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**JAMAICA'S  
COMPETITIVENESS:  
HIGHLIGHTS OF THE  
DOING BUSINESS  
REPORT 2012**



PREPARED BY

Planning Institute of Jamaica



## **Acknowledgements**

This report was prepared by a team from the Economic Planning & Research Division (EPRD) and the under the general direction of Mr. James Stewart (Acting Director, EPRD). The work of the team was supervised by Mr. Donald Simpson (Acting Manager, Macroeconomic Unit, EPRD).

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## EXECUTIVE SUMMARY

- Jamaica fell three places to be ranked at 88 in the DBR 2012, representing the seventh consecutive year of decline. Jamaica's historical ranking for the past seven years is shown in the table below:

<b>Year</b>	<b>Ranking</b>	<b>Number of Countries Surveyed</b>
2006	48	155
2007	50	175
2008	62	178
2009	63	181
2010	78	183
2011	85	183
2012	88	183

- A key factor which contributed to Jamaica's decline was the area Paying Taxes for which the country received the worst regional ranking of 172. This occurred despite improvements in tax administration processes such as the amalgamation of payments for payroll taxes and the continued build-out of electronic filing procedures. The fall in rankings also occurred despite ongoing improvements in customs procedures, specifically the Night Lodgment System which became effective on May 2, 2011, and facilitates overnight processing of import entry documents for commercial goods.

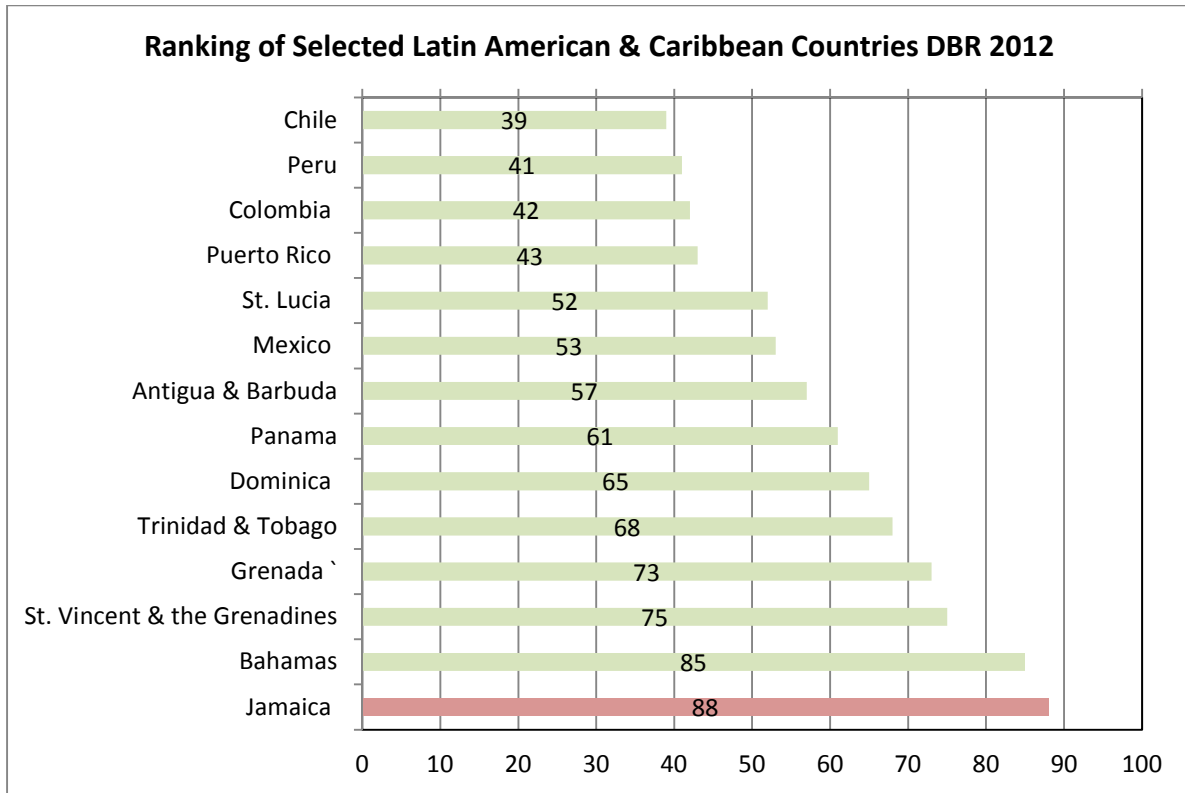
## INTRODUCTION

The Doing Business 2012 report (DBR 2012) titled *Doing Business in a Transparent World* is published by the World Bank and the International Finance Corporation (IFC), and is the ninth in a series of annual reports. The report forms part of the Doing Business Project which was launched in 2002 and provides measures of business regulations and their enforcement across 183 economies and selected cities at the subnational and regional level. The DBR 2012 saw Singapore topping the list for the sixth consecutive year.

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Regionally, Jamaica remains fairly competitive ranking 14<sup>th</sup> and 7<sup>th</sup> among Latin America and the Caribbean countries respectively. Countries in Latin America ranked above Jamaica in DBR 2012 were Chile, Peru, Colombia, Puerto Rico and Mexico. Countries ranked ahead of Jamaica in the Caribbean were Saint Lucia, Antigua & Barbuda, Panama, Dominica, Trinidad and Tobago, Grenada, St. Vincent & the Grenadines and the Bahamas.



This report highlights the main findings of the Doing Business Report (2012). A key factor which contributed to Jamaica’s decline was the area Paying Taxes for which the country received the worst regional ranking of 172. The fall in rankings also occurred despite ongoing improvements in customs procedures, specifically the Night Lodgment System which became effective on May 2, 2011, and facilitates overnight processing of import entry documents for commercial goods.

## **DOING BUSINESS REPORT (2012)**

The DBR 2012 focuses on *Doing Business in a Transparent World*, through the use of quantitative indicators and regulations to rank the ease of doing business around the world. A deficiency of the DBR is that it may not reflect changes in the regulatory framework of a country via movements in ranking as other countries may be changing at a faster rate. The situation may also arise when a country’s ranking may deteriorate despite no changes in regulatory framework.

The data utilized for the 2012 report are current as at June 1, 2011 (with the exception of paying taxes which are for the period January–December 2010). The reference business in the DBR 2012 is a limited liability company operating in the largest business district in a country. A new indicator was added to the 2012 survey which focuses on the procedures required to obtain a permanent electricity connection. With the inclusion of this indicator, revisions were made to the rankings in DBR 2011.

This revision resulted in Jamaica’s ranking moving from 81 out of 183 countries to 85 in the DBR 2011. For DBR 2012 Jamaica was ranked at 88, placing the country in the top 48 per cent of the total countries surveyed. (Table 1) This ranking places Jamaica at 9<sup>th</sup> out of the 12 Caribbean<sup>1</sup> countries participating in the survey. Puerto Rico, ranked at 43, was the highest ranked Caribbean nation followed by Saint Lucia with a ranking of 52. It is ironic that Jamaica continues to have its best ranking for the indicators Starting and Closing Business, while continuing to be ranked unfavourably by the indicators that look at the business operation.

A comparison with Trinidad & Tobago revealed that Jamaica is ranked 20 countries lower. The inclusion of the indicator “Getting Electricity” resulted in the T&T ranking for DBR 2011 being revised to 76 from 97. The 2012 DBR ranking by T&T was one position lower than the ranking of 67 in 2008. This improvement in its ranking placed T&T in the top 37 per cent of countries surveyed in 2012 compared with the top 42 per cent in 2011.

With respect to Jamaica, the 2012 report indicated that slight improvements were recorded in four of the ten indicators, namely, Dealing with Construction Permits; Getting Electricity; Paying Taxes; and Enforcing Contracts.

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<sup>1</sup> Belize, Guyana and Suriname did not participate in the 2012 survey.

**Table 1: Jamaica's Ease of Doing Business Ranking, 2008–2012**

Rank	2008	2009	2010	2011	2012
<b>Ease of Doing Business (Overall Rank)</b>	<b>63</b>	<b>67</b>	<b>75</b>	<b>85</b>	<b>88</b>
Starting a Business	11	12	19	19	23
Dealing with Construction Permits	74	48	49	52	<b>49</b>
Getting Electricity	n/a	n/a	n/a	114	<b>112</b>
Registering Property	108	129	122	102	103
Getting Credit	115	84	87	96	98
Protecting Investors	64	70	73	74	79
Paying Taxes	170	175	174	175	<b>172</b>
Trading Across Borders	92	102	104	96	97
Enforcing Contracts	103	126	128	127	<b>126</b>
Closing a Business/ Resolving Insolvency	22	23	23	24	26
Number of Countries surveyed	178	181	183	183	183
Percentage Placement (%)	35	37	41	46	48

*Source: Doing Business Report, 2008–2012*

### **Dealing with Construction Permits**

This indicator assesses the number of procedures required to legally build a warehouse; the time required to complete each procedure; and the cost required to complete each procedure as a percentage of income per capita. Jamaica moved up three places to a ranking of 49. The main contributor to this movement was the reduction in the *cost required to complete each procedure* which declined to 227.5 per cent of per capita income in 2012 from 252.4 per cent of per capita income in 2011. Despite this reduction Jamaica remains behind most of its Caribbean neighbours, ranking only above Puerto Rico and Haiti.

The number of procedures required to obtain approval and the time required to complete each procedure remained at 8 procedures and 145 days respectively, the same as recorded in the DBR 2011.

For the Caribbean region the sub-indicators for 2012 were:

- average *number of procedures* – 11;
- average *time* – 246 days;
- average *cost (% of income per capita)* – 132.5%;

To simplify the process associated with obtaining building permits in Jamaica, the Local Government Department within the Office of the Prime Minister granted approval for Standardized Building Application Forms and Assessment Forms as well as a New Building Code Completeness Checklist for development approvals. In addition, approval was also granted by Cabinet for a Flow Charts and Procedures Manual for all profiles of applications in the Business Process which was geared towards achieving a 90 day response time to all applications submitted.

### **Getting Electricity**

This indicator assesses all the procedures required for a local business to obtain a permanent electricity connection and supply for a standardized warehouse, as well as the time and cost to complete them. Jamaica's ranking improved by two places to 112. Despite the improvement in the ranking, Jamaica is below the regional average of 55.

Jamaica's performance was mainly attributable to a reduction in the *cost required to complete each procedure* which fell to 354.6 per cent of income per capita from 393.4 per cent. This is below the regional average of 627.9 per cent. A significant portion of this cost (95 per cent) accrues to the Jamaica Public Service company, consisting of external connection costs, meter installation and a projected three month consumption deposit paid by customers.

There was no change in the number of procedures and time sub-indicators, which remained at 6 procedures and 96 days respectively, relative to DBR 2011. For the Caribbean, the regional average for the procedures and time sub-indicators were 5 procedures and 55 days respectively.

## Paying Taxes<sup>2</sup>

The average *time* required to pay taxes was 414 hours per annum and the average number of *payments* was 72. These averages remained unchanged relative to DBR 2011. The sub-indicator *total tax rate* was 45.6 per cent which was less than the 50.1 per cent reported in DBR 2011. The country's ranking improved by two places to 172. Despite the improvement in the ranking, compared with its Caribbean neighbours, Jamaica had the worst tax system, as it took more time and procedures to make tax payments.

For the Caribbean region the sub-indicators for 2012 are:

- average *time* – 190 hours per year relative to 189.5 hours per year in 2011;
- average *number of payments* – 36 payments per year relative to 33.3 payments per year in 2011;
- average *total tax rate* – 43.2 per cent (of profit) relative to 41.8 per cent (of profit) in 2011.

Jamaica is now in the process of reforming its tax system. During the medium term, tax reform will involve reducing the complexity of the system, reducing the time and number of payments required, and ensuring equitable taxation. The Government of Jamaica is currently implementing strategies (2009–2012) to make regulatory changes to the tax process. Some of the strategies include:

- implementing fundamental tax reform to increase efficiency, simplicity and equity of the tax system;
- improving tax compliance in the informal sector by shifting the burden of taxation to consumption;
- conducting a reform of the incentive systems to the productive industries;
- simplifying tax procedures and the number of payments;
- encouraging the wider usage of electronic payment of taxes, with a view to reducing the time it takes to make tax payments.

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<sup>2</sup> The data used to assess this section was for the period January–December 2010.

As at January 2011, the process of amalgamation of tax payments was initiated with the implementation of a single form for the payment of four tax types (NHT, PAYE, HEART, ED. TAX). This should result in a reduction in the number of tax payments to 48, and the time associated with the payment of taxes.

### **Enforcing Contracts**

Jamaica's ranking improved by one place to 126. With respect to the sub-indicators, Jamaica's ranking remained unchanged. The sub-indicators were: *number of procedures*, 35; *time to enforce contracts* 655 days; and the *cost (% of claim)* remained constant at 45.6 per cent, this represented the highest cost in the region.

For the Caribbean region the sub-indicators for 2012 are:

- average *number of procedures* – 43 procedures relative to 42.9 in 2011
- average *time to enforce contracts* – 613 days relative to 701.7 days in 2011
- average *cost (% of claim)* – 33.0 per cent relative to 32.4 per cent in 2011.

### **Registering Property**

For this indicator, Jamaica fell by one position to 103. This ranking occurred despite no changes in the sub-indicators: *number of procedures to legally transfer title on immovable property and the time (days) and cost (percentage of property value) required to complete each procedure*, implying improvements by other countries. The time it took to register property in Jamaica averaged 37 days, remaining at fourth place when ranked against its Caribbean counterparts. The number of required procedures involved in the process remained at 6, at a cost of 7.5 per cent of the property value.

Within the Caribbean, the property registration process averaged seven procedures that took on average 94 days to be completed, at a cost of 8.7 per cent of property value.

Jamaica has embarked on a programme to reduce the business costs associated with registering property through expedited land titling and the strengthening of land property rights. The benchmarks set as a part of the programme have been achieved and include actions for reducing registration and land titling costs and a five per cent reduction in fees, commissions and duties for land transactions.

### **Starting a Business**

Jamaica's highest ranking was for the indicator *Starting a Business*, although declining by four places to 23. The sub-indicators *number of procedures* remained at 6 while *time (7 days)*, improved by one day. However, *Cost (% of income per capita)* increased by two percentage points to 7.2 per cent.

For the Caribbean region the sub-indicators for 2012 are:

- average number of procedures – 7 procedures relative to 7.9 in 2011
- average time – 25 days relative to 71.6 days in 2011
- average cost (% of income per capita) – 39.0 per cent relative to 36.5 per cent in 2011
- minimum capital (% of income per capita) – 6.6 per cent relative to 5.6 per cent in 2011.

It should be noted that of the 12 Caribbean States surveyed, only two (Haiti and Dominica Republic) have minimum capital requirements for an entrepreneur to start a business.

### **Getting Credit**

For the indicator Getting Credit Jamaica's ranking declined by two places to 98 in the DBR for 2012. The movement in this ranking reflected other countries improving their system rather than a worsening in Jamaica's system, as all the sub-indicators remained unchanged when compared with DBR 2011.

The regional average for the Caribbean was 92, obtaining the following rankings in the sub-indicators:

- *strength of legal rights index (0-10) – 7*
- *Depth of credit information index (0-10) – 1*
- *Public registry coverage (% of adults) – 3.1%*
- *Private bureau coverage (5 of adults) – 14.4%*

The ranking for the next DBR is expected to improve with the passing of the Credit Reporting Act in 2010, which will lead to the creation of the Credit Bureau in Jamaica. This will allow for information to be stored in one place where lenders can access credit information on prospective borrowers.

### **Trading Across Borders**

Jamaica's ranking for the indicator *Trading Across Borders* fell by one place to 97 in DBR 2012, which was below the regional average of 73. All sub-indicators for DBR 2012 remained at DBR 2011 levels and were as follows:

- *average number of documents to export – 6*
- *average time to export – 21 days*
- *average cost to export – US\$1 410 per container*
- *average number of documents to import – 6*
- *average time to import – 22 days*
- *average cost to import – US\$1 420 per container*

For the Caribbean region the sub-indicators for 2012 were:

- *average number of documents to export – 6 compared with 6.1 in DBR 2011;*
- *average time to export – 16 days compared with 16.9 days in 2011;*
- *average cost to export – US\$1 146 per container compared with US\$1 135 per container in 2011*
- *average number of documents to import 7 compared with 6.7 in 2011*
- *average time to import – 16 days compared with 17.9 days in 2011*

- average *cost to import* – US\$1 632 per container compared with US\$1 541.0/container in 2011

In 2011, efforts were made to modernize and streamline Jamaica’s customs department in preparation for the attainment of Executive Agency status. As at December 2011, the objectives achieved included:

- The attainment of Executive Agency status by the Customs Department
- The development and operationalization of an intelligence database and case management system
- Approval of standard operating procedures to govern post clearance audit
- Signing of the Mutual Assistance Agreement between the Jamaica Customs Department and the United States Customs Department.
- Operationalization of an audit program for waivers and incentives

### **Resolving Insolvency (Closing A Business)**

The *ease of resolving insolvency* indicator measures the sub-indicators: *the time (years) required to recover debt*; *cost (percentage of debtor’s estate) required to recover debt*; and *the recovery rate (cents on the dollar) for creditors*. Jamaica’s ranking for *the ease of resolving insolvency* was 26, falling two places from the DBR 2011 position. Despite the fall, Jamaica obtained the highest regional ranking for this indicator.

The *time and cost to recover debt* sub-indicators remained at 1.1 years and 18 per cent of the estate, respectively, while the recovery rate for creditors increased marginally to 65.3 cents on the dollar from 65.1 cents.

## INDUSTRY IMPACT

Jamaica's ranking of 88 out of 183 economies has implications for macroeconomic growth and development. The ease with which entrepreneurs can do business in Jamaica affects all industries of the economy, particularly, Construction, Manufacture and the Small & Micro Enterprises (SMEs).

**Table 2: DBR Indicators and Main Areas of Linkages**

Starting a Business	Industries
Dealing with Construction Permits	<ul style="list-style-type: none"> <li>▪ Construction</li> </ul>
Employing Workers	<ul style="list-style-type: none"> <li>▪ Construction</li> <li>▪ Manufacture</li> <li>▪ SMEs</li> </ul>
Registering Property	<ul style="list-style-type: none"> <li>▪ Construction</li> <li>▪ Manufacture</li> <li>▪ SMEs</li> </ul>
Getting Credit	<ul style="list-style-type: none"> <li>▪ Construction</li> <li>▪ Manufacture</li> <li>▪ SMEs</li> </ul>
Protecting Investors	<ul style="list-style-type: none"> <li>▪ Construction</li> <li>▪ Manufacture</li> <li>▪ SMEs</li> <li>▪ Tourism</li> <li>▪ Transport Storage &amp; Communications</li> </ul>
Paying Taxes	<ul style="list-style-type: none"> <li>▪ Construction</li> <li>▪ Manufacture</li> <li>▪ SMEs</li> <li>▪ Tourism</li> <li>▪ Transport Storage &amp; Communications</li> </ul>
Trading across Borders	<ul style="list-style-type: none"> <li>▪ Manufacture</li> <li>▪ Agriculture</li> </ul>
Enforcing Contracts	<ul style="list-style-type: none"> <li>▪ Manufacture</li> </ul>

### Construction

Over the years the Construction Industry has benefited substantially from foreign direct investments. Continued and improved investment in this industry hinges on improvements in the indicators associated with the industry. Among these are:

Dealing with Construction Permits – Activity in the industry is influenced by compliance with specific inspection, licensing, and safety regulations which are sometimes costly and time consuming. While these are necessary, such procedures should not be more burdensome than our regional competitors as this could stifle investment, fuel corruption and encourage informality.

Despite the improvement over the period, industry stakeholders have indicated the need to further reduce the processing period for the acquisition of permits. Other challenges identified are:

- a) delays in development approval process
- b) lack of licenses for contractors and building trades specialists
- c) inadequate provision of information on upcoming construction projects
- d) lack of enforcement of construction standards and specifications

Getting Credit – The high cost of financing and the associated high collateral requirements are some of the challenges faced by the industry. These barriers to accessing start-up capital have negatively affected local contractors' ability to undertake major construction activities. Consequently, most major construction products are dominated by foreign investment which can be vulnerable to foreign exchange movements.

Employing Workers – The industry has always been plagued with problems such as inadequate number of experienced professionals and technical expertise in certain areas, difficulty of redundancy and its cost and active labour unions.

## **Manufacture**

Despite the relative decline in real value added of the Manufacture industry since 1990, the industry remains the largest contributor to GDP of all the goods producing industry in the Jamaican economy. The DBR 2012 Report highlights some indicators which reflect areas in which the industry faces challenges.

### Trading Across Borders –

- a) The Potential impact of unfair international trade practices by competitors (dumping, subsidies, non-tariff barriers etc.) on market for local manufactured goods
- b) Potential impact of natural and man-made hazards on industry
- c) Intense and ongoing international adoption of new technologies by foreign competitors
- d) Inadequate control and monitoring at ports, enabling illegal importation of products
- e) Delays in shipping and across port clearance
- f) Problems with road network in some areas

Paying Taxes – Local Manufacturers are faced with difficulties in paying taxes because of the complex tax code and higher tax rates compared with regional and other international competitors. As a result, compliance is not maximized giving rise to lower than projected tax revenues.

Getting Credit – Accessing credit for activity in manufacturing continued to be hampered by:

- a) Potential increases in cost of capital
- b) Uncompetitive cost of capital

### **Small & Micro Enterprises**

Bureaucratic institutions and regulations are cited as the main sources of problems that affect the ability of businesses to operate competitively in Jamaica. Access to credit and lack of venture capital and incentives are also key issues for SMEs. Additionally, other DBR 2012 indicators which reflected challenges faced by SMEs are:

- Registering Properties
- Employing Workers
- Getting Credit
- Paying Taxes