

Starting a business

Dealing with construction permits
Employing workers
Registering property
Getting credit
Protecting investors
Paying taxes
Trading across borders
Enforcing contracts
Closing a business

Julian started out working for her brothers. But she was saving to start her own business. She began trading, traveling from Uganda to neighboring Kenya to buy goods for resale. “I would take the overnight bus and stand up the whole way to get the 50% discount,” she recalls. “My aim was to start a juice processing business, a real factory.”

Once she had saved enough money, Julian began production. Unable to afford transport, she had to take her products by foot to the government chemist for testing. “My only means of transport was my wheelbarrow, and I was the whole company.”

Julian also remembers how arduous it was to register her business. “There was so much to do and so many different places I had to go—for business registration and taxpayer identification

TABLE 2.1

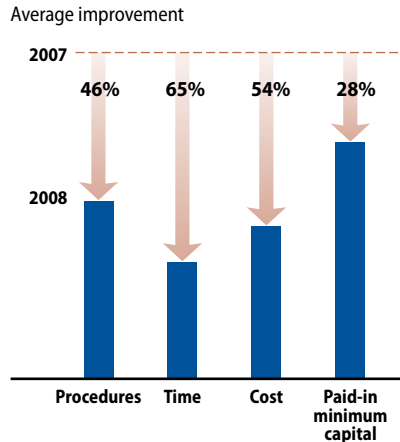
Where is it easy to start a business—and where not?

Easiest	RANK	Most difficult	RANK
New Zealand	1	Cameroon	172
Canada	2	Djibouti	173
Australia	3	Equatorial Guinea	174
Georgia	4	Iraq	175
Ireland	5	Haiti	176
United States	6	Guinea	177
Mauritius	7	Eritrea	178
United Kingdom	8	Togo	179
Puerto Rico	9	Chad	180
Singapore	10	Guinea-Bissau	181

Note: Rankings are the average of the economy rankings on the procedures, time, cost and paid-in minimum capital for starting a business. See Data notes for details.

Source: Doing Business database.

FIGURE 2.1
Top 10 reformers in starting a business



1. Yemen
2. Slovenia
3. Senegal
4. Albania
5. Liberia
6. Azerbaijan
7. Syria
8. Hungary
9. Oman
10. Sierra Leone

Source: Doing Business database.

numbers, different licenses from different authorities, a declaration that had to be made before a commissioner of oaths, a company seal to get, inspections of my premises from municipal and health authorities. I remember paying a lawyer what seemed to me a gigantic fee of USh 500,000 [\$279].¹

Entrepreneurs like Julian now have it easier. Reforms in Uganda and in many other economies have streamlined business start-up in the past 5 years. Look at Azerbaijan. In 2004 its government set a preliminary time limit for the registration process. In 2005 it introduced a silence-is-consent rule for tax registration. A year later it further tightened the time limit for business registration. In 2007 it abolished the need for a company seal. And in 2007/08 it set up a one-stop shop. Starting a business used to take 122 days. Now it takes only 16 (figure 2.3).

Formal incorporation of companies has several benefits. Legal entities outlive their founders. Resources are often pooled as shareholders join forces to start a company. And companies have access to services and institutions ranging from courts to commercial banks.

But many economies make starting and legally running a business as measured by *Doing Business* so cumbersome that entrepreneurs opt out and operate in the informal sector.

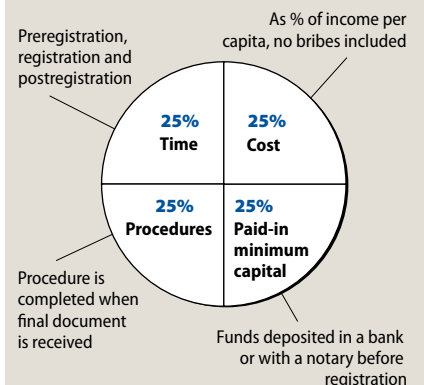
Simpler entry encourages the creation of new companies. Take Senegal, which reformed business registration in

July 2007. By May 2008 entrepreneurs had registered 3,060 new firms, 80% more than in the previous year. Studies in Mexico, India, Brazil and the Russian Federation all conclude that simpler entry regimes are associated with more new firms being registered. The study in Mexico analyzes the effect of making it simpler to get a municipal license, 1 of several procedures required to start a business. The finding: easing business entry increased new start-ups by about 4%.²

Easier start-up is also correlated with higher productivity among existing firms. A recent study, in an analysis of 97 countries, finds that reducing entry costs by 80% of income per capita increases total factor productivity by an estimated 22%. Analyzing 157 countries, it finds that the same reduction in entry costs raises output per worker by an estimated

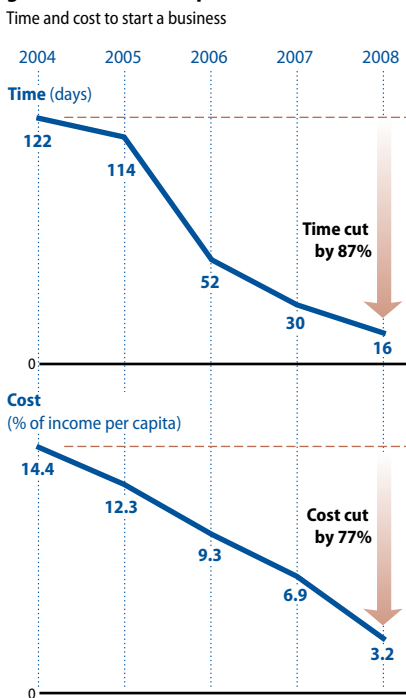
FIGURE 2.2

Rankings on starting a business are based on 4 subindicators



Note: See Data notes for details.

FIGURE 2.3
Starting a business in Azerbaijan gets faster and cheaper



Source: Doing Business database.

29%.³ One reason for these large effects may be that reducing entry costs increases entry pressure, pushing firms with lower productivity out of the market. Indeed, a study on business entry in Mexico finds that competition from new entrants lowered prices by 1% and reduced the income of incumbent businesses by 3.5%.⁴

Simpler and faster business entry makes it easier for workers and capital to move across sectors when economies experience economic shocks. A recent study of 28 sectors in 55 countries compares sectoral employment reallocation in the 1980s and 1990s. The finding: reallocation is smoother in countries where it takes fewer days to start a business.⁵ This finding is confirmed by many studies on the effect of entry regulation in economies opening their product markets to trade.⁶ The explanation is simple: with high fixed costs of entry, firms cannot easily move into the industries benefiting the most from trade openness. This friction reduces the value of greater openness.

Recognizing such benefits, economies around the world have been devel-

oping innovative solutions to ease the entry of new firms into the market. As one company registrar put it, “At the end of the day, we all have the same goal.”

Yet as *Doing Business* shows, company registration is often only one piece of the puzzle. In many economies entrepreneurs have to visit at least 7 agencies before they can get down to business. The most efficient economies focus on creating a single interface between government and entrepreneur to take care of all necessary registrations and notifications, mainly commercial and tax registration. Entrepreneurs in New Zealand, for example, have to file all necessary information only once—because agencies are linked through a unified database. There is no minimum capital requirement. And no judge has to approve the creation of a company.

WHO REFORMED IN 2007/08?

In 2007/08, 49 economies made it easier to start a business—more reforms than in any previous year (table 2.2). One highlight of the reforms: entrepreneurs in Canada and New Zealand can now start a business with a single online procedure.

Yemen reformed business start-up the most. In 2007 it had the second largest minimum capital requirement in the world at \$15,225 (2,003% of income per

capita). This is now gone, reduced to zero. That’s not all. Yemen also activated its one-stop shop, making it possible to complete all steps—from reserving the company name to obtaining a license for incorporation to announcing the company’s formation—in a single location. It made it easier to obtain a license from the municipality and to register with the chamber of commerce and the tax office. And it publicized the fact that a company seal is not mandatory. The reforms reduced the number of procedures to start a business by 5, and the time by 50 days.

Slovenia was the runner-up in business start-up reforms. It simplified business registration by introducing a single access point, making company information available online and eliminating court fees and the requirement to register at the statistical office. The changes reduced the procedures by 4, the time by 41 days and the cost by 8.4% of income per capita.

Senegal is among the 14 economies that made Africa the leading region in start-up reforms. Senegal’s one-stop shop became fully operational, merging 7 start-up procedures into 1. Start-up time fell from 58 days to 8. Liberia too streamlined business registration, cutting 3 months from the time. Businesses can now start in less than 1 month. Liberia also made the process more affordable, making the use of lawyers optional.

TABLE 2.2
Simplifying registration formalities—the most popular reform feature in 2007/08

Simplified other registration formalities (seal, publication, notary, inspection, other requirements)	Bangladesh, Botswana, Bulgaria, Costa Rica, El Salvador, Georgia, Ghana, Hungary, Kenya, Kyrgyz Republic, Liberia, former Yugoslav Republic of Macedonia, Moldova, Namibia, Saudi Arabia, Syria, Yemen
Created or improved one-stop shop	Albania, Angola, Azerbaijan, Belarus, Bulgaria, Czech Republic, Italy, Lebanon, Lesotho, former Yugoslav Republic of Macedonia, Oman, Senegal, Slovakia, Slovenia, Yemen, Zambia
Introduced or improved online registration procedures	Bulgaria, Canada, Colombia, Dominican Republic, Hungary, Italy, former Yugoslav Republic of Macedonia, Malaysia, Mauritius, New Zealand, Panama, Senegal, Singapore
Abolished or reduced minimum capital requirement	Belarus, Egypt, El Salvador, Georgia, Greece, Hungary, Jordan, Tunisia, Uruguay, Yemen
Cut or simplified postregistration procedures	Colombia, Madagascar, Mauritania, Sierra Leone, South Africa, Tonga, West Bank and Gaza

Source: Doing Business database.

The cost is a fourth of what it used to be. Madagascar also focused on cost, abolishing the professional tax.

Sierra Leone and South Africa made the use of lawyers optional. South Africa also introduced electronic means of certifying and publishing company documents. In Botswana and Namibia entrepreneurs now benefit from computerized registration systems. Zambia revamped the company registry and created a one-stop shop. So did Lesotho, reducing start-up time by 33 days. Burkina Faso continued reforms at its one-stop shop, CEFORE. Ghana officially eliminated the requirement for a company seal. Angola, Kenya, Mauritania and Mauritius also reformed.

Eastern Europe and Central Asia saw reform in 10 economies. Six reduced the running-around time for entrepreneurs by creating one-stop shops. Albania took registration out of the courts and merged company, social security, labor and tax registrations. Before, entrepreneurs had to wait more than a month to start doing business; now it's just 8 days. Azerbaijan's one-stop shop reduced delays by 2 weeks, Slovenia's by 6. Bulgaria, the Kyrgyz Republic and the former Yugoslav Republic of Macedonia undertook reforms similar to Azerbaijan's. And while Czech entrepreneurs still have to obtain multiple documents, the new "Project Czech Point" allows them to do so at one place.

Belarus activated a unified registration database and cut the minimum capital requirement by half. Georgia eliminated the minimum capital requirement altogether. It also cut the requirement for a company seal and made the use of notaries optional. Moldova introduced 2 new laws, on limited liability companies and company registration, and tightened time limits. In contrast, Bosnia and Herzegovina increased the time to start a business by tightening notarization requirements.

The Middle East and North Africa made big strides in reform. Syria was the second biggest reformer in the region, behind Yemen. A new company law and

TABLE 2.3

Who regulates business start-up the least—and who the most?

Procedures (number)			
Fewest		Most	
Canada	1	Greece	15
New Zealand	1	Montenegro	15
Australia	2	Philippines	15
Belgium	3	Venezuela	16
Finland	3	Guinea-Bissau	17
Georgia	3	Brazil	18
Sweden	3	Brunei	18
Bulgaria	4	Uganda	18
Denmark	4	Chad	19
Singapore	4	Equatorial Guinea	20

Time (days)			
Fastest		Slowest	
New Zealand	1	Lao PDR	103
Australia	2	Brunei	116
Georgia	3	Equatorial Guinea	136
Belgium	4	Venezuela	141
Singapore	4	São Tomé and Príncipe	144
Canada	5	Brazil	152
Hungary	5	Congo, Dem. Rep.	155
Iceland	5	Haiti	195
Denmark	6	Guinea-Bissau	233
Mauritius	6	Suriname	694

Cost (% of income per capita)			
Least		Most	
Denmark	0.0	Benin	196.0
Slovenia	0.1	Angola	196.8
Ireland	0.3	Djibouti	200.2
New Zealand	0.4	Burundi	215.0
Canada	0.5	Central African Republic	232.3
Bahrain	0.6	Togo	251.3
Sweden	0.6	Gambia, The	254.9
United States	0.7	Guinea-Bissau	257.7
Singapore	0.7	Zimbabwe	432.7
United Kingdom	0.8	Congo, Dem. Rep.	435.4

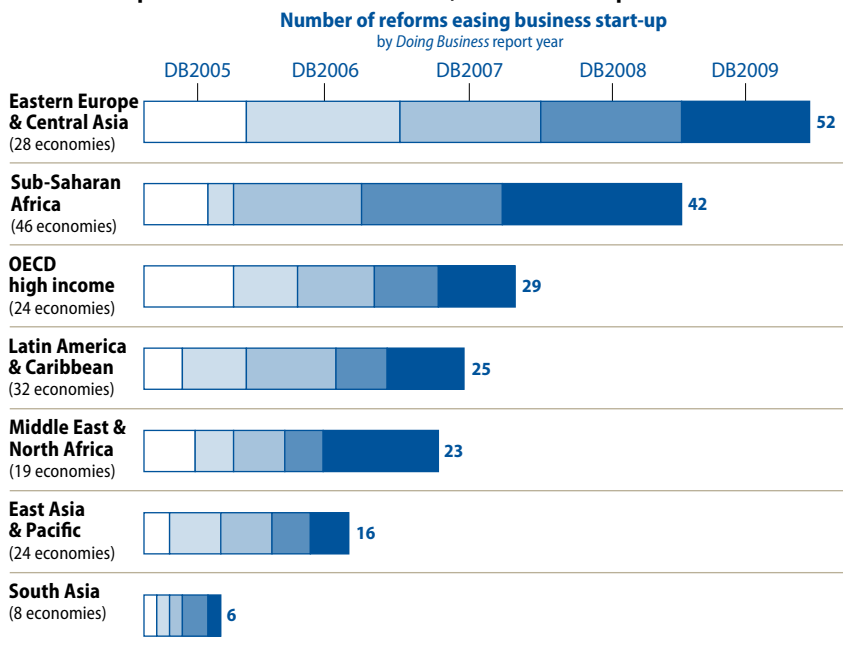
Paid-in minimum capital		
Most	% of income per capita	US\$
Burkina Faso	459	1,973
Oman	461	51,282
Guinea	477	1,907
Central African Republic	514	1,953
Djibouti	514	5,602
Togo	560	2,016
Ethiopia	694	1,526
Niger	702	1,966
Guinea-Bissau	1,015	2,030
Syria	4,354	76,627

Note: Sixty-nine economies have no paid-in minimum capital requirement.

Source: *Doing Business* database.

FIGURE 2.4

Eastern Europe & Central Asia leads reforms, Africa runner-up



Note: A reform is counted as 1 reform per reforming economy per year.
Source: *Doing Business* database.

commercial code took registration out of the court and introduced statutory time limits. Using lawyers became optional. But along with the reforms making it easier to start a business came a reform making it more difficult—a 33% increase in paid-in minimum capital.

Lebanon and Oman improved the efficiency of their one-stop shops. What used to take 46 days in Lebanon now takes 11. Tunisia, having already reduced its minimum capital requirement, abolished it altogether. Jordan reduced its minimum capital requirement by more than 96%. Following on the previous year's reforms, Egypt further reduced registration costs and paid-in minimum capital. Saudi Arabia continued to simplify commercial registration formalities and reduced fees by 80%. Computerization of the registry in West Bank and Gaza reduced the time to register.

Among OECD high-income economies there were 6 reformers. Canada and New Zealand made it possible to start a business with a single procedure. Entrepreneurs in Toronto, Canada, can incorporate their company online and automatically receive a business number

within 5 days. Those in New Zealand can now register for taxes while incorporating their company online. Greece and Hungary reduced minimum capital requirements by about 80%. Hungary also introduced online filing and publication and made the use of notaries optional. Italy reformed its electronic registration system, enabling businesses to complete all procedures at once. Slovakia's one-stop shop merged 4 procedures into 1 and reduced costs. Entrepreneurs in Switzerland were less fortunate: they now must deposit twice as much capital in the bank (nearly \$20,000) before registering a company.

El Salvador led reform efforts in Latin America and the Caribbean, reforming for the third year in a row. A new commercial code reduced the minimum capital requirement, simplified the legalization of accounting books and eased publication requirements. Uruguay abolished the minimum capital requirement. Colombia focused on administrative changes, substantially reducing costs and simplifying requirements for accounting books. Computerization was another trend: Costa Rica

cut 17 days by computerizing tax registration. Panama simplified licensing procedures. The Dominican Republic reduced start-up cost and introduced online name verification.

In East Asia, Malaysia cut the time by 11 days by introducing an online registration system. Singapore merged the name search with online business registration. Tonga saved on time and cost by reforming business licensing. Indonesia reduced the time to start a business from 105 days to 76, but almost doubled the minimum capital requirement.

In South Asia only Bangladesh reformed. It made involving lawyers in company registration optional.

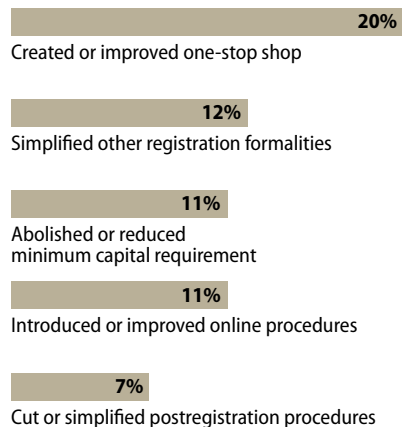
WHAT ARE THE REFORM TRENDS?

In the past 5 years 115 economies around the world have simplified business start-up through 193 reforms (figure 2.4). Many opted for low-cost administrative reforms requiring little or no change in regulation. Others went further, introducing or amending legislation. Here are some of the most prevalent reforms along with some of the lessons learned on the way (figure 2.5).

FIGURE 2.5

Top 5 reform features in starting a business

Reforms including feature since DB2005 (%)



Note: A reform may include several reform features.
Source: *Doing Business* database.

CREATING A ONE-STOP SHOP

Thirty-nine economies have created or improved a one-stop shop in the past 5 years: 16 in Eastern Europe and Central Asia, 7 in Africa, 6 in the OECD high-income group, 5 in Latin America and 5 in the Middle East and North Africa. One-stop shops can be a quick way to build momentum for reform. Azerbaijan, El Salvador, Guatemala and Morocco created theirs in less than 6 months. And introducing a one-stop shop has had promising results. In Oman business registrations increased from an average 733 a month in 2006 to 1,306 a month in 2007. In Azerbaijan registrations grew by 40% between January 1 and May 2008. Croatia saw company formation in Zagreb and Split increase by more than 300% over 3 years.

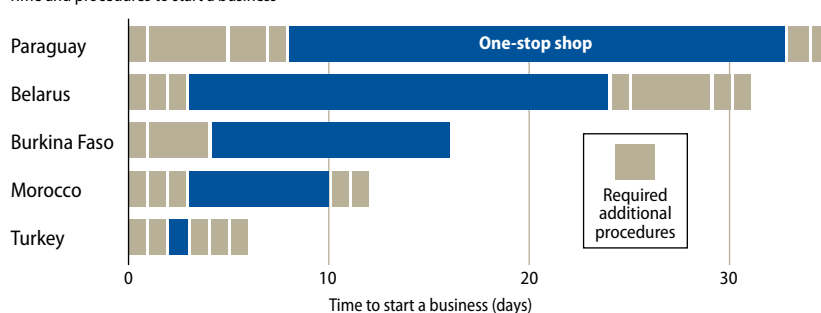
But creating a one-stop shop is no magic bullet. Often entrepreneurs must still deal with formalities elsewhere as well (figure 2.6). In Guatemala, for example, the one-stop shop can organize commercial, tax and social security registration in 2–3 days. But before the registrar can finalize the registration, a notice must be published for 8 days during which third parties can raise objections. Despite the one-stop shop, 11 procedures and 26 days are still required. Reformers also run the risk of creating “one-more-stop shops” or “mailboxes” that merely receive applications and forward them to ministries for approval. Delays continue.

ABOLISHING THE MINIMUM CAPITAL REQUIREMENT

Sixty-nine economies allow entrepreneurs to start a company without putting up a fixed amount of capital before registration. They allow entrepreneurs to determine what is appropriate for the business based on its type and capital structure. Twenty-two economies have reduced or abolished their minimum capital requirement in the past 5 years, including Egypt, Finland, France, Georgia, Hungary, Japan, Jordan, Uruguay and Yemen. This group has seen some of the biggest spikes in new company registrations. After Madagascar reduced its

FIGURE 2.6
One-stop shops—same name, different results

Time and procedures to start a business



Source: *Doing Business* database.

minimum capital requirement by more than 80% in 2006, the rate of new registrations jumped from 13% to 26%. After Tunisia reduced its requirement, new registrations increased by 30% between 2002 and 2006.⁷ That encouraged the country to abolish it altogether in 2007/08.

USING TECHNOLOGY

Making registration electronic is among the most effective ways to speed company formation. Seven of the economies with the fastest business start-up offer electronic registration—Australia, Canada, Denmark, Estonia, New Zealand, Portugal and Singapore. More than 20 economies have introduced electronic registration in the past 5 years. Customers are not the only ones saving on time and cost. When Belgium implemented its paperless registration and filing system, it reduced annual administrative costs by €1.7 billion.

Electronic registration is possible in more than 80% of rich economies but only about 30% of developing ones. That is not surprising, of course, given the differences in internet access and costs.⁸

And electronic registration is more complicated than it looks. In Sweden applications for company, tax and labor registrations can be completed online. But most forms still must be printed out and signed by hand. The Philippines allows entrepreneurs to reserve the company name and register online, but still requires payment in person. Belgium allows electronic filing—but only through a notary or lawyer. In Argentina corpo-

rate managers have to get a fiscal code before using the online tax system and obtaining a tax identification number. Countries also have to make sure that the legislation needed to allow electronic transactions is in place.

But much can be gained already—in time and cost and also in safety—by computerizing files at the registry or offering some online services such as name checking. And everyone has to start somewhere. It was only 13 years ago that one of the company registries in the United States stored all files in a warehouse so big that employees were using roller skates to get to the documents. Obtaining documents took about a month. Thankfully there was no fire.

NOTES

1. This example is from the World Bank's *Doing Business: Women in Africa* (2008a), a collection of case studies of African entrepreneurs.
2. Kaplan, Piedra and Seira (2008) on Mexico, Chari (2008) on India, Monteiro and Assunção (2008) on Brazil and Yakovlev and Zhuravskaya (2008) on the Russian Federation.
3. Barseghyan (2008).
4. Bruhn (2008).
5. Ciccone and Papaioannou (2007).
6. Freund and Bolaky (forthcoming), Chang, Kaltani and Loayza (forthcoming), Cunat and Melitz (2007), Helpman and Itskhoki (2007) and Helpman, Melitz and Rubinstein (2008).
7. Klapper and others (2008).
8. World Bank Group Entrepreneurship Database, 2008.