

Latin American & Caribbean Regional News Release

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Doing Business in 2006: Latin American and Caribbean Economies Pick Up the Pace of Reform

WASHINGTON, D.C., September 13, 2005 – Latin American and Caribbean 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 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 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 economies on key business regulations and reforms, finds that Latin American and Caribbean countries have been the third-fastest reformers over the past year, behind Eastern Europe and OECD countries, which are aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes.

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.

In Latin America and the Caribbean, three quarters of countries reformed in at least one of 10 areas tracked by *Doing Business*. Most improvements to the business environment took place in Jamaica, Brazil, Ecuador, and El Salvador. Particular remaining obstacles in the region are slow and bureaucratic courts and high and complex taxes. For example a business in Venezuela typically makes 64 separate tax payments a year and spends more than 800 hours complying with all tax requirements.

Other notable reforms in Latin American and Caribbean countries in the past year:

- Brazil's new bankruptcy law halved the average time for going through bankruptcy from 10 years to 5. Enforcing contracts was improved with the introduction of time limits on court appeals and the possibility of submitting oral court evidence, not just written.
- In El Salvador, the new "Law on Uniform Procedures" simplified applications at the company registry. The process for opening a new business is 75 days shorter.
- Honduras cut company registration fees in half and reduced the costs to register property.
- Ecuador abolished certain property registration taxes, streamlining the procedures and cutting the cost to register property. The time to start a business was also reduced by a quarter.
- Jamaica introduced a new company law and streamlined social security and tax registration. The time to start a new business was cut by 22 days. Bolivia cut 2 weeks off startup time.
- The Dominican Republic set time limits on property registration and reduced taxes from 4 percent to 3 percent of property values.
- Mexico reduced its corporate taxes—from 33 percent to 30 percent—with further cuts announced for the next 2 years.
- Nicaragua and Uruguay introduced new laws to support sharing credit information, making it easier for lenders to evaluate creditworthiness.
- Colombia, Guatemala, and Peru set lower time limits for going through customs. Colombia reduced the time limit from 5 days to 2, Guatemala from 4 to 2, and Peru from 6 to 2. Panama automated payment of trade taxes.

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 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 into higher revenues. For example, various business taxes in Uruguay are so high that evading 20 percent of them could increase a company's gross profit by up to 80 percent.

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. In Honduras, for example, importers have to submit 15 documents and get 21 signatures from the time their goods arrive in port until they reach the factory. 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.

Although Chile is the only Latin American country to make the top 30 list, Jamaica also has a high rank, at 43. Haiti (134) and Venezuela (120) have the lowest ranks in the region.

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>.

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