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SmartLessons
real experiences, real development

A New, Improved Office of Company Registrar in Nepal

Emerging from political conflict that has affected all walks of life for over two decades, Nepal is now poised for economic growth through reforms. Since 2010, the Nepal Investment Climate Reform Program (NICRP) has worked with the government of Nepal to improve the economic outlook of the country by undertaking a number of investment climate reforms. Nepal is currently ranked at 125 out of 142 countries in The Global Competitiveness Index 2012 report; the Doing Business Report 2012 ranks Nepal at 107 out of 183 economies. These indices show that Nepal has a long way to go to attract and support private investments in today's highly competitive global village. In recognition of this and in an effort to improve service delivery for the private sector and enhance economic growth for jobs creation, the government is now working closely with IFC. The NICRP's overall effort to improve Nepal's investment climate started by helping the government improve its "Starting a Business" indicator, which is currently at 100. This SmartLesson describes IFC's approach to the often uphill task of upgrading the Office of Company Registrar (OCR) in Nepal.

Background

In May 2011, the NICRP Regulatory Reform (RR) team completed a comprehensive study to map the process of company registration. The report identified clear opportunities and scope to streamline the business registration process by reducing the number of steps from 15 to fewer than 10, which would enhance the ease of doing business, make it easy for informal firms to formalize, and potentially improve the country's overall performance for the indicator.[1] (See Figure 1.)

For the recommendations for reforms to be realized quickly, it was critical that the process not entail any legal amendments that could result in delays.[2] After careful evaluation, the NICRP-RR team and IFC's Global Product team determined that process reengineering was the best route to achieve the desired objective of streamlining business registration at the OCR.

The study indicated that the business-registration process was a combination of electronic and manual (paper-based) processes, requiring manual intervention at each step. Although the OCR claimed that the registration process was efficient in its current state, it was evident that an electronic workflow would raise process efficiency, reduce time and cost for the business community, and, most importantly, improve accountability and transparency. The Global Product team and the NICRP-RR team put their heads together to come up with a feasible plan and a viable set of reform recommendations to remove the bottlenecks and align the process with international good practices.

Challenges:

- **Resistance to change**. Resistance to any change is a prominent characteristic of South Asia. And, the reform that would simplify the registration process called for radical change. For example, the recommendations proposed an automated system to facilitate an electronic workflow combined with significant process reengineering through change management and overhauling of the current manual practices.

[1] An offline simulation of reducing the steps for registering a company from the current 15 to 6 showed a subsequent improvement in the DB "Starting a Business" indicator by 19 positions.
[2] Nepal has a constituent assembly in the parliament whose primary concern the past three years has been to draft a new constitution. Under the current circumstances, even the slightest legal amendment can take a year or more.

Figure 1: Registration Process Steps

Steps involved in Company Registration at OCR		Study Findings	Recommendations for process streamlining	Agreed "To-be Process" (post BPR)
1	Initial Verification and attaching Rupees 5 Stamp	1	0	0
2	Name-check in the COBOL Database (Old database)	1	0	0
3	Blacklist Verification	1	0	0
4	Name-Registration into the New Database / System / Scanning of Documents	1	1	1
5	Document Verification by Assistant Registrar	1	1	0
6	Approval Decision by Deputy Registrar or Registrar	1	1	1
7	Ticket for payment of Registration fee produced	1	0	0
8	Payment of Fees	1	1	1
9	Issuance of Company Registration Certificate	1	0	1
10	Document Execution – Assistant Registrar signs documents	1	0	1
11	Stamping of each page of the documents of submitted for registration	1	0	0
12	Company Registration Certificate with accompanying documents awarded to applicant	1	1	1
13	Scanning of signed and stamped documents	1	1	0*
14	PDF of scanned documents entered into New Database/System	1	0	0
15	Archiving – manually in open shelves (like library)	1	0	0
Total Steps		15	6	6

*Note: Scanning of documents will be done as part of Steps 1-4 to facilitate Electronic Workflow

- **Skepticism**. As expected, the reform was received with skepticism, criticism, and, during some discussions, outright rejection—because of perceived misgivings about a weakening of security that the proposed systems might cause. The only glimmer of hope was that the company registrar and his IT team agreed to look into the possibility of adopting those changes.

- **Lack of support for the OCR**. Although the OCR has registered over 90,000 companies, averaging 10,000 companies registered each year during the ten-year period when political instability and conflict was at its peak, it lacked an appropriate image and was not adequately recognized as a key organization for the business community. As a result, its facilities were far below the standards required. Furthermore, people at the OCR felt that the government was not much interested in improving the situation. For example, the budget the government provided for fuel to run the OCR generator in case of power cuts was barely

Construction begins on the new OCR building.

sufficient to ensure continuity of OCR administration and operation. This inadequate support often, if not always, resulted in low morale and a lack of motivation to take any initiative to improve the situation. In fact, many officials saw working at OCR as an interim step or a convenient transition to move to better government departments.

Strategy for Success:

The NICRP-RR team took a multipronged approach toward addressing the issues these challenges raised:

- **Facilities-related issues**—In an effort to boost the morale of the OCR officials and help them recognize that they were part of an important organization, the NICRP-RR team, as a first step, proposed replacing the old facilities with a modern building to house the new registration system. The proposal immediately met with skepticism. But, a joint effort between IFC, the World Bank, and the Company Registrar helped convince the government to allocate $447,000—within a month![3] This surprising big win served to greatly boost the morale of the OCR officials. Suddenly, what seemed impossible was becoming realizable!

- **Human and cultural issues**— It is not uncommon in South Asia for officials to be reluctant to change and reform so that the status quo could continue, resulting in lack of motivation to move forward. The team had to be sensitive to these issues.

- **Bureaucratic issues**—Garnering support for the reforms process from the higher-ups in the government came about through a series of formal and informal interactions. Besides resulting in the allocation for building a new facility, the effort also helped convince the bureaucrats of the importance of having an

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[3] The World Bank country team extended its help by introducing the RR team and key decision makers within the Ministry of Finance.

effective, adequately staffed OCR with a motivated team working there. This support from the government has helped motivate the OCR staff to participate in ensuring the success of the reforms process initiated by the project.

- **Capacity building and peer-to-peer learning**—Another important issue coming out of the informal interactions was the desire of the OCR team to visit modern, successful registration systems and see them in operation. The OCR team felt awkward bringing this issue up in formal meetings but found it natural to do so during informal interactions. Consequently, OCR team members had two peer-to-peer learning opportunities during the Corporate Registers Forum (CRF) at Singapore and at New Delhi. This also helped the OCR people connect with over 40 CRF member jurisdictions from around the world. Both exposures helped tremendously in showing OCR why reforms are necessary.

- **Image building of OCR**—As a first step in boosting OCR's image across government departments and in the business community, the team proposed that the new OCR system be interoperable with the newly announced National e-Governance Portal, to bring greater visibility to OCR's modern online system. A further step enhanced OCR's website by adding Internet-enabled transactional features such as forms downloading, online application submission, company name search and reservation, online updating of company records, submission of comments, and so on. An important milestone was achieved when the OCR and the Inland Revenue Department (IRD) were convinced—through the collaborative efforts of the USAID (United States Agency for International Development) NEAT (Nepal Economic, Agriculture, and Trade Activity) project and the NICRP-RR team—to agree to share information. This was another big gain for the business community, because this agreement spared them the burden and costs of resubmitting the same set of company-related documents to IRD for obtaining a PAN (Permanent Account Number).

- Vendor selection—An important element in ensuring success of the project was finding the right vendor, one with experience and expertise as well as an appreciation for the relationship between OCR and IFC. A well-crafted request for proposal and effective procurement selection were fundamental to the project's success.

Evolution:

- All of these developments helped OCR agree to and sign-off on a comprehensive Business Process Reengineering Plan in January 2012. To achieve that result, the IT team at OCR, the local contractor, the Global Product team, and the NICRP-RR team came together to design an electronic workflow to suit the present and future needs of the OCR. (See Figure 2.) The system incorporates features that ensure nearly 100 percent business continuity, redundancy, and data recovery in the event of a system fault or natural disaster. The system will be housed at the National

Information Technology Center in Kathmandu and backed up at the OCR. Once the system becomes operational, the OCR is expected to realize potentially huge image gains and be seen as an organization capable of providing high-level service to the business community—an image made possible only through reforms, process streamlining, and infrastructure modernization.

Registrar makes a presentation during the 2012 Corporate Registers Forum in New Delhi.　(Photo by Ashish Rauniar)

The proposed new system is designed to implement the recommended reforms jointly with the IT team at OCR, which now owns it. As a bonus, the IT team added new features to the system, such as providing online authorized access to a host of useful information for potential entrepreneurs, investors, and government officials.

The system features technology that facilitates the addition of remotely located Registry Offices to the new system through the Internet. As a result, companies can register directly from remote locations using the new system, significantly easing the burden on new entrepreneurs from different parts of the country who no longer will have to come to Kathmandu to register their companies. This is expected to boost company registrations in suburban and rural areas, resulting in positive impacts of job creation and economic growth.

The Cost Compliance Savings (CCS) from Kathmandu operations is estimated to be approximately $1 million, which is significant given the small number of companies registered in the past 10 years because of the political conflict.[4] The CCS is expected to go up as the ease and efficiency of the new system will encourage more companies to register at the OCR. Increased registration will also be helped by the new positive image of OCR as a provider of an efficient, transparent, business-friendly registration system.

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[4] The OCR has registered over 90,000 companies, averaging 10% growth trend with about 10,000 companies registered each year during the past ten-year period when political instability and conflict was at its peak. The project aims to achieve 20% annual growth in registrations, a 10% increase of over the average past 10-year growth trend.

Figure 2: New OCR Workflow Schematic

NEW ELECTRONIC WORKFLOW-BASED COMPANY REGISTRATION PROCESS AT OCR
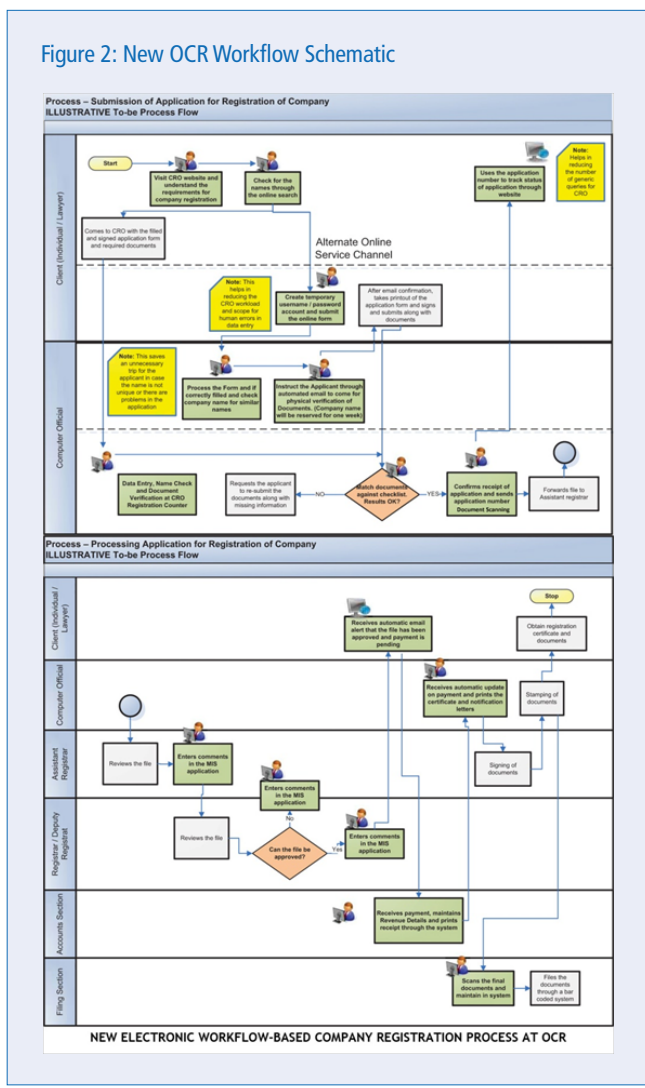
Lessons Learned

Lesson 1: What is said is not necessarily what is meant.

Many Government officials—in Nepal, at least—sometimes interact in ways that suggest there are issues underneath that are influencing the discussion. Informal interactions go a long way toward helping us understand those undercurrents and identify key issues that will motivate government officials to embrace difficult but positive change. To form efficient and successful strategies, it is important to be alert to these issues and to delve into and explore them.

Lesson 2: Resistance to change is to be expected, but you can address it effectively by understanding and being responsive to client needs.

Don't be surprised or discouraged when you run into resistance to your recommendations. The way forward is to keep working toward win-win solutions. During project inception, the OCR project team wanted to have all 93,000 old company records digitized and incorporated into the new system—an action OCR could not afford. The digitization of records was not within the original scope of

the project, and OCR was apprehensive that the NICRP-RR team would be averse to supporting this request, given the high cost of the effort. The IFC team analyzed the cost and benefit of the request and, given the long-term positive impact of starting a business, finally accepted it, leading to stronger cooperation and support from OCR.

Lesson 3: It is imperative to garner support for reform at all levels and at the same time motivate certain sections or officials of the organizations that hold the keys to the success of the project, and then encourage those sections or officials to advocate for the benefits of the system.

Higher-level officials may not necessarily be the champions of the project. Often, it could be the lower-level staff who—if convinced that the reforms will help improve the quality of the work and their working environment, raise their efficiencies, and give them more power within the organization to achieve their organization's goals and image—help get quicker buy-in from the top-level management and thereby ensure success of the project. For example, the RR team encouraged the IT team at the OCR to participate in designing and owning the new automated electronic workflow that incorporated the recommended reduction of steps in the registration process. So, it was easy for the IT team to see the immediate and long-term benefits and then convince the Company Registrar and the OCR management that the reform was feasible.

Lesson 4: Supplement formal meetings with informal interactions.

Formal meetings are necessary, of course, but informal interactions will provide important insights into the process as well as a better understanding of the organizational and personal needs and expectations from the project. Informal two-way communication also can uncover and clear up misunderstandings and can help create effective strategic cooperation. For example, the IFC team invited OCR officials for informal dinners to celebrate important milestones such as project kickoff and signing of agreements. The open exchanges—of opinions, expectations, and needs—that occurred in these unofficial settings made it much easier to tackle tough issues later on, and to expedite decisions that helped move the project forward.

Lesson 5: Often, utterances or actions expressing skepticism or resistance to change may be an attempt by officials to test the project's credibility and depth— and the extent to which the team is willing to cooperate with them.

With the OCR, the NICRP-RR team found that—after a certain level of trust and confidence had been built through constant interactions—the very people who had seemed to be obstacles turned out to be reliable partners! In the initial phase, for example, some officials were skeptical about the success of the project, based on their past experience with another donor-supported project that had failed. The IFC team did a thorough analysis of

the earlier project, learned why it failed, and assured the skeptical group that those issues were well-addressed in the current project. This action convinced the critics, who then readily extended their support and cooperation.

Lesson 6: A positive attitude is contagious and can produce more results in a short time.

It helps to have committed players—including government officials and vendors as well as a positive, open-minded IFC team—who are willing to think creatively and consider fresh ideas, and are excited about the project's potential. Also, drawing from experiences with business entry reforms in Bangladesh enabled the IFC team to promote peer-to-peer learning within the region through knowledge sharing.

Conclusion

Working with the OCR helped the NICRP-RR team gain in-depth experience and lessons in how to deal with an organization that is extremely averse to change. The obstacles, which at times seemed insurmountable, were overcome. With the deployment of the new system, scheduled to be completed in October 2012, OCR is now on its way to becoming an important organization, and it deserves credit for ensuring nearly 100 percent business continuity through its world-class business-registration system. Morale and motivation at the OCR are high, in spite of frequent staff changes at the top, middle, and lower levels.[5] And, most encouraging, the IT officer during the last meeting announced that he had started working on a guideline for the business community, outlining the e-services that OCR can provide—and the guideline will then be issued as a directive. How's that for a proactive OCR!

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[5] Since the start of the project, two company registrars have come and gone, and transfers at the middle level also are frequent, adding to the challenges.