

Prime-Minister of Georgia Mr. Zurab Nogaideli

Reformers' Club

“How to Reform?”

**April 13, 2007
Washington, DC**

INTRODUCTION

- Ladies and Gentleman, Dear friends, Honored guests:
- I am grateful to the “World Bank Group” and USAID for this kind invitation.

PAUSE-

- Today, I have the honor to represent the country of Georgia, the world's current Number One reformer. We were Number Two in Doing Business 2006 and Number One for 2007.
- I want to share with you some of the approaches responsible for our past success, and preview some of the new reforms we hope will keep us in first place and help us move from 37th place in 2007 into the top 25 countries for Ease of Doing Business in 2008. .

-PAUSE-

- Reform is politically difficult, because its costs are immediate, concentrated, and obvious, while its benefits are delayed, widely dispersed, and many of its beneficiaries do not even know that they will benefit.
- So why do we do it? In our case, the Government of Georgia engages in broad reform because we promised to change the lives of the people who swept us into power in the Rose Revolution.

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AFTER ROSE REVOLUTION

- More than three years ago, Georgia embarked on a genuine democratic revolution.
- Three years have passed since the euphoria and bright TV images of that period passed in front of our eyes. And much has changed since then.

- *PAUSE* -

- Our revolution was not simply an exercise in removing electoral thieves and replacing them with honest politicians.
- Our revolution was about changing the political mentality as well as the political practices in my country.
- It was about building new institutions and working to build lasting public trust.

- *PAUSE* -

- One of the first decisions of the new Government was to Invest in Georgia. We came out of the Rose Revolution with enormous political capital, and decided that we would spend it all by reforming as broadly and as rapidly as possible.
- Our goal was to make Georgia's transformation to democracy, accountability, transparency, and representative governance irreversible.
- Our first order of business was to create a climate of security for every citizen...
 - ...To remove the daily threat of corruption...
 - ...To create a legal system that was predictable rather than arbitrary...
 - ...And to allow open and honest competition in our economy.
- In short, our purpose has been to shift Georgia from being an almost failed state to one that is vibrant and secure.
- Has our investment paid off? Far better than we expected.
- We expected to lose all of our capital. Instead, the benefit of reforms are being felt by Georgia's population, generating returns on our investment of political capital that we are reinvesting in reform.

-PAUSE-

- Our economic reforms are focused on creating the world's simplest, cheapest, and most attractive place for doing business. This includes avoiding to the maximum extent possible government intervention in businesses and providing effective guarantees of safety and stability for investors.

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- Before discussing our economic reforms, however, let me discuss some early political reforms that were successfully implemented in Georgia after the revolution:

POLITICAL REFORMS

AGAINST CORRUPTION

- From the very beginning we started fighting against government corruption.
- We downsized the public sector, replacing a cumbersome bureaucratic apparatus with one that is smaller and more flexible.
- Only 13 ministries are left out of 18.
- And the number of public sector employees has been reduced by 50%.

-PAUSE-

- Staff reduction was not our principle goal.
- Our goal was to eliminate every unnecessary interaction between public and private sectors (businesses), and thus to reduce the opportunities for corruption.
- It's working. The World Bank's 2006 Anticorruption in Transition study named Georgia as the world's top anticorruption performer.
- And 95% of Georgia citizens surveyed by the International Republican Institute in February of 2007 reported they hadn't paid a bribe to receive a public service in the past 12 months.

POLICE REFORM

- Our reforms of the traffic police freed Georgian drivers from roadside shakedowns by corrupt cops who demanded bribes.
- The reform was very painful in the beginning - we dismissed the entire traffic police force and rebuilt it from scratch.
- For two weeks - before hiring the new staff - there was no traffic officer on the road.
- Today, however, our officers are well trained, well equipped, well paid and most important of all – they are held accountable to and by the public.
- In fact, the police force had a 66% approval rating on the February 2007 International Republican Institute survey.

EDUCATION

- In education - we wiped out an entire generation of corrupt practices - including the old national examination system, which in the past denied a fair education to our nation's young people.
- By instituting competitive national testing - and by restructuring education finance - the system is truly one where merit matters, not payoffs.
- And where young people, no matter where they come from, can finally trust that their talent is enough to secure their future.
- While these reforms might not make headlines - they represent critical investments in Georgia's future.
- And help to insure the competitiveness of our work force.

JUDICIAL SYSTEM

- In the field of judicial system we are launching deep and comprehensive reforms.
- The White Paper for Criminal Justice Reform Strategy was approved by the President of Georgia in 2005.

- We continued our reforms to insure enforcement of commercial contracts.
- Last year we amended our procedural code - introducing specialized commercial sections of the courts and reforming the appeals process.
- The time to resolve the simple commercial disputes fell from 375 to 285 days.

ECONOMIC REFORMS

- Now, let me address the Economic and Fiscal reforms that have radically improved our business environment and made us the World's Number One Reformer.

TAX REFORM

- A new Tax Code that entered into the force on January 1, 2005 reduced both the number of taxes – from 22 to only 7 – and tax rates.
- As a result Our Total Tax Rate Indicator dropped from 60% on Doing Business 2005 to 37.8% on Doing Business 2006.
- Reductions in tax rates, coupled with improved tax administration, have resulted in dramatic increases in tax revenues, which have increased by 2.6 times from 2003 to 2006.
- We have leveraged rising revenues and a smaller, more efficient bureaucracy to increase our investment in national infrastructure, including roads, water and sewer, etc.

ESTABLISHMENT OF REVENUE SERVICE

- Last month we merged Tax, Customs and Financial Police into one unified Revenue Service of Georgia.
- Now, Georgian businesses will have only ONE SINGLE governmental agency to deal with on revenue issues.

NEXT STEPS IN TAX REFORMS

- Recently, the President of Georgia announced the next steps in tax simplification.
- From 2008, the Corporate **Profit Tax** will be reduced from **20 to 15%**.
- **Payroll Taxes**, consisting of Social and Personal Income taxes will be merged and the average weighted tax rate reduced from **27 to 25%**.
- In addition, we are working on implementing electronic filing of tax returns.

TRADING ACROSS BORDERS

- We are following a Unilateral Trade Liberalization policy. Almost all customs tariffs on all imports have been abolished.
- A new Customs Code that complies with European Union standards entered into force on January 1, 2007.
- We have simplified the bureaucracy that once strangled both imports and exports, cutting documentary requirements by more than half.
- We've also slashed the time required to import from 52 days in 2005 to 15 in 2006 down to only 4 days this year. Days to export went from 54 in 2005 to 13 days last year to only 5 days this year.

STARTING A BUSINESS

- We have also significantly simplified procedures for business registration, merging business and tax registration into one simple process that takes 3 days instead of 10.
- The paid-in-capital requirement for registration of new limited liability companies, was reduced in 2006, and has just been eliminated altogether.

LICENSES AND PERMITS

- In 2005 we adopted a new law on Licenses and Permits that eliminated 756 (or 84%) of all licenses and permits. Now, only 92 licenses and 52 permits are left.

- We also introduced time limits for government agencies to respond. If no action has been taken within 30 days for licenses and 20 days for permits then, under our new “silence is consent” policy, the application is deemed granted.
- New for the 2008 Doing Business survey are streamlined construction permitting processes that decrease documentary requirements, reduce from 17 to 9 the number of steps required for the entire permitting process, and eliminate 30-60 days to put new commercial construction into use.

CLOSING A BUSINESS

- Our new law on bankruptcy drastically reduces the time required to conclude insolvency proceedings from years to months, and gives secured creditors more influence over the process.
- The time required to close a business drops from 3.3 years to less than 5 months. Cost of the proceedings will fall from 3.5% to 2% of the value of the estate, while the recovery rate will increase from 27.5 to 84.7 cents on the dollar.

PROTECTING INVESTORS

- Also new are changes to our Law on Securities Market that protect minority shareholders against conflicts of interest and self-dealing by company officers and majority shareholders.
- Persons with conflicts of interest are prohibited from participating in any vote on the transaction in which they have an interest, and information about the conflicts of interest must be provided to shareholders and disclosed to the public.

PROPERTY REGISTRATION

- We’ve reduced the time and expense required to register property by eliminating mandatory notarization of property transactions.

- These and a number of other reforms cut the number of steps required for registering property from 6 to 3 and the number of days from 9 to 2.

LABOR CODE

- In 2006, Georgia adopted a new liberal **Labor Code** that eliminates Soviet-era burdens on the freedom to contract, and makes the cost of hiring and firing workers very low.

LAW ON COMMERCIAL BANKS

- To encourage Financial Intermediation, we have amended our Law on Commercial Banks and Law on Securities.
- Now, foreign banks with a rating of A+ or higher will be able to enter the Georgian market without national regulation.
- We have eliminated a prohibition against one person owning more than 25% of a Georgian commercial bank.
- In addition, there are NO RESTRICTIONS on CAPITAL FLOWS in Georgia.

ABOUT ENERGY ISSUES

- In the electricity/power sector we have re-invented Georgia – literally bringing the country from darkness to light – and bringing industry from a standstill to active output and investment.
- Two years ago, 85% of Georgia’s population outside of Tbilisi, our capital city, was subject to daily power outages. Today 98% of paying customers outside of Tbilisi have 24/7 power.

MACROECONOMIC DIVIDENDS FROM OUR INVESTMENT IN GEORGIA

- As a result of successful reforms we are enjoying rapid economic growth and high volumes of FDI inflows.
- GDP growth has averaged about 9% for the last two years.
- This year we expect 12 to 15% real growth.

- Since the Rose revolution, GDP cumulative growth is 30% in real terms. GDP per capita almost doubled during this period...
- Most of our economic sectors have experienced double digit growth, including Banking, Mining and Processing industries, Trade, Transport, Communications, Construction, Hotels and Restaurants, and Healthcare.
- Georgia has an unprecedented inflow of FDI! In 2006, FDI grew by 155.0% in comparison to 2005 and tripled in comparison to 2003 (reaching 15% of GDP).
- This year, we expect FDI inflows to increase by more than 70% over 2006, reaching about 20% of GDP!
- So successful have reforms been that despite the decision of Russia, our major trading partner, to suspend trade, our external trade still grew by 39.2%. Exports grew 15% and imports grew by 48%...

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CURRENTLY ONGOING AND FUTURE REFORMS

- Further reforms continue at an aggressive pace across all facets of Georgian society. Some examples:

HEALTHCARE REFORM

- We have just launched reform of our healthcare system.
- Within 2 years, Georgia will have 100 new and modern hospitals with 7800 hospital beds, which is absolutely optimal for Georgia's population.
- 90% of our population will be within 30% of hospital services.
- In addition, our healthcare licensing system will be streamlined, with the number of healthcare facility licenses reduced from more than 40 to 4.

ELECTRONIC GOVERNMENT

- Recent amendments to our Tax and Custom Codes authorize electronic transactions between government and its citizens.

- We are putting the finishing touches on a new e-signature law and plan pioneering initiatives in which the government informs, interacts and transacts with the private sector online.
- When we meet again at this time next year, we expect to be able to report on great progress in improving internet penetration in Georgia and using e-government to improve the quality of our services to Georgian citizens.

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CONCLUSIONS

- Let me once again thank you for recognizing Georgia as the World's Number One reformer.
- I'd like to underline that the Georgian government is not allowing itself to relax on its achievements.
- We clearly understand that this is only beginning. This year, we expect to be recognized as a first world place to do business.
- Our goal, however, is to create a first world quality of life for Georgia's citizens.
- We thank you for creating a matrix in which our achievements can be recognized and shared. Your medium is helping to give meaning to our message – Invest in Georgia – and to improve the lives of my constituency, Georgia's citizens.

THANK YOU!