

Technical Assistance Facility for Latin America and the Caribbean

SIMPLIFYING MUNICIPAL BUSINESS REGULATIONS IN THE METROPOLITAN MUNICIPALITY OF LIMA, PERU



Project dates: November 2004 – June 2006

Country: Peru

Partners: Metropolitan Municipality of Lima (MML), Ministry of Economy and Finance, PROMpyme (Commission on the Promotion of Small and Micro Enterprises), CONFIEP (National Confederation of Management Research Institutions), CAPECO (Peru Chamber of Construction)

Sponsors: Foreign Investment Advisory Service (FIAS), IFC

Background

According to *Doing Business in 2006*, starting a business in Peru takes over 100 days and obtaining a construction permit takes over 200 days, largely due to municipal regulations. Several studies have noted that such burdensome regulation adversely affects growth by encouraging informality and, thus, limiting private sector development. In Peru, for example, the informal sector is estimated to produce as much as 60% of the GDP.

Early in 2004, the World Bank Group's Foreign Investment Advisory Service (FIAS) presented a study of "Municipal Barriers to Foreign Investment" to the Metropolitan Municipality of Lima, highlighting the impact of municipal red tape and identifying several areas for improvement. IFC's Technical Assistance Facility for Latin America and the Caribbean (LAC Facility) then began working with the local government to simplify procedures for business registration in December 2004.

The Project

The project began by mapping out the selected procedures in order to identify bottlenecks and opportunities for streamlining. Based on these results and consultations with private sector representatives, the team worked with the municipal government to simplify the procedures, train civil servants, and upgrade the systems used to process licensing requests. As part of the project, the team also re-engineered inspection processes to make them more efficient and transparent.

The initial results have been quite promising. The number of days required to register a new business has dropped from more than 60 to less than three. Similarly, businesses now only need to visit the municipality once or twice—rather than 11 times—to obtain their operating license. Inspections have also been reduced, from five to one by combining several inspections (often checking the same things) into a single multipurpose inspection and the process has been made more objective with clear criteria and simple yes-or-no answers. As a result of this reform, the MML has granted more licenses in 6 months than in the previous 4 years. In only 7 months after finalizing the reform (December, 2005), 5,480 business have registered their operations with the municipality, a 1,023% increase when compared with the number of registered firms during the same period of 2004. In addition, the facility is working with FIAS to simplify the procedures for obtaining construction licenses, a project slated for completion by mid-2006.

Expansion

The IFC-Metropolitan Municipality of Lima (MML) project is one of several municipal reform initiatives currently underway in Peru. IFC and MML, with funding from the Canadian International Development Agency (CIDA) and the State Secretariat for Economic Affairs of Switzerland (SECO), have been actively coordinating their efforts with other organizations and municipalities in order to develop and implement a national plan (Tramifácil) for municipal business reforms. Twenty-four institutions—including several government ministries, private business associations, international development organizations, and civil society groups—have joined the plan, demonstrating an unprecedented level of inter-institutional coordination. In the coming year, four new municipalities will undertake simplification projects as part of Tramifácil.

IFC is also supporting similar national plans for simplifying business regulations in Bolivia and Nicaragua.

