

Starting a Business

Transparency of information at business registries

Governments and civil society have come together in recent years to increase the transparency of business information. New regulations have been adopted to improve transparency, particularly regarding the dissemination of company data. These changes have been made in the wake of a series of revelations—such as the Panama papers and the Bahamas leaks—that showed the extent to which individuals take advantage of obscure company ownership structures to illicitly move money around the globe. There is now strong momentum behind expanding access to corporate information, including company ownership.

One way to increase transparency in the business environment is to disclose beneficial ownership information publicly—that is, to reveal the identity of individuals who ultimately enjoy the benefits of property rights in equity, even if they are not legal owners. Disclosure of beneficial ownership is useful in identifying suspected money laundering and potential terrorist financing.

To make ownership more transparent, Singapore amended its Companies Act to require locally-incorporated companies and foreign companies registered in Singapore to maintain beneficial ownership information and to make the data public upon request. Ghana amended its Companies Act in 2016 to regulate disclosure of information on beneficial ownership. In May 2017 Germany's parliament passed a law requiring that the owners of all German enterprises (including offshore entities) be identified in an electronic beneficial ownership registry. Access to corporate information is vital for individuals and institutions looking to make sound investment decisions. It is crucial for investors to know who they are doing business with in the global economy.

Providing public access to company information through business registries strengthens confidence in businesses and institutions, but it also helps to manage financial exposure and increase market stability, thereby reducing the risks associated with doing business. Improving transparency necessitates the drafting of laws that expand public access to additional corporate data, such as the identities of the company directors, shareholders and beneficial owners.

This year, *Doing Business* has collected preliminary data on the information gathered and shared by business registries in 190 economies. *Doing Business* collects data on the public availability of both detailed corporate information (such as company name, directors, shareholders, beneficial owners and so on) and the information needed to start a business (for example, a documents list, fee schedule, services standards and official statistics on firm creation). Each type of information obtained without the need for any personal interaction is assigned points to reflect greater transparency. The features of transparency of information range from 0 (least transparent) to 18



- Transparent information provided to the public by business registries can reduce transactions costs and facilitate investment decisions.
- The most common types of information shared by business registries include the company's name, its legal address and the names of its directors.
- Information on beneficial ownership, corporate structure and annual financial returns is less commonly collected and made available to the public.
- Technological advances have greatly enhanced access to information.
- There is a strong association between a transparent business registry and higher efficiency, as well as a lower incidence of bribery.

(most transparent). The aim is to capture new and actionable aspects related to the business incorporation framework and to understand how transparency of information in business registration varies across regions and how it is associated with other institutional and economic outcomes.

HOW IMPORTANT IS TRANSPARENCY IN BUSINESS REGISTRIES?

As the principal agency responsible for registering firms, business registries allow companies to acquire a legal identity. This legal status enables a firm to enter into contracts with other firms, access formal financial systems and bid on public-sector contracts.¹ Business registries play a vital role by ensuring that the information they collect from these companies is not only captured within their systems but is also available to the public. Sharing information publicly makes it easier to ensure that the information is accurate.

Business registry transparency can increase the accountability of firms and public officials. By improving the

predictability of transactions, transparency can also benefit financial institutions and company services providers as it becomes easier for them to obtain the information they need to comply effectively with due diligence requirements.² Registries with clearly-stipulated requirements facilitate the process of registering and verifying information. There tends to be a culture of greater competition and economic growth in economies where it is easier for companies to enter the market.³

Transparency of information can broaden the pool of potential investors by reducing the need for personal connections. It can level the playing field for a budding entrepreneur who may lack the necessary connections to formally launch his or her company. By reducing the risk associated with an investment, transparency can help investors determine the viability of a transaction.⁴ Revealing public information to curb information asymmetry can also reduce a firm's cost of capital by attracting increased demand from large investors (due to increased liquidity of its securities).⁵ The financial cost of a lack of data transparency can be significant: in

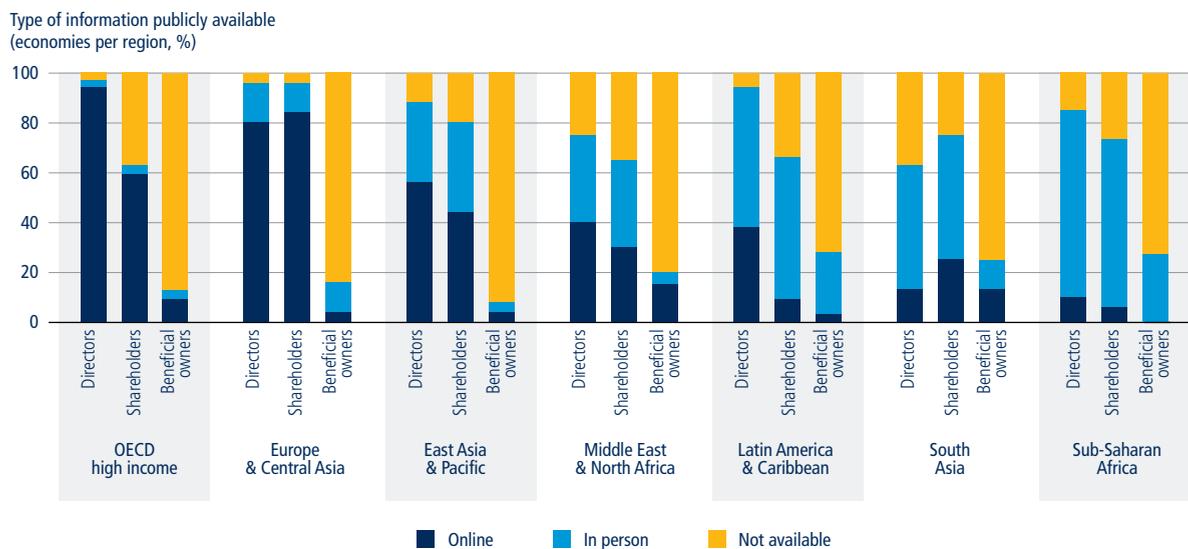
2011 alone it is estimated that developing economies suffered nearly \$1 trillion in illicit financial outflows.⁶ Transparent data on company ownership are vital in combating money laundering, tax evasion, corruption and other illegal activities.

WHAT KIND OF BUSINESS INFORMATION IS AVAILABLE TO THE PUBLIC?

Most business registries share some data with the public about the companies registered with them. The types of information that are most commonly made public by the business registry are the company's name, legal address, year of incorporation, type of business activity and the names of its directors.⁷

Information regarding a firm's corporate structure, annual returns and beneficial ownership is less commonly made available to the public. It is possible to access information on a company's corporate structure—that is, whether it has subsidiaries or belongs to a holding company—and its beneficial ownership in only a few economies (figure 4.1).

FIGURE 4.1 Data on shareholders and directors are more accessible than data on beneficial owners



Source: Doing Business database.

Data on a firm's corporate structure, for example, is readily available in less than one-third of economies worldwide. Furthermore, the identity of a company's beneficial owners is made public in fewer than one-quarter of economies globally; only 8% of economies in East Asia and the Pacific and 15% of OECD high-income economies collect data on beneficial ownership and make it publicly available.

In general, the types of business registry information made available to the public vary little across economies. The names of a company's directors, for example, are publicly available in 92% of high-income economies covered by *Doing Business*; this figure is only slightly lower in low-income economies (84%). For other categories of information, however, public access is not equally provided across economies. In 75% of high-income economies, for example, one can verify the number and type of company shares. This information can be publicly accessed at business registries in fewer than half of low-income economies. Similarly, while businesses' annual accounts are available for public consultation in most high-income economies, these are available in only 10% of low-income economies. Registries in many developing economies either do not require companies to file annual accounts with the business registry or provide limited access to businesses' annual accounts. As a result, the economy may be negatively impacted as poor quality corporate governance regimes can restrict access to information and reduce investment returns.⁸

Some kinds of business data are more accessible than others. In general, public access is greater when the information available is considered less sensitive. Basic data such as a company's type of activity or year of incorporation can be found easily in most economies, but for business reasons some companies

may prefer not to disclose their annual returns or annual accounts.

HOW IS INFORMATION MADE AVAILABLE TO THE PUBLIC?

During the past decade government agencies around the world have explored ways to increase business registry transparency. The need for access to corporate information in the name of greater transparency pushed many economies to digitize their business registries and publish data online. By allowing around-the-clock, online access to registry information, the need for personal visits has been reduced, significantly enhancing the utility of these registries.

Where company details can be searched remotely, information and transaction costs are reduced. Basic information underlying potential trade or business dealings—for example, whether an entity has the legal authority to commit to an export contract or whether a particular company is in good financial standing—can be obtained quickly. The majority of the business registries in the economies covered by *Doing Business* share some company information online. Business registries in OECD high-income

economies publish most of the information collected on their websites.

The business registry information most widely available online includes the name of the company, its identification number, its legal address and the year the company was incorporated. The most basic information—the company name—is the information most commonly made available online. The names of existing companies are available online in 62% of economies covered by *Doing Business*, primarily because a company name must be verified before it can be registered as a new business. The business registries in all OECD high-income economies offer online company name search. In contrast, business registries in fewer than 10 economies in Sub-Saharan Africa—including Nigeria and Rwanda—offer this service (figure 4.2). More detailed information—such as information on a firm's shareholders, directors or beneficial ownership—is less commonly made available online.

Information on a company's directors, shareholders and beneficial owners is particularly important because it allows both business representatives and private individuals to identify the ownership of companies with which they may choose to do business or invest. In some

FIGURE 4.2 Company name search is mostly done in person in Sub-Saharan Africa

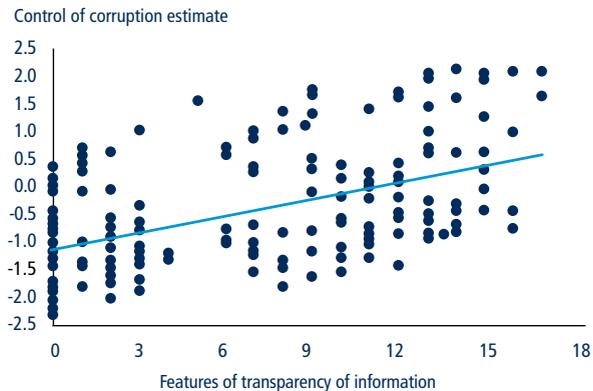


Source: *Doing Business* database.

regions, however, this information is either not available or can only be obtained in person. In South Asia, for example, business registries in 75% of economies only allow information about shareholders to be made available in person. In contrast, less than 20% of economies in Europe and Central Asia require that those seeking this information appear in person at the business registry; in the vast majority of economies in this region, shareholder information can be obtained online. In Sub-Saharan Africa, business registries in 77% of economies do not make the names of registered companies available online. In East Asia and the Pacific, one-third of economies do not publish the legal address or the names of company directors online. This type of information would allow a company, before doing business with an individual, to verify, for example, whether that person is a legitimate company representative.

Even when business registry information is published online, it is not always provided free of charge or made easily searchable. In many economies, online access to company information is only available after preregistration or the payment of a subscription fee, limiting the information to those people who can pay for it. In contrast, Denmark and the

FIGURE 4.3 Higher levels of transparency at the business registry are associated with higher overall levels of transparency in an economy



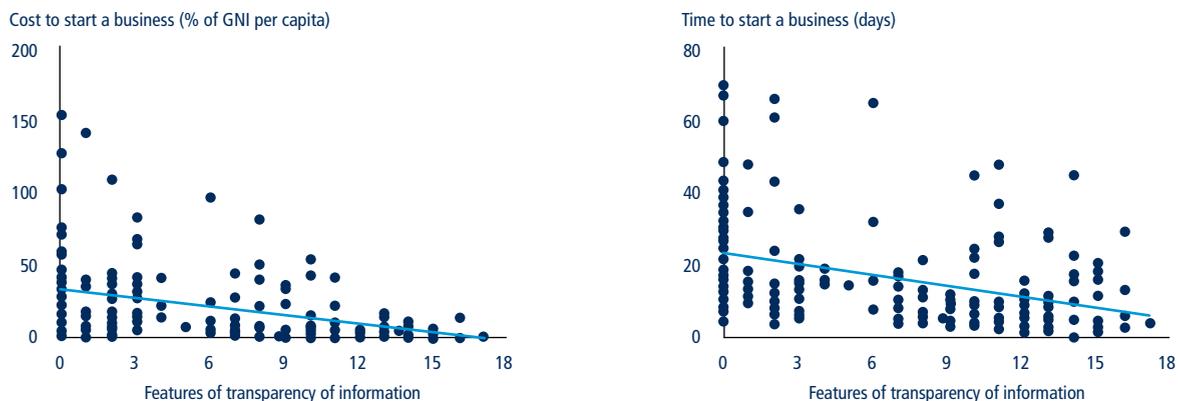
Sources: *Doing Business* database; Worldwide Governance Indicators (<https://www.govindicators.org>), World Bank. Note: The Worldwide Governance Indicators control of corruption indicator captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Estimate gives the economy’s score on the aggregate indicator in units of a standard normal distribution, ranging from approximately -2.5 to 2.5, with higher values representing lower corruption perceptions. The features of transparency of information range from 0 (not transparent) to 18 (transparent). The sample includes 189 economies covered by both *Doing Business* and the control of corruption estimate (data on control of corruption estimate not available for San Marino). The relationship is significant at the 1% level after controlling for income per capita.

United Kingdom publish their entire business registry database free of charge.⁹ The presentation of the information can also be a barrier. If data are available only through record-by-record searches, for example, a person must begin their search with the company name or identification number to access information about it.

HOW IS TRANSPARENCY OF INFORMATION ASSOCIATED WITH EFFICIENCY AND CORRUPTION?

Business registries facilitate the operation of firms in the formal economy and they are often the first public institution

FIGURE 4.4 The time and cost to start a business tend to be lower in economies with higher transparency of information at the business registry



Source: *Doing Business* database.

Note: The cost of starting a business is recorded as percentage of GNI per capita. The time required to start a business is recorded in calendar days. The features of transparency of information range from 0 (not transparent) to 18 (transparent). Samples include 185 and 184 economies after the five highest cost estimates and the six highest time estimates are removed as outliers, respectively. The relationship between the cost of starting a business and the features of transparency of information is significant at the 1% level after controlling for income per capita. The same applies when the analysis is done using the time to start a business.

with which entrepreneurs interact. This first interaction can have a formative impact on the entrepreneur's perception of the efficacy of the public administration. Indeed, the level of transparency and trust in an economy has been shown to be highly correlated with the level of transparency of information at the business registry (figure 4.3). When business registry information is easily accessible and can be searched remotely, it can facilitate business transactions by removing unnecessary steps and reducing transactions costs.

The level of transparency of information at business registries is also associated with the time and cost to start a business. Data show that, on average, economies with greater transparency of information tend to have faster and less costly processes for starting a business (figure 4.4). In economies where official information on how to incorporate a business is not made readily available, entrepreneurs may have to seek legal advice from third parties or visit various government offices to find reliable information. In contrast, when the information is consolidated and easily obtained, entrepreneurs can spend less time and money finding it; they can dedicate more time to running their business.

Transparency can be approached from multiple aspects. Beyond providing readily available and reliable information about existing companies, it is important that entrepreneurs can openly access information about the requirements to establish a business (such as a list of required documents, fee schedules and services standards). When public access to information on company incorporation requirements is limited, it can represent a substantial obstacle to entrepreneurs who want to start a business. However, when transparency is a priority for business registries and all requirements are made public, more firms are able to enter the formal sector. If anyone can easily obtain transparent information before a business transaction, it can increase the ability of companies to conduct proper Know-Your-Client procedures, raising the level of trust in transactions and counterparts. Easy access to relevant information is also correlated with increased transparency of interactions with public officials. *Doing Business* data show that economies with transparent business registries tend to have lower incidences of bribery, both asked and given (figure 4.5). Transparent information provides citizens with the data they need to hold their counterparts accountable and improves trust in public agencies (including business

registries), particularly when transparency is conveyed on multiple levels (such as clearly stating business registration fees and the expected time to receive incorporation documents).

CONCLUSION

The transparency of the information provided by the business registry plays a vital role in an economy. Transparent business registries reduce information asymmetry among entrepreneurs and broaden the pool of potential investors by reducing the need for personal connections. Transparency can also raise the accountability of public officials and strengthen trust in public agencies. In the past decade, government agencies around the world have used technology to increase the transparency of public services. Technology can be utilized by governments to improve transparency of company ownership and the procedures to start a business. This case study has shown that the public availability of information on company ownership and starting a business is associated with an increase in an economy's overall level of transparency, an increase in the efficiency of business registration and a decrease in bribery.

FIGURE 4.5 Levels of bribery tend to be lower in economies with higher transparency of information at the business registry



Sources: *Doing Business* database; Transparency International database (<https://www.transparency.org>).

Note: The features of the transparency of information range from 0 (not transparent) to 18 (transparent). The samples include 100 and 89 economies covered by both the *Doing Business* database and the Transparency International database. The relationships are significant at the 1% level after controlling for income per capita.

NOTES

This case study was written by Cyriane Coste, Frederic Meunier, Nadia Novik, Morgann Reeves and Erick Tjong.

1. ASORLAC, CRF, ECRF and IACA 2016.
2. De Simone and Fagan 2014.
3. Klapper, Laeven and Rajan 2006.
4. Malesky, McCulloch and Duc Nhat 2015.
5. Diamond and Verrecchia 1991.
6. Palstra 2014.
7. Accessibility to 14 types of business information is included in this case study. These are the following: name of company, name of directors, name of shareholders, name of beneficial owners, articles of association, year of incorporation, company identification number, legal address, physical address, type of activity, annual accounts, annual returns, capital structure and corporate structure. In addition, the documents to start a business, fees, service standards and statistics are also included.
8. Bradley 2003.
9. Quintanilla and Darbshire 2016.