

Armenia Leads Azerbaijan, Trails Georgia in Doing Business 2008

The recently released *Doing Business 2008* report ranked Armenia 39th of 178 countries ahead of Azerbaijan at 96th, but behind Georgia at 18th, in the quality of its business environment.. Georgia has made a quantum leap in the last two years due to a series of policy reforms that have made it one of the more attractive countries in which to do business. Georgia's experience carries a number of important lessons for Armenia.

Each year, the *Doing Business* report is produced by the World Bank and International Finance Corporation (IFC). The report measures the ease of conducting business in each country evaluated. Improvements in the *Doing Business* rankings have been associated with increased economic growth, job creation, and a decrease in informality (which has implications for the state's ability to collect revenue and subsequently provide public services).

Doing Business 2008, which evaluated 178 countries, ranked Armenia 39th overall. This was identical to its ranking the year before and well ahead of Azerbaijan, which came in at 96th. However, perhaps more relevant to Armenia was the success of Georgia, which jumped from 35th to 18th after moving up from 112th the year before. Georgia was also ranked 5th in the "Top Reformers" category, after being the top reformer the year before. These improvements were the result of a number of widely recognized and important policy changes.

First, Georgia strengthened investor protections, including through amendments to its securities law that eliminated loopholes that had allowed corporate insiders to expropriate minority investors. Second, it adopted a new insolvency law that shortens timelines for reorganization of a distressed company or disposition of a debtor's assets.

Third, Georgia sped up approvals for construction permits and simplified procedures for registering property. It now takes on average just five days to register property in Georgia, compared with 92.4 for the region as a whole and 28 for all OECD countries. The cost is now just a fraction (4%) of the region's average, and only 2% of the average cost among OECD members.

Georgia also made starting a business easier by eliminating the paid-in capital requirement, which essentially eliminates the cost of business registration. In the region as a whole, 45% of gross national income (GNI) per capita is spent on business registration. The average time needed to start a business in Georgia, at 11 days, is less than half of the region's average of 26. Finally, the country's private credit bureau added payment information from retailers, utilities, and trade creditors to the data it collects and distributes.

The results of Georgia's policy changes in the *Doing Business* indicators are summarized below:

Ease of...	Doing Business 2008	Doing Business 2007	Change in Rank
Doing Business	18	35	+17
Starting a Business	10	39	+29
Obtaining Licenses	11	27	+16
Registering Property	11	18	+7
Getting Credit	48	62	+14
Protecting Investors	33	120	+87

Source: *The World Bank Group*

Georgia's top reforms from 2006 included 1) dealing with licenses, 2) enforcing contracts, and 3) employing workers. Specific reforms included a one-stop shop and shorter timeframes for building permits; the development of specialized commercial sections in the courts and an increase in judges' salaries combined with more active enforcement against corruption; and the easing of restrictions on the duration of term contracts and overtime work.

What can Armenia learn from Georgia's experience? While *Doing Business*, as pointed out in an earlier article, represents only one index and focuses primarily on the policy environment, it is important to note two things.

First, Georgia was able to reach consensus on using the indicators to enhance its enabling environment for enterprises. Georgia determined that it would attempt to create a more business-friendly environment, and used the *Doing Business* rankings as a vehicle for achieving that goal. Georgia set an explicit target of entering the Top 25 in the rankings-and targeted reforms at measures that would contribute to that improvement.

A second important lesson that can be drawn from Georgia's experience is that progress can come quickly; it does not need to be long-term.

Finally, Georgia's experience illustrates the importance of setting an objective standard against which a country's progress can be measured. Using such an approach has allowed Georgia to benchmark its progress and obtain immediate feedback on its successes, as well as areas in which it can still improve. Armenia can use a similar approach as it attempts to enhance its enabling environment, thereby creating a more attractive location for doing business.



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