



# Consolidating Licensing Law Lessons from Armenia

This Best Practice was adapted from "Doing Business 2007: How to Reform Case Study: Dealing with Licenses in Armenia," prepared by Booz Allen Hamilton in cooperation with USAID for the World Bank Group's 2007 Doing Business Reformers Club Conference.

## Executive Summary:

*In response to a decrease in grants and foreign investment in the construction sector, Armenia undertook to reform the licensing and permits processes that were viewed as a hindrance to business. The reform, undertaken with little donor assistance or funding, is credited with a significant increase in the number of licensing and permits awarded, as well as an improvement in the Doing Business rankings.*

## Introduction

The process by which investors obtained construction licenses and permits was recognized as being onerous and complicated, and viewed as a hindrance to doing business in Armenia. Of particular concern was the permit process, which was lengthy and cumbersome, and often resulted in the need to pay a "facilitation fee."

In conjunction with larger economic reform efforts, the government of Armenia made legislative and administrative changes to the licensing and permit processes, which led to an improvement in the Doing Business ranking from 70th position to 36th. Further, the number of construction permits issued by the Architectural and Urban Development Department of Yerevan Municipality increased from 323 during the period of September–December 2005 to 980 during the period of January–December 2006.

## Context

In the last five years Armenia has experienced a double-digit growth rate in GDP. This growth is attributable in large part to the growth in the construction sector, fueled by contributions from a number of grants from the Lincy Foundation. As a result, by January 2004 the government had completed \$150 million in construction projects. Foreign investments in

the construction sector represented 27 percent and 23 percent in 2002 and 2003, respectively.

In 2004, however, foreign contributions to the construction sector drastically decreased to 7 percent and have continued to decrease. Accordingly, it was necessary for Armenia to either attract more foreign investment or create a process that would allow local investors to obtain construction permits and licenses more easily.

As a result, there was renewed focus on the need to make changes to these processes, beginning with legislation to revitalize growth in the construction sector. For some time it had been recognized that the procedures for obtaining construction permits were complicated and a burden to businesses and thus needed to be revised.

## Approach

### Broad Reform Efforts

Economic reform efforts in Armenia had been ongoing for several years prior to the subject changes in the construction area. In an effort to provide a favorable environment for investments and business in Armenia, the president created the Business Support Council (Business Council) in December 2000. Starting in 2001, the government, headed by Prime Minister Andranik Margaryan, initiated re-



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forms designed to enable positive changes aimed at providing favorable conditions to businesses.

Each ministry undertook the process of reviewing the laws. "We tried to eliminate any statements that were vague or could have been treated ambivalently. For instance, the processes needed for getting permits for construction, which were specified in the Law on Urban Development, were reviewed and changes proposed to eliminate unnecessary bureaucratic burden from businesses."

The procedures were reviewed by different departments within the Ministry of Urban Development, such as the Licensing Department and the Urban Policy and Territorial Planning Department.

Beginning in 2002, a series of roundtable discussions were held with all the parties involved, including local/community municipalities, the Yerevan Municipality, the Union of Architectures, the Union of Builders, and others, for the purpose of revising the steps in the process. By the end of 2004, there was a package of recommendations ready to send to the respective ministries for review and further approval at the National Assembly.

### *Licensing Legislation Reform*

The Law on Licensing, originally adopted in 2001, revised all the licensing processes, including those associated with construction. Before this law came into effect, licensing procedures were regulated with sets of rules developed by each ministry individually. For example, the Law on Urban Development, passed in 1998, regulated both licensing and permitting processes related to the construction sector, while other sectors were regulated by different laws and procedures set by other ministries. At that time, some procedures contradicted the prevailing laws.

The Law on Licensing helped to address these problems and provided greater order to this situation since it incorporated all the licensing requirements for different sectors into one document. When passed, it included 17 different sectors of the economy, including the health sector, the construction sector, and the telecommunications sector, and approximately 80 related subcategories—such as production of medicine, capital construction, and rendering of telephone services—that required licenses to operate.

The Law on Licensing has a "silence-is-consent" provision, which states that "when the applica-

tion for receiving a license is not decided within the given time period [30 days] mentioned in this part, the application shall be deemed satisfied and the applicant may commence the type of activity subject to licensing irrespective of whether the license handed to him/her."

Licenses provided in Armenia have two procedures: simple and compound. The Ministry of Finance and Economy provides nearly all the simple licenses as well as six compound licenses. Other institutions provide licenses for their sectors. Licenses in the construction sector undergo the compound procedure and are provided by the Ministry of Urban Development. The cost to obtain a license to perform construction is 100,000 AMD (nearly US \$285) per annum, and the cost to prepare an architectural drawing is 25,000 AMD (nearly US \$70) per annum. Licenses are typically valid for three years, after which time an organization must apply for an extension to continue operating.

In 2001, the International Center for Human Development, a think tank, prepared a user-friendly guide on "Licensing Procedures in Armenia." The guide provided comprehensive information about the specifics of different licenses, licensing procedures, required documents, and the contact information of the licensors, all of which were not specified in the law. The project was funded by the European Union (EU) Technical Aid to the Commonwealth of Independent States (TACIS) program. Tamazyan Karen, Director, Department of Financial Market Development and Currency Regulation, Ministry of Finance and Economy of Armenia stated that "The guide was helpful for the businesses, but it is outdated, since so many amendments were made and some licensors changed."

### *Permit Legislation Reform*

In addition to licenses, a number of permits must be obtained in order to begin construction. The procedures for the permits are provided in the Law on Urban Development (passed in 1998). This process, which is lengthy and cumbersome, has gone through a number of process improvements and eliminated the need for paying what is known as a facilitation fee.

The city of Yerevan has the equivalent status to that of a "marz" (region) in Armenia. According to the Law on Urban Development, permits for drawing must be approved by the head of the appropriate "marz," while building permits are given by a local

municipality. As a result, the owner of a building in Yerevan needed to obtain a permit for the architectural drawing from the mayor of Yerevan, and a permit for construction from a local/community municipality in Yerevan. Amendments to the Law on Urban Development, therefore, were needed to eliminate time-consuming procedures and multiple office visits required for getting permits.

A package containing approximately 50 amendments to the Law on Urban Development was sent for review and approval to the Ministry of Finance and Economy, the Ministry of Environmental Protection, and the Ministry of Justice. The ministries checked the proposals for compliance with other laws and regulations, and provided comments. After that, the team incorporated those comments into the proposal. On July 8, 2005, the Armenian National Assembly passed amendments to the Law on Urban Development, simplifying the process of dealing with permits to start construction.

The implementation of the reform started almost immediately after it was verified by the president in August 2005. Since the Architectural and Construction Department of Yerevan Municipality had the capacity to perform the new duties assigned to it, the processing of applications began in September 2005. No difficulties were noted by the implementer. Approval of permits, both for architectural drawings and construction, is now performed within the same department of Yerevan Municipality.

#### *Challenges to Reform*

Local municipalities were opposed to losing their right to provide building permits, because they were concerned about the loss of fee income from the collection of the duties for the permits. However, a compromise was found. The amendment to the law specified which types of buildings were to be approved by community municipalities (mainly construction carried out by individuals and construction less than 300 square miles). Although the remaining types of buildings were now to be approved by the mayor of Yerevan, fees would still go to the local municipality budgets.

#### **Results**

The amendment to the law did not yield an instant effect on the licensing process. However, companies gradually became aware of the change in the process and started to apply for licenses, hoping that the amendment would lower their administrative costs and remove the need for "facilitation fees."

Statistics provided by the construction-licensing department show that the number of licenses increased by 6 percent in 2005. The drop in the number of licenses in 2006 can be explained by the fact that licenses are provided for three years. Once received, a company can extend its license after the three-year period or cancel at any time. Changes to the Law on Urban Development impacted mostly businesses that were doing construction in Yerevan. The number of construction permits issued by the Architectural and Urban Development Department of Yerevan Municipality was 323 during the period of September–December 2005, and 980 during the period of January–December 2006. Currently, the fastest possible time to provide both drawing and construction permits is about 45 days.

#### *Lessons Learned*

The reform targeted only changes needed for getting permits. It did not provide a holistic approach to modify licensing requirements as well. The Ministry of Urban Development is preparing a proposal to amend the Law on Licensing. If passed, it would remove four activities from licensing requirements and add two new activities requiring licensing, "technical supervision," and "technical testing." Though the number of licensed activities would be reduced from 22 to 20, all the processes during construction would be covered. In addition, the Ministry of Urban Development is reviewing the norms and technical conditions in the construction sector in order to comply with international best practices. "We inherited these norms (about 1400) from Soviet times, and many of them are now outdated," commented R. Alaverdyan. "We need to review and update them, which would require international expertise and technical assistance."

The Armenian market is overpopulated with companies and institutes providing expertise. While there are about 16 expertise institutions, the number of experts who have the required qualifications to approve the architectural drawings is limited to five or six. Thus, one may raise the valid question of "how these companies operate."

The Ministry of Finance and Economy is considering modifying the system for license duty collection in order to ease payment and reporting procedures. Though the mechanism for getting a license is quite straightforward, the collection of receipts is inconvenient, especially for companies

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operating outside of Yerevan city. The issue is that when a company pays a duty for a license, it also needs to send a copy of the payment receipt to the appropriate body providing a license. If a company fails to send the copy, it will be notified via mail and subject to possible penalties. This problem is caused because the record of payment goes to the Treasury Department of the Central Bank, and not to the departments that provide the licenses. An automated payment system that sends the copy to the necessary departments and notifies the company of the receipt of payment would save time and administrative costs.

One of the most discussed issues among the members of the Armenian Builders Union is the application of a rating system for companies. (Currently, one does not exist.) The evaluation of bids for construction is typically based on the lowest-price concept, which does not always guarantee the highest quality. It is believed that a "rating system" could make companies care more about the quality of their construction and would raise healthy competition among them in order to get higher ranks.

Information transparency and dissemination remains one of the key issues upon which reforms in licensing sector need to focus. To register a business, a person can obtain comprehensive information about the process through many published sources or through the Internet. Another alternative is to visit the state registry office, which operates as a one-stop shop for a start-up entrepreneur. However, no such resources exist for obtaining information about licenses.

## Conclusions

Working with little donor technical assistance or funding, the government of Armenia undertook to reform the process for obtaining construction licenses and permits with some success. In this regard, the number of construction permits issued by the Architectural and Urban Development Department of Yerevan Municipality was 323 during the period of September–December 2005, and 980 during the period of January–December 2006. Further, the Doing Business ranking for the licensing area improved significantly from 70th position to 36th.

While there were some simplifications in the procedures for getting permits, the need for

additional reforms has been recognized. "Although, changes were successful, we are in process of further reducing [the] time needed for getting permits for construction," stated R. Alaverdyan. These reforms have created momentum for further reform. "We are committed to [improving] our legislation to assist our businesses to get the licenses and permits [they need] as easy as possible," said A. Torosyan.