Training for Reform

Starting a Business

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I. Why does it matter?
II. What does it measure – and what does it not?
III. What are the main findings in DB19?
IV. Good practices
Why does formal business registration matter?

**For the company**

- When firms formally register, they secure more **gains** in profits, **investments** and **productivity**.
- Informal entrepreneurs tend to employ **fewer workers** and have **less access to business financing** than their formal sector counterparts.
- Employees can benefit from **protections** provided by the law.

**For the economy**

- Where formal entrepreneurship is higher, **job creation** and **economic growth** also tends to be **higher**.
- Informal firms may deprive governments of **potential revenue** through income and labor taxes.
- Lower costs for business registration encourage **entrepreneurship** and enhance firm **productivity**.
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Case study assumptions about the company

- Operates in the economy’s largest business city
- Is a limited liability company or its legal equivalent
- Has at least 10 and up to 50 employees
- Performs general industrial or commercial activities
- 100% domestically owned
- Does not qualify for investment incentives
- Has a start-up capital of 10 times income per capita
What does Starting a Business measure?

Rankings are based on the distance to best regulatory performance for 7 indicators:

- Procedure Women (12.5%)
- Procedure Men (12.5%)
- Cost Women (12.5%)
- Cost Men (12.5%)
- Time Women (12.5%)
- Time Men (12.5%)
- Paid-in minimum capital (25%)
Components of Starting a Business
Three stages of Starting a Business

Pre-registration

• Checking the availability of the proposed company name;
• Having a notary draft and notarize company statutes;
• Depositing paid-in minimum capital in a bank account;
• Obtaining a spouse’s approval before leaving the home to register a business.

Registration

• Application for incorporation;
• Payment of registration fees;
• Other procedures under the mandate of the commercial registry.

Post-registration

• Registering with tax authorities;
• Obtaining a business license;
• Enrolling employees in Social Security;
• Buying and/or legalizing company books;
• Obtaining a company seal.
What **procedures** are recorded?

- PROCEDURE = any interaction of the company founders with external parties (government agencies, lawyers, auditors, notaries, etc.) or spouses (if legally required);

- Every procedure **required by law** *(de jure)* and/or **commonly done in practice** *(de facto)*; each **electronic procedure** is counted separately;

- Pre-registration, registration and post-registration procedures;

- Founders are assumed to complete all procedures themselves (unless the use of a third party is mandated by law, or solicited by the majority of entrepreneurs);

- Procedures in the **same building** but in **different offices or counters** = separate procedures;

- Visit the **same office several times** = each visit is counted separately;

- E-procedures through the **same website** but in **separate filings** = separate e-procedures;

- Procedures required for official correspondence or transactions with public agencies (e.g., company seal, bank account) are included.

- Approvals from spouses to own a business or to leave home are considered procedures if required by law or if by failing to do so he or she will suffer consequences under the law, such as the loss of right to financial maintenance;
How is the time to complete a procedure calculated?

The entrepreneur is aware of all entry requirements and completes them without delay.

If a procedure can be accelerated for an additional cost, the fastest procedure is chosen if it is the most beneficial to the economy.

The time sub-indicator captures the median duration, indicated by company incorporation experts, necessary in practice to complete a procedure with minimum follow-up with government agencies and no extra payments.

A procedure is considered completed once the company receives the final incorporation document.

Although procedures may take place simultaneously, they cannot start on the same day.

The minimum time required for each procedure is 1 day.

The minimum time recorded for online procedures is half a day.
How is the **cost** of a procedure calculated?

Cost includes all **official fees** and fees for legal or professional services if such services are required by law or commonly used in practice.

The company law, the commercial code and specific regulations and fee schedules are used as **sources** for calculating costs.

In the absence of fee schedules, a **government officer’s** estimate is taken as an official source. If several incorporation lawyers provide different estimates, the **median** reported value is applied.
How is **paid-in minimum capital** measured?

The **paid-in minimum capital** requirement reflects the amount that an entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation.

The amount is typically specified in the commercial code or the company law.

Some economies require minimum capital but **allow businesses to pay only a part of it before registration**, with the rest to be paid after or within the first year of operation.
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In over a decade, Starting a Business continues to be the most reformed Doing Business area.

Source: Doing Business database
## 50 economies made starting a business easier in 2017/18 – nearly half did so by simplifying preregistration & registration processes

<table>
<thead>
<tr>
<th>Feature</th>
<th>Economies</th>
<th>Some highlights</th>
</tr>
</thead>
</table>
| **Simplified preregistration & registration formalities** | Afghanistan; Argentina; Bolivia; Brazil; Brunei Darussalam; Burundi; Côte d’Ivoire; Ethiopia; Guatemala; India; Mauritania; Morocco; Myanmar; New Zealand; Nigeria; Pakistan; Qatar; South Africa; Sudan; Thailand; Togo; Turkey; Vietnam | **Argentina** introduced an expedited process that includes company incorporation, book legalization and tax and social security registration.  
**India** integrated multiple application forms into a general incorporation form. |
| **Cut or simplified post registration procedures**    | Armenia; Belarus; Brunei Darussalam; Chile; Georgia; India; Indonesia; Kazakhstan; Mauritius; Peru; Philippines; Rwanda; Singapore; Zimbabwe | **Indonesia** combined different social security registrations.  
**Mauritius** linked the database of the business registry with the database of the social security office.  
**Singapore** abolished the use of corporate seals. |
| **Abolished or reduced minimum capital requirement**  | Central African Republic; Guatemala; Kuwait; Timor-Leste; Togo              | **Kuwait** eliminated the paid-in minimum capital requirement to start a business.                                                               |
| **Introduced or improved online procedures**          | Bolivia; China; Guatemala; Malaysia; Nigeria; Tanzania; Togo; United Arab Emirates; Vietnam | **Nigeria** introduced an online platform to pay stamp duties.  
**Tanzania** launched online company registrations.  
**Vietnam** started to publish the notice of incorporation online. |
| **Created or improved one-stop shop**                | Cameroon; Chad; Djibouti; Egypt, Arab. Rep; Gabon; Guinea; Moldova; Togo; Tunisia | **Moldova** removed the requirement to separately file for registration with the National Bureau of Statistics.  
**Tunisia** combined different registrations at the one-stop shop. |

Reforms making it easier to start a business show results over time in reduced delays

It was possible to start a business in less than 20 days in only 41 economies*, mostly in high-income OECD.

Now, the time to start a business is less than 20 days for entrepreneurs in 135 economies* worldwide.

✓ Development impact:
Governments that regulate entry more heavily have greater corruption and larger unofficial economies, but not better quality of public or private goods.

(Djankov, La Porta, Lopez de Silanes, Shleifer, February 2002, Quarterly Journal of Economics.)


Source: Doing Business database.
In most economies it takes **between one week and one month** to start a business.

Fastest business start-up: ½ day (in New Zealand)

Time and cost to start a business vary across and within the regions

Average time (days)

- **Fastest start-up process in each region (days):**
  - New Zealand (0.5)
  - Georgia (2)
  - Afghanistan (8)
  - UAE (3.5)
  - Rwanda; Burundi (4)
  - Singapore; Hong Kong SAR, China (1.5)
  - Jamaica (3)

Average cost (% GNI per cap.)

- **Lowest start-up cost in each region (% GNI per cap.):**
  - Slovenia (0.00)
  - Kazakhstan (0.25)
  - Bhutan (3.4)
  - China (0.36)
  - Bahrain (1.1)
  - Trinidad & Tobago (0.74)
  - South Africa (0.22)

Entrepreneurs do not have to pay-in minimum capital in most economies

- 60% of economies do not require any capital to be paid-in within 3 months from incorporation.
- In 2 economies (Eritrea and São Tomé and Príncipe), the minimum capital that must be deposited to start a business exceeds 100% of GNI (down from 4 economies in 2016/17).

In 2017/18 the Central African Republic and Timor-Leste both greatly reduced the requirement to deposit a minimum capital to start a business.

- CAR’s score on Starting a Business: 37.02 in Doing Business 2018 to 60.90 in Doing Business 2019
- Timor-Leste’s score on Starting a Business: 72.65 in Doing Business 2018 to 89.41 in Doing Business 2019

Source: Doing Business database.
Since 2005, the average number of procedures to start a business has decreased the most in Europe and Central Asia.
Since 2005, the average cost of starting a business has decreased the most in Sub Saharan Africa

Source: Doing Business database.
Note: Based on a sample of 174 economies included in Doing Business 2006
Since 2005, the average time to start a business has decreased in all regions.
Since 2005, the average minimum paid-in capital requirement has decreased the most in the Middle East and North Africa.
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Where is it **easiest** to start a business in 2017/18?

<table>
<thead>
<tr>
<th>Top ten performers</th>
<th>Score</th>
<th>Procedures (number)</th>
<th>Time (days)</th>
<th>Cost (% GNI per cap.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. New Zealand</td>
<td>99.98</td>
<td>1</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>2. Georgia</td>
<td>99.34</td>
<td>1</td>
<td>2</td>
<td>2.2</td>
</tr>
<tr>
<td>3. Canada</td>
<td>98.23</td>
<td>2</td>
<td>1.5</td>
<td>0.4</td>
</tr>
<tr>
<td>4. Singapore</td>
<td>98.23</td>
<td>2</td>
<td>1.5</td>
<td>0.4</td>
</tr>
<tr>
<td>5. Hong Kong SAR, China</td>
<td>98.15</td>
<td>2</td>
<td>1.5</td>
<td>1.1</td>
</tr>
<tr>
<td>6. Jamaica</td>
<td>97.35</td>
<td>2</td>
<td>3</td>
<td>4.4</td>
</tr>
<tr>
<td>7. Australia</td>
<td>96.47</td>
<td>3</td>
<td>2.5</td>
<td>0.7</td>
</tr>
<tr>
<td>8. Armenia</td>
<td>96.21</td>
<td>3</td>
<td>3.5</td>
<td>0.8</td>
</tr>
<tr>
<td>9. Azerbaijan</td>
<td>96.14</td>
<td>3</td>
<td>3.5</td>
<td>1.3</td>
</tr>
<tr>
<td>10. Ireland</td>
<td>95.91</td>
<td>3</td>
<td>5</td>
<td>0.1</td>
</tr>
</tbody>
</table>

## The best regulatory performance in Starting a Business

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Best regulatory performance</th>
<th>Best performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procedures (number)</td>
<td>1</td>
<td>New Zealand, Georgia</td>
</tr>
<tr>
<td>Time (days)</td>
<td>0.5</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Cost (% of income per capita)</td>
<td>0.0</td>
<td>Slovenia</td>
</tr>
<tr>
<td>Minimum paid-in capital (% of income per capita)</td>
<td>0.0</td>
<td>Australia, Colombia, Malaysia and other 114 economies</td>
</tr>
</tbody>
</table>
Good practices in the area of starting a business

Global good practices

- Similar requirements for men and women
- Offering procedures online
- No paid-in minimum capital requirement
- Creation and improvement of one-stop shops
- Standardized forms
- No court involvement
- Fixed and low registration fee
- No requirement to publish in legal journal
THANK YOU!

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