

Starting a business (quickly) in El Salvador

JAMES NEWTON, SYLVIA SOLE, AND ADRIANA VICENTINI

On 24 January 2006 President Antonio Saca announced the launch of the new one-stop shop at the Commercial Registry, combining 8 startup procedures into 1. Starting a business, which took 115 days before reform, now took only 26. The next day the vice president cut the ribbon at the business registry site. Things were going well, thanks to a 4-year effort. “Everything can be done in 1 place now,” says Felix Safie, director of the National Central Registry.

Starting a business, often the first contact between the entrepreneur and the government, was intimidating before the reforms. It took a lot of time and money—115 days and more than \$2,700 in fees, plus \$2,850 that had to be paid upfront as minimum capital. This, for a country with average income per capita of \$2,145. It was not uncommon for a senior manager to spend 10 hours a day dealing with administrative formalities. Not surprisingly, 38% of entrepreneurs simply started their business informally, never registering or paying taxes.

This meant less revenue for the government, less protection for consumers, and no social security benefits for employees. It also meant that companies usually stayed small. Investing in new machinery or a bigger office building was difficult without access to bank loans. And then there was the constant worry of being discovered by the authorities.

Pressure started rising after several studies highlighted the issue. In addition, the complex startup procedures prevented El Salvador from qualifying for funding from the U.S. Millennium Challenge Account. Funds went only to countries that demonstrated above-average performance on several policy and economic indicators, including the time and cost to start a business. Something had to be done.

Safie decided to act. Since he had been called by the president to head the Central Registry in 1999, he had already reformed the property registry. Now he focused on the company registry. A former business owner, he knew that the way to change was to shift the focus from what bureaucrats wanted to what customers needed. In 2001 a human resource consultancy, HG Consultores, studied the registry’s organization and recommended that it become ISO-certified. This meant complying with a series of standards for quality assurance in client service. Safie liked the idea. It would give the reform a specific target.

Laying the groundwork for change

The ISO process offered a simple target for the reform, based on the motto “what gets measured gets done.” First, “say what you do,” that is, document procedures for work affecting product or service quality. Second, “do what you say,” meaning retain records of the activities to measure and record compliance. Third, “improve what you do” by comparing set goals and actual results, and correct the problems that cause the differences. In February 2003 working groups were formed to analyze 3 lines of work: company documentation (such as commercial registration), the business license, and the registration of the initial balance. “This review process is what

took the most time, almost a whole year,” remembers Manuel del Valle, whom Safie nominated as the new director of the Commercial Registry in June 2003, “but the bulk of the work was done.”

And since most of it was done in-house, costs were low. Outside experts on ISO standards provided some initial training and guidance, but soon the registry’s employees took over. They also wrote the new ISO manual (Documentación de Sistema de Gestión de la Calidad or Quality Management System Documentation). It outlined for all employees a narrative and schematic map to guide them through their and (everyone else’s) processes within the registry. The guidelines also specified how to correct mistakes and make sure that they are not repeated. Each employee has a copy of the manual and is able to refer to it. Monthly meetings periodically reassess the rules. Any changes are published on the registry’s website.

Once the baseline procedures were documented, the reforms started in November 2003. “Everyone had been involved from the beginning and was ready to go,” says del Valle. First, the staff was organized into small teams. Each employee was part of a team according to his or her work stream and task (grupo natural) and a reform group (grupo de proyectos de mejora). The teams met every week to discuss their previous work week, what went wrong, and how to improve it. During the week staff measured response times and thought of ways to cut or rearrange inefficient processes. All meetings were documented with action items for follow-up the next week.

The customer as evaluator

To check on implementation and measure results, a new quality control unit was created. It solicited comments from the registry’s customers on the quality of service through written and phone surveys and a prominently displayed suggestion box. So-called mystery shoppers, different people contracted by the quality control unit, tested the friendliness of client service and processing times. The results of these surveys were used to see where further improvements were needed.

The efforts paid off. After a year of hard work the major bottleneck, processing business licenses, was fixed. The time to start a business fell from 115 days to 40 by January 2005. The original goal of 85% customer satisfaction was exceeded. In March 2005 the registry became ISO certified, the first in Latin America.

Things also started moving at the top of the government. In the presidential campaign of 2003-04, soon-to-become-president Antonio Saca promised to launch a program called Programa Presidencial—El Salvador Eficiente. The program would improve the local business environment by cutting red tape.

In the 1990s the government’s economic policies had focused on ensuring macro-economic stability. Successfully: the country recovered strongly after the end of the civil war. But economic growth slowed to an annual average of 3.9% in 1995–99, and 1.9% in 2000–04. Concerned about this trend, President Saca realized that macro-economic stability was not enough. Red tape was tying down businesses and holding

back investors, both domestic and foreign.

With an increasingly open market, competition was only becoming stronger. El Salvador had been negotiating the Dominican Republic–Central America Free Trade Agreement. In December 2004 it was the first country to ratify the agreement. If nothing was done to make doing business easier in the country, chances were that local companies might be overrun by fierce competition.

At the insistence of President Saca, Eduardo Zablah-Touche, head of the Technical Secretariat of the Presidency, developed a plan to eliminate, simplify, and redesign bureaucratic processes that adversely affect the efficiency and functioning of businesses. Both men knew what it was like to be a businessperson in El Salvador. Before being elected in March 2004 Saca lobbied on behalf of private businesses as president of the National Association of the Private Enterprise. Zablah-Touche had been director of various companies and started a few of his own. “The happiest moments are when a new company is born.”

How far can you get without changing the law? A long way

When it was time to start implementing the plan, the technical secretary formed several reform committees to focus on red tape for trade, visa requirements, construction and environmental permits, and closing a company. Every committee included relevant public officials and businesses. In October 2005 the Commission for the Study of Reforms to the Commercial Code was established to review the commercial code and simplify business startup.

Backed by support from the President, Mayra de Morán, the director of the commission, wasted no time. She wanted results quickly. She also knew that legal reforms took time in El Salvador. “Anything that Congress has to approve takes at least 8 months.” Her solution: let’s see how far we can get without legal changes, just by reducing bureaucracy.

Any procedures not explicitly required by law were first to go. Chances were that they made little sense anyway. For example, certain ministries required that photocopies had to have certain size margins, with additional notarizations to ensure that the copy was accurate. Only very few photocopy businesses in San Salvador could provide this service.

Next, a single window would be established to allow entrepreneurs to complete formalities with different agencies in 1 visit. Visits had been required to 5 different public agencies. This was not the first time the idea of a single window had come up in El Salvador. Already in 2000 a 1-stop shop (Oficina Nacional de Inversiones) had been created in San Salvador, with branches opened in Sonsonate and San Miguel in 2005. Entrepreneurs could submit all their documents, but the staff still had to organize the registration at different agencies. This took time. And many people thought that the service was only for foreign investors, though it was also open to local investors.

The plan was to put officials from the different agencies in 1 building. Most important, they would have the authority to complete any formality by being electronically connected to their respective agencies. Entrepreneurs would be able to complete 8 different formalities in 1 place—the company registration, the registration of the initial balance sheet, obtaining the business license, tax ID for both income and value-added tax, official invoice papers, social security registration, and the notification of the Ministry of Labor.

It was quickly decided that the customer-oriented commercial registry, with its modern technology, would host the other agencies. To make implementation quicker and smoother, the commission postponed its goal of introducing a single registration form, since that might require changes in agency computer systems.

A busy November 2005

The Technical Secretariat coordinated the development of service guidelines with interagency working groups and informed the public about the planned single window. After a schedule was developed for reallocating the delegates to the registry, work began in November to bring all the relevant agencies on board and start implementing the reform. In 1 week a core group of technicians, legal consultants from the affected ministries, and members of the reform commission drafted the guidelines. A day later the technical secretary met with top officials of the Ministry of Labor and the Social Security Institute (Instituto Salvadoreño del Seguro Social) to persuade the 2 to reform.

It worked. “This was our great advantage,” recalls Morán. “The technical secretary was not directly affected by the reform, but was linked to the presidency. We could play the role of mediator or push for decisions when the process got stuck.” The following week, the reform plans were discussed with all institutions involved. Each institution chose its delegated officials, and technicians planned the computer connections.

In the third week of November equipment and people could be moved to the registry. To save time and money, delegates at first brought their own computer equipment. Formalities were done on site, with the information sent electronically to the supervising agency. “Thankfully, most of the other agencies were already computerized, which made the transfer and connection much easier,” says Morán. Only the Ministry of Labor was not. But since a simple notification suffices, the delegate can stamp the paper at the single window and have the package delivered to the ministry at the end of the day.

On 21 November 2005 the first tests were conducted. A few days later a random client was asked to test the system. Based on this experience, the guidelines and system were adjusted. Tests continued in the following weeks to make sure that everything was ready for the official opening in January 2006. This time the commission made sure that the reform would not go unnoticed, planning 2 major launch events.

The reform spirit received another boost. In December 2005 El Salvador became 1 of 2 lower-middle-income countries worldwide to qualify for Millennium Challenge Corporation (MCC) funding. (The other was Namibia.)

On 24 January 2006 the president announced the opening of the single window together with the official launch of El Salvador Eficiente at the presidential palace. A day later the vice president cut the ribbon at the registry in the presence of high-level officials from the ministries.

And so, 3 months after the first meeting of the reform commission, the new single window was operating. Entrepreneurs felt the results immediately. With all agencies in 1 place, paperwork was cut by more than half. Just by having different agencies share information, 24 separate requirements were eliminated. “Before, I had to give a copy of the company statutes to each of several agencies. Now I just need 1 copy for the company registry and they pass it on to the tax authorities,” says one entrepreneur. The total time to start a business dropped even further, from 40 days to 26.

In November 2006 the MCC Board of Directors approved a 5-year, nearly \$461 million grant for El Salvador to stimulate economic growth and reduce poverty in the country’s northern region, where more than half the population lives below the poverty line. The grant is estimated to improve the lives of about 850,000 Salvadorans through strategic investments in education, public services, enterprise development, and transportation infrastructure. Incomes in the region are expected to increase by 20 percent over the 5-year term of the program, and by 30 percent within 10 years.

“We have improved substantially the environment to do business in El Salvador,” said President Sacá proudly. “We reduced the cost and time for the government formalities. With the recent launch of the one-stop shop at the Central Registry for company startup, we reduced the number of days to register a business, reducing the cost by 67%. These efforts have been internationally recognized by the World Bank, which placed us as one of the top 15 reformers worldwide in the 2007 report and moved us up 4 positions on the global ranking.”

What made it work?

Reform can start on all levels, particularly when simplifying the bureaucracy. And it does not have to cost much. The ISO certification—including audits, training, and 15 ISO certificates—cost \$66,600. Together with about \$12,000 for external consultants and new equipment, this amounts to buying 4 Toyota Camries in the United States. As an added benefit, since the employees redesigned processes, wrote guidelines, and established new rules, everyone was informed, felt responsible for results, and took credit for the success.

But once several agencies are involved, high-level support and institutional backup become important. “One of the main reasons for our success was that the commission operated under the presidency,” remembers Morán. “We had support from the highest political level. And since we were not directly affected by the reform,

we could play the role of mediator or decision-pusher when necessary. Everybody knew from the beginning that the president was going to open the single window. This pushed the reformers to work even harder. And thanks to the attention from the president, there was lots of publicity.”

When dealing with several independent agencies, the weekly decision-making meetings with legal and technical representatives from the agencies moved the process along and ensured that everyone was on board. Since all meetings and decisions were well documented and followed up, there was no confusion about what had to be done, what was expected, and who was accountable. Quantitative indicators, such as reducing the response time for all formalities at the single window to 5 days, set measurable goals, which gave everyone a clear direction.

Constant customer feedback was crucial in measuring success and identifying what was still missing. With clients as the evaluators of performance, they quickly became more appreciated—and customer-orientation more than a buzzword.

The reformers also realized that it was not necessary to have all administrative details ready to be effective. With a little creativity, such as cutting down on the number of copies required, paperwork was reduced by more than half, and the center could open within 3 months. To save time and money for buying new equipment, delegates simply brought their own computers.

In the end, all the effort paid off. When the Dominican Republic-Central America Free Trade Agreement came into effect in March 2006, it took 26 days to start a business in El Salvador, faster than in Chile, Belgium, or Mexico, and more than twice as fast as the regional average of 73 days.

Work still remains. Cost is still high, with 75.6% of income per capita in official fees and 119.7% of income per capita paid before registering. Outdated legal requirements remain, such as publishing an establishment notice 3 times in the official journal and a national newspaper, at 3-day intervals, instead of simply on the registry’s website. The rules and regulations were felt even during the reform. “One of the biggest challenges during the reform was the legal review to check whether any regulations existed that would be violated. Thankfully, we always had the legal experts in every meeting,” says Morán.

But with the momentum gained from the success of the administrative reform, the reformers have started tackling these more difficult legal changes. The company code has been reviewed. Among the proposed amendments are cutting the minimum capital requirement, making the publication of notices electronic, and allowing notaries, lawyers, and the commercial registry to legalize books to introduce competition and lower the cost for the service.