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News Release

Doing Business 2007: India and Pakistan are top reformers in South Asia, but the region ranks last in pace of reforms

WASHINGTON, D.C., September 6, 2006 – Doing business became easier in India and Pakistan in 2005–2006, according to a new report by the World Bank and the International Finance Corporation (IFC). Five reforms in India and two in Pakistan reduced the time, cost, and hassle for businesses to comply with legal and administrative requirements. No other South Asian economy improved its business regulations in 2005–2006, ranking the region last in the pace of reforms.

Doing Business 2007: How to Reform finds that India, the top reformer in South Asia, implemented reforms to simplify business registration, cross-border trade, and payment of taxes, as well as easing access to credit and strengthening investor protection. Although the reforms improved India's ranking over last year's, it still ranks relatively low at 134 and lies 41 places after China—which is reforming at a faster pace than India. The top 10 reformers are, in order, Georgia, Romania, Mexico, China, Peru, France, Croatia, Guatemala, Ghana, and Tanzania.

Doing Business 2007 also ranks 175 economies on the ease of doing business—covering 20 more economies than last year's report. These rankings highlight significant obstacles to business in South Asia, compared to countries around the world. The top ranked countries in the region are the Maldives (53) and Pakistan (74), followed by Bangladesh (88), Sri Lanka (89), Nepal (100), and India (134). Bhutan (138) and Afghanistan (162) are ranked lowest in the region.

The top 30 economies in the world are, in order, 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 market size, macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

India, as leading reformer in South Asia, has taken over the top spot from Pakistan in last year's report. India cut the time to start a business from 71 to 25 days and reduced the corporate income tax rate from 36.59 percent to 33.66 percent. A Supreme Court decision made enforcing collateral simpler—easing access to credit. New risk management procedures in customs lowered import time by two days and exports by nine days. And reforms to stock exchange rules toughened investor protections.

Pakistan was the runner-up reformer in South Asia this year. Reforms to modernize customs reduced time to import from 39 to 15 days and time to export from 33 to 24 days. Corporate tax rates fell from 39 percent in 2004 to 37 percent in 2005 and 35 percent in 2006. Bangladesh also reformed, introducing a new land registration act to improve security and reduce corruption in land transactions.

"More such progress is needed. South Asian 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 South Asia region ranks behind all others on the pace of reforms, with only a quarter of countries making at least one reform that improved the *Doing Business* indicators. And two—Sri Lanka and the Maldives—made doing business more difficult. Sri Lanka reintroduced stamp duty and levied a new tax on profits. Maldives now requires a mandatory two-month notice period before workers can be dismissed, a move that may especially discourage small business and the hiring of poor, low-skilled, and young workers.

The report finds that the greatest remaining obstacles in the region are slow courts and rigid labor laws. For example, in Bangladesh, enforcing a simple commercial contract through the courts takes 50 procedures and 1,442 days. In Sri Lanka, an employer must pay 178 weeks in severance to dismiss a redundant worker. The less flexible the labor regulations, the more business hires informally, paying lower wages and avoiding benefits. In fact by one estimate, in India there are only 30 million formal sector jobs, out of a population of 1.1 billion.

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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