

CPB Memorandum

CPB Netherlands Bureau for Economic Policy Analysis



Unit/Project : EU Competitiveness Report 2005, DG E&I (WIFO)

Author : Henk Kox

Number : 136 . Rev.1

Date : December, 2005

Intra-EU differences in regulation-caused administrative burden for companies

Abstract

CPB's contribution to the EU's 2005 Competitiveness Report includes Worldscan simulations for several aspects of the EU's Lisbon Agenda. One of the simulations concerns the macro-economic consequences of lowering the administrative burdens for companies throughout the EU. This paper provides data that describe the baseline situation of administrative burdens for companies in the EU member states.

This research note defines the concept of administrative burden for companies, using the concept of a standard information event caused by mandatory information requirements. A systematic comparison is made for most of the present EU countries. Different procedures for quantifying and aggregating the costs of the administrative burden are presented.

1 Introduction

Dealing efficiently with public goods supply and market failures comes with a cost in terms of information required by the public authorities. While thinking about what ought to be public and private sector activities is in continuous change, the mandatory information supply by private companies to public authorities is always institutionalised, and hence, subject to hysteresis. A regular re-evaluation process of mandatory information flows can therefore be useful, since this administrative burden affects overall cost efficiency of domestic firms. Moreover, differences in administrative burden across EU member states affects the international competitiveness of domestic firms.

Studies on the costs of regulation so far have been rather fuzzy, partly because of lack of clarity about central concepts and measurement methodology (cf. Hopkins 1997). This paper only considers the administrative burden for companies that stems from mandatory information requirements. A systematic comparison is made for most of the present EU countries. Under the Dutch EU presidency EU member states adopted the so-called 'standard cost model' for assessing the costs of the administrative burden.¹ The method is described and slightly adapted to make it more suitable for international comparisons. This framework is used to present some of the scarcely available international estimates of administrative burdens for countries.

2 Defining the cost of administrative burden

The administrative burden for companies is defined here as the effort required for supplying mandatory information associated under national laws and regulations.² Several types of administrative information requirements can be distinguished (Table 2.1). Annex 1 illustrates this by a comprehensive list of mandatory information requirements that may go along with setting up and registering a new firm.

The costs of the administrative burden can be measured over specific events or over an aggregate of events for a time period. The standard costs per information event, A_e are:

$$A_e = T_e W_e + M_e P_e \quad (1)$$

with T_e own company time required for the information event, W_e average company wage tariff, M_e all purchased services from external suppliers (including mandatory services that must

¹ Cf. "The administrative burden declaration" adopted by EU Finance Ministers during Autumn 2004. The method itself is documented in IPAL (2003a; 2003b; 2004).

² It is however possible that such information requirements eventually result from a country's compliance with EU regulations and directives.

Table 2.1 **Types of mandatory information requirements for firms**

1	Notification or announcement of....
2	Apply for permit to ..
3	Apply for qualification acknowledgement for...
4	Implement registration and /or measurement of ...
5	(Periodically) Conduct a research on (or investigation into)
6	(Periodically) report data on... (e.g. company data for statistical office)
7	Take care for an assessment of for reasons of (e.g. safety, environment, labour laws)
8	Apply for permit or exemption for
9	Take care for updating company contingency plans, programmes and procedures for....
10	Labelling of products and installations for third parties
11	Mandatory information supply to third parties on.(e.g. consumer information)
12	Supply documents on
13	Update knowledge on actual legislation and regulations
14	Redress or appeal procedures on ...
15	Obligatory compliance with complaint procedures
16	Filing data in register

Source: IPAL (2003a: Annex 2).

be obtained from public authorities, and P_e tariff of external suppliers.³ Annual company costs over E ($e=e_1, \dots, E$) mandatory information events amount to:

$$A_t = \sum_{e_1}^E A_e F_{et} \quad (2)$$

in which F_{et} is the frequency with which a particular event takes place in a year.

When assessing the international competitiveness of domestic firms we want to know the *relative* cost burden for firms in a particular country. Comparing absolute costs is misleading when countries differ considerably in average income. The latter situation applies in the EU, in view of the large disparity in average income between the 'old' EU member states and the new accession countries. It makes sense then to correct for per capita GDP:

$$Z_{ei} = \frac{A_{ei}}{Y_i} \quad \text{with } Y_i \text{ as per capita income in country } i \quad (3)$$

³ More detailed and sophisticated assessment procedures are available for calculating each of these variables (e.g. Nijssen and Vellinga 2002). Most aim at separating the typical administrative burden costs from any firm-specific or sector-specific inefficiencies.

3 The cost of firm startups in EU countries

Internationally comparative studies on the costs of the administrative burden on companies are very scarce. In international comparisons, the problem is that the information events can be quite heterogeneous over countries. The most straightforward way to arrive at meaningful international comparisons is to study the administrative burdens caused by compliance with a standardised mandatory information event. I found a well-documented internationally comparative study by a team of World Bank researchers, dealing with a particular information event, the startup of a new firm. This study may serve as a benchmark. The reliability of this World Bank study will be tested with recent OECD data on the same topic.

Djankov *et al.* (2002) assessed the administrative costs of firm start-ups in 85 countries, including most EU countries. They track all officially required administrative procedures and costs that are normally required for setting up an identical standard firm: taxes, screening of entrepreneur, safety & health, environmental, labour-related requirements. Their standard information event is described in the text box. For their research they used official information and information by country experts.

The standard information event in the Djankov *et al.* study: setting up a standard firm

The standard firm performs general industrial or commercial activities, it operates in the largest city (by population), it is exempt from industry-specific requirements (including environmental ones), it does not participate in foreign trade, and it does not trade in goods that are subject to excise taxes (e.g., liquor, tobacco, gas).

It is a domestically owned limited liability company, its capital is subscribed in cash (not in-kind contributions) and is the higher of

- (i) 10 times GDP per capita in 1999 or
- (ii) the minimum capital requirement for the particular type of business entity.

It rents (i.e. does not own) land and business premises, it has between 5 and 50 employees one month after the commencement of operations all of whom are nationals, it has a turnover of up to 10 times its start-up capital, and it does not qualify for investment incentives (Djankov 2002: 7).

The T_e variable in this study registers the officially reported time for completing each mandatory procedure; they ignore the time required spent for gathering information, and they assume that each procedure minimally costs one day. Table 3.1 reports on the basic parameters per country. France, Greece and Italy appear to clearly have a more than average total number of mandatory procedures, while Denmark, Finland, Ireland and the UK are clearly below the average in this regard. When the time required for completing the procedures is considered, also an efficiency factor for government authorities comes into play. Countries with a clear above-average administrative time burden for entrepreneurs are Italy, Spain, Portugal and some new EU accession countries (Czech, Poland, Slovak).

Table 3.1 Mandatory procedures for setting up a standard firm, EU countries, 1999

	Time (days)	Number of procedures					
		Total	Safety & health	Environ- ment	Taxes	Labour	Screening of entrepreneur
Austria	37	9	0	0	2	1	6
Belgium	33	8	0	0	1	2	5
Czech	65	10	0	0	1	2	7
Denmark	3	3	0	0	1	0	2
Finland	24	5	0	0	1	3	1
France	53	15	0	0	3	1	11
Germany	42	10	0	0	1	2	7
Greece	36	15	0	0	4	2	9
Hungary	39	8	0	0	1	1	6
Ireland	16	3	0	0	1	0	2
Italy	62	16	0	0	5	3	8
Netherlands	31	8	0	1	2	0	5
Poland	58	11	2	0	3	1	5
Portugal	76	12	0	0	2	2	8
Slovak	89	12	0	0	2	3	7
Slovenia	47	9	0	0	0	1	8
Spain	82	11	0	0	4	2	5
Sweden	13	6	0	0	1	1	4
UK	4	5	0	0	1	1	3
<u>Other EU</u>							
Latvia	23	7	0	0	2	1	4
Lithuania	46	10	2	0	2	1	5
standard deviation	25.1	3.8	0.5	0.2	1.3	1.0	2.6
average	42.6	9.3	0.1	0.1	1.9	1.5	5.7

Source: Djankov et al. (2002) and own calculations

Djankov *et al.* value the time tariff of entrepreneurs on the basis of average GDP per capita per day involved in the mandatory procedures (i.e. $W_e = GDP / capita / working\ day$). They also track data on external costs, $M_e P_e$, i.e. the external costs for fees, expenses, forms, photocopies, fiscal stamps, legal and notary charges, and the like.

Table 3.2 provides a ranking of all EU countries according to the absolute and relative magnitude of mandatory information event costs. Absolute costs may serve as an indication of market entry costs for foreign companies. They are lowest in the UK, the Czech Republic, Sweden and Slovak Republic. The absolute costs are highest in Austria, Greece, Germany and Italy. The relative costs tell more about the administrative burden for domestic companies. The relative domestic administrative burden is lowest in the UK and Sweden, and highest in Hungary, Greece, Poland and Austria.

Table 3.2 Absolute and relative costs of setting up a standard firm, EU countries, 1999

	Absolute startup costs (in US dollars)			Relative startup costs (Z _e)	Ranking of EU countries on basis of absolute costs	Ranking of EU countries on basis of relative costs
	Costs of external purchases (M _e P _e)	Cost ^{a)} of entrepreneurial time (T _e W _e)	Total cost (A _e)			
Austria	7085	10907	17992	0.693	19	16
Belgium	2441	5836	8277	0.338	11	6
Czech	416	1732	2147	0.424	2	7
Denmark	3203	3587	6790	0.212	9	4
Finland	276	2559	2835	0.119	5	3
France	3358	8335	11693	0.498	14	10
Germany	3977	8236	12214	0.482	16	8
Greece	6897	8592	15489	1.316	18	18
Hungary	3993	4718	8711	1.873	12	19
Ireland	2217	3443	5660	0.295	7	5
Italy	3946	8834	12780	0.648	17	13
Netherlands	4477	7493	11970	0.492	15	9
Poland	1008	1927	2935	0.741	6	17
Portugal	1955	5177	7132	0.673	10	14
Slovak	521	1799	2321	0.646	3	12
Slovenia	2080	3939	6019	0.609	8	11
Spain	2422	7014	9436	0.674	13	15
Sweden	641	1943	2584	0.103	4	2
UK	324	686	1010	0.045	1	1
<u>Other EU</u>						
Latvia	1046	182	1228	0.939	(2)	(17)
Lithuania	143	63	206	0.293	(1)	(5)
standard deviation	2047	3026	4924	0.430		
average	2697	5093	7789	0.573		

^{a)} Entrepreneurial time is valued at average GDP per capita per working day.

Source: own calculations on the basis of Djankov *et al.* (2002)

Comparing the World Bank study with OECD data

The OECD has also collected data on the administrative burden associated with similar mandatory procedures. The standardised information event in this case is the complete registering of a public limited company.⁴ The information published by the OECD in most cases stems from direct inputs by OECD member governments. The description of the standard event is less precise compared to the Djankov study. It is not clear which cost data have, and

⁴ The OECD International Regulation database for 1998 also provides data on the mandatory procedures and costs associated with registering a sole-proprietor firm. These data are not presented here.

which data have not been taken into account.⁵ Table 3.3 presents some physical aspects of the standardised information event as reported by country governments.

Table 3.3 Mandatory procedures for registering a public limited company, EU countries, 1998

	Number of mandatory procedures for registering and pre-registering	Number of different public and private bodies that must be contacted	Number of working days typically required for an entrepreneur to complete all mandatory procedures
Austria	10	11	30
Belgium	4	9	25
Czech	.	.	.
Denmark	3	4	5
Finland	10	2	30
France	31	2	55
Germany	12	4	80
Greece	37	9	32.5
Hungary	.	.	.
Ireland	9	6	15
Italy	31	9	110
Netherlands	10	2	60
Poland	.	.	.
Portugal	13	2	120
Slovak	.	.	.
Slovenia	.	.	.
Spain	18	11	117.5
Sweden	9	2	15
UK	6	2	5

Source: data from OECD International Regulation database.

The evidence on the number of working days involved again suggests huge disparities in the administrative burden for companies in EU member states. The UK and Denmark apparently have very much simplified and short procedures, whereas in Italy, Portugal and Spain it may take between three and for working months to register a company. However, when we consider the time budget of the entrepreneur (Table 3.3) with the monetary costs reported by the OECD (Table 3.4) the country ranking is completely different. Spain, for instance, is now one of the countries with the smallest administrative burden! This raises serious questions with regard to the reliability of absolute cost estimates as reported by OECD governments. Assuming that the reported number of working days (in table 3.3) is more reliable than the cost estimate, I have recalculated the entrepreneurial time costs using the Djankov method (i.e. $W_e = GDP \text{ per capita per working day}$).⁶ The results are reported in the two last columns of Table 3.4. The country

⁵ E.g. whether the time for information gathering and entrepreneurial waiting time has also been included in the costs.

⁶ This only accounts for one part of the information event costs, since no separate OECD data are available on costs of purchased services required for registering a public limited company, i.e. $M_e P_e$.

ranking based on relative (re-weighted) administrative burden costs is more consistent with the data reported by Djankov *et al.*

Table 3.4 Cost of mandatory procedures for registering a public limited company, EU countries, 1998

	Typical absolute costs for an entrepreneur to complete mandatory procedures for registering a public limited company, in USD (A_e)	Typical costs for an entrepreneur to complete mandatory procedures for registering a public limited company, relative to GDP per capita (Z_e)	Country ranking on basis of absolute costs	Country ranking on basis of relative costs	Alternative estimate of entrepreneurial time costs by valuing the entrepreneur's time budget (table 3.3) at GDP per capita per working day ^{a)} (A_e^*)	Country ranking on basis of relative re-weighted costs (Z_e^*)
Austria	2200	0.0847	12	11	3452	7
Belgium	1000	0.0408	7	6	2715	5
Czech	-	-	-	-		
Denmark	300	0.0094	1	1	710	1
Finland	1050	0.0442	9	7	3161	6
France	2200	0.0937	13	12	5721	9
Germany	750	0.0296	4	3	8985	11
Greece	750	0.0637	5	10	1695	8
Hungary	-	-	-	-		
Ireland	650	0.0339	3	4	1273	3
Italy	7700	0.3907	14	14	9606	12
Netherlands	1400	0.0576	11	9	6465	10
Poland	-	-	-	-		
Portugal	1000	0.0943	8	13	5635	14
Slovak	-	-	-	-		
Slovenia	-	-	-	-		
Spain	330	0.0236	2	2	7288	13
Sweden	1130	0.0451	10	8	1664	4
UK	900	0.0398	6	5	502	2

^{a)} The number of working days has been put at 225 for all countries.

Source: data from OECD International Regulation database and own calculations..

The OECD does not separately report on external costs ($M_e P_e$) associated with a complete procedure for registering a public limited company. Suppose we combine the data from the penultimate column of Table 3.4 with the external cost data reported by Djankov. Doing so, and expressing the combined costs as a percentage of GDP per capita, we get a relative country ranking of the administrative burden costs in EU countries that is almost consistent for the two data sources. The ranking is shown in Figure 3.1. The countries with the largest rank deviation are Austria and Germany. The Djankov study reports the relative burden in Austria to be much higher (5 rank points) than the re-weighted OECD data, while Germany is by Djankov reported to 3 rank points lower.

Figure 3.1 Correspondence between relative country rankings based on Djankov and re-weighted OECD data, 1998/99

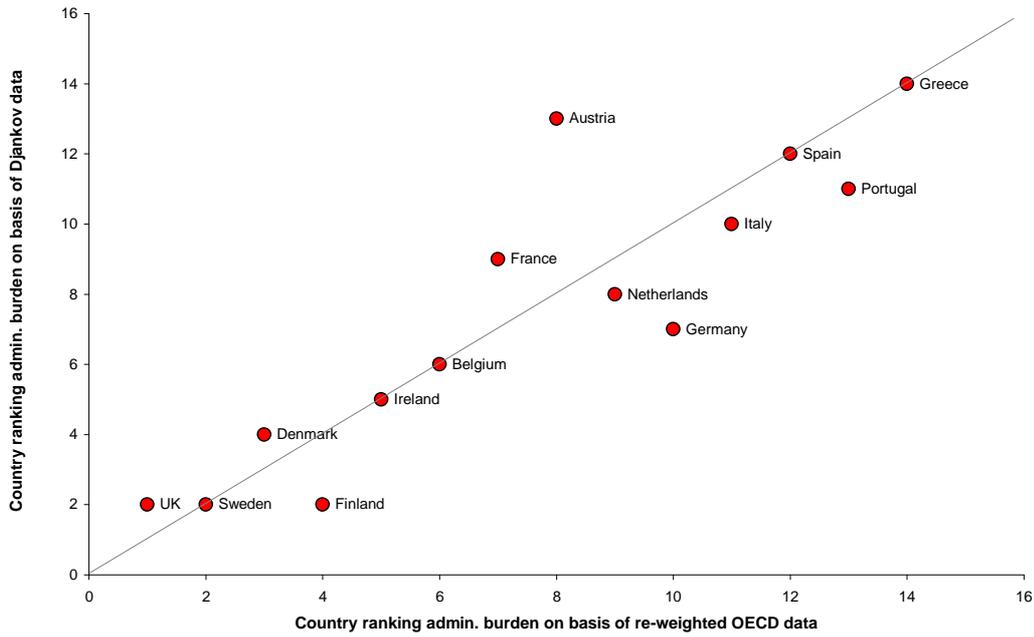
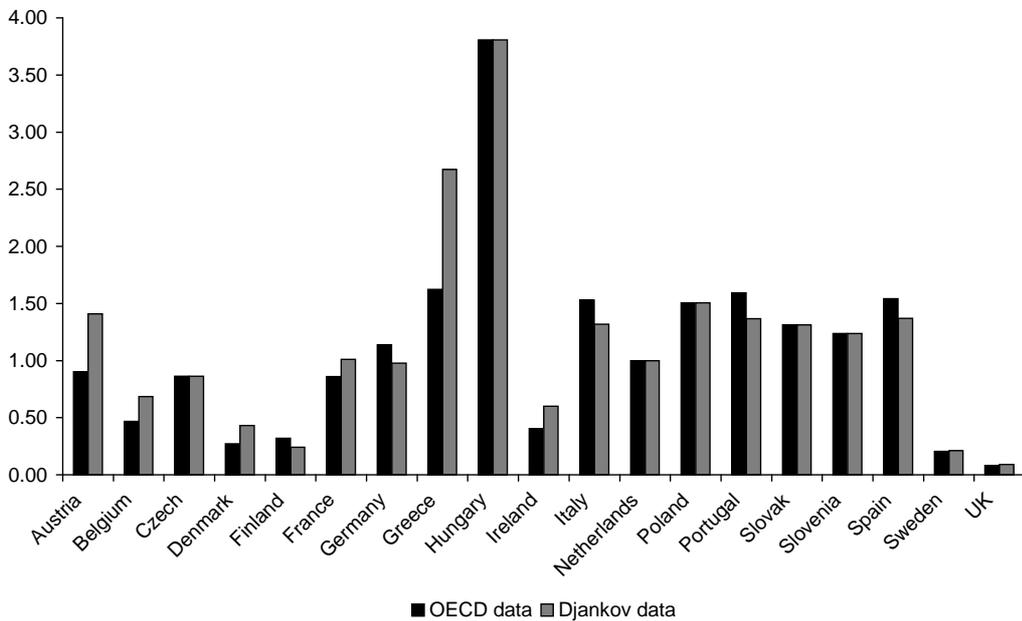


Figure 3.2 Country ranking relative to The Netherlands, 1999



4 Aggregate measures for administrative burdens

So far research was reviewed on the administrative burden for one particular information event, i.e. the start-up of a new company. The information on international cost differences of company startups is relevant in the context of competition barriers and market-access. The costs for setting up and registering a firm are a form of market entry barrier that may protect incumbent firms.

It is open for discussion whether international cost differences associated with this standard event can be considered as a *pars pro toto* for more general administrative burdens in a country. Setting up and registering a new company is typically done once in a company's lifetime. As a basis for model simulations on the effects of lowering administrative burden in the European Union, we would like to have more aggregate information on the administrative burden for companies, on the differences between EU member states in this regard.

In the brief time available for this report, this author was unable to find a reliable source for deriving the intra-EU differences in the costs of the administrative burden for incumbent firms. The problem here is that it is difficult –but not *a priori* impossible– to identify standard mandatory information events that are both representative for all incumbent firms, and also for the administrative burden differences between countries. Therefore, instead of focussing on one or a limited number of information events, it may be necessary to turn to more aggregate measures.

The burden indicators described in section 2 (equations 1-2) can be aggregated over a firm's life time or over any aggregate of national firms. The most obvious aggregation is for specific industries and company-size classes. Table 4.1 and 4.2 report on such results for the Netherlands, for 2000 and for 2002. A striking finding in Table 4.2 is that the costs of mandatory information procedures press hardest on small firms. This shows that the administrative burden costs are to a considerable extent size-independent overhead costs.⁷

Government departments may differ considerably in the extent of administrative burdens they create. For policy purposes it may be useful to measure the annual administrative burden per government department j :

$$A_{jt} = \sum_{ej}^{Ej} N_e A_e F_{et} \quad (4)$$

in which N_e is the number of firms that must supply mandatory information under legislation or regulation $e \in \{ej, \dots, Ej\}$ under the jurisdiction of government department j , A_e the average costs per company per information event, and F_{et} the annual frequency of these information events.

⁷ These authors also find that for small and medium-sized enterprises more than half of all administrative burden costs results from mandatory procedures related to annual accounts and the administration for valued-added tax (Nijsen and Vellinga 2002: 44).

Table 4.1 Administrative burdens for businesses for selected policy areas ^{a)} according to size class and industry, Netherlands 2000

Industry	Small firms	Medium-sized firms	Large firms	Total	Share by industry
	in million euros				%
Agriculture	177	5	2	184	4.2
Mining	2	1	2	5	0.1
Manufacturing	308	251	289	848	19.5
Utilities (water, energy)	0	1	11	12	0.3
Construction	174	156	77	407	9.4
Trade, distribution and repair	747	266	174	1186	27.3
Hotel, catering	115	43	22	180	4.1
Transport, communication	83	77	95	255	5.9
Banking, Insurance, Finance	72	19	64	155	3.6
Health and care	89	16	89	193	4.4
Culture, sports entertainment	18	3	2	22	0.5
All private industries	2307	978	1056	4341	100.0
<i>percentage per size class</i>	<i>53.1</i>	<i>22.5</i>	<i>24.3</i>	<i>100</i>	

^{a)} Administrative burdens associated with payroll tax, general social insurance schemes, employee social insurance schemes, income tax, corporate and dividend tax, value-added tax, and annual account obligations.

Source: Nijssen and Vellinga (2002) and own calculations.

Table 4.2 Administrative burdens for companies, in million Euros and as a percentage of value added ^{a)} by industry and company size class, Netherlands 2002

Industry	Amount in mln Euro ^{b)}	Small firms	Medium-sized firms	Large firms	Total
Agriculture	1 079	13	2	0	12
Mining	9	4	0	0	0
Manufacturing	1 474	14	3	1	2
Utilities (water, energy)	26	.	2	0	0
Construction	1 199	9	2	1	5
Trade, distribution and repair	2 667	12	2	1	5
Hotel, catering, tourism	545	14	4	1	9
Transport, communication	1 718	34	3	1	6
Banking, Insurance, Finance	496	11	2	0	2
Business services	1 904	4	1	1	3
Health and care	1 291	30	6	1	8
Total, all sectors	12 713				

^{a)} Value added at gross factor costs. ^{b)} Calculated on the basis of Tables 4 and 9 of this study.

Source: Jansen and Tom (2003) and own calculations.

From which we derive the administrative burden at national level:

$$A_t^T = \sum_j^J A_{jt} \quad (5)$$

This information has been assembled for the Netherlands. For the year 2002, the Dutch government initiated a baseline measurement of administrative burdens for Dutch companies using the indicator of equations (4) and (5). The results are based on a common methodology. The standard costs of each regulation e at company level have been estimated on the basis of a number of interviews in which companies were asked for the annual costs, the time involved, and the type and salary class of personnel that was responsible for providing the mandatory information. The results have been aggregated by department and are reported in Table 4.3.⁸

Table 4.3 Baseline measurement by Dutch government departments of administrative burden for companies generated by legislation and regulation under their jurisdiction, 2002

Department	Administrative burden ($A_{j,2002}$) in mln Euro
<u>Finance department</u> , of which:	4 325
Corporate and income taxes	834
Payroll tax	730
Value added tax	1428
Customs and duties	243
General and specific fiscal laws	392
Behavioural supervision financial markets	398
Discretionary supervision (prudentieel toezicht) financial markets	161
Supervision of corporate integrity in financial markets	64
Law on foreign financial transactions	75
<u>Economics Department</u> , of which:	672
Competitive regulation	558
Energy-related regulation	16
Regulation on telecommunication and postal services	75
Compulsory reporting to Statistics Netherlands (CBS)	24
<u>Department of Justice</u> , of which:	2 510
Law on Annual Accounts	1500
<u>Health, Welfare and Sports department</u> , of which:	3 220
Product health and safety regulations	1200
Employee health insurance schemes	700
<u>Social Affairs and Employment department</u>	2 530
<u>Housing, Urban Planning and Environment department</u>	1 680
<u>Transport, Public Works and Water management department</u>	1 040
<u>Agriculture department</u>	430
All departments	16 400

Source: www.administratievelasten.nl

⁸ This programme formed the prelude to a comprehensive Dutch government programme with department-specific and regulation-specific targets for diminishing the administrative burden for Dutch companies in the years to come.

The total administrative burden for all departments was estimated at 16.4 billion Euros. This estimate is 29% higher than the 12.7 billion Euro estimate provided by the EIM study (Jansen and Tom 2003) that was reproduced in Table 4.2. Hence, we now have two estimates of A_{2002}^T for the Netherlands. This can also be expressed as a percentage of GDP. The Dutch GDP (market prices) in 2002 amounts to 445 billion Euros. Hence, the estimated **total administrative burden in the Netherlands ranges between 2.9 and 3.7 per cent of GDP.**⁹

The EU finance ministers in autumn 2004 have agreed on a similar methodology for assessing the costs of administrative burdens for companies in their countries.¹⁰ Denmark agreed to do a similar comprehensive estimation procedure of administrative burdens for companies. Other EU member states agreed to initiate such estimation steps for more narrow-defined policy areas. None of these studies is yet available at the moment of writing this paper. This means that for an estimate of the total administrative burden in other member states another estimation approach is necessary.

5 Estimating the administrative burden in EU member states

The Dutch data on the total administrative burden (A_{2002}^T) is taken as a point of departure, combined with the Djankov-OECD data on actual inter-country differences in firm-startup costs (Z_e).

The Djankov-OECD country distribution data are adapted to strengthen its plausibility as a basis for the intra-EU distribution of total administrative burden. The adaptation concerns the magnitude of inter-country differences. The inter-country differences in firm startup costs are very large according to the Djankov-OECD data (cf. Table 3.2, column with Z_e data). This does not only hold for differences between 'old' and 'new' EU member states, but also for more or less comparable countries such as for instance the UK and the Netherlands. Even though the differences may hold for a specific type of information even (firm startup), country disparities are probably less extreme with regard to all other mandatory information events. To compensate for this, the inter-country distribution in the OECD-Djankov data is compressed closer around the average, preserving most information on the inter-country, as pictured in Figure 5.1:

- the distribution is truncated at the tails to range between +1.5 and – 1.5 times the standard deviation of the Djankov Z_e distribution
- on the basis of their Djankov-ranking, EU member states are classified in intervals of 0.25 times the standard deviation of the original distribution.

⁹ Or when expressed in terms of GDP at factor costs, 3.2 to 4.2 per cent.

¹⁰ Cf. Informal ECOFIN bulletin, 10 and 11 September 2004 and "The Administrative Burden Declaration", June 2004.

Figure 5.1 Country distribution of market-entry-costs Z_e : original and compressed distribution, 1999

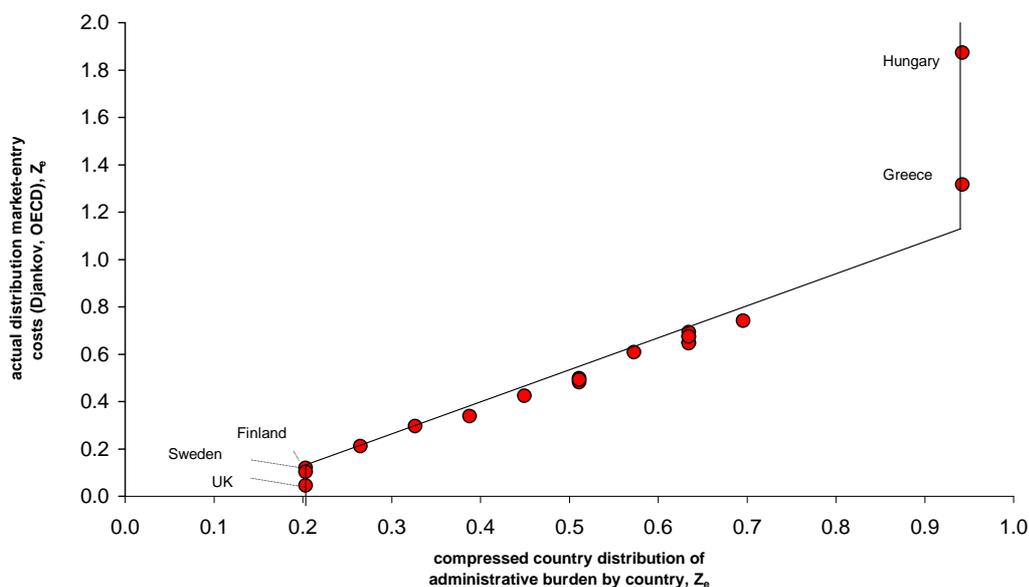


Table 5.1 Estimated total administrative burden for EU countries, expressed as percentage of GDP (market prices), 2003 ^{a)}

Country	Low estimate total administrative burden per country	High estimate total administrative burden per country	Low estimate total administrative burden per country	High estimate total administrative burden per country
	as % of GDP mp		in million US dollars	
Austria	3.6	4.6	8773	11194
Belgium	2.2	2.8	6339	8087
Czech	2.6	3.3	2100	2680
Denmark	1.5	1.9	3006	3835
Finland	1.2	1.5	1786	2279
France	2.9	3.7	48244	61553
Germany	2.9	3.7	66974	85450
Greece	5.4	6.8	8291	10578
Hungary	5.4	6.8	3477	4436
Ireland	1.9	2.4	2512	3205
Italy	3.6	4.6	48516	61900
Netherlands	2.9	3.7	13311	16983
Poland	4.0	5.0	7815	9970
Portugal	3.6	4.6	4731	6036
Slovak	3.6	4.6	1037	1323
Slovenia	3.3	4.2	.	.
Spain	3.6	4.6	26712	34081
Sweden	1.2	1.5	3273	4176
UK	1.2	1.5	19050	24306

^{a)} Using the compressed 1999 distribution of market-entry costs by country (Djankov / OECD data).

Source: own calculation, cf description in main text. GDP data for 2003 are from OECD.

The compressed country distribution was applied in combination with the low (EIM) and high (Finance Department) estimate if the total 2002 administrative burden for companies in the Netherlands. The results of this estimation procedure are presented in Table 5.1 in which all estimates are given for the year 2003. The total administrative burden ranges between 1.9 per cent of GDP in the lowest estimate (UK, Sweden, Finland, Denmark) to 4.4 per cent of GDP (Hungary, Greece, Poland, Slovenia) in the highest estimate.

6 Development of the administrative burden over time

There reason to belief that the costs of the administrative burden for companies in the EU has diminished over time, but also that the differences between EU member states may have become larger. Nicoletti and Scarpetta (2003) report the evolution over time of a summary indicator for regulatory intensity by country group and by policy domain. The most recent data from the OECD Regulation database show that deregulation of product markets in most OECD has continued during the period 1998-2003 (Conway 2004). As a corollary of these regulatory developments the administrative burden associated with regulation has probably also become more differentiated between EU member states. This is indeed the picture that emerges from the most recent available OECD data on the costs of firm startups.

Table 6.1 shows 2003 data that can be directly compared with those in Table 3.3. It appear that the number of mandatory procedures for firm startups has risen in some EU countries and diminished in other countries. The same holds for the number of different public and private bodies that must be contacted.

Strange enough, however, the OECD 2003 database reports that the number of working days required for completing these procedures has in many countries fallen dramatically in the four years since 1999! The 2003 data also suggest that differences between EU countries have become much smaller. As a corollary of the fallen time requirements, the cost of completing the procedures have also fallen very considerable: more than 50% in a number of countries!¹¹ It is hard to belief that across the EU such dramatic reductions in the time required for mandatory information supply have indeed taken place in a few years. Therefore, for reasons of data consistency the 2003 OECD data will not be used for estimating the total administrative burden in EU countries in 2003.

¹¹ Here I again applied the method of Djankov *et al.*: valuing required the entrepreneurial working days at a tariff equal to GDP per capita per working day.

Table 6.1 Change between 1998 and 2003 in mandatory procedures for registering a public limited company, EU countries

	No. of mandatory procedures for registering and pre-registering, 2003	Change (Δ) with 1998 data	No. of different public and private bodies that must be contacted, 2003	Change (Δ) with 1998 data	No. of working days typically required to complete all mandatory procedures, 2003	Change (Δ) with 1998 data	Costs for entrepreneur to complete mandatory procedures, relative to GDP per capita (Z_e), 2003 ^{a)}	Change (Δ) with 1998 data
Austria	25	15	8	-3	6	-24	0.1008	-0.1172
Belgium	13	9	6	-3	32	7	0.1469	-0.0050
Czech	24	.	9	.	64	.	0.3272	.
Denmark	10	7	2	-2	18	13	0.0800	0.0484
Finland	13	3	3	1	30	0	0.1418	-0.0357
France	22	-9	6	4	29	-26	0.1396	-0.1985
Germany	13	1	6	2	30	-50	0.1809	-0.2043
Greece	12	-25	5	-4	26	-7	0.2855	0.0773
Hungary	16	.	7	.	34	.	0.2740	.
Ireland	9	0	2	-4	16	1	0.0732	-0.0274
Italy	18	-13	8	-1	7	-103	0.1065	-0.7730
Netherlands	13	3	4	2	42	-18	0.2197	-0.1045
Poland	28	.	6	.	90	.	0.4000	.
Portugal	8	-5	6	4	11	-109	0.0970	-0.5307
Slovak	15	15	8	8	15	15	0.2015	.
Spain	23	-7	7	-8	25	-93	0.2260	-0.3198
Sweden	11	0	3	1	25	20	0.1170	0.0052
UK	9	3	3	1	8	3	0.0370	-0.0250

a) Same procedure for valuing the time costs of entrepreneurs as in Table 3.4 (GDP per capita per working day).

Data source: OECD International Regulation database 2003.

The studies and data in this section suggest that the administrative burden related to firm startups may have diminished. For some elements, the differences between countries may have become smaller. However, there are doubts about the plausibility, consistency and reliability of at least part of the recent data (in particular the 2003 OECD data). Hence, we will not use these newer data for calculating the total administrative burden for OECD countries.

7 In conclusion

Ideally, estimates of the total administrative burden for companies must be built up from company data for particular mandatory information events, using a common methodology. The best internationally comparative study according that we found in this regard is a study by a World Bank team (Djankov et al. 2002). According to a common procedure they gathered information on the costs of market entry and firm startup in a large number of countries. These data were shown to be consistent with OECD data.

EU countries in autumn 2004 agreed on a common methodology for determining the quantitative magnitude of administrative burdens for companies. As of yet, no usable results –except for the Netherlands– are available on the basis of this methodology. This means that the total administrative burden in other EU countries has to be estimated.

This is done by taking the estimates for the Netherlands as a point of departure. The estimates for other EU countries are based on the Dutch results, in combination with a Djankov-based distribution of inter-country differences. The result for the year 2003 are reported in Table 5.1. The total administrative burden ranges between 1.9 per cent of GDP in the lowest estimate (UK, Sweden, Finland, Denmark) to 4.4 per cent of GDP (Hungary, Greece, Poland, Slovenia) in the highest estimate.

ANNEX 1 LIST OF PROCEDURES FOR STARTING UP A COMPANY

1. Screening procedures

- Certify business competence
- Certify a clean criminal record
- Certify marital status
- Check the name for uniqueness
- Notarize company deeds
- Notarize registration certificate
- File with the Statistical Bureau
- File with the Ministry of Industry and Trade, Ministry of the Economy, or the respective ministries by line of business
- Notify municipality of start-up date
- Obtain certificate of compliance with the company law
- Obtain business license (operations permit)
- Obtain permit to play music to the public (irrespective of line of business)
- Open a bank account and deposit start-up capital
- Perform an official audit at start-up
- Publish notice of company foundation
- Register at the Companies Registry
- Sign up for membership in the Chamber of Commerce or Industry or the Regional Trade Association

2. Tax-related requirements

- Arrange automatic withdrawal of the employees' income tax from the company payroll funds
- Designate a bondsman for tax purposes
- File with the Ministry of Finance
- Issue notice of start of activity to the Tax Authorities
- Register for corporate income tax
- Register for VAT
- Register for state taxes
- Register the company bylaws with the Tax Authorities
- Seal, validate, rubricated accounting books

3. Labour /social security-related requirements

- File with the Ministry of Labour
- Issue employment declarations for all employees
- Notarize the labour contract
- Pass inspections by social security officials
- Register for accident and labour risk insurance
- Register for health and medical insurance
- Register with pension funds
- Register for Social Security
- Register for unemployment insurance
- Register with the housing fund

4. Safety and health requirements

- Notify the health and safety authorities and obtain authorization to operate from the Health Ministry
- Pass inspections and obtain certificates related to work safety, building, fire, sanitation, and hygiene

5. Environment-related requirements

- Issue environmental declaration
- Obtain environment certificate
- Obtain sewer approval
- Obtain zoning approval
- Pass inspections from environmental officials
- Register with the water management and water discharge authorities

Source: DJankov et al. (2002: 11)

References

- Conway, P., 2004, *Product market regulation in OECD countries, 1998 to 2003*, Annex I: Tables and Figures, Economics Department, Working Paper ECO/CPE/WP1(2004)9, OECD, Paris.
- Djankov, S., R. La Porta, F. Lopez, and A. Shleifer (2002), The regulation of entry, *Quarterly Journal of Economics*, vol. 117 (1), pp 1-37
- Hopkins, Th., 1997, Developing general indicators of regulatory costs, in: *Regulatory impact analysis: best practices in OECD countries*, OECD, Paris, pp. 263-291.
- IPAL, 2003a, *Meten is weten; Handleiding voor het definiëren en meten van administratieve lasten voor het bedrijfsleven*, Interdepartementale Projectgroep Administratieve Lasten, Den Haag.
- IPAL, 2003b, *Administrative burdens in an (inter)national perspective - guide for classifying administrative burdens according to national and international origins*, Dutch Legislative Burden department, The Hague.
- IPAL, 2004, *More leeway for businesses thanks to fewer burdens - from producing burdens to reducing burdens*, Dutch Legislative Burden department, The Hague.
- Jansen, M., and M. Tom, 2003, *Onevenredig belast! - administratieve lasten in het kleinbedrijf*, EIM, Zoetermeer.
- Nicoletti G., Scarpetta S., 2003, Regulation, Productivity, and Growth: OECD Evidence, *Economic Policy*, 18:1 (36), April.
- Nijssen, A., and N. Vellinga, 2002, *Mistral: a model to measure the administrative burden of companies*, Scales Research Report No. 0110, EIM, Zoetermeer.
- Tang, P. and G. Verweij, 2004, *Reducing the administrative burden in the European Union*, CPB Memorandum no. 93, CPB Netherlands Bureau for Economic Policy Analysis, The Hague.