

Government Strategy to Reduce Administrative Burden: Case of the Czech Republic



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Bureaucratic burden is one of the most discussed and topical issues. No wonder! Whatever we may want or not, each one of us meets bureaucracy and administrative obstacles almost every day – in our jobs, businesses, or personal lives. Sometimes, it is a routine, sometimes it takes a few seconds, and most of the times it is unbearably annoying. But unnecessary paperwork translates primarily (from the economic point of view) into costs. More paperwork means more time wasted. Time, which could easily be spent working or simply doing something fun.

The fact that administrative barriers are unpleasant, especially for entrepreneurs, and negatively influence overall competitiveness of the whole economy, has been realized by the Czech government about fourteen years ago and they decided to act. However, as it turns out, oftentimes, the intention of the government (although with noble purpose) does not match the desired effect. Yet governmental strategy to constantly reduce administrative burden and its regular *measurement* is not set completely wrong. There are clear objectives, a clearly defined path to the target and well-defined particular steps.

After its last measurement of the administrative burden in 2016, the Ministry of Industry and Trade of the Czech Republic (which is in charge of the project of Reducing Administrative Burden) reported that the burden had fallen by almost 31.5% since 2005. All right, but does the Czech society feel any relief from unnecessary and often irritating clerical nonsense? The entire process of reducing administrative burden in the Czech Republic started in 2007, and government has considered it a great success. The problem is that entrepreneurs and the public perceive the situation differently.

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THE YEAR 2007: A NEW HOPE

The idea for a long-term government strategy was developed in response to a short study titled *Report on Capacities of Regulatory Governance of the Czech Republic*, prepared earlier in 2007 by the SIGMA – Support for Improvement in Governance and Management, associating EU and OECD representatives. The report revealed four major recommendations in the field of regulation for Czechs:





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- 1) Facilitate the development of better regulation tools by providing clear political support for the implementation of the Government's Better Regulation Strategy.
- 2) To this end, appoint a Member of the Government responsible for achieving objectives of the government strategy within a pre-agreed timeframe.
- 3) Establish a "better regulation" for systematic promotion of a government committee or a high-level council composed of top officials from top management of

ministries and other central administrative authorities who will be responsible for promoting and developing government policy to improve the regulatory process within each sector.

- 4) At the same time, develop within the central state administration adequate capacities to improve the regulation process and to use appropriate tools for improvement.

At that time, the right-wing government headed by Prime Minister Mirek Topolánek (Civic Democratic Party) took these recommendations seriously and decided to act immediately. It all started with the creation of a document called *Reducing Redundant Regulation and Bureaucracy* in 2008. The purpose was, first, to analyze and evaluate the situation, and second, to identify a way to reduce administrative burden.

FULL COSTS OF BUREAUCRATIC BURDEN

In 2005, the value of administrative burden in the Czech Republic amounted to a total of CZK 86.4 billion (2.88% of GDP at that time)¹. Although the most serious consequences lay on entrepreneurs, they are still experienced by the whole society. Administrative burden has therefore been identified as one of the major issues that need to be tackled effectively.

The abovementioned document also stated that a 20-25% reduction of the burden would bring a 1-1.5% increase in GDP growth rate. First of all, it was important to define concepts and divide the issue into as many particular groups as possible, which would enable a better targeting of concrete meas-

¹ Czech Ministry of Industry and Trade (2008) *The Government Approved a Plan to Reduce Administrative Burden by 2010*. Available [online]: <https://www.mpo.cz/cz/podnikani/regulace-podnikani-a-snizovani-administrativni-zateze/vlada-schvalila-plan-snizovani-administrativni-zateze-podnikatelu-do-roku-2010--43985/>

ures. Although bureaucratic and administrative burdens are closely related, they are not the same.

Administrative costs are those which are incurred by citizens, businesses, the non-profit sector, and public authorities by fulfilling the statutory obligations to provide information about their activities to public authorities or private individuals. The bureaucratic burden, on the other hand, is not only the administrative burden itself (i.e. the costs of fulfilling information obligations laid down by legal regulation), but also other costs associated with the implementation of the law. These include a whole range of other costs that are not obvious at the first glance, for instance:

- irritating costs are obviously annoying, hidden, and expended unnecessarily. These include waiting in a queue, filling out forms, etc.;
- costs of delays are the costs and loss of earnings incurred as a result of waiting for a mandatory decision of the competent government authorities before the intended operation can be carried out;
- costs of change are the costs resulting from changing the regulation of the system. Frequently, the costs incurred as a result of changes in legislation (such as a change in accounting systems, increased safety or hygiene costs or tightening any permit conditions);
- costs of uncertainty are the costs related to unforeseeable or difficult to deal with circumstances and facts. These include, for example, insufficient information from state authorities on major issues.

BREAKDOWN OF LEGAL REGULATION COSTS

In addition to defining the issue, the Czech government has also provided a set of very limited approaches and recommendations to other state authorities about how to reduce the bureaucratic burden. According to



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these, gradual digitization and computerization should play a major role in the whole process. However, these recommendations were very general and often empty principles, such as:

- a clear identification of sources of bureaucratic burden;
- a proposal for effective measures;
- removing unnecessary burdens;
- measurement.

The government was, obviously, very cautious about the complexity of the topic and therefore issued only a set of rather general recommendations. True responsibility was delegated to the Ministry of Industry and Trade.

MEASURING ADMINISTRATIVE BURDEN

A number of methodologies have already been developed to evaluate administrative burden. The Czech government selected the three following models and recommended them for application in institutional analytical materials.

- **SCM (Standard Cost Model)**

The procedure is based on a relatively simple calculation, whereby the individual financial obligations under a particular legal regulation determine the financial costs which emerge to meet all the obligations (hourly costs x number of hours x number of stakeholders x frequency of fulfilment of duty). Let us consider the following basic calculation²:

An administrative operation takes 3 hours (time) and the hourly wage of the company's employee is CZK 150. The price will be $3 \times 150 = 450$ CZK. If the requirement applies to 1,000 companies (range) that have to provide the information twice a year (frequency), the amount will be CZK 2000. The total cost of this administrative operation will therefore equal CZK $2,000 \times \text{CZK } 450 = 900,000$ CZK.

Such an approach represents the macro-economic point of view on administrative burden. It does not consider individual attitudes of citizens or entrepreneurs, just assumptions of government officers.

- **Quick Scan**

The main purpose of Quick Scan is to prioritize classical SCM measurements. Obviously, not all laws and areas of the legal framework contain obligations in the form of information reporting or at least do not contain significant burdensome information reporting obligation. Based on the experience of other countries, Pareto's principle usually can be applied.

20% of all legislation typically makes up about 80% of the administrative burden. The procedure of this instrument consists of, first, gathering the available data (all results of previous complex measurements,

surveys etc.) and, second, identifying the most burdensome areas that are measured by the SCM method.

- **Route Map**

A method based on monitoring bureaucracy (administrative burdens) which affects particular social groups. A typical representative of a chosen social group is monitored in order to identify which specific difficulties and obstacles he/she must face, what authorities and agencies he/she has to visit and how much time it takes.

The task of reducing the burden was delegated to the Ministry of Industry and Trade (thus a ministry which should also represent the interests of entrepreneurs), which considers this problem as one of the key issues and devotes itself to regular evaluation, measurement, and coordination of all activities that should lead to a constant reduction of the administrative burden.

The first long-term strategy was established at the beginning of 2008. Six ministries – Finance, Labor and Social Affairs, Health, Agriculture, Environment and Industry, and Trade – were involved in the process. This first plan envisaged reducing the burden by at least 20% by 2010. In addition, the Ministry of Industry and Trade committed to informing the government about the progress by preparing an official report at the end of March annually.

THE YEAR 2010: THE FORCE AWAKENS

A standard SCM model was used to measure the administrative burden in the Czech Republic again. After less than two years of work, the Ministry of Industry and Trade declared that 117 obligations³ were cancelled,

² Following methodology of measurement of administrative burden (2.1) by Ministry of Industry and Trade.

³ This reduction included such obligations as providing unnecessary forms or the same kind of information for one institution in various forms, among others.

while another 165 obligations were reduced. Such a reduction should bring savings for entrepreneurs totalling to CZK 11.5 billion a year, which would mean the reduction of administrative burden by 15.6% (when compared to the 2005 data).

This first report of its kind positively evaluated the approach of all ministries. The value of administrative burden fell from CZK 86.4 billion to CZK 76.5 billion. At the same time, the government extended its planned target to reduce administrative burden not by 20%, but by 25% by the end of 2012, due to the initial success. The force had really awakened.

THE YEAR 2012: FALLOUT

The end of 2012 brought this ambitious project to the scheduled finish line. Were the goals achieved? Well, almost. Compared to 2005, the administrative burden dropped by 23.36% – down by CZK 17.2 billion, which means that the target was missed by 2%.

How did the Czech ministries cut off the administrative obstacles? A very comprehensive report⁴ evaluating the entire project described all the specific steps of individual ministries (i.e., the six originally involved in the project). These were mainly amendments to the laws and regulations unifying information systems, simplifying submissions of various types of applications and forms, but also, above all, eliminating unnecessary and harassing information obligations (e.g. enclosing a criminal record to a trade license application, etc.). The possibility of submitting forms in electronic format also improved considerably. Finally, a number of other ministries (Education, Transport, Interior, and Culture) and gov-

ernmental institutions (such as the Czech Statistical Office, the Cadastral Office, the Office for the Protection of Economic Competition or the Czech Telecommunication Office) were also additionally involved in the project, since majority of administrative obligations imposed by them were identified as unnecessary.

The end of the first phase also brought a new methodology for measuring the administrative burden (version 2.0). For the sake of clarity, all information obligations monitored were divided into twelve areas: (1) entry into business, (2) business law, (3) issuing permits, (4) employment conditions, (5) tax payments, (6) property registration, (7) consumer protection, (8) environmental requirements, (9) producer requirements, (10) internal market, (11) public procurement, (12) and statistics. The methodology also refined the SCM model, which was a key quantitative indicator. At the same time, a qualitative assessment indicator was added, in the form of a feedback assessment (RIA). This separation helped to divide fulfilled measures to particular areas and monitor which exact part of administrative burden was reduced the most. Basically, it was more of a clerical improvement.

THE YEAR 2013: FIFTY-THREE SHADES OF ADMINISTRATIVE BURDEN

Because the original project was considered to be very successful, the Czech government decided to continue in its praiseworthy activities. However, the goal was no longer numerical. A set of fifty-three concrete measures were identified and set at the beginning of the year to further reduce/eliminate administrative burdens.

Altogether, in 2013, an additional eighteen measures were set, thirty-four were fulfilled (out of seventy-one), while others were subject to a more complicated legislative

⁴ Ministry of Industry and Trade (2012) *Report on the Implementation of the Plan to Reduce the Administrative Burden by December 31, 2012*. Available [online]: <https://www.mpo.cz/assets/dokumenty/49031/55233/602979/priloha001.pdf> [in Czech]

revision. After the evaluation conducted at the end of the year, administrative burden amounted to approximately CZK 65.3 billion. Since 2005, there had been a decrease of 24.4 %. The government also pledged that at least sixty measures will be accomplished by the end of 2015.

THE YEAR 2014: EXPERT GROUP BEGINS

According to the Ministry of Industry and Trade, the year 2014 was another fruitful one. Another ten measures were successfully implemented (forty-four out of seventy-one in total since the beginning of 2013). At the same time, another eight new measures were adopted (thus amounting to

seventy-nine measures). For example, the employer's obligation to have a certified copy of an employee's work contract in the event of a check was removed, whereas liability of registration of foreign tourists was reduced.

However, the biggest innovation occurred with the establishment of the so-called Expert Group on Administrative Burdens – with the Ministry of Industry and Trade at the helm which consists of representatives from the following institutions:

- Association of Small and Medium Enterprises and Tradesmen of the Czech Republic,
- Chamber of Commerce of the Czech Republic,
- The Confederation of Industry of the Czech Republic,
- The Trade and Tourism Union of the Czech Republic,
- Confederation of Employers' and Entrepreneurial Associations of the Czech Republic,
- University of Economics, Prague,
- The Association of Entrepreneurs and Tradesmen of the Czech Republic,
- Union of the Czech Republic,
- The Association of Private Agriculture of the Czech Republic,
- Party of Privateers of the Czech Republic.

Involving the abovementioned institutions was to ensure the participation of business and academia (besides the government) in the problem-solving process.

The Expert Group meets regularly once every three months. Its main task is to create and assess measures with positive impact on the business environment, especially in the field of administrative burden, which are proposed by the business community. The



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A NEW SPECIFIC TARGET WAS SET FOR THE FUTURE: A TOTAL OF FORTY MEASURES HAS TO BE COMPLETED BY THE END OF 2020

novelty also consisted in a new website⁵ via which anyone can send their incentive to reduce administrative burden. Every incentive is subsequently evaluated. However, another administrative burden measurement was scheduled for 2016.

THE YEAR 2015: THE GOAL IS MET! LONG LIVE THE GOAL!

During the year 2015, an additional thirteen new measures were proposed. Thus, the total number of measures monitored increased to ninety-two. Altogether, sixty-two measures were met by December 31, 2015, so the goal set by the government was met. But it was not the end. New mission updates for 2016 also added an interesting task for all the sectors concerned: to establish “anti-bureaucratic commissions”, with the Ministry of Industry and Trade serving as the coordinator. The newly created bodies were to serve as partners of the Expert Group, discussing issues within competence of relevant departments, and at the same time, taking measures to reduce the admin-

istrative burdens on entrepreneurs caused by their particular legislation.

THE YEAR 2016: THE MEASUREMENT RISES

During the year 2016, a total of twenty-three measures were met by the involved ministries, for example:

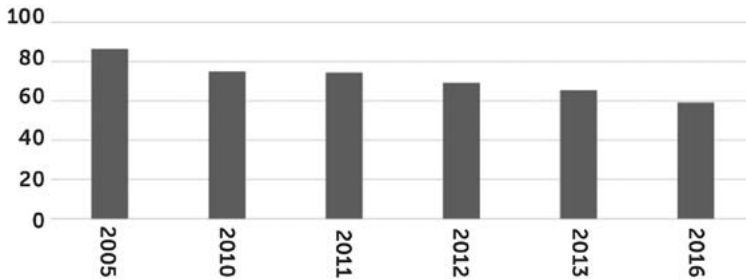
- Public Procurement Act Amendment which has reduced the administrative burden for both contracting authorities (the possibility of documenting certain facts in the procurement procedure by a single European Certificate);
- simplifying notarial records and reducing fees;
- simplifying administrative burdens for small electricity producers (self-production and self-consumption of electricity without a licence).

There were at least another thirty measures planned for the future actions. However, the establishment of “anti-bureaucratic commissions” failed. All the related ministries refused to carry out this task because of insufficient staff capacity. Each institution therefore determined its contact person who should be ready to discuss every incentive to reduce administrative burden with the Expert Group, if necessary.

Furthermore, in terms of the long-awaited evaluation, the results showed that the total administrative burden dropped by 31.49% compared to 2005 [See Figure 1]. At the same time, the total number of information obligations decreased by 675 (to the current level of 1,493 information obligations). More than half of these still-existing obligations emerged from Czech national legislation, other obligations are connected with EU directives and regulations. The government also ordered the ministries to continue implementing all remaining measures to reduce administrative burden. A new specific

⁵ <https://www.businessinfo.cz/cs/online-nastroje/administrativni-zatez.html>

Figure 1: Value of Administrative Burden in the Czech Republic (billion CZK)



Source: Czech Ministry of Industry and Trade (SCM model of measurement)

target was set for the future: a total of forty measures has to be completed by the end of 2020. The next evaluation is set for 2021. All “easy” measures are to be completed, thus only those which require a longer, and more complicated legislative change remain. It should now be much harder to achieve the goal than in previous phases of the project.

WHAT'S NEXT?

The planned path remains the same for the future. For each additional year, some specific measures are devised to concrete

sectors, and their implementation should reduce administrative burden. All completed steps should always be reviewed, and new measures set on a yearly basis.

In 2017, the Ministry of Industry and Trade declared that eighteen other measures were completed (103 measures completed out of 123), and it is now necessary to focus on the digitalization of public administration in order to meet the needs of Industry 4.0. Promoting more effective data sharing between state institutions, eliminating duplication of required information and controls, and continuously assessing the tax burden, especially for small and medium size businesses – those are currently the primary goals to achieve. To meet the current target (fulfilling 40 measures by the end of 2020) at least twenty-two measures still remain to be met. But would it not be better to see the result of measurement of administrative burden divided at least by each ministry instead of only a general number? Indeed, it would be rather interesting to see which ministries build the administrative wall around themselves.

Not surprisingly, not all entrepreneurs agree that administrative burden is decreasing. For the year 2018 the *Bureaucracy Index* reported that a small company spends on average 233 hours a year on necessary paperwork,

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which is thirty-three hours more than a year before. Questionnaires and testimonials of entrepreneurs also confirm it – bureaucracy in the Czech Republic does not decrease; on the contrary, it grows, and it is noticeable. But why are there such discrepancies between an official state measurement of administrative burden (which is decreasing) and real experiences of entrepreneurs (which are more negative)? There are two possible answers to this question:

- 1) Imagine that bureaucratic burden is a pie. The Ministry of Industry and Trade declares that more than 30% of this pie is

gone. In reality, probably only the crust has been removed. And frankly, who cares about the crust? True burden lies in the middle of the pie – which is still whole and full of administrative barriers. Thus, have real barriers been removed or only those which concern just a few industries?

- 2) Czech people are quite infamous for their constant dissatisfaction with almost everything. It is really difficult to change their subjective perception of a given phenomenon as well. Even if the administrative burden was really lower, their perception of it might not really change. People will still be angry about having to fill out their tax return form regardless of whether it takes only 30 minutes instead of an hour.

CONCLUSIONS

So far, the Czech Republic has met over a hundred different measures. The government managed to reduce the administrative burden by 31.5%, thus making living in the country this much easier for businessmen. 675 information obligations were cancelled. Such catchy statements may be encountered when scrolling through governmental press releases. Yet, although the numbers indeed speak for the benefits of the Ministry of Industry and Trade, whose representatives undoubtedly strive to do a good job trying to tackle the administrative burden, public opinion does not agree with the declared 30% decrease in administrative barriers.

Although a number of minor information obligations were cancelled, there is a great number of newly imposed ones, which have already managed to completely dominate the Czech “administrative scene”. These include, for example, the two biggest and most burdensome ones: EET – an obligation imposed on entrepreneurs in selected segments to record all business transac-

tions and send them through the accounting application to the system of the Ministry of Finance (i.e. the acquisition of a special cashier, personnel training, and other related activities); VAT control report – an obligation imposed on VAT payers to report to the Ministry of Finance received and paid VAT amounts on a monthly or quarterly basis (depending on the size of turnover) .

These two and many other new information obligations (including the GDPR) were not taken into consideration during the 2016 evaluation. Still, EET and VAT control report are regarded as really time-consuming and, on top of that, in the case of EET, also quite costly. Including these two obligations into the measurement would worsen the final score quite significantly.

What about the Czech entrepreneurs themselves? Do they really experience the claimed 30% reduction of administrative barriers? According to the Association of Small and Medium Enterprises and Tradesmen of the Czech Republic, which decided to map all the administration connected with the operation of a small make-believe business, (opening a small-scale confectionery), many of the burdens are still in place. Everything begins with attempting to obtain a rather excessive number of permits: for change of use of space, a statement of the hygiene station, a firefighters' statement, a monument care statement, environmental department statement, and a consent of the National Institute for the Integration of Persons with Reduced Mobility and Orientation. In addition to these permits, such an entrepreneur-to-be must report the planned activity to 15–20 state institutions and can expect 20–30 official controls from state authorities. This is the reality. The analysis concludes that despite the recent improvements in terms of reducing administrative burden in the country, there still exists a lack of clarity, paired with an extensive complexity and un-

predictability of state requirements, which largely complicate the business operations of small food producers so badly that most potential entrepreneurs often decide against opening their own businesses.

ALL-IN-ONE SOLUTION

Suggestions? Not dozens of measures, not even hundreds. The Association of Small and Medium-Sized Enterprises and Tradesmen of the Czech Republic presented a fairly simple proposal for a solution: one ministry – one entrepreneur – one application form – all obligations. Each resort would have to deal with all its obligations and permits for entrepreneurs within a single application form and all organizations belonging under one ministry should perform their official controls in one day. The time needed for communication with all institutions would be reduced by half.

So which measurement should we trust more? A macroeconomic one evaluated by the Ministry of Industry and Trade, or microeconomic, calculated in *Bureaucracy Index*? Clearly, as the latter focuses on real experiences of entrepreneurs, this should be a proper way how to measure administrative burden. So how many more measures will the Ministry set and meet in the future? And will the existing irritating administrative burdens that really matter be finally cut? Well, let us see what the 2021 evaluation brings. ●



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