

How easy is it to do business in Africa?

The 10th edition of the "Doing Business" survey carried out by the International Finance Corporation and the World Bank has been published. The survey, which measures the ease of doing business in 185 jurisdictions by looking at regulations that affect business activity, gives some positive results for Africa. There is still some work to be done, but progress has been made, and the reforms are encouraging.

Africa has risen from the bottom ranks and has made the most significant improvement worldwide:

- Out of the 50 most improved countries since 2005, the largest share (17) is in Sub-Saharan Africa.
- Rwanda remains the most reformed country in Africa (and the second globally) since 2005 (jumping up to 52nd position from 158th – although it has dropped four places since last year).
- Moreover, out of the 46 Sub-Saharan governments, 45 improved their regulatory environment, with an average of nine institutional and regulatory reforms per government.
- Burundi was singled out along with nine other economies as the country with the most improvements since 2012.

THE LEADERS

- Mauritius remains the clear leader of the continent in 19th position globally (ahead of Germany, France and Luxembourg). Its bilingual culture, mixed civil/common law legal system and business-friendly tax legislation have helped this island to become an investment stepping stone for Africa. As a total democracy (according to the Democracy Index published by the Economist, which classified France, Italy and Spain less favourably: as flawed democracies) Mauritius has also emerged as a role model for many African nations.
- South Africa maintains its second place in Africa holding on to its global position of 39th but it achieves first place for the ease of raising debt, along with the UK.

THE BEST AND THE WORST

- Most countries in the world have improved dramatically in the "starting business" category. Starting a business takes less than 20 days in half the countries of the world and Africa has been leading the march on this front. There is still a long way to go relative to the UK where limited companies can be incorporated on-line in a few hours, but, thanks to the internet, several African countries have managed to cut down considerably the time needed to set up companies. Examples include: introducing a standardised memorandum of association; enabling online publication; consolidating name checking, registration fee payment, tax registration, and company registration procedures; and shortening the time required to process completed applications. Rwanda (at 8th position worldwide) has one of the shortest procedures in the world for starting a business.
- One of the biggest outstanding issues is trade restrictions: Ernst & Young highlighted these specific issues earlier this year in its 2012 Africa Attractiveness Report. Such barriers can be explained by the lack of diversification among African countries. As neighbours produce similar products, there is no incentive to trade with each other.

THE SUPREMACY OF COMMON LAW OVER PURE CIVIL LAW JURISDICTIONS

One key observation is that all the top African countries in the Doing Business survey have a mixed legal regime, including a common law element: both Mauritius and Rwanda have a mixed Napoleonic Code/common law regime, South Africa and Botswana have a mixed Romano-Germanic/common law legal system. Most of the bottom-ranking countries have a Napoleonic regime. Looking at the domination of the common law countries in the Doing Business survey (the global top four countries are all pure common law countries), this is not surprising. [Please see our recent article on the shift to common law, which is more adapted to the reality of modern business considerations.](#)



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WHAT ABOUT THE BRIC COUNTRIES IN COMPARISON TO AFRICA?

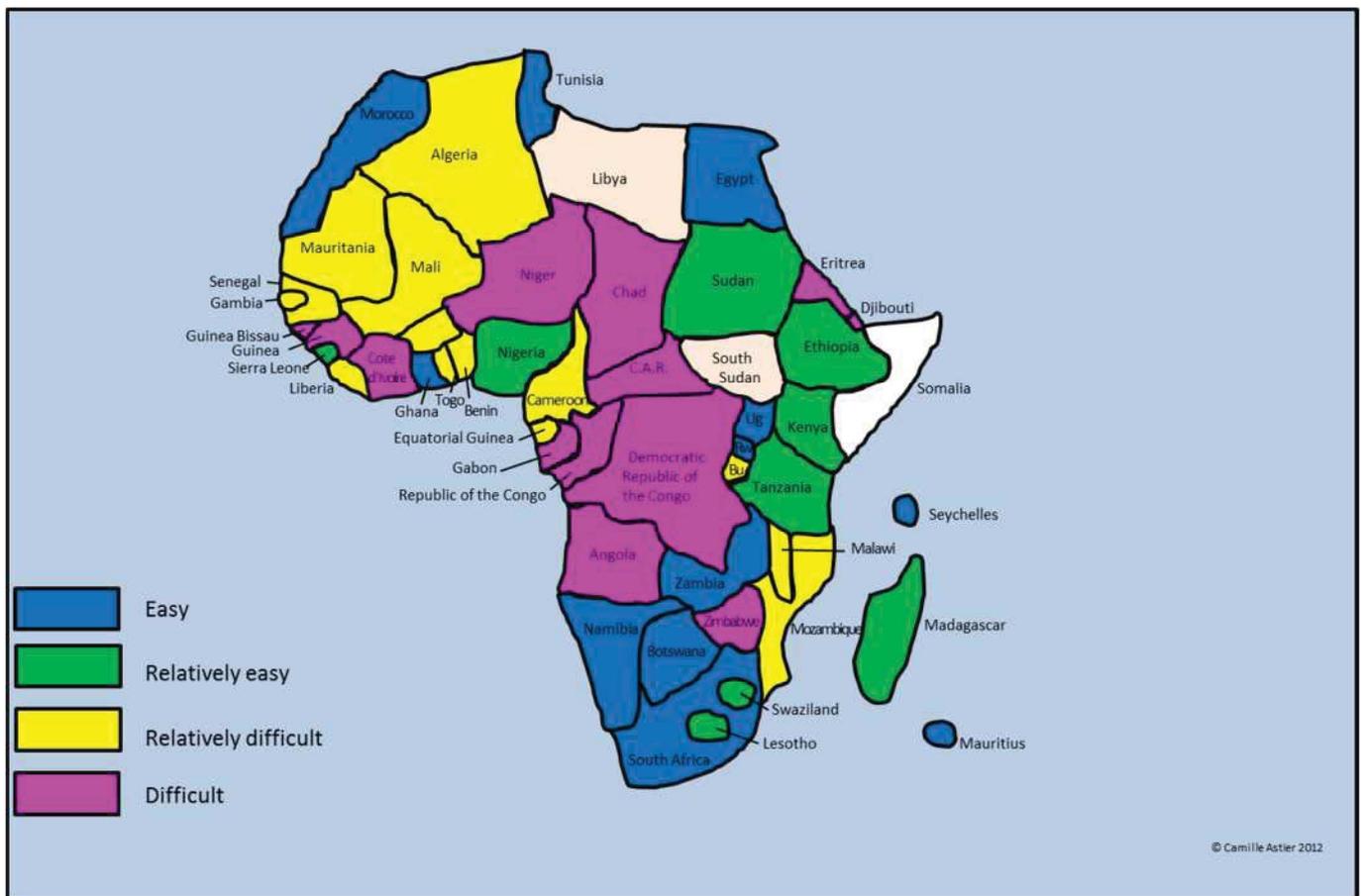
Many African countries rank ahead of the BRIC countries in the survey. These results reflect those of the Democracy Index and the Corruption Perceptions index produced by Transparency International in which a number of African countries similarly achieve better rankings.

CONCLUSION

Does the ease of regulation really improve business or hinder it? Perhaps an extreme example, but consider Somalia (although not ranked in the survey), despite the absence of stable government, it would probably not rank at the bottom. Somalia's telecom system is often used as an example illustrating that self-regulation can stimulate entrepreneurship and be successful. Despite the lack of telecom regulations, Somalia is the cheapest country in Africa to make international telephone calls, as 11 telecom operators compete without a clear regulatory framework (to read our recent article Somalia's success story in telecoms, please [click here](#)).

So, does growth really need the most straightforward regulations? Probably not, and there are many examples (including some of the BRIC countries) which support this answer. But can straightforward regulations trigger growth? Probably. And for Africa, which is still suffering from a bad (and often incorrect) image, effective but simple regulation coupled with a strong transparent legal framework could be the key to attracting investors.

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