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HOUSE COMMITTEE ON FOREIGN AFFAIRS
May 21, 2013

Hearing:
“The Call for Economic Liberty
in the Arab World”



HARNESSING THE FORCES OF THE ARAB SPRING TO GENERATE GROWTH AND PEACE



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THE ILD HAS DRAFTED A REFORM STRATEGY AT THE REQUEST OF ARAB GOVERNMENTS AND PRIVATE ASSOCIATIONS

to enable them to remove the following overriding constraints in coordination with all 6 major interest groups:



Politicians



Armed Forces



Business/Finance



Media



Academia



Trade Unions

GROUNDBREAKING FACTS after 20 months of research

1. Tunisian street vendor Mohammed Bouazizi was **NOT ALONE** in 2010: **63 OTHERS ALSO LIT THEMSELVES ON FIRE** - across the MENA region.



2. All were extralegal entrepreneurs **PROTESTING AGAINST ECONOMIC CONSTRAINTS MAINLY "EXPROPRIATION"**.

3. **380 MILLION ARABS** live with that same fear - and millions went into the streets to demand change.

4. **NO ARAB GOVERNMENT HAS THE INSTITUTIONS** to remove the constraints and the sources of anger.

OVERRIDING CONSTRAINTS

that have to be addressed if growth is to be broad-based

1. MYTHICAL CONSTRAINT: many in the Arab world - and outside it - believe that Arab culture and a market economy are incompatible. As a result, there is insufficient political will to remove economic constraints.

ILD FINDING: : the Arab majority is already in the market - 380 million people in the MENA region derive their livelihood from it, without protection from the law. The reason they perform poorly is the lack of information, confidence and joining devices property rights and business law provide. Without these, it is impossible to use assets to obtain credit or capital, or to combine assets and talents so that the sum may be greater than the parts.

CONCLUSION: ENTREPRENEURS AND MARKETS DON'T PERFORM WELL IN MENA BECAUSE THEY LACK THE CRITICAL INGREDIENT FOR CREATING WEALTH - PROPERTY RIGHTS.

2. PROPERTY RIGHTS CONSTRAINT: only 8% of land in the MENA region can be used to collateralize credit. Only about 15% of Arab enterprises and families have access to the property rights that facilitate valuable combinations and protect them from the kind of arbitrary expropriation that triggered the Arab Spring.

ILD FINDING: the average Arab entrepreneur needs to present 57 documents and faces 2 years or more of red tape to obtain a legal property right over land or a business. If all these constraints were removed, annual growth could increase by 2% after 5 years

CONCLUSION: MENA PROPERTY RIGHTS SYSTEMS ARE NOT THAT BAD. THE ISSUE IS LEGAL APARTHEID: THE MAJORITY OF ARABS DON'T HAVE RIGHT TO THOSE PROPERTY RIGHTS.

3. PRE-INDUSTRIAL REVOLUTION CONSTRAINT: 1. from an entrepreneurial perspective, one cannot remove constraints by focusing on one or two government departments. Obstacles underpin the entire legal system. In Egypt, for example, to legally open a business requires dealing with 29 different government agencies and navigating 215 laws and regulations.

ILD FINDING: the challenge to removing these constraints is twofold: (1) adapting the whole system to a society that is in the midst of a transition from a premarket to a market order; (2) giving the majority not just better property rights but rights to property rights.

CONCLUSION: REMOVING CONSTRAINTS REQUIRES A DIFFERENT SET OF SKILLS THAN ADAPTING SOCIETY TO THE INDUSTRIAL REVOLUTION. FIGHTING ECONOMIC APARTHEID IS A POLITICAL RESPONSIBILITY AT THE HIGHEST LEVEL.

4. POLITICAL MOTIVATION CONSTRAINT: for any politician - even the most reform-minded one - to challenge the status quo carries extreme political costs. What makes them so high is the lack of procedures for systematically achieving consensus.

ILD FINDING: only by displacing these four categories of overriding constraints will Arab governments be ready to address their ultimate objective of removing their economic constraints to growth. To do that they have to complement growth techniques with the ability to manage a traditional society's transition to one that is compatible with the Industrial Revolution.

CONCLUSION: SINCE THE WEST HAS FORGOTTEN THE NUMBER AND SIZE OF INSTITUTIONAL REFORMS IT HAD TO IMPLEMENT TO ACCOMMODATE THE INDUSTRIAL REVOLUTION OVER THE LAST 150 YEARS, IT'S GOING TO BE A PRETTY LONELY VOYAGE FOR ARAB LEADERS.

SELF-IMMOLATORS DIED FOR PROPERTY AND THE RULE OF LAW

DECEMBER 17, 2010

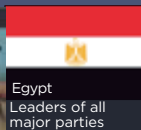


MOHAMED BOUAZIZI
FRUIT CART VENDOR

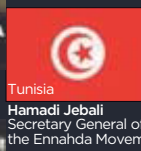
DECEMBER 21, 2010



MOHAMED MACHALLA
METAL MECHANIC



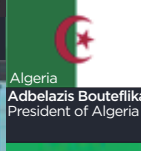
Egypt
Leaders of all major parties



Tunisia
Hamadi Jebali
Secretary General of the Ennahda Movement



Libya
Mahmoud Gebril
Leader of the National Forces Alliance



Algeria
Adbelaziz Bouteflika
President of Algeria



Mauritania
Meetings just initiated



FADOUA LAROU
REAL ESTATE OWNER



AHMED HASHEM AL SAYED
BUILDING CONTRACTOR

POLITICAL PARTIES ACROSS THE IDEOLOGICAL SPECTRUM HAVE CALLED

LARGEST BUSINESS ASSOCIATIONS TAKING THE LEAD



Maghreb
Board on Integration & Inclusion
(to be launched 2013)



Algeria



Tunisia



Morocco



Mauritania in process

ANTI-CONSTRAINT STRATEGY IS GALVANIZING SUPPORT THROUGH LARGE CONFERENCES OF BUSINESS PEOPLE, MEDIA BRIEFINGS AND UNIVERSITY WORKSHOPS



"THE MOST PROMISING ANTI-POVERTY INITIATIVE IN THE WORLD IS THAT BEING ADVANCED BY THE GREAT PERUVIAN ECONOMIST, HERNANDO DE SOTO"
BILL CLINTON, FORMER US PRESIDENT



INTERNATIONAL MEDIA IS PICKING UP



HEADLINES IN THE MIDDLE EAST AND NORTH AFRICA



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Harnessing the Market Forces of the Arab Spring to Generate Growth and Peace

Written Statement by Hernando de Soto for the Hearing
“The Call for Economic Liberty in the Arab World”

*A Proposal already under Discussion for Implementation by Arab Governments and
Private Sector Leaders that Would Increase Annual GDP Growth by 2%,
according to Egyptian and U.S. Estimates*

May 2013

The Arab Spring represents an unprecedented opportunity to remove the constraints to broad-based economic growth in the Middle East and North Africa (MENA). Few have realized that the persistent unrest in the Arab world is a symptom of a pro-market revolution sparked off by hundreds of small entrepreneurs protesting constraints such as expropriation. But removing these constraints cannot happen without dealing with the underlying causes behind these constraints. We refer to them as the “overriding constraints” or the main barriers to creating sustainable development in MENA.

It is conventional wisdom in the West that market-based entrepreneurship and investment are the primary drivers of economic growth. For broad based growth to happen in the depressed Middle East and North Africa (MENA) the economic constraints that get in the way must be identified and removed.¹

As Latin Americans involved in reducing transaction costs for governments worldwide, we at the Institute for Liberty and Democracy (ILD) could not agree more.² We know that most well-trained Arab elites also agree. (*See Annex 1 for our measurement of some constraints in MENA and, as an example, our estimate of the size of Egypt’s constrained economy*)

Why doesn’t Tunisia – and the rest of the governments in the MENA region – just get rid of “the **constraints to growth**”?

For us, there are two ways to answer that question:

First, the reason it has always been difficult to remove constraints to growth in developing and transition economies is because the real constraints are found at a higher institutional level. Another way of saying this is that western countries got good at removing constraints because they previously solved what I call the “overriding constraints to the constraints – what I want to call the “constraints to the constraints.”

Our second answer is what I imagine would have been what Mohamed Bouazizi would have replied – if, in addition to being the Tunisian street vendor whose public self-

¹ “Towards a New Economic Model for Tunisia: Identifying Tunisia’s Binding Constraints to Broad-Based Growth”; a joint study by the African Development Bank, the Government of Tunisia and the U.S. Government – commissioned by the Millennium Challenge Corporation (2013).

² *The ILD is a Peru-based, think tank and problem solving organization dedicated to understanding – through fieldwork – the extra-legal origins of market economies and providing developing countries with strategies to establish the rule of law.*

immolation on 17 December, 2010 sparked the Arab Spring, he reincarnated in your Congressional Hearing with a degree in institutional economics. I have the nerve to make this statement because just after his death we dispatched a team to Tunisia that ended up spending 20 months in the region to find out why someone would commit suicide after authorities confiscated a cartful of fruit and a used scale. In the course of our research, we located 63 more men and women who replicated Bouazizi's blazing protest within the first 60 days of the Arab Spring –in one country after another. Like him, they were all entrepreneurs, who had also been expropriated. We have their stories, not only because we interviewed their families, colleagues and their authorities, but also because we had the opportunity to interview many of the 37 who had survived.

Since you are politicians, you know better than I do that politics is as much about government as it is about people. That is why a day ago I tore up my long-winded professional testimony because Bouazizi's story really brings across what it means not to have property rights governed by the rule of law, something that Westerners take for granted. My plan is to touch on the professional angle in order to spend more of my limited time reporting to you what I learned from the Arab self-immolators.

I begin with what I want to call --

THE OVERRIDING CONSTRAINTS to MENA GROWTH – AND THEIR SOLUTIONS

We have organized these overriding constraints and solutions into four categories:

1. **MYTHICAL CONSTRAINTS:** Many in the Arab world – and outside it – believe that Arab culture and a market economy are incompatible. As a result, there is insufficient political will to remove economic constraints.

ILD FINDING: *The Arab majority is already in the market – 380 million people in the MENA region derive their livelihood from it, without protection from the law. The reason they perform poorly is the lack of information, confidence and joining devices property rights and business law provide. Without these, it is impossible to use assets to obtain credit or capital, or to combine assets and talents so that the sum may be greater than the parts.*

Conclusion: **Entrepreneurs and markets don't perform well in MENA because they lack the critical ingredient for creating wealth – property rights.**

2. **PROPERTY RIGHTS CONSTRAINTS:** Only 8% of land in the MENA region can be used to collateralize credit. Only about 15% of Arab enterprises and families have access to the property rights that facilitate valuable combinations and protect them from the kind of arbitrary expropriation that triggered the Arab Spring.

ILD FINDING: *The average Arab entrepreneur needs to present 57 documents and faces 2 years or more of red tape to obtain a legal property right over land or a business. If all these constraints were removed, annual growth could increase by 2% after 5 years.*

Conclusion: **MENA Property rights systems are not that bad. The issue is economic apartheid: the majority of Arabs don't have right to those property rights.**

3. **PRE-INDUSTRIAL REVOLUTION CONSTRAINTS:** From an entrepreneurial perspective, one cannot remove constraints by focusing on one or two government departments. Obstacles underpin the entire legal system. In Egypt, for example, to legally open a business requires dealing with 29 different government agencies and navigating 215 sets of laws.

ILD FINDING: *The challenge to removing these constraints is twofold: (1) adapting the whole system to society that is in the midst of a transition from a premarket to a market order; (2) giving the majority not just better property rights but rights to property rights.*

Conclusion: **Removing constraints requires a different set of skills than adapting society to the Industrial Revolution.** Fighting economic apartheid is a political responsibility at the highest level.

4. POLITICAL MOTIVATION CONSTRAINTS: For any politician – even the most reform-minded one – to challenge the status quo carries extreme political costs. What makes them so high is the lack of procedures for systematically achieving consensus.

ILD FINDING: *Only by displacing these four categories of overriding constraints will Arab governments be ready to address their ultimate objective of removing their economic constraints to growth. To do that they have to complement growth techniques with the ability to manage a traditional society's transition to one that is compatible with the Industrial Revolution.*

Conclusion: **Since the West has forgotten the number and size of institutional reforms it had to implement to accommodate the Industrial Revolution over the last 150 years, it's going to be a pretty lonely voyage for Arab leaders.**

WHEN THEORY MEETS REALITY: BOUAZIZI'S STORY

Let's begin with the widespread view that property and markets are not important to the average Arab. If this belief is left unchallenged, there is little likelihood politicians will put the task of removing constraints at the top of the agenda.

The only thing that can overpower a hypothesis that has lasted so long is factual evidence to reveal that it is a myth. Over the past 13 years of research in the MENA region to help governments remove constraints and create inclusive markets – involving 15 Peruvian and 120 Arab researchers and some 300 grassroots facilitators – the ILD has turned up enough factual evidence to discredit the argument that Arabs and markets are incompatible. In Egypt alone, the “constrained” private market accounts for between 40% and 68% of the nation's labor force, depending on how you count it, and 84% of businesses and 92% of land parcels. In fact, ILD has estimated that some 380 million Arabs derive most of their income from the constrained market.

How could something so big be so invisible? The simple answer is bad categorization. If business in any developing nation doesn't produce wealth, its government will consider it “informal”, “traditional”, “customary”, “tribal”, “cultural”, “refugee,” “micro” or simply the poor man's response to unemployment. Such enterprises get labeled as outside the realm of real business are then shelved and forgotten – disguised in official government statistics about the nation's economic activity. When poor entrepreneurs do get labeled as a proper business, the system gives them a legal status with none of the legal mechanisms that enable a modern business to scale up its operations, such as: property rights that facilitate buying and selling for combinations, limited liability, and asset sharing to reduce the risk of expropriation; the ability to make commitments to contractual documents instead of speech acts; a hierarchic structure independent from family or political organizations to divide labor among specific sub-functions submitted to a single-control system; limited liability to reduce risk and separate what is personal from business; perpetual succession so as to transfer capital and reputation over time; asset

partitioning to pull and distribute resources in the abstract without having to physically separate them; to issue shares representing property against investment; to create a moral personhood to establish a separate entity independent from its owners within which collaborative efforts can be objectively organized; asset collateralization to generate mortgages, guarantee credit, and encourage compliance by attaching owners to assets, assets to addresses, and addresses to enforcement.

Without these legal tools, there is no way an entrepreneur or an investor can be efficient in the 21st century. In short, what I'm saying is that the absence of property, the rule of law, and their benefits are the mother of all constraints. It is only when a society knows who owns what, what is where, and how to divide labor and combine talents and resources that it can call its economy truly unconstrained. Without property systems, entrepreneurs cannot hold, transfer, assess, certify value, and know that they and the rest of the world are playing according to the same rules, procedures, and standards. Property provides knowledge and connectivity; and without that, markets don't work.

The publication of such evidence earned our tiny organization in deepest, darkest Peru a worldwide reputation in development, academic, and journalistic circles. Not only was our analysis considered interesting but the experts also paid attention to our proposal that for development purposes the world should be divided between those who operate under property rights and the rule of law (two billion people, according to ILD estimates) and those who don't (four to five billion people). That poor majority scrambling for a living in the shadows of the legal system – we have advised the governments that contract our assistance in their reform efforts – is their major source of conflict and violence and producing a huge social rift in their societies

The ILD's approach to development has been adopted by international organizations and governments. To be sure, we were controversial but we were also influential, but not to the point of bringing down the myth that ordinary Arabs were culturally unfit to enter global markets. We figured that it would take a generation or two for the facts that we have gathered about the huge amount of market activity going on throughout the MENA region – unless something tremendously dramatic happened.

Bouazizi spoke for 380 million Arabs without property rights

Well, something tremendously dramatic did happen when, on 17 December 2010, the street vendor Tarek Mohamed Bouazizi set himself on fire in front of the governor's offices in the small Tunisian city of Sidi Bouzid to protest having been arbitrarily put out of business. The Arab Spring itself – sparked by the self-immolation of entrepreneurs protesting their lack of property rights and driven by the sympathy of millions of Arabs – is evidence enough to demolish the hypothesis that Arab do not want to live in a modern market economy.

ILD also discovered that Bouazizi's blazing protest was not an isolated phenomenon but part of a spontaneous collective action: within the next 60 days, at least 63 more men and women in Tunisia, Algeria, Morocco, Yemen, Saudi Arabia and Egypt also set themselves on fire. All were extralegal entrepreneurs (builders, contractors, caterers, ITC businessmen, etc.); during extensive interviews with their families – and with a dozen of the 37 self-immolators who survived – we heard the same word to explain their motivation for staging a public suicide: "expropriation" – i.e. the lack of enforceable property law. When we asked Bouazizi's family what they believed he had died for, they answered, "For the right to buy and sell."

ILD research also revealed that upwards of 380 million people depend on the region's massive informal economies for their livelihood – sharing the same fears of expropriation. Little wonder that millions went into the streets to demand change and topple governments.

Massive suicide in defense of property rights is hard for the modern Western mind to understand. Especially since we're talking about a man like Bouazizi, who set himself on fire to apparently only protest for the loss of an electronic scale and fruit –that the ILD estimates at a total value of US\$225. Yet it would have been quite simple for a US frontiersman to comprehend: Bouazizi's right to hold on to things, buy and sell them, were not protected by law but by the arbitrary and personal good will of local authorities. So, when they took away his goods and his location and refused to change their minds, the only source of nearly all of his rights was shut off.

Bouazizi had no law to appeal and was thus immediately ruined: he had no possibility of getting another location, since it was not only the location that authorities took from him but also the right to a location; since he could no longer repay the loans he had taken to buy his confiscated merchandise, he was also bankrupt and no longer credit-worthy; nor could he sell his business and move elsewhere because he had no documented "legal person" to pass on to buyers; he couldn't get a fresh injection of capital because he had no right to issue shares.

The majority of MENA entrepreneurs operate in an economic system that is, in effect, where most ordinary people were at the beginning of the Industrial Revolution. They are beginning to understand that as old traditions and local rules fade, they need the legal property and business tools that their counterparts in the West – and the elites of their own countries – take for granted; they also know in their bones that their governments and legal systems have excluded them from those rights; and after their revolutions, they are no longer willing to depend on their only alternative – the crony protection of local authorities who can expropriate their property on a whim and ruin them.

That is why Bouazizi and so many others lit themselves on fire – because they lost more than the wares that meet the eye; they were also expropriated of the few tools they had to make a living as entrepreneurs. And that is why within a few days of Bouazizi's self-immolation, millions of people with the same transitional property rights he had went into the streets and toppled governments throughout the Middle East and North Africa.

Property rights is about more than protection of ownership

Property rights are taken for granted and ill-defined in the West. But for developing and transition economies, all 5 billion of us Latin Americans, Arabs, Africans, and Asians, property rights are more than a selfish argument in defense of the real estate of the very rich. In fact, if we agree that economic growth is primarily driven by entrepreneurship and investment, then no one can even begin to think seriously about making societies like those in the MENA region that are in transition to grow on the basis of broad based entrepreneurship unless they are given access to the information and joining devices that property and business law provide so that they can make valuable combinations.

Making "combinations" is what entrepreneurs do. Mother Nature provides us with all the resources we need, but most of them are useful only if entrepreneurs are able to combine them into more complex wholes. The higher the value of these aggregations, the more economic growth there will be. Humanity's most innovative achievements – from the 120 parts that make up my clock to the countless financial deals and developments that produced the Internet and flight navigation systems – all result from joining people and things to each other.

To make those combinations for producing growth, entrepreneurs need information and joining devices – found in documented property systems and business law. For entrepreneurs and investors to locate suppliers, infer value, take risks and combine even such simple things – to borrow a famous example – as graphite from Sri Lanka and wood from Oregon into pencils requires knowing who owns – and owes – what and where, and then fixing that information in public records. Property does not just establish that Smith owns the factory but also describes that factory as an address where mortgages can be foreclosed; debts, fees and taxes collected; deliveries made; where credit can be secured; shares can be issued against capital; utilities services can be controlled; and bills collected.

That's one of the principal reasons why Western entrepreneurship has triumphed for the past 150 years, according to ILD's research into the history of how the world's greatest economies evolved out of their own chaotic, dispersed and lawless markets into engines of growth: progress came part and parcel with property rights that provided the best available knowledge to explore economic combinations. So no matter how many economic constraints governments remove or transactions costs they lower, no broad-based entrepreneurial class will emerge until all of society has access to legal property rights.

This is a little understood fact, mainly because too many in the West tend to view property rights as essentially the protection of ownership – whether controlling assets, transferring real estate, distributing land or marking the boundaries of parcels of land. What they miss is that property rights have evolved from those original functions to play other roles in modern society – like the feathers of a bird that might have evolved to keep that creature warm but later were adapted for flight (a process that biologists call “exaptation”).

Similarly, as markets grew beyond feudal, tribal and other small-scale units people realized that if they were to take advantage of expanding markets, divide labor and trust others on a large scale, they needed more written information on far away places and situations than was available locally. And the place where that information started being gathered, organized, recorded, updated and directed was in what we call “property systems”. Over the last century and a half, the West has recorded and classified – in rule-bound and publicly accessible registries, titles, balance sheets, and statements of account – all the knowledge available relevant to the economic situation of people and the assets they controlled, whether they were intangible (stocks, commercial paper, deeds, ledgers, contracts, patents, companies and promissory notes), or tangible (land, buildings, boats, machines, animals and books).

Thus property systems evolved from being exclusively a means to protect ownership into a short cut to economic knowledge, a tool kit and the rules for joining things owned. They produce the trust that allows credit and capital to flow and global markets to work.

Arabs and the fear of expropriation

Bouazizi and his fellow entrepreneurs in the bazaars and shantytowns of Tunisia and the rest of the MENA region do not have access to such knowledge. The only property rights that poor entrepreneurs have are those that they receive not through law but through the good will of local authorities. Bouazizi, for example, had the informal right to park his fruit stand in a particular place every day in the Sidi Bouzid market – until the authorities who gave him that right decided to take it away, along with the fruit he was selling and the scales he used to win the trust of his customers.

Like Bouazizi, the majority of Arabs cannot make the market work to their advantage because they are fragmented in non-specialized economically sterile groups where labor cannot be efficiently combined. One has to understand that they live in a world where Western categories are not present and rebellion is there to compensate frustration by turning to violence. This is hardly new: At the time of the Industrial Revolution, Marx witnessed this same phenomenon and concluded that violence was a natural response to conditions of extreme inequality and alienation. And not so long ago, we at the ILD saw with our own eyes during our participation in the war against the Shining Path insurgency in Peru, how the entrepreneurial frustrations of ordinary Peruvians could easily be whipped up into terrorism – in spite of the fact that they were quite familiar with the ideas of property and entrepreneurship.

At present, all our interviewees in the extralegal economy single out “expropriation” as the main constraint and the source of their woes. Interestingly enough, if a plan to remove constraints centers around the property of assets and enterprises, it can cut right through most of the constraints that afflict Arab economies because, as we have seen, property is the rhizome that cuts right across the whole economic system. In the small city of Sidi Bouzid, where Bouazizi lived and died, there were 9 property systems, which means that Tunisia must have hundreds more. There’s no way that you can reach economies of scale with that many separate loose property arrangements.

Thus, any effort at reform must begin by integrating property law.

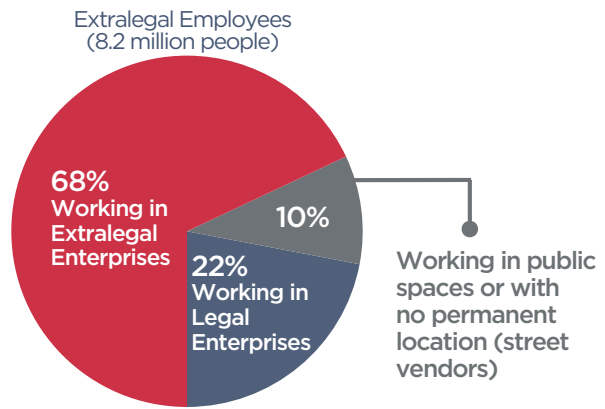
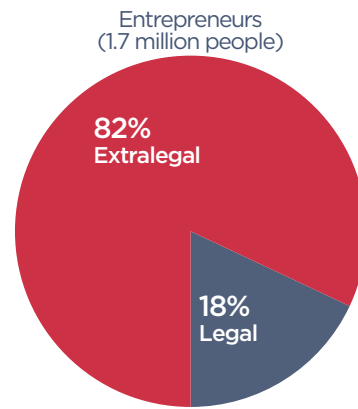
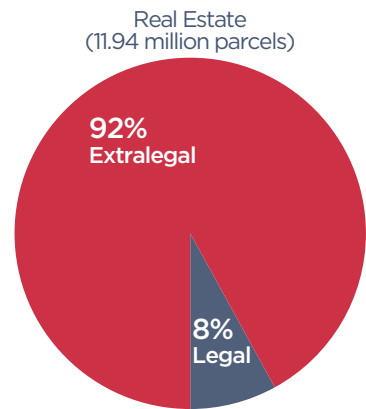
So how do you integrate?

Doing exactly what all developed countries have done over the last 150 years, consciously or not: you pull together all the conventions on property into one codified law that respects local norms where they make sense, which means that any process of bringing everyone under one unconstrained law requires feedback from the different Arab constituencies. If done properly, there would be no resistance to the shifting of ownership from local to larger arrangements because it will make business more profitable and burdensome parochial politicking more irrelevant. *(See Annex 2 for an infographic description of our on-going and past work to assist MENA governments with “breaking the bell jar that discriminates between Arabs”).*

To repeat: Property reforms to pave the way for entrepreneurship and investment in the country will require all sorts of specialties. But given the complex nature of passing people from a traditional to a modern order, strategic minds must lead the specialists. Together with our Egyptian colleagues, we have written a description of our project for you in a 1,000-page document, the contents of which can be broken into 12 representative groups of reforms that remove 40 major constraints. *(See Annex 3, using Egypt again as an example for, its 12 overriding constraints and the institutional solutions to those blockages.)*

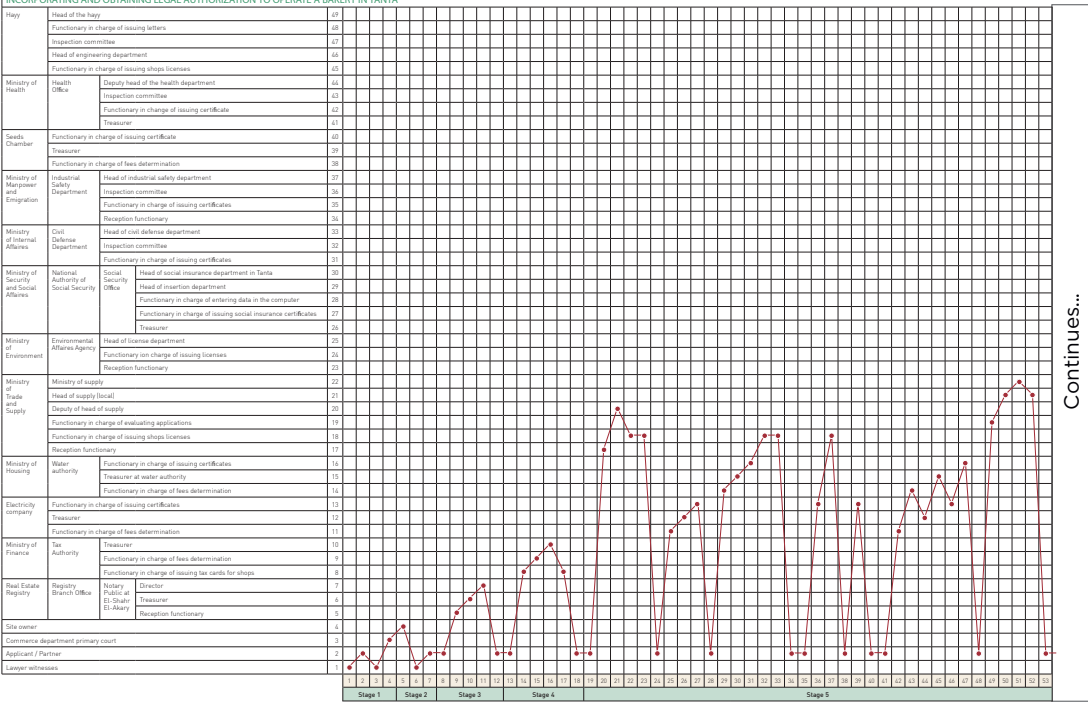
Thank you for your attention.

THE SIZE OF EGYPT'S CONSTRAINED ECONOMY



EXAMPLES OF ILD'S WORK ON IDENTIFYING ECONOMIC CONSTRAINTS ON USING PROPERTY AND DOING BUSINESS IN EGYPT

INCORPORATING AND OBTAINING LEGAL AUTHORIZATION TO OPERATE A BAKERY IN TANTA



Continues...

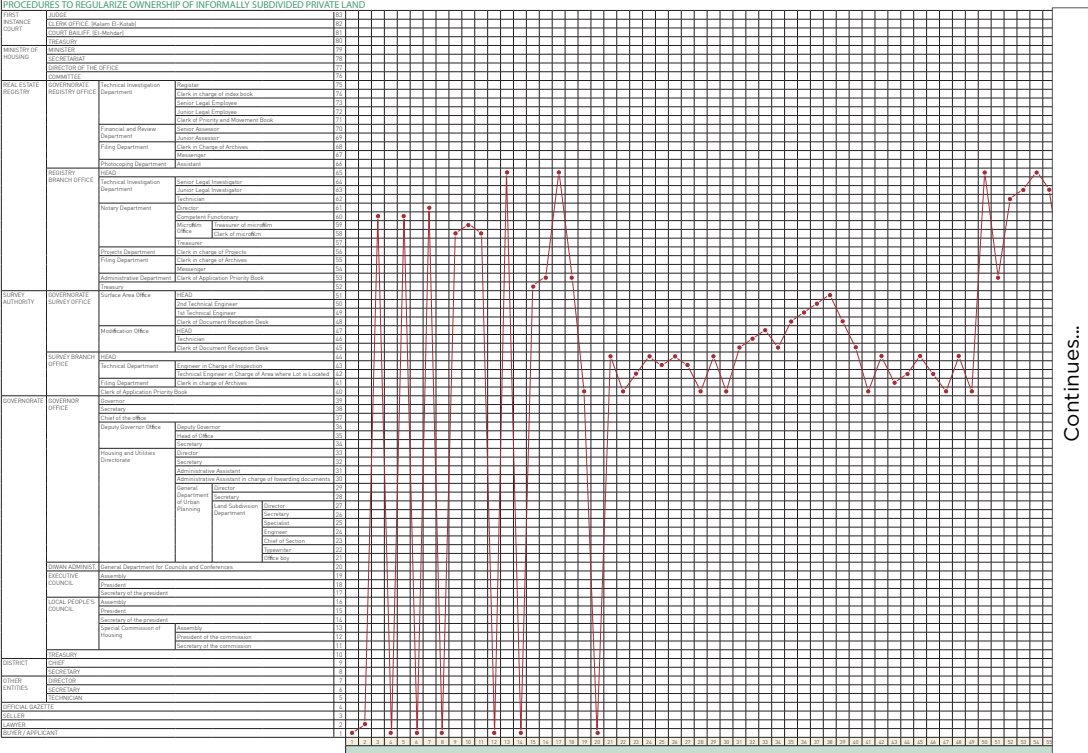
INCORPORATING AND OBTAINING LEGAL AUTHORIZATION TO OPERATE A BAKERY

STEPS: 136

TIME: 549 DAYS

COST: 27 MONTHS AT A MINIMUM SALARY

PROCEDURES TO REGULARIZE OWNERSHIP OF INFORMALLY SUBDIVIDED PRIVATE LAND



Continues...

PROCEDURES TO REGULARIZE OWNERSHIP OF INFORMALLY SUBDIVIDED PRIVATE LAND

STEPS: 358

TIME: 1,371 DAYS

COST: L.E. 27,205



A. AWARENESS AND CONSENSUS BUILDING

- Initial assessment of the extralegal economy and key groups of interest.
- Customization of Orientation/Training Program.
- Implementation of the Orientation/Training Program.
- Build consensus around a formalization program.

B. INTERIM COMMISSION AND "QUICK WINS"

- Ensure that the highest political level assumes responsibility for the program.
- Staff and put into operation an organization (Interim Commission) responsible for the implementation program.
- Obtain feedback from citizens on legal constraints and implement rapid changes in the legal and administrative procedures ("Quick Wins").
- Implement a communications strategy.

C. REFORM PROGRAM Diagnosis

- Identify, locate and classify extralegal assets (dead capital).
- Quantify the actual and potential value of extralegal assets (dead capital).
- Analyze the interaction of the extralegal sector with the rest of society.
- Identify the extralegal norms, which govern informal property.
- Identify the principal institutional obstacles to transform extralegally held assets into more productive formal property and determine the costs of extralegality to the country.

Reform Design

- Put into operation a specialized entity and government agencies that will permit rapid change.
- Remove administrative and legal bottlenecks.
- Build consensus between extralegal and legal sectors.
- Draft statutes and procedures, which lower the costs of holding stock legally below those of holding it extralegally.
- Create mechanisms that will reduce risks associated with private investment in emerging markets.

D. REFORM IMPLEMENTATION Implementation

- Design and implement field operation strategy, procedures, personnel, equipment, offices, training and manuals that enable government to gather, process and recognize property rights in the extralegal sector.
- Design and implement communications strategies to encourage participation of the extralegal sector, support in the business community and the government sector, and acquiescence among those with vested interests in the status quo.
- Re-engineer the record keeping organizations and registration processes so that they can bring out and pull together all the economically useful descriptions about a country's extralegal assets and integrate them into one data/knowledge based computer system.

Operation and Maintenance

- Registry operations, transactions and enquiries.
- Insurance and risk reduction services.
- Monitoring to keep costs of holding assets legally below those of holding them extralegally.

E. ACTIVATE THE ENFORCEMENT AND INFORMATION MECHANISM TO ENABLE THE PROVISION OF:

- Banking/mortgage/credit
- Public utilities
 - Energy
 - Water, sewage
 - Telecommunications
- Collection systems
- Credit, rates, taxes
- Insurance products
 - Property damage, life insurance, credit insurance, liens, title insurance
- National identification systems
- National security
- Other value added information services
- Housing and infrastructure

1. Too many laws to get into business: the legal devices that entrepreneurs require to combine resources, divide labor and raise credit and capital are packaged in a business organization. To access any of these legal tools, entrepreneurs have to deal with 215 separate laws.

ILD Solution: consolidating incorporation into one law.

2. Too many agencies to deal with: to enter business requires dealing with 29 different agencies.

ILD Solution: creating one agency – the New Business Public Registry (NBPR) – that eliminates \$200 million in unnecessary constraint-related costs.

3. Too much time to register: registering and licensing a single-person business takes 189 days, 86 steps and LE 8,362.

ILD Solution: a redesigned registry procedure that will decrease time by 90%.

4. No limited liability: 90% of all businesses are single-person without limited liability – to shield personal assets from business risks.

ILD Solution: legislation that will extend limited liability to all businesses.

5. Redundant documentation: registering a business requires 57 documents for six agencies containing the same information.

ILD Solution: legislation that will require an entrepreneur to present an I.D. and only four documents to one government entity, the NBPR – thus wiping out constraining effects of redundancy and excessive discretion.

6. No Accounting Standards: no clear standard accounting principles for providing reliable economic information.

ILD Solution: reform legislations that create a Special Accounting Council to regulate accounting principles.

7. Arbitrary procedures: lack of predictable procedures, standardized forms and payment schedules for tax, labor and social insurance obligations undermines compliance and encourages arbitrary inspections, unpredictability and redundancies.

ILD Solution: draft legislation creating a Simplification System that will coordinate the rules, information, fee schedules and hours of the Tax Administration, Ministry of Manpower and Social Insurance Agency.

8. Inadequate information: obtaining credit to purchase goods and equipment is difficult because most of the businesses are informal and creditors are unable to obtain up-to-date information on a business' financial status.

ILD Solution: a new Business Information System with mechanisms for exchanging data among government agencies and utility companies.

9. Too many risks: a foreclosure to recover even a debt of LE 20,000 secured with real estate involves 162 steps, 411 days and LE 7,286 (if appealed, it takes 8 years); credit secured by a pledge of the same amount is even more costly.

ILD Solution: legislation for a special system for resolving disputes that reduces foreclosure period for mortgages by 55% – and pledges by 77%.

10. Too hard to globalize: importing and exporting goods is time-consuming and costly: To import spare parts for vehicles by air, for example, takes 46 steps, 116 days, costing LE 6,799.

ILD Solution: the proposed NBPR will handle all import/export authorizations; the proposed Simplification System will fine-tune procedures.

11. Difficult to exit the market: the procedures for exiting the market are not clearly established or regulated.

ILD Solution: legislations that consolidate regulations for voluntarily leaving the market legally into a single text under the NBPR.

12. Property not fungible: because rules for assigning, recognizing and protecting property rights are dispersed through at least 132 norms applied by 44 entities, 92% of Egyptians hold their real estate extralegally: formalizing the acquisition of a piece of private state-owned land, for example, involves 174 steps, 460 days and LE 17,911; registering a simple transaction in the Real Estate Public Registry involves 102 steps, 198 days and LE 20,581.

ILD Solution: creating a formalization and registration system that consolidates legislation into one law and one agency – the New Real Estate Registry for formalizing different types of property and their transactions.