Central & Eastern Europe Regional News Release

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Doing Business in 2006: Eastern European and Baltic Nations Encourage Businesses with Aggressive Regulatory Reforms

WASHINGTON, D.C., September 13, 2005 – Eastern European and Baltic nations are aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes, 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 nations on key business regulations and reforms, finds that every country in Eastern Europe improved at least one aspect of the business environment—the highest rate of reform of any region. Countries such as Serbia and Montenegro, Slovakia, Romania, and Latvia 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.

Among the notable reforms in Eastern Europe and the Baltic countries in the past year:

- Serbia and Montenegro moved startup registrations from its courts to a new administrative registry. Entrepreneurs can register online. A company can start operating in 15 days rather than 51.

- Slovakia imposed time limits on the issuing of trade licenses. A unified tax number for income and value-added taxes made tax registration simpler. Starting a business now takes 25 days, 80 days less than in 2003.
- Poland was the most active reformer of business licensing in the world, with the passing of the Freedom of Economic Activity Act.
- Serbia and Montenegro, and FYR Macedonia adopted new labor laws, making regulation more flexible.
- Slovakia abolished its 3 percent property transfer tax, placing the country in the top 10 in the world on the ease of registering property. The cost of registering property fell to only 0.1percent of the property value.
- Three new private credit bureaus kicked off operations, in Lithuania, Romania, and Slovakia, making it easier for lenders to assess creditworthiness.
- The Bulgarian public credit registry launched an online system, cutting the time to retrieve data from 3 days to seconds. The registry also scrapped the minimum loan cutoff, expanding the coverage of borrowers nine-fold.
- Four countries made it easier to create and enforce collateral agreements: Bosnia and Herzegovina, Croatia, Romania, and Serbia and Montenegro.
- Romania introduced a 16 percent flat tax and cut payroll taxes. Albania, Bulgaria, the Czech Republic, Estonia, Latvia, and Poland cut corporate taxes.
- Hungary introduced electronic filing of customs documents, reducing time for approval to 10 minutes.
- Serbia and Montenegro reduced the time to enforce a simple contract in the courts, which went from 1,028 days to 635.
- The Czech Republic, Latvia, Poland, and Slovenia reduced delays in the courts.

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 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. For the three Baltic countries to be in the top 30 is a remarkable achievement, as only a decade has passed since they first began reforms.

Other Eastern European countries with high rankings are Slovakia (37), the Czech Republic (41), Hungary (52), and Poland (54). Croatia has the lowest rank, at 118.

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

A separate news release on countries of the former Soviet Union can be found at the Online Media Briefing Center.

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