CIS Regional News Release

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Doing Business in 2006:
CIS Economies Pick up the Pace of Reform

WASHINGTON, D.C., September 13, 2005 – The economies of the Commonwealth of Independent States (CIS) are increasing the pace of reform to help small and medium businesses generate more jobs—with Georgia among the top global reformers. But reformers in the region lag behind their Eastern European neighbors, and heavy legal burdens on business remain in most countries, according to a new report from the World Bank Group.

Doing Business in 2006: Creating Jobs, cosponsored by the World Bank and the International Finance Corporation, the private sector arm of the World Bank Group, finds that such reforms, while often simple, can create many new jobs.

"Jobs are a priority for every country, and especially the poorest countries. Doing more to improve regulation and help entrepreneurs is key to creating more jobs--and more growth. It is also a key to fighting poverty. Women, who make up three quarters of the work force in some developing economies, will be big beneficiaries. So will young people looking for their first job. The past year's diverse range of successful reformers—from Serbia to Rwanda—are showing the way forward. We can all learn from their experience," said Paul Wolfowitz, President of the World Bank Group.

The annual report, which for the first time provides a global ranking of 155 economies on key business regulations and reforms, finds that every country in the CIS improved at least one aspect of the business environment—among the highest rate of reform of any region. But the pace of reform is slower than with the new entrants to the European Union, which are aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes.

The report tracks a set of regulatory indicators related to business startup, operation, trade, payment of taxes, and closure by measuring the time and cost associated with various government requirements. It does not track variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Georgia was the top reformer in the region and the number 2 reformer globally—making it easier to start a business, cutting the number of activities licensed from 909 to 159, easing the cost of firing redundant workers, cutting the time and cost to register property, and introducing a new tax law with fewer and simplified taxes.

Other notable reforms in CIS countries in the past year:

- Russia, Ukraine, and Azerbaijan made it easier for entrepreneurs to start a business – in Russia's case, for the second year in a row.
- Armenia introduced case management into courts, streamlining contract enforcement. Kazakhstan cut 20 days from the time to enforce a contract by allowing approved private firms to execute court judgments. Belarus streamlined the court appeals process.
- Armenia increased the flexibility of employment law.
- Ukraine improved the regulations of credit markets with a new collateral law, allowing entrepreneurs to use a broader range of assets as collateral, and allowing creditors to enforce collateral privately, without a lengthy court trial. Creditors now have first priority to the collateral if the debtor defaults.
- A new credit bureau was established in the Kyrgyz Republic, making it easier for lenders to evaluate creditworthiness. Public credit registries were established in Armenia and Azerbaijan.
- Russia and Kazakhstan introduced new laws to encourage sharing of credit information.
- Moldova and Uzbekistan cut the corporate tax rate by 3 and 2 percentage points respectively.

Overall, European nations were the most active in enacting reforms. The top 12 reformers in the past year, in order, were Serbia and Montenegro, Georgia, Vietnam, Slovakia, Germany, Egypt, Finland, Romania, Latvia, Pakistan, Rwanda, and the Netherlands.

Doing Business in 2006 updates the work of last year's report on seven sets of business environment indicators: starting a business, hiring and firing workers, enforcing contracts, registering property, getting credit, protecting investors, and closing a business. It expands the research to 155 countries and adds three new indicators: dealing with business licenses, trading across borders and paying taxes.

The new indicators in this year's report further reinforce the overwhelming need for reform, especially in poor countries. The report finds that poor countries levy the highest business taxes in the world. These high taxes create incentives to evade, driving many firms into the underground economy, and do not translate into higher revenues.

The analysis also shows that reforming the administrative costs of trading can remove significant obstacles to exporting and importing. Contrary to popular belief, customs paperwork and other red tape (often called "soft infrastructure") cause the most delays for exporting and importing firms. Less than a quarter of the delays are caused by problems with "hard infrastructure" such as poor ports or roads. In Azerbaijan, for example, an entrepreneur would have to submit 18 documents and obtain 55 signatures to import goods. For manufacturers in developing countries, the administrative burdens of trading can pose larger costs than tariffs and quotas.

The annually published report gives policymakers the ability to measure regulatory performance in comparison to other countries, learn from best practices globally, and prioritize reforms. Now in its third year, the report has already had an impact on business environment reforms around the world.

"The *Doing Business* benchmarking has inspired and supported reforms in more than 20 countries, and since last year, nine governments have asked for their countries to be included in the Doing Business analysis," said Caralee McLiesh, an author of the report.

The top 30 economies in the world in terms of the report's ease-of-doing-business index, in order, are New Zealand, Singapore, the United States, Canada, Norway, Australia, Hong Kong/China, Denmark, the United Kingdom, Japan, Ireland, Iceland, Finland, Sweden, Lithuania, Estonia, Switzerland, Belgium, Germany, Thailand, Malaysia, Puerto Rico, Mauritius, the Netherlands, Chile, Latvia, Korea, South Africa, Israel, and Spain.

The ranking of the Baltic countries—Lithuania, Estonia, and Latvia—in the top 30 countries is a remarkable achievement, as only a decade has passed since they first began reforms. But the rankings highlight significant obstacles in CIS countries, with Armenia ranked at 46, Russia at 79, Moldova at 83, Kyrgyz Republic at 84, Kazakhstan at 86, Azerbaijan at 98, Georgia at 100, Belarus at 106, Ukraine at 124, and Uzbekistan at 138.

Particular obstacles in the region are rigid employment laws and high and complex taxes. For example, 80 percent of countries require women to retire at a younger age than men—a rule that hurts women's career opportunities and pay. In Belarus, if a business paid all of its taxes, it would amount to more than gross profits, and it would take 113 tax payments a year to 3 different agencies and 1,188 hours to do so. Such high taxes create incentives for evasion. In Uzbekistan, evading 20 percent of business taxes could increase gross profits by 60 percent.

All the top countries regulate businesses, but they do so in less costly and burdensome ways. The Nordic countries, all of which are on the top 30 list, do not regulate too little. Instead, they have simple regulations that allow businesses to be productive and focus intervention where it counts—protecting property rights and providing social services.

Just 8 percent of economic activity in Nordic countries occurs in unregistered (informal sector) businesses. The reason is that regulations are simple to comply with and businesses receive excellent public services for what they pay in taxes. For example, Denmark has the world's best infrastructure. Norway ranks highest on human development indicators, with Sweden right behind it.

"In the Nordic countries, as well as the other top 30, reformers do not have to choose between making it easy to do business and providing social protection. They can do both," said Simeon Djankov, an author of the report.

The Doing Business project is based on the efforts of more than 3,500 local experts – business consultants, lawyers, accountants, government officials, and leading academics around the world - who provided methodological support and review. The data, methodology, and names of contributors are publicly available online.

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