

Middle East & North Africa News Release

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Doing Business in 2006: Middle Eastern and North African Nations Lag In Encouraging Businesses with Regulatory Reforms

WASHINGTON, D.C., September 13, 2005 — Eastern European nations are aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes, but African and Middle Eastern nations with high youth unemployment rates continue to thwart small and medium businesses with heavy legal burdens and piecemeal reforms, according to a new report from the World Bank Group.

For example, in Syria, it takes 63 days, 18 documents, and 47 signatures from the time imported goods arrive in ports until they reach the factory gate. In Yemen, it takes over \$15,000 in required capital, or 27 times the annual income per capita, to start a new business. In Iran, it takes 668 days to comply with all the administrative requirements for building a warehouse. In Iraq, a business needs signatures from 70 different officials to export goods abroad. In Oman, it takes 7 years to close an insolvent company.

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 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 nations on key business regulations and reforms, finds that Middle Eastern and North African nations impose many regulatory obstacles on entrepreneurs and have been the second-slowest reformers over the past year, after Sub-Saharan Africa. Meanwhile, every country in Eastern Europe improved at least one aspect of the business environment, and countries such as Serbia and Montenegro and Georgia topped the global rankings for most reforms enacted.

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.

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.

“Many Middle Eastern and North African countries that desperately need new enterprises and jobs risk falling even further behind other countries that are simplifying regulation and making their investment climates more business friendly,” said Michael Klein, World Bank/IFC Vice President for Private Sector Development and IFC Chief Economist.

However, the authors of the study did note exceptions: Egypt is among the biggest reformers in the past year, with reforms in the company registry, the credit registry, the property registry, and the customs office. Saudi Arabia also implemented several reforms, for example, establishing a private credit bureau and easing the entry of new businesses. Tunisia has one of the most efficient court systems in the world: it takes only a month to enforce a simple commercial contract. In the United Arab Emirates, it takes a business only 12 hours a year to comply with all tax regulations.

Some of the reforms in Middle Eastern and North African countries in the past year:

- Tunisia reduced the minimum capital requirement for starting a business to a tenth of what it had been.
- Egypt cut the fees for registering commercial property by a third, from 4.5 to 3 percent of the property value.
- The credit registry in Lebanon decreased its loan cutoff from \$6,600 to \$6,000, adding 10,000 more borrowers to the registry. This reform helps lenders evaluate creditworthiness.
- Egypt was the world's top reformer of customs procedures. It established a single window for trade documentation and merged 26 approvals into 5. Improvements at customs were part of a broader reform that cut the number of tariff bands from 27 to 6 and simplified inspection procedures at the border.
- In the United Arab Emirates new berths were added at Jebel Ali port. Last year it took 6 days to load cargo - now, an average of 17 hours.

Governments in conflict-affected countries are especially hard pressed to create jobs. Continued peace depends on demobilizing rebel armies and finding livelihoods for thousands of refugees and former combatants. This year, for the first time, *Doing Business* studies Iraq. To officially start a business in Baghdad it takes 77 days and 11 procedures. And it takes 10 documents, 70 signatures, and 105 days to export.

Doing Business in 2006 updates the work of last year's report in 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 to higher revenues. Similarly, the analysis 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. For manufacturers in developing countries, the administrative burdens of trading can pose larger costs than tariffs and quotas. For example, it takes 11 different documents to export goods from Iran and 12 documents for exporters in Syria. On average, 15 signatures are required to export goods from Middle Eastern and North African countries. In comparison, OECD exporters need only 3 signatures on average.

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.

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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