

Sub-Saharan Africa Regional News Release

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Doing Business in 2006: African Nations Lag Behind in Efforts to Encourage Businesses through Regulatory Reforms

WASHINGTON, D.C., September 13, 2005 — African 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. This finding compares with the performance of Eastern Europe, the fastest reforming region in the world, which is aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes.

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 nations on key business regulations and reforms, finds that African nations impose the most regulatory obstacles on entrepreneurs and have been the slowest reformers over the past year. Meanwhile, every country in Eastern Europe improved at least one aspect of the business environment.

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.

For example, an entrepreneur in Mozambique must undergo 14 separate procedures taking 153 days to register a new business. In Sierra Leone, if all business taxes were paid, they would eat up 164 percent of a company's gross profits. In Burundi, it takes 55 signatures and 124 days from the time imported goods arrive in ports until they reach the factory gate.

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 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: Rwanda is among the biggest reformers in the past year, with reforms of the courts, customs procedures, and upgrading the credit registry. Mauritius also reformed in several areas and is among the countries with the most business-friendly conditions, as is South Africa. Yet for every three African countries that improved business regulations, another one made them more costly.

Some of the reforms in African countries in the past year:

- Mozambique cut the property transfer tax from 10 to 2.4 percent of the property value, the largest cost reduction in the world.
- Kenya and Mauritius improved credit information sharing by amending their banking acts. This makes it easier for lenders to evaluate creditworthiness.
- Ghana, Senegal, and Tanzania revamped their tax codes and eased tax burdens on businesses.
- Rwanda abolished mandatory preshipment inspections. Cameroon set time limits on going through customs, reducing delays. Mauritius introduced risk analysis for inspections, also reducing delays at the customs office.
- In Mauritania, the Nouakchott port now operates around the clock, compared with only 60 hours a week previously.
- Burundi introduced a new summary procedure for debt recovery and allowed private bailiffs to operate, reducing delays in the courts.
- Rwanda created specialized court chambers for business and tax matters, reducing court delays.

Not all reforms were business-friendly:

- Madagascar increased the minimum capital requirement for starting a new business to \$5,350, or 25 times the average annual income.
- Chad increased notary fees, and transfer and registration taxes to raise the total cost of registering property from an already steep 17 percent to 22 percent of the property value.

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 African countries levy the highest business taxes in the world: on average, 62 percent of gross profits is taxed away. These high taxes create incentives to evade, driving many firms into the underground economy, and do not translate to higher revenues. For example, business taxes in Mauritania are so high that evading 20 percent of them would increase a company's gross profit by as much as 60 percent.

The report 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 Ethiopia, exporters have to get 33 signatures before their goods reach the port of exit. For manufacturers in Africa, the administrative burdens of trading can pose larger costs than tariffs and quotas. In Nigeria, for example, administrative costs can account for as much as 18 percent of the value of exports.

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.

Other African countries with high ranks are Namibia (33), Botswana (40), Zambia (67) and Kenya (68). Nine of the 10 countries with lowest rank on this report’s ease-of-doing-business indicators are African: the Democratic Republic of Congo, Burkina Faso, Central African Republic, Chad, Sudan, Niger, Togo, Congo Republic, and Mali.

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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Last year's *Doing Business in 2005* report and further information are available at <http://www.doingbusiness.org>.

For more information on *Doing Business in 2006*, please contact:

Nadine Ghannam (202) 458-0482
Cell: (917) 517 0795 Email: nsghannam@ifc.org

Or: Timothy Carrington (202) 473 8133
Email: tcarrington@worldbank.org

Or: Corrie Shanahan (202) 473 2258
Cell: (202) 294 4697 Email: cshanahan@ifc.org

Or: Nazanine Atabaki (202) 458 1450
Cell: (202) 250 0726, Email: natabaki@worldbank.org