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STAKEHOLDER MANAGEMENT IN BUSINESS REGISTRATION REFORMS

LESSONS FROM 10 COUNTRIES




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June 2009

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Foreword

This project aimed to contribute to the menu of tools available to policymakers and their advisers a practical set of approaches and strategies for managing stakeholder outcomes to accelerate and sustain business registration reforms. The project, which augments ongoing work by the World Bank Group's Investment Climate Department on the Business Registration Toolkit, was conceived and developed by Catherine Masinde (Foreign Investment Advisory Service, Africa). The report was researched and written by Scott Jacobs of Jacobs and Associates, and Catherine Masinde co-authored the report.[1]

Why business registration? Rather than rehearse generic ground covered in the literature on stakeholder management, the project aimed to focus on business registration as it offered a conducive environment in which to explore these issues for many reasons, key of which was the ongoing work in the Small and Medium Enterprises (SME) department on a business registration technical toolkit subsequently published. In addition, business registration: (1) was viewed as a mature area of business enabling environment work, with developed approaches and indicators; (2) reform had been applied in different countries over the past decade with varying degrees of success, and therefore offered a good opportunity for a variety of case studies; (3) is often seen as an important barometer for ease of doing business in any country; and (4) lends itself to cross-country benchmarking and different levels of analysis on the key issues of concern in the reform process—that is, project design, stakeholder management, involvement of multiple levels of administration, e-government, and so on. More importantly, however, the project team saw this as an area where generic lessons could be extrapolated across different areas of reform.

Stakeholder management and the reform process. This project identified the key categories of stakeholders, their interests, and their positions with particular reference to the business registration reform process.

i) **Identifying potential opponents and supporters of business registration reform.** The key potential opponents to the business registration reform process typically include: the business registration administration, including registrars and related agencies; local governments; lawyers; the judiciary; and notaries. The strongest potential supporters typically include: informal businesses (including their business associations) who are informal because of the cumbersome, lengthy, expensive procedures; some political players who see an opportunity to influence a particular constituency; and the general public.

ii) **Identifying appropriate possible mobilizing and neutralizing tactics for each category of stakeholders.** The key tactics, some used overtly while others are applied covertly, include: (1) persuasion, including various forms of communication strategies and public campaigns, challenging and refuting the most typical arguments from strategic stakeholders (for example, "why do you need a single identification number for businesses?"); (2) public pressure, naming and shaming, and public embarrassment of policymakers, which may include public campaigns; (3) vote in the parliament; (4) financial compensation for specific categories of opponents—for example, in the case of public officials, increase in salaries, voluntary retirement schemes, displacement into other government units; (5) in the case of local governments, additional fiscal transfers from the center; and (6) various private sector

1 Jacobs and Associates is an international consulting firm specializing in regulatory reform.

mobilization tactics (such as informal sector associations). These tactics were reviewed to explore the extent to which they neutralize opposition or support proponents of reform, and to what extent they determine the outcome of the reform process.

Selecting case studies: This analysis was based on 10 carefully selected case studies of successful reformers covering different country environments where business registration reforms had been implemented in the recent past—that is, level of development, legal origin, openness of political system, and level of government decentralization with respect to business registration. The program technical advisory team, including Vincent Palmade, Andrei Mikhnev and Sylvia Solf—to whom the project team is grateful—advised on potential candidates, which included Australia, Bulgaria, Chile, Denmark, France, Italy, Jordan, Latvia, Mexico, Pakistan, Serbia, Slovakia, Tanzania, Tunisia, Turkey, and Vietnam. As expected, the question arose of whether the review should work only with positive case studies, that is, successful reformers. To avoid missing potentially important lessons from failed reforms, the consultants were required to develop a considered decision matrix that provided the maximum learning opportunity for the project. (See **Annex 1**).

Case study framework: The case studies were prepared in line with a common framework, outlining the dynamics of potential supporters and opponents of business registration reform, and various known techniques used to mobilize and/or neutralize such opponents. This framework was reviewed internally by the technical advisory team. This framework helped the case reviewers focus on common issues of importance to the synthesis report.

Fieldwork and case study preparation: The case materials were then assembled by Jacobs and Associates and a team of consultants as follows: **Bulgaria:** Ralista Petrova and Nikolay Yanev; **France:** Marianne Villaret and Cesar Cordova; **Indonesia:** Andin Hadiyanto; **Serbia:** Andreja Marusic; **Turkey:** Abdulrahman Ilhan; **Mexico:** Jorge Velazquez Roa; **Tanzania:** Bede Lyimo (BRU Tanzania); **Ukraine:** Andrey Astrakhan and Alexander Shabalkov; **Vietnam:** Nguyen Dinh Cung (Ministry of Planning Vietnam, CIEM); and **Jordan:** Shereen Al Abbadi and Riwa Saied. Clearly, many of these contributors, including Scott Jacobs and Associates, were either involved in, or directly implemented the reforms documented. To ensure objective reporting of the case material, a common case study framework was used in addition to subsequent peer reviews by World Bank Group peers working in the country at the time of the reform. Several iterations of reviews from this process have resulted in what the team believes is a factual presentation of the cases.

Case study peer review: To ensure accuracy and integrity of the case materials, the case studies were then reviewed by World Bank Group people who were involved in, or associated with the reforms, for which the project team is grateful. This process, although lengthy, provided extremely useful feedback for revision of the case studies. These included: **Bulgaria:** Sylvia Solf (Doing Business – GIADB), Marialissa Motta (FIAS, DB Reform Unit – CICRA), Irina Astrakhan (ECA – ECSPF), Dobromir Christow (FIAS Regulatory Simplification – CICRS); **Indonesia:** Hans Shrader (PENSA Jakharta – CEAIJ), Greg Elms (PENSA Jakharta – CEAIJ); **Jordan:** Frank Sader (FIAS/BEE MENA – CMEPB); **Serbia:** Margo Thomas (FIAS Regulatory Simplification – CICRS), Itzak Goldberg (ECA – ECSPF); **Mexico:** Mierta Capaul (FIAS DBRU – CICRA), Luke Haggarty (LAC – CLALA), Edward Dohm (LAC – CLALA); **Tanzania:** Michael Wong (SASFP), Andrei Mikhnev (IFC BEE – CICBE); **Vietnam:** Quynh Trang Nguyen (MPDF – CEAMH), Lan Van Nguyen (MPDF – CEAMH); **Ukraine:** Florentin Blanc

(Trust Funds Ukraine – CEUTU) and Andrei Mikhnev (IFC BEE – CICBE). Reviews were not received for France and Turkey.

Brown-bag lunch review: The project output was reviewed at a lunch meeting organized by the Business Enabling Environment department, at which Colleen Gorove (EXTCD) provided valuable expert comments on the report. The project team is also grateful to Elvira Santayana and Osongo Lenga for the organization of this meeting.

Publication: Patricia Steele and John Wille provided inputs in preparing the case studies and synthesis report for publication. Vandana Mathur edited the report and case studies.

Overall quality control was provided by Vincent Palmade (AFTFP), Sunita Kikeri (IFC Corporate Governance – GCMCG), and Andrei Mikhnev (IFC BEE – CICBE), for which the project team is grateful.

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Acronyms/Abbreviations

CFE	Centre de Formalités des Enterprises (France)
CIEM	Central Institute for Economic Management (Vietnam)
CLRP	Commercial Law Reform Program (Bulgaria)
COFEMER	Federal Improvement Regulatory Reform Commission (Mexico)
EU	European Union
FIAS	Foreign Investment Advisory Service
IFC	International Finance Corporation
IT	Information Technology
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OSS	One-stop-shops
PPD	Public-private dialogue
SARE	Sistema de Apertura Rápida de Empresas (Mexico)
SCRPE	The State Committee of Ukraine for Entrepreneurship Development
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprises
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

As business environment reforms expand into new areas of public policy, the intense conflicts inherent in reform are better recognized. Many groups vie for advantage, and reformers battle against resistance from many sources, ranging from skepticism over new ideas to determined efforts to protect streams of income. Successful reformers are becoming more capable of dealing with these conflicts to achieve their goals. Yet many business environment reforms ultimately fail due to active and passive resistance from stakeholders. To improve results, reformers are seeking strategies to build winning coalitions among allies, and reduce the influence of groups resisting change.

Using case studies from 10 countries, this report examines how diverse interests (classified into groups called "stakeholders") participated in reforms aimed at reducing the costs, delays, and corruption associated with the business registration functions of government. The analysis identifies how reformers can purposefully "manage" stakeholders to expand and sustain the capacity for change within the political economy.

What is Stakeholder Management?

Stakeholder management is a dynamic interaction in which stakeholders compete for policy results. Reformers use the reform process to create new forms of competition among stakeholders. The process becomes a catalyst to empower groups who would benefit from reform to compete more forcefully for their own interests. Stakeholder participation is determined by three factors: *incentives driven by perceptions of benefits and costs*, *opportunities for influence,* and *capacities for participation.*

Stakeholder management is the set of strategies used to change incentives, opportunities, and capacities of the competing interests who can influence the outcome of a reform process to

build a winning coalition through the course of a reform. In this positive view of change, stakeholder participation is endogenous to reform, rather than an exogenous constraint.

Who are the Stakeholders?

Stakeholders in these reforms fell into six categories:

1. Political elites: Prime Ministers, Ministers, and Parliaments
2. Public administration: civil servants
3. Regulated professionals: mostly notaries and lawyers
4. Private sector: a wide range of private interests
5. Civil society: non-governmental organizations (NGOs) such as anti-corruption groups, and the independent media
6. International interests: donors, international institutions, and trade negotiators

No group of stakeholders held monolithic views of reform. Each category of active stakeholders contained subgroups actively for and against the reform. This complex picture of stakeholders is positive for reformers, because it illustrates the wide range of possible coalitions and common interests that can be influenced as part of the stakeholder management strategy. Competition for policy outcomes occurred among ministers, business interests, and even donors.

Linking the Design and Results of the Reforms

The goals and content of the reforms are remarkably similar among the 10 countries, a testament to an emerging consensus around the *Doing Business* view of good business registration. All 10 countries focused on reducing the cost, time, corruption, and discretion of business registration and licenses. Results ranged from 95 percent reduction in time and cost to a 0.3 percent increase in one country (due to the high cost of the information technology (IT) solutions passed on to registering businesses).

However, key aspects of the reforms differed:

- Some countries chose narrow reforms to registration processes, while others chose broader reforms to business licenses. Limiting the scope speeded reform by an average of two years. However, broader reforms won better results in lower costs and time. The question of whether a broader scope and larger benefits justify delays in the reform is a strategic call for each reform. But the move from narrow to broad reforms is probably unavoidable. Countries that started with narrow registry reforms moved to broader reforms when unreformed licensing activities threatened to undermine or reverse the benefits of registry reform.

- Six out of 10 countries created wholly new registration institutions to implement the new system, while others improved the efficiency of existing systems. Countries that improved existing institutions had an average 60 percent reduction in costs and time, while countries that created new institutions reduced costs and time by 76 percent. This is logical, since the scope for re-engineering is greater when creating new institutions.

- Results were not significantly different between the countries that chose centralized solutions (registration controlled by a single national institution) and those that chose decentralized solutions (multiple registries at different levels of government).

- Nine out of 10 countries put IT solutions at the heart of their reforms. There is little sign that the use of IT strategies changed stakeholder dynamics, with one exception: IT solutions seemed to generate conflict over control of donor-provided IT financing.

Stakeholders and the Dynamics of Reform

Stakeholders change over the reform path, and so must management strategies. To chart this dynamism, the analysis deconstructs the reform progress into five stages:

1. **Idea Formulation and Reform Organization.** In all 10 countries, information from outside the country in the form of reports, indicators, donor advice, and study tours was a critical input that changed how stakeholders viewed the benefits and costs of current practices. This information also empowered them to compete with prevailing ideas and incentives. In the most successful countries, political leaders assigned responsibility for the reform to a reform-minded body independent of existing registration activities. This body was thus able to take a longer-term and more radical view of reform.

2. **Solution Design.** When reform began in the 10 countries, there was no consensus or clear idea on the best solution. The solution design phase was the most structured of the five reform phases. Stakeholders were carefully brought into the process through a controlled strategy of information disclosure, participation, and consultation. The guiding principle for designing stakeholder involvement was practicality and control by reformers.

3. **Broadening and Marketing of Reform Ideas.** The keys to success are getting the message right, targeting the right stakeholders, and choosing the right medium for communication. Stakeholders introduced to the reform in this stage are user groups and the general public. Business associations are targeted in this phase, since a rising tide of business interest and advocacy is a powerful force sustaining reform. Stakeholders were reached through structured communication, such as media campaigns and release of information on the need for and benefits of reform.

4. **Political Acceptance and Adoption.** At some stage, the technocrat must enter the political process to gain ministerial and/or parliamentary approval for the reform. In the countries where the political system was carefully prepared by reformers, this phase went smoothly. But in most countries there was a heightened risk because opponents attempted to use access to the political sphere to block reform. Early commitment of political leadership to the reform seems to be correlated with results. Countries that had very early commitments from powerful political leaders had better results. Credible political backing intimidates potential opponents, allowing reformers to go further with reform solutions.

5. **Implementation.** The most risky phase was implementation, where stakeholders either opposed to reform or passive about it were sometimes able to control the reform, and delay, undermine, or reverse the benefits.

Identifying the stakeholders and understanding their incentives are important in stakeholder management, as *public choice* theory states. But the dynamics of reform did not always conform to public choice theories of regulation:

- In only four of the 10 countries studied did the private sector take an important role in advocating for reform at early stages. Even when the private sector had strong *incentives* to support reform, its *opportunities* and *capacities* for participating were often weak.

- In nine of the 10 countries, individuals in the public sector itself were the leaders and main advocates of reform at the early stages.

- However, in every country, important private sector interests became supportive of the reform as it proceeded. By the implementation phase of the reform, private sector interests were strongly supportive in most countries.

- Donor pressures, such as program conditions, were important in a few cases where inertia was high or specific political bottlenecks had to be overcome.

Conclusions: Build Allies Progressively over Time

This analysis demonstrates how policy competition for reform can be positively influenced by strategies of stakeholder management. The tools of stakeholder management are those that promote, for stakeholders who will benefit from change, easier entry and stronger position in the "market" for public policy. In the most successful countries, the stakeholder management strategy is based on the principle of accelerating momentum. This involves a small reform group building relationships with different allies over the reform cycle to change incentives, opportunities, and capacities, progressively bringing in wider groups of stakeholders until a winning coalition is created.

None of the 10 countries studied began with a broad strategy of consensus-building among all stakeholders. Rather, the pattern of successful reformers is to build relationships with stakeholders in successive phases. Strategic choices were made about the timing and nature of the approach to stakeholders, and broad consultation occurred during the mid-point of the reform, if at all.

The risk of failure changes as the reform progresses. The launch of the reform is low-risk because stakeholder involvement is small and tightly controlled. But as the reform progresses, more stakeholders become involved, and by the implementation phase, the original reformers lose much influence. This high-risk implementation phase is where several countries lost most of the benefits of reform. Continued stakeholder management through implementation is key to success.

Recommendations

The report provides seven principal and many detailed recommendations for managing stakeholder relations to improve results.

Successful countries increase:

- *incentives,* by changing perceptions of the benefits and costs of reform; by very selective tactics of financing and reform design; and by using organized reform interests to increase pressures on passive stakeholders. International comparisons and information were effective in all 10 countries in favorably changing perceptions;

- *opportunities,* by creating new, highly structured means for stakeholders to participate in the reform process. The methods of participation change through the reform process, depending on the goals and institutions involved; and

- *capacities,* by building analytical skills in the reform units and organization among previously disorganized interests whose incentives are pro-reform.

Recommendations are presented on successful strategies of stakeholder management in each of the five phases of reform. Each phase requires a different form of engagement with stakeholders – information, access, influence, and organization – because the conditions for entry into the policy market are different in each phase.

The principal recommendations are:

1. **Manage stakeholders by selectively and progressively building pro-reform coalitions. Consensus is not the right principle for stakeholder management.**

Most countries used the initial phases of the reform to build information and selectively build pro-reform coalitions, before moving into

broader information dissemination. In the best examples, strategic expansion of successive layers of supportive stakeholders created a momentum of reform that became self-sustaining. Creating a consensus for change is unrealistic, particularly during the early stages. Successful reformers move in deliberate phases to generate more allies until a critical mass is reached.

2. Structure direct participation of key stakeholders to produce concrete, practical opportunities for dialogue.

Rather than mass communications emanating from a distant reformer, successful reformers organize a wide variety of concrete opportunities where key stakeholders can sit down in smaller groups for more organized and practical dialogue.

3. Generate and communicate factual and credible information about the costs of the status quo and the benefits of reform.

Information about the benefits and costs of change is the most powerful weapon for reformers seeking to build coalitions for change. Supporters were energized mostly by precise, credible information explaining the new system, the rationale for change, and the experiences of other countries by comparative indicators such as the *Doing Business* indicators. Before a reform is marketed beyond a small group of reformers, it is important to develop a clear solution that people can easily understand to mobilize supporters and reduce unwarranted fears of change.

4. Create new institutions with incentives to perform for clients, rather than re-engineering existing institutions.

Creating new institutions to register businesses effectively prevents capture of the reform in the implementation phase, particularly when administrative cultures and incentives are strongly against achieving the purposes of the reform.

5. Help supportive stakeholders become more effective in advocating change.

Policy analysis capacities were built in reform units and key ally groups to produce the information needed to drive the reform. Reform units became more effective as they built capacities to collect and analyze information, and to communicate information to others.

6. Move as quickly as possible, balancing the costs and benefits of expanding stakeholder participation in each phase.

The paradox inherent in the strategy is that, while stakeholder management takes time, delay is the enemy of reform. The primary power of opponents of reform is to delay change, not block it outright. Long delay undermines reformers and exhausts allies. Successful reformers sidestep and move past resistance by building coalitions for change.

7. Change the reform scope, speed, content and compensation as needed to assemble a winning coalition.

Right-sizing the reform is a key early decision. How much should reformers take on, given the likely resistance and the time needed to deliver good results? Another determinant of successful reform is the skill of reformers in knowing when and how to accommodate concerns, without sacrificing too many benefits. None of the countries explicitly paid financial compensation for losses due to the reform. But indirect forms of compensation softened opposition.

I. PURPOSE, METHOD, AND SCOPE OF THE REPORT

Market-oriented reforms are accelerating today in parts of domestic policy previously untouched by liberalization. Reform is reaching into a wide range of regulations, formalities, and associated procedures that have long been controlled by small groups that have exploited fragmented governmental structures. Failures of accountability have created and sustained professional and information monopolies, or have used a myriad of other strategies to generate private benefits from public functions.

> This report explores how reformers can "manage" stakeholders through strategies to expand and sustain the capacity for change in the political economy.

As market reform expands into new areas, the intense conflicts inherent in the reform process are better recognized. Successful reformers are becoming more capable of managing conflict to achieve their goals. Ideals and bland recommendations about achieving social consensus on reform are giving way to more realistic questions about how reformers can manage conflicting interests to reduce the likelihood that reform will be blocked. In particular, how can reformers unleash reform energies among allies, and reduce the influence of groups resisting change? How can "the paralyzing dynamics of interest-group politics"[2] become the "enabling dynamics of interest group politics?" This report was written as a guide for reformers in governments and donor institutions who wish to reduce the risks of enabling environment reforms through more strategic and precise stakeholder management.

The role of stakeholders in the economic policy of reform has become of greater interest in the past few years. This is largely because so many reforms to the business-enabling environment have produced disappointing results, stimulating demands to do better and increasing research into the causes of reform failures. Yet questions about interest group dynamics are nothing new. The practical aspects of these questions are quite

2 Scott Jacobs and Jacqueline Coolidge (2006) *Reducing Administrative Barriers to Investment,* Foreign Investment Advisory Service, Washington, D.C., p. 18.

familiar inside governments, where the day-to-day clash of interests is managed by skillful officials and politicians. The political economy of reform has been at the core of theories of regulation for at least half a century of development of research on public choice.[3] Comparative economic research in the past 10 years has increasingly focused on the political economy of a reform to explain differences in reforms between countries. Indeed, the political economy of reform has often become the exogenous "X" factor to which is attributed any unexplained variance in multi-country, multi-factor regression analysis.

What is new, however, is the treatment of interest group dynamics not as an X factor or even a constraint around which reform is designed and limited, but instead as a factor to be influenced by the reform itself. That is, interest group dynamics are becoming *endogenous* rather than *exogenous* to reform strategies. This change enormously expands the potential space for reform.

I.A. Purpose of this Report

This report focuses on one aspect of the political economy of reform. Using case studies from 10 countries, it examines how various interests (classified into groups called "stakeholders") participated in reform of the business registration functions of government. Such participation was not by chance, but was often initiated or influenced by specific actions taken by reformers. The analysis attempts to identify patterns of such actions and stakeholder responses to determine how reformers can purposefully "manage" stakeholders through various strategies to expand and sustain the capacity for change within the political economy. It then attempts to draw generalized conclusions from these cases that might be useful to reformers managing stakeholder interests in other reforms and countries.

3 Elaborated further through Neo-Institutional Economics.

I.B. Scope of the Report

The report is based on reforms affecting a particular government function (business registration) in a selected group of 10 countries. It is further informed by work published by others in this field.

Business registration has become a popular subject of reform due in large part to the work of Hernando de Soto on the informal economy in Peru[4] and the influence of the *Doing Business* indicators published since 2002 by the IFC. However, reform of business registration and other licensing processes has been underway in OECD countries since the early 1990s. These reforms were implemented due to recognition that such procedures can create barriers to entry that reduce entry into markets and movement into other markets, and hence inhibit economy-wide investment, competition, productivity gains, and innovation. Business registration reform has become a truly global phenomenon.

Business registration reform has another aspect that is important to this report: It is a small and fairly simple reform affecting a clearly defined set of interests, and hence the stakeholder incentives should be more clearly defined and managed.

A critical task in this report was the selection of cases to study. Using the criteria described in **Annex 1**, a group of potential cases was identified and narrowed down to the set of 10 case studies, distributed across regions and phases of development, that were selected for this report. The 10 cases are identified in **Table 1**. For each country, a case study was prepared using a standardized structure to assess the context of the reform, identify stakeholders, identify how stakeholder participation changed over the course of the reform, and identify actions taken by reformers that influenced stakeholder participation.

4 De Soto, Hernando (1989) *The Other Path: The Invisible Revolution in the Third World,* (HarperCollins), New York.

TABLE 1

Case Studies of Stakeholder Management in Business Registration

	Europe and Eastern Europe	Former Soviet Union	Middle East	Latin America	Africa	Asia
OECD	France		Turkey	Mexico		
Emerging markets	Bulgaria		Jordan			
Lower-tier	Serbia	Ukraine			Tanzania	Indonesia Vietnam

I.C. Methods used in this Report

This report analyzes stakeholder management as a dynamic interaction in which stakeholder involvement and reform management strategies change over the course of the reform process. To understand this changing strategy, it is useful to deconstruct the reform process into specific phases that can be compared across 10 case studies. The patterns of reform shown in the case studies suggest that the typical reform process for business registration is divided into five overlapping phases, as shown in **Figure 1**.

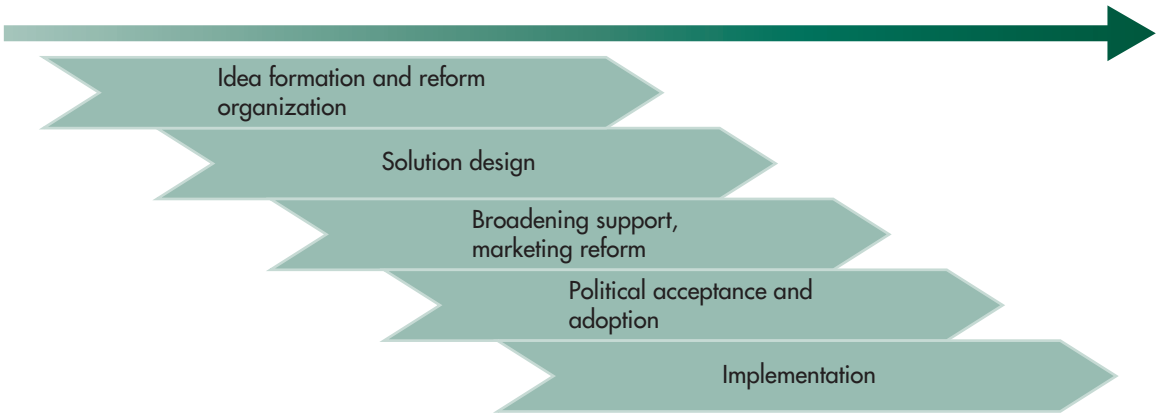
After identifying the stakeholders and incentives in each country, the analysis maps the stakeholder management strategies over the five phases of the reform to provide a dynamic view.

This detailed mapping of the 10 cases permits us to be more precise about what happens at each phase of the reform with respect to managing stakeholders. These phases can be described as follows:

1. **Idea formation and reform organization.** In this phase, the concepts of reform and better results are introduced into the country through some mechanism. The idea formation phase is mostly driven by new information or by changes in the external context affecting business registration. A core of reformers accepts change. Reformers energized by ideas begin to organize themselves in ways that permit them to challenge the existing system and to expand the circle of allies. Ideas empower organizations.

FIGURE 1

Five Phases of Business Registration Reform



2. **Solution design.** In this phase, the reformers develop concrete proposals for change, based on analysis of the existing system and a more systematic assessment of options and experiences in other countries. Often, the solution design phase involves a broader group of stakeholders as expertise and influence are increasingly brought into the reform. This phase is important to building ownership in key stakeholders. Critical decisions are made here about the scope and nature of the reform.

3. **Broadening and marketing of reform ideas.** In this phase, the reform proposals are introduced into a broader arena involving other stakeholders, the public through the media, or political interests. This phase is usually intended to improve the context for political adoption of the reform by overcoming the monopoly on information by the existing system and by marketing a positive vision of the reform and its benefits.

4. **Political acceptance and adoption.** In this phase, the reform is brought to the political level for consideration and adoption. The product of the political adoption in most countries is, first, adoption of the reform mandate or principles, and, later, adoption of new instruments, such as a law. This phase requires a period of interaction with a broader group of political actors, and often provides opportunities for those against the reform to intervene through lengthy and complex political and legislative procedures.

5. **Implementation.** Once formally adopted, the final phase is implementing reform. This is a risky phase since attention to reform and stakeholder management usually weakens. If the reform does not create new institutions, implementation brings reform full circle back into the control of those who implement the existing system, where reformers have the least capacity for influence. Even where new institutions are created, other interests can undermine and reverse the benefits of the reform.

> The analysis in this report is organized by the five phases of the reform to approximate the changing character of the reform process over time.

The analysis in this report is organized by these five phases of the reform to approximate the changing character of the reform process over time. The attempt to show changing patterns of stakeholder involvement in different phases of the reform is, in fact, a particular contribution of this report.

As shown in Figure 1, these phases are not necessarily sequential, and in most cases they should not be. It is desirable to approach the political level at an early phase in some countries (such as when a powerful Minister champions the reform from the beginning, as in Jordan and France, or a new reform-minded Prime Minister takes power, as in Vietnam), or to overlap some phases, such as the marketing of reform with solution design. The relevant point about these phases for stakeholder management is that each phase requires the involvement of a different mix of stakeholders and different stakeholder management strategies. In Section V, this report identifies the actions taken to successfully manage stakeholders in each of the five phases of the reform.

II. CHANGING CONCEPTS OF STAKEHOLDER MANAGEMENT

This report focuses on stakeholder involvement in reforms as a *dynamic learning process* by centering the analysis on the five phases of reform. It seeks to clarify the evolving flow of stakeholder involvement through a dynamic and proactive reform process, rather than focusing on a static coalition at a point in time, such as the launch of the reform.[5]

Much has been written about the role of stakeholders in reform, and many reports have reached some variation of the recommendation to "engage stakeholders constructively" in reform. Most of this literature, rooted solidly in public choice theories of public policy, focuses on stakeholders as inherent *constraints* to reform, that is, as self-interested special interests that enlightened reformers must seek to overcome in the larger public interest which the public is not organized to protect. Regulation from this perspective becomes simply an instrument to create rents.

For example, the 2005 *World Development Report*[6] represents the mainstream when it warns that:

> *Investment climate policies are an enticing target for rent-seeking by firms, officials, and other interest groups.*

But it is increasingly recognized that interest groups can also profit from reforms, that is, that reform does not have to be driven by selfless public interest, but can be effectively supported by self-interest in change. Douglass North has written that reform actually comes from special interest attempts to capture rents: "Entrepreneurs enact policies to improve their competitive positions, resulting in alterations of the institutional matrix."[7] This more interesting view provides new opportunities for reformers to not only overcome self-interest, but to exploit

5 This approach is similar to the model explained in World Bank PremNotes (2004) Operationalizing political analysis: The Expected Utility Stakeholder Model and governance reforms, No. 95, November.

6 World Bank (2005) *World Development Report 2005: a Better Investment Climate for Everyone*, Washington, D.C.

7 Douglass C. North (24 June 2003) Understanding the Process of Economic Change, Forum Series on the Role of Institutions in Promoting Economic Growth, Washington University, St. Louis, Mercatus Center at George Mason University and The IRIS Center.

self-interest among a wide diversity of stakeholders with very different perspectives on the gains and losses of change. Indeed, reformers can use the natural process of competition to push reform. North observes, "Change is continually occurring, although the rate of change will depend on the degree of competition among organizations and their entrepreneurs."

Reformers are successful to the extent that they create new conditions for competition among stakeholders.

The role of reformers could be to use the reform process to create new forms of competition among stakeholders to accelerate change. This way, the reform process becomes a catalyst for empowering groups to compete more forcefully for their own interests. Reformers are successful to the extent that they create new conditions for competition among stakeholders.

Another important aspect about this approach is that stakeholder interests are understood not as a predetermined clash of interests at any point in time – which is a static view – but as a strategic process of learning, adjusting, and influencing reform by a range of interests guided by changing perceptions of the benefits and costs of change. That is, stakeholder interests are not rigid through time. This means that clever reformers might be able to change perceptions of benefits and costs, even in a political economy highly resistant to change, to create a coalition sufficiently competitive to win the reform.

This report accepts the hypothesis that stakeholder interests are not necessarily exogenous factors that constrain and limit reform, but can be endogenous factors shaped by the reform process itself. In other words, management of stakeholders is internalized as part of the reform strategy. This implicit understanding is not unique here, but is emerging more frequently in World Bank reports. FIAS has written, for example, that stakeholder communication is a dynamic strategy of change:

> Government activities to discuss and design reforms should be seen in the wider context of changing the political economy inside the country, releasing reform energies, and reinforcing a growing consensus about market reform.[8]

A recent report on public-private dialogue (PPD) takes up the same theme of using relations with stakeholders as a way to intensify useful competition among groups with different gains and losses:

> The main potential benefits of PPD include facilitating investment climate reforms by supporting champions for reform, creating momentum, and accelerating the reform process. Public-private dialogue has a range of potential impacts, but it does not achieve anything on its own – it works by facilitating, accelerating, or cementing other ongoing initiatives, ones which without the boost of stakeholder pressure would falter or fail.[9]

These two reports implicitly accept the notion of stakeholder participation as an outcome of reform, not only as an input. The obvious question that arises is how can groups be empowered to compete more forcefully in the policy process? Theoretically, stakeholder participation is determined by three factors: *incentives, opportunities* and *capacities*.

- *Incentives*: Stakeholders respond to a range of incentives that arise from their perceptions about the benefits and costs of change. Sometimes these benefits and costs are personal and sometimes they are professional views about what is best for the country. Perceptions about the benefits and costs of

8 Jacobs and Coolidge (2006).

9 Benjamin Herzberg and Andrew Wright (2006) *The PPD Handbook: A Toolkit for Business Environment Reformers: Operational Guidelines for the Charter of Good Practice in Using Public-Private Dialogue for Private Sector Development*, supported by DFID, World Bank, IFC, OECD Development Center, at www.publicprivatedialogue.org.

reform can change over time, and therefore this factor seems to be within the scope of the stakeholder management strategy.

- *Opportunities and capacities*: Stakeholders respond according to the opportunities and capacities they have. Stakeholders with strong incentives but strong barriers to engagement, such as disorganized SME sectors, are often underrepresented in reforms, whatever their gains from them. Opportunities and capacities can also change over time, and therefore, this factor also seems to be within the scope of the stakeholder management strategy. The capacity to organize was clear in the Bulgarian case. Business associations were competing and divided at the beginning of the reform, and were unwilling to join a broad coalition. During the reform, under donor encouragement, they learned that their views on the issue were similar, found methods to cooperate, and at the end of the reform even met jointly with the president to force a crucial decision to proceed.

Management of *incentives*, *opportunities*, and *capacities* is likely to be at the heart of stakeholder management. This is a practical agenda.

Management of *incentives*, *opportunities*, and *capacities* is, therefore, likely to be at the heart of stakeholder management. This is a practical agenda. Management of stakeholder interests involves empowerment (such as building advocacy capacities) of weak interests whose incentives are pro-reform. It may involve changing the perceived self-interest of groups already active, or changing the views of the problem or the solution, risks or benefits of change, or costs of non-reform. It involves discrediting self-serving arguments against reform, or bringing in new political or civil society actors to provide insights, isolating resisting groups or even changing the drivers of reform. It might involve means of compensation or penalizing.[10] It might involve what has been called "strategic communication" to reduce political risk and promote acceptance of reform.

This dynamic approach to stakeholder management also helps in identifying relevant stakeholders, because it is different from viewing stakeholders as anyone who is affected by a reform. Similarly, the World Bank Participation Group defined participation as "a process by which people gain some measure of influence on development decisions, and not simply involvement in the implementation or benefits of a development activity." In the case studies of business registration reform on which this analysis is based, stakeholders are *those who can influence the outcome of a reform process.*

Then, *stakeholder management is the set of strategies used to change incentives, opportunities, and capacities of competing interests who can influence the outcome of a reform process to build a winning coalition through the course of a reform.* The strategy aims to alter the influences on reform by changing the incentives, capacities, and opportunities for competition, and therefore the involvement of stakeholders, to change the outcome.

This concept of stakeholder management is more strategic and proactive than concepts such as "citizen participation" and "policy dialogue." These tools might well be part of a strategy of stakeholder management, but those tools do not adequately account for complex situations in which agendas oppose, interests compete, and reform is actively or passively resisted by those most able to participate. In other words, this paper focuses on the need for a stakeholder strategy in which a range of tools is used more effectively over the course of a changing reform situation.

10 See the interesting discussions of this in Sherrie A. Kossoudji (2001) "Strategies of Stakeholder Analysis to Improve Participation and Project Performance: Concepts and Field Techniques" in Robert R. Bianchi and Sherrie A. Kossoudji, Interest Groups and Organizations as Stakeholders, Social Development Paper Number 35, June 2001, World Bank.

III. CONTENT AND RESULTS OF BUSINESS REGISTRATION REFORMS IN 10 COUNTRIES

To understand the role of stakeholders in the 10 countries studied, it is useful to summarize the diversity of reforms carried out there. The reforms are briefly summarized in **Box 1**. Content, system design, and results are summarized in **Table 2**. For each of the 10 countries, **Annex 3** provides more detail in comparing the pre-reform situation with the design of the new system, and the results of the reform if they have been credibly measured.

The goals and the content of the reforms are remarkably similar among the 10 countries, which is a testament to an emerging international consensus around the *Doing Business* definition of good business registration. All

TABLE 2

Summary of Reform Content and Design in 10 Countries Studied

	Bulgaria	France	Indonesia	Jordan	Mexico	Serbia	Tanzania	Turkey	Ukraine	Vietnam
Scope of reform (Y means reform broadened beyond business registration to include related licenses and formalities)	Y	N	N	Y	Y	N	N	Y	Y	Y
Duration of reform (years)	4	3	2	6	6	5	5	5	3	8
Registry institutions (E = improved existing institutions, N = created new registries)	N	E	E	N	N	N	E	N	N	E
Use of IT solutions	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
% Results of reform (average of % reduction in time and cost of registration, 0 = still being implemented)	0	–89	+0.3	–78	–95	–82	0	–83	–41	–90

BOX 1

Summary of Business Registration Reforms in 10 Countries

- **Bulgaria** adopted radical legal reform in 2006 by taking registration out of the courts against intense resistance and creating the country's first unified, electronic, and administrative registry. In 2007, implementation is still under way by the Ministry of Justice, and has been slowed by continued resistance.
- **France** was ranked among the five top reformers in 2003 by the *Doing Business* indicators. In this reform, the time to start up a business was reduced from 42 to 8 days and the minimum capital requirement was eliminated. Businesses have a single access point to identify and retrieve documents, fill them in and track their adjudication by the different services. Registration has since been moved to an online service at http://www.cfenet.cci.fr/, implemented by the Chambers of Commerce and Industry.
- **Indonesia** implemented an electronic online application and approval system for new enterprises (SISMINBAKUM) to simplify the application and approval process at the Ministry of Law and Legislation. This system was meant to make the legalization of limited companies and changes to a company's statute simpler, more efficient, transparent, and accurate The *Doing Business* indicators registered a reduction from 168 to 97 days for business registration from 2003–2006, a significant drop but with more to be done.
- **Jordan** cut its registration period from 81 to 18 days from 2003 to 2006, a very significant reduction. This was accomplished through a streamlining project headed by the Ministry of Trade and Industry.
- **Mexico** created at the local level more than 100 "Sistema de Apertura Rápida de Empresas" (SAREs, or "Entrepreneurs' fast-track start-up systems"). This has been a successful business registration reform in Mexico since its implementation in 2002.
- **Serbia**, starting after the regime change in 2001, completed a radical legal reform in 2004 (the first in the Balkans) after a two-year battle against a corrupt and resistant judiciary. The new registration system went operational in 2005, and has greatly reduced the time and cost of business registration.
- **Tanzania** has developed a new legal regime for an ICT-based registration system operated by local governments but coordinated at the national level by the agency responsible for company and business registration.
- **Turkey** completed in 2003 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.
- **Vietnam** transformed, through the 1999 Enterprise Law, business registration from one of "asking permission to do business" to one of "notifying the requisite authority of the existence of the business entity," as long as the business activity was not prohibited by law. The process of formulating the 1999 Enterprise Law took three years, more than 20 drafts, and consensus building among numerous stakeholders.
- **Ukraine** created more than 30 one-stop shops for new business start-ups, combining company registration with registration for the pension fund, employment fund, social insurance fund, industrial accidents fund, and tax authority (except for VAT registration). Steps for starting a new business dropped from 15 to 10, and time decreased from 40 to 33 days.

10 countries focused on reducing the cost, time, and discretion involved in business registration and even related licenses by following similar strategies, which included:

- increasing user-friendliness of registration practices by standardizing registration procedures, introducing electronic filing and receipt of documents, and single-window operations;
- improving implementation of registration practices by centralizing the business register under a single authority or more accountable and efficient networks of institutions;
- using "silence is consent" policies; and
- improving transparency of market information about businesses by making the business register database electronic and accessible over the Internet.

However, key aspects of the reforms differ, notably the scope of reform, the length of time of the reform, the processes and institutions involved, and the final results. Some of these reform aspects can be linked to results. The conclusions section of this report attempts to relate results to stakeholder management strategies.

Almost all of the countries saw some improvement in the business environment, except for Indonesia. In Indonesia, the results of the reform seem to be an increase in time and costs, due to the high costs and low reliability of the IT system chosen for the new registration process. The increase in official costs largely offset or exceeded the savings due to less corruption, which caused some initial disappointment in the business community. This was compounded by the fact that the IT system did not work well, so time savings were also less than expected. Stakeholders were not silent about this performance: business associations complained to the relevant ministry, and asked for more investment in the quality of supporting facilities, such as human resources and legal support. Indonesia is still sorting out these problems.

The scope of reform is a critical design decision. The reforms in six of the 10 countries went beyond business registration to include other *ex ante* business licenses, which had the potential to greatly expand the benefits of reform. Four countries, however, limited the scope of the reform to business registration itself. Limiting the scope was a strategic issue closely associated with the risks of stakeholder management and the political time horizon for reform. Limiting the scope of the reform to a single function – business registration – reduced the number of stakeholders, and reduced the time needed to complete the reform to an average of 3.3 years, compared to 5.6 years on average for broader reforms that included other business licenses. However, the broader reforms reduced the average costs and time needed to register by 77.4 percent, while the narrower reforms reduced costs and time by an average of 57 percent.

The case studies do not answer the question of whether the broader scope and its larger benefits justified the higher investment in reform and the delay in producing benefits. This is a strategic call that can be made only in specific cases.

In France, the narrower scope was a way to manage the risks of failure, given the evidence of potentially strong resistance against broad reform:

> According to the author of the French case study, reformers were quick to back down when they realized that there was strong resistance to the proposal to transform business registration into a single process with social security, pension and tax authorities through a unique declaration due to the complexity of the undertaking. At the end, the mechanism to make the Centre de Formalités des Enterprises (CFE) function as a one-stop shop for all

> social partners was abandoned. The precedent of spectacular failures of broad reforms and the need for "quick wins" for compensating business support after an elections victory pushed the government toward a strategy of targeted reforms that could build traction for larger initiatives later.

Broader licensing reform is probably inescapable – either as part of the original reform or as a later phase – to safeguard and extend the benefits of a more efficient registry.

Likewise, Tanzanian reformers decided to reform the general business registration regime first, and leave a host of specific regulatory licensing regimes for a later phase. This decision permitted business registration reforms to move ahead, even though it took four years to reach the phase of legal adoption. However, waiting to reform the specific licensing regimes risked undermining and reversing the benefits of the general reform, as local governments could react strategically to replace the lost revenues. This would mean a loss of support from stakeholders. In retrospect, the case study author recommends that the two reforms should have been launched side by side: "Separating the two sets of reforms may be useful in the context of building stakeholder understanding and management. However, once this has been accomplished, actual implementation should be in parallel."

Jordan and Tanzania, two countries that started with narrower registry reforms, moved to broader reforms when it became clear that unreformed licensing practices threatened to undermine the benefits of registry reform. In Serbia, failure to go beyond a narrow reform of business registration meant that gains on the *Doing Business* rankings were rapidly lost as other procedures added time and cost:

> (In 2005) the country of Serbia and Montenegro was in 43rd place among 155 countries. However . . . in 2006, it fell to the 60th place. The SBRA [new registry] further improved its efficiency, and it now takes an average of three days to register an LLC. But, after registering in the SBRA, businesses still have to approach other government authorities to complete the registration procedure (such as the Public Revenue Office to obtain a tax number, the "PIB") as well as both the pension and health insurance bureaus to register for social security).

It seems reasonable to conclude that broader licensing reform is probably inescapable – either as part of the original reform or as a later phase – to safeguard and extend the benefits of a more efficient registry. A good stakeholder management strategy could be a way to manage the risks of broader reforms, thereby getting more results from reform investments.

Institutional designs were also important. Six out of the 10 countries created wholly new business registration institutions to implement the new registration system, while the other four used various approaches to improve the efficiency of existing systems:

- New institutions: Bulgaria, Serbia, and Ukraine created new professional registry bodies, while Jordan, Mexico, and Turkey built broader one-stop shops.

- Improving existing institutions: The French reforms consisted mostly of changing an *ex ante* authorization into a simple *ex post* notification. Indonesia permitted registration online rather than visiting the ministry. Tanzania streamlined and unified the existing system through an IT-based registry joining 112 local governments. Vietnam streamlined and clarified the registration and licensing system.

The institutional design of the reform seemed to affect results. The countries that improved

existing institutions had an average 60 percent reduction in costs and time, while countries that created wholly new institutions reduced costs and time by an average of 76 percent. This is logical, since the scope for re-engineering is greater when creating new institutions. Moreover, according to the case studies, results were most easily reversed in Indonesia and Vietnam, which in hindsight seems predictable since the reform did not substantially change the underlying incentives of the system. However, the time needed for the two kinds of reforms was not very different: 4.3 years for improving existing systems compared to 5 years to create new systems. A tentative conclusion is that creating new institutions is preferable from a benefit-cost viewpoint than trying to fix existing institutions.

Most countries centralized the new system at the national level to ensure a standardized approach across the country. However, four countries (Mexico, Ukraine, Tanzania, and Turkey) pursued a decentralized system mostly implemented at the local level, but under supervision or standards from the national level. In Turkey, for example, registration is done under standardized procedures by Provincial Trade Registration offices working under local Trade or Industry Chambers. The results were not significantly different between the countries that chose centralized solutions and those that chose decentralized solutions. However, consultation and coordination mechanisms with local governments in Mexico and Turkey were among the most developed of the 10 countries, suggesting that the costs of stakeholder management are likely to increase as system design becomes more decentralized.

Nine out of the 10 countries put IT solutions at the very heart of their reforms, while only Vietnam did not. The stakeholder implications of IT solutions are interesting, because IT solutions replace individual tasks, decisions, and discretion that create opportunities for corruption and rents. For that reason, one might expect that reforms involving IT would be the most strongly opposed by those who gain rents. IT solutions also radically change the relationship between the public service and the public, because the transparency and standardization of the service increase. One might also expect IT solutions would be strongly supported by the beneficiaries of reform. However, there is little sign that the use of IT strategies in itself substantially changed the stakeholder dynamics in these countries, with one exception: the use of IT seemed to generate conflict over IT financing.

IV. THE DYNAMICS OF STAKEHOLDER INVOLVEMENT IN 10 COUNTRIES

The roles of stakeholders can be described against this backdrop of the reform content, system design, and results. This section maps the stakeholders that were involved in the reforms and their incentives. The identification of stakeholders is based on the principle, stated above, that stakeholders are those who can actively influence the outcome of a reform process.

It is worth noting from the outset that stakeholder management in these 10 countries had deeply cultural aspects, and opportunities for participation were influenced both by the larger culture of the society, and the administrative cultures in the public sector. In most developing countries, there are weak traditions of openness and stakeholder participation in public policy. On the contrary, there are typically long-standing traditions of information monopolization and secrecy, and hostile and suspicious relations between the public and the business sectors. In Serbia at the time, it was illegal to even provide a draft law outside of the Council of Ministers (although this regulation was fortunately ignored). The author of the Bulgarian case described this culture and its implications well:

> An additional difficulty was. . . . the culture of secrecy which prevented public institutions from interacting freely with other stakeholders. The traditional way of designing reform in Bulgaria involved no public discussions, and an almost complete block on information for the media. . . . Clearly, the traditional Bulgarian approach to reform strengthened the insiders because they could more easily control the reform, while the stakeholder management approach to reform strengthened the reformers and the outsiders because they had much more access to information and could exert their influence more easily.

Cultures of secrecy were already changing, however, an external factor that greatly helped reformers. Stakeholder participation in some countries benefited from an increase in opportunities stemming from a wider trend toward more open government, which was creating more sympathy for reforms based on getting results

and reducing corruption. The Indonesian case author noted that opportunities for stakeholders to influence public policies were increasing both in the policy development and monitoring phases:

> The reformation era in Indonesia had created a more open administration system in Indonesia. Stakeholders relating to government administration were becoming more concerned with the quality of government services. Business practitioners had more space to express their views on government policies. In addition, private stakeholders were becoming more active in monitoring the government.

Similarly, according to the author of Mexico's case study:

> An aspect that indirectly helped to boost the implementation of SARE around the country, and helped to shape stakeholders' views, was the increased accountability of elected officials derived from the renewed political environment, i.e. a more open and pluralist political system.

The trend toward more government openness and accountability is an essential context for stakeholder management, because it means that the underlying relationships between the state and civil society are changing to permit easier access and entry for competing interests. In other words, barriers to entry are falling and allowing more policy competition. In many cases, the new entrants, such as SMEs, have little capacity to participate, but have strong positive incentives. The implications for stakeholder management are clear.

Selling these reforms is difficult for another reason. In most of these countries, reformers had not only to overcome the immediate interests in favor of the status quo, but also to create innovative and unfamiliar approaches to public policy development that were, in themselves, seen as threatening to wider groups of insiders. Reforms based on new principles of governance can create resistance even among groups not directly benefiting from the status quo. Stakeholder management in many countries, then, involves a double-barreled challenge of changing a specific public service and creating a new standard for openness in the public sector.

IV.1. Who Were the Stakeholders in Business Registration Reform?

Most studies of stakeholder involvement begin by mapping out the stakeholders involved in reform. The key stakeholders are summarized in **Table 3**, which is based on a more detailed description for each of the 10 countries included in **Annex 4**. Mapping the stakeholders is needed as a starting point, but it is insufficient for this report because a map is static, and does not assist in predicting how management strategies will change the stakeholder map over time. A dynamic phase is added by mapping the changing primary stakeholders over the five phases of the reform process in **Table 4**.

Stakeholders in these reforms fell into six categories:

1. Political elites: prime ministers and ministers
2. Public administration: all other public sector interests from a wide range of ministries and agencies
3. Regulated professionals: primarily notaries and lawyers
4. Private sector: a wide range of private interests, usually represented by business associations
5. Civil society: NGOs such as anti-corruption groups, as well as academic think tanks
6. International interests: donors and trade negotiators, as well as European Commission interests for countries in the accession process

TABLE 3

Active Stakeholders in Business Registration Reform in 10 Countries

Active stakeholders	For	Against
Political elites	■ New political leaders fighting economic problems such as unemployment and competitiveness ■ Ministers of economic development and related fields ■ Ministers/politicians who want to respond to complaints from businesses/be seen as loyal to political leadership from the top ■ Ministers/politicians fighting corruption ■ City mayors and governors seeing direct rewards for their cities/provinces in increasing investment and SME creation	■ Politicians with constituents who will lose from the reform ■ Politicians in opposition parties who oppose for strategic reasons ■ Politicians with ideological positions against market opening and private sector ■ Politicians using current systems for advantage, such as by creating hidden businesses
Public administration	■ Reform units charged with business environment reforms ■ Ministries charged with economic development and trade ■ Think tanks charged with economic policy research ■ Tax departments that wanted to increase tax revenues by increasing number of businesses and reducing tax evasion through unregistered businesses	■ Ministries, agencies, and inspectors losing staff, revenues (legitimate and illegitimate), and powers to the new registry or to streamlining ■ Ministries closely connected to sectors or professions that might lose from reform ■ Local governments employing staff under the old system ■ Tax departments unwilling to give up separate tax numbers
Regulated professions	■ Accountants and notaries who saw that volume of work would increase as more businesses registered	■ Judges, law professors and lawyers who participated in and designed the current system ■ Notaries worried about streamlining paperwork
Private sector	■ Businesses in sectors seeing rapid change due to intensifying competitiveness in an economy opening up to the world ■ Trade associations (often getting stronger as the reform progressed), both large and SME sectors ■ Foreign investors	■ Dominant firms used to special privileges ■ Companies with private electronic databases or selling registry information ■ Companies, such as banks, that used registry controls in their lending programs
Civil society	■ NGOS against corruption ■ Mass media supporting principles of development, good governance, and lower corruption	
International interests (donors, trade negotiators)	■ Donors encouraging private sector development (PSD) and market openness	■ Donors whose national "model" was not chosen in the reform

Table 3 shows that no group of stakeholders is monolithic. In fact, each category of active stakeholders had subgroups opposed to each other. Each category had groups actively for and against the reform. This complex picture of stakeholders is positive for reformers, because it illustrates the wide range of possible coalitions and common interests that can be influenced as part of the stakeholder management strategy. In fact, none of the reforms was captured at the outset by any one group. Competition for policy outcomes occurred among ministers, business interests, and even donors.

This complexity shows the value of a systematic mapping, both static and dynamic, of stakeholder interests at the outset and during a reform. It also suggests that successful stakeholder management should not exclude any interest a priori, but should seek allies among all groups. The complexity of stakeholder interests provides many opportunities for reformers to build winning coalitions. For example, the Bulgarian case showed that strong opponents of reform can be weakened by splitting their ranks: "Some of the most influential opponents were law professors, who believed they were protecting the interests of society. . . . Because of their high status they were the most visible group at the start of the reform. Gradually, the reformers managed to reduce their influence by finding more progressive members of the legal community who were able to disarm the arguments of their colleagues."

Each category of stakeholder had groups actively for and against the reform. This illustrates the wide range of possible coalitions and common interests that can be influenced as part of the stakeholder management strategy. None of the reforms was captured at the outset by any one group.

One of the interesting points about Table 3 is that it reveals the wide variety of groups that benefit from the status quo. Business registration seems like a simple administrative task, but it generates many kinds of spin-offs (called "rents" by economists) – from jobs to revenues to information resources to services in notary and legal professions to creation of "shadow" companies that can be used for illicit activities. Protection of all of these benefits produced resistance during the reforms.

The only category of stakeholders uniformly in favor of reform was civil society, that is, NGOs and the media. In none of the 10 countries did civil society institutions play an important role in opposing business registration reform. This illustrates the pro-reform sentiment that has emerged in most countries, due in large part to concern about government corruption. Media and NGO attention on reform focused primarily on fighting corruption. The connection with registration reform was made quickly and credibly in most of the studied countries. In Bulgaria, for example, the Center for the Study of Democracy (an NGO that specialized in anti-corruption issues) generated the first serious demands for reform of business registration.

The static map in Table 3 should be further specified to show the changing mix of stakeholders over the five phases of reform. **Table 4** below

TABLE 4

Summary of Stakeholders Over Five Phases of Reform

Phase of Reform	Key Stakeholders
Idea formulation and reform organization	New political leaders, donors, technocratic reformers in economic or research areas, highly organized business interests
Solution design	Key ministers, donors, technocratic reformers working with a broader group of government officials, cooperative practitioners, highly organized business interests
Broadening and marketing of reform ideas	Business groups more broadly, media, NGOs working on anti-corruption, wider groups of politicians
Political acceptance and adoption	Political institutions, targeted coalition building to swing passive or neutral politicians, media
Implementation	Public administrations, monitoring by key stakeholders to keep reform on course, media

shows the key active stakeholders over the course of the reform. The different incentives, opportunities, and capacities of the various stakeholder groups partly explain why different groups are more active at different phases of the reform, particularly in the political and implementation phases.

Another reason is that the reformers themselves, through the stakeholder management strategy, change the incentives, opportunities, and capacities to increase the participation of pro-reform groups and reduce the participation of anti-reform groups. As discussed later in this report, successful reform is characterized by building relationships with different groups of allies over the reform cycle to change incentives, opportunities, and capacities, and progressively bring in wider groups of stakeholders until a winning coalition is created.

IV.2. Stakeholder Incentives, Opportunities, and Capacities in Business Registration Reform

The pattern of competition for control of public policy becomes clearer when the incentives, opportunities, and capacities of stakeholders are examined. The pattern of participating and non-participating stakeholders at any one phase of the reform reveals the underlying pattern of incentives, opportunities, and capacities of stakeholders. The Bulgarian author noted "the importance of discovering the major stakeholders and the determinants of their views at the initial reform stages," and then using those views to set up the management strategy.

The specific mix of incentives relevant to business registration reform is country-specific. However, there is a general pattern: *In each of the 10 countries, the public sector interests that were collecting economic rents from the system lost heavily, while most business interests gained heavily.* Following public choice theories of regulation, this suggests that the public sector is expected to oppose reform, while the private sector is expected to support reform, but the reality is more complex. As Table 3 shows, neither the public sector nor the private sector was monolithic in supporting or opposing reform.

In only four of the 10 countries (Turkey, France, Tanzania, Mexico) did the private sector take an important role in advocating for reform at initial and early stages. In the other six countries, the private sector was either too disorganized to be influential at the start of the reform, too intimidated by the public sector to be critical, or important parts of the private sector actively opposed reform. That is, even where the private sector had strong incentives to support reform, its opportunities and particularly its capacities for participating in the reform were often weak.

- In Vietnam, the case study author reported that: "Many investors were not fully aware of the difficulties and obstacles from administrative procedures facing them. They were also not much interested in reform, removing obstacles, or enabling their business activities. In fact, they were reluctant to discuss, speak out, or comment on shortcomings, weaknesses of the legal system as well as bureaucratic attitudes of state officials."

- In Ukraine, the former state monopolies, still dominant and powerful, opposed reform, while the growing SME sector saw the reform as opening new opportunities for them in the market economy. New entrants such as foreign investors played a useful role, but the study authors note that big foreign investors did not see registration as an important constraint, and they did not cooperate with SME business advocates in Ukraine. "Their role could have been more effective if they had consolidated efforts and generated a joint position with national Ukrainian stakeholders on business registration reform," concluded the authors.

- In Bulgaria, none of the business associations was proactive enough in isolation to effectively support the reform, and tension and competition between them meant that they were not prepared to take a unified position in support. Reformers, supported by donors, acted as intermediaries in organizing them and helping them develop and communicate common positions.

Public choice theory is ultimately vindicated, however, because in every country, important private sector interests became supportive of the reform as it proceeded. By the implementation phase of the reform, private sector interests were strongly supportive in most countries, with the exception of professional interests, such as lawyers and notaries, who stood to lose direct personal income from the change.

What may be surprising to public choice theorists is that, in nine of the 10 countries (the only exception was Turkey), individuals in the public sector were the leaders and main advocates of reform at the early and intermediate stages. In some cases, these public sector leaders were political, representing new governments. But in other cases, the public sector leaders were from career levels, representing reform-minded technocrats with agendas that encouraged them to challenge other parts of the public sector. The positive role of the reform-minded technocrats supports the *public interest* theories of regulation, in which enlightened civil servants make policies in favor of the wider public interest.

IV.2.i. Stakeholder Incentives Opposing Reform

The case studies suggest that those who were against the reform at the beginning of the reform had basically four incentives:

1) **Skepticism of the effectiveness of reform** compared to the existing system, or in the capacity of the government to reform well, based on deep mistrust between the public and private sectors. This skepticism was sometimes justified by previous failures:

   - In Tanzania, there was initial resistance from within the government on the need to implement a sector-wide reform program because an earlier major legislative reform project was widely seen as a failure.

   In other cases, skepticism was based in a narrow view of what was possible, usually combined with ignorance of what other countries had already done. In other cases, the skepticism was based on a kind of national chauvinism in which the existing system was seen as the best possible. This argument was usually made by the very people who had designed the existing system. In Bulgaria, reformers were openly accused of undermining national legal traditions, although the existing registration system had been in place only since 1989. This kind of skepticism and chauvinism represented strong inertia against reform, and was a challenge in most of the 10 countries. It was overcome by sustained and credible arguments, international cases, study tours, and other forms of information exchange that built offsetting coalitions of supporters.

2) **Legitimate concerns about the principles and design of the reform** and its capacity to protect important public policies. These kinds of concerns were sometimes a self-serving cover for private interests, but generally were useful in structuring a public debate about the pros and cons of reform and different designs. These kinds of concerns were answered in every country by the reformers through intensive public debate and controlled stakeholder management. Sometimes, the reformers won the argument (Bulgaria, Tanzania), and sometimes the reforms were changed to accommodate the concerns (France, Indonesia, Serbia). One of the determinants of the success of registration

reform was the skill of reformers in knowing when and how to accommodate concerns, without sacrificing too many benefits of the reform. The case studies provide several examples of this trade-off:

- In Bulgaria, some of the most influential opponents included law professors. There were strong concerns from the legal community that removing judges from the registration process would increase corruption in the corporate sector. The response from reformers was to fight back by aggressively arguing in public and the media that the new registry would reduce corruption by improving market transparency, and that judges had been unable to reduce corruption. Reformers won the argument, but the final reform gave marginally more discretion to judges to intervene in registration.

- In Serbia, there were initial concerns from the national statistical agency that the new system might endanger the collection of important statistics. The response from reformers was to work with the agency to identify key data that would be lost, and then to develop ways of collecting that data, sometimes through the registry and sometimes through random surveys of the business community. The agency supported the reform as a result.

- In France, banks, supported by the Treasury Ministry, were concerned that streamlined registration might make new business loans more risky by reducing information available on start-ups. Reformers accommodated banks by allowing them to maintain a requirement to have a formal authorization supplied in 15 days by the clerks of the commerce courts, Greffiers des Tribunaux de Commerce, as the official requirement to get a loan. This practical accommodation reduced the benefits of speeding up reform, but the result was that banks and the Treasury dropped their resistance to the reform.

- In Indonesia, notaries in rural areas as well as cities argued that they did not have access to the Internet and online systems. This argument, which might have been legitimate for some rural areas, became a convenient defense for notaries who preferred to keep registration on a personal level between themselves and ministry officials. In response, the Minister of Law and Human Rights signed a decree allowing continued use of manual registration, making online registration optional. This decree greatly reduced the benefits of the reform by keeping the door open for corruption inside the registration process.

- In Tanzania, the general business license had become a major tool for ensuring compliance with many regulatory requirements (public health, industrial zoning, environmental regulations), and regulators were concerned that the reform could mean a loss of control over bad business behavior. Reformers had to assure them that the reform included alternative methods and timing for critical regulatory functions through regulatory licensing reforms to ensure that regulations enforced under the general license revert to sector-specific regulatory measures. Reformers won the argument, while regulators retained all their individual licensing functions. But regulators apparently began increasing fees for licenses, again undermining the reform results. A general reform is now being planned to correct the problems of too many licenses and fees.

3) **Ideological principles** were important in a few of the transition countries that still

viewed market-based approaches skeptically (Bulgaria, Serbia, Ukraine, Vietnam). This kind of opposition was the most difficult for reformers to reverse, but fortunately proved in most cases to be weak and declining over time. No significant concessions were made in the reforms in any of the 10 countries due to ideological, anti-market values. This is a significant finding, and is good evidence of the increasingly pro-reform external environment affecting all countries.

4) **Personal interest in the existing system** was a common incentive explaining opposition to the reforms. A wide range of interests won financial, professional, or political advantage from the existing registration systems or from the closed economic policies that reform threatened. This kind of opposition was probably strongest in Ukraine, but was present in almost all of the reforms, except only those exceptional cases where reforms were carried out in a single ministry where the minister personally made sure it happened (Jordan).

Most directly, many legitimate and illegitimate jobs depended on registration activities, and this was the source of the most intense resistance. Almost all of the people employed in such jobs lost revenues through the reforms, although in a few cases revenues to registering governments were compensated by other means, such as through tax reform in Tanzania. Those with personal incentives in the status quo who opposed reforms included:

- legitimate public sector institutions such as registries that supported themselves through registration (i.e., commercial courts in Serbia and Bulgaria, local authorities registering businesses in Tanzania) and providing a host of other registration services. Some of these services included collecting business financial accounts by the central state payment unit of the former Yugoslavia, and processing financial reports in the Solvency Center of the National Bank of Serbia, which employed 300 people for this task;

- institutions that had been given state monopolies over registration information, such as a firm in Bulgaria that had unique access to information gathered in the commercial courts, and sold registry information (shares in this company were owned by some public officials);

- professionals, such as lawyers and notaries, who made legal profits assisting businesses through the process (although there were often hidden connections in which judges recommended preferred lawyers, sometimes family members, to deal with registration problems);

- corrupt officials, such as judges collecting illegal fees or speed money (common in almost all of the 10 countries); and

- political parties and politicians who used the existing systems to register special businesses or take other actions outside of the public eye such as directing companies that were winning lucrative government contracts. In Bulgaria, for example, "Political parties incorporated companies that were filed with selected judges and were kept on a special account. Information on these companies was not included in the public registers so they could be used for business that would fund the respective party."

Corruption was a recurring theme in most of the 10 countries (except France) that stimulated stakeholders to support and oppose reform. The kinds and levels of corruption associated with business registration were astonishingly varied and high. Excess and illegal fees were charged for every aspect of business registration – including checking

names, obtaining official forms, filing documents, speeding up processing, receiving copies of documents, and making changes to registries. In other cases, certain lawyers and notaries providing genuine but highly priced services were "recommended" by judges and others in the registration process. Often, these professionals were related to the recommender. In Indonesia, the official fees of Rp200.000 for checking names were supplemented by unofficial payments of Rp5 million, 25 times higher. The ingenuity of the civil servants in creating opportunities for such rents is well documented in the 10 case studies. Each of the opportunities for corruption was associated with a specific discretionary task performed by the public sector. Reforms, particularly the use of IT services, such as for checking names, greatly reduced the number of discretionary tasks. This happened in Indonesia, for example, by reducing the frequency of face-to-face meetings between officials and applicants.

The ability of reformers to influence each of these four incentives is quite different. Some of these incentives can be changed by supplying more information to change perspectives on benefits and costs, while others can be managed by reducing opportunities to influence the reform, while others are vulnerable only to publicity and transparency that reveals the self-serving nature of arguments. The next section explores the tools that reformers have used to soften or reverse these negative incentives.

IV.2.ii. Stakeholder Incentives Supporting Reform

The case studies suggest that those who supported the reform at the beginning had five incentives:

1) **Political advantage and commitments, sometimes to mark a new political regime,** were important incentives in three of the countries. In Mexico, France, and Jordan, political commitment at the highest level occurred after a change in leadership, either through an election or other means (the accession of the new king in Jordan). In Serbia, the reform began barely a year after an historic change in regimes from the Milosevic era to a democratic regime – this transition assisted the reformers because political leaders wanted to create new, democratic institutions, while the courts, packed with Milosevic appointees – were already largely discredited. But in the other six countries, reform occurred without significant political change, showing that good management strategies can change incentives for reform even if key stakeholders do not change. In those countries, key ministers who supported the reform stood to gain from the favorable reactions of the business community, which was becoming an increasingly vocal political force in most of the countries studied over the reform period. That is, the political economy of reform was increasingly rewarding the reformers.

2) **Technocratic agendas and professional values** were the core incentives for several of the stakeholders, including the technocratic reformers, NGOs, and think tanks. Combined with these admirable values were straightforward bureaucratic incentives of fighting for turf, of expanding institutional roles, and creating new job opportunities for reformers. Where such incentives are in favor of reform, they can be used strategically by, for example, *mainstreaming* the ideas created by technocrats and by *institutionalizing* the ideas, such as by creating new units that will be rewarded by the success of reform. This was arguably the case in several of these countries:

   - The State Committee of Ukraine for Entrepreneurship Development (SCRPE) was created five years earlier, and had built its connections and powers by advocating market reforms. Business registration reform was a clear

gain in strengthening its relationships with new market entrants and donors.

- The Central Institute for Economic Management (CIEM) in Vietnam had built its prestige as an independent and forward thinker under *doi moi*, and business registration reform was a major success for the institution.

- In Turkey, a private think tank, the International Investors Association of Turkey (YASED), launched the initial studies that led to reform three years later. YASED is a private investor-oriented think tank that stood to be rewarded if it served its clients' (investors) interests. YASED's work was legitimized and mainstreamed by the World Bank and FIAS through a visit by the Bank President and a series of credible investment environment studies. With World Bank support, reformers in the government were then emboldened to launch the reform. Turkey offers a good example of how an idea can be introduced, legitimized, and then mainstreamed by a changing series of stakeholders.

- In Bulgaria, two NGOs initiated the registration debate. The Center for the Study of Democracy (an NGO specializing in anti-corruption issues) began discussing the possibility for improving the business registration system in the country and drafted a strategy for reforming it. In the same year, the Institute of Market Economics (another Bulgarian NGO promoting liberal economic ideas) published its research on the business environment. Both gained from their association with successful reforms, and hoped to win contracts to participate in the reform.

3) **Personal interest in economic gains from reform** had positive effects on private sector support, as well as support from technocratic institutions (just discussed above). In most of the countries, business representatives of those sectors that stood to win or lose in opening competitive economies became increasingly supportive over the course of the reform, which was vital in sustaining reform against resistance. The businesses most likely to support reform were in sectors that were expanding and growing, and hence likely to be more competitive. This is consistent with the idea that more competitive firms are likely to support market reforms, because they have more to gain. But in general, there was little pattern in the 10 countries studied of support from large firms, small firms, and foreign firms. All of them supported business registration reform in one or another country:

- Turkey was the most obvious of these, where a high-level group of investors launched the reform, helped design it, and monitored its implementation. Indeed, many of the tasks of stakeholder management in Turkey (such as organizing public-private working groups) were performed by the group of investors rather than the government.

- In Tanzania, sector-specific business associations were the largest group of coherent stakeholders and the strongest advocates for change.

- In Ukraine, large state enterprises did not support reform because they had no interest in opening up new opportunities for market entry and competition. SMEs, a rapidly growing sector of the economy, strongly supported reform.

Public sector interests also stood to gain financially in some cases.

- In France, influential "corporation" clerks of the commerce courts (*Greffiers des Tribunaux de Commerce*) did not put up

strong opposition to reforms because they realized that the reform would generate more clients for them and raise incomes. This was no accident. "Reformers convinced them that easier registration – without changes to the fees amounts they charge – would be very beneficial for them too as the number of firms required to registry would grow," the case study author found.

4) **Support for broader policy goals linked to the results of business registration reform** was important for both the general public and for the media in several countries. In France, registration reform was explicitly linked as a solution to the severe unemployment problem, in Vietnam to the Communist Party's multiyear development plan, in Bulgaria to joining the EU, and in Ukraine, to an increase in personal income for citizens impatient for the benefits of economic change.

   Local governments were important stakeholders in some countries where they could see the comparative benefits to them of moving more quickly on reform. In Ukraine, Mexico, and Vietnam, business registration and licensing reform were seen as important by more progressive local authorities to the success of their local development plans. In Mexico, rivalry for reform among the states played a critical role, as the more progressive states realized that they were operating in a competitive market, and that foreign investment that one state received was that much less for the other states. In Ukraine, the author of the case study wrote that, "City mayors were interested in rapid SME development on their territories and growing the number of new enterprises in their regions as a means of increasing local budget revenues. Therefore, they had a direct positive incentive to attract new businesses."

5) **Donor and other exogenous pressures** to reform were important in mobilizing political support in seven out of the 10 countries. The role of exogenous pressures is discussed in more detail in the following section. In Bulgaria, outright conditionality was important at critical stages when opposition threatened the reform. In Tanzania, donor conditions kept reform moving through the middle phase of a four-year reform against inertia and lack of attention. But the most important incentives provided by donors were not conditions, but massive inflows of information that showed the benefits of moving forward, and that highlighted differences in performance between the reforming country and other countries. For example, in Mexico, information and recommendations from the OECD in showing the high costs of bad regulation in a post-NAFTA environment were critical in changing the views of key stakeholders within the bureaucracy. Donors were not always supportive of reform, though. In Serbia, a few donors opposed taking registration out of the courts, because in their home countries, registration is still carried out by courts.

IV.3. Exogenous Factors Influencing Stakeholder Views

As in the incentives that explain opposition to the reform, the incentives favoring reform can be influenced in the stakeholder management strategy by changing incentives, opportunities, and capacities to participate in the reform. **Annex 2** provides, for each of the factors, possible stakeholder management strategies that can change the influence of each incentive in the reform.

One of the lessons from the 10 cases is that stakeholder views are formed not only by direct incentives such as rents, but also by a wide variety of influences that change perceptions about the benefits and costs of reform. These exogenous factors are part of the larger political economy that provides the context for or against

specific reforms. These factors, often called "drivers of reform," are important to understand because reformers are able to use them strategically to strengthen allies and weaken opponents of reform.

Most of the exogenous factors in these 10 countries influenced stakeholders toward, not against, reform, and almost all of these positive influences existed before the reforms in these countries. This leads to the conclusion that the external environment for reform in many countries is becoming increasingly positive, irrespective of the efforts surrounding a specific reform. That is, reforms such as business registration simplification are becoming easier over time, without any reference to the skills of the reformers. The increasingly pro-reform environment that influences national political economies is partly a result of the global trend toward more reliance on open and competitive markets as the primary economic development mechanism (a push mechanism). It is also a result of the determined efforts of international institutions such as the World Bank and the Organization of Economic Cooperation and Development (OECD) to disseminate information about the cost of inefficient regulation and the design of better approaches (a pull mechanism). This 15-year global effort has been amazingly successful in introducing new ideas that have empowered domestic reformers around the world, as occurred in all of these 10 countries.

The exogenous factors that were important in the 10 cases are summarized below, and more detail is given in a table included in **Annex 5**. They can be categorized into seven main pro-reform influences:

1) **Access to international comparative indicators and empirical studies**. Development of indicators by the OECD, the World Bank, country-specific associations and think tanks was a frequent contribution to the reform environment in these 10 countries. Such indicators focus attention, stimulate competitive anxieties, and provide an easy communication tool for reformers.

2) **Increasing competition, such as caused by entry into a free-trade zone**. Fears of intensifying competition were growing in several countries where business registration was reformed. Many times, this fear was directly linked to a free trade agreement. The European single market program was a major factor in France, Turkey, and Bulgaria, while the North American Free Trade Agreement was a driving force in Mexico.

3) **Broader economic reform programs already under way**. Economic change did not start with business registration reform in any of the 10 countries. Rather, business registration reform was launched as part of a broader set of reforms to improve the macro and micro economies.

4) **Political changes toward pro-market parties**. Political changes opened new opportunities for reform in highly resistant environments in Mexico, France, and Jordan. The pro-market stance of new political leaders had little to do with political parties, and more with political realities such as fulfilling promises to provide better jobs.

5) **Crisis**, such as financial crisis in Vietnam, high unemployment in Mexico and France, and recession in Turkey, provided a positive context and a concrete goal for business registration reform. Even where a crisis was not dramatic, a gap between economic performance and economic expectations was useful. For example, a growing sense of public dissatisfaction with economic opportunities was important in Bulgaria in discrediting the current institutions and permitting the acceptance of new ideas.

6) **Donor pressures** were high in several countries such as Bulgaria, Tanzania, and

Vietnam, where professional donor agendas were at stake, or where foreign investors were having a difficult time entering domestic markets.

7) **The relationship between the public and private sectors** supported reform where there was a history of partnership, but undermined reform where suspicion and mistrust were dominant. In Tanzania, the business registration reform took place after years of cultivating public-private sector partnerships and creation of institutions such as the Tanzania National Business Council, which played a useful role in this reform.

As is seen in the next chapter on stakeholder management strategies, several of these exogenous pressures can be effectively mobilized to strengthen the stakeholder strategy, most commonly through targeting specific information to specific stakeholders, to change the views of benefits and costs of reform.

V. DESIGNING THE STAKEHOLDER MANAGEMENT STRATEGY

After identifying the stakeholders and understanding their incentives, the next step for a reformer creating a strategy is deciding what tools should be used to shift incentives toward a more reform-minded position, and/or to improve the opportunities and capacities through which stakeholders can act on their incentives. This section is organized by first mapping specific management strategies in these 10 countries across the five phases of reform (the details for each country are in **Annex 2**); examining how the five phases can be integrated in a rolling reform program; and identifying strategies that were successful in changing the views of specific stakeholders to more reform-supportive positions.

V.1. Mapping Stakeholder Management Strategies Across Five Phases of Reform

Phase 1: Idea Formulation and Reform Organization

The beginning of the reform process is critical, because it defines the parameters and ownership of the reform, both of which tend to persist through the entire reform process. The change agents who initially identify the need for change tend to be those who carry the reform forward and those who design and carry out the stakeholder strategy. For example, the origin of the Indonesian reform in the e-government policies of the government shaped both the solution design (online registration) and the control over the reform by IT technocrats and consultants, to the exclusion of users in the design phase. The origin of the reform in France – in response to business complaints and economic problems – explains why the reform was delegated to the Minister of Economy, Finances and Industry, rather than to the Ministry of Justice, even though Justice had legal competence and would adopt the implementation decrees. This decision gave the entire reform a business-oriented character. The French legal profession had not supported other simplification measures, and Ministry of Justice control over the reform could have reduced its scope and results. Reforms that began in single ministries were slower to expand reform outside of those ministries (Jordan). The origin of the reform explains much about its design and the reform process.

Business registration reform necessarily rests on acceptance of an important idea: there are better ways to do things. The emergence of new ideas is a mysterious process, but these 10 cases provide strong evidence that information from across borders is increasingly important in influencing domestic agendas. Resistance to new ideas is weakened by effective use of international experiences. In Turkey, reform ideas introduced by private interests were legitimized by international institutions, and only then mainstreamed by a central government unit through a changing series of stakeholders. A critical step was work by FIAS to map out the barriers to investment. The case author finds that "These studies set the stage for the preparation of a comprehensive 'Reform Program for the Improvement of the Investment Environment in Turkey' adopted by Council of Ministers . . . , which later became known as the YOIKK [Coordination Committee for the Improvement of the Investment Climate] Process." In Vietnam, the Communist Party endorsed a process of mobilizing the energies of the non-state sector. This general goal was transformed into business registration and licensing reform by a small group of reformers in a government economic think tank, which combined domestic diagnostics with a determined effort to learn international experiences on corporate law and market entry procedures.

In fact, in all of the 10 countries studied, information from outside the country in the form of reports, indicators, donor advice, and study tours was a critical input that changed how stakeholders at political and technocratic levels viewed the benefits and costs of current practices. It empowered them to challenge (compete with) prevailing ideas and incentives. In Serbia, for example, a workshop was organized with the representatives of the Irish and Italian business registries. The case study author concluded that, "This was the turning point bringing into focus, seriously for the first time, the idea of forming an independent agency for the purpose of business registration."

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The following is the distribution of sources of the earliest information that introduced the concepts of business registration reform and good international practices (some countries used multiple sources):

6 countries: Donor-provided comparative research
4 countries: Study tours
3 countries: Indicators (*Doing Business*, OECD indicators)
3 countries: Domestic think tank research and diagnostics

Organization of reform management also began early in the process. The 10 countries studied show that leadership of the reform was highly technocratic and often controlled by new reform institutions. These reform-minded bodies were the originators and implementers of the stakeholder management strategy, and were stakeholders themselves who had much to lose professionally and financially if the reform failed.

In the most successful countries, responsibility for the reform was assigned by high-ranking political leaders to a specific reform-minded body, although this was not always the case, since in Bulgaria there was no clear government counterpart to the reformers in donor programs.

- In France, day-to-day management of the reform was delegated to the junior SME minister accountable directly to the Prime Minister. Indonesia and Jordan likewise worked through an existing ministry, rather than creating a new reform body.

- In Mexico, a new central regulatory reform commission, the Federal Improvement Regulatory Reform Commission (COFEMER), generated a proposal to the President for reform, and was held responsible by the President for designing, promoting, implementing, and monitoring this reform all over the country, including diagnostics and solution design.

- In Ukraine, the reform-minded state committee, SCRPE, only 5 years old, organized the reform across the country.

- In Serbia, an activist minister for economy supported the creation of a working group of a new inter-ministerial Council for Regulatory Reform, created by government decree. The group was placed in charge of coordinating the reform and drafting the implementing laws. Drafting was actually done by the small Secretariat of the Council, using donor-financed experts.

- In Bulgaria, as noted, two NGOs initiated the registration debate, but neither played a central role in managing the reform, which was done by an expert group financed under a USAID project on company law.

There is flexibility in these approaches, but a general pattern emerges: reforms in almost all of the 10 countries studied were led by bodies that were not the insiders with the most to lose in the reform (only in Jordan and Indonesia was reform led by the ministry that itself would be reformed, and in both countries implementation was difficult due to the lack of preparation of users). Rather, the reforms were usually led by bodies independent of the pre-existing registration activities, and able to take a longer and more radical view of reform.

Phase 2: Solution Design

It is one task to convince people that change is needed, but quite another to develop and defend specific and credible solutions that survive challenges. The difficulty in developing effective solutions to far-reaching institutional failures was profound in most of the 10 countries. Solution design required attacking the most entrenched and corrupt elements of the existing systems, and the more explicit the solution, the clearer the winners and losers from change. When reform began, none of the 10 countries had any consensus or clear idea on the best solution. In fact, the most effective and far-reaching solutions had never before been considered in most of these countries.

The solution design phase was the most structured of the five reform phases to overcome these information barriers and prevent the reform from being captured or sidetracked in this phase. Stakeholders were carefully brought into the process through highly controlled strategies of information disclosure, participation, and consultation. In several countries, this phase used various forms of public-private partnerships. In some sense, it can be said that the reforms were captured by pro-reformers, and that was indeed the intent of a structured process.

Competition emerged in some countries over who would control the reform. In Bulgaria, as the reform began, the Ministry of Justice proposed to create a judge-dominated working group to create standardized application forms. The ministry had no plans to involve external experts, nor experts with different backgrounds. Reformers were quick to develop their own reform strategy, and substitute their own drafting process (an inter-ministerial working group supported by a Secretariat of USAID experts), which produced the desired result.

Multi-stakeholder working groups did most of the actual work. In very few of these countries was drafting of the implementing law done solely by a small group of elites. In most cases, various stakeholders were brought together within a structured drafting process based on clear principles and goals (this was necessary to

avoid capture of the reform during the drafting phase) to develop the actual materials needed for implementation. This inclusion under tight management permitted the reformers to minimize risks, while at the same time putting forward a draft law with a broader range of support than was previously possible. Some countries used very narrow groups in the drafting phase, while others brought in wider groups, as follows:

Narrow groups of technocrats

- Single ministry drafting the reform legislation, perhaps with help of consultants or cross-departmental team (France, Indonesia, Jordan)

Coordinative in the public sector

- Inter-ministerial working groups (Bulgaria, Serbia, Vietnam)
- Consultation between levels of government (Mexico, Ukraine)

Political

- Expert groups in the parliaments (Bulgaria)

Public-private arrangements

- Technical working groups and teams that brought together public and private sector stakeholder representatives (Tanzania, Turkey, Ukraine)

In these countries, the guiding principle on designing the right stakeholder involvement seemed to be practicality and control. The key was to keep the process manageable, while bringing in enough expertise commensurate with the scope of the reform. The wider the scope of the reform across ministries and levels of government, the more inclusive was participation. Several countries used donor-financed experts to support the drafting groups, as in Bulgaria, Serbia, and Tanzania.

Controlled participation in the solution design phase was not sufficient protection for most reformers. In most of the 10 countries studied, the reform elite also drafted the principles, the solutions, and even the legal documents to be produced, and introduced them into the solution-design process to guide decisions about the reform. Here, again, is an entry point for donors because the drafting of documents and legal texts borrowed substantially from international experiences.

In this phase, there was sometimes a healthy competition among solutions. In Serbia and Bulgaria, for example, the commercial courts argued for less radical reforms aimed at improving registration functions inside the courts. The Serbian Chamber of Commerce and the Bulgarian Chamber of Commerce and Industry argued, in their respective countries, that there was no need to create a new institution as they already possessed the capacities to implement the reform, and hence registration functions (and revenues) should be transferred to them. The stakeholder debates between these ideas were, in both countries, ultimately won by the central reformers due largely to better information, more persuasive arguments, more credibility, and more organized strategies for communicating such information to key stakeholders and to the media.

Phase 3: Broadening and Marketing of Reform Ideas

In most of the 10 countries, the reform group had, at some stage, to introduce the concepts and solution design of the reform to a broader group of stakeholders of sufficient influence to create a winning reform coalition. The only exceptions to this were those reforms driven from the beginning by high-ranking political elites who were sufficiently active and well-placed to quickly force the reform through without persuading broader groups, as in France. The other exceptions were reforms driven and implemented within a single institution, as in the single-ministry reforms in Indonesia and Jordan.

A second objective of reformers in this stage was to increase buy-in and acceptance of the reform by key users to speed up and smooth implementation.

The stakeholders introduced to the reform in this stage were user groups and others affected by the reform, or even the general public. They went well beyond the reformers included in the highly structured solution-design phase. Stakeholders in this phase included:

- members of parliaments,
- media,
- business associations,
- local governments,
- professionals affected by the reform,
- the public at large, and
- donor groups.

The most common stakeholder targeted in this phase was the business association. A rising tide of business interest and advocacy, in fact, was one of the most powerful forces sustaining the reforms and ensuring their success. As noted, business interests were not very influential in the opening phases of the reforms in most countries, but the reform itself stimulated and mobilized businesses to become more influential as the reform went on. Successful reformers concentrated efforts in this broadening phase on persuading, involving, and organizing business interests that were not previously involved.

In the 10 countries studied, structured processes of communication were used to reach out to a broader range of stakeholders. This involved media campaigns and release of information on a broad scale; events such as conferences in which the message is highly controlled; and comments on draft laws, accompanied by information on the need for and benefits of the reform. These actions constrained the range of opposition. The following methods were used in the countries studied to include a broader range of stakeholder groups:

- media campaigns;
- presenting results of pilot projects;
- building partnerships with business associations;
- MOUs with specific partners, usually business associations and local governments;
- asking specific stakeholders to join in development of the reform;
- ministerial meetings with heads of important stakeholder groups to ask for support;
- focus group meetings to discuss specific issues;
- conferences for larger groups to introduce reform models and plans;
- joint public-private meetings and conferences;
- seminars and workshops involving foreign experts to communicate international experience;
- awareness-raising seminars for smaller, professional groups;
- targeted consultation workshops;
- training events in the new system;
- public discussions on draft laws;
- circulation of draft laws and analysis of reforms for comments;
- publication of drafts and analysis in newspapers or on Web sites; and
- public and media statements from business organizations supporting the reform.

In addition, some countries tried to expand allies for reform in this stage by accommodating concerns and producing early wins, as in Tanzania's early streamlining of some onerous requirements of the general business license and Ukraine's completion and marketing of successful pilot projects in a few municipalities.

The key to success in this phase seemed to be getting the message right, targeting the right stakeholders, and choosing the right medium for communication. More professional groups were usually included in smaller events, such as workshops, while messages about the benefits of reform were communicated more broadly, such as through the media. In all cases, discussion of the reform was never open-ended. The reformers controlled the message and focused the

debate as far as they could around issues that highlight the benefits of the reform.

There was no principle of full disclosure for this kind of reform in the countries studied. Sometimes, reform operated in the stealth mode. The traditional French method to avoid politically damaging protests is to reform by stealth, and that is what happened in the business registry reform. Outside of those directly involved, few knew that the reform was underway. In Vietnam, the reformers knew that "no one was fully aware of the scope and degree of the reform" and indeed the "full scope and degree of the reform inherent to the law on enterprise was not yet disclosed intentionally when the law was adopted. Meaningful changes were concealed implicitly in a number of articles of the law." The strategic disclosure of information reduced potential ideological opposition to the reform and allowed reformers to make "breakthrough steps in releasing resources for economic development and radically changing the role of the government in managing the economy." Once in place, the reform was irreversible, and was confirmed in 2005 when the law was revised again.

Stealth was not a general principle of reform. However, stealth is a tool that some reformers (France, Vietnam) used to good advantage in highly resistant environments where risks of failure were high. In both cases, it was part of a general strategy of selective and progressive stakeholder involvement over the phases of the reform, aimed at building a critical mass of allies that permitted the reforms to move ahead.

Phase 4: Political Acceptance and Adoption

At some stage, the technocrats and reformers who were managing the reform entered the political process to gain ministerial and/or parliamentary approval for the reform. In seven countries, political commitment and leadership occurred very early in the reform process, sometimes even before the reformers were organized. In fact, early commitment of the political leadership to the reform seems be somewhat correlated with results. Countries that had very early involvement and commitments from powerful political leaders had an average of a 62 percent reduction in cost and time of registration, while countries that did not have early political commitment had an average 41 percent reduction in time and cost. This is presumably because, with credible political backing, potential opponents were intimidated, allowing reformers to challenge existing interests more effectively and go further with more far-reaching reform solutions.

In all 10 countries, however, there was a need during the reform to submit the reform to political authorities for adoption. With careful preparation of the political system, this phase went smoothly in several countries. But in most countries there was a heightened level of risk because opponents attempted to use access to the political level to block the reform. This is a natural and unavoidable risk in democratic systems, where the political process is porous and is designed to identify and manage conflict through compromise. Such a process can undermine the benefits of a highly engineered reform, since even small changes to a highly engineered reform can substantially reduce performance. Attempts to block or reduce the benefits of the reforms were evident in these countries:

- In Serbia, reformers worked with the Parliament a three-day debate on the reform bill, successfully mobilizing arguments and maintaining the coalition to defeat dozens of amendments that would have reduced the benefits of the reform (see **Box 2**).

- In Turkey, resistance inside the bureaucracy was reduced by clear political commitment. The AKP government issued a Decree of the Council of Ministers on Dec.31, 2002, to stress its support for the reform program, and directed the Minister of State for

BOX 2

Principles of Reform Adopted by Serbia, June 2003

In June 2003, the Serbian government adopted the principles of business registration reform (a conditionality for a World Bank loan). Until this point, there had been no political consensus on how to implement the reform, but the principles created a mandate for the most important pieces of the reform that reformers then used as the basis for drafting the new legislation. The principles read as follows:

The new registration system will create a **unified business register** for Serbia. The new register will include, at a minimum, all business activities covered under the current Federal Enterprise Law and the Republican Law on Private Entrepreneurs. It will not include the registration of NGOs nor of certain professions.

The new business register will be administered by an **independent administrative agency** rather than through the commercial courts and municipalities. The new agency will have offices across Serbia, but will work from a single, centralized, electronic database. The agency will be part of a central registry system, which may include other registries, such as the registry of pledges (collateral). However, it will be separate, independent, and self-funding.

The new system will **streamline data requirements** for each class of business to European benchmarks. In accordance with international best practices, the adjudicative aspect of registration will be minimized, making it a largely administrative function. Except when an actual dispute exists and is referred to the courts, there will be no judicial review of registrations.

The new system will seek, over time, to create a **unique identifying number** for each business that will serve government needs. This is in contrast to the present system, which has several numbers (tax, registration, general ID) for each enterprise. Discussions with the Ministry of Finance on joint issuance of business registrations and tax IDs are already under way.

Treasury to head the reform. But this political force faltered in the more difficult arena of the Parliament. Organized interests blocked some key reform proposals at the parliamentary stage. For example, notaries were able to block the article that proposed to abolish notary approvals.

- Perhaps the most dramatic evidence of the risks at this stage occurred in Bulgaria, where opponents entered the political process at the final moment, almost stopping the reform completely. In the parliamentary stage, legislators influenced by lawyers opposing the bill introduced into the reform law a requirement that registration officers have three years of legal experience, which created a major implementation problem in finding staff for the Register. After the Parliament approved the law, a potent coalition of influential judges and lawyers within Parliament convinced the President's legal advisor to veto the bill, which came as an unwelcome shock to the reformers. The President's veto was reversed by a coalition of business associations who met with the President to persuade him, successfully, that the reform was necessary to prepare Bulgaria for EU accession.

An effective way to lock in political allies, and to reduce the risks of reversal, was to get early buy-in at the highest political levels of the core principles of the reform and the preferred solution. In Serbia, reformers developed early in the reform a set of reform principles that were submitted to the government by supportive ministers for adoption (Box 2). Adoption of clear principles by these governments empowered allies of radical reform, and reduced the power and influence of opponents arguing for the status quo and for sub-optimal solutions.

Phase 5: Implementation

While the high point in reform in several of the countries studied was adoption of the reform, it was at this point that the reform suddenly became much more vulnerable to opponents. In fact, the riskiest phase in the 10 countries was the actual implementation, where stakeholders either opposed to reform or passive once again were sometimes able to take control of the process. For example:

- In Indonesia, resistance by notaries to using the new online system (which admittedly was not working very well) resulted in a change to the reform design, creating a loophole that permitted old abuses to continue. Years after the new system was launched, 25 percent of notaries still did not understand the legal foundation of the new system, and around 20 percent of notaries saw no difference between manual and online systems. The case study authors believed that more education of key stakeholders should have been done in using and benefiting from the new system.

- In Vietnam, some government agencies and officials skillfully used problems caused by the reform (such as the creation of "ghost companies" and the need to prevent "social evils") as practical arguments to justify their proposals to replace the unnecessary business requirements that had been removed. Hundreds of new regulations and business licenses were issued without sufficient control on their quality.

- In Serbia, implementation ran into several problems as stakeholders reacted against the reform:

  – The commercial courts, the most intransigent opponents of the reform, continued to resist implementation after the new business registration law had been adopted, apparently hoping to discredit the reform and reverse the political decision. Opposition took an astonishing form: under the Business Registration Law, the courts were required to surrender to the new registry their archives and paper registries. The courts transferred the registration archives to the new registry slowly and reluctantly, and some courts even defied the law and never submitted the requested documents.

  – Although software was not ready, the implementation phase was rushed through because "postponing the implementation would endanger the whole reform and . . . all the opponents of the reform (in particular the commercial courts and the Ministry of Justice) would have leaped at the opportunity to try to prove that the reform is not implementable." Due to an emergency grant from USAID and Microsoft, the new business registry was able to begin limited operations only months after the reform law was adopted.

  – Even after the new agency was operating, new opposition emerged to creation of a one-stop shop. The Ministry of Finance and the Tax Directorate claimed that they were not ready to accept that the Tax Identification Number should be issued by the new registry because that might increase the creation of "phantom" companies and tax evasion.

- In France, the registry bodies supported the reform, but raised registry fees after the reform was completed, capturing some of the gains of the reform and partially reversing cost-savings for businesses.

- In Tanzania, the local authorities were suspected of introducing new revenue generation measures, including new forms of permits and possibly levies, as an alternative source for the revenues lost through the removal of the licensing fee. This means that the burden to

businesses, rather than being eliminated, was shifted from business registration to regulatory licensing.

- In Bulgaria, the influence of reformers was greatly diminished when a newly formed registry agency took over, staffed by the Ministry of Justice. The new agency in the Ministry of Justice suffered from poor organization, limited expertise, weak accountability for results, and insufficient authority to take decisions about staff restructuring. "During the period of implementation, the donors could not influence the Ministry of Justice and its implementing Registry Agency as effectively, as these two institutions rejected any foreign assistance and turned back to conservative law professors for guidance," concluded the case author. As a result, the reform stalled. The delay re-energized opponents of the reform, who argued that the design of the reform (a centralized administrative register) was flawed. Major reform opponents, such as private database companies that survived by selling company information, actively lobbied to undermine the Registry Agency's implementation efforts. They have been unable to reverse the reform, but operation began in January 2008, almost two years late.

Successful countries, as noted, were more likely to create new institutions with incentives for professionalism and good results, rather than to re-engineer existing institutions. Bulgaria's radical reform design suddenly did not look so radical in implementation after it was integrated into the Ministry of Justice machinery, which was not skilled in developing user-oriented services.

V.2. Integrating the Five Phases

One of the lessons from Annex 2 of this report is that the five phases of reform substantially overlap. Actions in various phases were initiated simultaneously, as in Mexico, when the three phases of idea formation, reform organization, and political commitment all occurred very early in the reform, driven by orders from the President.

A pattern in the most successful countries is that the stakeholder management strategy was genuinely a strategy in which each stakeholder contribution fed into the next element of the reform. Information was used to leverage the production of more information and support. Consider, for example, the process of reform in Ukraine's cities of Kherson and Ivano-Frankivsk in implementing business registration reform at the municipal level in 2001-2002 **(Box 3)**. Reformers and donors asked for a formal request from the top political official; documented the problem using a survey and focus groups; communicated the results; created wider working groups of key stakeholders to draft solutions; got the media involved; did more analysis of the solutions; organized roundtables; and published the best arguments for change in the media. The reforms were accepted, implemented, and evaluated, and the results of the evaluation (for example, the decrease in corruption) were used to drive other reforms in other cities.

The Ukraine example illustrates the principle of accelerating momentum, in which a small reform group creates wider and wider ripples of support until opponents are overwhelmed or intimidated into silence. The five-phase model of reform used as the basis for this analysis enables reformers to build stakeholder participation not as a massive, early consultation exercise, but in phases, as information is developed, solutions are designed, and allies are persuaded.

V.3. Strategies That Changed Stakeholder Views Toward More Pro-reform Stances

Section V.1. reviewed the key issues and participants that arise in each of the five phases of the reform. An even more interesting aspect of the reforms was the shifts in stakeholder positions as

BOX 3

The Phased Strategy of Stakeholder Management in Ukraine's Cities

Business registration reform in Ukraine began with a few pilot cities. Their experiences were used to promote reform around the country. The stakeholder management strategy in the pilot cities was deliberate, phased, and successful.

At the beginning, the reformers obtained the support of the city mayors in official letters, assisted by a USAID project. Focus groups were conducted with representatives of business communities from the cities of Kherson and Ivano-Frankivsk. The anonymous surveys were made by independent firms without the participation of municipal officials. The focus groups confirmed that business registration was one of the most substantial administrative obstacles in the regions.

The results of the surveys were presented by representatives of the USAID project to city mayors and their deputies, who decided to launch the reform of business registration procedures in their cities.

Working groups responsible for conducting and implementing business registration reforms were established by municipal authorities. Membership included at least 50 percent of representatives of local SMEs, NGOs and think tanks. All interested representatives of municipal business communities were engaged in the working groups. Reform-oriented deputy mayors were appointed as heads. Others who participated in working groups included representatives of the local offices of executive bodies responsible for post-registration procedures, and representatives of local offices of the national committee for entrepreneurship (SCRPE) and its regional ombudsmen.

The local mass media announced the establishment of working groups and their contacts, invited interested parties to present their views and propose recommendations about reform in their cities.

Using the expertise of SME representatives and professional skills of municipal officials, the working groups drafted Decisions of Executive Committees of City Councils to implement the one-stop-shop approach. During the drafting process, municipal officials tried to protect their bureaucratic interests and maintain the non-transparent registration system, while entrepreneurs in turn protected their interests. Each member's proposals had to be justified for inclusion in the draft. The proposals of SMEs were better justified, based on real business needs. During document drafting, the members of working groups prepared cost-benefit analyses to estimate the cost and benefits of implementation of business registration reform in the cities. Such analyses and surveys provided evidence for municipal authorities and business communities of the need to implement the registration reform.

Final decisions were accepted by voting. The working groups organized a roundtable to discuss the drafts with mayors, deputy mayors, and other municipal officials and to present the benefits of business registration reform to obtain consent from municipal officials. Mayors were persuaded to follow the recommendations of the working groups supported by local citizens and business communities.

The draft decisions and cost-benefit analyses were published in local newspapers and a date was announced for a public hearing. Disputes between working group members and representatives of business communities were discussed during the public hearings. The results of public hearings were promulgated by local mass media.

After improving the draft decisions on the basis of public hearings and written proposals of representatives of local business communities, the working group submitted the draft decisions and cost-benefit analyses to the mayors for consideration and adoption.

the reform progressed. In several countries, stakeholders who were initially skeptical or passive became more supportive over the course of the reform. This movement suggests that underlying views of the costs and benefits of change were shifting. This is, in turn, an indicator of a successful stakeholder management strategy.

Moreover, those who engaged in corrupt practices lost influence as the reform progressed in

most of the 10 countries. In Bulgaria, for example, "As the reform supporters gained media support, those opponents preferred to avoid stating publicly that they were against the reform. This reduced significantly their outreach to the general public and some major decision makers while those target audiences were consistently exposed to pro-reform arguments. As a result, the strength of the hardcore reform opponents waned over time."[11]

Stakeholders who shifted toward reform generally fall into five categories:

1) **Support stimulated by better information**. In some countries the media and the public became more supportive as information on the benefits of change became more available. Business associations too tended to be more supportive as they received more information about what other countries were doing and what the benefits might be for their members.

2) **Support stimulated by new opportunities for rent seeking**. Interestingly, some resistance disappeared when the stakeholders realized that they could actually gain more rents from the new system. In France, for example, registry agencies supported the reform when it became clear that the number of registering businesses would increase, while fees stayed the same or increased as well. None of the governments actually compensated losers directly. However, in France, registrars not only got more businesses to register, but a year later succeeded in increasing their fees for registration. The decision to raise fees could well have been a hidden quid pro quo of the initial reform, but this has never been publicly stated.

3) **Support stimulated by better organization and advocacy capacities**. Business associations learned to mobilize around the reform, notably in Bulgaria and Vietnam. The reform itself provided the opportunity for associations to build capacities to become more influential stakeholders.

4) **Support stimulated by strategic retreat and diversion of resistance into the implementation phase**. In some countries, active resistance became passive resistance and passive resistance became mild support as the reforms proceeded partly because the cost of resistance became higher and higher as support for the reforms increased. This strategic behavior proved to be quite dangerous for the reform, because resistance appeared again in the implementation phase. Some of these countries had seen gains of reform eroded or delayed due to problems in the implementation phase.

5) **Support stimulated by a change in the reform design**. In some countries, the reform was redesigned or changed to accommodate stiff resistance.

Table 5 below summarizes the stakeholders who became more positive about the reform in each of the 10 countries, with some information about their incentives in doing so.

Messages are most effective if they address the incentives that drive specific interest groups. Interest groups have different incentives for action, and hence successful reformers tailor the message to the stakeholder. In France, reformers used two key messages during the debates in Parliament.

- The first message promoted the reform as a simplification exercise, in which the state did not lose any regulatory power (i.e., this was not an Anglo-Saxon deregulation project).

- Second, the reformers stressed that the objective of the new law was to help new entrepreneurs and small businesses, such as artisans, who were important creators of new employment.

11 "*Stakeholder Management in Business Registration Reforms: Country Case Studies.*" 2008. Investment Climate Advisory Services, World Bank.

TABLE 5

Stakeholders Who Shifted to More Supportive or Less Opposing Positions During the Reform

Bulgaria	■ Media and the public became more supportive as the reform unfolded and as reformers used information to create a better informed public opinion. ■ Business associations became more skilled at working together to advocate for reform. ■ Some opponents became less vocal over time in opposing the reform but worked tacitly against the reform in any case. ■ With the progress of the reform efforts, government officials understood that change was inevitable and resistance waned. ■ As they learned more, many judges and lawyers became at ease with the reform and contributed to drafting of the law. Their support was a useful tool in the public campaigns.
France	■ Banks and Ministry of Finance became more supportive as accommodations were made in the reform to retain an approval important to them. ■ Greffiers became more supportive as they recognized that there would be an increase in the number of registrations, which would increase their revenues.
Indonesia	■ Notaries became supporters after education and training increased their understanding that they would actually save time with electronic rather than paper registration (i.e., they could internalize some of the cost savings of the reform.) ■ Business practitioners (especially SMEs) as understanding of the reform increased.
Jordan	■ Heads of offices in the ministry undergoing reform became more positive as active leadership was sustained, and as more information became available.
Mexico	■ Civil servants who either understood that change was inevitable or were persuaded (through involvement and training) of the benefits of reform. ■ Business groups did not participate in the SARE's development phase, but took an important role by promoting the SARE after the first one was established.
Serbia	■ More progressive and younger lawyers and judges who wanted a more professional judiciary. ■ Ministry of Justice, which earlier opposed the change, became supportive once the reform law was adopted. ■ Business associations that wanted to carry out registrations themselves became more supportive when it became clear that a different solution had been politically endorsed. ■ The Serbian Statistics Bureau became supportive when reformers made clear their data needs would not suffer under the new system.
Tanzania	■ Government officials involved in registration became more passive as evidence of the shortcomings of the licensing system showed that change was inevitable.
Turkey	■ Business associations became more active during the reform. ■ Notaries decreased their resistances as they realized that more companies meant more income. ■ Civil servants became supporters as they realized that reform was inevitable.
Ukraine	■ Public became more aware and supportive of reform as information campaign unfolded. ■ City mayors became more active as they understood the direct benefits of the reform for their city tax revenues. ■ Mass media become increasingly supportive.
Vietnam	■ Business associations became more active over the course of the reform. ■ Domestic investors became more aware of the problems facing them, although some still actively lobbied deputies against the reform and had no clear position on reform. ■ Public media became more active in advocating for reform, particularly in the implementation stage.

TABLE 6

Bulgaria – Messages and Strategies for Stakeholder Management

Group	Main Message to the Group	Stakeholder Management Strategy
Registration Judges	Most of the registration procedures are **too simple** to be administered by highly qualified judges; clerks should be entrusted instead. Taking registration out of court will **speed up court proceedings.**	■ involving progressive judges and law professors in legal drafting ■ finding legal arguments supporting reform ■ answering judges' concerns by explaining how the new system will work
Ministry of Justice	This is an **easy-to-implement** reform, which has an **anti-corruption** effect and can help prevent economic crime.	■ helping to draft the law and secondary regulations ■ providing technical assistance during implementation ■ putting pressure through international institutions, the media and local business associations
Ministry of Economy	The new registration system will help create a **favorable business environment.**	■ providing regular flow of information on reform progress ■ inclusion in working groups
Parliament	This reform has a **high profile** internationally and locally and will be easy to implement.	■ helping to draft the law ■ providing good justification for the adoption of the law ■ putting pressure through international institutions, the media and local business associations
Media	This reform is **important for society** – it will help create an environment which will encourage rapid economic development and investment.	■ providing a constant flow of easy-to-understand balanced information ■ organizing special media events ■ providing access to useful information on European Union best practices and key local and international experts
Business Associations (BA)	Your **members** deserve a transparent and reliable registration procedure.	■ providing a neutral ground for building a coalition ■ drafting a common statement and advocacy campaign messages to be used by the BA managers in their meetings with the media and decision-makers

Table 6 shows how the reformers in Bulgaria identified key messages for each important stakeholder, and designed a strategy to reach those stakeholders most effectively. This table could be a useful input into development of a stakeholder management strategy in any country.

Based on the preceeding discussion, we can now connect specific stakeholder strategies with specific incentives that seem most effective in changing them. **Table 7** identifies, for each incentive of potentially active stakeholders, the management strategies that appear to be most effective. The intent is not to engage every stakeholder, as some stakeholders are so "hard-core" opponents that resources and time spent on them would be wasted. As the writers of the Bulgarian case concluded, "The remaining hard core of self-interested opponents could not be reached and was not the subject of the advocacy efforts as it would be impractical to fight against an invisible enemy who would not easily abandon a position providing good financial benefits and power."

TABLE 7

Linking Incentives With Stakeholder Management Strategies

Weaken incentives to oppose reform	Stakeholder management strategy
Skepticism of the effectiveness of reform	Provide concrete information on results in other countries.
Legitimate concerns about the principles and design of the reform	Discuss concerns, accommodate as needed without substantial damage to results of reform.
Ideological principles (hardcore opposition)	Reduce participation in the reform process, link reforms to high priority political goals such as unemployment.
Personal interest in the existing system (hardcore opposition)	Expose realities of current system, deploy concrete evidence of the benefits and costs of the new system, demonstrate benefits of new system in terms of revenues.
Strengthen incentives to support reform	
Political advantage and commitments to mark a new political regime	Link reform to high priority political goals such as unemployment, assemble powerful coalition of allies, such as business associations with political influence.
Technocratic agendas and professional values	Provide information on the benefits and costs of the new system, clear vision of the design of the new system.
Personal interest in economic gains from reform	Demonstrate the financial gains from the new system.
Support for broader policy goals linked to the results of business registration reform	Link reform to high priority political goals, use international information to document effects.
Donor and exogenous pressures	Link reform to exogenous pressures as "drivers" of reform, assemble reform counterpart for donors.

VI. LESSONS LEARNED ABOUT STAKEHOLDER MANAGEMENT STRATEGY: THE COMPETITION FOR POLICY OUTCOMES

The question asked at the beginning of this report was "How can the paralyzing dynamics of interest-group politics become the enabling dynamics of interest group politics?" The approach taken here is to view stakeholder interests, not as an exogenous constraint on reform, but as an endogenous driving force behind reform that can be influenced as interests compete to control public policy.

> Reform occurs through structured processes of stakeholder competition. The tools of stakeholder management are those that promote, for stakeholders who will benefit from change, easier entry and stronger position in the "market" for public policy.

The experience of these 10 countries shows persuasively that stakeholder views and their influence on policy reform can be changed through deliberate strategy. The intensity of the policy competition in business registration is starkly illustrated in the case studies. Many groups vie for advantage, and stakeholder management strategy is not only wielded by reformers, but also by those opposed to change, who also use values, the media, and interest groups to argue against reform. Battle for the hearts, minds, and interests of stakeholders cannot be avoided if reform is to succeed.

This review of experiences in 10 countries supports the view that reform occurs through structured processes of stakeholder competition, and that processes of policy competition can be influenced by strategies of stakeholder management. The tools of stakeholder management are those that promote, for stakeholders who will benefit from change, easier entry and stronger position in the "market" for public policy. Since those who support the status quo usually have better information and access in the policy arena, stakeholder management can be seen as a process of leveling the playing field in the national policy process, which will in turn speed up the process of reform as new stakeholders maneuver for control.

But, just as the outcome of a market is uncertain, stakeholder management is a highly

uncertain process. The value of a scrutiny across 10 countries is that patterns of success, if they exist, can be identified. All 10 of these countries were successful to one degree or another with business registration reform, although Tanzania is just entering the implementation phase. Bulgaria and Indonesia are still struggling with difficult implementation (due in Bulgaria, to the capture of reform by non-reform interests, and, in Indonesia, to poor preparation and consultation in the solution design phase).

It was theorized at the beginning of this report that management of *incentives*, *opportunities*, and *capacities* is likely to be at the heart of stakeholder management, and this is supported by the case studies. The case studies can be used to draw positive and negative lessons about how stakeholders can be effectively managed. These lessons can be used to test general recommendations about how stakeholders should be engaged. The 2005 *World Development Report* (p. 70) recommended, similar to many other reports, that a stakeholder management strategy should be based on early and broad engagement with stakeholders:

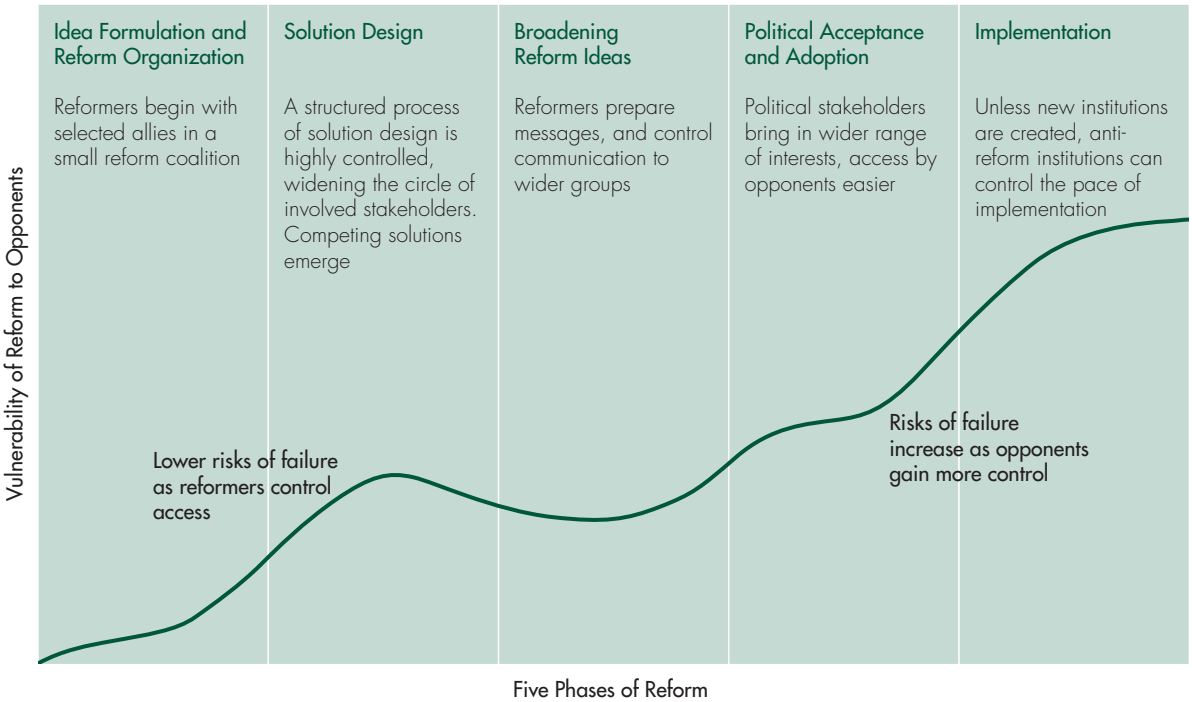
- Early consultation with key stakeholders, including potential winners and losers, on proposed changes can help validate assumptions behind the proposed improvement. It can garner suggestions on how proposals might be fine-tuned to lead to better outcomes or easier implementation.

- Broad consultations can also allay concerns that favored groups might exercise disproportionate influence in policymaking processes, thus enhancing the transparency and public acceptance of reforms.

Early and broad consultation with winning and losing stakeholders is not supported by this report. As discussed below, none of the 10 countries studied began with a broad, national strategy of consensus-building among all stakeholders. Rather, the pattern of successful

FIGURE 2

Risks of Reform Failure Due to Stakeholder Mixes



reformers is to build relationships with stakeholders in successive phases. Strategic choices were made about the timing and nature of the approach to stakeholders, and broad consultation occurred in the mid-point of the reform, if at all.

As the reform progresses, the risk of failure changes with the changing influence of different interests. **Figure 2** shows a stylized view of the expected level of risk over the course of the business registration reform. The launch of the reform is low risk because the stakeholder involvement is small and tightly controlled, but as the reform progresses, more and more stakeholders become involved, and by the implementation phase, the original reformers have lost much of their influence. It is at this stage that some anti-reform interests – unable to stop the reform itself – gain more influence over the timing and content of the reform. This is where at least three of the 10 countries studied have lost most of the benefits of the reform.

In summarizing the lessons learned about managing such risks, this section is organized into two subsections. Subsection VI.A. draws general conclusions and recommendations about overall strategies of stakeholder management. Subsection VI.B. identifies specific and more detailed strategies of changing incentives and building capacities in each of the five phases of reform.

VII. STAKEHOLDER MANAGEMENT STRATEGY RECOMMENDATIONS

Successful countries followed similar patterns of stakeholder management to increase:

- *incentives* by changing perceptions of benefits and costs of reform and the status quo, selective tactics of financing and allocation of responsibilities, and using organized reform interests to increase pressures on passive stakeholders;
- *opportunities* by creating new, structured means for stakeholders to participate in the reform process; and
- *capacities* by building analytical skills in the reform units and organization among previously disorganized interests whose incentives are pro-reform.

VII.1. Recommendations on Principles and Strategy of Stakeholder Management

The recommendations below add more detail to how this was done.

1) **The most effective stakeholder management strategies are built on the principle of accelerating momentum, in which reformers selectively bring stakeholders into the process at different phases to build a winning coalition. Consensus is not the right principle for stakeholder management.**

Manage Stakeholders by Progressively Building Pro-reform Coalitions

Good practices Winning reformers:

- start with small groups to collect information on the need for reform;
- conduct good analysis and selective consultation in the solution design phase;
- follow up by broader consultations as information, arguments, and clear solutions are ready for presentation to broader audiences;
- prepare political processes to adopt reforms;
- split opponents by appealing to subgroups; and
- bring in incentives and financing selectively.

Poor practices Losing reformers:

- make public announcements without good preparation;
- fail to engage the key stakeholders first;
- try to build consensus around reform from an early stage;
- fail to put forward persuasive arguments for reform and a clear view of the new system; and
- engage in limited efforts to broaden marketing and understanding about the reform, unless political support is very strong.

The heart of good stakeholder management is strategic management of information and participation in the interest of achieving adoption and implementation of change. None of these countries began with a broad, national strategy of consensus-building among all stakeholders, winners, and losers. Most started with small groups that realized that resistance would build over time as the nature of the reform was recognized. Most of them used the initial phases of the reform to build information and selectively build pro-reform coalitions, before moving into broader information dissemination.

In the best examples, the process of strategic expansion of successive layers of supportive stakeholders resulted in a momentum of reform that became self-sustaining. A good example comes from Ukraine: "City Mayors were under constant pressure from regional NGOs and local SMEs. To strengthen the image of the territorial community, they had to promote the reform of the business state registration system. This is a good example of how emerging stakeholders created a dynamic of a growing circle of supportive stakeholders, in a kind of virtuous circle." A few countries, such as France, moved to foreclose opposition through decisive political support and fast action:

> Early on, the government took the decision that the Prime Minister would personally champion the reform. The Prime Minister directly instructed the SME Minister and charged him to supervise the process and obtain results quickly.

At the heart of most strategies was the realization that neither support nor opposition to reform are fixed in time. The Vietnam case author concluded that "it is necessary to keep in mind that all those pressures are temporary and unstable." A dynamic strategy of stakeholder management was necessary to maintain a stable reform path as the participation of various stakeholders waxed and waned throughout the reform.

Ironically, early public announcement of reforms was meant as a replacement for consensus, not as the beginning of consensus-building. Where reforms were announced broadly from the very beginning, political support was already top-down, strong and credible. Wider consensus was

not seen as necessary to success. In France and Indonesia, where there was a broad public announcement of the reform at the beginning of the process, there was strong political support from the top levels of government. Reforms were announced by high-ranking political personalities, and both countries reformed rapidly, not slowing the reform to engage in broad consultations. This top-down approach to reform worked fairly well in France, where powerful business interests participated in the discussions and solution design to push against bureaucratic resistance. But this wasn't the case in Indonesia, where design was done in isolation inside the ministry. Important flaws in design and implementation slowed application of the new system, and prompted many complaints.

2) **Relations with key stakeholders should be highly structured to produce concrete, practical opportunities for dialogue, based on principles of participation and empirical information rather than consultation and consensus.**

Structure participation of stakeholders to foster direct participation based on principles of partnership and information sharing

Good practices	Winning reformers: ■ organize a wide variety of concrete opportunities where key stakeholders can sit down in smaller groups for more organized and practical dialogue; and ■ build capacities in reform bodies for fostering dialogue with stakeholders.
Poor practices	Losing reformers: ■ attempt mass consultation that is poorly targeted and does not encourage structured dialogue.

The forum through which stakeholder consultation occurs is important. Rather than mass communications emanating from a distant reformer, successful reformers organize a wide variety of concrete opportunities where key stakeholders can sit down in smaller groups for more organized and practical dialogue. The scope of organization of these opportunities for dialogue in major reforms is daunting. In Turkey, some 300 meetings with the private sector were held over the course of the reform, and the relevant minister called the process "a revolution in the mentality of reform." The opportunities for such dialogue include:

- workshops, seminars, conferences, focus groups, study tours, and presentations of various kinds in the idea formation phase;
- working groups, drafting teams, survey projects, roundtables, and research bodies of many kinds, as the reform moves into the solution design phase;
- public hearings, public comment processes, and conferences, as the reform moves into the marketing and broadening phase; and
- monitoring units and conferences for presenting progress reports, as reform is being implemented.

Of course, opponents of reform, if they are well organized, will also structure the idea formation and solution design phases of the reform to capture the reform. This was seen in the attempt by Bulgarian judges to dominate a working group that excluded reformers in order to develop a marginal reform that protected their interests.

Interestingly, probably because these reforms occurred when interconnection penetration rates were only beginning to rapidly increase, almost none of these countries use the Internet as part of its communication strategy with stakeholders. Only in Ukraine were the draft Business Registration Law, the draft by-laws, and a Concept of Business Registration Reform published on an official Web site, where interested stakeholders had 30 days to submit their comments, recommendations, and proposals online.

The essential message appears to be that stakeholder participation in successful reforms is not

at all like the very formal and ritualistic processes of stakeholder consultation – such as a major stakeholder conference – that one often sees around major reports or poverty programs. Instead, in these 10 countries, stakeholder involvement was a process of direct participation based on principles of partnership and information sharing, and most often – at least in the early and middle phases of reform – with smaller groups that could comfortably sit around a table and effectively work together.

Donors should not control or preside over participation processes, but should assist reform institutions to build capacities for creating and using opportunities for dialogue. In Ukraine, "The activities of [the state body overseeing the reform] in establishing an efficient dialogue with the private sector was assisted by international donor organizations."

3) **Information about the benefits and costs of change is the most powerful weapon for reformers seeking to build coalitions for change. Reformers should generate and communicate factual and credible information about the costs of the status quo and the benefits of reform.**

The most effective and lowest-cost way to mobilize supportive stakeholders is by generating and disseminating information. In all of the 10 countries, the existing registration systems had already been largely discredited as costly, corrupt and self-serving, and had built up powerful enemies who were natural allies of the reformers. But the potential supporters of reform were silent or passive due to ignorance of alternatives, skepticism about change, and mistrust of government reform.

These passive supporters were energized mostly by precise, credible information explaining the new system and the rationale for change, and documenting the costs of the system, the benefits of change, and the experiences of other

Generate and communicate factual and credible information about the costs of the status quo and the benefits of reform.

Good practices

Winning reformers:

- build policy analysis capacities in reform units;
- are as public as possible about the benefits of the new system and the problems of the current system. Study, document, and research the problems of the existing system and present clear solutions;
- counterbalance self-interested and legalistic reasoning with credible economic arguments. Link reform to public policy priorities (unemployment, competitiveness);
- use Regulatory Impact Analysis (RIA) to document benefits and costs;
- communicate a clear vision of how the proposed reform will work;
- exploit, construct and deploy comparative indicators;
- use information from other countries to show that alternatives can work;
- target the message to specific stakeholders;
- expose groups of key stakeholders to new ideas through study tours and international workshops;
- persuade that the solutions chosen are realistic and effective; perhaps through pilots or modeling the new process;
- enlist the aid of the media in getting the message out; and
- evaluate and communicate results as quickly as possible.

Poor practices

Losing reformers:

- talk about reform in generalities;
- fail to present clear visions of the future systems or answer doubts about its feasibility;
- do not present credible evidence that reform can produce concrete benefits; and
- do not document problems with the existing system.

countries, including comparative indicators such as the *Doing Business* indicators that were powerful communication tools. In Bulgaria and a few other countries, the impact of the reform in terms of faster registration, lower-cost registration, and lower corporate corruption was developed and was a key part of the media and public campaigns. Tanzania found, "Repeated and persistent focus on the same message over a long period of time is changing" the attitude of mistrust and skepticism. Vietnam found that "Documenting of 300 business licenses was considered as a starting time of the in-progress reform on business licenses." In Ukraine, one of the first tasks of reform was to "avoid the concealment by bureaucratic policymakers of the main problems related to business registration procedures." Here, international donors "were to become a powerful stakeholder in their own right in helping to educate and empower reformers." In France, "The OECD regulatory reform indicators first published in 1998 showed the very low ranking of France in terms of administrative barriers compared to other OECD countries.[12] The publication by the World Bank in 2002 of the first study on *Doing Business* further galvanized the administration."

Information is the most effective way to change the competition between stakeholders in the policy arena because it changes the underlying incentives to engage in policy competition. Secrecy and behind-closed-door discussions were seen as the enemy of reform in most countries. The reasons for this have already been explained: lack of transparency strengthens the insiders who have a monopoly on information. Transparency strengthens reformers and outsiders by disseminating new information and by opening up the channels of reform to wider groups of stakeholders with different incentives and views. All 10 of these countries made reform of business registration more public than almost any reform before it.

By demonstrating the costs of the status quo and the benefits of change, information empowers allies of reform and reduces the power of information monopolies often exploited by opponents of reform. The power of information – particularly concrete evidence that new systems worked well in other countries – is repeatedly documented in the case studies:

The Power of Information: Tanzania

In Tanzania, the case study author concluded, "The power, the evidence of the shortcomings of the licensing system was too apparent for [corrupt officials] to be able to withstand the flood of change . . . The strategy to influence [winners and losers] focused on building evidence and providing information, over a long period of time, proving that their interests did not lie with the status quo but a reform process involving the change of relationships between the public and private sector." The problems were documented through three studies commissioned at the very beginning of the reform in 2001 and their content "became the theme of extensive stakeholder sessions within Government and between the Government and the private sector."

- Information changes incentives. In several of the 10 countries studied, as information was produced and communicated, potential supporters were mobilized and their activities changed from opposition or passive support to active support. Tanzania produced credible studies that "confirmed the worst possible findings regarding the efficacy of the general business licensing regime" and as a result found that private sector stakeholders "shifted from an attitude of disbelief to one of improving their inputs to influencing the pace of change and the direction of change to more favorable terms." In Bulgaria, "As more information about best European practices and the positive impact this reform can have

12 See Web page on the indicators of product market regulation for 1998 and 2003 (www.oecd.org).

on the local economy became available, some of the politicians [originally against] gradually turned into supporters and played a key role in the success of the reform." In Jordan, the reform ministry "found it important to show employees and middle managers that an improvement in the OSS would enhance their work by providing examples of other one-stop shops around the world." In Serbia, "to develop the scope and principles of the reform and draft the law, RIA was applied. A detailed cost analysis of the new register was made to find the right balance between the requirements of an independent and self-financing register and minimum costs for the users-businesses. The analysis . . . gave good arguments in the public consultation phase."

- Information also discourages opponents. As information was more widely disseminated, the stakeholders who wished to preserve the status quo were usually placed on the defensive, forced into strategic arguments about public interests, arguing through hidden channels and connections with political authorities, or confronting reform with passive resistance in hopes that the reform would be defeated by inertia. Indeed, the success of ***public*** arguments about reform is what makes the political and implementation phases so vulnerable, because opponents cannot win with a face-to-face confrontation based on facts and evidence.

Information has different values at different phases of the reform. Before a reform is marketed beyond the small group of reformers, it is extremely important to develop a clear solution that people can easily understand. Such a vision mobilizes supporters, reduces unwarranted fears of change, and battles against exaggerated claims from opponents. Reformers who were clearer about setting out the parameters of the reform early were better at reducing unnecessary anxiety and at answering criticisms from opponents. Information on the solutions chosen, demonstrating their credibility and likely effectiveness, is particularly vital in environments where skepticism about the ability of the government to change itself is widespread.

- In Mexico, a standardized business start-up process was developed so that local governments could see more easily exactly what was involved in the reform.

- In Turkey, the case author concluded, "To stimulate the direct and intense participation of companies and investors to that process, it is of key importance that reform policies reflect the legitimate concerns of private sector and provide realistic and effective solutions to them."

- In the reforms that began in 2000 in municipalities, Ukrainian reformers invested in good analysis on the solutions: "During document drafting, the members of working groups prepared cost-benefit analyses to estimate the cost and benefits of implementation of business registration reform in the cities." This information was widely circulated to mayors and to the public through the media. Pilots in several cities in Ukraine helped other cities see exactly what a one-stop shop solution looked like and how it was implemented.

International cases and indicators of system performance in other countries seemed to be an effective way to convince stakeholders of the feasibility and desirability of proposed solutions. Nine of the 10 countries explicitly used international indicators and cases to choose their solution design, most of them using the *Doing Business* indicators. Study tours were also extremely effective in the four countries that used them, greatly changing the views of those who went, and empowering them to speak more authoritatively about how solutions work in practice.

In fact, international influences were strongest in the idea formation and solution design phases

precisely because those are the most information-intensive phases. International influences on solution design seemed to be strongest in countries undergoing profound market opening and globalizing stresses, as in Ukraine, Mexico, and Bulgaria. They are weakest in countries where market-opening dynamics were weaker, as in Indonesia and Vietnam. Bulgaria explicitly took best European practices as its guide in designing its new registry:

- In Bulgaria, when reform began, "awareness of approaches to business registration other than the court-based, run by district court judges, regime, was extremely low." The reformers took advantage of the accession to the European Union to argue that "Bulgaria's business registers, established in 1989 immediately after the democratic changes, were no longer adequate to the dynamic EU market." The reformers contrasted Bulgaria's burdensome, nontransparent registry with "European standards that had advanced far beyond and were now emphasizing easy electronic access to information, low-cost and standardized registration practices."

The media can be viewed both as a stakeholder and as a tool for influencing other groups in the process. Only a few of the 10 countries had explicit media campaigns, but they were very effective in those countries. In the countries where there was a deliberate effort to provide a stream of information to media sources, the media became more and more supportive of the reform over time, even, as happened in Bulgaria, championing the reform when it was threatened.

- Vietnam found that "The involvement and the contribution of the mass media was considered as one the main contributions which led to the success of the Enterprise Law." Members of the implementing task force were assigned media campaign tasks such as giving information to the media; preparing written comments on the features relevant to the Enterprise Law for the newspapers, and writing articles on implementation of the Enterprise Law.

Mobilizing the Media in Bulgaria

The Bulgarian media campaign consisted of regular monthly media events and articles authored by influential local and international experts, as well as frequent communications with the media to present new information in a way that made it clear what the public benefit would be. The public campaign made use of all reform allies, who spoke on the need and the principles of the reform. The active communication with the media brought an average of 10 articles and electronic media material per month during the two years of the reform. When reform activity was insufficient to generate media interest, USAID organized media competitions to recognize best coverage of business registration issues.

- In Bulgaria, "As the reform supporters gained media support . . . the strength of the hard core reform opponents waned over time. . . . During the reform, the attitude [of key stakeholders] grew from neutral and negative to mostly positive, thanks to the efforts to provide balanced and factual information to the journalists." During the difficult implementation phase, ". . . business registration has stayed on the public agenda and is under close scrutiny by the media and other stakeholders."

- In Ukraine, "The mass media disseminated the results of private-public dialogue through all channels of communication. SCRPE helped to educate representatives of national and local mass media on business registration issues, disseminated press releases to mass media and invited journalists to participate in the seminars and workshops on this matter."

Development of precise information on the impacts of reform is a powerful means of

mobilizing stakeholders. Stakeholder interest is more likely to be maintained in the implementation phase if stakeholders participate in monitoring the implementation and its results. In Ukraine, pilots in a few cities were evaluated, and the results of the pilots were widely circulated to boost support for the reform in other cities. In Jordan, the first phase of reform produced results that were not very good. Monitoring by an outside business group stimulated the Ministry to create a second phase of reform to address the continuing implementation problems. Turkey experienced the same results – stakeholders activated by the reform were disappointed by implementation problems, and business associations began monitoring the implementation of recommendations, and providing assessments to the government. In France, "the lack of proper evaluation – *ex ante* and *ex post* – of the economic gains and costs as well as their distribution between economic players may have missed opportunities to improve the appetite for further reform, reduce the opposition of some interest groups and increase the overall traction for new initiatives," concluded the case study authors.

4) Create new institutions with incentives to perform for clients, rather than re-engineering the same institutions that suffer from perverse incentives.

Create new institutions with incentives to perform for clients, rather than re-engineering existing institutions

Good practices	Winning reformers: ■ seek opportunities to create new institutions designed for effective performance, with incentives for professionalism and results.
Poor practices	Losing reformers: ■ attempt to re-engineer existing institutions to perform more efficiently without changing underlying skills and incentives.

Creating new institutions to register businesses was an effective way to prevent capture of the reform in the implementation phase, particularly when administrative cultures and incentives were strongly against achieving the purposes of the reform. In effect, creating a new registry institution short-circuited the existing administrative cultures, and created wholly new cultures for professionalism and performance aligned with the goals. In Serbia, for example, the new business registry was founded on new principles of transparency, client service, and cost-efficiency which would have been impossible to achieve in the courts, even with the best of intentions by court reformers. In Bulgaria, the reform was placed back within the Ministry of Justice, where implementation stalled as much due to poor administrative capacities as outright resistance.

5) Assist supportive stakeholders to become more effective in advocating change.

Assist supportive stakeholders to become more effective in advocating change.

Good practices	Winning reformers: ■ use the reform process to build analytical and advocacy capacities in key stakeholder organizations; ■ sustain advocacy through the entire reform until implementation is satisfactorily completed;
Poor practices	Losing reformers: ■ centralize advocacy in the core reform group so that other groups cannot mobilize effectively in support; and ■ lose advocacy support in the middle of the reform, increasing the risk of capture by opponents in the political and implementation phases.

In countries in transition, potential allies of reform often have little experience in advocating effectively for their interests. That is, while they might have the incentives and even opportunities to participate in the reform, capacity constraints may prevent them from doing so. In some of the studied countries, reformers, assisted by donors, built capacities for advocacy in key private stakeholders.

What does building capacities mean? Allies of reform, including the reformers themselves and other reform-minded stakeholders, should be able to:

- understand the options for the reform;
- use international experiences as they promote change;
- organize more effectively to advocate for reform; and
- build coalitions for reform.

Policy analysis capacities were built in reform units and key ally groups in six of the 10 countries to produce the information needed to drive the reform. Reform units became more effective as they built capacities to collect and analyze information, and to communicate information to others. Other studies have reached similar conclusions. A 2002 study of the Vietnam Business Forum concluded that donors can help by increasing seed funding and support for technical capacity building in such associations.[13] The risks of not creating good policy analysis capacities were suggested in Ukraine, where reform was supported as early as 1997, but where lack of experience and insufficient information led to adoption of bad reforms:

> "Policymakers suffered from a lack of time and professional skills to analyze sufficiently the problems of business state registration. This situation led to transformation of wholesome reform ideas into overregulation of the procedures of business state registration. This experience shows that, even where there is stakeholder support for reform, a lack of information or even misinformation will take the reform off course."

13 *Business Associations in Vietnam: Status, Roles and Performance* – Mekong Project Development Facility and Asia Foundation, August 2002.

6) Speed can be an effective tool for reducing resistance and stimulating support. The stakeholder management strategy must explicitly recognize the costs and risks of extensive investment in stakeholder communication and participation, and weigh the benefits of such investments against the costs of delay.

Move as quickly as possible, balancing the costs and benefits of expanding stakeholder participation in each phase.

Good practices	Winning reformers: ■ balance speed against inclusiveness, and ensure that the reform moves without undue delay through the reform process.
Poor practices	Losing reformers: ■ allow the reform to be stalled in an attempt to build consensus or to convince hard-core opponents.

The paradox inherent in the stakeholder management strategy is that, while the stakeholder management takes time, delay is the enemy of reform. The primary power of opponents of reform is to delay change, not block it outright. Reformers, on the other hand, have to prove their credibility and their ideas by actually implementing them and showing that they work. Long delays undermine reformers, strengthen the status quo, and exhausts allies.

- In Tanzania, the four-year reform period leading up to political adoption highlighted the difficulties involved in stakeholder management.
- In France, by contrast, reformers organized a very fast pace of reform driven from the top to reduce the chances that opposition would organize. The case study concluded that "the new administration could rely on a recently elected President and a majority in Parliament. The administration had also strong support from the business sector" and so could bypass the usual broad consultation.

The legal reform, from the decision to reform to the adoption of the law took only 11 months, which, by French standards, was a very swift reform, vindicating the decision to cut short consultation.

- The Serbian case author concluded that "Reforms should not be delayed because everything is not 100 percent ready. Most issues could be addressed during the process and lots of things learned by doing." Delay, the author concluded, would have raised more risks of failure and reversal than waiting for implementation to be completely prepared.

Development of the stakeholder management strategy must explicitly recognize the cost and risk of extensive investment in stakeholder communication and participation, and weigh the benefits of such investments against the costs of delay. The likely conclusion is that the ideal stakeholder management strategy lies somewhere on the very wide spectrum of choices between a rapid, top-down change, and a slow process of bottom-up consensus building.

Delay also permits opponents to organize better around their own reforms. In some cases, opponents of reform tried preemptive action to stop radical change. In Serbia, for example, the Ministry of Justice contracted the development of new software aimed at increasing the efficiency of the registration within the commercial courts. This software had to be scrapped when the decision was taken to move registration out of the courts completely. A similar move was tried in Bulgaria, when the courts tried to promote a soft reform aimed at improving the efficiency of the courts, rather than removing registration from the courts, the solution that was ultimately adopted.

7) **Create a winning coalition by scoping, moving quickly, adjusting, and compensating if needed.**

Change the reform of scope, speed, content and compensation as needed to assemble a winning coalition.

Good practices — Winning reformers:

- choose a scope that delivers real gains, but are realistic about matching the scope with the time and political support available;
- organize big reforms in substantial phases that can be logically followed with the next phase;
- make small concessions in solution design if needed to win over stakeholders; and
- find indirect forms of compensation as needed to soften opposition to the reform.

Poor practices — Losing reformers:

- choose a scope too large to be completed in a reasonable time frame;
- design reform in small steps that exhaust reformers and increase the cost of reform;
- lose control of reform design and permit changes to be made that substantially reduce the benefits of reform; and
- permit opponents to capture the benefits of the reform, reducing benefits to businesses.

A host of decisions must be made about the scope and content of the reform, and these decisions should take into account the likely balance of stakeholder powers and capacities.

a. Choose a scope that delivers real gains, but be realistic. Incremental reforms that must be won step-by-step increase the difficulty and cost of stakeholder management, while reforms that are too broad and long-term will be defeated by opponents. Phases might be needed to start reform and expand it over time.

A realistic stakeholder strategy will help make decisions on the scope of the reform. Right-sizing the reform is a key early decision. How much should reformers take on given the likely resistance and the time needed to deliver good

results? Too broad a scope risks long delays that lead to failure, while a step-by-step approach requires a series of sequential battles with opponents that exhaust the reformers and political allies, and permits opponents to take strategic action to undermine the benefits of reform.

The balancing to be done here was illustrated by the discussion earlier in this paper on the costs and benefits of expanding the reform to include business licensing. The Tanzania case provides a good example of how the scope of the reform is integral to the stakeholder management process, both in terms of actually managing the reform, and of ensuring that results justify the cost of reform:

> Benefits will only accrue if the introduction of the business registration system is implemented in parallel with regulatory reforms (specific licensing reforms) to ensure that the gains from addressing impediments resulting from general licensing do not shift their locus and take a different home . . . through specific licenses at the national level and hidden in a maze of local government by-laws. . . . Separating the two sets of reforms may be useful in the context of building stakeholder understanding and management. However, once this has been accomplished actual implementation should be in parallel.

b. Adjust solution design

Another strategy is to make small concessions in solution design if needed to win over stakeholders. This realistic approach, but, as noted above, a determinant of the success of registration reform is the skill of reformers in knowing when and how to accommodate concerns, without sacrificing too many benefits of the reform. This is mostly a benefit-cost tradeoff. For example, French reformers, "confronted with the real or imaginary concerns of the Treasury and the banking sector about the accuracy of a receipt of registration information," chose not to confront the banks, which would have delayed reform and its benefits, but instead allowed banks to keep an existing form, which reduced the time-saving benefits of the new system.

c. Compensate

A possibility often discussed in the "public choice" literature is to buy out economic "insiders" in both public and private sectors to induce them to support reform. None of the 10 countries explicitly paid financial compensation for losses due to the reform. But indirect forms of compensation softened opposition to the reform from key interests who could have badly damaged the reform.

The availability of financing to get reform implemented and long-term strategies to reduce direct revenue losses reduced tough resistance within bureaucracies. In most countries, business registries were designed to be self sustaining after a few months or a year, but initial financing was necessary to set up the system and transit from existing systems. This was true in the following countries:

- **Bulgaria**. A grant from the European Commission was available for the IT components of the new registry. This money changed the views of some in the Ministry of Justice, which implemented the EU grant, toward administrative rather than judicial forms of registration.

- **Mexico**. A federal-state agreement made financial resources available to cooperating states.

- **Serbia**. Funds for implementing the reform (around €1.4 million) were secured through a grant from the Swedish International Development Agency (SIDA) in January 2004, administered by the World Bank. The grant was used to purchase software, hardware, and operational costs in the first three months of the new registry until it became self-financing.

- **Tanzania**. A Tax Reform Committee that operated through joint public-private sector meetings discussed shifting government revenues from registration fees to much more efficient general taxation. Tanzania, however, introduced some instability in the new system by failing to ensure local authorities could charge sufficient fees to recover the costs of administering the system. The case study author concludes that "the success of the Business Registration regime will depend on the efficacy of the solution that is adopted" to meet the revenue needs of local governments without imposing more businesses licenses and fees.

The issue of direct financial compensation for losers of reforms is often discussed in the literature. In practice, this was not common. None of these 10 countries provided direct financial compensation to losers in the public administration in the form of higher salaries or job guarantees, although there might have been a hidden quid pro quo in France in which the Greffiers received permission to raise their fees after the reform was completed, after years of no increases. In Indonesia, the money received by the government through the increase of government revenue from the new system goes directly to Ministry of Finance accounts, not to the employees of the new system in the form of higher wages.

VII.2. Good Stakeholder Management Practices in Five Phases of Reform

The general lessons just discussed about developing a stakeholder management strategy can be refined to identify how winning strategies of stakeholder management change over the five phases of the reform. Each phase requires a different form of engagement with stakeholders – information, access, influence, organization – because the conditions for entry into the policy market are different in each phase. **Figure 3** summarizes the good practices over the five phases, each of which is discussed in more detail below.

1. Idea Formation and Reform Organization

Phase 1: Idea Formation and Reform Organization: Recommendations

Good practices	■ Document the detailed nature of the problem, costs and benefits of change. ■ Use comparative indicators to show relative national performance. ■ Organize a small central group or coalition of reformers with political backing, and independent of the existing registration system. ■ Obtain explicit political support for the reform. ■ Organize study tours for selected people to other countries. ■ Contact key private sector interests, even if informally, to begin building allies for the reform. ■ Provide donor inputs about other country experiences.
Poor practices	■ Start the reform with broad consensus-building and consultation about reform solutions. ■ Base proposals on vague ideas about the problems without documenting them with empirical measurements.

As noted, introducing new ideas into domestic policy processes is rarely a spontaneous event, but instead is driven by the right combination of information from outside the system, with a receptive group of reformers independent of the existing system, and a political economy that is susceptible to change. Information, usually from outside the country, is used to change the perceptions of benefits and costs, and so induce entry into policy competition.

The critical inputs in changing perceptions of the costs and benefits of reform seem to be diagnostics, international indicators, and study tours.

- Donor–generated comparative analyses of system performance were wisely used to put the business registration reform on the agendas of reform bodies and reform-minded politicians.

FIGURE 3

Stakeholder Management Strategies Over Five Phases of Reform

- The *Doing Business* indicators were influential in stimulating support for the reform at the beginning of the reforms in 2 of the 10 countries (several of the reforms started before the *Doing Business* indicators were published). Other indicators and diagnostics that helped initiate the reform were from the OECD and FIAS administrative barrier reports. Reformers or donors thinking of starting business registration reform would find these kinds of inputs a low-cost means of influencing reformers.
- The powerful impact of study tours in several of these countries is striking. Indeed, study tours to see business registries in other countries seemed to be the key event that created the commitment of technocratic stakeholders and business associations who otherwise would have been passive.

Information by itself is not enough. Information must be structured and communicated in a way that reaches the right actors and generates the right response. That is the job of the reformers, who

were generally expert technocrats whose professional interest lies in succeeding with reform.

2. Solution Design

Phase 2: Solution Design: Recommendations

Good practices	■ Provide detailed maps of existing processes to guide effective design. ■ Develop a clear vision of the new system to boost credibility and facilitate consultation and communication. ■ Maintain focus on efficiency and results by ensuring that reformers control the final product. ■ Design selective and controlled participation of users of the system such as through multi-stakeholder drafting groups or other means. ■ Accommodate where reform is threatened by powerful interests.
Poor practices	■ Permit defenders of the status quo too much influence over design of the new system. ■ Exclude key stakeholders from solution design, relying on complaints later as the system is implemented. This raises the costs of the new systems, and discourages users.

The goal of the solution design phase is to both create an efficient and realistic solution, and to ensure that a credible and positive vision of the new system is developed and communicated to wider groups of stakeholders. Of course, efficiency and realism are not always supportive of the same solution.

The first priority of good solution design is to understand the problems of the existing system. Reformers in all 10 of the countries studied based solution design on more or less detailed diagnostics and maps of existing procedures.

- Mexico is probably the best example, as it was the only country to design the new registry around the risk that businesses pose to public safety or environmental quality. The reform body produced a detailed federal catalogue of economic activities, categorized by risk of public and environmental damage, which identified formal steps and requirements needed to start up a business, and government entities involved in any formal step of the business start-up process. The solution design imposed more extensive registration requirements on the most risky businesses.

The solution design phase is highly sensitive to the stakeholder management strategy. Two competing strategies must be balanced in this phase: the need to ensure that the solution design is high quality and produces the desired results, and the need to bring in a wider group of stakeholders to build ownership and draw in expertise.

1. It is important in this phase to develop a clear and coherent reform that can be communicated clearly to the wider group of stakeholders. This pushes reformers toward a highly technocratic approach, in which a small number of like-minded, highly-informed reformers work together to produce a good technical solution.

2. It is also important in this phase to build ownership with a wider group of stakeholders, as well as use the experience of users of the system to improve the design. This pushes reformers toward more inclusiveness. Insufficient inclusion risks poor solution design, as some countries demonstrated. The challenge is to include stakeholders without overly broad, time-consuming, and risky stakeholder participation that would bring in protectors of the status quo who would undermine efficient design.

The solution in most countries was use of tightly controlled drafting groups, such as legislative drafting groups or drafting done by reformers on the basis of consultation with selected stakeholders. The 10 countries studied provide variations in how reformers balanced (or failed to balance) these two competing strategies in the solution design phase:

- Jordan, without strong traditions of openness, provides an example of the technocratic approach. The case author writes that "a key success factor was that MIT approached the licensing entities with comprehensive proposals that identify and respond to almost all of entities' concerns. Building the idea with those entities from scratch could have delayed/stopped project implementation."

- In Indonesia, the solution design phase did not include key stakeholders, and the design suffered as a result. The reform ideas were generated inside the responsible ministry, and design was done by consultants hired by the ministry. As one of the first e-government projects in Indonesia, there was little expertise in designing such systems. It was not until the system was implemented, and severe problems emerged, that the ministry created the opportunity for complaints and suggestions from users. The lack of early consultation simply deferred consultation until after implementation, when years of benefits were lost and the costs of re-design were higher. The author of the case study concluded, "After all the suggestions and complaints, the online system became better and better."

- In Turkey, by contrast, the solution design included a wide range of public and private stakeholders through technical committees and focused studies on specific issues. This was considered critical to the design of good solutions. But the effectiveness of stakeholder participation was reduced by design problems. For example, some private sector participants noted weaknesses such as lack of transparency in drafting legislation, lack of accountability of the technical committees, and lack of monitoring of results. These problems reduced the feeling of partnership and the stake of private stakeholders in the final results.

- In Bulgaria, the solution design phase involved a battle between reformers and defenders of the status quo. Defenders of the court registry tried to organize a drafting team composed of judges, while the reformers wanted to create an inter-ministerial process supported by donors and private sector inputs. Reformers ultimately won the day by moving faster to organize such as by getting endorsement from the Council of Ministers of more radical reform principles; by building an increasingly vocal private sector coalition; and by using ministerial interests, such as in the Ministry of Economy, to offset Ministry of Justice resistance.

3. Broadening and Marketing Reform Ideas

Phase 3: Broadening and Marketing Reform Ideas: Recommendations

Good practices	■ Link reform in the media to broader public values and goals. ■ Develop structured events such as workshops and conferences to communicate the message to targeted groups. ■ Tailor the message to the group. ■ Organize growing circles of allies in the private sector, parliament, and NGOS. ■ Prepare, issue, and publicize formal joint and public statements by coalitions of allies. ■ Organize public discussions of reform and draft laws ■ Produce early wins if possible.
Poor practices	■ Broad and indiscriminate release of information. ■ Release of draft laws before key messages and solution vision are communicated to stakeholders. ■ Long and unstructured consultations that delay reform.

There are two objectives in this phase: expanding the group of allies to reach the threshold of political influence to get the reform adopted, and winning buy-in and acceptance of the reform by key users. In this phase, reformers must decide

what kind of information will support the reform, to whom the information should be disseminated, in what form, and at what time. Getting the message right, targeting the right stakeholders, and choosing the right medium for communication are, as noted, the keys to success.

Stakeholder conferences and workshops were effective ways to control the message and target stakeholders, while broadening the reform. Reformers used conferences and workshops in the early and middle phases of the reform to share information and create an awareness and understanding of the benefits and costs of change, as well as to collect intelligence about the positions of stakeholders and specific concerns that might be met.

4. Political Acceptance and Adoption

Phase 4: Political Acceptance and Adoption: Recommendations

Good practices	■ Adoption by ministers of key, explicit reform principles at an early or intermediate stage to keep reform on track, strengthen reformers, and discourage opponents. ■ Continuing and active ministerial oversight by reform ministers. ■ Pro-action by donors in briefing ministers and, in some cases, using conditions to empower reformers. ■ Organized allies in the business sector who can act quickly at the political level.
Poor practices	■ Using the political process to build consensus. ■ Waiting for political will for action. ■ Accepting commitment in general without adoption of concrete goals and principles.

Political commitment and active political leadership from an early stage is an indicator of the future results of the reform. Reformers should not simply wait for politicians to develop a will to act. Rather, concrete political events supported the reform and stimulated other stakeholders to think more positively about the reform. In France, for example, the Prime Minister stressed the importance of the reform and linked it to unemployment in his speech before the National Assembly. In Bulgaria, the Council of Ministers adopted the principles of the reform at an early stage, long before the actual text was drafted. In Jordan, the minister launched the reform, and his successors actively oversaw progress on implementation through the entire process.

Overt pressures such as loan conditionalities were quite rare in the stakeholder strategy in these countries, but were very effective in the political process in the three countries where they were used (Serbia, Bulgaria, and Tanzania). But on a more sustained level, donors applied continual pressure at the political level in raising and discussing the reform, and also played a key role in feeding technical information into the reform process.

5. Implementation

Phase 5: Implementation: Recommendations

Good practices	■ Clear implementation schedules in law. ■ Design of the reform to reduce the choke-points controlled by opponents. ■ Fast implementation minimizes the power of opponents to stall the reform. ■ Continuing presence of a reform leader is important. ■ Donor pressures and financing incentives push implementation. ■ Monitoring by businesses or other pro reform stakeholders enables faster corrections and discourages delays. ■ Active and structured monitoring process with opportunities for stakeholders such as through an online complaints system. ■ Foster a competitive environment for reform.
Poor practices	■ Dismantling the reform machinery after political adoption, such as adoption of a new law. ■ Placing implementation back under the control of civil servants and institutions not clearly pro-reform.

Even after reform is successfully adopted, stakeholder management is far from finished because the reform becomes even more vulnerable to stakeholder capture and resistance during

the implementation phase. One of the dangers of the reform process is that, once the key reform decisions and instruments are adopted, there is an assumption of "mission accomplished." Reform fatigue among reform allies can reduce participation in the implementation phase. In core stakeholder institutions, attention can shift away to new reform challenges, and key management personnel can change positions.

Implementation is a particularly high-risk phase of the reform if the new system depends on the cooperation and support of the very stakeholders who were opposing the reform. The case studies show that, wherever opponents of the reform could regain control during the implementation phase, the reforms slowed and benefits were reduced. Political oversight usually dropped during the implementation phase, further increasing the risk of capture. For this reason, the Serbian case found that, "If the implementation of a reform is assigned to a professional and non-political body, chances that the reform will survive governmental or other political changes increases significantly."

Active stakeholders should participate in the monitoring process, both during implementation of the reform and as the new system is operationalized. Such participation can be greatly aided if the public sector provides a structured opportunity for input, such as a complaints mechanism.

- In Jordan, government officials attribute the dramatic drop in the time needed to start a business to the one-stop shops and the continuous improvement in the facility that followed the initial reform. That improvement in the implementation stage was supported by monitoring by business groups and the ministry itself, and adopting a continuous improvement process.
- In Indonesia, early problems with the new IT system that reduced the benefits of the reform were identified and addressed through complaints by users. Communication between stakeholders (primarily, the ministry and notaries) was enabled through an online space on the Web site that requests comments and complaints.

As a final point, some successful countries actively fostered a competitive environment for reform that changed incentives for organizations to carry out reforms and greatly speeded up implementation and results.

- In Mexico, for example, "Rivalry among the States played an important role. After the first SARE was implemented in Puebla in 2002 and there was solid evidence that it had been a successful project in terms of the reduction in the time needed to establish a business, employment generated and number of businesses opened/legally formalized. Most of the states and municipalities in Mexico approached COFEMER to ask for a visit of public officials so as to help them put into operation the SARE in their localities. The creation of a positive rivalry among states and among municipalities created the incentives to push ahead with reform."
- In Bulgaria, "The reformers used the existing tension and competition among [the business associations] to urge those associations to be at least as active as their competitors. The desire of the business associations' management to lead over the other associations served as a critical incentive for them to be more pro-active."

Competition for reform changes the underlying incentives of actors in the political economy, and is therefore a powerful force for change that can be harnessed by reformers with smart management strategies.

ANNEX 1: CRITERIA FOR CHOOSING CASE STUDIES IN BUSINESS REGISTRATION REFORM

The choice of cases for this report was influenced by several factors.

First, the project team included cases for which it had evidence that a substantive reform was attempted and completed, either in legal form or full implementation. Reforms that are planned or half-way completed were not considered to be useful. Cases were either:

- a reform process that has put into place a new legal framework and institutions for business registration, or
- a reform process that has been fully implemented and that shows results visible to businesses. These reforms are those that show up in the *Doing Business* indicators.

These are two different stages of reform. The possible cases are quite different, and the latter group is smaller than the former. The project team included cases that involve either stage of reform. The initial reform phase, when the concepts and goals of reform are defined, the problems diagnosed, and the solutions agreed, is likely to be the most interesting in terms of stakeholder management. Stakeholder management in the process of implementation is likely to be quite a different process, although interesting.

Second, the project team aimed for diversity. The case studies include a good range of countries with differing institutional capacities and results.

Third, timeliness was useful, such as completing the reform within the past three years and including indicators in the *Doing Business* reports. Verification of progress was done before selection, since no set of indicators was found to be completely reliable in determining which countries had completed reforms.

The project team examined the top 20 countries from 2004-2007 in the *Doing Business* indicators with respect to two performance criteria of business registration: reduction in the number of procedures and reduction in the

number of days required. However, the *Doing Business* indicators are not complete, since they include only reforms that have gone through full implementation and reported by intermediaries. Other countries that have successfully included major business registration reforms were also considered.

These criteria were used to arrive at a list of 10 case studies:

	Europe and Eastern Europe	Former Soviet Union	Middle East	Latin America	Africa	Asia
OECD	France		Turkey	Mexico		
Emerging markets	Bulgaria		Jordan			
Lower-tier	Serbia	Ukraine			Tanzania	Indonesia Vietnam

ANNEX 2: ACTIONS TAKEN BY REFORMERS THAT POSITIVELY INFLUENCED STAKEHOLDERS (DURING THE FIVE PHASES OF REFORM)

BULGARIA, 2003–2006

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform

World Bank's *Doing Business* reports put business registration reform on the agendas of the other major donor organizations.

USAID collected information on international best practices to expose reformers to different models and experiences.

Study tour to Italy for a group of experts and ministry officials. Experience of Serbia examined.

Initiation of the USAID Commercial Law Reform Program (CLRP) in October 2003 led to better coordination of the reform efforts of donor organizations and other stakeholders. The team gathered a group of allies among the local think tank NGOs, progressive judges and lawyers, and staff members of the Ministry of Economy.

SOLUTION DESIGN

Middle of reform

Council of Ministers commissioned a multi-ministry working group to develop recommendations on creating a central electronic business register in the Ministry of Justice.

USAID experts prepared draft reform legislation and organized business associations and prominent Commercial Law Experts around the draft.

Late in reform

Support by USAID for redrafting expert group within the Legal Affairs Committee in Parliament.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform

In February 2004, CLRP organized a conference on best European practices and ideas for improving business registration in Bulgaria. The conference was co-hosted by the Ministries of Justice and Economy and presented the views of local business associations and non-government organizations.

Middle of reform

The reformers organized awareness seminars for lawyers, judges, diplomats, banks and business association members in order to present and defend their arguments.

In October 2005, the Registry Agency, supported by CLRP and the Center for the Study of Democracy, organized a public discussion on the Draft Law for stakeholders (major business associations, law professors, NGOs, leading attorneys, judges, and public officials). The event was well covered by the media.

(*Continued*)

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform	Major business associations, with donor assistance, signed a common position and wrote an open letter to the prime minister insisting that the government take urgent measures for reforming commercial registration.
Middle of reform	World Bank and IMF made business registration reform a key condition for their respective loan facilities and insisted on adherence.
	The Council of Ministers in 2005 adopted principles of the radical reform strategy (political buy-in at intermediate stage)
Late in reform	Open letter from business associations to the President urging support in final stage (when resistance threatened the reform).

IMPLEMENTATION

Late in reform	Working group to draft implementing regulations involved various stakeholder groups – Registry Agency officials, law professors, attorneys, judges. Reform slows at this stage.

FRANCE, 2002–2004

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform	New PM Raffarin made this reform a key landmark. During his first policy speech before the National Assembly, he stressed the need to boost entrepreneurship through ambitious administrative simplification.
	Business associations and think tanks produced studies documenting the problems and benchmarking their situation with other OECD and in particular European countries.
	Design and day-to-day follow up of the reform delegated to the Minister of Small and Medium Businesses, Commerce and Craft.

SOLUTION DESIGN

Early in reform	Small task force under the Minister of Small and Medium Businesses, Commerce and Craft drafts the reform internally, after a series of inter-ministerial and bilateral meetings and informal consultations with different members of the public administration. These meetings were used to gauge internal opposition, and to design a reform that would not produce outright opposition.
Middle of reform	Limited discussion on the draft with public and private stakeholders between September and December 2002.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform	A series of targeted consultation workshops was organized in summer 2002, even before drafting began, with only key representatives of the business sector.
Middle of reform	Business associations advocated aggressively for the reform. Three major business associations and sectoral associations submitted supportive papers and positions.

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform	New PM Raffarin made this reform a key landmark. In September 2002, the new Prime Minister presented a general plan to boost French economy and activate growth, which committed the government to simplify the administrative procedures for business registration.
	During his first policy speech before the National Assembly, New PM Raffarin stressed the need to boost entrepreneurship through ambitious administrative simplification.
Middle of reform	During the drafting, major decisions and the resolution of conflicts were pushed up to the minister-level cabinet and sub-cabinet meetings.

IMPLEMENTATION

Late in reform	Communication through the online space provided at the Web site.

(*Continued*)

INDONESIA, 2001–2002

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform IT solution was developed by small group of reformers in the context of the e-government policies of Ministry of Law and Legislation to promote professionalism, transparency and accountability in government services. The Enterprise Management System (SISMINBAKUM), the online application and approval of new enterprises became a pilot project of the government, and was seen as a major breakthrough and innovation in the Ministry of Law.

SOLUTION DESIGN

Early in reform Ministry hired consultants to design the online system. Users were not involved in the design phase.

Late in reform Online system installed on the Web site for communication and complaints from users causes re-design of parts of the system.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform Public events or "socialization" held in several places around the country by the Ministry to present the new system.

Late in reform Minister of Law and Human Rights signed a decree allowing continued use of manual registration, making online registration optional as requested by many notaries.

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform Vice President Soekarnoputri announced the launching of the reform in January 2001.

Middle of reform Minister of Law adopted Decree later in 2001 on the new procedures of legalization of company statutes.

IMPLEMENTATION

Middle of reform The Ministry of Law adopted application guidelines for the new system.

To further clarify the system and increase confidence by users, technical guidelines were adopted by the Directorate General of Legal Administration.

Ministry of Law started implementation by mandatory training for notaries, the key users of the system (2002).

Several business stakeholders complained to the Ministry of Law about the increasing time needed for registration, due to problems with the new Web site.

Late in reform Online system installed on the Web site for communication and complaints from users. Notaries complain actively about confusion in implementation of the system.

JORDAN, 1999–2005

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform Study tour by Ministry of Industry and Trade (MIT) staff to the OSS in Singapore and Malaysia.

Industrial Development Directorate (IDD) at MIT given responsibility for driving the reform.

Facilitation from donors under MIT leadership.

SOLUTION DESIGN

Early in reform IT solution based on larger automation of the Ministry. Electronic company registration database was first intended only to check company names, but was expanded.

Mapping out the processes of licensing pre-approvals expanded the reform scope.

Middle of reform Heads of affected directorates were always involved in the decision-making process. MIT established a practice of regular executive management meetings, which contributed heavily to the internal cooperation.

Creation of cross-departmental teams in MIT to map the evolving reform, with technical assistance from the Jordan-United States Business Partnership (JUSBP). A directors committee, headed by the IDD Director followed up on the progress of the cross-sectoral teams of MIT.

(*Continued*)

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform MIT used existing organizational relationships with business associations to build a partnership relation.

Middle of reform Stakeholders were brought into the reform. The Municipality of Greater Amman, the Income and Sales Tax Department, the Chamber of Industry and the Chamber of Commerce were added to the OSS.

Minister of MIT met with the heads of stakeholder organizations to ask for their support of the OSS idea.

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform Minister of Industry and Trade provided vision and personal support.

Middle of reform Minister of Industry and Trade provided vision and personal support.

Late in reform Minister of Industry and Trade provided vision and personal support.

IMPLEMENTATION

Early in reform Staff training to increase awareness of procedures and rules.

Middle of reform Heads of Directorates provided counseling and support to employees to accept the reform.

Late in reform Continued studies of workflow and customer satisfaction by business groups, and strategic planning, leading to further reforms.

MEXICO, 2000–2005

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform Following a recommendation by the OECD, COFEMER, a new regulatory reform institution staffed by technocrats such as economists, proposes to the President a business registry reform involving all three levels of government.

Responsibility for designing, promoting, implementing and monitoring this reform was given to COFEMER.

Diagnostic completed of the main formal steps, requirements, costs, and time needed to start up a business in Mexico, and businesses were categorized by their risk to public safety and environmental quality.

Reformers raised awareness through highlighting the importance of reform with the help of hard data about Mexico's performance; demonstrating the need to reform by showing the inefficiencies of the pre-reform business start-up procedure; and showing the value of working under a holistic approach or having a "system" vision, i.e. the need for a coordinated reform involving three levels of government.

SOLUTION DESIGN

Early in reform COFEMER determined jointly with local authorities the local catalogue of low-risk economic activities, which was a subset of the federal one; the local formal steps in the process of starting up a business in that locality; the local legal framework; and the optimal procedure for starting up a low-risk business after eliminating the inefficiencies.

Federal and state authorities provided financial resources to municipalities for the development and implementation of reform.

Middle of reform Standardized business start-up process was designed and presented to all authorities so that the solution was clearly understood.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform Promoting reform at local levels by communicating with local authorities (state and municipal) to determine the level of commitment, and if the environment was suitable, creating a working team (made up of stakeholders) responsible for implementation.

Middle of reform Applying a teamwork philosophy through involvement of stakeholders (civil servants) to increase a sense of ownership, training them on regulatory reform issues and SARE methodology, and reducing their political and ideological differences.

(*Continued*)

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform The president of Mexico, after a proposal submitted by COFEMER, ordered the federal government to recommend the formal steps, requirements, costs, and time needed to start up a business in Mexico, and based on the results, propose a federal agreement to create the SARE.

Middle of reform Formal agreements (such as Regulatory Co-ordination Agreements and SARE-specific cooperation agreements) were signed with governments. All Federal government entities involved signed an agreement to formalize the Federal SARE. SARE-specific cooperation agreements were also signed between state and municipal governments.

Late in reform COFEMER fostered a competitive environment among Municipalities so as to encourage neighboring Municipalities to adopt the reform.

IMPLEMENTATION

Late in reform Coordinated participation of the three levels of government – federal, state, municipal – when designing and implementing the SARE.

SERBIA, 2002–2006

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform International rankings, including the World Bank *Doing Business* Report, showed how badly Serbia stood compared to its neighbors, and convinced many that business registration was a serious constraint on private sector development.

Domestic and foreign institutions identified business registration as a priority reform: World Bank, USAID, The Economic Institute, G17 Plus Institute, and Jacobs and Associates.

Comparative study "Reforming the business registration in Serbia" commissioned by World Bank.

SOLUTION DESIGN

Early in reform Appointment in late 2002 of a Working Group of the Council for Regulatory Reform in charge of coordinating the reform and drafting the main laws.

A two-day workshop in December 2002 (supported by World Bank) with key stakeholders and experts from the registries of Ireland and Italy. This workshop brought seriously into the debate for the first time the idea of forming an independent agency for business registration.

RIA was applied to develop a detailed cost analysis of the new register to show that an independent and self-financing register would reduce costs for businesses.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform Seminars with Serbian stakeholders such as lawyers and judges on proposed reform.

Middle of reform Circulation of the draft reform law for comments.

POLITICAL ACCEPTANCE AND ADOPTION

Middle of reform Serbian government adopted the principles of radical reform (political buy-in) in June 2003, partly in response to conditionality for a World Bank loan, which accepted the radical solution of taking registration out of the courts.

In 2004, donors in Serbia included reform of the business registration on the list of 10 priorities for the new Serbian government.

World Bank monitored the development of the project and conditioned credit arrangement with the World Bank on adoption of the laws.

Adoption of reform law by Parliament in May 2004.

(*Continued*)

IMPLEMENTATION

Late in reform Implementation schedule contained in law.

Rapid implementation was rushed through to discourage potential opposition from opponents of the reform. For example, Microsoft donated a temporary software solution for the agency to enable it to begin on time.

WB financed a study on further improvement of Serbia's registration system titled "Development of a "One Stop Shop Within The Business Registers Agency – Options and Recommendations."

TANZANIA, 2003–2007

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform In 2001, major report from two national consulting firms and an international consultancy confirmed failures of the general licensing regime, and recommended a reform design based on IT.

Report, financed by DANIDA, identified more than 90 laws with adverse impacts on the business sector, and called on the Government to undertake a major review of the legal, regulatory and judicial framework.

Major study done by de Soto brought attention to the problem of the informal sector.

Focus group meetings bringing together key players in the private sector were organized by the Tanzania Investment Centre.

SOLUTION DESIGN

Early in reform Mapping out regime by national and international experts.

A consultation process brought in consultants to inform stakeholders on the structure and potential use of the one-stop-shop systems.

Late in reform Continuous discussion during the legislation phase in technical working groups and teams that bring together public and private sector stakeholder representatives.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Early in reform Program for Business Environment Strengthening for Tanzania (BEST) was formally launched in December 2003 with the signature of a MOU between three parties: the government, the private sector and four donors.

Focus group meetings brought together key players in the private sector, organized by the Tanzania Investment Centre, to mobilize private sector support for registration reform using the concept of a one-stop shop.

Middle of reform Private sector advocated for reform through a Tax Reform Committee with joint public-private sector meetings.

Early successes through streamlining some stringent and unnecessary regulatory aspects of the general license.

De-linking revenue generation from registration. Central government allocated refunds of revenue losses to local governments to compensate for losses and reduce opposition.

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform Government issued specific instructions that reforms of the general business licensing system should be based on the one-stop-shop concept.

Middle of reform Interim reforms responded to fulfillment of benchmarks for IMF and World Bank loan conditionalities.

Prepared analysis showing that changes in the number of registered businesses would lead to higher revenues at much lower taxation rates.

IMPLEMENTATION

Late in reform BEST Advocacy Component aims to improve private sector advocacy by building capacity for the private sector to produce research on problems they face and support rapid implementation.

(*Continued*)

TURKEY, 2001–2005

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform

Meetings and conferences were organized by private-sector group YASED to advocate for the reform. May 2000 YASED conference where WB President spoke.

Important studies were undertaken in 2001 and 2002 by FIAS: a diagnostic study of Turkey's investment environment, and a study on administrative barriers to investment.

Undersecretariat of Treasury became Turkish sponsor of FIAS work.

SOLUTION DESIGN

Early in reform

In September 2001, seven workshops were organized on Administrative Obstacles for Investment.

A Company Establishment Technical Committee in the broad YOIKK process was set up on Business Registration. The committee was composed of representatives of Ministry of Finance, Ministry of Industry and Commerce, Treasury, Foreign Trade, State Planning, Turkish Industrialists and Businessmen Association (TUSIAD), The Union of Chambers and Commodity Exchanges in Turkey (TOBB), YASED and Turkish Exporters Assembly (TIM).

A series of studies of possible streamlining measures was undertaken by public and private members of the committee.

Middle of reform

Under-secretariat of the Treasury acted as the secretariat of the Technical Committee working on the reform.

Late in reform

Work continues by Technical Committee to further streamline and reduce costs and delays associated with regulatory procedures.

BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE

Middle of reform

Under a Council of Ministers mandate and YOIKK leadership, a national public-private process had the participation of decision-makers of relevant ministries and heads of NGOs representing the private sector.

2002 Ankara conference on "Improvement of Investment Environment and An Introduction Model for Turkey."

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform

Council of Ministers adopts organizational strategy through the YOIKK platform (Coordination Board for the Improvement of the Investment Environment).

Middle of reform

The Undersecretariat of the Prime Ministry oversaw the entire reform program.

AKP Government issued a new Decree of the Council of Ministers on Dec. 31, 2002, to stress support for the reform program.

Law No. 4884/2003 (Amendments on Company Establishment) adopted with nine other reform laws.

IMPLEMENTATION

Late in reform

Business associations began monitoring the implementation progress of the recommendations, which was seen as a weakness in the whole program.

In 2005, a YOIKK Steering Committee was established so that top-level executives of all institutions could monitor progress.

UKRAINE, 2002–2004

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform

State Committee of Ukraine for Entrepreneurship Development (SCRPE) established by Presidential Decree in 1997, laid out SME reform agenda, with SME representatives and their associations.

Donors provided methodological and consulting assistance, analyzed and shared best international practices in the sphere of business registration, organized study tours and assisted in public events (round tables, public hearings, conferences, workshops) to discuss business registration problems.

(*Continued*)

SOLUTION DESIGN

Early in reform SCRPE discussed the reform through working groups, round-table discussions and public hearings.

Middle of reform SCRPE given legal authority for implementation.

Pilots of one-stop-shop registration launched by municipal authorities in several Ukrainian cities.

Draft decisions and cost-benefit analysis of pilots published in local newspapers, and public hearings held at municipal levels.

Draft Business Registration Laws, the draft by-laws, and a Concept of Business Registration Reform are published on an official Web site. Stakeholders had 30 days to submit their comments, recommendations and proposals online.

BROADENING AND MARKETING OF REFORM IDEAS

Early in reform SCRPE used a media campaign to widen the stakeholders beyond government representatives of SMEs, private entrepreneurs, business associations and unions to identify critical problems in registration and to identify main goals of reform.

Business associations launched public information campaign, with help of donors.

In 2002, a consolidated position of the main stakeholders (SCRPE, SME representatives, business associations, and international donor organizations) was reflected in a Resolution of a National Conference that described the constraints in business registration, explained the goals of reform, and presented an action plan.

Middle of reform Successful pilots were followed by intensive information campaign on the results.

POLITICAL ACCEPTANCE AND ADOPTION

Early in reform In 2002, a consolidated position of the main stakeholders was presented to the government and submitted to the president of Ukraine.

Middle of reform Convincing results of the one-stop-shop pilots at the municipal level were reported to the government and Parliament of Ukraine.

New business registration law was considered on a rapid schedule and adopted by the Parliament in May 2003.

Late in reform

IMPLEMENTATION

Late in reform Business associations continue information campaigns to explain the procedures and benefits of the new system of business registration during implementation.

SCRPE provides assistance to municipal registrars by conducting training and workshops.

Donors continue to provide financing and encouragement.

VIETNAM, 1995–2002

IDEA FORMULATION AND REFORM ORGANIZATION

Early in reform Initial research by the public Central Institute for Economic Management (CIEM), a government economic think tank.

Technical assistance from UNDP, GTZ and other donors.

CIEM mapped out the problem. About 300 business licenses and other forms of state approvals were identified early in the reform.

SOLUTION DESIGN

Early in reform Proposal initiated in 1995 by CIEM to draft new law on enterprises.

A 10-person task force from various parts of the government (government office, ministry of justice, economic department of the party, economic and budget committee of the National Assembly) was established to develop the reform.

Several study tours on company laws were made by the task force to countries such as the U.S., England, Germany, Japan, Singapore, Thailand, Australia, New Zealand, Philippines.

(*Continued*)

Middle of reform	Two members of main business association joined the drafting team.
	Consultation on the draft law was done through (i) advisory workshops with enterprises and business associations; (ii) Donors; (iii) International experts working for foreign technical-assistance projects; (iv) State agencies, mainly provincial authorities.
	Provincial authorities, especially the Office of the People's Committee and Department of Planning and Investment assisted the drafting team in conducting field studies.
BROADENING AND MARKETING OF REFORM IDEAS AND REDUCING RESISTANCE	
Early in reform	All fact findings from surveys and study tours were widely circulated and disseminated.
Middle of reform	Public media information campaigns to explain the bottlenecks and costs for business and economic development, and advocate for new reforms.
	Public consultation on the reform to expand stakeholders to other ministries and ministerial-level agencies, the Economic and Budget Committee and Law Committee of the National Assembly.
POLITICAL ACCEPTANCE AND ADOPTION	
Early in reform	CIEM's proposal for a new enterprise law was quickly approved by the Minister of Planning and Investment in 1995.
	Minister of Planning and Investment was head of the drafting team.
	Vice Prime Minister issued, at the request of the task force, an official letter to request all local authorities to assess current business registration process and business licenses.
Middle of reform	Prime Minister's Research Committee established a task force on implementation of the Enterprise Law.
Late in reform	Task force held general meetings with all relevant government agencies to explain and express its point of view on issues.
IMPLEMENTATION	
Late in reform	Business sector became active in monitoring implementation by informing about infractions of the law, about reluctance to implement the law, and about instructions or decisions issued by local authorities that were inconsistent with the law.
	Mass media actively supported the reform in monitoring and supervising the implementation.
	Government agencies and officials skillfully used negative cases to justify their proposals to replace unnecessary business requirements that had been removed.

ANNEX 3: CONTENT OF BUSINESS REGISTRATION REFORMS – BEFORE AND AFTER

Country	Pre-reform Situation	New System Design	Results After Reform
Bulgaria	Registration took average of 30 days before an entity could start doing business. Uncertainty, costs, and corruption were high, and some companies took much longer. 28 separate business registers were kept on paper in each district court. The paper files were in bad physical condition and documents and items were missing. Registration requirements and documents for the business register were defined in several laws. Application forms and registration procedures were not standardized. Each judge dealing with registration could suspend the process and require additional documents. Corruption was a problem.	New law aims to reduce costs and delays by 1) improving transparency of information about businesses by making the business register database electronic and accessible over the Internet; 2) unifying registration practices by centralizing the business register under a single authority, the new registry in the Ministry of Justice; 3) boosting the accountability of the registrar by placing the operation and maintenance of the business register under an administrative agency within the executive branch; and 4) increasing the user-friendliness of registration practices by standardizing registration procedure and introducing electronic filing and receipt of documents.	■ New legal framework embraces business registration principles in line with best international models, and should reduce registration to five days. ■ No results yet seen by businesses, because, despite successful legal reform, implementation is slowed by poor ministerial organization and continued resistance from judges.
France	Time to start a business in France was an average of 42 days. Previously, the registration procedure had the entrepreneur waiting for a written authorization by the administration in charge of the registry. Only after the business had this authorization could it continue with the other start-up formalities.	After businesses submitted a complete registration form and received notice that the form has been accepted, it can continue with the subsequent necessary public and semi public formalities. The reform transformed a business registration built around an ex ante authorization into a simple ex post notification to be inspected and verified after the business is in operation. Law 2003-721 also eliminated a prohibition against the government and chambers setting up electronic business registration.	■ Time to start up a business reduced to eight days, and the National Statistic Institute registered an increase in the number of new businesses. ■ Businesses have a single access point to access mandatory formalities, fill them in and track their adjudication by the different services. ■ Minimum capital for limited liability companies was eliminated. ■ Entrepreneurs can work at their residences.

(*Continued*)

Country	Pre-reform Situation	New System Design	Results After Reform
Indonesia	■ Corruption was high, the process was uncertain, and registration took an average of 168 days. ■ Fees were paid illegally to service center officials for checking name availability and application requests. Official fees of Rp200.000 for name checking were supplemented by unofficial payments of Rp5 million and for closed limited companies Rp 2 million. ■ Transparency was low and discretion in rejecting requests was high.	The new system did not eliminate any requirements, but allowed the notary, as the person authorized to create an act of companies, to use an online system for registration, rather than visiting the ministerial office to request legalization of the company. The online system simplified the process and limited the frequency of meetings between the representatives of the company and government officials.	■ Time to register dropped to 97 days. ■ Process of legalizing limited companies and changing the company's statute made the system simpler, efficient, transparent and accurate. Corruption has dropped. However: ■ Due to the high cost of installing the new system, the official cost of the legalization approval through the online system increased to 5 million Rupiah in Jakarta, compared to 2-3 million for the manual system ■ Implementation has been difficult: technical problems with the Web site have caused delays, use of the online system is optional, high fees charged for the online registration has discouraged use, access to the system is incomplete, and corruption and collusion with notaries are still too high.
Jordan	Business registration required 81 days in 2003. Registration was time-consuming, due mostly to multiple sectoral licensing procedures.	New OSS facilitates the workflow and reduces processing times.	Establishment of OSS reduced business registration time to 18 days by 2006.
Mexico	Starting up a low and middle-risk business in Mexico took about 56 days in 2000. It was slow, paper-based, and time-consuming, as multiple formalities had to be fulfilled at the federal, state, and municipal levels of government, and procedures were not standardized.	New system is based on electronic registration at the local level in offices called the SARE. The new system is based on a one-stop physical place where any citizen can fulfill all the formal steps needed to start up a low-risk business. Electronic registration is also possible in some places. 9 Over five years, COFEMER, with state and municipal governments implemented 110 SAREs across Mexico. The coverage of the 110 SAREs represents 34.7% of the population and 48% of the total GDP of the commerce, industry and service sectors.	■ The time to start a low-risk business was reduced to less than three days on average. ■ Since the first SARE was implemented in Puebla in May 2002 and up to June 2007, 114,823 businesses have opened; almost US$19 million has been invested; and 339, 213 jobs have been created in Mexico.
Serbia	It took an average of 51 days to register a business in 2002, at a cost of $202.43. Business registration system was performed by the 16 commercial courts and over 100 municipalities. There were no standard processes or documents, and access to information was slow, uncertain, and costly.	The reform unified business registration in the country into a single office based in Belgrade with satellite offices around the country. Access to business registration is increasingly online.	■ Average number of days to register a business was 15 in 2004 and cost was $62.50. During 2005, 10,702 new business entities were registered, a 70% increase over the 2004 figure. This increase continued into 2006 and 2007. ■ In 2005, it took an average of three days to register an LLC w ith the new registry, but procedures from other government authorities have partly reversed the gains.

(*Continued*)

Country	Pre-reform Situation	New System Design	Results After Reform
Tanzania	Huge losses of revenue collections ranging between 20% and 50% due to rent-seeking, pilferage and informal businesses; Use of the general licensing legislation as a regulatory tool; failure of the general licensing regime to analyze and disseminate the information that was collected.	Creation of an ICT-based registration system operated by 112 district governments at the local level but coordinated at the national level by the agency responsible for company and business registration. Collection of basic information through a simple one-page form. Access to information on a centralized registry Web site.	■ Licensing fee has been reduced to a flat rate of $20, payable only once. ■ Businesses have not yet seen other results because implementation of the new registry is still ongoing. Goals are to reduce registration to five days, simplify regulatory requirements of the general license (such as the need for all applications to be vetted by a local political committee), simplify and standardize application forms.
Turkey	19 procedures took an average of 38 days to complete in 2002. Registries were decentralized and paper-based. There was no exchange of information among registries, and sequential and interdependent procedures required excessive documentation. Administrative procedures were often lengthy and unpredictable, significantly raising the costs and risks associated with investments.	■ Companies fill out a standard form at one location. The Trade Registry (operated under the Ministry of Industry and Trade but kept in the regional chambers) now functions as the central registration office, which forwards the relevant information and documents to most other governmental authorities involved in the registration process. Applications for establishment of a company must be filed with the Ministry of Industry and Trade, or with Provincial Trade Registration offices working under the Trade and/or Industry Chambers found throughout Turkey. ■ A searchable online company registration database accessible by the public was established.	■ Average registration took nine days in 2004. In 2007, with the streamlined procedures, the registration and establishment of a company can be completed in one day. ■ Number of documents required for an opening license was reduced from 18 to 2. ■ All specific requirements for foreign investors were removed. ■ The "tacit approval" principle was introduced: If no response on an application for an opening license is received within 30 days, the applicant is entitled to open his business. ■ Also abolished was the minimum capital requirement of $50,000.
Ukraine	In 2004, 15 procedures, 40 days, and 25.6% of per capita income were needed to start a business.	A State Unified Register of legal entities and private entrepreneurs was created that provides unrestricted access to the registration database for public bodies.	In 2006, 10 procedures, 33 days and 9.2% of per capita income were needed to start a business. Some entrepreneurs are being registered in 30 minutes in Kiev City registration offices. Number of entrepreneurs in Ukraine increased from 1.78 million in 2002 (including 342.9 thousand of legal entities) to 2.3 million in 2005. The share of small enterprises and private persons, entrepreneurs in GDP of Ukraine, increased from 8.3% in 2002 to 10.9% in 2005.
Vietnam	■ Up to six months were needed to set up an enterprise and the cost was 250% of GDP per capita, excluding costs for traveling, preparing dossiers, and other costs. ■ 20 dossiers were needed to acquire and submit to the competent authorities to set up an enterprise. Normally, the investor had to make at least two visits to a competent authority to complete each dossier. Businesses were encouraged to work in the informal sector, and corruption was high.	■ The establishment license was abolished. Discretionary intervention into the business registration process by state authorities and officials became difficult. ■ Requirements on minimum capital and a number of dossiers were eliminated. Submitting the application for business registration through the Internet is enabled in some provinces. ■ Prohibited business industries were defined and listed clearly. ■ 100 business licenses were abolished and another 50 business licenses were changed into the new mechanism.	Number of procedures necessary to enter the market decreased from 40 to 11 and the time and cost reduced to less than 10 days and to 29% GDP per capita. In some provinces, the certificate of business registration is issued within only few days. Number of newly registered enterprises and capital in 6 years after the reform are 3.3 and 13 times higher than in the previous nine years.

ANNEX 4: MAP OF KEY STAKEHOLDERS IN BUSINESS REGISTRATION REFORMS

Country	Stakeholders Initially Against Reforms	Stakeholders Initially for Reforms
Bulgaria	■ A strong group of prominent judges, law professors and lawyers defended the old business registration system ■ Judges who operated court-based business registers ■ Ministry of Justice career legal staff ■ Other registries that might be eliminated such as the BULSTAT register for statistical needs, tax and social security registers ■ Lawyers who made substantial income from registering businesses ■ Several companies that had developed private electronic databases ■ Some members of Parliament allied with judges and legal profession ■ Political parties that used the non-transparent court registry to open special businesses	■ Ministry of Economy professional team ■ Bulgarian business community and business associations, but business associations were competing with each other and were able to join forces only later in the reform ■ Foreign investors (AmCHAM) ■ Local influential think-tanks working on anti-corruption and market economics ■ A strong coalition of international donors (USAID, World Bank, IMF)
France	■ Banking associations opposed transforming a formal authorization into a "paper" notification ■ Influential "corporation" clerks of the commerce courts (Greffiers des Tribunaux de Commerce), who are in charge of the Registry of Commerce and Companies. The Greffier receives a fee for each registry change and the issuance of acts and certificates ■ The Treasury supported the banking sector ■ Ministry of Justice was passive but protected those entities it regulated such as the Greffier and charter accounts	■ Prime Minister (newly elected) ■ Ministry of Small and Medium Businesses (in the Ministry of Economy and Finance) ■ Network of Centre de Formalités des Enterprises (CFE) located in local Chambers of Commerce and Industry, Chambers of Trade, and Chambers of Agriculture ■ Strong support from business associations (SMEs) complaining about red tape ■ Association for accountants ■ Agency for Business Creation (APCE) created to help entrepreneurs start a business supported but was passive in the reform

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Country	Stakeholders Initially Against Reforms	Stakeholders Initially for Reforms
Indonesia	■ Staff of the service center benefiting from informal charges and payments ■ Local governments using the manual system and employing staff ■ Notary offices charging for registration-related services who feared losing business or personal contacts with the Ministry	■ Politicians who wanted to respond to complaints from businesses ■ Business interests in large companies and SMEs that deeply resented the delays and corruption of the current system ■ Ministry of Law and Legislation officials in the Directorate General of General Legal Administration. who wanted to shift from paper to electronic work methods to reduce the damage of corruption in the ministry (good government technocrats)
Jordan	■ Operational staff of Ministry and Trade whose tasks would be transferred to OSS were passive ■ Ministry of Interior through the governorates ■ Ministry of Tourism ■ Ministry of Agriculture ■ Ministry of Public Works	■ Minister of Ministry of Industry and Trade ■ OSS staff of Ministry and Trade ■ Businesses complaining about delays, maintaining pressure through the whole of the reform ■ Municipality of Greater Amman that wanted to attract more investment ■ Income and Sales Tax Department of the Ministry of Finance, which wanted to increase revenues by reducing tax evasion and increasing the number of businesses
Mexico	■ Civil servants (at all three levels of government) who were directly involved in the business registration procedures. ■ Governments from various political parties, especially at local levels (State and Municipal) that were reluctant to adopt "neoliberal" reforms ■ Local political elites with ideologies opposed to "neoliberalism"	■ The President ■ Federal Secretaries/Ministers who wanted the President's approval ■ State governments who wanted more development of their municipalities and were aware of the benefits of reform ■ Local governments, convinced of the benefits of reform, who wanted political recognition that the government was promoting municipal development ■ COFEMER (central regulatory reform body) ■ Business organizations ■ OECD
Serbia	■ Judges of courts registering businesses ■ Lawyers who made substantial income from registering businesses ■ Ministry of Justice ■ National Bank of Serbia, which had the Solvency Center that controlled the process of submitting financial accounts, and was worried about losing jobs ■ Ministry of Finance and the Tax Directorate, which were not ready to accept unification of the Tax Identification Number	■ Minister and Ministry of Economy and Privatization ■ Inter-ministerial Working Group on Deregulation, which became the Council for Regulatory Reform, provided most of the local expertise ■ Prominent think tanks (Economic Institute, G17 Plus Institute) ■ Serbian Chamber of Commerce, ■ Donors (World Bank, USAID, SIDA)
Tanzania	■ Licensing officials who benefited from the leakages of revenue ■ Inspectors (public health, industrial zoning, environmental) who used the registration system as a regulatory system	■ Tanzania National Business Council, including public and private sectors ■ Donors ■ Regulators who wanted to reduce duplication and confusion ■ Sector-specific associations that wanted to simplify licensing ■ Advocacy from the private sector through a Tax Reform Committee that operated joint public-private sector meetings
Turkey		■ International Investors Association of Turkey (YASED) ■ Donors, particularly FIAS ■ Undersecretariat of Treasury as the reform leader ■ Ministers acting under government-wide reform mandate ■ Private sector resented the introduction of reforms through formal committees ■ Municipal governments

(*Continued*)

Country	Stakeholders Initially Against Reforms	Stakeholders Initially for Reforms
Ukraine	■ Government ministries who risked losing functions ■ Officials who were poorly paid and used the system to gain rents ■ Big businesses that wanted to maintain monopolies in their sectors	■ State Committee for Regulatory Policy and Entrepreneurship (SCRPE) ■ SME representatives and their associations ■ International business associations ■ Municipal authorities in the most progressive cities ■ Donors ■ Mass media
Vietnam	■ Government officials and National Assembly members who worried that development of private sector would exceed the capacity of state management	■ Government reform-minded think tank associated with doi moi reforms took the lead (CIEM or Central Institute for Economic Management) ■ Minister of Planning and Investment ■ Enterprises and business associations ■ Donors (UNDP, WB, GTZ) ■ State agencies, mainly provincial authorities

ANNEX 5: PRE-EXISTING FACTORS INFLUENCING STAKEHOLDERS TOWARD REFORM

Country	Pre-existing Factors
Bulgaria	Comparative data on the business environment presented by international institutions such as the World Bank and USAID.
	Looming entry of Bulgaria into the European Union, and requirement to transpose EU 1st Company Law Directive.
	Donor pressures (USAID Commercial Law Reform Program in October 2003), IMF and World Bank conditionalities, European Commission financing.
	Immediate post-crisis phase, in which the government managed to reduce inflation, privatize some of the larger state enterprises, and create conditions for financial stability. This allowed the government to introduce and implement development strategies instead of concentrating on crisis and survival.
	Despite a path of stable economic growth, a growing public dissatisfaction with state policies that were inhibiting growth.
France	Entry into the European Single Market and increase in competition.
	An array of business associations and think tanks had produced studies documenting red tape and regulatory problems, and benchmarking their situation with other OECD countries.
	Evidence that business start-ups had been decreasing in France since the 1980s.
	Change of government and administration to a right-wing majority.
Indonesia	Existence of large informal sector, in which most enterprises operated without incorporation status, was causing more concern.
	The financial crisis of 1997 had focused attention on ways to stimulate economic recovery.
	The reformation era in Indonesia was creating a more open public administration system, and stakeholders were becoming more vocal about problems with government services.
Jordan	Ongoing donor support from GTZ and USAID (through AMIR and JUSBP programs).
	Strong influence from the national investment promotion initiative.
	Ongoing reform process to improve ministerial performance.
	New leadership from HM King Abdullah II (who had become king the year before reform began).

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Country	Pre-existing Factors
Mexico	Mexico joined GATT, NAFTA, OECD, which increased competition and openness in the domestic economy. In 1994, in response to an emerging financial crisis, the government inaugurated a new policy of regulatory management and reform to review existing economic and business-related regulations. Reduction of red tape burden was again included in the national development plan (2001–2006). Reform of the Federal Administrative Procedure Law created the Federal Improvement Regulatory Reform Commission (COFEMER), a central regulatory reform commission staffed by highly trained technocrats. Political change as Vicente Fox became president in 2000 after 70 years of one-party rule by the PRI. Reduced growth of the Mexican economy during 2001 and 2002, and rising unemployment in Mexico.
Serbia	Democratic changes in Serbia of 2000 and start of market transition and privatization. International rankings, including the *Doing Business* Report showed how badly Serbia was standing in comparison to its neighbors.
Tanzania	Government initiatives on the informal sector focused attention on registration. Pre-existing program for Business Environment Strengthening for Tanzania (BEST) initiated in September 2000 supported by MOU between the government, the private sector and four donors.
Turkey	Export-driven development strategy and trade liberalization policies since 1980s. Candidacy of Turkey for EU membership officially accepted in 1999. Severe recession and sense of crisis since 2001. FIAS diagnostic studies of Turkey's administrative environment (2001–2002). Comprehensive "Reform Program for the Improvement of the Investment Environment in Turkey" adopted by Council of Ministers Decree of 11th December 2001, known as the YOIKK Process.
Ukraine	National policy to attract foreign investment by creating a market-oriented policy, legal, and regulatory environment. Public administrations were seeing hiring of new policymakers who had more progressive views about governance. Economy evolving from dominance by former state monopolies to far more diverse sectors, including a growing SME sector.
Vietnam	Launching of *doi moi* in 1989 and adoption of the Law on Private Business in 1991 created reform allies in the Party, the public sector and the growing business sector, while downsizing state-owned enterprises heightened the need to create alternative employment for workers. East Asian financial crisis significantly decreased foreign investment in Vietnam. Growing understanding by economic policymakers of the role of regulation in microeconomic performance.

IFC International Finance Corporation
World Bank Group

MIGA World Bank Group
Multilateral Investment
Guarantee Agency

THE WORLD BANK