

# Doing Business in Peru 2020

## Overview

Comparing business regulations  
for domestic firms  
in 12 Peruvian cities  
with 189 other economies

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# Overview

## Main Findings

- ◆ Lima is the city where it is easiest to do business in Peru. Among the 12 cities studied, Lima is the only one that ranks among the highest on three indicators; Huaraz, which has the second highest ranking, stands out on two. Arequipa, Callao, Huancayo, Ica, Tarapoto and Trujillo all perform well on at least one indicator.
- ◆ What regulations are in place and how these are implemented in different cities can make some aspects of doing business easier than others. The cities' rankings on each of the four indicators in this study reveal opportunities to improve, as the same city may perform better in some areas than in others.
- ◆ The efficiency of specific procedures depends on the location. Although the regulatory framework is the same across all the cities, the times required to complete the procedures vary substantially from place to place.
- ◆ There are considerable performance gaps within Peru, primarily related to starting a business and enforcing contracts. However, across the four indicators the differences are even more significant when the results in the Peruvian cities are compared with those in other global economies.
- ◆ *Doing Business in Peru 2020* is the first subnational study done in the country. The results highlight areas for improvement and point to local and international good practices that can guide reform initiatives as Peru moves forward with the priority goals it has laid out in its National Competitiveness and Productivity Plan.

A study on *Doing Business* in Peru must inevitably evoke the contribution of local economist Hernando de Soto to understand the relationship between red tape and the informal economy, and how regulatory obstacles affect citizens' expectations that they can rise out of poverty through entrepreneurship. To be sure, Peru is not the same country it was in the 1980s, when De Soto identified how long it took and how difficult it was to start a business in the capital city. In the years since, Peru not only overcame a profound economic crisis and a crisis of violence, but between 2000 and 2013 it became one of the fastest-growing economies in Latin America.<sup>1</sup> However, just as with other economies in the region that were hit in 2014 by an economic slowdown and a collapse in prices of their traditional export products—primarily mining and energy resources—Peru has seen the pressing need to further diversify its economy.<sup>2</sup>

For the country to achieve greater diversification, it must address the challenges of low productivity in critical economic sectors<sup>3</sup> and unequal development among regions. Mindful of these challenges, the government established a National Competitiveness and Productivity Policy; this was followed, in July 2019, by the National Plan, which includes priority objectives and measures to carry out the policy.<sup>4</sup> One of the imperatives of the National Plan is to reduce informality among micro and small businesses, to build a more competitive business environment. Streamlining procedures and working to build a sensible, efficient regulatory framework—something that is essential to stimulate entrepreneurship and productivity in countries, as the economic literature has established<sup>5</sup>—has been and still is an ongoing effort in Peru. For a considerable percentage of businesses, both the cost and complexity of completing procedures to obtain a building permit or an operating license continue to be high.<sup>6</sup> And despite the role of the

### What does the subnational *Doing Business* study measure in Peru?

*Doing Business* analyzes business regulations from the standpoint of small and medium-size enterprises and uses various indicators to measure the ease of doing business across 190 economies. The indicators reveal important aspects of the business climate and regulations that have an impact on a country's economic activity, but they do not cover the full range of factors, policies and institutions that affect the business environment.

Lima represents Peru in the annual *Doing Business* study, which compares the country with 189 other economies around the world. *Doing Business in Peru 2020* is the first subnational study to do a comparative assessment of the regulatory environment for doing business in Peru beyond the capital city. The study measures four areas of *Doing Business* (starting a business, dealing with construction permits, registering property and enforcing contracts) in 12 provincial capital districts<sup>a</sup>: Arequipa (Arequipa), Callao (Constitutional Province of Callao), Chachapoyas (Amazonas), Chiclayo (Lambayeque), Cusco (Cusco), Huancayo (Junín), Huaraz (Ancash), Ica (Ica), Lima (Lima), Piura (Piura), Tarapoto (San Martín) and Trujillo (La Libertad). Both the locations and the indicators were selected in conjunction with the National Council on Competitiveness and Formalization of Peru's Ministry of Economy and Finances, as the government counterpart.

The data are based on official codes, laws, decrees, resolutions, administrative procedures and fees, as well as on consultations with more than 220 local experts who understand and have experience with the procedures being evaluated; they include lawyers, notaries, accountants, architects, engineers, construction companies and professional associations. More than 270 government officials also participated in the data collection process. The information is current as of May 1, 2019, including the data related to Lima.

a. Although cities in Peru are made up of several districts, this study uses the term "cities" to refer in general to the 12 districts that are provincial capitals (*cercados*, or city centers). In the case of Lima, depending on the indicator, *Doing Business* evaluates processes that entrepreneurs go through in other districts of the Lima metropolitan area, such as Miraflores or Lurín. These districts will be mentioned throughout the text, even though they are not capitals of the provinces being studied.

***Streamlining procedures and working to build a sensible, efficient regulatory framework for businesses has been and still is an ongoing effort in Peru.***

The commitment of all levels of government to continue simplifying administrative procedures and eliminating red tape will be critical to advance this agenda.

As a complement to measures designed to increase competitiveness and strengthen the business climate both nationally and regionally, the Peruvian government also created the National Infrastructure Plan for Competitiveness. The goal was to, among other things, better interconnect the different regions to open up the domestic market for products and improve access to foreign markets.<sup>9</sup> Peru is positioned, through its trade agreements, to continue to take advantage of economic liberalization and free trade<sup>10</sup> with countries such as China, the United States and Switzerland; with the European Union; and, within the region, with its Latin American peers Colombia, Chile and Mexico, under the Pacific Alliance Agreement.<sup>11</sup>

National Institute for the Protection of Competition and Intellectual Property (Indecopi) in limiting the bureaucratic barriers that restrict companies' access to markets,<sup>7</sup> these obstacles remain, especially at the subnational level.<sup>8</sup>

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## What do the data show?

Based on the average of the four indicators measured in this study, doing business is easiest in Lima and most difficult in Chiclayo (table 1.1). The ease of doing business ranking is calculated based on the score each city obtains on each indicator. Although in general no correlation has been found between the size of a city (in terms of population<sup>12</sup>) and its ranking, Lima is the only city among the 12 that ranks in the top two positions on three indicators. Huaraz, a much smaller city,<sup>13</sup> has the second highest ranking and is among the top three on two indicators; Trujillo also stands out on two; and Arequipa, Callao, Huancayo, Ica and Tarapoto perform well on at least one indicator. The other cities come in with intermediate or low rankings on all the indicators. Even though Chiclayo ranks above average on the ease of registering property, its performance is below average on the rest of the indicators.

Based on the results of the study, the following points are worth noting:

First, Lima's top ranking on the ease of doing business shows how a capital city that is also the country's business center can efficiently handle a larger volume of transactions and higher demand for services. This has not been the case in countries such as Mexico and Portugal, where subnational *Doing Business* studies have shown that the largest cities do not always have the best performance. However, in this particular case, the results for Lima, when compared with those for the other cities, also reflect the concentration of economic activity in the capital<sup>14</sup> and the presence of factors that may justify this concentration and the city's good performance, such as better infrastructure, more modernization, resources for handling procedures and use of economies of scale.<sup>15</sup> Another factor to consider is that regulatory reforms are usually implemented in the capital city first. A clear example of this is the Digital Intermediation System (SID Sunarp), run by the National Superintendence of Public Records (Sunarp). The opportunity to establish a business and register property transfers online using this system was first made available for transactions done through the Lima Registry Office and later introduced gradually in offices in the rest of the country.<sup>16</sup> This could explain why entrepreneurs in the capital are the ones who most benefit from this system.

***Although in general no correlation has been found between the size of a city and its ranking, Lima is the only city that ranks in the top two positions on three indicators. The differences between Lima and the other cities have to do not only with the efficiency of procedures but also with aspects that measure the quality of systems and processes.***

TABLE 1.1 Where is it easiest to do business in Peru?

Municipality (Province)	Aggregate ranking (4 indicators)	Ease of doing business score (DB score) (4 indicators)	Starting a business		Dealing with construction permits		Registering property		Enforcing contracts	
			DB score	Ranking	DB score	Ranking	DB score	Ranking	DB score	Ranking
Lima (Lima)*	1	71.46	82.13	1	72.53	2	72.11	1	59.07	7
Huaraz (Ancash)	2	68.86	79.99	3	64.18	12	68.15	9	63.11	2
Tarapoto (San Martín)	3	67.73	70.91	11	71.26	3	68.30	7	60.45	4
Piura (Piura)	4	67.68	76.07	4	70.81	5	68.09	10	55.75	9
Ica (Ica)	5	67.60	74.94	5	65.70	10	68.26	8	61.52	3
Arequipa (Arequipa)	6	67.59	81.13	2	71.26	4	64.65	12	53.33	10
Cusco (Cusco)	7	67.49	73.10	8	66.71	9	70.25	4	59.91	6
Huancayo (Junín)	8	67.16	72.76	9	64.60	11	68.05	11	63.23	1
Callao (Constitutional Province of Callao)	9	67.16	74.93	6	70.49	6	71.36	2	51.84	12
Chachapoyas (Amazonas)	10	67.14	73.13	7	66.98	8	68.46	6	60.00	5
Trujillo (La Libertad)	11	67.13	71.54	10	72.98	1	70.74	3	53.27	11
Chiclayo (Lambayeque)	12	66.35	70.69	12	68.68	7	68.54	5	57.46	8

\* In Lima, the starting a business indicator assumes that the business is located in the district of Miraflores, for procedures associated with the municipal operating license; in terms of dealing with construction permits, the procedures related to building the commercial warehouse are evaluated for the district of Lurín, because that is where a vast majority of the warehouses similar to the one in the *Doing Business* case study are located.

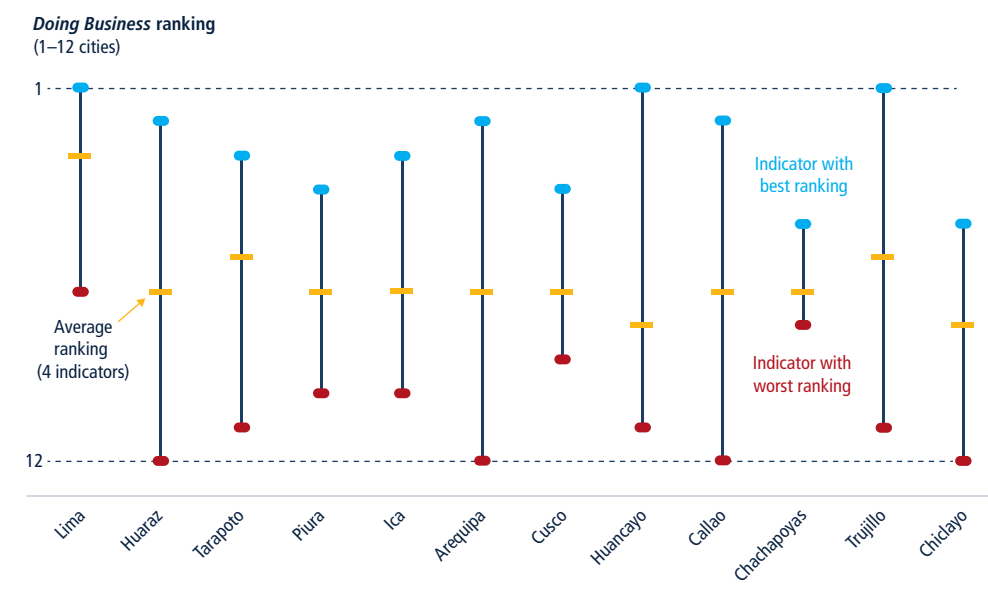
Note: The overall ranking on the ease of doing business is based on the average scores for the four areas measured and is presented in descending order. The ease of doing business score (DB score) captures the difference between each location's performance and the global best practice for each of the four areas analyzed (starting a business, dealing with construction permits, registering property and enforcing contracts). The DB score is reflected on a scale of 0 to 100, where 100 represents the best performance (the higher the score, the more efficient the regulatory environment). For more information on the ranking and the DB score, see the section "About *Doing Business* and *Doing Business in Peru 2020*."

Source: *Doing Business* database.

In addition to efficiency, there are also important differences in Lima on aspects that measure the quality of systems and processes, particularly regarding information and operation of the property registration and cadastral systems. In Lima most property titles are archived electronically. Because it has a mapping system (cadastre) that meets regulatory standards,<sup>17</sup> both the property registry and the cadastre can identify properties by the same number. In the rest of the cities property registration records are largely handled on paper and there is no official cadastre. In dealing with construction permits, oversight of construction projects through inspections is more robust in Lima. In enforcing contracts, although Lima is not the only city with civil courts specialized in commercial matters, its courts are piloting efforts to digitize case files and conduct online auctions of assets.<sup>18</sup>

Second, the results draw attention to the contrast in the rankings not only between cities but in the same city's performance in different areas (figure 1.1). Arequipa, for example, ranks second after Lima in the ease of starting a business; this is primarily because, as in Lima,<sup>19</sup> the municipality is diligent in conducting building safety inspections<sup>20</sup> and in issuing operating licenses. However, Arequipa ranks last on registering property, not only because its infrastructure for registry and cadastral information is lagging but also because the city's property registry office is

**FIGURE 1.1** How regulations are implemented in the cities can make some aspects of doing business easier than others



*Note:* The *Doing Business* ranking for the 12 Peruvian cities is based on the average *Doing Business* score for each of the four areas measured (starting a business, dealing with construction permits, registering property and enforcing contracts). A higher ranking indicates a more efficient regulatory environment. For more details, see the section “About *Doing Business* and *Doing Business in Peru 2020*.”

*Source:* *Doing Business* database.

one of the slowest in recording simple property transfers. The same thing happens with Trujillo and Huancayo. Trujillo leads the way in obtaining construction permits, because the municipality quickly processes building permits and, like Lima,<sup>21</sup> inspects all construction projects while they are underway and again when they are finished. However, Trujillo ranks near the bottom on starting a business and enforcing contracts, because of greater delays in issuing operating licenses and in resolving business disputes in court. Huancayo, by contrast, leads in enforcing contracts but has a low performance in the other three areas.

Third, the cities’ overall ease of doing business scores and their scores on each indicator (“*Doing Business* scores,” ranging from 0 to 100) show where the main gaps are and what impact these have on the cities’ position in the ranking; they also reveal opportunities to carry out reforms. The performance gaps are widest on the indicators for starting a business and enforcing contracts—with differences of more than 11 points between the best and worst score—and narrowest when it comes to dealing with construction permits and registering property. On these last two indicators, where cities’ performance is more similar, the differences have less impact on the overall ranking. By contrast, the impact is greater on the starting a business and enforcing contracts indicators. This explains, for example, why Huaraz, which performs better on starting a business and enforcing contracts, comes in second in the overall ranking while Trujillo, which is among the top performers on dealing with construction permits and registering property and among the last in the other two areas, ranks below Huaraz.

Fourth, looking at the cities in an international context, the differences between them in each of the areas are significant (figure 1.2). For

***The performance gaps are widest on the indicators for starting a business and enforcing contracts—with differences of more than 11 points between the best and worst ease of doing business score. But the differences are even more significant when the Peruvian cities are compared with other global economies.***

**FIGURE 1.2** The magnitude of the differences between Peruvian cities is easier to appreciate when viewed in a global context



*Note:* The ranking of the 190 economies is based on the *Doing Business* score for each of the four areas measured. The averages for the high-income OECD economies are based on the data for each of the 34 economies that belong to that group, including Chile. The Latin American rankings are based on data from 19 economies, excluding Chile and the Caribbean islands. The data and comparisons made with other global economies throughout the study correspond to capital cities or the most important business cities, in line with how they are measured in the global *Doing Business* study.

*Source:* *Doing Business* database.

example, among the Latin American economies Lima has the second highest ranking on the ease of registering property, placing 55 among 190 global economies. If Peru were represented by Arequipa in the global ranking, it would be in position 90. However, on the starting a business indicator, even though Lima may hold the top ranking nationally, it is not competitive internationally in this area (position 133 among 190 economies); Chiclayo is far less so. When it comes to dealing with construction permits, the top third of Peruvian cities perform at the level of Spain and the ones at the bottom more closely resemble other economies in the Latin America and Caribbean region such as Guatemala or Belize. In the area of enforcing contracts, cases that come before judges in Lima or Huaraz take less time than the average seen in high-income OECD economies; by contrast, the duration of a case in Trujillo or Callao places these cities among the only 30 economies worldwide where disputes in the lower courts, including enforcement of judgment, last from two to four years.

Fifth, the regulatory framework applies across the board, and although there is practically no difference in the number of procedures, agency response times vary substantially from city to city. In the case of municipal procedures, this could be because the Single Texts of Administrative Procedures (TUPAs)—used to regulate the procedures for which the municipalities and their agencies are

responsible<sup>22</sup>— either are not updated in timely fashion to adjust to current laws or if they are updated, are not carried out in practice, due to management failures or limited agency resources (box 1.1).

***The regulatory framework applies across the board, and although there is practically no difference in the number of procedures, agency response times vary substantially from city to city.***

In the areas of starting a business and dealing with construction permits, the procedures do not vary,



### BOX 1.1 TUPAs provide administrative guidance to public agencies in Peru

The national government established the Single Texts of Administrative Procedures (*Textos Únicos de Procedimientos Administrativos*, or TUPAs) by legal mandate.<sup>a</sup> Public agencies at the national, regional and municipal level must use these documents to compile all the administrative procedures they handle, along with the requirements to process them and the applicable costs. The aim was to streamline procedures and make the management of agencies more transparent to citizens.

Peru's administrative decentralization has meant that agencies at all levels of government have autonomy to regulate their procedures within the framework of the authority given to them by law; each is also responsible for drafting, approving and updating its own TUPA. This same regulatory autonomy creates problems in the form of scattered regulations and lack of standardization of the different agencies' TUPAs.<sup>b</sup> It also creates legal uncertainty, given the abundance of regulations and the frequent changes to them.<sup>c</sup>

As a solution to align the requirements and criteria for implementing procedures, agencies have begun to produce standardized model TUPAs, such as the one approved in 2015 for operating licenses.<sup>d</sup> In addition, as a complement to its administrative simplification process, in 2015 the national government created the Single System of Procedures (*Sistema Único de Trámites*, or SUT) for the purpose of also simplifying and standardizing the preparation of the TUPAs and creating a repository of all administrative procedures<sup>e</sup>; regulations governing this system and guidelines for implementing it were approved in 2018.<sup>f</sup> Finally, the Presidency of the Council of Ministers in 2017 approved regulations for the agencies to analyze the quality of regulations based on need and the impact of imposing them.<sup>g</sup>

a. Legislative Decree No. 757 of 1991 (Framework Law for Private Investment Growth) and Law No. 27444 of 2001 (Law of General Administrative Procedure).

b. Maraví, Sumar Milagros. 2018. "Análisis a los quince años de vigencia de la Ley del Procedimiento Administrativo General. Simplificación Administrativa." *Justicia y Derechos Humanos. Revista del Ministerio de Justicia y Derechos Humanos*. Year 1, No. 1, pp. 25-43.

c. Maraví, Sumar Milagros (2018) cites a 2016 study on regulatory improvement and simplification of administrative procedures done by the Office of the Comptroller General of the Republic ("*Mejora regulatoria y simplificación de procedimientos administrativos que afectan la inversión*"), which refers to the overabundance of regulations in the country as an obstacle to administrative simplification.

d. This was first adopted through Ministerial Resolution No. 088-2015-PCM and then replaced by Supreme Decree No. 045-2019-PCM.

e. Legislative Decree No. 1203 of 2015.

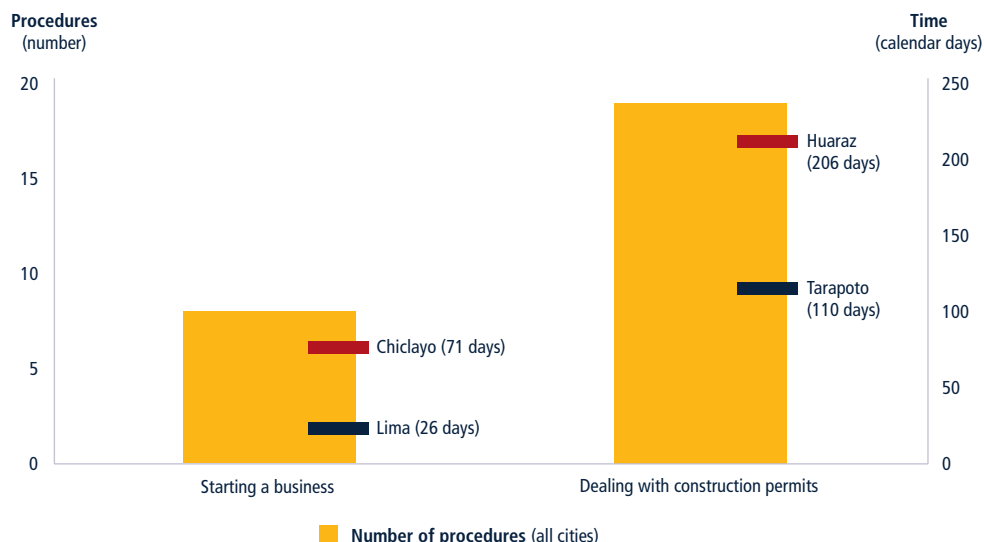
f. Supreme Decree No. 031-2018-PCM.

g. Supreme Decree No. 075-2017-PCM.

whether they are under the jurisdiction of national agencies such as Sunarp and the National Superintendence of Customs and Tax Administration (SUNAT) or under local responsibility. This situation is unusual, because it is typical to see subnational variations on these indicators. In Colombia<sup>23</sup> and México,<sup>24</sup> for example, local jurisdiction over the construction permitting process meant that up to nine more procedures were required for one given location over another. However, the time it takes in Peru for local authorities to respond and to carry out the same procedures does vary (figure 1.3). For example, all municipalities have a legal time frame of 10 business days in which to issue a municipal operating license.<sup>25</sup> Lima and Arequipa issue them within that time frame; in Chiclayo, Tarapoto and Trujillo it takes about four times longer than the regulatory deadline. In dealing with construction permits, the permits required from municipal urban development authorities to construct a building and get a sign-off take almost twice the time in Huaraz as in Tarapoto.

The situation is similar for costs, which are also compiled in the TUPAs. Agencies can set their own rates, adjusting these to the criteria and limits imposed by national rules and regulations.<sup>26</sup> Under the rules, the fees the agencies charge must reflect the cost of providing the particular type of service, the time it takes and the size of the staff, as well as physical resources. Even within the regulatory limits, then, there are differences in the cost of procedures handled by the municipalities. In Huancayo, for example, starting a business or building a warehouse is more expensive than in Lima and the rest of the country. The cost also depends on what TUPA is in

**FIGURE 1.3** Even though procedures fall under the same national regulatory framework, efficiency varies depending on the location



Source: *Doing Business* database.

effect. During TUPA updates in Chachapoyas and Huaraz, fees were based on their 2016 and 2014 TUPAs, respectively. In Callao, meanwhile, the fee for inspections to verify the safety of the premises was temporarily suspended because the most recent TUPA was, as of May 2019, going through an approval process.

The time also varies in relation to procedures that are under the jurisdiction of national agencies. For registering companies and simple property transfer contracts, Sunarp established time frames of 24 and 48 hours, respectively. However, the vast majority of the offices that offer these services in the cities do not meet these deadlines. In the case of registering property, only the Lima Registry Office meets the established two-day deadline. The Huaraz office comes close, thanks to an internal monitoring system that tracks the processing of registration applications; in that city, registering a company takes four days and registering property transfers takes three.

## Results by indicator: comparing regulations and their implementation at the local level

### Starting a business

Starting a business is easiest in Lima and most difficult in Chiclayo. In the capital, much more than in other cities, entrepreneurs use the SID Sunarp system to establish and register companies online. Because of this, and because the municipality meets the legal deadline of 10 business days to issue operating licenses, starting a business in the capital takes less time than in the other cities. The same eight procedures that are required across the country take 26 days in Lima; in Chiclayo, where it is hardest to start a business, they take 71 days.

On average, formally starting a business requires eight procedures that take 53 days, at a cost to entrepreneurs of 11.4% of the economy's income per capita, which is S/ 21,902 (\$6,530). Although the process costs less than one third the average for the Latin American economies and requires one less procedure, it takes two weeks longer. Compared with the other countries

that make up the Pacific Alliance, Peru is the only one that requires an inspection before an operating license can be issued for a commercial business that meets the assumptions of the Doing Business case study.

Obtaining this municipal operating license is what determines the main differences in performance among the cities, since the process of getting the license takes 73% of the time and represents around 40% of the total cost. Based on risk criteria established by law, an inspection is required before the license can be issued. The volume of work, the technical capacity of the personnel and the degree of coordination between those who assess the risk and conduct the inspections and those who issue the license at the municipal government level all have an impact on efficiency. The process can be as fast as in Lima or Arequipa, where it takes just two weeks, or as slow as in Chiclayo and Trujillo, where it takes close to two months. To a lesser degree, there are also differences in the time it takes the Sunarp registry offices to check the documents and register the companies in the business registry.

The cost of starting a business in Peru ranges from 7.7% of income per capita in Trujillo, or S/ 1,676 (\$500), to 26% in Huancayo, where it is S/ 5,704 (\$1,701)—primarily due to the cost difference for obtaining the operating license. The license costs more in Huancayo than in the other cities and is 17 times higher there than in Trujillo. Half of the procedures can be done online; however, only the SUNAT procedures related to registering accounting ledgers and enrolling employees in the social security system are done this way on a large scale.

### Dealing with construction permits

Among the 12 cities, it is easiest to obtain a construction permit in Trujillo and most difficult in Huaraz. While the 19 procedures required take 133 days in Trujillo, at a cost of 1.6% of the warehouse value—estimated at S/ 1,095,105 (\$326,500)—in Huaraz the same process takes 10 additional weeks and is 11% more expensive.

The process in Peru is faster and less expensive, on average, than in the other Latin American economies but is more complex. Peru requires six more procedures than the OECD high-income economies and three more than the Latin American economies.

The 19 procedures do not vary from city to city. Of the total, more than half are preconstruction procedures to obtain the building permit issued by the municipality. The main differences lie in the time and cost it takes to go through the technical committee responsible for reviewing and approving construction projects in each municipality. Tarapoto is the fastest location in the country for getting a construction permit; there, the approval of projects at the municipality and the connection to public services is almost 60% faster than the average of the other cities. The Tarapoto Technical Committee meets at least twice a week to study and green-light projects, while the other committees generally meet only once a week. However, the frequency with which the technical committees meet is not the only factor that affects the efficiency of building permit approvals. Other aspects that also have an impact include the degree of coordination between offices, for example between the municipality and public service companies, and whether these have enough technically capable staff available to assess projects. In Huancayo and Huaraz, where it takes an average of three months longer to get a construction permit than in Tarapoto, builders say that constraints include a lack of technical personnel at the municipality and a shortage of delegates to serve on the technical committees. To support the technical review of projects, the Ministry of Housing, Construction and Sanitation is evaluating the potential participation of private sector professionals to serve as “urban examiners” (*revisores urbanos*).

As to the cost of obtaining construction permits, this varies primarily due to the amounts the municipalities charge for processing fees. For example, the cost of reviewing projects ranges from S/ 132 (\$39) in Tarapoto to S/ 1,556 (\$464) in Huaraz and S/ 2,615 (\$780) in Huancayo—11 and 19 times more, respectively.

On the building quality control index, which evaluates quality control and safety mechanisms, the variation among the cities is not significant. Lima and Trujillo have the best performance in the country, both with 13 out of 15 possible points—the same as in some OECD high-income economies—because their respective municipal authorities inspect all construction projects in practice.

The stage prior to obtaining the building permit could still be simplified, by improving coordination among agencies and evaluating the current capacities of the technical committees. Consideration should also be given to supplementing the capacity of the committees, as needed, with urban examiners.

### Registering property

Registering property is easiest in Lima, where the process requires six procedures that take 9.5 days and cost 3.9% of the property value, estimated at S/ 1,095,105 (\$326,500); it is most difficult in Arequipa, with six procedures, 29 days and 3.5% of the property value. In Lima the process is faster than in the rest of the country because the registry office that serves the capital records property transfers in less time (two days). The offices in Arequipa and Ica take 19 and 25 days, respectively.

The legal framework that governs property transfers applies nationally. The number of procedures involved varies from five in Callao, Cusco, Ica and Trujillo to six in the other cities. The difference is due to the way the tax offices update their municipal taxpayer records, whether before or after the property transfer is recorded in the registry. In terms of time, the differences are marked by the efficiency of the local Sunarp registry offices; variations in cost, meanwhile, depend primarily on the professional fees charged by the attorneys and notaries involved in the transaction, because the registration fee and the property transfer tax (*alcabala*) are established at the national level.

The cost of registering property ranges between 3.3% of the property value in Tarapoto, which amounts to S/ 36,495 (\$10,881), and 4% in Cusco, equivalent to S/ 43,635 (\$13,010)—more expensive than in Lima. Attorney fees are related to the size and composition of each city's real estate market. The fees charged by notaries—as with attorney fees, these are also freely negotiated—vary not only between cities but also within them; for example, notaries in Chachapoyas and Arequipa charge, on average, between S/ 525 (\$157) and S/ 575 (\$171) for preparing a conveyance deed. The same service costs almost five times as much in Trujillo and Callao.

Although transferring property in Peru is a relatively efficient process when compared with other economies, the main area where it falls behind is in the quality of land administration index; this is also where the differences between Lima and the rest of the country are most glaring. Under standards established at the national level, cities have the authority to create and manage the system that maps the properties in their jurisdiction. So far, however, except for the district of Lima (city center), none of the other 11 cities have an official cadastre.

Opportunities for improvement include bringing all registry offices up to the same efficiency standards; promoting the use of the online system for recording property transfers; and strengthening the quality of land administration index by moving forward with digitizing registration records and implementing initiatives to create and maintain cadastral data.

### Enforcing contracts

Enforcing contracts is easiest in the Huancayo Lower Civil Courts and most difficult in the Callao courts, where service of process and enforcement of judgments take much more time than in the other cities.

Compared with the average for the Latin American economies, enforcing contracts in Peru is four months faster and is also less expensive. However, it can take from 16 months in Lima, or 18 months in Huaraz, to up to 2.5 years in Callao. Apart from the generally large workload in

all the courts, other factors that affect performance include: a shortage of personnel or lack of staff training; an overflow of cases and of members of the public needing service; or the case management process itself. To speed up the process, between 2017 and 2018, oral trials began to be implemented in some specialized civil courts in the country; these are expected to be extended to other courts.

Court processing fees apply across the country. Variations in cost, therefore, depend to a great extent on attorney fees. These vary depending on the size of the city and the way the market is structured. As a percentage of the claim value, estimated at S/ 41,160 (\$11,940), the total cost ranges from 15.2% in Chachapoyas, or S/ 6,244 (\$1,811), to 41.2% in Lima, equivalent to S/ 16,958 (\$4,919).

The score on the quality of judicial process index is the same in nine cities—8 points out of a total of 18. Chiclayo, Huancayo and Lima score 1.5 points higher because they have civil courts that are specialized in commercial matters. Although the claim cannot be filed or served remotely, notification of all other court proceedings can be managed through an electronic notification system (SINOE), which is expected to serve as a foundation on which to digitalize the entire case file system.

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## What's next?

Comparing the ease of doing businesses across locations in the same country is a useful way to encourage reforms, as local governments have a hard time justifying why it is harder to do business in their city than in neighboring locations. Aside from improvements that depend on revising

existing laws or issuing new ones, the adoption of local good practices can also be achieved by improving the way procedures are handled administratively. This study, *Doing Business in Peru 2020*, identifies opportunities for improvement in each of the four areas assessed, along with local and international good practices that can guide reform initiatives.<sup>27</sup> Some issues are cross-cutting, such as the prevalence of in-person procedures even though the capability may exist to do them online. One clear example is the low percentage at which the SID Sunarp system is used among notaries in the country—especially outside Lima. This is due to, among other things, a lack of awareness among users about the system's advantages; the complexity or operational limitations of the system; and the issue of what incentives the parties may have to use it. To ramp up the use of online systems on a large scale, it is important also to rethink procedures that require an in-person appearance for the transaction to be legal, such as signatures or the presentation of physical documents. Another cross-cutting aspect is the need for follow-up to ensure that reforms are implemented effectively, taking into account agencies' capacity and resources to do so. The scant progress that municipalities have made in creating and managing property mapping systems under the National Integrated Cadastral System (SNCP) is a case in point. Besides resources and technical capacity, the way procedures are handled can make an important difference to entrepreneurs. Examples of this include the efforts made by the Huaraz Registry Office to meet deadlines, by putting its own administrative steps in place and doing internal monitoring of its response to applications; the greater frequency of meetings and better performance of the technical committee that reviews and approves construction projects in Tarapoto; or the special work sessions held by the courts in Huancayo and Ica to hold hearings and help clear dockets.

***Aside from improvements that depend on revising existing laws or issuing new ones, cities' available resources, technical capacities and the way procedures are handled can make an important difference to local entrepreneurs.***

The potential to simplify procedures exists, assuming that better coordination can be achieved between individuals and offices, for example between those involved in issuing operating

***The results of this first subnational assessment will enable cities in Peru to compare their performances with each other and see where they stand in relation to other economies around the world.***

with the option for the municipalities themselves to verify properties' registration status and the feasibility of public services. Going a step further, processes could operate under one-stop shop models, such as those that work in Colombia and Chile for starting a business or in Mexico (Mexico City) for obtaining construction permits.

The results of this first subnational assessment will enable cities in Peru to compare their performances with each other and see where they stand in relation to other economies around the world. Analyzing the results will also make it possible to identify gaps, obstacles and opportunities for improvement, both to encourage a more uniform performance across locations and to continue moving forward with reforms that will allow the country to integrate international regulatory best practices. Several initiatives have begun to be put in place, such as creating and establishing rules for a new type of simplified structure for closely held corporations (*Sociedad por Acciones Cerrada Simplificada*, or S.A.C.S), which can be established online by private document, and setting up Business Development Centers (*Centros de Desarrollo Empresarial*, CDEs) to guide citizens through procedures. Progress is also being made on standardizing the TUPAs, to reduce the complexity and dispersion of regulatory criteria across municipalities, and on computerizing the whole court administration system.

As a reflection of the goals of the National Competitiveness and Productivity Plan and its focus on territorial regions, work has also begun on regional plans with the participation of local public agencies and representatives of the private sector. The Peruvian government is capitalizing on the experience of its peers in Colombia to promote reforms at all levels of government and inform the development by consensus of local competitiveness agendas, such as those the Colombian government is supporting for its 32 departments.<sup>28</sup> In addition to national government policies to improve the regulatory environment for doing business, the Peruvian cities can use the results of this assessment to undertake their own reform initiatives such as the ones they have observed in Colombian cities. These include creating local committees to simplify procedures; exchanging knowledge among cities to integrate good practices, mainly for registering and starting new businesses; and coordinating and reaching consensus among local authorities, private sector representatives and investment promotion agencies to raise competitiveness at the subnational level.

Local initiative, combined with the leadership of the national government to support and promote reforms that stimulate private investment, will be essential to strengthen diversity in the various regions of Peru and achieve a more robust and more uniform level of economic growth for the country.

licenses or building permits. It would also help to take actions along the lines of the creation of "NotarioSAT," by which the municipal tax office of Lima allowed notaries in the city to collect the transfer tax on properties. Another step might be to complement the good practice of having single forms to apply for construction permits

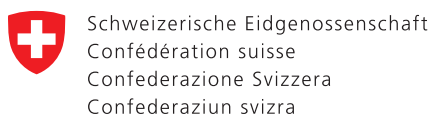
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## Notes

1. World Bank. 2017. Systematic Country Diagnostic. Report 112694-PE. Bolivia, Chile, Ecuador and Peru Country Management Unit. Washington, DC: World Bank.
2. According to statistics from the Ministry of Foreign Trade and Tourism contained in the National Strategic Export Plan 2025, 70% of Peru's exports are concentrated in traditional products (metallic minerals; oil, natural gas and their derivatives; fish flour and fish oil; and cotton, sugar/molasses/loaf sugar and coffee); of these, more than 70% correspond to mining. In addition, a document analyzing free trade agreements with the United States, China and the European Union ("*Análisis Regional de los*

- TLC EEUU, China, UE (28)”), published in 2017 by the ministry’s General Office of Research and Study on Foreign Trade, shows how copper exports, primarily to China, fell in 2014 as a result of that country economic slowdown.
3. According to an OECD report, more than half of Peru’s workers are in the least productive sectors of the economy: retail, restaurants and agriculture.
  4. National Competitiveness and Productivity Plan approved by Supreme Decree No. 237-2019-EF, published on July 28, 2019.
  5. World Bank Group. 2014. *Doing Business 2015: Going Beyond Efficiency*, pp. 11-12. Washington, DC: World Bank.
  6. National Institute of Statistics and Information Technology (INEI). 2016. *Características de la actividad empresarial en el Perú. Encuesta Nacional de Empresas, 2015: principales resultados*. Lima.
  7. Indecopi carries out these efforts through its Committee on the Elimination of Bureaucratic Barriers.
  8. World Bank. 2015. Perú - *Hacia un sistema integrado de ciudades: una nueva visión para crecer*. Washington, DC: World Bank Group. Available at: <https://hubs.worldbank.org/docs/imagebank/Pages/docProfile.aspx?nodeid=25508477>.
  9. National Infrastructure Plan for Competitiveness approved by Supreme Decree No. 238-2019-EF.
  10. According to the Ministry of Foreign Trade and Tourism’s National Strategic Plan for Exports 2025, Peru has 17 free trade agreements in place.
  11. This initiative emerged in 2011 and was formalized through the Pacific Alliance Framework Agreement signed by the presidents of the four countries on June 6, 2012.
  12. This study uses 2017 population statistics based on provincial and district census data published by INEI. Available at: [https://www.inei.gov.pe/media/MenuRecursivo/publicaciones\\_digitales/Est/Lib1544/](https://www.inei.gov.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1544/).
  13. After Chachapoyas, Huaraz has the second smallest population both at the provincial and district level.
  14. According to World Bank data and the results of INEI’s 2017 population census, Peru has one of the most concentrated populations in the world, with one third of its inhabitants living in the department of Lima. In terms of economic activity, INEI data on business density for the last quarter of 2018 show that 4 of every 10 new businesses are created in the province of Lima.
  15. A study published by the World Bank (“Perú - *Hacia un sistema integrado de ciudades: una nueva visión para crecer*”) draws a line between the concentration of the population and of workers and companies in Lima and the city’s advantages in terms of provision of services and access to markets and to the financial system.
  16. The Digital Intermediation System (SID Sunarp) for establishing a business online was first made available for the Lima Registry Office in 2014 (Resolution No. 234-2014-SUNARP/SN); later, beginning in 2015, it was opened to the rest of the country’s registry offices, via Resolution No. 179-2015-SUNARP/SN. The online system was made available for simple property transfers in Lima in 2016, and in January 2019 its scope was expanded to include other recordable transactions and to enable it to be used in the country’s other registry offices.
  17. The standards are found in Law No. 28294, which created the National Integrated Cadastral System (SNCP), along with its amendments, and Council Agreement No. 486, which declared the district of Lima (city center) a surveyed area. Nevertheless, even in Lima’s districts there are deficiencies in the cadastral system. According to a World Bank assessment, only 1.5% of Peru’s urban municipalities (including Lima’s districts) have cadastres that are complete and updated.
  18. Pilot project to implement the Electronic Case File (*Expediente Judicial Electrónico*, or EJE) in the courts of the Lima Higher Court, under Resolution No. 228-2017-CE-PJ, issued by the Executive Council of the Judiciary, and the “Rem@ju” system for online real estate auctions, created by Law No. 30229 of 2014.
  19. The Miraflores district of Lima is the assumed location of the business.
  20. Technical Safety Inspection for Buildings (*Inspección Técnica de Seguridad en Edificaciones*, ITSE).
  21. Lurín is the assumed district of Lima in relation to the process of building a commercial warehouse.
  22. Agencies refers to each municipality’s departments and technical directorates or sub-directorates that handle the various procedures, depending on their area of specialty.
  23. World Bank. 2017. *Doing Business in Colombia 2017*. Washington, DC: World Bank.
  24. World Bank. 2016. *Doing Business in Mexico 2016*. Washington, DC: World Bank.
  25. This applies to places of business considered to pose a high or very high risk.
  26. Paragraph 45.1 of Decree No. 1452, which amends Article 45 of Law No. 27444, Law of General Administrative Procedure.
  27. For more details on the findings, comparisons and proposed improvements, see the individual chapters on the four areas of *Doing Business* measured in this study, as well as the “City Profiles” section.
  28. In 2019 officials from the Peruvian and Colombian governments participated in exchanges of knowledge and experience on policies and systems to advance competitiveness at the national and regional level, including programs to support competitiveness sponsored in both countries by the State Secretariat for Economic Affairs (SECO), Switzerland.

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