Yemen gets serious about starting businesses

Background

In its "Strategic Vision for 2025," Yemen set the objective of reaching middle-income prosperity levels. Achieving this objective will require a truly transformative strategy and a commitment to implementation. Yemen is one of the least developed countries in the world—ranked at 149 out of 175 countries on the United Nations Development Programme (UNDP) Human Development Index (2004). It faces various challenges, including high unemployment (estimated to be between 20 and 35%) and a sluggish economy, which is hindered by: i) a complicated policy framework, ii) insufficient access to finance and iii) limited competitiveness in its private sector.

Commitment to reform and improvement is not new in Yemen. Recent initiatives included the adoption of a 5-year reform plan in the 1990's, which had promised great results and growth. The plan was interrupted by the discovery of new oil reserves, causing a rise in GDP but slowing down reform momentum and shifting the country's priorities. By 2004, the government felt that the rate of oil depletion had become alarming. Alternative engines for economic growth and job creation would have to be sought.

To tackle Yemen's problems, many World Bank and international aid organizations' reports highlighted private-sector development as one of the most promising areas for reform. Revving up the sluggish economic required political will and decisive action. The goal: to create a more business-friendly regulatory environment. In its plan for 2025, the government put private-sector development at the top of its agenda. It started off by reforming business registrations—and that made Yemen one of the top reformers in the *Doing Business* "starting a business" category in 2009.

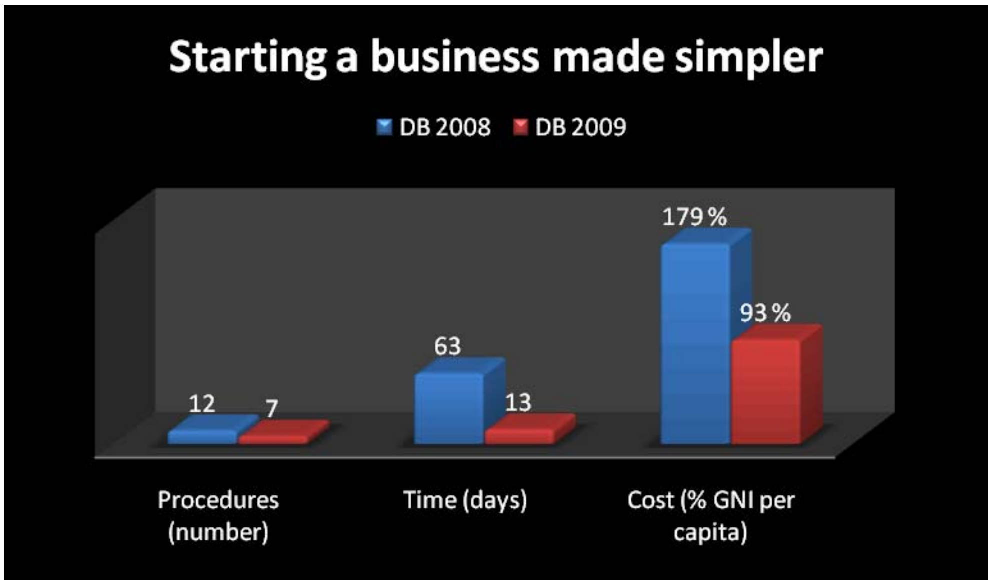
Government is in the mood for reform

Over the past few years, Yemen has been gradually reforming its business environment. Its Commercial Law was amended to eliminate a 49% cap on foreign shareholder stake in companies. A new law on foreign ownership of real estate is in the pipeline for approval. Banking laws are currently under review and an amendment regarding monetary policy is expected. Plans are underway to establish a stock market to enforce good governance and push the private sector from a culture of family ownership to public ownership. At a higher, institutional level, the possibility of streamlining Yemen's 33 different government ministries is under consideration.

Why all this attention to the private sector? The answer lies in the fact that the vast majority of private enterprises in Yemen remained small, hidden and informal. The situation was ripe for reform. Investors consistently complained about excessive bureaucracy, arbitrary decision-making, deep-seated corruption and a fundamental lack of coordination between authorities. Entrepreneurs were forced to spend a significant amount of time dealing with government officials, paying unofficial "facilitation payments" or relying on personal contacts to obtain necessary approvals and permits. In 2007, starting a business required 12 procedures and over 2 months in order to comply with all the regulatory requirements.[1] That left a lot of room for improvement.

Many suggestions were made regarding where and how to start private-sector reform. But Yemen chose the World Bank Group's *Doing Business* benchmarking exercise to provide measurable, inexpensive and relatively easy-to-implement reforms. With assistance from the International Finance Corporation (IFC) office in Yemen and unwavering commitment from a reform-minded Minister: Dr.Yahya Yahya al-Mutawakil , Yemen implemented one of the boldest business registration reforms in 2008. It reduced what was measured as the world's second-highest minimum-capital requirement and launched a one-stop shop (OSS) for business start-ups. The results were dramatic: Yemen jumped from number 178 (last place) in *Doing Business 2008* to 50 (top third) in *Doing Business 2009* for the "starting a business" indicator.

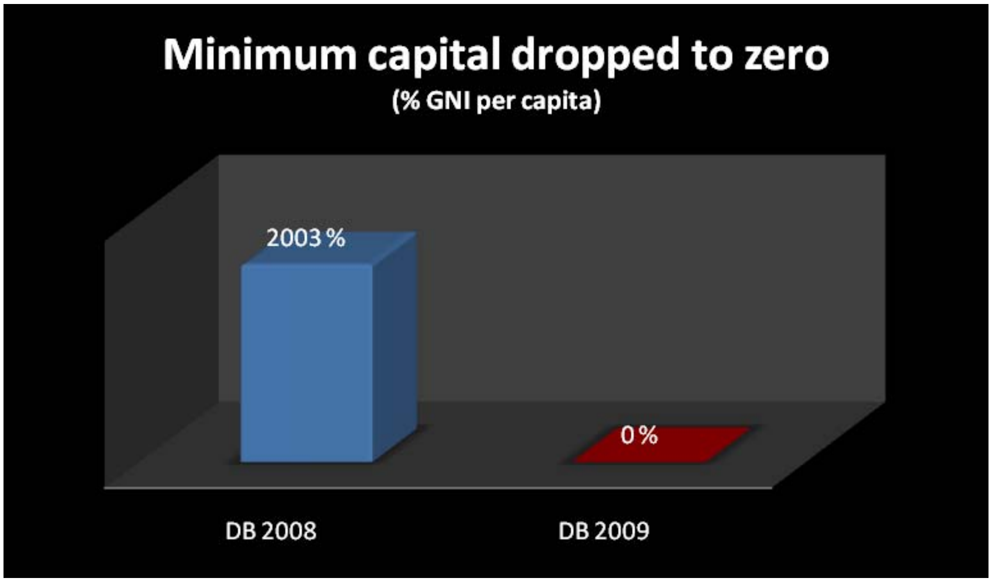
Start-up reform was implemented in less than 2 years since most changes were institutional and did not require legislation, with one exception. Abolishing the minimum capital requirement—that is, the amount of capital shareholders have to deposit in a bank account before proceeding with the registration process—did require legal changes. The results of the reform, as measured by *Doing Business* (DB), are shown below:



The number of procedures required to start a business dropped from 12 to 7. The time required fell from over 2 months to only 13 days. Just as importantly, the cost was almost halved. The abolishment of the minimum capital requirement was perhaps the most visible element of the reform. It was one of the world's highest at around $15,000 (approximately 20 years of average income per capita) before

[1] Reported in *Doing Business 2008*

dropping to zero. Entrepreneurs in Yemen are now free to choose the amount of capital to invest in their business.



Doing Business **as a tool to monitor reform**

The World Bank, the IFC and various donor agencies collaborated with the government to achieve these results. First, they lay the foundation for reform. In 2006, the IFC PEP-MENA—a multi-donor facility which supports private sector development across the Middle East and North Africa (MENA)—launched a "Business Start-Up Simplification Project." The project's aim was to facilitate the restructuring of relevant start-up procedures for businesses in order to save them time and money and thus encouraging more private sector investment.

The timing was good. Following the release of the *Doing Business 2008* report, where Yemen was ranked 178th out of 178 economies for the "starting a business" indicator and 123rd for overall "ease of doing business," the government established an inter-ministerial advisory committee to recommend policies that would improve Yemen's ranking.

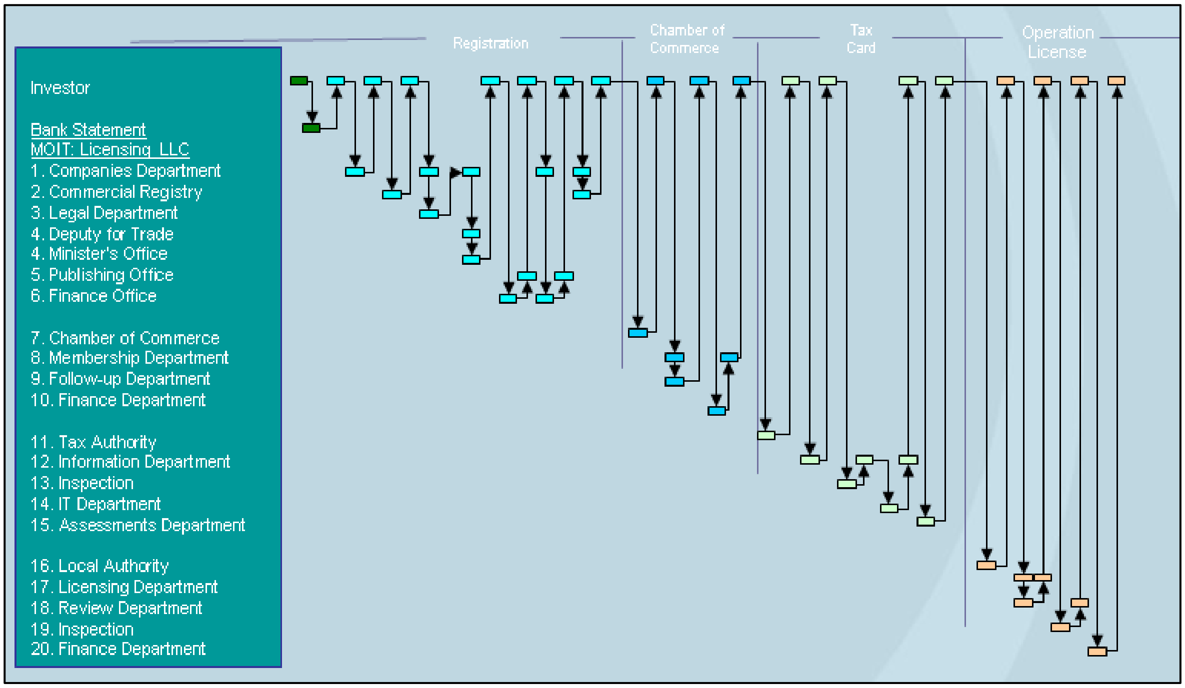
To this end, an agreement was reached between the IFC and the Ministry of Planning and International Cooperation (MOPIC) to help improve Yemen's overall ranking with special emphasis on the "starting a business" indicator and Yemen's 2025 strategic objectives. Shortly after, a few adjustments were made and Yemen's Ministry of Industry and Trade (MOIT) replaced MOPIC as the IFC's main partner.

The reform project

The project was implemented in 3 phases:

Phase 1: Process mapping and benchmark surveys (March 2007 – December 2007)

In this initial phase, administrative and regulatory processes as well as the responsible government authorities were identified. This was followed by a detailed analysis and description of each procedure. All steps for each procedure were mapped, including time and cost requirements. The mapping provided a comprehensive overview of what entrepreneurs must go through to start up their businesses—including the sequencing and links between all the various regulatory processes. It also brought back-office procedures to the forefront, showing for the first time the tedious and redundant tasks involved. Visual diagrams (such as the one below) displayed the scope and complexity of the start-up process—and the significance of reform.

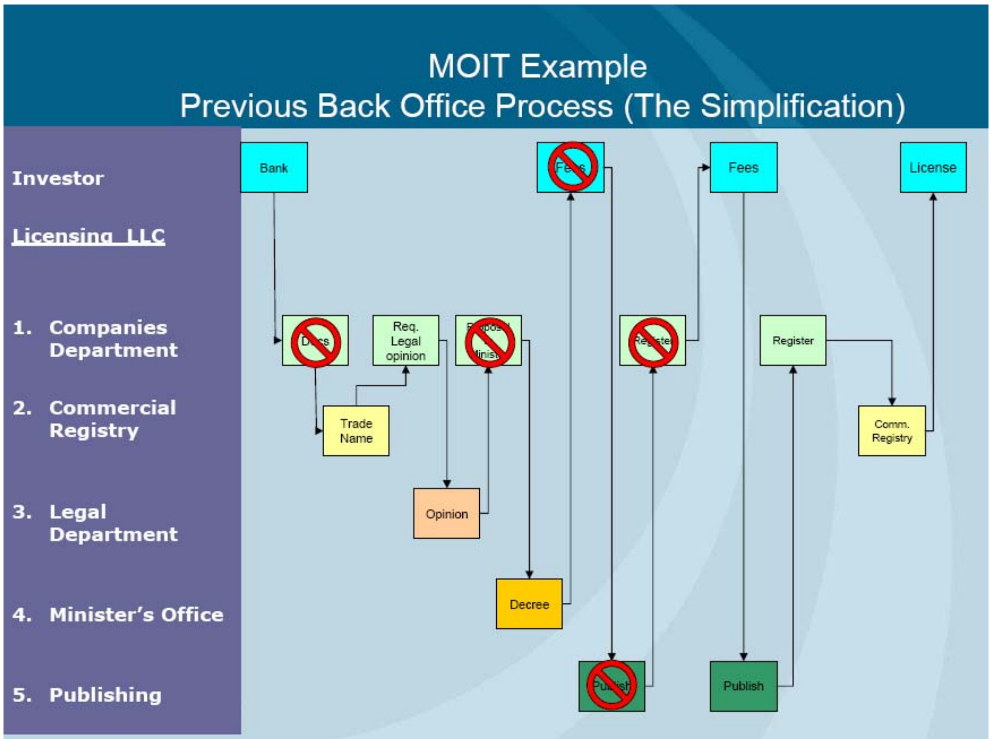


Phase 2: Process evaluation and re-engineering (December 2007 to March 2008)

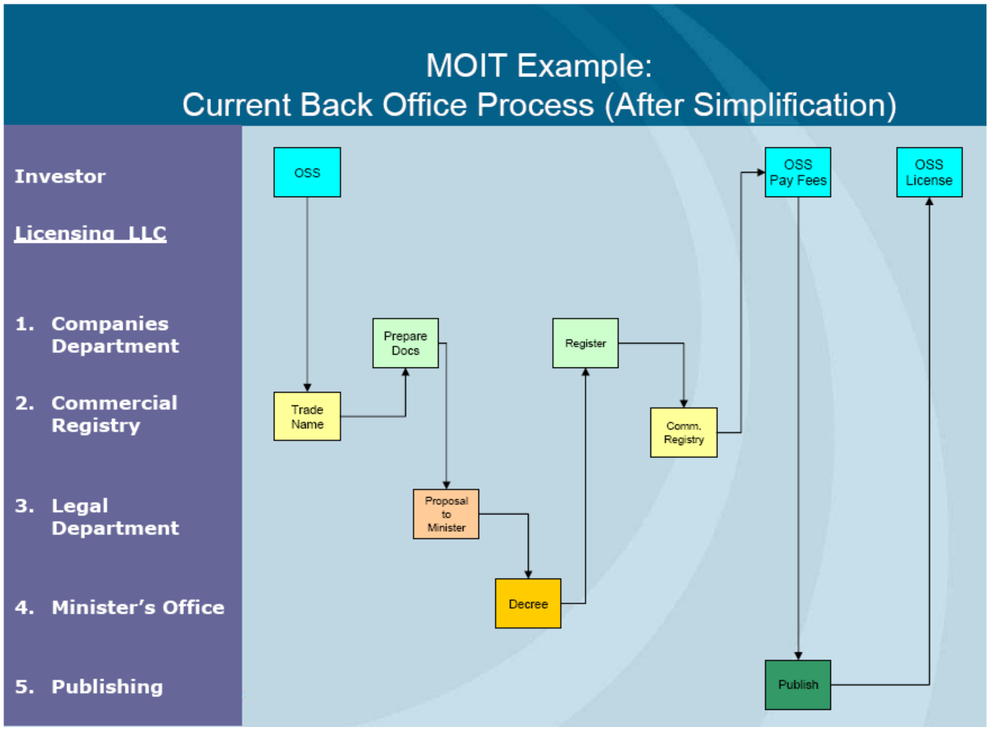
Once the mapping was complete, the IFC and MOIT set up working groups to discuss how the process could be re-engineered in 2- to 3-hour focused meetings. All entities involved in one of the processes above were asked to remove redundancies and merge or delegate procedures to another entity. After each meeting, an official minute-taker would report back to Minister al-Mutawakil's office with the working groups' agreed upon conclusions and "next actions and deliverables." This system helped the meetings move forward, and prevented the team from going back on previous commitments.

The working groups were to be the force for change. Overcoming competition amongst various entities was a challenge. A motto "Let us simplify Yemen" was adopted as the groups' guiding principle. Participants were encouraged to leave their "outside responsibilities" at a particular agency outside the door in order to focus on the task at hand. The plan was simple—to register businesses in the least amount of time, with the fewest steps and the least amount of paperwork. The working groups started by identifying redundant procedures to remove—such as requiring entrepreneurs to go to the same office 2 or more times for a service that could be done in a single visit.

“Let us simplify Yemen,” was a broad and flexible goal. As an IFC Project Officer stated, “It is good to aim at an overarching target, but one should have very flexible objectives as long as the impact is in the same direction with the same magnitude.” For the good of the group, if disruptive conflicts cropped up, individual meetings with particular group member were held immediately.



Within the Ministry of Industry and Trade (MOIT), everyone commented on onerous back-office procedures for registering a company. Repetitive filings and redundant visits to different offices were identified and scrapped. (See figure above.)



The result was a much simpler back-office mapping of the way things should have looked. (See figure above.) Everyone in the working group was proud of this accomplishment, including the MOIT staff.

Phase 3: Implementation of new administrative processes (March 2008- present)
The reengineering process yielded 2 significant results. First, a one-stop shop (OSS) was put in place. The MOIC, the Tax Authority and the Chamber of Commerce signed a memorandum of understanding (MOU) to offer their services at the OSS, streamlining the business-start up process. Second, the minimum capital requirement was abolished. Some more details follow.

1. *The one-stop shop (OSS): Everyone behind one window*

Because it housed the commercial registry for businesses, the Ministry of Industry and Trade (MOIC) was chosen to host the new one-stop shop. Getting the other relevant agencies to work under MOIC's supervision was challenging. Process "ownership" was questioned; various agencies feared their authority would be drained under the new arrangement. After several meetings, a "same business, different location" approach was taken. Agencies agreed to retain their old functions of data gathering, fee collection and decision-making—at least in the short term. In the long term, however, services will be integrated to take advantage of automation and remove discretionary authority. For the sake of the OSS's success, building teamwork, assigning ownership and encouraging collaboration was essential for the launch.

2. *Abolishment of minimum capital requirement*

Yemen's minimum capital requirement was the second highest in the world relative to gross national income per capita (GNI). It was prohibitively high. In fact, the start-up requirement was equivalent to 2,003% of GNI, according to *the Doing Business 2008* report. One of the most effective ways to encourage new business entry is to reduce this requirement—or, better yet, remove it altogether—

studies show. Minister al-Mutawakil and Dr. Taha al-Fousil, Advisor to Minister, looked at relevant best practices and experiences of reforming economies in the Middle East & North Africa region, as well as globally. The IFC team prepared a report on the *Doing Business* indicators—including their impact and beneficial reforms—and presented the cases of Saudi Arabia and Egypt—which removed or lowered the minimum capital requirements, respectively. It was after this report that the Ministry asked the Yemeni Cabinet to amend the law to abolish the requirement. The amendment was soon approved.

Lessons learned

Different audiences, different arguments

To change the law, arguments had to persuade Yemen's Cabinet and its Parliament, two very different entities. "The Cabinet in Yemen is known to focus on very technical aspects of a reform (statistics, examples, etc.) while the Parliament has a general interest in how the reform would affect the citizens," says Dr. Taha al-Fousil, Advisor to the Minister of Industry and Trade. To prepare the best arguments for the two legislative bodies, long days were spent by the Ministry's staff and the IFC team.

Reformers persuasively argued that an exorbitant minimum capital requirement prevented younger entrepreneurs and women from starting formal businesses. Anyone who couldn't pay it was pushed into the informal sector, where there are fewer rights and protections. With Yemen's average annual income well below $1,000, the requirement to deposit $15,000 may be 20 years worth of work. The number wasn't justified. These arguments resonated with the Cabinet. Moreover, the *Doing Business* team assisted by providing examples of countries that had removed this legal requirement successfully. The Cabinet—in consultation with relevant parties—passed this amendment and sent to the Parliament. The IFC team worked with the Parliament and started lobbying its members. The Speaker of Parliament was briefed in several meetings on the issue and he championed the reform. As a result, several members of Parliament, including its Speaker, were instrumental in passing the amendment. However, this was not the end: the law had to be signed by the President for it to be recorded.

As the deadline for the *Doing Business 2009* update approached, the law needed to be signed within 24 hours. The IFC team mobilized their networks and contacted the President's Information Secretary to explain the need for this law to be signed right away. The Secretary committed to trying his best and contacted the President's office. The next day, the Secretary and the IFC team visited the Speaker of the Parliament to get the law sent to the Presidential office for the President's signature. That morning, the law arrived. The President's office manager was very cooperative and the President signed the law that same afternoon. Thirty minutes later, the IFC team obtained a copy of the signed law and sent it to the *Doing Business* team in Washington, D.C. The law was published in time to be reflected in *Doing Business 2009.* The tight deadline motivated everyone to act effectively and fast. No one wanted to wait another full year for the recognition of so much hard work.

Breaking the stereotypes

Many preconceived notions about the nature of World Bank Group (WBG) projects were changed as a result of this project. One common belief amongst the Yemeni bureaucracy was that the WBG's projects resulted in a 500-page reports that few comprehended. They argued that previous WBG projects did not involve the right (or enough) people to help craft the best solutions. Others believed that assessment reports were interesting, but did not provide sustainable solutions. Understanding this, the IFC team moved into an office at the MOIT and engaged in daily dialogue and discussion with their clients to help break the stereotypes throughout the reform process.

In order to gain stakeholders' trust, the IFC team had to understand the dimensions of the problem and make its case for change. It was important to get the government to see that the IFC team was working on their side to implement a positive reform.

Becoming part of the solution: The advantages of neutrality

The IFC team was able to maintain a friendly yet professional relationship with all clients. In addition, the team was careful to avoid internal disagreements or personality conflicts within or across agencies. The team reached out and involved stakeholders in the preliminary discussions. As a result, there were many well informed decision-makers who were able to debate ideas, refine them and translate them into action.

Focusing on national interests and common good, the IFC team was also careful to engage with other agencies and government entities that were not necessarily part of the business simplification process. This enabled the IFC team to gain their indirect support to the reform process.

Entry reform: Only the beginning

Yemen's business-registration reform was revolutionary. The country's private sector went from one way of doing business to another. It saved time and money. The project's impact has yet to translate into a broader reform agenda, but it's a good first step. Reformers will look forward to tangible results regarding informality and renewed economic growth prospects.