municipal solvency of the professional(s) responsible for the project;
- h. Copy of payment of the property tax and public services tax;
- i. Affidavit and acceptance of the Environmental Building Guide (Guía Ambiental de Construcción);
- j. Certificate from the water utility, private concessionaire Aguas de San Pedro, indicating whether it has potable water service and whether it covers sewer services;
- k. Environmental license issued by the Environment Directorate in the cases that apply under the current classification;
- l. Membership form filled out, signed and stamped by the representatives of the professional associations.

The fee to be paid is regulated by the current San Pedro Sula Tax Plan (Plan de Arbitrios).

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### Procedure 10.\* Receive site inspection

**Agency:** Municipality

**Time:** 1 day

**Cost:** No cost

**Procedure details:** Before issuing the construction permit, representatives of the municipality inspect the construction site in order to certify that construction has not yet begun.

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### Procedure 11. Request and obtain water and sewer connection

**Agency:** Water and sewer utility (private concessionaire Aguas de San Pedro)

**Time:** 21 days

**Cost:** HNL 12,000

\*Takes place simultaneously with previous procedure.

**Procedure details:** The costs for the connection to water and sewer services vary according to the location and materials needed by the private concessionaire Aguas de San Pedro.

The minimum required documents are:

- Copy of the deed;
- Identity document;
- Municipal solvency (*constancia de solvencia municipal*);
- Sketch of the property and project plans.

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### Procedure 12. \* Receive random inspection

**Agency:** Municipality

**Time:** 1 day

**Cost:** No cost

**Procedure details:** Once construction has begun, a representative from the municipal Department of Buildings and Construction Permits conducts at least one inspection, based on the authorized construction conditions, minimum design standards, safety standards, structural standards and environmental measures. If any irregularities are identified during this phase, additional inspections will be carried out during construction.

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### Procedure 13. Receive inspection by firefighters

**Agency:** San Pedro Sula Fire Department

**Time:** 1 day

**Cost:** No cost

**Procedure details:** During the last stages of construction, the San Pedro Sula Fire Department conducts a final inspection to verify the safety systems and ensure that the contingency plan guidelines have been followed.

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### Procedure 14. Return construction permit

**Agency:** Municipality

**Time:** 5 days

**Cost:** No cost

**Procedure details:** After completion of the authorized construction work, the builder returns the construction permit to the Department of Buildings and Construction Permits within a period not to exceed 15 business days. The builder may return a copy or the original document.

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### Procedure 15. Receive final inspection

**Agency:** Municipality

**Time:** 1 day

**Cost:** No cost

**Procedure details:** Once the construction permit has been returned, the Department of Buildings and Construction Permits conducts a final inspection. This inspection serves to verify that the work has been carried out in accordance with the authorized plans and in compliance with any special conditions stipulated in the permit.

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### Procedure 16. Obtain certificate of use or occupancy

**Agency:** Municipality

**Time:** 14 days

**Cost:** No cost

**Procedure details:** Upon completion of the final inspection, the municipality will issue the certificate of use or occupancy. The certificate is sent internally to the municipal cadastre within a period not to exceed 30 days from the date of issuance of the certificate.

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### Procedure 17. Register new building

**Agency:** Property Institute (Instituto de la Propiedad)

**Time:** 10 days

**Cost:** HNL 4,478

**Procedure details:** Finally, the builder registers the new construction with the Property Institute. This last procedure enables the building to be legally recognized and facilitates its transfer in the future, in addition to providing a valuation.

## Registering property

*Property value: HNL 2,783,046 (\$116,500)*

*Data as of: September 30, 2019*

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### Procedure 1. Verify the property history (non-encumbrance)

**Agency:** Property Institute (Instituto de la Propiedad)

**Time:** 0.5 days (online procedure)

**Cost:** No cost

**Procedure details:** The buyer can verify the history of the property being purchased by using the registration number on the SURE online site (Unified Registry System), if the information is in digital form (see <http://sure.sinap.hn/compartido/>), or if it is not, by consulting the paper records at the registry (Property Institute). The buyer requests the comprehensive certification (*certificación integral*) only if the original public deed has been lost or to verify the verbatim content of the records. The comprehensive certification also includes the non-encumbrance certificate (*constancia de libertad de gravámenes*) and specifies the judicial and legal status with regard to charges, liens or encumbrances on the property. The buyer and bank usually request this document from the seller. In case of changes to the property boundaries or subdivision of the property, a map must be attached to the conveyance deed.

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### Procedure 2. Verify municipal tax clearance and obtain cadastral valuation certificate

**Agency:** Municipal cadastre

**Time:** 1 day

**Cost:** HNL 200 (HNL 200 for cadastral certificate)

**Procedure details:** This procedure is required to make sure that the seller is the owner of the property being sold and that this is reflected in the municipal cadastral records. It also serves to verify the base value on which the property will be taxed. To obtain the cadastral certificate (*constancia de avalúo catastral*), which is processed, requested and issued at the municipal cadastral offices, the taxpayer must be current with all municipal taxes and fees. The tax clearance certificate (*constancia de solvencia municipal*) is issued by the Municipal Department of Personal Taxation, which verifies the taxpayer's compliance with municipal tax obligations. The tax clearance certificate may be requested online (<http://www.licencias.sanpedrosula.hn>) and the cadastral certificate only in person, but both need to be picked up in person. The Property Institute no longer requires verification of municipal tax clearance in its financial system (mortgages and loans) or for registering production or property, but it does require the cadastral certificate. Municipal certificates are valid for two months. The cadastral certificate is for tax purposes only and has no legal effects on property ownership.

The following documents are required:

- Tax clearance certificate (*constancia de solvencia municipal*);
- Proof of payment of the cadastral certificate.

---

### Procedure 3. Draft the conveyance deed (preliminary)

**Agency:** Lawyer or notary

**Time:** 2 days

**Cost:** HNL 55,661 (2% of property value)

**Procedure details:** After obtaining all the due diligence documents, the notary drafts the deed or title (*protocolo notarial/escritura matriz*). Notary fees are established in the Fee Schedule for Legal Professionals of the National Board of Directors of the College of Lawyers of Honduras. In practice, the parties establish the notary's fees by negotiation between the notary and the parties.

The following documents are required:

- Comprehensive certification of title history (*certificación integral/escritura*);
- Duly authorized legal representations (deed of incorporation of the company or power of attorney registered at the business registry);
- Deed of incorporation of both companies involved in the property transfer;
- Georeferenced cadastral map of the property;
- Cadastral certificate (*constancia de avalúo catastral*);
- Cadastral location certificate (*constancia catastral de ubicación*), which is optional.

\*Takes place simultaneously with previous procedure.

**Procedure 4. Pay the transfer tax and registration fees****Agency:** Commercial bank**Time:** 1 day**Cost:** HNL 41,746 (1.5% of property value)

**Procedure details:** The transfer tax (*impuesto de tradición*) and registration fees must be paid at a commercial bank, which allocates them to an account of the relevant government agency. In practice, these taxes are paid at the same time. The transfer tax, which must be paid within three business days after signing the deed (under penalty of a 20% fine), is equivalent to 1.5% of the transaction value (market value) or the cadastral value, whichever is higher. Once the payment is made, the notary will include the proof of payment with the public deed and issue the affidavit to be entered into the registry.

**Procedure 5. Register the conveyance deed****Agency:** Property Institute**Time:** 21 days**Cost:** HNL 4,374 (HNL 200 for the first HNL 1,000 of the property value as a base rate + HNL 1.50 for each additional HNL 1,000)

**Procedure details:** The notary typically submits the deed with the relevant attachments and payment receipts so that these can be validated and recorded in the property registry. This is a comprehensive procedure that aims to ensure compliance with the principle of legality and effective concurrence with other registration principles, formally determining that the acts or contracts, titles, public instruments or notarized documents are legal and valid. The registrar must validate all the documents within three business days after they are submitted. If the registrar notices any mistake in the paperwork, he or she will inform the parties so that they can withdraw the document in question and correct it. The time frame for handling the document will be adjusted depending on the order of priority, as well as the volume of the workload and the complexity of the document. The legal deadline for this registration is 10 business days from the time the documents are submitted, except in cases in which mistakes have been flagged. In practice, time can exceed the legal limit.

The following documents must be submitted:

- a. Conveyance deed: affidavit or conveyance of property (*escritura pública de compraventa: testimonio/primer tradición de bienes inmuebles*);
- b. Copy of the parties' ID;
- c. Original receipt and a copy of the proof of payment of registration fees;
- d. Original receipt and proof of payment of the transfer tax based on value;
- e. Proof of payment of the capital gains tax;
- f. Municipal cadastral certificate;

Additionally, the following documents may also be required in practice:

- g. Cadastral location certificate;
- h. Cadastral certificate issued by the Property Institute;
- i. Cadastral code number issued by the Property Institute;
- j. Georeferenced cadastral map of the property in case of corrections;
- k. Exchange rate document issued by bank (in case of payment in dollars);
- l. Duly authorized legal representations (deed of incorporation of the company or general power of attorney for administration and notary services registered with the business registry);
- m. Tax identification number (RTN) of both the representatives and the companies.

**Procedure 6. Provide notice of change in title****Agency:** Municipal cadastre**Time:** 1 day**Cost:** No cost

**Procedure details:** The change in title must be executed to update the cadastral records and the property value, if the sale was for a higher value than the one recorded in its database, as well as to charge municipal taxes, such as the property tax (*impuesto sobre bienes inmuebles*, IBI). The affidavit of real estate (*declaración de bienes inmuebles*) at the cadastre not only provides tax information to the municipality of San Pedro Sula but is useful for city land-use planning; the cadastral certificates also help to meet banks' needs for mortgage and loan purposes. The affidavit must be submitted within 30 business days after the property has been transferred. The municipal cadastre has 10 business days to update the cadastral records.

The following documents are required:

- a. Copy of the registered conveyance deed or property title;
- b. Copy of the deed of incorporation for both companies and the buyer's identification;
- c. Copy of the legal representative's ID;
- d. Municipal taxpayer registry number (*registro municipal del contribuyente*, RMC), which links the taxpayers' accounts for paying municipal taxes and fees;
- e. Tax identification number (RTN) for the company affidavit (*declaración jurada de persona jurídica*).

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## **Details on the indicators**

## SAN PEDRO SULA

Starting a business (rank)	180
<b>Score for starting a business (0 to 100)</b>	<b>62.7</b>
Procedures (number)	11
Time (days)	72
Cost (% of income per capita)	36.8
Paid-in minimum capital (% of income per capita)	0.0

Registering property (rank)	76
<b>Score for registering property (0 to 100)</b>	<b>66.6</b>
Procedures (number)	6
Time (days)	26.5
Cost (% of property value)	3.7
Quality of land administration index (0 to 30)	13.5

Dealing with construction permits (rank)	122
<b>Score for dealing with construction permits (0 to 100)</b>	<b>65.2</b>
Procedures (number)	17
Time (days)	112
Cost (% of warehouse value)	5.3
Quality of building regulations index (0 to 15)	9

Enforcing contracts (rank)	123
<b>Score for enforcing contracts (0 to 100)</b>	<b>53.0</b>
Time (days)	596
Cost (% of claim value)	38.8
Quality of judicial processes index (0 to 18)	7.5

### Indicator details — Enforcing contracts

#### TIME AND COST TO RESOLVE A COMMERCIAL DISPUTE

	Time (days)
Filing and service	56
Trial and judgement	360
Enforcement of judgement	180
<b>Total time</b>	<b>596</b>

	Cost (% of claim value)
Attorney fees	25.0
Court fees	5.7
Enforcement fees	8.1
<b>Total cost</b>	<b>38.8</b>

#### QUALITY OF JUDICIAL PROCESSES INDEX

	Score
Court structure and proceedings (-1 to 5)	3.0
Case management (0 to 6)	2.0
Court automation (0 to 4)	0.0
Alternative dispute resolution (0 to 3)	2.5
<b>Quality of judicial processes index (0 to 18)</b>	<b>7.5</b>



DEALING WITH CONSTRUCTION PERMITS		
	Answer	Score
<b>Building quality control index (0 to 15)</b>		<b>9</b>
<b>Quality of building regulations index (0 to 2)</b>		<b>2</b>
How accessible are building laws and regulations? (0 to 1)	Available online; free of charge	1
Which requirements for obtaining a building permit are clearly specified in the building regulations or on any accessible website, brochure or pamphlet? (0 to 1)	List of required documents; fees to be paid; required preapprovals	1
<b>Quality control before construction index (0 to 1)</b>		<b>1</b>
Which third-party entities are required by law to verify that the building plans are in compliance with existing building regulations? (0 to 1)	Licensed architect; licensed engineer	1
<b>Quality control during construction index (0 to 3)</b>		<b>1</b>
What types of inspections (if any) are required by law to be carried out during construction? (0 to 2)	Inspections by in-house engineer; inspections at various phases	1
Do legally mandated inspections occur in practice during construction? (0 to 1)	Mandatory inspections are not always done in practice during construction	0
<b>Quality control after construction index (0 to 3)</b>		<b>2</b>
Is there a final inspection required by law to verify that the building was built in accordance with the approved plans and regulations? (0 to 2)	Yes, final inspection is done by government agency; in-house engineer submits report for final inspection	2
Do legally mandated final inspections occur in practice? (0 to 1)	Not always occurs in practice	0
<b>Liability and insurance regimes index (0 to 2)</b>		<b>1</b>
Which parties (if any) are held liable by law for structural flaws or problems in the building once it is in use (Latent Defect Liability or Decennial Liability)? (0 to 1)	Architect or engineer; professional in charge of the supervision; construction company; owner or investor	1
Which parties (if any) are required by law to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use (Latent Defect Liability Insurance or Decennial Insurance)? (0 to 1)	No party is required by law to obtain insurance	0
<b>Professional certifications index (0 to 4)</b>		<b>2</b>
What are the qualification requirements for the professional responsible for verifying that the architectural plans or drawings are in compliance with existing building regulations? (0 to 2)	University degree in architecture or engineering; being a registered architect or engineer	1
What are the qualification requirements for the professional who supervises the construction on the ground? (0 to 2)	University degree in engineering, construction or construction management; being a registered architect or engineer	1

Source: *Doing Business* database.

## REGISTERING PROPERTY

	Answer	Score
<b>Quality of the land administration index (0 to 30)</b>		<b>13.5</b>
<b>Reliability of infrastructure index (0 to 8)</b>		<b>5</b>
In what format land title certificates are kept at the immovable property registry—in a paper format or in a computerized format (scanned or fully digital)? (0 to 2)	Computer/ Scanned	1
Is there a comprehensive and functional electronic database for checking for encumbrances (liens, mortgages, restrictions and the like)? (0 to 1)	Yes	1
In what format cadastral plans are kept at the mapping agency—in a paper format or in a computerized format (scanned or fully digital)? (0 to 2)	Computer/ Scanned	1
Is there an electronic database for recording boundaries, checking plans and providing cadastral information (geographic information system)? (0 to 1)	Yes	1
Is the information recorded by the immovable property registration agency and the cadastral or mapping agency kept in a single database, in different but linked databases or in separate databases? (0 to 1)	Different databases but linked	1
Do the immovable property registration agency and cadastral or mapping agency use the same identification number for properties? (0 to 1)	No	0
<b>Transparency of information index (0 to 6)</b>		<b>2.5</b>
Who is able to obtain information on land ownership at the agency in charge of immovable property registration? (0 to 1)	Freely accessible by anyone	1
Is the list of documents that are required to complete any type of property transaction made publicly available—and if so, how? (0 to 0.5)	Yes, online	0.5
Is the applicable fee schedule for any property transaction at the agency in charge of immovable property registration in the city made publicly available—and if so, how? (0 to 0.5)	Yes, online	0.5
Does the agency in charge of immovable property registration commit to delivering a legally binding document that proves property ownership within a specific time frame—and if so, how does it communicate the service standard? (0 to 0.5)	No	0
Is there a specific and independent mechanism for filing complaints about a problem that occurred at the agency in charge of immovable property registration? (0 to 1)	No	0
Are there publicly available official statistics tracking the number of transactions at the immovable property registration agency? (0 to 0.5)	No	0
Who is able to consult maps of land plots? (0 to 0.5)	Anyone who pays the official fee	0.5
Is the applicable fee schedule for accessing maps of land plots made publicly available—and if so, how? (0 to 0.5)	Yes, in person	0
Does the cadastral/mapping agency formally specify the timeframe to deliver an updated cadastral plan—and if so, how does it communicate the service standard? (0 to 0.5)	No	0
Is there a specific and independent mechanism for filing complaints about a problem that occurred at the cadastral or mapping agency? (0 to 0.5)	No	0
<b>Geographic coverage index (0 to 8)</b>		<b>0</b>
Are all privately held land plots in the economy formally registered at the immovable property registry? (0 to 2)	No	0
Are all privately held land plots in the city formally registered at the immovable property registry? (0 to 2)	No	0
Are all privately held land plots in the economy mapped? (0 to 2)	No	0
Are all privately held land plots in the city mapped? (0 to 2)	No	0
<b>Land dispute resolution index (0 to 8)</b>		<b>6</b>
Does the law require that all property sale transactions be registered at the immovable property registry to make them opposable to third parties? (0 to 1.5)	Yes	1.5
Is the system of immovable property registration subject to a state or private guarantee? (0 to 0.5)	Yes	0.5
Is there a specific compensation mechanism to cover for losses incurred by parties who engaged in good faith in a property transaction based on erroneous information certified by the immovable property registry? (0 to 0.5)	No	0
Does the legal system require a control of legality of the documents necessary for a property transaction (e.g., checking the compliance of contracts with requirements of the law)? (0 to 0.5)	Yes, by the registrar and notary	0.5
Does the legal system require verification of the identity of the parties to a property transaction? (0 to 0.5)	Yes, by the notary	0.5
Is there a national database to verify the accuracy of government issued identity documents? (0 to 1)	Yes	1
How long does it take on average to obtain a decision from the first-instance court for such a case (without appeal)? (0 to 3)	Between 1 and 2 years	2
Are there publicly available statistics on the number of land disputes at the economy level in the first instance court? (0 to 0.5)	No	0
<b>Equal access to property rights index (-2 to 0)</b>		<b>0</b>
Do unmarried men and unmarried women have equal ownership rights to property?	Yes	0
Do married men and married women have equal ownership rights to property?	Yes	0

Source: Doing Business database.

ENFORCING CONTRACTS		
	Answer	Score
<b>Quality of judicial processes index (0 to 18)</b>		<b>7.5</b>
<b>Court structure and proceedings (-1 to 5)</b>		<b>3</b>
Is there a court or division of a court dedicated solely to hearing commercial cases? (0 to 1.5)	No	0
Small claims court (0 to 1.5)		1.5
Is there a small claims court or a fast-track procedure for small claims?	Yes	-
If yes, is self-representation allowed?	Yes	-
Is pretrial attachment available? (0 to 1)	Yes	1
Are new cases assigned randomly to judges? (0 to 1)	Yes, but manual	0.5
Does a woman's testimony carry the same evidentiary weight in court as a man's? (-1 to 0)	Yes	0
<b>Case management (0 to 6)</b>		<b>2</b>
Time standards (0 to 1)		1
Are there laws setting overall time standards for key court events in a civil case?	Yes	-
If yes, are the time standards set for at least three court events?	Yes	-
Are these time standards respected in more than 50% of cases?	Yes	-
Adjournments (0 to 1)		0
Does the law regulate the maximum number of adjournments that can be granted?	No	-
Are adjournments limited to unforeseen and exceptional circumstances?	No	-
If rules on adjournments exist, are they respected in more than 50% of cases?	n/a	-
Can two of the following four reports be generated about the competent court: (i) time to disposition report; (ii) clearance rate report; (iii) age of pending cases report; and (iv) single case progress report? (0 to 1)	No	0
Is a pretrial conference among the case management techniques used before the competent court? (0 to 1)	Yes	1
Are there any electronic case management tools in place within the competent court for use by judges? (0 to 1)	No	0
Are there any electronic case management tools in place within the competent court for use by lawyers? (0 to 1)	No	0
<b>Court automation (0 to 4)</b>		<b>0</b>
Can the initial complaint be filed electronically through a dedicated platform within the competent court? (0 to 1)	No	0
Is it possible to carry out service of process electronically for claims filed before the competent court? (0 to 1)	No	0
Can court fees be paid electronically within the competent court? (0 to 1)	No	0
Publication of judgments (0 to 1)		0
Are judgments rendered in commercial cases at all levels made available to the general public through publication in official gazettes, in newspapers or on the internet or court website?	No	-
Are judgments rendered in commercial cases at the appellate and supreme court level made available to the general public through publication in official gazettes, in newspapers or on the internet or court website?	No	-
<b>Alternative dispute resolution (0 to 3)</b>		<b>2.5</b>
Arbitration (0 to 1.5)		1.5
Is domestic commercial arbitration governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all its aspects?	Yes	-
Are there any commercial disputes—aside from those that deal with public order or public policy—that cannot be submitted to arbitration?	No	-
Are valid arbitration clauses or agreements usually enforced by the courts?	Yes	-
Mediation/Conciliation (0 to 1.5)		1
Is voluntary mediation or conciliation available?	Yes	-
Are mediation, conciliation or both governed by a consolidated law or consolidated chapter or section of the applicable code of civil procedure encompassing substantially all their aspects?	Yes	-
Are there financial incentives for parties to attempt mediation or conciliation (i.e., if mediation or conciliation is successful, a refund of court filing fees, income tax credits or the like)?	No	-

Source: *Doing Business* database.

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