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Business Registration Start-Up: A Concept Note

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Author's Forward

The intention of this paper is not to prescribe a single model of a well functioning business registry, rather to lay down general principles by giving varying cross country examples. Choosing this approach, the paper will be hopefully universally relevant and useful in pursuing reforms in this area (gradual or comprehensive). Unlike often heard, reforms on business start-up procedures are not easy reforms, mainly because they require the coordination among various government agencies. However, there are various steps that can be taken by the Registry which can improve the process and bring benefits to entrepreneurs.

1. Introduction

Individual investment projects and private sector activities typically start with the establishment of an enterprise. These start-up procedures, while essential for the creation of a private sector, are in reality everything else but simple and straight forward. *Doing Business 2006* shows that the time needed to establish a limited liability company in a capital city can range from 2 to 203 days among the 155 countries included in the analysis, with 1 to 19 steps involved in the process. In developing and transition countries these procedures are often associated with bureaucracy, corruption and lack of transparency or accountability.

While business start-up procedures are everything but identical around the world, the main public policy objectives generally are that governments register companies to ensure that these activities are in accordance with the existing legal framework. The main regulatory functions are to ensure tax collection, to minimize risks for the public of risky business (in order to conduct e.g. environmental assessments one first needs to know what kind of new business has been established), to create legal entities which can be easily identified due to a unique name with rights and responsibilities (in case of e.g. bankruptcy or litigation among shareholders), or for statistical purposes, providing important information for the government on sectors, size, ownership of enterprises. Furthermore, governments argue that some regulations are in place to make sure that consumers buy high quality products from “desirable” sellers (public interest theory)¹ or to prevent the registration of fake companies². How these policy objectives are being pursued differs from country to country.

2. What is Business Registration?

In the narrowest sense, the establishment of a business is limited to registering or incorporating a new company with the registration office (public, private or a public private entity), in order to create a legal entity. In practice, however, most governments require additional formalities to start a business beyond simple registration. Even in a best-practice case such as Canada, where it only takes three days to establish a new enterprise, investors still have to go through three different steps, one to search for a unique name, one to notify the legal existence and one related to the registration for tax and social security purposes. In most countries starting a business tends to involve many more steps and interactions with multiple public sector entities at different levels

¹ For the full argumentation see Djankov, La Porta, Lopez de Silanes, Shleifer: The Regulation of Entry (Abstract), June 2001

² An argument used e.g. by the Belarus Government. In India, formation of a company was a simple procedure. Recently the Government of India introduced for the first time that every applicant for the registration of a new company shall have to furnish identity proofs at the time of incorporation. This became necessary as more than 10,000 companies with huge public borrowings disappeared without no one knowing where the promoters of these companies are.

of government, typically also involving regional or municipal authorities. The complexity of start-up procedures is often reflected in the documentation requirements; a company often needs to go back multiple times to the same office or has to provide the same information to different offices.

The different existing start-up procedures can be summarized in five categories:³

1. *Screening procedures* (e.g. notarize company deeds, open a bank account and deposit start-up capital, register company at Companies Registry);
2. *Tax-related requirements* (e.g. register for various taxes including VAT);
3. *Labor/social security-related requirements* (e.g. register with pension funds, register for social security, register for various insurances such as accident);
4. *Safety and health requirements* (e.g. pass inspections and obtain certificates related to work safety, building, fire, sanitation, and hygiene);
5. *Environment-related requirements* (e.g. obtain environment certificate, register with the water management and water discharge authorities)

At this point, companies have typically fulfilled their basic administrative requirements, but that does not mean that they can start doing business. Interactions with public sector authorities will continue not only in the phase of business start-up – related to obtaining industry-specific licenses and permits, special approval procedures such environmental impact assessments, purchasing or leasing land and constructing facilities – but also during the operation of the enterprise, be it tax reporting, government inspections by different authorities or customs procedures. In conjunction, all these different administrative processes and procedures form the legal and regulatory framework for private operations.

3. Why do Business Start-up Procedures Matter?

Even if start-up procedures are particularly complicated and time-consuming, enterprises have to go through this process only once. Can this be so important as to seriously limit the growth of a country's private sector? Small and medium enterprises (SME) data compiled by the WB/IFC SME Department reveals that there is a *correlation* between the number of SMEs per 1000 inhabitants and the cost to start a business⁴. This does not mean that a decrease in cost will automatically lead to more SME and job creation. Entrepreneurs – new or informal⁵ – will look at the overall regulatory cost when deciding to register a company; and start-up procedures are only one part of the overall costs. However, the private sector can benefit from formalizing its business by having access to business services, finance or government procurement those increasing the chances for productivity gains and growth. As several country examples show (see point 4), improvements in the registration process will most likely have a positive influence on company creation. The worst the business start-up procedures the higher the potential gains from successful reforms. Improved business registration procedures can help improve the overall environment for the private sector and raise standards of efficiency and transparency for other government agencies. Additionally, such reforms are relatively speaking easier and less costly than for example labor reforms. In short, fast and simple start-up procedures can contribute to a decrease in informality. This is particularly an issue in Latin America, where informal sector activity has increased and now represents the greatest source of employment in the region⁶. The

³ See Djankov, La Porta, Lopez de Silanes, Shleifer: The Regulation of Entry (Abstract), June 2001, Table 1.

⁴ <http://rru.worldbank.org/Themes/SmallMediumEnterprises/>

⁵ The Mekong Project Development Facility intends to assess in their new business registration project in Laos how relevant start-up procedures are for the formalization of informal business.

⁶ Farrell, G. et. al: Conceptualizing the Shadow Economy, Journal of International Affairs, 53, 2, (2000)

end result is distortions in the economy with formal companies facing informal competitors with lower cost structures, violations of basic health, safety, labor or environmental regulations. This can threaten social well-being and lower tax revenues not allowing the public sector to provide the required infrastructure and support services⁷. It is also true that informal business is in average less productive than formal companies and face barriers of growth. In order to create more jobs and increase growth, business registration reforms might be a good entry point to break the vicious circle in which many countries find themselves.

4. Can Reform Help?

There is ample evidence that simplifying the procedures to start a business can help increase business registrations. The European Union recognized that easier business start-up matters for the competitiveness of Europe's private sector and initiated a broad reform program across all member countries in 1997. The European Commission Enterprise Directorate General published in 2002 the final report "Benchmarking the Administration of Business Start-ups", reporting on significant improvements in registration efficiencies and company formation within the EU⁸. According to *Doing Business 2006*, 31 countries eased business entry in 2004. In six of these countries business entry increased after reforms: Spain (10%), Belgium (16%), Estonia (19%), Romania (22%), Vietnam (28%), Serbia and Montenegro (42%). France, was ranked among the five top reformers in 2003 by *Doing Business* and the number of newly registered business increased by 18%, compared to the year before. Overall, European Union countries reduced the amount of time required to register a business by over 15%, and registration costs by almost 10% during 2003-04 – far outpacing other country groups⁹. Also, the OECD recognized that too much "red tape" is a common complaint from businesses and citizens in OECD countries. Their report "From Red Tape to Smart Tape"¹⁰ analyzes proven approaches commonly adopted by governments to reduce and streamline administrative procedures like one-stop shops (physical and electronic), simplification of permits and license procedures, time limits for decision-making, methods to measure administrative burdens, regulatory-compliance assistance for small and medium-size companies, and increasing reliance on IT-based solutions. But reform experiences were not limited to Europe: In Pakistan, business registration went up by 18.8% from 1998 to 2004, following reforms to improve business registration¹¹ and in Vietnam business entry increased 28% after reforms¹². In Egypt following reforms which cut the time to establish a business from something like five months to a few days, according to the Government, a total of 3,012 new companies were established between last July and February, 2005, with total capitalization of USD 1.9 billion. That is double the amount of the like period of a year before¹³.

There is evidence that easier business start-up procedures can help generate more business ventures and with it create a more dynamic private sector. However, while simplified business registration is a necessary condition to motivate enterprises to become formal, it is only one element in the overall business environment and in some cases might not be a sufficient condition to spur further private sector development or formalization of existing enterprises; taxes might be still too high or access to land might be a cumbersome process. In some countries, start up

⁷ As Jaime Arroyo, Director of the Metropolitan Municipality of Lima, Peru said during a meeting: "If nothing is being done, governments risk to become irrelevant with no rules and controls in place."

⁸ http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/start-ups/bench_admin_business_start-up_final_2002.pdf

⁹ *Doing Business 2005*, <http://rru.worldbank.org/Documents/DoingBusiness/DB-2005-Overview.pdf>

¹⁰ OECD: *From Red Tape to Smart Tape, Administrative Simplification in OECD Countries*, 2003

¹¹ Shamim Ahmad Khan, former Chairman, Securities and Exchange Commission of Pakistan: *Business Registration Reforms in Pakistan*, April 23, 2004

¹² *Doing Business 2006*, page 13.

¹³ *The Asian Wall Street Journal*, May 24, 2005.

procedures have been recently quite improved (e.g. Vietnam) and are not any more the major impediment for companies to become formal.

From here, how do we go about reforms and what can we learn from good practices in other countries?

5. Country Examples featuring Good Practice

5.1 Business Registration in Canada – Nr. 1 According to Doing Business 2006

According to *Doing Business 2006*¹⁴, Canada has one of the simplest and fastest business entry procedures. Business registration or incorporation federally is possible to do in person, via mail, fax, or through the internet. The responsible agency is Corporations Canada which belongs to the Industry Canada Department headed by the Minister of Industry. The easiest way to incorporate a company is via the Corporations Canada Online Filing Center which accounts for about 80% of all incorporations. The process is described below¹⁵.

Step 1 (1 day): Choose company name - word name or number – through the online system¹⁶. Corporations Canada requires a “Canada-biased NUANS report” (Newly Upgraded Automated Name Search) before it considers the corporate name. The report can be obtained either with NUANS Real-Time System or NUANS Registered Search House. NUANS is a registered trademark of the government of Canada. The software and data is the property of Industry Canada, while Hewlett Packard was awarded the license in 1996 to administer the NUANS system. The first time, you have to register to access the password protected website and pay CDN\$ 20 in order to receive a report. The proposed name has to meet the requirements of the Canada Business Corporations Act name regulations and policies. If the name is submitted together with the complete incorporation application, and Corporations Canada rejects the name, the whole application will be refused. To avoid this situation, the company may ask for pre-approval of the proposed name.

Step 2 (1 day – same day as step 1): *File for Federal Incorporation and Register Corporation Provincially* via the Corporations Canada Online Filing Center¹⁷. Two forms have to be completed: Form 1 for the articles of incorporation and form 2 for information regarding the registered office and the board of directors. One has also to attach the NUANS report and may submit a “Corporate Name Information Form” which provides Corporations Canada with additional information about the name of the corporation. Once the forms are signed and submitted electronically, the information is reviewed by an examiner at the Online Filing Center. Unlike under “continental law” systems, the government assumes the veracity of the information provided by the applicant and therefore no signature of a public notary on the documents is required. However, if entrepreneurs provide false information, they are liable for prosecution in accordance with the Canada Business Corporations Act. Once accepted, the data is being entered into a database. The incorporation certificate is then being sent via email to the company, together with the articles of incorporation. Once the company has incorporated federally, it is considered a legal entity. After processing a Corporations’ articles of incorporation, Industry

¹⁴ The benchmarking takes into account the number of procedures and days to start a business, the cost to start a business as percentage of income per capita, as well as the minimum capital as percentage of income per capita.

¹⁵ Thanks to Corporation Canada (in particular Cheryl Ringor) for providing valuable information additional to the Doing Business description.

¹⁶ http://strategis.ic.gc.ca/epic/internet/incd-dgc.nsf/en/h_cs02079e.html

¹⁷ http://strategis.ic.gc.ca/sc_mrksv/corpdircorpdir/corpFiling/engdoc/index.html

Canada provides a federally incorporated business with its Business Number assigned by Canada Revenue Agency at no charge. The Business Number is a 9-digit number that allows registration with various government agencies (see step 3). No physical visit is required during the whole process.

While almost all Canadians businesses can use the on-line filing Center, it does not apply to non-residents seeking to register a goods and services tax (GST), harmonized sales tax (HST) and/or Corporation Income Tax account; GST/HST Registration for businesses with mailing address in Quebec; and non-profit organizations.

In June 2002, the federal government, together with the provinces of Ontario, Nova Scotia, and Newfoundland and Labrador, launched a program pilot for joint registration to offer a single point of access on the internet for business owners to file for federal incorporation and extra-provincial registration (registration to operate the business in a specific province). In these provinces, when incorporating federally, the entrepreneur is simultaneously given the option to applying for extra-provincial registration with company registry in that given province. Only a few additional on-line questions are required: Ontario requires information on the date business commenced in the province; name and address of chief officer/manager; and principal place of business if different from the registered office. Newfoundland asks for the main type of business in which the company is engaged and share capital. Nova Scotia requires the date business commenced in the province; type of business activity; recognized agent (likely an agent for service); and names and addresses of officers. It also requires that the document be sworn before a competent authority. The extra-provincial registration is linked on-line to the Canadian Revenue Agency (CRA) which allows registering for tax accounts (step 3).

Step 3 (2 days): With the business number, the company can *register with CRA* for tax accounts which can be done on-line. Clients with federally incorporated businesses can apply through the CRA on-line for other accounts they require, such as GST or HST, import/export, corporate income tax, or payroll deductions.¹⁸ CRA has also public access to Industry Canada's database and can ask for additional information. The statistical office receives information on new incorporations by Industry Canada and they have also public access to Industry Canada's database.

Step 4 (immediately): According to the nature of the company or business a registration with social security (old age security program and the Canada pension plan), labor related insurances etc. is required (<http://www.cra-arc.gc.ca/tax/business/menu-e.html>). This can be done on-line, using the business number.

The reform process: The reforms to simplify the business start up procedures were part of a comprehensive reform package to support SMEs, guided by "Growing Small Businesses", a companion paper to the 1994 Federal Budget, released by the Ministers of Industry and Finance. Various consultations were held with public and private sector stakeholders resulting in a number of reports. Two approaches were identified in undertaking reforms: 1) to place responsibility on individual governmental institutions to address regulatory burden (bottom-up approach), and 2) to have the federal government take specific initiatives to reduce paper burden. In 1997, the final report of the Joint Forum on Paper Burden challenged federal departments to evaluate the impact of administrative requirements of federal regulations on small businesses, measure and track progress in reducing burden, establish permanent reduction targets, increase their use of

¹⁸ Companies that have worldwide taxable sales of more than CDN\$ 30,000 in any previous four consecutive calendar quarters or in any one calendar quarter must register for and collect GST/HST, regardless of their revenues.

technology to make it easier for businesses to deal with their governments, and communicate results through performance reports. Significant investments were made in information and communications technology for the delivery of business support services. The success of a 1992 pilot project that aimed to solve persistent problems of access to government programs and services, and a perception of complexity and runaround, led to a network of Canada Business Service Centers (CBSC) – walk-in business resource centers. The CBSC network is designed to improve service to small businesses and entrepreneurs in the start-up phase, providing single window for information on federal and provincial/territorial government services, programs and regulatory requirements (online, in person, and by phone). The Canadian government's Government Online initiative was the driving force that facilitated CBSC's involvement in the development of the *BusinessGateway.ca*, Canada's business portal. One online tool developed by the CBSC network is the Business Start-up Assistant that provides also links on how to register a new company. Corporation's Canada Online Filing Center was introduced in 1999. For the electronic filing of documents and for the use of electronic signature statutory changes were made to the *Canada Business Corporations Act* (1994). Information required from the applicants was always fairly simple and is in the public domain. Therefore, the information requirements (forms) have not been changed¹⁹. In 2001 the fees were reduced by 50%, down to CDN\$ 250. On-line filing costs even less: CDN\$ 200. According to a representative of Canadian Corporations at the Ministry of Industry this has significantly contributed to the higher numbers of companies incorporated online. As a result of other re-engineering initiatives, Corporations Canada has been able to process 50% more registrations annually, with minimal additional costs. On-line business surveys have shown that companies are highly satisfied with the possibility to incorporate their business on-line. The improvements were led internally, and various, specialized consultants were brought in on a needs basis.

The Revenue Agency (CRA) is leading an initiative to have the business number as a common identification number for all government agencies. As of now the different government agency databases are not linked, one reason being the protection of data.

Regarding joint registration – federally and at provincial level - the program is working well and Ontario is the most advanced having the whole process on-line. In the two other provinces the incorporation is not yet on-line as this requires a change in law. The program pilot for joint registration is being rolled out to other provinces; starting with the larger ones such as Quebec and British Columbia (negotiations are ongoing) and then reaching out to the other ones. This requires negotiations with the provinces, mainly on the timetable of introducing the joint-registration.

Following federal and provincial incorporation, in order to start specific operations, a company has to comply with their municipal (licenses) requirements which vary from municipality to municipality. In the future, companies will be able to do this through BizPaL, a web-based service that will allow business clients to easily generate a customized list of the permits and licenses they require from all levels of government. The Pilot Project is in development now and will be launched in summer 2005 with the lead group of participating governments. Additional jurisdictions will be invited to join by summer 2005, and the number of industry sectors covered will also be expanded.

5.2 Kosovo: A Good Practice Case in Business Registration, but not yet Online

This is about the only completed WB projects on business registration. It has successfully introduced business registration reforms at the federal level as confirmed by the Operations Evaluation Department (OED) of the WB. Total budget: USD 1.35 million.

¹⁹ For form 1 + 2 see http://corporationscanada.ic.gc.ca/epic/internet/incd-dgc.nsf/en/h_cs02140e.html

Ex-Ante: In 1999, after a decade of social and economic hardship, the UN deployed an international security force and established an UN-managed civilian administration in Kosovo (UNMIK). Kosovo remains a province of Serbia, but has “substantial autonomy and self-administration.” In fulfillment of UNMIK’s objective to establish a sound legal and institutional framework in Kosovo, the Provisional Business Registry (PBR) was established to provide a form of identification of the entities in business, but it did not give legality to registrants. It was planned to incorporate the PBR into a new modern business registry, located at the commercial court.

The Reform Process: Despite plans for the PBR to be located at the commercial court, as a result of “good policy dialog with the authorities” via the World Bank’s Private Sector Development Technical Assistance (PSD TA) project, which started in June 2001, an administrative business registration system was adopted eliminating any court involvement. This was possible through an awareness raising campaign. The legal base of the Kosovo Business Registration is the UNMIK Regulation no. 2001/6 which covers personal business enterprise, a general partnership, a limited partnership, a joint stock company or a limited liability company, the Administrative Direction no. 2002/22, and the Administrative Instruction of the Ministry of Trade and Industry (MTI) no. 1/2003. The Registry of Business Organizations and Trade Names of Kosovo (NBR) were established by UNMIK and the Provisional Institutions of Self-Government (PISG) as an independent executive agency under the MTI. A private consulting company was hired by the WB to undertake the simplification of the process and to introduce the electronic filing. Adequate budget resources were allocated through the MTI – the law provides that fees have to cover the cost of maintaining the business Registry (financial sustainability). The head of the Registry was appointed by the Minister of Trade and Industry while staff (all local) were being recruited through competitive procedure. As of June 2004 (project completion), the NBR was fully operational and followed best practices in terms of a simple and transparent process:

- 1) There is a one-stop shop at the “federal” level, located in Pristine. The forms can be downloaded from the internet site which provides also number and sequence of procedures and their cost: http://www.arbk.org/en_default.asp (in Albanian, Serbian, and English).
- 2) Application: The forms and documents for each company need to be presented in person to the one-stop shop in Pristine. With the new WB project 2005 it is planned that Municipalities will be able to act as one-stop shops. The NBR will grant e-access to all Municipalities through a protected password after training the municipal staff in May/June 2005. Currently, Municipalities can only read information such as change of business name, address, type of business, founding capital etc. but they do not have access to enter data themselves.
- 3) Lawyer/Head of Registry checks application (only formal) and approves it if complete and in accordance with section 9 of UNMIK Administrative Direction no. 3003/22 – this is done the same day as application. Once the company is registered, all the information is publicly available on the website.
- 4) Certificate released – same day as application.
- 5) The Tax Administration, the Statistics Office, and UNMIK Customs office receive every week the information on new business registrations by the NBR (CD Rom format). These Authorities and other offices in Kosovo will soon be linked directly to the NBR through protected passwords.

For some businesses you need a license which has to be request from the Municipality. A new WB project aims at streamlining the licenses process as currently each Municipality has its own requirements to obtain a license.

Success Indicators:

As of September 2004, the total number of businesses registered at the NBR amounted to 43,372, compared with 54,400 at the PBR (the previously high number is due to UNMIK regulation on business provisional registration, where branches/business units of the same parent business required a separate registrations. In addition it is believed that many of these businesses were “paper enterprises” that never became operational, and others went out of business and never de-registered their enterprise). There are several discrepancies when comparing NBR data to Tax Administration data. An action plan involving nine inspectors is being implemented to reduce these discrepancies. Next steps according to the Head of the Registry would include online business registration and implementation of a full on-stop-shop system utilizing a unique business identification number, both of which would require new legislation governing e-signature and upgrading of the Tax Administration and Customs registration system. Today, it takes only 0.7 days for the registration of a new business.

5.3 Business Registration Reform Process in Turkey – Private Registry²⁰

This case study illustrates a reform that shifted authority over business registration from a government body to a private body and mandated the sharing of company information with relevant agencies.

Ex-ante: Prior to reforms, the process of establishing a company was cumbersome and problematic as analyzed by FIAS:

- 19 procedures, 2.5 months
- Few computerized registries (in main business centers), not online
- Many office visits because no exchange of information among registries, ministries and the public
- Sequential and interdependent procedures requiring excessive documentation

Foundations for Reform- Preparation/Drivers/Champion

- Preparation for acceptance into European Union
- FIAS study leads to decree on improving the investment climate
- Government forms committee (YOIKK) to design and oversee reforms
- Chair of sub-committee on company establishment (Undersecretary of the Ministry of Trade and Industry) champions business registration reforms

The reform process: Despite resistance, authority over registries was shifted and procedures simplified through intra-governmental public-private dialogue:

- YOIKK convened, bringing together president, ministers, businesses, and NGOs
- Over 25 meetings held to identify needs of all parties and eliminate procedures

Legal Reform

- In November 2003 “Law Amending Turkish Trade Law, Tax Procedure Law, Stamp Duty Law, Labor Law, and Social Insurance Law” was enacted
 - requiring registries to provide relevant data to tax, labor and social insurance authorities
 - eliminating requirement for notarizations and eliminated stamp taxes at regional registries

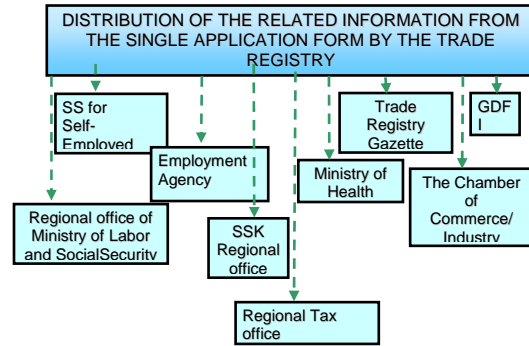
²⁰ Based on FIAS Administrative Barriers to Investment in Turkey, June 2001, and Ministry of Industry and Trade presentation for World Bank-OECD Workshop on Investment Climate by Dr. Yavuz Cabbar, June 2003.

Institutional Reform

- Delegation of authority over business registration was transferred from Ministry of Trade and Industry (MOTI) to the Trade Registry Office of the Chamber of Commerce
- MOTI was removed from registration process except for companies that must demonstrate compliance with special trade laws dictated by the Ministry
- Creation of YOIKK has provided an ongoing high-level mechanism for public-private dialog on business registration reforms

Operational Improvements/Tools

- Searchable online company registration database, accessible to the public
- **Single application form** from which information is distributed by post/courier
- **One-window** for registration with trade registry, tax, labor and insurance authorities
- Elimination of procedures deemed not necessary such as MOTI approvals and notarizations



Yavuz Cabbar, June 2003

Success indicators: Procedures, costs and time have been reduced, while the number of company registrations has increased²¹.

- 2 procedures, one day
- No minimum capital requirement

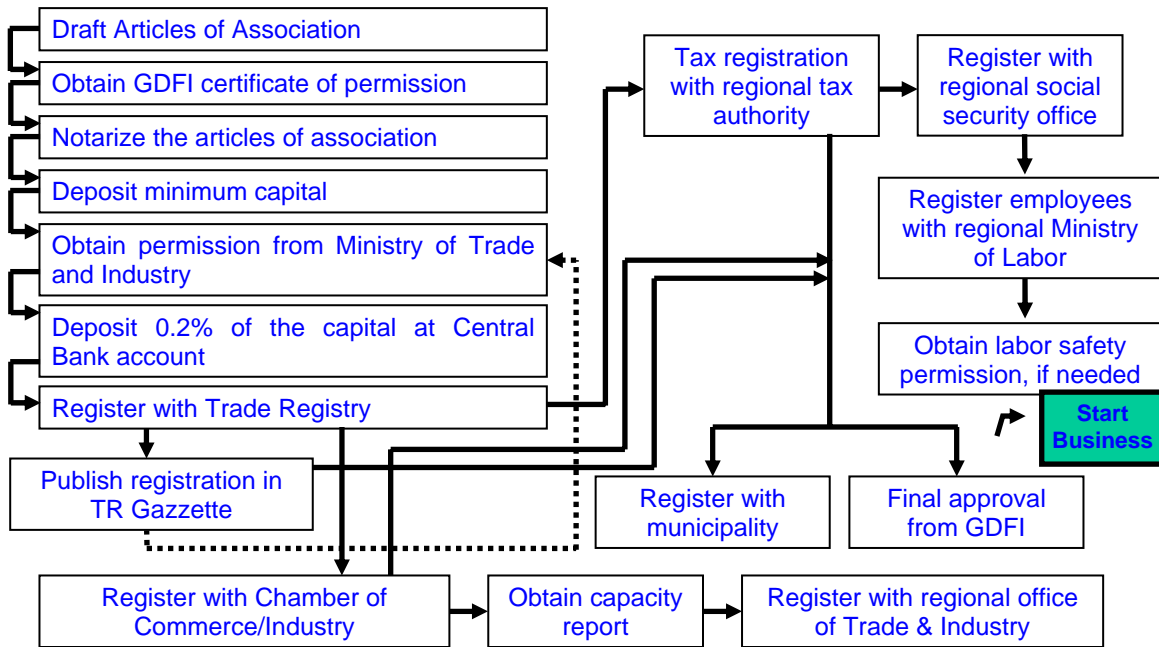
Ongoing reforms: Efficiencies will likely increase as further IT enhancements are made

- Automation of agencies will enable electronic transmittal of data among these agencies
- Trade Registration Gazette will soon be automated
- Application form will be available online when electronic signature regulation is enacted

Before... Process for Business Registration/Start-up in Turkey

The former procedure required companies to register separately with each agency.

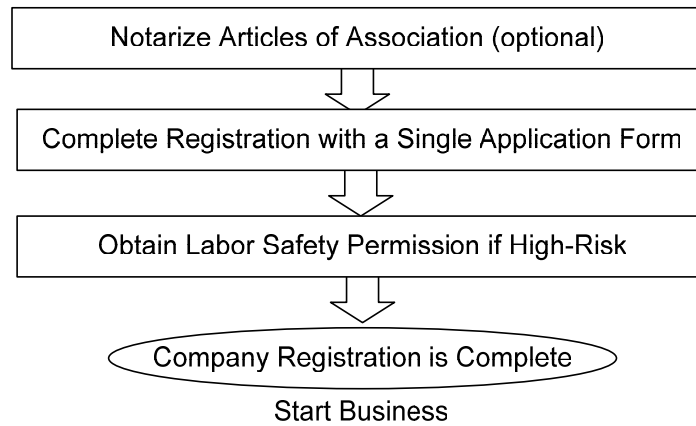
²¹ Ministry of Industry and Trade Undersecretary confirmed increase in registrations, though exact data is still being gathered.



Yavuz Cabbar, June 2003

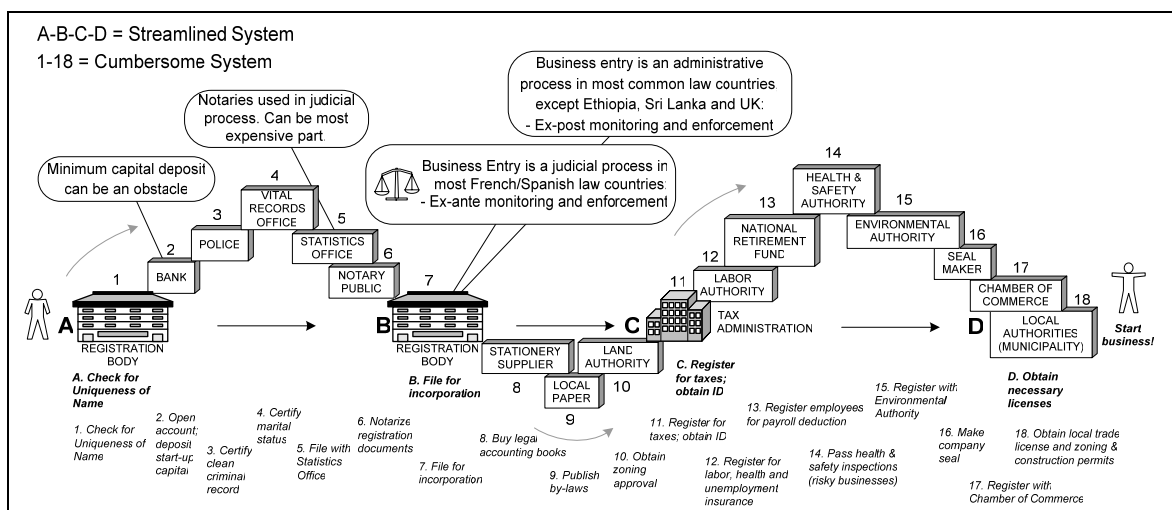
After... Reformed Process for Business Registration/Start-up in Turkey

The streamlined process allows companies to register only with the Trade Registry



6. What are the Necessary Elements of a “Good” Business Registration Process?

The flowchart below shows the universe of possible institutions and bodies and the most common procedures involved in the business registration/start-up mechanisms in both developed and developing countries.²² The flowchart is a reduced form of a complex start-up process that can entail even more institutions and procedures depending on the individual country and its particular requirements.



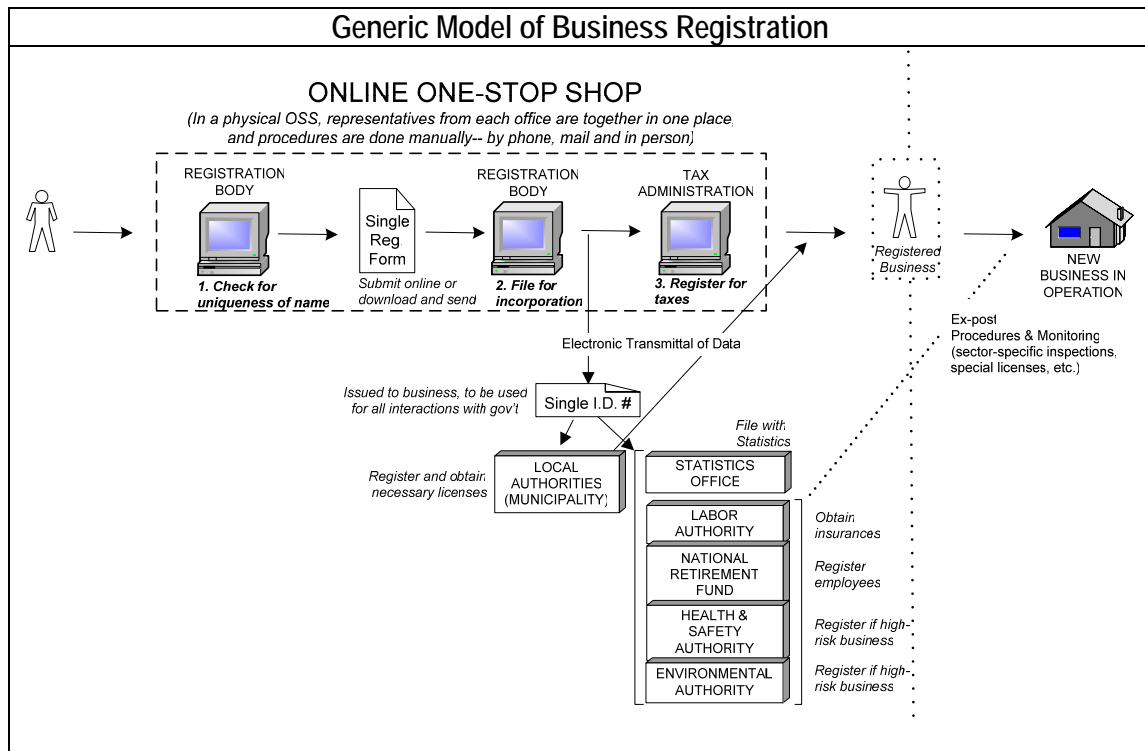
- In streamlined models among developed countries, the registration/start-up process takes less than 5 days, and in some cases only one. Registrants must:
 - interact with only one or two institutions, while one of them, the main registration body, automatically forwards necessary company information to the other relevant institutions
 - complete only 3 or 4 procedures all of which can be accomplished online or electronically (email or fax), in one or two days
- In the more cumbersome and inefficient systems, as depicted by 1-17 above, the business registration/start-up process can take over 3 months, and in some cases years. Registrants must:
 - personally visit up to 17 different offices
 - manually complete over 25 procedures
 - submit numerous forms containing duplicate information to different offices
 - perform many procedures sequentially, rather than in parallel

The main difference between these two systems is the ex-post verification (=administrative process and mostly associated with common law) vs. ex-ante verification (often judicial process and mostly associated with civil law) of information in which case we compare of course two different things.

In a model case, as depicted below, only 3 procedures must be completed sequentially which require no judicial process: 1) check for uniqueness of name, 2) file for incorporation, and 3) register for taxes. The tax administration will not recognize a business until it has been

²² Nathans Associates, Business Registration Toolkit, currently under preparation

incorporated. The registration body will not register a business name until it has been checked for uniqueness. The rest of the procedures can be done in parallel and independent of each other.



The ideal streamlined process as depicted above works as follows:

- Registrant checks the **online searchable database** containing all existing business names to ensure uniqueness. If the same name exists, a different name must be proposed. Registrant reserves a name.
- Registrant fills out and submits to the one-stop shop (online or via fax/mail) a **single registration form** which captures the entire data set needed by every government institution requiring company information.
- Registration body issues to the business a **single identification number** to be used for all interactions with the government henceforth.
- Registration body sends relevant data to each government body on behalf of the registrant. The **e-government network** is designed to protect confidential data from reaching publicly exposed databases (e.g. financial data required by the Tax Administration would not be routed to the Statistics Office).
- The registrant is made aware of his or her legal obligations as a business operator, such as purchasing worker's compensation insurance and unemployment insurance, and arranging for withdrawal from employees' paychecks for pension. Instructions are provided for how to fulfill necessary obligations. Owners sign, under penalties of perjury and as self-identified authorized authorities, the registration application, and thereby assume responsibility for conducting business according to the legal obligations set forth by the government.

- Health and Safety, and Environmental authorities are alerted of the new business' activities and can perform **ex-post monitoring and enforcement** at anytime in the future²³.
- If local authorities have partnered with the registration body, the one-stop shop will complete local registrations or at least provide necessary application forms to be submitted directly by the registrant. Otherwise, registrants are merely instructed by the OSS to ascertain what registrations and general approvals/license are necessary, if any, in order to start-up business.

The following aspects reduce costs and enhance the efficiency of the generic streamlined model:

- No or notional minimum capital requirement
- No notarizations required
- Silence is consent (e.g. if entrepreneurs have not heard from the government agency within a given number of days, approval is automatic and they may start their business operations or continue with subsequent procedures)
- Electronic signatures are legally endorsed

7. How to Improve and Simplify Business Registration²⁴?

The Doing Business Report 2006 data suggests that reform to reduce the number of procedures and the time to start a business would have the highest payoff. Simplified procedures will in particular benefit small businesses. In Canada, for example, a government survey found in 1994 that very small firms spend eight percent of revenues complying with government paperwork, while larger firms spend only two percent.

Governments that decide to simplify and streamline their business start-up procedures, typically find themselves going through a series of practical reform steps:

1) Examine the existing flow of processes and documents in the regulatory framework and trying to **eliminate the non-value added steps** which are sometime only in place to generate additional fees, starting with the ones that need no legal changes²⁵. Examples are the abolition of **company seals** or of **unnecessary diploma requirements** for certain categories of professions where there is no correlation with the quality of product/service provision. This was done for example in the Netherlands: Prior to 2001, it was obligatory to apply for a business license under the Establishment Law of 1996, for certain activities including retail-trade and services. In order to obtain a license, entrepreneurs needed to attend a 6-12 month course which gave them the relevant diploma. However, an evaluation of the Establishment Law informed the Government that there was no relationship between the qualifications held by entrepreneurs and the quality level of products and services.²⁶

²³ E.g. in the US State Utah, the Department of Environmental Quality will soon become a partner of the OneStop Online Business Registration (OSBR) system and receive automatically information on newly registered companies.

²⁴ A Business Registration Toolkit is under preparation for the WB/IFC which will offer detailed guidance on how to reform a business registration process.

²⁵ There is a clear statistical correlation between the complexity of start-up procedures and levels of corruption.

²⁶ European Commission Enterprise Directorate General, Benchmarking the Administration of Business Start-ups, January 2002

2) **Overlapping licenses and procedures can be merged.** In Vietnam, a company working in the field of extraction of stone for construction, had to obtain five different licenses before it could operate (certification of eligibility to operate in a special business sector, certification of fire and explosive safety, mining license, license to use explosives, certificate of eligibility to work with explosives). Furthermore, the different licenses had to be obtained from different offices with different fees²⁷. An improvement would be to merge licenses to cover broader areas and to be able to obtain them in one place.

3) **Simplify the forms** that need to be submitted by a company by using plain language to make regulations clearer and easier to understand for the layman.²⁸ Complex forms are often a source for mistakes leading to rejection of an application. For instance, in Canada, the Alberta Department of Agriculture revised a number of forms, cutting in half the error rate in the responses over a three year period²⁹. Also, forms need to be easily available to companies.

4) **Create a single access point for business** which is centrally located. In 1999, Italy introduced a one-stop shop (“Sportelli Unici”) issuing authorization for the following administrative services: location, establishment, restructuring, enlargement, winding-up, re-starting, transformation, execution of internal works, and relocation of production sites. The one-stop shops are hosted by each municipality and are the most comprehensive of that sort in Europe. Two years after the introduction of one-stop shops in terms of establishing a new company, this has resulted in a reduction of time from 22 to 6 weeks, from 21 to 12 procedures and from 7,700 euros to 3,516 euros. Cooperative agreements between municipal authorities and local chambers of commerce provide for setting up and running the front offices of the one-stop shops. Information technology, including internet, facilitates document exchange and review, and makes decision-making more transparent. The concept of one-stop shop was introduced within the framework of a wider government reform initiated by the Prodi Cabinet in Italy (Prime Minister’s Office, Department for the Civil Service). These wider reforms are shifting power away from central government to regions and local government, reducing the size of government, streamlining administrative decision-making processes, reviewing regulations of all sorts, and improving government’s internal management systems. Two aspects of the reforms are central: Limiting the number of government bodies participating in decisions, giving functions and tasks relating to industrial plants from central authorities to regions and city governments; and deregulating and simplifying administrative procedures involved, according to specific principles given to the Executive by the Parliament.

An important aspect when establishing a one-stop shop in a country where “unofficial” payments are the norm is the layout of such an office. It needs to be centrally located, in an open and transparent office without back-up offices to limit the opportunity for “bribes”.

What is a one-stop shop?

“One stop shop” is not a term with any widely agreed meaning and it is uncertain precisely when the term was first used. The term most likely has its origins in municipal government in the USA from the 1970s, who set up centers to improve some of the most common administrative services requested by citizens. Over time the aspirations for these centers has broadened to include the actual transaction of government formalities required for business start-up, incorporation and other regulatory compliance. In their origins, one stop shops were intended to be centers at which SMEs could find all the information they needed about government and business services in one place. However, no matter how effective their structure or

²⁷ Mekong Project Development Facility (MPDF), Doing Business under the New Enterprise Law, June 2001.

²⁸ Vern McKinley, Keeping it Simple, 1998

²⁹ Vern McKinley, Keeping it Simple, 1998

operation, no one stop shop can hope to answer all SME questions in only one location. Its problems and opportunities are too diverse, and its entrepreneurs too individualistic to satisfy within the walls of any institutions.

With regard to business registration start-up procedures, a one stop shop is considered to be any institution that unites government officials from different departments in one location (physical, or through the internet - electronic government) to provide improved information and/or services to its citizens. The opportunities and limits of one stop shops have been addressed in a paper prepared by the Foreign Investment Advisory Service (FIAS)³⁰.

Source: Business Start-Up & One-Stop Shops: Principles for Success from Ukraine and Abroad, Volodymyr Buryy, Zachary Morford, Paige Snider, Kyiv, August 2002, page 4.

5) Create electronic filing and make the registration information available to different government offices such as the tax administration, customs and statistical office. In addition, the information could be also shared with the municipalities/provinces/states in which the company intends to be active, thus avoiding the filing of separate registrations. This can be done in a first step via mail (as it was the case in Turkey) and can then be shared electronically once the interlinked computer systems are in place which might take more time. This allows having simultaneous registration procedures ongoing in parallel.

6) Introduce a “silence-is-consent” rule. This means that if entrepreneurs have not heard from the government agency within a given number of days, approval is automatic and they may start their business operations or continue with subsequent procedures. Portugal for example sets precise and binding time limits for all actions permitting authorities with the introduction of the unified legal framework for industrial plan establishment (called REAI).

7) Reduce the level of minimum paid-up share capital (or eliminate at all) as it can be an important barrier to the formation of a limited company. While there are different arguments for maintaining the minimum capital requirement such as protecting potential claims of investors and creditors, cross-country comparison reveal no correlative link between business failure and the level of minimum capital³¹. But this typically requires changes in the company legislation.

8) Introduce a single business registration form and a single identification number as in Canada³². However, this requires a good coordination between the different government agencies to agree on the required information sharing mechanisms. If not done voluntarily, this requires legal changes. It requires also an information technology solution that can generate and assign a single identification number.

9) Abolish direct court involvement. In a large number of countries, registration procedures are done directly by the court system by judges. This typically results in lengthy procedures, while tying up scarce resources. Therefore, increasingly countries opt for an administrative treatment of registration with dedicated administrative staff responsible for the registration process. This will require substantial legal changes.

³⁰ Do “One-Stops Shops” Work?, Frank Sader, FIAS, December 2002, http://rru.worldbank.org/documents/Do_One_Stop_Shops_Work.pdf

³¹ For the whole argumentation refer to final report of the European Commission Enterprise Directorate: “Benchmarking the Administration of Business Start-ups”, January 2002, Chapter 11.

³² For detailed information check <https://www.businessregistration-inscriptionentreprise.gc.ca/dchmf/brom/bro/faq-e.html#2>

10) **Make registration electronic.** Electronic submission of registration documentation and supporting documentation can be one of the most effective ways in saving time during the registration process. However, to be fully effective this requires an advanced computerized system in place and the use of digital signature which needs a legal basis³³. But there are also intermediary solutions: In Ireland e.g., the incorporation process can be done by transferring the data via floppy disk (can only be used when incorporating via a Company Formation Agency). It takes usually three days to incorporate a company and five days are guaranteed. While Ireland is preparing for on-line registration, the incentives for companies to choose the new solution seem limited: An individual first needs to apply for an identification card and to provide personal data to government agencies, at the same time the person can incorporate the company in three to five days³⁴. Also, as the Kosovo example showed, even without on-line registration the incorporation process can take less than one day.

The use of Information Technology (IT) in Business Registration:

IT plays a key role in making the business registration process faster, more transparent and cheaper for the end-user. In the best case it eliminates the opportunities for corruption and can serve as a tool for the Registry to detect bottlenecks in the process and further improve the system. IT solutions can be introduced and up-graded gradually or in parallel, after having analyzed the business registration process and simplified it. Some examples:

- Electronic search name, either to be performed by the Registry only or on-line for the public
- Company Registration Forms available on-line – electronic submission of forms by applicant
- Registry files applications/incorporations electronically
- Sharing of information with other government agencies (in particular with tax authority) and sub-national entities (e.g. municipalities that grant licenses), avoiding multiple visits for the applicant
- Electronic tracking of the application process for the applicant/entrepreneur
- On-line registration (this will usually have legal implications and is therefore more time consuming to introduce)

There are many specialized consulting companies worldwide that can help simplify the process and introduce IT as a tool to make registration more effective (from a government perspective) and more efficient (from a private sector perspective).

8. How to Best Provide Business Start up Services?

Some proposals are listed that have worked elsewhere:

1) It is important that staff involved in business registration is **properly trained** to deal in a competent, efficient and friendly manner with private sector representatives. In Indonesia, for instance, the local Government of Sragen in Central Java introduced a one-stop shop. The office manager emphasized accountability by introducing the use of a tracking time sheet to find out who was processing a specific document at each stage and how long the person took to process it. The result was a faster turnover of documents³⁵. It might be equally important to set performance targets and to award staff that achieves them. But this requires more flexibility in the salary structure (see next point).

³³ A number of countries, especially in Europe, introduced electronic signature legislation in recent years. For the case of Ireland see

http://www.cro.ie/template_generic.asp?ID=14&Level1=4&Level2=1&Level3=0&Level4=0&Level5=0.

³⁴ Interview with Enterprise Registry Solution, May 2005.

³⁵ Asian Development Bank, Technical Assistance to the Republic of Indonesia for preparing the provincial small and medium industrial sector development program, December 2003

2) This might involve an **adjustment in salary in order to recruit professional staff**. In the case of Pakistan the establishment of the Securities and Exchange Commission (SECP) was established as an autonomous and independent regulatory body. SECP recruited professionally qualified staff from the market, paying them market-based salaries that upgraded the capacity and efficiency of the institutions³⁶.

3) **Rotation of staff**: Corruption is in many countries a real problem and by rotating regularly staff that interacts with the private sector to set a new business, the opportunity for bribes is being reduced.

4) **Fees**: In best practice cases, the registration fees will be limited to the cost of maintaining the register (e.g. Ireland, Bosnia and Herzegovina³⁷). Furthermore, in the case of the local government of Sragen/Indonesia the Mayor promotes free licensing for young entrepreneur or new businesses. Since put in place, demand for business licensing has increased³⁸. Another incentive for first time business is to link them to local business development services.

5) Establish a **transparent communication** policy by the Government, talking also into account feedback by the private sector, through e.g. establishment of a complaint office³⁹. This, among others, will allow for regularly reviewing and improving the regulations. Changes of laws/regulations should be widely published (through the internet or other means) to the private sector, as well as the current legal basis with required procedures/fees/time for business registration. Finally, there is a strong rationale for publishing information on registered companies. Making the information public supports a fair and efficient marketplace. The private sector and public has an interest in knowing who the directors of a corporation are and where a company's registered office is located. Investor's may want to know the articles of a corporation especially if they include share transfer or voting restrictions.

9. Evaluation

In order to measure success, one should monitor the following data: time, cost and steps to establish a business, as well as number of business registration prior and after reforms - additional interesting information would be to have this number sex disaggregated. In Canada, the Advisory Committee on Paperwork Burden Reduction was established in 2004. The success of reducing paperwork burden for small business will be measured with a survey, designed to provide a baseline measurement of regulatory burden by firm size, including on business registration. The survey will be repeated every three years in order to track government's progress in reducing the cost of compliance over time. Other indicators could be percentage of rejection of registration, number of terminated business (often referred to a "paper enterprises") and number of failed business in one given year. At the end of the day, governments should be interested to know if business registration reforms lead to more and better jobs.

³⁶ See footnote 5.

³⁷ <http://rru.worldbank.org/Themes/PromotingReform/Communications/BiHNameAndShame/Brochure.pdf>

³⁸ See PENZA (IFC Program for Eastern Indonesia SME Assistance), Making One Stop Shop (OSS) Work! July 2004.

³⁹ See previous footnote.

10. Conclusion

There is not necessarily a “one-size-fits-all” approach for registration process, as improvements depend on the legal system in place, as well as on human, technical and financial capacities. The first task should be to examine the existing flow of processes and documents in the regulatory framework and to eliminate the non-value added steps. Good practice examples show that only a minimum of information is required for the registration such as the address of the company, a description of the company and its activities, including its start-up capital, and the company’s ownership structure. The founders or authorized representative of the company must submit this information, and will be held accountable for its accuracy. This avoids ex-ante verification including inspections before the registration takes place. For this, a team of lawyers and economists, possibly IT specialists is required. The computerization of the business registration can be key in automating and streamlining the registration process and thus cutting time. It will also allow the sharing of information between the various government authorities. Furthermore, to improve the registration system, you need political leadership, and a genuinely committed partner (e.g. IT consulting company) for implementing the technical requirements. Sometimes, countries prefer to look at the experience of their neighbors, while in other countries it is easier to induce reforms by bringing external advice to the country. Finally, many OECD countries have established specialized mechanisms for overseeing reform activities across the government. These seem most effective when responsibility for regulatory reform is at ministerial level or higher, if they are independent from the regulators, and if they are able to initiate reforms (e.g. the minister-level Economic Deregulation Board in Mexico). In order to gain political support and sustain reforms advocacy efforts are needed by the private sector and/or donor partners.

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