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The role of States: efficiency in public investment for development – sharing best practices

Public investment in administrative efficiency for business facilitation – sharing best practices

Executive summary

This note explains how public investment in administrative efficiency can yield important gains for developing economies and help them achieve their Millennium Development Goals (MDGs).

Investing in enhancing the efficiency of public administration to facilitate business seems, however, particularly appropriate in times of crisis, when governments face growing public deficits and enterprises struggle to overcome a severe slowdown. It is a cost-effective investment, since administrative efficiency can be self-financing and generate savings, as well as income. Additionally, by alleviating the constraint on business, it releases productive capacities, boosts entrepreneurship and reduces companies' costs, therefore stimulating jobs and production.

The note presents examples of policies aimed at bolstering administrative efficiency through public investment, to diminish the administrative burden for private operators and facilitate business, by fostering greater transparency, streamlining procedures and developing eGovernment. Such investment towards more user-centric government is under way in most countries. Focus is set on policies that governments may implement to legally empower the poor, and enhance the capacity of billions of informal workers and entrepreneurs to fully benefit from, and contribute to, market economy.

The note also presents an UNCTAD initiative to facilitate the international exchange of best policies and practices among governments. Called the iPortal, it will provide an online platform to promote international cooperation, in particular South-South cooperation, for sharing and disseminating administrative efficiency solutions for business facilitation.

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Introduction

1. Public investment in administrative efficiency can yield important gains for developing economies and help them achieve their MDGs. It complements a separate note on Public Investment recently prepared by the secretariat.¹
2. Public investment is understood here as any public expenditure that adds to the public tangible and intangible capital. One of its very effective forms is investment in administrative efficiency for business facilitation, i.e. improving the transparency and simplification of business-related rules, and introducing eGovernment services.
3. Making it easier and less costly for businesses to comply with national rules will encourage more entrepreneurs, especially microentrepreneurs, to formally set up their company, employ staff, pay taxes and social benefits, purchase land and build plant facilities, and enable them to take out loans, establish linkages with larger operators and meet government procurement requirements.
4. Public investment in administrative efficiency has led in many countries to the development of smart eGovernment tools, organizational schemes and laws. Facilitating the international exchange of such good policies and practices would accelerate the pace, and reduce the cost, of State modernization.
5. To this end, UNCTAD is developing the iPortal, an online platform to enable the dissemination of solutions that facilitate business for enterprises, and especially SMEs, in developing countries and encourage direct cooperation among national administrations, especially South-South cooperation.
6. UNCTAD's work in this field follows the recommendations of the Accra Accord (Par.147 and 148); the 2005 World Summit Outcome; the United Nations Millennium Declaration, the Monterrey Consensus of the International Conference on Financing for Development, the Plan of Implementation of the World Summit on Sustainable Development, and the 2009 United Nations resolution on legal empowerment of the poor and eradication of poverty.

I. The effectiveness of public investment in administrative efficiency for business facilitation

7. Public investment² is the subject of considerable debate. There is a kind of public investment, however, which is largely considered as necessary: investment in improving the public sector itself and, particularly, in enhancing the efficiency of public administration to facilitate business.
8. Improving administrative efficiency for business facilitation is a policy priority in most countries. It is defined in this note as the ability of public administration to make it easy for enterprises to comply with national rules applying to entering into business (creation of companies, acquisition of shares, registration of property rights, and obtaining business visas); to business operations (activity licenses, hiring of personnel, work permits,

¹ Public Investment: Vital for Growth and Renewal, but should it be a Countercyclical Instrument?" – Background note for the High-level Seminar on the Role of Public Investment in Social and Economic Development, 13-14 July 2009, Rio de Janeiro, Brazil.

² We adopt here a broad definition of public investment: any public expenditure that adds to the public tangible and intangible capital.

construction permits, connection to basic public services, payment of taxes and social contributions); and to exiting from business (cessation of activity, bankruptcy).

9. Administrative efficiency requires public investment in three main fields: regulations, i.e. the texts defining the rights and obligations of business operators; the administration of regulations, i.e. the processes by which the regulations are implemented; and finally the administrators, the civil servants in charge of implementing and enforcing the procedures. Clear regulations, responsible administration and capable administrators form an ideal combination for the delivery of efficient public services. The three elements are equally important and necessary to administrative efficiency. The third one,³ however, will not be considered in this note.

A. Administrative efficiency spurs growth and employment

10. The Better Regulation Programmeⁱ, launched in 2006 by the European Union, estimated that reducing by 25 per cent administrative costs for companies would produce an increase of 1.5 per cent in GDP. The impact of reducing administrative inefficiency in low-income economies would probably be even higher, since businesses in those countries face on average more than twice the regulatory burden than their counterparts in high-income economies when starting a business, transferring property, filing taxes or resolving a commercial dispute through the courts⁴. Developed economies have, in average, ten times as many newly registered firms per adult as Africa and the Middle East, and four times more businesses than developing economiesⁱⁱ. The regulatory burden directly impacts the costs of companies, and therefore their profits and their capacity to expand and hire employees. The negative effect is more significant for SMEs, whose average cost of administrative burden is estimated between six and thirty times higher than that for larger businesses⁵.

11. In times of recession, keeping viable companies operating and preserving jobs becomes especially important. In a recent reportⁱⁱⁱ, the OECD recalls past experience suggesting that “the current economic crisis will lead to rising poverty levels in poor countries. The share of informal employment tends to increase during economic turmoil. Low pay, with no social benefits, increases the likelihood that the Millennium Development Goal of halving poverty world-wide by 2015 will not be met”.

12. Creating a regulatory environment with efficient administrative processes for business operations and property rights can set the stage for firms and investors to take opportunities as the economy develops. World Bank’s research suggests that simple measures can make a difference: in a developing economy, a 10-day reduction in business start-up time was associated with an increase of 0.4 per cent in the growth rate and 0.27 per cent in the investment rate^{iv}. Not surprisingly, efficient regulation is a key determinant in the choice of an investment destination by multinationals^v.

³ The capability of administrators is largely determined by training, ethics and engagement. Decent remuneration is a key factor to attract talents into the public service and ensure their loyalty. The existence of an administrative career is also important, to protect civil servants from political influences. Empowering public servants and engaging them in the improvement of public services is increasingly seen as crucial to administrative efficiency.

⁴ Doing Business Report 2010, <http://www.doingbusiness.org/features/Highlights2010.aspx>

⁵ According to European studies, the average cost of administrative burdens is between 6 and 30 times higher for SMEs than that for larger businesses, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31997H0344:en:HTML>.

B. Administrative efficiency contributes to reducing public deficits

13. Increased public expenses, resulting from huge economic stimulation plans, combined with lower tax revenues due to sharp contraction in companies' income are causing large public deficits and unprecedented levels of sovereign debt in most countries^{vi}. Unbalances are widely deemed as unsustainable and are imposing austerity measures.

14. The introduction of improved public procurement schemes, for example, can produce considerable savings to State budgets. Public procurement is a key economic activity of governments, estimated at around 15 per cent of GDP in OECD countries. The introduction of eProcurement is a powerful vehicle to achieve high standards of transparency, accountability and efficiency. Cost savings stemming from modernized public procurement were found to be 2.5 to 10 per cent in the EU^{vii}.

15. Simpler and digital procedures can also produce substantial savings in working time and premises for the administration. The United Kingdom Government anticipates that more efficient ways of granting transactional services will deliver savings in excess of £12 billion between 2010 and 2014. "The increased transparency and accountability will enable citizens to compare local services, lobby for improvements, choose providers and demand changes in service delivery, with the web as a powerful new tool for sharing customer experience"^{viii}.

16. Decreased administrative costs will result in higher profits for companies and, therefore, in more taxes paid. Additionally, making the tax payment process easier helps tax payers better comply with their fiscal obligations, and reduces the need for costly controls. More efficient and inclusive procedures will encourage businesses that operate informally to seek the protection of the law and pay the corresponding fees for registering their companies, securing their property titles, seeking approval for constructions and protecting their employees.

C. Administrative efficiency empowers the poor

1. A majority of the world's active population works in the informal economy

17. According to a recent report⁶, 1.8 billion people work in informal jobs compared to 1.2 billion who benefit from formal contracts and social security protection. That number is projected to grow to two thirds of the workforce by 2020, assuming stable population trends and growth patterns, and could go higher if more jobs are lost due to the economic crisis and more migrants return home to informal sector jobs.

18. Informality manifests itself in many ways, but especially in land and housing ownership, business operations and labour. In the Philippines, 65 percent of homes and businesses are unregistered, in Tanzania 90 percent^{ix}. A study conducted by the IADB in twelve Latin-American countries reported that nearly 92 percent of businesses, 76 percent of rural properties and 65 percent of the dwellings are in the informal or "extralegal" sector^x.

19. There is a widespread misconception that the informal economy is somehow illegal, or even criminal. A clear distinction should be made: illegal activities go against the law; *informal activities are "extralegal"*, in the sense that they are not officially declared and do not take place in the realm of the laws which should govern them. "The recent re-

⁶ OECD - Is Informal Normal? Towards More and Better Jobs in Developing Countries, 2009 - http://www.oecd.org/document/54/0,3343,en_2649_33935_42024438_1_1_1_1.00.html

convergence of interest in the informal economy stems from the recognition that the informal economy is growing; that it is a permanent, not a short-term, phenomenon; and that it should be viewed not as a marginal or peripheral sector, but as a basic component of the total economy”⁷.

2. Better regulations, and better access to regulations, are necessary to empower the poor

20. Causes of informality are multiple and vary across countries. In some cases, it might be a conscious choice, a decision to avoid taxes and other obligations. Very often, it is mere lack of awareness of the law; or of the ways to comply with the law; or a lack of capacity to undertake the necessary procedures. The initiative for “*Legal Empowerment of the Poor*”, launched in 2005 by a group of industrialized and developing countries⁸, in cooperation with UNDP and UNECE, diagnosed that burdensome and unadapted regulations are a major barrier to entry into the formal economy.

21. In 2008, the report of the High-Level Commission on Legal Empowerment of the Poor^{xi}, stated that: “it is the minority of the world’s people who can take advantage of the norms and regulations. At least four billion people are excluded from the rule of law”. Just as access to basic financial services, legal empowerment measures such as “strengthening effective economic governance that makes it easy and affordable to set up and operate a business, to access markets, and to exit a business if necessary” are indispensable for potential or emerging entrepreneurs. Microfinance is a response to the “access to finance” challenge, and legal empowerment of the poor is a response to the “access to regulation” challenge.

22. A *United Nations General Assembly resolution* on legal empowerment of the poor and eradication of poverty^{xii}, of December 2009, “encourages the promotion of an enabling environment that facilitates entrepreneurship and doing business by all (art. 8) ... and encourages countries to continue their efforts in the area of legal empowerment of the poor, including access to justice and the realization of rights related to property, labour and business, addressing both formal and informal settings by taking into account those dimensions in their national policies and strategies (art. 9)...”.

3. Empowering the poor benefits the economy

23. Informal businesses pay no registration fee, no licenses of activity, no VAT on their sales, no corporate income tax nor social contribution for their employees. Informal employees don’t pay social contribution either. Unregistered land and dwellings don’t pay registry or transfer fees, nor local taxes. If informal operators often have to pay bribes, since they are easy victims for unscrupulous officials who abuse their lack of awareness and their precarious status, they do not contribute to the State budget. Informality narrows the fiscal space and represents considerable revenue shortfalls to the State budgets in developing countries.

24. The contribution of the informal sector to GDP is estimated at 19 per cent in transition countries, 29.7 per cent in Latin America, 30.6 per cent in Asia, and 63.6 per cent in Sub-Saharan Africa^{xiii}. Taking as a basis the current tax/GDP ratios^{xiv}, with unchanged

⁷ Pr. Martha Alter Chen, Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment http://www.un.org/esa/desa/papers/2007/wp46_2007.pdf

⁸ The Nordic countries (Denmark, Finland, Iceland, Norway and Sweden), Canada, Egypt, Guatemala, Tanzania and the United Kingdom.

tax pressure levels and tax collection capacity, the potential *additional annual income to the State budgets* derived from taxation of the informal economy would be as follows⁹:

(a) Latin America & Caribbean: \$145 billion, equivalent to 5.59 per cent of regional GDP; (i.e. 107 per cent of ODA and 208 per cent of FDI to the region);

(b) Asia (East Asia & Pacific and South Asia): \$198 billion, equivalent to 4.9 per cent of regional GDP; (i.e. 546 of ODA and 501 per cent of FDI to the region);

(c) Sub-Saharan Africa: \$73 billion, equivalent to 11.45 per cent of regional GDP; (i.e. 224 per cent of ODA and 433 per cent of FDI to the region).

25. Gradually harnessing informal activities in the formal economy would considerably increase the fiscal base and the revenue of developing countries. This additional income could certainly help cover the cost of basic infrastructure development and of investment in administrative efficiency.

II. Fostering greater transparency, streamlining procedures and developing eGovernment: best practices

26. All best practices and policies in administrative efficiency are guided by a core principle: *governance must be user-oriented*, i.e. existing rules and procedures should be reviewed, and new regulations should be designed, with the need of the customer in mind. In his context, the “*think small first*” principle, by which small businesses are seen as “prime customers” as far as business regulation is concerned, is increasingly applied¹⁰.

A. Basic principles of administrative efficiency

1. Transparency of the procedures is the cornerstone of administrative efficiency

27. *Promote the user’s point of view.* Being simple is often complicated: presenting the procedures in an easily understandable way for the user is a difficult issue. There is no single international standard, nor common understanding, regarding what “procedure” means. This explains the diversity of ways procedures are presented in different countries, and, within countries, by different administrations. Nevertheless, most current conceptions stem from an administration-centric vision: a procedure is generally defined as a process, or a series of processes performed within a single administration, on the basis of specific normative texts. The user’s point of view is different. For him, the procedure is the road he has to go through to reach his final objective. This road might drive him through numerous administrations and within each administration to various offices. What each administration sees as a complete procedure is actually, for the user, just part of it. For example, transferring a real estate property in El Salvador will bring a user to five different entities, and several times to each of these entities, since in total 16 different interactions will be

⁹ The above figures are rough calculations whose accuracy is difficult to ascertain. Also, they do not take into account that a significant percentage of the informal operators are low-income earners and would possibly not contribute in the same proportion as existing tax payers. Additionally, the regional perspective fails to reflect the huge discrepancies between countries in the same region

¹⁰ This principle was enshrined as early as 1996 in the United States Small Business Regulatory Enforcement Fairness Act, and more recently in the EU in the Small Business Act of 2008.

necessary to complete the procedure¹¹. From the user's point of view, this is a unique procedure, which will allow him to achieve his objective: register his new property.

Box 1. UNCTAD's eRegulations system, a global transparency network^{xv}

UNCTAD has conceived a web-based eGovernment system to help developing countries and countries in transition work towards administrative efficiency through transparency, simplification and automation of rules and procedures relating to enterprise creation and operation. This system can contribute to greater transparency and efficiency in the public service, improved governance and cost reductions. It represents for developing countries a *quick and cost-effective solution to document administrative procedures online*. The objective of the system is four-fold:

- Provide full *transparency* on rules and procedures by offering online detailed, practical and up-to-date descriptions of the steps they have to go through, **seen from the user's viewpoint**;
- Help governments to *simplify* procedures by allowing easy identification of unnecessary steps;
- Promote *good governance* by increasing the awareness of administrative rules and procedures, hence establishing the conditions for a balanced dialogue between the users of the public service and the civil servants;
- Set a basis for regional/international *harmonization* of rules by facilitating the exchange of good practices among countries.

Member States that are currently benefiting from this programme include: Colombia, Comoros, Costa Rica, El Salvador, Ethiopia, Guatemala, Mali, Morocco, Rwanda, Comoros, Nicaragua, Moscow City (Russian Federation), and Viet Nam. The eRegulations programme is financed thanks to contributions from the Governments of Luxembourg and of the Netherlands, from Moscow City and from UNDP.

28. *Affirm and publicize the right to information.* The right of citizen to information on administrative procedures should be widely advertised. This right to information should first be recognized by law. An increasing number of countries have promulgated laws on administrative transparency and access to administrative information. Those laws generally create right for user's to access the data collected on them by the administration, and to the results and processes of administrative actions and decisions. Access to information on procedures should also be specifically mentioned, as it is the case in Mali, in a pioneering law of 1998^{xvi}, stating that: "every administration is compelled to communicate to users correct information on the procedures and formalities that are necessary to obtain the services it provides".

29. *Make the information available.* Multiple formats and channels, corresponding to different audiences, should be used to disseminate information on procedures. It can be done, for example, *through online registries of procedures*. An increasing number of countries maintain such registries, such as the ChileClic portal in Chile^{xvii} or the eRegulations system in several developing countries (Box 1)^{xviii}. Some registries are specialized like the United Kingdom Businesslink portal^{xix}. Registries also exist at the sub-national level, as it is the case in Spain for the new Virtual Care Office of the Generalitat of

¹¹ See a description of the procedure through the El Salvador eRegulations system, <http://elsalvador.e-regulations.org/default.aspx?lang=es&target=ListOfSteps§ionid=7®id=1&Id=2>

Cataluña^{xx}, and in Colombia with the city of Bogota “Procedures and Services Guide”^{xxi}. *Printed material* should be made available in all administrations involved in the procedures; at the door of each public office, a poster should indicate the “menu” of the services offered, i.e., what steps can be accomplished, with complete detail of the related elements (expected results, requirements, complaints, etc.). *Phone and internet hotlines are increasingly used*. Administrative call centres are being established in many countries. Hotline services are also available through the internet. The United States Business.gov Community^{xxii} offers users the possibility to ask question and get replies online from government officials.

30. *Promote the use of information*. The existence of information on procedures, and the ways to access them, should be widely advertised, through professional organizations and business support services (e.g., Chambers of Commerce, sectoral federations, banks, lawyers, accountants, consultants), through all government agencies and through public campaigns. The existence of the information and the right to information should be taught in schools as a fundamental right, and in universities as part of business-related courses.

2. eGovernment is an enabler and a catalyst of public reform

31. The motto of the Singapore eGovernment portal^{xxiii} – “from integrating services to integrating government” - well indicates that eGovernment is not an objective per se, but a way to improve Government. However, rapid evolution in information technologies is driving changes in the conception of eGovernment and of government itself. Initially conceived as a way for the public sector to grant a better service to business and citizens, eGovernment is now increasingly seen also as a means to allow for public participation in the regulatory process and in the decision making. Here are a few important notions and trends regarding the evolution of eGovernment:

32. *Interoperability*. Refers to the ability of diverse systems and organizations to work together, exchange and use each other’s information. Interoperability is linked to the use of common standards that make the data compatible^{xxiv}. It allows multiple, decentralized systems (and, therefore, the corresponding agencies) to offer an integrated service to the user.

33. *Seamless services*. They allow users to specify a need and obtain a service to fulfil this need without knowing which agency or level of government should be contacted. In many situations, several agencies at different levels of the government may be involved without a citizen being even aware of this^{xxv}.

34. *Cloud computing*. Refers to the possibility to rent and use online, from any connected terminal, processing capacity, storage space and applications offered by external providers^{xxvi}. Renting of servers and digital storage is already widespread. The idea that institutions no longer have to develop their own computer applications and can instead use external applications under a pay-per-use modality is more novel. A first experience was launched in the United States with the Apps.gov site^{xxvii}. The United Kingdom Government recently released a similar G-cloud (Government cloud) strategy^{xxviii}.

35. *Web 2.0*. A Web 2.0 tool allows its users to interact with other users or to change website content, in contrast to non-interactive websites where users are limited to the passive viewing of information. Examples include web-based communities, hosted services, web applications, social-networking sites, video-sharing sites, wikis, mashups and blogs. The difference between Web 1.0 and Web 2.0 could be characterized as the difference between a one-to-many broadcasting and many-to-many communication.

36. *Government 2.0* describes an attempt to modernize the relationship between public administration and users, by using the new collaborative tools and approaches of Web 2.0 to take into account the specific needs of each user. Synonymous to citizen-centric

administration, Gov 2.0 aims at: increased transparency of government data and operations to the public; user-oriented services; improved public participation in decision-making; improved collaboration between all levels and departments of government.

37. The EU Ministerial Declaration on eGovernment^{xxix} is marked by this new conception: the objective for 2015 is to “improve eGovernment services to cater for the different needs of users and deliver them in the most effective way. “Efficient eGovernment services built around the needs of users will increase trust in government and contribute to higher user satisfaction whilst achieving efficiency gains.”

38. An online service recently developed in India^{xxx} illustrates that eGovernment can be used effectively in favour of socially excluded groups. The National Rural Employment Guarantee Scheme administers online the assignment of work to unskilled workers in the Andhra Pradesh province, in application of a Government Act ensuring at least a guaranteed wage of 100 days in every financial year to any household whose members volunteer to do unskilled manual work.

B. Best practices in company creation, property rights transfer and construction permits

39. Real simplification always stems from a user-centric vision. The principles of administrative simplification are very simple: adopt the point of view of the user; carefully study and document the procedure, step-by-step; eliminate unnecessary interactions, delays and requirements; regroup in one single place those that cannot be avoided; and make the resulting process, or part of it, electronic. This applies to all administrative procedures, especially company creation, property transfer and construction permit¹².

1. Simplifying the company creation process

40. The company creation process is particularly important: it gives companies legal existence and their “birth certificate”. This is probably why this process has been the most commonly reformed worldwide in the past years. The most efficient (online) procedures, according to the Doing Business report, are those of New Zealand^{xxxii}, Canada^{xxxiii}, Australia^{xxxiii}, and Singapore^{xxxiv}.

41. *Eliminating requirements.* The company creation process can be improved first by eliminating a number of unnecessary requirements. The company seal is one of those. Publication in legal journals of a notice of company establishment can easily be replaced by electronic publication, as in Germany, FYR Macedonia and Mozambique, or at the registry, as in Burkina Faso. Minimum capital requirements can be a big obstacle for entrepreneurs. Thirty-five economies have reduced or eliminated their minimum capital requirement since 2004. The need for fiscal stamps or stamped paper, for notarized copies of documents and for request letters is being progressively eliminated. Unifying forms and standardizing incorporation documents also cuts requirements.

42. *Centralizing registrations.* Remaining steps involving multiple agencies can be grouped in a single place through a physical or virtual one-stop-shop. Since 2004, 44 countries have created a centralized registration process, either physical or electronic.

43. *eGovernment.* Electronic systems are a good way to share information among agencies and to offer an integrated service to the user. They also significantly reduce

¹² Most examples and practices mentioned in this chapter are taken from the World Bank’ Doing Business Report 2010, and refer to year 2009, <http://www.doingbusiness.org/>

administrative costs. Malaysia's company registry invested \$12.7 million in a sophisticated registration system over five years. The investment was fully covered by fees generated by the registry. Around 40 countries now offer online registration. Sometimes, only part of the process is automated, the online name verification is the most common electronic service, more than half of the countries now propose this service, such as Bangladesh^{xxxv}.

2. Simplifying property registration

44. Land is a fundamental economic asset in every society. Without secure property titles, land cannot be turned into productive capital, it cannot be used as collateral to ease access to credit and cannot be transferred. This is what Hernando de Soto describes as "dead capital"^{xxxvi}. Doing Business ranks Saudi Arabia, Georgia, and New Zealand^{xxxvii}, as the most efficient countries as regards property registration procedures.

45. *Eliminating requirements.* Moldova eliminated the requirement for a cadastral sketch, saving 43 days. The Kyrgyz Republic and Belarus removed the notarization requirement. Indonesia, FYR Macedonia and Romania introduced time limits at the registry. Algeria eliminated interactions with the removal of the capital gains tax. More than 150 countries have already eliminated physical inspections to assess the value of the property and 17 economies charge a fixed fee, instead of multiple taxes paid to various agencies. Most countries have eliminated cadastral certificates, and over a hundred don't require a proof of tax payment from various levels of government. Only a few still ask for certificates of payment from utility companies.

46. *Centralizing registrations.* In Burkina Faso, transfer taxes can now be paid at the land registry. The one-stop-shop established in Belarus in 2007 diminished the time from 231 to 18 days.

47. *eGovernment.* Eleven countries introduced online procedures in 2009. In Mauritius, the property registry was fully computerized, as well as in Estonia^{xxxviii}. In the United Kingdom, tax returns from land transactions are processed electronically, reducing the time to register property from 21 to 8. In Panama, the tax administration now issues the certificate of good standing online^{xxxix}. Guatemala, the most efficient Latin American country in property registration, improved its eServices^{xl}. In Rwanda, the tax clearance certificate can now be obtained online^{xli}.

3. Simplifying the construction permit process

48. The construction industry is considered a barometer of the economy and accounts for 5 to 7 per cent of GDP in most countries. The World Bank estimates that 60 to 80 per cent of construction projects in developing countries are undertaken without a building permit because the approval process is too complex. According to the Doing Business report, the most efficient procedures are in Hong Kong (China)^{xlii}, Singapore^{xliii}, St Vincent and the Grenadines, the Republic of Korea and Finland.

49. *Eliminating requirements.* On average, builders around the world deal with nine different agencies. Colombia, Guatemala, Honduras and Panama reduced the number of steps and the time by introducing risk-based approval processes, trimming the time by an average of 35 days. Portugal followed a similar route, eliminating various steps and cutting the time by 41 days.

50. *Centralizing registrations.* Jordan and Saudi Arabia both centralized approval in one-stop-shops in 2009. The Amman one-stop-shop cut 20 days (now only 87) and plans are under way to introduce more one-stop-shops in other districts. At the Riyadh one-stop-shop, applicants wanting to build simple structures can obtain a building permit in one day. Burkina Faso also implemented a one-stop-shop, reducing the time to obtain a permit by two months.

51. *eGovernment*. In Bahrain, instead of having to fill out nine different forms and provide 15 sets of supporting documentation, applicants complete a single application form online and upload all their documents through a digitized process. Builders in Dubai can now apply for “no objection” certificates, building permits and completion certificates online^{xiv}. In the Islamic Republic of Iran, location approvals, building permits and building completion certificates can be obtained through any of the 70 e-service offices in Tehran.

C. Facilitating business for microenterprises: making formalization easy and desirable

1. Explain what formalization means

52. *What minimum conditions should a small business satisfy to have legal existence and to operate legitimately?* A majority of informal entrepreneurs don’t have a reply to this question and don’t know where to find an answer. Apart from creating a company – which is usually costly - what are the other available business regimes; is registration in the national tax registry sufficient, or should one register also with municipal tax authorities; which activities require a special license; what health and retirement protection scheme are available; should account books be held, do they need to be legalized; can an entrepreneur undertake formalities personally? Lack of awareness of the rules and procedures, and fear that they will be too complicated, inhibits microentrepreneurs and is a major deterrent to the formalization of small businesses.

53. *Adapted information*. Clear and easily understandable information on existing legal regimes, for registration and operation, and on the related procedures, should be widely made available to microentrepreneurs. Options for legalizations – available legal regimes - should be clearly explained, with their respective advantages and downsides. The procedures should be explained steps by step, with all the necessary details.

54. *Targeted dissemination*. Information should be brought to microentrepreneurs. Microcredit officers go find their customers where they live: on the markets, in small shops and in the streets, in working-class business districts, shanty towns and villages. This is also where the information on formalization procedures should arrive. Microfinance institutions, NGOs, small trader associations, churches and all other institutions working with the poor are good channels to reach them. Schools and colleges are other good channels to pass the message, through the children. Cybercafés are good spots to disseminate information to microentrepreneurs¹³. Postings on municipalities’ public boards may have same impact. Newspapers, TV and radio are very effective media, if messages are broadcasted through programmes with large audience in the targeted segment. Massive, multi-channel, formalizations campaigns could be launched, on the model of literacy or vaccination campaigns.

2. Make formalization easy

55. *Procedures should be made as simple as possible*, within the framework of existing laws or by amending them. Creating a one-stop-shop dedicated to microentrepreneurs is a good way to cut time and moves for the entrepreneurs. eGovernment tools are a clear plus, but not a must. Physical one-stop-shops, with manual information processing, can greatly

¹³ Social programmes in El Salvador have used cybercafes to reach and train microentrepreneurs. They offered in distressed neighborhoods coupons for one hour of free use in cybercafés. Cybercafés managers had been previously trained to guide users through specific websites, and to open for them mail accounts through which they could conveniently be reached.

facilitate the formalization of small businesses, the more so if they are strategically located and easily accessible. A single form should suffice to register with all concerned administrations and, ideally, the right to operate legally should be delivered immediately. This is the case in the United Kingdom, where the only obligation for self-employed or sole traders is a notification to the tax authority, by post, phone or through a simple, online form^{xiv}. However, it might be difficult to reduce the number of supporting documents required for registration, when they are listed in the law. For example, the OHADA Uniform Act Relating to General Commercial Law, applied in 16 African State and which governs part of the trader's registration procedures, requires to produce five documents: birth certificate, wedding certificate, certificate of nationality, lease contract and police record. Obtaining each of these documents gives rise to at least one, and sometimes two steps, with their corresponding requirements, costs and delays¹⁴. This greatly limits the possibility for those 16 African countries to radically simplify the process.

56. *New self-employed and household schemes.* In cases when it is too difficult to change the laws, it might be simpler to create new regimes with a new law. An increasing number of countries now create special schemes for individual entrepreneurs. This is what France did in 2009 with the new "autoentrepreneur"^{xlvi} a scheme that allows any individual operator to register at the same time, in a few minutes, with the trade registry, the tax administration and social security. In one year, more than 300'000 new enterprises have been registered. In Rwanda¹⁵, since the introduction in 2009 of a new company law, a trader can register in three steps and 24 hours¹⁶, through a one-stop shop implemented at the Rwanda Development Board. Panama introduced in 2007 a new law^{xlvi} abolishing all previous procedures with multiple administrations and establishing that traders – nationals or foreigners – just need to register and pay online \$15 to start operating legally. The whole process^{xlvi} is very simple and takes no more than 10 minutes.

57. *Simplified tax regime.* New small business schemes usually include a single tax system - combining the income tax, the VAT and social contributions - and a "forfait" payment, as a way to facilitate registration and compliance^{xlvi}; small tax payers units are created in business areas, just as big tax payers centres have been created in the 1980s and 1990s¹. The Rwanda Revenue Authority introduced in 2009 a new "Block Management System"^{li}, installing tax offices in districts where small businesses operate.

3. Make formalization desirable

58. Establishing good regulations and simple processes, however, is not enough. Besides being known of their intended targets, they also have to be perceived as beneficial. Most Latin-American countries have introduced simplified tax regimes for microbusinesses in the past ten years. Only a small minority of microentrepreneurs took advantage of them^{lii}. In 2004, Argentina implemented a new simplified tax system for small businesses. After two years, only 44'000 new tax payers had enrolled^{liii}.

59. *Communicate on benefits.* Peace of mind and protection against unscrupulous officials are very attractive benefits. They are sometimes not very well understood, since microentrepreneurs already make payments and satisfy a number of obligations which they

¹⁴ See a description of the same procedure in Mali (with a one-stop-shop) and in Comoros (no one-stop-shop), through their respective eRegulations systems:

<http://mali.e-regulations.org/default.aspx?lang=fr&target=ListOfSteps§ionid=35®id=261&Id=1>

<http://comores.e-regulations.org/default.aspx?lang=fr&target=ListOfSteps§ionid=3®id=23&Id=1>

¹⁵ The world's best reformer according to the Doing Business report 2010

¹⁶ See a description of the procedure through the Rwanda eRegulations system, <http://rwanda.e-regulations.org/default.aspx?lang=uk&target=ListOfSteps§ionid=11®id=25&Id=2>

consider legal. They are abused by local officials, lawyers or intermediaries and, henceforth, often operate extralegally in total good faith. It is important to clearly explain which norms are legitimate, what authorizations and documents are officially delivered, and what the corresponding payments are. Being legal opens the possibility to expand, by legitimately selling to, and making contracts with, other formal businesses and public entities, importing and exporting, employing workers, renting, buying and selling premises and properties, getting access to credit and investment. Social protection^{iv} - health care, retirement and unemployment protection schemes - are key additional benefits usually linked to formalization. It is essential to publicize that these benefits are part of the legalization package.

60. *Reinforce benefits.* In case social protection is not a part of the package, or when it is not applicable to non-wage operators and their family, such schemes should be developed^{lv}, even if on a modest scale. Microfinance institutions have started to build for their clients private microinsurance schemes^{lvi} that could be offered to small entrepreneurs at the time of registration. Easier access to credit, training, business advisory and development services, could be triggered by legalization. Microfinance institutions would certainly encourage microentrepreneurs to legalize their activity and would willingly propose slightly better credit conditions to formal entrepreneurs.

61. *Enforce compliance.* The creation of simplified regimes must be accompanied by enforcement measures, to ensure that the few obligations remaining are well respected, in particular as regards the declaration and payment of taxes, but also in terms of hygiene, health and labour relations.

62. *Partnering with other empowering services.* Improving access to the law, just as opening the access to finance, or offering training and business support, are necessary and effective approaches to empower the poor. Strong operational synergies should be developed between the institutions offering those services, which are complementary and mutually reinforcing.

63. Making it easier and less costly for small entrepreneurs to formally set up their company (Box 2) will enable them to scale up their activities, in particular by opening access to credit and allowing linkages with larger operators. It will encourage them to employ staff and pay taxes and social benefits, thus contributing to the Millennium Development Goals (in particular Goal 1, Eradicate Extreme Poverty, targets 1A and 1B).

Box 2. UNCTAD's easy business formalization (microlegalization) programme

UNCTAD is designing a new programme to help governments implement regulations adapted to the needs of micro and small enterprises and facilitate the legalization of informal businesses, based on international best practices. Advisory and capacity building services will be offered for:

- Inventory and diagnosis of existing regulations applicable to the creation and operation of microbusinesses (initial registrations, licenses of activity, tax and social declaration and payment)
- Simplification of existing schemes and/or proposal of new, adapted regulations with a view to minimizing the number of steps and requirements for the users, and to maximizing legal and social benefits
- Organization of internal processing – within and among the administrations involved, with emphasis on the use of eGovernment tools
- Negotiation of partnerships for combined delivery of services with microfinance institutions and other providers of basic services to the poor
- Drawing and execution of external communication
- Measure results

III. Promoting the international exchange of best practices and solutions in administrative efficiency for business facilitation

64. Some countries, many of which are developing countries, have designed and implemented good solutions to make administrative procedures swift and transparent for starting small businesses, registering property, obtaining licenses, work permits and visas, paying taxes, etc. Smart laws and procedures, and e-government tools that have demonstrated their efficiency in one country could be helpful to other countries confronted with the same problems. Sharing solutions for business facilitation could considerably accelerate the pace and reduce the cost of public investment in administrative efficiency in developing countries.

65. Numerous studies present examples of good practices in eGovernment. There are less information sources on laws and organization schemes implemented to facilitate procedures. None has special focus on administrative efficiency solutions for micro and small businesses. Similarly, there is abundant information on good practices to empower informal entrepreneurs, but not especially focused on measures government can take to encourage legalization.

66. UNCTAD proposes to create an electronic platform where governments could share such solutions. It will promote the dissemination of best practices to facilitate business for micro and small enterprises in developing countries, and encourage cooperation between national administrations, especially south-south cooperation.

A. UNCTAD's iPortal: an electronic platform to facilitate the exchange of best practices in administrative efficiency

1. Objectives and target audience of the iPortal

67. The iPortal aims at identifying and *disseminating good practices and policies* that governments can implement to facilitate the creation and operation of private businesses, and especially micro and small enterprises. It is an online database of smart solutions successfully implemented in developed and developing countries to make administrative procedures more transparent, simpler and swifter.

68. It is intended to be a technical tool for *policy makers in developing countries*, be they in search of solutions for improving their national administrative efficiency or, conversely, willing to share with other countries solutions which have been successfully implemented nationally. It can also be of interest to *donor organizations* willing to support the efforts of developing countries towards administrative efficiency and legal empowerment of the poor. The iPortal will give them access to a catalogue of proven and replicable measures.

69. The solutions presented through the portal will come from developing countries as well as from more advanced economies. The portal might, henceforth, facilitate exchanges among developing countries and *South-South cooperation*.

2. Organization of the iPortal: fields and categories

70. Solutions are organized in three categories: *regulations*: i.e. laws and other normative texts; *organizational schemes*: i.e. physical working structures or operational arrangements set up to improve/speed up administrative procedures, such as one-stop-shops; *electronic tools*: i.e. electronic systems functioning between the Government and businesses (G2B) and among Government offices (G2G).

71. Solutions will be presented in various fields: (i) starting a business, business licences, property registration, construction permits, employing workers, visas and residence permits, trading across borders, paying taxes, closing a business, transparency, simplification and eGovernment. Several of these fields are identical to those used by the Doing Business Report¹⁷.

72. In addition, the portal will give access to *benchmarks, norms, recommendations and landmark studies* in the considered fields and categories, as well as to directories of national, regional and international organizations dealing with business facilitation.

3. Functioning of the iPortal: consulting solutions, requesting assistance, posting a solution

73. For each field, the database will give access to lists of solutions, showing the country which designed the solution, description, impact, price (if any) and web links. Each solution will be detailed in a specific sheet.

74. Registered users (government officials only) are able to contact directly the owners of the solutions to ask for more information, express interest and/or request support for the implementation of a proposed solution. They will also be allowed to propose new best practices for inclusion in the portal.

¹⁷ The Doing Business report categories are: Starting a Business, Dealing with Construction Permits, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing contracts, Closing a Business.

75. Donor organizations have the possibility to register a list of countries, fields and categories they are particularly interested in, and to be advised of relevant requests sent through the system.

76. A prototype of the iPortal is already accessible online at <http://unctad.theportal.org>. All best practices mentioned and most references in this issue note, as well as those in a previous issue note on administrative efficiency (TD/B/C.II/2, 2009), are registered on the iPortal.

B. Gathering best practices: identifying relevant sources and developing an expert network

1. Identifying existing databases on e-tools and other administrative efficiency solutions for small business facilitation

77. A number of publications, databases and online platforms present good practices in eGovernment, in regulations, transparency and simplification of procedures. Meetings and conferences on those topics are also a good source of information. Relevant sources should be identified, an updated list should be maintained and agreements should be negotiated so that UNCTAD be granted access to this information or, preferably, that the owners of the databases regularly provide directly to the iPortal a selection of pertinent solutions.

2. Mobilizing national, regional and international organization/structures involved in administrative efficiency

78. Many international, regional and national organizations work on topics related to eGovernment, administrative simplification and legal empowerment of the poor. They should be mobilized to provide best practices to the iPortal. Additionally, a network of experts should be created to progressively identify objective criteria to define best practices.

79. *International organizations.* IFC's Advisory Services and the Foreign Advisory Services of the World Bank Group are very active in helping governments enhance business-related administrative processes. So is UNDP, through its local offices and many of its core programmes. The *UNU-IIST Centre for Electronic Governance*, located in Macao, China, is an international centre of excellence on research and practice in electronic governance. The *OECD* has several programmes focusing on administrative efficiency, in particular the *eGovernment Project*^{lvii} and the *Regulatory Reform Programme*^{lviii}. *SIGMA*^{lix}, a joint initiative of the OECD and the European Union, supports EU candidate countries and EU neighbours in their public administration reforms.

80. *Regional organizations.* The *Regional Development Banks* (ADB, AfDB, IADB, CDB^{lx}) are important regional actors.

81. *Country level.* Most countries have ministries, agencies, programmes or task forces in charge of administrative simplification.

82. A directory of the above organizations will be created in the iPortal and their support will be sought to gather best practices and to define criteria to identify them.

IV. Questions to the Commission

- What minimum information on business rules and procedures, under what format and through which channels, should be made available by governments?
- Should governments edict special regulations for micro and small enterprises, such as simplified legal and fiscal regimes?

- What are the criteria to define, and what could be the mechanisms to collect, best policies and practices in administrative efficiency? How can differences between economies be taken into account in the identification of best practices?

Endnotes

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