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Establishing a Successful One Stop Shop: The case of Egypt

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The Case of the Cairo One-Stop Shop (A)¹

Dr. Ziad Bahaa El-Din sat at his desk and reflected. Writing about reform and advising on reform had helped prepare him, but now he had to not only create a plan for reform, but implement it. As the new Chairman of the General Authority on Investment and Free Zones (GAFI) he had been asked to create a modern one-stop shop in Cairo, the economic heart of the Egyptian economy.

He had to take Egypt's complex registration and licensing procedures and render them simple for investors – turning hundreds of steps and dozens of agencies into a single stop.

He had to take an unproductive, process-oriented and sometimes corrupt bureaucracy and turn it into a customer-oriented, results-oriented, high integrity and high productivity team.

He had to contend take on traditional ways of doing things (some joked “since the time of the Pharaohs”) and revolutionize them.

He had to overcome vested interests ranging from comfortable lawyers who earned hefty fees navigating the complex business start-up process to notaries who, ensconced in their comfortable offices, enjoyed a reliable income from their monopoly rights in legally certifying documents and signatures.

And he had to act fast and show results.

On the one hand, reforms were profoundly threatening to a variety of established politicians, bureaucrats and businesses. On the other, the Government was under increasing pressure both domestically and internationally to show results. To prove the value of reform, there would need to quick and visible results – new investments, more investment, and the formalization of unregistered firms.

Yet this was not the first effort to reform business start-up procedures....

¹ This case is for instructional purposes only. The description and outcome described here does not necessarily reflect the views of the management or Board of Directors of the World Bank Group. It was prepared under the supervision of Andrew Stone of the Finance and Private Sector Unit of the Middle East and North Africa Regional Vice Presidency of the World Bank. Much of the research and writing was done by Hoda Selim, consultant. Valuable inputs were made by Chaitri N. Hapugalle, consultant. The authors also thank Dr. Sahar Nasr of the Finance and Private Sector Unit and Amira Zaky. This case could not have been completed without the cooperation of the leadership and staff of the Ministry of Investment, GAFI and the Cairo OSS. However, the views expressed and any errors are the responsibility of the authors.

Background : Genesis of the One-Stop Shop (OSS)

Investments in Egypt

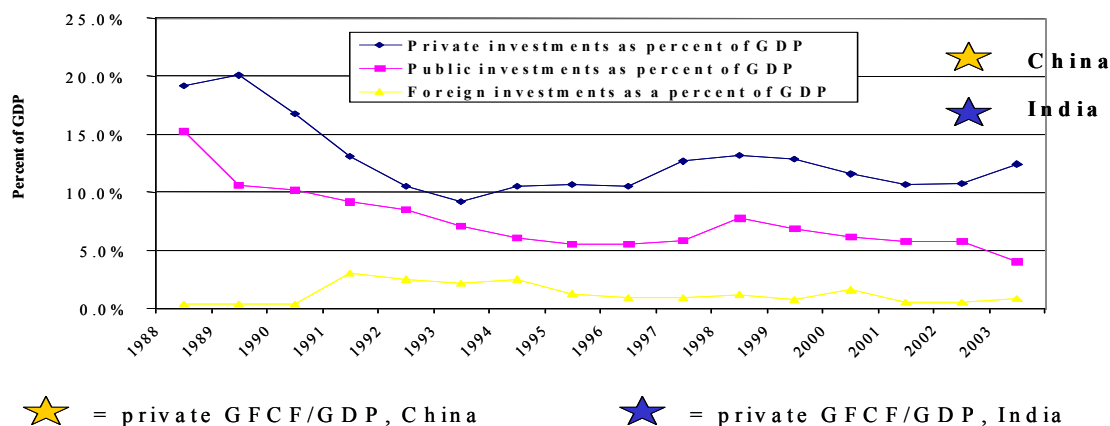


Figure 1: Investment as a percent of GDP (from the Egypt Investment Climate Assessment, World Bank, 2005)

By 2001, Egypt knew it faced a serious challenge in attracting investment. Foreign investment had sharply declined since its heyday in the 1980s of 2 ½ to 3% of GDP to less than 1% (figure 1). Total private investment was stagnant, hovering just above 10% of GDP. One clear deterrent to new investment was the bureaucracy, delay, discretion and uncertainty surrounding business start up. Egypt’s bureaucracy was legendary for its size, complexity and intransigence.² Here is how one study described the process as it existed in the 1990s:

Companies wanting to obtain a business license in Egypt can expect to wait up to one year while wading through a mountain of paperwork. Entire files are often lost and companies have to make special arrangements including under the table payments of up to 5000 L.E.³ to obtain a license. The time spent by an individual business men to obtain the license and the associated cost can not be readily determined. Business owners, however have to visit the various departments at different times for an average of 25 visits to obtain a license.⁴

Delays, discretion and a lack of transparency also encouraged the practice of “speed payments” where bureaucrats would demand, or investors and their agents would willingly offer, informal payments to obtain a quick approval.

² “Our skill level and institutional reform has not kept up with policy leaps; in fact, we have more bureaucracy today than before. Civil servants are being asked to make decisions regarding complex new market economy concepts and take responsibility for them. They are at a loss, so they create more obstacles to slow things down and protect themselves, knowing that mistakes can cost them their jobs -- or worse. The absence of a simple system that is competently executed has proved to be a tremendous impediment for investors large and small, local and foreign.” Taher Helmy, president of the American Chamber of Commerce (AmCham) in Egypt *Empowering the People* El-Ahram Weekly, 2-8 September, 2004, Issue 706.

³ In 2001, the Egyptian pound varied between 3.8 and 4.6 to the US dollar. The rate in 2006 was 5.8.

⁴ Salama Fahmy and James Brown “One -Stop Shop A Case Study” (World Bank, PSD Forum 2006) http://rru.worldbank.org/Documents/PSDForum/2006/background/oss_case_study.pdf

The idea of creating a One-Stop-Shop for investors services in Egypt dates back to 2001. A study carried out by the Ministry of State for Administrative Development suggested enormous delays but was seen by officials as exaggerated. To verify, GAFI undertook a careful follow-up study that looked at the number of ministries and affiliated agencies an investor must deal with, the services they provide and the regulations governing investment. After finishing the study, GAFI sent a copy to all concerned ministries to double check on their findings and integrated their feedback. GAFI's study concluded that launching a new investment could involve as many as 22 ministries and 78 governmental entities:

- Administrative procedures were far too numerous and time consuming, many were redundant and some were inconsistent with each other.
- 349 services were required from investors (including approvals/permits and licenses both in the establishment and operating phases).
- There were 200 regulations for business licensing.

The First OSS Attempt⁵

Spurred by these alarming findings, the Cabinet of Ministers decided, in June 2001, to establish a One-stop Shop (OSS) that would assemble officials from all relevant government entities in one place. Presidential decree 79/2002 established an OSS in GAFI in 2002 as well as branches of the OSS in governorates and the new urban communities. According to the decree, the OSS was to provide “all investment-related services” which included giving the approvals, permits and licenses necessary to start and operate a business.

The Prime Minister's decree 636/2002 organized the work of the OSS and created a system of delegation and liaison officers for ministries and other affiliated entities. The decree legally authorized some of the government entities represented at the OSS to perform the services of their agencies and give approvals on behalf of them without having to refer to a higher authority.

The Cairo OSS was located in a temporary office while a permanent headquarters was being constructed. The Government also inaugurated branches in Alexandria, Ismailia and Assiut. Under this decree, firms of significant size could register under either the Company Law at the Companies' Authority or the Investment Law (also called the Guarantees and Investment Incentives Law) at GAFI.⁶ Egypt accords national treatment to foreign investors and domestic investors with very few exceptions.

⁵ This was not the first attempt to establish an OSS in Egypt. Fahmy and Brown (ibid.) describe an earlier effort in Dakhalia. However, Cairo, with an estimated population of over 15 million and a disproportionate share of the economy, poses a more substantial challenge.

⁶ The mandatory minimum capital required of a “CCLS” company (Commandite Company Limited by Shares) is £E 250,000 (Article 6(2) of the Ministerial Decision implementing the Commercial Companies Law). For a joint stock company the minimum share capital is £E 500,000 if the JSC offers its shares to the public and £E 250,000 if it is private. The company law is law#159 for 1981 and the investment law is law #8 for 1997.

Box 1: One-stop shops -- Possibilities and Pathologies.

One-stop Shops are one of several institutional substitutes Governments often adopt to bypass or accelerate existing procedures where they are dysfunctional. At least 15 countries in the Middle East North Africa region have some kind of OSS in existence as part of their investment promotion efforts.

One-stop Shops became popular in the 1980s as a means to promote investment, often as an adjunct to investment promotion agencies (like GAFI). “The basic idea is that an investor would only have to be in contact with one single entity to obtain all the necessary paperwork in one streamlined and coordinated process, rather than having to go through a labyrinth of different government bodies.”

“The most outstanding and well-known examples where such an OSS system works reasonably successful are the Economic Development Board (EDB) of Singapore, the Malaysian Industrial Development Authority (MIDA) and the Industrial Development Authority (IDA) of Ireland. In all three cases, investors can rely on the agencies to provide practically all the approvals and clearances needed.”

“Practically all governments that tried to implement this form of an OSS encountered significant resistance by the various government agencies responsible for the different administrative procedures. Most importantly, other ministries and agencies fear that the creation of such an OSS would result in curtailing their authority and mandate, quickly leading to intensive turf battles within the government bureaucracy. But more relevant than whether such an OSS is politically feasible is the question whether a single agency should actually have this much authority and power. ... Governments therefore typically shy away from establishing such an OSS in the narrow sense. Instead they tend to rely on some form of coordination mechanism where the various authorities maintain their existing mandates and responsibilities.”

“In many cases, ...authorities...only delegate junior staff to the OSS who do not have sufficient authority to actually grant approvals. This, in fact, means that [t]he OSS is simply a mailbox operation, where the investor submits his paperwork just to pursue it directly with the relevant authority in order to see his application through. The “One-Stop Shop” has actually turned into a “one more stop”....

“Overall, the most important function of an OSS ...lies in fact in the possibility of identifying shortcomings in the administrative implementation of a country’s investment policy and to remove all these bottlenecks.” (quotations from Frank Sader, *Do “One-Stop Shops” Work?* Foreign Investment Advisory Service (World Bank Group) September 21 2000

Constraints to Effectiveness

This first iteration of a Cairo OSS largely failed, its effectiveness constrained by several key challenges. Although the Cabinet of Ministers’ intended to unify investment management by making GAFI the administrative authority responsible to serve investors, its power and scope of authority were limited. A key problem for GAFI and the nascent OSS between 2002 and 2004 was the lack of a stable “home”. During this period, the affiliation of GAFI and the OSS varied. Sometimes it reported to the Prime Minister, sometimes to the presidency and at other times to the Ministry of Economy. In 2004 the Ministry of Economy was eliminated and a powerful new Ministry of Investment took over a broader range of functions.

Second, the OSS lacked the practical authority to override existing procedures. It was assigned the task of collecting necessary approvals, permits and licenses from the appropriate jurisdiction corresponding to their investments. However, on a practical level, the establishment procedures under the two laws remained the same, making the OSS a “one more stop shop”. The staff of the OSS lacked knowledge, competency, training and authority to grant approvals or licenses, so were not able to help investors accelerate the process. Representatives from official entities did not have the necessary competencies or authority to grant approvals or licenses. Thus they essentially functioned as forwarding agents for their agencies and in some instances the liaison officers did not have the sufficient legal knowledge to respond to investors’ inquiries.

Third, the OSS at GAFI served only one group of investors, those applying for incentives spelled out under the Investment Law 8 of 1997. In this case, business registration also entitles investors to incentives spelled out in the Law.⁷ Establishment procedures required that the investor complete the establishment contract in front of a lawyer and that the investment activity has to fall within the activities stipulated in the Law.

Other investors continued to have to establish their firms with the Companies’ Authority (in a different location) under law 159 for 1981 (with different procedures). In this case, registration under the Companies Law required the investor to apply directly to the Companies Department and an approval did not lead to the automatic application of benefits. Also, establishment procedures relied on “the notification system” where the investor presents a request and if within 15 days, he does not obtain a rejection, his request is approved.

Fourth, although the initial OSS gathered together only a limited number of relevant entities including the Public Notary, the Commercial Registry, the Syndicate of Law, and the passport authority, there were no concrete accompanying efforts to streamline or simplify procedures or to change the underlying bureaucratic system. Of the many entities whose approvals were required, there were only between 9 and 11 entities represented at the OSS between 2002 and 2004.

Overall the OSS was merely a concentration of some of the relevant entities, which continued to have overlapping and sometimes duplicative responsibilities. The net effect was that the early OSS did not ease the burden of business registration for the investor.

⁷ Law 8 of 1997 was designed to encourage domestic and foreign investment in targeted economic sectors and to promote decentralization of industry from the Nile Valley area. The law and its executive regulations and amendments provide over 20 investment incentives. regulates companies (regardless of their legal form) in several specified activities such as agricultural, poultry and animal production, industry and mining, hotels and tourism, transport, oil, housing and infrastructure, hospitals, some financial services firms, projects funded by the Social Development Fund. This Law allows foreign investors to own any amount up to 100 percent in projects in most sectors. Companies (foreign or domestic) established under this law benefit from tax holidays reduced custom duties, guarantees against expropriation and sequestration, guarantees regarding foreign exchange and guarantees regarding repatriation of capital and profit. It also regulates the regime of the Free Zones (public and private)”.

According to users of the old OSS, it could take anywhere from 10 to 140 days to establish a business.

In addition to the delays, there was an issue of culture. The dominant culture in GAFI and other entities involved in approvals had always been that of regulators, carefully screening out unworthy or unwise projects and cautiously avoiding potential deviation from the rules. The notion of customer service was still fairly foreign.

A New Beginning: Re-Orientation of the Government and GAFI in 2004

2004 was a significant year of reform in Egypt. It was a year of new laws and policies, a new Government, and new leadership. Following sluggish economic growth, a large and growing fiscal deficit, uncoordinated monetary and exchange rate policies and a low degree of business confidence during the five-year term of the previous Prime Minister, a new Government was formed in July 2004. The reshuffle brought in as Prime Minister Ahmed Nazif, the former minister of Telecommunications and Information Technology, who had a strong reputation for integrity. It also replaced a number of older politicians with well-regarded young economic liberals and prominent businessmen, especially in key economic posts. This dynamic, reformist economic team included:

- Dr. Youssef Boutros Ghali as the Minister of Finance. Dr. Boutros Ghali was previously the Minister of Economy and Foreign Trade, Economic Advisor to the Prime Minister and the Governor of the Central Bank of Egypt, and an IMF senior economist.
- Dr. Mahmoud Mohieldin as the Minister of Investment (a new post that subsumed many economic and investment functions). Dr. Mohieldin was previously an academic, researcher and economic advisor to the Government, and an ardent and eloquent advocate for reform.
- Rachid Mohamed Rachid as the Minister of Foreign Trade and Industry (who was formerly a dynamic private sector businessman).

This new cohesive group shared common goals and culture, valued teamwork and had always advocated economic policy reform. It launched dramatic tariff and tax reform early on, signaling a sea change in policy.

Just prior to the change in Government, a new law (no. 14/2004) had been introduced amending the Investment Law no. 8 of 1997, which fundamentally changed GAFI's mandate and business establishment procedures. The law reoriented GAFI, which had had a mix of regulatory and promotional functions, into an investment facilitation and promotional agency. With this change, GAFI became the sole body which all investors – domestic and foreign, large and small -- need to address in order to establish their companies. GAFI's mandate called for assisting investors in a variety of ways and act on their behalf of with related governmental agencies to provide the following:

- All licenses and approvals required for the establishment and operation of a project are obtained by GAFI on behalf of the investors; e.g. notarization of related deeds, issuance of residence permits and work permits.

- Investors’ assistance for site selection and land acquisition-whether for agricultural, industrial or tourism activities.
- Certification of the dates of commencing production and helping investors to take full advantage of the tax holiday granted according to location.

Under this reform, the Companies’ Authority which used to establish companies under law 159/191, was abolished and GAFI was mandated to perform registration procedures for both Law 159 for 1981 (non-incentive) and Law 8 for 1997 (incentive) companies. Other functions included issuing licenses on certain tax and custom exemptions granted to investors. These licenses are to be considered final and operative and would not need an approval from another entity. The law required all state entities to provide GAFI with all necessary data and information, as well as maps for available investment locations.

A new leader

A presidential decree⁸ provided for the appointment of a new chairman of GAFI. The choice was Dr. Ziad Bahaa El-Din, a young intellectual and reform-minded lawyer who was to play a catalytic role in transforming GAFI. In his diverse career, he had served as a legal advisor to the Government on trade, commercial law and capital markets, written several key commercial laws, both taught and practiced law, represented many prominent private clients, and published extensively. Dr. Bahaa El-Din recognized that red tape was “strangling investments” and promised reforms to cut through it.

The new law also changed GAFI’s governance. Three vice-chairmen were selected (of whom two were men and one was a woman) each with specific responsibilities. They are all appointed for one year terms on a renewable basis. GAFI was given an enlarged board of directors eleven members, with membership of the three vice-chairmen and of eight investors and other experienced persons. Unlike other public agencies in Egypt, and signaling the sea change in thinking, the majority of the Board came from the private sector. GAFI also established a board of trustees that includes representatives of investors, exporters and entities providing services to investors. This board reviews investment problems and gives advice to GAFI on investment issues related to policies, strategies, laws and investment promotion.

Changing the status quo – Re-making the One-stop Shop

Dr. Bahaa El-Din approached his new job enthusiastically, yet it was hard to underestimate the challenges. On the one hand, he had the strong support of the new Government, including his influential Minister, to remake GAFI and the OSS. GAFI had substantial resources and dedicated revenue from its investment zone operations. And it had the authority granted by the new investment law to assume unprecedented responsibility in business registration and licensing.

At the same time, he was working both internally and externally with a bureaucracy more accustomed to regulating the private sector than assisting it. Coordinating the functions

⁸Presidential Decree #316 of 2004

of the many agencies and Ministries still involved in business start up, appropriately staffing and motivating a new office, dealing with investors in a way that kept their life simple yet accomplished the regulatory goals of Government, reducing corruption and speed payments, and dodging the shortcomings of other OSSs numbered among the challenges confronting him.

As he sat and pondered this challenge, a series of questions occurred to him:

1. How can I characterize the mission of the new OSS?
2. Do I directly address and rework the bureaucratic procedures in business start up or try to bypass them?
3. In the new, client-oriented OSS, should I hire new staff to run the OSS or try to retrain and re-motivate the existing staff? How do we avoid the delays and corruption endemic to past business start up procedures and approvals in the past?
4. How should the OSS work internally? Even if all relevant agencies are under one roof, what should the process look like, from the point of view of an investor?

Arriving at a sound strategy for the new OSS would be critical in facing the challenges ahead.

The Case of the Cairo One-Stop Shop (B)⁹

A new mission. Dr. Ziad Bahaa El-Din clearly understood that for GAFI to improve and promote Egypt's business environment, it must make a "transition from regulator to promoter/facilitator that will focus on company registration and licensing, one-stop shops, free zone management, a potential investor facilitation service, investor aftercare, research and information and policy advocacy."¹⁰ The head of the one-stop shop defines its mission as being "to transform Egypt into an investor-friendly destination."¹¹ Its main purpose is to facilitate investors' dealings with registration and licensing authorities by concentrating them in the premises of the OSS itself as well as to streamline and coordinate the process with the different ministries and agencies involved whose approvals are not located in the OSS. For the OSS, a new business model was developed that treated the investor as a client, and sought to create the most convenient experience for the client. Thus, the reforms implemented not only took on the complexity and length of procedures that Government applied to new businesses and investments, but also vastly improved the investors' experience of dealing with those procedures and the officials who administered them. Key elements of the transformation included:

1. Institutional and Legal Reform
2. Streamlining Procedures
3. Restaffing, Reskilling and Re-motivating
4. Decentralizing

Institutional and Legal Reform. The most important legal reform shaping the new OSS was the 2004 revision of the investment law, which merged GAFI and the Companies' Authority into a single entity responsible for establishing all businesses while at the same time unifying several of the establishment legal procedures. Since 2005, companies' statutes have been published only in the GAFI Investment Gazette. Furthermore, the passage of a new Code of Commerce, Customs law and a new Tax Law eliminated many of existing differences between firms of different types.¹² The Minister of Justice also

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¹⁰ Comments at the "Egypt: Open for Business" Conference in New York City, March 16, 2006.
<http://www.amcham.org.eg/Operation/Events/Conferences06/NewYorkConf/nyc.asp>

¹¹ Hassan Fahmy, general manager of GAFI's Investor Reception and Advice Department, commenting in Business Today Egypt "One-Stop Investment Shop" June, 2005.
<http://www.businesstodayegypt.com/article.aspx?ArticleID=5282>

¹² For example, the June 8, 2005 Unified Income Tax Law (Law 91 for 2005) reduced the corporate tax rate from 42% to 20% (except for oil companies, which taxes are at 4.55 %). The new legislation eliminated exemptions and tax holidays stipulated in Law 8 for 1997, with the exception of cultivation and land reclamation, animal breeding, fisheries and bee-hiving. The exemption cancellations were not applied retroactively.

issued a decree to unify the two Public Notary offices instead of having a separate office for each law. Moreover, a new unified Companies' Law is under preparation and it aims to unify establishment procedures between the two Laws authorizing company establishment.

Streamlining procedures. GAFI's revised mission cast many former "standard operating procedures" in a new light. Dr. Bahaa El-Din suggested

*You must first determine your role and what you are trying to achieve by each step. For example, for 30 years, you had to submit a feasibility study of (an investment) project – why? As a facilitator, why should I worry? If it's a bank or brokerage firm, there are different regulations. We are here to establish companies, not to establish their viability. What I am trying to achieve by rules – eliminate every step and constraint that has no reason -- and to eliminate duplication. Also, any restriction that can be avoided completely by legitimate means should be eliminated ... [and we should] eliminate any rules or requirements with no foundation in law."*¹³

By 2006, GAFI had managed to "deregulate" more than 40 different start-up procedures. This did not mean bypassing or abandoning central Government functions. "It doesn't eliminate the functions of the State," noted Dr. Bahaa El-Din, "The Ministry of Health can't stamp an approval of a new medicine (in the OSS)." But there was a systematic effort to streamline necessary functions and to eliminate unnecessary ones.

Before and after the opening of the new Cairo OSS, Dr. Bahaa El-Din was engaged in re-working the procedures involved in business registration to streamline them and smooth the procedural flow. "My work is about pieces. The cumulative effect makes a difference". Dr. Bahaa El-Din says that the redesign of procedures is "plumbing work – the details are what kill."

A central innovation introduced in the new OSS was the separation of the "front" and "back" office. "Investors should stay at the front office. You have to limit points of contact. This has an amazing effect on corruption. It took lots of time [to communicate this concept to officials] – those applying the rules are part of the discussion – you have to understand [their] logic." By matching each investor (or investor's representative) to a single GAFI officer who walks the investor through the entire registration process, by providing all services through one window where required documents are submitted, and by combining all required payments into a single bank window transaction, the process is greatly simplified for the customer and most opportunities for requests for or offers of speed payments are eliminated. The approvals are done in the "back" office by officials who now have no contact with applicants.

Easing post-establishment procedures and regulations have also helped companies to start operations at a much earlier date than anticipated. One of the major improvements was to allow investors to start operating their businesses immediately by granting them temporary licenses, before receiving final approval for their companies (pending security

¹³ The quotations in this section, unless otherwise cited, are from an interview granted by Dr. Bahaa El-Din, conducted in mid-2006 by Andrew Stone.

clearance).¹⁴ If the investor is granted a temporary license from GAFI, then no entity is allowed to either stop his activities or to refuse to grant him any required licenses. The permanent license is to be granted once the security clearance is obtained. In another reform, new rules promulgated by GAFI have allowed amendments in the legal statute of companies (articles of foundation) to be approved within only one week, by presenting a final request accompanied with necessary attached documents to the OSS. This is a key step in facilitating company expansions, mergers and acquisitions.

Restaffing, reskilling, remotivating. Dr. Bahaa El-Din used a combination of new staff and existing staff in the new OSS. New staff were taken on to deal directly with clients in the “front office” – where a client orientation and excellent investor-relation skills were at a premium. But for many other posts, existing staff were utilized. The key was to use the mechanisms and levers available to encourage a culture of professionalism dedicated to client service and performance. Introduction of a new promotion system based on the merit and qualifications replaced the old seniority-based system. Non-performing staff were made redundant or reassigned. “We jump-started a program of promotion of better-qualified people. Of 12 departments, 8 heads are new. I did get some consultants from the outside but didn’t create a parallel system – I try to promote people from within. To motivate GAFI staff, Dr. Bahaa El-Din took advantage of GAFI’s autonomous financial structure to raise salaries “30% across the board plus an incentives system of up to 20% of salary”. To increase output (and justify the higher salaries), he extended the workday by 1.5 hours. Working hours extend from 8 a.m. until 4 p.m. Staff stop accepting new registration requests at 3 p.m. to start finishing up the day’s paperwork.

Box 1: Lowering the price of legal services

When investors complained about the high fees charged by the Cairo Syndicate of Lawyers, Dr. Bahaa El-Din brought in competition. “We opened another office [representing another] syndicate of lawyers – we found that the Giza lawyers stamp paper for one half the price.” Then, in 2006, GAFI organized a training course for 300 young lawyers on company registration to expand the supply of qualified professionals who could assist investors and to weaken the monopoly power of established firms.

Yet only half the staff of 400 in the OSS worked directly for GAFI; another 200 worked for other agencies. “I don’t have administrative authority over the others. – if they’re not doing their jobs well, I can’t fire them.” says Dr. Bahaa El-Din, “But we can give incentives – for example, buses. I included these 200 people in transport [for OSS workers]. Bonuses – they’re part of it. When the FDI figures came out, [the Minister] granted one month bonuses.” As a result, these officers were more willing to conduct their administrative work quickly and professionally, in line with the OSS’s overall objectives.

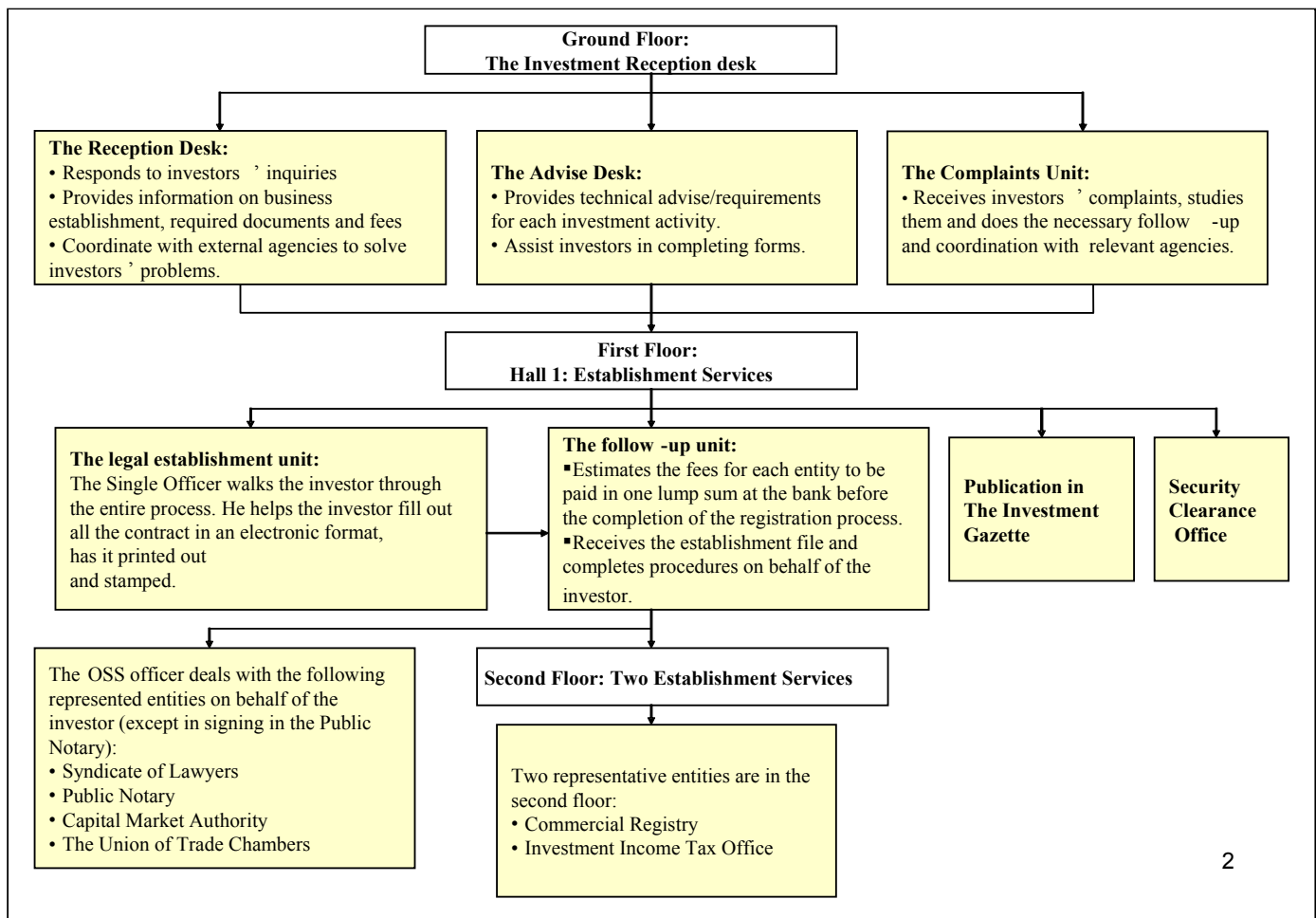
Finally, the OSS implemented a system of internal quality control. Progress is monitored according to key data such as the number of firms registered, enquiries answered, and other key performance data. This information can then be linked to personnel decisions.

¹⁴ The new system has been initiated based on clause 54 of the Investment Law 8 of 1997 and its amendment in 2004.

Decentralization of decision-making has enabled more rapid and responsive customer service. The Chairman of GAFI has delegated his power of attorney to directors in the second-tier of management. For example, in the Cairo OSS, the director of the establishment unit can sign on his behalf on establishment contracts up to a maximum of a capital of USD 8.7 million.

Financial Autonomy has facilitated GAFI’s ability to offer services and motivate employees. GAFI as a quasi-autonomous economic authority has its own financing sources that allow the organization to have some discretion regarding hiring, salary increments and incentives. GAFI is currently financed by free zones receipts, of which a portion is allocated to the management of the OSS. Although the OSS does not collect fees for facilitating business registration, it does collect fees for some investor services, such as publication of company articles in the investment gazette, the ratification of the Minutes of Board of Directors and of ordinary or extraordinary General Assembly meetings as well as some fees for administrative services such as photocopying. The OSS also collects dispute settlement fees amounting to around US\$ 520. At the same time, the different authorities collect fees for the services they provide (the Commercial Registry, the Public Notary, the Syndicate of Lawyers collect their own fees).

Figure 2: Functions within the One-Stop Shop



How the new OSS works. After consulting with private investors early on (and through the newly constituted board), and after broad internal efforts to organize the functions of the OSS, the process of launching the OSS was begun. The Cairo OSS began operating in late December 2004, and moved into its new headquarters in Salah Salem in January 2005.

The Cairo OSS is well-organized and features an attractive and modern layout beginning with a welcome centre on the ground floor (figure 2). At the front desk are a staff of multilingual assistants and three legal counselors.¹⁵

The investor entering the office first encounters the front desk. It responds to investors' inquiries concerning investment guarantees and incentives for both laws 8 for 1997 and 159 for 1981. In 2005, the desk received 35,021 inquiries of which 27,452 were answered at the reception desk and 7,479 were referred to the advise desk. The front desk also provides information on business establishment, required documents and fees. A complaint unit receives investors' complaints, examining them and doing the necessary follow-up and coordination with relevant agencies. It is important to note some complaints are directly addressed to the Chairman's Office. All these complaints are handled by the Central Administration for Investors' Care at no cost to the investor. This unit received 132 complaints in 2005 of which 129 were resolved.

An investor starting a business proceeds from the front desk to the the second floor. Hall 1 in the first floor provides the necessary services for establishing a business. The investor does not need to go any place else to start up a business and he deals with only one window to input the required data in the establishment contract. A GAFI single officer walks the investor through the entire registration process. Services are provided through the single window where required documents are submitted and the follow-up on the outcome is also provided. Completing documents in the new OSS is automated to reduce the time lost in filling out long duplicative forms. The digital templates for establishment contracts replaced old hand-written formats, accelerating the process. Prior to this, the investor had to purchase printed forms to be completed manually then have them revised by a specific department.

Aside from the legal establishment department, other parts of the departments on the first floor cover follow-up, publication in the investment gazette and security clearance.

¹⁵ In spite of these efforts, a few users interviewed for the case study still complained that staff at the reception desk are not sufficiently well-informed.

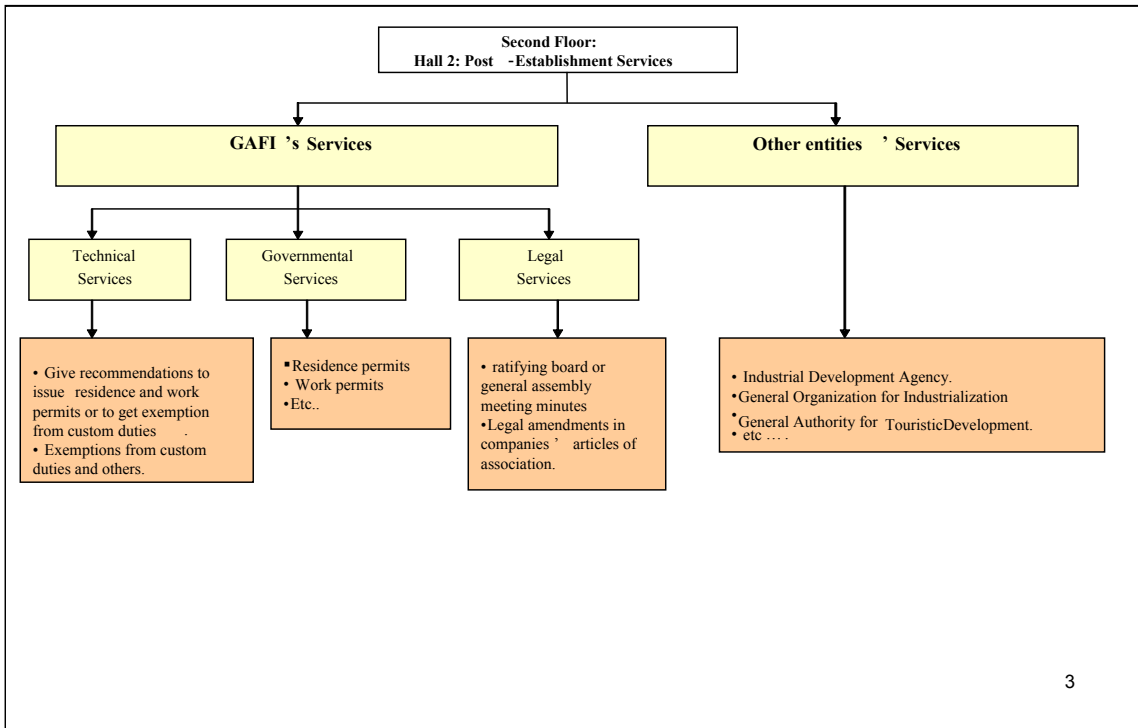


Figure 3

Hall 2, on the second floor provides post-establishment services rendered both by GAFI's technical sectors (such as recommendations to issue residence and work permits or exemption from custom duties) as well as those by other entities represented at the OSS (passport department, tax authority, Office of Issuance of Work Permits for Foreigners...etc).

Representatives from 34 government agencies now work in the OSS to serve investors.¹⁶ Aside from those involved in registration, GAFI has also encouraged other relevant entities to set up a representation at the OSS premises.¹⁷ In contrast with the old OSS, many more entities are represented and several of them have delegated authority to make approvals or issue licenses in the OSS that are required for the establishment of a business.¹⁸ In the establishment department, six entities have delegated power to grant approvals or licenses.²

There are also 27 entities providing post-establishment services. Examples of these services include such as the ratification of the company's board, of its general assembly meetings minutes or of amendments in the commercial legal status of the company, issuance of passports, issuance of work permits, and issuance of a taxpayer i.d. A

¹⁶ Including but not limited are representatives from Ministries of industry/ health/ social affairs/ housing/ agriculture/ water resources/ tourism/ communication/ electricity/ transport/ finance/ interior/ planning/ labor/ environment.

¹⁷ As provided for in the new law 13/2004 in clause 51.

¹⁸ Initially, the OSS started with a representation with 32 agencies but two more agencies were added recently: the Investment Post Office and the General Authority for Social Insurance.

representative of the Department of Defense, which must sign off on construction on new land and any project in Sinai, is also on the premises.

In all, representatives of the following nine entities have been delegated approval authority:

1. The Capital Market Authority
2. The Office of Investment Authentication
3. The Public Union for Trade Chambers
4. The Syndicate of Law
5. The Investment Tax Office
6. The Commercial Registry
7. The Sales Tax Office
8. The Office of Issuance of Work Permits for Foreigners; and
9. The Passport Department.¹⁹

However, other agents lack the autonomy to act or give approvals without resorting to their parent ministry. In these cases, GAFI acts as a window to receive applications and to forward them to the responsible Ministry or agency. This is the case, for example, for the Ministry of Interior, the Ministry of Tourism, and the Ministry of Agriculture. In this case, instead of having a delegate with approval authority, the relevant entity assigns a liaison officer, who receives the requests, sends them to the Ministry and is responsible for the follow-up and delivers them at the OSS to the investor.

Finally, a committee for dispute settlement has been created to investigate and solve investors' complaints and disagreements with other government bodies. The committee, which has on it representatives of relevant entities, is convened every week to look into the problems that arise. According to users of the OSS, this fee-based mechanism provides a quick and effective means to solve problems. In order to ease procedures, the precedents established by recommendations issued by the committee are used for similar cases so that they are not discussed again. Moreover, if the investor faces a problem with an entity that is not represented, the committee takes responsibility to address it and follow up on the problem.

¹⁹ As will be seen later, not all of these entities have the power to perform ALL services on behalf of their entity.

BOX 2: A View from the Manager of the OSS

“Setting up a company at the One-Stop Shop is a reasonably simple, three-stage process. First, staff direct investors to the information and inquiries counter at the building’s entrance. Friendly customer-service representatives can orient would-be business owners in Arabic, English, French, German or Japanese. ...Investors may also contact the information desk via fax, phone, e-mail or post — and we do get back to anyone who contacts us.”

[Hassan] Fahmy says the first stage is one of the most important “because it is here that the investor is told specifically what is required in order to get his particular project registered. We can also provide investors with valuable preliminary information and contacts in areas including land acquisition, financing and taxation.”

“I told my staff when we first began here that I don’t want them to turn into the traffic police, merely directing people to go here and there,” he adds. “I made it clear that they were here to provide a value-added service, which means giving answers and offering real solutions to problems. I don’t want people to leave this counter feeling lost. They have to have answers.” Everyone at the information desk has been through extensive customer service training both in Egypt and abroad.

Once the documentation is ready and the investor has an understanding of the legal requirements, he or she proceeds upstairs to the second floor, where the actual registration area is located. GAFI’s registration department looks more like the customer-service area of a particularly busy bank than yet another government outpost.

Registrants are matched up with one of nine registration services specialists who will then take the company through the entire process. The attendant helps the investor fill out all the necessary contracts online, then has them printed and stamped. Before the One-Stop Shop, all those contracts would then have to be taken to the Commercial Registry Office section for re-registration. Now, an agreement between the Commercial Registry Office and GAFI sees the investment authority signing and stamping the contracts on the registry’s behalf.

With the registry stamps firmly affixed to their documents, investors then head to the registration follow-up desk, which calculates the total registration fees the investor owes. The last phase is payment of the fees themselves at a Bank of Alexandria office on GAFI’s premises. Investors then take their receipts back to the registration desk and the job —so far as the investor is concerned —is essentially done.

“It really couldn’t be easier,” Fahmy says. “The only reason that it might take more than one day to register a company is that we currently have a lot of registrations to process. You might submit your papers, fill out your contracts and pay your fees today, but we don’t necessarily have the time to process all the papers and give you your final documentations and contracts on the spot. So we tell the investor to come back within 48 hours. If you catch us on a slow day, however, the paperwork will be taken care of on the spot,” says Hassan.

Interview with Hassan Fahmy, general manager of GAFI’s Investor Reception and Advice Department, which runs the One-Stop Shop reported in Hadia Mostafa, “One-Stop Investment Shop” [Business Today Egypt](http://www.businesstodayegypt.com/), June 2005. <http://www.businesstodayegypt.com/>

Achievements

All of this redesign would be unimpressive if it did not yield results. And the result for investors has been a simpler and faster process for starting a business. For Egypt, it has also meant an increase in the number of formally registered enterprises.

A key achievement is a dramatic simplification of business start up. From the investor's perspective, the number of procedures was cut from 19 to 3 steps. They are:

1. The investor presents the required documents to the establishment unit to revise the establishment contract with GAFI's lawyer. He also manually and separately fills several applications for different entities involved in the registration process.²⁰
2. The file is then transferred to the follow-up unit officer to estimate the fees for each entity involved in the registration process. The fees are paid in one lump sum at the branch of the Bank of Alexandria on GAFI's premises. Investors then take their receipts back to the registration desk.²¹
3. The GAFI follow-up officer undertakes and concludes the procedures with the following bodies:
 - Lawyer syndication.
 - Capital market authority.
 - The Public Notary.
 - Union of Trade Chambers.
 - Commercial Registry.

After these 3 steps, the contract is ready to be signed by the investor or his lawyer. The decree establishing the company is immediately issued followed by the Commercial Register of the company. Today, an investor can complete all requirements at the OSS in one day, and expect to receive the certification by express mail about two days later. In most cases, the investor need not visit any other office.

GAFI records indicate that, since the establishment of the OSS in 2005, the average amount of time it took to register a company dropped from an average of 34 days (and up to 140 days) before 2004 to three days. This is all the more impressive, since Law 8 company registrations also entails screening of eligibility for fiscal incentives.

²⁰ These documents include applications related to the Commercial Registry, Capital Market Authority, Investment Gazette and Chamber of Commerce.

²¹ Payment is made at this early stage because entities need to receive their money before rendering their service.

As to other services, digital copies of the Commercial Registry are now issued on the same day while the old hand-written format used to be issued in five days. Ratification procedures (of minutes of board and general assembly meetings) are now obtained on the same day instead of after five days.

The number of businesses established by investment law

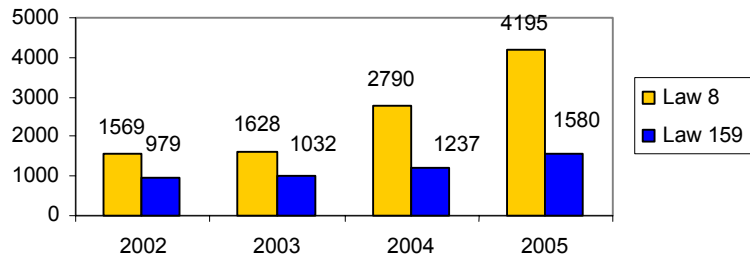


Figure 4

Over the 6-month period July 1, 2005 until December 31, 2005, minutes of 2,391 general assembly meetings and 4,403 board of directors meetings were ratified.

The total number of businesses registered in Cairo rose dramatically (figure 4) to more than 5,700 businesses in 2005. It is important to note that the OSS did not register companies under law 159 prior to 2005, as they were established in the Companies' Authority. The number of companies established under investment law 8 for 1997 (the incentive law) has been constantly and strongly increasing since 2002 while the number of companies established under law 159 for 1981 (the non-incentive law) experienced a smaller increase.

The number of businesses established by capital participation

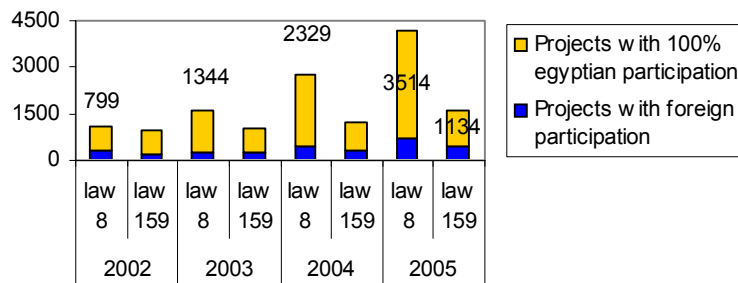


Figure 5

Since 2002, the majority of established companies were projects with 100 percent Egyptian participation for both laws (figure 5). However, the establishment of the OSS in 2005 appears to have triggered a surge in the number of established projects with full Egyptian participation under law 8 for 1997. (One possible explanation is that the OSS encouraged Egyptian firms to

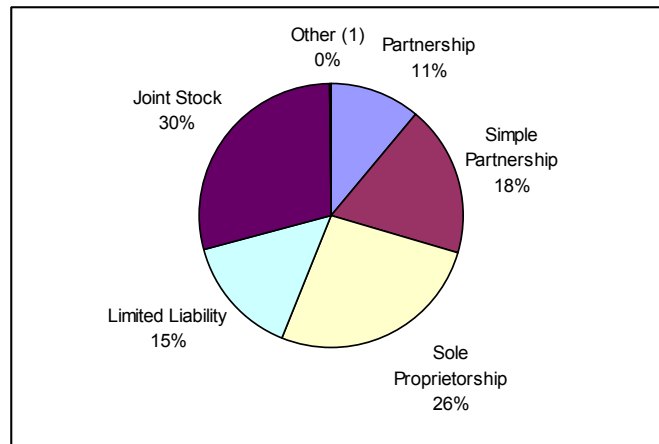


Figure 6

formalize).

Starting in 2005, with the elimination of a separate Companies' authority, companies of all types registered at the GAFI OSS in Cairo. The most popular forms were simple partnerships, sole proprietorships and joint stock companies (figure 6).

Challenges going forward

Although the OSS has achieved an important streamlining of procedures for business start-up, some challenges clearly remain to facilitate new investment and company formation.

First, some projects need a prior approval from other authorities (for example, some tourism and health projects). Some cannot be established at GAFI's OSS including those partnership and sole proprietorship that are investing outside the scope and activities under investment law 8 for 1997 (such as trade and consultancy firms). In addition, GAFI can establish some, but not all financial services firms as certain firms must be established at the Capital Market Authority (according to law 95/1992) where registration is said to still be very bureaucratic.

Second, while there is a representation of the Syndicate of Law at the OSS, lawyers dealing directly with the local syndicates get to register the businesses their fees at a subsidized rate (up to 50-60 percent of the fees). Actually, part of the fees paid by the investor is returned to the lawyer to encourage the latter to register at the local syndicates and relieve the pressure off the Syndicate of Law.²² Lawyers who register at the GAFI OSS do not benefit from this. Therefore, lawyers prefer to register at the local syndicate outside the OSS. The GAFI chair has tried several approaches to enhancing legal services. GAFI tried to work around this and have the lawyers benefit from this subsidy by giving them a letter that they have to present to the local syndicate. Nevertheless, the subsidy given in the Giza syndicate (60 percent) is higher than the subsidy given at the Syndicate of Law at the OSS.

Third, GAFI does not have administrative authority over all of the entities represented at the OSS. While the GAFI staff is trained to deal with investors, i.e. to serve them in a friendly and time-effective manner as well as provide them with accurate information they require, some staff continue to display the same bureaucratic mentality, lack of expertise or simply an indifference to client service that characterized much of Egyptian bureaucracy before the OSS.

According to OSS users, there are two main bodies that continue to follow the old rules and procedures subjecting clients to painful red tape. One is the Public Notary. While his main role is just to verify the signature of people, some OSS patrons complain that the notary sometimes rejects or refuses to verify the signature "if the third middle name of the person is not mentioned in the establishment contract although it is fully written in their ID card." Moreover his employees examine the documents over again even though

²² Giza or Cairo other local syndicates.

GAFI has already revised them, signed the establishment contract of the business and stamped it. For some post-establishment services like amendments in the Commercial Registry that need to be documented by the Public Notary, the notary would go so far as to question the validity of the Commercial Registry and would require a recent official copy (not older than 6 months)²³. OSS suggest that notary service has become unduly rigid and bureaucratic since moving to the OSS, possibly due to a fear of being held accountable after some previous bad experiences. The second, the Commercial Registry is said to suffer from the same bureaucratic mentality. In addition to this, its employees have a cramped office space. Some requests take up to one day while, technically, they can be performed in one hour.

Not surprisingly, many users would like to see the OSS's administrative authority extended to additional functions and public entities. Where there is only a liaison officer, they would like to see a fully delegated agent with approval authority. Utility service connections, needed for business start up, remain slow and in the hands of independent entities.²⁴ Local officials remain responsible for construction permits and can sometimes impose other demands and delays. The civil defense sells mandatory fire extinguishers. In spite of the OSS's efforts to coordinate with all concerned entities, some of them can still take a lot of time to deliver their services. For example, tax cards from the income tax authority can take up to 15 days to receive.

“People over expected” says Dr. Bahaa El-Din. “[The OSS] doesn't eliminate the functions of the state. ... Simplification must continue.”

Nonetheless, within the confines of its authority, the OSS has achieved a remarkable sea change in performance and bureaucratic culture. This reform and others, combined with favorable economic factors, worked to sharply increase investment in Egypt. One sign of this was foreign direct investment, which rose from \$2.1 billion in FY 2003/04 to USD 3.9 billion in FY 2004/05 and USD 6.1 billion in FY 2005/06 respectively. Portfolio investment also jumped forward. Market capitalization of the listed companies in the Egyptian Stock Exchange increased from 33% of GDP in 2004 to more than 85% in 2006. And, as a final indication of success, in FY 2005/06 the Egyptian economy recorded a growth rate of 6.9% compared to 3.5% in the two previous years.²⁵

²³ The Commercial Registry is usually issued every 5 years.

²⁴ A recent World Bank survey of manufacturing firms suggests that it takes SMEs an average of over 90 days to get a telephone connection and over 100 days for an electricity connection, although large enterprises get these services much faster. Obtaining water connections can also be time-consuming, although experience varies widely.

²⁵ The data cited here is from Egypt's Ministry of Investment website:
http://www.investment.gov.eg/MOI_Portal/#

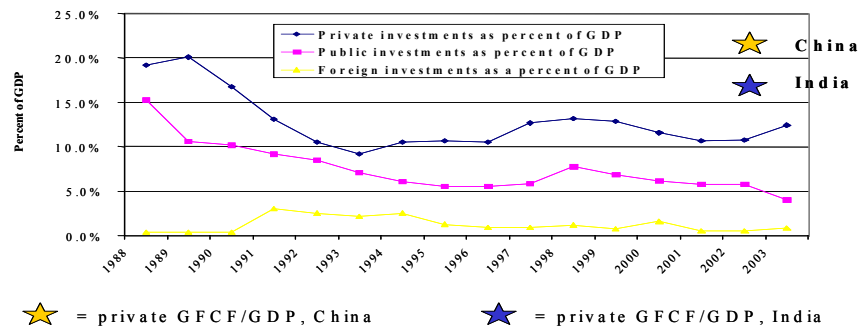


Cairo's One-Stop Shop

A Case Study
The World Bank
IMF-AMF Joint Seminar, Abu Dhabi,
December 19, 2006

The Starting Point: Stagnant Investment, Many Obstacles

Investments in Egypt



Starting a business could be a nightmare.

- *“Companies wanting to obtain a business license in Egypt can expect to wait up to one year while wading through a mountain of paperwork. Entire files are often lost and companies have to make special arrangements including under the table payments of up to 5000 L.E. to obtain a license. The time spent by an individual business men to obtain the license and the associated cost can not be readily determined. Business owners, however have to visit the various departments at different times for an average of 25 visits to obtain a license.”*



“Salama Fahmy and James Brown “One -Stop Shop A Case Study” (World Bank, PSD Forum 2006)

GAFI* Study

- Launching a new investment could involve as many as 22 ministries and 78 governmental entities.
- Administrative procedures were far too numerous and time consuming, many were redundant and some were inconsistent with each other.
- 349 services were required from investors (including approvals/permits and licenses both in the establishment and operating phases).
- There were 200 regulations for business licensing.



= General Authority on Investment and Free Trade Zones

OSS's: Possibilities, Pathologies



- An institutional substitute to bypass or accelerate dysfunctional procedures (like SEZs)
- Ideal: an investor contacts only one entity to obtain all the necessary paperwork in one streamlined and coordinated process
- Models: Singapore, Malaysia, Ireland
- Problems: resistance, fear of other agencies that OSS will curtail their mandate
- Should one office have that much power?
- If just a 'mailbox operation' – one-more stop shop
- Most important function: identifying administrative bottlenecks and working to remove them – advocacy.

See Frank Sader, Do "One-Stop Shops" Work? Foreign Investment Advisory Service (World Bank Group) September 21, 2000

The First OSS Attempt

- Cabinet of Ministers decided, in June 2001, to establish a One Stop Shop (OSS)
- Assemble officials from "all relevant government entities in one place."
- Presidential decree 79/2002 established an **OSS in GAFI in 2002** as well as branches of the OSS
- The OSS was to provide "all investment-related services": approvals, permits and licenses necessary to start and operate a business.
- Created a system of delegation and liaison officers for ministries and other affiliated entities.

The First OSS Attempt: challenges

- OSS power and scope of authority were limited.
- Lack of a stable “home”
- Lack of practical authority to override existing procedures
- Staff delegate to OSS lacked knowledge, competency, training and authority to grant approvals or licenses
- Served only investors entitled to GAFI-administered incentives under law 8 of 1997
- No accompanying efforts to streamline or simplify procedures or change the underlying bureaucratic system
- No change in bureaucratic culture, mindset



2004: A year of Reform in Egypt

- A new Government of Reformers – younger, more dynamic, more knowledge of economics and business
- Dramatic reforms – taxes, tariffs....
- Creation of powerful Ministry of Investment with dynamic Minister, Dr. Mahmoud Mohieldin
- New Investment Law –consolidated procedures for registration, licensing under General Authority on Investment ... (GAFI), empowering GAFI to obtain licenses, approvals required for establishment, operation of a project (e.g. notarizations, permits.)

New GAFU Chairman



- Dr. Ziad Bahaa el-Din
 - A young intellectual and reform-minded lawyer
 - Diverse career:
 - legal advisor to the Government on trade, commercial law and capital markets
 - Author of several key commercial laws
 - Taught and practiced law\
 - Represented many prominent private clients
 - Published extensively.
- Dr. Bahaa el-Din recognized that red tape was “strangling investments” and promised reforms to cut through it.
- Wanted to transform GAFI into a promoter and facilitator of investment.

The case: Dr. Ziad Bahaa el-Din considers his strategy.

- **New, modern OSS under construction in Cairo**
- **About six months to make the new OSS work.**
 1. How can I characterize the mission of the new OSS?
 2. Do I directly address and rework the bureaucratic procedures in business start up or try to bypass them?
 3. In the new, client-oriented OSS, should I hire new staff to run the OSS or try to retrain and re-motivate the existing staff? How do we avoid the delays and corruption endemic to past business start up procedures and approvals in the past?
 4. How should the OSS work internally? Even if all relevant agencies are under one roof, what should the process look like, from the point of view of an investor?

Cairo's One-Stop Shop



- GAFI Mission: shifted from investment regulation to investment promotion and facilitation.
- GAFI Assets: Strong political support (e.g. Minister of Investment, PM); Semi-autonomy; Revenue source from SEZs.
- OSS established in temporary headquarters in late 2004. Move to its permanent, modern office in early 2005.

Red tape, delays and corruption were reduced in several ways

- **Institutional and Legal Reform**
 - 2004 Law merged GAFI and Companies' Authority into one entity responsible for establishing all businesses, unified several establishment legal procedures.
 - Law authorized co-location. Now representatives of 32 agencies are in OSS, 9 with approval authority.
- **Streamlining Procedures**
 - 40 to 50 procedures were eliminated
 - Others were streamlined to cut costs, delays.

Red tape, delays and corruption were reduced in several ways (cont'd)

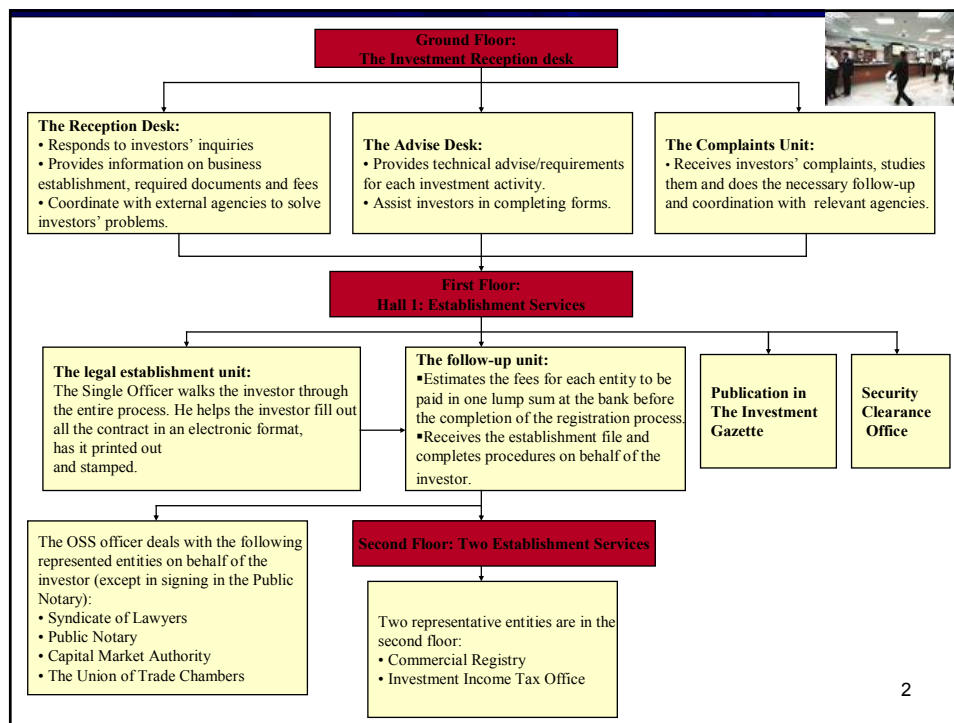
■ Re-engineering:

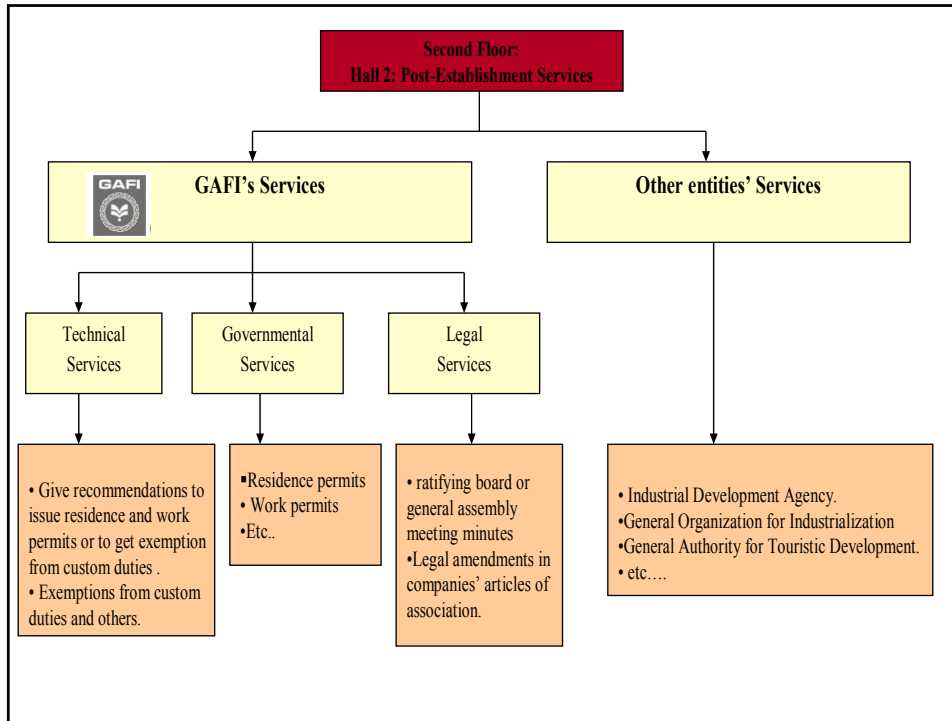
- Separation of “front office” and “back office” functions.
- Single document (“contract”), single payment.

■ Restaffing, Reskilling and Re-motivating.

- New hiring (esp. “front office”), pay and incentives, promotion, training, monitoring.

■ Decentralizing – delegating decision authority (especially important in branch offices)





OSS – Achievements and Limitations

Achievements

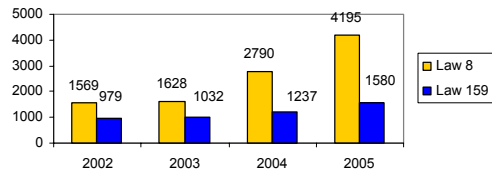
- 2001: Business registration took 34 days.
- January, 2005: New OSS established in Cairo.
- 2006: Average period for registration is now 3 days.

Limitations

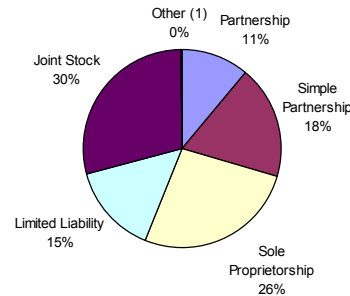
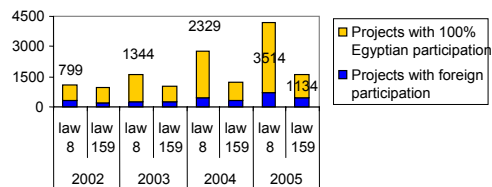
- Some projects need a prior approval from other authorities
- Problems regarding lawyers, notaries and Commercial Registry
- Doesn't fully cover (or accelerate) some start-up necessities like utility connections, fire extinguishers, construction permits (local), tax cards and some licenses.
- Publicity and marketing – not everyone knows about it.

Impact: Increase in formal registration

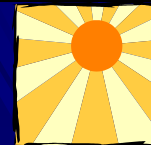
The number of businesses established by investment law



The number of businesses established by capital participation



Economic Outcomes



- This and other reforms combined to have a positive effect on investment and growth:
 - Foreign direct investment rose from \$2.1 billion in FY 2003/04 to USD 3.9 billion in FY 2004/05 and USD 6.1 billion in FY 2005/06 respectively.
 - Portfolio investment: Market capitalization of listed companies in Egyptian Stock Exchange increased from 33% of GDP in 2004 to more than 85% in 2006.
 - FY 2005/06 the Egyptian economy recorded a growth rate of 6.9% compared to 3.5% in the two previous years.¹

¹The data cited here is from Egypt's Ministry of Investment website: http://www.investment.gov.eg/MOI_Portal/#