

MENA-OECD GOVERNANCE PROGRAMME

ADMINISTRATIVE SIMPLIFICATION

SESSION 2: MEASURING ADMINISTRATIVE BURDENS



TOOLS AND TECHNIQUES USED FOR EX-ANTE IMPACT ASSESSMENT HUNGARY'S ADMINISTRATIVE BURDEN REDUCTION PROGRAMME

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- ✓ Cutting Red Tape – Hungarian Programme
- ✓ Ex-ante impact assessment and programme design
- ✓ Consultation – benefits for impact assessment
- ✓ Amended Standard Cost Model – qualitative, quantitative methods

CUTTING RED TAPE

HUNGARY'S ADMINISTRATIVE BURDENS REDUCTION PROGRAMME



- ✓ Reducing administrative burden on businesses by an amount of 1,75% of the GDP (500 billion HUF)
- ✓ By means of two government decrees in 2011
- ✓ The Programme consists of 114 actions in 10 key areas with 12 priority measures addressing the most pressing problems

Key areas:

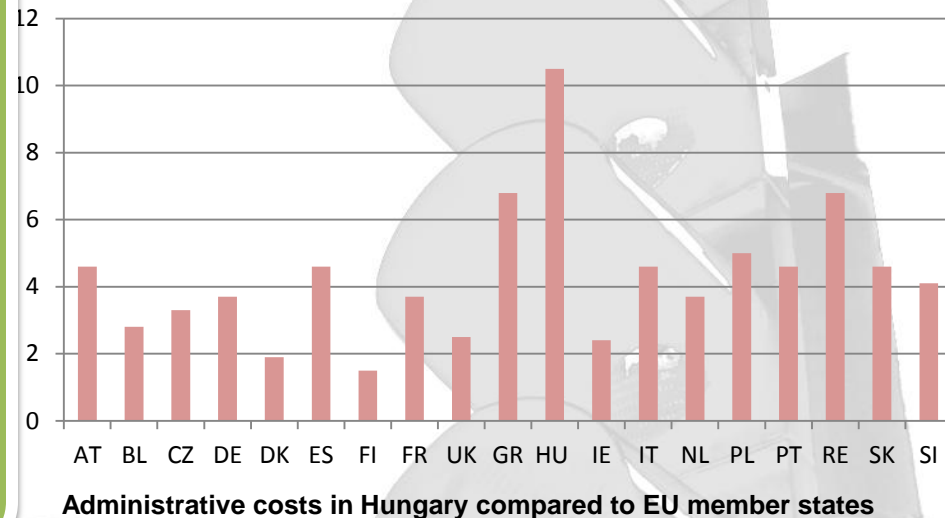
- | | |
|------------------------------|-----------------------------|
| ✓ Tax administration | ✓ Sectoral regulations |
| ✓ Accounting regulations | (agriculture, environment) |
| ✓ Official Procedures | ✓ Building and construction |
| ✓ Applications and tendering | ✓ Employment |
| ✓ E-government | ✓ Legal issues |
| | ✓ Reinforcement |

EX-ANTE IMPACT ASSESSMENT AND PROGRAMME DESIGN I.



CONDITIONS:

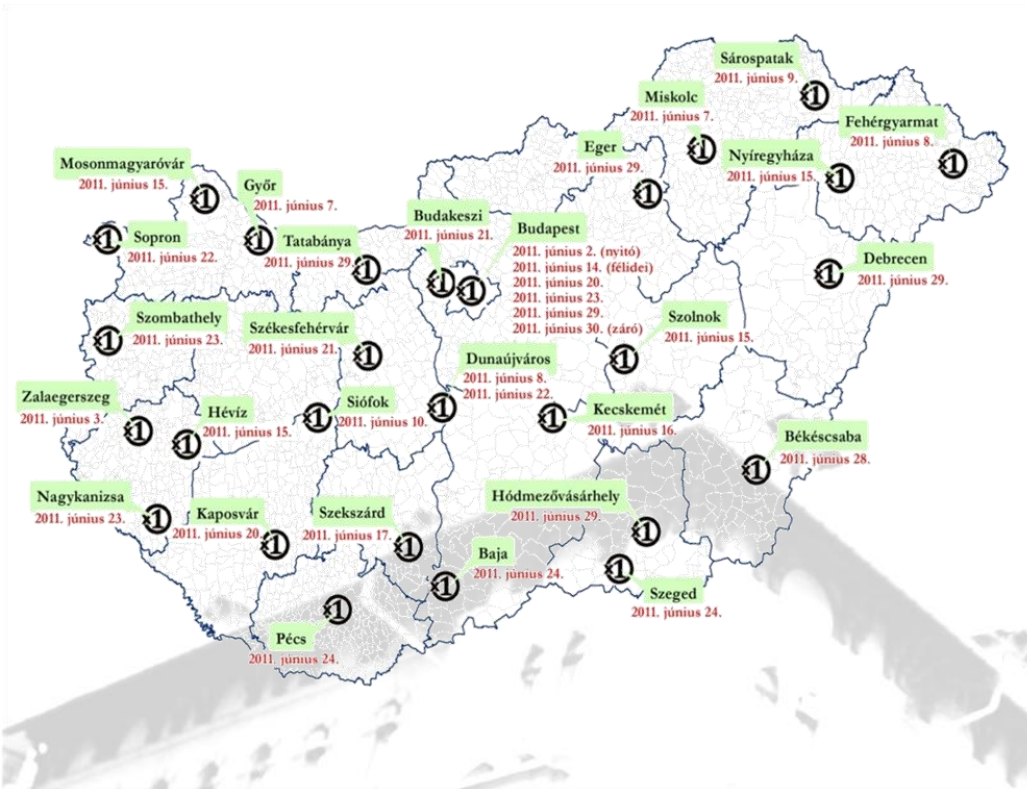
- Administrative costs – significant obstacle to Hungary's competitiveness
- Extensive measurement (approximating full baseline) in 2008
- Limited resources



GOALS OF EX-ANTE IMPACT ASSESSMENT:

- Better respond to needs of enterprises
- Prioritizing resources
- Mobilizing political support

EX-ANTE IMPACT ASSESSMENT AND PROGRAMME DESIGN II. – CONSULTATION



- ✓ Business Panel involved in the preparation of measures
- ✓ Individual interviews with enterprises

- ✓ Based on extensive public consultation
- ✓ Public hearings at more than 30 locations supported by focus groups and workshops
- ✓ Online consultation
- ✓ Active participation of
 - more than 1500 entrepreneurs
 - more than 20 local governments
- ✓ More than 2000 proposals from entrepreneurs
- ✓ Comprehensive summary and analysis of the information collected

MEASURING, ESTIMATING ADMINISTRATIVE COSTS



Amending the Standard Cost Model

SCM in itself:

- does not necessarily reflect the perception of enterprises, businesses about administrative costs
- assumes compliance with regulations, does not reflect informal economy

Direct administrative costs

- related to administrative activities to comply with information obligations
- estimations on the basis of Standard Cost Model

Indirect administrative costs

Entrepreneurial risks and obstacles related to excessively complicated, unpredictable administrative obligations, regulatory environment

CHANGES IN INDIRECT COSTS



INDIRECT COSTS:

entrepreneurial risks and obstacles related to excessively complicated, unpredictable administrative obligations, regulatory environment

- Irritation
- Risks
- Yield of optimalization techniques
- Yield of informal activity
- Delayed/cancelled value creation

IRRITATION

x1

An administrative obligation considered as redundant or pointless is a source of irritation, a highly subjective but potentially significant indirect administrative cost.

(Not being able to see and understand the reason for the obligation.)

- ✓ Typical example: multiple information obligations on the same subject (e.g. submission of balance sheet data: 1. corporate income tax declaration, 2. company register, 3. business statistics)
- ✓ Reduced irritation increases the perceived reduction of direct costs

RISKS



The impossibility of compliance to overly complex or unrealistic administrative obligations imposes a permanent exposure to risks (e.g. risk of surveillance).

- ✓ Typical example: risk of underreporting of wages (the reporting of actual wages – i.e. including out of pocket payments - could make a business genuinely uncompetitive in certain industries such as agriculture or construction industry)
- ✓ Some risks can be managed but not without costs

YIELD OF OPTIMALIZATION

x1

Administrative „optimisation” techniques may yield significant profit independent of true value creation potential.

- ✓ Typical example: splitting of homogenous business activity to separate entities in order to exploit advantages of certain company forms (e.g. one „clean” enterprise to apply for bank credit or state grant, one enterprise to be eligible for simplified tax, one enterprise to deduct costs of the others etc.)

- ✓ Optimization has administrative costs

YIELD OF INFORMAL ACTIVITY



Informal activity may yield extra profit as compared to formality but it also costs on businesses

- ✓ Typical example: renting an estate – formality vs informality will depend on the costs of formality (e.g. taxes) and the benefits of formality (e.g. benefits of public law enforcement in case of a legal dispute) se to deduct costs of the others etc.)

DELAYED/CANCELLED VALUE CREATION

x1

Administrative burden may delay or even prevent value creation

- ✓ **Typical example: acceleration of certain administrative procedures (e.g. licencing) may bring investment and value creation forward**
- ✓ **On the other hand, overly complex administrative obligations may even deter businesses from investing and value creation**

EXAMPLES FOR TYPICAL CALCULATIONS



- ✓ **Estimations based on time-related aspects:**
 - Missed returns on capital invested (eg. permits and licences)
 - Attention and time of the manager (business owner) as valuable resource for the company – estimating alternative costs
- ✓ **Opportunity cost of business decisions**

SUMMARY



- ✓ **Ex-ante impact assessment**
- ✓ **Consultation, involving businesses**
- ✓ **Capturing realities of the business- and regulatory environment**



Thank you for the attention!

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