

## World Bank Press Release

# Doing Business: Georgia is This Year's Top Reformer

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**Washington DC, 6 September 2006** -- Georgia was the top reformer in the Commonwealth of Independent States (CIS) and led the global top 10 reformer rankings on the ease of doing business in 2005–2006, according to a new report by the World Bank and the International Finance Corporation (IFC).

“Georgia made enormous improvements to many areas of its business regulations and jumped an astonishing 75 places in the rankings in just one year, moving from 112th place to number 37,” says Caralee McLiesh, a co-founder of the *Doing Business* project.

Georgia’s jump in the rankings was the biggest in a single year by any country since the *Doing Business* report was launched four years ago.

“It just shows just how far a country can go if it’s committed to reforms,” says McLiesh.

Georgia improved in six of the 10 areas studied by *Doing Business 2007*. The survey ranked 175 economies on the ease of doing business—covering 20 more economies than last year’s report.

The *Doing Business* survey tracks indicators of the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. It does not track variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Georgia “improved its business startup procedures, dramatically improved its customs procedures, introduced specialized courts, streamlined labor regulations, introduced a credit bureau, and cut the number of licences enormously,” says McLiesh.

The country saw a 55 percent increase in the number of new businesses being registered. In addition, unemployment fell by 2 percent, she says.

Armenia was also a significant reformer with four reforms. Twenty-four regulatory reforms—in nine of the CIS economies —reduced the time, cost, and hassle for businesses to comply with legal and administrative requirements.

The full list of global 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. Within the CIS, Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, and Ukraine each implemented at least one reform. Tajikistan had no reforms. Uzbekistan made it harder to do business.

Kazakhstan improved by around 20 places in its rankings. The top-ranked countries in the region are Armenia (34), Georgia (37), and Kazakhstan (62). Tajikistan (133) and Uzbekistan (147) rank lowest in the region. Russia sits in the middle of the range, with a ranking of 96, three places behind China but ahead of Brazil and India. Ukraine and Belarus are neck and neck, at 128 and 129 in the global rankings.

### **Reforms in Georgia**

In addition to being the leading global reformer, Georgia was the leading reformer in three of the specific areas studied by the report:

(1) **Dealing with licenses:** The report looks specifically at construction licenses and permits, and this year Georgia created a one-stop shop for building permits. Shorter time limits for the issuance of permits were introduced, and several unnecessary procedures were eliminated. As a result, compliance with building



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regulations in Tbilisi is as now as easy as in Hong Kong.

(2) **Enforcing contracts:** Georgia established specialized commercial sections in the courts. Also, the supreme court can now decide which cases to review. Previously, it dealt with every case sent by the lower courts. In addition, Georgia has been striving to reduce corruption in the courts by increasing judges' salaries and more aggressively investigating corruption and taking disciplinary measures against judges.



Georgia is now the 6th easiest place in the world to employ workers.

(3) **Employing workers:** The new labor code eases restrictions on the duration of term contracts and overtime work. The new law provides for one month's severance pay, replacing complex rules requiring varying notice periods and the involvement of labor unions and the Ministry of Labor. Georgia also reduced the social security contributions paid on wages by businesses from 31% to 20%. Together, these changes make Georgia the sixth easiest place to employ workers globally (after the Marshall Islands, United States, Singapore, Tonga, and the Maldives).

In addition, Georgia made strides in increasing the ease of starting business. Georgia reduced the minimum capital required to start a new business from 2,000 lari to 200 (US\$85). As a result, business registrations rose by 55 percent from 2006 to 2006, reflecting both the creation of new businesses and the registration of companies formerly operating in the shadow economy. In the area of getting credit, Georgia also has made some legislative changes to facilitate the exchange of credit information, and a private credit bureau began to support the exchange of information among banks.

#### **More Reforms Needed**

While Georgia is the leading reformer this year, there are still several areas where there is considerable room for improvement. In the ease of paying taxes, for example, Georgia ranks only 104 globally. Although tax reform in previous years has simplified taxes and decreased rates, a company still spends about 53 days per year to pay taxes. Georgia also is relatively poorly ranked in closing a business (ranked at 86), suggesting a need for bankruptcy reform. Another priority area is trading across borders, where Georgia ranks at 95, due to a relatively high cost to import and export and a large number of required procedures. Finally, Georgia ranks only 135 on protecting investors, lower than most of its CIS colleagues.

The [International Finance Corporation](#) is engaged on the ground in supporting Georgia's reform efforts. With support from BP and the Government of Canada, it provides technical assistance in the area of SME policy work. The IFC SME Policy Project tightly cooperates with the Georgian government to further improve two regulatory issues: inspections and permits/licenses. The project is working on streamlining licensing and inspecting procedures according to international best practices. It also conducts regular surveys of entrepreneurs, providing first-hand information on administrative barriers hindering business growth. The IFC SME survey reports provide clear recommendations for improvement to the government. The survey instrument is also used to measure the effect of administrative reforms on businesses against a baseline established by IFC's first Georgia survey, conducted in 2004.

Recently, the project has finalized its second survey, polling 1880 SMEs in 11 regions throughout Georgia. The survey covers 4 key issues for SME sector development: licenses and permits, inspection system, tax administration and export-import procedures.

#### **"What gets measured gets done"**

*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. Georgia, for example, has targeted the top 25 list for ease of doing business, using the indicators as benchmarks of progress. The lesson -- what gets measured gets done," said Caralee McLiesh, an author of the report.

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