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Municipal Scorecard 2008

Understanding Local Regulations in Latin America

Regional **Report**

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The attached CD has detailed information about the 176 municipalities that participated in the study.

Index

Foreword

In Latin America, municipal level procedures and regulations are among the most complex and time consuming elements in the entire formal business licensing process. The time and costs incurred by firms to fulfill these processes, which can take more than 100 days in some municipalities, often represent a significant deterrent for business owners to move out of the informal economy. For this reason, it is essential to carry out actions that contribute to the improvement and simplification of municipal procedures, in order to facilitate the work of firms, reduce informality, and encourage investment and job creation.

The International Finance Corporation (IFC), member of the World Bank Group, promotes sustainable economic growth and works to improve the business climate in developing countries through its Investment Climate Advisory Services (IC AS) program in Latin America and the Caribbean. The IC AS program, in its commitment to promote growth led by the private sector, supports municipal simplification initiatives throughout the Region. The improvement and simplification of municipal procedures are crucial to attract investment, create jobs, and at the same time promote, business development in the formal economy.

From the initial pilot project in Bolivia in 2004, which had an active involvement of the municipality of La Paz, IFC has expanded its program to eight countries in the Region. IFC's work in coordination with several public and private organizations and over 52 municipalities in Latin America has contributed to improving the business climate that resulted in the formalization of more than 50,000 firms in the Region.

To complement these efforts, IFC launched the *Municipal Scorecard* in 2007, a study that is based on entrepreneurs opinion on municipal bureaucratic burdens faced by firms needing to obtain permits and licenses. The *Municipal Scorecard* is a benchmarking tool that measures the efficiency of processes for business regulation affecting the business sector at this level. The first study in this series was developed in 2007 and covered 65 municipalities in Bolivia, Brazil, Honduras, Nicaragua and Peru. In 2008, the *Municipal Scorecard* report was expanded to also include Colombia, Ecuador, El Salvador, Guatemala, and Mexico. This report explores the procedures that small and medium enterprises have to face when obtaining an operating license, a construction permit, and local property tax payment at the municipal level.

This year, the *Municipal Scorecard 2008* involved 176 municipalities that confirmed their interest by sending letters of commitment to participate in the study. While an effort was made to include all of them in the analysis of all the study variables, some municipalities were not able to participate in the ranking this year because of insufficient information gathered. On the other hand, sufficient information on operating licenses was gathered from firms and municipal officials in 143 municipalities. Data on construction permits came from 131 municipalities, while firms and officials from 159 municipalities contributed information on local property tax payments. Since the data was gathered from 10 countries, a different timeframe was allocated for processing data in each country.

This study also identifies municipal good practices in granting these licenses and permits, and disseminates their successful experiences in the Region. With these tools, municipalities can improve their business environment in their own jurisdiction and eliminate barriers that discourage business owners to start a business or remain informal to avoid the costly and complicated entrance to the formal market.

IFC in coordination with its donor partners, academic partners, and private sector partners, and national, state and municipal government entities has developed workshops to disseminate the results of this work and contributed to creating a dialogue to motivate reform. Through this report, IFC has made available a tool that will contribute to enhance the business climate throughout the LAC Region.

Main Differences of the Municipal Scorecard Methodology and other World Bank Studies

The *Municipal Scorecard* (MSC) is a study that measures firm and municipal official perception of the business climate conducted by the World Bank Group. The study measures the efficiency of the regulatory processes at the municipal level, from the time when a firm looks for information on a specific procedure, to the time the firm completes all processes.

The World Bank Group also conducts other studies such as *Doing Business* (DB), *Investment Climate Assessments* (ICA), among others, that evaluate the time and costs for firms to comply with regulatory procedures. For instance, for business entry, the *Subnational Doing Business* study (SNDB) in Mexico and Colombia is applied on a standardized manner. It evaluates the complete process required for a firm to legally become a limited liability company. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions for the company and employees with its relevant authorities at the federal, state, and municipal levels. However, the MSC is conducted with a different and unique methodology aimed to complement existing World Bank studies. *Sub National Doing Business* gathers opinions from experts on bureaucratic processes based on a case study from a fictitious firm. These experts include lawyers, business transaction experts, architects, accountants, construction firms, government officials, and professionals that advise businesses on regulatory or legal processes.

In the case of the construction permit, the Mexico *Subnational Doing Business* study records all procedures required for a business in the construction industry to build a standardized warehouse. These procedures include submitting all relevant project-specific documents such as, building plans and site maps to the authorities; obtaining all necessary clearances, licenses, permits and certificates; completing all required notifications; and receiving all necessary inspections. *Subnational Doing Business* includes procedures for obtaining all utility connections and procedures necessary to register the property so later on it could be used as collateral or transferred. In the SNDB the survey divides the process of building a warehouse into distinct procedures and calculates the time and cost of completing each procedure in practice under normal circumstances. The MSC only evaluates the procedures related to obtaining the construction permit and not the procedure involving the national authorities.

In the case of the MSC, the study collects information on time, costs, number of visits and percentage of rejected applications. Additionally, the study collects information on access to information, inspections, training, tools, customer service, and audits. The methodology used for the variables of cost and time in both studies is different and the results are not comparable, but can be seen as complementary.

In summary, the major differences between *Subnational Doing Business* and the *Municipal Scorecard* are the following:

Subnational Doing Business

- The study is based on an examination of laws, regulations and public information. This information is revised and validated by local experts and municipal officials.
- To make the data comparable across countries and time, the study uses a standardized case study with specific assumptions (such as type of company, size, location, type of commercial activity).
- The study assumes a business has perfect information on the processes and does not waste time acquiring information. In practice, completing a procedure can take a lot more time if the company lacks information or is unable to dedicate time to completing certain requirements. Alternatively, the company can decide not to complete burdensome processes. This could explain the delays reported from firm surveys.
- The study considers the perspective of the firm, taking into account the whole process for each indicator in all levels of government (federal, state, and municipal).

Municipal Scorecard

- The study collects information from firms, third party professionals acting on behalf of the firm, and municipal officials that are directly involved in the processes covered by the *Municipal Scorecard*.
- The study interviews low risk firms that have already completed the procedures for a license or permit within a specified period of time. The participating firms are selected based on those that most recently completed the procedures.
- The study gathers information about the perception of firms and includes the time that firms spend in acquiring information to complete the procedures. This means that the information that the entrepreneur has before the procedure is important.
- The study takes into account only the municipal part of the process required by firms to obtain a construction permit, operating license, or paying property taxes.

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IFC would like to thank all the business owners and municipal employees who patiently took the time to answer our questions and share their experiences. We thank their participation and wish to help in improving the business climate in which they live and work every day.

We wish to commend the mayors of the participating municipalities and their staff for allowing us to measure their processes, even when they were aware that they would not rank among the best in their respective countries. This requires true vision and will, and proofs of their great willingness to learn, which is a crucial component of continued improvement.

This study was possible thanks to the financial support of the State Secretariat for Economic Affairs of the Swiss Government (SECO); the Department for International Development of the United Kingdom's (DFID) in Central America; the United Kingdom Foreign Office's Strategic Programmatic Fund (SPF), USAID in Peru through its "MYPE Competitiva" project, Fitch Ratings Ltd in Mexico, FIDE (Inversion y Exportaciones) in Honduras, the National Institute for Federalism and Municipal Development (INAFED), the Industry, Commerce, Tourism Chamber of Santa Cruz Bolivia (CAINCO), the National Council for Reactivation, Production and Competitiveness (CNPC) in Ecuador, and the National Program for Competitiveness (PRONACOM) in Guatemala.

The *Municipal Scorecard 2008* was managed by Arsala Deane, IC AS Associate Operations Officer. The report was drafted by a technical team including Lya Mainé Astonitas, IC AS Program Analyst, and consultants Lorena López Ángel, Patricia Ritter, José Roldán Xopa, Horacio San Martín Prudencio and PricewaterhouseCoopers consultancy team. Kristtian Rada, IC AS Program Officer, Alvaro Quijandría, IC AS Program Manager, and Luke Haggarty, General Manager for IFC Advisory Services in Latin America and the Caribbean provided supervision and technical guidance in preparing the report.

Several organizations contributed to the design and implementation of the *Municipal Scorecard 2008*. The methodology was developed by the Latin American Center for Competitiveness and Sustainable Development (CLACDS), at the INCAE Business School, headed by its president Roy Zúñiga. INCAE's team included Ana María Majano, Luis Rivera, Luis Reyes and Bernard Kilian.

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The surveys in each country were conducted by the following local partners:

In Bolivia, Universidad Privada Boliviana (UPB), chaired by Pablo Zegarra. UPB team members included Angélica Álvarez, Andrea Fernández, Rosa Angela Gallardo, Cristian Marca, Cecilia Pinedo, Teresa Polo, Marcela Quiroga, Teófilo Quispe, Gabriela Sossa, Mary Isela Zambrana, Natalia Zegarra, and Martha Zuleta.

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Executive Summary

The *Municipal Scorecard 2008* report is a benchmarking tool that compares municipal level regulatory processes efficiency for businesses to obtain a municipal operating license or construction permit, and allows municipalities to compare themselves nationally and internationally. Despite the challenges of implementing a perception study and using the findings to construct rankings, the *Municipal Scorecard* has been perceived as a useful tool by municipalities wishing to understand what areas to improve and where they can find good practices in municipal management of licenses and permits. While the rankings presented do not necessarily capture all issues related to business climate, they provide an indication of potential problems and identify specific processes that may be ripe for reform. This report analyzes three municipal procedures: municipal operating licenses, construction permits and payment of property taxes.

Firm Perception: Only One Side of the Coin

The *Municipal Scorecard* is based on firms and municipal officials perceptions on municipal regulatory processes that help firms formalize. The findings of the study should not be interpreted as an evaluation of efficiency or effectiveness of the regulatory framework. From the firms point of view, less time and costs to go through bureaucratic processes are always more favorable. From the point of view of the municipality, efficiency in time and cost should be balanced with regulatory compliance to be able to meet regulatory goals.

The lowest scores for time and costs taken from firm perception should also be complemented with an evaluation of the effectiveness and efficiency of the regulatory framework. The latter requires more detailed analyses that could complement the findings of the *Municipal Scorecard*.

In most countries, businesses need to register in a national government database and typically this is the only regulatory requirement firms face to begin operations unless their activities are subject to sector-specific licensing. However, municipalities in Latin America use operating licenses as the final step to formalize a business. Prior to this step, firms must complete several regulatory municipal and other government level procedures required to regulate economic activity. Many municipalities use licensing as the last step to try to ensure regulatory compliance, and to obtain better information about economic activities in their jurisdictions, make firms comply with local regulations on safety, environment, health and zoning, and improving their rules. Some municipalities use the license as a way to improve their tax collection. It could be argued that municipal granting licenses should not be used for such regulatory purposes. However, the *Municipal Scorecard* does not enter into this discussion. Rather it measures the regulatory barriers that such practices impose on the private sector.

A firm with an operating license means it operates legally in a given jurisdiction and that the municipality has been able to conduct the necessary inspections prior to the firm starts operating. It means the firm has access to municipal services and has a reduced likelihood of harassment from inspectors.[1] Municipalities use construction permits to ensure firms comply with construction plans and these adhere to safety and urban development standards. Once formalized, firms are expected to comply with various tax obligations at the municipal level, such as the property tax payment.

[1]In Latin America firms are randomly visited by inspectors. These visits sometimes are accompanied by requests for extra-official payments.

According to the World Bank Study, *Doing Business 2007*, more than half of the countries in the Region require an operating license at the central government level along with one at the municipal level. Unfortunately, obtaining licenses in most of the municipalities in Latin America implies costly, slow, and in many cases ambiguous processes, affecting investment climate which could be a factor to discourage businesses formalization and property tax payment. Acquiring access to information is often complicated. Another problem is that requirements and forms that business owners should fulfill are difficult to complete. Processes to complete one procedure may require a number of prior steps. Firms often need to make long lines at the municipal office only to be told to come back another day.

IFC launched the first *Municipal Scorecard* report in 2007 as a benchmarking tool that gauges, firm perception on the efficiency of municipal licenses and permits and gathers information about good practice in municipal management of these procedures. The *Municipal Scorecard* strives to create demand for reform so that municipalities eliminate the bottlenecks faced by firms when acquiring a license or permit. The first study in this series, the *Municipal Scorecard 2007*, was implemented in five countries: Bolivia, Brazil, Honduras, Nicaragua and Peru and it was based on information collected from 65 municipalities. In the 2008 report, the *Municipal Scorecard* was expanded to a total of 10 countries, adding Colombia, Ecuador, El Salvador, Guatemala and Mexico. Colombia is not part of the regional ranking because the operating license process was eliminated. In Honduras the report includes firms that renewed their licenses and obtained new ones. This year's report includes information from a total of 143 municipalities for operating license, 131 for construction permits and 159 for payment of the property tax.

The *Municipal Scorecard 2008* identifies from the entrepreneur perpective, best practices from participating municipalities to motivate municipalities to improve administrative procedures. This report presents the results of two indices: the performance index and the process index. Performance index measures the time, cost and number of visits business owners make to municipal offices, and the percentage of rejected applications.[2] The process index evaluates the information, training, customer service, tools, audits, and inspections municipalities use in processing licenses and permits.[3] The overall regional ranking shows the position of each participating municipality based on its respective score obtained through a factor analysis of the variables.

The sample size includes firms that recently acquired an operating license, construction permit or payed property tax. The firm is not operating in a protected zone or in any area designated as cultural heritage. The size of the firm does not exceed 500m^2 for the operating license or 800m^2 for the construction permit.[4]

Regional Ranking of the Operating License

The municipalities that received the highest scores in the regional ranking for the operating license are the municipalities of Chihuahua in Mexico, Esteli in Nicaragua, and Merida in Mexico. These municipalities have implemented one stop shops to speed up the licensing process and provide more customer service oriented procedures. In Esteli the process to obtain an operating license takes one day and one visit. As a result, Esteli is ranked high in the performance index and is the most efficient in the process index among the municipalities in Nicaragua.

Regional Ranking of the Construction Permit

The municipalities that scored high in the regional ranking for the construction permit also had good scores in the performance index and the process index. A municipality can do well in one index and poorly in another, but to gauge the efficiency of the process both indices are used to rank the municipality in the scorecard. From 131 municipalities in the regional ranking, Esteli in Nicaragua is in the first place followed by Santa Catarina Pinula in Guatemala, and six Mexican municipalities that are in the top ten positions. Two municipalities in Ecuador and one in Peru are in positions 10 to 15 in the regional ranking.

[2]The percentage of rejected applications is the gross percentage of firms to whom at least once their license was rejected when they applied for it.
[3]Process variables are important because they measure the effectiveness of municipal administration on licenses and permits. It is important that municipalities grant licenses and permits quickly, however this should be done respecting regulatory standards. The process index measures these standards and also the available tools for municipalities to manage these procedures.
[4]More information about the sample can be found in the methodology section in the Annex.

Property Tax Payment in the Region

For the property tax payment, the study did not include El Salvador and Brazil. In El Salvador there is no property tax and in Brazil, the majority of the firms pay the tax through the Internet. For the other participating countries, most municipalities have favorable indicators measuring the efficiency of the property tax payment procedure. This may be due to the fact that municipalities have simplified these procedures. As a result, the analysis focuses on good practices found in the Region. The study shows that the time required to pay the property tax is around four days.[5] In general, firms did not find the payment too bureaucratic or the cost too high.

Conclusions

A number of municipalities in Latin America have recently conducted reforms and others are in the process of implementing reforms to simplify the operating license procedure. The first report, the *Municipal Scorecard 2007*, presented a ranking of 65 municipalities from five countries in Latin America. From this number, 57 municipalities are included in the second edition, the *Municipal Scorecard 2008*. A significant percentage of these municipalities has improved the time and costs required to obtain an operating license.

Out of the 57 municipalities that participated in both studies, 35 municipalities reduced the time required to obtain a license by an average of 33 days. Firm visits to the municipality reduced to 2 visits in 20 municipalities.

In terms of cost, 40 out of the 57 municipalities reduced their costs to obtain an operating license. These costs were reduced by an average of 2.7 percent of GDP per capita. In general, 61 percent of the municipalities that participated in both studies show a significant reduction in the number of days to acquire a license and a 70 percent reduction in the cost to acquire a license.

Thirty one out of the 57 municipalities that participated in both studies have reduced the time to obtain a construction permit by an average of 67 days. Thirty of these 57 municipalities have reduced the number of visits to 5. Thirty two municipalities have reduced costs by approximately 9.6 percent of GDP per capita.

In sum, 54 percent of the municipalities that participated in both studies had a significant reduction in the number of days to obtain a construction permit. Fifty six percent of the municipalities show a reduction in costs. This reduction is due mainly to the simplification projects implemented by the municipalities.

While it is not possible to attribute these reforms to the *Municipal Scorecard*, it is important to note that 75 percent of the participating municipalities are planning to implement reforms in the next two years, or are currently implementing them. Due to their interest in reforming, municipalities will be able to contribute positively to the business environment in the Region.

According to the results of the *Municipal Scorecard 2008*, the region would benefit from reforms in construction permits. Eighty three of the participating municipalities have not simplified these processes and could improve their rankings. Only some municipalities have begun the process of simplification.

When a reform implies regulatory and organizational changes, there is always a risk government departments may reject or delay such reforms. It is extremely important that reforms are designed in a sustainable way over time and are not subject to changes in staff due to election cycles. This can be done through the proper use of tools and adequate training of municipal officials.

Regulatory burden faced by firms has fueled a negative perception of services provided by municipalities which has encouraged informality in the Region. For this reason, it is important that municipalities improve their administrative procedures and the perception that their constituents currently hold. A collateral effect of excessive regulation is that firms prefer to stay informal, particularly if they perceive taxes paid do not lead to an improvement in the public services. To this end, the policies that reduce regulatory burdens faced by the private sector and improve their quality of services do have a positive direct or indirect effect on tax collection, as more firms are encouraged to formalize.

Although many municipalities in the Region are implementing simplification projects, there is still ample room for improvement. Some municipalities conducted reforms but these do not reflect an overall improvement in the ranking

[5]Firms were asked to report on the most recent payment process they conducted for their land tax payment obligation. In some countries this payment is done annually, while in others it is done periodically in a year.

because the surveys took place during or prior to the reform effort. On the other hand, some of these improvements are not always perceived by business owners. Narrowing this perception gap will require better communication channels between the two sides. Moreover, actively involving the private sector in monitoring these reforms is fundamental to ensure their sustainability over the long term and to build confidence between the private and public sectors.

The implementation of reforms should not only be limited to a reduction in time or number of processes for a firm to receive a permit or license. The reforms should establish clear criteria to ensure regulatory compliance. The reforms must be designed in a way that is sustainable over time. At the same time, periodic monitoring and evaluation of the procedures helps keep them efficient. It is important to clarify that simplification does not mean deregulation. An effective simplification effort should create an positive regulatory environment, which allows regulatory compliance to be accomplished in a timely and efficient manner.

Introduction

Most Latin American governments have decentralized the management of business licenses, inspections and permits to the municipal level of government. Local authorities now play an increasingly important role in regulating the private sector in most countries throughout the Region. When a firm decides to become formal, the municipality is often the first government office entrepreneurs should attend to comply with business regulation.

Business licenses and permits are often used as regulatory tools in most Latin American municipalities. Licenses and permits allow governments to create a set of minimum standards for commercial activity, so that business activities do not have adverse effects on a community.

Operating licenses are used as the final step to set up adequate standards for health, safety and zoning plans. Construction permits ensure that firms comply with safety codes and that construction projects fit with city planning. Efficient tax collection provides municipalities with the revenue needed to improve public service delivery. These resources can be used for needed public projects, including roads, schools, and water and sewer systems. Regulations promote safety, encourage growth and citizen welfare, and contribute to better city planning and development. Obtaining an operating license at the municipal level is a requirement that is commonly established as the final step prior to starting a business. The business complies with all regulations from different levels of government before getting the license.There is a debate about whether the operating license is a useful instrument to regulate the private sector. The *Municipal Scorecard* report does not intend to enter into this discussion; rather, it seeks to measure the bureaucratic obstacles that the private sector faces in acquiring a license or permit.

Complying with effective regulations protects businesses. Operating formally lends credibility to a business operation. Being part of the formal market helps firms grow, access credit, increase productivity, and take advantage of technological innovation. Firms that operate informally generally are subject to financial penalties and tend to remain small in size.

Efficient regulations should create an enabling environment for firms that need to enter into the formal market. Unfortunately, obtaining a license or permit from most Latin American municipalities involves a series of slow, costly and murky processes. Firms face difficulties in acquiring basic information, and different municipal authorities repeatedly ask for the same information. Business owners face endless queues and are often asked to return the following day or week.

In some municipalities firms are asked to pay extremely high fees for their licenses, worse still business owners report that some municipalities request additional payments to speed up the paperwork. To avoid all these hassles, many business owners choose to operate informally. Unfortunately, this implies increased difficulties with ensuring compliance of zoning, health, environment or safety codes or that these are not considered and therefore, the community remains without accurate protection. High levels of informality can result in less job creation to the detriment of the community.

For the *Municipal Scorecard 2008* 11,783 business owners and 1,601 officials were interviewed. Firms were asked to mention the main incentives to acquire a license in their countries. Almost 45 percent of business owners said "complying with the law" is the main reason to apply for an operating license while 24.5 percent said they obtained their license to avoid fines. Another 28.9 percent said "having to renew their operating license and related permits annually" is one major incentive for business owners to operate informally.

When asked about the main reasons to acquire a construction permit, 41 percent of business owners said they acquired it "complying with the law", while 16.2 percent said they went through the procedures to avoid paying fines. Another 21.2 percent who went through the processes said

"having to go through the property titling processes" was one of the disadvantages of trying to get a permit.

Twenty five percent of firms surveyed on operating licenses and construction permits said that "having to pay taxes" was a major disadvantage of obtaining a permit.

To encourage companies to join the municipal formal economy, governments need to make permits and license processes more efficient. Municipalities need to reduce the time and cost of processes, and improve the quality of services rendered to license and permit applicants.

The *Municipal Scorecard* is a perception study and a benchmarking tool used to compare relevant municipal procedures affecting business. After a detailed analysis, municipal operating licenses, construction permits and the payment of property taxes were chosen as the three processes that were reported as fairly burdensome according to the *Doing Business 2006* and *2007* reports.[6] The *Municipal Scorecard* measures efficiencies involved in those processes by identifying the constraints faced by new business owners wishing to join the formal market. Our findings shed light on the experience of firms in complying with these regulations and the costs they face to acquire a municipal operating license or permit.

The *Municipal Scorecard 2008* presents the results of two variables: performance and process. These variables measure how the municipalities manage the administrative procedures for the operating license, construction permit, and payment of the property tax. The performance variables measure the time, cost, number of visits to government offices, and the percentage of rejected applications. The process variables measure the information, training, customer service, tools, audits, and inspections used by municipal governments to handle these procedures. The ranking presents the position of participating municipalities according to the different variables in the analyzed procedures.

What is new in this years is the report?

- This year 11,783 business owners and 1,601 municipal officials were surveyed. A total of 13,384 surveys in ten countries were carried out, while last year 3,290 surveys were applied in five countries.

- This edition includes the analysis of the payment of property tax, to measure the obstacles that firms face to initiate a business.

When comparing the results of the participating municipalities in the *Municipal Scorecard 2007* with the ones from the *Municipal Scorecard 2008*, 61% of them have significantly reduced the number of days to obtain an operating license and 54% to obtain a construction permit. This reduction is due to simplification projects. Although these reforms themselves cannot be attributed only to the *Municipal Scorecard*, it is important to emphasize that 87% of the surveyed municipalities have been motivated by the study and are planning to carry out reforms in the next years or are currently in implementation. To date, IFC has contributed with the implementation of 18 projects in over 50 municipalities in the Region.

The objective of this study is not only to encourage municipalities to process operating licenses and construction permits in a shorter time frame and at lower costs for firms, but also that these procedures follow good practice in processes management. For example, good practice involves using a risk management system that classifies businesses according to economic activity or using an updated zoning system. Because of this reason, the ranking of the *Municipal Scorecard* includes process variables in the process sub-index.

Chapters 1, 2 and 3 analyze operating licenses, construction permits, and tax payments respectively. Chapter 4, Learning from Good Practices, describes experiences from municipalities that have embarked on reforms and have reported lessons in implementation.

[6]Reports from the World Bank Group. According to *Doing Business 2007*, more than half of the countries in Latin America require a general operating license besides the commercial registration. The payment of the property tax was chosen as new indicator because it is the most significant tax collected by the municipalities, and there is limited available information about its efficiency.

Chapter 1
Operating licenses

Prior to 2006, starting a new business took approximately 45 days in Tegucigalpa. Thirty five of those days were spent obtaining the operating license in the municipality. The excessive time required to open a new business encouraged high informality in the capital of Honduras.[7] Several problems can account for the lags and delays. The municipality lacked a risk-based classification system of firms. As a result, both high and low-risk businesses[8] went through the same process. Procedures to conduct inspections were highly discretionary. In addition, the *Municipal Scorecard 2007* revealed that Tegucigalpa provided poor quality information to those seeking a license. Municipal officials in charge of licenses were ranked low in training. Because of such problems, the municipality not only lost information and control over the economic activities within its jurisdiction, but also potential tax revenues. For firms, choosing to remain informal meant foregoing access to public services and other benefits derived from formalization.

In 2006 the municipality of Tegucigalpa launched a program to simplify the processes to obtain an operating license. This program was comprised of three phases, firstly a diagnosis that identified the existing bottlenecks; secondly proposals were elaborated to make processes more efficient; and finally the implementation of a reform based on those proposals was initiated. The program improved the information available to firms, and created an efficient zoning and risk based categorization of economic activities. In addition, inspections were grouped under one single multidisciplinary inspection. New information technology improved process management.

By the end of 2007, Tegucigalpa was able to report on the results of the reform. The time needed to obtain an operating license was reduced to one day for low-risk firms and four days for high-risk businesses. The number of visits dropped from 17 to 2 and the number of requirements fell from 28 to 4. In addition, the municipality of Tegucigalpa established a public-private advisory committee to monitor the results of the reforms and make them sustainable. In the first year after the reform, the number of licenses issued increased by 671 percent, saving firms more than two hundred and fifty thousand dollars and increasing the municipality's tax revenues by US $5,105,919.[9] Building on its successes, the municipality launched further reforms to improve the business climate, such as streamlining the construction permit. A nationwide plan is now replicating these reforms in five other Honduran municipalities.

The Municipal Operating License in Latin America: An Significant Obstacle

Private sector regulation has always sparked healthy debate. Good regulations benefit society. They protect public goods, reduce negative externalities and encourage free competition. However, poor regulation can have extremely adverse effects. According to a World Bank publication, Regulation and Growth[10], good business regulation is an important driver of growth and countries with excessive entry level regulations suffer

[7]Honduras has one of the highest informality rates in Latin America, close to 50 percent of GDP. See Schneider, F. and R. Klinglmair, *Shadow Economies around the World: What Do We Know?*, CESifo Working Paper 0403, CESifo, 2004.
[8]A high risk business is defined as one that may have a negative impact on the environment and the safety and/or health of the citizens.
[9]Data provided by the General Manager at the Central District (Tegucigalpa) municipality.
[10]See Djankov, Simeon, Mc Liesh, Chárrale and Ramalho, Rita, *Regulation and Growth*, World Bank, 2006; and Djankov, Simeon, La Porta, Rafael, Lopez de Silanes, Florencio and Shleifer, Andrei, *The Regulation of Entry*, Quarterly Journal of Economics, 2002.

from higher levels of corruption, a larger informal sector, and poor quality of private and public goods. According to *Doing Business 2009*[11], procedures to obtain an operating license in Latin America require a significant amount of time. For instance, in Brazil, 96 percent (120 days) of the time needed to start a firm is devoted to obtaining an operating license. In Peru, the figure is 34 percent (21 days) while in Ecuador it reaches 22 percent (30 days).

Operating licenses are used in Latin America to enforce zoning, health and environmental and safety standards. For some municipalities, the license is used as a tool to create a larger tax base.[12]

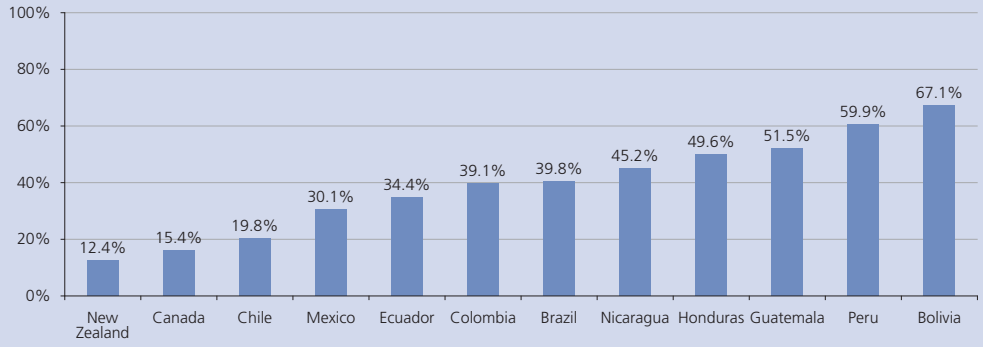
To acquire an operating license, the following steps generally apply in most Latin American municipalities: a firm must submit its articles of incorporation and registration, a certificate declaring the nature of the business, and the location of the business's facilities. After submitting this information, the firm should comply with ex-ante and/or ex-post inspections. The municipality then reviews the paperwork and inspection reports before processing the license. Unfortunately, many firms do not obtain operating licenses. While a license does not guarantee continued adherence to regulatory standards, failure to obtain a license in Latin America means at the start, the business is not adhering to health, environmental or safety standards or passing municipal inspections. Municipalities can fix this by making regulations and processes more efficient and accessible to firms, thus encouraging greater formality.

Business owners often face a maze of cumbersome and outdated regulations, inefficient processes, unnecessary and costly requirements, unclear information, and arbitrary decisions. Firms also have to interact with poorly trained officials. Firms cite the following problems.

What are the issues faced by business owners when opening a business?

- Lack of risk-based classification of economic activities and simplified processes for low risk firms.
- Municipal zoning plans are unclear or not available to the public.
- Poor coordination among municipal departments involved in the issuance of operating licenses.
- No culture of delegating decision making. High ranking officials sign all licenses and do not delegate authorization if they are absent, nor will they sign off on low risk activities to lower level officials.
- Information is hard to find and understand. Municipal officials provide contradictory or poorly written information material.
- Approval of a license can take a municipality several months.
- Requirements are repeated at several stages of the process or the municipality imposes useless requirements at a high cost to firms.
- The criteria for granting licenses are neither predictable nor standardized. These criteria are modified frequently without reason.
- Processes are discretionary and opaque, creating opportunities for bribes and illicit payments.

Figure 1.1
Informality exceeds 30% in a large number of Latin American countries (Informality as % of per capita GDP)



Source: Schneider, F. and R. Klinglmair, Shadow Economies around the World: What do we know? CESifo Working Paper 0403, CESifo, 2004

[11] *Doing Business 2009*. Available on the Internet at: http://www.doingbusiness.org
[12] These practices are generally not followed in other Regions, where licensing and permitting are not used for such regulatory or fiscal ends.

Burdensome government regulations, combined with a negative perception of the quality of public services, may encourage firms to stay informal. Poor implementation of regulation discredits municipalities in the eyes of their citizens, who regard municipal officials as unable to impose order and to provide adequate public services. To reverse this poor perception, municipalities should strive to improve public perception of bureaucratic processes through simplification.

Fortunately, not all municipalities suffer from these problems. There are examples of municipalities where regulations are quite efficient and transparent. Several municipalities are in the process of changing their procedures. While this is a step in the right direction, the number of reforms underway continues to be small. To significantly improve the business environment in Latin America, a more coordinated effort is needed and should involve a much larger number of municipalities.

Colombia: Would eliminating operating licenses solve the problem?

Difficulties faced by firms in obtaining a municipal operating license and resulting problems of formalization, have led some governments to eliminate the license requirement altogether. Eliminating the operating license can reduce bureaucratic burdens for firms as long as the regulatory environment allows for adherence to safety measures. In Colombia, municipalities have done away with the municipal operating license but require inspections to ensure regulatory compliance. However, this may be as bureaucratic and inefficient as the operating license, if not more so.

In Colombia, in 1995 Law No. 232 eliminated the compulsory municipal operating license for new businesses. Since the law was enacted, opening a business has become extremely easy. However, after the firm starts operating, it is subject to numerous, uncoordinated inspections from the Department of Health, the Department of the Environment, the Fire Department and local municipalities. All these agencies perform inspections that can come as a surprise to business owners due to poor communication by the municipality. Passing these inspections requires dealing with complex processes.[13] Moreover, the regulations are subject to a high level of interpretation, depending on the official in charge. For instance, in Bogota it may take business owners 3 to 5 years to obtain the inspection certificates required to operate their businesses. Because this is a legal procedure, many of them must hire lawyers to represent them during these 3 to 5 years.[14] These practices generate a high cost to firms and can encourage informality, limiting the municipalities effort to collect its fees for formal firms.

In addition, in Colombia inspections are conducted as a result of complaints, rather than as the result of a risk assessment of the various types of economic activities. As a consequence, high-risk businesses may not be inspected at all, which may result in fires, pollution, poor construction and other hazards.

Is it possible to substitute an operating license with an efficient inspection system?

Eliminating operating licenses as a mandatory requirement to start operations may be appropriate, provided that efficient oversight (inspection systems) ensures compliance with safety standards and does not create more bureaucratic burdens to firms. Reforms such as the one underway in the municipality of Bogota should focus mainly on: (1) Establishing a multi-disciplinary inspection scheme that combines the four inspection systems into a single coordinated mechanism. (2) Planning inspections following a risk-based classification of businesses by type of economic activity, with priority given to inspections of high-risk activities, while low-risk firms are encouraged to self regulate and are only randomly inspected. (3) Publishing information so that firms know what to expect, and understand the inspections as soon as they register at the Chamber of Commerce. This reform will bring significant benefits to both firms and the municipality.[15]

[13]An environmental, health or security license or approval.

[14]Juan Carlos Rodriguez, Municipality of Bogota, presentation at the Workshop on Improvement to the Business Inspections' System. Latin American Seminar, Bogota, Colombia. August 20-21, 2008.

[15]According to initial figures provided by the municipality of Bogota, in June 2006 the inspection process took around 262 days. It has now dropped to 15 days. Cost savings 10 months after launching the project have been estimated at more than 42 million dollars. Source: Juan Carlos Rodriguez, Municipality of Bogota, Workshop on Improvement to the Business Inspections' System. Latin American Seminar, Bogota, Colombia. August 20-21, 2008.

What are the benefits of implementing a program to simplify the Operating License procedures?

Everyone wins with a simplification program, starting with the municipality. To the extent that simplification reduces the difficulties and costs to firms, it also encourages firm formality at the municipal level. Simplification helps municipalities manage risks and potential social costs associated with business activities. Municipalities also expand their taxpayer base when the formal sector grows. With greater tax revenues, municipalities can provide better services to their communities.

The Municipal Government of La Paz was among the first municipalities in Latin America to introduce business license reforms in 2003, setting an example for other municipalities in Bolivia and throughout the Region. As a result of the reform, in 2004 the number of licenses issued increased by 20 percent. Between 2003 and 2007, La Paz saw a 38 percent increase in the number of licenses issued, and a consequent rise in tax revenues.

Table 1.1
Number of Licenses Issued by the Municipality of La Paz (2003-2007)

	2003	2004	2005	2006	2007
La Paz	3361	4050	4384	4088	4632

Source: Municipality of La Paz. Prepared by the authors

The reform also resulted in a streamlined inspection process. Now, high-risk economic activities, such as restaurants, alcoholic beverage outlets and electronic games arcades, are more regularly inspected. The municipality has a more organized database and a modern information technology system in place. It has more control over its assets and, although risk is not totally eliminated, it has certainly been mitigated. Additionally, improved organization of its territory allowed the municipality of La Paz to regulate economic activities within its jurisdiction more efficiently. It has created commercial, industrial and other areas. Municipal officials also reported being strongly motivated by training and having the tools to work more efficiently.[16]

Business owners also benefit. Simplification allows them to obtain an operating license more easily and at a lower cost. Thus, they can work within the law and comply with basic standards to mitigate business risk. They suffer less from the fear of being shut down or fined by the municipality, or having to pay illicit money to corrupt officials. Once firms acquire a municipal operating license they are better positioned to be benefited from public services provided by the municipality and other governmental agencies and improve their access to finance.

Many business owners are aware of these advantages. The *Municipal Scorecard 2008* asked 4,646 formal business owners why they decided to obtain an operating license. The most important reasons mentioned by firms include avoiding fines and complying with the law. Among the least significant reasons were improving their access to credit and to the judiciary to have contract terms honored. Some regional differences exist. For instance, in Mexico and Bolivia, the most important reason to acquire an operating license is compliance with the law. In El Salvador, the least relevant reason is avoiding fines. Nevertheless, firms are mostly concerned about fines and the fear of being subject to harassment by authorities. As firms start to expand and their operations become more sophisticated, access to credit and to the judiciary system rise in importance.

These advantages to business owners imply that, contrary to what some may believe, most business owners wish to operate with an operating license. However, business owners report that the cost and difficulty of acquiring such license continue to discourage them. As we saw in the preceding section, the municipal operating license is among the most complex processes faced by business owners who wish to open a formal business. It may therefore be reasonable to expect that reducing the obstacles to obtain an operating license would promote greater business formalization at the municipal level.

The *Municipal Scorecard 2008* is a useful benchmarking tool that can be used as a guide to assess the time and costs for the entrepreneurs to obtain an operating license, as well as the efficiency of the procedures in order to guarantee an a accurat risk control of economic activities in different localities. This tool was constructed for second consecutive year including 143 municipalities in Bolivia, Brazil, Ecuador, El Salvador, Mexico, Nicaragua and Peru.[17] The *Municipal Scorecard* provides a comparative ranking of indicators for these municipalities

[16]In the sub-section on training in the *Municipal Scorecard 2008* Bolivia, La Paz, Santa Cruz, and Yacuiba tie for first place in training. Training is perceived as adequate at all Bolivian municipalities.
[17]Honduras and Colombia participated in the study but are not part of the regional ranking. because not enough information was available.

and hopes to foster healthy competition as a result of the *benchmarking* exercise.

Which municipalities are the most efficient in issuing Operating Licenses?

Chihuahua in Mexico, Esteli in Nicaragua, and Merida in Mexico rank at the top of the 2008 operating license scorecard. These municipalities have employed "one-stop shops"[18] to speed up licensing of low-risk businesses, the largest pool of firms seeking licenses. Among the three top performers, Merida also provides the best information and its licensing process is rated as the most efficient among all Mexican municipalities.[19] In Nicaragua, Esteli is ranked as the one of the most efficient municipalities; firms require only one visit to the municipal offices and the process takes one day. The municipalities of Arequipa, Peru, and Sao Paulo, Brazil, performed poorly in the ranking; however, this is expected to improve next year as they are currently implementing simplification projects.[20]

Table 1.2 **Latin America (25 best and worst performers)**
Operating License Index - Regional Ranking

The Operating License ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	
Chihuahua (Mexico)	1	25 best performers
Esteli (Nicaragua)	2	
Merida (Mexico)	3	
Riobamba (Ecuador)	4	
Ambato (Ecuador)	5	
La Palma (El Salvador)	6	
Pachuca (Mexico)	7	
Granada (Nicaragua)	8	
Ciudad Sandino (Nicaragua)	9	
Sonsonate (El Salvador)	10	
San Miguel (El Salvador)	11	
La Libertad (El Salvador)	12	
Ciudad Juarez (Mexico)	13	
Cuenca (Ecuador)	14	
Santa Ana (El Salvador)	15	
Managua (Nicaragua)	16	
Jinotepe (Nicaragua)	17	
Soyapango (El Salvador)	18	
Culiacan (Mexico)	19	
Zacatecas (Mexico)	20	
Tulcan (Ecuador)	21	
San Juan del Sur (Nicaragua)	22	
Porto Alegre (Brazil)	23	
Praia Grande (Brazil)	24	
Jinotega (Nicaragua)	25	
Yacuiba (Bolivia)	119	25 worst performers
Quillacollo (Bolivia)	120	
Ancon (Peru)	121	
Vitoria (Brazil)	122	
Puno (Peru)	123	
El Alto (Bolivia)	124	
Barranco (Peru)	125	
Alto Selva Alegre (Peru)	126	
Olinda (Brazil)	127	
Lince (Brazil)	128	
Curitiba (Brazil)	129	
Recife (Brazil)	130	
Rimac (Peru)	131	
Sao Bernardo Do Campo (Brazil)	132	
El Agustino (Peru)	133	
Cusco (Peru)	134	
Chiclayo (Peru)	135	
Ate (Peru)	136	
Ica (Peru)	137	
Guarulhos (Brazil)	138	
Tumbes (Peru)	139	
Goiania (Brazil)	140	
Mariano Melgar (Peru)	141	
Arequipa (Peru)	142	
Sao Paulo (Brazil)	143	

* Of 143 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

[18] In the "One Stop Shop" system, users fill out a single form for all involved departments. They are then informed about the fees they have to pay, in one single stop at the cash registry. The user is told when and at what times the civil protection, health and urban development departments will inspect their businesses and how long it will take them to issue a decision. The process takes less than a day.
[19] Best performer for the information sub-index and the inspection sub-index included in the process index for Mexico. *Municipal Scorecard 2008* Reporte Mexico.
[20] Arequipa has conducted a program in municipal simplification and it is expected that their scores will improve in the future.

The operating license ranking is made up of several variables as explained in the methodology section (see Annexes). A statistical analysis of the variables produced a performance index and a process index, each composed of different sets of variables. The performance index variables are made up of quantitative indicators that reflect the efficiency of the processes firms go through to acquire a license, such as time, costs, number of visits and rejections. These indicators are presented in figures 1.2 to 1.7. The process variables are made up of qualitative indicators that measure the internal processes of the municipality and effectiveness of these processes to grant a license. These include information, training, inspections, tools, customer service and audits. Process variables are presented in the tables 1.6-1.8.

To better understand the findings and to facilitate comparisons among municipalities, the ranking looks at scores for three sub-regions: the middle income countries of Mexico and Brazil, the Andean countries and the Central American countries. The countries were divided into sub regions to facilitate comparisons among municipalities of the same income levels and size. Tables 1.9, 1.10 and 1.11 show the best performers by sub-region.

A more detailed analysis of each variable of the process and performance index is presented in this chapter. For an understanding of how these indices are constructed please refer to the Annex on Methodology.

Municipal officials and firms have differing perceptions about the time and costs to acquire the license. The difference is due to the differences that the firm experiences when going through the procedures versus the experience of the municipal official who processes licenses on a daily basis. Masaya, in Nicaragua, is a noteworthy example of such perception gap: Municipal officials report that obtaining an operating license does not involve any costs. However, business owners reported costs above 2 percent of per capita GDP. This gap reflects the differences in perception of time and costs as understood by the firms, on the one hand, and the municipal officials charged with processing these permits on the other hand.

The differing perception between business owners and officials may be taking into account other costs such as photocopies, transportation and other extra-official costs, beyond the actual fee of the license. While municipal officials only take into account the fees they charge to process the permit or license. However, since the responses are based solely on the perception and no other data source, this gap could also reflect lack of knowledge of the municipal officials on actual fees charged authorized by the municipality. In some cases firm perception could include processes that are not municipal. In all these cases, more access to information and improved transparency would resolve these perception gaps.

Performance Index

The process index measures four different sub-indices: 1) time, measured in days to acquire a license from the moment that the forms are submitted to the municipality up to the moment the license is emitted to the firm; 2) the cost, measured as a percentage of GDP per capita; 3) number of visits, measured by the number of times that the firm had to go to the municipality during the process of acquiring a license; 4) number of rejections, measured by the percentage of all of the applications that were rejected in one year. In sum, these sub-indices provide information on the efficiency of the procedures that the municipality implements to grant licenses.

Time

This is the total time used to comply with the procedures, measured as the time elapsed between the date when the license or permit process started and the date when the corresponding license or permit was issued. Since this is a perception survey, it is important to note that the majority of the firms take into account the day they went to the municipality to ask for information about the license and the day they actually received the license from the municipality. This does not necessarily coincide with the date that the municipality emitted the license. For this reason, typically, firms report larger time in days than a municipal official. This does not invalidate the firm's opinion, however it puts into perspective the information acquired by the firm. The majority of the firms in the study do not use intermediaries to seek a license. Those who do use an intermediary do so to facilitate the process.

The following best practices can help reduce the emission times for a license as well as number of visits that a firm must make to the municipality.

- **Risk Classification System According to Economic Activity:** Classification of firms by risk helps the municipality prioritize its resources so that the majority of the supervision is focused on high risk firms, those that engage in activities that have an effect on health,

environment and safety. Low risk firms are generally the larger percentage in the pool of firms seeking a license, and should not be subject to the same regulatory scrutiny as high risk firms.

- **Zoning:** The municipality should have a zoning plan that is updated and is clearly mapped. This information should be available at no cost to firms, which enables the municipality to grant or reject the license immediately.

Figures 1.2 to 1.4 shows the number of days that each municipality undertakes to grant an operating license. It is worth noting that the average days reported in the Andean countries and Mexico/Brazil is higher than the the Central America Group. There is a large dispersion among the Andean Group countries. For some municipalities, the time to issue a license is higher than expected, due to the fact that some municipalities have just now finished implementing reforms and are reporting lower times.[21] The surveys were implemented before reforms; as a result some municipalities have not performed well in the *Municipal Scorecard 2008.*

Municipalities show significant differences in regulating operating licenses. Most countries in the Region have given municipalities exclusive authority to grant operating licenses. Generally municipalities in Latin America have the mandate to create their own regulatory standards. However, in Peru and Honduras, nationwide regulatory standards establish the norm for all municipalities.[22] The above figures show significant differences in the amount of time needed to obtain an operating license across Latin America. Top performers, such as Copan Ruinas, Choluteca San Lorenzo and Juticalpa in Honduras; Granada, Esteli and San Juan del Sur in Nicaragua, Ibarra and Tulcan in Ecuador, only take one day to grant an operating license. After a process of reforms, many municipalities now take less than 10 business days to grant a license. However, 59 percent of the municipalities included in the study still take more than 20 days to grant an operating license.[23]

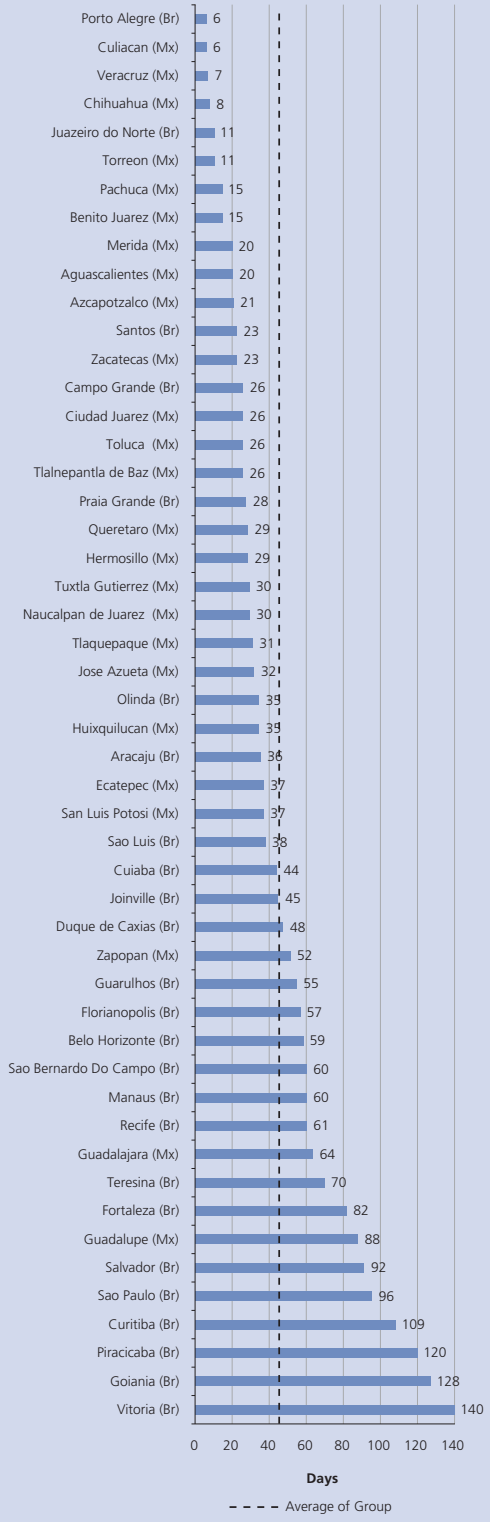
The municipality of Vitoria last year had less amount of time in days and has increased in the number of days this year to acquire an operating license. This may be because the State of Espiritu Santo is in the process of an economic growth and transformation in all sectors of the economy, which has increased the number of firms soliciting an operating license. The number of firms requesting a license is above 300, and sometimes has reached up to 900 per month. The municipality has not invested in the human resources and infrastructure to handle such capacity. The large volume can explain the increase in time for firms to acquire an operating license in Vitoria.

[21]These include La Paz, Oruro, Sucre, and Quillacollo in Bolivia; Sao Paulo in Brazil; Quito and Manta in Ecuador; and Arequipa, Ica, and Puno in Peru.
[22]In 2007, Peru passed a "New Law for Operating Licenses", which will be reviewed below. In Honduras, the Business Administrative Simplification Committee coordinates simplification initiatives nationwide.
[23]The performance variables included 155 municipalities, assessing 12 municipalities in Honduras. However, Honduras is not part of the overall ranking and the process index.

Figure 1.2 **Mexico/Brazil**

Operating License - Time (Days) (Firms Perception)

This variable makes reference to the total time that the process took, measured as the difference between the starting date and the issuing date for the Operating License. When no information was available for this item, the entrepreneur's estimate was used.

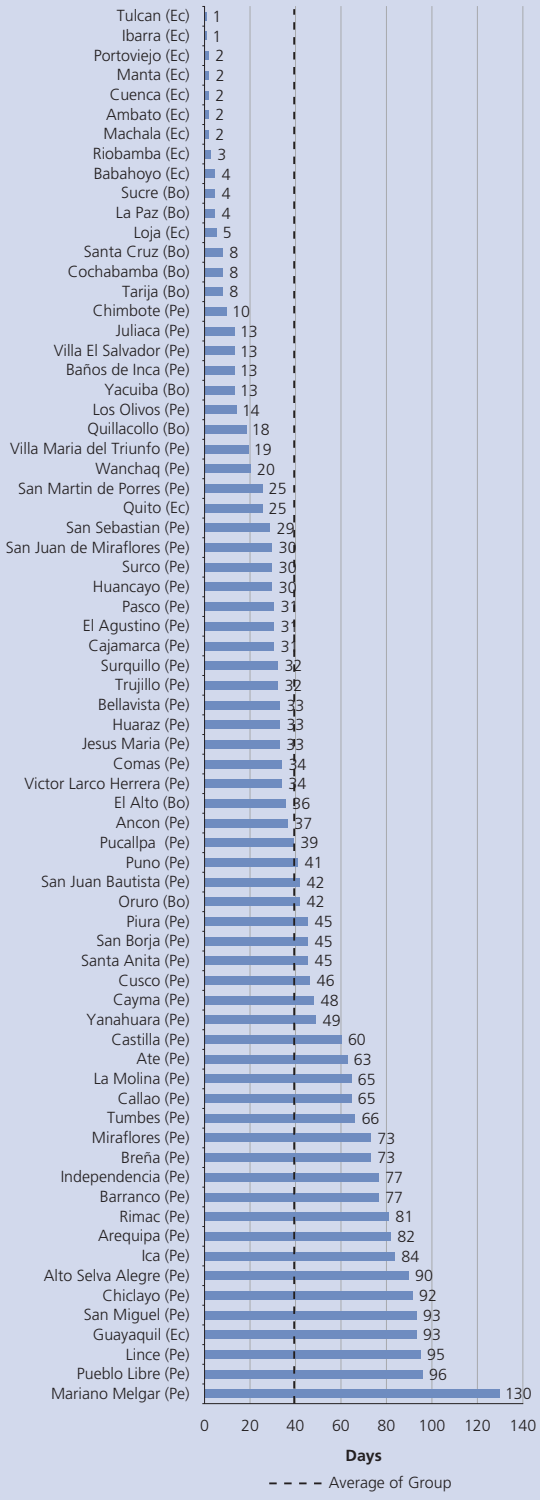


Source: *Municipal Scorecard 2008* Database

Figure 1.3 **Andean Countries**

Operating License - Time (Days) (Firms Perception)

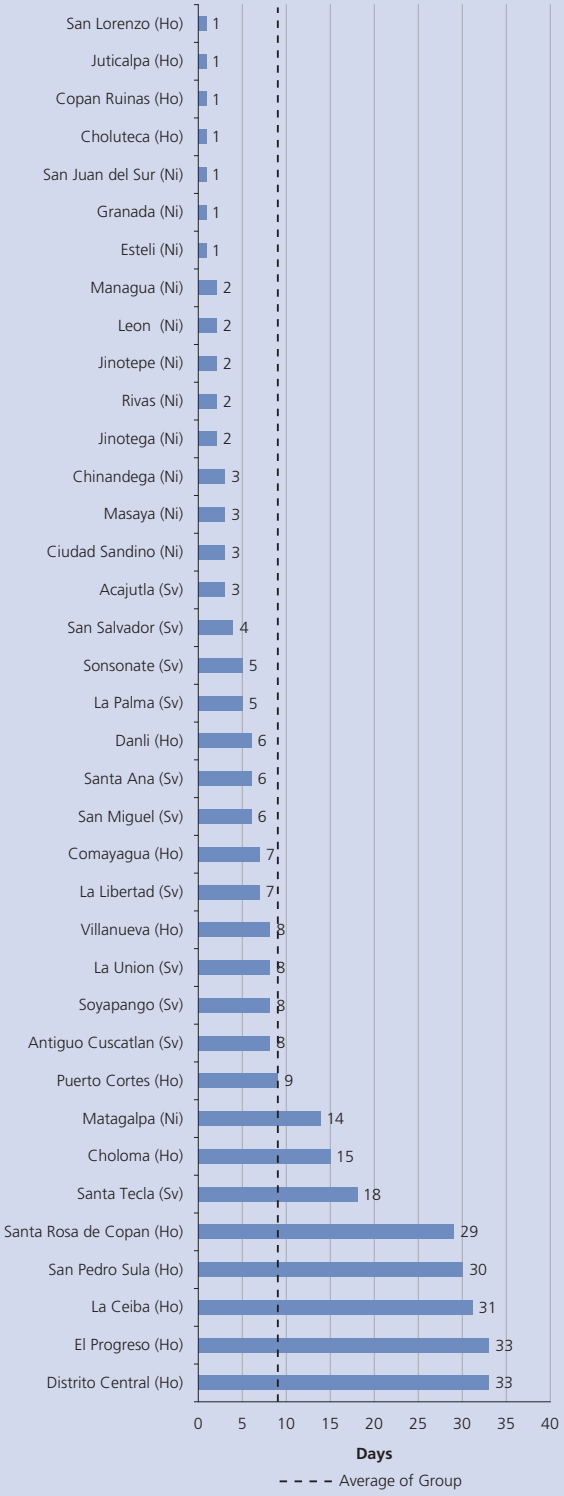
This variable makes reference to the total time that the process took, measured as the difference between the starting date and the issuing date for the Operating License. When no information was available for this item, the entrepreneur's estimate was used.



Source: *Municipal Scorecard 2008* Database

Figure 1.4 **Central America**
Operating License - Time (Days) (Firms Perception)

This variable makes reference to the total time that the process took, measured as the difference between the starting date and the issuing date for the Operating License. When no information was available for this item, the entrepreneur's estimate was used.



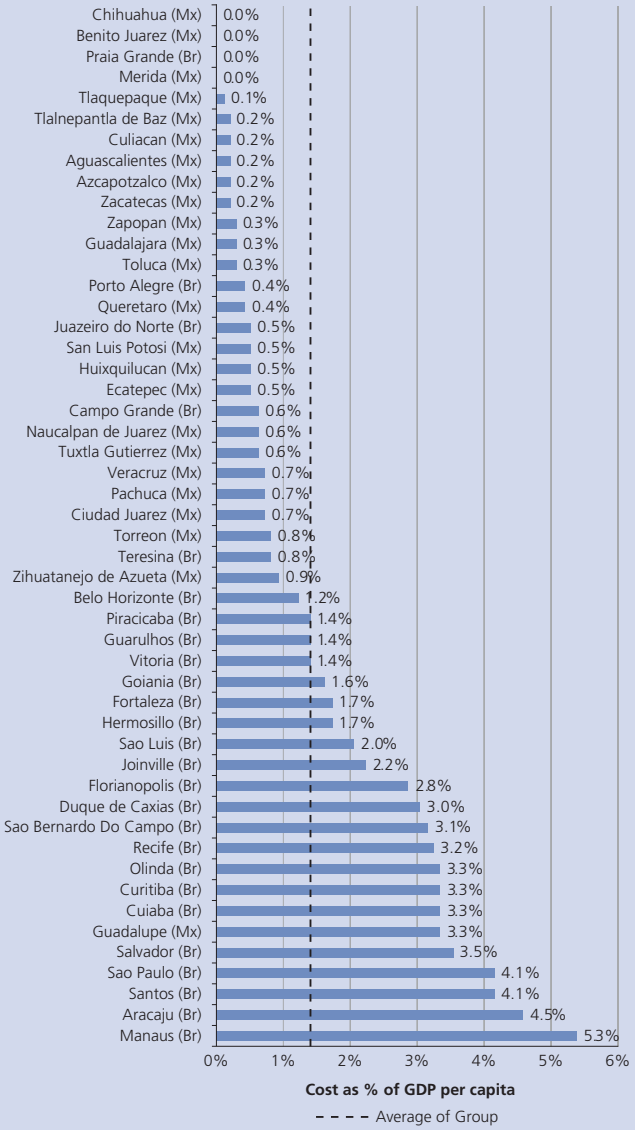
Source: *Municipal Scorecard 2008* Database

Cost

This indicator measures the official cost or fee firms must incur to obtain a license. Good practice requires that the fees charged for the license should be in par with the actual cost of administrating the license and the necessary investments to sustain these functions in the future. Although this is required by law in some countries like Peru, in the practice, this regulation is very difficult to enforce. In some cases, municipalities are unable to determine the cost incurred in issuing a license. The tables below show firm responses in estimating the official cost incurred at the municipal level to acquire a license (see tables 2.12 to 2.14).

Figure 1.5 **Mexico/Brazil**
Operating License - Cost (as % of per capita GDP) (Firms Perception)

This variable refers to the entrepreneur's estimate for the total cost incurred at the municipality during the process, expressed as a percentage of the national GDP in US$.

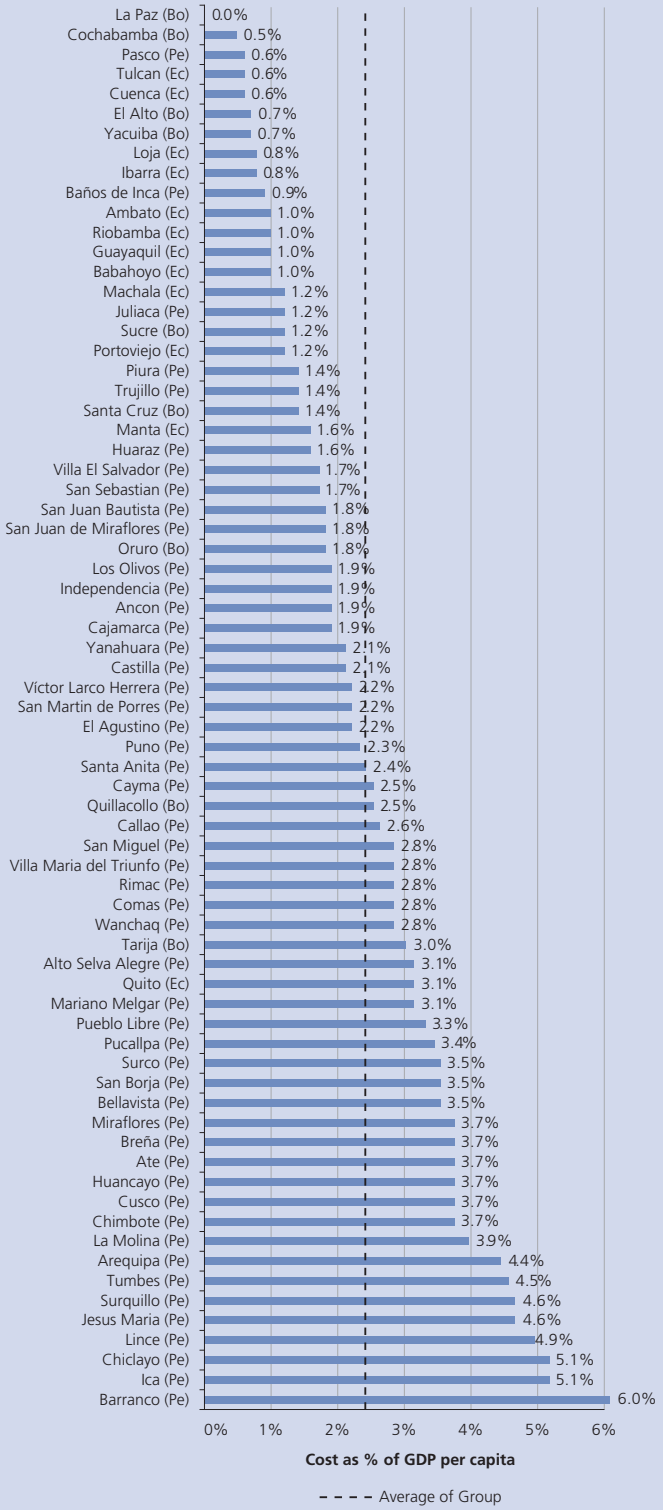


Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Figure 1.6 **Andean Countries**

Operating License - Cost (as % of per capita GDP) (Firms Perception)

This variable refers to the entrepreneur's estimate for the total cost incurred at the municipality during the process, expressed as a percentage of the national GDP in US$.

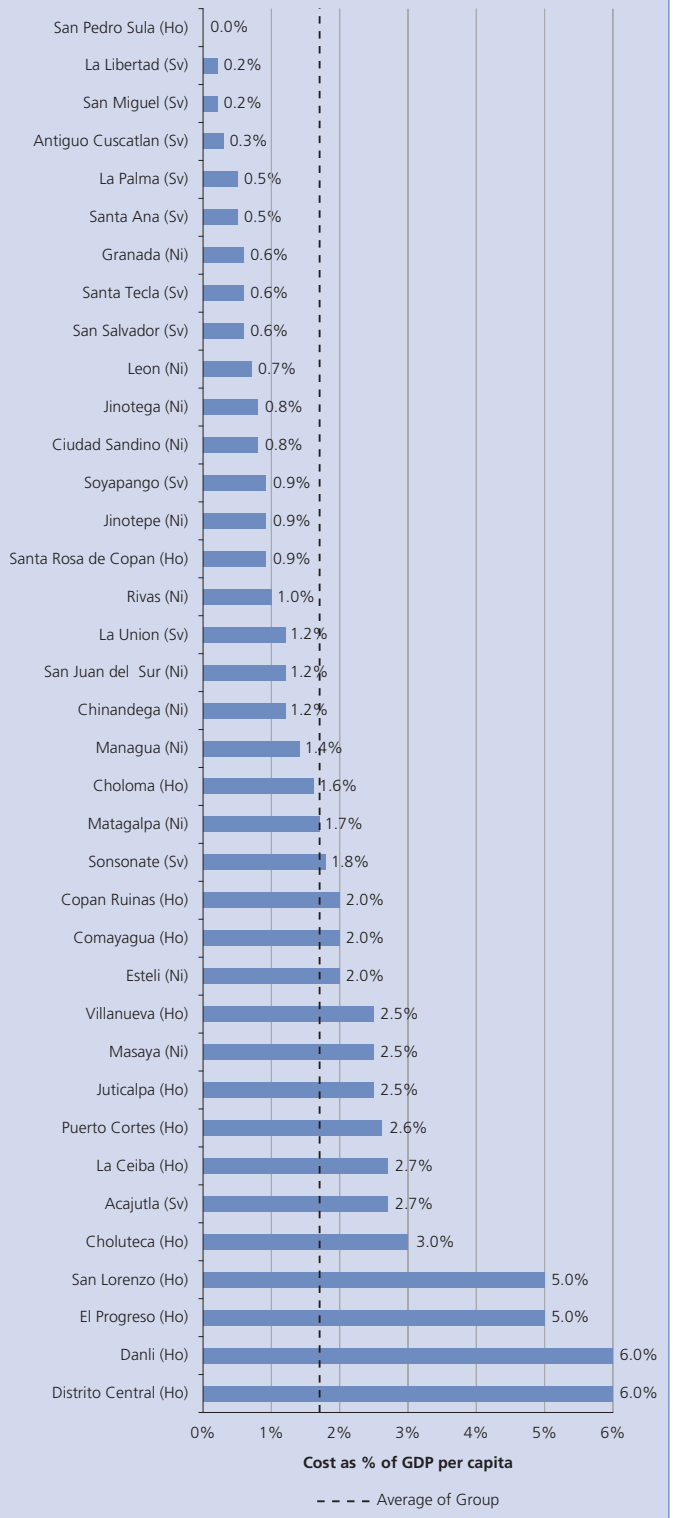


Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Figure 1.7 **Central America**

Operating License - Cost (as % of per capita GDP) (Firms Perception)

This variable refers to the entrepreneur's estimate for the total cost incurred at the municipality during the process, expressed as a percentage of the national GDP in US$.



Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Operating license fees in 41 percent of the municipalities exceed 2 percent of annual GDP per capita. Overall, municipalities in Bolivia and Nicaragua are the least expensive, while those in Brazil and Peru are the most costly. Unfortunately, the poorest municipalities report the highest licensing costs. Significant cost differences are also found within the same country. In Peru, for instance, only one municipality charges less than one percent of annual GDP per capita for an operating license, while 22 municipalities charge more than three percent of GDP per capita, regardless of whether they are located in the capital or in a remote province.

Number of visits

Firms spend time visiting a municipality, which represents an opportunity cost.[24] Firms report that more visits increase the likelihood of extra-official payments to municipal authorities. Ideally, the number of visits should be limited to two for low-risk businesses. The first visit is needed to gather information, and the second to submit the application. Some municipalities publish all their requirements on their web pages or provide them by phone, reducing the number of visits to just one. In the Peruvian municipalities of Ate and Rimac, a firm needs to visit the municipality 10 times to obtain an operating license. In Piracicaba in Brazil obtaining a license requires eight visits.

Rejections

The percentage of rejections is one of the most controversial indicators in the *Municipal Scorecard*. Some municipalities that hold that a high percentage of rejections reflect a strict adherence to safety and environmental standards. However, it is also clear that rejections could be significantly reduced if municipalities provided clear information about the process.Thus, the number of firms submitting incomplete applications would be reduced. The percentage of rejections at a given municipality generally reflects information deficiencies, low productivity and/or insufficient review of applications at the reception desk. Firms reported that most rejections were due to the municipality's failure to provide sufficient information or to thoroughly review the application documents at the reception desk.

The highest percentage of municipalities with strong performance indicators are in Nicaragua, Mexico, El Salvador and Ecuador. Seven of Nicaragua's 12 participating municipalities 50% and six of El Salvador's 11 municipalities 45% rank among the 25 top performing municipalities. In Nicaragua and El Salvador, the procedure is relatively simple. Few requirements, procedures and inspections are needed in these countries, cutting down on the time and number of visits business owners need to make to obtain a license. Also, a significant number of municipalities in these two countries have already introduced simplification processes.[25]

Presented below is the municipal ranking for the operating license. This ranking compares municipalities across the Region. The ranking is made up of two indices: a performance index and a process index, and each index is made up of several variables.

Table 1.3 shows the results of Mexico-Brazil. Six Mexican municipalities are in the top six places while fifteen Brazilian municipalities are in the last places in this ranking. In the regional ranking, eight Mexican municipalities are in the top ten positions. The municipality of Chihuahua is in the first place out of 143 municipalities in Latin America. For Brazil, Porto Alegre is seventh in the regional ranking (see table 1.3).

The top five positions in the Andean countries are held by following municipalities in Ecuador: Riobamba, Ambato, Cuenca, Tulcan and Machala. Peru occupies the last 12 positions (see table 1.4).

In Central America (see table 1.5), Esteli in Nicaragua is number two in the regional ranking out of 143 Latin American municipalities and is in top place in Central America. La Union in El Salvador is number 63 in the regional ranking and in last place in Central America.

[24]In this case the opportunity cost is represented by the loss incurred by the business owner for having to visit the municipality instead of running his/her business.
[25]In Nicaragua, the municipalities of Granada, Leon, Managua and Masaya have implemented simplification projects with the support of IFC. In El Salvador, simplification efforts are underway with the SIMTRA project which is sponsored by the National Foundation for Development (FUNDES International) with support from the Swiss Economic Cooperation Secretariat. This project was carried out in San Salvador's District 1, District 3, District 4, District 5, District 6 and METROCENTRO municipalities. Improvements are currently underway in Antiguo Cuscatlan, Apopa, Santa Tecla, and San Marcos.

Table 1.3 **Mexico/Brazil**

Operating License - Regional and Group Ranking

The Operating License ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	Group Ranking
Chihuahua (Mx)	1	1
Merida (Mx)	3	2
Pachuca (Mx)	7	3
Ciudad Juarez (Mx)	13	4
Culiacan (Mx)	19	5
Zacatecas (Mx)	20	6
Porto Alegre (Br)	23	7
Praia Grande (Br)	24	8
Aguascalientes (Mx)	26	9
Zihuatanejo de Azueta (Mx)	27	10
Tlaquepaque (Mx)	28	11
Veracruz (Mx)	29	12
Benito Juarez (Mx)	33	13
Torreon (Mx)	36	14
Azcapotzalco (Mx)	38	15
Juazeiro do Norte (Br)	39	16
Huixquilucan (Mx)	42	17
Queretaro (Mx)	43	18
San Luis Potosi (Mx)	47	19
Teresina (Br)	51	20
Tlalnepantla de Baz (Mx)	56	21
Toluca (Mx)	58	22
Ecatepec (Mx)	59	23
Hermosillo (Mx)	62	24
Santos (Br)	67	25
Manaus (Br)	68	26
Zapopan (Mx)	72	27
Joinville (Br)	74	28
Naucalpan de Juarez (Mx)	75	29
Tuxtla Gutierrez (Mx)	81	30
Campo Grande (Br)	85	31
Guadalupe (Mx)	89	32
Florianopolis (Br)	93	33
Duque de Caxias (Br)	94	34
Guadalajara (Mx)	95	35
Aracaju (Br)	96	36
Piracicaba (Br)	100	37
Sao Luis (Br)	102	38
Fortaleza (Br)	104	39
Cuiaba (Br)	106	40
Belo Horizonte (Br)	109	41
Salvador (Br)	110	42
Vitoria (Br)	122	43
Olinda (Br)	127	44
Curitiba (Br)	129	45
Recife (Br)	130	46
Sao Bernardo Do Campo (Br)	132	47
Guarulhos (Br)	138	48
Goiania (Br)	140	49
Sao Paulo (Br)	143	50

* Of 143 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

Table 1.4 **Andean Countries**

Operating License - Regional and Group Ranking

The Operating License ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	Group Ranking
Riobamba (Ec)	4	1
Ambato (Ec)	5	2
Cuenca (Ec)	14	3
Tulcan (Ec)	21	4
Machala (Ec)	30	5
Los Olivos (Pe)	32	6
Guayaquil (Ec)	34	7
Tarija (Bo)	35	8
Ibarra (Ec)	41	9
Villa Maria del Triunfo (Pe)	49	10
Manta (Ec)	50	11
Quito (Ec)	52	12
Portoviejo (Ec)	53	13
Babahoyo (Ec)	54	14
Santa Cruz (Bo)	60	15
Loja (Ec)	61	16
La Paz (Bo)	64	17
San Juan Bautista (Pe)	65	18
Surco (Pe)	66	19
San Martin de Porres (Pe)	69	20
Baños de Inca (Pe)	70	21
Sucre (Bo)	71	22
Pucallpa (Pe)	73	23
Cajamarca (Pe)	76	24
Victor Larco Herrera (Pe)	77	25
Huaraz (Pe)	78	26
Cochabamba (Bo)	79	27
San Miguel (Pe)	80	28
Juliaca (Pe)	82	29
Yanahuara (Pe)	83	30
Miraflores (Pe)	84	31
Breña (Pe)	86	32
Piura (Pe)	87	33
Bellavista (Pe)	88	34
Castilla (Pe)	90	35
Surquillo (Pe)	91	36
Comas (Pe)	92	37
Trujillo (Pe)	97	38
Jesus Maria (Pe)	98	39
Wanchaq (Pe)	99	40
Callao (Pe)	101	41
Chimbote (Pe)	103	42
Pasco (Pe)	105	43
Cayma (Pe)	107	44
Oruro (Bo)	108	45
Huancayo (Pe)	111	46
San Juan de Miraflores (Pe)	112	47
La Molina (Pe)	113	48

* Of 143 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

Table 1.5 **Central America**
Operating License - Regional and Group Ranking

The Operating License ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	Group Ranking
Esteli (Ni)	2	1
La Palma (Sv)	6	2
Granada (Ni)	8	3
Ciudad Sandino (Ni)	9	4
Sonsonate (Sv)	10	5
San Miguel (Sv)	11	6
La Libertad (Sv)	12	7
Santa Ana (Sv)	15	8
Managua (Ni)	16	9
Jinotepe (Ni)	17	10
Soyapango (Sv)	18	11
San Juan del Sur (Ni)	22	12
Jinotega (Ni)	25	13
Antiguo Cuscatlan (Sv)	31	14
Acajutla (Sv)	37	15
Matagalpa (Ni)	40	16
San Salvador (Sv)	44	17
Santa Tecla (Sv)	45	18
Masaya (Ni)	46	19
Chinandega (Ni)	48	20
Rivas (Ni)	55	21
Leon (Ni)	57	22
La Union (Sv)	63	23

* Of 143 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

Process Index

The process index is made up of a set of variables that measure municipal process management and operational efficiency. The process index is composed of six different sub-indices that measure: 1) the quality, availability and management of information provided by the municipality to firms, 2) the quality of the facilities, equipment and technology used by the municipality to meet firm needs, 3) the use of appropriate planning, management and process evaluation tools, 4) the efficiency of inspection services, 5) the level of personnel training, and 6) the existence and frequency of internal and external audits.

Independently, each of these sub-indices is made up of several variables. Because a municipality may score higher in one variable and lower in another, it is important to refer to the tables of sub-indices which provide disaggregated municipal scores and hence facilitate a more complete picture.

The municipalities' results by sub-index for the main operating license process indicators appear in tables 1.6 to 1.8 below.

Table 1.6
Operating License - Best and Worst Performing Municipalities in the Process Sub-indices within Mexico/Brazil

Information Sub-index

Best performers	Worst performers
Brazil Piracicaba	Sao Paulo
Mexico Merida	Naucalpan de Juarez

Tools Sub-index

Best performers	Worst performers
Brazil Cuiaba, Manaus, Praia Grande, Santos, Sao Luis, Vitoria	Olinda
Mexico Aguascalientes, Pachuca, Queretaro, Veracruz, Zapopan	Huixquilucan

Training Sub-index

Best performers	Worst performers
Brazil Campo Grande, Duque de Caxias, Joinville, Juazeiro do Norte, Manaus	Recife
Mexico Aguascalientes, Benito Juarez, Ciudad Juarez, Ecatepec, Guadalupe, Pachuca, Toluca, Veracruz	Tuxtla Gutierrez

Customer Service Sub-index

Best performers	Worst performers
Brazil Piracicaba	Curitiba
Mexico Chihuahua	Benito Juarez

Inspections Sub-index

Best performers	Worst performers
Brazil Curitiba	Sao Paulo
Mexico Chihuahua	Ecatepec

Audits Sub-index

Best performers	Worst performers
Brazil Belo Horizonte	Manaus
Mexico Toluca	Ciudad Juarez, Chihuahua, Merida, Torreon, Zapopan

What variables does each Sub-index include?

Information Sub-index
Availability of forms, Simplicity of forms, Information, Sufficient information, Access to information and Consistency in the process.

Training Sub-index
Existence of user manuals, Training in internal processes, Training in customer service and Training for the officials in charge of inspections.

Inspections Sub-index
Number of inspections, Days of inspections, Rating of inspections and Transparency of the inspections.

Tools Sub-index
IT, Delegation of authority, Zoning, Categorization of business activities and industrial classification.

Customer Service Sub-index
Infrastructure of the municipality, Customer Service, Formal system for complaints/opinion and Front desk

Audits Sub-index
Internal audits and External audits.

Source: *Municipal Scorecard 2008* Database

Information

This sub-index measures the availability and clarity of information provided by the municipality. Firms report whether the forms are easy to fill out, and whether the process is coherent with the information provided. The availability and clarity of the information provided by the municipality have an effect on the time and money firms need to invest in obtaining their licenses and permits, a fact municipalities often overlook. However, this investment affects firms decisions to engage in the formal licensing process.

Table 1.7
Operating License - Best and Worst Performing Municipalities in the Process Sub-indices within the Andean Countries

Information Sub-index

Best performers	Worst performers
Bolivia Tarija	Yacuiba
Ecuador Riobamba	Loja
Peru El Agustino	Arequipa

Tools Sub-index

Best performers	Worst performers
Bolivia Oruro, Santa Cruz, Sucre, Tarija	Yacuiba, Cochabamba
Ecuador Ambato, Cuenca, Guayaquil, Ibarra	Loja
Peru Chimbote, Arequipa, Cajamarca, Bellavista, Cusco, Wanchaq, Barranco, Tumbes, San Miguel, San Martín de Porres	Villa El Salvador

Training Sub-index

Best performers	Worst performers
Bolivia La Paz, Santa Cruz, Yacuiba	Quillacollo
Ecuador Guayaquil	Babahoyo
Peru Alto Selva Alegre, Mariano Melgar, Cajamarca, Bellavista, Cusco, Ica, Trujillo, Breña, El Agustino, Lince, Miraflores, Pueblo Libre, Rimac, Surco, Surquillo, Pasco, Piura, Puno, Tumbes, Pucallpa	Huaraz

Customer Service Sub-index

Best performers	Worst performers
Bolivia Tarija	Quillacollo
Ecuador Guayaquil	Machala
Peru Pasco	Chiclayo

Inspections Sub-index

Best performers	Worst performers
Bolivia Santa Cruz	Cochabamba
Ecuador Guayaquil	Manta
Peru Pucallpa	Arequipa

Audits Sub-index

Best performers	Worst performers
Bolivia El Alto	La Paz
Ecuador Portoviejo	Guayaquil
Peru Yanahuara	Mariano Melgar, Baños de Inca, Callao, Barranco, Pueblo Libre

What variables does each Sub-index include?

Information Sub-index
Availability of forms, Simplicity of forms, Information, Sufficient information, Access to information and Consistency in the process.

Training Sub-index
Existence of user manuals, Training in internal processes, Training in customer service and Training for the officials in charge of inspections.

Inspections Sub-index
Number of inspections, Days of inspections, Rating of inspections and Transparency of the inspections.

Tools Sub-index
IT, Delegation of authority, Zonification, Categorization of business activities and industrial classification.

Customer Service Sub-index
Infrastructure of the municipality, Customer Service, Formal system for complaints/opinion and Front desk

Audits Sub-index
Internal audits and External audits.

Source: *Municipal Scorecard 2008* Database

Tools

The variables in this sub-index include the use of information technology, delegation of signing authority, zoning, categorization of business activities and industrial classification. As a good practice, simplification projects include the design of information tools (software) to streamline processes. Municipalities need to assess the quality of IT systems to find adequate IT solutions. These costs could vary from municipality to municipality given the quality of infrastructure. Quito's reform initiatives resulted in an investment in a new IT system. It also took into consideration the need to assure the sustainability of the reforms through continuous training. Significant efforts were made to provide frequent and continued personnel training, despite personnel turnover and regulatory changes.

Training

The training sub-index measures the availability of training and tools for capacity building for municipal personnel. This includes availability and usefulness of procedural manuals, the training the staff receive on procedures, training on inspections, and the training on customer information and service. It is particularly important to disseminate manuals and familiarize employees with standards and establish continuous training programs on both processes and customer service, due to high turnover

among municipal staff (particularly when administrations change). If the municipality can accomplish these goals, it should be able to improve compliance with legal obligations while maintaining high quality services.

Table 1.8
Operating License - Best and Worst Performing Municipalities in the Process Sub-indices within Central America

Information Sub-index

Best performers	Worst performers
El Salvador	
La Palma	La Union
Nicaragua	
Esteli	Rivas

Tools Sub-index

Best performers	Worst performers
El Salvador	
Soyapango	Sonsonate
Nicaragua	
Managua	Rivas

Training Sub-index

Best performers	Worst performers
El Salvador	
La Palma, La Union, Santa Tecla, Sonsonate, Soyapango	San Salvador
Nicaragua	
Chinandega, Ciudad Sandino, Esteli, Granada, Jinotega, Managua, Matagalpa, San Juan del Sur	Rivas

Customer Service Sub-index

Best performers	Worst performers
El Salvador	
La Palma	La Union
Nicaragua	
Esteli	Chinandega

Inspections Sub-index

Best performers	Worst performers
El Salvador	
San Miguel	Santa Tecla
Nicaragua	
Granada	Chinandega

Audits Sub-index

Best performers	Worst performers
El Salvador	
Antiguo Cuscatlan	Sonsonate
Nicaragua	
San Juan del Sur	Rivas

What variables does each Sub-index include?

Information Sub-index
Availability of forms, Simplicity of forms, Information, Sufficient information, Access to information and Consistency in the process.

Training Sub-index
Existence of user manuals, Training in internal processes, Training in customer service and Training for the officials in charge of inspections.

Inspections Sub-index
Number of inspections, Days of inspections, Rating of inspections and Transparency of the inspections.

Tools Sub-index
IT, Delegation of authority, Zonification, Categorization of business activities and industrial classification.

Customer Service Sub-index
Infrastructure of the municipality, Customer Service, Formal system for complaints/opinion and Front desk

Audits Sub-index
Internal audits and External audits.

Source: *Municipal Scorecard 2008* Database

Inspections

This sub-index is comprised of the following variables: number of inspections, days of inspections, transparency of the inspection process (from the business owner's perspective) and whether or not the applicant felt the inspections were reasonable. As we will see below, the efficiency of the inspection process is critical for fast and effective operating license procedures. Generally, good practice requires just one multi-disciplinary inspection which should include health, safety or environmental inspections.

Inspections do not necessarily have to be performed before a license is awarded to a firm. This is particularly true for businesses engaging in low-risk economic activities. Not all businesses need to be inspected prior to the issuance of the license; rather, regular inspections should focus on firms engaging in high-risk economic activities. Finally, and what is perhaps more important, the entire process should be transparent. Firms must be previously informed about their rights and duties, and controls and sanctions should be enforced without exception.

Audits

Internal and external process audits ensure that processes function as expected and help identify irregularities and opportunities for improvement. The objective of audits is to examine the quality of the processes to issue licenses, both externally and internally, which requires a high level of transparency.

Peru: Is a law to simplify municipal operating license processes enough?

At the beginning of 2007, Peru's Congress passed the "New Law for Operating Licenses". This was a major effort to standardize operating license regulations throughout Peru. It is worthwhile underscoring that this is one of the most comprehensive legislative initiatives on operating licenses in Latin America, and an initiative to encourage several good practices. It may be a useful example for other countries throughout the region. Among the good practices this law encourages is the 15 business day limit to issue an operating license. It also lists the number and type of requirements, the categories of fees, and the type of information that must be available to users. Furthermore, three types of procedures are presented, depending on the size of the firm and the risk associated with the economic activities involved. It also eliminates prior inspections for low-risk and small businesses, and introduces a single safety inspection for all other businesses.

Unfortunately, passing a law is not enough to accomplish true reform. In fact, in August 2008, more than one year after the law had been adopted, only 6 percent of Lima's 49 municipalities had published the documents required by article 16 of the Operating License Law on their websites[26] and 53 percent of municipalities were in partial compliance, while 41 percent had failed to publish these documents, as shown by data published by the National Institute for the Defense of Competition and Intellectual Property[27]. Streamlining processes is not an easy task and requires financial resources, the staff's commitment and the corresponding authority's political will. Moreover, to prevent sanctions for failure to comply with the law, municipalities may grant licenses in the time and at the cost established, but only at the expense of lower quality processes that leave citizens unprotected. Governments and other organizations interested in creating a better business climate must engage in complementary activities to promote comprehensive simplification reforms.

What can be done to complement a law?

A law is useful because it allows standardizing procedures and regulating good practices. However, it must be backed by technical assistance and a dissemination program to support the decision to launch reforms which, ultimately, can be implemented only if each municipality shows political will. For instance, to support the new Law in Peru, several municipalities have launched a simplification program called Tramifacil. The program provides municipalities the technical assistance they need to comply with the law. In sum, the program supports 39 Peruvian municipalities. Some of the program's results are reflected in the findings of the *Municipal Scorecard 2008.*

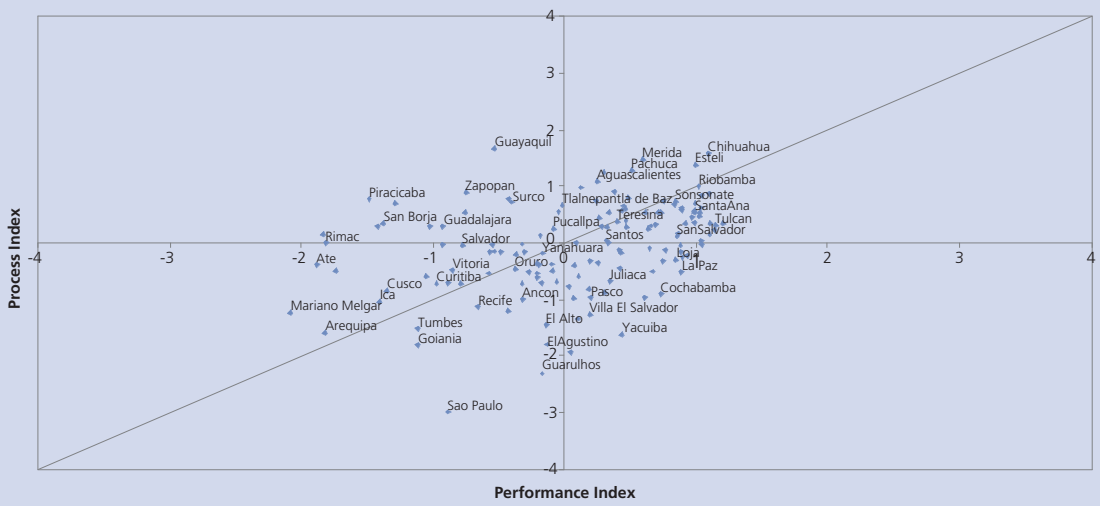
Figure 1.8 shows that the municipalities that are most efficient, are in the upper right quadrant. These municipalities have high ranking in both perfomance and process indexes. The municipalities in the lower left quadrant have the lowest scores in both indexes

As shown in the following figure the municipalities of Chihuahua in Mexico, Esteli in Nicaragua, and Merida in Mexico score higher in both performance and process indices, and therefore are the best regional performers. In general, most municipalities showing high process indicator scores also score well for performance. However, some exceptions are noteworthy. For instance, Riobamba and Guayaquil in Ecuador and Sonsonate in El Salvador obtained high scores for their processes but not for their performance and must still strive to reduce times and costs. On the other hand, Antiguo Cuscatlan in El Salvador, Jinotega in Nicaragua, and Yacuiba in Bolivia obtained high scores in performance indicators despite their low process scores.

In other words, these municipalities do not charge high fees for operating licenses nor do they take too long to grant them, but the information they provide or the tools available to them are not adequate, resulting in high rejection ratios. Poor process indicators reveal a lack of efficient municipal management and supervision. Good performance indicators mean speedier procedures for firms. However, when coupled with poor processes, it demonstrates that a municipality is not implementing its regulatory mandate. Efficient processes and poor performance variables indicate that municipalities may have all the supervision in place, but it is often implemented poorly, causing much delay in processing applications.

[26]Zoning plan and zoning change procedures that may be underway, land use index, cost structure for the paperwork for obtaining an operating license, applications or forms required for the operating license paperwork.
[27]Report Nº. 014-2008/INDECOPI/CAM, published in Lima, Peru on August 13th, 2008

Figure 1.8
Operating License - Process Index vs. Performance Index



Source: *Municipal Scorecard 2008* Database

Sixty one percent of the municipalities that participated in both the *Municipal Scorecard 2007* and *Municipal Scorecard 2008* witnessed a significant reduction in the number of days for a firm to obtain an operating license. Seventy percent of these municipalities have reduced the cost to acquire an operating license. While it is not possible to attribute these improvements to the *Municipal Scorecard*, 87 percent of the municipalities that participated in the *Municipal Scorecard 2007* have reported that they are in the process of implementing reforms or are planning to reform in the next two years.

It is important to note that the objective of this study is not only to encourage municipalities to reduce the time and costs incurred by firms to process operating licenses, but to process licenses in a way that reflects good practice and assures that regulatory goals are met. As a result, the *Municipal Scorecard* incorporates a performance index which measures variables such as time and cost, and a process index which measures variables such as the existence of zoning, or the classification of economic activity according to risk, which are important regulatory processes that are part of the operating license.

In sum, municipalities interested in reform should not limit themselves to reducing the number of processes or the time to acquire an operating license. The municipality should establish clear criteria for the processes and implement an efficient regulatory system that is sustainable over time. It is important to also create a monitoring and evaluation system to make sure that the processes are conducted effectively and efficiently. In conclusion, simplification does not mean de-regulation. A simplification process should create an efficient regulatory compliance system. In other words, the regulatory goals should be fulfilled in a rapid and reasonably efficient amount of time.

Chapter 2
Construction Permits

Prior to 2006, acquiring a construction permit would take 66 days in Granada, Nicaragua. Granada was ranked 47 out of 65 countries in the *Municipal Scorecard 2007*. The city also suffered from high levels of informality[28]. The municipality did not have a clear and regulatory framework. Firms complained of a high number of requirements and complex processes all distributed among different municipal departments. Poor inter-institutional coordination among municipal offices and different levels of government also delayed the procedure. According to the *Municipal Scorecard 2007*, firms reported that Granada had a large number of visits to the municipality, high costs associated with the process, and the largest percentage of rejected applications in a period of one year in Nicaragua.

The excessive administrative burden discouraged private investment and the entry of new firms to the formal economy. A number of government studies that were conducted for the program on reform and modernization of the government highlighted the procedures for the construction permit and operating license as priority areas of reform[29].

The municipality of Granada in conjunction with the Association of Municipalities of Nicaragua (AMUNIC) recognized the need to elaborate a program for reform that would encourage private investment and initiated a simplification project for municipal procedures. This project had three phases: diagnostic, proposal, and implementation. The program improved aspects such as information for investors, standards processes, and standard requirements for each type of construction, standard forms, and customer service offices. Information was published and distributed at no cost on the requirements, costs and forms. Maximum time limits were established for the processing of the permit according to type of construction. IT tools were used to better manage the procedures.

The impact of these reforms resulted in the permit going from 189 to 56 processes, and 23 to 12 requirements, and 12 to 5 visits that firms had to make to the municipality. The time to acquire the permit went from 31 to 5 days. The simplification program results in a positive change in customer service, resulting in better relations between the state and private sector and helped create a public private alliance to implement municipal simplification projects at the national level to improve the business climate and accomplish regulatory goals that ensured the appropriate technical and safety standards.

The Municipal Construction Permit in Latin America: A Significant Obstacle

Formal construction is regulated by the government. Properties are built on a titled lot and registered in the municipal cadastre so that taxes will be paid on the property. Properties must adhere to certain infrastructure standards and should adhere to local development and zoning plans. Formal construction benefits from urban services and owners pay taxes, contributing to the local tax base and hence to government revenues. Formal construction projects are protected by national and provincial laws. Formal construction assures a certain level of quality because builders must comply with the regulatory construction standards.

[28]Nicaragua has a high level of informality, reaching up to 45 percent of its GDP. Schneider, F. and R. Klinglmair, *Shadow Economies around the World: What do We Know?* Working Paper no. 2004-03.
[29]Vallecillos & Associates and Central Government of Nicaragua.

From an economic standpoint, fewer and simpler procedures to grant licenses and conduct inspections encourage builders to create formal construction, whether industrial or commercial, and can save governments money.

Citizens who build using a permit can enjoy greater access to credit, ensure safer personal assets, avoid fines, benefit from higher property values, access subsidies, and demonstrate compliance with the city's planning process. By promoting formal construction, the municipalities ensure an organized, balanced and sustainable process that adheres to their urban development plans. Building projects are required to comply with zoning as well as other regulations that deal with land development, density, use of soil, and construction standards that apply to specific areas such as historic sites or protected areas.

Informal constructions are typically erected without municipal authorization, and disregard building code standards. These buildings lack access to public services and are not part of the urban planning process. Such informal construction frequently occurs around big cities where low income families build their homes. For example, according to Nicaragua's Ministry of Transportation and Infrastructure, 50 percent of the buildings in Managua are informal and do not comply with construction regulations. In Quito, Ecuador, this figure is up to 75 percent according to the Ministry of Urban Development and Housing. In Peru, Ministry of Construction, Housing and Sanitation figures show 80 percent of all housing and business construction projects are unlicensed.

Construction is one of the main economic activities in any country. The construction sector's contribution to a country's economy varies according to the country's relative development. The construction industry accounted for 5.7 percent of Latin America's GDP in 2006, with a significant multiplier effect on each nation's economic growth. Since 1995, construction has experienced growth, and expanded 22 percent in the last ten years.

Table 2.1 shows us the importance of the construction sector, which plays an important role in the economic growth of countries. Undoubtedly construction is an economic driving force and the main source of jobs in many Latin American countries. Construction stimulates the creation of fixed capital and new jobs. Private investment in the construction industry is an important source of employment.

Table 2.1
The Latin American Construction Sector

Country	Occupied population	GNP
Bolivia	9.6%	2.5%
Mexico	7.8%	5.1%
Brazil	7.5%	7.6%
Honduras	7.1%	4.1%
Guatemala	6.8%	1.5%
Ecuador	6.7%	9.3%
El Salvador	5.9%	4.5%
Colombia	5.5%	5.4%
Peru	5.2%	5.7%
Nicaragua	4.9%	6.1%

Source: ECLAC, Statistical Yearbook for Latin America and the Carribbean 2006

Why should Construction Permit Procedures be Improved?

The construction permit process generally starts with the submission of a construction design and ends with the registration of the building in public records offices. The process also identifies the property and its owner, negotiated contracts and designing a project that fits urban and construction parameters. Other steps may include negotiations with private sector parties and complying with various state or national administrative procedures.

Depending on the nature of the construction, some requirements must be fulfilled before the actual construction is authorized, such as requests to change zoning, construction parameters or land use. Zoning changes may be requested when the property is located in an area which is incompatible with the intended use of the property. If for instance, the property is located in a rural area, a request may be filed to connect the property to urban water, power and public services grids.

Once construction finishes, the municipality verifies that the building has been constructed according to plans, before

the builder can register the building under his/her name in the public records office, hence obtaining legal recognition for the construction. Registration increases the property's value and allows the full exercise of the owner's rights before third parties. Thus, those who comply with legal requirements benefit from the law.

Table 2.2 shows that in the nine countries that were analyzed in this study, 80 percent of the time needed to formalize a construction is spent on procedures at the municipal level, and the remaining 20 percent of the time is needed to register the property in the public records office. In Brazil and Ecuador, about 91 percent of the time required to complete the process is spent in the municipality and only 9 percent is needed for actual property registration at the records office. On the other hand, in Nicaragua and in Mexico, 64 percent of the time is used for registration while the remaining 36 percent is used to obtain the construction permit at the municipality.

Table 2.2
Time required to formalize a construction project

Country	Construction Permit (%)	Cadastre registration (%)
Brazil	91%	9%
Ecuador	91%	9%
Guatemala	88%	12%
Peru	86%	14%
Honduras	84%	16%
El Salvador	83%	17%
Bolivia	73%	27%
Nicaragua	64%	36%
Mexico	65%	35%

Source: Elaborated based on *Doing Business 2009*

Is There Too Much Regulation In The Construction Permit Procedure?

Municipalities that strive for efficient construction permit procedures must put in place clear and precise regulations. Reducing or eliminating unnecessary requirements, decreasing the number of steps and procedures, and cutting down the time involved in obtaining an authorization will encourage private investment. Efficient regulation allows the establishment of an organized urban planning process. It increases tax collection, stimulates formal construction activities, and encourages more regulatory compliance, allowing the business sector to be more efficient and productive. Good regulation provides a stable climate that encourages local economic development and growth. On the other hand, poor regulation can lead to inappropriate use of the land, damage the environment, create unsafe and hazardous construction projects, and result in tax evasion or illicit commercial activities. When the standards for construction, safety and zoning activities are not followed, society is left without adequate protection.

The regulatory framework to obtain a construction permit in most Latin American countries is burdensome and complex. Many regulations are antiquated and incoherent, making it almost impossible for the investor to obtain a permit or authorization as established by law. Investors face regulations that are predominantly restrictive and above all centered around ex ante control mechanisms. The number of conditions they have to comply with is distressing. Endless requirements, some of which are redundant or not applicable to the requesting firm, are difficult and expensive to follow. Some municipalities, such as Managua, require that an owner and construction company obtain a reliability certificate. Lima's 49 municipalities require a certificate of compliance with urban and construction parameters.

Municipal procedures often do not distinguish between building types, size or use. Construction permitting usually requires all applicants to conduct the following processes to complete the procedure: submission of building plans records, cadastre update, metropolitan regulation report, compatible land use report, environmental studies, and a fire department report. Some civil servants use their discretion and ad hoc criteria to approve projects. It may take the municipality several months to issue a construction permit, making it extremely burdensome for investors because of the financial costs and resulting loss of profits. As a result, formal private investment is negatively impacted. The process is further complicated by the fact that civil servants that review and approve the projects do not follow standard criteria; the process is managed by several departments of the municipality that do not necessarily communicate with one another, and the process often requires authorizations from additional sub-national and national agencies.

Understandably, most investors find the current procedures, the excessive requirements, the timeframes and bureaucracy unacceptable, feeling thus encouraged to evade rather than comply with regulations, and construct informally.

Table 2.3 shows the different construction activities, works or projects that require a permit or license.

Table 2.3
Construction Activities and Licenses in Selected Countries

	Nicaragua	Peru	El Salvador	Bolivia	Colombia	Mexico
Construction Permit or License needed						
New Building	✔	✔	✔	✔	✔	✔
Expansion	✔	✔	✔	✔	✔	✔
Remodeling	✔	✔	✔	✔		
Demolition		✔			✔	✔
Repairs	✔					✔
Modification					✔	✔
Minor Works	✔					
Reinforcement	✔					
Structural changes	✔					
Modification					✔	
Repairs					✔	
Dismantling						✔
Explicit request and/or simple communication						
Demolition	✔		✔	✔		✔
Fencing		✔		✔		
Minor Repairs					✔	✔
Fitting Out		✔				
Refurbishment		✔				
Remodeling			✔			
Minor Modifications					✔	
Replacement						✔

Nonetheless, certain types of construction may only require filling some simple conditions prior to obtaining the building permit. Compliance may be reported through a simple letter certifying the project meets building code standards or by sending a letter of request to the local government. For example, in El Salvador, construction and demolition of a building less than 50 m^2 does not require a prior request. In Bolivia, demolition and fencing can proceed simply by sending an explicit request to the municipal government. In Mexico, replacements, repairs and demolitions can be done without any type of request or license, and may proceed by simply giving advance notice to the local police station.

Excessive Regulation to Obtain a Construction Permit in Mexico City, Federal District

Current procedures to obtain a Construction Permit in Mexico City follow two procedures: 1) a Special Construction License and 2) a Statement of Construction Activity Type A, B or C, depending on the type of project. Submitting the Statement to one of the 16 local "delegations" in Mexico City suffices to begin the building, but the delegation reserves the right to review and approve the documentation in order to approve or reject the permit.

Obtaining a license requires a number of procedures and payment of fees to several agencies such as the Fine Arts National Institute, the History and Anthropology National Institute, power and water utilities, the organization that manages Geographic Information Systems, the Housing and Urban Development Department, the Environmental Department, and the corresponding delegation.

A number of local and federal regulations govern the construction permit process. These laws include the Public Administration Organic Act, the Administrative Procedural Act, the Urban Development Act, the Human Settlements General Act, the Environmental and Territorial Zoning Organic Act, the Environmental Act, the Water Act, the Notary Act, the New Criminal Code, the Financial Code, the Constructions Regulations, the Public Administration Internal Regulations, the Urban Development Act's Regulations, the Zoning Regulations, the Regulations for Property Public Registration, a decree approving the Urban Development General Program, and the Agreement to Modify the Single Delegation Offices.

In Mexico City, to begin a formal construction an investor faces 250 days but in most cases (when there is no need for land use, environment, or historic preservation authorizations), the time to acquire a permit takes 120 days. Mexico City has launched a simplification project to reform processes of the Housing and Urban Development Department, the water utilities, the Environmental Department and the delegations. The time to process a permit has already been reduced by 20 percent. Once the project is finalized the process times should be reduced by 60 percent.

Source: Diagnostic Report on the procedures required to obtain a construction permit in México City, D.F. Sepsa/IFC.

Which Municipalities Are More Efficient In Providing Construction Permits?

The construction permit ranking was calculated by conducting a factor analysis of two indices, the performance index and the process index. performance index measures the time, cost, number of visits and rejections. process index measures information, infrastructure, tools, inspections, customer service, audits, and training. We will analyze these indices further in this chapter.

Table 2.4 shows the results of the 25 top and bottom municipalities included in the construction permit regional ranking. Municipalities from Nicaragua, Guatemala and Mexico score the highest, while the municipalities from Peru and Brazil fill the bottom positions. In Central America, Esteli in Nicaragua and Santa Catarina Pinula in Guatemala were the best performers in the ranking. The Mexican municipalities of Chihahua, Veracruz, Merida, Ciudad Juarez, Pachuca and Zihuatanejo de Azueta are in the 10 top positions.

Ten Mexican municipalities and eight in Nicaragua ranked among the 25 top positions in the *Municipal Scorecard,* thanks to their relatively simple construction permit processes. At the other end, 14 Peruvian municipalities are among the 25 worst performers. There the procedures to obtain a construction permit suffer from too many requirements, steps and inspections.

Table 2.4 **Latin America (25 best and worst performers)**
Construction Permit - Regional Ranking

The Construction Permit ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	
Esteli (Nicaragua)	1	25 best performers
Santa Catarina Pinula (Guatemala)	2	
Chihuahua (Mexico)	3	
Jinotepe (Nicaragua)	4	
Veracruz (Mexico)	5	
Merida (Mexico)	6	
Ciudad Juarez (Mexico)	7	
Pachuca (Mexico)	8	
San Juan del Sur (Nicaragua)	9	
Zihuatanejo de Azueta (Mexico)	10	
Riobamba (Ecuador)	11	
Ambato (Ecuador)	12	
Los Olivos (Peru)	13	
Aguascalientes (Mexico)	14	
San Salvador (El Salvador)	15	
Rivas (Nicaragua)	16	
Granada (Nicaragua)	17	
Managua (Nicaragua)	18	
Sonsonate (El Salvador)	19	
Ciudad Sandino (Nicaragua)	20	
Zacatecas (Mexico)	21	
Vitoria (Brazil)	22	
Culiacan (Mexico)	23	
Masaya (Nicaragua)	24	
Toluca (Mexico)	25	
Naucalpan de Juarez (Mexico)	107	25 worst performers
Wanchaq (Peru)	108	
Cuiaba (Brazil)	109	
Ate (Peru)	110	
Chimbote (Peru)	111	
Victor Larco Herrera (Peru)	112	
Independencia (Peru)	113	
Teresina (Brazil)	114	
Duque de Caxias (Brazil)	115	
Belo Horizonte (Brazil)	116	
Quillacollo (Bolivia)	117	
La Molina (Peru)	118	
Castilla (Peru)	119	
Sao Bernardo Do Campo (Brazil)	120	
Arequipa (Peru)	121	
Campo Grande (Brazil)	122	
Recife (Brazil)	123	
Oruro (Bolivia)	124	
Piura (Peru)	125	
Juliaca (Peru)	127	
Guarulhos (Peru)	128	
El Agustino (Peru)	129	
Mariano Melgar (Peru)	130	
Puno (Peru)	131	
Huancayo (Peru)		

* Of 131 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

The municipalities that scored higher on the *Municipal Scorecard* generally scored well in the performance index and the process index, demonstrating good management procedures. In practice, however, a municipality can perform well in one index and badly in the other. This is because a municipality for example could have speedy procedures and receive a high ranking in the performance indicator, but have poor process rankings due to inadequate supervision and regulatory controls. Or the opposite could be true, a municipality could have supervision systems in place, however; such systems do not lend themselves to efficiency in processing times. Both indicators must be taken into account when measuring the general efficiency of the construction permit process.

The municipality of Esteli in Nicaragua is in the top position out of 131 municipalities in Latin America, followed by Santa Catarina Pinula in Guatemala and six Mexican municipalities that are among the top ten. None of the Andean countries municipalities are in the top ten. Only three municipalities of Ecuador and Peru are in the top 10-15 positions in the regional ranking. Huancayo in Peru is in the last position. Peruvian and Bolivian municipalities are in the bottom ten positions in the ranking.

What are the Consequences of Informal Construction in Latin America?

Informality in the construction sector takes different forms. Some firms do not adhere to safety regulations. They use inadequate construction materials, do not report workers, or excessively sub-contract unlicensed or informal workers, making it difficult to track down offenders. These problems often result in accidents at construction sites. For example:

- In a poor neighborhood in Managua an accident resulted in two deaths due to insufficient supervision, poor allocation of resources for the construction and the lack of compliance with construction regulations. These are a few reasons that result in buildings collapsing, putting the citizens' lives at risk. To reduce costs, developers fail to build earthquake resistant structures, save on t-bars, and disregard the type of soil they build on or the quality of the materials they use. Poor quality water pipes lead to leaks that quickly damage the subsoil and the building's foundations.

- In a commercial district in Lima, the breach of building technical regulations resulted in the tragic collapse of a concrete wall over nine construction workers. Experts said the wall collapsed because uneven bricks were used that did not meet minimum safety and technical specifications required in the National Construction Code. Worse still, the municipality found out the contractor had used a counterfeit construction permit.

Most construction accidents happen in informal constructions. In many cases, unskilled workers carry out risky activities ignoring minimum safety measures. Some of the main causes for construction accidents are imprudence, haste, distraction, failure to wear protective gear, poor work organization and lack of signaling. Most Latin American construction workers do not wear protective equipment (hardhats, boots, and adequate clothes) nor are they protected by insurance against work-related accidents.

A large portion of the problems that arise in construction is due to poor planning. A well planned organized and supervised construction assures more safety. Advance planning is essential. however, one continues to find construction being carried out in an unplanned and haphazard manner, leading to accidents and fatalities.

When a natural disaster strikes, the neediest, most vulnerable citizens are always hardest hit. Several reasons contribute to the high vulnerability of these city dwellers to natural hazards, including accelerated and disorderly city sprawl and unsafe housing. Regulations governing land use are often lacking, and weak institutions are unable to enforce regulations, if any. Social and economic pressures drive the growth of informal land development in vulnerable neighborhoods or in areas unfit for city expansion. Informal land development also occurs in areas that do not meet minimum technical specifications to resist an earthquake.

The perception gap between businesses and municipal governments regarding the time needed to obtain a construction permit may also encourage firms to construct informally. Municipal employees report that the permit process takes only a few days, while business owners claim that it takes much longer. Occasionally the perception gap can be extremely wide. In Castilla, Peru, and in Quillacollo, Bolivia there is more than a month's difference; in Florianopolis and Belo Horizonte, Brazil there is a difference of 58 and 108 days respectively.

Another important factor that may encourage informal construction is the high cost of obtaining a construction permit. When comparing the cost as a percentage of per capita GDP to obtain the permit reported by business owners and the costs reported by the municipal employees, the perception gap is wide in many cases, as in the case of the Central District in Honduras, and Villa El Salvador in Peru. This is due to the insufficient information provided by the municipalities on permit fees and other expenses incurred by business owners. For the municipalities reviewed in this study, the firms generally report that costs are much higher than municipal officials. This could be partly explained by other costs that firms incur, such as fees paid to intermediaries, or to architects and other technical experts.

Performance Index

The performance index is comprised of four sub-indices: time, cost, number of visits and rejections. Time measures the number of days needed to complete the process. Cost measures the total expenses incurred by the user at the municipality (as a percentage of the country's GDP per capita). Visits are the total number of firm owner visits to municipal offices. And lastly, the rejection percentage was calculated based on the surveyed business owners who had their application for a construction permit rejected at some point. Altogether, this sub-index gives us a broad picture of the efficiency in granting construction permits. They are analyzed individually below.

Time

For this sub-index, time is measured as the number of days it takes to obtain a construction permit. This reflects the total time from the beginning of the process, when investors file their application for a construction permit, and ends with the inspection process and the permit award.

For comparative purposes we grouped Mexico and Brazil together as they are both middle income countries in the Region. Most of the municipalities showing shorter process times are in Mexico, while the Brazilian municipalities take the longest. For example, Merida and Culiacan in Mexico take 7 days to grant a construction permit, while in Guarulhos in Brazil the waiting period is approximately a year. In Veracruz and Benito Juarez it takes 15 days to obtain a construction permit, and in the municipalities of Sao Paulo and Teresina it takes 184 and 202 days, respectively (see figure 2.1.)

There are five Mexican municipalities that take less than 15 days to grant a construction permit, while no Brazilian municipality can meet that timeframe. At the other end of the scale, nine Brazilian municipalities take more than 100 days to deliver a construction permit. No Mexican municipality takes that long.

Andean countries show significantly varying results. The municipalities of Los Olivos and San Miguel in Peru and Manta in Ecuador are the most efficient in terms of granting the construction permit. A business owner in Los Olivos and in Manta can expect to obtain a construction permit in 5 days, and in San Miguel the wait is only 2 days longer. In the municipalities of La Molina, Juliaca, and Puno in Peru, obtaining a construction permit can take between 239 and 275 days. In the municipality of Juliaca, it may take 247 days, which is 50 times longer than in Los Olivos and in Manta (see figure 2.2.)

Process times also vary from one large city to another. While obtaining a construction permit takes less than 15 days to in the municipality of Quito in Ecuador, it takes more than a month in La Paz in Bolivia. In 10 municipalities it takes less than 15 days to grant a construction permit while in another 14 municipalities delivering a construction permit may take between three and nine months.

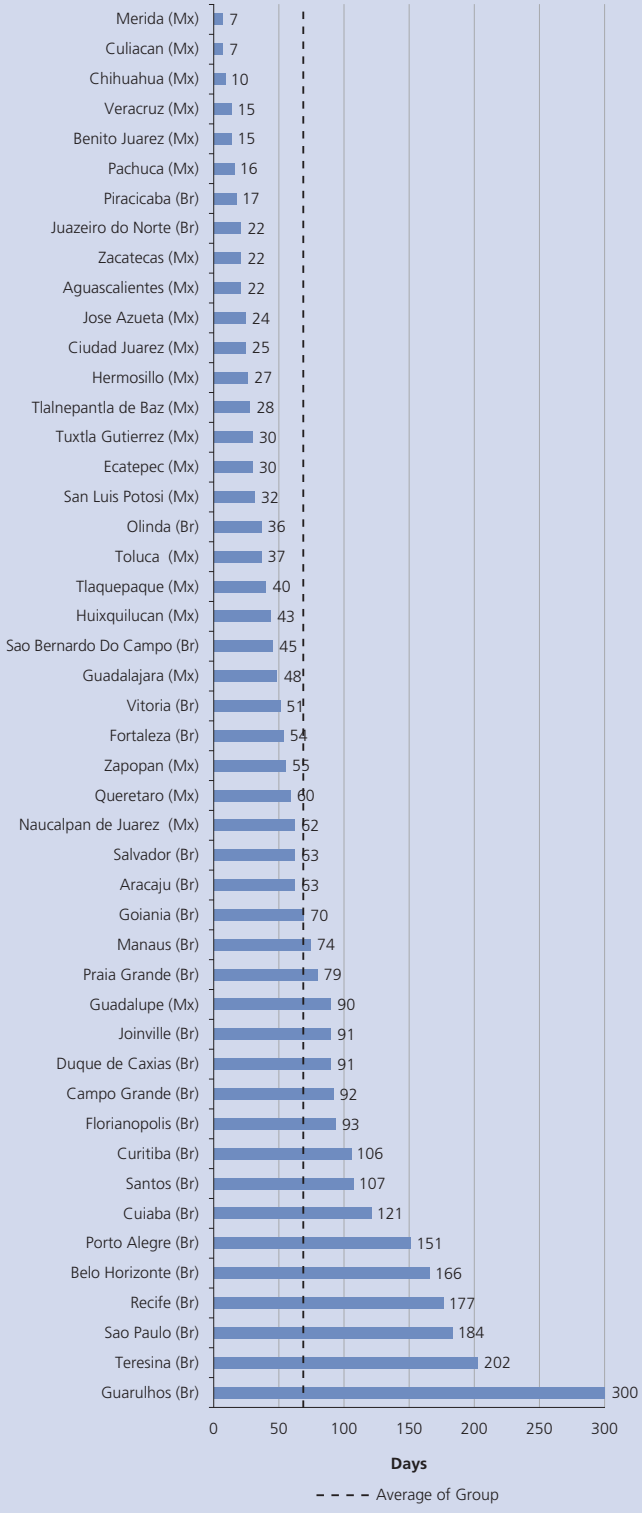
In the Central American countries, the municipalities taking less time to obtain a construction permit are the ones of Santa Tecla and San Miguel in El Salvador; Juticalpa, El Progreso, and Choluteca in Honduras; and Esteli Nicaragua. In Santa Tecla and San Miguel constructors can obtain a construction permit in two days, while in San Lorenzo in Honduras, San Juan del Sur and Granada in Nicaragua, and San Salvador in El Salvador, the waiting time is only one day longer. In other municipalities however, business owners must face burdensome red tape and paperwork to obtain the same permit. For example, in the municipalities of

Guatemala in Guatemala City and Antiguo Cuscatlan in El Salvador obtaining a construction permit can take between 69 and 372 days, which is 180 times longer than in Santa Tecla and San Miguel. Understandably, many investors feel discouraged when faced with such long waiting periods, and drift to informality (see figure 2.3).

In 38 municipalities obtaining a construction permit takes less than ten days. Most of the fastest municipalities are in El Salvador, Honduras and Nicaragua. Only 22 municipalities take between 10 and 20 days to process a construction permit.

Figure 2.1 **Mexico/Brazil**
Construction Permit - Time (Days) (Firms Perception)

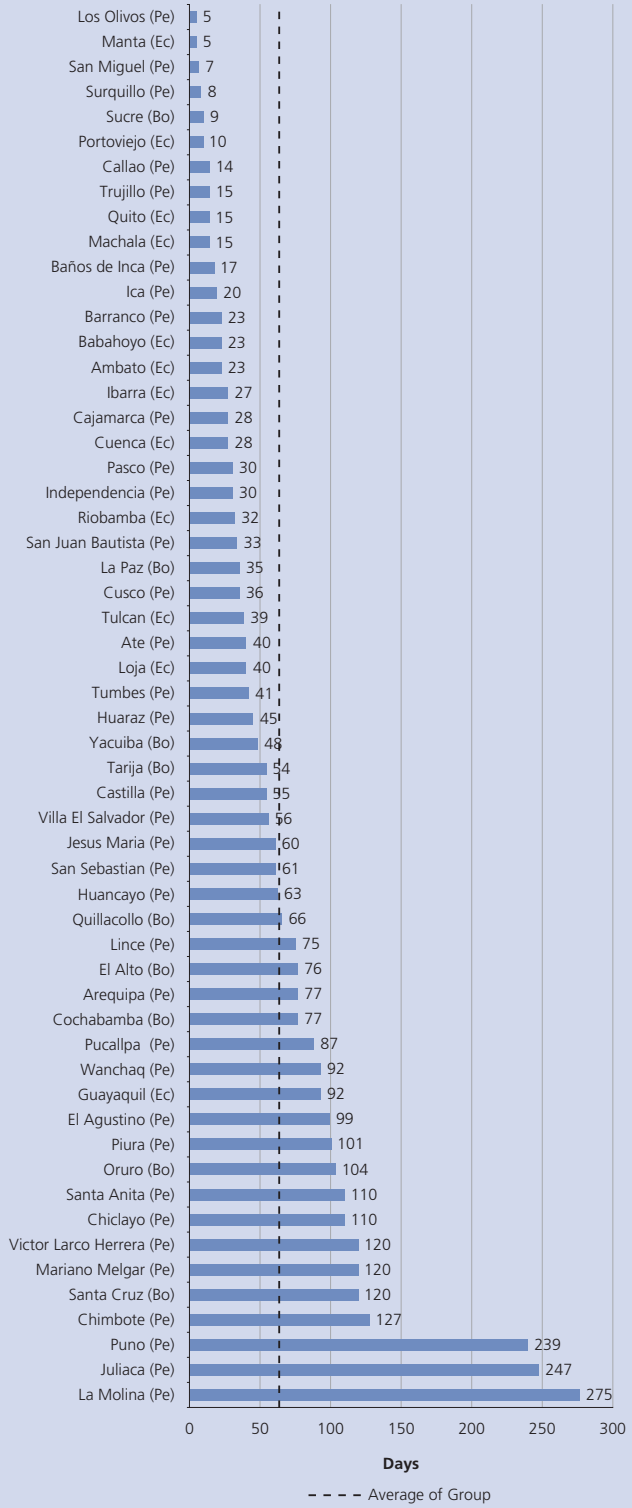
This variable makes reference to the total time that the process took, measured as the difference between the starting date and the issuing date for the Construction Permit. When no information was available for this item, the entrepreneur's estimate was used.



Source: *Municipal Scorecard 2008* Database

Figure 2.2 **Andean Countries**
Construction Permit - Time (Days) (Firms Perception)

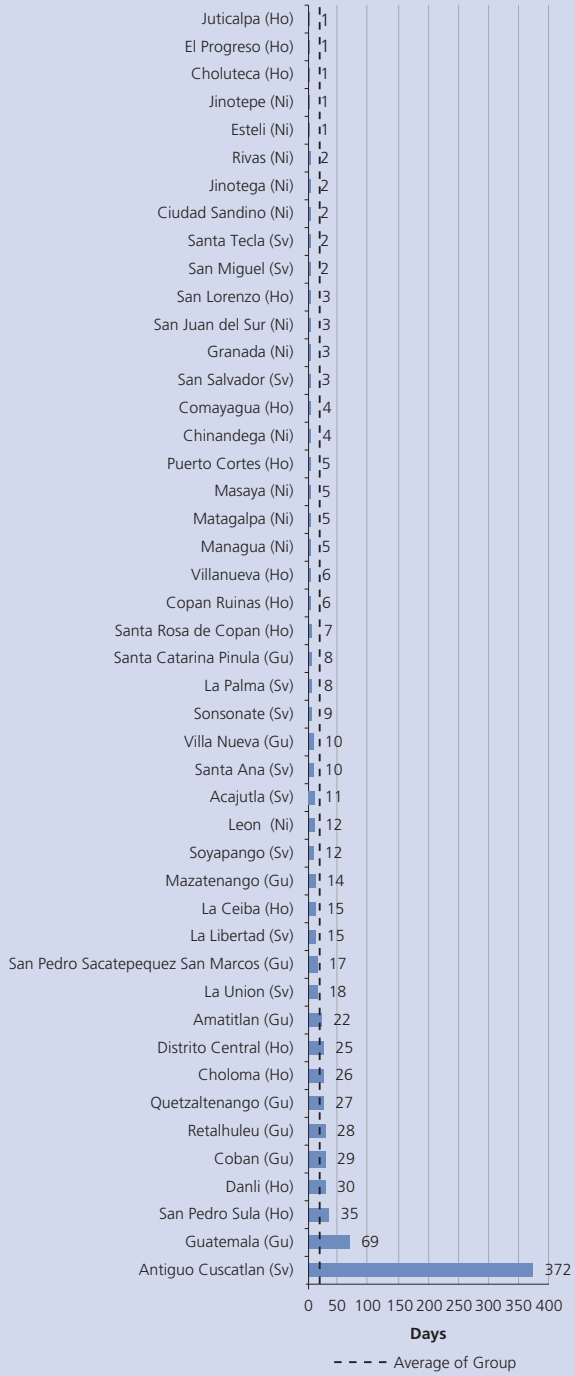
This variable makes reference to the total time that the process took, measured as the difference between the starting date and the issuing date for the Construction Permit. When no information was available for this item, the entrepreneur's estimate was used.



Source: *Municipal Scorecard 2008* Database

Figure 2.3 **Central America**
Construction Permit - Time (Days) (Firms Perception)

This variable makes reference to the total time that the process took, measured as the difference between the starting date and the issuing date for the Construction Permit. When no information was available for this item, the entrepreneur's estimate was used.



Source: *Municipal Scorecard 2008* Database

Cost

Measured as a percentage of per capita GDP, the cost variable accounts only for the official cost of the permit. The

per capita GDP was calculated using the World Development Indicators (WDI, 2007) provided by the World Bank.

Fees to obtain a construction permit should reflect the costs the municipality incurs in providing the service. In most cases, the high costs of the construction permits are attributed to the cost of hiring specialized personnel who design the plans of the building project and create other technical specification documents. Municipalities should limit raising municipal fees so small businesses will not be discouraged from joining the formal sector.

In Mexico and Brazil, nine municipalities charge under 2 percent of per capita GDP in fees, and 17 municipalities range between 2 percent and 5 percent of annual per capita GDP. There are still some substantial cost fluctuations, even within the same country. For example, Guadalajara in Mexico shows the highest costs (27.4 percent) and Merida has the lowest (0.2 percent). The same happens in Brazil where the municipality of Salvador has the highest costs (41 percent) and Vitoria has the lowest (0.6 percent) (see figure 2.4).

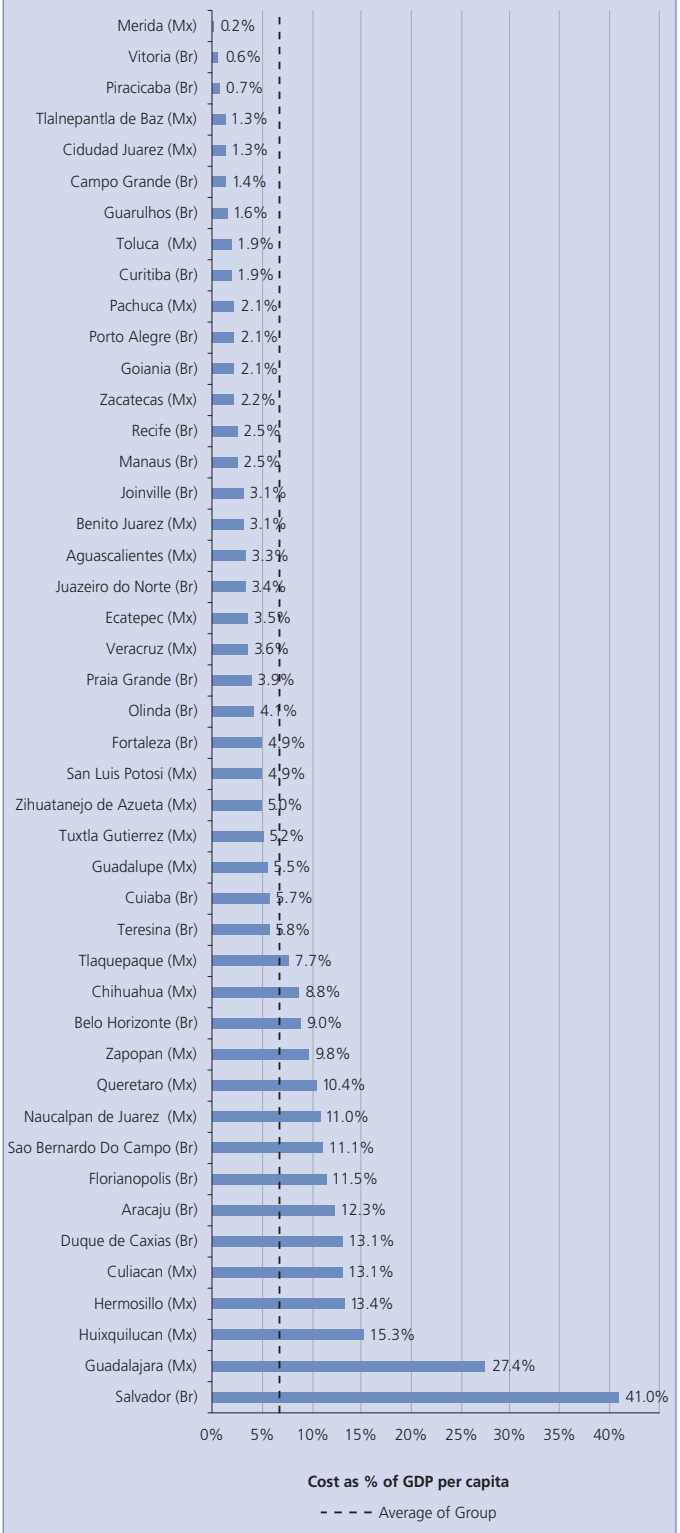
Some Peruvian municipalities charge the highest fees for construction permits. The cost in Villa El Salvador in Peru reaches 125.1 percent of annual per capita GDP and in Mariano Melgar and Los Olivos it fluctuates between 23.6 percent and 27.8 percent of per capita GDP. At the other extreme, in the municipalities of Manta, Ambato and Cuenca in Ecuador, this cost fluctuates between 1.0 percent and 1.8 percent of annual per capita GDP. Other 18 municipalities charge rates less than 4 percent of annual per capita GDP; 24 municipalities charge rates between 4 percent and 10 percent, and 12 municipalities charge between 10 percent and 27 percent (see figure 2.5).

In Central America, Honduran municipalities charge the most to grant a construction permit. In some municipalities, including San Pedro Sula and La Ceiba, this cost can reach the equivalent of 165.4 percent and 155.5 percent of annual per capita GDP. In the municipality of Soyapango in El Salvador, and in Santa Catarina Pinula in Guatemala, it is 0.9 and 1 percent of per capita GDP respectively. In 27 municipalities rates are under 4 percent of annual per capita GDP. Seven municipalities charge rates between 4 percent and 10 percent; eight municipalities charge rates between 10 percent and 26 percent, and the remaining municipalities charge between 48 percent and 165 percent (see figure 2.6).

Figure 2.4 **Mexico/Brazil**

Construction Permit - Cost (as % of per capita GDP) (Firms Perception)

This variable refers to the entrepreneur's estimate for the total cost incurred at the municipality during the process, expressed as a percentage of the national GDP in US$.

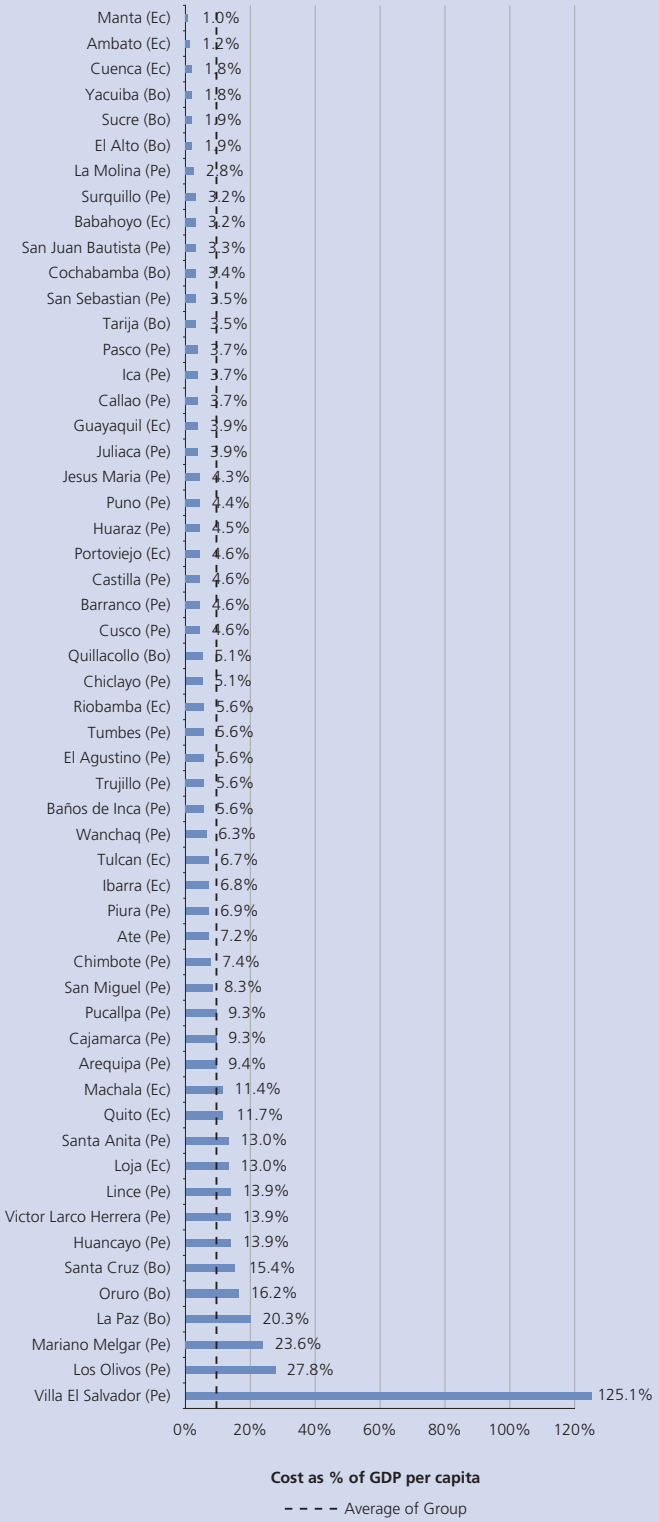


Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Figure 2.5 **Andean Countries**

Construction Permit - Cost (as % of per capita GDP) (Firms Perception)

This variable refers to the entrepreneur's estimate for the total cost incurred at the municipality during the process, expressed as a percentage of the national GDP in US$.

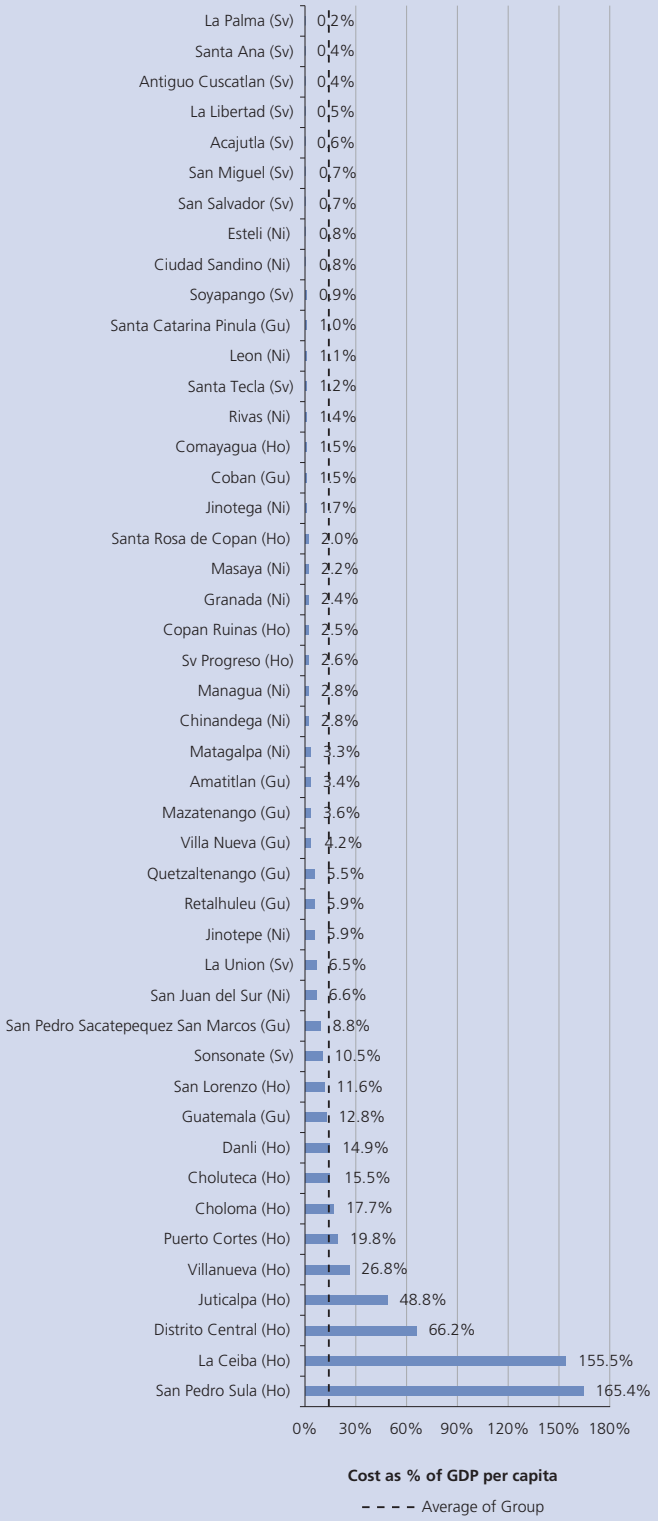


Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Figure 2.6 **Central America**

Construction Permit - Cost (as % of per capita GDP) (Firms Perception)

This variable refers to the entrepreneur's estimate for the total cost incurred at the municipality during the process, expressed as a percentage of the national GDP in US$.



Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Number of Visits

The number of times a business owner has to visit the municipality in order to obtain a construction permit is one of the most important indicators of the municipality's performance. These visits a business owner needs to make and the municipality's performance and efficiency are inversely related, so the fewer the visits, the greater the municipality's efficiency.

In the municipality of Aracaju in Brazil, in Mexico/ Brazil, the business owner has to make only one visit, while in Teresina, Porto Alegre and Campo Grande; they need to make 15 to 18 visits. Twelve municipalities require between two and three visits, 22 municipalities require between four and nine visits, while the other municipalities required more than 10 visits before granting the construction permit.

In the Andean countries, among the worst 18 municipalities, 17 are Peruvian. One municipality is from Bolivia. In three municipalities from Ecuador and two from Peru the business owners reported they had to visit the municipalities twice. In 33 of the reviewed municipalities, the number of visits in order to obtain a construction permit ranges between three and seven. While in Tulcan, Ecuador, a business owner must visit the municipality only once, in Huancayo, Peru the number increases to 30. It is obvious that business owners who have to visit the municipality 20 times during the construction permit process, as in Lince and Mariano Melgar, in Peru, and Oruro, in Bolivia, will find the process burdensome. Such slowness in granting the permits also increases the likelihood that firms may be requested unofficial payments to expedite the processes.

In 14 Central American municipalities business owners must visit the municipality twice, while four other municipalities require five visits. Other municipalities need between 3 and 4 visits to obtain a permit. Meanwhile, two visits are enough in Comayagua, Esteli and San Salvador, and between four and five visits suffice in Quetzaltenango, San Pedro Sula and Antiguo Cuscatlan.

Rejections

The percentage of rejections is a variable included in the performance index. A high percentage could signal different types of inefficiencies. For instance, it could mean unclear or insufficient information provided to applicants. It could also point to cumbersome and opaque processes. For example, it can reflect the absence of building codes, or clear and predictable technical and administrative requirements across the board. Or such codes are too cumbersome and hence ignored. The rejection could also indicate the level of expertise of engineers, architects and their level of knowledge of the details of the process in a given jurisdiction.

In Mexico and Brazil, no rejections were reported in 12 Brazilian municipalities. In Mexico the municipality with the lowest rejection rate, rejected 5% of the applicants. Five municipalities from Mexico and one from Brazil have rejection rates above 50 percent. In Guarulhos, in Brazil, business owners face a higher probability (67 percent) of having an application rejected because the municipality did not provide clear information about the processes, but such high rates are not found in Santos, Porto Alegre, Olinda, and Campo Grande.

In the Andean countries, surveyed business owners reported that 15 municipalities do not reject construction permit applications. On the other hand, in nine Peruvian municipalities the rejection rate is above 50 percent.

In the Central American pool of countries, 10 municipalities report no rejections, while in La Libertad in El Salvador and Quetzaltenango in Guatemala, rejection rates are 50 percent and 46 percent, respectively.

Rejection rates in seven municipalities fluctuate between 5 and 10 percent, while 10 show rates between 10 and 18 percent. The remaining 10 had rejection rates ranging from 20 to 50 percent. Municipalities in Honduras, Guatemala and El Salvador reported high number of rejections. This could be improved by providing better information about the process and requirements so that firms do not get rejected because of incomplete applications.

Presented in this section are the sub regional rankings for the construction permit. The evaluation is based on two indexes: the performance and process index, which are each composed of different sub variables.

Table 2.6 shows the results of the municipalities in Mexico and Brazil. The Mexican municipalities hold the top eight positions and the Brazilian municipalities the last eight positions of this group. Six Mexican municipalities are among the regional ranking's top ten positions. Chihuahua ranks third out of the 131 Latin American municipalities. Vitoria which is 22nd in the regional ranking is the only Brazilian municipality among the best 40 performers Region-wide.

Four municipalities from Ecuador –Riobamba, Ambato, Portoviejo and Quito- and one from Peru -Los Olivos- are among the five top scorers in the Andean Countries. On the other hand, the last ten positions in the sub-regional ranking are taken by Peruvian municipalities and Oruro, in Bolivia (see table 2.7.)

For the municipalities from Central America, the table 2.8 shows the municipality of Esteli in Nicaragua ranks at the top of the regional ranking of 131 Latin American municipalities. It is also first in the sub-regional ranking, while Quetzaltenango in Guatemala ranks 100th and last in the Region. The municipalities of Santa Catarina Pinula in Guatemala, Jinotepe and San Juan del Sur in Nicaragua are the sub-region's top scorers and among the ten best in the regional ranking. Meanwhile, Coban and San Pedro Sacatepequez San Marcos in Guatemala, and Santa Tecla in El Salvador scored the lowest in the sub-regional ranking and are three of the 52 worst in the regional ranking.

Table 2.6 **Mexico/Brazil**
Construction Permit - Regional and Group Ranking

The Operating License Index was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	Group Ranking
Chihuahua (Mx)	3	1
Veracruz (Mx)	5	2
Merida (Mx)	6	3
Ciudad Juarez (Mx)	7	4
Pachuca (Mx)	8	5
Zihuatanejo de Azueta (Mx)	10	6
Aguascalientes (Mx)	14	7
Zacatecas (Mx)	21	8
Vitoria (Br)	22	9
Culiacan (Mx)	23	10
Toluca (Mx)	25	11
Huixquilucan (Mx)	30	12
San Luis Potosi (Mx)	32	13
Ecatepec (Mx)	35	14
Hermosillo (Mx)	39	15
Curitiba (Br)	42	16
Piracicaba (Br)	52	17
Manaus (Br)	55	18
Salvador (Br)	57	19
Benito Juarez (Mx)	58	20
Juazeiro do Norte (Br)	60	21
Tuxtla Gutierrez (Mx)	61	22
Queretaro (Mx)	65	23
Guadalajara (Mx)	66	24
Praia Grande (Br)	68	25
Tlalnepantla de Baz (Mx)	69	26
Fortaleza (Br)	70	27
Joinville (Br)	71	28
Goiania (Br)	72	29
Aracaju (Br)	84	30
Santos (Br)	85	31
Guadalupe (Mx)	86	32
Sao Paulo (Br)	88	33
Olinda (Br)	91	34
Porto Alegre (Br)	93	35
Zapopan (Mx)	94	36
Florianopolis (Br)	95	37
Tlaquepaque (Mx)	97	38
Naucalpan de Juarez (Mx)	107	39
Cuiaba (Br)	109	40
Teresina (Br)	114	41
Duque de Caxias (Br)	115	42
Belo Horizonte (Br)	116	43
Sao Bernardo Do Campo (Br)	120	44
Campo Grande (Br)	122	45
Recife (Br)	123	46
Guarulhos (Br)	127	47

* Of 131 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

Table 2.7 **Andean Countries**
Construction Permit - Regional and Group Ranking

The Operating License ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	Group Ranking
Riobamba (Ec)	11	1
Ambato (Ec)	12	2
Los Olivos (Pe)	13	3
Portoviejo (Ec)	27	4
Quito (Ec)	28	5
Tulcan (Ec)	33	6
Trujillo (Pe)	36	7
San Miguel (Pe)	38	8
San Juan Bautista (Pe)	44	9
Callao (Pe)	46	10
Ibarra (Ec)	47	11
Surquillo (Pe)	48	12
Manta (Ec)	49	13
Cochabamba (Bo)	50	14
Jesus Maria (Pe)	54	15
San Sebastian (Pe)	59	16
Sucre (Bo)	63	17
Cuenca (Ec)	64	18
Guayaquil (Ec)	67	19
Babahoyo (Ec)	75	20
Machala (Ec)	76	21
Cajamarca (Pe)	77	22
Yacuiba (Bo)	78	23
La Paz (Bo)	80	24
Chiclayo (Pe)	81	25
Baños de Inca (Pe)	87	26
Tarija (Bo)	89	27
Loja (Ec)	90	28
Pucallpa (Pe)	92	29
Tumbes (Pe)	96	30
Villa El Salvador (Pe)	98	31
Pasco (Pe)	99	32
Lince (Pe)	101	33
Cusco (Pe)	102	34
Santa Cruz (Bo)	103	35
Huaraz (Pe)	104	36
Ica (Pe)	105	37
El Alto (Bo)	106	38
Wanchaq (Pe)	108	39
Ate (Pe)	110	40
Chimbote (Pe)	111	41
Victor Larco Herrera (Pe)	112	42
Independencia (Pe)	113	43
Quillacollo (Bo)	117	44
La Molina (Pe)	118	45
Castilla (Pe)	119	46
Arequipa (Pe)	121	47
Oruro (Bo)	124	48
Piura (Pe)	125	49
Juliaca (Pe)	126	50
El Agustino (Pe)	128	51
Mariano Melgar (Pe)	129	52
Puno (Pe)	130	53
Huancayo (Pe)	131	54

* Of 131 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

Table 2.8 **Central America**
Construction Permit - Regional and Group Ranking

The Operating License ranking was obtained through factor analysis of the following indices: Performance Index and Process Index.

Municipality	Regional Ranking*	Group Ranking
Esteli (Ni)	1	1
Santa Catarina Pinula (Gu)	2	2
Jinotepe (Ni)	4	3
San Juan del Sur (Ni)	9	4
San Salvador (Sv)	15	5
Rivas (Ni)	16	6
Granada (Ni)	17	7
Managua (Ni)	18	8
Sonsonate (Sv)	19	9
Ciudad Sandino (Ni)	20	10
Masaya (Ni)	24	11
Soyapango (Sv)	26	12
Villa Nueva (Gu)	29	13
La Palma (Sv)	31	14
Matagalpa (Ni)	34	15
La Union (Sv)	37	16
Mazatenango (Gu)	40	17
Chinandega (Ni)	41	18
Amatitlan (Gu)	43	19
Leon (Ni)	45	20
Santa Ana (Sv)	51	21
Antiguo Cuscatlan (Sv)	53	22
Jinotega (Ni)	56	23
Guatemala (Gu)	62	24
Retalhuleu (Gu)	73	25
Acajutla (Sv)	74	26
San Pedro Sacatepequez San Marcos (Gu)	79	27
Santa Tecla (Sv)	82	28
Coban (Gu)	83	29
Quetzaltenango (Gu)	100	30

* Of 131 Latin American municipalities
Source: *Municipal Scorecard 2008* Database

Process Index

The process variables comprise a number of indicators that assess internal operations, and the way these impact the quality of the construction permit's application process. The municipalities receive a higher process index score when they a) provide adequate, accurate and accessible information to the users; b) continuously train their staff; c) enforce adequate inspection processes; d) use process management tools; e) rely

on adequate infrastructure to address the users' needs; and f) audit the quality of their processes. Tables 2.9 to 2.11 show the municipalities with high and low scores in the process and construction permit sub-indices in the Central American, Andean and Mexico/Brazil groups. Each of the five sub-indices is also analyzed briefly.

Information

With this sub-index, the *Municipal Scorecard* measures the availability and quality of the information provided, whether or not the forms were comprehensible, if the process is coherent with the provided information, and if the firms received information regarding the inspection process.

The municipalities of Santa Ana in El Salvador, Rivas in Nicaragua, Yacuiba in Bolivia, Arequipa in Peru, and Naucalpan de Juarez in Mexico received low scores in this sub-index. The reasons for their low scores range from unclear construction permit information, through complicated forms, to incoherence between the process and the information the municipality initially provides. On the other hand, the municipalities of Santa Catarina Pinula in Guatemala, Esteli in Nicaragua, Sucre in Bolivia, and Piracicaba in Brazil received high scores for the accuracy and consistency of their information to business owners and the actual processes. Providing clear information is an essential component for good service, as well as an efficient mechanism to reduce the number of rejections.

A municipality wishing to encourage formal construction must provide specific and clear information. Given the technical nature of the procedure, simplicity is crucial. Information for investors must synthesize the components of the city's urban development plan, local plans, and the urban development and building specifications that determine the construction's characteristics

Training

This sub-index measures the availability and usefulness of manuals, staff training on the process, and customer service training. Adequate training of municipal employees helps to ensure processes will be well managed, and standards will be adequately enforced. Managua in Nicaragua, Coban in Guatemala, La Molina in Peru, Quillacollo in Bolivia, and Recife in Brazil received low scores in the training sub-index. The municipal employees reported that they receive very little or no training on internal processes, customer service and construction permit inspections. Esteli in Nicaragua, Antiguo Cuscatlan in El Salvador, Guayaquil and Quito in Ecuador, and Guadalajara and Toluca in Mexico received the highest scores for their training efforts.

Table 2.9
Construction Permit - Best and worst performing municipalities in the Process Sub-indices within Mexico/Brazil

Information Sub-index

Best performers	Worst performers
Brazil Piracicaba	Sao Bernardo Do Campo
Mexico Chihuahua	Naucalpan de Juarez

Tools Sub-index

Best performers	Worst performers
Brazil Belo Horizonte, Curitiba, Manaus, Praia Grande, Salvador, Santos	Aracaju
Mexico Benito Juarez, Chihuahua, Tlalnepantla de Baz, Tlaquepaque, Veracruz	Zapopan

Training Sub-index

Best performers	Worst performers
Brazil Campo Grande, Guarulhos, Manaus	Joinville, Recife
Mexico Aguascalientes, Chihuahua, Culiacan, Guadalajara, Guadalupe, Toluca	Zapopan

Customer Service Sub-index

Best performers	Worst performers
Brazil Victoria	Sao Bernardo Do Campo
Mexico Chihuahua	Naucalpan de Juarez

Inspections Sub-index

Best performers	Worst performers
Brazil Curitiba	Guarulhos
Mexico Chihuahua	Naucalpan de Juarez

Audits Sub-index

Best performers	Worst performers
Brazil Cuiaba	Goiania
Mexico Zacatecas	Aguascalientes. Chihuahua, Guadalajara, Naucalpan de Juarez, Queretano

What variables does each Sub-index include?

Information Sub-index
Availability of forms, Simplicity of forms, Information, Sufficient information, Access to information and Consistency in the process.

Training Sub-index
Existence of user manuals, Training in internal processes, Training in customer service and Training for the officials in charge of inspections.

Inspections Sub-index
Number of inspections, Days of inspections, Reasonable Inspections and Transparency of the inspections.

Tools Sub-index
IT, Delegation of authority, Zonification, Categorization of business activities and industrial classification.

Customer Service Sub-index
Infrastructure of the municipality, Customer Service, Formal system for complaints/opinion and Customer Service Modules.

Audits Sub-index
Internal audits and External audits.

Source: *Municipal Scorecard 2008* Database

Inspections

Efficient and transparent inspections are a necessary component of streamlined processes and also serve the function of protecting communities from poor construction that does not adhere to safety, environmental and health standards. Timely inspections are even more important for construction permits because typically firms face six to seven mandatory inspections (depending on the nature of the construction). The municipalities of Ciudad Sandino in Nicaragua, Huancayo in Peru, and Guarulhos in Brazil received the lowest scores, while the municipalities of Esteli in Nicaragua, Santa Catarina Pinula in Guatemala, Cochabamba in Bolivia, and Chihuahua in Mexico scored the highest.

Table 2.10
Construction Permit - Best and worst performing municipalities in the Process Sub-indices within the Andean Countries

Information Sub-index

Best performers	Worst performers
Bolivia	
Sucre	Yacuiba
Ecuador	
Riobamba	Guayaquil
Peru	
Castilla	Arequipa

Tools Sub-index

Best performers	Worst performers
Bolivia	
Sucre	Quillacollo
Ecuador	
Guayaquil, Tulcan, Quito	Babahoyo, Loja
Peru	
San Sebastian	Victor Larco Herrera

Training Sub-index

Best performers	Worst performers
Bolivia	
Yacuiba	Quillacollo
Ecuador	
Guayaquil, Manta, Tulcan, Quito	Babahoyo
Peru	
Jesus Maria, Los Olivos	Castilla, La Molina

Customer Service Sub-index

Best performers	Worst performers
Bolivia	
Cochabamba	El Alto
Ecuador	
Portoviejo	Tulcan
Peru	
Villa El Salvador	Castilla

Inspections Sub-index

Best performers	Worst performers
Bolivia	
Cochabamba	Oruro
Ecuador	
Portoviejo	Loja
Peru	
Los Olivos	Huancayo

Audits Sub-index

Best performers	Worst performers
Bolivia	
Quillacollo	La Paz
Ecuador	
Manta	Riobamba
Peru	
Ica	Chiclayo, Jesus Maria, San Miguel

What variables does each Sub-index include?

Information Sub-index
Availability of forms, Simplicity of forms, Information, Sufficient information, Access to information and Consistency in the process.

Training Sub-index
Existence of user manuals, Training in internal processes, Training in customer service and Training for the officials in charge of inspections.

Inspections Sub-index
Number of inspections, Days of inspections, Rating of inspections and Transparency of the inspections.

Tools Sub-index
IT, Delegation of authority, Zoning, Categorization of business activities and industrial classification.

Customer Service Sub-index
Infrastructure of the municipality, Customer Service, Formal system for complaints/opinion and Customer Service Modules

Audits Sub-index
Internal audits and External audits.

Source: *Municipal Scorecard 2008* Database

Tools

The Tools sub-index measures the existence and use of tools to improve process management. It includes the following variables: a) clear zoning rules that make it easy for investors to understand where constructions are allowed; b) a risk-driven classification system that differentiates between firms by type of risk according to economic and industrial activities (so that low-risk companies are exempt from inspections that apply to high-risk firms); c) the use of technology to make the process faster and less prone to delays or to the discretion of municipal staff; d) delegation of signing authority to reduce bottlenecks created when an official is unavailable.

The municipalities of Jinotega in Nicaragua, Victor Larco Herrera in Peru, Quillacollo in Bolivia, and Aracaju in Brazil received low scores in this sub-index. The municipalities of Soyapango in El Salvador, San Juan del Sur in Nicaragua, Guayaquil in Ecuador, Sucre in Bolivia and Manaus and Belo Horizonte in Brazil received the best scores. Clear and accurate explanations of the territorial planning and the

clasification of economic activities are key factors to ensure that business owners will observe the building code and construction will proceed formally.

Customer Service

This sub-index looks at the physical infrastructure for customer service, the quality of customer service, the existence of a customer opinion system. Good customer service is usually critical for building trust between the citizens and the municipal government. In this sub-index the municipalities of Sonsonate in El Salvador, Esteli in Nicaragua, Villa El Salvador in Peru, Cochabamba in Bolivia, and Vitoria in Brazil received the highest scores. The municipalities of Santa Tecla in El Salvador, Retalhuleu in Guatemala, El Alto in Bolivia, and Naucalpan de Juárez in Mexico, received the lowest scores.

Table 2.11
Construction Permit - Best and worst performing municipalities in the Process Sub-indices within Central America

Information Sub-index

Best performers	Worst performers
El Salvador	
Sonsonate	Santa Ana
Guatemala	
Santa Catarina Pinula	Guatemala
Nicaragua	
Esteli	Rivas

Tools Sub-index

Best performers	Worst performers
El Salvador	
Soyapango	La Palma
Guatemala	
Guatemala	Mazatenango
Nicaragua	
Ciudad Sandino, San Juan del Sur	Jinotega

Training Sub-index

Best performers	Worst performers
El Salvador	
Acajutla, Antiguo Cuscatlan	Santa Ana
Guatemala	
Villa Nueva	Coban
Nicaragua	
Ciudad Sandino, Esteli, Jinotepe	Managua

Customer Service Sub-index

Best performers	Worst performers
El Salvador	
Sonsonate	Santa Tecla
Guatemala	
Santa Catarina Pinula	Retalhuleu
Nicaragua	
Esteli	Jinotega

Inspections Sub-index

Best performers	Worst performers
El Salvador	
Acajutla	Antiguo Cuscatlan
Guatemala	
Santa Catarina Pinula	Quetzaltenango
Nicaragua	
Esteli	Ciudad Sandino

Audits Sub-index

Best performers	Worst performers
El Salvador	
Santa Tecla	Acajutla, Sonsonate, Soyapango
Guatemala	
Coban	Santa Catarina Pinula
Nicaragua	
Chinandega, Jinotega, Leon, Matagalpa	Jinotepe, San Juan del Sur

What variables does each Sub-index include?

Information Sub-index
Availability of forms, Simplicity of forms, Information, Sufficient information, Access to information and Consistency in the process.

Training Sub-index
Existence of user manuals, Training in internal processes, Training in customer service and Training for the officials in charge of inspections.

Inspections Sub-index
Number of inspections, Days of inspections, Rating of inspections and Transparency of the inspections.

Tools Sub-index
IT, Delegation of authority, Zoning, Categorization of business activities and industrial classification.

Customer Service Sub-index
Infrastructure of the municipality, Customer Service, Formal system for complaints/opinion and Customer Service Modules

Audits Sub-index
Internal audits and External audits.

Source: *Municipal Scorecard 2008* Database

Audits

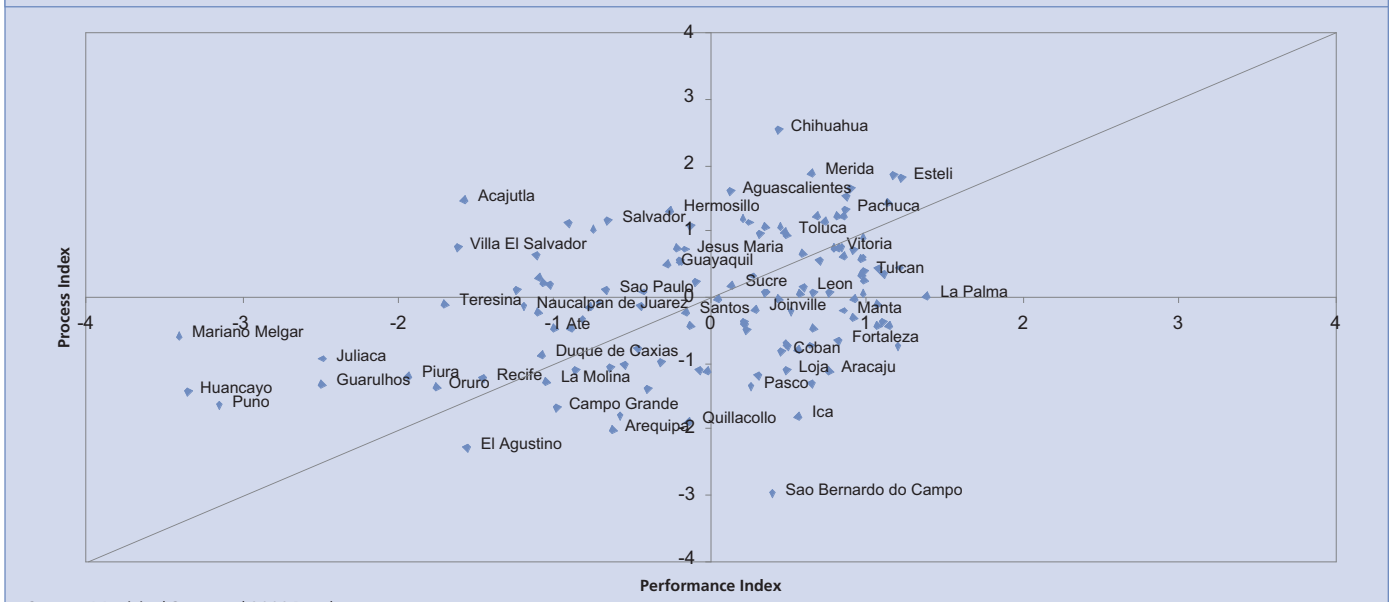
Internal and external audits are fundamental in ensuring that the processes function properly and are transparent. Santa Tecla in El Salvador, Coban in Guatemala, Manta in Ecuador, Ica in Peru, Cuiaba in Brazil and Zacatecas in Mexico ranked among the top positions.

One municipality can outperfom in one index while under performing in the other. Figure 2.7 demonstrates this point. The vertical axis measures the process index and the horizontal axis measures the performance index. Most of the municipalities that received high scores for their processes did so as well for their performance. The municipalities ranked above the line received better scores in the process index than in the performance index, while the ones below received better scores in the performance index than in the process index.

A comparison of the performance and the process scores of participating municipalities revealed that Esteli in Nicaragua and Merida in Mexico (see figure 2. 7, quadrant 1) received high scores for both indices compared to the other municipalities. Acajutla in El Salvador and Villa El Salvador in Peru, received top scores in the process index. However, Villa El Salvador could definitely reduce the time it takes to grant a construction permit, and thus improve its performance index.

The municipalities of Manta in Ecuador and Aracaju in Brazil are examples of municipalities that have achieved high scores in the performance index but need to improve their process index components. In the following quadrant, the municipalities of Huancayo and Puno in Peru are clear examples of municipalities that have to improve their internal management (process index) and efficiency (performance index).

Figure 2.7
Construction Permit - Process Index vs. Performance Index



Source: *Municipal Scorecard 2008* Database

In conclusion the municipalities in the higher right quadrant are those that have performed well in each index. Those that are in the lower left quadrant have the lowest performance in both indices.

The following are considered good practices in municipal management of construction permits:

- Improve quality of services to the client: this can be achieved by revising the fees and rates applied to the permit that reflect the actual cost to process the permit.
- Request sworn statements from firms that have legal weight after the license process is complete.
- Develop guides and information manuals that can be accessed for free from the website.
- Incorporate separate inspections into a one-time multi disciplinary inspection process.
- Improve the efficiency of municipal services.

- Integrate the different areas of the municipality so that the permit process is streamlined.
- Avoid manual processes and automate as many processes as possible.
- Widen the tax base with new tax payers and update the value of the land.
- Use electronic signatures.
- Improve the work climate for municipal civil servants.
- Identify the personnel, profile and skills necessary for specific tasks such as inceptions.
- Define responsibilities of the different areas of the municipal processes and establish rules of the game for decision making and all processes.

A detailed diagnostic is paramount for identifying the bottlenecks and problem areas when trying to initiate a reform program. A baseline should be created with basic indicators that measure time, costs, and processes. Evaluating all the processes, interviewing the officials, looking at the paperwork and archives and simulating the processes should be part of the diagnostic.

An integrated reform effort should be implemented when initiating reform. This includes training civil servants, securing the participation of the private sector, and reducing costs, time and steps to acquiring the license. When initiating a reform process it is important to get the timing right. Timing the effort around electoral cycles and other political processes will help deter unforeseen delays.

Chapter 3
Property Tax Payment

On the first day of the property tax payment, a large queue had formed in and around the municipal offices of Portoviejo. Many tax payers arrived two hours early before the office opened. After several hours of waiting, they were not provided with assistance at none of the five customer service windows in the municipality.

Although the tax had not increased considerably in Portoviejo, the director of the Cadastral department explained why the tax had risen. Due to the new constructions in some of the neighborhoods of cobblestone, sidewalks, curbs, street lights, asphalt, roads, and general improvements, the tax payers had to pay an additional fee called a "special contribution for construction." This new fee was introduced as a tax for conservation and ranged between one and eight American dollars.

Complaints like these are heard more often in municipalities across Latin America. They are a clear indication of the municipalities' efforts to update the cadastre-based value of the properties, a major source of municipal revenues.

In addition to monitoring the performance of operating licenses and construction permits, the *Municipal Scorecard 2008* explores the efficiency of procedures related to property taxes that business owners pay to municipalities. This analysis identifies the factors that increase costs to business owners when paying taxes, and identifies the reasons that may lead to tax evasion.

It is worthwhile highlighting the relationship between paying property taxes and obtaining an operating license or a construction permit. Good practice indicates that governments expect firms to comply with fiscal obligations. When an entrepreneur decides to start a business on his or her property, he must obtain an operating license and construction permit. During the process to obtain the license or permit many municipalities check to make sure that the firm has fulfilled its fiscal obligations. In this scenario, appropriate regulation and simple processes would benefit both the tax authorities and business owners.

Good regulation provides municipalities with the information they need for better supervision. Simplified processes help to determine with greater accuracy the amount of tax to pay, thus avoiding excessive or insufficient payments. This explains the relationship between taxes and other permits and licenses. Plans to improve the processes to grant licenses and construction permits to new firms must take into account that streamlined processes can also help to better assess and manage property taxes.

Ideally, authorities should be able to collect their taxes from a large tax base which needs only minimum oversight at a low cost. Taxpayers expect, among other things, clear regulations, equitable and easy-to-pay taxes, a stable legal environment and fair treatment for their investments.

In practice, frequent changes in regulations and tax rates, as well as complex procedures represent substantial obstacles. As a consequence, some municipalities have introduced various measures to optimize tax collection and, to the extent possible, have adopted modern tools to make oversight more efficient, including using the Internet for queries about tax payments.

Main Municipal Business Taxes

Throughout the region, property taxes are calculated by applying a rate to the value of the good, generally without any allowances (some countries, like Nicaragua allow a central deduction on the tax rate). Location of the property (whether urban or rural), size, state of repair and number of occupants, are factored in when figuring out the rate or tariff. Efficient

tax calculation practices suggest taxes should be calculated as a function of the services provided.

Some municipalities also allow certain tax exemptions. In Ecuador, the main exceptions are: a) up to 2 years for industrial buildings; b) for hotels, for a period of 5 years, starting on the date when construction ended; and c) between 2 and 10 percent discount for regular tax payers who pay their tax in advance. Another example is in Bolivia, where Quillacollo, Sucre, Tarija and Yacuiba grant certain exemptions to the property tax, including: a) a discount on the total amount for early payments, and b) various rates of discount on the total amount for timely payment.

Inadequate information about taxes leads to miscalculation of taxes due. In most of the countries in this study, getting a tax rebate can take very long. In the municipality of Sao Paulo in Brazil, it can take up to 6 months to get a rebate for excessive payment. In En Salvador, no tax rebates are allowed at all. Instead, authorities grant a fiscal credit against other taxes.

Table 3.1 shows a list of the main municipal taxes by country. Property taxes are among the most common municipal taxes.

Tabla 3.1
Main Municipal Taxes by Country

Country	Income tax	Property tax	Tax on spectacles, gambling, raffles	Vehicle usage tax	Fuel tax	Tax on propertya disposal/ transfer	Corporate tax	Tax on extraction and exploitation of natural resources	Tax on livestock	Construction	Other income*
Bolivia	X	✓	X	✓	X	✓	X	X	X	X	✓
Brasil	X	✓	X	X	X	✓	X	X	X	X	✓
Colombia	X	✓	X	✓	✓	X	✓	X	X	✓	X
Ecuador	X	✓	✓	✓	X	X	X	X	X	X	✓
El Salvador	X	X	X	X	X	X	✓	✓	X	✓	✓
Guatemala	X	✓	X	✓	✓	X	X	✓	X	X	X
Honduras	X	✓	X	X	X	X	✓	✓	✓	X	✓
Mexico	X	✓	✓	✓	X	✓	X	X	X	X	✓
Nicaragua	✓	✓	✓	✓	X	X	X	X	X	✓	✓
Perú	X	✓	X	✓	X	X	X	X	X	X	✓

*Data from municipal taxes. "Other income" mostly consists of registration fees, fees and patent fees, various services, municipal arbitrations and advertising
Source: PricewaterhouseCoopers

Municipal tax collection

Tax collection is distributed among the different levels of government. For instance, in Bolivia the constitution classifies government revenues as national, departmental and municipal. Each of these levels of government is authorized to collect revenues from various sources. Generally, most taxes are collected at the national level but municipal governments have the power to raise taxes to finance their expenses.[30]

As mentioned above, property taxes are among the main sources of income of municipal governments. On average, the property tax, taxes on vehicles, sales taxes, and earmarked duties, account for about 50 percent of municipal revenues in the countries analyzed in this study.

Municipal taxes are levied only on individuals and firms living or doing business within the municipality jurisdiction, and they are generally used to improve local living standards. Nevertheless, several obstacles prevent governments from efficiently collecting taxes to accomplish this goal.

Scope of the *Municipal Scorecard 2008*

Most participating municipalities across Latin America obtain a significant source of revenue from municipal taxes. The following table shows the property tax as a percent of total taxes collected by municipalities.

[30]Constitution of Bolivia, Article 200, Section II, and Article 202 Section I.

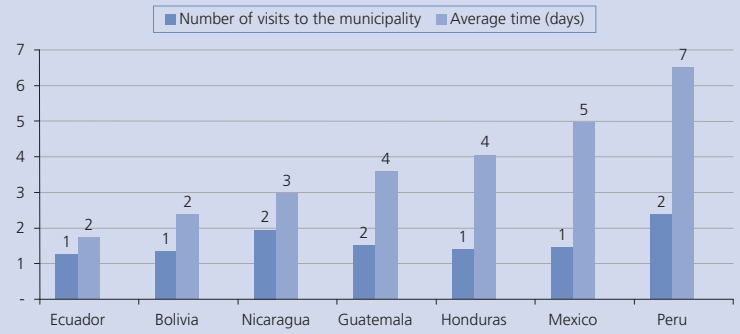
Tabla 3.2
The Property Tax is an Important Source of Income for Municipalities

Country	Income through tax levies	Other income	Total	Property tax as % of the total of tax income
Bolivia	36%	64%	100%	28%
Brazil	N/A	N/A	N/A	32%
Colombia	45%	55%	100%	46%
Ecuador	65%	35%	100%	45%
El Salvador	88%	12%	100%	N/A
Guatemala	25%	75%	100%	65%
Honduras	91%	9%	100%	49%
Mexico	48%	52%	100%	59%
Nicaragua	83%	17%	100%	10%
Peru	12%	88%	100%	71%

N/A: Not available
Source:PricewaterhouseCoopers

The main *Municipal Scorecard 2008* indicators are time, cost, number of visits. Most surveyed municipalities obtained good scores for their property tax indicators, probably because they have already reformed their processes. Most business owners generally consider the time spent and cost involved to pay the property tax as reasonable. Firms report on average that it takes four days to pay the property tax. On average they visited municipal offices only once (see figures 3.1 and 3.2[31]). The cost to pay taxes is also minimum according to firms. Other major findings are presented below.

Figure 3.1
Property Taxes - Average Time and Number of Visits (Firms Perception)

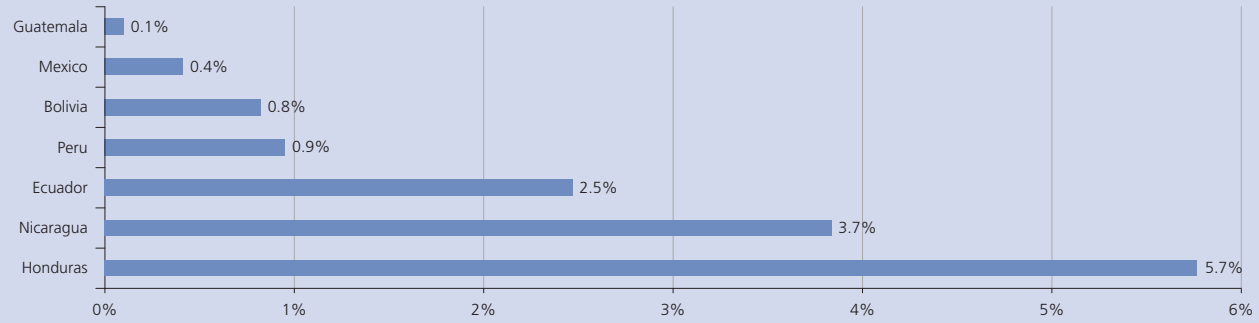


Source: *Municipal Scorecard 2008* Database

The surveys applied for the *Municipal Scorecard 2008* show important results in other indicators. Other expenses besides the official tax payment exist which the businessman incurs to pay the property tax, such as the administrative expenses in the municipality. These include the cost of forms, professional service charges like bookkeepers, lawyers and architects; and finally, the indirect or transaction expenses such as transportation expenses and photocopies (see figures from 3.2 to 3.4.) It stands out that especially in the countries with less income, this expense is a significant percentage of the per capita GDP, as in the case of the municipalities of Nicaragua, Ecuador and Honduras, in which the cost surpasses the equivalent of 1 to 2% of the annual per capita GDP.

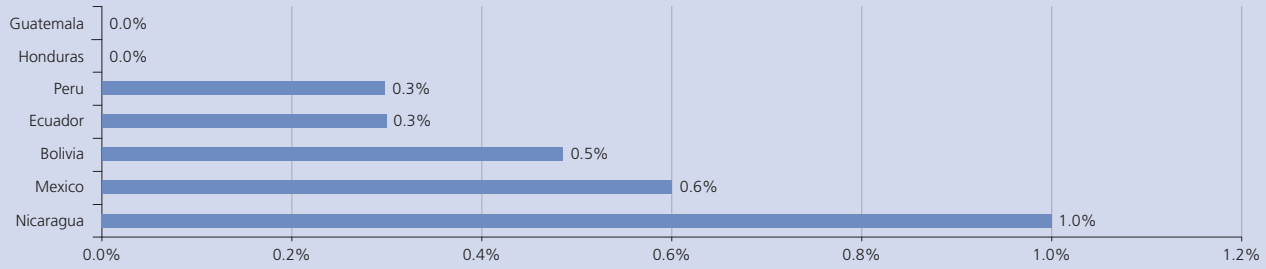
[31]Firms were asked to report on the most recent payment process they conducted for their land tax payment obligation. In some countries this payment is done annually, while in others it is done periodically in a year.

Figure 3.2
Administrative Cost to Pay the Property Tax in the Municipality as % of per Capita GDP (Firms Perception)



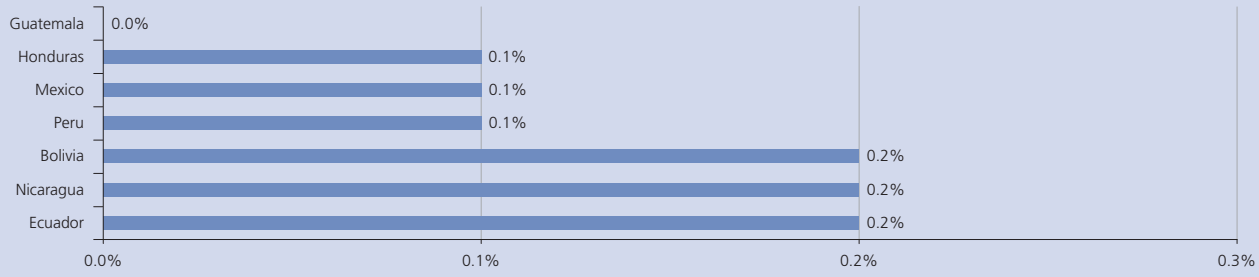
Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

Figure 3.3
Cost of professional services to pay the property tax as % of per capita GDP (Firms Perception)



Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007.

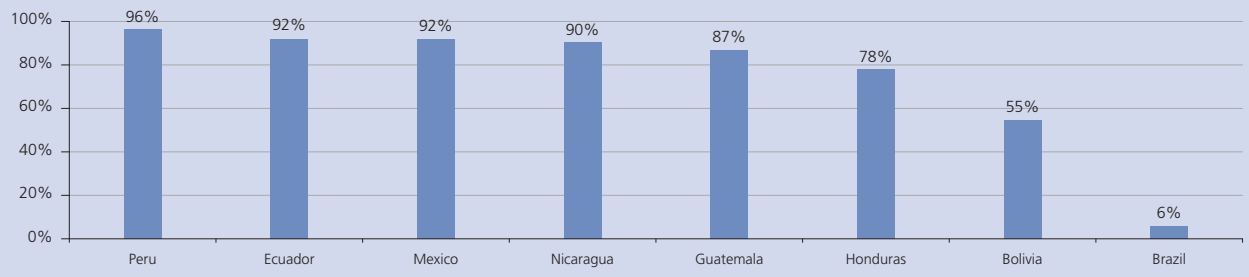
Figure 3.4
Indirect costs to pay the property tax as % of per capita GDP (Firms Perception)



Source: *Municipal Scorecard 2008* Database. GDP from WDI 2007

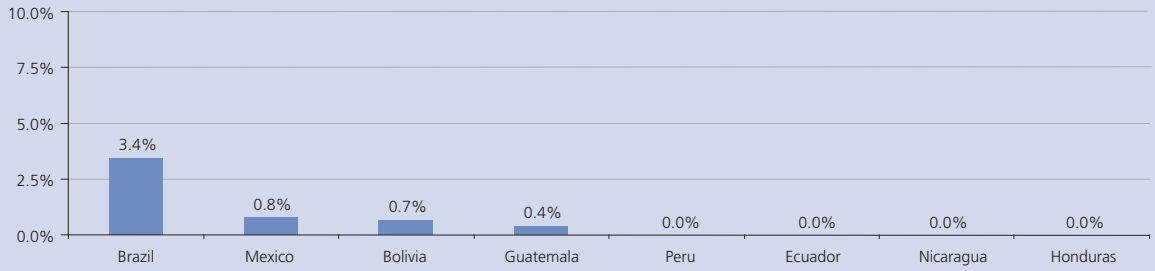
Business owners usually personally pay the property tax at the municipalities, even if there are other available options (see figure 3.5.) Brazil is the exception to the rule, as 89 percent of business owners do not pay their taxes at a municipal office. In fact, electronic means are increasingly being used in Latin America to pay property taxes, in particular in Brazil, Mexico, Bolivia, and Guatemala (see figures 3.6 and 3.7.) When presented with the choice of paying at a bank or somewhere other than the municipality, most business owners chose this option.

Figure 3.5
Percentage of Entrepreneurs who Pay the Property Tax at the Municipality



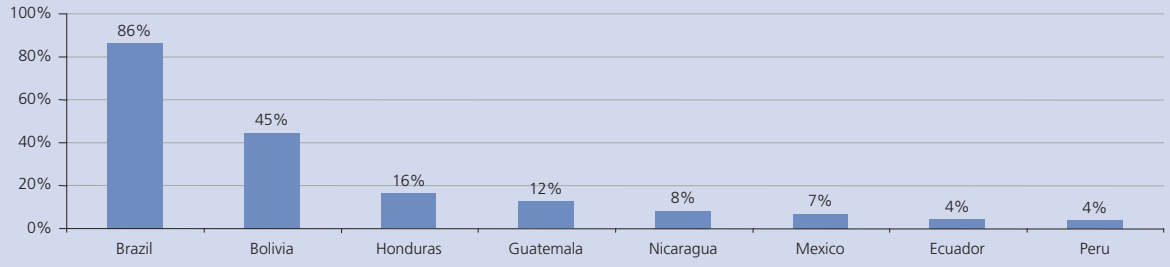
Source: *Municipal Scorecard 2008* Database

Figure 3.6
Percentage of Entrepreneurs who Pay the Property Tax by Electronic Means



Source: *Municipal Scorecard 2008* Database

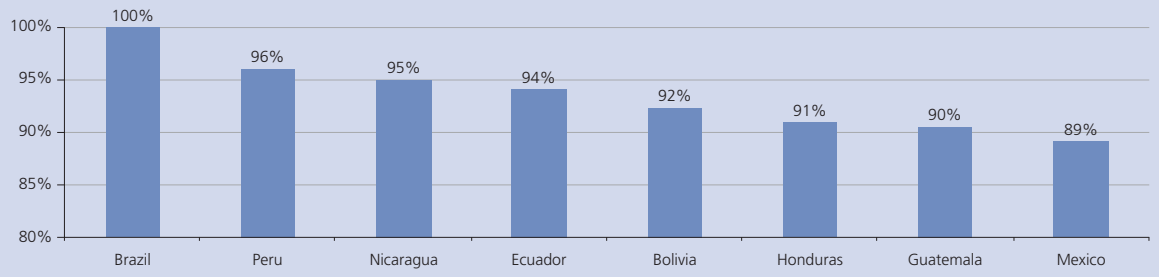
Figure 3.7
Percentage of Entrepreneurs who Pay at a Bank or Elsewhere



Source: *Municipal Scorecard 2008* Database

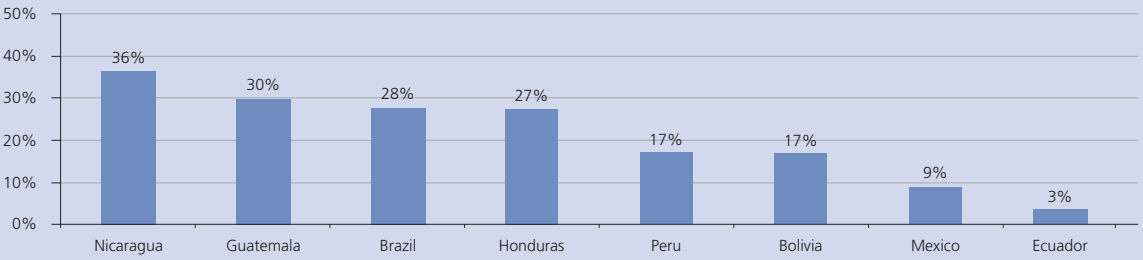
A large number of business owners reported that they did not know how the property tax was calculated. Although in Ecuador, for instance, only 3 percent of tax payers reported they were aware of how they were calculated (see figure 3.9.) However, this did not prevent them from paying their taxes. Not surprisingly, municipal authorities figure out the amount due and notify tax payers, as shown in figure 3.8.

Figure 3.8
Who Calculates the Property Tax (% of Entrepreneurs who Said the Municipality)



Source: *Municipal Scorecard 2008* Database

Figure 3.9
Do You Know How the Property Tax is Calculated? (% of Entrepreneurs Who Said Yes)



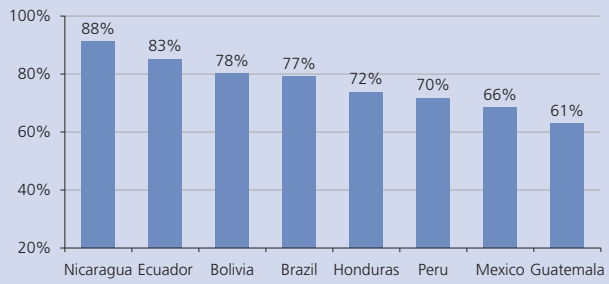
Source: *Municipal Scorecard 2008* Database

A good example of a good practice in Peru is that most municipalities provide adequate information in a reasonable amount of time. When a firm registers in the cadastral database, the municipality simultaneously reviews the ownership documents, the title and deed, and provides for free the documents that calculate the tax. Then the municipality automatically adds the property in the cadastral database. Using this process in conjunction with modern IT tools, Peru has increased the tax payer base by 86 percent between 2004 and 2007.

Municipal Tax Management

Good municipal tax management matters to authorities and tax payers for a number of reasons. It increases revenues and provide better services to residents and owners to encourage entrepreneurship. It contributes to better tax oversight and collection, and expands the number of registered tax payers. It encourages business owners to make new investments. All these objectives require clear tax regulations, taxes that are easy to calculate, and easy to pay. Tax payers need access to all necessary information to pay their taxes (see figure 3.10 and table 3.3).

Figure 3.10
The Municipality Provides Information on How to Pay the Property Tax (% of Entrepreneurs who Said Yes)



Source: *Municipal Scorecard 2008* Database

Table 3.3
Means of Communication Used by Municipalities to Advertise Available Ways to Pay Taxes (% of Entrepreneurs who Said Yes, More than One Answer Possible)

Country	Leaflets	Electronic means	Internet	Telephony	Descriptive publications	Service desk
Bolivia	34%	13%	18%	14%	39%	74%
Brazil	43%	40%	53%	20%	50%	53%
Ecuador	12%	7%	10%	5%	15%	45%
Guatemala	20%	3%	4%	2%	19%	40%
Honduras	26%	11%	11%	7%	25%	58%
Mexico	43%	14%	15%	6%	28%	48%
Nicaragua	32%	3%	6%	6%	38%	49%
Peru	73%	10%	13%	9%	43%	62%

Source: *Municipal Scorecard 2008* Database

In the past, Bolivia, Brazil, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, and Peru have often changed the rules for tax calculation. Rates and requirements vary even among municipalities within the same country. In Nicaragua, rates and fines expire every two years and are recalculated. Constant changes in the rule for calculating taxes can hamper business planning.

Some municipalities have launched programs to encourage timely tax payments. These programs typically give tax payers a discount for paying their entire tax debt at the beginning of every year. Other programs include tax amnesties or surcharges for past due tax payers, or installment payments on owed taxes. Although this may increase tax revenues automatically, it can also create a perception that late tax payers are being unfairly rewarded. Business owners and individual tax payers might feel encouraged not to pay their property taxes on time, and eventually wait to pay later without surcharges or penalties.

Procedures for the payment of taxes vary from modern and fast, to cumbersome and slow. In some cases, tax payers must visit the municipal cadastre office and fill in a form. Then, they are given a file number. Next, they need to visit the liquidation office where the official in charge will check the tax payer files to calculate the taxes due. Obviously, this procedure is extremely time consuming and discourages tax payers to pay their taxes at all.

Alternatively, in places like Mexico City, tax payers receive their tax returns by mail. Tax payers can pay via the Internet, without any need to visit a municipal office. This not only saves time but also reduces the likelihood of non-official payments, because there is no direct relationship between the tax authorities and tax payers. There are also differences among the municipalities within the same country. In Sao Paulo, Brazil, municipal taxes are paid electronically, while in the rest of municipalities, they are paid at bank offices.

The Importance of Efficient Property Tax Payment Procedures

Tax collection is vital to cover municipal current expenses and provide funds for investments in infrastructure citizens need. However, tax payers (whether individuals or companies) demand fair and simple ways to calculate and pay taxes, as well as transparent, efficient and well regulated terms and documents for payment.

Yet the procedures tax payers must undergo to pay their taxes can be complex and slow. Worse still, they may be subject to frequent changes, despite the acknowledged fact that firms should be able to determine the involved cost when they decide how, when and where to make their investments. For instance, if a firm plans to buy a property, it should be able to choose its location by taking into account the municipal taxes charged in the locality where they plan to invest, the local property tax, and the comparative costs of operating in a different municipality. Evidently, taxation will have an impact on the firm's business plans.

Improving tax collection

No tax system is perfect because there is always room for improving processes and procedures, among the many components of a tax system. However, modern and improved tools, equipments and systems with numerous practical applications are surfacing constantly, including more efficient and suitable information management tools. All these improvements can be used for better tax management,

resulting in processes that business owners can use more easily. This study revealed a strong relationship between the tax payers' level of satisfaction and the number of places where they can pay their property tax. If tax payers have options to pay their taxes at several places, including banks, the Internet or supermarkets, they are more satisfied, even if most payments are still made at the municipality.

According to responses from firms, no significant difference was found in the average time for payment at municipal offices or through other locations. In other words, having more places to pay results in higher user satisfaction, although the average time to pay did not decrease[32].

Likewise, there are several areas of opportunity for increasing the efficiency of tax payer identification and registration, and for municipal tax collection. They include the following:

a. Discount for early and timely payment. In Mexico City, tax payers who pay their property tax in January receive a seven percent discount. Advance payments in February receive a four percent benefit. This measure creates incentives for tax compliance and also provides early access to funds municipalities may use for priority projects. In addition, business owners and tax payers at large benefit from going through the procedures in just one step, instead of making periodical payments. In addition, they benefit from tax rebates. In many cases, another incentive implemented by municipalities is that if a payment is delayed, the tax payer can pay interest on debt. Different incentives can be observed in the following table.

Table 3.4
Incentives for paying Property Taxes (% of entrepreneurs who said Yes, more than one option possible)

Country	Early payment, discount on the amount payable	Early payment, possibility to pay on installments	Payment on time, discount on the amount payable	Payment on time, possibility to pay on installments	Exemptions or incentives avaible to pay taxes
Bolivia	40%	17%	80%	23%	57%
Brazil	58%	54%	36%	42%	0%
Ecuador	46%	12%	68%	20%	44%
Guatemala	1%	5%	0%	4%	14%
Honduras	51%	32%	32%	32%	24%
Mexico	76%	19%	67%	16%	25%
Nicaragua	44%	51%	33%	46%	9%
Peru	36%	54%	28%	49%	22%

Source: *Municipal Scorecard 2008* Database

b. Using satellite photography to check firm characteristics and size. This is an example of how modern technology can be used to support tax collection systems. By helping to identify properties in detail, these technologies help inspectors target their efforts and assure more efficient oversight.

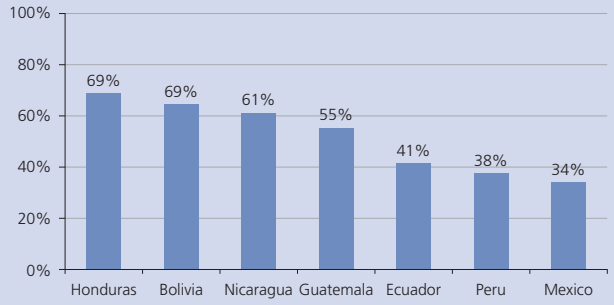
   For instance, in 2008 the government of Mexico City, in Mexico, started a program to update the information available to local authorities about the properties in that city. The satellite photographs' error margin is 1 cm for every 100 km. Satellite photographs will help calculate the correct property tax. Once the property tax accounts are updated, a virtual, Web-based cadastre office will allow tax payers to know the exact size and mapping characteristics of their properties, eliminating the uncertainty that surrounds tax calculation. Moreover, starting in 2010, all property tax collection procedures will be carried out via the Internet[33].

c. Providing insurance coverage against property damage through an additional payment included in the property tax.

d. Reducing the time to register properties. Approximately 52 percent of sampled business owners register their properties (see figure 3.11), but registering the properties takes longer than paying the property tax itself (see figure 3.12.)

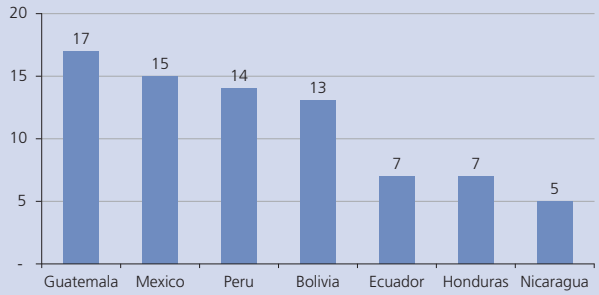
[32]A Chi-Square test determined whether or not there existed a significant difference between average time spent in paying municipal taxes at the municipal offices or elsewhere.
[33]Cuenca, Alberto, Updating Cadastral Data bases with aerial photography, El Universal Daily March 27, 2008, Available on the Internet at: http://www.eluniversal.com.mx/notas/vi_493187.html.

Figure 3.11
Did you Have to Register in Order to Pay Property Taxes? (% of Entrepreneurs who Said Yes)



Source: *Municipal Scorecard 2008* Database

Figure 3.12
Duration of the Registration Process in Working Days



Source: *Municipal Scorecard 2008* Database

The analysis shows that, in general the time, cost, and visits to pay the property tax are reasonable as seem by firms. Some municipal management procedures are complex and slow. For instance, in Brazil, tax payers who file an application to get a rebate for excessive payments must produce several documents. A review of all such requirements and documents may be warranted to determine if they are truly needed to authorize the tax rebate.

In addition, modern IT systems, off the shelf or customized software and the Internet could be used to speed up processes. Although it is true that local municipalities sometimes lack the human or financial resources needed to improve tax collection using modern technologies, agreements with national tax administrations could provide support in tax collection and oversight.

Table 3.5 shows the main taxes paid by tax payers and areas for improved tax administration.

Table 3.5
Tax obligations

Fiscal requirement or obligation	Improved procedure
Obtaining a tax payer number	Use the same tax number for certain municipal and federal taxes, as with sales taxes.
Publishing the different alternatives to pay the tax	Publicizing the available location to pay the tax is important because most firms according to this report continue to pay their taxes at the municipality.
Payment of municipal taxes	Payment via Internet, at banks and supermarkets. Option to pay using alternative means of payment, such as credit cards.
Tax calculations	Municipalities can calculate the tax to be paid and send a notice to tax payers by post or electronic mail. This streamlined, user-friendly process could further be improved by attaching a detailed tax calculation sheet, encouraging faster payment.
Tax payment schedules	Providing options for early, annual payments or payments in monthly installments.
Tax rebates	Introducing deadlines for paying tax rebates and pay interest when municipalities miss their deadlines to pay rebates.

What Remains to be Done?

Through the *Municipal Scorecard* study the following areas for improvement have been identified:

- Update cadastre values so the right tax will be paid and business owners enjoy the legal certainty that property taxes will not change constantly.

- Provide more options to pay. In addition to paying taxes at municipal offices, they could be paid at shops or through the Internet. It should also be possible to use credits cards and other means of payment.

- Given that many business owners reported they still pay their taxes at municipal offices, municipalities that already offer several alternative options to pay could advertise them and demonstrate that these services are safe and reliable. Greater publicity does not ensure business owners will immediately start using alternative ways to pay but could help in modifying entrenched cultural practices and lack of trust in financial entities, in particular in view of past and present financial crises.

- Provide more information to business owners about their property tax obligations, including methods for calculation, deadlines, facilities and incentives.

- Reduce the administrative and indirect cost of property tax payments.

- Reduce the cost of registration to pay property taxes.

To the extent a municipality introduces such good practices, tax collection will be more efficient and ultimately, business owner satisfaction will increase for the benefit of all involved.

Chapter 4
Learning from Good Practices

Municipalities can significantly contribute to a better business climate by improving procedures that businesses need to fulfill to operate formally. By reducing the number of procedures, providing better information, and improving customer service, more firms may be encouraged to operate, build or pay taxes as participants in the formal market.

Providing business owners with better service implies changing the internal processes of the municipal offices, which may result in business sector growth. In some cases, municipalities would need to embark on structural reforms that modify processes and roles. If a municipality embarks on such adjustments, it needs to define indicators to measure intended benefits.

The purpose of this chapter is to share lessons learned and good practices from the region's municipalities that have simplified municipal procedures, especially those related to the operating license and construction permit. Such good practices have resulted in greater process efficiency, as well as an improvement in the way in which municipal officials manage internal procedures, creating better incentives for firms to formalize. We hope that these practices provide useful examples to other municipalities interested in embarking on similar reforms.

It is worth noting that some governments launch ambitious nationwide programs to jumpstart reform. Others prefer to start small, with a pilot project in a major city that can then be replicated in other municipalities. Every country needs to assess which approach better suits its needs and resources and what combination of reforms lead to a better climate for business.

Municipalities that Have Embarked on Reform

Laws on Operating Licenses: Are They Effective?

As previously mentioned, some countries have implemented large nationwide simplification projects that include the majority of municipalities. In these countries, governments have passed a national law that sets out guidelines for processes, standards, and requirements that municipalities should follow to manage permits and licenses. In the case of Peru and Brazil, both countries introduced national level legislation that spells out the framework for a municipal operating license.

In Peru's case, the "New Law on Operating Licenses" tries to set regulatory standards and procedures for all municipalities. There are both advantages and disadvantages to Peru's experience. The law granted municipalities a 180 business day period to align their old procedures with the new law, implying that after this term, the old regulations and procedures are rendered null. This enabled standardization across municipalities and expedited the operating license procedure for small firms. Inspections are conducted after the license is granted.

Another relevant aspect of the Law was introducing a single procedure for a prior evaluation of the application. It grants positive administrative silence after 15 business days and requires affidavit formats for firms under 100 square meters. This xpedites the operating license procedure for small firms, whose businesses are inspected after the license is granted.

The main disadvantage is that, although citizens begin to demand compliance with the law, many municipalities have failed to implement the law. Several of them have yet

to standardize forms according to the standard administrative forms (TUPA) set out in the law. While some municipalities have focused on reducing the days and costs incurred by firms to acquire an operating license, not all municipalities have conducted the re-engineering of processes to improve customer service, access to information, zoning plans, simplification of forms, simplification of internal processes and training for their staff. Few municipalities have created a monitoring and evaluation system to track their progress.

In December 2006, Brazil introduced a federal law for regulating differentiated treatment for micro and small businesses. The law requires that all three levels of government coordinate to register and formalize firms. The law establishes the guidelines and procedures for simplifying and reducing the costs, registration and formalization process through the National Network for the Simplification of the Registration and Formalization of Firms and Businesses (known by its acronym, REDESIM). The network aims at integrating the processes of different institutions responsible for registration and formalization through in-house information systems. To formalize a firm through REDESIM, the firm must provide, online, the name of the company, type of activity and contact information. A provisional permit is issued through the Internet. Following inspections, the firm receives final documents through the Internet. The law tries to limit duplicative procedures among the three levels of government and create a more predictable process for firms.

An important clause in the legislation is the introduction of a risk based classification system. The law streamlines the processes related to sanitary, safety, fire prevention, and environmental standards. Additionally, the law states that inspections should focus on economic activities that are considered high risk.

It is too early to report on the impact of the reforms; however, the following reforms are envisioned:

- Authorizations. For opening a business, a firm had to be registered in over 10 offices in three levels of government. Through a one-stop process, registration can be done in all three governments simultaneously through REDESIM.

- Time. It took up to 152 days. Now, those municipalities that participate in REDESIM can issue the provisional operating license immediately, except for high-risk activities.

- Requirements: Over 90 documents were required. Now a registration process only requires submitting the documents once for all the government offices, and the firm is given a single identification number for his or her application.

In general terms, the Brazilian law simplifies, streamlines and standardizes the criteria and procedures used by the different governmental bodies, increasing efficiency in the procedure and the Operating License process. The challenge for Brazil is encouraging the implementation of the law which has been uneven to date.

While the law is an important step in the right direction, it is important that municipalities receive capacity building and technical assistance. The lack of know-how on new procedures can diminish the impact of the law. Peru has been able to achieve results in some municipalities due to the law and a public-private dialogue.

The promotion of national level laws to simplify processes that mean change for three levels of government requires a national level consensus. The greatest challenge is to ensure that change is implemented in all levels of government.

Development of Public-Private Programs to establish simplified procedures at the national level

Several Latin American countries have embarked on large simplification projects to improve the business climate. In some countries, a top-down political reform effort has resulted in the implementation of a large simplification program. In others, municipalities have embarked on their own reforms. In many cases, the creation of a public-private dialogue has been the impetus for reform.

In Mexico, the Rapid Business Opening System (SARE) has attempted to implement simplification nationwide. This system simplifies the process of obtaining an operating license for low-risk economic activities. On January 28, 2002, a Presidential Agreement introduced SARE, which entered into force on March 1, 2002. The SARE system is supposed to provide a license within 48 hours, and is mainly aimed at micro, small and medium businesses, as these firms usually engage in low-risk activities and represent 80% of Mexico's economic activity[34].

[34]Available on the Internet at: http://www.cofemer.gob.mx/index.asp?tipo_nav_bar=2&contenido=2&content_id=137&menu_id=17&submenu_id=37.

To date 136 municipalities have implemented SARE. According to the Commission for Regulatory Improvement - COFEMER, SARE has led to the creation of 381,984 jobs and 132,675 new businesses. Of the 25 surveyed municipalities, 19 have implemented SARE[35].

The SARE system is an important step forward; however, it could be improved in the following ways:

- Better evaluation of municipal level implementation: Once the system is installed, COFEMER assumes that municipalities are implementing the system. However, some municipalities do not follow COFEMER criteria and deviate from the program's objectives. This could be resolved through evaluations made by the Commission itself or by third parties that certify its proper operation.

- Provide certificates to those municipalities that are correctly implementing SARE to ensure better quality control.

- While SARE has helped some municipalities improve the operating license, the next step would be to apply it to other permits, licenses and inspections ex-ante and ex-post.

Other countries, such as Bolivia, Honduras and Nicaragua have implemented National Plans with IFC support to simplify operating licenses and in some cases, construction permits. The objectives of these plans are to reduce the time and costs incurred by firms to acquire such permits and create better internal municipal processes and management. The goal is to create good practices in larger cities so that the country has models for simplification that can be replicated.

In terms of sequencing, these plans have generally started with the implementation of reform in one municipality. The experience of this municipality is then shared and replicated in other municipalities. It is critical for a good monitoring and evaluation system to be in place to ensure successful replication of experiences.

Peru implemented the National Plan for the Simplification of Administrative Procedures (Plan Nacional de Simplificacion de Tramites Administrativos), Tramifacil, which is a coordinated effort including municipalities, the private sector, the central government, donors and non-governmental organizations (NGOs). Tramifacil helped create a toolkit that provides guidelines for simplifying processes related to the operating license. The toolkit consolidates good practices in simplifications. The technical assistance offered by Tramifacil included starting with a diagnostic, coming up with proposals for reform, implementation, and monitoring of results.

In a second stage, Peru's National Plan embraced the provincial municipalities of Ica, Piura, Arequipa, Trujillo, Chiclayo, Huaraz, Chimbote and Huarmey. Significant results were obtained in reducing the number of days for issuing an operating license in these municipalities. These municipalities were able to reduce time, costs, procedures and number of regulations. They introduced a risk based classification system according to economic activity, standardized processes, better information systems, and delegation of signing authority. One way of starting reforms is to begin with a municipality and replicate the effort in other municipalities that have similar characteristics. It is also important that the reform effort be accompanied by a monitoring and evaluation system that allows frequent supervision and measurement of results and impact.

Common Aspects for the Implementation of Simplification Programs at the Municipal level Programs

Operating Licence

Learning by Doing: Training

Training is a critical component in introducing reform, and gains importance as changes to processes need to be implemented by government offices that usually suffer from high personnel turnover. Municipal officials that lack adequate training, and new systems and regulatory changes make it complicated for them to provide efficient services to business owners.

Improving human capital is paramount. Training should cover an overview of relevant regulations and procedure management, and should set minimum service standards. Introducing new technologies also requires extensive training so that employees do not under-use new systems or revert back to prior inefficient practices.

The experience of Queretaro in Mexico, is a good example. Any time a change is made to the regulations or the information

[35]According to the Commission for Regulatory Improvement, the municipalities that have implemented SARE are: Culiacan, Veracruz, Chihuahua, Torreon, Pachuca, Aguascalientes, Merida, Zacatecas, Ciudad Juarez, Tlalnepantla de Baz, Hermosillo, Queretaro, Naucalpan de Juarez, Tuxtla Gutierrez, Tlaquepaque, San Luis Potosi, Zapopan, Guadalajara and Guadalupe.

system, the three government departments involved in the operating license process receive training. These courses are held with the Municipal Training Institute, which in turn offers on-going personal training for employees and basic IT training.

Within the framework of the National Plan, Oruro, Potosi, Sucre, Quillacollo and Yacuiba in Bolivia introduced a strategy of "learning by doing" and similar approaches were implemented in Ecuador, Nicaragua, and Honduras. This strategy developed the administrative capacity of municipal employees involved in implementing reform, and provided them with training to carry out the change process by themselves.

During the execution of this strategy, municipal personnel participated in workshops on process re-engineering. Topics covered in the workshops included general awareness raising on the roles and functions of municipal personnel involved in licensing processes, overview of institutional agreements and responsibilities, and monitoring and evaluation of results.

In these workshops, municipal officials had the opportunity not only to obtain information about other municipalities' procedures, but also to participate directly in institutional assessment and discussion of reengineering proposals before implementation. As a result, the municipal officials own the change process and actively contribute to internal dissemination activities.

Training is an important part of municipal simplification projects. Frequent training, particularly right after reforms are introduced, is critical so that municipal officials are ready to provide services when requested.

Implementation of One Stop Shops

The creation of one stop shops or "single windows" has improved customer service in some municipalities. They have been implemented in Manta and Guayaquil in Ecuador for operating licenses, in Managua in Nicaragua for the construction permit, and in numerous municipalities in Mexico, such as Toluca, which has launched a Business Service Center. Successful one stop shops usually require an investment in training on customer service, management, new procedures and regulations, and IT systems. The creation of easy- to-use manuals makes it possible for frontline staff to provide a fast response to license and permit applicants.

In the case of Hermosillo in Mexico, the municipality launched a construction permit business development center that is dedicated to provide services to firms seeking permits. The procedure takes place at a single location and the municipality's Economic Development Commission is responsible for coordinating approvals from all departments such as the Civil Protection Unit and the General Urban Development Directorate. The procedure used to be slow. No one tracked the approval process as it made its way to different departments. Thus, the response time was always delayed. When the documents provided by the firm failed to comply with the requirements, the approval process stalled and had to start all over again. The new business window redesigned the procedure and created a coordinated approvals structure that increases efficiency and faster response time for construction permit applicants.

The new system has enabled a number of efficiency improvements. Coordination, supervision and response time has improved. The information is archived in the municipal cadastre and urban development program databases. Firms can conduct inquiries electronically with frontline municipal staff.

Improved customer service modules are also used to improve licensing procedures. Such is the case for the citizen service unit in San Salvador, where users can submit any query during the procedure. The queries are followed up by the corresponding departments.

The creation of offices closer to the user is also a good practice, as the users do not have to go to central offices, saving them time and transportation costs. In Queretaro, this was implemented through municipal delegations which, in turn, hold a "Miercoles Ciudadano" twice a month. This initiative assists the public about different procedures of the municipality.

One stop shops are a good way to reduce regulatory hassles for low-risk firms. Unfortunately, one stop shops or single windows can also be implemented quite poorly. In some cases, municipalities have grouped different departments into one office space. However, none of them actually communicate with each other, thus the firm has to spend time presenting its application at each "window" even though they are going to one physical location. This does not save time to the firm.

Attending Information levels and Customer Service

Another good practice is to improve user satisfaction, by making it easier for firms to interact with municipal officials virtually or once in the municipality. To improve

user satisfaction, a municipality could facilitate access to information by introducing self-service desks or informative panels in the offices that help the citizen understand where to go for help. The municipality can also use IT tools to enable an applicant to track the different stages of his or her application electronically (by e-mail or SMS), or by telephone hotlines, and making payment possible through electronic means.

Accordingly, there should be complaint and suggestion boxes physically located in the offices, or ways in which feedback can be sent through the Internet or by telephone. These complaints should be attended by a municipal official within a reasonable amount of time. In Manaus, Brazil, all complaints are subject to an administrative review to analyze whether the complaints warrant a change in the procedure. The complainant may track this review process through the web site. Ninety percent of the complaints undergo this administrative review.

Municipalities in Bolivia, Ecuador, Honduras, Nicaragua and Peru that are part of national simplification plans have made an effort to keep their websites updated, offering information about their services. They have created a user process guide that provides firms with information for each municipal procedure, reducing the time needed to physically visit municipal offices to seek information. Some websites allow users to track the progress of their applications.

By providing these tools to firms, the municipality ensures that firms have all the information needed to embark on a formal process for obtaining a license. This information, when available through different mediums, significantly helps reduce the bureaucratic burden faced by firms.

Constantly Revise Costs and Make them Transparent

The cost incurred by firms to acquire operating licenses is one of the elements that deter firms to acquire a permit or license. It is seen as good practice to provide predictability, transparency and fairness in pricing fees and costs.

The costs and fees for operating licenses should be clear and easy to understand. Cost differentiation should be based on the actual cost of administering a license plus necessary overheads needed for any other functions to support the municipal licensing department (e.g. room cleaning, couriers, etc.) and for investments to sustain these functions in the future (e.g. new premises, new equipment, etc.) If the cost is based on the investment amount and not the cost of administrating a license, then the municipality is collecting a fee rather than providing a service. In such instances, it is worth examining if a municipality is charging excessive fees for the sole purpose of collecting revenue.

Creating transparency and information access increases firms confidence and prevents municipal officials from charging discretionary fees. It is important that citizens know the amount and type of public revenue these fees represent to the municipality (tax or non-tax revenue), and how this revenue translates into better service delivery.

The costs should be defined with predictability. If they fall into the category of tax revenue, legislation should set forth the pricing. If the decision is taken by the municipality, a local law should set out fees and eliminate discretionary behavior. Different practices in cost structures are presented below:

• Free licenses

In Mexico City, firms engaging in low-risk economic activities do not need to pay a fee. They only need to send a declaration of intent to start an economic activity. Another example is the free operating pre-license in Queretaro, Mexico, which is valid for 180 days and is used for low-impact commerce and services. This system was created to support micro-enterprises to help them become operational and to protect their initial investment from being affected by long bureaucratic processes. Operating licenses are granted free of charge in La Paz, Bolivia, San Luis Potosi, Tuxtla Gutierrez, and Hermosillo in Mexico[36].

• Cost reduction

Cost reduction lowers the burden on the business owner and is sometimes used to create incentives to encourage certain economic activities. It is important that such measures are implemented impartially and are not subject to discretion. Barranco, San Borja and Coronel Portillo in Peru reduced costs from US$381.558 (1200 soles) in 2007 to US$164 (516 soles [37]).

• Fixed fee

The cost may also be established through fixed fees. In the municipality of Managua, Nicaragua, firms pay C$250.00 or US$12.88 for the operating license. The advantage is cost standardization, but the disadvantage is that it does not take into account the differences in public services provided by

[36]It is usually not advisable to issue a license free of charge as this service from the municipality should be sustained and have a fee.
[37]Exchange rate calculated as of December 8, 2008. Available on the Internet at: http://www.xe.com/ucc/convert.cgi.

the municipality. These costs could vary depending of type of service rendered or cost of providing services according to different geographical locations.

Municipalities should also make it easy for firms to pay the fees. Providing many alternatives for payment methods is a good practice. Municipalities can offer payment options in governmental offices, banks, through transfers, or credit cards to help to facilitate the procedure.

We can observe that providing predictability to the fee structure, clarity on how the cost is calculated, and disseminating this information can limit discretionary behavior. Such good practices help create more public confidence in the licensing process.

Implement and Update Zoning and Classification Systems

Urban planning is crucial for municipalities wishing to manage a functional and orderly economy in their jurisdiction. Zoning rules enable municipalities to regulate land use. Soil use and the availability of natural resources (water) or services such as electric power, street lighting, drainage, and roads play a role in determining what zones should be used for housing, commerce or industry or delegated as protected areas.

Clear and easily accessible zoning plans are important tools for the development of a municipality. Such plans enable an efficient distribution of public services and goods in a community. Good zoning can also encourage formalization for certain economic sectors. Effective zoning can also help define prohibited, conditional and permissable economic activities within a certain jurisdiction.

Each economic activity presents a level of risk. A risk assessment should determine the intensity of regulation. Lower risk activities should have lighter regulation, speeding up the opening of a business. Higher risk activities require more intensive regulations.

Even though the general term used in this survey is "operating license", there are a number of administrative instruments that also formalize economic activity. Each of them depends on a classification of risk, such as the declaration or notice of business operation, registration, or pre-license.

Clear classifications systems help improve urban planning, zoning, the distribution of public services and the use of natural resources. This helps create minimum standards for development for a municipality. Such systems can help municipalities better regulate economic activity within their jurisdiction.

Development and Implementation of Monitoring and Evaluation tools

For any reform project, tools that track changes in performance are critical for policy makers and users of public services. An interesting exercise is being conducted in the state of Guerrero for several municipalities. An evaluation and performance system is currently being implemented to allow municipalities to monitor and evaluate simplification projects.

The model below incorporates basic indicators and specifies the information source, the data collection process and the frequency. This model also identifies which department is responsible for tracking and reporting on the indicators.

Table 4.1
Control Panel Evaluation and Perfomance System, implemented in Municipalities of the Guerrero State, Mexico

Impact Variables						
Objective/Activity	**Indicator**	**Baseline**	**Goal**	**Source**	**Responsible party**	**Frequency**
Percentage increase in the number of economic units opened per year	Opened businesses	N°. of Businesses opened in (year):	Incremental %	Statistical report from the system database	Department of Operating Licenses	Bimonthly
General Results						
Reduction of time in municipal authorization for Operating Licenses and Construction Permits	Average time per type of authorization	Lower average time in N°. of days	3 days RB, 10 days RM, 20 days RA	Statistical report from the system database	Department of Operating Licenses and Urban Development	Bimonthly
Reduction of time in municipal authorization for Operating Licenses and Construction Permits	Average N°. of steps per type of authorization	Average N°. of steps for the last term Period	No. exceeds the previous term	Statistical report from the system database	Department of Operating Licenses and Urban Development	Bimonthly
Support Components						
A) Information and Dissemination						
Formalization events in commercial areas through customer service modules	a) Events held, b) Effectiveness (attendees vs. submitted requests)	N/A	N°. of events, effectiveness %	Statistical report on events held	Department of Municipal Economic Development	Bimonthly
Website implementation and updates	a) Updates, b) N°. of visits to the site	N/A	N°. of bimonthly updates	Report on updates and site visits statistics	Municipal IT Department	Bimonthly
Information distribution	a) N°. of distributed reports, b) Customers' satisfaction level	N/A	N°. of reports to be distributed	a) Monthly report statistics, b) Opinion surveys	Single window	a) Monthly report, b) Bimonthly survey
Implementation of hot line	Inquiries heard	N/A	Project implementation	a) Implementation report, b) statistical report on inquiries	Municipal IT Department	Monthly
B) Single Window						
Operating and maintaining the One-stop-shop	a) N°. of users served for all types of procedures, b) Customers' satisfaction level, c) Average waiting time before service, d) N°. of complaints on service	N/A	Single Window implementation	a) Statistical report of persons served for all types of procedures in the System, b) opinion surveys, c) Report on complaints per reason	Single Window	a) Monthly, b)Bimonthly, c)Bimonthly, d)Bimonthly
C) Training						
Training and capacity building of officials	Training events held	N/A	N°. of events held	Report on events held	Department of Municipal Economic Development	Bimonthly
Regulation and Process Components						
A) Procedures						
Maintaining efficient procedures	a) Registered applications vs. released applications, b) Released applications per response type, c) Reasons for rejection, d) Submitted complaints	N/A	Annual percentage increase (%) of registered applications	a) Statistical report on registered applications vs. released applications per type of procedure, b) Statistical report on production per type of procedure and response, c) Statistical report per reason for rejection, d) Report on complaints per reason	One-stop-shop	a) Bimonthly, b)Bimonthly, c)Bimonthly, d)Bimonthly
B) Inspections						
Inspection operation	a) Total N°. of inspections per decision, b) Time delay, c) Reasons for negative decisions	N/A	Inspections carried out within the term established by type of risk	a) Statistical report on inspections per decision, b) Statistical report on average delay, c) Statistical report on reasons for negative decisions	Civil Protection, Municipal Health and Urban Development for a), b) and c)	a) Monthly, b)Bimonthly, c)Bimonthly

Source: Created with information provided by the state of Guerrero.

This type of model permits better monitoring of project performance. It enables municipalities to change course if they are showing poor performance in some areas. It can also serve as a tool to promote public accountability. If the municipality publishes progress on these indicators on its web site, citizens can better evaluate municipal performance. Such practices increase transparency and create more citizen confidence in the municipality.

Efficient use of Information Technologies (IT)

When initiating a reform process for simplifying licensing procedures, it is often necessary to evaluate whether information technologies will be needed to carry out such simplification. IT proposals should focus on making the process more efficient, to ensure significant reduction in process time, a decrease in the number of requirements and reduction in visits to municipal offices. The challenge for municipalities is to finance the technological investment and often, municipalities do not have the resources to make such an investment. Financial constraints have an impact in determining the right IT solution for the municipality.

When a municipality has a limited budget and urgent needs, it is a priority to maximize the available resources and invest in resources that will make it possible to reduce costs, generate more income and operate more efficiently. The use of IT is an important tool to accomplish this. Training provided to officials on IT systems is also important. Therefore, it is advisable to train at least two officials per function, in order to guarantee proper operation. At the same time, manuals should be created to facilitate capacity building to train new personnel that join the municipality.

An investment in IT which increases the efficiency of decision-making processes, quality of information, creation of databases, and improved communication between departments and citizens, is fundamental for a municipality's operation. This investment depends on the circumstances and particular context of each municipality, but one example seems worthy of note.

CRM Systems: Since 2006, Mexico City or the Federal District has implemented a Single Management System (Sistema Unico Gerencial, SUG) that involves the creation of a CRM system (Custom Relationship Management) that enables efficiency of processes for opening a business through an electronic data transmission and processing interface. This system permits almost immediate access to information, faster document exchange, and saves time on internal processes. Firms can complete the procedures in a single location. By archiving all information electronically in a database, both municipal officials and firms may exchange documents and information[38].

The system creates an electronic file for the applicant which has reduced duplicate documentation in the different municipal departments. Changes to an application are carried out almost in real time, allowing a faster process time. One further advantage of this system is that it provides responses in a timely manner to applicant queries, and permits monitoring bottlenecks that may occur during the process.

In summary, the advantages of this type of system include: savings in time, reduced requirements, more efficient information archiving, and monitoring performance in real time. The system starts working when the users fill out the documents required by the delegation (a sub district of Mexico City), to start the procedure. The data is entered into the system and corresponding fees are generated for utilities. The delegation begins to process other requirements, which may include zoning and land use certificates. The information exchange between the different offices takes place entirely through the electronic system. A single ID is generated for the application, diminishing duplicative review by different agencies and offices.

Managing information using such IT tools significantly improves the performance of municipalities. A potential disadvantage of IT tools is that they represent high investment costs. Municipalities need to carefully review their budgets to invest in such tools. Sometimes state of the art IT systems are not required. The advantages of IT systems are that municipal officials can share information more easily and the time needed for a municipal officer to consult and process documents is reduced. If implemented well, IT systems can also reduce costs. Time savings could improve budgetary investment for the municipality and could reduce costs for storing paper archives and clear space for other activities in the municipality.

Public-Private Dialogue for Reform Implementation

Communication and concerted action between the private and public sector is a useful way to motivate municipalities to reform. Private sector actors have participated in tracking

[38]Information on IFC project was provided by Santalo Estudios y Proyectos, S.A. de C.V. (SEPSA).

progress of reforms using monitoring and evaluation systems that reveal improvement or lack thereof. For example the Chamber of Industry and Commerce (CAINCO) of Santa Cruz de la Sierra in Bolivia performs such a monitoring and evaluation role. In some cases, private sector actors are invited to participate in planning reform processes. They are also asked to provide feedback on the design of the IT system for the transactions related to the license and the elaboration of reports for monitoring and evaluation. The private sector also participates in dissemination and training activities. This significantly improves communication and confidence with the public sector.

Municipalities sometimes consult with commerce and industry chambers to provide the municipality with first hand feedback on bottlenecks that firms face in going through licensing or permit processes. This may be useful for municipalities to know the business owners' needs and objectives, to better tailor improvements.

Construction Permit

The construction permit is a legal document that is generally required to start a construction project. Different types of works require that municipalities grant different classes of permits. Such differentiation in requirements is important for efficient management of construction permits. Sometimes, too many requirements, particularly for simple works, can deter firms from wanting to construct formally.

Revise costs frequently and make them transparent

High fees or costs for a construction permit, lack of transparency of fee structures, and unclear classification of those costs according to construction type, can discourage firms from formally starting new construction. In this section, we present different ways in which municipalities can establish efficient cost structures. These include costs according to risk-based classification systems, costs to finance public services, and differentiation in costs according to social and demographic criteria.

Firms usually have to pay fees to different levels of government. At the municipal level, these costs can become significant if the municipality conducts all inspections regardless of type of construction. If inspections are conducted without regard to risk or size of the work, municipal officers face the same level of effort issuing a permit for remodeling or a construction of a large factory. Good practices have demonstrated that municipalities can reduce paperwork and regulatory burdens by conducting inspections according to a clear risk based classification system. This could diminish the costs for the municipality and result in a more efficient distribution of work among inspections and frontline staff.

Some municipalities combine the criteria above. Hermosillo, Mexico uses construction purpose and surface area to determine costs. In Bolivia the cost is fixed through a fee based on the project surface area and construction type. In Portoviejo, Ecuador, it is based on the total value and square meters of the construction, while in Babahoyo, Ecuador, it is based on the total value, square meters, cadastre sector, and construction end date.

In other municipalities the cost is determined according to basic rendered services and additional services that the municipality would need to provide to authorize the permit. The latter services may indeed have a more direct relationship to the cost incurred by the municipality to approve the permit, rather than a revenue raising purpose. One example of a good practice is the case of Manaus, where a payment is made at each stage in relation to the type of municipal service rendered such as the provision of a technical information certificate, formalization of the finished construction, and finalization of the technical visit.

When conducting reforms it is important to take the other costs into account as well, such as approval of the plans by third parties (architect associations, civil and electric engineers, topographers, etc.) The cost should not be simply passed on to firms. A good practice to reduce user costs has been used in Santa Catarina Pinula, Guatemala, where staff is dedicated to provide advice to prepare building plans. In Nicaragua, costs are quite low, and the building plan review costs are not transferred to the user, as the municipalities have their own professional staff.

Another possible increase in fees could be linked to the term of the permit. In Guatemala, for example, the permit expires after six months, thus firms need to pay for renewing the license after six months. Similarly, Ecuadorian municipalities such as Quito, Cuenca, Ambato, Ibarra, Tulcan, Riobamba, Loja and Portoviejo demand a guarantee equivalent to 1 percent of the work project, which increases costs, as this amount is withheld and is not available for the user. This may cause a loss of profits that would have been obtained if such amounts had been available as capital.

We can conclude that diverse practices to determine fees each have advantages. Some municipalities can even combine them to improve their results. A framework for fee structures should be published in standard legal publications (such as the municipal gazette, the fiscal code or any other relevant legal act) and should be disseminated widely. It should clearly establish how the fees will be used by the municipality; if they are used for revenue generating purposes or are directly related to the payment of services incurred by the municipality to manage the permit process.

Define Urban and Building Parameters

Municipalities also establish standards and guidelines for building parameters. Parameters are determined by urban plans or zoning plans for different districts. This information should be available at no cost and include all pertinent regulations and technical information.

Most municipalities always require permits for new buildings. However, not all of them require permits for certain types of constructions such as expansion, refurbishment, demolition, repairs, modifications, minor works, reinforcement, structural changes, alterations, disassembly, fence placement, perimeter wall construction, conditioning, remodeling and replacements. For construction that is not a new building, simple notifications or communications to the authority suffice. For example, in Mexico City, replacement, repair or demolition works only require notifying the delegation. Other municipalities have differentiated permits, for example:

- Permit for minor construction: In Yacuiba, Bolivia, this permit is given for constructing one or two rooms, expansions and remodeling. It is issued in a single day.

- Provisional permits: In Riobamba, Ecuador, a provisional construction permit is granted before the construction begins, and when the foundations and columns have been built, the definitive permit is granted. Likewise, in Chihuahua, Mexico, a provisional permit is granted for 15 business days, to allow project initiation, when a person cannot, for reasons outside his or her control, present all the documents required at the municipality. It takes 72 hours to grant this permit.

- Licenses under the UNO program in Aguascalientes, Mexico: Permits are granted immediately for works that pose no environmental risk or fall under a non-regulated category. The license is granted in one day.

- Quick Licenses" ("Licencias Rapiditas") in Villa Nueva, Guatemala, are granted for constructions under 36 m^2 and are issued in one day.

Other municipalities have various types of construction permits that have reduced processing times. Chihuahua is a useful example. The municipality issues a permit in five days for "self-construction" (for residents of low-income neighborhoods who want to construct using family labor.) Chihuahua also issues minor construction permits ("licencias de construccion como tramite menor") with different requirements depending on construction type, including a) room expansion and remodeling from 11 to 60 m^2, b) new construction from 11 to 60 m^2, or c) construction or expansion of commercial premises from 11 to 60 m^2. All of them expire in 30 calendar days and take 72 hours to approve. The "major construction permit" ("licencias de construccion como tramite mayor") is granted for construction works over 60 m^2, and also takes 72 hours following submission of all documentation.

As seen above, it is important that municipalities create plans for urban and building parameters. Such standards should be easily accessed by firms wishing to embark on any type of construction.

Implement and Update Classification Systems and Zoning

Good practice also includes regulating permits according to a risk based classification system that differentiates between different types of works and determines the requirements that firms need to comply with. Similarly, the classification of construction according to type of economic activity and type of industry is also considered good practice. In addition, different construction types can be regulated based on the different zones of municipalities, the differentiation of risks and use of specific geographic location, the impact on the population and environment, and available public services in the area.

Good practices include determining clear classification criteria and ensuring that the rules are transparent and are disseminated widely. This may be accomplished by publishing and making available specific regulations such as development plans. These plans should be published along with building plans and maps, so that they are freely available to users. In Manaus, Brazil, this is done through a geo-referential cartographic database and a system to address any discrepancies. In Ciudad Juarez, Mexico, citizens can visit the

Integral Information and Urban Development Center, send in their queries and access information through its website.

Municipalities should also identify types of construction that may or may not be permitted in high risk areas. Accordingly, some municipalities have created organizations that focus on such issues. For example, San Salvador created a specialized department called Geographical System of Municipal Information (Sistema Geografico de Informacion Municipal, SGIM.)

For works larger than 3000 m^2, Queretaro, Mexico has created a monitoring system through a risk based matrix. This system classifies works by construction height, environmental risk, nature conservation for cases that need environment impact studies. This classification system is also tied to zoning plans. Classification according to level of risk is important because it means that some construction may be subject to more rigorous inspections and have different requirements to fulfill.

Payment of Property Tax

As mentioned before, the *Municipal Scorecard 2008* also surveyed firms that paid the property tax. Unlike the data obtained for the operating license and the construction permit, processes for paying the property tax are not a significant barrier to access the formal market. This is because the costs to make such payments are relatively low or non existent in some cases. A few interesting examples and good practices are presented for municipalities wishing to improve in this area.

In Mexico City, firms report no costs associated with fulfilling payment obligations. Payment forms are mailed to taxpayers and they can pay online, at a bank or self-service stores. This spares firms the need to travel to a municipality or hire a tax specialist to calculate the tax obligation.

For some municipalities it is politically difficult to update the value of land in the land registry or cadastre. It is equally complicated for municipalities to collect the land tax. In the case of Guatemala, the national government assesses which level of government can more efficiently collect the land tax. In some municipalities it may be feasible, while where it is difficult, the national government collects the tax.

Sharing databases between departments allows better municipal management of information, particularly for tax purposes. In this regard, information collected for other licenses and permits could also be shared with the office of the municipal cadastre. This is vital for municipalities that need to improve tax collection. It also helps municipalities determine differential fees for taxes according to tax breaks for special groups.

Municipalities should also inform taxpayers about their fiscal obligation and the ways in which payment can be made. Clear and timely information helps taxpayers fulfill obligations. It also prevents the need for intermediaries. Better information reduces overall transaction costs and limits informality.

Another incentive that could facilitate tax payment is the creation of many alternatives for payment. Bank systems, electronic mediums, self service markets or the Internet can be useful options to provide the taxpayer. Such choices eliminate the need to visit the municipality. The municipality should widely communicate these options so that firms find it easy to pay taxes.

Conclusions

This report offers a myriad of examples on how to improve the management of licenses and permits. What is clear is that there is no magic formula in simplification. Each municipality has to define a path to pursue. Decentralization in Latin America has allowed for diversity in regulations, municipal management and resulted in regional and in-country variations.

Some basic issues to keep in mind to improve municipal performance in these processes are listed below.

- Political will is essential for any reform effort. This commitment should also ensure that civil servants participate and are on board with reform projects. Public-private dialogue should be encouraged during design and implementation of reforms.

- Private sector participation also helps reformers understand in more detail what issues are important for reform that are of most concern for businesses.

- Re-engineering processes is very important -- first to map existing processes, then to redesign them with a view towards higher efficiency. It clarifies the steps that municipal officials need to take to process permits and licenses.

- Training is an important element of any change. Municipal officials need to know their roles, understand how to

manage new procedures, and become acclimated to a new way of conducting business.

- Classification systems based on risk and type of economic activity can streamline key procedures such as inspections, determining fees, number of required processes, and number of visits.

- A monitoring and evaluation system enables municipalities and citizens track progress of reforms and impact. It also helps municipalities change course if certain measures show poor outcomes.

The good practices presented in this study are examples of what municipalities in the Region have done. The examples should not be taken as a roadmap that can be applied directly.

The unique circumstances of a municipality should be taken into account when designing a reform program. The *Municipal Scorecard* provides examples of how reforms can be initiated and the kinds of roles that the public and private sectors can play in reform efforts.

Annexes

Methodology del *Municipal Scorecard*

Sources of information

Two instruments were applied to collect quantitative and qualitative information for the *Municipal Scorecard* (MSC). The first was a survey of key municipal officials, who are directly involved in managing operating licenses, construction permits and property tax. The team surveyed a total of 1601 municipal officials in 10 countries.

The second instrument was a survey of firms who have made the procedures and operate within the jurisdiction of certain municipality. The sample selection of firms focused on those who made the procedure in the past two years, starting with the most recent. A total of 11,783 firms were surveyed in 10 countries. In summary, 13,384 surveys were conducted for the *Municipal Scorecard 2008*[1].

Sample Selection and Fieldwork

Municipalities

A sample of at least eight municipalities was chosen in each of the countries participating in the MSC[2]. Efforts were made to have political and geographical diversity. The following criteria were applied. Efforts were made to meet all the criteria although this was not possible in some cases.

• Population

Most of the municipalities were required to have a population above 1% of the national total.

• Political Will

The political will of mayors was a prerequisite for participating. To garner this support, letters of commitment signed by the corresponding mayors were obtained from each participating municipality.

• Availability of Information

Municipalities had to make available information about the processes and provide the team with access to their databases on firms registering for licenses and permits or paying taxes. Some of the municipalities were eliminated from the study because they could not provide such information.

Firms

The municipalities were requested to provide a database of businesses that had carried out the procedures during the last two years. It was observed that few municipalities have an updated registry of the businesses in their jurisdiction. The databases provided by the municipalities were not enough to complete the number of surveys. For this reason door to door visits were done in some municipalities to secure firm participation and make sure that these firms comply with the established criteria in order to be part of the sample. Other criteria used to select the firms were the following:

- The firm obtained a license or permit and had payed its property tax.
- For the operating license the firm operates in a physical space of no more than 500m^2, in the case of the construction permit the firms operates in a physical space of no more than 800m^2 and for property taxes, the firm does not exceed 500m^2.
- The firm is not located in a protected zone or prohibited area such as a place of cultural heritage.
- The firm is 100% domestically owned and does not belong to an international chain.
- The firm does not need any special license to conduct its activity, such as an environmental license.
- The firm is in operation at the time of the survey.

Interviews were conducted with firms that had completed the procedures within a maximum period of two years prior to the interview. Random selection was used to guarantee representative sample size in selecting firms in each municipality. The data was obtained from municipal databases listing firms

[1]For operating licenses the surveys were applied to firms that obtained a new license. In Honduras, firms interviewed included those that received new licenses and renovations. For the construction permit, firms interviewed included those that received the permit for new constructions, remodeling, expansion, or renovations.
[2]See next Annex to find the list of participating municipalities.

with a formal operating license or construction permit, or that had paid taxes in the period between January 31, 2008 and July 1, 2005. From this list the team selected the firms that had most recently completed the procedures so that the data gathered could be as up to date as possible. An intentional sampling was conducted rather than random sampling; as a result, the sample size cannot be considered statistically representative. For operating licenses, a total of 30 firms were interviewed per municipality. For construction permits, a total of 20 firms were interviewed per municipality. For taxes, a total of 30 firms were intereviewed per municipality.

Before conducting the field work, a pilot activity fine-tuned the survey instruments in each country. The survey instruments were tested in face to face interview to reformulate questions and take into account local language considerations. Once the survey instruments were modified to reflect these changes, they were used by local universities to begin the field work.

Description of the Sample

Operating License

To calculate the operating license ranking a total of 4,646 firms' surveys were used, the activities developed by their businesses are: general services, products sales and restaurants, among others. In the sample, the gender of business owners is distributed evenly between men and women (50% men and 50% women.) According to these results women who own a business, included in this study, face no entry barriers according to gender. In other words, according to this study women and men in Latin America face the same barriers to obtain an operating license, which is not the same in other regions where such barriers are based on gender and are widespread[3]. Seventy nine percent of the participating firms employed between one and three workers.

Construction Permit

For this edition the report included 131 municipalities in ten countries in Latin America[4] (Bolivia, Brazil, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Peru.) To measure the efficiency with which municipalities process a building permit, surveys were applied to business owners who obtained the permit in the previous year and municipal officials of the following departments Urban Development, Territorial Planning and Cadastral Evaluation. Business owners and municipal officials were interviewed to to obtain data that reflects the reality of these procedures. In the sample 68% were men and 55% of the firms' employed between one and three workers. The firms interviewed conduct the following types of activities: general services, product sales, construction and groceries.

Property Tax Payment

For the sample of business owners surveyed, 79% employed between one and three workers because the analysis focused on identifying the impact of taxes on small and micro business. Also the 4,189 business respondents reported that their main activity is the provision of services.

Methodology for the Analysis of Operating Licenses and Construction Permits

The MSC 2008 analyses the procedures to obtain an operating license (OL) or a construction permit (CP) and is constructed using two sets of variables: 1) process variables, and 2) performance variables. Quantitative and qualitative information was obtained from firms' and municipal official surveys that have applied for either of the two procedures.

To compute the results for each variable, as a general rule, the medians were used for the performance variables. For the process variables, the averages for the responses were used for the qualitative variables[5]; the medians were used for the quantitative data. The results derived from the quantitative data were converted to a 1-to-5 scale, to provide comparable data[6]. The median was used to minimize the impact of outliers in the data. Averages were used when the distribution of data was not asymmetric. For the variables which answers were Yes or No, these were converted to a 1 to 5 scale for comparison with the rest of the variables that were already in a 1 to 5 scale[7].

Performance Variables

Performance variables are a set of quantitative indicators that reflect the experience of firms in fulfilling procedures to

[3]Normally the entry barriers in other regions include barriers to acquire land, property titles, trade credits and education or training.
[4]Of the total number of surveys conducted in 176 municipalities, some were eliminated for not having enough samples to make a robust statistical analysis.
[5]Variables were rescaled and ranked on a scale from 1 to 5, 1 representing the lowest and 5 representing the highest possible score.
[6]The results from each municipality for all the variables are found in the preceding chapters. National averages were used when no municipal data was available.
[7]1 equivalent to No and 5 equivalent to Yes.

obtain an operating license or a construction permit. These variables are detailed below.

Information for the following variables is derived from surveys completed by firms:

• Time

This is the total time used to comply with the procedures, measured as the time elapsed between the date when the license or permit process started and the date when the corresponding license or permit was issued. Once the value for each observation was determined, the median value was calculated and the final value for each municipality computed. Only the time required to obtain the municipal operating license or construction permit was asked to firms. The way the question was posed made it explicit that only municipal level procedures should be considered in the calculation.

• Cost as a Percent of GDP Per Capita

This variable is the total official cost incurred to undertake the process, as reported by firms. This value in US dollars (US$) is a percentage of each country's Gross Domestic Product per capita in U.S. dollars. Once the value for each observation had been obtained, the median was computed to arrive at the final figure for each municipality. The official cost means any fees that are levied by the municipality to acquire the permit or license. It does not include costs such as intermediaries, transportation or other costs. Information is gathered from business owners that reported costs in local currency. The local currency figures were recalculated in U.S. dollars for this study and are presented as a percentage of GDP per capita. This indicator provides a more exact understanding of the costs that firms face according to local GDP. Once information was gathered from each survey the median was computed for each municipality.

• Visits

This variable is the number of visits each business owner made to the municipal offices during the process to obtain the license or permit. This variable includes all visits needed to fulfill the requisites to obtain the license or permit, such as the procedures for land use or water intake. Once the value for each observation was obtained, the median was calculated to arrive at a final figure for each municipality.

• Rejections Percentage

This variable represents the percentage of the total firms interviewed at each municipality that had been refused a license or permit[8] at least once.

After having obtained the values for performance variables for each of the municipalities, and before proceeding to the factor analysis, we recalculated the observations on a scale from 1 to 5, using the formula below[9]:

$$Valor = 6 - \left[\frac{4 * \left[X_{qc}^{t} - \min_c (x_q^{t_0}) \right]}{\left(\max_c (x_q^{t_0}) - \min_c (x_q^{t_0}) \right)} + 1 \right]$$

Process Variables

Process variables are a set of qualitative indicators describing various aspects of the municipalities' internal management and how they impact the process to obtain a license or permit. These variables are detailed below.

Information on the following variables was obtained from surveys completed by firms:

• Number of Inspections

This variable looks at the total number of on site inspections made by municipal officials during the process to obtain a license or permit. This variable includes visits to comply with other necessary requirements in order to obtain licenses or permits.

• Inspection Days

This variable refers to the total number of days that municipal inspectors took to complete the inspections. This variable includes all visits to fulfill requirements.

• Access to Forms

This variable relates to the availability of forms or application sheets needed to comply with the license or permit process. If the business owner's answer is Yes, a score of 5 is assigned. Otherwise, a score of 1 is assigned. The figure for each municipality is based on an average.

• Ease of Forms

This variable examines the user-friendliness of the forms and complexity of the application. The answers are rated on

[8]Officials were asked about the percent of refusals in their municipalities in the last two years. This information was not used this year to compute the above-mentioned variable. Only responses were used from firms.

[9]This formula serves to change the scale using the variable of interest, which is calculated using the difference of six and the sum of a quotient and one. In the numerator of the quotient the difference between the data of the survey "i" and the minimum of the entire sample is multiplied by four. The numerator is divided by the difference between the maximum and the minimum of the sample.

a 1-to-5 scale. The figure for each municipality is based on an average.

• Information

This variable indicates whether or not the municipality provided the business owner with information about the processes. If the firm's answer is Yes, a score of 5 is assigned. Otherwise, the score is 1. The figure for each municipality is based on an average.

• Sufficient Information

This variable examines whether or not the business owner thinks the information provided by the municipality was sufficient to undertake the processes. The answers are ranked on a 1-to-5 scale. The municipal score is based on an average.

• Infrastructure

This variable determines whether or not the municipal facilities are appropriate, including information boards and clear signs that help firm owners when they visit the municipal offices. The answers are ranked on a scale from 1 to 5. The municipal score is based on an average.

• Customer Service

This variable examines if the municipality's customer service is adequate as perceived by the business owners. The answers are rated on a scale from 1 to 5 and each municipality's score is computed as an average.

• Opinion and Complaint System

Does the municipality have a formal system for acknowledging the user opinions and complaints, for instance through surveys, or suggestion boxes. If the firm's answer is Yes, the municipality gets a score of 5. Otherwise, the score is 1. The figure for each municipality is computed as an average.

• Customer Service Desk

This variable examines whether or not the municipality has a customer service desk to help users applying for a license or permit. If the firm answer is Yes, a score of 5 was awarded to the municipality. Otherwise, the score is 1. The figure for each municipality is based on an average.

• Reasonable Inspections

This variable relates to the overall inspection process. The answers are rated on a scale from 1 to 5 and each municipality's score is computed as an average.

• Transparency of Inspections

Firms rated the perceived transparency during the inspection process. The answers are rated on a scale from 1 to 5 and each municipality's score is computed as an average.

• Access to Information

This variable examines whether firms have easy access to municipal information. The answers are rated on a scale from 1 to 5 and each municipality's score is computed as an average.

• Consistency of Process with Information

A variable examining if all the steps in the formal process are consistent with the information provided by the municipality (whether verbal, written, web-based, etc.) at the beginning of the process. The answers are rated on a scale from 1 to 5 and each municipality's score is computed as an average.

The information on the following variables was obtained from the surveys completed by municipal officials:

• Availability of Manuals

Officials were asked if their municipality had procedures manuals describing licensing or permit procedures. If the answer is Yes, a score of 5 was given. Otherwise, the score is 1. The figure for each municipality is an average of all answers received by municipal officers.

• Use of Information Technology

This variable examines whether or not the municipality uses information technology, such as databases and electronic processing, to process the licensing and permitting procedures. Municipal employees first indicate whether or not information technology is available. If Yes, a score of 5 was awarded, otherwise the score is 1. The score for each municipality is an average.

• Delegation of Signing Authority

Municipal employees were asked if the municipality employs a system of decision making authority to speed up operating license or construction permit formalities. If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Zoning

This variable measures the existence of zoning or land use regulations, for the various types of economic activities. If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Internal Audits

Municipal employees were asked if they performed internal audits on the quality of the process for obtaining licenses or permits. If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• External Audits

Municipal employees were asked if external audits on the quality of the process of licenses and permits were conducted by independent companies or consultants. If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Training of Inspectors

Municipal employees were asked if inspectors receive training. If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Internal Process Training

Do officials receive training on internal procedures? If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Customer Service Training

This variable examines whether or not the employees who directly assist business owners applying for a license or permit receive any customer service training. If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Classification of Economic Activities

Does the municipality have a classification of economic activities for municipal zones? If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

• Industrial Classification

Has the municipality classified companies by type of industry? If the answer is Yes, a score of 5 was awarded. Otherwise, the score is 1. The score for each municipality is an average.

Criteria for Selecting and Grouping Variables

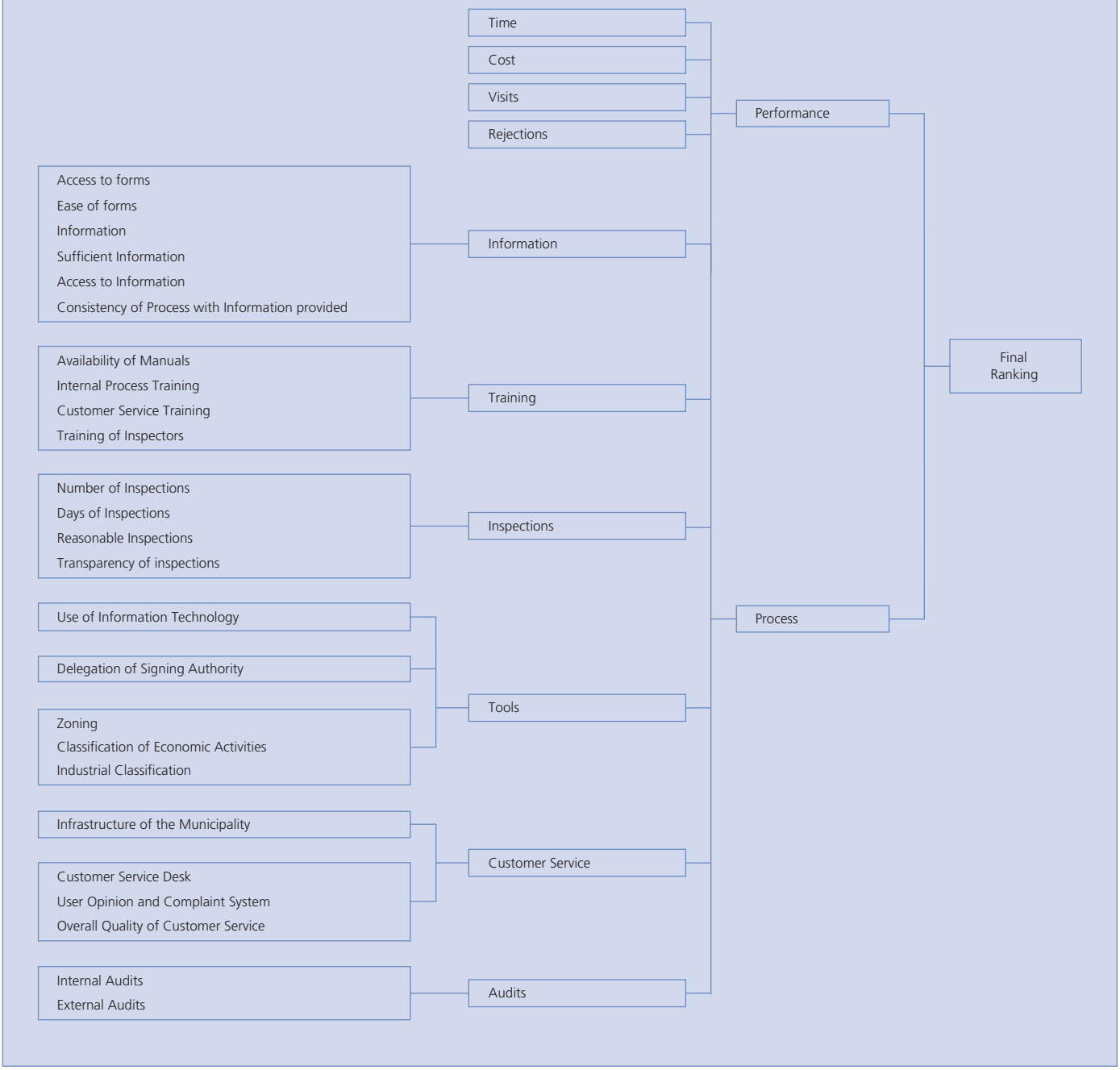
Figure I describes the *Municipal Scorecard 2008* structure for the elaboration of the operating license and construction permit ranking. Three criteria were enforced to select and group performance and process variables: a) correlations among the variables; b) factor analyses (principal component analysis); c) IFC expert judgment based on prior experience in municipal performance.

The following considerations should be noted regarding factor analysis.

- Factor analysis was used to group the variables with similar characteristics and explanatory power. The variables were grouped by "similarities" (based on their factor loading). In some instances, one group comprises several sub-groups because of identified peculiarities in an independent variable and similar explanatory power of some variables.

- ii) Once the groups were identified and designated, municipalities were assigned a score by type (performance and process) and group (information, training, inspections, tools, customer service, audits). To do so, our analysis used the scores obtained through factor analyses, as those are the result of a linear combination of the variables in each group and sub-group. The results are standard values. Lastly, a final scoring and ranking using factor analysis is computed based on the performance and process outcomes, through which a final scorecard for each municipality is derived.

Figure I
Structure of the Municipal Scorecard for Operating License and Construction Permit



Methodology for Property Tax Payments

Face to face interviews with firms that had paid property tax payments from June 30, 2005 to January 31, 2008. For property taxes the methodology includes quantitative and qualitative data and is based on simple averages for the indicators of cost, time, visits and medians for other relevant indicators obtained from firm surveys.

A different methodology was used from that of operating license and construction permit because procedures for property tax are very different within the participant municipalities. In evaluating the payment of property taxes, the study used similar indicators as in the other procedures; however, a factor analysis

was not conducted because the data showed no significant difference in municipal management of taxes. Firms generally considered the steps as reasonable and therefore a ranking was not seen as a useful way of measuring inefficiencies or problems. Not all the variables are presented in the chapter on taxes, only those that shed light on the challenges or issues faced by the private sector in tax compliance.

The variables that were evaluated for tax payments included: registration for the payment, time (working days required to complete the payment), number of visits, costs (direct and indirect), as a percentage of GDP per capita, among others.

Table I shows the variables used for property tax payment.

Table I
Variables analyzed for tax payment processes

Group	Variable
Performance Variables	• Time (average business days) • Municipal administrative costs as percentage of GDP per capita (average in dollars) • Cost of professional services as percentage of GDP per capita (average in dollars) • Indirect costs as percentage of GDP per capita (average in dollars) • Amount of tax (average in dollars) • Number of visits (average) • Length of visits (average in minutes)
Process Variables – Registration and Cadastre Value Adjustment	• Registration process to pay tax (median) • Business days needed to register (average in labor days) • Information about cadastre-based property value • Adjustment of cadastre-based value
Process Variables – Tax Payment Incentives	• Tax reductions for early or punctual payments, discount, option to make installment payments • Payment exemptions or incentives
Process Variables – Infrastructure and Participation	• Alternative ways to pay taxes • Tax calculations and information • Tax office facilities • Private sector participation in initiatives to improve tax systems • Formal opinion and complaint reception system • Taxpayer customer service • Zoning
Information	• Sufficient information (median) • Access to information (median) • Use of communication media to provide information on taxes • Tax payer service windows • Main source of information during the process, other than municipal officials (home delivery, paperwork intermediaries, information materials, web page, etc.)

Difference between Other Benchmarking Studies and the MSC

The MSC generates information on solely municipal procedures that are significant constraints for firms, and collects data directly from users: from firms who have used municipal administrative services, and municipal officials involved in managing administrative services. Firms surveyed were selected from a list, provided by municipal authorities, of those who most recently accomplish any of the three procedures. The MSC assumes that the firm operates under imperfect information conditions. The sample size of firms interviewed is taken from municipal databases that list the firms that have received a license or permit in a specific period of time (2 years.) Municipalities sign up to participate in the MSC through an official letter of interest, demonstrating political commitment to the project. Such political commitment involves accepting the results and also providing access to their databases.

This is different from the Doing Business methodology, a World Bank report, which interviews intermediaries such as lawyers and accountants according to assumptions of a case study. The case also assumes that the business has full information available and does not waste time acquiring forms and information. It is important to note that Doing Business includes municipal procedures as well as state and federal procedures.

The World Bank Group also publishes Investment Climate Assessments (ICAs) to evaluate the state of the private sector, identify the key constraints to increasing firm productivity, and evaluate how competitive firms in a particular country are with respect to their neighbors or firms in other regions of the world. The methodological approach consists of conducting a survey of firms in the manufacturing (and other sectors). About 400 firms are surveyed from the population of firms per country. The sample size and the focus of the ICAs differ from the MSC which focuses on firms that have gone through municipal licensing, permit processes and paying property taxes and reports on firm experiences to complete such processes.

Changes to the Methodology from *Municipal Scorecard 2007 al Municipal Scorecard 2008*

Because the MSC 2008 aims at assessing the burden of local regulations faced by business, this year's version has placed greater emphasis on survey replies by business owners, compared to responses from municipal officials. For this report, 62% of the variables are from the business owners answers; whereas last year it was only 24%. Likewise, in an attempt to present a more accurate view of the hurdles faced by firm owners, this edition includes new variables and excludes others. The following tables describe these changes (see tables II and III.)

Table II
Variables in the Operating License and Construction Permit Processes

Variables MSC2007	Variables MSC2008	Source of Information MSC 2007	Source of Information MSC 2008
Access to Information	Access to Information	Municipal Officials and Business Owners	Business Owners
n.a.	Customer Service	Not Included	Business Owners
External Audits	External Audits	Municipal Officials	Municipal Officials
Internal Audits	Internal Audits	Municipal Officials	Municipal Officials
Compliance with Inspections	Inspections	Business Owners	Business Owners
n.a.	Training for Inspectors	Not Included	Municipal Officials
Customer Service Training	Customer Service Training	Municipal Officials	Municipal Officials
Process Training	Internal Process Training	Municipal Officials	Municipal Officials
Categorization of Economic Activities	Categorization of Economic Activities	Municipal Officials and Business Owners	Municipal Officials
Clarity of Information	n.a.	Municipal Officials and Business Owners	Not Included
Industrial Categorization	Industrial Categorization	Municipal Officials	Municipal Officials
Knowledge of Inspection Criteria	n.a.	Business Owners	Not Included
Process Consistency	Process Consistency	Business Owners	Business Owners
Delegation of Authority	Delegation of Authority	Municipal Officials	Municipal Officials
n.a.	Days of Inspection	Not Included	Business Owners
n.a.	Availability of Forms	Not Included	Business Owners
Availability of Manuals	Existence of Manuals	Municipal Officials	Municipal Officials
Complexity of Forms	Simplicity of Forms	Business Owners	Business Owners
n.a.	Information	Not Included	Business Owners
n.a.	Sufficient Information	Not Included	Business Owners
Municipal Infrastructure	Municipal Infrastructure	Municipal Officials and Business Owners	Business Owners
Number of Inspections	Number of Inspections	Municipal Officials and Business Owners	Business Owners
Zoning	Zoning	Municipal Officials and Business Owners	Municipal Officials
Private Sector Participation	n.a.	Municipal Officials	Not Included
n.a.	Customer Service Desk	Not Included	Business Owners
System of Complaints / Opinion	System of Complaints / Opinion	Municipal Officials and Business Owners	Business Owners
IT	IT	Municipal Officials	Municipal Officials
Transparency of Inspections	Transparency of Inspections	Business Owners	Business Owners

n.a.: Not Available
Source: *Municipal Scorecard 2007* and 2008 Database

Table III
Performance Variables for the Operating License and Construction Permit

Variables	Source of information MSC2007	Source of information MSC2008
Cost as % of GDP Per Capita	Municipal Officials and Business Owners	Business Owners
Rejections (% of Total)	Municipal Officials	Business Owners
Time	Business Owners	Business Owners
Visits	Municipal Officials and Business Owners	Business Owners

Source: *Municipal Scorecard 2007* and 2008 Database

Time and percent of rejections experienced the greatest changes in this year's survey. Time was still calculated as the difference between the beginning and ending dates of procedures. This year, however, whenever enough data was not available to determine the time elapsed between the two dates (for example, if the start or emission date were missing),the business owners' perception data was used instead of municipal figures. With regard to the percent of rejections, instead of obtaining the rejections data directly from municipal sources, the MSC 2008 survey tallied the percent of business owners that reported that their license or permit application had been rejected, and compared it to the total submitted applications at the surveyed municipality.

Another major departure from last year's methodology is that this year's version did not give specific weights to the sub-indexes and indexes (i.e., in last year's version, performance index = 1/4 x time + 1/4 x cost + 1/4 x number of visits + 1/4 x rejections.) Instead, this year's version applied factorial analysis to a smaller number of variables to compute the sub-indexes and indexes and obtain a single score value. The current methodology has the advantage that the values obtained (scores) reflect the real factorial burden of each set of data because the sub-index and index weights were not obtained in an arbitrary manner, but based on available information. As a result, the sub-index and index composition varies from one year to another.

List of Participant Municipalities[10]

Regional	Country	Bolivia
1	1	Cochabamba
2	2	El Alto
3	3	La Paz
4	4	Oruro
5	5	Quillacollo
6	6	Santa Cruz
7	7	Sucre
8	8	Tarija
9	9	Yacuiba

Regional	Country	Brasil
10	1	Aracaju
11	2	Belo Horizonte
12	3	Campo Grande
13	4	Cuiabá
14	5	Curitiba
15	6	Duque de Caxias
16	7	Florianópolis
17	8	Fortaleza
18	9	Goiania
19	10	Guarulhos
20	11	Joinville
21	12	Juazeiro do Norte
22	13	Manaus
23	14	Olinda
24	15	Piracicaba
25	16	Porto Alegre
26	17	Praia Grande
27	18	Recife
28	19	Salvador
29	20	Santos
30	21	Sao Bernardo do Campo
31	22	Sao Luis
32	23	Sao Paulo
33	24	Teresina
34	25	Vitória

Regional	Country	Colombia
35	1	Bogota D.C.
36	2	Bucaramanga
37	3	Cartagena de Indias
38	4	Ibagué
39	5	Manizales
40	6	Medellin
41	7	Pereira
42	8	Santa Marta
43	9	Santiago de Cali

Regional	Country	Ecuador
44	1	Ambato
45	2	Babahoyo
46	3	Cuenca
47	4	Guayaquil
48	5	Ibarra
49	6	Loja
50	7	Machala
51	8	Manta
52	9	Portoviejo
53	10	Quito
54	11	Riobamba
55	12	Tulcán

Regional	Country	El Salvador
56	1	Acajutla
57	2	Antiguo Cuscatlán
58	3	La Libertad
59	4	La Palma
60	5	La Unión
61	6	San Miguel
62	7	San Salvador
63	8	Santa Ana
64	9	Santa Tecla
65	10	Sonsonate
66	11	Soyapango

Regional	Country	Guatemala
67	1	Amatitlán
68	2	Cobán
69	3	Guatemala
70	4	Mazatenango
71	5	Quetzaltenango
72	6	Retalhuleu
73	7	San Pedro Sacatépequez San Marcos
74	8	Santa Catarina Pinula
75	9	Villa Nueva

Regional	Country	Honduras
76	1	Choloma
77	2	Choluteca
78	3	Comayagua
79	4	Copán Ruinas
80	5	Danlí
81	6	Distrito Central
82	7	El Progreso
83	8	Juticalpa
84	9	La Ceiba
85	10	Puerto Cortés
86	11	San Lorenzo
87	12	San Pedro Sula
88	13	Santa Rosa de Copán
89	14	Villa Nueva

[10]To elaborate this report both municipal officens and firms were interviewed in over 180 municipalities. However, because the required sampe could not be completed in all the municipalities, the analysis included 143 munipalities for operating licence, 131 for construction permit, and 159 for property tax payment at the municipal level.

For the analysis of the operating license procedure the municipalities of Guatemala were not included, since this procedure does not exist at the municipal level. The municipalities of Honduras and Santa Anita in Peru are not included in the operating license ranking because of poor nformation provided by the municipalities.

For the analysis of the construction permit procedure the following municipalities were not included: Sao Luis in Brazil; La Li bertad and San Miguel in El Salvador; Azcapotzalco and Torreon in Mexico; Alto Selva Alegre, Ancón, Barranco, Bellavista, Breña, Cayma, Comas, Miraflores, Pueblo Libre, Rimac, San Borja, San Juan de Miraflores, San Martin de Porres, Santa Anita, Surco, Villa Maria del Triunfo, Yanahuara in Peru; and Salcaja in Guatemala because of poor information provided by the municipalities.

For the analysis of the property tax payment procedure the municipalities of El Salvador were not included, since this procedure does not exist in these municipalities. Neither those of Honduras or Salcaja in Guatemala because their municipal officials did not provide enough information.

Regional	Country	México
90	1	Aguas Calientes
91	2	Azcapotzalco
92	3	Benito Juárez
93	4	Ciudad Juárez
94	5	Chihuahua
95	6	Culiacán
96	7	Ecatepec
97	8	Guadalajara
98	9	Guadalupe
99	10	Hermosillo
100	11	Huixquilucan
101	12	José Azueta
102	13	Mérida
103	14	Naucalpan
104	15	Pachuca
105	16	Querétaro
106	17	San Luis Potosí
107	18	Tlalnepantla
108	19	Tlaquepaque
109	20	Toluca
110	21	Torreón
111	22	Tuxtla Gutiérrez
112	23	Veracruz
113	24	Zacatecas
114	25	Zapopan

Regional	Country	Nicaragua
115	1	Chinandega
116	2	Ciudad Sandino
117	3	Estelí
118	4	Granada
119	5	Jinotega
120	6	Jinotepe
121	7	León
122	8	Managua
123	9	Masaya
124	10	Matagalpa
125	11	Rivas
126	12	San Juan del Sur

Regional	Country	Perú
127	1	Alto Selva Alegre
128	2	Ancón
129	3	Arequipa
130	4	Ate
131	5	Baños del Inca
132	6	Barranco
133	7	Bellavista
134	8	Breña
135	9	Cajamarca
136	10	Callao
137	11	Castilla
138	12	Cayma
139	13	Chiclayo
140	14	Chimbote
141	15	Comas
142	16	Cusco
143	17	El Agustino
144	18	Huancayo
145	19	Huaraz
146	20	Ica
147	21	Independencia
148	22	Jesús María
149	23	Juliaca
150	24	La Molina
151	25	Lince
152	26	Los Olivos
153	27	Mariano Melgar
154	28	Miraflores
155	29	Pasco
156	30	Piura
157	31	Pucallpa
158	32	Pueblo Libre
159	33	Puno
160	34	Rímac
161	35	San Borja
162	36	San Juan Bautista
163	37	San Juan de Miraflores
164	38	San Martín de Porres
165	39	San Miguel

Regional	Country	Perú
166	40	San Sebastián
167	41	Santa Anita
168	42	Surco
169	43	Surquillo
170	44	Trujillo
171	45	Tumbes
172	46	Víctor Larco Herrera

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