



# Starting a business

## The growing efficiency of company registries

Entrepreneurs should have the opportunity to turn their ideas into a business. Often a first step is to formally register a company. Yet in many countries the bureaucratic obstacles and high costs imposed by inefficient company registries deter people with good business ideas from embarking on the path of formal entrepreneurship.

Formal registration has substantial benefits for businesses and for the economy as a whole. Registered companies can benefit from legal and financial services provided by courts and commercial banks, services not available to unregistered businesses. Their employees benefit from social security protections. And the economy benefits from positive spillovers: where formal entrepreneurship is higher, job creation and economic growth also tend to be higher.<sup>1</sup> Moreover, as more businesses formalize, the tax base expands, enabling the government to spend on productivity-enhancing areas and pursue other social and economic policy objectives.

As the first interface between the regulator and a potential new entrepreneur, company registries hold the key to the formal economy, providing businesses with a legal identity and empowering them to participate fully and within the framework of the law. Thus the relative ease or difficulty of start-up can have important economic consequences. Evidence suggests that regulatory reforms making it easier to start a formal business are associated with increases

in the number of newly registered firms and with higher levels of employment and productivity. Conversely, excessively cumbersome regulation of start-up is associated with higher levels of corruption and informality.<sup>2</sup>

### WHAT IS AN EFFICIENT REGISTRY?

Institutional efficiency at company registries is thus a critical element of a healthy economy.<sup>3</sup> What makes an efficient registry? Answering that question first requires understanding what registries do.

A company registry records and updates information on new and existing companies in its jurisdiction and enables registered entities to comply with their obligations under the current regulatory framework, including those related to the company laws.<sup>4</sup> In doing so, the registry incorporates legal entities, providing them with a unique identification, and deregisters insolvent firms. Other services provided by a registry commonly include conducting company name searches, reserving company names and processing applications for business licenses.

These functions enable the government to measure tax compliance or avoidance in the formal sector and to derive other business statistics by economic sector or by company size or ownership type. They also enable the government to determine which

- Company registries empower businesses to operate in the formal economy—and to reap the benefits that come with formalization.
- Online platforms for company incorporation make the process faster and cheaper.
- Electronic registration and online services substantially reduce the opportunities for bribery and other forms of corruption.
- Rwanda has made promoting private sector development a top priority on its reform agenda—and making it easier to register a business is part of that.
- Chile's new online business registry experienced rapid take-up, accounting for nearly half of new registrations of limited liability companies in just 7 weeks.
- The United Kingdom's corporate registry actively promotes the use of electronic services and data transparency.

entities are eligible to participate in public tenders and bids (generally only formally registered companies). In addition, they promote consumer protection, as business licensing often represents a quality check to ensure that business activities in certain “high-risk” industries—such as food preparation and pharmaceuticals—meet the required health, safety and environmental standards.<sup>5</sup>

In evaluating a registry’s efficiency in providing daily services, several elements are often considered to be key: a comprehensive electronic database, a one-stop shop and an online platform for business registration. An effective electronic database maintains up-to-date information and documents on both newly registered and existing companies and makes this information easily accessible, whether online or on-site at the registry’s office. Historically, records were kept in a paper-based format. But the growing trend of computerization among company registries has enabled the electronic storage and maintenance of records. This not only helps reduce errors in inputting and updating business information but also speeds up searches. In addition, electronic record keeping makes it easier to extract statistics.

One-stop shops for business registration have become increasingly common. Globally, 100 economies have already launched one. And these 100 one-stop shops are quite widely distributed, with 64 of them located in low- or middle-income economies. A one-stop shop provides a single service point for completing several business registration processes. It might consist of several windows or offices occupied by representatives from different government agencies that entrepreneurs need to visit sequentially. Some one-stop shops are even “one-window shops”—providing a single point of interaction between an entrepreneur and all the government agencies involved

in business registration. In these one-stop shops an entrepreneur can submit all the necessary documents at one window, and the documents are then distributed to the appropriate agencies for processing and approval.

## A GLOBAL TREND OF GOING ELECTRONIC

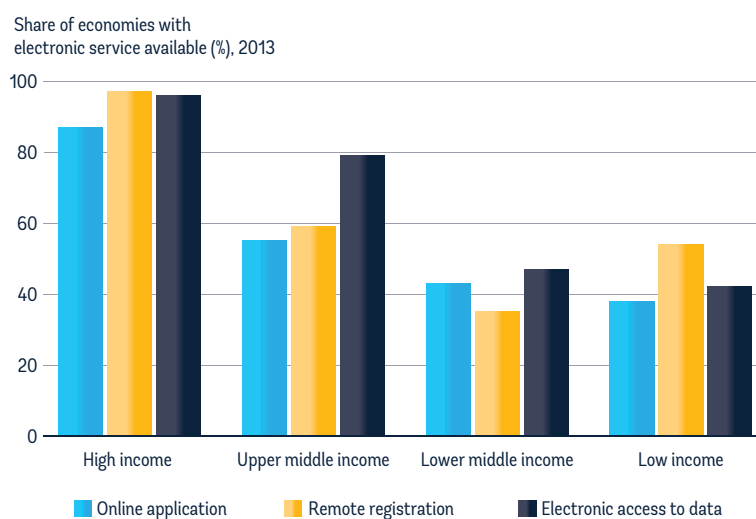
Putting processes online takes efficiency one step further. *Doing Business* data show that among the 189 economies covered, 144 have introduced online platforms for business incorporation. These enable entrepreneurs to file incorporation documents electronically and sometimes even to complete the entire business registration process online.

Company registries in 95 economies around the world reported extensive use of online services in the World Bank Group Entrepreneurship Survey in 2013. Among those in the sample, 60% offer an online application to register a business, and 58% allow entrepreneurs to register a business remotely. The

most common online features offered include online company name search, electronic submission of documents and applications, online filing of annual accounts and the exchange of data between different agencies. In New Zealand and Singapore, for example, entrepreneurs can complete the entire business registration process online. Thanks to the interconnectivity between different agencies’ systems, they can register their business with tax and social security authorities at the same time as they complete the incorporation process.

Some economies, especially low- and middle-income ones, start the digitization process by putting just some features online—such as conducting a company name search, filling out and submitting registration forms and obtaining an electronic identification number. In Costa Rica, Ecuador, Trinidad and Tobago, and Zambia entrepreneurs can check the uniqueness and availability of company names online. In Kenya business registration reforms made it possible to complete the value added tax registration online.

**FIGURE 5.1** Company registries in high-income economies offer more electronic services



Source: World Bank Group, Entrepreneurship Database.

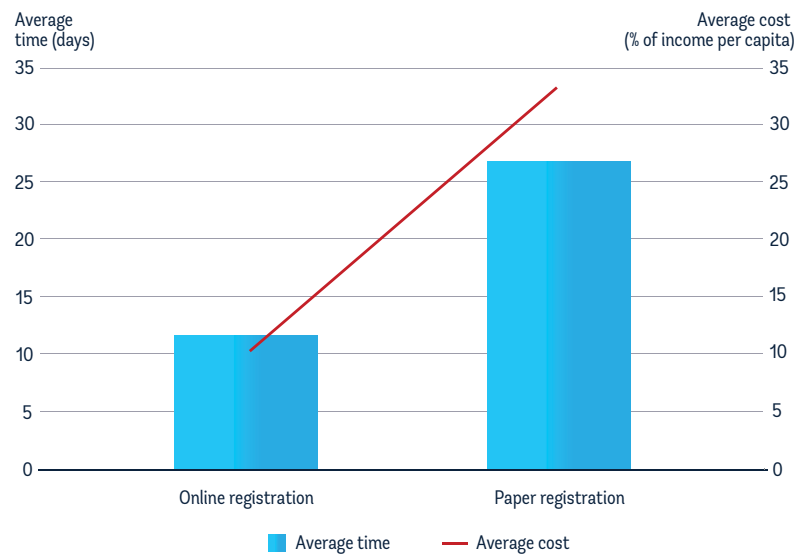
To implement an effective online registration system, all paper-based registration records need to be digitized in a single database—and online name search, electronic document filing and online fee payment functions enabled. Streamlining data exchange with other government agencies to automate such actions as enrollment in tax and social security systems can further reduce processing times. Effective security measures are needed to ensure data security. And reliable internet and electricity connections are critical to ensure that online platforms function properly.

The most technologically advanced registries are concentrated in OECD high-income economies and Europe and Central Asia. Company registries in high-income and upper-middle-income economies tend to offer a much broader array of online services than those in lower-income ones (figure 5.1). This pattern is not surprising, because developing and launching online services can be costly. Online platforms are usually designed by large international information technology consulting firms and can take months to implement. The cost can range from as low as \$20,000 to as high as several million dollars, depending on the features included.<sup>6</sup> In Nepal the Ministry of Finance allocated 32.20 million Nepalese rupees (about \$447,000) over 3 years to modernize the country's registration office.<sup>7</sup> Once a system is in place, funds are needed to operate it. In Colombia the operating costs of the online national business registration database RUE, which is hosted on 9 different servers, amount to \$1 million a year.<sup>8</sup>

### WHAT ARE THE GAINS FROM GOING ELECTRONIC?

Using online services for business registration has several advantages. Online platforms make the process faster and more efficient by eliminating the need for entrepreneurs to travel to meet with

**FIGURE 5.2 Online registration makes starting a business faster and cheaper**



Note: The sample consists of 71 economies, with 20 having online registration. Data are for 2013. The relationship is significant at the 5% level after controlling for income per capita.

Source: *Doing Business* database; World Bank Group, Entrepreneurship Database.

government officials, wait in long lines and return if some information turns out to be missing or incorrect. Analysis of data from 71 economies shows that business registration for limited liability companies is significantly faster in those using online platforms (figure 5.2). And in most cases online registration is either substantially less expensive than paper-based processes or costs the entrepreneur nothing at all.

Using online registration services also greatly reduces the opportunities for corruption and bribery. Where entrepreneurs have no need to interact directly with public officials, they are less likely to use informal payments or to face deliberate delays aimed at encouraging bribes. Analysis shows strong positive relationships between international measures of transparency or governance quality—including rankings on the rule of law by the World Justice Project and rankings on voice and accountability, control of corruption and regulatory quality as measured by the Worldwide Governance Indicators—and the use of online systems for company

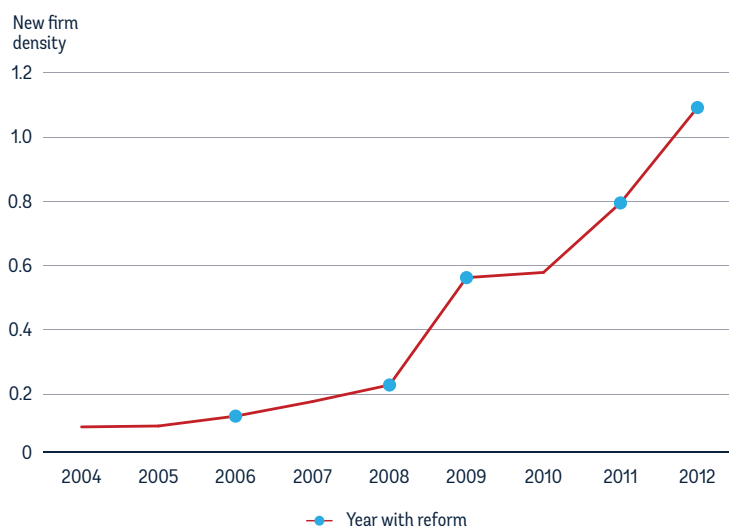
registration.<sup>9</sup> Economies whose company registry uses online registration, allowing entrepreneurs to set up new businesses remotely, tend to score high on such measures.

### THREE COUNTRY CASE STUDIES

Three country case studies—on Rwanda, Chile and the United Kingdom—provide good examples of how corporate registries have improved efficiency and service quality over time. The choice of these countries is based on geographic diversity, adoption of good practices, consistent pace of business registration reform and availability of data.

#### Rwanda—promoting a competitive business environment

The government of Rwanda has been working to improve the efficiency of business registration as part of broader business regulation reforms aimed at promoting private sector

**FIGURE 5.3** A surge in newly registered firms after start-up reforms in Rwanda

Note: New firm density is defined as the number of newly registered limited liability companies per 1,000 working-age people (ages 15–64).

Source: World Bank Group, Entrepreneurship Database.

development—a top priority on its reform agenda. The reforms are driven by the conviction that an efficient business climate can reduce poverty by fostering economic growth and job creation.<sup>10</sup>

As part of a series of reforms of the start-up process, in 2008 the government established the Office of the Registrar General to maintain an efficient business register and promote a competitive business environment. The new entity oversees the implementation of applicable commercial laws, such as the Companies Act,<sup>11</sup> and the registration and deregistration of businesses.<sup>12</sup> By May 2009 it had set up a one-stop shop, streamlining company name checking, payment of incorporation fees, and tax and company registration procedures.

As a result of these reforms company registrations surged (figure 5.3). In 2009 alone, 3,028 new limited liability companies were formed—almost equivalent to the total for the previous 5 years, when 3,374 new limited liability companies had been registered. Further simplification of the start-up process

followed as a new company law was enacted in 2009. This helped sustain the annual increase in the number of new limited liability companies, a number that reached 6,655 in 2012.<sup>13</sup>

Today Rwanda's Office of the Registrar General is focused on making its registration system completely paperless by promoting electronic registration services. Other priorities include ensuring accurate and timely delivery of information on its services and raising awareness of the importance of formalizing businesses. Consistent with good practices in ensuring transparency, the Office of the Registrar General makes official fee schedules for business services easily available to the general public at its premises as well as on its website.<sup>14</sup>

Rwanda has made important strides in improving its business environment over the past 10 years. Its business regulation reforms have resulted in cost savings for the private sector estimated at \$5 million, investments totaling \$45 million and about 15,000 jobs.<sup>15</sup> In 2006, before these reforms,

starting a limited liability company in Rwanda took 9 procedures, 18 days and 235.5% of income per capita in fees. Today it takes 8 procedures, 6.5 days and 52.3% of income per capita. Rwanda, a country facing a range of other development challenges, has shown that improvements in the regulatory environment—including the adoption of global good practices—are well within the reach of low-income economies.

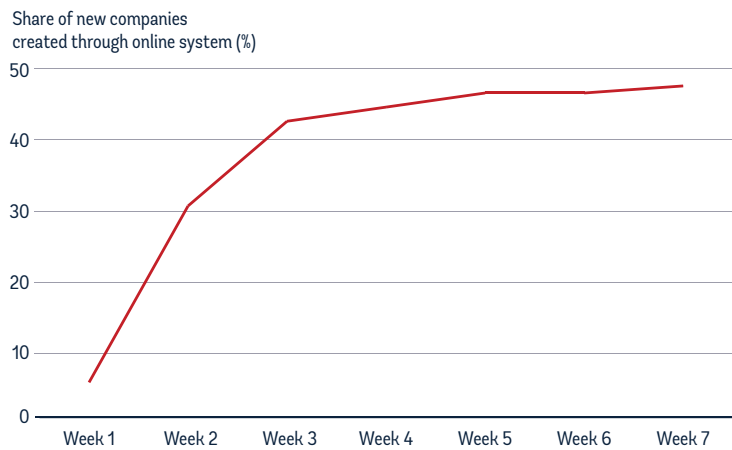
### Chile—creating a new online registry

In recent years the government of Chile has been trying to reduce the size of the country's informal sector and encourage entrepreneurs to formalize their businesses. In 2013, as part of these efforts, a new Chilean law made it possible for entrepreneurs to register limited liability companies through an electronic, unified company registry hosted by the Ministry of Economy and accessible from anywhere free of charge.<sup>16</sup> The new law was part of a strategy aimed at continuing to enhance the efficiency of public services through the use of the latest technologies, moving the country closer to e-government and fostering entrepreneurship and competitiveness. It was also motivated by the government's desire to make further strides in the fight against excessive bureaucracy and red tape, a widespread problem in Latin America.

Private sector associations supported the new law, but Chilean notaries initially opposed it, because it dispensed with the requirement for the business incorporation services they offered. For business owners, however, the new law represented an opportunity to save time and money and to get access to the growing amount of funding that the Chilean government was investing in business start-ups.

The electronic registration system—called “Your Company in One Day”—is

**FIGURE 5.4** Chile's online system was soon registering almost half of new limited liability companies



Note: Data cover the period May 2–June 16, 2013.

Source: Chile, Ministry of Economy, Register of Companies (Registro de Empresas y Sociedades).

not only a new process of incorporation but also a new company registry that runs alongside the existing paper-based one. It allows users to register a company online at no cost. All they need to do is to fill out an electronic form providing information about the company and its shareholders. The process takes only a few minutes and provides the certificate of existence instantaneously. The system also automatically assigns a taxpayer identification number to the newly registered company, a function made possible by the interconnectivity with the online platform of the tax agency. And through a web service, the system performs automatic identity checks with the tax and civil registry authorities.

The rapid take-up of the online services testifies to the success of Your Company in One Day. Only 7 weeks after the launch, nearly half of new limited liability companies in Chile were being created through the new online registry (figure 5.4). In the first 8 months, the government estimates, more than 20,000 companies were created electronically. The number of limited liability companies registered through the electronic system in 2013 (more than 85,000) was more than

twice the number created in 2009 (close to 39,000). The ultimate goal should be to reach an electronic registration rate of nearly 100% (see the U.K. case study as an example).

Chile's online company registry has allowed greater productivity among business founders by making the incorporation process faster and more

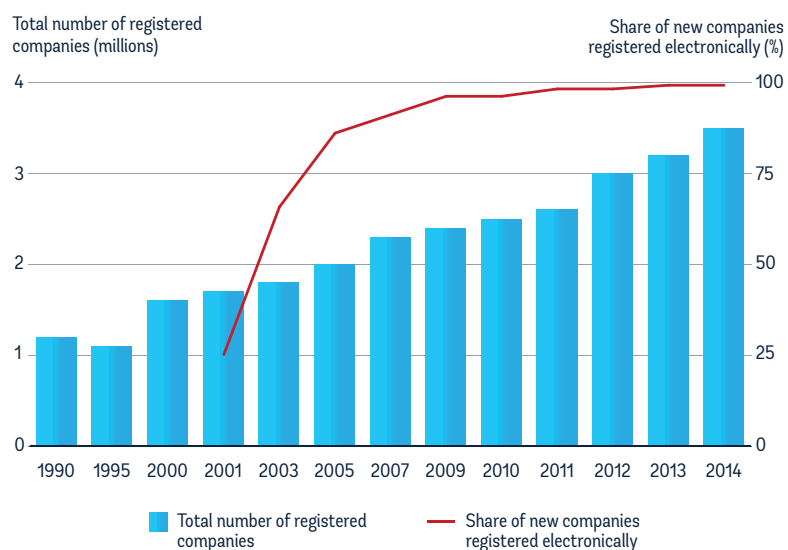
convenient. And more changes are set to come. The online registry is built for expansion, and the government plans to add new services as well as to allow other types of legal entities to incorporate electronically.

### The United Kingdom—simplifying start-up

In the United Kingdom interacting with the national business registry—Companies House—is an imperative for starting a business. According to the 2006 Companies Act and its 1985 predecessor, all new limited liability companies must register with Companies House to do business. Before the digital age this was often a costly and laborious task. It involved visits to Companies House, long lines and the higher costs associated with postal mail. Company founders often had to hire solicitors to handle paperwork such as the articles of association.

But Companies House has greatly simplified the process—by introducing electronic filing in 2001, increasing the transparency of its data and providing model articles of association for

**FIGURE 5.5** Electronic registration has become almost universal in the United Kingdom



Note: Data for 2014 are projected.

Source: U.K. Companies House 2013a.

companies.<sup>17</sup> These changes have made incorporation faster, more convenient and less expensive. Now entrepreneurs can register their business with Companies House in just a few hours by simply filing incorporation documents. All the incorporation forms are available at no cost on the Companies House website and come with detailed instructions. Registration can be done online or at the Companies House office, where computers are available to enable entrepreneurs to register electronically.

Entrepreneurs are making good use of the electronic filing option. The share of new companies registered electronically grew sharply in the first few years, rising from around 25% in 2001 to 95% in 2009 (figure 5.5). Indeed, electronic filing has become virtually universal, with more than 98% of new companies registered electronically in 2013.<sup>18</sup>

Besides offering online registration, Companies House has also simplified the preregistration process. One important step was to increase the transparency of registry data, making initial business start-up research easier. Companies House made basic information on existing companies available at no charge in 1996, allowing business founders to easily conduct name searches both online and in its office. Today Companies House processes 235 million free basic company information searches online or through its mobile application every year.

Beginning in 2012, Companies House expanded its company information to include company number, address, status, incorporation date, accounts and filing dates for annual returns. There were almost 15,000 unique downloads of this company information data set in 2013.<sup>19</sup> Over the past decade, as Companies House has increased its data transparency, electronic procedures and free resources for business founders, the number of registered companies in the United Kingdom has doubled.

## CONCLUSION

Many economies have modernized their company registries, offering a wide array of online services for a lower fee or at no cost at all. But many others lag behind. For low-income economies, introducing online platforms may not be an affordable or practical solution, especially if electricity shortages are common. But other steps can be taken to increase the efficiency of business registration. For example, economies could create physical one-stop shops—or improve existing ones—to streamline incorporation processes and coordinate the work of different agencies. Improving the efficiency and transparency of company registries can not only make incorporation faster and cheaper; it can also reduce the opportunities for corruption and bribery associated with business start-up processes.

Two important (and related) observations emerge from this comprehensive overview of the *Doing Business* data on business start-up. First, a low level of income need not be an insurmountable obstacle to implementing reforms that reduce the complexity and cost of regulatory processes and improve the quality of the underlying institutions. And second, as the latest information and communication technologies spread around the world, low-income economies will find a broader range of opportunities to adopt good practices used in higher-income economies, further contributing to the process of convergence seen in the *Doing Business* indicators. A growing number of economies with difficult business environments are gradually adopting the practices seen in those with more business-friendly climates.

## NOTES

This case study was written by Baria Nabil Daye, Paula García Serna, Julie Ryan and Valentina Saltane.

1. Fritsch and Noseleit 2013.
2. Motta, Oviedo and Santini 2010; Klapper and Love 2011.
3. While in some economies the registry is the first and only interface for formally commencing business operations, in other economies the start-up process involves other government agencies as a result of more burdensome regulations.
4. See, for example, the website of the Companies Office of Jamaica at <http://www.orcjamaica.com/profile/> and that of the Companies Registry of Hong Kong at <http://www.cr.gov.hk/en/home/>.
5. De Sa 2005.
6. Wille and others 2011.
7. "IFC Helps Nepal Simplify Business Registration," World Bank Group, <https://www.wbginvestmentclimate.org/advisory-services/regulatory-simplification/business-regulation/business-entry/nepal-business-registration.cfm>.
8. World Bank Group, Investment Climate Advisory Services 2009.
9. The relationship is significant at the 5% level after controlling for income per capita.
10. "Rwanda's Vision 2020: Improving the Investment Climate for Private Sector Development," World Bank Group, <http://go.worldbank.org/2U51FR33MO>.
11. Rwandan Law 07/2009 relating to companies, April 27, 2009.
12. Information from the website of the Rwandan Office of the Registrar General at <http://org.rdb.rw/>.
13. World Bank Group, Entrepreneurship Database.
14. Information from the website of the Rwandan Office of the Registrar General at <http://org.rdb.rw/>.
15. World Bank Group, Investment Climate Advisory Services 2013.
16. Simplifica el régimen de constitución, modificación y disolución de las sociedades comerciales, Chilean Law 20.659, January 22, 2013.
17. Moss 2014.
18. U.K. Companies House 2013b.
19. U.K. Companies House 2013a.