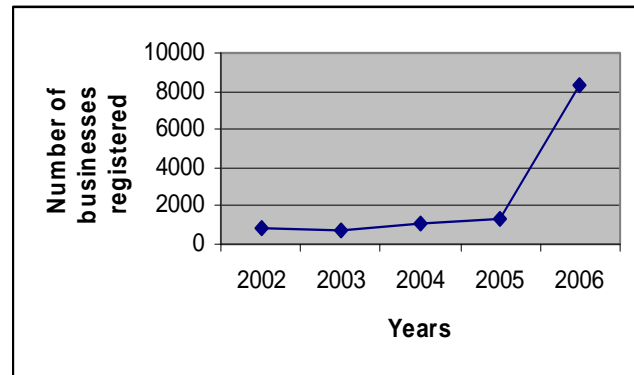


IMPROVING BUSINESS REGISTRATION PROCEDURES AT THE SUB-NATIONAL LEVEL THE CASE OF LIMA, PERU

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Obtaining an Operating License used to be the most bureaucratic procedure when starting a business in Peru, accounting for 62% of the total time. In January 2006, with assistance from the IFC LAC TA Facility, the Metropolitan Municipality of Lima launched a new process that reduced the total time needed from 60 to 3 days! In addition, the number of inspections was reduced from five to just one multipurpose inspection; average visits by business owners to the municipality were slashed from 11 to 2; and costs fell by over 50% for small firms. In the nine months since the reform was introduced, the municipality registered over 8,314 firms, more than in the last 7 years combined. Here are four key lessons we learned along the way.



I. PRE-PROJECT PHASE: AWARENESS BUILDING

To promote reforms at the sub-national level, it is necessary to get the support of the local media to build awareness of the importance of reducing bureaucratic barriers.

Given that in Peru there have been continuous simplification efforts for the last 15 years, we expected local governments to be reluctant to engage in new simplification projects. Therefore, we tried to get media coverage that would help position simplification as a significant issue for the private sector, economic growth, and job creation. This awareness campaign was essential to motivate municipal authorities to buy into the reforms.



To accomplish this, we carried out workshops to disseminate the results of country studies, such as the Investment Climate Assessment and, in particular, Doing Business, which highlighted the obstacles in the business environment and stressed the main bottlenecks such as administrative barriers. The reports showed that the business environment in Peru was not friendly, particularly for business entry. We emphasized that getting an Operating License took 102 days and that 62% of the total time needed to start a business was due to this municipal process. We also pointed out that at the central government level, a number of important simplification reforms had already been carried out (at the National Tax Agency and the National Public Register, to name a few), and the remaining bottleneck was clearly at the municipal level.

We were careful to explain to the local media that the causes of the bottleneck were not attributable to any specific person or department within the municipality, as they originated in structural problems within the institution. We also supported our claims that reform was possible by pointing to the Facility's previous simplification experience in La Paz, Bolivia, where we helped reduce the number of days to obtain an Operating License from 17 to 2.

The message that we conveyed was always positive, explaining the bureaucratic problems but also highlighting the municipality's political will to address inefficiencies. When the local media transmit this positive message, the municipal authorities do not act defensively. To ensure a positive message from the press, it is important to follow these three steps: i) contact local media that have credibility and are interested in business issues; ii) build connections with economic reporters from the most important newspapers; and iii) send material that is easy to understand and use for drafting articles and reports.

II. PROJECT PHASES

1. DIAGNOSTIC

When collecting information for the diagnostic, you must work jointly with municipal officers to create a shared understanding of the problem and motivation for change.

To carry out the diagnostic of the procedures to obtain an Operating License, we and the municipal officers jointly selected real cases from the registry files. We used random selection from the cases that our municipal counterparts reported as being the most complicated ones. This exercise clearly demonstrated that the municipality imposed too many requirements, that the procedures took too long, and that the costs were too high, causing entrepreneurs to choose to operate their business informally. Also, by representing actual cases, we showed that we understood the real problems and that our analysis was not superficial.



Licensing Department, pre-reform

To help sensitize municipal staff to the problem, we had workshops with role-playing. The staff portrayed a typical visit of an entrepreneur to the municipality, which highlighted the excessive number of documents required (most of them multiple times) and the fact that each time the entrepreneur visited, he or she was informed of yet another requirement, meaning they had to make multiple trips to the municipality to get their license. The role-playing was carried out in a comical, lighthearted way, but we were careful to avoid making fun of any officer, to ensure a positive response to the solutions proposed.

This exercise allowed municipal officers and authorities to see the procedure that we intended to simplify from the outside, from the point of view of the client, instead of from the inside, as they were used to. This facilitated their sympathy and understanding. In addition, it provided us with very useful information about different variables that cause inefficiencies, such as lack of equipment, poor motivation of municipal personnel because of low salaries or inappropriate work conditions, inadequate infrastructure, and lack of training.

We also took the municipal authorities on a "tour" of those areas where informal businesses operated, to convince them that, despite existing legislation, the informal sector operated without even minimal safety conditions. We showed them that 70% of the total number of businesses in Lima were operating informally because of the bureaucracy in the registration procedures. This helped motivate the municipal staff to be part of the solution and not part of the problem.

2. PROPOSAL

The reform proposal must include clear messages supported by performance benchmarks, such as outcome and impact indicators, to guarantee a clear understanding of the results that will be achieved with the simplification reform.

At the technical level, the proposal should include a detailed explanation of exactly how it will reduce times, requirements, and costs to obtain a license. The proposal needs to include not only the new solutions but also the proposed legislation for enabling them. Since the new procedures normally include technological solutions, they also need to be clearly explained to municipal officers.

At the political level, it is key to always keep in mind that municipal authorities are politicians. Giving them numerical data they can use in their political messages helps foster internalization of the reform objectives. After the diagnostic analysis, we were able to predict the reduction in days, costs, and number of visits as well as the increase in the number of firms that were going to register. Those estimates were used by municipal authorities to highlight their leadership and political vision through newspaper headlines such as “The Municipality of Lima has started a reform to simplify business procedures that will increase the number of registered firms by 400% in just one year” and “Obtaining an Operating License in the Municipality of Lima will only take two days.” These political messages raised the profile of the project (and hence the political commitment to implementation) and provided political capital for the Mayor.

3. IMPLEMENTATION

To implement the new procedures, municipal personnel have to be not only technically trained but also highly motivated and committed.

Instead of training municipal staff by using traditional tools like lectures, we introduced innovative ways such as role games, team-building activities, breaking of paradigms, etc. Since most of these workshops were held after working hours and on weekends, the fun and interactive nature of training was a decisive factor in promoting participation and a proactive attitude. Had we followed traditional training methods, fatigue from the long hours and lack of motivation would have led to poor comprehension of the subject matter.



Team-building activities were very important, since the reforms required breaking barriers among various departments to improve the flow of information in the municipality. Additionally, playing different roles in the procedure made the staff understand different aspects of the procedure that they normally don't see, and expanded their comprehension of the new, simplified procedures.

Finally, once the new procedures are implemented, it is important to acknowledge the municipality's efforts and contributions. We assured them that these efforts will be recognized not only locally but also internationally through a better positioning of their country in international rankings, such as Doing Business.

4. SUSTAINABILITY

To avoid the reappearance of the old bottlenecks in the procedure, it is critical that the private sector become a sustainability watchdog.

Communication and partnership with the entrepreneurs are crucial so they understand that *their* real work starts when the reform has been implemented. There were numerous examples in Peru and other countries where simplification efforts had failed because of a lack of monitoring and evaluation mechanisms.

In our experience, the best way to ensure sustainability is by forming a public-private Advisory Council that regularly monitors outcome indicators such as costs, time and requirements to obtain a license, and impact indicators such as number of firms registered. It is also vital to hold periodic training workshops to guarantee that municipal officers have updated knowledge of municipal procedures and requirements. Continuous improvement (focus groups, market research, sharing of information between municipalities, benchmarking, etc.) should be implemented to help ensure reform sustainability over the medium and long term.

Finally, sustainability must also be measured by management performance in terms of number of training workshops held during a year, number of questions from entrepreneurs answered, number of complaints solved, etc.

What we seek to construct in the end is a space for public-private dialogue that initially is focused on simplification but, over time, can promote new programs that will further benefit the private sector.

About the Author

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