

Nasser Saidi: Economics & Governance

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UAE Company Law Reform and the Cost of Doing Business

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H.H. Shaikh Khalifa Bin Zayed Al Nahyan, President of the UAE has issued a decree amending Federal Law No 8 of 1984, the company law. The amendment removes the minimum capital requirement of Dh150,000 for the establishment of a limited liability company (LLC) in the UAE and is retroactive to companies established on or after June 1, 2009 and allows new businesses to determine the capital required for the establishment and sustainability of their companies.

This is an important piece of legislation which provides incentives for SMEs and company formation and effectively lowers the cost of doing business. The result, over time, should be to encourage new business formation, spur entrepreneurship, increase domestic investment and promote foreign investment. However, in a more open and competitive global environment, where capital and entrepreneurs are mobile, we also need to measure how we stack up vis-à-vis other countries in terms of the incentives and costs of doing business.

The World Bank publishes an annual report comparing business regulations in 181 countries (<http://www.doingbusiness.org/>). The report ranks countries according to a number of criteria and indicators associated with the cost of doing business, including fees, charges, time, number of procedures and related:

- | | |
|----------------------|-------------------------|
| -Starting a Business | -Dealing with Licenses |
| -Employing Workers | -Registering Property |
| -Getting Credit | -Protecting Investors |
| -Paying Taxes | -Trading Across Borders |
| -Enforcing Contracts | -Closing a Business |

The amendment to the UAE company law addresses one aspect of the overall costs of doing business as represented by the costs of Starting a Business. In the past 5 years, 115 economies around the world have simplified business startup through 193 reforms. Many opted for low-cost administrative reforms requiring little or no change in regulation. Others went further, introducing or amending legislation. Abolishing minimum capital requirement, as the UAE has done, is considered by the WB as one of the top 5 reform features in the costs of starting a business. Some sixty-nine economies allow entrepreneurs to start a company without putting up a fixed amount of capital before registration. They allow entrepreneurs to determine what is appropriate for the business based on its type, the nature and risk of the activity and capital structure. The countries implementing such reforms have seen some of the biggest spikes in new company registrations. For example after Madagascar reduced its minimum capital requirement by more than 80% in 2006, the rate of new registrations jumped from 13% to 26%. Similarly, after Tunisia reduced its requirements, new company registrations increased by 30% between 2002 and 2006.

The table below shows a comparison between the top ten ranked countries in the world, the GCC countries and the UAE before and after the UAE company law reform.

**Ease of Doing
Business**

Starting a Business

Economy	RANK	Percentile	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)	Ease of starting a business (percentile)	Ease of starting RANK
Singapore	1	0.07	4	4	0.71	0.0	0.12	10
New Zealand	2	0.08	1	1	0.39	-	0	1
United States	3	0.12	6	6	0.71	-	0.06	6
Hong Kong, China	4	0.13	5	11	1.98	0.0	0.19	15
Denmark	5	0.16	4	6	-	40.1	0.21	16
United Kingdom	6	0.17	6	13	0.76	-	0.11	8
Ireland	7	0.18	4	13	0.29	-	0.06	5
Canada	8	0.19	1	5	0.47	-	0.01	2
Australia	9	0.2	2	2	0.84	-	0.02	3
Norway	10	0.21	6	10	2.10	21.0	0.27	33
Saudi Arabia	16	0.27	7	12	14.88	-	0.24	28
Bahrain	18	0.29	7	9	0.58	210.1	0.33	49
Qatar	37	0.37	6	6	9.15	75.4	0.35	57
Kuwait	52	0.42	13	35	1.33	81.7	0.6	134
Oman	57	0.43	7	14	3.64	461.2	0.42	76
UAE (pre-reform)	46	0.41	8	17	13.42	311.9	0.53	113
UAE (post-reform)	38	0.38	8	17	13.42	-	0.3	39
UAE (with additional proposed reforms)	35	0.36	5	5	2.00	-	0.06	5

We have run two simulation scenarios of the effect of reforms on the UAE's ranking in the WB league tables on the Ease of Doing Business and Ease of Starting a Business. The first scenario was to measure the rank of UAE after reducing the minimum capital requirement which represented some 312% of income per capita to 0%. As a result of the removal of the minimum capital requirement, the UAE's overall country ranking in the Ease of Doing Business jumps from 46 to 38 a very strong improvement. Its ranking in the Ease of Starting a

Business improves dramatically from 113 to 39.

The second scenario assumes that policy makers take additional reform measures by reducing the number of days for registering a company from 17 days to 5 days and reducing the number of procedures from 8 to 5 and reducing the cost (fees and charges) from the current estimated level of 13.42% of income per capita to 2%. As a result of implementing these additional reform measures, the UAE's ranking in Doing Business and Ease of Starting a Business improves respectively from 46 to 35 and from 113 to 5.

The amendment and reform of the UAE Company law is a major economic policy reform measure that will lower the cost of doing business, provide incentives for new company formation and registration –particularly for the SME sector- and improve the overall investment climate. The timing of the reform is also propitious as it provides a needed stimulus to business activity helping the country recover from the effects of the global 'Great Recession'. However, this is also the time to take additional reform measures to stimulate new business formation, including a one stop shop and one online registration procedures and other simplified registration formalities. More important would be the deeper structural reforms aiming at better enforcement of contracts and reforming insolvency law and procedures aiming at easing the costs of Closing a Business. We should aim at easing both entry and exit of businesses reducing cost and minimising uncertainty.