

When Bureaucrats Cut Bureaucracy (A Slovak Example)



*

RADOVAN
ĎURANA



*

MARTIN
VLACHYNSKY



*

JAKUB
ZEMAN

Nowadays, it is rather complicated to find a country where the role of an entrepreneur in the economy is explicitly contested. Thanks to media outreach, these exceptional occasions are pretty well known, and recent humanitarian catastrophe in Venezuela is a cautionary example of what may happen when a government (or an army) takes over the burden of entrepreneurial planning and decision making. Therefore, not surprisingly, most of the countries officially declare the efforts to improve the entrepreneurial environment. This is true even for countries where governments prefer market interventions, price regulations, or building state owned national business champions.

Besides the pressure from international organizations like the International Monetary Fund, or World Bank, governments have their own purely pragmatic reasons for such a commitment. According to available data, a 25% decrease of the administrative burden should lead to a 1.6% GDP increase in European Union (EU) member states¹. At the level of 40–50% in tax burden, this represents a significant increment for the state budget. In addition, politicians who are familiar with the mathematics of compound interest and the relevance of economic growth emphasize the fact that in the EU administrative costs represent up to 4% of GDP. These are wasted resources which are worth of decreasing even if the private sector should produce just one-third of GDP of any country.

Therefore, expert committees are being established in each country. They conduct analyses of entrepreneur environment and publish long-term strategies with ambi-

”

MOST
OF THE COUNTRIES
OFFICIALLY DECLARE
THE EFFORTS
TO IMPROVE
THE ENTRE-
PRENEURIAL
ENVIRONMENT

tious goals. Governments propose radical reforms, and shifts in the international business ranking have been observed. However, real economic convergence is slower than its participants wish it. Despite the identification of best practices, described measures, and strategies of these practices, many countries do not see the improvements. It is a rather complex process to enhance the entrepreneurial environment. Red tape is not only the number of forms to be filled out by the entrepreneur; it is also a scope of power applied by the omnipresent government over entrepreneur, which must be given up. It is also unfair advantages of various interest groups, or, even hidden interests of regulatory bodies.

But why do policies for entrepreneurial environment improvement often fail? And how difficult is it to reach the goals? Let us take a look at Slovak as an example of an attempt to improve the entrepreneurial environment.

¹ Gelauf, G. and A. Lejour (2006) Five Lisbon Highlights: *The Economic Impact of Reaching These Targets*, CPB Netherlands Bureau for Economic Policy Analysis.



RED TAPE IS NOT ONLY THE NUMBER OF FORMS TO BE FILLED OUT BY THE ENTREPRENEUR; IT IS ALSO A SCOPE OF POWER APPLIED BY THE OMNI-PRESENT GOVERNMENT OVER ENTREPRENEUR, WHICH MUST BE GIVEN UP

HOW SLOVAKIA...

The new Slovak government was elected in the spring of 2016². Fundamental commitments regarding improvements of the business environment appeared also in *Government Manifesto* announced in April 2016. The document listed in this area two ultimate goals:

- 1) The government will continue to take complex measures to decrease the bureaucracy burden for business and entrepreneurs.
- 2) The government will create the room for systemic improvements of Slovakia's position towards OECD and EU countries in international business rankings (e.g. its ranking in *Doing Business*).

These commitments were further specified by more detailed descriptions:

- 1) The government will decrease the bureaucracy burden related to social insurance.
- 2) The government will improve the compliances for businesses by abolishing the unjustified regulatory barriers and bureaucracy, which represent additional financial and time costs for entrepreneurs.
- 3) A simplification and time reduction of construction permits, improvement of an information system on realized constructions by introducing the unified forms for construction permits and final building approvals.

After that, still in 2016, the quantified and very ambitious goal to improve Slovakia's ranking to 15th position in *Doing Business* by 2020 was approved. This was challenging for two reasons: first, there are either very developed or very reformist countries in TOP 10; and, second, Slovakia was ranked 33rd in 2016. This goal made it even to the National Reform Plan,³ which

² The government coalition included the winner of the election – SMER-SD (a Slovak national party), Most – HÍD (a party mostly representing the Hungarian minority), and #SIET, a party which had dissolved soon after the election. In 2006, Prime Minister Robert Fico started already his third term. The coalition considers itself a left-leaning, favoring socio-democratic values.

³ <https://www.finance.gov.sk/sk/financie/institut-financnej-politiky/strategicke-materialy/narodny-program-reformiem/narodny-program-reformiem.html>



EVEN DESPITE POOR GOVERNMENT ACTIVITY PRIOR TO 2016, BUSINESSES AND NON-PROFIT ORGANIZATIONS WERE VERY ACTIVE IN THIS FIELD

describes structural measures to be implemented by the government during the upcoming years. The program was based on *Country Report* issued annually by the European Commission. Every member state is required to submit a reform program to the Commission rooted in report findings.

The National Reform Plan mentioned above contains the *Action Plan*. In this document, strategic goals are transformed into specific measures. The government committed itself to adopt a complex scheme for diminishing the administrative and regulatory barriers for the business sector⁴. This plan was materialized in the form of pro-business packages, which are the subject of this analysis.

Naturally, the Ministry of Economy became responsible for these changes. Its agenda of systemic and conceptual decrease of administrative and regulatory burden has been publicly communicated

for a long period of time. For this purpose, the Ministry of Economy constituted an interdepartmental working group for *Doing Business*. The goal of the working group is to create a precondition – at the highest level – for systemic improvement of Slovakia’s position compared to OECD and EU countries in business environment evaluation rankings. The working group had its initial meeting just a few months after 2016 elections.

At the same time, in Slovakia there have been organizations operating which cultivate the business environment and evaluate the impact and effects of regulations. One of them is the Slovak Business Association, which (in the form of public-private partnership) aims to support small and medium enterprises (SMEs). Already in 2015, the analytical unit named Better Regulation Center was formed within the association. The mission of this center was the quantitative evaluation of the impact of regulation on the business environment with a special emphasis on SMEs. The Better Regulation Center evaluates and quantifies the impact of both proposed and existing legislative measures on the business environment via cost-benefit analysis. Evaluation of EU directives transposition to Slovak legislation with a goal to assess the level of gold plating is part of the process. The Center has also prepared proposals for decreasing SME regulation burden.

Subsequently, these proposals are submitted to the Ministry of Economy. Then, the implementation process takes place.

The commitment of Ministry of Economy to submit a strategic document of better regulation “RIA 2020” to the government by the end of 2016 was also a sign of an effort of a systematic approach towards

⁴ <https://rokovania.gov.sk/RVL/Material/22167/1>



THE LONGEVITY OF GOVERNMENT PROGRAMS IN TRANSITION COUNTRIES LIKE SLOVAKIA IS TYPICALLY ONE ELECTION TERM

the business environment. As can be seen from its title, the document was to contribute to the better evaluation of the impact of new legislation on the business sector.

It is important to make a note that the agenda for improving the business environment did not appear in 2016 from anywhere. Previous governments had also had similar initiatives, although rather symbolic. The period of 2012-2016 was characterized by public finance consolidation. This was rooted mainly in tax hikes, new taxes introduction, and broadening existing tax bases. Administrative duties were added up and payments grew up as well. Not surprisingly, this led to a decrease of Slovakia's ranking in international indexes.

Even despite poor government activity prior to 2016, businesses and non-profit organizations were very active in this field. In 2013, the businessfriendly.sk webportal was launched by employers' associations and Ministry of Economy. This communication platform allowed entrepreneurs to

join the public discussion about constraining legislation and to submit proposals for new legislation. During the period of three years since its inception, more than six hundred suggestions on how to improve business environment were submitted via this platform.

Unfortunately, the last one is dated from 2016. The longevity of government programs in transition countries like Slovakia is typically one election term.

Two projects operated by non-profit organizations occupy a specific position in Slovak public debate related to the business environment.

The first is the **Bureaucratic Nonsense**, an annual chart of absurd bureaucracy duties and regulation imposed on businesses and entrepreneurs. It is an open contest in which anyone can submit a within a set time frame. All proposals are analyzed by experts. Then public voting assigns the winner [See Table 1]. The contest has a considerable media coverage and even political parties pick measures from the chart directly to their election programs, or for their legislative initiatives in the parliament, respectively. Bureaucratic nonsense⁵ was awarded European Enterprise Promotion Award in 2015⁶.

The second non-profit organization initiative is **The Bureaucracy Index**⁷, which has been calculated by Institute of Economic and Social Studies (INESS) since 2016. The index represents a direct tool for assessment of bureaucracy burden for a small-model company. According to the data, in 2018, an average Slovak manufacturing

⁵ <https://www.byrokratickynezmysel.sk/>

⁶ https://ec.europa.eu/growth/smes/support/enterprise-promotion-awards_sk

⁷ <http://byrokratickyindex.sk/>

Table 1: The Bureaucratic Nonsense winners

Year	Measure
2018	General ban to bring a dog to catering establishments.
2017	A duty to submit an application form, if an employer wants to give a redundant palette or a barrel (trash) to the employee. The application must be submitted, along with all documents and a valid EUR 11 duty stamp to the district court.
2016	An entrepreneur is fined if his supplier employs workers illegally.
2015	A duty to report every foreigner's stay via a paper form delivered by post or personally at the Foreign Police Bureau.
2014	A duty for an entrepreneur to pay an advance payment for expenditures of the preliminary administrator of the bankruptcy assets (up to EUR 1,659.70), if the company bankrupts.

company spent 222 hours with activities required by legislation, which are not a direct company business activity. The index inspired non-profit organizations in other countries and in 2018 it was calculated in four countries as an international initiative⁸.

Both initiatives play an important role in a public discussion related to cutting red tape burden. The Bureaucratic Nonsense can be considered a public knowledge-based identification of worthless regulations that made it through legislation process without proper attention of official regulatory bodies. *The Bureaucracy Index* represents an understandable non-disputable and non-governmental measure of real bureaucracy burden, which enables annual evaluation of the real impact of the governmental effort focused on cutting administrative costs of entrepreneurship.

In general, preconditions for improving the Slovak business environment have been fulfilled. The government officially signed over a specific quantified commitment. The ministry responsible for submitting the legislative measures was assigned. Analytical organizations accountable for proposal preparations has existed along with active non-governmental organizations – both employers' associations and non-profit organizations. On top of it, the government had at its disposal extensive financial resources from the EU funds for digitalization of the public sector (processes which simplify the administrative costs for entrepreneurs from the political perspective).

FIRST PACKAGE

The first pro-business package was proposed after months of negotiations and preparations and announced in June 2017. It contained thirty six measures, which can be divided into the following categories:

⁸ <http://bureaucracyindex.org/>

- decreasing the number of duties to comply with in order to start a business;
- stabilization of legal environment;
- e-Government services extension;
- introduction of more flexibility into hiring, especially in case of first employment;
- promotion of state services for entrepreneurs;
- better informing on obligations and possibilities for entrepreneurs.

If a direct impact on an entrepreneur is considered, however, only half of the measures (eighteen) represented a decrease of either administrative costs, or abolishing the barriers in doing business. The second half consisted of measures devoted to analyzing the business environment or improving the availability of information provided by public sector. [See Table 2].

Surprisingly, one would never expect certain measures to appear on the list aimed to improve Slovakia's ranking in *Doing Business* – for instance, better informing of entrepreneurs on available public sector services at Single Point of Contact, or introduction of taxation subjects evaluation based on their reliability. Promotion of the government services toward general public should be a regular and obligatory part of the public sector activities and not a proposal in a specific

pro-business package. Any evaluation of tax-behavior of companies brings potential value only to the Tax Office, while it represents mostly a risk to business sector due to potential miscalculations of the tax officers. Nevertheless, it shall be emphasized that useful measures, like proposals for simplifying construction permit procedures – the Achilles heel of Slovakia's ranking in *Doing Business* – also appeared on the list.

The measures of the first package have brought some improvement in the business environment. Based on the *Business Environment Report for 2017*, we know that only nineteen measures were implemented in the course of the year and 2017, of which seven analyses were carried out. As of the end of the year 2018, four measures were not met at all; seven measures were still "in progress". The most important measures concerning obtaining the building permit have been already submitted to the legislative process.

SECOND PACKAGE

In March 2018, Peter Pellegrini was appointed as the new Slovak prime minister. Before that, he served as the deputy prime minister responsible for digitalization and, unofficially, as the main fighter against bureaucracy. He joined the Office of Prime Minister for other reasons, such as

Table 2: The measures of the first pro-business package

Measure	No. of measure
The decrease in bureaucracy costs of doing business	18
Conduct of analysis	11
Better informing	5
Improvement of public sector services quality	2

improving the business environment, but the public expected more courageous steps in this area and their easier passage. Not one thing happened.

The second package was negotiated by the government in May 2018. It contained twenty eight measures. While only a half of the measures of the first package had a direct effect on the reduction of bureaucracy and the measurable improvement of the business environment, the latter was even worse. It featured such measures to “improve” the business environment as, for example:

- approving the Agreement between the United States of America and the Slovak Republic and its inclusion in Annex 1 and Annex 2 of the Agreement between the United States of America and the European Community on cooperation

in the management of civil aviation safety (related to the export of aircrafts and their parts to the USA);

- creating a supportive tool to handle generational exchange in family businesses;
- adding the professional interpretation of the provisions of Act no. 315/2016 Coll. on the register of public sector partners;
- issuing guidelines for addressing the misunderstandings that arise under Government Regulation no. 396/2006 Coll. on minimum safety and health requirements for the building site;
- introducing targeted system tools aimed at supporting the enhancement of employees’ skills in the area of information and communication technologies.

Out of the said twenty eight measures, only eleven have the actual potential to

OCCUPATIONAL HEALTH SERVICE

The employer duty to ensure health surveillance through Occupational Health Service (OHS) was introduced on August 1, 2014. Each company, entrepreneur or self-employed, which was employing at least one person (including oneself) had to pay for services of external supplier – a health worker with the qualification of a medical doctor. The task of such an individual was to evaluate health risks on behalf of the protection of health at work. This duty represented new expenses without any real value added for most employers doing business out of risky fields (like mining, metal production, work at heights, etc.). Many ascribed the introduction of this duty to the market service-providers lobbies. OHS for all employers marked also a breakthrough

in the 2014 Bureaucratic Nonsense. Reevaluation of this institution appeared in the first pro-business package as well.

Initially, risk rate assessments for individual work positions were subject to the standard provision of Occupational Safety and Health Protection. Entrepreneurs were appealing for a return to this status, which represented less administrative procedures – especially for companies with “office work”. However, this proposal did not succeed. An amendment to this law adopted by the parliament changed the regulation on OHS only in minor part. The annual risk rate assessment is not required for a shop assistant at staples, but still, the work positions defined as “office work” must be assessed every eighteen months. The only achieved success

was that a duty of entering into a long-term contract (with monthly payments) with an OHS supplier was abolished.



LISTING A MEASURE
IN A PRO-BUSINESS
PACKAGE
AND THE FOLLOW-
ING CHANGES
IN RELEVANT
LEGISLATION
DO NOT
NECESSARILY
MEAN ADEQUATE
IMPROVEMENT
OF THE BUSINESS
ENVIRONMENT

This example clearly shows that listing a measure in a pro-business package and the following changes in relevant legislation do not necessarily mean adequate improvement of the business environment. Different interest groups (whether the unions or health service providers) have a significant influence, and even the Ministry of Economy is

not strong enough to weaken them. Licensed companies providing OHS had a strong word at the Ministry of Health, which is responsible for the legislation. The government bureaucrats cooperating with trade unions representatives usually try to account for their position to international obligations resulting from ratification of International Labor Organization (ILO) agreements or EU directives. These, however, usually do not specify concrete tools that should be implemented in the governance of the health surveillance. It is the role of individual countries to search for the most effective approaches.

Regarding the OHS, the government prescribed to employers also another obligations and costs. For example, every employee working with the computer must be inspected in the regular interval with an ECG machine. In the case of positions requiring intensive mental load, the law requires specific blood checks, which have no direct connection to mental work. Moreover, those employees who drive vehicles (e.g. taxi drivers) on the job have to pass the psychological inspection – while the majority of citizens who drive (not as a profession) do not. Finally, the government requires specific inspections for the employees exposed to noise – although these inspections have no clear connection to the impact of noise on the organism.

Waiting rooms of doctors are places of meeting of numerous group of people who simply must go for check-ups because it is prescribed by the law to their employers. The time and capital of doctors cannot be used for treating sick patients but for ineffective scan-

ning of thousands of people. Therefore, the healthcare system requires additional personnel, what increases the costs of financing this system. Should the employers ignore these obligations, they would face significant penalties. As a result, they rather pay their employees visiting doctors during working hours and cover the fees related to the inspections required by the state.

In addition to regular check-ups, another ineffective state measure is the obligation to provide reconditioning stays for employees who work in noise. Gradually evolved noise induced hearing damage is irreversible and permanent and staying in the spa does not help an employee with this disability¹.

Creating regulations should lead to efficiency and effectiveness. The exact purpose of introducing the abovementioned requirements by the Ministry of Economy remains, however, unclear. When evaluating legislation in this area, one encounters typical shortcomings in the regulatory process. How many of the occupation-related diseases have been avoided by examinations? How many diseases have been iden-

¹ Currently, no established clinical treatments exist to reverse the effects of permanent NIHL. See Oishi N, and J. Schacht (2011) "Emerging Treatments for Noise-Induced Hearing Loss", [in]: Expert Opinion on Emerging Drugs, Vol. 16(2), pp. 235–45.



WAITING ROOMS
OF DOCTORS ARE
PLACES OF MEETING
OF NUMEROUS
GROUP OF PEOPLE
WHO SIMPLY MUST
GO FOR CHECK-
UPS BECAUSE
IT IS PRESCRIBED
BY THE LAW
TO THEIR
EMPLOYERS

tified thanks to occupational health check-ups? No such answers can be found. The employer should not be responsible for diagnosing any disease of the worker. For this purpose, there are regular preventive surveys covered by public health insurance – which should differ on the basis of a person's risk exposure.

reduce the regulatory burden and administrative costs of entrepreneurs. Although in the introduction to the package the Ministry of Economy writes: "Better results in international evaluations can only be achieved through significant reform steps", these are missing in the document.

There were five further analyses proposed, and it may seem from the content of the other measures that the Ministry of Economy has reformulated its role. Instead of reducing the bureaucratic burden and simplifying the business environment, the ministry has created a list containing any

ideas to support economic activity in Slovakia. How else can we interpret a measure designed to *provide better information on regional investment aid in the least developed regions*⁹?

However, some positive examples may also be found in the list of measures. In particular, the introduction of an obligation for the state to use the information already provided by business entities and individuals should be highlighted. Nonetheless, this measure has long resisted implementation and has only come into effect in 2019. A second positive example is the abolition of the obligation to pay the VAT guarantee payment. Formerly, it had to be paid by new companies that became VAT payers. The amount of this guarantee used to be determined by the Tax Office, and the rules were very unclear and could be misused by officials. The purpose of this guarantee was to prevent VAT fraud, but it turned out that this tool is ineffective and inappropriately burdening particularly tax-responsible firms.

After a year since the introduction of the second package, the evaluation of the implementation of these measures is still not possible as the Ministry of Economy is yet to submit its official assessment. Needless to say, many of the measures or analyses are still ongoing.

THIRD PRO-BUSINESS PACKAGE

Contrary to two previous packages, with the composition of measures closely resembling the German “Eintopf”, the third pro-business package approved by the government in February 2019 contains numerous measures that consistently focus on the business environment. The package consists of thirty seven measures, out of

which twenty four should have a measurable impact on the entrepreneur.

Truth be told, there is only one measure that requires an analysis; seven measures are targeted at introducing better provisions of information to businesses; four measures are devoted to the domain of construction permits and related legislation, which could lead to shortening of the length of issuance of this approval in the near future.

A change in the approach to selecting measures for this package was also observed. Not only it contains proposals for ad-hoc cancellation of some obligations or administrative costs for entrepreneurs, but also first signs of a systemic approach to the problem may be identified. A general change in the relation of state and the entrepreneur can be detected.

For example, the Slovak Trade Inspection (STI) should have a right to give a “second chance” to the entrepreneur instead of automatically imposing a fine. Agencies performing various controls of entrepreneurs will have to inform one another about ongoing inspections in order to eliminate duplicity of controls. Their initiation should reflect the previous behavior of entrepreneurs so that repeating inspections of responsible companies will be eliminated. First, clear-cut checklists for entrepreneurs identifying relevant obligations should be created. Fulfilling all of these obligations, the company owner will have assurance that really all of them have been met. Eliminating the possibility of omitting one of the requirements by mistake would therefore help avoid misunderstandings that often stem from chaotic and unclear regulations. Additionally, the Public Health Authorities (PHA) should, on

⁹ <https://rokovania.gov.sk/RVL/Material/22933/1>

certain days, provide a free consultation to entrepreneurs.

One of the shortcomings of this package is the fact that two proposed measures were already listed in the previous packages – namely, the changes in the Act on Illegal employment and the analysis of the register of the size of companies. In this regard, the second measure is bizarre as it had been already reported to be fulfilled as a proposal from the first package.

The symptom of inefficient government's attempt to improve the business environment can be shown by the fact that as late as in 2019 the obligation to submit to the public authorities extracts from the Letter of Ownership, the Commercial Register, the Trades Licensing Register, together with extracts and write-offs from the Criminal Records Register ceased to exist. These are the information that the state is creating and collecting for natural and legal persons. Billions of euros earmarked for development of digital registers can be finally, after many years of false promises, enjoyed by both entrepreneurs and individuals. The change is based on the new *Act on Some Measures to Reduce Administrative Burdens by Using Public Administration Information Systems*, which has been dubbed "the Law against Bureaucracy". It also introduces a general rule that public authorities may not require information that the citizen has already provided. According to official government estimates, since its introduction in September 2018, the Law against Bureaucracy has saved citizens and entrepreneurs more than 80,000 hours' worth of paperwork along with cutting travel costs, which together amounted to more than EUR 1 million¹⁰. Currently, an amendment to this

”

WITH THE COMPOSITION OF MEASURES CLOSELY RESEMBLING THE GERMAN "EINTOPF", THE THIRD PRO-BUSINESS PACKAGE APPROVED BY THE GOVERNMENT IN FEBRUARY 2019 CONTAINS NUMEROUS MEASURES THAT CONSISTENTLY FOCUS ON THE BUSINESS ENVIRONMENT

law aimed at further eliminating additional eleven forms is being prepared.

Noteworthy, the Law against Bureaucracy contains several measures that were not listed in the pro-business packages. In addition to these packages, the Slovak

¹⁰ <https://www.vicpremier.gov.sk/aktuality/informacia/v-boji-proti-byrokracii-ideme-este-dalej/>

BUSINESS PREMISES: A COMPLEX APPROACH

A positive sign of the third package is attempting complexity. The Ministry of Economy presented a series of measures to simplify the agenda of opening the business premises. This is a kind bureaucracy which almost every entrepreneur has to fight with, except for online companies. It is particularly challenging for restaurant/food entrepreneurs who want to open new premises as Public Health Authorities (PHA) may delay the opening even for several months.

Currently, every entrepreneur must ask the PHA for permission to open a shop, regardless of whether it is a business with potential risks for a customer. As a result, the opening of the office of the insurance agent requires a personal visit of a specialist officer, form filling, payment of a EUR 50 fee, and a 30 days' waiting period for issuance of a permit.

This obligation shall change to the notifying obligation for non-risk operations, thus removing the payment and the time limit. This will apply when not only opening, but also transferring the premises to another person. PHA will also not approve the operating order of all establishments anymore, but only those where there may actually be serious health damage.

A positive step is the introduction of an obligation for PHA to clearly define relevant legislation and the list of attachments needed to open the business premises (at this time for four most frequent types of businesses; ie. restaurants, offices, non-food retail shops, gyms). This step will not only reduce the number of attachments required (which will save the business sector around EUR 1.3 million), but may also be regarded as the first move in the desired direction of state regulation of business. Regulation that is explicit, eliminating officials acting on a whim, and without the need for expensive business advisors to

parliament adopted several new amendments to laws that have further improved the business environment (for instance, in the Value Added Tax Act and in the Corporate Income Tax Act)¹¹.

COUNTERFLOW

Nevertheless, efforts to improve the business environment in Slovakia are not a cross-cutting priority of the current government and parliament. In the period under review, the parliament enacted several laws, which, on the contrary, significantly

undermined the business environment. Following these changes:

- 1) the premiums for night and weekend work have increased;
- 2) a separate levy of 2.5% on turnover of retail chains was introduced;
- 3) employers with over fifty employees have a new obligation to pay annually 55% of the costs of a holiday stay in tourist premises in Slovakia to every employee (maximum EUR 275)¹²;

¹¹ The amendment to Act on VAT changes the double payment of tax on retail purchases made by entrepreneurs and reduces the rate applied on tourist services to 10%. The Corporate Income Tax Act Amendment introduced reduced paper work and more extensive electronic communication with Tax office.

¹² Although these payments are exempt from taxes and levies, and from the employees' point of view, this is a form of an increase in net income. For employers, however, there is an increase not only in direct costs but also in an extensive administrative agenda related to this.

ensure that the entrepreneur fulfilled all the requirements.

Hoteliers and operators of sports facilities should also benefit from these improvements. Currently, they have to meet many formal and, at times, rather funny terms. For instance, as pertains to operators of saunas, the following examples are quite telling: *space for footwear of customers in the dressing room must be separated from other areas; and the capacity of the dressing room must be at least twice as high as the number of seats in the sauna.* The package measures reduce the level of regulation to ensure lighting, the location of showers in the sauna, the minimum frequency of basic repairs of all coatings and paintings in human body care facilities. Complete requirements for showers in massage parlors, workers' floor areas in

parlors or waiting rooms requirements in saunas will be fully discharged.

The complexity of these measures also lies in the fact that it does not look at the operation of premises only from the point of view of one inspection body, but a few more. Thus, the duties of the operator do not decrease only in relation to the PHAs, but also to the Slovak Trade Inspection (STI).

STI has also the task of drawing up checklists regulating the opening of premises, requirements during the inspection, or after inspection. The information on the establishment of the facility will be announced by the entrepreneur only once, other relevant authorities and municipalities will have to share this information.

- 4) all entrepreneurs who receive sales in cash now have to be connected online to the financial administration systems and record all their sales there. Expenditures for entrepreneurs for this purpose amount to EUR 80–280 for new entrepreneurs;
- 5) from 2019, the employer is obliged to report a job vacancy with details to an appropriate Labor Office in a particular territorial district in which the place of employment is located;
- 6) a non-life insurance tax of 8% (which applies also to contracts signed in previous years) entered into force. The tax is paid by the insurance company, but if the entrepreneur wants to be insured abroad, the tax is directly passed on to them.

This list of measures is worrying if the costs related are taken into account. According to the estimations of the Minis-

try of Economy, the benefits or savings related to thirty-seven measures of the third pro-business package are estimated to EUR 72 million. Overall, direct costs of the six measures listed above amount to several hundred million of euros, whereas indirect costs would add another tens of millions of euros.

THE STORY OF ONE FAILURE

As noted above, Slovakia has set itself the goal of moving to the 15th place in the *Doing Business* rankings by 2020. For three years, since first announcing their efforts, the Ministry of Economy has been trying to improve the business environment. But is Slovakia any closer to the goal now than it was before? On the basis of the existing *Doing Business* data [See Figure 1], the current trend shows that the 15th place in the ranking is unachievable as Slovakia is constantly descending in the ranking. If one looks at Lithuania, which



ACCORDING TO OFFICIAL GOVERNMENT ESTIMATES, SINCE ITS INTRODUCTION IN SEPTEMBER 2018, THE LAW AGAINST BUREAUCRACY HAS SAVED CITIZENS AND ENTREPRENEURS MORE THAN 80,000 HOURS' WORTH OF PAPERWORK ALONG WITH CUTTING TRAVEL COSTS, WHICH TOGETHER AMOUNTED TO MORE THAN EUR 1 MILLION

can be considered as an exemplary case, the country managed to move up to the 14th place despite its excellent position (20th) in the 2016 ranking. Even though several other countries have also dropped in the rankings, but Slovakia the most significantly.

The drop in ranking does not necessarily mean that the business environment in the country is getting worse. The differences in the actual score among the countries at the top of the ranking are relatively small, so the ranking provides slightly distortive information about the actual status of the environment in the country. *Ease of doing business score* indicates that Slovakia has improved slightly. Still, the improvement rate for Slovakia over three years is one of the smallest when compared with other examined states¹³.

A similar story is also visible in the development of the value of the *Bureaucratic Index*. Over the past three years, its value (ie, the time required for the enforced administration) has not changed for Slovakia. The deterioration in rankings of the country occurred also in the *World Competitiveness Ranking*¹⁴, whereas a slight improvement was noted in *Global Competitiveness Index*¹⁵.

WHERE THE PROBLEM IS

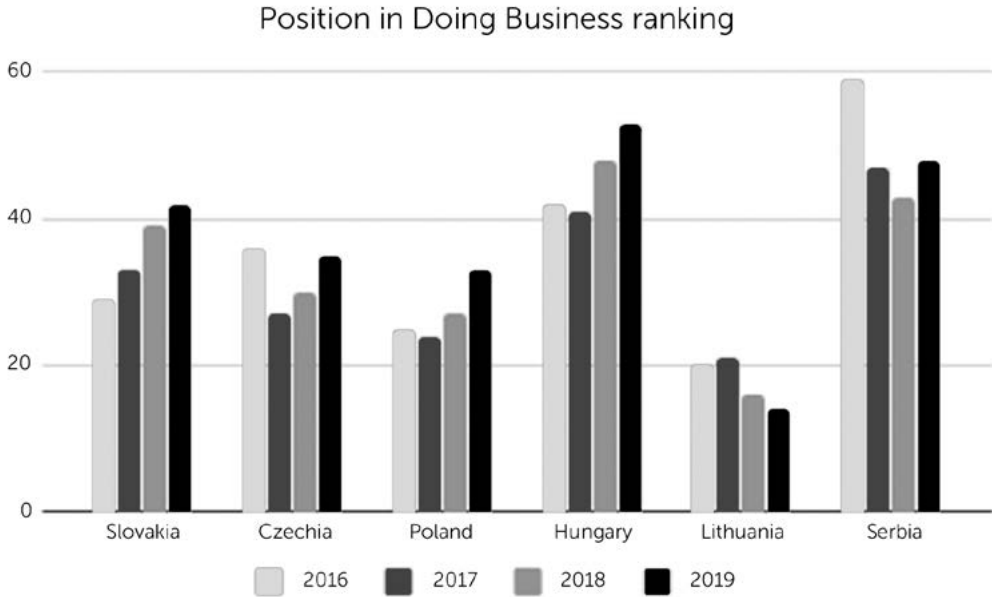
There are six crucial factors that stand behind the failed attempt to improve entrepreneurial environment. These include: sectorialism, bureaucratism, ineffective public sector, control fetish, the absence of deregulatory tools, and law enforcement. Let us discuss each of them in a smaller or greater detail.

¹³ Even though all the examined countries have improved their scores, Serbia leads as the biggest reformer. Then, Lithuania, which has greatly outpaced residual countries. Slovakia, Poland, and the Czech Republic have experienced only minor changes, which is ultimately reflected in their rankings – the countries that reformed more have gone ahead. Yet, it has already become clear that Slovakia will not reach its target to take the 15th place in the Doing Business ranking by 2020.

¹⁴ <https://www.imd.org/wcc/world-competitiveness-center-rankings/world-competitiveness-ranking-2018/>

¹⁵ <http://reports.weforum.org/global-competitive-ness-report-2018/country-economy-profiles/#economy=SVK>

Figure 1: The Evolution of the *Doing Business* ranking



Source: *Doing Business Index 2019*

“
EFFORTS
TO IMPROVE
THE BUSINESS
ENVIRONMENT
IN SLOVAKIA ARE
NOT A CROSS-
CUTTING PRIORITY
OF THE CURRENT
GOVERNMENT
AND PARLIAMENT

SECTORIALISM

The Slovak Ministry of Economy collected hundreds of suggestions on how to improve the entrepreneurial environment – covering red tape, expenditure, regulation, and tax burden of doing business. Despite this initiative, only less than a hundred measures appeared in pro-business packages within the period of two years. Out of this hundred, many represent analyses or improved informing on public sector services. Why are real measures decreasing the burden of doing business missing?

Every pro-business package was a subject of inter-departmental review. Proposed measures were consulted with all ministries. Admittedly, they could stop questionable measures in the process of preparing the packages. For example, the

Table 3: Ease of doing business score¹⁴

	Slovakia	Czechia	Hungary	Poland	Lithuania	Serbia
Ease of doing business score 2019	75.17	76.1	72.28	76.95	80.83	73.49
The change in the score observed between 2016-2019	0.6	0.36	1.41	0.58	1.9	4.1

Source: *Doing Business Index 2019* [methodology 2017-2019]. Note: The higher the score, the better the result

Ministry of Finance was not willing to support an increase in the limit for income tax prepayments, which is needlessly low. Another example is the Social Insurance Agency, which was not willing to cut a load of information required from employers accordingly.

These authorities often argue that the inability to reduce such problematic measures stems from either a possible drop in public sector revenues or insufficient IT systems' preparedness. This is an instance of a situation when the business environ-

ment improvement had not become the government priority, but just one of many tasks of a single sector of the government (in this case, the Ministry of Economy). All the remaining ministries are willing to adopt only those measures proposed by the Ministry of Economy that 1) have zero impact on public finance; 2) do not withdraw their control power, or; 3) require no additional investments. Therefore, it becomes evident that the main retarder of improving the status quo is an absence of interdepartmental agreement guaranteeing the willingness for compromise.

BUREAUCRATISM

If the improvement of the business environment is not a generally accepted political priority, the process will be taken over by bureaucracy apparatus. Bureaucrats, hence, the employees of public sector, will find the problems, drawbacks, reasons to oppose every suggested improvement. The chairman of the Supreme Audit Office of the Czech Republic, Miloslav Kala¹⁶, recently pointed out the mightiness of the bureaucratic apparatus. According to his critique, new committees, working groups,



ONLY LESS THAN
A HUNDRED
MEASURES
APPEARED IN PRO-
BUSINESS PACKAGES
WITHIN THE PERIOD
OF TWO YEARS

¹⁶ https://www.lidovsky.cz/domov/desive-cteni-stat-je-pod-tlakem-ekonomickych-skupin-napsal-sef-nku-prezidentovi.A180725_110212_ln_domov_jho

or a multitude of analyses are being introduced with one major goal: to postpone solving the problem and to avoid the pains and risks of implementing much-needed measures. As such, the bureaucracy system focuses on minor, annoyingly insignificant issues in place. In turn, such a system cannot deal with fundamental strategic decisions. Mr. Kala also criticized a formalism creating opportunities for many stakeholders – not for the citizen, but, instead, for dozens of lawyers, consultancy firms, or various other interest groups. These agents are the real beneficiaries of the current system. In certain cases, these pressure groups govern the state instead of the public sector governing them. It can only be possible thanks to the conditions set by existing legislation.

The sluggish process that exists in Slovakia is a shiny example of such a paradox. Despite seemingly good intentions, regulation is still abundant. However, it is a systemic problem, which retards every reform attempts. It is an inherent feature of the welfare state, which regulates every triviality of social course of events.

INEFFECTIVE PUBLIC SECTOR

Even though the World Bank's *Ease of Doing Business* methodology for CEE countries evaluates the processes duration in capital cities, in one of its analyses, the World Bank also considered the processes' duration in other cities in selected countries¹⁷. If the processes in the capital had the same duration as in other regions of Slovakia, the country would leap by nine positions in *Doing Business* rankings.

One may identify the reason in the incompetence of state sector managers (the

¹⁷ <http://www.doingbusiness.org/en/reports/subnational-reports/eu-croatia-czechrepublic-portugal-slovakia>



IF THE IMPROVEMENT OF THE BUSINESS ENVIRONMENT IS NOT A GENERALLY ACCEPTED POLITICAL PRIORITY, THE PROCESS WILL BE TAKEN OVER BY BUREAUCRACY APPARATUS

same applies to municipalities) to ensure the same duration for handling with applications, especially for construction permits. For example, the duration of the VAT registration process for Bratislava accounts for ten days, but only five days in Žilina (northern Slovakia). Moreover, if an entrepreneur wants to start a business in Žilina, the electricity will be supplied twenty-three days sooner than in Bratislava. The contract enforcement in Košice (eastern Slovakia) is one hundred and forty days shorter than in the capital, where it lasts for 775 days. Meanwhile, opening a business in Prešov (north-eastern Slovakia) is eleven days faster than in Bratislava.

In light of these differences, unwillingness to manage the public sector as a whole may be identified as the root cause of the problem from a country-wide point of view. In Slovakia, a regional approach clearly dominates. A director of local authorities is a local king. The spare capaci-



NEW COMMITTEES,
WORKING GROUPS,
OR A MULTITUDE
OF ANALYSES ARE
BEING INTRODUCED
WITH ONE MAJOR
GOAL: TO POSTPONE
SOLVING
THE PROBLEM
AND TO AVOID
THE PAINS AND RISKS
OF IMPLEMENTING
MUCH-NEEDED
MEASURES

ties across the regional authorities are not shared for the sake of regions dealing with more agenda.

CONTROL FETISH

The state authorities do not like giving up control over regulated subjects. The example of Occupational Health Service demonstrates that the control strictness and regulation is rather a lag than a justified evidence-based risk. However, the attitude towards control of regulated subjects and its shift from “we must control you before you do anything” to “you are responsible for the consequences of your deeds” anticipates a paradigmatic change

in running the public sector and its mission. The progress can be hardly expected if debureaucratization has not become a priority.

ABSENCE OF DEREGULATORY TOOLS

The absence of political will to systematically improve the business environment is causing the lack of application of functional mechanisms supporting the delivery of this goal.

Be it a “sunset clause” (regulation with “expiry date”), or “one in – one out” principle (or, ideally two regulations out), the legislative process itself should be a subject of stricter provision. Not only ministries’ legislative proposals, but also MP’s legislative initiative should be a subject of impact assessment, the new legislation regulating doing business should always become effective on January 1, the EU directives’ transposition should always be evaluated in terms of gold plating and double banking¹⁸. Also, the government should establish an independent agency which would keep an eye on the quality of preparing RIA clauses.

LAW ENFORCEMENT

Law enforcement is a key factor in business environment quality. A long duration of starting a business may be annoying, but the inability to enforce for overdue payments can easily mean going out of business. For many years, Slovakia ranked at the bottom¹⁹ in terms of the duration of civic and business lawsuits. This can be ascribed to the absence of specialization at courts (most of the courts do all judiciary agenda), the lack of competition in judiciary profession, and a significant

¹⁸ http://iness.sk/sites/default/files/documents/pdf/INT/2017/int_7-2017_lepsie_zakony.pdf

¹⁹ <https://www.coe.int/en/web/cepej/cepej-work/evaluation-of-judicial-systems>

rate of nepotism in the country. The reform to fix the status quo in this area is one of the most needed and necessary. Nevertheless, only a little attention is paid to law enforcement in pro-business packages.

CONCLUSIONS

Despite the ambitious goals of the Slovak government in the field of business environment improvements set in 2016, it can already be stated that they will not be fulfilled by 2020. Although most of the technical prerequisites were in place already back in 2016 (including a reference in the government's programming document, the existence of regulatory control bodies, the existence of the RIA mechanism, cooperation with employers representatives and the third sector), it is not enough to achieve the set objectives. Three pro-business packages approved by the government to this date (submitted between June 2017 and January 2019) were a rather isolated effort of a single ministry (Ministry of Economy) instead of the government's strategic priority. Despite (or perhaps thanks to) unique economic times with unprecedented decrease in unemployment rate powered by a decade-long strong economic growth, the government did not find the courage to push a significant change in regulation of entrepreneurship, in taxation, or the judiciary. The results can be seen not only in a lower ranking in *Doing Business*, but also in the lower interest of foreign investors to import capital to Slovakia.

Hopefully, the time will come when such pro-business packages will not represent highlights for entrepreneurs, but rather a daily routine for ministries. Nevertheless, currently, in order to reverse a backslide, it is necessary to:



THE ABSENCE OF POLITICAL WILL TO SYSTEMATICALLY IMPROVE THE BUSINESS ENVIRONMENT IS CAUSING THE LACK OF APPLICATION OF FUNCTIONAL MECHANISMS SUPPORTING THE DELIVERY OF THIS GOAL.

- make business environment improvement a political priority – one that is worth of tax revenues sacrifice;
- impose the responsibility for quantifiable improvements of this goal to all ministries and relevant authorities;
- apply anti-red tape tools, such as a “sunset clause”, or “one in – one out” principle;
- reduce the influence of interest groups supporting bureaucratism of the public sector;
- implement the philosophy “recommend first, control second” instead of “control first and penalize”;



SO FAR, THE SLOVAK ECONOMY THRIVED MAINLY THANKS TO SUCCESSFUL PROJECTS OF FOREIGN INVESTORS. CARS PRODUCTION WITH ITS EXTENSIVE SUPPLIER'S CHAIN IS THE LEADING INDUSTRY OF THE SLOVAK ECONOMY, WHICH BECAME ONE OF THE MOST OPEN ECONOMIES IN THE EU

- reform a public sector to shorten the time spent with state-imposed bureaucratic activities and to ensure the same speed of processing the demands of companies across all regions of the country.

So far, the Slovak economy thrived mainly thanks to successful projects of foreign in-

vestors. Cars production with its extensive supplier's chain is the leading industry of the Slovak economy, which became one of the most open economies in the EU. Nevertheless, this situation creates huge dependence – either on foreign demand for Slovak products or type of jobs, which are often mechanical, with low value added. Therefore, the Slovak economy needs an environment which enables easy emergence of new businesses in various sectors so that it will become more resistant to fluctuations and create a chance for stronger economic growth and wealth creation. Opportunity costs of overregulation and too much administrative burden are too significant to be ignored. ●



*

RADOVAN
ĎURANA

Co-Founder and Analyst in INESS, where he specializes in taxation, pensions, and business environment. Formerly, he worked in a commercial institution as a credit risk analyst



*

MARTIN
VLACHYNSKY

Analyst at INESS. His fields of interest include the energy sector, business environment, competitiveness, and agriculture. He has been leading the Top20 initiative, focusing on improving business conditions in Slovakia



*

JAKUB
ZEMAN

Finance student at Faculty of National Economy, University of Economy in Bratislava. He has a BA in National Economy and Law. He focuses mainly on the business environment