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News Release

Doing Business 2007: Georgia is top reformer in the Commonwealth of Independent States and jumps up the global rankings

WASHINGTON, D.C., September 6, 2006 – Georgia was the top reformer in the Commonwealth of Independent States (CIS) and led the global top 10 reformer rankings on the ease of doing business in 2005–2006, according to a new report by the World Bank and the International Finance Corporation (IFC). Georgia improved in six of the 10 areas studied by *Doing Business*. Armenia was also a significant reformer with four reforms. Twenty-four regulatory reforms—in nine of the CIS economies —reduced the time, cost, and hassle for businesses to comply with legal and administrative requirements.

The full list of global top reformers is, in order, Georgia, Romania, Mexico, China, Peru, France, Croatia, Guatemala, Ghana, and Tanzania. Reformers simplified business regulations, strengthened property rights, eased tax burdens, increased access to credit, and reduced the cost of exporting and importing. Within CIS, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, and Ukraine each implemented at least one reform. Tajikistan had no reforms. Uzbekistan made it harder to do business.

Doing Business 2007 also ranks 175 economies on the ease of doing business—covering 20 more economies than last year's report. Georgia jumped a spectacular 75 places this year. Kazakhstan improved by around 20 places in its rankings. The top-ranked countries in the region are Armenia (34), Georgia (37), and Kazakhstan (62). Tajikistan (133) and Uzbekistan (147) rank lowest in the region. Russia sits in the middle of the range, with a ranking of 96, three places behind China but ahead of Brazil and India. Ukraine and Belarus are neck and neck, at 128 and 129 in the global rankings.

The top 30 economies in the world, in order, are Singapore, New Zealand, the United States, Canada, Hong Kong (China), the United Kingdom, Denmark, Australia, Norway, Ireland, Japan, Iceland, Sweden, Finland, Switzerland, Lithuania, Estonia, Thailand, Puerto Rico, Belgium, Germany, the Netherlands, Korea, Latvia, Malaysia, Israel, St. Lucia, Chile, South Africa, and Austria.

The rankings track indicators of the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. They do not track variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Georgia improved in six of the 10 areas studied by *Doing Business*. It reduced the minimum capital required to start a new business from 2,000 lari to 200 (US$85). Business registrations rose by 55 percent between 2005 and 2006. Reforms in customs and the border police simplified border procedures. It took 54 days to meet all the administrative requirements to export in 2004—it now takes 13. Georgia also amended its procedural code for the courts, introducing specialized commercial sections and reforming the appeals process. The time to resolve simple commercial disputes fell from 375 days to 285. And Georgia reduced the social security contributions paid by businesses from 31 percent of wages to 20 percent, making it easier for employers to hire new workers.

Other notable reforms in the region:

- **Armenia** unified tax and social security registration for new companies, cutting time to start operations by a day. It also reduced permit requirements for construction companies and simplified transfer of title for property. Armenia strengthened creditor rights by allowing the enforcement of collateral agreements outside of court.
- **The Kyrgyz Republic** introduced a flat notary fee for land transfer agreements, replacing the percentage fee. This decreased the cost to transfer title from 5.25 percent to 1.99 percent of the property value. The Kyrgyz Republic also permitted the enforcement of collateral agreements outside of court, speeding lenders' ability to collect on bad debts. And it reduced the mandatory notice period for dismissing a redundant worker from two months to one month.
- **Azerbaijan** simplified document requirements and shortened statutory time limits for new company registration. Time to start a business dropped by more than half: from 115 to 53 days. Azerbaijan also revised its civil code to strengthen lenders' rights in default. The new rules require a public sale of seized collateral through auction, maximizing the sale value.
- **Russia** decreased businesses' unified social tax and pension fund contributions and abolished three taxes: securities operations tax; contribution for use of the names "Russia" and "Russian Federation"; and the forest tax. Moscow also abolished the company seal requirement for new businesses.
- **Ukraine** created a one-stop shop for new business start-up, combining company registration with registration for the pension fund, employment fund, social insurance fund, industrial accidents fund, and tax authority (except for VAT registration). Steps for starting a new business dropped from 15 to 10, and time decreased from 34 to 33 days.
- **Moldova** reduced the number of permits required for commercial or business activities from 400 to 128, following a governmentwide guillotine approach to unnecessary licensing requirements. It also decreased the corporate income tax rate from 20 percent in 2004 to 18 percent in 2005 and 15 percent in 2006.
- **Kazakhstan's** first credit bureau began distributing credit reports on potential borrowers. The new bureau currently covers 5.5 percent of Kazakh adults, using information from 29 commercial banks. Both negative data (on loan defaults, for example) and positive data (such as on-time payments) are collected.
- **Belarus** decreased business turnover taxes from 3.9 percent to 3.0 percent and transport taxes from 4.0 percent to 3.0 percent. But there is still much room for tax reform: to meet all current tax requirements, businesses must pay 186 percent of profits. Belarus also sped company registration by calling committee meetings—who must make a decision on each proposed company—on a weekly basis. Formerly, they met bi-weekly. And Belarus took a step backwards by removing the right of lenders to enforce collateral agreements through notaries. Now lenders must go to court to collect on nonpayments.
- **Uzbekistan** made it more difficult to do business. It introduced a new tax on business—a mandatory contribution to the School Education Development Fund—increasing total tax burden from 106.3 percent to 122.3 percent of profits. It also downgraded secured creditors' rights in bankruptcy.

“ More progress is sorely needed. CIS countries would greatly benefit from new enterprises and jobs, which can come with more business-friendly regulations,” said Michael Klein, World Bank-IFC vice president for financial and private sector development and IFC chief economist.

The report finds that particular remaining obstacles in the region are slow and bureaucratic trade regimes and high and complex tax systems. For example, in Kazakhstan, exporting a good takes 93 days and requires 14 documents. In Belarus, complying with tax regulations absorbs 1,188 hours of staff time and 186 percent of corporate profits.

Doing Business allows policymakers to compare regulatory performance with other countries, learn from best practices globally, and prioritize reforms. “The annual *Doing Business* updates have already had an impact. The analysis has inspired and informed at least 48 reforms around the world. Georgia, for example, has targeted the top 25 list for ease of doing business, using the indicators as benchmarks of progress. The lesson—what gets measured gets done,” said Caralee McLiesh, an author of the report.

Globally the most popular reform in 2005–2006 was easing the regulations of business start-up. Forty-three countries simplified procedures, reducing costs and delays. The second most popular reform—implemented in 31 countries—was reducing tax rates and the administrative hassle of paying taxes.

Whatever reformers do, they should always ask the question, Who will benefit the most? If reforms are seen to benefit only foreign investors, or large investors, or bureaucrats-turned-investors, they reduce the legitimacy of the government. “Reforms should ease the burden on all businesses: small and large, domestic and foreign, rural and urban. This way there is no need to guess where the next boom in jobs will come from. Any business will have the opportunity to thrive,” said Simeon Djankov, an author of the report.

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