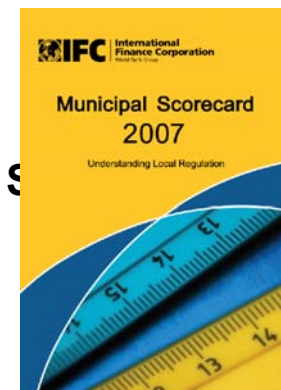


Use of the Municipal Scorecard on Impact Analysis in Latin America

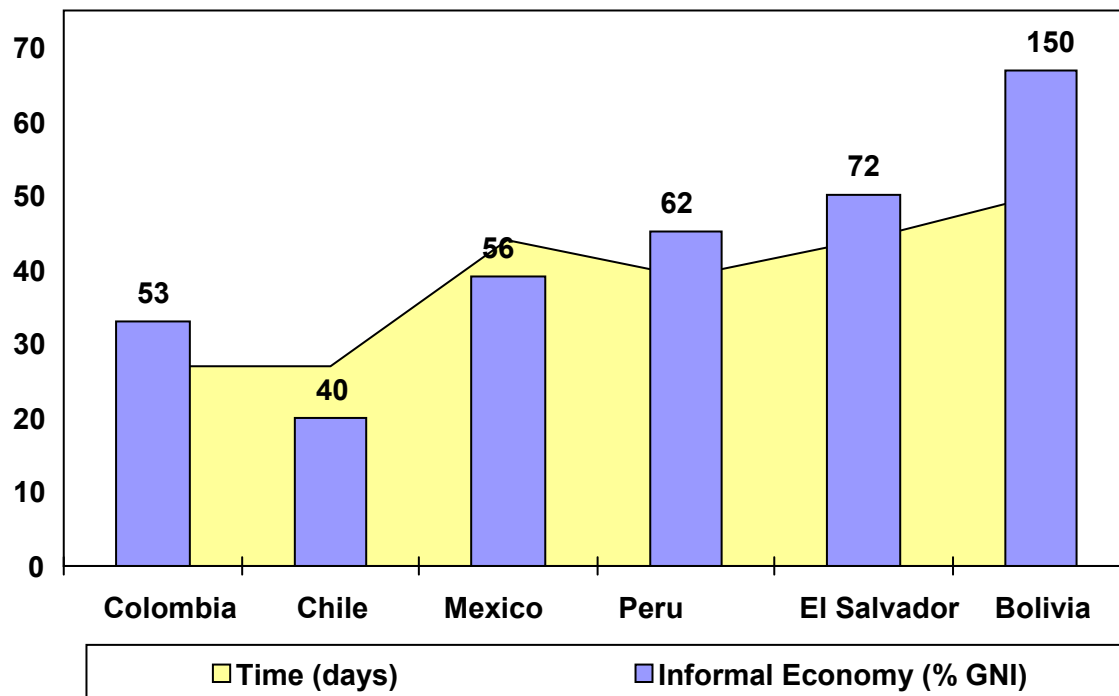
Ernesto Franco-Temple and Arsala Deane
IFC BEE LAC Advisory Services
Regional Conference on Business Environment Reform in S
East Europe
Podgorica, October 2008



Why focus on reducing administrative barriers at the sub-national level?

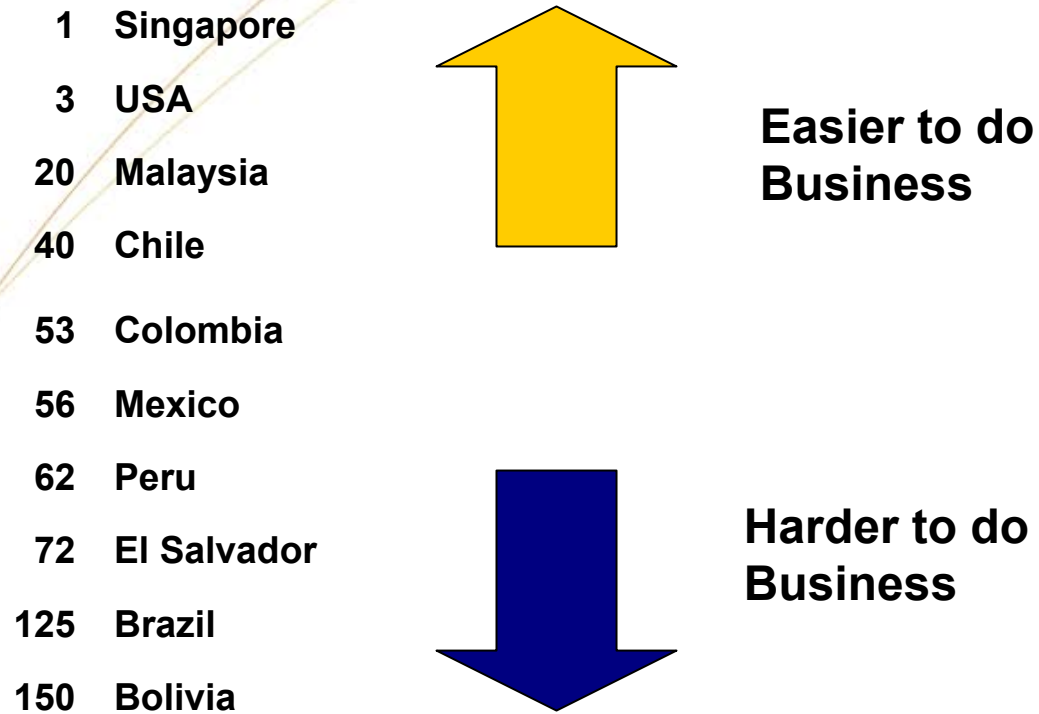
- ICAs and Doing Business reveal that SME development is significantly affected by excessive regulatory control at the subnational levels.
- The cost of compliance with these regulations is much higher for SMEs and this is one of the major reasons why they prefer to operate informally.
- Most bottlenecks occur at the *municipal level* in Latin America.

Starting a Business and Informal Economy



Source: Doing Business 2009

Doing Business 2009 Global Ranking



181 Countries

Source: Doing Business 2009

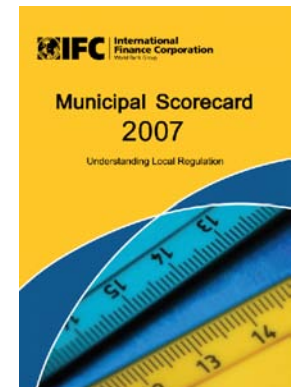
The Municipal Scorecard

The Municipal Scorecard is an advocacy tool that measures the regulatory burdens that the private sector confronts at the municipal level in 180 municipalities in 10 Latin American countries.

Procedures that are benchmarked include specific administrative requirements and processes such as the business operating license, the construction permit, and paying local taxes.

How Do we Measure these themes?

We interview firms who have acquired a license and permit and municipal officials who manage these processes.



Benefits of the Municipal Scorecard

- Increases competition among municipalities to create a better environment for doing business.
- Motivates municipalities to embark on municipal simplification programs to reduce excessive regulatory costs for the private sector.
- Shows the steps, requirements and time needed to complete a specific transaction in every municipality.
- Bureaucratic municipalities will be forced to seriously engage in reducing burdensome regulations.

Benefits of the Municipal Scorecard (2)

- From a long-term perspective, the project is expected to contribute to reducing the regulatory constraints for entry to business, operating and formal business closing in the countries. In particular, the project expects to get the following benefits:
 - Making available reliable data on the status of business environment in different municipalities.
 - Motivating administrative simplification reforms at the municipal level.
 - Benchmarking the status of business environment as well as results of reforms within the countries and globally.
 - Mobilizing society to demand better public services, public authority accountability, and better economic policy.
 - Supporting reform-oriented policy makers in their strive to improve business environment.
 - Applying the scorecard globally -- complementing and adding value to the Doing Business Reports.

Municipal Scorecard in 2007-2008

- **MSC 2007**

The scorecard project interviewed over 2,700 firms and 522 municipal officials in 65 participating municipalities across Latin America.

The project was implemented in five countries:

- Bolivia : 09 municipalities
- Brazil : 25 municipalities
- Honduras : 09 municipalities
- Nicaragua : 10 municipalities
- Peru : 12 municipalities

- **MSC 2008**

Up to 180 municipalities, 10 countries (5 countries were added based on demand: Colombia, México, Guatemala, El Salvador, Ecuador). Total of 13,307 interviews were conducted to firms and municipal officials.

Municipal Scorecard

The project consists of five phases

1. Development of the Methodology
2. Establishing partnerships with institutions in each country for the implementation of the project
3. Implementing the survey: interviewing firms and municipal civil servants
4. Development of the scorecard report
5. Publication and dissemination in coordination with institutional partners



Main roles in the MSC

- Institutional partners in each country (public and private local organizations)
 - Interest in business environment agenda in the country
 - Recognized institutional backing to support reforms in the country
- Technical/academical institutions (operational partners) to develop the MSC in each country
 - Interest in business environment agenda as part of their institutional activities in the field of research and/or academia.
 - Professional expertise in carrying out research (interviews, rankings, scorecards)
 - Widely recognized as independent institutions and selected in a competitive process
 - Capacity to provide sustainability to the MSC.
- An international Board:
 - Public and private institutions with interest in promoting reforms to improve business environment in the LAC region.
 - Donors and international cooperation agencies, including IFC, with programs in the MSC in the region.

Municipal Scorecard

Selection Criteria for Municipalities

- 1: Population Served (>1% Total Population)
- 2: Political Will (Letter sent by mayor)
- 3: Commitment to public access to information
- 4: An interest in municipal simplification and reform of administrative procedures

Municipal Scorecard

Selection Criteria for Firms

- 1: The firm has received an operating license or construction permit.
- 2: The firm has completed all administrative procedures within the last year for the license and permit.
- 3: The firm is 100% nationally owned.
- 4: The firm operates within a space of 250 square meters for operating licences and for 800 square meters for construction permits.
- 5: The firm does not require special environmental license to operate.

Municipal Scorecard

How are the Indexes Measured and Calculated?

Management
of
administrative
processes

Process
Variables



1. Management of the processes
2. Inspections

Time, costs and
steps required
to obtain the
operating
license

Performance
Variables



1. Efficiency of the process/service
2. Quality of the process/service

Municipal Scorecard Project

Rankings

General Ranking 100%			
Process Ranking	50%	Performance Ranking	50%
Process Tools	20%	Process Time	25%
Information	20%	Procedure Costs	25%
Training	20%	% of Rejections	25%
Inspections	20%	Visits to Municipality	25%
Infrastructure	20%		

The impact of MSC 2007

- 87% of the participating municipalities implemented some reforms to the procedure to obtain operating licenses
- 75% of the participating municipalities implemented some reforms to the procedure to obtain construction permits

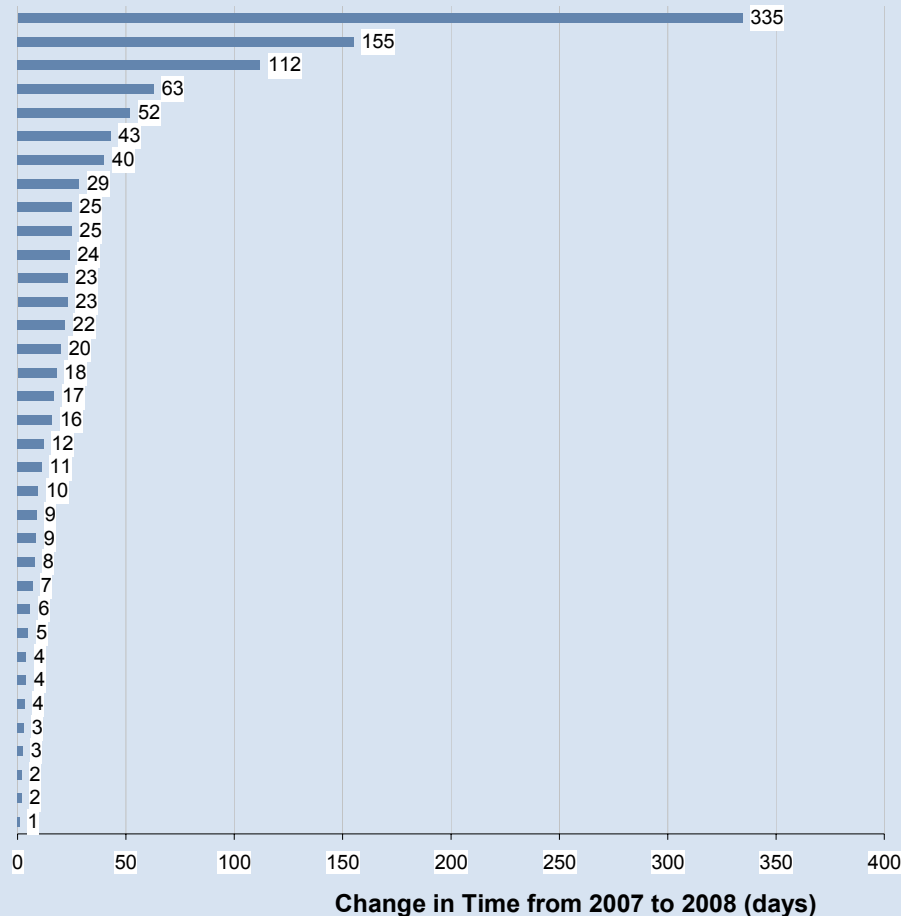
Source: Study by INCAE based on interviews to municipal officers after the MSC 2007.

Impact in Operating Licenses



Impact on Reduction in Days from 2007 to 2008

Municipalities that improved their Time to issue an Operating License (MSC2007 and MSC2008)

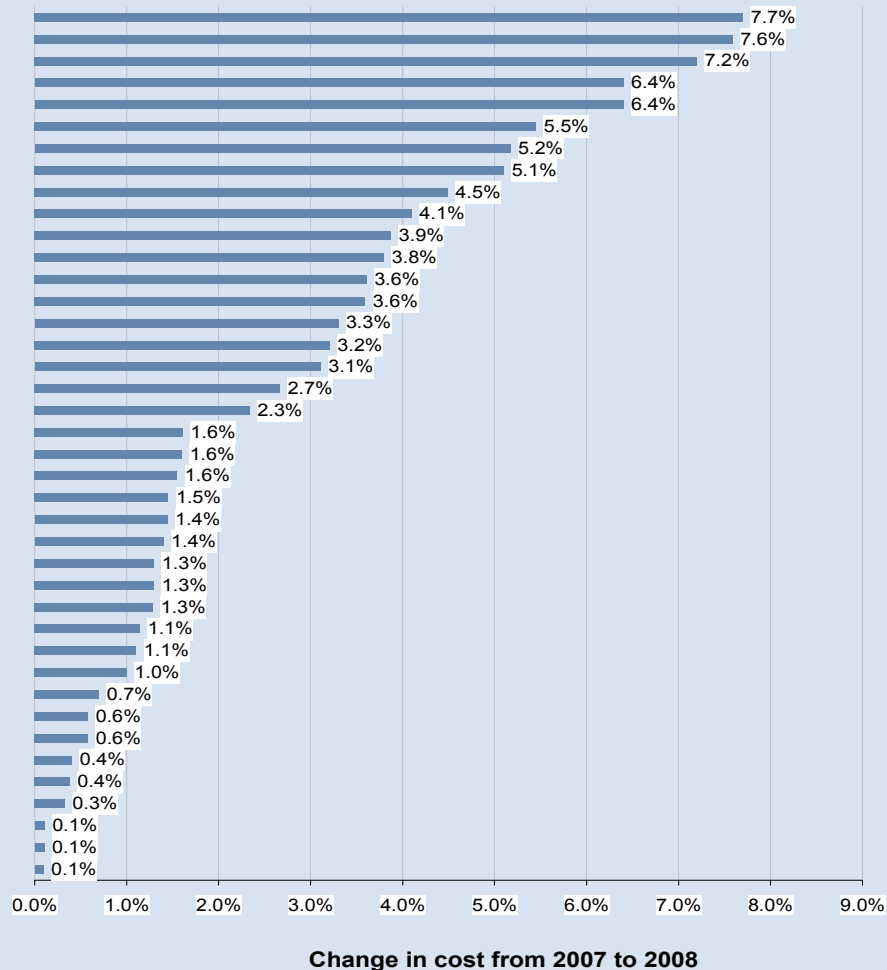


Source: *Municipal Scorecard 2007 and 2008*.

- **57 municipalities participated in both years**
- **35 out of 57 municipalities demonstrate reduction in days from 2007 to 2008**
- **On average these municipalities show time reduction by at least 33 days**
- **Visits by firms to municipalities have reduced on average by 2 in 20 municipalities**

Impact on Cost Reduction from 2007-2008

Municipalities that reduced Cost as % of GDP Per Capita for Operating License (MSC2007 - MSC2008)



Source: Municipal Scorecard 2007 and 2008.

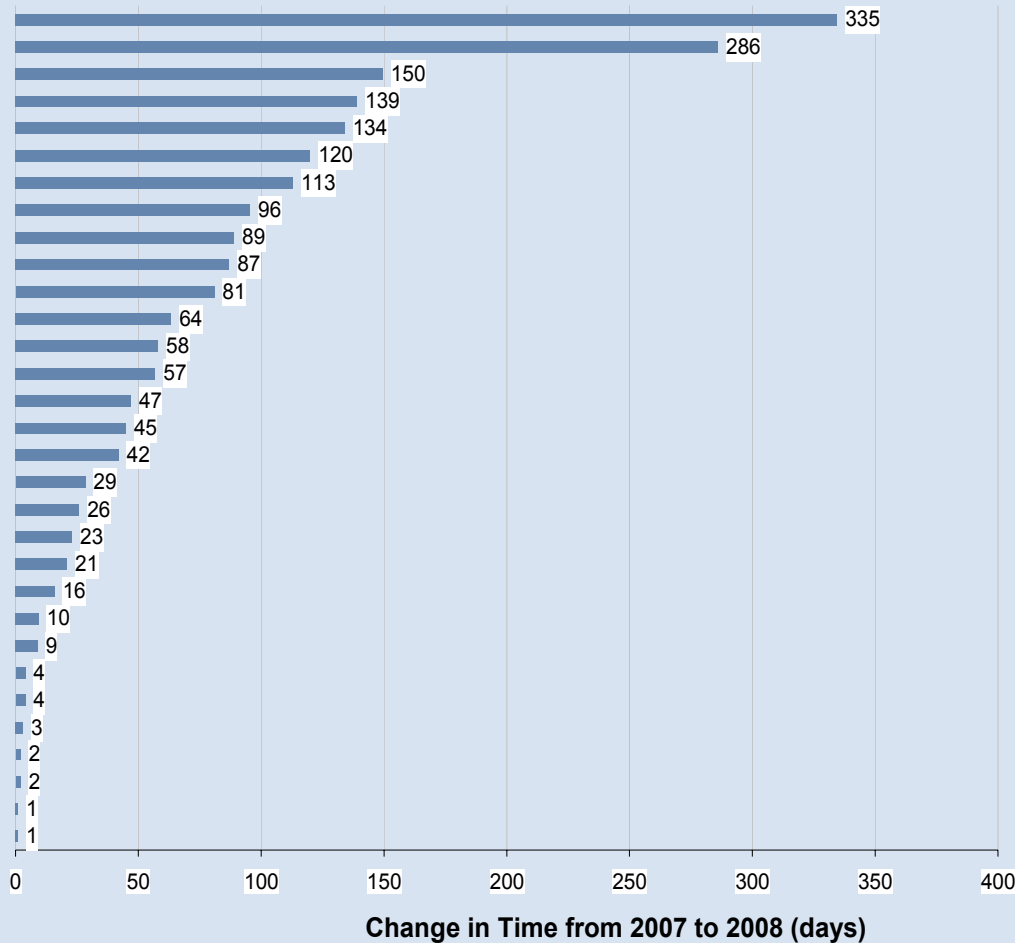
- **40 out of 57 municipalities reduced the transaction costs for firms to get an operating license**
- **On average these costs have been reduced by 2.7% GDP per capita**

Impact in Construction Permits



Reduction in Days to Obtain a Construction Permit

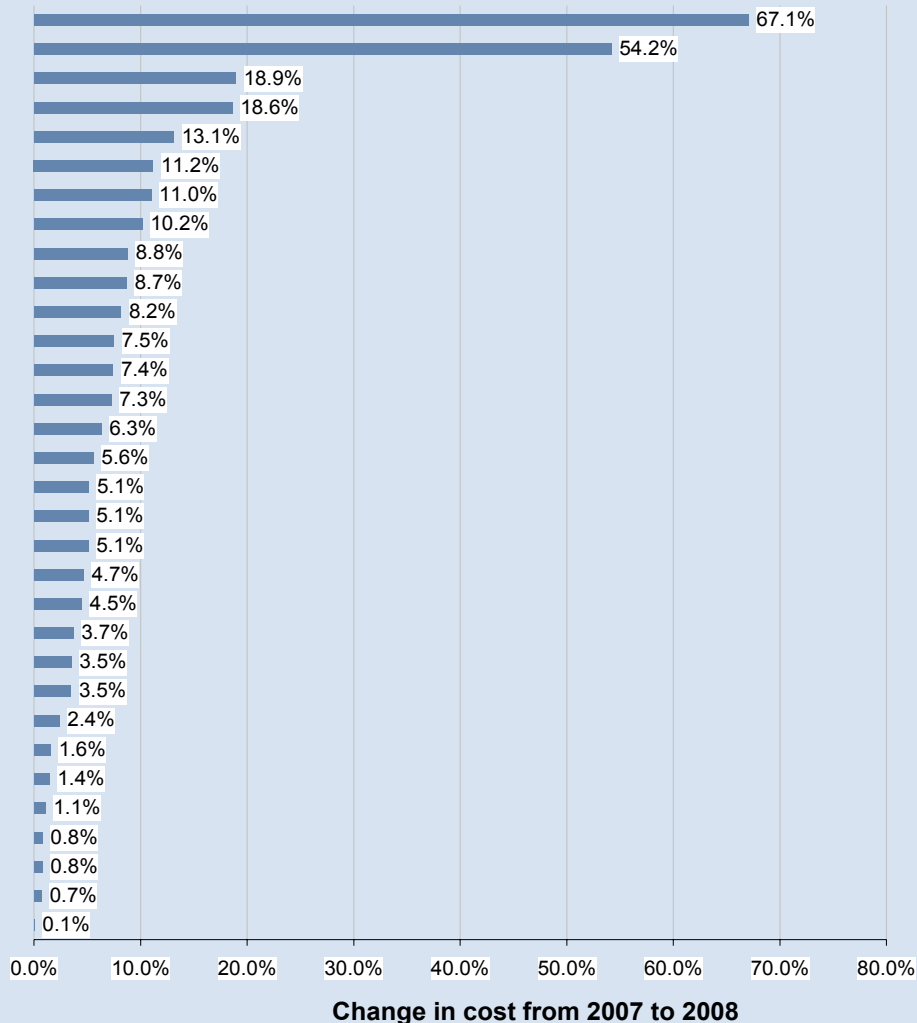
Municipalities that improved Time for Construction Permits (MSC2007 - MSC2008)



- **31 out of 57 municipalities have reduced the days required to obtain a construction permit from 2007 to 2008**
- **On average they have reduced by 67 days**
- **30 municipalities have reduced their visits on average by 5**

Reduction in Costs to Obtain a Construction Permit

Municipalities that reduced Cost as % of GDP Per Capita for Construction Permits (MSC2007 - MSC2008)



- **32 out of 57 municipalities have reduced their costs to acquire a construction permit from 2007 to 2008**
- **On average costs have reduced in these municipalities by 9.6% GDP per capita**

In summary

- 61% of municipalities participating in 2007 and 2008 show a significant decrease in number of days to get an operating license
- 70 % of municipalities participating in 2007 and 2008 show a decrease in costs to acquire an operating license
- 54 % of municipalities participating in 2007 and 2008 show a significant decrease in number of days to acquire a construction permit
- 56% of municipalities participating in 2007 and 2008 show a decrease in costs to acquire a construction permit
- 7 municipalities declined to participate in 2008 (12% of the municipalities that did not participate in the second year)
- While we cannot attribute these reforms to just the MSC, 87% of the municipalities that participated in 2007 when survey say they are reforming or plan to embark on reforms

Conclusions

- The MSC is a tool for advocacy and has promoted reforms in the participating municipalities.
- The MSC can be used to evaluate the outcome or impact of reforms.
- The MSC has encouraged municipalities to carry out municipal reforms.
- Armed with an individual scorecard, municipalities are provided a quick snapshot of what specific processes need to be improved.

Thanks

