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Getting Down to Business: Strengthening Economies through Business Registration Reforms

Business registration remains a complicated and costly process in many countries, hampering entrepreneurial activity and the creation of formal employment. In Bolivia and Uganda, for example, entrepreneurs need to complete 15 procedures to incorporate a limited liability company. In the Gambia and Djibouti, the cost of incorporation is about 180 percent of per capita income, and the average time needed to start up a business in São Paulo, Brazil, is more than 100 days. Rampant bureaucracy and systemic inefficiencies should not pose obstacles for business development and growth. Several research studies find that simpler business start-up processes are associated with higher rates of formal entrepreneurship, lesser development of shadow economies, increased tax revenues, and decreased corruption. It is clear that easy and straightforward business incorporation practices have multiple spillover benefits for the entire economy.

Background

The Doing Business project studies business regulations and their enforcement across 189 economies. Specifically, the project looks at domestic small and medium-size companies and uses indicators to measure the regulations applying to them through their life cycle, publishing its findings in a range of detailed reports. Starting a Business, which is one of the indicators comprising the Doing Business project, measures the number of procedures, the time, and the cost required for a small or medium-size limited liability company to start up and begin to operate. To make the data comparable across economies, Doing Business uses a standardized business that is 100 percent domestically owned, has start-up capital equivalent to 10 times the per capita income, engages in general industrial or commercial activities, and employs between 10 and 50 people within the first month of operations.

Starting a Business measures the main stages of a company's incorporation process:

pre-registration, registration, and post-registration. Pre-registration commonly involves checking the availability of the proposed company name, drafting and notarizing company statutes, and depositing paid-in minimum capital in a bank account. The registration stage includes carrying out procedures at the commercial/business registry. Post-registration includes registering with the tax authorities, obtaining a business license, buying and legalizing company books, and obtaining a company seal.

Governments of many countries actively use Doing Business data to adopt best practices in the area of business incorporation, and many of them have achieved impressive results. In 2012–2013 alone, of 189 economies studied by Doing Business, 51 have substantially reformed their business start-up processes, making it easier for entrepreneurs to set up and legally operate their businesses. Here we review some of the most successful reforms and their positive impact on the growth and development of small and medium enterprises.

Lesson 1: Promote entrepreneurship by introducing a simpler form of a limited liability company.

The Starting a Business indicator collected data on the most common type of limited liability company, or its legal equivalent, in 189 countries. In many countries, the process of starting up an LLC remains complex and costly. Globally, it requires seven procedures over a period of 25 days and costs \$1,067 on average to start a business. Governments use Doing Business data to improve their processes of company incorporation. To boost levels of entrepreneurship, some governments have even created a completely new and simpler form of LLC to allow more entrepreneurs to open businesses and participate in the formal economy. Such endeavors have already yielded successful results.

In 2012–2013 alone, Greece, Lithuania, and Croatia all introduced a new form of LLC. Greece adopted the new Law 4072/2012 on April 1, 2012, which introduced the category of “Private Company” (IKE). Compared to the previously most common Greek LLC, EPE, the business registration process for IKE is much simpler. With the new company form, entrepreneurs are not required to publish the articles of association in the Government Gazette; instead, these can be posted online through the General Electronic Commercial Registry (GENI). The involvement of a lawyer/notary is not obligatory for preparing the articles of association and conducting the name search for IKEs. In addition, Law 4155/2013 abolished the minimum capital requirement for IKEs as of May 29, 2013, whereas the requirement for EPEs remains €4,500.

The Private Company, or IKE, has rapidly become the most popular legal form of corporation in Greece (Figure 1): more than 2,400 new IKEs were registered between July 2012 and September 2013,¹ compared with 1,939 EPEs.²

1 General Electronic Commercial Registry–G.E.M.I., <http://www.businessportal.gr/english/>.
2 Ibid.

Similarly, in September 2012, Lithuania introduced a new type of LLC—the “Small Partnership.” The Small Partnership is a simpler form of LLC that can be founded by one to ten natural persons. The most prominent difference between a Small Partnership and the previously most common form of LLC (the Private LLC) is the minimum capital requirement. Entrepreneurs have to deposit around \$4,000 into a bank to form a Private LLC, while there is no such requirement for a Small Partnership. Incorporating a Small Partnership requires only four procedures, a period of 6.5 days, and costs \$118. In contrast, seven procedures, 19.5 days, and a cost of \$130 are required to form a Private LLC (Figure 2). As of October 22, 2013, there were 3,529 registered Small Partnerships in Lithuania.³

Following the trend, Croatia amended its Companies Act on October 10, 2012, introducing a new and simpler form of LLC called a “Simple LLC” (JDOO). It is much cheaper to set up a JDOO, as the minimum required capital is less than \$2 and the lowest nominal amount of share interest is less than \$1. On the other hand, the minimum capital requirement for the older category of Private LLC is \$3,571⁴. The new company form has fast gained popularity among entrepreneurs. A total of 8,407 Simple LLCs (JDOOs) were established between October 2012 and September 2013⁵, compared to 5,488 Private LLCs.⁶

The experiences of these countries provide valuable insight into the remarkable benefits of establishing simpler company forms. The opportunity to register as a simpler company type allows entrepreneurs to save on both cost and time of business incorporation. On a broader scale, it helps to increase the levels of formal entrepreneurship in the economy.

3 <http://www.registrucentras.lt/jar/stat/for.php?for=960> [the Lithuanian State Enterprise Center of Registers].
4 20,000 Croatian kunas.
5 Government of Croatia Financial Agency website, <http://www.hitro.hr/Default.aspx>.
6 Ibid.

Figure 1. Number of new registered IKEs and EPEs in Greece, 2012–2013.

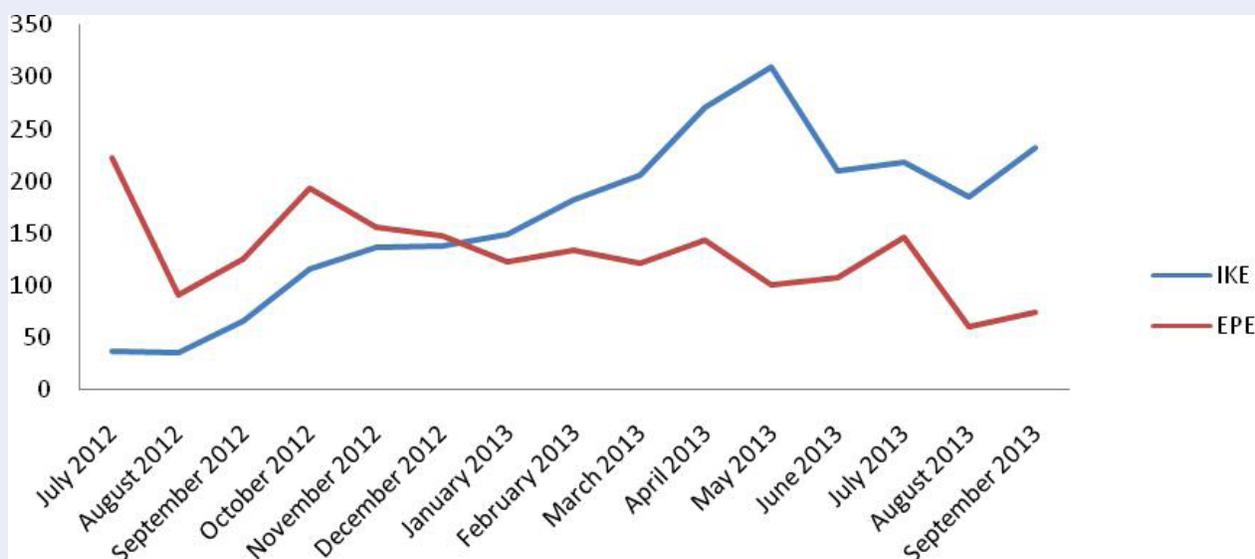
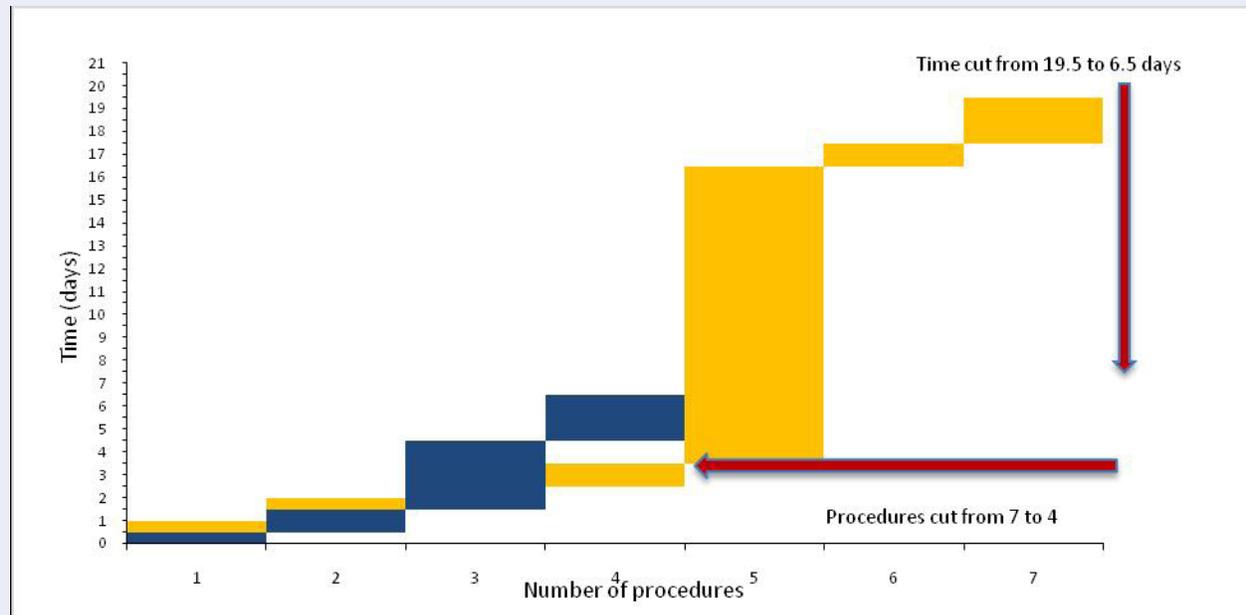


Figure 2. Lithuania has made starting a business faster and easier.



Lesson 2: Improve the efficiency and accessibility of the business registration process by implementing online platforms.

According to Doing Business, 109 economies have introduced online platforms for business registration over the past 10 years—more than 50 percent of the economies studied by Doing Business. These online platforms allow entrepreneurs to carry out various business registration procedures online, including name search and registration with social security and the tax authorities. In some cases, the entire registration process can be completed electronically⁷; for instance, the Singapore Accounting and Corporate Regulatory Authority (ACRA) introduced a one-stop business services portal (Bizfile) in 2009. This electronic platform allows entrepreneurs to complete name search and business incorporation in about 15 minutes. The Goods and Services tax (GST) registration with the Inland Revenue Authority of Singapore (IRAS) can also be done through the same system at the time of registration.⁸ In New Zealand, the online business registration system provided by the New Zealand Companies Office compresses the entire business registration process into a single online interaction: reserving the business name, completing the incorporation application, and returning the signed consent forms to the Companies Office. Once consent has been given by the Companies Office, the certificate of incorporation is issued via e-mail in just a few minutes.

In 2012–2013, nine countries introduced new online platforms or further promoted their existing e-services. Several countries in Latin America and the Caribbean

developed electronic company registration services in 2012–2013. Chile, for instance, has substantially simplified the process of company registration through the use of electronic services. In 2009–2010, Chile first introduced an online portal that allowed notaries to send an excerpt of the public deed for publication in the Official Gazette. Then, in February 2011, Chile established an obligation for the Internal Revenue Service to authorize the use of electronic invoicing, which eliminated the 16-day inspection period and allowed businesses to commence operations upon the receipt of the revenue identification number. Finally, in February 2013, Chile implemented a free online portal for specific types of companies. Entrepreneurs can now complete three of seven business registration procedures online.⁹ As a result of the introduction of e-services, the time required to start up a business in Chile was reduced from 22 to 5.5 days between 2009 and 2013. More important, business registration via the online portal is free of charge; this has largely decreased the overall cost of business start-up from \$647 to \$103.

Similarly, Costa Rica and Guatemala have introduced online systems into their business registration processes. In February 2012, Costa Rica launched Crear Empresa, an online platform for registering incorporation charters and submitting related documents. Previously, the incorporation charter was registered by a notary public, and the standard approval time was usually up to 25 days. The online platform reduced this approval time to just two days. Guatemala launched its first online service for company name search in May 2006. Later, in March 2013, it established a new online portal, allowing registration of a new company with the Commercial Registry, the Tax Authority, the Social Security

⁷ John Wille et al., “Leveraging Technology to Support Business Registration Reform,” (Washington, DC: Investment Climate Services/World Bank, 2011).

⁸ If the annual turnover of a company exceeds 1 million Singapore dollars.

⁹ These include drafting the statutes of the company; obtaining an authentication number; having a notary certify the statutes with a digital signature; and giving notice of initiation of activities to the Internal Revenue Service.



Mr. Félix de Vicente, Minister of Economy of Chile, and Mr. Tomás Flores, Undersecretary of Economy, celebrate receiving an Avonni award for the portal “Your Company in One Day.”

Institute, and the Ministry of Labor through a single electronic form. Overall, the implementation of the online platform has reduced the time needed to start a business in Costa Rica by 35.5 days and in Guatemala by 20.5 days.

As these examples show, online business registration platforms make the entire process of company incorporation faster and cheaper (Figure 3). They significantly reduce the room for corruption and cut down on red tape. Entrepreneurs also benefit from the use of standardized forms and better access to information. To promote the use of these online platforms, some governments even offer fee reductions for company incorporation. For example, in Taiwan, on January 16, 2013, the Ministry of Economic Affairs announced that companies filing and submitting required documents via online registration would benefit from a savings of 300 Taiwan new dollars in registration fees, which otherwise total 1,708 Taiwan new dollars.

Lesson 3: Streamline business incorporation procedures by creating or strengthening “one-stop shops.”

A one-stop shop is an establishment that receives business registration documents and performs at least one type of business registration procedure, such as tax registration.¹⁰ Given this broad definition, there are multiple ways in which a one-stop shop can be set up, but the two most common types are a one-door shop and a one-window shop. The one-door shop is a single location that integrates several business registration procedures.¹¹ In the one-window shop, the representative at the window usually has the authority to collect all related documents on behalf of different government agencies. Documents may later be sent electronically or by post to corresponding offices for further processing.¹² No matter which shape the one-stop shop takes, its objective is to simplify the business registration process and lower the cost and time needed to start up a business.

As of June 2013, 96 countries had some type of one-stop shop, and more than 50 percent of economies in Europe and Central Asia, as well as Organisation of Economic Co-operation and Development (high-income) states and Sub-Saharan African countries, now operate one-stop shops to incorporate businesses (Figure 4). In 2012–2013 alone, six countries in Sub-Saharan Africa created one-stop shops. For example, Côte d’Ivoire launched a One Stop Center for business registration (CEPICI) in December 2012, enabling

¹⁰ Investment Climate Advisory Services/World Bank, “How Many Stops in a One-Stop Shop? A Review of Recent Developments in Business Registration” (Washington, DC: World Bank, 2009).

¹¹ Commonly, representatives from different government agencies are working at the same office or building, but have their own separate counters. Agency representatives usually have the authority to review and approve the documents, or they may simply transfer the received documents to the main agencies for approval.

¹² Ibid.

Figure 3. Online business registration platforms make starting a business faster and cheaper.

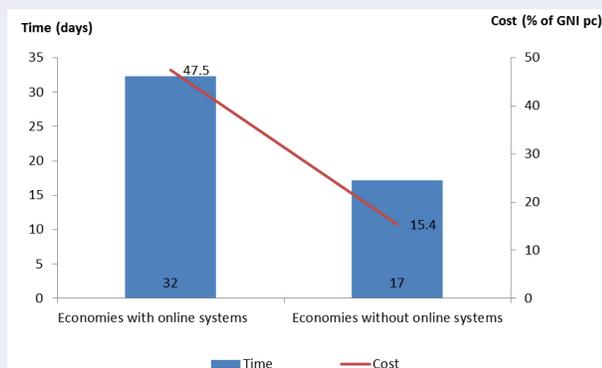
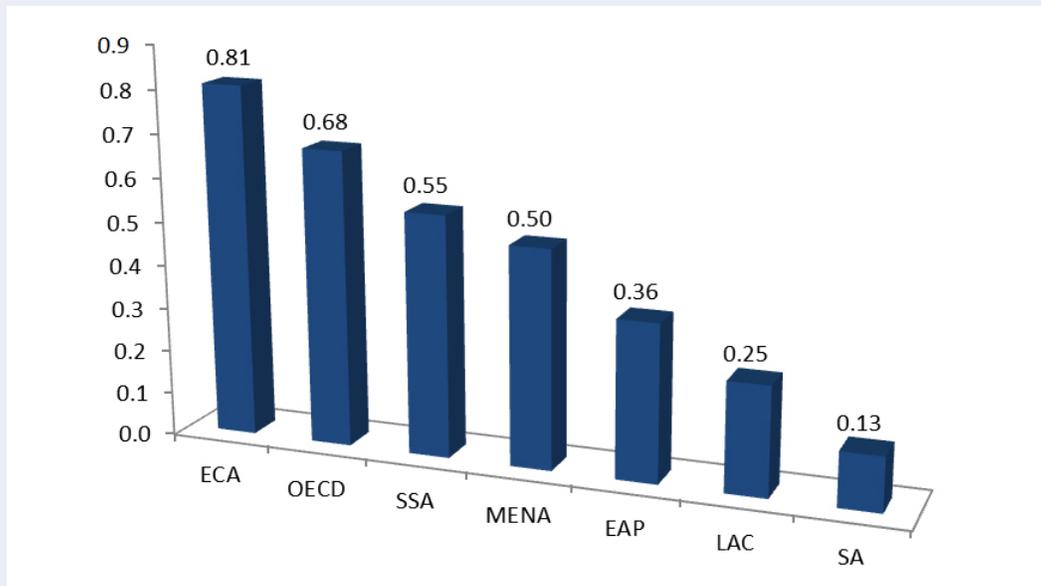


Figure 4. Business registration available through one-stop shops.



entrepreneurs to register with the commercial registrar, the tax authority, and the social security institute at the same time. As a result, Côte d'Ivoire has halved the number of interactions between entrepreneurs and the government agencies, as well as cut the total time of business registration by 24 days and reduced the total cost from \$1,430 to \$542.

Beginning in 2010, Benin has also gradually developed a one-stop shop.¹³ It serves as a single access point that allows entrepreneurs to complete key business registration activities after their registration with the Companies Registry. These post-registration procedures include tax declaration, application for the import license and tradesman's card, registration with the Ministry of Trade, and affiliation with the social security office. In March 2012, a representative of the Commercial Registry joined the one-stop shop to facilitate the approval of the incorporation documents. This eliminated the need to visit a court to obtain approvals for company incorporation. On March 26, 2012, the one-stop shop became fully operational; now entrepreneurs can complete the entire registration process with the Commercial Registry at one location. The implementation of the one-stop shop in Benin has reduced the time needed for business registration from 31 days to 15 days and cut the number of business registration steps from seven to four.

Other countries, such as Guinea, improved the capacity of the existing one-stop shops in 2012–2013. Guinea first opened a one-stop shop in December 2011, combining the following four procedures into one: registering a business, obtaining a tax identification number, registering with the social security office, and paying related fees. Then in May 2012, the Guinean government enabled the one-stop shop to publish notices of incorporation of new companies on its website. The establishment and ongoing development of

¹³ On October 20, 2009, Benin issued decree No. 2009-542, creating a one-stop shop, the Centre des Formalités des Entreprises (CFE).

the one-stop shop in Guinea have generated a successful result by cutting the time it takes to register a business nearly in half.

The impact of the one-stop shops on the ease of starting up a business is widely felt by business communities. In each country that has a one-stop shop, entrepreneurs greatly benefit from a limited number of interactions with government officials, which consequently reduces the instances of corruption and bribery.¹⁴ One-stop shops also offer significant savings in time and cost for business incorporation.

Lesson 4: Encourage entrepreneurship by reducing or eliminating the minimum capital requirement.

Minimum capital is the share capital that must be deposited by shareholders before starting business operations. For the Doing Business Starting a Business indicator, the paid-in minimum capital is usually the amount that an entrepreneur needs to deposit in a commercial bank or with a notary when incorporating a business, even if the deposited amount can be withdrawn soon after a company is created.¹⁵

For many countries, minimum capital requirements are now ancient history. In recent years, many governments have preferred to take various other steps to protect investors and creditors, minimize risks of bankruptcy, and safeguard consumers from potentially hazardous products. Moreover, analysis shows that higher levels of paid-in minimum capital requirements are associated with a greater prevalence of a shadow economy (Figure 5). A widely used good practice, especially among high-income OECD economies, is to let the

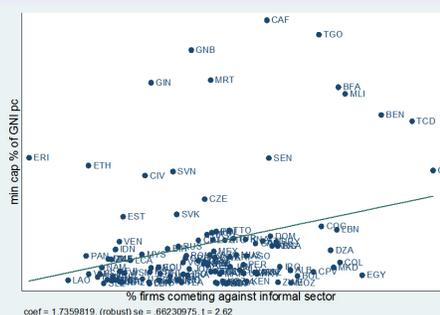
¹⁴ "Investment Climate Advisory Services/World Bank, 2009.

¹⁵ The paid-in minimum capital requirement measured by the Starting a Business indicator represents the amount an entrepreneur needs to deposit within three months of business incorporation.

entrepreneurs themselves decide how much capital they need to put aside for company incorporation.

Of the 189 economies profiled in Doing Business 2014, 99 do not impose any minimum capital requirements on entrepreneurs.

Figure 5. Higher levels of minimum capital requirements are associated with more activity in the informal economy.



In the period from June 1, 2012, to June 1, 2013, eight countries either lowered or eliminated the minimum capital requirement. For example, the government of Cape Verde adopted Administrative Law (Portaria) 17/2013, which eliminated the minimum capital requirement for limited liability companies. This new administrative law came into effect on March 14, 2013.

The government of Croatia introduced a new company form with a much lower minimum capital requirement, while the governments of Greece and Lithuania have completely eliminated this requirement for the simpler, newly established forms of LLCs. The government of the Netherlands also eliminated the minimum capital requirement for limited liability companies. This new amendment came into effect on October 1, 2012. On February 17, 2013, the Ministry of National Economy in the West Bank and Gaza abolished the paid-in minimum capital requirement for company incorporation. As a result, limited liability companies no longer

have to deposit the initial capital in a bank and obtain a proof of payment to complete business registration.

Instead of imposing high minimum capital requirements, a better way to make markets more efficient and enhance creditor protection is through enforcing mandatory disclosure of information, including obligatory filings of annual financial accounts in company registries, and increasing the supervisory role of company registries. Corporate governance monitoring, fixing of interest rates, and introduction of specific contractual provisions such as loan agreements are just a few examples of different ways of protecting creditors that are already being widely used in many economies. In the United States, for instance, creditors rely primarily on negotiated contractual protections, as stipulated in statutory and incorporation agreements.

Conclusion

The experiences of the aforementioned economies show numerous ways that governments can lower barriers to business incorporation, thus encouraging entrepreneurship and new firm creation. Formation of one-stop shops has proven to be a successful way of facilitating business start-ups and cutting both bureaucracy and costs. The leverage of modern technology, such as the introduction of online systems, has also allowed many countries to improve the efficiency of firm incorporation. In addition, more and more economies are eliminating minimum capital requirements, allowing entrepreneurs to have greater liquidity. Some governments have even developed creative solutions to further boost the levels of entrepreneurship by introducing simpler company forms with simpler registration procedures. Even though barriers to business entry remain high in a significant number of less developed economies, these countries have plenty of examples to follow to promote much-needed SME growth.



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