BACKGROUND

Cumbersome business regulations and weak legal structures in many developing countries hamper entrepreneurial activity and economic growth. However, for every determinant of extreme poverty and poor socioeconomic development in low- and middle-income countries, there are impressive examples of policy initiatives designed to respond to the challenge.

The World Bank’s annual Doing Business publication provides objective measures of business regulations for local firms in 189 economies and selected cities at the subnational level. By identifying global best practices for a regulatory environment conducive to business, Doing Business supports global private sector development.

Though many different considerations create a business-friendly environment, a growing body of research reveals a strong correlation between ease of starting a business and economic growth rates. Reducing the time and costs associated with starting a business is an effective way for developing countries—or groups of countries—to create new economic opportunities. In Sub-Saharan Africa, recognition of this opportunity led to the establishment of OHADA.¹

A supranational entity that governs certain aspects of doing business across its 17 member countries, OHADA represents a significant sacrifice of sovereign authority by member countries to establish a homogeneous cross-border business regime. By standardizing and streamlining regional business processes, OHADA laws aim to make investment in Western and Central Africa easier and more attractive, particularly targeting foreign investment.² Over the past several years,

Harmonization Strikes a Chord of Success: Doing Business in OHADA Economies

The 17 West and Central African countries in OHADA (Organization for Harmonization of Business Law in Africa) are proving that collective action is an effective way to address common economic challenges. More than 20 years after its establishment, the organization serves as a model in the region, not only for the progress its member countries have made but also for the lessons they can share. This SmartLesson examines a 10-year period (2005/06–2014/15), offering evidence of improvements to the business environment and providing examples of the actions that brought about those improvements.

REFERENCES

¹ Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, the Comoros, Côte d’Ivoire, the Democratic Republic of Congo, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Mali, Niger, the Republic of Congo, Senegal, and Togo formed OHADA in 1993.
OHADA members have given special attention to reforming their processes of company incorporation. These reforms affect both domestic and international companies operating in the member states.

Historically, starting a business in the Sub-Saharan Africa region has been more complicated, time-consuming, and expensive than in most of the other regions of the world. For example, in 2007, starting a business in Sub-Saharan African economies took on average 59 days, while the average for the rest of the world was 49 days. Similarly, the average cost of starting a business in Sub-Saharan Africa was 194 percent of gross national income per capita, compared to approximately 43 percent elsewhere in the world. And whereas Sub-Saharan African countries required approximately 207 percent of income per capita in paid-in minimum capital to start a business, the global average was 143 percent.

In addition to this regional gap between Sub-Saharan African and OECD countries, evidence suggests that the regulatory and legal environment within OHADA was uniquely disadvantageous for starting a business (Figure 1). In 2005/06, starting a business in an OHADA member country compared poorly to doing so in other Sub-Saharan African economies:

- OHADA countries required an average 12 steps, which took an average 67 days, versus 10 steps and 54 days in non-member Sub-Saharan countries.

- In OHADA, starting a business cost approximately 250 percent of income per capita, versus 160 percent of income per capita in non-member Sub-Saharan countries.

- In OHADA, the minimum paid-in capital requirement was nearly 400 percent of income per capita, versus 94 percent in non-member Sub-Saharan African economies.

These differences are in large part attributable to the shared colonial experience of OHADA member countries. At the time of OHADA’s establishment, member economies shared not only a language (French) but also antiquated business laws.

**LESSONS LEARNED**

**Lesson 1: OHADA member countries made a commitment to improve business start-ups by reducing minimum capital requirements and lowering incorporation costs in 2014/15.**

Over one-third of OHADA reforms (9 of 23) implemented in 2014/15 made starting a business easier, mostly by lowering paid-in minimum capital requirements. These reforms created a variety of mechanisms that public officials can use to streamline the business registration process and make business incorporation less expensive. In January 2014, OHADA economies authorized each member state to adopt national legislation to reduce the paid-in minimum capital requirement to their chosen level for the creation of a private limited liability company. In essence, the new decree allows rule makers to freely set the amount of capital to incorporate a limited liability company. In 2014/15, nine OHADA countries reduced the paid-in minimum capital requirement needed to start a business.

---

3 Years represent *Doing Business* publication years. *Doing Business* publications cover global trends in business regulation over time and in the context of the aftermath of the global financial crisis.

4 Organisation for Economic Co-operation and Development.

5 Uniform Act on Commercial Companies and Economic Interest Groups (January 30, 2014).

6 Burkina Faso, the Comoros, the Democratic Republic of Congo, Gabon, Guinea, Niger, and Senegal.
As a result of this reform, the average paid-in minimum capital required to open a business across OHADA member countries dropped by almost 50 percent in one year. Among OHADA economies that reformed their paid-in minimum capital requirements, the Democratic Republic of Congo enacted the most extreme reform, reducing the requirement by 98 percent—from a one-time high of 500 percent of income per capita to 11 percent (Figure 2). Niger, Guinea, Burkina Faso, and the Comoros also dramatically reduced their paid-in minimum capital requirements, following the lead of the supranational OHADA legislation.

OHADA countries also made starting a business easier in 2014/15 by decreasing administrative fees. In Benin, for example, the government reduced filing fees at its one-stop shop for business registration.\(^7\) As a result, the cost of starting a business in Benin decreased by 18 percent, from 56 percent of income per capita in 2013/14 to 46 percent in 2014/15. Similarly, in Togo, the government reduced registration fees with the tax authority from XOF 33,000 to XOF 1,000\(^8\) which decreased the cost of starting a business from 95 percent to 84 percent of income per capita. As a result of these reforms, the average cost to open a business across all OHADA economies fell marginally in 2015, from 76.5 percent of income per capita in 2013/14 to 75.3 percent in 2014/15.

Furthermore, as a result of recent reforms, the average time required to open a business fell marginally over the past year, from 26.9 days to 26.3 days. Given that the number of average procedures to start a business in OHADA countries did not change in the past two years, and decreases in time and cost required to start a business were negligible, OHADA economies made a commitment to business creation this year through the dramatic reduction of minimum capital requirements combined with reduction of start-up fees.

Lesson 2: OHADA member countries have substantially simplified business incorporation processes in the past 10 years.

OHADA member economies have implemented noteworthy reforms to close the gap between OHADA member and non-member countries in Sub-Saharan Africa. In the last 10 years, approximately 25 percent of OHADA reforms (56 of 227) made starting a business easier. Dramatic reductions in the procedures, time, cost, and paid-in minimum capital required to open a business in OHADA member economies speaks to a substantial improvement in their ease of starting a business over time.

Across all OHADA countries, the average number of procedures required to start a business decreased by nearly 40 percent, from 12 procedures required in 2005/06 to just over 7 procedures in 2014/15. Côte d’Ivoire, Senegal, and Burkina Faso implemented the most significant reforms, reducing the number of necessary procedures by an average of about 63 percent each. For example, in 2013/14, Côte d’Ivoire eliminated 4 of 10 procedures to start a business by launching a one-stop center for business registration, which allows entrepreneurs to register with the commercial registrar and the social security institute in one step rather than having to visit these agencies separately.

The decrease in the average number of procedures across OHADA economies in the last 10 years goes hand in hand with the decrease

\(^7\) Ministerial decree n°053, “portant réglementation des formalités relatives à la déclaration de l’entrepreneur à la création, à la modification d’entreprises, et à l’exercice de toutes activités entrepreneuriales en République du Bénin.”

\(^8\) “Note de Service n 002-2015/OTR/CG” (January 22, 2015).
in the average number of days it takes to start a business in these countries. The average time necessary to open a business decreased by 61 percent, from approximately 67 days in 2005/06 to 26 days in 2014/15 (Figure 3). Guinea-Bissau, the Democratic Republic of Congo, and Senegal each reduced the number of days by over 90 percent. In Guinea-Bissau, where it took 260 days to start a business in 2005/06, it now takes only 9 days. This rapid decline is a result of the one-stop shop for business creation established in 2010/11.

Similarly, the average cost of starting a business in OHADA countries fell by nearly 70 percent, from 250 percent of income per capita in 2005/06 to 75.3 percent in 2014/15. The Democratic Republic of Congo, Guinea-Bissau, and Côte d’Ivoire each reduced the cost of starting a business by over 85 percent. In the Democratic Republic of Congo, for example, fees decreased from 200 percent of income per capita in 2005/06 to 30 percent in 2014/15, after the establishment of a one-stop shop in 2014. The new one-stop shop allows entrepreneurs to notarize articles of association, register with the commercial registry, publish the notice of incorporation, and obtain the national identification number and the business license, all in one place. The Democratic Republic of Congo also significantly reduced the fees associated with incorporating a company.

Also, the average paid-in minimum capital required to open a business in OHADA member countries has fallen by over 70 percent, from 354.3 percent of income per capita in 2005/06 to 115.2 percent in 2014/15. The Democratic Republic of Congo, Côte d’Ivoire, and Benin each reduced their paid-in minimum capital requirements by over 98 percent.

In the last 10 years, Burkina Faso has implemented the greatest number of reforms (23) among OHADA economies to improve its business environment. Approximately one-fifth of these reforms were aimed explicitly at starting a business. The following are examples of Burkina Faso reforms:

- In 2008—reduced the time required to start a business from 34 days to 18 days by simplifying notification and documentation requirements for company registration.

- In 2010—reduced the cost of doing business by allowing online publication of articles of incorporation, which reduced registration fees.

- In 2012—made starting a business easier by requiring a sworn declaration in lieu of founders’ criminal records at the time of the company’s registration. This reform was a consequence of legislation passed by the OHADA Council of Ministers in March 2010.

Benin has also been an outstanding reformer in the last 10 years, implementing 21 reforms, including the highest number of reforms (6) aimed explicitly at starting a business. In 2011, like Burkina Faso, Benin eliminated the need for founders’ criminal records when registering a business. In 2012 and 2013, Benin implemented a series of reforms that established a one-stop shop for business registration and also reduced associated fees. These reforms have collectively made the process of starting a business significantly easier in Benin.
Lesson 3: Regulatory reforms implemented among OHADA members since 2005/06 have resulted in significant convergence in business practices between OHADA member and non-member countries in Sub-Saharan Africa.

Since 2005/06, the complexity, time, and costs associated with doing business in Sub-Saharan African countries has unquestionably decreased. Notably, business conditions in OHADA member countries have improved more dramatically, on average. While doing business outside OHADA countries is still easier in absolute terms, the number of reforms passed collectively by OHADA member countries in the past 10 years has led to a convergence of business practices over time in Sub-Saharan Africa at large.

Considering collectively the procedures, time, cost, and paid-in minimum capital requirements to start a business, OHADA member economies closed the gap between themselves and other Sub-Saharan African countries by almost 70 percent from 2005/06 to 2014/15. During that period, regulatory convergence was most dramatic for the number of procedures required and the amount of time needed to start a business in OHADA as well as non-OHADA countries. By these measurements, OHADA economies are in fact more efficient than other Sub-Saharan African economies at starting a business.

It is noteworthy that, in absolute terms, Sub-Saharan African countries—OHADA members and non-members—have decreased the number of procedures required to start a business. Recall that OHADA members reduced the number of procedures required to incorporate a company by almost 40 percent, from 12 procedures in 2005/06 to 7 in 2014/15. Non-OHADA countries also decreased the average number of procedures, but by only 20 percent, from 10 to 8 procedures. As a result, in 2014/15, entrepreneurs in OHADA economies must complete fewer procedures to start a business than their counterparts in non-OHADA countries.

The dramatic decline in procedures required to incorporate a company in OHADA also led to a dramatic decrease in the time required to start a business in these countries. Whereas opening a business in OHADA countries once took 67 days, it now takes 23 days. Non-member countries also dropped from 54 days in 2005/06 to 27 days in 2014/15.

Convergence between OHADA and non-OHADA groups is also evident in the associated costs of starting a business in Sub-Saharan Africa. Recall that it cost entrepreneurs in OHADA countries 240 percent of domestic income per capita to start a business in 2005/06. Almost 10 years later, these expenses had dropped by about 70 percent. While start-up costs in the entire region remain comparatively high, this nevertheless represents a substantial improvement. Although the cost of starting a business in non-OHADA countries declined as well—from 160 percent of income per capita in 2005/06 to 41 percent in 2014/15—the difference in cost to start a business between OHADA members and non-members fell from 89.7 percent in 2005/06 to 35.0 percent in 2014/15.

OHADA reforms also have served to reduce minimum paid-in capital requirements in member countries relative to the rest of Sub-Saharan Africa (Figure 4). In 2005/06, paid-in minimum capital requirements
in OHADA countries were equivalent to 400 percent of income per capita. This number fell by over 70 percent, to 115 percent of income per capita in 2014/15. While paid-in minimum capital requirements have also fallen substantially in non-OHADA countries, the difference between the two has fallen from 305 percent in 2005/06 to 103 percent in 2014/15.

CONCLUSION

Regulatory reforms in OHADA economies in the last 10 years demonstrate the power and potential of collective action against common economic challenges. Where domestic regulatory reform appears politically untenable, working with international partners can cultivate renewed enthusiasm for change. In hopes of encouraging increased foreign investment, OHADA members have established a regional business regime with more streamlined business processes and more robust legal frameworks. While many different indicators affect the ease of doing business, OHADA economies have prioritized starting a business in particular, given its positive contribution to employment and economic-growth rates. Reducing the number of procedures, time, cost, and paid-in minimum capital required to start a business promises even greater returns to scale when implemented in tandem with neighboring countries and trade partners. While the number of regional trade agreements has increased exponentially in the last decade for the purposes of economic growth, the OHADA experience highlights a further means of cooperation.