

News Release

Doing Business 2009: Eastern Europe and Central Asia Region Leads in Regulatory Reform, with Newcomers Making Big Gains; Azerbaijan is World's Top Reformer

WASHINGTON, D.C., September 10, 2008—Reforms to business regulation reached record numbers this year, with Eastern Europe and Central Asia leading among world regions for a fifth consecutive year, according *Doing Business 2009*—the sixth in an annual series of reports published by IFC and the World Bank. Between June 2007 and June 2008, 23 of the region's 25 countries implemented 62 reforms that make it easier to do business—over 25 percent of the total worldwide.

Four of the 10 economies making the most regulatory reforms are in Eastern Europe and Central Asia, and the trend is moving eastward as newcomers join the list. The top 10 are, in order, Azerbaijan, Albania, the Kyrgyz Republic, Belarus, Senegal, Burkina Faso, Botswana, Colombia, the Dominican Republic, and Egypt.

Doing Business ranks economies based on 10 indicators of business regulation that track the time and cost to meet government requirements in starting and operating a business, trading across borders, paying taxes, and closing a business. The rankings do not reflect such areas as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Azerbaijan, the world's top country in reforming business regulations, rose from 97 to 33 in the global rankings on the ease of doing business. The country undertook reforms in seven of the 10 areas studied by the report—speeding business start-up, contract enforcement, and property registration; easing tax administration burdens and employment restrictions; and strengthening investor protections and credit information.

Albania, the runner-up in reforming regulations, rose from 135 to 86 in the global rankings on the ease of doing business, with reforms in four areas. These made it easier to start a business, eased tax burdens, and strengthened investor protections and credit information.

"Countries in Eastern Europe and Central Asia continue to lead the world in easing the regulatory burden on business and in sustaining their reform agendas," said Svetlana Bagaudinova, a coauthor of the report. "We see many of these countries advancing to the top 30 in the overall rankings on the ease of doing business. Many countries that made improvements this year looked to earlier pacesetters for ideas on how to reform their regulations," she added.



“Economies need rules that are efficient, easy to use, and accessible to all who have to use them. Otherwise, businesses are trapped in the unregulated, informal economy, where they have less access to finance and hire fewer workers, and where workers lack the protection of labor law,” said Michael Klein, World Bank/IFC Vice President for Financial and Private Sector Development. “*Doing Business* encourages good rules, and good rules are a better basis for healthy business than ‘who you know,’” he added.

Singapore leads the global rankings on the overall regulatory ease of doing business for a third consecutive year. New Zealand is runner-up, and the United States third. Top-ranked countries in Eastern Europe and Central Asia are Georgia (15), Estonia (22), Lithuania (28), Latvia (29), and Azerbaijan (33).

Doing Business 2009 ranks 181 economies on the overall ease of doing business. The top 25 are, in order, Singapore, New Zealand, the United States, Hong Kong (China), Denmark, the United Kingdom, Ireland, Canada, Australia, Norway, Iceland, Japan, Thailand, Finland, Georgia, Saudi Arabia, Sweden, Bahrain, Belgium, Malaysia, Switzerland, Estonia, Korea, Mauritius, and Germany.

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The *Doing Business* project is based on the efforts of more than 6,700 local experts—business consultants, lawyers, accountants, and 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 www.doingbusiness.org.

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Fact Sheet – Summary of Reforms in Eastern Europe and Central Asia

Albania, a top reformer globally and regionally, established a public credit registry allowing financial institutions to share credit information and covering 8.3 percent of the adult population. This reform allows banks to better evaluate the creditworthiness of potential borrowers, facilitating access to credit for firms and individuals. Albania also strengthened investor protections. A new company law requires that disinterested shareholders approve transactions between interested parties and obligates those parties to disclose all information on the transaction to the public. The law also reinforces directors' duties and requires directors, when found liable, to pay damages and return profits to the company. Starting a business became easier with online publication, reduction of the registration cost, and the consolidation of tax, health insurance, and labor registration into a single application. The corporate income tax rate was reduced from 20 percent to 10 percent effective January 1, 2008.

Areas of Reform: Starting a Business, Getting Credit (Information), Protecting Investors, Paying Taxes

Rank in Doing Business 2009: 86

Armenia reorganized its court system and overhauled the procedural code. New requirements to front-load evidence eased contract enforcement, removing 1 procedure and reducing the time required to resolve commercial disputes. Armenia also significantly reduced the cost to obtain construction permits in Yerevan by abolishing “mandatory charitable contributions” paid to obtain the right to design.

Areas of Reform: Dealing with Construction Permits, Enforcing Contracts

Rank in Doing Business 2009: 44

Azerbaijan, the top reformer globally and regionally, eliminated the minimum threshold for reporting loans to the public credit registry in September 2007. The public registry now records information on all loans made by the financial system, more than doubling the coverage of borrowers with a credit history. Substantial amendments to the labor code in May 2007 made hiring workers easier by allowing employers to use fixed-term contracts for permanent tasks, easing restrictions on night work, and reducing requirements for redundancy dismissals. Azerbaijan created a second commercial court in Baku, increasing the number of judges dealing with commercial cases from five to nine. The average time to enforce a contract through the courts fell from 267 days to 237. A new law strengthens investor protections by requiring that transactions between interested parties be approved by shareholders. Interested parties are allowed to vote on the matter. Other provisions protect investors because directors who are held liable must pay damages and disgorge profits. Azerbaijan introduced a new unified property registry, reducing the number of procedures required to register property from seven to four. In addition, the State Register Service introduced the option of expediting two of the four procedures, making it possible to register property in 11 days. Similarly, the country created a one-stop shop for company registration, cutting the number of procedures from 13 to six and reducing the time required by half. Azerbaijan reduced the tax burden by introducing an online filing and payment system with advanced accounting software for calculating taxes due. This saves more than 500 hours a year on average in dealing with paperwork.

Areas of Reform: Starting a Business, Employing Workers, Registering Property, Getting Credit (Information), Protecting Investors, Paying Taxes, Enforcing Contracts

Rank in Doing Business 2009: 33

In **Belarus**, a top reformer globally and regionally, the public credit registry expanded credit information by eliminating the minimum threshold for loans recorded in its database. It also guaranteed the right of borrowers

to review their data, improving accuracy. Starting a business became easier: a unified registry database was created, a time limit was introduced for registration, and the minimum capital requirement was cut by half. Belarus created a one-stop shop for property registration and introduced a broad administrative simplification program that set strict time limits at the registry and computerized its records. As a result, the time required to register property in Minsk fell from 231 days to 21. The time required for dealing with construction permits fell by 140 days, thanks to new statutory time limits for preapproval clearances and building permits. Belarus eased the tax burden by abolishing the “Chernobyl tax” (3 percent) and unemployment tax (1 percent) and amending the simplified tax system for small businesses. A new customs code and new banking regulations reduced the time to export.

Areas of Reform: Starting a Business, Dealing with Construction Permits, Registering Property, Getting Credit (Information), Paying Taxes, Trading across Borders

Rank in Doing Business 2009: 85

Bosnia and Herzegovina tightened professional requirements for trustees to speed bankruptcy procedures. The corporate income tax rate was reduced from 30 percent to 10 percent effective January 1, 2008. Profit distribution (including dividends) is now tax exempt, and tax losses can be carried forward for five years. The computerization of files at the Land Registry in Sarajevo has sped property registration. As a result, the time required to transfer a title dropped by 203 days. The reform at the Land Registry has also benefited entrepreneurs dealing with construction permits, reducing the time to obtain a cadastre excerpt before construction and to register the newly completed building in the cadastre and land book by 171 days.

Areas of Reform: Dealing with Construction Permits, Registering Property, Paying Taxes, Closing a Business

Rank in Doing Business 2009: 119

Bulgaria passed two new laws- the Civil Procedure Code and the Law for the Commercial Registry- which will speed the resolution of bankruptcy. The Civil Procedure Code removed the requirement for the Supreme Cassation Court to hear all cases. Now the court can decide whether or not to hear a case. Bulgaria made business start-up easier by creating a central electronic database for commercial registration. This reform consolidated and reduced the number of registration procedures and cut other registration formalities. Amendments to the civil procedural code have helped speed contract enforcement. They reformed rules for evidence and default judgments, raised the minimum threshold for cases in the lower courts, and empowered the civil court of last instance to decide which cases to hear, limiting abuse of the appeals process. Bulgaria introduced a new Corporate Income Tax Act and a new Value Added Tax Act to synchronize local tax legislation with EU legislation. Dealing with construction permits has become more difficult. The fees for obtaining construction permits were increased by about 16 percent in 2008. Stricter environmental requirements mean that companies in Sofia now have to obtain a certificate of energy efficiency before and after construction. This adds 2 steps and 8 days for dealing with construction permits.

Areas of Reform: Starting a Business, Paying Taxes, Enforcing Contracts, Closing a Business, Dealing with Construction Permits (making it more difficult)

Rank in Doing Business 2009: 45

In **Croatia** a new building code came into force in October 2007 and made it easier to deal with construction permits by eliminating five procedures. Even so, the reform led to an administrative backlog for building and occupancy permits, increasing the overall time required by 20 days. Ongoing improvements to port infrastructure sped terminal handling for exports by two days.

Areas of Reform: Dealing with Construction Permits, Trading across Borders

Rank in Doing Business 2009: 106

In **Estonia** no major reforms were recorded.

Rank in Doing Business 2009: 22

Georgia's private credit bureau now distributes a full range of information, including on-time repayment patterns and outstanding loan amounts. Coverage increased 20-fold, and banks can now have a better understanding of the payment patterns of potential borrowers. In addition, new regulations guarantee the right of borrowers to inspect their data at the private credit bureau, helping to improve the quality and accuracy of credit information. Amendments to the civil code, effective in December 2007, address secured transactions, allowing parties to a security agreement to agree to out-of-court enforcement of the creditor's security right at the time the parties sign the security agreement. The corporate income tax rate was reduced from 20 percent to 15 percent, and the social tax abolished. A new online business registry makes it easier to register property by eliminating the requirement for legal entities to obtain several preregistration documents. This reform reduced the number of procedures required to transfer a title from five to two, and the time from five days to three. Registration fees were also reduced. Finally, amendments to the Law on Entrepreneurs made it easier to start a company by eliminating the requirements for a minimum capital, a company seal, and a company charter and by making the use of notaries optional.

Areas of Reform: Starting a Business, Registering Property, Getting Credit, Paying Taxes

Rank in Doing Business 2009: 15

Kazakhstan's private credit bureau is adding two new suppliers of information a month, including retailers (such as furniture companies) and utilities (such as the gas company). Borrower coverage increased by 80 percent in the past year. A new law introduced substantial changes to the property registration system, creating a unified registry for all land and buildings and establishing public service centers to handle property transactions in major cities. The law also eliminated requirements, cutting the number of procedures from eight to five and the time from 52 days to 40. A new labor law, adopted in May 2007, now obligates employers to reassign a worker before making the worker redundant.

Areas of Reform: Registering Property, Getting Credit (Information), Employing Workers (making it more difficult)

Rank in Doing Business 2009: 70

The **Kyrgyz Republic**, a top reformer globally and regionally, strengthened investor protections through legal amendments allowing minority investors to take legal actions as shareholders. The amendments also require an independent assessment of a related-party transaction before it is approved. Moreover, directors can be held liable for negligence if they harm minority shareholders and will be forced to pay damages and disgorge profits. A new one-stop shop made it easier to start a business by streamlining and simplifying business registration processes and eliminating certain requirements such as proof of residence. Obtaining a company seal became optional. Dealing with construction permits also became easier, thanks to a one-stop shop making it possible to obtain a designing permit, construction license, and occupancy permit at a single place. This reform eliminated nine steps, reduced the time required by almost 6 months, and lowered the cost from 759 percent of income per capita to 406 percent.

Areas of Reform: Starting a Business, Dealing with Construction Permits, Protecting Investors

Rank in Doing Business 2009: 68

Latvia's new insolvency law made it possible for the first time for financially distressed companies to continue operating by pursuing reorganization. The reform also tightened the qualification standards for bankruptcy administrators. The State Land Service sped the registration of property by introducing an online database that allows registry employees to check the cadastral value of the real estate. That reduced the number of procedures from eight to seven, and the total time to register property from 54 days to 50.

Areas of Reform: Registering Property, Closing a Business

Rank in Doing Business 2009: 29

Lithuania made it easier to register property by merging the procedure for obtaining the certificate of transaction with the notarization procedure. The reform reduced the number of procedures from three to two.

Areas of Reform: Registering Property

Rank in Doing Business 2009: 28

In the **former Yugoslav Republic of Macedonia** a new law on personal data protection allows borrowers to check their information at the credit registry, improving its quality and accuracy. The government continued to systematically equip courts with electronic case management systems, and the commercial court in Skopje became operational, speeding contract enforcement in commercial matters. The corporate income tax was reduced to 10 percent effective January 1, 2008. A new cadastre law and a staff increase at the cadastre office helped to reduce the time needed to register property from 98 days to 66. The one-stop shop system was updated to carry out the full range of business start-up processes, reducing both the number of procedures and the time required. The time required to export fell from 19 to 17 days and the time to import from 17 to 15 days, thanks to rationalization of the customs fee schedule and permit structure, improved risk-based inspections, simplification of a customs procedure, and the elimination of a document requirement.

Areas of Reform: Starting a Business, Registering Property, Getting Credit (Information), Paying Taxes, Trading across Borders, Enforcing Contracts

Rank in Doing Business 2009: 71

Moldova passed a new law facilitating the creation of a private credit bureau. New laws on limited liability companies and company registration sped business registration by introducing statutory time limits. The time required to file an application with the State Registration Chamber fell from 15 days to 7, reducing the total time to start a company from 23 days to 15.

Areas of Reform: Starting a Business, Getting Credit (Information)

Rank in Doing Business 2009: 103

Montenegro created a new public credit registry, increasing the coverage of borrowers from 0 to 26 percent of the adult population. The new registry will facilitate access to credit by providing lenders with credit information on potential borrowers. Obtaining construction permits takes longer compared to last year. Stricter compliance requirements introduced to conform with EU best practices led to an administrative backlog, increasing the time by 51 days.

Areas of Reform: Getting Credit (Information), Dealing with Construction Permits (making it more difficult)

Rank in Doing Business 2009: 90

Poland strengthened bankruptcy procedures through a new law on trustee licensing that tightens professional requirements for administrators. Obtaining a trustee's license now requires passing an exam in economics, law,

finance, and management. The reform also limits trustees' pay to maximum 3 percent of the bankrupt estate's value, down from maximum 5 percent, increasing the recovery rate from 28 to 30 cents on the dollar.

Areas of Reform: Closing a Business

Rank in Doing Business 2009: 76

Romania simplified the enforcement of judgments by eliminating the need for a separate enforcement order and allowing the attachment of credit balances and accounts receivable. The reform reduced the time to enforce contracts by a month from 537 days to 512 days.

Areas of Reform: Enforcing Contracts

Rank in Doing Business 2009: 47

In the **Russian Federation** no major reforms were recorded.

Rank in Doing Business 2009: 120

Serbia reduced the property transfer tax from 5 percent of the property value to 2.5 percent. The total cost to register a property fell from 5.37 percent of the property value to 2.85 percent. An administrative backlog at the Belgrade Municipality's Construction Department added 75 days to the time for obtaining construction permits.

Areas of Reform: Registering Property, Dealing with Construction Permits (making it more difficult)

Rank in Doing Business 2009: 94

In **Slovenia** the Employment Relationship Act of 2007 lowered the cost of redundancy dismissals by reducing the notice period from 75 days to 60 and made hiring workers easier by extending the maximum duration of fixed-term contracts. Another new law protects minority investors by allowing them to sue directors on behalf of the company. Slovenia also eased business start-up through single-access points that reduced the cost to establish limited liability companies and simplified administrative procedures. The number of procedures required to start a company fell from nine to five, and the time from 60 days to 19.

Areas of Reform: Starting a Business, Employing Workers, Protecting Investors

Rank in Doing Business 2009: 54

Tajikistan enhanced investor protections through a new law requiring that transactions between interested parties be approved by a shareholders meeting at which interested directors cannot vote. In addition, the transaction must be disclosed to the board of directors. The new law allows minority shareholders to sue directors on behalf of the company. Administrative backlogs in obtaining location permits added 160 days to the overall time for dealing with construction permits.

Areas of Reform: Protecting Investors, Dealing with Construction Permits (making it more difficult)

Rank in Doing Business 2009: 159

Turkey further strengthened investor protections through a new law requiring that an independent auditor assess transactions between interested parties before the transactions are approved.

Areas of Reform: Protecting Investors

Rank in Doing Business 2009: 59

In **Ukraine** a new private credit bureau has made it easier to get credit by sharing credit information among financial institutions. Now banks can better assess the creditworthiness of potential borrowers. Ukraine eased the tax burden on businesses by reducing several social security tax rates including: pension fund, social



security fund, and social insurance for accidents at work. Thanks to electronic tax filing systems, the time to pay taxes was reduced by 1237 hours per year. In trade, improvements to port infrastructure and services reduced the time to import by three days. The cost and time for dealing with construction permits increased. All new construction projects are now subject to an infrastructure tax. And an administrative backlog has added 42 days to the time.

Areas of Reform: Getting Credit (Information), Paying Taxes, Trading across Borders, Dealing with Construction Permits (making it more difficult)

Rank in Doing Business 2009: 145

Uzbekistan established a private credit bureau and a public credit registry to share credit information among financial institutions. The credit registries will enable banks to better assess the creditworthiness of potential borrowers.

Areas of Reform: Getting Credit (Information)

Rank in Doing Business 2009: 138