

Simplification of Business Regulations at the Sub-National Level

A Reform Implementation Toolkit for Project Teams

2006



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**Small and Medium Enterprise Department
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Acronyms

Acronym	Details
AMUNIC	Asociación de Municipalidades de Nicaragua/Nicaraguan Association of Municipalities
BIT	Business Impact Test
BPLO	Business Permit and License Office (The Philippines)
CAE I	Certificado de Aptitud de Establecimiento (Lima, Peru)
CAE (II)	Centro de Atención Empresarial (Colombia)
CAS	Country Assistance Strategy
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa/National Microenterprise and Small Business Commission (El Salvador)
EU	European Union
FIAS	Foreign Investment Advisory Service
IDO	International Development Organization
IFC	International Finance Corporation
IT	Information Technology
MOU	Memorandum of Understanding
MSB	Microenterprises and Small Businesses
NGO	Non-Governmental Organizations
NSBR	Nova Scotia Business Registry
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Plan
RIA	Regulatory Impact Assessment
RSC	Regulatory Study Commission (Indianapolis, USA)
SAINE	Sistema de Apertura Inmediata de Empresas (Mexico City)
SIA	Sustainability Impact Assessment
SME	Small and Medium Enterprise
SNSMR	Service Nova Scotia and Municipal Relations

Executive Summary

Sub-national political entities, whether states, provinces, regional governments or municipalities, have an important function in fostering a sound business climate. The consequences of ineffective, excessive or, in some instances, inappropriate regulation generally have adverse effects on investment and economic development.

Fostering a vibrant business climate is a development prerogative, intended to contribute to private sector development and positive economic outcomes. The benefits which may accrue from such a business climate include increased investment, productivity, and employment as well as reduced corruption. Among other critical features, enhancing the investment climate requires removing obstacles to “doing business,” and providing efficient and effective legal and regulatory frameworks that promote competition and growth.

The emphasis in this toolkit is on sub-national regulation generally and municipal regulations specifically, since most interaction between “government” and “business” occurs at the local or regional level. National regulatory policies may influence or affect investment decisions, but post-investment operations are influenced by other levels of government having legal authority over such operational activities -- principally those at the municipal level.

The municipality and the private sector both have critical roles in a simplification initiative. Meaningful and on-going consultations with these two groups of stakeholders will serve to ensure that the process design will reflect the needs of users. To that end, consultation and communication processes form a significant component of any simplification initiative.

Project teams should also recognize that simplification provides an opportunity for municipalities to pay on-going attention to the subject of regulatory management.

Simplification

Simplification involves not only a business process change but also *cultural* change in how municipalities view those whom they regulate, and how those who are regulated perceive the value and effectiveness of the regulatory processes.

Simplification does not mean compromising core standards with respect to health, safety, the environment or labor. Simplification, as a basic concept, is the act of reducing or eliminating elements of a process in order to reduce complexity and inefficiency. It also involves limiting the potential of any reintroduction of cumbersome or unnecessary requirements or steps.

Preliminary Considerations

Regulatory reform, through simplification, is a means by which municipalities can create positive, long-term economic benefits within their jurisdictions. Indeed, microenterprises and small businesses often cite regulatory issues as a prime constraint to growth.

The simplification process is a relatively low-risk activity for the municipality to engage in which results in a vital change to the way microenterprises and small businesses take part in the formal business sector. A municipality’s decision to engage in regulatory reform increases the benefits that Clients attain from formalizing their business process.

Simplification does not absolutely require that a municipality make radical changes to its processes; rather, it can be achieved through a more gradual and incremental approach.

Simplification makes business processes more efficient. The implication for municipal employees is that as business processes become streamlined, especially combined with service delivery initiatives such as One-Stop Shops, client satisfaction increases. Increases in Client satisfaction contributes to a more positive work environment for municipal employees.

Essential components to a simplification initiative include:

- Strong political commitment and visible support from senior official(s);
- A coherent strategic approach that organizes and prioritizes specific goals, roles and responsibilities, resources and associated tasks.

A strategic plan for a simplification initiative must manage three principal aspects: (a) the regulatory process design itself; (b) the policy framework surrounding and supporting the regulatory process; and (c) the considerations associated with changing a process in a political environment.

Municipalities seeking to make changes to the regulatory process should also consider incorporating the following concepts: knowledge management, employee empowerment, adoption of new information technologies, and a shared vision.

Simplification: Four Phases

Diagnosis

Defining the objective of the process in question is important since the municipality should have objectives and not procedures as its focus. The municipality should be focused at this stage on ensuring *what* is done instead of *how* it is done.

Simplification: Four Phases

1. Diagnosis
2. Process Design
3. Implementation
4. Evaluation

A project team should first assess the resources and capabilities of the municipality both in terms of its existing operational and functional capacity to perform the regulatory process and in terms of its capacity to undertake such a simplification initiative.

Part of the diagnosis involves conducting a detailed analysis of the existing regulatory process. This requires not only assessing the impact of the existing process but also mapping the existing elements of that process and defining the appropriate performance indicators. The diagnostic phase should include a benchmarking exercise to capture performance indicators prior to the process design.

Once the steps in a process have been identified, a secondary, *legal* analysis should be conducted to determine which of the steps are based on provisions embodied in the applicable laws, by-laws, decrees, regulations or orders.

A municipality's regulatory policy is important in any simplification initiative since it provides the framework principles that will govern any regulatory process design. Project teams should encourage municipalities to adopt certain fundamental principles that will guide simplification initiatives and ongoing regulatory activity. These principles should be codified in a municipal regulatory policy and published so as to ensure that all stakeholders understand how the municipality will manage its regulatory processes.

Process Design

Once the existing process has been mapped, the next phase involves designing a simplified regulatory process. The design phase involves examining each requirement to determine whether it is necessary. Simplification involves taking a series of steps that currently exist, reducing them to the minimum number required, and documenting the result in a “process map.”

An obvious step in any simplification initiative is whether the municipality has the resources to incorporate and deploy technology. It is important to emphasize to municipalities that changing a regulatory process or adopting a regulatory policy is not dependent on the use of technology. In some instances, the municipality may find it useful to do so but it is an independent consideration and not a necessary precondition for simplification.

After the regulatory process is designed but before it is provided to stakeholders for comment, it is important to ensure that the proposed design and the principles of the municipality’s regulatory policy are consistent.

In a simplification initiative, consultations assist in framing unresolved issues and evaluating proposed options in the process design. This ensures that the municipality helps stakeholders understand the proposed changes in the regulatory process, that it understands stakeholder needs and reflects those needs in the proposed changes, and that it manages stakeholder expectations by ensuring that they do not exceed the municipality’s resource limitations or legal mandate.

It is important to emphasize to municipalities that their consultations with stakeholders should broadly include relevant elements of the private sector. This extends beyond meeting with the local Chamber of Commerce to meeting with those individuals and businesses that actually use the process in question.

Finally, as the design phase ends and implementation begins, the creation of an implementation plan will ensure that outstanding issues are managed, periodically reviewed and systematically resolved.

Implementation

In order for the regulatory process to be effective, and depending on the degree of change involved, “front-line” staff need to not only know how the new process works but also be in a position to answer questions from Clients about how the changes affect them. This requires training, which should be considered a priority.

In order for any regulatory process to appeal to a large number of users, whether citizens or businesses, it must be more accessible and responsive. This necessitates (1) creating central access points and (2) promoting greater accessibility through “multiple” central access points.

Considering Technology

Does the municipality have the capacity to plan the deployment of technology?

Are other municipalities or levels of government to be involved in the design process?

What is the state of the municipality’s information technology infrastructure?

Are there the ability, willingness and desire of clients to operate in an electronic environment?

Does the legal framework permit the municipality to operate in an electronic environment?

Can the municipality afford the indirect and direct costs of using technology in connection with the process being designed?

Often associated with simplification efforts and successful in a number of countries, these access points are often designed as “One-Stop Shops.” The basic idea of a One-Stop Shop is to require a Client to make contact with a single entity to obtain all the necessary approvals in one streamlined and coherent process and to obtain different services in one location.

An important element in simplification initiatives, whether large or small, is reducing resistance to change. Both internal participants (employees, managers, municipal councils) and external stakeholders (citizens, businesses, funding institutions) are interested in the outcome and want to know *on an on-going basis* about the initiative and how it may affect them -- whether it provides benefits or creates obligations. Overall support is enhanced by communicating the benefits. Accordingly, a communications strategy is an important component part of simplification implementation. Framing this strategy should be a municipal communications policy.

Evaluation

The evaluation phase is intended to measure the effectiveness of the process changes.

The first task in this phase is the preparation of a Post-Initiative Assessment Report which examines and documents the initiative’s outcomes, whether the original objectives were met, and how effectively the project was kept on track.

There are three points in time when a measurement of performance indicators should be made. As previously noted, the first is at the diagnosis phase when the existing regulatory process is initially mapped. The second measurement should occur when results can or should be expected following the implementation of the designed, simplified process. This measurement is intended to determine whether the changes made have actually resulted in improvements. The third measurement serves an audit function and is intended to ascertain whether there has been any deterioration in performance since the completion of the simplification initiative or any re-introduction of steps or requirements into the regulatory process.

Conclusion

Simplification is not just a process of eliminating inputs or steps in a particular process. It also involves ensuring that municipalities remain committed to reducing regulatory burdens by structuring their regulatory policy to promote sustainability in regulatory design and implementation into the future. To do this means that municipalities have to involve relevant stakeholders to assist them in ensuring that any deviation from that commitment undergoes examination. Change is permitted and even necessary, but when it is done in a transparent manner, abuse is minimized.

Simplification will rarely succeed without strong leadership and a dedicated commitment on the part of elected and administrative officials. Simplification involves the evolution of municipal structures to assist officials in the development of policies and processes to achieve their municipal objectives.

The result of any simplification initiative is more effective regulations combined with improved efficiency in performance by municipal offices. The outcomes of effective simplification of business regulations will be both economic and social. Allowing entrepreneurs and firms to enter markets and operate more effectively will benefit private sector development, investment, employment, and poverty reduction.