

Case study commissioned by the Department for International Development, UK

A Contribution to WDR 2005 on Investment Climate, Growth and Poverty

Less is More
**Better Compliance and Increased Revenues by Streamlining Business
Registration in Uganda**

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Key Messages

1. A streamlined business registration system pilot in Entebbe Uganda reduced compliance costs for enterprises by 75 percent, raised registration numbers and fee revenues by some 40 percent while reducing the cost of administering the system.
2. The pilot reduced opportunities for corruption and resulted in improved relations between business and the local authority.
3. The implementation of the policy changes required evidence-based advocacy and the establishment of close working relationships between the project team and the local authorities.

The views and opinions expressed in this study are those of the author and do not necessarily correspond to the views or policies of the Department for International Development (DFID), UK.

Introduction

1. Following civil strife, hardship, and an economic collapse during the 1970s and 80s, Uganda has passed through several phases of reform. Only since 1992, however, has the Government of Uganda (GoU) set out on a process of full reform and liberalisation. Recognising the private sector, and particularly domestic small and medium enterprises, as an engine for growth and as a key contributor to the nation's highest priority of reducing poverty, since 1992 the GoU has made an attractive investment climate a policy priority and better regulation has become an essential element in creating this environment.

2. In an effort to facilitate private sector growth through providing an efficient legal and regulatory environment for business, the GoU has implemented a deregulation project over the past three years with the support of the Department for International Development (DFID), UK. The initial efforts have focused on generating ownership in key institutions, by conducting workshops and training sessions with ministers and senior officials, and by creating a Parliamentary Task Force. Along with this, efforts are under way to incorporate Regulatory Impact Assessment (RIA)¹ as part of the process of reviewing all proposed legislation and regulations prior to their enactment. The emphasis going forward is to build on the support gained among the most senior political, administrative, and private sector stakeholders to work towards embedding Regulatory Best Practice.²

3. In tackling the complex agenda of deregulation, the project pursued a multi-pronged approach including some "quick wins" to demonstrate the damaging effects of regulation and the potential for quick improvements. An enterprise survey to identify regulatory costs in the early stages of the project revealed that the time and cost involved in trade licensing was one such issue. Registration and licensing are conflated into one process, made costly in terms of time and fees, and provide opportunities to withhold or delay the licence while expecting a 'facilitation fee' or bribe.

4. One common indicator of ‘red tape’ with readily available data compares how FDI-friendly a country is based on the business start-up cost. This includes the process of their incorporation as well as licensing and registration. In such a comparison of effort and compliance costs, Uganda ranks somewhere in the middle between the worst and the best (see figure and table). While incorporation is a one time cost and only for businesses which need to establish a legal entity, all businesses are required to register in their municipality and to have a licence which has to be renewed at least annually. Independent of whether a business is locally or foreign owned, or large or small, the registration is thus a recurring cost and a cost which is reflected in the pricing of a product or service and tends to be compounded if there is a substantial supply chain. The ‘red tape’ makes business entry and the continued cost of doing business unattractive and leads many small and microenterprises to avoid the process and remain informal.

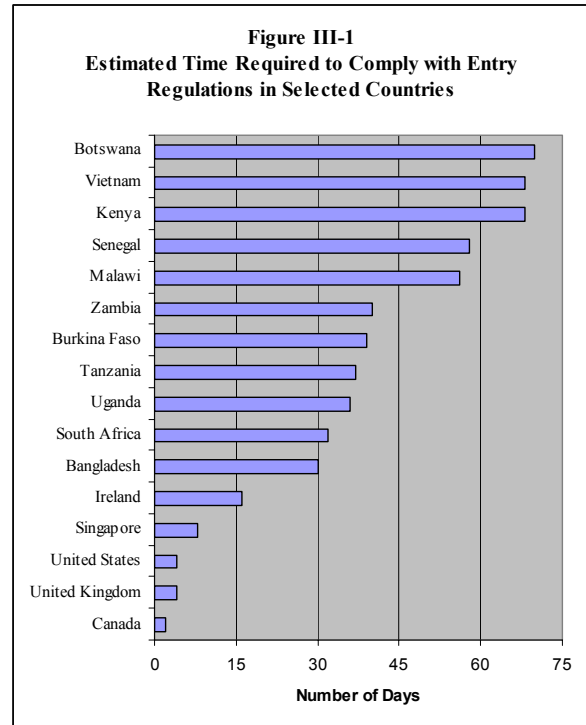


Figure 1: Business Start-up Registration Time

Source: FIAS: 'Uganda: Administrative Barriers to Investment.' Foreign Investment Advisory Service (FIAS), a joint service of the International Finance Corporation and The World Bank, June 2003.

The Costs of Starting a Business

| Country | Number of Procedures | Duration (days) | Cost (as a % of per capita GNI) |
|---------------|----------------------|-----------------|---------------------------------|
| Kenya | 11 | 61 | 54.0 |
| Malaysia | 8 | 31 | 27.1 |
| Singapore | 7 | 8 | 1.2 |
| South Africa | 9 | 38 | 8.7 |
| Tanzania | 13 | 35 | 199.0 |
| Uganda | 17 | 36 | 135.1 |
| Zambia | 6 | 40 | 24.1 |

Source: 'Starting-a-Business Indicators' in Doing Business in 2004: Understanding Regulation, Oxford University Press and the World Bank, October 2003, page 118. See also <http://rru.worldbank.org/DoingBusiness/SnapshotReports/EntryRegulations.aspx>

Streamlining Business Registration

5. The deregulation project team chose a pilot to streamline business registration to provide a concrete example of better practice and its effects as well as to learn what it takes to win over 'hearts and minds' on changing a specific regulatory barrier. Entebbe municipality was selected as a good choice: it is the site of the country's sole international airport and only 30km from downtown Kampala but offers a smaller and simpler starting point than the capital by being less burdened with the complexities of working in a large city government.

6. The result of the pilot is a much simplified system of registration which has increased registration compliance and fee revenues while reducing the cost of compliance and also of the administration of the registration. across other municipalities and eventually nationwide; it is also a first step in creating a one-stop simplified registration. The pilot is the basis for a roll-out now under discussion across other municipalities and eventually nationwide; it is also a first step in creating a one-stop simplified registration.

7. This case study highlights the learning and the effects from the pilot process which makes the case of why 'less is more' – less and more focussed regulation and monitoring is better and brings fiscal gains in the form of more revenue and administrative savings – which is counter-intuitive for many national and local authorities.

'Less is more' is counter-intuitive for many local authorities who do not see the problem with a 2-day business registration process and fear fiscal losses when lowering the fees. This pilot showed them that simpler and better focussed regulation and monitoring is better because it brings fiscal gains in the form of more revenue and administrative savings even at lower fees per individual registration due to higher compliance.

The Policy Lessons

8. The policy lessons identified from the streamlined business registration include:
- (i) in systems with intransparent and lengthy processes, micro and small enterprises especially prefer to remain unregistered or not to renew their licences so as to reduce cost and also their exposure to potential hassle by the authorities;
 - (ii) better public information and streamlined business registration leads to better compliance and increased fee revenues even at lower fees per registration as well as a steadier revenue flow for the registrar;
 - (iii) a streamlined process reduces the burden on businesses by limiting registration to the essential by excluding non-essential processes from the decision; this also reduces the potential for bribe requests;
 - (iv) streamlining reduces the regulatory burden by increasing voluntary compliance and by prioritising monitoring and enforcement activities;
 - (v) information and education among businesses is important to raise awareness of obligations and rights to improve compliance and reduce the opportunity for bribes;
 - (vi) education and training among staff of regulatory bodies is important to improve the relationship with businesses and helps to improve compliance;

- (vii) high level decisions, such as streamlining of processes, need to be translated into 'why it matters' to each of the levels involved in the process to have change take effect;

The Original Process

9. Business registration in Uganda is based on the Trade Licensing Act of 1969. Licensing is, in fact, a much more complicated regulatory process of inspections such as regarding health and safety inspections. In Uganda the registration and licensing are typically lumped together. The registration of all businesses, incorporated or not, serves to establish the type and location of businesses operating in the municipality and feeds into Council planning and budgeting as well as reporting to the Uganda Bureau of Statistics. The licence, in contrast, varies by type of business such as liquor licenses for bars. The information also helps in targeting enforcement efforts such as regarding health and safety or other licensing requirements.

10. The fees also serve as an important source of revenue for the local authority, so that the registration and licensing are not only a regulatory device but also a generator for revenue. Moreover, the scope for raising revenue from local businesses has been increased as a result of the decentralisation process in Uganda. This process has transferred greater authority to local governments (per Local Government Act of 1997) and has led many municipalities to introduce their different requirements and a range of additional business licences have also appeared. In Entebbe, for instance, a hotel can be asked to obtain separate licences to cover the different areas of their operation, i.e. lodging, restaurant, and laundry.

To open a supermarket in Kampala, I needed one general licence at a cost of 420,000. For a much smaller supermarket in another area, where the official licence fee is 100,000, I was told that I needed 3 licences namely, a general supermarket licence, a liquor licence and a bar licence. I was also told that if I gave a bribe, I would need only one licence costing 200,000 instead of 3 costing 500,000. (all figures are in Uganda Shillings (UGX); excerpt of survey response; UMACIS: Uganda Regulatory Cost Survey: Report; October 2000.)

The Change Process

11. The pilot started with an assessment of the trade licensing process as a baseline. For businesses it took an average of two days to obtain the license at an average compliance cost of UGX 86,333.3. At the local authority, it involved cashiers for fee payments, registrars for reviewing the paperwork and issuing the licence, a site visit by a health and safety inspector, and approval by the Local Chairman (LC1 - the first and lowest level elected official in the Ugandan system). In presenting the facts and in letting the voices of businesses speak for themselves by means of the survey, the team had to convince all levels of the local authority and also the local council of the need and benefits of streamlining the system. Their initial reaction was, 'why does it matter' and an average of two days struck them as perfectly acceptable. The challenge for the team was to convince the authorities of the benefits of streamlining the system in terms of improved compliance and savings in time and cost to both the administration and the businesses.

12. The pilot included:⁴

- (i) business education and awareness training to sensitise them to the need to get licensed but also inform them of the new and simplified process, requirements, and fees in order to be aware of their obligations and rights; this included posters and brochures, radio announcements, and visits by local authority staff to businesses as well as churches and mosques to inform them of the new and simplified process and reminding the audiences of the payment periods.

- (ii) a simplified trade licensing process which results in the issuance of the licence after completion of the registration form and fee payment based on a direct fee assessment by the cashiers without any of the previously required additional approvals or assessments, such as by a health inspector.
- (iii) development and maintenance of a computerised business registry, reporting and monitoring system to assist the municipal administration, including the finance department, in timely assessment and in monitoring and enforcement tasks, such as by health inspectors; this supports the targeted follow-up with non-compliant businesses – first for information and then for enforcement of penalties.
- (iv) prioritising health inspections to focus on new business registrants identified as a high risk, such as businesses involved in food service or production or in medical services or retail – for instance, restaurants, bakeries, medical clinics, and pharmacies.
- (v) training of staff on the objectives, the technical aspects and the benefits to the tax payers, the businesses, and to their own reduced workload and improved quality of interaction with the business community.

The Results

Key Results of the Streamlined Business Registration Pilot in Entebbe, Uganda:

- *compliance cost reduced by 75% (incl. reduction of registration time to 30 minutes).*
- *compliance levels up by 43%.*
- *revenue collection increased by 40% and a more steady revenue flow.*
- *administrative savings of 25% in staff time and 10% in financial resources.*
- *relations between local authority staff and businesses have improved.*

13. The results at the end of the one year pilot include:⁵

For all businesses:

(i) a cheaper & shorter licensing process

Compliance cost dropped by 75% and is now estimated at UGX 8,400. By treating the registration required of all businesses separately from any of the licensing or other special requirements which vary by the type of business and their operation, compliance is made much easier in terms of both time, fees, and also the 'hassle factor' such as unnecessary inspections. The average registration time is now 30 minutes, down from the previous two days, which had included visits by inspectors. As registration needs to be repeated annually for most businesses, it is a significant reduction in the effort required and represents a reduction in time spent of 90% or more for most businesses.

(ii) less 'pressure points' for bribes

By removing, for instance, health and safety inspections and LC1 approvals as standard requirements for a licence, there is less opportunity for bribes.

(iii) improved perceptions of the process and relations with the local authority

Businesses reviewed as part of a pilot impact assessment felt that the process is shorter and simpler. They also felt that the attitude of the registration and enforcement staff towards them was much more positive and pro-business than before.

For the authority and tax revenues:

(i) more businesses registered

Compliance levels for registration have improved by 43%. Over the course of the year, an estimated four times more businesses registered than in the previous year.

(ii) more revenue and a more consistent flow

Total revenue collection has increased by 40% through more registrations, though individual business pay less on average than previously. The flow has

increased throughout the year rather than peaking towards the end of the fiscal year when previously end-of-year enforcement efforts led to higher payment rates and also line-ups to register.

(iii) reduced administrative cost

The financial savings on administration to the authority through streamlining is estimated at 10%. The administrative time effort by staff is down by 25% thereby reducing the overall burden and also reducing waiting lines and hassles for businesses. The staff time requirements have shifted with a reduction in time for registration and enforcement and an increase in time for the taxation unit.

(iv) health & safety inspections more targeted & prioritised

By not having the inspection as a requirement for registration and through a reporting system which identifies high risk businesses regarding health and safety, the inspectors can now target their visits. This reduces their workload and also the hassle to business owners.

(v) better knowledge of business profiles / sectors in the municipality

Through the computerised system and improved registration compliance, the local authority has much better information on businesses operating within the municipality. This helps in areas such as urban and town planning and better knowledge of the tax base also helps in financial planning.

Conclusions

14. The pilot team concluded that it is critical to work with and educate all levels in the authorities and also in local government. A streamlined process combined with better informed businesses is part of better compliance and monitoring of fair implementation by authorities; and an attitude change of authorities towards businesses improves their interaction and results in better compliance. While fee revenues are up, compliance costs for businesses are down and there is also less cost and burden for the authorities. It also means less opportunity for corruption as less stages of approval are involved.

15. For Entebbe and its businesses, less is more now when it comes to registration, compliance, and fiscal revenue. As word spreads, the new streamlined registration and more positive attitude of the local administration and its staff should make Entebbe more attractive as a location of choice to businesses. As the pilot is mainstreamed across the nation, compliance and fiscal improvements will make a significant difference in Uganda.

References

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UMACIS: '*An Impact Assessment of the Pilot Streamlined Trade Licensing Process in Entebbe Municipality (May 2002 – July 2003).*' prepared for the Uganda Deregulation Project, final draft October 2003.

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Notes

¹ 'A Regulatory Impact Assessment (RIA) is a tool which informs policy decisions. It is an assessment of the impact of policy options in terms of the costs, benefits and risks of a proposal. It is not specific to the UK Civil Service – many countries use a similar analysis to assess their proposed regulations and large organizations appraise their investment decisions in similar ways too.' (<http://www.cabinet-office.gov.uk/regulation/scrutiny/ria-guidance.pdf>)

² 'Regulatory best practice (RBP) is a methodology for addressing the problem of excessively burdensome regulation. It assists governments in designing modern, precise, targeted regulation that achieves legitimate policy aims with the minimum of burden on those affected. RBP is akin to regulatory reform with an emphasis on the adoption of best practice techniques for producing new regulations; the OECD definition for regulatory reform could equally stand for RBP: *Regulatory reform aims at improving regulatory quality, be it the revision of a single regulation; of regulatory institutions; or improved processes for making regulations and managing reform.*' (*Summary Report on Regulatory Reform*, OECD 2001, <http://www.oecd.org/dataoecd/25/39/1826394.doc>)

³ UGX is the official currency denominator for Uganda Shillings.

⁴ UMACIS: '*An Impact Assessment of the Pilot Streamlined Trade Licensing Process in Entebbe Municipality (May 2002 – July 2003).*' final draft October 2003.

⁵ *ibid.*