

South Asia Regional News Release

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Doing Business in 2006: South Asian Countries Pick up Reform Pace, says World Bank Group; India Ranks 116th, 25 Places After China; Pakistan Among Top 10 Reformers

Washington, D.C., September 13, 2005 — South Asian economies are increasing the pace of reform to help small and medium businesses generate more jobs, but heavy legal burdens on business remain in most countries in the region, according to a new report cosponsored by the World Bank and the International Finance Corporation (IFC), the private sector arm 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 South Asian countries have had the third-most reforms per country over the past year, behind Eastern Europe and the OECD countries. 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.

India ranks rather low at 116th—25 places behind China's 91st ranking—and behind all South Asian countries, except Afghanistan, in the overall ease of doing business. However, India made noteworthy reforms to credit registries and enforcement of collateral law, making it easier for businesses to get new finance. The South Asian countries are ranked as follows: Maldives 31, Nepal 55, Pakistan 60, Bangladesh 65, Sri Lanka 75, Bhutan 104, India 116, and Afghanistan 122.

Pakistan was the top reformer in the region and the number 10 reformer globally—making it easier to start a business, reducing the cost to register property, increasing penalties for violating corporate governance rules, and replacing a requirement to license every shipment with two-year duration licenses for traders.

Other notable reforms took place in South Asia in the past year:

- Afghanistan cut the entry procedures for new businesses from 28 to 1 and the time to complete the process from 90 days to 7. Transport infrastructure on trading routes was improved, and a new tax law cut corporate taxes from 25 percent to 20 percent.
- India significantly improved the process for enforcing collateral agreements with a new summary judgment procedure that requires only minimal court involvement. In some cases, time to enforce fell from 10 years to 6 months. A new consumer credit bureau was launched, making it easier for lenders to evaluate creditworthiness. Stamp duties for registering property were halved from 10 percent to 5 percent, with revenues increasing because of better compliance.
- The Nepalese public credit registry was reincorporated as a company, 90 percent owned by financial institutions. A new penalty system improved the quality of the information of the credit registry.

- The Sri Lankan credit registry began including information from new sources, improving the ability of lenders to assess credit risk.

The South Asian country rankings highlight significant obstacles, including administrative hurdles to importing and exporting and delays and costs to registering property. In India, an entrepreneur must submit 15 documents and get 27 signatures to import goods. In Bangladesh, registering property takes 363 days and costs 11 percent of the property value. For the first time, *Doing Business* studies Afghanistan, which was until recently affected by conflict. While many reforms are underway there, it still takes 97 days and 57 signatures to import goods into Kabul, while registering property takes 252 days and costs 10 percent of property value. Another major challenge in South Asia is reducing the size of the informal economy, because companies that operate outside the tax and regulatory structure cost governments many millions of dollars in taxes, noted Simeon Djankov, an author of the report.

Doing Business in 2006: Creating Jobs, finds that reforms, while often simple, can create many new jobs, said Paul Wolfowitz, President of the World Bank Group, adding, "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—is showing the way forward. We can all learn from their experience."

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 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. 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.

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," added Simeon Djankov.

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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