The Curious Case of Business Registration Reforms in Burundi

How IFC-World Bank joint efforts changed the course from “quick win” to more sustainable business registration reforms

Burundi’s civil conflict lasted from 1993 to 2005 disrupting public services and private investments. Despite reconstruction efforts, gross national product continues to drop ($102 in 2011 versus $119 in 2007) due to a reliance on subsistence agriculture, undiversified and low-value exports, weak infrastructure, poor governance and institutional capacity, and very low private sector investment. In 2010, the country embarked on an aggressive reform program. At the request of the Government of Burundi (GoB), IFC’s Investment Climate Program was launched aiming to address the complex regulatory and tax environments for business, as well as the absence of real dialogue between the public and private sectors and a loss of confidence from the private sector and investors in the country following years of civil conflict/war.

This SmartLesson describes how a joint IFC-World Bank effort helped shift the focus of the government from quick-win reforms aimed at simplifying the procedures for starting a business to more substantive and sustainable reforms aimed at creating a sustainable, up-to-date, and reliable business register in Burundi.

Background

Burundi’s growth has averaged 4.1% between 2004-2013, which falls below the 7% projected in the Poverty Reduction Strategy Paper as well as the average of East African Community member states. Burundi has been successfully implementing an ambitious investment climate reform program since 2010, using Doing Business (DB) reforms as an entry point. In parallel, the Financial and Private Sector Development project of the World Bank has been supporting the government’s efforts to strengthen governance and regulatory environment for an improved business environment. Burundi is one of four fragile and conflict-affected countries selected to pilot a World Bank Group (WBG) Joint Business Plan (JBP). The JBP approach builds on the WBG Country Assistance Strategy (CAS) for Burundi and focuses on four components: Energy, Coffee, Business Registration, and Commercial Justice. In particular, the project combined IFC technical assistance with Financial and Private Sector Development (FPD) financial resources to deliver a comprehensive WBG-wide solution to clients in business registration and commercial justice.

As a result of the aforementioned efforts, Burundi put itself into the league of the world’s top 10 reformers in Doing Business for three consecutive years, delivering a total of 15 reforms. This created more appetite for reforms, but also some adverse impacts, as these efforts were primarily focused on improving the country’s Doing Business rankings without embarking on more in-depth reforms. Fundamental work remains to
be done to address the structural constraints to private sector development and for the reforms to deliver meaningful results on the ground. The challenge for the WBG team was to shift the focus from “quick win” reforms, to more systemic and sustainable reforms.

In order to implement Doing Business reforms, the government set up a high-level Steering Committee for Doing Business chaired by the Second Vice-President, an Executive Reform Committee with four full-time reform staff, ten technical Working Groups for each of the Doing Business indicators, and one full-time reform advisor in the Office of the Second Vice President.

One of the priority areas identified for reforms was the streamlining of procedures to start a business. In order to start a business in Burundi, a prospective business had to visit several agencies, including the Commercial Court as the custodian of the Business Registry, the Revenue Authority, the Social Security Fund, and the Health Fund. In March 2012, with the support of the IFC Investment Climate Program, Burundi introduced a One-stop shop (OSS) for business registration in the Investment Promotion Agency (API), bringing together five institutions: the Investment Promotion Agency (API), the Commercial Court (Tribunal du Commerce), the Burundi Revenue Authority (OBR), the Labor Inspection (Inspection du Travail), and the National Social Security Institution (INSS). In establishing the OSS, focus was put on simplifying the “front office” procedures and cutting the number of steps and days needed to start a business. Representatives of all relevant stakeholder agencies were seated in one office space at the API. A prospective business could now come to one place to complete most of the procedures needed to start a business. This reform significantly reduced the steps necessary to register a business from 8 to 4, and the days from 13 to 8. The costs were also reduced from 117% to 18.3% of income per capita. As a result, the ranking of Burundi in the Business indicators, and one full-time reform advisor in the Office of the Second Vice President.

The reforms undertaken had a significant positive impact in terms of reducing the time and cost to register a business, but they were exclusively focused on creating a “front office” in which the stakeholder agencies representatives occupy the OSS simply as recipients of the various registration application forms, while the “back office” remained unchanged, with each of the stakeholder agencies retaining its separate processes without linkages that would enable the sharing of information between them. This resulted in unintended consequences related to the sustainability of this regime.

The aforementioned reforms did not tackle the major problem of the business registration regime, which is that Burundi still does not have an accurate, up-to-date, transparent, accessible, and reliable business register, and the current regime will not enable its creation. Currently, it is not even possible to obtain data about the total number of registered companies and entrepreneurs in Burundi.

The team was surprised to find a unique feature in the reformed regime, reflected in the fact that the One-stop shop was created to handle only incorporation of new companies. Any subsequent changes of registered data (change of address, directors, etc.) are registered the “old” way, and companies have to visit each of the stakeholder agencies separately. No exchange of information occurs between the stakeholder agencies, and the historical paper records of the business register remain in the Commercial Court. This means that the establishment of the One-stop shop caused the splitting of the business registration process into two separate streams, the first one for incorporation of new companies and the second one for registration of changes to existing data. As a consequence, there are now two separate repositories of information about businesses, neither of which is up to date or complete.

In addition to the above, there are several other unresolved operational, legislative and institutional issues with the current regime. The One-stop shop is operated from one office located in Bujumbura, and businesses that are incorporated in other parts of the country need to physically come to Bujumbura in order to register their business. The business register is not accessible and reliable. The historical records of the Commercial Court are poorly archived, incomplete, and inaccurate. Currently, there is no mechanism in place for updating the Business Registry. The current system does not require or enable exchange of data between the stakeholder institutions.

All the above issues cannot be captured by the Doing Business methodology, as the Starting a Business indicator measures only procedures related to incorporation of

<table>
<thead>
<tr>
<th>Form of company</th>
<th>No. of registered companies 2012</th>
<th>No. of registered companies 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole trader (SU)</td>
<td>580</td>
<td>902</td>
</tr>
<tr>
<td>Private company limited by shares (SPRL)</td>
<td>550</td>
<td>777</td>
</tr>
<tr>
<td>PLCc (SA)</td>
<td>132</td>
<td>175</td>
</tr>
<tr>
<td>Limited Liability cooperative (Cooperative)</td>
<td>29</td>
<td>106</td>
</tr>
<tr>
<td>Total</td>
<td>1,291</td>
<td>1,960</td>
</tr>
</tbody>
</table>

Figure 1: Companies Created at the One-Stop Shop in 2012/2013
companies in the largest business city and not how post-incorporation registrations are performed. It also does not measure the completeness and accurateness of a business register.

In order to highlight all the above unresolved issues, the WBG team produced a policy note identifying the main issues as well as options for proceeding with more systemic reforms. This helped the government recognize the above challenges, and even though Burundi is ranked the 27th easiest place to start a business, more systemic business registration reforms were identified as an area of joint focus of IFC Advisory Services and World Bank (FPD) financing. Despite the impressive strides in streamlining business entry, the team went beyond that and identified that there are systemic and strategic issues that need to be tackled.

The team agreed on combining the advisory services provided by IFC with support from the FPD project in the form of software and hardware needed to create an e-registration platform. The policy note and action plan were presented as a joint effort and were endorsed by the Government of Burundi. Based on this, an important decision was taken to take business registration out of the Commercial Court and fully transfer it to the competence of the One-stop shop. While the trend in business registration in the past decades has been toward administrative management of registries, and away from legal process involving courts and notaries, moving business registration out of the courts for countries like Burundi based on a civil law system is a difficult decision, and in some countries these efforts were blocked by powerful vested interests of judges and lawyers. The policy note and recommendations were endorsed with the objective to continue working on business registration reforms, not only from the perspective of Doing Business rankings, but also from the perspective of creating a centralized, reliable business register and securing institutional sustainability of the reforms undertaken.

Lesson 1: A joint engagement can enable the move from “quick win” reforms to a more sustainable reform model.

While it is important to facilitate the private sector by easing company registration through reduction of cost and time, this is not the main objective of business registration reforms; the ultimate purpose is the creation of a sustainable, up-to-date, accurate business register available to all stakeholders. The business register is the main building block in the business environment framework – it is connected to improved access to finance, collateral registry, creating conducive policies based on accurate data. Even when DB is an entry point, you need to plan early for a sustainable solution to ensure that the reform achieves its intended purpose.

The joint IFC-World Bank efforts helped the Government of Burundi move beyond just simplifying starting a business procedure by cutting the related days and costs toward more sustainable reforms. Leveraging all resources available within the WBG – in this case, linking IFC advisory activities to the World Bank budget support – helped provide a stronger impetus and incentives to reform. Support was provided to the One-stop shop in identifying additional areas for streamlining the processes as well as identifying the most cost-effective and efficient solution of institutional reforms. A combination of sound technical advice, combined with support in the form of hardware and software for the One-stop shop, was the right approach. On the other side, the Commercial Court was initially opposed to letting go of the Business Registry, but once it was agreed that the World Bank will provide support to the Court to better focus and deliver on its core mandate of resolving commercial litigation, they were more receptive of the WBG recommendations to move competence of the business register to the One-stop shop.

Lesson 2: While DB is useful to create reform momentum, it is important to understand and address in parallel systemic issues that are beyond what DB measures in order to ensure sustainability.

It is important to have a good understanding of what DB measures and what it does not measure from the onset of reforms. For example, DB targets only LLCs in the biggest business city applying a particular scenario. Here are some tips for identifying issues beyond the DB methodology, which we applied in the Burundi context:

- Look at the institutional framework and “back office” issues in addition to simplifying the “front office.” The use of “informal” arrangements between stakeholder institutions (OSS as a front-office solution), each using different forms, not exchanging data, duplicating functions, and with various levels of capacity and sophistication can be acceptable only as a temporary phase towards creating a more sustainable system.

- Establish accountability and clear decision-making authority when introducing OSS, to avoid institutions fending for their own particular interest. This will defeat the purpose of creating OSSs. The independence of the business register function and the ability to retain revenues are critical to avoid politicizing this key technical function.

- Get strong political commitment to the reforms. This is essential, as some decisions challenge the status quo and face strong resistance. This is particularly true in countries where there is rampant corruption and lack of transparency. Business Regulation reforms when properly undertaken are a win-win solution, as they promote transparency and accessibility of data both for the government and private sector. Many countries in SSA have taken advantage of DB to build IC reform momentum. While they will continue to make DB advances, they must also look to other reforms, such as industry-specific changes that drive investment growth and job creation. Others still have to address basic elements of their business environment – particularly FCS – for which DB-focused reforms serve as an effective starting point.
Lesson 3: Phasing of the reform process.

Burundi is a fragile and conflict-affected country and as such has limited capacity to undertake structural reforms. The WBG team was able to overcome these challenges and work with a few key reformists in the government to build their capacity and drastically improve key elements of the investment climate over a short time span (DB reform agenda). In a case of significant lack of capacity to start both DB and structural/systemic reforms in parallel, starting with the DB reform agenda helps to progressively develop capacity, but teams must plan for structural reforms immediately to avoid promoting a dysfunctional system.

Conclusion

Many countries have enthusiastically embraced the DB reform agenda as a way to create appetite for reforms and realize their ambition for private-sector–led growth. Using Doing Business as an entry point is effective, as it allows governments to organize reforms around measurable indicators. In addition, however, reformers need to know what DB measures and focus beyond the DB indicator on all the relevant systemic issues that need to be tackled in order to secure a sustainable regime. The main objective of business registration reforms is not cutting steps or days but creating a sustainable, up-to-date, accurate business register. Such a register can be the main building block in the business environment framework – linked to access to finance, collateral registry, and providing valuable data to policy makers. Even when DB is used as an entry point, teams need to plan early for a sustainable solution. Teams should use the DB framework to create an appetite for further structural reforms, keeping in mind the structural problems from the beginning. Burundi still has a long reform journey ahead – ranking 139th out of 183 countries in Doing Business, as well as other challenges not captured by the Doing Business report. Building on the momentum created by these achievements the WBG will continue to provide support to the reform agenda and encourage the GoB to embark on new areas of reform, particularly focusing on sectors with potential to rapidly transform Burundi’s economy, opening them to private sector participation.