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News Release

Doing Business 2007: Most of Latin America is reforming; Mexico, Peru, and Guatemala make the global top ten reformer list

WASHINGTON, D.C., September 6, 2006 – Doing business became easier in most Latin American countries in 2005–2006, according to a new report by the World Bank and the International Finance Corporation (IFC). Twenty-seven regulatory reforms—in 13 economies in the region—reduced the time, cost, and hassle for businesses to comply with legal and administrative requirements. But while Latin America has picked up the pace of reform, other regions are moving faster. Last year Latin America was third in regional reform rankings. In this year's report, Latin America is in fifth place, ahead of East and South Asia but behind countries in Eastern Europe, the OECD, the Middle East, and Sub-Saharan Africa.

Doing Business 2007: How to Reform finds that three Latin American countries made the list of top-10 reformers on the ease of doing business across 175 economies. Mexico was ranked third, Peru fifth, and Guatemala eighth. The full list of 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.

Doing Business 2007 also ranks 175 economies on the ease of doing business—covering 20 more economies than last year's report. The top-ranked countries in the region are Chile (28), Mexico (43), and Uruguay (64). Venezuela (164) and Bolivia (131) rank lowest in the region.

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 startup, operation, trade, taxation, and closure. They do not track variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Mexico, the top reformer in the region, strengthened investor protections with a new securities law that increases scrutiny of insider dealings. It also cut the time to start a business from 58 days to 27 and lowered corporate income taxes from 33 percent in 2004 to 30 percent in 2005 and 29 percent in 2006. Other notable reforms in the region:

- **Peru**—the fifth reformer worldwide—introduced specialized courts, cutting delays in enforcing contracts from 381 to 300 days. A new collateral law is allowing business to use more types of assets

as collateral and to enforce such collateral outside the courts, easing access to credit. Tougher disclosure rules strengthened investor protections, and business registration was streamlined.

- **Guatemala**—also a top 10 reformer globally—launched a fast-track business registration service and set time limits on obtaining building permits. Electronic property registration reduced delays by a month.
- **Honduras** and **Uruguay** reduced the time to start a business and revised their laws to support the sharing of credit information, making it easier for lenders to evaluate creditworthiness. El Salvador, Nicaragua, and Panama also eased access to credit by reforming their credit information laws.
- **Colombia** reformed customs and port infrastructure—lowering the time to import and export by two days—and improved investor protections.
- **Nicaragua** lowered its property transfer tax from 4 percent to 1 percent of property value and reduced delays in importing and exporting by two days.
- **El Salvador** launched a one-stop shop for business registration, reducing start-up time from 40 to 26 days. Reforms cut the time to register property from 52 to 33 days.
- **Brazil** improved court efficiency by limiting frivolous appeals and simplifying enforcement of judgments.
- **Argentina** decreased mandatory severance pay from 1.8 to 1.5 months per year of service.
- **Chile** improved the regulation of bankruptcy administrators.
- **Paraguay** lowered corporate income tax rates from 30 percent in 2004 to 20 percent in 2005 and 10 percent in 2006.

Bolivia and Venezuela, however, resisted the regional trend and made it more difficult to do business. Bolivia, which already had among the most rigid labor regulations in the world, made them more rigid by requiring employers to get permission from employees before dismissing them. The less flexible the regulations, the more business hires informally, paying lower wages and avoiding benefits. Only 400,000 workers have formal jobs in the private sector in Bolivia, out of a population of 8.8 million. Venezuela added steps and delays to the property registration process, closed its credit registry, and slowed importing by 16 days by implementing foreign exchange controls.

“Latin America should move faster in the pace of reforms. Such progress is sorely needed to create opportunities and a more equitable growth. Latin American 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 the greatest remaining obstacles in the region are slow courts and high and complex tax systems. For example, in Bolivia, enforcing a simple commercial contract through the courts takes 47 procedures and 591 days. In Brazil, a business could pay as much as 72 percent of its profits in taxes and spend as many as 2,600 hours per year complying with requirements.

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. 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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The Doing Business project is based on the efforts of more than 5,000 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 at <http://www.doingbusiness.org>.

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