European Commission

Excellence in public administration for competitiveness in EU Member States

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1. INTRODUCTION

1.1. Context and challenges of public administration reform for competitiveness

The quality of public administration is an important driver of a country's competitiveness.[1] The Europe 2020 strategy stresses that competitiveness is the result of the interplay of a great many of diverse factors, and within that context emphasises the importance of an efficient, effective and transparent administration: Administrative reforms are expected to reduce the cost of public service provision, and may thus contribute substantially to a consolidation of government budgets.

The European Commission (2010, p. 28) similarly argues that "high-quality, reliable public services and legal certainty were historically a major precondition for the economic success of today's front-runner countries", and that "... weak administrative and judicial capacity as well as legal uncertainty constitute key impediments in addressing economic development challenges." The revised Europe 2020 Economic Policy Guidelines (European Union, 2010) prompt the Member States to put in place *inter alia* predictable framework conditions and well-functioning, competitive goods and services markets; Member States should also aim to eliminate unnecessary bureaucratic burdens through smart regulation and advanced e-government services. Reforming public administration to improve competitiveness not only ranks high on the European political agenda. The notion of administrative hence comprises various concepts, and addresses numerous issues, including regulatory policies, the judicial system, or the framework conditions of government-firms interactions.

New challenges arise for public administration and civil servants as they have to deal with rapid and accelerating economic change, increasing complexity of regulatory issues, new technologies and services, and calls for openness, transparency and citizen participation. In the aftermath of the Financial and Economic Crisis expectations of governments and public administrations seem to have become even more demanding, not least for an effective crisis management within a country and across national borders (OECD, 2011). Reforms must be implemented and sustained during times when fiscal constraints and budget consolidation pressures become increasingly tighter.

In a nutshell, public administration modernisation in the Member States to enhance the competitiveness of European industries and especially the small and medium-sized enterprises (SMEs) will include two separated but nevertheless strongly related aspects, namely

- reforms of the (regulatory) institutional framework conditions under which private enterprises operate, and
- implementation of internal measures to improve the quality of government service provision by raising the capacities and the incentives of public administration to provide goods and services in a reliable, flexible, efficient and effective manner.

Seen against the background of widely held positive expectations of a substantial impact of administration reforms there is surprisingly little theoretical and only very limited empirical knowledge about the links between administration quality and competitiveness. Although it is apparent that 'high quality administration' and 'superior capacities' are conducive to the overall business environment, it is less obvious which particular features are crucial for excellence.

Over the last decades the Economics literature emphasised the role of high quality institutions and governance structures as important growth determinants beyond classical growth drivers, such as physical capital, human capital and knowledge (e.g., Knack and Keefer, 1995; Mauro,

[1] World Economic Forum (2011) defines competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country.

1995; Olson et al., 2000; Acemoglu et al., 2001; St. Aubyn, 2008). Research shows that the rules which govern business transactions are also important to foster the competitiveness of local enterprises and the attractiveness of a country for foreign investment. Several studies find a link of a country's success in attracting FDI to the quality of institutions and excellence of administration (e.g. Benassy-Quere et al., 2007; Busse and Hefeker, 2007). Although the micro-channels behind these macro-links are still not well understood, and empirical work on microeconomic links is still in its infancy and only partially explored (Djankov, 2009), the notion that 'good governance' promotes private investment and long run-growth is today an essential ingredient of economic thinking. Yet, when applied to policy recommendations for administration reforms the concept remains somewhat ambiguous (Peters and Pierre, 1998; Rothstein and Teorell, 2008).

On the one hand, 'good governance' addresses those virtues of rules and procedures which make administrative and judicial behaviour stable and reliable. According to Weber (1921/22) 'the bureaucracy' is characterised by formalised, hierarchical, rule-based, and impersonal decision making. Universal standards under the rule of law contribute to administrative competence and efficiency (*Rechtsstaatsprinzip*). According to this view, improved rationality of decision-making increases the legitimacy, predictability and effectiveness of public administration. In the Weberian ideal model public administration is constituted by offices in which civil servants operate isolated from political influence under the principles of merit selection, hierarchy, specialisation, and legality.

On the other hand precisely these features of the traditional model of bureaucracy are often contested as "incompatible with complex, individualistic, and dynamic societies" (Olsen, 2006). Hierarchical and formalistic structures appear to be at the root of pathologies such as red tape and bureaucratic delays. Proponents of the *New Public Management* reform style recommend the use of private management techniques within the public sphere to improve performance. The main focus should be on outcomes instead of inputs, goals rather than rules, and flexible employment schemes instead of rigid lifelong career systems (e.g. Pierre and Rothstein, 2008).

Both features are clearly important to the quality of the overall business environment. Private firms must count on a stable and reliable framework, as well as on services delivery at reasonable cost, speed and quality. Peters and Pierre (1998) however stress that there may be a trade-off between legality as a core principle of *Rechtsstaat* ideals on the one hand, and a quest for efficiency through adoption of private sector management techniques on the other. The challenge of administration modernisation, then, is to **improve the efficiency and speed** of service provision, while at the same time maintaining (or attaining) **high standards of due process, predictability and reliability**.

1.2. Purpose of the study

Although public administration reform ranks highly on the political agenda, comparative data and empirical information on administrative structures and reform processes are surprisingly rare. In many instances, there is also a lack of systematic evidence on reform outcomes which makes it difficult to identify progress. The principal aim of the report is therefore to derive a framework that can be used to assess 'excellence in public administration' - conceived as a well-functioning, efficient and modern administration – with respect to competitiveness. The specific objectives of this study are:

- To establish the key characteristics of 'excellence in public administration' and to identify the key elements that link these to increased competitiveness.
- To develop a framework to assess and measure 'excellence in public administration' for competitiveness.

- To assess 'excellence in public administration' in the EU Member States through applying the framework, criteria and indicators identified for this purpose.

On an applied level, this conceptualisation will provide a benchmark to classify Member States' administrations and to perform an analysis of strengths and weaknesses. Availability of reliable and timely data will help to assess general or country specific reform needs and will contribute to the development of a roadmap to further reforms.

Scholarly pieces, as well as work prepared by practitioners from international institutions and business consultants, have developed a wide array of indicators which aim at a **quantification of governance structures and the regulatory environment**. Some measures are used as inputs for quantitative analyses in academic research; some also serve as guidelines for international investors. Prominent sources include,

- World Bank's Worldwide Governance Indicators (WGI) which consist of six composite indicators of broad dimensions of governance covering over 200 countries;
- World Bank's Doing Business Reports that contain a multitude of quantitative indicators on business regulation and protection of property rights which can be compared across 183 economies;
- World Economic Forum's Global Competitiveness Reports (GCR) as a collection of data and indicators trying to capture competitiveness in its entirety, also consisting of sub-indicators covering the institutional framework for 142 economies in the 2011-12 report;
- International Institute for Management Development's World Competitiveness Yearbook as a comprehensive report on the competitiveness of nations, analyzing how a nation's environment impacts on the competitiveness of enterprises;
- Transparency International's perceived corruption indicators (CPI) that focus on corruption in the government sector as a main source of institutional quality also contain information from various international surveys;
- OECD's Product Market Regulations Indicators provide a set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market for OECD Countries and some non-OECD Members.

In addition, numerous indicators provided by commercial (e.g. Political Risk Services Group), and academic institutions (e.g. Quality of Government-Institute), or by the OECD, the IMF, the European Commission, and other supra- and international organisations, cover separate, or partially overlapping aspects of governance quality. Some are stand-alone indicators of particular facets of overall governance structures – even if they combine available information from various data sources –, others are composite indicators which reflect complex multi-dimensional realities.[2]

A different group of indicators focuses on the processes, mechanisms and institutions which govern the working properties of public administration. These indicators cover the internal framework of administrative behaviour, in particular **tools for policy implementation**, which enhance the capacity of bureaucratic actors to carry out actions and to cooperate. Available measures are frequently derived from Public Management studies that are less comprehensive and sometimes do not cover the whole sample of Member States. Even more important, most tools to improve human, organisational and technological capabilities of the administration to meet contemporary challenges are usually directed at public bureaucracies in general. Hence,

[2] For a short summary of the pros and cons of using composite vs. stand-alone indicators, see OECD's (2008) Handbook on Constructing Composite Indicators.

indicators for these 'internal tools' are not related exclusively to the business environment, but deliver a more general view of administrative capacities to produce high quality services.

Properly chosen, a set of indicators reflecting the different aspects of administrative quality and governance structures will provide an opportunity to monitor the status and the progress of reforms of the administrative environment for businesses in the Member States.

A further key aspect of the various dimensions of reforms to improve competitiveness is the interrelation between the political sphere and the bureaucracy, which is a major theme of the Economics and Political Science literature (e.g., Niskanen, 1971; Williamson, 1999; Alesina and Tabellini, 2007). Theoretically the main purpose of public administration is simply to execute the law that is made by political representatives in the legislature. The boundaries between administration and politics are not always that clear-cut, however. On the one hand, members of the higher-level bureaucracy are often influential in the law making process. On the other, the quality of policies relevant for competitiveness depends both on law making and execution. The highest quality statutory norms enacted by the legislature will not improve the business environment if the bureaucracy lacks competence, capacities or incentives to implement rules accordingly. And even the most excellent administration cannot advance competitiveness if regulations set in the political sphere are inadequate. For example, better regulation initiatives mainly aim to simplify business-related legislation, in order to reduce the exposed administrative burden on private enterprises. As such, the primary addressees of reform proposals are the policymakers, as statutory laws are at the origins of regulatory burdens. At the same time, de-bureaucratisation has to tackle burdensome procedures that are rooted in the process of law execution within the administrative organisation. The report hence employs a more pragmatic 'whole-of-government' approach that addresses both politics and the bureaucracy.

1.3. Outline of the study

The study consists of five main parts and two annexes, and it proceeds as follows.

In chapter 2 we provide a "Mapping of Administrative Systems in the Member States". We first identify and describe shortly important contextual factors which shape the way the public administration of a country works in general. In a second step, chapter 2 gives an overview of various reform tools to enhance capacities and capabilities of the administration to provide public services in an efficient and effective way. We focus on the changes and instruments that play a prominent role in theory and practice on administrative reforms and their potential impact on the business environment. The aim of the chapter is to arrive at a broad – though still inevitably incomplete – view of the general context of administration reform strategies.

Chapter 3 discusses more specific links between the quality of public administration and the business environment, based on an analysis of different types of interactions between firms and bureaucracy over the firms' lifecycles. Special attention will be made to the relation of public administration to small and medium-sized enterprises. We distinguish two transmission channels through which the quality of public administration affects the competitiveness position of a country's enterprises. The direct channel measures the performance of public administration when dealing with firms from a business perspective. The indirect channel reflects the efficiency of public good provision and resource use by public administration itself, which in turn affects the level of taxation and productivity. The main goal of chapter 3 is to explore the connections between 'excellence in administration' and competitiveness in a substantive way to provide a sound theoretical basis for the construction of an assessment framework. An overview table of the most important points of interaction is provided as an annex of chapter 3.

In chapter 4 we develop the framework to assess 'excellence in public administration' in line with the competitiveness agenda of the Europe 2020 strategy, based on the considerations of chapters 2 and 3. The framework will identify relevant criteria and a set of key indicators that can be compared and monitored. We distinguish general indicators of excellence of public administration and indicators for specific links, derived from our analyses in chapter 3. General indicators reflect (A) perceived overall governance quality, (B) use of modern tools and instruments to improve capacities to provide services efficiently, and (C) the experience and perception of corruption. By employing specific indicators we take a closer look at the interactions of firms and administration (D) when starting a business and obtaining licenses, (E) during the process of public procurement, (F) when paying taxes, and (G) when using the legal system to enforce contracts. The objective of this chapter is to analyse strengths and weaknesses of indicators in terms of quality, timeliness and country coverage, and to eventually arrive at a proposal for country fact sheets for monitoring purposes. Chapter 4 is supplemented by an annex of indicator fiches in table form.

Chapter 5 is devoted to some exploratory data analyses. We examine statistically the relations between administration quality indicators and between indicator groups (according to the previously defined excellence-competitiveness links), and analyse further whether there are systematic differences across country groups and clusters in administrative excellence.

Following that, chapter 6 will derive some broad recommendations to improve administrative excellence, including some good practice examples. We also make recommendations for a further development of a regular monitoring framework to assess Member States' administrative quality. The final chapter 7 contains the country fact sheets which provide basic information on a country's administrative structures and information on (available) indicator values in a comparative manner.

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2. MAPPING ADMINISTRATIVE SYSTEMS, GOVERNANCE STRUCTURES AND TOOLS FOR PUBLIC ADMINISTRATION MODERNISATION IN THE MEMBER STATES

2.1. Introduction

As a producer of numerous collective goods and services, ranging from the basic protective governmental functions like running a court system or providing police services, to the management of public infrastructures and the supply of educational institutions, public administration plays a significant role for the well-being of citizens and the competitiveness of private enterprises. Hence, the question which factors improve performance and raise capacities of a public administration to provide these goods efficiently are at the heart of all discussions about public sector reforms.

Across the Member States the resources devoted to public administration in general differ substantially. Government spending figures depend to a sizeable degree on whether specific economic tasks are performed by the public or the private sector, or, as is becoming more and more common, by hybrid/mixed entities. For instance, in some Member States (Sweden, UK) hospital services are managed and produced by government entities; elsewhere (e.g. in Germany, the Netherlands) services are mostly carried out by the corporate sector, and hospitals are commonly not classified as a part of the government sector. Considerable differences are also prevalent as regards the allocation of resources to essential public functions, including defence, police, the judiciary and general administrative services.

By setting and defining constraints for the design, execution and implementation of policies, regulations and bureaucratic measures, the political-institutional framework impacts deeply on the behaviour and the capacities of the administration. It is thus important to examine basic formal and informal institutions which shape overall working properties and, eventually, capabilities of administrative systems to provide high-quality government services conducive to the business environment. Public sector organisation – comprising the assignment of responsibilities among government levels, the procedural rules of decision-making within and across legislative bodies and executive entities, and the competences and mechanisms of the legal system, to name but a few important aspects – varies considerably across the Member States (see e.g., European University Institute, 2008; Spanish Ministry of the Presidency, 2010).[3] Differences pertain to fundamental institutional structures, depending on many of contextual factors (e.g. Painter and Peters, 2010; Dahlström and Lapuente, 2010).[4]

Administrative structures are embedded in fundamental constitutional norms, and are the outcomes of a country's historical development, or part of its political heritage, and can therefore not always be changed easily by policy makers (OECD, 2011a, p. 219). Some institutional aspects which are probably decisive for administrative capacities to provide a business-friendly environment are not even codified in laws, constitutions, or regulations but are embedded in informal rules reflecting long-standing cultures or traditions.

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[3] In fact, there are numerous ways to systematise the political-administrative frameworks of the EU. For example, Lijphart's (1999) landmark book-length comparative assessment maps 36 countries along two broad dimensions, i.e. 'executives-parties' and 'federal-unitary'. Each dimension consists of further sub-dimensions, reflecting broad organisational principles of the legislative, executive and judiciary branches of government, and their formally assigned decision making competences and powers. Other political scientists (e.g., Powell, 1982) classify contemporary democracies using slightly different constitutional criteria, while Henisz (2000) or Tsebelis (2002) assess (political systems according to a one-or-two-dimensional institutional veto player concept.

[4] Still, there is neither an academic nor a practitioners' consensus on which basic democratic-institutional arrangements are superior with respect to the quality of public goods provision. Moreover, an extensive discussion of working properties of different models of democracy is far beyond the scope of the study. We therefore take basic constitutional decisions (e.g., presidential vs. parliamentary system, unitary vs. federal system) that certainly impact on the way public administration works as given.

Other important features establishing a framework for administrative action appear to be more at the discretion of policy makers. In fact, industrial countries' bureaucracies have undergone substantial changes over the last 25-30 years (e.g., Jones and Kettl, 2003; Pollitt and Bouckaert, 2004; Curristine et al., 2007). Although changes were often implemented under the common label of a 'New Public Management', reforms followed different conceptions. In a number of cases ambitious reforms were partly reversed; sometimes due to their disappointing results (Dunleavy, et al., 2005; Olsen, 2006) which may to some extent be a consequence of disregarding the constraints on the malleability of administrative structures that are set by fundamental traditions (Pollitt and Bouckaert, 2004).

Against this background, this chapter provides a brief overview of important factors shaping the structures and capacities to provide a business-friendly environment. A discussion of the most important contextual factors serves as a first step to systematise and map main features of administrative organisations in Europe to identify country groups with similar structures for comparison and benchmarking purposes. For policy makers considering administration reforms to enhance competitiveness, the findings illustrate key structural differences that affect administrative capacities in general, as well as political and economic limitations for the management and success of administrative reforms. The chapter is structured as follows:

- Section 2.2 gives a brief outline of basic features of public administration systems in the European Union. We focus on major aspects and framework conditions that shape the room for manoeuvre for reforms, and which are at the same time relevant for a grouping of countries. In particular, we consider the underlying legal and administrative traditions, multi-level governance issues and the size of public administration.
- Section 2.3 then discusses tools for reforms that aim to improve administrative capacities in general and to make it fit better to the concept of a modern and efficient administration.
- Section 2.4 summarises.

2.2. Basic features of public administration in the Member States

A country's public administration is always embedded in a rather complex nexus of formal and informal institutions governing bureaucratic behaviour. Taking into account that modern governments are producers and providers of a multitude of different goods and services an assessment of the whole range of the potentially relevant characteristics of administrative structures, including the role of institutions, mechanisms and decision makers relevant for public goods provision can only be done on a high level of abstraction.[5] This section therefore focuses on some fundamental aspects and institutions that impact on the way public administration works.

After a short review of the size of public spending on administration (2.2.1) we proceed with a brief discussion of legal origins and administrative cultures of the Member States (2.2.2), which shape internal procedures as well as external relations of a government bureaucracy to citizens and businesses. The third part of this section is devoted to the effects and problems of multi-level governance settings (2.2.3), which are of particular relevance for federal countries although not exclusively related to federations.

[5] A detailed assessment would be far beyond the scope of the present study. For example, a recent study by European University Institute (2008) gives a 321 pages-long introductory survey only on the division of powers among governmental levels in the Member States.

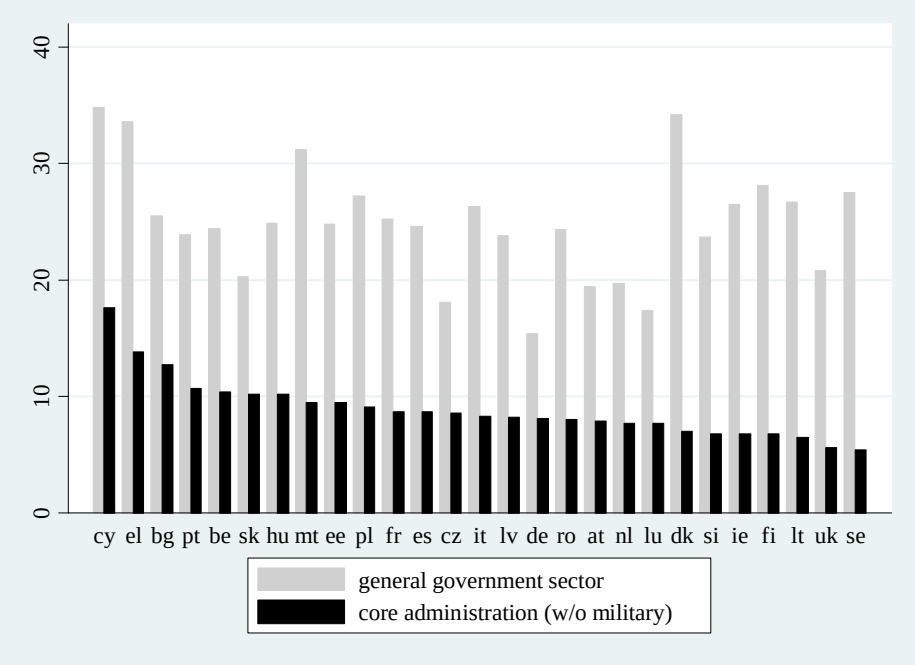
2.2.1. Administration size

Different administration structures across Member States are reflected in the financial and personnel resources devoted to the bureaucracy. For mapping purposes we therefore take a first look at differences in spending levels for public administration.

On average, total public spending in Member States is higher than in other highly developed countries in the World. A substantial part of spending differences can be explained by higher expenditures on transfers and social security issues in the EU-27 (e.g., Pitlik and Schratzenstaller, 2011; World Bank, 2012). High government expenditure levels hence do not necessarily stem from extraordinary spending on administration issues.

The size of a public administration is frequently approximated by spending for compensation of employees in the government sector, using data from the System of National Accounts (ESA 1995). Compensation includes the wages and salaries plus real (or imputed) social contributions for employees in the government sector. In order to assess public administration size as compared to the private sector we calculate the ratio of government over total economy compensation of employees (light grey bars in Figure 2.1).

Figure 2.1 – Compensation of employees in general government and in core administration (% of total economy, 2010)



Source: Author's calculations based on AMECO, Eurostat and OECD. Data refer to 2010, except for data on core administration for CY, FR, PT, RO (2009), LT, UK (2007) and BG (2006). General government data reflect the government sector according to ESA 95. Core administration data are obtained from NACE Rev. 2 (Eurostat), except for LU and MT (NACE Rev. 1.1) and UK (OECD, STAN Database). Military spending data used for calculation are from Eurostat's COFOG-statistics.

In 2010, the share of government spending for compensation of employees was highest in Cyprus, Denmark, and in Greece, reaching levels slightly above one third of the total employees' compensation. The smallest shares well below 20% are observed in Germany, Luxembourg, Czech Republic, Austria, and the Netherlands. On unweighted average, the expenditure share of Member States is 24.9%

This measure depicts personnel cost of the whole range of government activities, as long as performing entities are classified to the government sector in ESA 1995 definition, regardless of whether these activities could reasonably be classified as 'administration'. A more narrow definition of public administration from NACE (Nomenclature statistique des activités économiques dans la Communauté européenne) statistics includes the enactment and judicial interpretation of laws and regulations, as well as administration of government programmes, legislative activities, taxation, defence, public order and safety, immigration services, foreign affairs and compulsory social security. Activities such as teaching at schools or universities or health services activities are excluded, though administration of these services is included.[6] Subtracting the compensation of employees in military services[7] from NACE-figures one gets a slightly different picture (see black bars in Figure 2.1). Cyprus (17.6%) and Greece (13.8%) show again by far the highest shares of compensation of employees in relation to the total economy across the Member States. Substantially smaller shares of compensation of employees in core administration (w/o military services) of less than 7% are observed in Sweden, UK, Lithuania, Slovenia, Finland, and Ireland. The simple mean across the Member States is 8.9%.[8]

To be sure, without referring to the quality of provided services it cannot be said *a priori* whether a 'big' or a 'small' administration is better. Sizeable differences of government spending on public administration however must not lead to premature conclusions. Smaller expenditure shares can both be a sign for efficiency in service provision as for an underfunding of certain public sector activities. Smaller spending can also be an indication for economies of scale in administrative services of larger countries. Similarly, high spending may be a signal for substantial inefficiencies in administration and 'over-funded government entities', as well as for strong preferences for certain functions or diseconomies of scale.

The aim of this exercise is rather to map systems in order to investigate whether higher levels of spending correspond to superior or inferior performance of public administration for competitiveness. The literature on this issue is not fully conclusive. While some researchers (e.g. Afonso, Schukecht and Tanzi, 2005) conclude that smaller government size is associated with higher spending efficiency, other scholars – most notably La Porta et al. (1999) – find expenditure size to be related positively to indicators of government quality.

2.2.2. Legal and administrative tradition

One of the most fundamental influences for the operation of public administration (including the judiciary) is its 'legal origin' (or 'legal tradition').[9] The legal traditions of a country – even if implemented by colonial force a long time ago – strongly influence the working properties of legal and administrative systems today. Over the last 15 years, economic research provided rich evidence that the legal origins have substantial impact on policies and outcomes related to competitiveness and the quality of the business environment, including property rights security, debt enforcement, corruption, market entry regulation, or the development of stock markets (see La Porta, et al., 1998, Beck, Demirgünc-Kunt, and Levine, 2003, Djankov, et al., 2003, La Porta, Lopez-de-Silanes, and Shleifer, 2008, Djankov et al., 2008, Guerriero, 2010).

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[6] This is the definition of core administrative functions according to NACE Rev. 2, Section O (Section L in NACE Rev. 1.1).

[7] Data are from the COFOG-statistics of Eurostat.

[8] One may also use public sector employment data for international comparisons. Data are yet often of a bad quality, and are less reliable than spending data. For the core public administration the relation of employees to total working age population (15-64) lies between 2.5% (Romania) and 6.6% (Cyprus). Data refer to the years 2009/2010.

[9] According to Merryman (2007, p. 2), a legal tradition is "a set of deeply rooted, historically conditioned attitudes about the nature of the law, about the role of law in the society and the polity, about the proper organisation and operation of a legal system, and about the way law is and should be made, applied, studied, perfected and taught."

Theory broadly distinguishes two major legal families, a common law tradition and a civil law tradition. The civil law family can further be sub-divided into the French (Napoleonic), the German, and the Scandinavian (Nordic) branch.[10] In a similar vein, Peters (2000) identifies four main administrative traditions which are delineated along similar lines, but do not coincide perfectly to the legal origins groupings.[11] Several Member States belonged to a socialist legal family but reverted – according to Djankov, McLiesh, and Shleifer (2007) – to their (mostly German) origins since then (see Table 2.1).[12]

Table 2.1 – Legal origins of the Member States (+ Croatia)

Common law (3)	Civil law (24)		
	French (11)	German (10)	Nordic (3)
CY	BE	AT	DK
IE	EL	BG*	FI
UK	ES	CZ*	SE
	FR	DE	
	IT	EE*	
	LT*	HU*	
	LU	LV*	
	MT	PL*	
	NL	SI*	
	PT	SK*	
	RO*	(HR*)	

Source: Djankov, McLiesh, and Shleifer (2007). * denotes former socialist tradition.

Following a classification of Djankov, McLiesh, and Shleifer (2007), in the EU-27 a total of only 3 countries belong to the common law family, 10 Member States belong to a German civil law, 11 to a French tradition and 3 countries to the Nordic (Scandinavian) tradition.[13]

Recognising a certain imprecision with respect to an exact classification of countries to legal families[14], there still appears to be some systematic institutional diversity as regards the law and administrative systems, stemming from long-lasting effects of different legal orders (c.f. La Porta, Lopez-de-Silanes, and Shleifer, 2008):

- On a general level, legal origins shape the universal relation between governments and markets. The common law tradition is associated with freedom of private contracting, market-supportive functions, and limited government. Civil law on the contrary appears to be more in line with government planning, active regulation and steering, as well as state ownership and control.
- In line with this observation lies a propensity of civil law countries to have stricter control over regulatory, administrative and judicial outcomes. Consequently, the law itself rather

[10] The Scandinavian group is classified part of the civil law family, although it is less related to the fundamental origin of Roman law than the French or German families. Glaeser and Shleifer (2002) provide theoretical and empirical background on the development of both broad classes of legal traditions.

[11] Peters (2000) identifies administrative traditions somewhat differently than the legal origins literature as "Anglo-Saxon (minimal state)", "French (Napoleonic)", "Germanic (organicist)", and Scandinavian.

[12] Exceptions are Lithuania and Romania which changed (reverted) to a French legal tradition.

[13] Historically, the Scandinavian type was closer to the common law system than other sub-types within the civil law family. Following the rise of the Welfare State, the Nordic tradition moved closer to the German and French type.

[14] Classifications are not undisputed (e.g. Siems, 2007). Some scholars even doubt that a broad distinction between common law and civil law systems (and among civil law subsystems) is justified both from a legal history and a pragmatic perspective, as legal systems change over time and appear to converge as a result of an ever-increasing importance of international and supra-national law (Armour et al., 2010).

than the institutions which implement the law (i.e. public administration) and resolve disputes over it (i.e. judiciary and court system) shall determine the precise content of regulations. Civil law countries have a more detailed codification of laws and regulations and a stricter implementation of codified rules (legal positivism) by the judiciary and the administration. Especially countries with a German law tradition have a strong legalistic focus (*'Rechtsstaat'*) which is a little less pronounced in French origin countries (Peters, 2000). The Napoleonic state relies on more on uniform and centralised solutions as compared to the German or Scandinavian tradition, which are more in favour of decentralisation.

- In common law countries the adaptation of rules to changing circumstances is partly delegated to agents implementing and applying the law. Even if legislative acts and statutory law become increasingly important also in common law systems, statutes are less precise and detailed as compared to civil law regimes, leaving more discretion to judiciary and public administration.
- As a further consequence of the ambition to draft 'complete rules without gaps', the degree of formalism of judicial procedures seems to be more pronounced in civil law countries (Djankov et al., 2003a). This may affect the duration of dispute resolution by courts or of decision making in public administration on the one hand, but it may also increase fairness and predictability of judicial and administrative decisions (see chapters 3 and 4).

Although some proponents of legal origins theory adhere to a kind of 'superiority-of-the-common-law view'[15], there is no compelling evidence for a general supremacy of common over civil law (or its sub-families) with respect to economic outcomes or the quality of the business environment (e.g. Voigt, 2008, Nee and Opper, 2009).[16] Bureaucratic formalism in civil law countries may guarantee due process, which is good for doing business, or it may lead to excessive paperwork and red tape, which is detrimental to the business climate.

Administrative and legal traditions become important for adoption of distinct public sector reforms. Success or failure may depend critically on whether applied measures match with a country's administrative culture. For example, administrative formalism in countries with *Rechtsstaat* traditions may be at odds with managerialism and performance orientation in the public sector. Public administration reform therefore has to take account of different administrative cultures and traditions (Christensen and Laegreid, 1998, Peters, 2000, Pollitt and Bouckaert, 2004, Pierre, 2009, Dahlström and Lapuente, 2010, Demmke and Moilanen, 2010; Tepe, Gottschall, and Kittel, 2012).

2.2.3. Multi-level governance issues

A third contextual factor that is of crucial importance for the structure and working properties of public administration is the way in which regulatory and administrative tasks are shared and divided among different tiers of government, i.e. the vertical and horizontal allocation of competences. No country's administration is ever completely centralised or decentralised, and public policies always have a multi-dimensional character. Hence, the assignment of competencies is never free of overlaps, generating mutual dependence of governmental tiers in fulfilling their assigned tasks. The rules which govern the complexity of intergovernmental administrative and fiscal relations between national and sub-national actors are therefore key

[15] La Porta, Lopez-de-Silanes, and Shleifer (2008) claim that inefficiencies are often caused by over-regulation. As the common law tradition is associated with less regulation, there appears to be an advantage of law systems based on this origin.

[16] Voigt (2008) finds no evidence that businesspeople prefer common law in general to civil law systems if they have a choice in international arbitration cases. Nee and Opper (2009) argue that bureaucratic performance is more important in determining financial market development than legal origin. Legal origin seems to matter indirectly as it affects development through the channel of administrative quality.

factors for administrative capacities to provide services efficiently (Charbit and Michalun, 2009).

It is important to note that potential problems of operating of multi-layered systems are not exclusively related to countries that are organised as federations. Most aspects of multi-level governance also apply to formally unitary states that guarantee substantial regulatory and/or fiscal autonomy to sub-national authorities. Almost by definition multi-level governance issues are relevant for EU-27 countries, solely to their status as Members of the Union. For example, Falk, Hölzl and Leo (2008) show how both design and implementation of several STI policies are shared by the Commission and the Member States. Even a most centralised unitary state therefore faces multi-level governance issues, albeit perhaps to a lesser degree than a highly decentralised federalist one.

Among the 27 Member States, only 3 (AT, BE, DE) are constitutional federations with self-governing regional entities that have substantial legislative powers. Four countries (CZ, ES, UK, IT) are not formally organised as federations but guarantee substantial autonomy to regional entities (provinces, nations, counties) concerning fiscal or regulatory issues. Unitary states can also be separated into countries with a centralised administrative structure (typically smaller countries: CY, EE, IE, HU, LV, LT, LU, MT, SI, PT) and those with a seemingly more decentralised structure (BG, DK, EL, FI, FR, NL, PL, RO, SE, SK).[17]

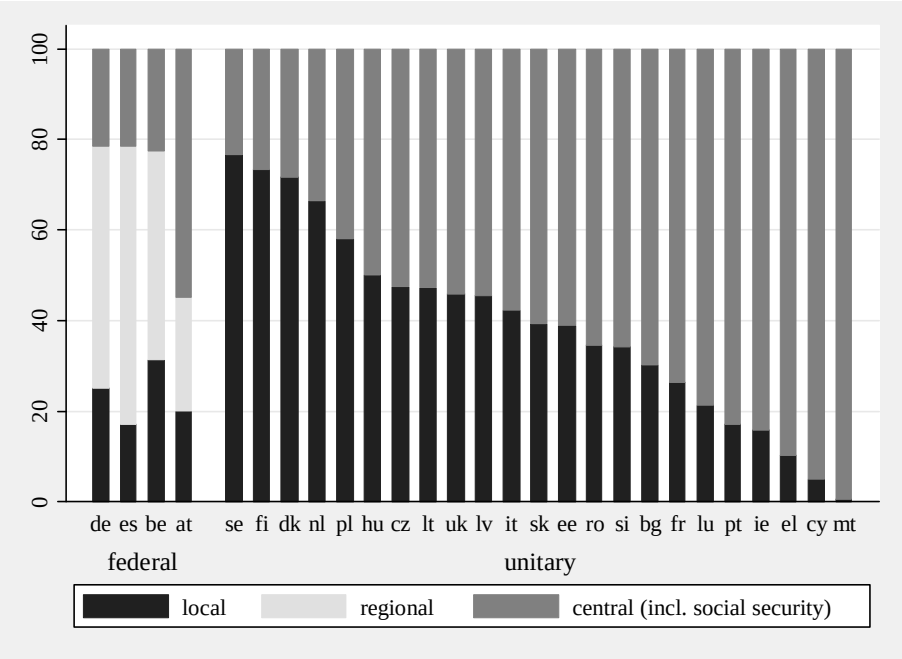
Such a classification follows more or less formal 'legal' criteria, mostly derived from reading and interpretation of fundamental laws and constitutions. Voigt and Blume (2012) note that the established degree of fiscal, political, or administrative decentralisation in a country is often the result of decisions in the post-constitutional sphere, and that the degree of decentralisation can thus be largely independent of the initial constitutional choice. Other criteria may therefore also be applied for a mapping of systems. Charbit and Michalun (2009) refer to sub-national governments' share in general government revenues and spending as a measure of fiscal decentralisation. Schneider (2003) takes a broader view and makes a distinction between fiscal, administrative and political decentralisation, where each factor reflects a different dimension of sub-national autonomy (c.f. also Rodden, 2004). In any case, as there is no single dominant characteristic from which a classification can be derived, every possible classification of a single country into one of these categories can be disputed.[18]

To map administrative systems we rely first on spending of governmental levels for compensation of employees, using National Account figures. Figure 2.2 displays the share of each government layer's personnel cost on general government cost. National Accounts report regional spending data for AT, BE, DE and ES. We therefore classify these countries as 'federal'. The countries are ranked according to central government's spending shares. Social security funds' expenditure is counted as central government.

[17] This classification is owed to the Spanish Ministry of the Presidency (2010).

[18] Ezcurra and Rodriguez-Pose (2011, p. 3) summarise state of the art in decentralisation measurement: "Using a variety of criteria and methodologies, [...] scholars have produced a myriad of decentralisation indices which rank countries [...] according to the level of political autonomy of their subnational governments. ... However, taking into account the differences in criteria, indicators, methods, geographies, and timeframes, the resulting political decentralisation indices are inevitably too diverse and, at times, even contradictory."

Figure 2.2 - Local, regional and central governments' share of expenditure for the compensation of employees on general government compensation spending (2010)



Source: Authors' calculations based on Eurostat

On unweighted average, sub-central units account for 43.6% of general government spending for the compensation of employees. Three federations (DE, ES[19], BE) and four unitary states (SE, FI, DK, NL) observe sub-central spending shares higher than 60%. At the other end of the spectrum we find countries with shares only slightly above 10% (EL) or even less (CY, MT).

An alternative measure is a 'simple' count of the number of administrative tiers. According to Treisman (2007, 2008) a level is identified as an administrative 'tier' if it has an executive body that fulfils three conditions simultaneously:

- it is funded from the government budget and has a separate government,
- it has authority to administer a range of public services, and is not just a provider of a particular service
- it has a territorial jurisdiction.

This definition includes both entities with political decision making autonomy as well as bodies that are effectively administrative agents of higher level government authorities.

According to Treisman's classifications, which are based on numerous different primary sources, the number of administrative tiers in the Member States, including the central government level but excluding the EU-level, is between 2 and 4.[20]

European University Institute (2008) provides a book-length survey of the distribution of fiscal, regulatory and administrative competences among different layers of government across the Member States. The report documents six government levels (central, regional, provincial, local/municipal, parish/community/neighbourhood, metropolitan) that may or may not exist in the respective country. Allocation of competencies among levels is mostly highly

[19] Spain is sometimes labelled an 'emerging federation' (European University Institute, 2008).

[20] For Greece Treisman's simple counting procedures lead to ambiguous conclusions.

complex. Shared competences between two or more tiers are not an exception but more or less a general rule. In some cases there is a sharing of legislative competencies between tiers, in other cases regional and local entities act as administrative agencies on behalf of higher-level units.

As regards the present study, the main point of interest is to which extent presence of more than one government level impacts on the way the administration works and what that does imply for the quality of the business environment. A central hypothesis is that the existence of multi-tiered fiscal and regulatory systems creates a more complex context for the operation of administrative systems in general. In this respect both vertical, i.e. across administrative levels, and horizontal, i.e. between units on the same administrative level, issues matter (c.f. Charbit and Michalun, 2009; European Union Committee of the Regions, 2011):

- Multi-tier governments are more likely to duplicate services and may thereby cause inefficiencies. If there are fixed costs of setting up an administrative unit, economies of scale and scope may be wasted by operating parallel systems (Treisman, 2002). Pooling and sharing of financial or infrastructural resources can contribute to substantial cost savings and improved service qualities.
- Fragmented responsibilities for certain policies are likely to lead to information gaps across involved administrative entities. Effectiveness and efficiency of policy implementation increases when information is shared. Poor interoperability of information management systems hampers information flows between units, thereby reducing the quality of services provided.
- A further concern is whether the mere number of administrative units can be staffed with competent and well-educated staff. Personnel capacities can be weakened in multi-tiered systems, predominantly at the local level, leading to an overall reduction of the regulatory quality. Such capacity-gaps reduce the ability of sub-national governments not only to implement national policies but also to define and follow own development strategies.
- Private actors are confronted with a multitude of legal provisions and bureaucratic actors when administrative competences are shared or fragmented. Firms will have to deal with more and different – perhaps even contradictory – rules, probably causing increased paperwork and delays in obtaining licenses and authorisations. Different provisions may also be to the advantage of clients, if regional regulations are better tailored to special regional requirements.
- Parallel and fragmented competencies cause accountability problems for administrative decisions. From a business perspective this may lead to the problem that administrative units claim *not* to be responsible for providing a special service, or play a game of scapegoating: Each institution holds other units accountable precisely because they are formally independent.
- Different implementation cultures – for example varying strictness of rule-enforcement – will cause additional cost for citizens and enterprises. When autonomous entities differ in their policy implementation, rule interpretation and enforcement, even a perfectly designed uniform legal code may be associated with uncertainty and additional information cost for the private sector.

To mitigate these potential problems, multi-tiered administrative systems develop institutional arrangements and mechanisms with which they can manage and facilitate vertical and horizontal co-ordination and consultation ("bridging the gaps"). Accordingly, countries use different strategies for steering government entities, as well as for (sub-national) capacity-building. Charbit and Michalun (2009) consider:

- Legal mechanisms and binding standards (mostly set by central governments) that regulate the vertical and horizontal co-operation between administrative entities. In this case, the central level is usually in a position to enforce a certain behaviour of sub-national entities.
- Mutual contracts can be used to regulate the relationship between a government principal that 'employs' other governmental (often: lower-level) units as administrative agents. Here, problems of setting the right incentives for the agents, for example through performance orientation (see section 2.3), are prevalent (Braun, 2008; Mizell, 2008).
- Integration and amalgamation of jurisdictions, e.g. in the form of municipal mergers can lead to a pooling of resources and more powerful entities.
- Informal and ad-hoc meetings can be considered as the least institutionalised forms of co-ordination.

However, the implementation of formal or informal governance structures for administrative co-operation also has its costs. Costs are sometimes associated with the establishment of new permanent administrative bodies (see examples in Allio, et al., 2009, pp. 146-148) or oversight committees. Even the implementation of single points of contact in an integrated system of e-government across administrative units is highly prone to conflicts and often generates substantial technical co-ordination problems (see chapter 2.3).

Empirical evidence on the effects of decentralisation and multi-level governance so far is mixed and inconclusive. A prominent research question is whether federalist or decentralised political and administrative structures 'perform' better than unitary or centralised ones. The theoretical literature emphasises the 'big trade-offs' between the benefits of decentralisation and regional autonomy (e.g. policies may be better tailored to regional preferences, enhanced competition and incentives for innovation in the government sector) and centralisation (e.g. internalisation of regional spill-over effects, exploitation of economies of scale and scope) of responsibilities. Numerous theoretical and empirical research papers are concerned with the economics of fiscal and regulatory federalism (e.g., Oates, 1972 and 2005; Inman and Rubinfield, 1992, Majone, 1992, Rodden, 2003, Baskaran, 2011, Voigt and Blume, 2012). Most recently, Sobel et al. (2013) show for the U.S. that fiscal decentralisation is associated with policies that are more business-friendly and conducive to entrepreneurship. Yet, no consensus has emerged on whether decentralisation and federal structures facilitate or impede economic development or public sector size in general.

A certain strand of the related literature is concerned with the question whether federalist or decentralised structures are related to better overall governance quality, as measured by less corruption, for example. Results are ambiguous, too. Treisman (2002) finds federalist states to be more corrupt than unitary ones, but effects disappear when controlling for the legal system, ethnic fragmentation, and religion. Perceived corruption tends to be higher in countries with a larger number of government tiers. Investigations by Gerring and Thacker (2004) also suggest that centralised unitary systems help curbing political corruption. Fisman and Gatti (2002) on the other hand provide evidence that fiscal decentralisation is negatively related to corruption. Voigt and Blume (2012) observe no robust effects of decentralisation and/or federalism on governance quality indicators.

2.3. Tools for public administration modernisation

Governments all over Europe employ a large array of different tools to enhance the capacities of their administrations. Public administration in the Member States is indeed 'in flux'. Two-thirds of those public sector entities participating in a survey conducted 2008-2010, report an introduction of novel or significantly improved services, communication or organisational methods ('administration innovation'). Innovative activities include new services or new methods of providing services in interaction with users, as well as a re-organisation of work

responsibilities, new support and logistics systems and new management systems (DG Enterprise and Industry, 2011).

'Public administration modernisation' is a vague and ambiguous term. Nevertheless, some basic ingredients of modernisation strategies can be identified. A modernised public sector accounts for the opportunities provided by innovative information and communication technology, fosters a strategic and performance-based human resource management and allows the administration to perform efficiently while being accountable. Additionally, putting citizens' and businesses' needs at centre stage and re-organizing service provision is an integral part of appreciating that the public service is not just the internal activity of a monolithic administrative apparatus, but a cross-sector activity that includes markets and networks as well as traditional hierarchies.

Though solutions differ significantly from one Member State to another, most instruments have been discussed under the umbrella term of New Public Management over the past decades. Some of these tools apparently have major impacts on the relationship between competitiveness and public sector excellence, most prominently (1) electronic government, (2) human resources management, (3) performance orientation, (4) service orientation and (5) the institutional re-organisation of administration.

Subsection 2.3 deals with a more concrete description of instruments that aim at tackling these challenges, with an emphasis on the business-related consequences of contemporary reform tools. The following account of innovative tools is not exhaustive, but it can be expected to have a noteworthy effect on how firms perceive and experience public services provision. However, it should be emphasised that the empirical evidence on the (positive) impact of the use of these instruments remains scarce, fragmented and mixed (e.g. Boyne, 2003; Van Dooren et al., 2008).

2.3.1. Electronic and tech-enabled government

Modern age digitalisation and the spread of new information and communication technologies (ICTs) lead to indisputable changes of the environment of public service provision (Snellen, 2005, p. 398). E-government can be defined as the use of ICTs (especially the Internet and social media) to enhance the access to and delivery of all facets of government services and operations for the benefit of citizens, businesses, employees, and other stakeholders (Srivastava and Teo, 2007, p. 20). Thus, e-government is expected to serve as a procedural solution to many general problems of the contemporary public sector (such as accessibility and red tape) and as a potential facilitator of a whole-of-government approach (Pollitt and Bouckaert, 2011, p. 212).

Internal public sector excellence potentially benefits from ICT through several channels: public sector employees are relieved of routine tasks, several procedural steps can be outsourced, the quality of transmitted information increases while transaction costs decrease, and some tasks can be centralised, for example at shared service centres (OECD, 2010, pp. 52ff.). The electronic information exchange of administrative units may speed up decision-making, reduce internal processing times and thus improve regulatory management and policy enforcement (Gourmelon, Mroß, and Seidel, 2011). Additionally, there could be synergies with other internal technological innovations in the public sector, such as knowledge management and business management software.

Electronic exchange of information between administrative entities – e.g. regulatory bodies at different levels of government – may speed up multilevel decision-making processes and thus improve the overall quality of regulatory management and policy enforcement. To the extent that problems of mutual co-ordination and co-operation stem from informational deficiencies, progress can be made through interactive communication systems. Successful strategies for

collaboration of different administrations and government tiers must however go beyond establishment of a level playing field in back offices, defining common technology standards and creating a data network of organisations.

Implementing e-government solutions in a multi-tier government setting yet entails numerous challenges. Wang and Carpenter (2009) explicitly mention

- a potential conflict of leadership between different actors;
- different priorities and preferences with respect to e-government services;
- different e-government priorities between political and bureaucratic actors;
- competition between administrative entities for the relationship with the end-user.

These challenges are especially hard to overcome when different jurisdictions in a country are obliged to work together across levels of government. The mere existence of independent governmental layers which makes cooperation through e-government solutions beneficial may also be an impediment to the adoption of common ICT standards.

The quality of external service provision is also likely to be improved by ICT-applications. A by no means exhaustive listing of desired functions of e-government applications in outside-relations includes (e.g. Schedler and Proeller 2009, pp. 253ff):

- E-government serves as shopping window for public sector projects, laws and regulations, reports, etc. and therefore fulfils a certain information dissemination function.
- E-government enables the virtual administration of tasks by, for example, making online services accessible 24/7. The interactive function refers to the clients' option to conduct certain administrative actions without being present, such as online payment or digital signatures.
- E-government can help improving democratic procedures by enabling inclusive processes such as citizen engagement, public polls, electronic forums, focus groups or other forms of discussions as part of open and transparent government (OECD, 2011b).
- Implementation of e-government is also considered an effective tool for fighting corruption (Andersen, 2009; Shim and Eom, 2009). Digital applications could reduce meeting of potentially corrupt bureaucrats and rent-seekers, while increasing the transparency of decision-making.

In view of these various dimensions through which e-government could positively affect public administration it has become a key ingredient in contemporary public sector reforms towards better regulation and good governance (Karger, Rüß, and Scheidt, 2011, p. 168; OECD, 2009). G2B-solutions (government-to-business, such as online application forms for governmental support, or online calls for tender) are the most commonly accepted examples for the benefits of online solutions for the private sector (Karger et al., 2011, p. 186). For companies, e-government therefore serves a number of noteworthy functions , including the reduction of administrative burden, the facilitation of administrative processes and easier access to public services from abroad, which is why e-government initiatives are a top priority of the reform agenda (OECD, 2009; OECD, 2011b; European Commission, 2009). The Service Directive, for instance, requires Member States to implement electronic processes that can be accessed from outside the specific Member State (EU, 2007).[21]

[21] An extraordinarily innovative example of public sector tech-savviness includes the open access initiative that allows civil society organisations to use public data for programming of smart phone applications or online services reaching from mobile bus schedules to mapping public sanitary facilities.

Though research on the utilisation of social media in the public sector is still very limited, several good practice examples for the use of innovative communication technologies exist. This potential is mostly related to instances of citizen information and inclusion, such as public relations via online services like Twitter and Facebook, participatory feedback processes (e.g. via online discussion of an expert paper about reforming the public sector in Austria in 2011) and milestones in the advancement of open government such as the crowd-revision of the Icelandic constitution in 2011. ICT as a means of advancing democracy has been under fierce discussion for several years, and single instances of success have been reported, including the possibility to support citizen petitions via governmental websites in some Member States.

In spite of the euphoric reception of e-government solutions – e.g. the UN referring to "a transformative power in revitalizing public administration" (United Nations, 2010), and Dunleavy et al. (2005) declare a "Digital-Era Governance" -, there are a number of restrictions to the applicability of ICT in the public sector. Some barriers for a successful introduction of e-government applications are related to data privacy, data security and the digital divide (i.e. the unequally distributed access to ICT due to social, economic or personal reasons) (Schedler and Proeller, 2009, p. 261). In addition to technical and organisational barriers, institutional barriers with respect to mental, legal and cultural aspects (Snellen, 2005, p. 414f), a successful adoption of e-government requires a critical mass of internet users in the respective country (Fernandez-i-Martin, 2011).

2.3.2. Human resources management

Human resources management (HRM) reflects changes that have been brought about to **enhance the skills and capabilities of administrative staff** in dealing with the challenges of a modern public sector (Horton, 2009). In general, the shift in how public sector employees are perceived, managed and motivated, recruited and developed could be seen as one of the most contested fields of public sector reform, predominantly owing to the high labour intensity of public service provision (Demmke and Moilanen, 2007, p. 231; Horton, 2009, p. 122). Improving recruitment strategies, education and flexibility, and fitting motivational structures account for the fact that public servants are the major resource of a service-oriented public sector. Motivated and competent employees are a key determinant of an excellent public administration with regard to business contacts and the general perception of the public sector among citizens (Demmke and Moilanen, 2010, p. 202).

HRM has been neglected for a long time in the public sector, compared to private sector organisations, but it is gaining a foothold (Ingraham, 2005; Pollitt and Bouckaert, 2011). Evidently, countries entered the 1980s with contrasting legal and cultural assumptions (Pollitt and Bouckaert, 2011, p. 87). Different cultural settings and backgrounds of HRM within the Member States determine how the public personnel is controlled and managed. Tools associated with HRM vary substantially, but they have in common a resource-oriented perception of civil servants (Gourmelon et al., 2011, p. 24; Horton, 2009). It is often associated with an integration of motivation-, quality-, merit- and flexibility-related approaches. In this regard, strategic HRM both includes prioritizing and managing potentials of current employees as well as taking measures to create, maintain and active staff potentials in the future (Thom and Ritz, 2006). After all, HRM still cannot be seen as one coherent concept. Storey (1995), for example, distinguishes a hard from a soft approach towards managing public sector employees. 'Hard' HRM is more resource-centred and understands staff as a cost to be minimised and controlled, whereas 'soft' HRM stands for a more people-centred approach that includes development, training, communication, motivation and leadership (Horton, 2009, p. 126).

Contemporary trends in public personnel management reflect a convergence to private sector HRM, e.g. through reforms changing the legal status of public sector employees. Government staff are experiencing a tendency towards more private law contracts without guaranteed life-time employment, and the weakening of collectivist cultures (Horton, 2009, p. 130). Additionally, many OECD countries have seen reforms towards more flexible working patters and pay (Demmke and Moilanen, 2010; Ingraham, 2005).

The most contested concept, which has had a mixed reception, is performance-related pay in the public sector (Demmke and Moilanen, 2010; Horton, 2009; OECD, 2005). The design of incentive structures can hardly be centrally coordinated but must be adapted to specific circumstances (Schedler and Proeller, 2009, p. 244). There is also some evidence that pecuniary incentive schemes reduce the intrinsic motivation of employees. Performance-related HRM policies are without doubt pivotal for refining performance orientation of the public sector on the personal level, e.g. through management by objectives and annual personnel talks (Gourmelon et al., 2011, p. 443; Schedler and Proeller, 2009, p. 237).

HRM has mainly become a central component of public sector reforms due to the weight of traditional problems of civil service, which include underused motivational potentials, a lack of incentives due to permanent employment, absence of skills development, too few opportunities for promotion or automatic promotion irrespective of performance, and restricted recruiting options (Reichard, 2011). While the classical model of civil servants has certain advantages, such as a general aversion against corruption and rule-oriented behaviour that enhances predictability, strategic HRM targets the quality and flexibility of public sector employees, and is thus also relevant to overall competitiveness. Additionally, the hierarchical relationship to superiors (Schedler and Proeller, 2009, p. 234) within traditional bureaucracies is partly incompatible with permanently changing challenges, which makes HRM a question of good administrative leadership as well.

2.3.3. Performance orientation and evidence-based steering

One of the most widely used instruments for modernising public service provision is the paradigmatic shift from a resource-centred approach to one that focuses on the outputs and outcomes of public conduct. Performance orientation includes measurement, incorporation and use of information that refers to the quality of public service provision, to "assess impacts, guide programmes, or help decide the fate of policies" (Pollitt and Bouckaert, 2011, p. 108). Hence, it is a major component of an 'evidence based approach' to public policies.

Performance measurement has grown in extent, intensity and in the scope of its (internal and external) addressees, and thus shown to be a pivotal ingredient of reforms of public sector bureaucracies. The key concept underlying performance orientation in the public sector is the appreciation of different procedural stages in the policy and management cycle: (1) Targets are pursued with certain (2) inputs, which are used to create (3) outputs and achieve certain (4) outcomes by means of any activities of the public sector organisation. Ultimate outcomes are "usually derived from the organisation's mission statement or general policy documents" (Bouckaert and Van Dooren, 2009, p. 152). Ideally, measured outputs and outcomes should be indicators of effectiveness and efficiency of a public body (Bouckaert et al., 1997). This perspective is much more comprehensive than a simple understanding of an administration that follows rules of procedure and laws, steered via inputs, and is fundamental for strategic thinking and stakeholder-oriented actions (Van Dooren and Van de Walle, 2008).

Some Member States, such as the UK, have already experienced downright boosts in indicators in the 1980s (Pollitt, 1993), others have only recently started to make use of performance information, by means ranging from performance budgeting, to balanced scorecards, to management by objectives to regulatory impact assessments (Nullmeier, 2011a, p. 135). Together with the raise of information technology and the tendency of national audit

offices to "extend their work beyond questions of regularity and legality [...], to embrace more sophisticated concepts of efficiency, effectiveness, and service quality" (Pollitt and Bouckaert, 2011, p. 108), performance orientation has even reached traditionally bureaucratic and formalistic *Rechtsstaat* systems (Van Dooren, Bouckaert, and Halligan, 2010).

While there are various end-users of performance information, including public managers, politicians, citizens and other stakeholders (such as businesses), the purposes of application are various (Van Dooren et al., 2010; Van Dooren and Van de Walle, 2008; Behn, 2003). From an **internal perspective**, performance measurement aims at a general improvement of the manageability of public sector organisations by providing data for better decisions, initiating reform measures, motivating public servants, enabling a better understanding of internal processes and by supporting the definition and evaluation of goals and targets. The latter relates performance management closely to strategic controlling and long-term planning through strategies and their evaluation. Therefore, a one-dimensional input-orientation is replaced by a more comprehensive understanding of internal processes that takes care of effectiveness, efficiency and service quality as well as legality and accordance with procedural norms and rules (Nullmeier, 2011a, p. 227f). A strategic approach towards public sector performance and a consequent orientation towards outputs and outcomes are vital for the Commission's better regulation initiative and transparent decision-making in the Member States. In short, outcome orientation is a general prerequisite for excellence in the public sector, because things are not done only for the sake of doing them.

From an **external perspective**, performance information is a prerequisite for comparisons and league tables (i.e. benchmarking) as essential elements of yardstick competition. It can serve as a basis for informed decision-making, it increases the accountability towards stakeholders, including businesses, and improves the objectivity of public sector decisions. In this regard, private actors benefit from public sector reforms strengthening the performance orientation throughout in multiple ways:

- Performance data renders public administrations directly accountable to its stakeholders, who in many cases can participate in consultation processes. Performance management, for example, emphasises the responsibility of governments to actually formulating and reaching their policy goals and allows an ex-post evaluation.
- Ex-ante impact assessments are regularly conducted together with those industrial sectors that are affected by certain policies.
- Transparency of public strategies is increased through a regular and easily accessible set of performance data, which also ameliorates the planning reliability for private enterprises.

Performance management may also be associated with some dysfunctionalities, such as the manipulation of measurement and output (Smith, 1995; Van Dooren et al., 2010, p. 158f):

- Inflating numbers of indicators does not improve but rather hamper steering, including a hazard of inappropriately aggregated information. In addition, there are doubts as regards the way public managers actually use performance information they are provided with.
- Distorted incentives for public managers through a limited perception of public service outputs may be generated. An exclusive focus on measureable results and 'gaming' may be the unwanted consequence.

2.3.4. Service orientation

A reduction of the bureaucratic burden for citizens and businesses also involves reducing the inward perspective of public administration (Bovaird and Tizard, 2009, p. 233). Service orientation describes the cooperation and interaction between public administrations and their clients, i.e. citizens, businesses, and other stakeholders (Jantz and Veit, 2011, p. 133). The

nature of this mostly asymmetric and often unfamiliar relationship is reflected in the public sector's understanding of (1) the service quality and (2) the organisation of administrative processes. Since enterprises are key clients of the public sector, tools related to service orientation with a focus on improving service quality, adjusting administrative processes to facilitate the interaction with clients, e.g. through one-stop shops, and efficient service provision by a sound mix of public and private sector engagement, are welcome from a competitiveness perspective.

Recent EU policies such as the Service Directive reflect the merits associated with putting businesses and other stakeholders at centre stage of public sector reforms (EU, 2007). In any case, defining the satisfaction of clients as a target variable of public conduct is associated with a large array of further tools, such as stakeholder consultation, public participation, e-government, service charters, reduction of red tape, better trained service personnel, easily understandable and concise forms, etc. According to a critical reflection of Pollitt and Bouckaert (2011), almost all governments have adopted increased networking and partnerships with stakeholders.

An initial aspect that refers to the relation between public administration and clients is quality management. Quality can be perceived as structural (e.g. accessibility, qualification of personnel), procedural (e.g. queuing time, transparency, holistic counselling), or outcome quality (e.g. legality and comprehensibility of decisions, data security) (Gourmelon et al., 2011, p. 352). Systematic quality management exceeds the limited agenda of quality assurance and actually aims at incorporating desires and needs of internal and external stakeholders, ranging from public services to private sector organisations (Bovaird and Löffler, 2009; Schedler and Proeller, 2009). While public management reforms in the 1980ies have attempted to redefine the public sector as services companies, there are less ideological reasons to take this matter seriously, e.g. public demand for a modern and high-quality public service, the increasing complexity of public tasks and, at the same time, an increasingly restrictive budget constraint. Prominent examples include Common Assessment Frameworks or DIN ISO certifications models (Bovaird and Löffler, 2009).

The second dimension of service orientation focuses on the intersection between internal processes and external clients. Here, the one-stop concept, i.e. the geographical clustering of administrative services, is a very popular reform tool (Schedler and Proeller, 2009, p. 125f). In order to disburden businesses, the EU's Service Directive demands points of single contact in all Member Countries in order to facilitate administrative processes for enterprises. Another instrument that could be associated with this type of service orientation is e-government (see above) (Schedler and Proeller, 2009, p. 124). Recent efforts to facilitate citizen's interactions with public administration have included the introduction of one-stop governmental service websites (such as www.gov.uk or www.help.gv.at) and central customer call centres (such as D115 in Germany).

2.3.5. Institutional re-organisation: Market mechanisms and decentralisation

The institutional arrangement of public tasks, i.e. the cooperation with the private sector and competition within the public sector, is another key reform tool. Measures are largely based on the idea of a public sector guaranteeing for the provision of certain services, irrespective of who is actually in charge of producing them (Schedler and Proeller, 2009, p. 35).

On the one hand, virtual (or non-market) competition aims at comparisons within the public sector (yardstick competition) to stimulate the innovative capacity and competitiveness of service provision. It includes comparisons of costs and outputs, systematic benchmarking, and public competitions that aim at promoting best practice solutions, such as the European Public

Sector Awards.[22] So-called factual competition in the public sector, on the other hand, implies the introduction of market type mechanisms in public goods provision (Blöchlinger, 2008). It comprises tender processes (in which both public and private bids are possible) for single tasks, the creation of planned and publicly controlled quasi-markets, and the outsourcing of formerly public tasks to markets (Nullmeier, 2011b, p. 152). In this context, synergies, e.g. in the case of public-public-partnerships and cross-departmental support units, allow for efficiency gains within the public sector.

Outsourcing public tasks or resorting to private sector know how and financial support in any other way (e.g. private-public-partnerships) is also still on the reform agenda (Reichard and Röber, 2011, p. 168). At the same time, cooperation allows the systematic inclusion of stakeholders, i.e. public participation and consultation of relevant interest groups and citizens in decision-making processes (Martin, 2009). One such emerging concept is the participatory budget of municipalities that do not only aim at providing and collecting opinions but actually allows citizens to engage in active decision-making by allocating a certain share of public funds. Especially in the light of fiscal austerity, several innovative practices around the idea of co-production have received increased attention, such as the US "Peer-to-patent" platform, which allows a public crowd to support the US patent office in evaluating patent applications.

In addition to these developments, the public sector has becomes less centralised. In a process of decentralisation, "authority is spread out from a smaller to a larger number of actors (Pollitt, 2009, p. 250). Within the administrative bodies of the EU-27, this tendency has led to the creation of hived-off agencies characterised by task-specificity, performance contracting, and deregulation (Talbot, 2004). While the evaluation of decentralisation reforms shows that autonomous organisations tend to perform more flexibly and cost-efficient than traditional bureaucracies (e.g. Pollitt, 2009, 249ff), Christensen, Lægreid, and Wise (2011) have identified a risk of hollowing out the state, which makes questions of public accountability and scrutiny more prominent in semi-autonomous agencies. Pollitt states that "in highly decentralised systems, patterns of accountability are complex, and there are too many opportunities for blame-shifting" (Pollitt, 2009, p. 255) – this usually implies rather high accountability standards (Clarke, 2009, p.199f). Consequently, the OECD identifies the alignment of two of the core topics of public management, decentralisation and accountability, as one of the main challenges of the current reform agenda in the public sector (OECD, 2005).

2.4. Summary of main findings

The organisation and the costs of service provision by the public administration vary considerably among Member States. Contextual factors that shape organisational structures are often the result of a country's historical development or part of its political heritage. Moreover, the success of reform efforts appears to depend critically on the compatibility of new tools for administrative modernisation with these factors. This chapter has mapped administrative organisations across the Member States according to structural features, and provided a brief discussion of measures of public administration modernisation in order to improve efficiency and effectiveness of service provision. In that respect, it serves as a framework for the discussion of more specific links of public administration and the quality of the business environment. The main findings are:

1. The **size of public administration**, as measured by the share of general government's personnel cost in relation to the total compensation of employees in a country, varies substantially across Member States. This is partly due to differing roles of the state in providing certain services (e.g. health care, education). Spending differences in core

[22] E.g. http://www.epsa2009.eu

administration may yet also be caused by a different efficiency of public administration in service provision but can also be an indication for economies of scale in administrative services of larger countries.

2. **Legal traditions** are among the most fundamental influences for the operation of a public administration. Countries from different law families have systematically different arrangements and regulations as regards the judiciary and administrative procedures and regulations. Civil law countries observe a more detailed codification of regulations and stricter implementation of codified rules (legal positivism), formalism of judicial and administrative procedures is less pronounced in common law countries. Effects on the business environment are yet ambiguous. Extensive formalism in civil law countries may guarantee due process – which is good for doing business - or it may lead to excessive paperwork and red tape – which is detrimental for the business climate.

3. The vertical and horizontal allocation of competences and the rules governing the complexity of intergovernmental relations between national and sub-national actors are a key factor for administrative capacities. **Multi-tiered administrative systems** create a complicated context for the operation of administrative systems, especially with respect to the business environment. Regulations are likely to overlap, duplication may generate inefficiencies as clients have to deal with a multitude of legal provisions and bureaucratic actors. Multi-tiered systems must develop costly arrangements to manage and facilitate vertical and horizontal co-ordination. Problems of operating of multi-layered systems are not exclusively related to federations, but also apply to formally unitary states.

4. New information and communication technology has provided public administrations with new means of tackling their everyday challenges. **E-government** is expected to serve as a procedural solution to many general problems of the contemporary public sector, such as accessibility, facilitation of internal and external bureaucratic processes, removal of administrative burdens and red tape. Internal public sector excellence potentially benefits from e-government mainly through transaction costs and processing time reduction, especially in multilevel decision-making processes. External applications include informative, transactional and interactional procedures, which are often streamlined for business interests. While there are several barriers to an effective application of e-government, such as data protection issues and the digital divide, social media and G2B promise several opportunities for digital progress in Europe's administrations.

5. **Human resource management** (HRM) reflects changes that have been brought about to enhance the skills and capabilities of administrative staff in dealing with the challenges of a modern public sector. 'Hard' HRM is resource-centred and understands the bureaucratic staff as a cost to be minimised and controlled, whereas 'soft' HRM stands for a people-centred approach that includes policies such as development, training, communication, motivation and leadership. Strategic HRM aims at improving the quality and motivation of employees and is thus relevant for the overall competitiveness of a country's public sector. Not all HRM tools are uncontested and their application has to be evaluated in light of the local context, but understanding public personnel as a key resource of the public sector is a central question in public sector modernisation.

6. **Performance orientation** includes measurement and use of information that refers to the quality of service provision. The performance perspective is much more comprehensive than the traditional understanding of input-steering, combined with following rules of procedure and laws, and is fundamental for strategic thinking and steering of the administration. From an internal perspective, performance measurement aims at a general improvement of the manageability of public sector organisations by providing information for improved decisions and supporting evidence-based instruments such as impact

assessments; from an external perspective it is a prerequisite for benchmarking. Thus, it can serve as a foundation for informed decision making and increases the accountability towards stakeholders, including businesses.

7. The reduction of bureaucratic burdens for citizens and enterprises additionally relates to abolishing a notorious inward perspective. **Service orientation** describes the cooperation and interaction between public administrations and their clients. The introduction of systematic quality management and an improvement of administrative processes, such as one-stop concepts, ensure that the public sector orientates itself on the expectations of businesses and citizens. Defining the satisfaction of clients as a target variable of public conduct is associated with the adoption of a large array of further tools for administrative modernisation, such as stakeholder consultation, participation, e-government, service charters, reduction of red tape, better trained service personnel, easily understandable and concise forms etc.

8. Questions of competition and cooperation, which are closely related to the **institutional re-organisation** of public service provision, have altered the organisational appearance of the public sector. Market-related mechanisms help to make administrations comparable and allow for an identification of best practices, as well as for improving efficiency. The inclusion of the private sector and the general public in administrative tasks, both by means of consultation and co-production, enlarges the number of organisations that hold an active stake in public service provision. Moreover, several reform elements have included decentralisation and agencification.

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3. LINKING EXCELLENCE IN PUBLIC ADMINISTRATION AND COMPETITIVENESS

3.1. Introduction

The costs and the risks that firms face are key parameters for private investment decisions. Business investment in turn mirrors economy-wide competitiveness, which we define in accordance with the World Economic Forum (2011) as the set of institutions, policies and factors that determine the level of productivity of a country. To a significant extent, they are driven by public administration. At least in advanced market economies, firms frequently interact with public administration in many different ways and in a variety of different circumstances, for instance when paying taxes, registering the business, applying for licences, as part of legal disputes, in the context of public private partnerships, or as recipient of subsidies.

It therefore is obvious that the efficiency and predictability of interactions with public administration are important for firms. In addition, firms indirectly depend on public administration as they are prime beneficiaries of public goods and bear a large tax burden. Here too, a lean public administration that efficiently provides these public goods and that absorbs relatively few public resources indirectly affects productivity and competitiveness. The relationship between the quality of public administration and competiveness is therefore multidimensional and complex. The objective of this section is to identify and distinguish various transmission channels to develop a theoretical underpinning for the selection of adequate indicators in order to properly map this relationship empirically.

Overall, we distinguish two general transmission channels through which the efficiency of public administration affects competitiveness. The **direct channel** measures the performance of public administration in dealing with firms from a business perspective taking existing regulation and economic policy as given. In other words, the direct channel captures how efficiently firms are able to interact with public administration. Here we follow European Commission (2007a) and concentrate on the quality and efficiency of implementation and enforcement of existing regulation and economic policies, which we take as given. While empirically the quality of administration and the quality of regulation and policies are interdependent, conceptually it is necessary to evaluate the quality of the administration instead of the context in which it operates in. The direct transmission channel focuses on the costs and uncertainty that arise when firms interact with public administration, and accordingly we subdivide this channel into a 'cost' and an 'uncertainty' channel. Costs relate to administrative fees to be paid by firms, the time spent by staff handling bureaucratic tasks and the costs due to delays, which are costly for firms if they result in missing business opportunities, for example. One key aspect that minimises uncertainty from the perspective of firms is transparency of public administration. For instance, if procedures required by public administration are well known, firms know in advance how many resources they need to budget, and how long expected delays are.

The **indirect channel** reflects the efficiency of public good provision and public resource use by public administration itself. Here, inefficiencies may be reflected by low absorption rates of EU structural funds for example.

With respect to the direct channels of transmission, complexity further increases if one considers that the type of interactions between firms and public administration depend on the specific phase in the lifecycle of firms. For instance, a market entrant and a large firm intensively engaging in R&D interact very differently with public administration, in part due to very different needs. This section clarifies these issues.

To be sure, there are also aspects of the overall investment climate that are not affected by the efficiency of public administration the way we define it. For instance, access and availability

of external finance is central for firms that are planning to invest. However, while we recognise that this issue is absolutely essential, to the extent that finance should ideally be provided by private sector institutions, only regulation and economic policy rather than public administration affects firms' access to finance. We therefore do not consider access to finance here as a problem of public administration.

Figure 3.1 illustrates the channels of transmission and the structure of this section. We first discuss the importance of direct channels of transmission starting with the cost channel followed by a discussion of the uncertainty channel which we each further subdivide. We then turn to the indirect transmission channels.

3.2. Cost channel

Firms spend a considerable amount of resources on interactions with public administration, both in monetary terms and in terms of time. The latter is probably the more important direct channel of transmission that runs from the efficiency of public administration to firm competitiveness. We also distinguish direct costs from costs due to delays which mainly relate to the duration of processes within public administration. We turn to each type below.

Costs are an important barrier to enhanced competitiveness. Especially the capacity for innovation and an environment conducive for the creation of new and innovative firms tend to be negatively affected by high costs in interaction with public administration (European Commission, 2011). Additionally, high costs arising from the interactions with public administration are likely to discourage trade, investment and entrepreneurship.

3.2.1. Direct costs

Definition

Direct costs cover both official fees resulting from different types of application and registration processes and costs resulting from staff devoting time on bureaucratic procedures.

Examples

These costs arise over the whole lifecycle of firms. Examples include costs arising from a high number of steps necessary for registration of new businesses, fees in the context of obtaining permits for new production technologies or construction and costs due to the high amount of staff time necessary for tax. The Annex of this chapter provides additional examples and groups them by lifecycle phase.

Effects on competitiveness

The magnitude of direct cost represents a *de facto* addition to taxation on productive activity (Méon and Weill, 2005). In principle, this may constrain firms by reducing available financial means, and this burden could lower returns, which both may trigger falls in new investment and expansion. The impact and relevance of these costs are likely to differ depending on their type. Given that fees from staff devoting time to bureaucratic procedures tend to be fixed costs in nature, especially small and new firms will be disproportionately affected as they are larger relative to their size compared to large firms. Long established firms may additionally benefit from learning effects because their staff has experience in dealing with public administration.

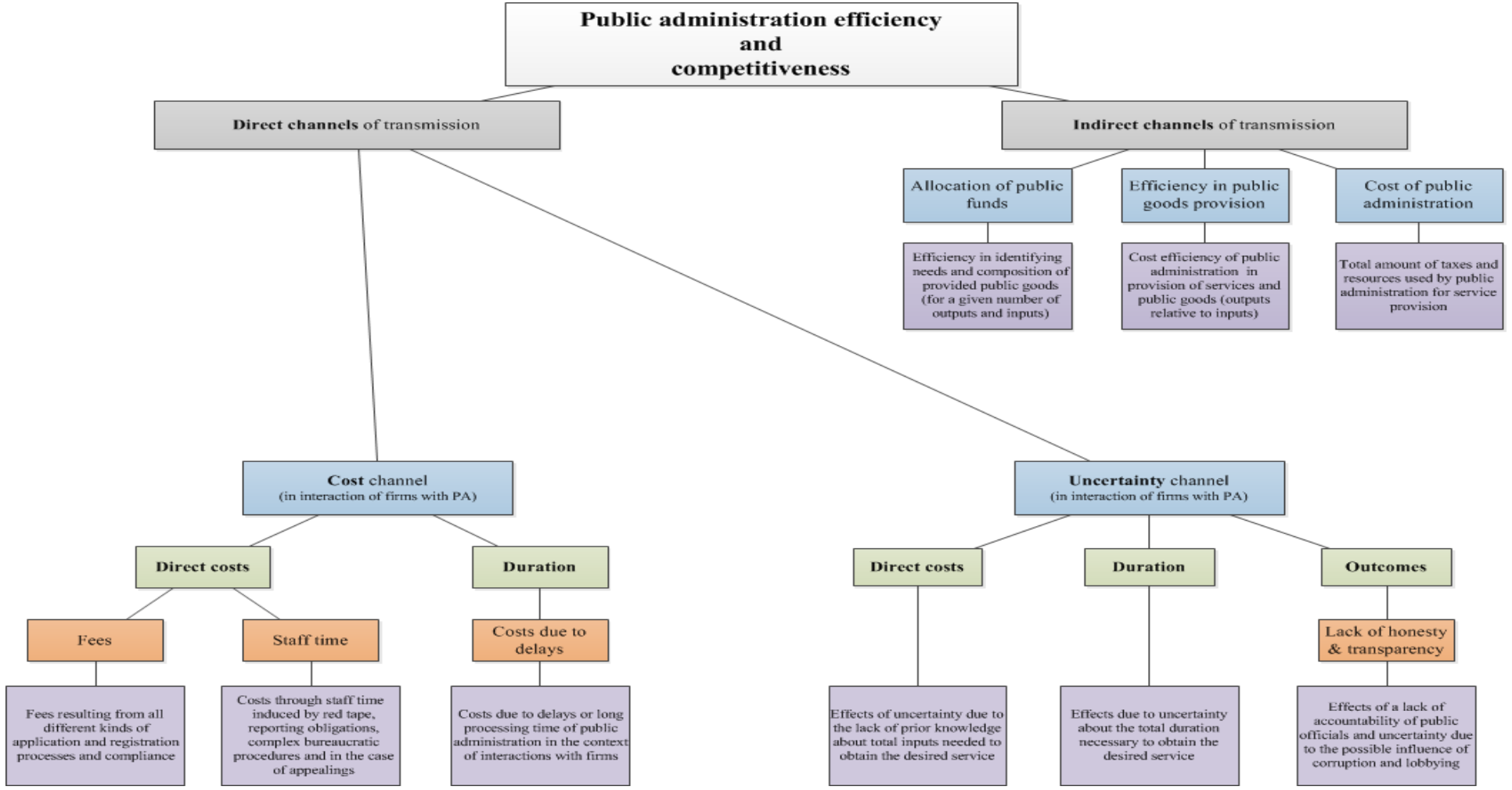
These costs also affect firms at various stages of their lifecycle and various activities. High costs in dealing with public administration deter market entry of new innovative firms. Increased barriers for market entry create adverse effects for productivity and competitiveness because they reduce incentives for new firms to enter and innovate (Aghion and Howitt, 1998). In turn, lower competitive pressure also reduces the incentives to invest and innovation of incumbents (Aghion et al., 2009).

Besides the influence on market entry, costs also directly affect operations and investment of incumbent firms. New and innovative firms are often characterised by low internal resources and a highly volatile turnover. In addition, these firms often face problems in obtaining sufficient external funding so that they rely on internal resources for investment, innovation and expansion (Hall, 2002). High costs in interaction with public administration reduce scarce financial means even further.

Direct costs distort the internal allocation of staff time within firms provided that a substantial fraction of working time of employees has to be spent for dealing with complex bureaucratic procedures that might otherwise be spent on core business activities (OECD, 2001). This is especially problematic for firms which do not have the financial means to employ experts who deal with the administration on a recurrent basis.

Market entry, exit and operations can also be affected by high exit costs due to inefficiencies in public administration in interactions with firms. If it is very costly to liquidate a firm, *ex ante* incentives to enter a market are reduced. Either due to the complexity of the insolvency proceedings and its negative effects on the probability for recovery, or due to a significant reduction of a firm's scrap-value by high exit costs, potential new and innovative entrants will need a better initial outlook (Eifert, 2009).

Figure 3.1 - Channels of transmission for the relation between public administration and competitiveness



Source: ZEW.

3.2.2. Duration

Definition

Under duration, we consider costs due to delays by public administration in processing requests of firms or when completing procedures.

Examples

Instances where costs arise as a result of delays and long processing times include the necessity of multiple inspections by public officials for obtaining permits, payment delays in the context of public procurement or long processing time to solve commercial disputes.

Effects on uncertainty

Especially costs arising from a long duration to solve commercial disputes and delays by the tax office to process tax returns are likely to be important. These costs may cause a direct reduction of profitability and retained earnings and could consequently lower internal resources available to finance investment for expansion and innovation (OECD, 2001). With increasing magnitude these costs also cause financial distress and restrict firms in their opportunities to continue und finish their investment projects in time.

Finally, delays in processing time may already imply *ex ante* reduced incentives to invest in new market opportunities, given the threat that these opportunities may be 'taken away' by competitors in the meantime.

3.3. Uncertainty channel

This sub-section discusses the effects of uncertainty in dealing with public administration on competitiveness in detail. Firms face considerable uncertainties about future conditions when making long-run decisions. Besides purely economic shocks due to business cycles or crises, uncertainty may arise from insecurity in the context of the business environment or the future regulatory framework. Uncertainty may also be caused by public administration as we explain below. This is especially relevant for costly and irreversible decisions such as adopting new technologies or entering new markets (Handley and Limão, 2012).

We distinguish uncertainty about **direct costs**, **outcomes** and **duration**. Uncertainty about the direct costs may for instance be the result of bribes expected by officials, which unexpectedly increase costs. Uncertainty about duration refers to unexpected delays of administration in processing requests by firms or in completing procedures. Uncertainty about outcomes arises from arbitrariness of administrative decisions, for instance in the context of applying for permits.

3.3.1. Uncertainty about direct costs

Definition

Uncertainty about direct costs includes the potential negative effects of not knowing ex-ante the total inputs needed to obtain a desired administrative service. This is the case if the administration does not or cannot provide information about the total costs. While well-established firms may be able to compensate for this based on past experience, for new firms, this is especially challenging. A source of this type of uncertainty may be the lack of formalisation of processes. Further, uncertainty may arise due to arbitrariness in decisions by public officials.

Examples

Uncertainty about direct costs is especially relevant in the context of obtaining permits for construction and new production technologies, in the context of foreign direct investment or

the engagement in R&D. As will be shown below, especially the latter two examples are vulnerable to uncertainty.

Effects on competitiveness

As mentioned in section 3.2.1, new and innovative firms face considerable problems in financing R&D through external sources. This is primarily based on specific features of R&D as compared to investment in physical capital. One notable difference is that wages and salaries of scientists and engineers make up more than 50% of R&D spending (Hall, 2002). The second difference is that the innovations or new ideas how to produce new goods and services as output of R&D are intangible goods, which are embedded in the human capital of employees. Since this knowledge would be lost if employees are fired due to depleted internal financial resources, lowering R&D spending is not feasible contrary to physical investment. Taken together, this means that the decision to engage in R&D depends considerably on the *ex ante* outlook not only with respect to the chances of success but also with respect to prospective costs. Therefore, firms will only conduct research if there is certainty about sufficient funding for the entire period of innovative projects (Bond, Harhoff and van Reenen, 1999). Thus, an increase in uncertainty about the costs and the returns reduces the probability for firms to start R&D in the first place.

Uncertainty about the direct costs also affects the attractiveness of a country for foreign direct investment (FDI). Since foreign direct investment represents an important path for technology transfer, it provides a channel through which public administration contributes directly to productivity growth and to a country's competitiveness (Bénassy-Quéré, Coupet and Mayer, 2007). Like innovative activities, foreign direct investment is characterised by high sunk costs in cases of failure. FDI is therefore especially vulnerable to uncertainty caused by long processing time or the lack of prior knowledge about total costs. As in the case of investment in R&D, disinvestment will not be feasible causing reduced incentives for foreign direct investment in the first place with increasing uncertainty about direct costs.

3.3.2. Uncertainty about duration

Definition

Uncertainty about duration relates to the lack of prior knowledge about the total time required to obtain a desired service from public administration. This may be caused by a complex formalisation leading to frequent procedural errors and delays, or by arbitrariness on the side of public administration. While again well-established firms may be able to compensate for this using their experience in dealing with public administration, uncertainty about duration remains a challenge for firms lacking experience.

Examples

Uncertainty about duration is especially relevant in the context of engagement in R&D, obtaining permits for construction and new production technologies or market entry and incorporation.

Effects on competitiveness

In the context of uncertainty about total duration, negative effects on incentives for innovation, both for new and incumbent firms, are present. R&D investment with a high potential to significantly increase an economy's productivity often incorporate high risks and require a long binding investment (Levine, 2005). In this context, an unexpected increase in processing time by public administration to license, patent or permit new technologies raises the threat of obsolescence of innovations (Hall, 2008). Consequently, this reduces incentives for innovative activities and increases risk premiums demanded by investors.

Additionally, R&D investment features high specificity and therefore represents sunk costs in case of failure (Czarnitzki and Binz, 2008). Uncertainty about total duration of processing time and its effects on the threat of obsolescence could therefore cause financial instability, especially for new and small firms, which are endowed with lower financial means and which are less diversified.

3.3.3. Uncertainty about outcomes

Definition

This sub-section looks at the effects of uncertainty about outcomes in the context of interactions with public administration. This type of uncertainty may arise due to arbitrariness by public officials, which may in turn be due to a lack of transparency and honesty.

Examples

Especially the process of incorporation, obtaining permits, the award of public contracts and the accurate protection of property rights are likely to be affected by this type of uncertainty.

Effects on competitiveness

In general, favouritism by public administration induced through corruption creates inefficiencies and misallocations because the desired services are not offered equally to all firms on the basis of objective criteria, but are rather based on vested interests and the highest willingness to pay for bribes (Ahlin and Bose, 2007).

For instance, through payment of bribes to civil servants or lobbying, incumbents can successfully protect themselves against new and innovative firms entering the market if they can induce public administration to deny licensing, the permission of new technologies or to raise entry barriers in general. This significantly deters R&D investment and considerably slows down the adoption of new technologies, keeping the overall technological level artificially low, with negative effects for a country's productivity growth and competitiveness (Comin and Hobijn, 2009).

3.4. Indirect channel of transmission

As mentioned in section 3.1, firms also indirectly depend on public administration in the sense that they are prime beneficiaries of public goods and bear a large tax burden. Public goods including public infrastructure are an important input to private production, but are not provided by the market in sufficient quantities. Public administration manages their delivery and provision. In addition the resource intensity of producing public services contributes to the overall tax burden. We distinguish 'allocation of public funds', 'efficiency in provision of public goods' and the 'cost of public administration' as three separate components of the 'indirect' channel.

'**Allocation of public funds**' refers to the fact that the productivity enhancing effect of public goods does not only depend on the amount of provision, but also on the composition and their quality. Simply providing more money for the provision of public services does not necessarily ensure the avoidance of redundancies in provision and achievement of expected improvements (Hauner and Kyobe, 2008). For instance, building new roads where utilisation of existing ones has not yet reached maximum capacity may not have the desired economic effects. It is therefore crucial that public administration ensures the correct identification of priorities, needs and preferences for businesses (Curristine, Lonti and Joumard, 2007).

Related to this is '**efficiency in provision of public goods**', which essentially reflects whether unit costs of a particular public good are high or low. An example of this component could be built kilometres of new roads for a given amount of public resources. The efficiency in provision of public goods includes two dimensions: technical efficiency in implementation

and cost efficiency in reducing payments for expensive inputs (Afonso and St. Aubyn, 2005). A high level of efficiency in public good provision is crucial in times of budgetary pressure and affects the quality provided. Therefore a more efficient public administration, capable of providing relevant public goods of higher quality more cost-efficiently, is likely to strongly enhance the competitiveness of businesses.

In contrast to the previous components, '**cost of administration**' refers to the total amount of taxes and resources used by public administration for service provision. A less efficient administration is spending more resources than necessary, and would therefore lead to a higher tax burden.

3.5. Empirical evidence

Whereas the analysis up to this point explored the relationship theoretically, this section provides a short overview of empirical studies investigating the link between the efficiency of public administration and various indicators of competitiveness, including the level of entrepreneurship represented by market entry and firm growth, measures of firm-level and aggregate productivity and aggregate growth.

3.5.1. Market entry and firm growth

As the analysis has shown, a major point of impact of costs and uncertainty in interaction with public administration is a negative effect on market entry. In this context, a study by Klapper, Lewin and Delgado (2009) investigates this link using data on the number of newly registered firms for 100 countries including all Member States from official registrars over a period of eight years. As explanatory variables, the study uses indicators from the World Bank's Doing Business Project, including costs and the number of procedures to start a business. Their results show a significant and negative relationship between the entry density of firms and indicators on the ease of starting a business, while controlling for economic development measured by GDP per capita. Hence, an increase of costs or of the number of necessary steps to start a business significantly decreases the creation of new businesses with potential negative effects for a country's competitiveness.

Further studies, however with a smaller coverage of Member States, provide additional evidence along these lines. Fisman and Sarria-Allende (2004) use a sample of 57 countries including 11 Member States. Based on industry-level data from UNIDO and data on costs and necessary staff time for incorporation from Doing Business, they find a significant and negative impact of high entry costs on the creation of new businesses. More precisely, their results imply an increase in new firm creation of 11% when reducing entry costs from the 75^{th} to 25^{th} percentile. Ciccone and Papaioannou (2007) combine an indicator on the time needed for incorporation from Doing Business with data from UNIDO for a sample of 45 countries and obtain similar results. Djankov et al. (2008) further investigate this link using a sample of 85 countries, including 22 Member States. Their results imply that increasing the number of necessary procedures for incorporation from the lowest to the highest regulated country in their sample would result in a decrease of the entry rate of new firms by 5 percentage points per year.

While the previous studies focused on the creation of new businesses, they did not shed light on the survival and growth pattern of new entrants following a reduction of costs and necessary steps to enter a market. The aspect of firm survival in this context is at least equally important, since only entrants operating a sufficient amount of time will exhibit a significant long-run effect on employment and productivity growth. In this regard a study by Bartelsman, Haltiwanger and Scarpetta (2009) provides empirical evidence for a cross-section of 24 countries. Their findings show that 80-90% of entrants survive the initial period of two years and that furthermore 40-70% of these firms still operate after 7 years. Taking averages over

more than one cohort to account for a possible business cycle effect, their results support the view that reduced barriers for market entry significantly improve competitiveness.

3.5.2. Firm-level and aggregate productivity

Combined with the influence on market entry, the analysis in the previous sections emphasised the role of innovations by new and also incumbent firms for competitiveness. In this context, a study by Klapper, Laeven and Rajan (2006) provides quantitative evidence using data from the Amadeus database for 20 Member States. Together with other factors, indicators from Doing Business are used to estimate the effects of high costs of interacting with public administration. Using a difference-in-difference approach the study finds a significant and negative impact of high costs in interaction with the administration on total factor productivity. More precisely, the results imply an increase in value added per worker of 14% when reducing registration costs from the 75^{th} to 25^{th} percentile in the Doing Business sample.

Barseghyan (2008) investigates the link between total factor productivity and high entry costs for new businesses. The sample contains a cross-section of 97 countries; data on fees and costs for incorporation are again taken from Doing Business. The findings imply a decrease of total factor productivity by 22% for an increase of entry costs by one half of the standard deviation in the sample, while controlling for the impact of human capital. These results are also supported by findings of Scarpetta et al. (2002). Their study is based on a sample of OECD countries, and shows that the growth of total factor productivity is primarily driven by new innovative firms entering the market. High costs deterring market entry will significantly slow down productivity growth and reduce competitiveness.

In contrast to studies summarised above, Méon and Weill (2005) investigate the impact of the quality of governance on aggregate technical efficiency for a sample of 62 countries including 13 Member States. To analyse the effects of the quality of public administration, together with other factors, they rely on World Governance Indicators provided by the World Bank. Besides an aggregate indicator on the efficiency of bureaucracy, their study incorporates additional indicators to cover the impact of corruption and accountability of politicians, which together account for costs and uncertainty in interactions with public administration. In this regard, their results show that all variables measuring the quality of public administration have a significant and negative impact on aggregate technical efficiency. Interestingly, according to their results, the efficiency of the bureaucracy has the largest effect.

3.5.3. Aggregate growth

Another argument of the previous sections was that uncertainty and costs in interaction with public administration adversely affect economic growth. In this context, a study by Djankov, McLiesh and Ramalho (2006) provides relevant empirical evidence. Their dataset contains information about the average annual growth rate between 1993 and 2002 for 135 countries including 24 Member States. Compared to the studies presented so far, they use a slightly different and somewhat broader approach to analyse the influence of the quality of public administration and its effect on competitiveness. Again, data from Doing Business is used, but rather than including selected indicators individually, the authors create a composite index of business regulations by taking simple averages of country rankings in each of the seven topics covered. Besides variables on the number of necessary procedures, time and costs to start a business, variables on hiring and firing, property registration and contract enforcement are also included. In order to examine the causal link between the implementation of regulation and growth, the authors use a two-stage least squares regressions and instrument their index on business regulation with the legal origin of a country's commercial code or company law, absolute latitude, initial GDP per capita, religion and language. They provide evidence of a significant and negative impact of burdensome business regulations on per capita growth,

while controlling for effects of human capital, civil conflict and government consumption. More precisely, their estimates imply that moving from the worst to the best quartile in terms of business regulation would result in an increase of the average annual growth rate per capita by 2.3 percentage points.

Barseghyan (2008) also provides estimates for the impact of high entry costs on GDP per worker. Like Djankov, McLiesh and Ramalho (2006), this study uses the geographical latitude, the fraction of population speaking a major European language and a country's legal origin as instruments. He finds a significant and negative impact of high entry costs on GDP growth, while controlling for the impact of property rights and social infrastructure. More precisely, the results imply that an increase of entry costs is associated with a significant decrease of GDP per worker.

A study by Busse and Groizard (2008) provides additional evidence for a panel of 84 countries between 2002 and 2006. Data from Doing Business is used to compute an aggregate indicator based on specific sub-topics covered in the database. The number of procedural steps, the costs, and the duration to start a business are combined with further indicators on the flexibility of hiring and indicators on insolvency regulations. This study differs in the sense that a precise channel is explored in linking business entry regulations with aggregate growth. The authors show that increases in burdensome entry regulations are associated with half a percentage point in foregone growth per year through its deterring effect on foreign direct investment.

3.6. Excellence in public administration in relation to small and medium-sized enterprises (SMEs)

3.6.1. Introduction

SMEs play an important role in policy discussions also with respect to the issues that are central for our analysis of the links between excellence in public administration and competitiveness.

To give a short reminder of the relevance of SMEs, Table 3.1 reports the summary statistics for SMEs in the EU-27 as a whole. In this table the importance of SMEs in Europe is measured in terms of shares of total enterprises, total employment and total gross value added. SMEs account for 99.8% of all enterprises, employ 66.8% of all employees and account for 58.4% of the gross value added produced in Europe. Most are micro-enterprises employing fewer than 10 people. These differences in firm size also affect the interaction of firms with public administration. Therefore we here turn to the discussion of the conceptual framework presented earlier with special emphasis to SMEs in Europe.

Table 3.1 - The importance of SMEs in Europe in 2010 measured in shares of total enterprises, employment and gross value added

	Size class	Number of enterprises	Employment	Gross value addes
Micro	1 to 9 employees	92.1	28.9	21.6
Small	10 to 49 employees	6.6	20.4	18.9
Medium	50 to 249 employees	1.1	16.8	17.9
Large	More than 500 employees	0.2	33.1	41.6
SMEs	1 to 249 employees	99.8	66.8	58.4

Source: own compilation based on data presented by Wymenga et al. (2011).

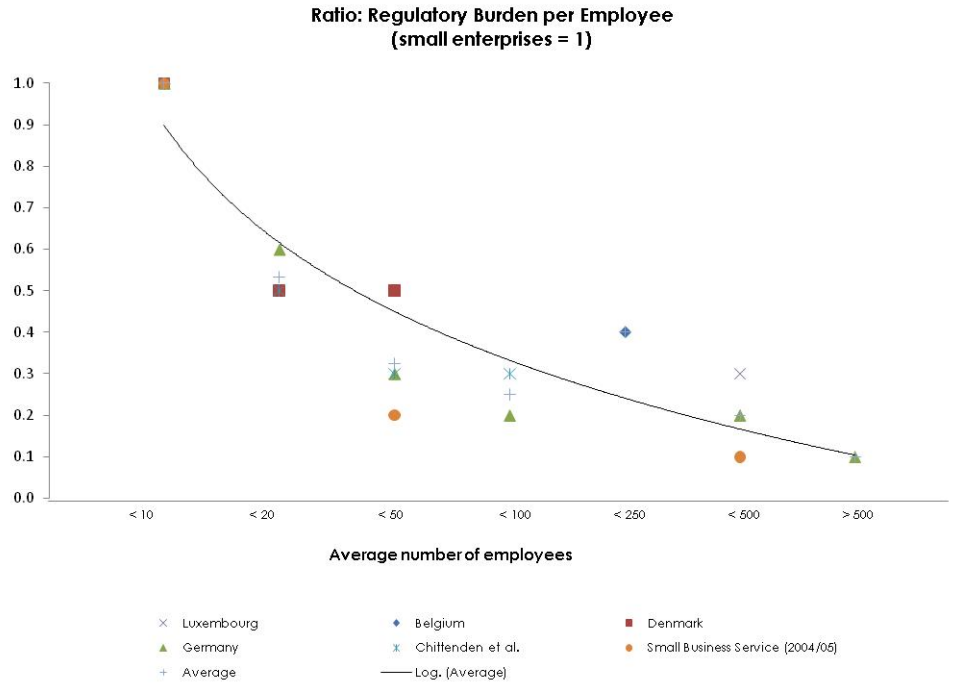
3.6.2. SMEs and administrative and regulatory burdens

In the European policy discussion on administrative and regulatory burden special emphasis is placed on SMEs (e.g. European Commission, 2007b). This relates to the fact that smaller firms face a disproportionately higher regulatory burden than larger firms.

Figure 3.2 provides a summary of the evidence collected in studies from several European studies. Although these studies are not entirely comparable in their definitions of regulatory burden, they clearly indicate that smaller businesses have to bear a higher regulatory burden than large enterprises. Similar evidence exists for other countries and policy areas. For example, Hughes and Mina (2010) provide a survey on SMEs and patenting. Their findings show that patent infringement and patent litigation creates significant problems for SMEs. With respect to this study, this is of particular interest as it relates to contract enforcement and interactions with public administration. The finding is SMEs tend to be sued by, as opposed to sue, larger firms, probably because of their inferior bargaining power, information asymmetries about the IP process (capacities), or the higher marginal value they attach to their patents. Also the patenting story points to the three explanations usually offered for the disproportionate burden on smaller enterprises:

- Regulation and administrative procedures often have a fixed-cost nature.
- Smaller enterprises have limited managerial capacities to deal with administrative processes and are at a disadvantage to hire specialised staff that leads to a lower efficiency of smaller enterprises in dealing with public administration. The same holds for buying specialised expertise to deal with regulatory and legislative issues.
- In micro enterprises the entrepreneur himself has to deal with public administration, what in turn keeps him away from dealing with core business activities.
- Costs resulting from delays are more problematic for small firms, as their activities and range of products are usually less diversified than those of large firms.

Figure 3.2 - Regulatory burden per Employee across size classes



Source: European Commission (2007b).

This makes clear that the theoretical and conceptual framework presented above is especially relevant for SMEs. For example, very large firms may even compensate for some shortcomings in the provision of public goods, for instance if they are able to build own infrastructure. Apart from infrastructure, small enterprises face a further disadvantage. Large enterprises often have direct access to public administration and even policy makers, what allows them to influence policy and outcomes in their interest to some extent. Small enterprises generally lack this possibility. Thus the transparency and the integrity of public administration and the policy making process are very important to SMEs. But much more important are the direct channels of transmission related to direct costs and uncertainty. The results from Figure 3.2 provide direct evidence that the cost channel leads to disproportionally higher direct costs (fees and staff time) for smaller firms. Also costs due to delays are likely to be higher for small firms. If smaller firms are less differentiated in activities and range of products than large firms – an assumption that is highly plausible – then also the uncertainty channel is likely to be more relevant for smaller firms than for large firms.

The empirical evidence on the link between firm size and the legal system provides some hints of the negative effect of higher uncertainty on firm growth. The results of Laeven and Woodruff (2007) indicate a positive relationship between firm size and the quality of the legal environment. This is relevant for competiveness. A polarisation of economic activities into a large number of very small firms and a small number of very large firms without medium-sized firms may reflect misallocation of resources. Laeven and Majnoni (2005) find evidence that judicial efficiency affects the cost of capital. Thus the protection of property rights and the inefficiency of public administration may as well translate into inefficient investment allocations that hamper firm growth. Especially in developing countries there is disproportional concentration of employment in very small firms (Tybout, 2000; Banerjee and Duflo, 2005). For EU countries the results of Pagano and Schivardi (2003) indicate that there is a positive relationship between average firm size and productivity growth. According to Pagano and Schivardi (2003) the source for this positive relationship is a positive link between firm size and innovation. These results have been replicated by Hölzl and Reinstaller (2009) for a different time period for the manufacturing sector. But Hölzl and Reinstaller (2009) can confirm that for service sectors the R&D channel is not important and average firm size is only weakly related to productivity growth. The evidence thus suggests that it may be an indication of weak competitiveness if small firms do not grow into medium sized and large firms, especially in manufacturing industries. Reliable and well defined property rights in addition to an efficient bankruptcy system affect incentives for start-up activities (Armour and Cumming, 2006; Klapper, Lewin and Delgado, 2009). Thus, the legal and regulatory framework and the excellence of public administration are of special importance for both entrepreneurship and SME growth.

3.6.3. Policy responses and the dark side of firm size-dependent policies

At the EU-level the Small Business Act European Commission (2008) provides the main policy document that aims at levelling the playing field between small and large firms and to foster the regulatory and legislative environment for SMEs. A monitoring process has been launched that assesses EU Member States' progress in achieving the goals of the Small Business Act. Many measures taken by member states[23] can be assigned to ten categories of policy measures that allow to reduce the administrative burden of SMEs. These measures were identified in the report "Models to reduce the disproportionate regulatory burden on SMEs" (European Commission, 2007b):

[23] A country by country overview is provided by the SBA fact sheets (http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm).

1. Size-related exemptions
2. Reduced obligations (i.e. partial exemptions)
3. Simplified obligations
4. Temporal exemptions
5. Administrative coordination
6. Common commencement dates
7. Tailor-made information, coaching, training
8. Electronic services
9. Privileged treatment of small businesses
10. Early evaluation of regulatory effects on SMEs

The implementation of such measures reduces the disadvantage of SMEs in regulatory and administrative burdens. In many cases such measures impact positively on overall competitiveness.

The quantitative literature on regulatory burdens focuses almost exclusively on regulation as cost or constraint for small business and start-ups. For example in the case for start-ups see also Table 3.2. In the context of constructing an assessment framework it does not create overwhelming problems when excellence of public administration is conceptualised as efficiency of public administration. When regulations themselves come into play this conceptualisation may be limiting as regulations in different policy areas may also have an enabling character (dynamic effect of regulation) that is related to behavioural changes, especially in areas such as environmental regulation, innovation, and workplace safety (Kitching, 2006). Regulations today are also related to norms and standards. Many regulations are implemented by reference to standards. This is mirrored in the Small Business Act where the participation of SMEs in standardisation committees receives its due attention.

But an important warning for policy makers comes from a few academic studies that seem to address a dark side of size-dependent policies. Holtz-Eakin (2000) emphasises possible negative incentives to grow established by size-depended policies. In a similar vein, Guner, Ventura and Xu (2008) provide a simulation study that shows that a reduction in average firm size leads to reductions in output of around 8% that is not compensated by the increase in the number of firms. However, these studies do not directly show that size-dependent policies lead to a misallocation. The only study we are aware of that tries to relate economic policies to effects of firm size and finds a clear negative result is Garicano, Lelarge and van Reenen (2011) for size-dependent labour regulations in France. They show that this regulation has major effects on the distribution of firm size and productivity.

3.6.4. Summary

This section emphasised that SMEs are likely to be particularly affected by the quality of public administration and regulations. Size-dependency arises through the fixed cost nature of regulations and limited capacities of smaller firms in interaction with public administration. A number of policy responses have been developed to reduce administrative and regulatory burden for SMEs in the EU. Nevertheless, we will put no special emphasis on SMEs in the development of the assessment framework, except when the efficiency of dealing with firm entry is considered. The main reasons are:

- The general conceptual framework outlined earlier in this chapter which is used to develop the assessment framework in the next chapter fits also the needs of smaller enterprises well. All the transmission channels are of specific relevance for SMEs.

- The SBA fact sheets provide already an assessment framework that is designed specifically tailored on the needs of SME policy in the European Union as expressed by the Small Business Act.

Nevertheless, we are convinced that the assessment framework that we develop to assess the excellence of public administration is also of particular value for policy analysis that concerns SMEs. Policy reforms that affect the quality of public administration are very important for SMEs in Europe.

3.7. Annex - Points of impact of interactions with public administration and their link to operation fields during a firm's lifecycle

Channels of transmission				
Costs		**Uncertainty**		
Direct	**Duration**	**Duration**	**Outcome**	**Costs**
Market entry				
• Registration or licensing costs in the context of **entry and incorporation** • Processing costs due to inclusion of third parties like courts and notaries	• Costs/profit loss due to delays in processing time of PA • Costs due to a high number of steps for business registry	• Uncertainty about total duration of processing time by PA for incorporation	• Uncertainty arising from a lack of transparency and honesty in decision making due to an influence of third parties in the context of incorporation	• Uncertainty about total amount of inputs needed for incorporation (e.g. sum of costs)
Operations				
• Fees the context of **obtaining permits** for construction and production technology • Processing costs due to inclusion of third parties like courts and notaries	• Costs/profit loss due to delays in processing time of PA and high frequency of appealing • Costs due to multiple inspections by public officials	• Uncertainty about total duration of processing time by PA for granting permits	• Uncertainty arising from a lack of transparency and honesty in decision making due to an influence of third parties	• Uncertainty about total amount of inputs needed for obtaining permits (e.g. sum of costs)
• Fees in the context of **import / export** for registration at customs office	• Costs/profit loss due to delays in processing time of PA and high frequency of appealing	• Uncertainty about total duration of processing time by PA for granting entry clearance for merchandise	• Uncertainty arising from a lack of transparency and honesty in decision making due to an influence of third parties in the context of protection of property rights	• Uncertainty about total amount of inputs needed (e.g. sum of costs)
• Costs due to additional staff time necessary in the context of **public procurement**	• Costs due to payment delays	•	• Uncertainty arising from a lack of transparency and honesty in decision making due to an influence of third parties in the context of the award of public contracts	•

• Costs for compliance in the context of **labour regulation** (e.g. safety at work regulations) • Costs due to additional investment for compliance • Learning costs in the case of changing regulations	•	•	•	• Uncertainty about total amount of inputs needed (e.g. sum of costs)
• Staff time in the context of **contract enforcement** • Processing costs due to inclusion of third parties like courts and notaries	• Costs/profit loss due to delays in processing time of PA and high frequency of appealing	• Uncertainty about total duration of processing time by PA	• Uncertainty arising from a lack of transparency and honesty in decision making due to an influence of third parties (e.g. rejection of plaints)	• Uncertainty about total amount of inputs needed (e.g. sum of costs)
• Compliance costs and staff time in the context of **taxes**	• Costs/profit loss due to delays in processing time of PA and high frequency of appealing	• Uncertainty about total duration of processing time of tax returns by PA	• Uncertainty arising from a lack of transparency and honesty in decision making (e.g. application of laws)	• Uncertainty about total amount of inputs needed (e.g. sum of costs)

Innovations and investment				
• Fees and staff time in the context of **R&D** (e.g. patent application)	• Costs/profit loss due to delays in processing time of PA • Costs due to a high number of proceedings	• Uncertainty about total duration of processing time by PA for granting patents	• Uncertainty arising from a lack of transparency and honesty in decision making due to an influence of third parties in the context of protection of property rights	• Uncertainty about total amount of inputs needed (e.g. sum of costs)
• Fees and staff time in the context of **foreign direct investment** (e.g. lack of language skills of PA)	• Costs/profit loss due to delays in processing time of PA and high frequency of appealing	• Uncertainty about total duration of processing time by PA	• Uncertainty arising from a lack of transparency and honesty in decision making (e.g. corruption or lobbying)	• Uncertainty about total amount of inputs needed (e.g. sum of costs)
Closure				
• Costs in the context of **insolvency** • Processing costs due to inclusion of third parties like courts and notaries	• Costs due to a high number of proceedings	• Uncertainty about total duration of processing time by PA	• Uncertainty arising from a lack of transparency and honesty in decision making	• Uncertainty about total amount of inputs needed (e.g. sum of costs)

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4. EMPIRICAL ASSESSMENT FRAMEWORK TO MONITOR EXCELLENCE IN PUBLIC ADMINISTRATION FOR COMPETITIVENESS

4.1. Requirements and introductory remarks

Chapter 3 established that the overall impact of administrative excellence on competitiveness is determined by costs and the uncertainty of firms in dealing with public administration, as well as by administrative effectiveness in providing public services. Therefore, the objective of this section is to identify indicators that reflect and quantify these dimensions.

A first aim will be to construct an assessment framework for indicators which covers main characteristics of excellence in administration and its links to competitiveness, and thereby assists us in selecting a tractable number of indicators. A further aim will be to use these indicators to construct an assessment framework to monitor public administration excellence for competitiveness.

The importance of public administration quality for competitiveness raised the interest of both scholars and policy makers on indicators that allow to measure and compare administrations in the Member States. Ideally, selected indicators should capture the multitude of (potential) interactions between administration and enterprises, the complexity of the interrelationship of the indicators, and the various channels of transmission through which administrative quality impacts on the competitiveness of a country's business sector.

In this chapter, we draft an empirical framework to assess elements of public administrations of Member States which appear to be the most important for a business-friendly environment. We distinguish three 'general' links, which cover overarching influences that affect the quality of public administration and its relation to the business environment, namely

A. *General governance*

B. *Tools for administrative modernisation,* and

C. *Corruption and fraud.*

'General governance' reflects the multi-dimensional concept of administration quality. 'Tools for administrative modernisation' refers to the use of instruments to enhance the capacities of the administration, and maps developments in the general sophistication of service provision. 'Corruption and fraud' maps assessments of the extent to which the powers of government and administration are exercised for private gain. The link covers all forms of corruption, including state capture by vested private interests.

In addition we distinguish four more specific links, concerning issues of

D. *Starting a business and licensing,*

E. *Public procurement,*

F. *Tax compliance and tax administration,* and

G. *Efficiency of civil justice.*

These links explicitly relate the quality of public administration to the business environment, and capture the most important interactions and 'contact points' between administration and private companies. Our analyses do not focus on industry-specific interactions between public administration and certain branches. Rather, the links were selected with the intention to draw a comprehensive and concise picture of excellence of administration at the Member State level.

The broadness of the links requires selection of more than one representative indicator per link to map the various aspects how the quality of public administration affects the business environment. In the following sub-sections we elaborate in more detail the indicator selection process for each of the considered 'links'.

The selection of single indicators is restricted by availability, minimum requirements on data quality, country coverage, timeliness and representativeness of the data.[24] We apply a selection procedure framework for available indicators along three main criteria:

(1) In the context of **country coverage**, indicators must cover at least half of the Member States, or, alternatively, complete sub-groups such as the New Member States (with the exception of Cyprus and Malta); otherwise, we discard the indicators.

(2) In order to pass our assessment in terms of **timeliness**, indicators must at least date from 2009 or more recent years. Here, we also distinguish between the year of publication and the year to which the indicator refers to where the latter is more relevant for our purposes.

(3) With respect to **representativeness**, we both consider whether the underlying sample is representative, and whether the methods used are adequate. We take into account issues such as the framing of survey questions and the comparability of results over time. We discard indicators that have major limitations in terms of representativeness.

This methodology involves important **trade-offs**: A first trade-off exists between data quality, availability and representativeness of indicators on the one hand, and comprehensiveness and completeness in capturing the interactions between public administration and business on the other hand. In some cases, to be discussed below, a specific link between administration quality and business environment can only be mapped via more than one or two dimensions. Yet, required data is not always available, or some available data do not meet our quality conditions.

For example, in link 'G. Efficiency of civil justice' we are able to cover duration and cost of legal disputes but not duration and cost of the use of alternative dispute resolution methods (e.g. mediation) which are increasingly used to resolve legal disputes. In principle, these data should also be included in an assessment framework which maps the link comprehensively. However, representative data on duration and costs of alternative dispute resolution methods that fulfil all our criteria of indicator selection is not available.

A second trade-off is more fundamental. Capturing the characteristics of administration that affect the links between excellence and competitiveness in a concise and unambiguous way with a smaller number of indicators may be in conflict with the goal of getting the specificities of national administrative traditions right with respect to their specific advantages and disadvantages. On the one hand, reducing the number of selected indicators always comes at the risk that some important aspects are not covered. A higher number of indicators, on the other hand, may cause a loss of tractability of the framework.

These selection criteria allow us to establish a framework that monitors those elements, which represent the most likely drivers for costs, uncertainty and administrative effectiveness in interaction of firms with public administration. Table 4.1 provides an overview of dimensions and selected indicators, which will be described in more detail in the following sub-sections.

[24] A large number of indicators have been considered for inclusion in the assessment framework. This list of indicators and the assessment framework that guided the selection of indicators is collected in a separate document.

Table 4.1 - The assessment framework: links, indicators and data sources

EPA-competitiveness link	Unit	Data source
A) General governance		
1) Government effectiveness	Index range -2.5 to +2.5, higher values indicate better performance	World Bank - Worldwide Governance Indicators
B) Tools for administrative modernisation		
1) Availability of 8 business related E-Government services	% of total of 8 services	EC E-Government Benchmarking Reports
2) Use of Evidence-Based Instruments	Index 0 to 10, high values indicate intensive reliance	Bertelsmann Stiftung - Sustainable Governance Indicators
3) Post-Bureaucracy Index	Index 0 to 100, high values indicate intensive reliance	Demmke and Moilanen (2010)
C) Corruption and fraud		
1) Diversion of public funds	Index on a scale from 1 (very common) to 7 (never occurs)	WEF Global Competitiveness Report
2) Irregular payments and bribes	Index on a scale from 1 (very common) to 7 (never occurs)	WEF Global Competitiveness Report
3) Experience of corruption	% share of respondents reporting an incident	EC Special Eurobarometer
D) Starting a business and licensing		
1) Fully operational one-stop-shop to start-up a company	does not exist =0, does exist = 1	EC - Monitor start-up procedures
2) Time required to start-up a company	number of calendar days	World Bank – Doing Business
3) Cost to start-up a company	% of income per capita	World Bank – Doing Business
4) Index of total licensing complexity	range 1 to 26, high values indicate high complexity	DG Enterprise - Business Dynamics
E) Public procurement		
1) Total person-days per individual firm per competition	firm days	EC - Cost and effectiveness of Public procurement
2) Typical cost of a competition for firms per competition	% of per capital GDP	EC - Cost and effectiveness of Public procurement
3) Average delay in payments from public authorities	days	Intrum Justitia - European Payment Index
F) Tax compliance and tax administration		
1) Time to prepare and file tax returns and to pay taxes	hours per year	World Bank - Paying Taxes
2) Administrative costs of taxation	per 100 units of revenue collection	OECD – Tax Administration in OECD and Selected Non-OECD Countries
G) Efficiency of civil justice		
1) Enforcing contracts: Time	Calendar days	World Bank – Doing Business
2) Enforcing contracts: Cost	Percentage of claim	World Bank – Doing Business
3) Resolving insolvency: Time	Years	World Bank – Doing Business
4) Independent judiciary	Index from 1 to 7, high values indicate independence	WEF - Global Competitiveness Report

4.2. Assessment of administrative quality by general governance indicators

4.2.1. The link to competitiveness

The quality of a bureaucracy – or 'public administration excellence' – is a multi-dimensional concept. It captures numerous different aspects of the working properties and mechanisms of a country's administrative system. Put differently, administrative quality is characterised by the way the governmental institutions operate and thereby determine the management of public affairs and the capacities of a state to provide a regulatory environment conducive to growth and competitiveness.

The institutional framework plays a key role in our analysis. On the one hand it enables and reinforces the potential of firms and branches, especially through shaping an entrepreneurial environment. On the other hand, the institutional framework can also exert unnecessary regulatory burdens on to firms leading to red tape, bureaucratic delays, high taxes, inferior public service qualities, etc.

A quite natural way to assess bureaucratic quality, then, is to use indicators in which such a comprehensive concept is also captured by a wide range of different measures. Over the past two decades a number of general governance indicators have been proposed in order to quantify characteristics and performance of public administration. Scholars as well as practitioners from international institutions and business consultants have developed a wide array of indicators and datasets of general governance measures which aim at a quantification of the institutional quality assumed to reflect determinants of competitiveness and growth.

Some of the indicators for assessing governance structures aim at summarising the multi-dimensional concept into a single score of bureaucratic quality to arrive at an overall and comprehensive picture ('general governance indicators').

What should be measured?

Indicators with a very general character should provide a characterisation of the link between the excellence of public administration and competitiveness in a very broad way. With regard to that a wish-list for one single indicator measuring the overall bureaucratic quality would include and condense information on

1. The perceived quality of the public services
2. The costs of service provision
3. The ability of government and administration to implement sound policies and regulations.
4. The burdens of administrative requirements (e.g., permits, regulation, reporting) and of regulations for businesses.

4.2.2. Selected indicator and database

In this respect, the World Bank's Worldwide Governance Indicators (WGI) are among the most advanced, and probably most controversially debated, datasets. WGI rely exclusively on a wide variety of perceptions-based governance data sources. The database covers 213 countries and territories, measuring six dimensions of governance, starting in 1996: (1) Voice and accountability, (2) Political stability and absence of violence/terrorism, (3) Government effectiveness, (4) Regulatory quality, (5) Rule of law, and (6) Control of corruption. These six dimensions are all expressed as a composite indicator. The aggregate indicators are based on several hundred individual underlying variables, taken from a wide variety of existing data sources. The data reflect the views on governance of worldwide survey respondents, including public, private, and NGO experts. WGI also explicitly report margins of error accompanying

country estimates. These reflect inherent difficulties in measuring governance using any kind of data.

Especially two of the mentioned dimensions are covering administrative quality in a stricter sense, (1) government effectiveness and (2) regulatory quality.[25] From this database the indicator '*government effectiveness'* was selected for inclusion into the report.

Indicator A.1: Government effectiveness

Government effectiveness (GE) captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, quality of policy formulation and implementation, as well as the credibility of the government's commitment to such policies. GE is a **composite indicator**. It is a comprehensive assessment of the quality of public administration in a very broad sense, measuring the competence of public administration and the quality of service provision. By construction from various data sources it covers a range of related concepts, such as bureaucratic expertise, administrative and technical skills of the civil service, red tape, administrative delays, quality of public schools and basic infrastructure quality, to name only a few.

A second indicator, Regulatory Quality (RQ), is reflecting perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. In our assessment framework, RQ is not included for mainly three reasons. First, perceived quality of the regulatory system will be mapped in more detail by the remaining set of specific indicators, to be presented in the following subsections. Hence it could easily be seen as an unnecessary duplication. A second reason for dropping RQ from our assessment framework is formalistic: The simple correlation between the GE-indicator and the RQ-indicator is higher than +0.9 for the sample of Member States in 2010. For an assessment GE and RQ are almost indistinguishable. Moreover the regulatory quality of regulation tends to be more dependent on lawmakers' ability to formulate sound policies and regulations, than on the public administration that to a large extent execute what has been laid down in law.

The usefulness of GE as a composite governance indicator for **assessing the quality of a public administration** lies in its **broad and aggregate approach**. By averaging information from many data sources information is condensed and summarised, influence of outliers is mitigated and margins of error are therefore reduced. It delivers a broader picture than a bulk of unstructured single indicators can show.

The GE-indicator must (like all composite indicators) only be interpreted with caution. GE is derived by estimating an unobserved components model (Kaufmann, Kraay, and Mastruzzi, 2010). Hence, there is unavoidable uncertainty around this estimate. If confidence intervals for two countries overlap substantially, one should not interpret GE-data differences as signalling a (statistically) significant difference between two countries. A further aspect is also important to note. Differences in the cross-section of countries or changes over time in aggregate GE measures not only reflect differences in country scores on the underlying source data from various sources, but also differences in the set of underlying data sources on which the comparison is based. Changes over time may be a consequence of differences over time in the weights that are used to aggregate the indicators.

[25] Two further dimensions, 'rule of law' and 'control of corruption' capture aspects that are also related to public administration quality in a broader sense. These are discussed in the following sub-sections.

4.3. Tools for administration modernisation

4.3.1. The link to competitiveness

As elaborated in chapter 2, modernisation of the public sector is pursued through application of a large array of different tools that aim at increasing the capacity of public administration for high-quality service provision. Putting the clients' desires at centre stage, organising public service provision based on performance and outcomes, making use of contemporary ICT, applying a strategic approach to human resources management, and organising interactions between public and private sector more efficiently, all contribute to enhanced capacities of public administration. The scope of these tools reaches from a transformation of administrative logics of input-steering to the introduction of practical instruments that help to facilitate the interactions of businesses with public administration.

Yet, it is premature to claim high public sector excellence only because a country introduces innovative management practices, ICT solutions or administrative regulations in accordance to a certain paradigm, such as New Public Management. Most reform practices have innumerable direct and indirect effects on competitiveness. There is still a lack of robust empirical evidence as regards the economic impact of these modernisation tools (e.g. Boyne, 2003; Van Dooren et al., 2008). Consequently, a universally accepted reform model does not exist, and reforms according to the 'simple' NPM-paradigms are often contested as they did not produce the desired (or promised) outcomes (Dunleavy et al, 2005; Olsen, 2006).

This raises an enormous challenge to data collection for monitoring purposes. Data reflecting the success of implementing tools for public sector modernisation should shed light on **potentially enhanced administrative capacities**, i.e. how efficient and how effective public administration is in interaction with firms: Do companies have a say in developing new policies that affect them? Do government and public administration base their decisions on a systematic evaluation of policies and empirical evidence? Are new policies communicated effectively? Can businesses conduct administrative duties online in accordance to the Service Directive?

Selected indicators are hence intended to map developments in the **general sophistication of public service provision**. Given the diverse qualitative nature of instruments with an effect on administrative capacities on the one hand, and the numerous different approaches across countries on the other, reliable data covering the reform strategies in all Member States is rare. Also, many institutions that provide data propagate certain paradigms; a fact which is reflected in the choice of indicators. Furthermore, the vast majority of accessible quantitative indicators are input- or procedural indicators that do not account for actual outcomes of modernisation. While it describes a certain administrative culture, the degree of public sector agencification itself, for example, tells little about whether a public administration is excellent or not, without comparing its effects on efficiency or costs.

Hence, in order to evaluate administrative capacities created by public service modernisation tools, it seems sound to restrict choice of indicators to a few significant variables that allow an overall evaluation of a modernised administration, which can supplement further indicators that are based on the theoretical framework developed in chapter 3.

While assessment of modernisation tools can only provide a rough estimation of the context of public-private interaction and administrative hassles for businesses, a generally efficient administration is the most important requisite for public sector excellence. Conceptually, these general modernisation measures are mostly to operate through **indirect channels of transmission**, e.g. by influencing efficiency and costs of public service provision, especially in the case of institutional re-organisation and strategic human resources management. In

some other cases, however, a modern public administration can also have noteworthy impacts through the uncertainty (e.g. service and performance orientation) and the cost channel (e.g. ICT solutions in government).

What should be measured?

The large variety of available tools to modernise public administration makes it extremely difficult to arrive at a comprehensive but nevertheless well-arranged "wish list" of indicators. The overview in chapter 2 has shown that main concepts of administration modernisation, i.e., (1) reliance on ICT applications, (2) human resources management, (3) performance orientation, (4) service orientation, and (5) the institutional re-organisation of administration, are highly independent and cannot be separated easily. For example, service orientation is dependent on the introduction of well-designed e-government solutions and a well-trained administrative staff. Performance orientation contributes to improved service quality and cost reductions only if it is related to incentives schemes for civil service employees, etc.

As the central aim of all these reform measures is to enhance administrative capacities, i.e., to enable public administration staff to provide services effectively and efficiently, an ideal set of indicators would allow us to measure (an improvement of) capabilities through the implementation of new tools directly. This is yet almost impossible as capacities cannot even be defined unambiguously. Moreover, it is highly disputed whether improved performance can be attributed to certain reform measures. All in all, empirical evidence of the positive impact of accordance to certain reform paradigms is meagre and fragile. To arrive at a clearer view how these measures improve competitiveness requires not only to collect more data on outcomes but also to identify robust linkages between the adoption of certain technical applications and management practices and improved outcomes.

As long as such links are not empirically well-established it appears reasonable to measure instead the **use of instruments of modernisation** without trying to arrive at qualifications of overall desirability. If the use of several tools leads to improved administrative performance this should be reflected in better outcome-related indicators of the specific links described in the next sub-sections. For example, if processing time of starting-up a business is reduced by ICT-applications, this will be reflected in an improvement of the respective indicators on the specific links between administration and competitiveness, or, by an improvement of the overall assessment through general governance indicators.

4.3.2. Selected indicators and databases

In this section we present indicators to measure the use of tools aimed at an improvement of administrative capabilities to provide high-quality public services. Here we concentrate on the indicators we selected for inclusion in the assessment framework.

There is a large number of data available focusing on procedures related to specific tools, such as availability of e-government applications, or the degree of decentralisation of provision of certain services. The selected indicators give an overall impression of the reform propensity Member States, despite an inevitable bias caused by the different administrative traditions. In any case, indicators reflecting the implementation of certain modernisation tools should understood as a reference for monitoring a country's reform activities in general.

4.3.2.1. CapGemini: i2020 e-government benchmarking

The annual e-government Benchmarking prepared for the European Commission aims at monitoring the **implementation and sophistication of a number of online services** in 35 countries, including the Member States. Among a total of 20 e-government services for various stakeholders, we include in our assessment framework

Indicator B.1: Full online availability of 8 business-related services

The indicator includes information on e-government applications for (1) social contribution for employees, (2) corporate tax, (3) VAT, (4) customs declaration, (5) environmental-related permits, (6) registration of a new company, (7) submission of statistical data, and (8) public procurement.

This business-related indicator allows drawing conclusions on the progress a Member State has made in order to reach the goals of the i2010 strategy and its successor, the Digital Agenda for Europe.[26] The e-government benchmarking tries to perceive the availability of services as a first step and also assesses the sophistication and the take-up of said services in order to document the 'ICT dividend' within the Member States. The applied 20-services-method was based on a procedure including landscaping (description of the services), sampling of the URLs (as a combination of stratification, systematic sampling and random sampling), and a web-survey that analysed all available services, followed by a validation of the report in collaboration with the Member States.

Methodologically, the evaluation is based on a 5-stage maturity model that assesses the 'full online availability' of 20 services on the national level, including 8 services for a so-called 'Government to Business' super-cluster. For this purpose, researchers decided which maturity stage a service displays and calculated an according percentage that follows three different schemes, depending on the nature of the service. While stage 5 is a signal for proactive, automated service delivery, some services only reach stage 4 (only transactional, e.g. application, decision is transmitted as a result) or stage 3 (only interactional, e.g. declaration to the police). Stage 0 implies that there is no online service at all. The highest possible stage is awarded with a 'full online availability'-score. Several country-specific non-relevant sub-services were excluded, which allows a computation of a context-appropriate compound business index for all Member States.

4.3.2.2. Bertelsmann Sustainable Governance Indicators: Evidence-based instruments

A second aspect that should be covered by an assessment of tools for modernisation is the use of modern instruments of steering a public administration through systematic evaluation with the help of performance information. From the set of available indicators we selected

Indicator B.2: Use of evidence-based instruments

The sub-index 'evidence-based instruments' of the bi-annual Bertelsmann Foundation's Sustainable Governance Index (SGI) serves as an indicator for the discourse and **quality of performance-based steering tools** by describing (a) the application of Regulatory Impact Assessments (RIAs) in general, (b) the inclusion of a needs analysis for potential new regulations, and (c) the consideration of alternative options. It measures "whether the government regularly assesses the potential socioeconomic impact of draft laws. Hence, it evaluates the extent to which RIAs examine alternative options as well as the purpose of and need for regulations" (Bertelsmann Foundation 2011). However, data is available only for OECD-countries that do not include all Member States.

The 'evidence-based instruments'-indicator includes qualitative assessments by country experts based on a standardised survey in which the sophistication of all three aspects is weighed on a unified scale between 10 (applicable) and 1 (not applicable).

- Does the government regularly assess the potential socioeconomic impact of draft laws?
- Do RIAs analyse the purposes of and need for regulations?

[26] See http://ec.europa.eu/information_society/digital-agenda/index_en.htm

- To what extent do RIAs explore alternative options?

The results of the expert survey questions are transformed into a compound index on 1-10 scale, using the simple mean of sub-indicators.

4.3.2.3. Post Bureaucracy Index

A further important notion of administration modernisation is a reform of staff management in the public sector. The principal features of such reform ideas include a reduction of hierarchy, an emphasis on flexibility and performance rather than rule-following and career-orientation and life-time employment, and a focus on performance-related pay.

Indicator B.3: Post bureaucracy index

The 'Post Bureaucracy'-Index developed by Demmke and Moilanen (2010) in a study on "Civil Services in the EU of 27" commissioned for EUPAN, captures important aspects of a reform towards strategic Human Resources Management (HRM) by describing the degree of **implementation of different HRM tools**. The index documents general accordance to a reform paradigm, which predominantly includes a shift from a strong reliance on public servants towards more flexible modes of public employment. Based on a detailed analysis of public sector employment systems across the Member States, Demmke and Moilanen (2010) derive the index by aggregating indicators for

- legal status of employees (public law civil servants vs. employment based on private law),
- career structures (regulated insider promotions etc.),
- recruitment (special requirements, private sector experience)
- salary systems (seniority, performance-based, regulated by law) and
- tenure system (lifetime tenure, special job security),

into a composite measure on a scale from 0 to 100 that indicates the use of post-bureaucratic elements in the public employment system. Although structures differ substantially across Member States, Demmke and Moilanen (2010) find no systematic connection between administrative culture and post-bureaucratisation, except for the fact that Scandinavian countries observe exceptionally high degrees of modernisation.

4.4. Corruption and fraud

4.4.1. The link to competitiveness

The occurrence of corruption is probably one of the most profound and widespread problems that public administration in poor as well as rich countries faced in the past and continue to face in the present (Mokyr, 1990; Guriev, 2004). However, corruption is not uniform but rather a multi-faceted phenomenon. Here, we distinguish three types of corruption, namely a general type, state capture including the diversion of public funds, and administrative corruption (see below for a detailed description).

Corruption affects both the direct channels of transmission and the indirect ones. In the context of the direct channels of transmission, the impact of corruption relates to both the cost and the uncertainty channel. Corruption represents a de-facto tax of productive activities of businesses. These costs will reduce *ex-ante* incentives for new investments as well as incentives for innovative firms to enter a market.

Uncertainty about outcomes, duration as well as cost may also arise because in a corrupt environment, outcomes become uncertain as they tend to be driven by bribes rather than rules, and the rules themselves may be changed in response to corruption. This is especially relevant

in the context of patent applications, licensing, the issuance of permits and the allocation of public subsidies. Thus, increased uncertainty in interactions with public administration will again discourage incumbent as well as new firms to invest in innovative projects due to the threat of arbitrary and artificially slow decisions which increases the risk of obsolescence for a firm's initial investment.

Conceptually, corruption in interaction with public administration is also related to the indirect channel of transmission. Here, corruption is especially relevant in the context of public procurement or the utilisation of public funds in general which leads to a misallocation and an inefficient usage of public funds reducing significantly their contribution to long-run growth and a country's competitiveness. For instance, this may be the case in the context of public procurement tenders, when less efficient but bribe-paying firms are chosen.

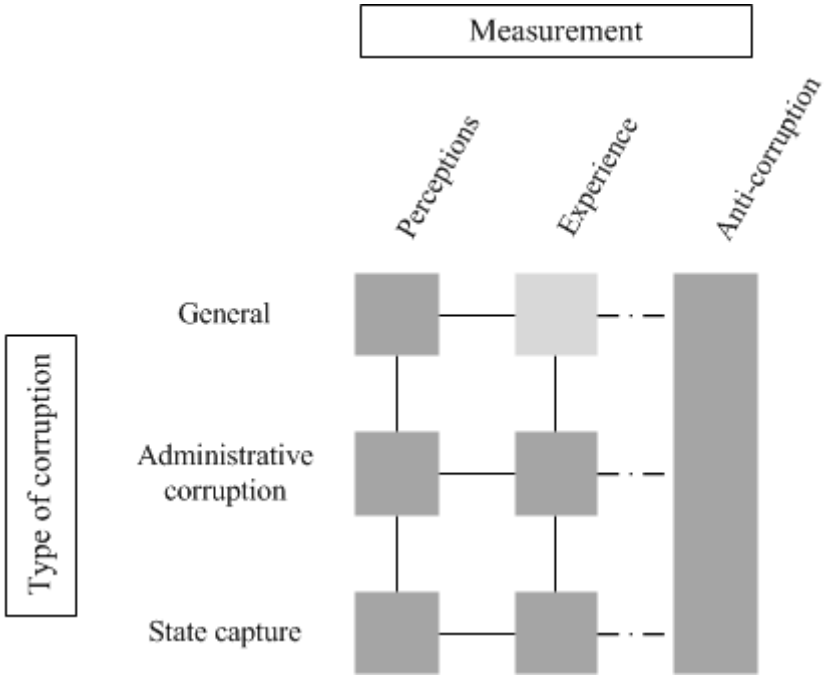
What should be measured?

Measuring corruption empirically is quite complex due to several reasons.

- Corruption is a **multidimensional phenomenon** and therefore cannot be measured by a one-dimensional indicator alone (see further details below).
- Corruption is **hidden**, and revealing it is difficult as both the bribe-taker and giver are likely to try to conceal corruption. Therefore, corruption must be revealed by third parties such as journalists, but the latter type of evidence is typically incomplete. Therefore, every corruption indicator should only be seen as a noisy signal of the 'real' level of corruption within a country.
- Corruption indicators often rely on **perceptions**. Yet, it can be argued that individual perceptions are incomparable between different individuals if they apply different criteria or scales for evaluating corruption (Veenhoven, 2002). As a consequence, some individuals may evaluate a country as highly corrupt, whereas other individuals seen the same country as only moderately corrupt based on the same type of information. These issues are even more problematic for comparison across countries.

Bearing in mind these general aspects, an ideal set of indicators should try to measure corruption by capturing the dimensions summarised in the matrix in figure 4.4.

Figure 4.4 - The multi-dimensionality of corruption



Source: ZEW.

The matrix consists of two main dimensions, namely how corruption is measured, and the type of corruption.

1. **Measurement**:

   a. **Perceptions based**: Since corruption generally comprises illegal and hidden activities, it is difficult to assess its actual level solely based on objective empirical data such as the number of successful prosecutions. Therefore, we have to rely on perceptions based indicators. Perception measures are relevant since they do not solely respond commonly observable information but also reflect subjective opinions based on the individuals' assessment of corruption. Given that such indicators might suffer from systematic biases as described above, the design of questionnaires and the survey methodology are essential.

   b. **Experience based**: Another option is to rely on experience based indicators to measure the occurrence of corruption within a country. Corruption experience is certainly a major component in the foundation of corruption perceptions, but it is more objective. One major drawback of experience based indicators is that respondents may fear legal consequences when revealing themselves as bribe-takers or -givers. Therefore the framing of survey questions and the assurance of complete confidence are of high relevance. Thus, an ideal indicator in this context would ask for the incurrence of 'passive' corruption such as "…have you been asked to pay a bribe?" rather than "…did you pay a bribe?" to minimise dishonest responses.

   c. **Anti-corruption measures:** The third column in figure 4.4 differs from the first two in the sense that it does not measure corruption, but rather the effectiveness of measures to fight corruption. It therefore takes a different perspective and provides an additional dimension for policy-analysis. An ideal indicator should not only try to evaluate the de

jure existence of corruption safeguards, but should as well address their de facto implementation and effectiveness.

2. **Type of corruption**: Recognizing differences between various types of corruption is necessary to design anti-corruption measures. A set of ideal indicators would distinguish between the following three types:

   a. **General**: Indicators in this category would help to assess the general level of corruption in a country. Indicators hence have to cover not simply single incidents of corruption with respect to public administration. They rather have to include the business or private sector, media, religious bodies and NGO's as well to name just a few examples. Hereby, such indicators would not only quantify the level of integrity in the public sector but for the whole society.

   b. **Administrative corruption** is defined as an attempt to influence the implementation of existing laws and regulations in favour of individuals or firms through corruption. Indicators covering this dimension are especially valuable in the context of this project and represent the direct channel of transmission from our conceptual framework. Ideally, relevant corruption indicators should distinguish various branches of public administration providing different public services. However, in practice, compiling such an indicator is not feasible because only few respondents are using all specified public services. An ideal indicator would therefore put special emphasis on sample selection.

   c. **State capture**: State capture refers to attempts of individuals or firms to influence the nature of laws or regulation and to alter government decisions with respect to spending and funding. Relevant indicators would reflect the direct as well as the indirect channel of transmission from our conceptual framework.

Since the combination of an experience based indicator assessing the general level of corruption seems not feasible given the nature of a general assessment, this quadrant has been coloured in light rather than dark grey in figure 4.4.

4.4.2. Selected indicators and databases

Despite the large number of existing indicators aiming at measuring corruption, there is obviously no single one which measures corruption in a complete and comprehensive manner according to the framework developed above. Therefore, it is necessary to combine various indicators or even extend them to cover all dimensions as described in figure 4.4. In the following sub-section, we present our list of selected indicators.

4.4.2.1. World Economic Forum - Global Competitiveness Report

Within the annual Global Competitiveness Report (GCR) business executives are surveyed in up to 142 countries including all Member States and covering all main sectors of the economy. Firm selection follows a dual stratification procedure with strata according to firm size and business sector. In the most recent wave in the case of Member States, small, medium and large sized enterprises are represented with shares of 43%, 34% and respectively 22%.

Data from the most recent wave of the GCR refers to 2011 and reaches back several years. The average sample size for the subset of Member States was equal to 92 business executives per country. Survey respondents were asked to evaluate corruption on a discrete scale ranging from 1 to 7, where 1 represents the highest level of corruption and respectively 7 the lowest. A distinctive feature of the GCR is a thorough data editing process at the level of individual observations as well as at the country level. It thus allows for the detection of outliers within the dataset, and consequently, individual answers with a high deviation are dropped. These

steps may help to mitigate potential biases. From this source we selected two indicators for inclusion in our assessment framework:

Indicator C.1: Diversion of public funds

Based on our matrix in figure 4.4., this stand-alone indicator reflects **perceptions of state capture corruption** and thereby represents effects on competitiveness through the indirect channel of transmission of our conceptual framework. The survey question is: "In your country, how common is the diversion of public funds to companies, individuals or groups due to corruption?"[27]

Indicator C.2: Irregular payments and bribes

This indicator quantifies **perceptions of administrative corruption**; this type of corruption affects firms through the direct channel of transmission. The indicator is only available since 2010. The survey question is: "In your country how common is it for firms to make undocumented payments and bribes connected with... (5 different services offered)?" Proposed services are imports & exports, public utilities, annual tax payments, the award of public contracts & licenses and obtaining favourable judicial decisions. Instead of reporting results for each service separately, this indicator provides pooled results in order to overcome potential problems as described for experience based indicators in the previous section. While at first sight this might seem like a disadvantage from a policymaker's perspective, it actually decreases the number of missing observations thereby making the indicator more reliable.

4.4.2.2. European Commission - Special Eurobarometer

In the context of the Special Eurobarometer (SEB), a general public poll is conducted to measure views and experience of corruption on the behalf of the European Commission. Country coverage includes all current Member States. So far, 4 SEBs have been carried out between 2005 and 2011. The most recent version has been published in 2012 with data referring to 2011. Comparability over time and waves is ensured because the survey questions in all waves are identical.

In each country a multi-stage random sample design was applied. Sampling points were drawn from administrative regional units reflecting size and distribution of the population and geographical properties. In the most recent wave, the median sample size was 1015 conducted interviews per country. In order to obtain representative results, sample properties are compared to Eurostat population data and weighted accordingly.

Besides the indicator we consider for our assessment framework, the SEB contains further indicators reflecting corruption perceptions and corruption experience with regard to public administration. In these cases, data is reported separately for 12 different areas referring to police services, customs, judicial services, politicians at the national, regional and local level, the award of public tenders, the issuance of building permits, the public health sector, the public education sector as well as public inspectors. Corruption assessments are reported in terms of the share of respondents approving the statement proposed in the survey question for each area. Compared to other experience based indicators of corruption, the framing of survey questions in the SEB makes it more likely to obtain honest replies by respondents, since they ask for 'passive' corruption only. For our assessment framework we considered the following indicator:

[27] A second perceptions-based indicator from the GCR measures state capture at the government level as well and thereby refers to the indirect channel of transmission. The survey question is: "To what extent do government officials in your country show favouritism to well-connected firms and individuals when deciding upon policies and contracts?" This indicator is only available since 2008.

Indicator C.3: Experience of administrative corruption

Given the classification in figure 4.4 this indicator quantifies the **experience of administrative corruption** in interaction with public services. While asking for incidents of corruption along the same 12 public services mentioned above, it does not provide data individually for each of them. Instead, data is reported as the percentage of respondents conveying an incidence **in at least one** of the proposed areas. Although a breakdown of experienced corruption by specific public services may be very attractive from a policy-maker perspective, it limits the number of potential respondents because not all of them have used the service and are hence able to reply. The survey question is: "Over the last 12 months, has anyone in your country asked you, or expected you, to pay a bribe for his or her services?"

Popular measures of corruption not included in our monitoring framework

We did not select three of the most popular corruption indicators due to different reasons:

1. Control of corruption (part of the World Bank's Worldwide Governance Indicators)

The Worldwide Governance Indicators (WGI) merge 31 different data sources into six thematic composite indicators. Individual data sources are drawn from surveys of firms and households as well as subjective assessments of business executives and experts provided by non-governmental organisations, commercial business information providers and multilateral organisations. In this framework the WGI relies exclusively on perceptions based indicators. Data from the most recent wave of the WGI refers to 2010 and covers 213 countries including all Member States; scores have been calculated based on ten different sources, and data reaches back to 1996.

With respect to the type of corruption, the WGI corruption indicator cannot be classified unambiguously because it is drawn from many different types of underlying source datasets which cover different points of impact. By using a variety of source indicators, the WGI tries to avoid potential problems of perceptions based indicators as described in the previous section. While a single indicator is more likely to suffer from biases, it can be hoped however that individual biases are cancelled out when using several sources for one country.

A unique feature of the WGI is that it addresses the fact that every corruption indicator is only able to capture a noisy signal of the true level of corruption for the reasons explained above: the methodology of the WGI embodies the assumption that that there is a functional relationship between the observed signal and the true level. This functional relationship is exploited in the sense that the real level of corruption is estimated based on observed data which increases reliability of this indicator and which is therefore a key strength of the concept. However, as a result of this estimation procedure, confidence intervals are necessary for comparisons across countries, and this complicates the use of the WGI for our purposes.

2. Corruption Perceptions Index by Transparency International

The Corruption Perceptions Index (CPI) published by Transparency International is one of the most commonly known indicators on corruption, but it did not pass our quality assessment due to major methodological limitations. Similarly to the WGI, the Corruption Perceptions Index combines several different data sources. However, instead of relying on the specific assessments or individual scores from those sources, the CPI uses country ranks as input data. This approach is fundamentally flawed: a country's rank may change in the absence of a change in the actual or perceived level of corruption because country coverage of the

underlying source indicators may change. In turn, the inclusion and exclusion of countries may lead to changes in the relative positions and consequently country ranks.

3. Global Corruption Barometer by Transparency International

In the context of the Global Corruption Barometer (GCB), Transparency International conducts an annual poll of the general public to measure views on corruption. Country coverage ranges up to 86 countries including 21 Member States; Belgium, Cyprus, Estonia, Malta, Slovakia and Sweden are omitted. In each country, the sample selection was probabilistic, and the survey has been conducted among male and female respondents above 16 years. In the most recent wave, median sample size was equal to 1003 conducted interviews per country. In order to obtain representative results for the country as a whole, weights are applied to account for the actual distribution of the population. The most recent wave contains data referring to 2010. Unfortunately, Transparency International provides insufficient information on how thoroughly data consistency checks have been applied. In combination with inconsistencies in the actual data set, we see this as a major methodological limitation in terms of representativeness.

4.5. Starting a business and licensing

4.5.1. The link to competitiveness

Easily obtaining permits and starting up a business legally is essential for the creation of new business activities and affects in that sense the competitiveness of companies already in the first stage of its existence. Not only the direct costs of dealing with registration procedures (applicable fees and the cost through staff time induced by red tape) but also the costs of the duration of fulfilling all procedures (due to delays of long processing time) are important to achieve competitive firms.

Administrative entry regulations have received substantial attention from both policy makers as well from researchers following the study by Djankov et al. (2002). Djankov et al. (2002) have shown that countries with higher administrative entry barriers have higher corruption and lower levels of wealth. Moreover, high entry regulations have a negative influence on entrepreneurial behaviour and thereby impede economic performance. Further empirical evidence is provided by Ciccone and Papaioannou (2007) and Klapper, Lewin and Delgado (2009). However, the results of Stel, Storey, and Thurik (2007) suggest that administrative entry regulation is less important than other types of regulation for more ambitious start-ups in high income countries.

In fact, the legal creation of a company is only a first step in starting up business activities. Before being fully capable of carrying out an economic activity, companies have to require licenses by contemplating with all processes and documentation required by all different layers of administration. This aspect needs also be covered in our assessment framework.

The efficiency of obtaining permits and starting up a business is typically measured by differing yet interrelated aspects: (i) the duration of procedures, (ii) the number of procedures, (iii) the number of governmental entities to contact, and (iv) the cost of procedures.

The Doing Business database of the World Bank (see *textbox*) provides most of the relevant and up-to-date indicators that quantify the ease of starting up a business. The reliability and comparability of the available indicators across countries is good given the 'straightforward' nature of the indicators.

The World Bank's Doing Business Database

The Doing Business Database provides information on specific contract enforcement institutions and their working in international comparison. Since 2000, the Doing Business group at the World Bank has collected data on duration, number of procedures and cost of specific legal and regulatory procedures that are relevant for business. The data are collected through surveys and are the outcome of the study of the rules and regulations that are applied to homogenous model cases in order to ensure cross-country comparability. These indicators are used to rank countries according to the ease of doing business. The Doing Business Project is impressive in terms of design, scale and rigor. The Doing Business reports have had great impact and led to reforms in some countries. At the same time the Doing Business project has been controversial form the beginning (Association Henri Capitant 2006, Michaels 2009). The main criticisms are

1. The ranking methodology may not be appropriate in view of the differences of countries in other dimensions. From a policy perspective this may lead to the incentive to improve rankings instead of addressing problems.
2. More substantive in the criticism is functional reductionism. The full functions of the law cannot be encoded using simple survey but ignoring functional equivalents may bias the results towards certain legal systems. For example, extensive formalism in transferring property may reduce the need of title insurance and title searches in systems with less formalism; however, the latter cost is not included in the Doing Business reports. Hence, Doing Business indicators are biased in favour of common law systems.
3. The focus on regulations that affect all firms is necessary to provide general information for comparative purposes. However, it may conceal important information if important regulation is sector-specific.
4. The Doing Business project does not provide measures of the degree of certainty with which information about legal and regulatory practices is held. This is essential given the importance of the uncertainty channel. Uncertain legal rights may have less value than certain ones, especially for risk averse actors (Davis and Kruse, 2007). In addition the likelihood of a settlement before trial is less likely with a higher divergence of beliefs about the content of legal norms.
5. The Doing Business database is designed in a way to capture information that involves faithful compliance with applicable laws. However, this is in some instances rather doubtful. In the US around 90 percent of civil cases are not disposed by full trial. This implies that if there is a divergence between stylised legal practices and actual legal practice then the case method as implemented with Doing Business may sometimes concern uncommon hypothetical scenarios.

In sum, the Doing Business Project provides probably the best comparative information about legal and regulatory procedures that affect the ease of doing business, although there appears to be an inherent bias in favour of less formalistic systems. Comparability over time is not always given, as the methodology is continuously improved and changes also in response to criticism.

The theoretical and conceptual framework developed in chapter 3 shows that the aspect of obtaining permits and starting up a business is related to quite a number of channels through which public administration impacts on competitiveness. Primarily direct channels of transmission are affected.

One of the most important channels is cost, both direct cost for fees and staff time and more concealed cost due to delays of public administration. Apart from this direct cost channel of transmission in the interaction of firms with public administration, there is also a transmission via the uncertainty channel. Uncertainty about the total duration of procedures and possibly a lack of transparency and honesty of public officials hinder companies from starting up a business or new activities. Hence, innovative ideas and concepts are probably not developed and commercialised, thus affecting the competitiveness of the companies and the EU.

What should be measured?

The construction of an assessment framework involves trade-offs. Here the trade-off is to capture the characteristics of starting up new business activities (by the creation of a company or by obtaining permits) that affect the links between the excellence in public administration and competitiveness in a concise, unambiguous and comparable way with a small number of indicators. With regard to the direct links our wish-list for indicators includes the following indicators:[28]

1. The **number of procedures** required to start a business (creation of new legal entity). It would be ideal to have a distinction between the start-up of a corporation and the start-up of other types of companies like sole proprietor firms as the complexity of the two types (and the number of procedures) will be different.
2. The **time required** to start a business (creation of a new legal entity). Similar to the previous indicators a distinction between the start-up of a corporation and the start-up of a sole proprietor firm would be advisable.
3. The **cost of business start-up procedures** (creation of a new legal entity). Ideally we have an indication of both direct costs (applicable fees and staff time to prepare and execute all relevant procedures) and more indirect costs (costs due to delays in processing time of public administration). In order to exclude for differences between wage levels in different member states, the cost is ideally divided by the income per capita.
4. Paid-in **minimum capital** necessary to start-up a business.
5. Existence of a fully operational '**one-stop-shop**' to start-up a company.
6. The number of procedures required to obtain **construction** permits.
7. The time required to complete all procedures to obtain construction permits.
8. The cost to complete each procedure to obtain construction permits.
9. The number of procedures required to obtain **environmental** permits. It would be ideal to have a distinction between 2 different classes of environmental permits.
10. The time required to complete all procedures to obtain environmental permits.
11. The cost to complete each procedure to obtain environmental permits.

These indicators should provide a comprehensive characterisation of the link between the excellence of public administration and competitiveness regarding obtaining permits and starting up a business. Indicators 1 to 4 exist in the Doing Business database for 26 Member States (except for Malta) but without making a distinction between different types of companies (corporation, sole proprietor). Indicators 6-8 are also available for 26 Member States, while indicator 5 is available for all EU-27 countries. Indicators 9 to 11 are not yet available, but seem to be relevant for many companies.

[28] Please note that the numbering of the indicators is not indicative of importance.

4.5.2. Selected indicators and databases

In this section indicators to measure the performance of the link between obtaining permits and competitiveness will be presented. Here we concentrate on the indicators that we selected for inclusion in the assessment framework. A list of further available indicators can be found in a supplementary document (Indicator fiches).

4.5.2.1. EC monitor start-up procedures

In 2006, the Council set a number of ambitious and concrete targets to facilitate start-ups throughout Europe before 2008. Point 30 of the Presidency conclusion stated that *"The Member States should establish, by 2007, a one-stop-shop, or arrangements with equivalent effect, for setting up a company in a quick and simple way."*

The functions of a **one-stop-shop** are defined as follows:

- One-stop-shops must be fully capable of handling all the procedural steps pertaining to the preregistration and registration of a company so that an entrepreneur may only need one single point of contact to carry out all the aforementioned procedures and processes.
- One-stop-shops will have to be in a position to handle both the full registration process for any company irrespective of societal form or size and guide and advise the entrepreneur on all the administrative matters pertaining to the registration and pre-registration of a company.
- In addition, one-stop-shops will ideally also be able to furnish additional services to would-be entrepreneurs such as coaching, training, financial advice and business plan guidance.

This objective largely converges with the provisions of the "Services Directive", which obliges Member States by the end of 2009 to make it possible for providers to complete all procedures and formalities relating to the access to and execution of their activities, at a distance and by electronic means, through "Points of Single Contact" ("PSCs"). The PSCs will also have to provide easy access to general information concerning requirements applicable to service activities.

Since 2006 the European Commission monitors the progress of the implementation of this ambition by a yearly country by country performance table. Member States are encouraged to report in their National Progress Reports on their situation and policy measures taken relating to start-up procedures. From this database the

Indicator D.1: Fully operational one-stop-shop to start-up a company

is selected for inclusion. The indicator only has 2 values ('yes' or 'no').

4.5.2.2. World Bank – Doing business

The Doing Business Database (see *textbox* above) provides homogeneous information on the costs and duration of procedures to start-up a business. The data are collected through surveys and are the outcome of the study of homogeneous cases. In the Doing Business Database most indicators are composite indicators but we decided to select only some stand-alone indicators to be able to focus on those aspects that reflect the best the relationship between public administration and competitiveness.

Doing Business records all procedures that are officially required for an entrepreneur to start-up and formally operate an industrial or commercial business in the legal form of a limited liability company. These include obtaining all necessary licenses and permits and completing

any required notifications, verifications or inscriptions for the company and employees with relevant authorities.

A detailed list of procedures is developed after a study of regulations, laws and publicly available information on business entry, along with the time and cost of complying with each procedure under normal circumstances and the paid-in minimum capital. Subsequently local incorporation lawyers, notaries and government officials complete and verify the data. Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all agencies involved in the start-up process function without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across economies several assumptions about the business and the procedures are used. The model company:

- Is a limited liability company (or its legal equivalent). If there is more than one type of limited liability company in the economy, the limited liability form most popular among domestic firms is chosen. Information on the most popular form is obtained from incorporation lawyers or the statistical office.
- Operates in the economy's largest business city.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Has start-up capital of 10 times income per capita at the end of 2010, paid in cash.
- Performs general industrial or commercial activities, such as the production or sale to the public of products or services. The business does not perform foreign trade activities and does not handle products subject to a special tax regime, for example, liquor or tobacco. It is not using heavily polluting production processes.
- Leases the commercial plant and offices and is not a proprietor of real estate.
- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees 1 month after the commencement of operations, all of them nationals.
- Has a turnover of at least 100 times income per capita.
- Has a company deed 10 pages long.

For all Member States, except Malta, data is available up to 2011, which makes it a relevant indicator to describe the link between public administration and competitiveness in this field in the EU. While other databases also collect data about the time required to start-up a company or the cost to do so (e.g. EC monitor on start-up procedures), we preferred using the Doing Business indicators as the World Bank scores better on timeliness and the methodology is explained in much more detail. A major drawback however is that only the start-up of a limited liability company is considered. Similar indicators for a sole proprietor company may yield different results.

From this database the following indicators were selected for inclusion into the report:

Indicator D.2: Time required to start-up a company (# of calendar days)

Indicator D.3: Cost to start-up a company (% of income per capita)

4.5.2.3. DG Enterprise Business Dynamics

The Business Dynamics study prepared in 2010 for the European Commission, DG Enterprise and Industry analyses the economic impact of legal and administrative procedures for licensing, business transfers and bankruptcy on entrepreneurship in Europe. The study encompasses the 27 Member States plus Croatia, Turkey, Iceland, Norway, Serbia and Montenegro. For each of the focus areas, the study analyses the following: (1) licensing procedures: to what extent do these administrative procedures delay the creation of new enterprises? (2) business transfers: to what extent have the recommendations included in the 1994 Commission Recommendation to improve transfers of business been implemented and which are the main obstacles still remaining to successful business transfers?, and (3) bankruptcy procedures and second chance: what is the impact of bankruptcy law and practices on the availability of a second chance (re-starter) for failed entrepreneurs? From this study the

Indicator D.4: Index of total licensing complexity

is selected for inclusion into the report. The index of total licensing complexity focuses on **licensing procedures**, which are clearly **distinguished from start-up procedures** for the creation of a new legal entity (which is covered by the selected indicators from the World Bank). The licensing procedures contemplate the processes and documentation required by different layers of administration (licenses required for a new legal entity to become fully capable of carrying out an economic activity). Licenses refer to compulsory permits, certificates, authorisations and other documents in order to start producing and/or offering a company's product an or services after the registration of a company. Examples include product conformity licenses, environmental licenses, licenses related to premises, licenses related to employee's safety. This composite indicator covers in fact all aspects from the indicators 6-11 of our wish list. Often the time to get all necessary licensing procedures is a multiple of the time needed to start-up a company legally.

The *index of total licensing complexity* takes into account two types of costs: (1) the direct costs (i.e. monetary costs related to fees, taxes, duties towards public administration and non-monetary internal effort / number of person-days required to apply for licenses) and (2) the indirect costs (i.e. monetary costs related to external support such as consultants, lawyers, and non-monetary, time out-of-market (the time-calendar days - during which a company cannot operate in the market while waiting to obtain required licenses).

The index of total licensing complexity reflects the level of complexity in terms of the above mentioned direct and indirect costs. The index has been calculated for five model companies (hotel with a restaurant, plumbing company, wholesale or retail distributor, manufacturer of steel products, manufacturer of small IT devices), but for the use in the framework we decided to take only the average of the five as an aggregate to assess cross-sector complexity.

4.6. Public procurement

4.6.1. The link to competitiveness

The economic significance of public procurement in Europe is considerable, with yearly purchasing valued at 3.5 % of the region's GDP. This money is spent by a very large and heterogeneous population of public authorities (more than 250.000 contracting authorities and more than 2 million procedures). It is not surprising that the total cost of public procurement in Europe is also considerable (estimated at about 1.4 % of purchasing volume). This equates to about bn. 5.3 € in 2009 terms (European Commission, 2011). Businesses account for 75 percent of these costs. Although the unit costs for developing a request and managing the process are higher for authorities, the fact that several bids are prepared and submitted for each tender explains the higher total costs for suppliers. The average competition uses the

equivalent of 123 person days of resources which in monetary terms equates to 28.000 €. There are enormous differences in cost efficiency between Member States.

Given the considerable process cost for all parties, it is essential for the competitiveness of companies that public authorities manage the procurement process as efficient as possible. Not only avoiding direct costs of dealing with the procurement procedures, e.g. the cost through staff time to prepare an offer, but also the cost associated with the duration of the awarding procedures and delays of long processing time are important for competitiveness.

The conceptual framework outlined in chapter 3 shows that public procurement issues affects primarily direct channels of transmission. One of the most important channels is cost, both direct cost of staff time to prepare all relevant documents and possibly financial cost of companies if public authorities don't manage to pay invoices on time. There are also more concealed costs due to delays of public administration in awarding the contract. Apart from this direct 'cost' channel of transmission in the interaction of firms with public administration, there is also the transmission via the uncertainty channel. Uncertainty about the total duration of the procedures and possibly the lack of transparency and honesty of public officials in awarding the contract possibly hinder companies from submitting a bid.

What should be measured?

Our wish-list for indicators includes with regard to the direct links the following indicators:

1. **Total person-days of award procedures per competition for authority and firms** as this gives an indication of the total time both authorities and firms are spending to finalise the procurement process. This process covers the identification of procurement opportunities, the preparation of relevant documentation (an invitation to tender / offer), and the conduct of the whole procurement procedure (including possible complaints and litigation). This indicator takes into account the number of bids.
2. **Typical cost of a competition for authority and firms (in 1000 €)** expresses indicator 2 in monetary terms. In order to exclude for differences between wage levels in different member states, the cost is ideally divided by the income per capita.
3. **Total person-days of award procedures per individual firm per competition** (in person days). Compared to indicator 1, this one only focuses on the person-day units cost of one individual form and excludes the competitiveness in a specific country (expressed as number of bids per competition).
4. **Average cost of award procedures for firms (in 1000 €)** expresses indicator 3 in monetary terms. In order to exclude for differences between wage levels in different member states, the cost is ideally divided by the income per capita.
5. **Average delay in payments from public authorities (in days)**: after completion of the project, it is important that the companies, in particular SME's, are paid right on time. If not their available working capital will be reduced and this will pose a threat to the survival of otherwise viable businesses. The financial and economic crisis exacerbates this situation.
6. **E-procurement visibility**: e-procurement has been a key target of European policies since the introduction of Directives 2004/18/EC and 2004/17/EC, intended to modernise and simplify public procurement processes and enabling the use of electronic technologies. This indicator shows to what extent potential suppliers can find information and links to e-procurement on contracting authorities' websites.
7. **E-procurement process availability indicator (pre-award phase)**: this indicator measures to what extent the procurement process is e-enabled throughout its pre-award

phases from its notification (e-notification indicator), through requests for proposals (e-submission indicator) to awarding contracts (e-awarding indicator).

8. **E-procurement process availability indicator (post-award phase)**: this indicator measures to what extent the procurement process is e-enabled throughout its post-award phases from the placement of orders (e-ordering indicator), through the delivery of electronic invoices (e-invoicing indicator) to the online payment of contracts (e-payment indicator).

4.6.2. Selected indicators and databases

In this section selected indicators to measure the link between public procurement and competitiveness will be presented. The full list of available indicators can be found in a supplementary document (Indicator fiches).

4.6.2.1. European Commission – Public procurement in Europe: cost and effectiveness (PwC, London Economics, and Ecorys, 2011)

The study on the cost and effectiveness assessment of public procurement in Europe was prepared in the context of a comprehensive evaluation of the procurement directives. The analysis was based on a large empirical basis comprising the entirety of contracts in the TED database in the period 2006-2010, a survey of over 7.300 procurers and participating firms and in-depth interviews with 150 procurement professionals. Data on the costs of the procurement processes are not readily available and the data collected through this study is therefore unique. A (bi-)annual recurrence of the data collection would therefore be advisable to monitor the evolution of cost and effectiveness of public procurement. From this database the following indicators were selected for inclusion into the monitoring framework:

Indicator E.1: Total person-days per individual firm and per competition (in person days)

An estimate of the total number of days per participating firms per competition is mainly based on estimates of person-days spent in each procurement process. The **time taken by the procurement pr**ocess is thus interpreted as a proxy for efficiency. Shorter procedure times indicate higher procedural efficiency. In addition, shorter process times imply lower uncertainty for participants and this may be particularly relevant for smaller firms who need to wait for the outcome of a procedure to know whether they have the resources to bid on something else.

Time spent during the whole procurement delivery chain is taken into account but only for the suppliers and consists of 4 phases:

- *Pre-award phase*: For suppliers this phase includes monitoring and identifying opportunities, as well as assessments of competitiveness and collaboration and developing and finalizing expression of interest and pre-qualification documents if applicable.
- *Award phase*: For suppliers this phase is mainly about developing and finalising the proposal (developing approach, method and cost calculation). It also includes formal and administrative steps such as producing administrative documentation, printing and delivery, and presentation and negotiation if applicable.
- *Post award phase*: Suppliers may have to provide additional information upon request by contracting authority, obtain and assess feedback and finally enter the contract or assess whether to file a complaint or litigate.
- *Litigation and complaint (if applicable)*: Finally, *suppliers* may decide to complain or litigate.

For comparability purposes the median costs over all respondents (expressed as man-days) is chosen. This indicator excludes the costs at public authority level and it also excludes the competitiveness in a specific country (expressed as the number of bids per competition) as this may make comparisons more difficult. For countries with a high number of man-days it would be otherwise hard to distinguish between a high number of companies (intense competition) or many man-days per company (inefficient procedures), or a combination of both aspects.

Indicator E.2: Typical cost of a competition per individual firm and per competition as a % of GDP per capita

The indicator in the study is only available as a monetary cost. In order to exclude for differences between wage levels in different member states, we preferred to divide this monetary cost by the income per capita (as a % of GDP per capita). This reflects better the **relative cost for an individual firm** when participating in public procurement.

4.6.2.2. Intrum Justitia European Payment Index

Every year Intrum Justitia is conducting a written survey in 25 European countries (involving 6.000 companies) tracking trends in payment behaviours in Europe. The survey takes into account the weight of the different size classes of companies, business sectors and customer groups (B2B, B2C, or authorities). Results are presented in the annual European Payment Index report. The yearly interval is intended to capture and compare international trends and makes benchmarks possible. From this database the

Indicator E.3: Average delay in payments from public authorities (in days)

is selected for inclusion in the monitoring framework. If a date or period for payment is fixed in an agreement the debtor is considered to be late for payment upon the **expiry of the payment deadline** or period without the necessity of a reminder. The current financial and economic crisis makes it even more important that firms are paid on time. Public authorities can set an example by paying their invoices within the agreed period. However, facing severe budgetary stress, public administrations often decide to delay payments even further.

4.7. Tax compliance and tax administration

4.7.1. The link to competitiveness

An efficient tax system must meet two requirements. On the one hand it should be designed as to minimise distortions of taxpayers' decisions. On the other hand it should avoid tax compliance costs for firms as well as costs of tax administration to levy taxes in order to maximise efficiency and to reduce the excess burden of taxation. While both tax compliance and tax administration costs are certainly driven by tax legislation, they likewise reflect the efficiency of tax administration. In this regard, reducing compliance cost may reduce the tax burden without decreasing tax revenue which is likely to be growth-promoting.

Ease of paying taxes directly affects competitiveness. Firms spend a considerable amount of resources on interactions with tax administration, both in monetary terms and in terms of time. In the context of direct channels of transmission, the ease of paying taxes conceptually relates to both the cost and the uncertainty channel.

Costs in the context of paying taxes primarily arise from the necessity of staff devoting time to comply with complex tax regulations. In this regard, complexity can for instance arise from extensive documentation duties, the necessity to archive relevant documents, or the necessity to frequently deal with tax officials. Uncertainty about outcomes may primarily arise due to tax laws that are subject to interpretation combined with a lack of transparency and perceived arbitrariness in decisions of tax officials frequently causing tax appeals. In addition,

uncertainty about duration arises due to delays in processing time of tax returns. Conceptually, efficiency in collecting taxes and reducing resource needs also relates to the indirect transmission channel as explained above.

What should be measured?

While measuring the magnitude of tax compliance costs seems feasible, measuring the degree of uncertainty is more difficult. Ensuring the comparability of costs between Member States may also be problematic given the interdependence of compliance costs and tax policy. Nevertheless, an ideal set of indicators should quantify the following dimensions of tax compliance costs:

1. Estimates of **monetary** tax compliance **costs**, including all necessary expenses, including costs for external tax advisers, storage of documents or the purchase of necessary software.
2. Estimates of **time** necessary to comply with all tax-related requirements
3. **Frequency of visits** by tax officials.

   Ideally, indicators differentiate by sector and firm size. The latter aspect is especially relevant, since large firms may have specialised tax departments reducing the negative impact of tax compliance costs. In addition, an ideal indicator should account for compliance costs for a wide range of tax types taking the heterogeneity of tax laws between Member States into account. In this regard, compliance costs should not only consider the costs for execution; rather, they should also reflect costs related to preparation and learning where the latter occur if firms need to familiarise themselves with what is required.
4. **Delays in processing time by public administration**: an ideal indicator should measure the average processing time by public administration and delays occurring. This type of indicator could to some extent also account for uncertainty in dealing with public administration.
5. **Frequency of appeals**: an ideal indicator in this context would report the frequency of appeals induced through a lack of transparency and perceived arbitrariness. Such an indicator would represent uncertainty in the context of paying taxes.

To quantify the indirect transmission channel, a different type of indicators is necessary:

6. **Cost of tax administration**: this indicator would ideally measure the total amount of resources used by public administration relative to GDP or staff size or costs relative to revenues collected by public administration.

4.7.2. Selected indicators and databases

Only a small number of indicators are available for a sufficient number of countries which measure compliance costs as well as the efficiency of tax administration.

4.7.2.1. World Bank - Doing Business / Paying Taxes

Like all thematic indicators in Doing Business, indicators on paying taxes are based on specific case scenarios. In particular, the case scenarios refer to small and medium sized limited liability enterprises with a maximum of 60 employees. It is assumed that these firms operate exclusively on the domestic market and are fully domestically owned. In addition, it is also supposed that these enterprises are always located and operate at the economy's largest city.

While this case scenario allows for cross-country comparisons, it comes at the expense of generality. Data on paying taxes is collected through expert surveys and reflects opinions of lawyers and tax experts. Their number differs for every thematic indicator and there is no specific information on consulted experts by country for sub-groups provided. Consequently, it is only possible to calculate the theoretical average of polled experts per country. In the case for paying taxes and the whole sample of covered countries, their number was equal to 7.

In the context of paying taxes, Doing Business provides data for 26 Member States, excluding Malta, reaching back until 2004. The most recent wave was published in 2011 with the data referring to 2010.

Indicator F.1: Time to prepare and file tax returns and to pay taxes

The indicator measures the **time necessary for firms to prepare, file, and pay** corporate income tax, value added or sales tax and labour taxes which include payroll tax and social security contributions. Time is measured in hours per year. In addition, the indicator does also account for the time necessary to complete and file all tax return forms.

A further main assumption in the context of this indicator is that firms always precisely know what is required, who is in charge and never waste time in completing procedures. This completely excludes the possibility that firms lack full information and exhibit significant learning costs to familiarise themselves with all requisites. Therefore, this assumption represents a significant limitation and is due to the nature of the survey as it consults external experts (who presumably know the tax system fairly well). In addition, no sector- or firm size-specific information is provided. Compared to our requirements, these assumptions represent major limitations with respect to sample selection and methodology.

4.7.2.2. OECD – Comparative Information Series

The Comparative Information Survey (CIS) published by the OECD provides an indicator which quantifies the indirect channel of transmission of our conceptual framework. The underlying data comes from revenue agencies or national ministries. The Comparative Information Survey provides data for 27 Member States with annual observations reaching back to the year 2000. The most recent version has been published in 2011 containing data referring to 2009. From the database we selected the following indicators:

Indicator F.2: Administrative costs in revenue collection

The CIS provides data on annual tax administration costs relative to total revenues collected over the course of a fiscal year. This indicator therefore aims at quantifying the efficiency of tax administration given the regulatory framework.

Interpreting changes in cost-to-revenue ratios over time as improvements in administrative efficiency is only possible holding all other factors constant. In practice though, other factors will influence this ratio, which are not necessarily related to improvements in administrative efficiency. For instance, macroeconomic shocks such as the financial crisis also impact in a non-proportional manner on revenue as well as costs of tax administration, providing misleading indications in terms of efficiency. For instance, during economic crises, revenue is likely to drop significantly, but costs may remain the same or may even increase. This implies that an increase of this indicator does not necessarily indicate a reduction in tax administration efficiency. Other examples include tax policy changes that affect revenue but not necessarily administration costs.

It is also difficult to compare this indicator across countries. For instance, revenue authorities have different responsibilities in terms of tax types across countries. In particular, some revenue authorities are in charge of collecting social security contributions whereas in some

countries, dedicated agencies are in charge of collecting social security contributions. It is unclear whether these indicators take these issues into account.

A further complication in using these indicators arise from the fact that the cost of tax administration are measured differently (OECD, 2011). Usually, revenue authorities do not reveal details on the type of measurement they apply when publishing cost-to-revenue ratios. Taken together, these aspects emphasise the necessity for considerable care when undertaking cross-country comparisons of cost-to-revenue ratios in order to assess the relative efficiency of tax administration.

4.8. Efficiency of civil justice

4.8.1. The link to competitiveness

Securing property rights and enforcing contracts are essential for investment, trade and economic growth. Contract enforcement institutions help to resolve disputes between private parties. Their efficiency and impartiality are relevant for a business environment that fosters growth, risk-taking and investment. The most important institution for the resolution of contract disputes is the civil court system. A number of studies show that the quality and efficiency of civil justice is important for competitiveness (e.g. Djankov et al. 2003). Legal institutions play an especially important role in the financial sector (Beck 2010). Property rights protection affects incentives to monitor and the ability to re-contract. Poor protection lowers recovery rates and increases the time spent with legal matters. This is not limited to contract enforcement but includes also insolvency proceedings. Contract enforcement and insolvency practices are also central to the availability of credit to firms (e.g. Djankov, McLiesh, and Shleifer, 2007; Claessens and Klapper 2007).

The efficiency of a civil justice system covers four aspects: (i) the correctness of judgements, (ii) duration and (iii) cost of the proceedings, and (iv) cost of public spending on civil justice. These relate to the uncertainty of outcome, costs and duration in both the cost and uncertainty channel. To optimise all four aspects is tricky. Especially the last aspect introduces a trade-off between public spending, length of judicial proceedings and access to justice. Comparative research on the efficiency of judicial systems is still at an early stage. The Doing Business framework of the World Bank provides a first quantification of formal procedures and judicial practice related to civil law, nevertheless comparison is hindered by considerable differences between national legal systems, rules on the disputation of sentences, and the distribution of competencies among judicial institutions. This limits comparability of available indicators across countries with different legal traditions and practices. This holds also for the Doing Business database of the World Bank that provides important and up-to-date indicators to quantify the impact of the judicial system on business.

The theoretical and conceptual framework developed in chapter 3 shows that the aspect of enforcing contracts affects a number of links where administration affects competitiveness.

The court system leads to direct costs of interaction and costs related to the duration of contract disputes. The direct costs of using the court system include fees for lawyers and for using the court system; these can be related to bureaucratic complexity and the complexity of statutory law or to costs related to duration including appealing cost and due to the processing time of the court system.

The most important channel is probably the uncertainty channel. The negative effects of uncertainty on the incentives to invest, to innovate and to trade are well known (cf. chapter 3). Contract disputes include generally a substantial degree of uncertainty. Thus the uncertainty related to duration, cost and outcome of a dispute is very important. This suggests that on the scale of scale of importance, duration seem to come before cost. A congested court system

implies that law suits take a long time to be settled. This may lead to strategic behaviour as legal suits may not be brought before the court in order to resolve uncertain judicial issues by the suitor but because of other reasons unrelated to the judicial issue, for example to put pressure on the defendant (e.g. Marchesi,2007).

The overall efficiency of the court system in securing property rights and providing correct and fair judgements refers to uncertainty in outcome. However, assessments of judicial systems are often of limited value to capture differences among judicial systems of developed countries, as these indicators (e.g. impartiality of the legal system) have been conceived with the aim of providing information on the level of country-specific risks for investors and compare extremely different groups of countries, including LDCs.

Given the importance of access to finance for competitiveness (e.g. Aghion, Fally, and Scarpetta, 2007) we also take into consideration bankruptcy practice. Exit barriers can also prevent the reallocation of assets to its most productive use. Bankruptcy legislation defines the way how to deal with failing companies and is an essential part of contract enforcement. The goal of a bankruptcy process is a fast, efficient and impartial procedure that liquidates unviable firms and allows restructuring the liabilities of viable ones. Bankruptcy procedures do not only define *ex post* resolution cost but also affect incentives to provide finance for risky projects and incentives to start-up a business (Claessens and Klapper, 2007).

What should be measured?

The construction of an assessment framework involves trade-offs. Here the trade-off is to capture the characteristics of the legal system of a country that affect the links between the excellence in public administration and competitiveness in a concise, unambiguous and comparable way with a small number of indicators.

Our wish list of indicators to measure excellence of public administration in contract enforcement includes:[29]

1. **The duration of contract disputes.** This requires the construction of standardised contract enforcement cases. Here it would be ideal to provide two indicators following Von Freyhold, Vial and Partner Consultants (1998). The first one that covers small disputes (e.g. 5.000 Euros) and second one large disputes (e.g. 200.000 Euros) in the first instance. There is some evidence (e.g. Marchesi, 2007) that the congestion of the court system is due to an increased number of small disputes. Appeals should be considered in these statistics as rules and incentives for appeals vary very much across countries. A more extensive indicator list concerned only with enforcement would include indicators that concern appeal courts (2^{nd} and 3^{rd} instance). Different kinds of lawsuits (e.g. commercial disputes, labour disputes) could be considered separately. If all this data is available the construction of a composite indicator using importance weights would be necessary. The duration of contract disputes provides also an indirect measurement of the congestion of the court system.
2. The importance of a timely justice system is also captured by a second indicator that measures **the congestion of the court system.** This is complementary to measures of the duration of contract resolution.
3. **The average cost of contract disput**es. As in the previous case the ideal indicator would allow to differentiate between very small and large disputes and cover only courts of first instance.

[29] Please note that *the numbering of the indicators* is not indicative of importance.

4. **The average duration of insolvency proceedings** (in working days). Insolvency is a specific kind of judicial procedure that is very important for the business community. Insolvency laws are quite different across European countries. Some countries have more creditor-friendly, others more debtor-friendly insolvency laws. The evidence on whether debtor-friendly or creditor-friendly insolvency laws are better for competitiveness, measured in terms of sustainable firm growth, innovation or employment growth, is mixed (Franken, 2004; Landier, 2006) Therefore we use information on the duration of insolvency proceedings. Duration is related to costs that affect both failing entrepreneurs and creditors, and are at least partly independent of the debtor- or creditor-friendliness of the prevailing insolvency law.
5. **The cost and duration of alternative dispute resolution (ADR).** Alternative Dispute Resolution (ADR) can contribute to improve judicial efficiency by providing cheaper and faster alternatives to regular judicial proceedings. The importance of the use of ADR is growing in the various European countries (CEPEJ, 2010). Main ADR mechanisms include mediation, conciliation and in arbitration. If a large fraction of disputes is settled by ADR then the information on duration and cost using the court system alone may be not informative of the cost of contract enforcement.

The measures considered until now provide quantitative information on duration and costs of legal proceedings. In order to provide information on the quality and impartiality of the justice system related to the uncertainty channel of transmission (uncertainty of outcome) we need to include also

6. an indicator for the **overall fairness and impartiality of the legal system**, especially the quality of enforcement of property rights and the fairness and impartiality in contract law disputes in a specific country.

These six indicators should be able to provide a characterisation of the link between the excellence of public administration and competitiveness regarding contract enforcement including insolvency proceedings.

4.8.2. Selected indicators and databases

In this section we present indicators to measure the performance of the link between civil justice efficiency and competitiveness. A full list of available indicators can be found in a supplementary document (Indicator fiches). Here we concentrate on the indicators that we selected for inclusion in the assessment framework.

4.8.2.1. World Bank – Doing business

The Doing Business Database of the World Bank provides homogeneous information on the costs and duration of procedures to resolve a commercial dispute and to resolve insolvency. The cost and duration are calculated using homogeneous cases. For contact enforcement the case is a sales dispute with the value of 200% of the economy's income per capita where the judgement is 100% in favour of the seller. For resolving insolvency (formerly closing a business) the case is the failure of a limited company that runs a hotel.

Doing Business records all procedures that are officially required in a commercial sale dispute before local courts. The indicators used in the assessment framework are the following:

Indicator G.1: Enforcing contracts: Time

measures the duration of a contract dispute. Time is recorded in calendar days, counted from the moment the plaintiff decides to file the lawsuit until payment.

Indicator G.2: Enforcing contracts: Cost

This indicator covers the cost of a contract dispute. Cost is recorded as percentage of the claim, and consists of court costs, enforcement costs and average attorney fees.

All procedural steps which trace the chronology of a dispute are recorded. The list of procedures is country-specific and follows the national regulations and laws. For all Member States, except Malta, data is available up to 2011 (Doing Business 2012), which makes it a relevant and up to date indicator to describe the link.

The Doing Business database does not differentiate between contract disputes about small and large disputes. In the wish list we emphasised that we would prefer to have indicators for small and large contract disputes. Such information was collected in the mid 1990s by Von Freyhold, Vial and Partner Consultants (1998) for the European Commission. However, no update of this data is available. Thus for reasons of timeliness we selected only indicators provided by the Doing Business Project. It is clearly the available information that allows comparing the duration and costs of commercial disputes.

A further indicator that is covering a relevant part of the link is

Indicator G.3: Resolving insolvency: Time

Time for creditors is recorded in calendar days. Time starts with the default of the enterprise until the payment of the bank. Delay tactics are taken into consideration.

Doing Business also records time cost and outcome of insolvency proceedings involving domestic firms. The data are derived from survey responses by local insolvency practitioners and verified through the study of laws, regulations and national information on bankruptcy system. The case is the insolvency of a limited company that runs a hotel and has 201 employees and 50 suppliers. The business is experiencing liquidity problems. The firm is not able to service interest on a bank debt in full. The bank initiates insolvency. It is assumed that out-of-court negotiation is not feasible.

4.8.2.2. World Economic Forum - Global Competitiveness Report

In its assessment of competitiveness the Global Competitiveness (GCR) uses data from official statistics, and complements it with data from the World Economic Forum's annual Executive Opinion Survey. This survey is able to provide an assessment of more qualitative concepts for which internationally comparable data for official sources is not available. This survey includes also a number of survey questions that allow an assessment of the quality and efficiency of the judicial system. The reported indicators are averages for the years 2010 and 2011 in the GCI for the time period 2011-12 (Browne and Geiger 2011 provide more detail). From the GCI we use the following

Indicator G.4: Judicial independence

which measures the perceived overall fairness and impartiality of the legal system. This indicator is based on answers to a survey question: "To what extent is the judiciary in the country independent from influences of members of government, citizens and firms?" The score ranges from 1 (equals "heavily influenced") to 7 (equal to "entirely independent").

The indicator is complementary to other indicators in the assessment framework as it captures the important aspect of quality of the judicial system, while the other indicators capture efficiency with regard to cost or duration of legal disputes.

4.9. Summary

Based on our theoretical considerations in chapter 3, which established that the overall impact of administrative excellence on competitiveness is determined by costs and uncertainty of firms in dealing with public administration, as well as by its effectiveness in providing public services, this chapter identified more concrete links that reflect these dimensions.

For the purpose of designing an assessment framework to monitor administration excellence for competitiveness we identified three 'general' links that describe the quality of public administration and its relation to the business environment, namely

A. *General governance*

B. *Tools for administrative modernisation*, and

C. *Corruption and fraud*,

and four additional 'specific' links, concerning the issues of

D. *Starting a business and licensing*,

E. *Public procurement*,

F. *Tax compliance and tax administration*, and

G. *Efficiency of civil justice*.

Drafting an assessment framework requires decisions on the indicators which should be included for each of the identified links. Therefore, we developed selection criteria and minimum requirements on timeliness and representativeness of the data. Only data (or data sources) that passed our quality criteria were considered for inclusion.

Most importantly we also had to decide on the number of indicators to be included. Here, a trade-off exists between the accuracy and the comprehensiveness to which a certain link is mapped on the one hand, and the need to keep the number of indicators used for monitoring manageable on the other.

A large number of indicators had been considered for inclusion in the assessment framework. Eventually, we arrived at a total of different 20 indicators from various data sources which map the identified general and specific links and thus give in sum a broad overview on the most important aspects of administrative excellence for competitiveness.

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5. EXPLORATORY ANALYSIS OF THE ASSESSMENT FRAMEWORK

The purpose of this chapter is to provide a first exploratory analysis of empirical regularities, based on the outcome of the previous chapters and on the assessment framework developed therein.

The guiding principle for the derivation of our assessment framework was to identify links between public administration excellence and business environment. We finally arrived at a set of 20 different indicators, describing three general and four specific links. A key question, then, is how well selected indicators and links cover different aspects of a competitiveness-enhancing public administration? Do they measure separate aspects and what is the relation between the several links? In this section

- we describe the construction of the composite indicators to measure the different links between the excellence of public administration and competitiveness, and
- we provide a statistical analysis at the link level and at the country group level.

The statistical analysis of composite indicators shows that our assessment framework captures indeed different aspects of certain links, and an analysis of stand-alone indicators shows that they mostly cover different aspects within the respective links. This vindicates the use of composite indicators, as using single indicators per link would not allow to fully evaluate the excellence of public administration in a comprehensive way.

Overall the analysis shows a positive correlation of most indicators, indicating that there are not many trade-offs between indicators. Moreover, one latent dimension that is related to all of the links seems to exist. That provides evidence for the assumption that the general quality of public administration is a factor that underlies all our single indicators. At the same time many policy areas show that efficiency is also driven by further, most likely Member State specific factors.

5.1. Composite indicators at the link level: Methodology and construction

The assessment framework relies on 7 link-categories: (A) *General governance,* (B) *Tools for administration modernisation,* (C) *Corruption and frau*d, (D) *Starting a business and licensing,* (E) *Public procurement,* (F) *Tax compliance and tax administration,* and (G) *Efficiency of civil justice*. Except for link (A) all categories are described by more than one indicator. This requires constructing composite indicators in order to provide an opportunity to compare the performance of member states at the 'link-level'.

In constructing these indicators, we relied on the good practice outlined in the Handbook on Constructing Composite indicators: Methodology and User Guide (OECD/EC JRC, 2008). The conceptual basis of the assessment framework has been outlined in chapter 4.

5.1.1. Normalisation, data checks, and imputation of missing values

In a first step, raw indicator values were normalised into the [0,1] range, with **higher scores representing better performance**, or, in the case of tools for administration modernisation, higher score show the **enhanced use of instruments associated with a modernised public administration**.

Normalisation is carried-out according to the "min-max method". The min-max method consists in applying the following transformation to all available data:

- When high indicator values indicate better performance, e.g. for the index for an independent judiciary:

$$\bullet\bullet\bullet\bullet\bullet_{\bullet} = \frac{(\bullet\bullet\bullet\bullet\bullet_{\bullet}\bullet\bullet\bullet\bullet\bullet\bullet\bullet)}{(\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet)}.$$

- When low indicator values show better performance, e.g., less experience of corruption:

$$\bullet\bullet\bullet\bullet\bullet_{\bullet} = \frac{(\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet_{\bullet})}{(\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet\bullet)}.$$

'Minimum' refers to the minimal value of an indicator, 'maximum' to its maximum value. We considered also other normalisation techniques (z-scores). Results using different methods of normalisation do not lead to different results.

We identified potentially problematic indicators that could bias the composite indicators as those having a skewness greater than 2 and a kurtosis greater than 3.5 (Saisana, 2011) using the normalised data. Two problematic indicators were identified:

- In case of indicator (F.2) *Administrative costs per 100 units of revenue collection* we decided to winsorise the observation for Cyprus (the value for Greece was assigned, the next highest value).
- For (G.1) *Enforcing contracts: Time*, we decided to leave data as it is. This entails the risk that composite indicator for efficiency of judicial systems for Italy and Slovenia may be biased.

In addition, a limited number of indicators are unavailable for some countries. For the purpose of computing composite indicators, we decided to impute missing values. The following indicators were concerned:

(B.2) U*se of evidence-based Instruments* - 8 missing values

(E.3) *Average delay in payments from public authorities* (in days) – one missing value for (Luxembourg), and

(F.2) A*dministrative costs per 100 units of revenue collection*, one value missing for Greece.

We used cross-sectional regression based imputation to predict the missing values. Details on the imputation are found in Appendix to this chapter.

5.1.2. Composite indicators

Table 5.1 reports the correlation of indicators within the six links for which composite indicators are calculated. , Table A.1 in the chapter appendix reports the correlation among all indicators used in the construction of the composite indicators.

- The analysis of statistical coherence at the level of links revealed that only few cases of strong collinearity (correlation coefficients higher 0.9). These concerned the relation of 'diversion of public funds' and 'irregular payments' for the link 'corruption and fraud'. Following Saisana (2011) we decided to treat this pair of indicators as one single indicator by assigning half weight to each of the normalised values when constructing the composite indicator.
- The indicator 'fully operational one-stop-shop to start-up a company' is a binary variable (1 equals yes; 0 equals no). The range between 0 and 1 is quite large; therefore we

decided to rescale the importance of this indicator by giving it a weight of a half when calculating the composite indicator.

- Composite indicators for each link are calculated as simple averages (except for the three cases mentioned above the weight is 1) over the normalised values of indicators and are used in the country fiches and for statistical analysis.

For all other indicators the results in Table 5.1 show that the different indicators are capturing different aspects of the link between excellence in public administration and competitiveness. Except for the corruption and fraud-link, where we observe quite high correlation between the several indicators, the correlation of most indicators within the links is not too high. This suggests that the approach to assess the links by composite indicators is an appropriate choice.

Some aspects deserve special attention:

- There is a positive but not overwhelmingly strong correlation in the use of several 'tools for administrative modernisation', indicating that Member States often follow different pathways of administrative reform.
- Our three indicators selected for the measurement of 'corruption and fraud' are highly correlated, although they were chosen to cover different aspects (corruption perceptions vs. experience, state capture vs. administrative capture vs. general services). This may be an indication for the problems of measuring corruption per se, or, it may also indicate that corruption problems are frequently prevalent across all aspects.
- As regards the link 'starting-up a business and licensing' the correlation matrix confirms that start-up procedures are something different than applying for licenses. Moreover, the availability of a one-stop-shop for opening up a business is not too strongly correlated with lower costs or shorter time of starting-up.
- Lower tax administration costs in the public sector are not strongly related to lower tax compliance costs for firms. This, of course, need not be the case. Highly complex tax codes should lead to an increase of costs both for companies and the tax administration. However, the tax administration is often able to outsource certain procedures to firms and thereby reduce its own cost at the expense of the private sector.
- The correlation between duration and costs of enforcing contracts is nil. This suggests that the typical direct costs of using litigation (court and lawyer fees) are not at all related to the typical duration of contract enforcement cases and that direct costs can also be used as instrument to reduce the congestion of courts.

Table 5.1 - Correlations of indicators within links

B) Tools for public administration modernisation				
	B.1 E-Government (business)	B.2 Evidence-based	B.3 Post-bureaucracy	
B.1 E-Govovernment (business)	1.00			
B.2 Evidence-based	0.57	1.00		
B.3 Post-bureaucracy	0.44	0.56	1.00	
C) Corruption and fraud				
	C.1 Diversion	C.2 Irregular payment	C.3 Experience	
C.1 Diversion	1.00			
C.2 Irregular payment	**0.97**	1.00		
C.3 Experience	0.80	0.80	1.00	
D) Starting a business and licensing				
	D.1 One stop shop	D.2 Time start-Up	D.3 Cost start-Up	D.4 Licensing compl.
D.1 One stop shop	1.00			
D.2 Time start-Up	0.24	1.00		
D.3 Cost start-Up	0.30	0.08	1.00	
D.4 Licencing compl.	-0.34	0.14	0.00	1.00
E) Public procurement				
	E.1 Time competition	E.2 Cost competition	E.3 Payment delay	
E.1 Time competition	1.00			
E.2 Cost competition	0.76	1.00		
E.3 Payment delay	0.28	0.46	1.00	
F) Tax compliance and tax administration				
	F1. Time pay tax	F.2 Administrative cost		
F1. Time pay tax	1.00			
F.2 Administrative cost	0.29	1.00		
G) Efficiency of civil justice				
	G.1 Enforcing time	G.2 Enforcing cost	G.3 Insolvency time	G.4 Independence judiciary
G.1 Enforcing time	1.00			
G.2 Enforcing cost	0.01	1.00		
G.3 Insolvency time	0.12	0.28	1.00	
G.4 Independent judiciary	0.31	0.13	0.70	1.00

Source: Own calculations based on data of the assessment framework.

The reliability and coherence of the composite indicators can be assessed by an analysis of the correlation structure between indicators and composite indicators. Table 5.2 displays the correlation between indicators and composite indicators at the link level.

The analysis confirms the expectation that the indicators are more strongly correlated with their own link that to any other link. They also have the expected sign and are significant at a 5% level. The only exception is the indicator for 'independence of judiciary', which is, besides being correlated highly with its own link (0.83), also highly correlated with both the general government effectiveness indicator (0.88) and the composite indicator for the link corruption and fraud (0.93). This indicates clearly that some **fundamental aspects of governance and administrative quality frequently go hand-in-hand**.

However, from a purely statistical point of view a reallocation of indicators into different principles is not needed. The correlation structure suggests that on average no trade-offs are present in the dataset, as correlations are in general positive, pointing in the same direction. Most negative correlations are comparatively small.[30]

[30] The only exception is a negative correlation of indicator 'enforcing contracts: cost' with the composite indicator 'tools for public administration modernisation'.

Table 5.2 - Coherence of single Indicators with Links

	A. Governance	B. Tools for administrative modernisation	C. Corruption	D. Starting Business	E. Procurement	F. Tax compliance & tax administration	G. Effective Civil justice
B.1 E-Government (business)	0.44	**0.81**	0.49	0.10	0.13	0.22	0.15
B.2 Evidence-based	0.56	**0.86**	0.51	0.23	0.19	0.33	0.39
B.3 Post-bureaucracy	0.37	**0.81**	0.16	0.27	0.18	-0.01	-0.09
C.1 Diversion	0.89	0.48	**0.95**	0.31	0.39	0.77	0.83
C.2 Irregular payment	0.90	0.48	**0.94**	0.38	0.51	0.79	0.84
C.3 Experience	0.76	0.40	**0.95**	0.30	0.25	0.60	0.72
D.1 One stop shop	0.17	-0.11	0.16	**0.52**	0.05	0.33	0.21
D.2 Time start-Up	0.12	-0.04	0.20	**0.67**	-0.13	0.18	0.09
D.3 Cost start-Up	0.35	0.34	0.31	**0.65**	0.52	0.40	0.27
D.4 Licencing compl.	0.11	0.34	0.04	**0.35**	0.30	-0.04	-0.05
E.1 Time competition	0.20	0.13	0.28	0.23	**0.82**	0.34	0.39
E.2 Cost competition	0.20	-0.06	0.28	0.22	**0.91**	0.24	0.34
E.3 Payment delay	0.42	0.43	0.27	0.39	**0.73**	0.24	0.27
F.1 Time pay tax	0.64	0.11	0.69	0.32	0.21	**0.97**	0.68
F.2 Administrative cost	0.33	0.44	0.43	0.40	0.53	**0.53**	0.34
G.1 Enforcing time	0.34	0.15	0.21	0.27	0.33	0.34	**0.51**
G.2 Enforcing cost	0.17	-0.41	0.28	-0.15	0.18	0.17	**0.54**
G.3 Insolvency time	0.64	0.17	0.71	0.19	0.16	0.59	**0.79**
G.4 Independent judiciary	0.88	0.53	*0.93*	0.33	0.40	0.73	**0.83**

Source: Own calculations based on data of the assessment framework. Bold values indicate the correlation of an indicator with their own composite indicator at the link level.

Table 5.3 reports the correlation matrix for the composite indicators. The correlation is positive in all cases. The strongest correlations are reported between *A. General governance* and *C. Corruption and fraud* (0.88), and *G. Efficiency of civil justice* and *C. Corruption and fraud* (0.82), again confirming the view that different but fundamental aspects of governance quality are strongly related. Only weak (but positive) correlations can be observed between *B. Tools for administrative modernisation* and *G. Efficiency of civil justice* (0.18) and *B. Tools* and *E. Procurement* (0.20).

Table 5.3 – Pairwise correlation between Composite Indicators (Links)

	A. Governance	B. Tools for administrative modernisation	C. Corruption	D. Starting Business	E. Procurement	F. Tax compliance & tax administration	G. Effective Civil justice
A. General Governance	1.00						
B. Tools for adminstrative modernisation	0.55	1.00					
C. Corruption and fraud	0.88	0.46	1.00				
D. Starting Business and Licensing	0.34	0.24	0.34	1.00			
E. Public Procurement	0.35	0.20	0.37	0.34	1.00		
F. Tax compliance & tax administration	0.66	0.22	0.73	0.40	0.33	1.00	
G. Efficiency of Civil justice	0.78	0.18	0.82	0.24	0.41	0.70	1.00

Source: Own calculations based on data of the assessment framework.

5.2. Analysis by links

In order to study the multidimensionality of our data, we performed a principal components analysis (PCA) of the composite indicators. PCA is used as a tool of exploratory data analysis in order to reveal a lower-dimensional summary of the structure of the data that explains best the variance. It provides information on so called latent variables (accounting for correlation) and compresses the information of many variables in a smaller set of variables.

PCA is a multivariate statistical procedure that converts a set of observations of variables (in our case indicators or composite indicators) into a set of linearly uncorrelated variables (principal components) using orthogonal transformation. The number of principal components is lower or equal to the number of original variables. The first component accounts for as much of the variance of the data as possible and the following components for as much of the variance of the data under the constraint of being uncorrelated with the preceding components. As PCA is sensitive to the scaling of variables we apply it to the normalised variables and the composite indicators.

The results for the PCA using the composite indicators are reported in table 5.4. The analysis reveals that there is one component that explains 47% of the overall variance, that is highly correlated with links *A. General governance*, *C. Corruption and fraud*, *F. Tax compliance and tax administration* and *G. Efficiency of civil justice*. The dominant element in the second component is link *B. Tools for administrative modernisation*, of the third component it is *D. Starting-up a business and licensing* and the fourth component refers to the link *E. Public procurement*.

Table 5.4 - Principal Components Analysis at the link Level

	PC1	PC2	PC3	PC4
A. General Governance	0.45	0.29	-0.03	-0.03
B. Tools for adminstrative modernisation	-0.02	0.91	0.02	0.01
C. Corruption and fraud	0.50	0.15	-0.02	-0.01
D. Starting Business and Licensing	-0.01	0.01	0.96	0.02
E. Public Procurement	0.00	0.00	0.02	0.99
F. Tax compliance & tax administration	0.49	-0.19	0.22	-0.09
G. Efficiency of civil justice	0.56	-0.17	-0.14	0.10
Explained Variance	47%	17%	15%	14%

Notes: Rotated principal components.

This result suggests that the different links capture to some extent different latent factors and that they are partially (but not completely) different from each other. The high correlation of the first factor suggests that *Government effectiveness* is closely related to a low level of corruption and fraud, an efficient tax administration and an efficient, fair and fast civil justice. The high correlation between those elements does not establish causality but suggests that there is one **common latent factor that explains good performance in these fields**.

Table 5.5 - Correlation between components and indicators

	Component 1	Component 2	Component 3	Component 4
B.1 E-Government (business)	0.43	0.60	-0.03	0.13
B.2 Evidence-based	0.57	0.68	-0.13	0.17
B.3 Post-bureaucracy	0.09	0.86	-0.02	0.12
C.1 Diversion	0.92	0.28	0.20	0.45
C.2 Irregular payment	0.93	0.30	0.25	0.55
C.3 Experience	0.91	0.07	0.02	0.29
D.1 One stop shop	0.09	-0.14	0.82	-0.01
D.2 Time start-Up	0.20	-0.09	0.16	-0.23
D.3 Cost start-Up	0.22	0.50	0.62	0.51
D.4 Licencing compl.	0.12	0.50	-0.54	0.29
E.1 Time competition	0.40	0.08	0.12	0.81
E.2 Cost competition	0.31	0.02	0.03	0.90
E.3 Payment delay	0.27	0.64	0.13	0.65
F.1 Time pay tax	0.73	-0.02	0.28	0.29
F.2 Administrative cost	0.40	0.44	0.57	0.49
G.1 Enforcing time	0.21	0.32	0.32	0.49
G.2 Enforcing cost	0.32	-0.68	0.05	0.26
G.3 Insolvency time	0.79	-0.10	0.14	0.19
G.4 Independent judiciary	0.94	0.35	0.07	0.45
Explained Variance	33%	18%	16%	14%

Source: Own calculations based on data of the assessment framework.

In addition we performed a principal component analysis on the level of the single indicators used in the assessment framework. Here we are able to identify 4 factors that explain most of the variation in the dataset. We used all single indicators except government effectiveness, because this is already a composite indicator for the link A. Table 5.5 displays the correlation between single indicators and rotated principal components. Additional analysis at the level of links (not reported here) confirms that composite indicators provide a meaningful summary of the single indicators.

The results on the relationship between the links show that:

1. There is **one latent factor related to government effectiveness** that is positively correlated with all links. This latent factor is primarily related to a low level of corruption and fraud, a high efficiency of civil justice (especially in terms of time and independence of justice) and an efficient system of tax compliance and administration.
2. **Tools for administrative modernisation** seems to be a special factor that is positively correlated to most other links but **stands as separate latent component**. This mirrors the general theoretical and empirical findings in chapter 2 of the present report that there is no clear association between the use of modernisation tools and the effectiveness of public administration and its impact on the competitiveness of firms. This results hints that the impact of e-government tools, reforms related to the human relations management and the use of evidence-based instruments may mediated by other latent variables. These variables

may be associated to the specific traditions in public administration of a country, trust in the state and prevalence in justice.

3. The same holds essentially also for the indicators captured in the links starting a business and obtaining licenses on the one hand, and public procurement on the other. However, **all these links share a common positive correlation with the first latent factor**.

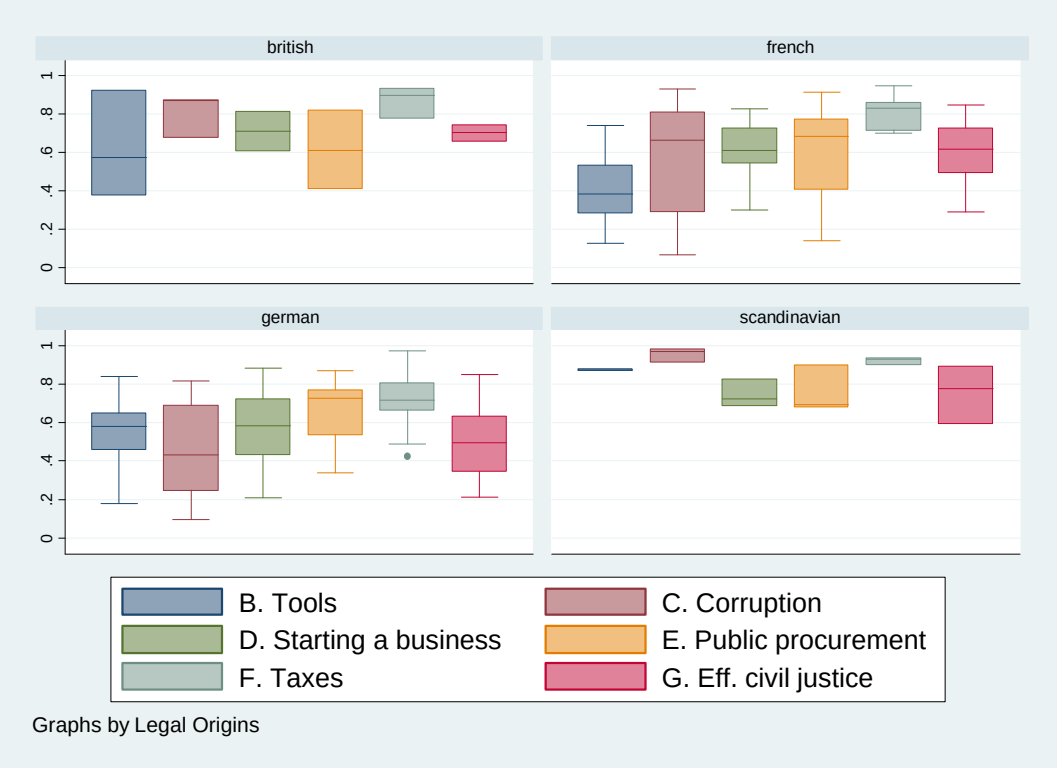
5.3. Analysis by country groups

In our analysis of the assessment framework we use two very different country groupings. The first is based on the notion of legal families, the second uses technological capacities and GDP in order to differentiate Member States into distinct country groupings.

5.3.1. Legal Origins

As outlined in chapter 2, the literature distinguishes two major legal traditions, a common law and a civil law tradition. The civil law family can further be sub-divided into the French, the German, and the Scandinavian branch. Legal origins are important because on a very abstract level, they shape the general relation between governments and markets. Hence, we would expect some systemic variation of reform implementation across legal tradition groups.

Figure 5.1 – Links across legal origins.



Source: Own calculations.

Figure 5.1 displays the composite indicators as box plots over different legal origin groups. Unfortunately two of the four legal tradition groups consist of only three countries (British and Scandinavian). Nevertheless the results suggest that the countries with a Scandinavian legal origin are associated with higher values across all links. On the other hand the German and the French legal origin are characterised by very high within variation. This is likely to be associated with differences in GDP and technological distance to the frontier. For this reason

we report also associations between different legal families using a simple regression analysis. We regress values of the composite indicators on legal origin-dummies and use (log of) GDP per capita and (log of) population size as additional covariates to control for country wealth and country size. This is important as Scandinavian legal origins and British legal origins are concentrated in rich Member States.

The results displayed in Table 5.6 confirm that legal origins are not very strongly associated with differences in the quality of public administration. GDP plays a more important role. Richer countries have lower corruption, better and cheaper tax administrations and a more efficient civil justice system. The causality of the relationship is not entirely clear and cannot be uncovered with the use of the data at hand. The only exception is the composite indicator for the use of modern tools for administrative modernisation, where we observe that that Member States with a Scandinavian and – to slightly lower degree –with German and British legal traditions make more extensive use of modernisation tools than countries with a French civil law origin.

Table 5.6 – Regression of composite indicators at the link level on legal origin dummies

VARIABLES	B. Tools for administrative modernisation	C. Corruption	D. Starting Business	E. Procurement	F. Tax compliance & tax administration	G. Effective Civil justice
german legal origin	0.21**	0.03	-0.05	0.09	-0.07	0.01
dummy (0/1)	(0.03)	(0.73)	(0.57)	(0.39)	(0.24)	(0.86)
scandinavian legal origin	0.48***	0.18	0.12	0.10	0.06	0.06
dummy (0/1)	(0.00)	(0.13)	(0.30)	(0.51)	(0.47)	(0.56)
british legal origin	0.25*	0.09	0.09	-0.03	0.02	0.04
dummy (0/1)	(0.06)	(0.41)	(0.46)	(0.82)	(0.84)	(0.69)
ln (GDP 2010)	0.05	0.31***	-0.01	0.06	0.08**	0.17***
	(0.37)	(0.00)	(0.92)	(0.41)	(0.04)	(0.00)
ln(population 2010)	0.05	-0.01	-0.03	-0.02	-0.02	-0.01
	(0.11)	(0.52)	(0.24)	(0.54)	(0.31)	(0.67)
Constant	-0.57	-2.28***	0.95	0.23	0.23	-0.97*
	(0.37)	(0.00)	(0.11)	(0.75)	(0.54)	(0.06)
Observations	26	27	26	26	26	26
R-squared	0.510	0.748	0.197	0.107	0.460	0.518

Notes: p- values in parentheses; reference for legal origin is French legal origin, ***, **, * indicate statistical significance at 1%, 5%, 10% confidence-levels.

5.3.2. Technology gap and distance to the frontier

As a second country grouping we use the technology-based classification proposed by Reinstaller and Unterlass (2011). This country grouping was used in the Innogrips report on 'Barriers to internationalisation and growth' (Reinstaller et al., 2010), in a report on Member State competitiveness (European Commission, 2011), and in a study on structural change and competitiveness (Janger et al., 2011). This grouping of Member States is based on the direct and indirect R&D intensity of each country resulting from an input-output analysis as well as on the GDP level. The direct R&D intensity is the direct investment of the business sector into research and development, as shown by the share of R&D in GDP of the business sector. The indirect R&D intensity instead captures the R&D embodied in capital goods used in the industries of a country. Together, the two indicators provide a rough measure of the level of technological development of a country in terms of its capacity to generate new technologies

and its ability to use foreign technologies. Reinstaller and Unterlass (2011) use cluster analysis to identify four country groups:

- The first group has high direct technology intensity and the relative share of indirect technology intensity decreases with respect to other country groups.
- Countries in the second group have high indirect technology intensity. Direct R&D intensity in these countries is low, but R&D embodied in imported equipment is high.
- Countries in the third group have relatively low levels of both direct and indirect technology intensity, but show a relatively high GDP per capita, pointing to sources of growth different to innovative activity. Those countries are Southern European countries.
- Finally, the fourth group consists of countries with low overall technology intensity, both in terms of direct and indirect R&D as well as low GDP per capita.

Table 5.7 – Country groups according to technology intensity and GDP

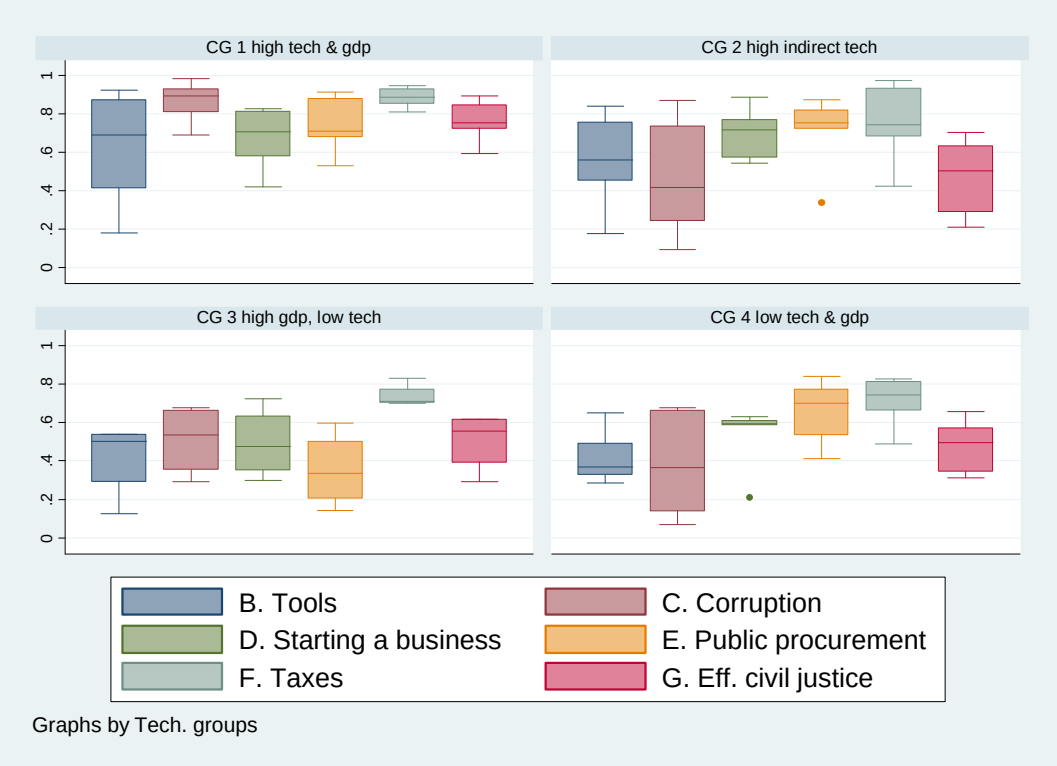
Country group 1	**Country group 2**	**Country group 3**	**Country group 4**
High direct technology intensity	*High indirect technology intensity*	*Low direct and indirect technology intensity, with higher GDP per capita*	*Low overall technology intensity*
Belgium (BE)	Czech Republic (CZ)	Spain (ES)	Bulgaria (BG)
Denmark (DK)	Estonia (EE)	Italy (IT)	Lithuania (LT)
Germany (DE)	Hungary (HU)	Portugal (PT)	Latvia (LV)
Finland (FI)	Slovenia (SI)	Greece (GR)	Poland (PL)
France (FR)	Slovak Republic (SK)		Romania (RO)
Luxemburg (LU)	Ireland (IE)		Cyprus (CY)
Sweden (SE)			Malta (MT)
United Kingdom (UK)			
Netherlands (NL)			
Austria (AT)			

Source: Reinstaller and Unterlass (2011).

Figure 5.2 displays the composite indicators as box plots across the different country groups. The results suggest that especially with regard to the composite indicators for efficiency in civil justice and for corruption and fraud there is a clear difference between country group 1 and the other country groups.

To provide a clearer picture we report also associations between the different legal origins systems using a regression analysis. Table 5.8 reports the results. We regress the values of the composite indicators on legal origins dummies and use the (log of) population size as additional covariates. We do not control for per capita GDP as this is an integral part of the country grouping. Country group 4 (low technology and low per capita GDP) is the respective reference group.

Figure 5.2 – Links across country groups.



Source: WIFO.

Table 5.8 – Regression of composite indicators at the link level on country group dummies

VARIABLES	B. Tools for administrative modernisation	C. Corruption	D. Starting Business	E. Procurement	F. Tax compliance & tax administration	G. Effective Civil justice
CG1: high tech - high GDP	0.21*	0.57***	0.16*	0.08	0.19***	0.31***
dummy (0/1)	(0.10)	(0.00)	(0.07)	(0.40)	(0.00)	(0.00)
CG2: high indirect tech	0.15	0.10	0.15*	0.05	0.03	-0.01
dummy (0_/1)	(0.26)	(0.38)	(0.10)	(0.60)	(0.68)	(0.85)
CG3: low tech - high GDP	-0.04	0.25*	-0.00	-0.31**	0.07	0.08
dummy (0_/1)	(0.80)	(0.08)	(0.97)	(0.01)	(0.40)	(0.42)
lnpop	0.03	-0.06*	-0.03	0.00	-0.03	-0.04
	(0.45)	(0.05)	(0.25)	(0.88)	(0.12)	(0.12)
Constant	0.17	0.88***	0.80***	0.63**	0.98***	0.78***
	(0.62)	(0.00)	(0.00)	(0.02)	(0.00)	(0.00)
Observations	26	27	26	26	26	26
R-squared	0.215	0.619	0.295	0.444	0.397	0.586

Notes: p-values in parentheses; reference group is low tech & low GDP-group, ***, **, * indicate statistical significance at 1%, 5%, 10% confidence-levels.

For the indicator for tools for administration modernisation we observe that countries in group 1 use more sophisticated modes of service provision than other country groups. For corruption we observe that countries in group 1 and group 3 have a better performance than country group 4, and in addition that larger countries generally report a worse corruption performance. For starting a business being in group 1 or in group 2 is associated with a better performance.

In the public procurement field we observe a negative association for group 3. The links *tax compliance and tax administration and efficiency of civil justice* show a positive association for richer and technologically more advanced countries of group 1.

5.4. Analysis of government effectiveness

This section provides a separate analysis of the government effectiveness-indicator (GE) in relation to the other links. GE is a composite indicator for administrative performance. It deserves some special attention as GE is already a comprehensive assessment in a very broad sense, measuring the perceived competence of public administration and the quality of service provision. By construction it covers a wide range of concepts related to administration excellence, such as bureaucratic expertise, administrative and technical skills of the civil service, red tape, administrative delays, as well as the quality of public schools and basic infrastructure quality. Hence, we should expect GE to be positively related to the remaining composite indicators at the link level.

Table 5.3 has already shown that there is indeed a high correlation of GE with the other links. Figure 5.3 displays scatter plots between the normalised values for GE on [0,1] scale and the composite indicators for the remaining composite indicators representing the links B to G, also on the [0,1] scale.

The figure clearly shows that the relationship is positive in each case, that is, a high value of government effectiveness (link A) is associated with a high value of the composite indicators. The figure especially shows a remarkably **close association with links corruption and fraud, tax compliance and tax administration and efficiency of civil justice**. The association is weaker for links starting a business and permits and public procurement.

Table 5.9 reports the associations from a regression analysis. We regress values of the composite indicators on GE and use the log of population as additional covariate in order to control for country size. We do not control for the GDP per capita as the correlation between GE and this measure is very high and would therefore lead to misleading coefficients. The results confirm our simple correlation analysis.

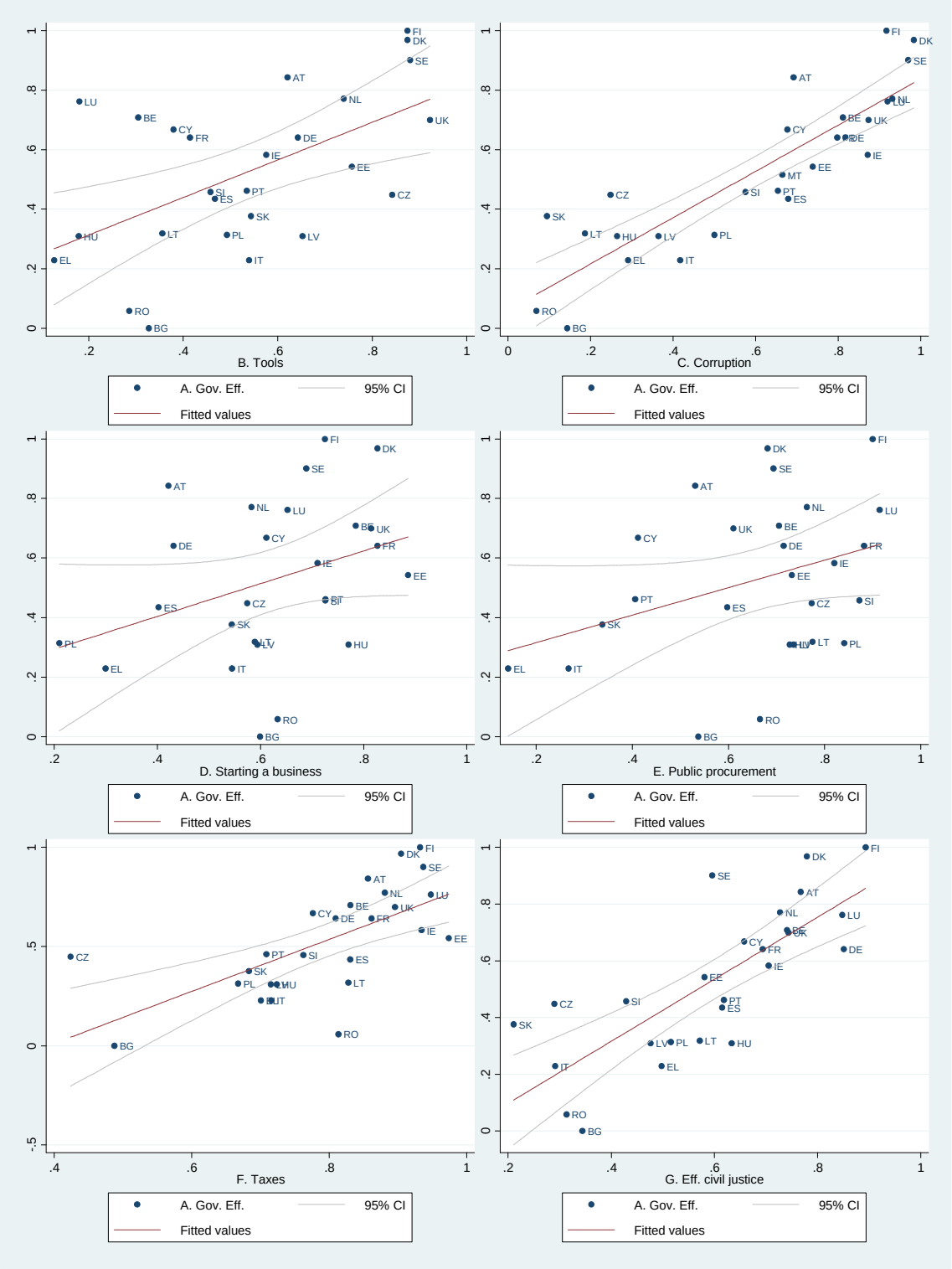
Table 5.9 – Regression of composite indicators at the link level on Government Effectiveness

VARIABLES	B. Tools for administrative modernisation	C. Corruption	D. Starting Business	E. Procurement	F. Tax compliance & tax administration	G. Effective Civil justice
Government effectiveness	0.52***	1.00***	0.19	0.25	0.33***	0.56***
	(0.00)	(0.00)	(0.12)	(0.10)	(0.00)	(0.00)
ln (Population 2010)	0.04	0.02	-0.03	-0.02	-0.00	0.01
	(0.19)	(0.39)	(0.24)	(0.61)	(0.75)	(0.63)
Constant	-0.09	-0.08	0.78***	0.66**	0.67***	0.22
	(0.75)	(0.68)	(0.00)	(0.03)	(0.00)	(0.25)
Observations	26	27	26	26	26	26
R-squared	0.36	0.77	0.17	0.13	0.44	0.61

Source: Own calculations based on the assessment framework, *Notes*: p-values in parentheses, ***, **, * indicate statistical significance at 1%, 5%, 10% confidence-levels.

Two results stand out: (1) GE captures many of the remaining links but not all of them. (2) The connection is especially pronounced with respect to corruption and to a somewhat lesser degree to the efficiency of civil justice.

Figure 5.3 – Scatter plot between government effectiveness and the other links



Source: Own calculations based on the assessment framework.

5.5. Analysis of expenditure for public administration

A major argument for administrative reforms is the idea that a high quality bureaucracy may also be able to provide services at lesser costs. In order to provide an exploratory analysis of the relationship between public expenditure we consider the relation of excellence in public

administration with the compensation of employees in public administration. We use two different definitions of public expenditures on employee compensation:

- General government sector compensation of employees in relation to total employees' compensation in the economy covers relative staff size of the government, including the production of health and education services. As has been argued in chapter 2, international differences in that case may be caused by different decisions to which degree economic tasks are performed by public or private sector, or by hybrid/mixed entities.
- Total core administration compensation of employees (excluding the military services) in relation to total employees' compensation in the economy. That variable reflects personnel costs only in administration and is hence closer to our assessment framework.

Figures 5.4 and 5.5 present scatter diagrams relating general government sector employee compensation and core public administration employee compensation (relative to total employees' compensation in the economy) with our composite indicators at the link level. Table 5.10 presents correlation coefficients.

Figures and correlation analysis clearly show that the relative size of employee compensation in general government is unrelated to our links reflecting the quality of administration. The linear predictions in figure 5.4 are almost horizontal, except for public procurement, where we observe a slightly negative relation between spending and the excellence measure.

Our results indicate that the compensation of the general government staff is not related to our measures of the quality of public administration. It is more likely related to political decisions on which tasks are carried out by the public sector. The negative relationship between public procurement and employee compensation in the general government sector is possibly related to the fact that countries which use more extensively private contractors to carry out tasks use a more efficient procurement framework. At the same time they have, simply because they rely on outsourcing, a smaller compensation of employees' share in the total economy

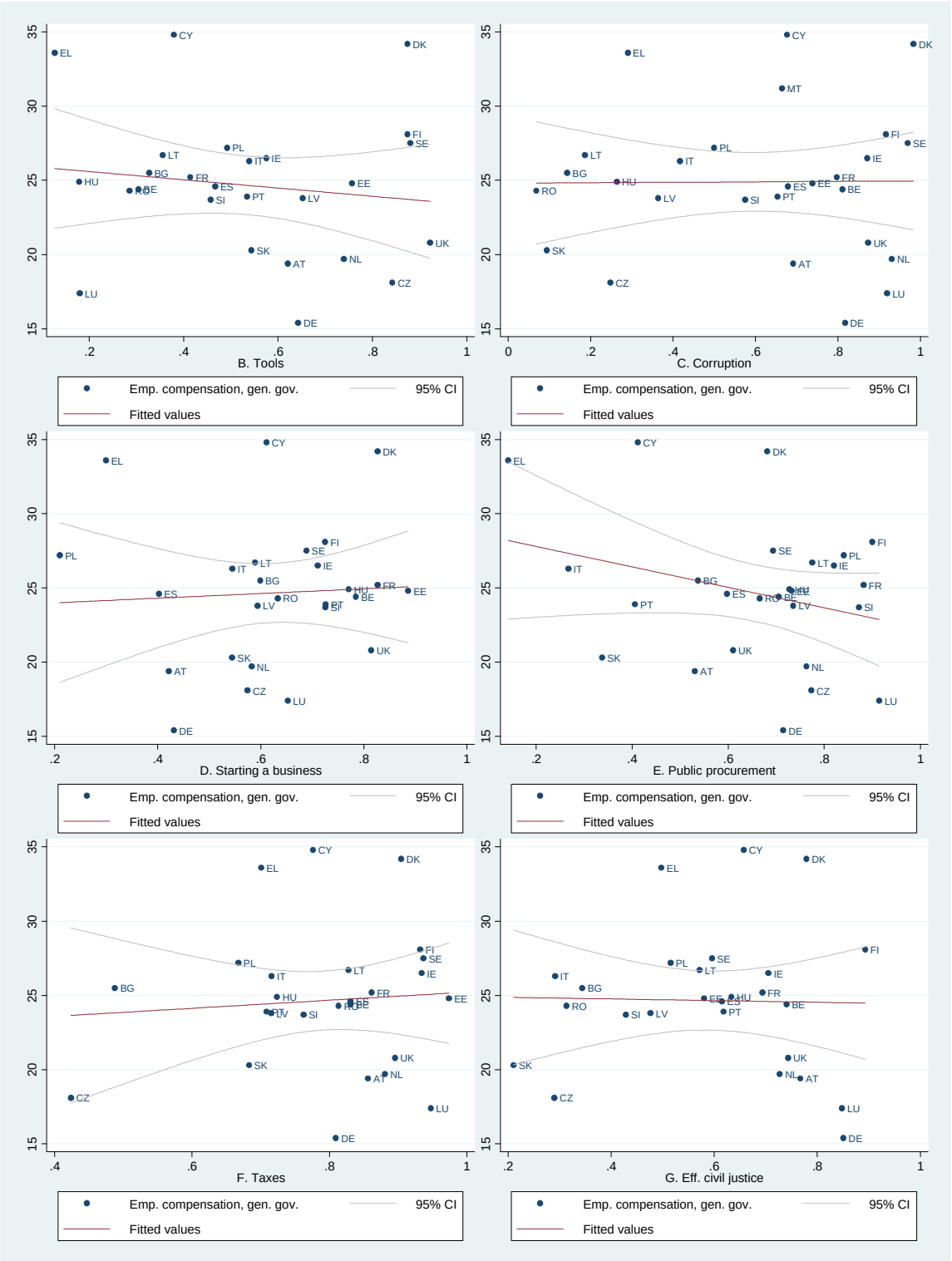
Table 5.10 – Correlation of administration employees' compensation (in % of total economy compensation) with composite indicators at link level

	A. Governance	B. Tools for administrative modernisation	C. Corruption	D. Starting Business	E. Procurement	F. Tax compliance & tax administration	G. Effective Civil justice
Employee compensation, general government	-0.03	-0.14	0.00	0.05	-0.29	0.08	-0.02
Employee compensation, core public administration	-0.34	-0.52	-0.33	-0.23	-0.57	-0.43	-0.21

Source: Own calculations based on the assessment framework.

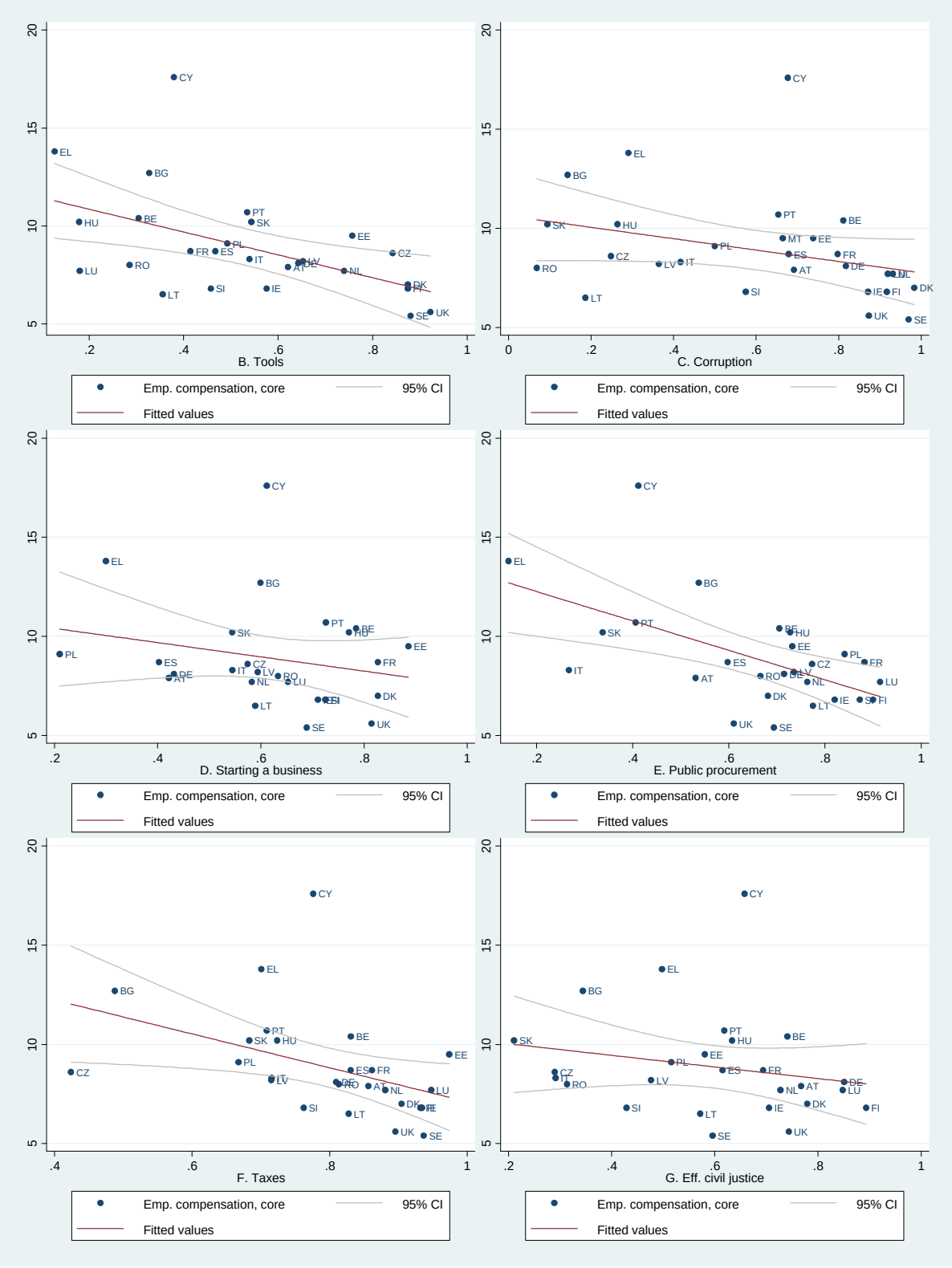
The relationships between the share of employee compensation in core public administration, excluding the military, and the several links are depicted by Figure 5.5. There is in general a negative relationship between a more efficient administration (as measured by our composite indictors) and the volume of employee compensation. The correlation analysis shows that this relationship is strongest for the links public procurement and tools for modernizing public administration. The weakest relationships are recorded for links efficiency of civil justice and starting a business and licensing.

Figure 5.4 – Scatter plot between employment compensation in the general government sector and composite indicators at the link level



Source: Own calculations based on the assessment framework.

Figure 5.5 – Scatter plot between employment compensation in core public administration and composite indicators at the link level



Source: Own calculations based on the assessment framework.

Our simple explorative analysis indicates that higher quality in public administration as measured by the composite indicators across all considered links are usually associated with a smaller total compensation of employees in core administration functions (in relation to employees' compensation in the total economy). A **higher quality public administration is associated with a smaller size of the core administration**, but not necessarily with a smaller general government size.

5.6. Summary

5.6.1. Composite indicators for links and analysis at the link level

In this section we provided a statistical analysis of the composite indicators proposed in the assessment framework. **The analysis indicates that our assessment framework captures indeed the different aspects of certain links**. The correlation analysis at the indicator level shows that the indicators cover different aspects within the respective links. We observe some noteworthy results for some of the links:

- There is a positive but not overwhelmingly strong correlation in the use of several tools for administrative modernisation, indicating that Member States often follow different pathways of administrative reform.
- Our three indicators selected for the measurement of corruption and fraud are quite highly correlated, although they were chosen to cover different aspects (corruption perceptions vs. experience, state capture vs. administrative capture vs. general services).
- The correlation patterns of the indicators used to create the composite indicator for the link starting-up a business and licensing shows that start-up time and costs are not strongly correlated with the complexity of licensing procedures.
- Lower tax administration costs in the public sector are not strongly related to lower tax compliance costs for firms.
- The correlation between duration and costs of enforcing contracts is nil.

The correlation analysis shows in general a positive correlation of all indicators with all links. Correlation analysis at the link level indicates that government effectiveness, corruption and fraud, and efficiency of civil justice are closely related, **confirming the view that different but fundamental aspects of governance quality are strongly related**. A weaker (positive) association can be observed between the use of tools for modernisation and the efficiency of civil justice and between tools for modernisation and efficiency of public procurement. These findings are confirmed by a principal component analysis at the link level. We were able to identify four different latent factors:

1. A first latent factor shows a positive correlation with all links, but is primarily associated with high level of government effectiveness, a low level of corruption and fraud, a high efficiency of civil justice and a efficient system of tax compliance and administration. This provides evidence for the perspective that there is a factor related to the general quality of public administration that underlies all our indicators.
2. Three other latent factors are each associated with one specific link. This shows that the efficiency at the link level is also mediated by other, most likely Member State specific, factors. As regards the use of innovative tools for modernisation our result mirrors previous findings that there is no clear association to the public administration efficiency.

Overall **these results vindicate the use of composite indicators**, as using single stand-alone indicators per link would not allow assessing the excellence of public administration in a comprehensive way.

5.6.2. Analyses at the level of country groups

In our analysis of the assessment framework we use two very different country groupings. The first is based on the notion of legal families, the second uses technological capacities and GDP in order to differentiate Member States into distinct country groupings.

Legal origins are important as they may shape the general relation between governments and markets. The results of our regression analyses yet find that legal origins are **not associated with differences in public administration quality,** controlling for GDP per capita. Member States with a Scandinavian and – to slightly lesser degree – German and British legal origin however make more extensive use of tools for modernisation than those with a French legal tradition.

As second grouping we use a **technology-based classification** proposed by Reinstaller and Unterlass (2011). The grouping of Member States is based on the direct and indirect R&D intensity of each country resulting from an input-output analysis as well as on the GDP level. In our analysis we observe the importance of GDP and of the technology gap, as the countries grouped in the **'high-tech & high-GDP'**-cluster (Be, DK, DE, FI, FR, LU, SE, UK, AT) significantly **score better in all specific links** except for the efficiency of public procurement as compared to the other country groups. However, it is important to keep in mind, that these are correlations. It is not possible to uncover the causality of the relationship with the data at hand.

5.6.3. Analyses of government effectiveness and administrative size

A separate analysis of the *government effectiveness*-indicator (GE) in relation to other links deserves some special attention as GE is a comprehensive assessment, measuring perceived competence of public administration and the quality of service provision.

In fact the analysis shows that there is a remarkably close association of government effectiveness with composite indicators for corruption and fraud, tax compliance and tax administration and for the efficiency of civil justice. This confirms that some **fundamental aspects of governance and administrative quality** frequently **go hand-in-hand**.

Last but not least, we considered the relationship between the size of the government sector by using total compensation of employees in administration in the government sector and core administration functions (in relation to employees' compensation in the total economy) as proxies for government size and core administration size, respectively. A major argument for administrative reforms is that a high quality bureaucracy may also be able to provide services at lesser costs. Two results stand out:

- Correlation analyses show that the relative size of employee compensation in the general government sector is almost unrelated to our measures capturing the quality of public administration.
- Composite indicators across all seven considered links are associated with a smaller total compensation of employees in core administration functions (in relation to employees' compensation in the total economy).

Thus, a **higher quality administration is associated with a smaller core administration, but not necessarily with a smaller general government size**.

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5.7. Appendix to chapter 5

Table A.2 - Correlation between indicators used in the assessment framework

	A. Gov. Eff.	B.1 EGOV-8	B.2 Evidence-based	B.3 PBI	C.1 Diversion	C.2 Irreg	C.3 Experience	D.1 One stop shop	D.2 Time start-Up	D.3 Cost start-Up	D.4 Licencing compl.	E.1 Person unit costs	E.2 Cost competition	E.3 Pay delay	F1. Time pay tax	F.2 Administrative cost	G.1 Enforcing time	G.2 Enforcing cost	G.3 Insolvency time	G.4 Indepentent judiciary
A. Governance Effectiveness	1.00																			
B.1 EGOV-8	0.44	1.00																		
B.2 Evidence-based	0.56	0.57	1.00																	
B.3 PBI	0.37	0.43	0.56	1.00																
C.1 Diversion	0.89	0.42	0.53	0.22	1.00															
C.2 Irreg	**0.90**	0.43	0.52	0.23	**0.97**	1.00														
C.3 Experience	0.76	0.50	0.43	0.07	0.80	0.80	1.00													
D.1 One stop shop	0.17	-0.13	-0.12	-0.06	0.19	0.24	0.10	1.00												
D.2 Time start-Up	0.12	-0.15	0.08	-0.04	0.10	0.10	0.28	0.24	1.00											
D.3 Cost start-Up	0.35	0.31	0.20	0.33	0.36	0.45	0.17	0.30	0.08	1.00										
D.4 Licencing compl.	0.11	0.09	0.33	0.37	0.04	0.06	0.03	-0.25	0.14	0.00	1.00									
E.1 Person unit costs	0.20	0.08	0.10	0.04	0.26	0.40	0.20	0.24	-0.06	0.30	0.26	1.00								
E.2 Cost competition	0.20	-0.07	-0.07	-0.04	0.25	0.37	0.22	0.05	-0.14	0.39	0.25	0.72	1.00							
E.3 Pay delay	0.42	0.19	0.44	0.44	0.41	0.45	0.07	0.01	-0.10	0.57	0.36	0.28	0.46	1.00						
F.1 Time pay tax	0.64	0.12	0.25	-0.10	0.72	0.72	0.58	0.25	0.19	0.28	-0.02	0.21	0.17	0.14	1.00					
F.2 Administrative cost	0.33	0.44	0.38	0.27	0.44	0.51	0.34	0.28	0.04	0.54	-0.15	0.32	0.28	0.42	0.29	1.00				
G.1 Enforcing time	0.34	0.01	0.19	0.16	0.35	0.36	0.03	0.10	-0.17	0.51	0.15	0.21	0.22	0.38	0.31	0.27	1.00			
G.2 Enforcing cost	0.17	-0.28	-0.19	-0.56	0.20	0.22	0.32	0.16	0.01	-0.13	-0.36	0.27	0.32	-0.15	0.23	-0.12	0.01	1.00		
G.3 Insolvency time	0.64	0.21	0.35	-0.12	0.66	0.69	0.68	0.21	0.22	0.09	-0.12	0.26	0.13	0.02	0.59	0.27	0.12	0.28	1.00	
G.4 Independent judiciary	0.88	0.42	0.64	0.25	**0.96**	**0.94**	0.81	0.07	0.15	0.28	0.17	0.22	0.23	0.45	0.67	0.47	0.31	0.13	0.70	1.00

Source: WIFO.

Imputation of Missing values

The imputation was performed on normalised data. In the country fiches imputed values are marked clearly; besides that no original value is displayed. The imputation was done using a regression based approach. The regression equation was selected on the basis of correlation analysis. Only indicators with a high correlation (larger than 0.5) were used for imputation purposes. In addition GDP per capita in 2010 as well as the dummies legal origins and the technology country group dummies were used when this improved the fit of the regression. Missing values were then replaced by the prediction of the chosen regression model.

Indicator B.3: Use of Evidence-Based Instruments - 8 missing values

A careful analysis of the data clearly showed that for prediction purposes the country value of Belgium was outlier. Therefore, the regression-based imputation was done using all available country values with the exception of the value for Belgium. As independent variables we used normalised values of the following variables:

- Post-bureaucratisation index
- Full availability of 8 business related e-Government services
- Government effectiveness
- Burden of government regulation (Global Competitiveness Report)
- Effectiveness of anti-monopoly policy (Global Competitiveness Report)
- Judicial independence
- Dummy whether the country had in the past socialist legal system
- GDP per capita in 2010

The (out-of-sample) predicted values were used to fill up the missing values for Bulgaria (0.1886), Cyprus (0.6046), Estonia (.8512), Latvia (0.5119), Lithuania (0.3361), Romania (0.1883) and Slovenia (0.3114).

Indicator E.3: Average delay in payments from public authorities (1 missing value)

The regression-based imputation was done using the whole available sample. As independent variables the following were used:

- Post-bureaucratisation index
- Transparency of government policymaking (Global Competitiveness Report)
- Burden of government regulation (Global Competitiveness Report)
- Cost to start-up a company
- Typical cost of a competition for firms per competition
- Effectiveness of anti-monopoly policy (Global Competitiveness Report)
- Burden of customs procedures (Global Competitiveness Report)
- Enforcing contracts: Time
- Indicator variable for legal systems
- Indicator variable for technological distance

The (out-of-sample) predicted values were used to fill up the missing values for Luxembourg (0.785).

Indicator F.2: Administrative costs per 100 units of revenue collection (1 missing value)

The regression-based imputation was done using the whole available sample. As independent variables the following were used:

- Cost of business start-up procedures
- Total person-day units cost per individual firm per competition
- Indicator variable for legal systems
- Indicator variable for technological distance
- Cost of general administration in percent of tax income (averaged over 2007 to 2009, data from the AMECO database and OECD)

The (out-of-sample) predicted values were used to fill up the missing value for Greece (0.732).

6. RECOMMENDATIONS

6.1. Recommendations for a more advanced assessment framework

6.1.1. The general problem

Drafting an assessment framework to monitor the business-friendliness of the Member States' public administrations always carries with it the problem that for some important aspects of the relationship between administration and the business environment which need to be covered as a matter of principle, the required indicators are not available. Our approach was to derive first a *wish-list* of indicators (chapter 4) based on a theoretical discussion of the channels and links through which public administration excellence (or a lack thereof) impacts on the Member Countries' competitiveness (chapter 3).

However, as should be expected, available data and indicators do not match perfectly with our desired set of indicators. This can be traced back to several interrelated reasons:

- In some cases it is (technically) infeasible to recommend an 'ideal' indicator, either because required information is indeed unobservable, or information is observable but only with significant noise in the data. For instance, such drawbacks obviously exist as regards all indicators for corruption, which, by its very nature, can be measured by only proxy variables with substantial uncertainty. Under favourable circumstances, the development of more advanced and sophisticated survey techniques or new methods of data collection may help to fill that gap in the future.
- In other cases available data cannot be included due to quality requirements, for example with regard to timeliness or geographical representativeness.
- The collection of a limited number of indicators to keep the monitoring process feasible also has its 'costs' in a sense that several aspects which characterise a specific or general link between administration and the business environment will not be covered at all.

The aim of this part of our summarising chapter is not to complain about the measurement problems, drawbacks and errors that always go hand in hand with an assessment of hard-to-measure qualitative factors like administration excellence. Rather the twofold aim is to draw attention

- to aspects of administrative excellence for competitiveness that have not been assessed and captured by our suggested indicator set, and
- to related indicators that, for some reason or another, did not pass our quality checks, but may be included in a future framework to monitor administrative quality.

Against this background, we compare our compiled list of indicators with our respective wish lists, which represented a more or less ideal indicator set for each of the identified links.

6.1.2. Gaps in the indicator set and proposals for collection of alternative indicators

The suggested assessment framework is organised around three general and four specific links. Of course, none of the considered links is measured 'perfectly', due to the problems brought up above. Over the next few paragraphs our aim is to emphasise some aspects where improvement of an assessment framework may be possible, although the following suggestion are still far from presenting an exhaustive or 'complete' list.

General governance indicators

The problem of incompleteness holds in particular for the 'general governance' link that, by its very nature, can only be observed with significant noise in the data. However, our statistical analysis has also shown that the indicator *government effectiveness* is highly correlated with the composite measures for other links. That can be interpreted as a strong signal that this comprehensive indicator indeed measures several aspects that are also covered by the more 'specific' indicators.

Alternative indicators, such as the suggested World Bank's Regulatory Quality-index, or the 'Burden of government regulation'-indicator from the Global Competitiveness Report (World Economic Forum, 2011), which reflects how burdensome it is for businesses to comply with administrative requirements, may clearly fulfil the same purpose to point at general strengths and weaknesses in the overall administrative system.

Tools for administration modernisation

The large variety of contemporary instruments to modernise public administration and the interwoven nature of their effects make it difficult to define a holistic wish-list for monitoring purposes. While the number of applicable indicators documenting the use of modernisation tools is vast, there is hardly any uncontested data on some crucial issues, such as performance orientation or organisational arrangement of the public sector. It would be advisable to focus future research on outcomes rather than to stick to an input perspective or procedural matters. Management of human resources in public administration, for example, matters for interaction with businesses and citizens. For this purpose, it is more important to measure how processing times, quality, and convenience of services improves than to report the use of management practices that are partly dependent on administrative culture and comparable only to a limited degree.

As regards **ICT-applications**, an ideal indicator would quantify internal as well as external e-government solutions. Apart from mere availability, the quality of online applications, e.g. whether applications include interactive and transactional elements, is relevant. Further details that could inform a comprehensive monitoring process would include synergies between internal processes and external e-government services, a specific evaluation of G2B-solutions, the diffusion of new channels of information (such as social media) and how barriers are dealt with, e.g. the digital divide. It makes sense to measure the overall quality of integrated **one-stop-solutions** (e-services, service hotlines, and other points of single contact) and their acceptance. Also, we would need an indicator to assess enhanced **internal capacities** due to ICT solutions. Such an indicator should cover both the quality of applied e-government services and the degree of service orientation.

The multitude of reform attempts regarding **human resources quality** in the public sector has suggested a similarly large number of indicators that mainly describe which measures are employed. For the purpose of assessing the impact on competitiveness, it would be most useful to describe effects of these measures, such as public sector motivation and friendliness, practical competence and standard of knowledge, and the diffusion of skills like the quality of foreign languages among the government staff. Innobarometer 2010 (DG Enterprise, 2011) provides data on the share of public employees with a university degree, which may also be conducive to skills. This, however, only captures formal qualifications.

As for the **performance orientation** both the assessment of outcomes of service provision and the reliance on evidence-based instruments are relevant. To map an evidence-focus, the documentation of RIAs, performance management and budgeting as well as an evaluation of its effectiveness would be desirable. That would include data which reflect the utilisation of

performance information among public decision-makers, and how dysfunctionalities, such as information overflows, are dealt with.

Corruption and fraud

Indicators for corruption and fraud are always challenged on the ground that they attempt to measure a 'hidden phenomenon'. Therefore, one may also consider a more 'input-oriented' measure, namely the implementation of anti-corruption measures in public administration. In our suggested assessment framework, we could not include this important aspect since existing indicators on the implementation of anti-corruption measures do not exhibit sufficient time and country coverage to pass our quality checks.

To account for the **anti corruption-measures dimension** as well, we suggest a geographical extension of an existing innovative indicator, namely the Global Integrity Report (GIR).[31] The primary aim of the GIR is to quantitatively assess anti-corruption safeguards. The outstanding feature in this context is that the measurement does not only include an assessment of existing anti-corruption laws, but also their implementation, and measures the difference as an 'implementation gap'. For instance, the GIR considers staffing, budgetary support and political independence of anti-corruption mechanisms for their evaluation. Therefore, in comparison, the GIR provides valuable information from a policymaker's perspective. However, country coverage is limited to 15 European Union Member States, and the date of the latest release is heterogeneous and ranges from 2007 to 2010 depending on the Member State.

Starting-up a business, licensing and public procurement

In contrast to corruption and general administration reform issues the special procedures that are required for businesses to deal with starting-up a business, licensing and procurement are relatively well-documented. Derivation of internationally comparable data always requires a standardisation of assumptions about model companies and model procedures. While such a setting is of course necessary to arrive at comparable results in general, it also restricts the applicability of many comparisons.

For example, due to the overwhelming importance of small and medium-sized enterprises in the European countries, information on **size-dependent effects** would be necessary and should be developed further. The sophistication of the 'starting up a business' indicator from the Doing Business database could be improved towards collection of data for sole proprietor companies.

A further fundamental challenge is that permits are often trade-, and industry-specific. This is not captured in our assessment framework. Better comparative data on permits in trades and liberal professions is clearly required if the monitoring framework should aid identify policy priorities in this policy area. However, this would also necessitate to go beyond the present assessment framework. Issues such as standards and norms and their application in the Member States would have to be taken into account. **Standards and norms** are increasingly replacing traditional regulations as barriers to entry for new firms and as important sources of administrative burdens.

Tax compliance and tax administration

As regards the link to tax administration aspects the available indicators are also far from covering all important aspects perfectly. With respect to **firms' compliance costs** additional information may be gathered from an extension of the World Bank's Enterprise Surveys. The surveys contain information on

[31] http://www.globalintegrity.org

- *senior management time spent in dealing with requirements imposed by paying taxes and labour regulation*: Compared to Doing Business, this indicator is able to capture incurred compliance costs more precisely, since it does not exclude costs that occur due to the lack of information on the firm's side. However, it does not account for external costs that may occur when administrative tasks are outsourced to tax advisers.
- *average number of visits or required meetings with tax officials:* This indicator measures tax compliance costs through a different dimension. A high number of required meetings is likely to increase tax compliance costs.
- *percentage of firms identifying tax administration as major constraint.* Although lacking a precise description of transmission channels, this indicator reflects at least to some extent the combined effect of costs and uncertainty in dealing with public administration and their negative effects on operations.

Expert surveys based on case scenarios like Doing Business may lack precision or have significant drawbacks. We recommend indicators which are similar to the Enterprise Surveys. The quality of existing indicators could be increased by extending geographical coverage both within and across countries.[32]

Efficiency of civil justice

Three indicators from the Doing Business database play a central role in our assessment framework. With regard to contract enforcement a more differentiated approach could provide additional insight. **Distinguishing small and large sales disputes** and different kinds of disputes would allow pinning down differences in quality and efficiency of European systems of civil justice with regard of its interaction with business more precisely.

The European Commission for the Efficiency of Justice at the Council of Europe provides bi-annual reports based on expert surveys. The publication provides information on the working properties and the efficiency of European judicial systems. Some of the data is derived from national (legal) statistics (budgets, number of proceedings and of judges) others are qualitative features of national legal systems. In principle, we would propose to include an indicator for the **congestion of courts** in our assessment framework that is complementary to the Doing Business indicator for the time required for enforcing contracts.

The indicator for **disposition time of litigious cases** from the CEPEJ Database has a potential to be included in future assessments. In contrast to the Doing Business indicators on time and cost of civil proceedings, which are based on a clearly-defined specific legal case, the indicator disposition time is based on the count of all litigious civil law cases in a country. However, this creates problems of comparability between countries (Van der Doelen, 2010). Geographical coverage of the indicator (19 countries) and ongoing discussions on the right categorisation of legal cases into litigious and non-litigious cases prevents its current use in the fact sheet. Provided that coverage and comparability of the indicator across Member States increases this indicator should be included in the assessment framework.

No reliable and informative data that capture the **take-up of alternative dispute resolution** (ADR) is available. The only related and available indicator measures the presence of ADR mechanisms (CEPEJ, 2010). But this indicator does not provide enough meaningful variation to warrant inclusion in an assessment framework.[33]

[32] Country coverage is limited to emerging markets and developing countries including new Member States, except for Cyprus and Malta. The most recent wave was published in 2009 with interviews conducted in 2008.

[33] Own assessment of CEPEJ (2010, p 116) reads: "It is still difficult to get valuable information about the number of mediators and the number of performed mediations, as mediations are often organised and conducted

6.2. Policy implications

In the concluding section we present some tentative policy-oriented conclusions that are based on our research. The primary purpose of this study was to derive an assessment framework as the basis for a monitoring process. The conclusions mainly draw from our analysis carried-out in previous chapters, and on the indicator framework developed. No in-depth country analyses have been performed. Thus, our policy recommendations to promote 'excellence in public administration' for competitiveness are of a general nature, combining 'good practices' in single countries with general information about promoting efficiency in public administration available from other sources.

6.2.1. Policy implications: General governance

Good governance matters and is an essential prerequisite for competitiveness and growth. Hence, 'improving governance' is always a good advice. However, while indicators like the World Bank's government effectiveness-index are a useful instrument for identification of general deficiencies and problems in overall governance structures, they are **less useful as a basis for policy recommendations**. Due to its general and comprehensive nature, it is hard to identify the concrete weaknesses that caused a bad score of the government effectiveness-index in detail.

The authors of the Worldwide Governance Indicators-reports (WGI) are sceptical themselves in this respect. On the project webpage they claim that data "...are often too blunt a tool to be useful in formulating specific governance reforms in particular country contexts. Such reforms, and evaluation of their progress, need to be informed by much more detailed and country-specific diagnostic data that can identify the relevant constraints on governance in particular country circumstances. We therefore view the WGI as complementary to a large number of other efforts to construct more detailed measures of governance."[34]

6.2.2. Policy implications: Tools for public administration modernisation

6.2.2.1. Introduction

Innovative management and steering tools as well as increased application of ICT in public administration are often seen as key elements of modernisation public service provision. Yet, as argued before, empirical evidence from the available limited number of scholarly studies on a (positive) impact of reform measures is surprisingly scarce, mixed and non-robust. Most evidence is rather anecdotic than based on systematic research (Van Dooren, et al., 2008). A realisation of expected efficiency gains from introduction of certain management tools or from implementation of ICT applications in public administration alone should therefore not be taken for granted. In addition, observed 'trendiness' of certain measures and a manipulative nature of reform language by self-interested advocates of specific measures make a fact-based review of the impact of reforms on administrative excellence in general, and especially on their effects on the business environment, less feasible.

Measuring a positive impact of enhanced adoption of these tools is far from being a trivial exercise. First, it should be noted that many of these tools target at an improvement of overall service quality, which is a hard-to-measure outcome of reform. For instance, positive results of e-government and changes towards modern personnel management instruments may show up in lower corruption levels as well as in reduced bureaucratic delays as well as in greater

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outside the judicial system. For these reasons, it is very difficult to analyse the actual situation on mediation and to make comparisons."

[34] http://info.worldbank.org/governance/wgi/faq.htm#15 Van de Walle (2006, p. 440) similarly argues that the GE-indicator gives a vague impression of the functioning of a country's administration, "but it is difficult to know what the indicator actually means."

citizens' trust in public administration. Good practice examples in the respective sections below seem to confirm this view. In any case, it is not easy to attribute these improvements to the introduction of a tool that is related to the overall working properties and the general capacities of public administration. Secondly, that kind of reforms often require some time before (positive or negative) results show up. Introduction of new ICT devices is in the first place characterised by up-front costs of investment in the technical infrastructure of the administration as well as increased spending for the training of employees. Similarly, revised methods of steering and managing staff will change behaviour and performance only slowly.

An important point that should be taken into account for reform implementation is the relation of new tools and administrative tradition. It is not accidental that several new instruments of steering public administration, especially the strong focus on performance information and management, have been developed and introduced first in countries with a common law and a Scandinavian civil law background. These countries are much more used to higher discretion of public administration decision-making than bureaucracies in a French (Napoleonic) and a German *Rechtsstaat* tradition.

Against this background, it appears appropriate to complement general recommendations in several areas of administration modernisation with some good practices in Member States which might serve as role models for reform implementation.

6.2.2.2. E-government applications

Enhancing ICT-use is one of those areas of public administration modernisation that appears to have the highest potential to improve both the processes inside the bureaucracy (internal governmental management) as well as the outside relationships to citizens and businesses. Improved use of e-government applications is thus a central characteristic of many reforms of public administration over the last years. The operation of digital technology solutions ranges from the provision of pure informative services on websites up to highly advanced interactive portals for a complete digital processing of administrative procedures.

In general, in a world with an ever increasing proliferation of digital media use among citizens and private businesses, governments are strongly recommended not to lag behind the adoption of new forms of internal and external communication and data processing. In principle, there should be only minor technical feasibility limits to the application of ICT. Almost the whole range of possible administration-business interactions can be subject to some form of digitalised processing. Often asserted concerns over a digital divide have hampered the development of services that might benefit the relatively privileged parts of society, while services remain unavailable for digitally excluded groups. However, the digital divide closes rapidly, both through adoption of computer-based internet services by hitherto excluded groups, as well as through integration of digital services into everyday devices such as mobile phones and settings not involving a traditional computer interface (Shah, 2012).

The central problem, then, is to make sure that potential benefits of e-government are fully exploited. That regularly requires a whole-of-government approach to a further development of e-government services. In this respect Denmark, for example, goes beyond a simple encouragement of digital procedures and makes digital reporting and processing mandatory at all governmental levels over the next few years until 2015.

One of the most important aspects for a simplification of businesses-administration relations concerns the introduction of Points of Single Contact (PSCs). PSCs are e-government portals for entrepreneurs that are active in the service sector. The EU Services Directive prescribes to operate a PSC in each of the 27 Member State as of December 2009. According to the EU-

GO website of the European Commission[35], many member States currently offer multi-lingual services. This is especially important for cross-border business activities, and should be further encouraged in order to strengthen the Internal Market. Although Member States are not obliged to provide tax and social security procedures through PSCs, some Member States already provide this opportunity.

The rapid diffusion of mobile communication technologies makes a further development and adoption of mobile government (so-called 'm-government') solutions to support and enhance government services availability and quality inevitable (OECD, 2011A). M-government can be defined as an extension of e-government through the utilisation of mobile technologies for delivering public services. Through mobile technology public services can be made available regardless of customers' location or physical place. Thus, service accessibility is increased in general through mobile computing, although some technical limitations may still remain. OECD (2011A, pp. 110ff.) provides numerous possible m-government applications, among them

- payment delivery via mobile phones,
- electronic broadcasting of forecast alerts (e.g., the London sends alerts to businesses about security threats, including bomb alerts in real time with a message that is sent within 30 seconds of the alert being received by the police).
- translation services, or
- electronic authentication services.

Further optimising on e-government services (as well as developing m-government services) to reap all potential benefits both on within the administration (e.g. cost savings) as well as for businesses and citizens (reduction of administrative burdens, improved service quality) often requires a number of related changes that should simultaneously be addressed:

- A reorganisation of back-office is often needed to get as many of the services as possible online in a full interactive and transactional based model of e-government. Governments should in this respect place a strong focus on 'digital' competencies and skills of its administrative staff.
- A whole-of-government approach for business-related e-government applications also includes development of common technical platforms across all levels of government. Hence, co-ordination between administrative entities and across governmental levels should be enhanced. Moreover, such a co-ordination should be institutionalised because fast technological progress and rapidly changing demands for public services require a permanent supervision of services available as well as service qualities. For example, the German Administration e-Government Directory is based on an extensive collaboration between various layers of government (federal, state, local) and provides a secure and reliable, cross-organisational, paperless communication infrastructure. Progress of e- and m-government implementations should be monitored to assess potential weaknesses and bottlenecks as early as possible.
- Fully exploiting potential benefits of e-government also requires increasing the take-up rates in the business sector. In this respect, it is a pre-condition that the required technical infrastructure is provided. It also appears reasonable to enhance public awareness of already implemented e-government solutions through promotion and marketing efforts in order to motivate and increase the use of those services which are already in place.

[35] http://ec.europa.eu/internal_market/eu-go/

Among the numerous possible examples for digital applications in government, some of them will be discussed below as special applications (e.g. ICT for tax administration and for public procurement), we picked out two good practices which address important beneficial aspects of e-government solutions, namely avoidance of duplication in data collection and creation of Single Points of Contact.

Good practice: Estonian prohibition on the collection of duplicate data

Duplication in data collection is major problem of administrative burdens for businesses as well as for within-administration processing. In Estonia, previously companies had to provide the same data in various reports and the data was presented on paper or in a format that did not allow electronic data processing. Starting from January 2010 the Business Register launched an **electronic data transmission system** for submitting annual reports. According to the Accounting Act, state or local government institutions are not entitled to demand such data from accounting entities which have already been submitted to the Business Register in their annual reports. The Government of Estonia is entitled to appoint the state or local government institutions for which the prohibition shall not apply for a period of up to two years.

eSTAT is the Estonian electronic channel for collecting statistical data from economic entities. It was originally developed in 2004/2005. In order to further reduce and eventually to completely avoid duplicate data collection, Statistics Estonia intends to improve eSTAT such that the data submitted electronically to the register according to the taxonomy of annual reporting will be pre-filled for the economic units in eSTAT. The respondent needs to fill out only rows not included in the annual report. In order to import the data from the Business Register to Statistics Estonia, to store them and display in eSTAT, the development of improved information systems is necessary. Statistics Estonia is able to quit duplicate collection of the data included in annual reports in 2012 when data for 2011 will be collected.

Good practice: Point of Single Contact for Business in Luxembourg[36]

'Guichet.lu' is a national website with the objective to simplify exchanges with the State through a fast and user-friendly access to all the information and services provided by public institutions. The website is designed as a one-stop-shop for businesses. The website is divided in two main sections: a citizens section and a business section. The business section is a co-ordination project edited by 2 Ministries in partnership with the Chamber of Commerce, the Chamber of Trades and the FEDIL - Business Federation Luxembourg. The information is structured around the life cycles of a company (creation, exploitation, R&D, environment, international trade, etc.)

The 'Guichet' is user-friendly and offers businesses

- access to information and online services provided by the State;
- a description of the main administrative procedures;
- the possibility to download forms and to submit them online and electronically signed to the competent administration;
- the possibility to carry out administrative procedures electronically.

6.2.2.3. Performance information and evidence-based policy-making in public administration

The quality of administrative service provision depends crucially on the use of performance information as an integral part of a feedback process. In terms of public sector management, performance budgeting is regularly adopted as part of a broader set of management reforms to

[36] http://www.guichet.public.lu/fr/entreprises/

improve efficiency and effectiveness of public administration. Many of these reforms are often referred to as managing-for-results (Robinson and Brumby, 2005). Generating and using information about the desired (as well as unexpected and undesired) effects of policies in a process of policy evaluation is of overwhelming importance as a mechanism to improve the policies executed by public administration (OECD, 2007A). In that respect, performance information may be incorporated

- for presentational purposes in budget documents in order to increase accountability of public officials, to rationalise planning and to improve transparency,
- for performance-informed budgeting, yet without a direct and automatic linkage to budget allocations, and/or
- as a basis for the allocation of resources according among agencies and bureaus according to output/outcome criteria, to motivate the performing agencies via financial rewards and sanctions (direct performance budgeting).

Specific recommendations as regards the introduction of various types of performance budgeting are however difficult to make. In part, every assessment depends on the type of service to be carried out. The performance-oriented approach requires the availability and the generation of relevant information, but public administrations continue to face challenges with issues of measurement, especially with outcomes for activities of a purely public goods type.

General recommendations as regards the introduction and the design of performance-based budgeting systems may include the following (e.g., Allam, 2007; OECD, 2008):

- There is no one-size-fits-all model of performance orientation. Budgetary systems in place have to be aligned with the chosen performance approach *et vice versa*. In some cases, integrating performance information into the budget process required substantial changes of previous budget structures (e.g., Australia, New Zealand, UK).
- When defining the respective performance goals, the focus should be on outcomes and not on outputs. Target formulation should be precise and should be designed to measure and monitor progress towards achieving the respective goals.
- Creating smart incentive structures related to outcomes and outputs can help improving administrative services. For example, relating the budget of an agency to the time required for service delivery creates incentives to speed up processes. Linking results to resource allocations may yet also distort incentives in the direction of the measurable and actually measured targets. Speeding up the administrative procedures alone can result in a loss of reliability and due process. Performance targets therefore have to be chosen cautiously.
- A single performance measure for a bureau or an agency is often not sufficient. Public organisations frequently have multiple stakeholders with differing and sometimes even conflicting objectives. One single indicator usually cannot adequately address all the differing objectives. Instead a range of indicators should be used. However, the number of indicators used should be limited to a manageable size.
- Integrating performance information into the budget process is almost always useful, but government-wide systems that closely link performance results to resource allocation should be used only to a limited extent.
- As a further consequence of measurement and target definition uncertainty, assessments and periodical reviews by independent auditing institutions should be part of the process.

- Poor performance may not be an agency's fault. 'League tables' provide information on (relative) service qualities but do not explain the underlying causes of good or poor performance. Lack of success may be caused by an underfunding or by adverse external circumstances. Eventually, performance information has therefore to be complemented by regular *ex post* evaluations that focus on responsibilities and causality. In this respect it is also important to offer the opportunity to revise targets and to allow some flexibility in implementation.

Good Practice: Regulatory Impact Assessment in the United Kingdom[37]

Regulatory Impact Assessment (RIA) is a key tool for a systematic, mandatory, and consistent assessment of aspects of social, economic, or environmental impacts such as benefits and/or costs of public projects, to inform policy decisions before a regulation, legal instrument, or policy is adopted; or to assess external impacts of regulatory and administrative practices, or to assess the accuracy of an earlier assessment. RIAs should be applied systematically to new as well as existing regulations, as a central element of an evidence-based policy approach.

One of the earliest adapters of RIAs was the UK, which in the late 1990ies revised its emphasis on de-regulation in order to achieve so called better regulation – a phrase that is en vogue through the EU and OECD countries even today. The idea of a better regulation support unit, situated in the Cabinet Office, was the systematic application of a tool to inform policy decisions and provide a framework for the ex-ante analysis of costs, benefits and risks of policies: This RIA is based on five principles formulated by the Better Regulation Task Force in 1997:

- proportionality (intervention only when necessary, minimisation of costs),
- accountability (decision must be justified),
- consistency (of all government rules and standards; fair implementation)
- transparency (clear communication and effective consultation with affected interest groups, easily understandable), and
- targeting (focus on problem, minimisation of side effects) of policy proposals.

RIA contains a description of the overall purpose of a regulation, the specific objectives and the rationale of governmental intervention, the results of the consultation process, a list of all options including the expected benefits and costs for the industry, with a special focus on SME. The final version is signed by the minister to confirm that benefits justify (i.e. not necessarily exceed) the costs. The assessment does not aim at replacing political decisions with technocratic solutions but at **empirically informed policy-making**. Given the mostly quantitative approach to costs and benefits, there has been criticism regarding a measurement of intangible 'priceless goods', e.g. the environment or human lives.

According to the UK Government, the RIA is both "a continuous process to help think through the reasons for government intervention [...] and [a] tool to be used to help develop policy by assessing and presenting the likely cost and benefits and the associated risks of a proposal that might have an impact on the public, private or third sector, the environment and wider society over the long term." (BIS, 2011). In short, the impact of every proposed regulation that is likely to influence external parties is assessed, including the acceptance of proposals issued by the European Commission. The Department for Business, Innovation & Skills, which today is responsible for the UK's better regulation efforts, has recently put the rule 'One In, One Out' on its agenda, which requires the administration to suggest the abolishment of one regulation in the same so-called 'red tape challenge theme' as a

[37] General information can be found at http://www.bis.gov.uk/Policies/better-regulation-at-bis

consequence of every new proposition resulting in a regulation in order to cut, or at least maintain the level of, red tape for businesses (BIS, 2012).

The most recent Sustainable Governance Indicators (Bertelsmann Stiftung, 2011) certifies that this system is among the best in Europe, even though the report criticises that the responsible body was moved out of the Cabinet Office and therefore seems to have been downgraded in importance.

Key for the success of RIA in the UK was definitely the political top-level support, which the OECD names as one of the prerequisites for a successful implementation performance-related reform measures (Hill, 2004). Other factors include the allocation of responsibilities for RIA programmes between the substantively responsible ministries and a central control and support body, thorough training of regulators, consistent but flexible analytical methods (qualitative assessments and quantitative cost/benefit-analysis), an integration of RIA with the policy-making process as well as a communication of its results, and an extensive involvement of the public (OECD, 1997).[38] At the same time, the European Commission's employment of an integrated Impact Assessment system since 2003 has led to a number of academic studies on the effectiveness and quality of these ex-ante estimations of policy and regulatory proposals (see Torriti and Löfstedt, 2012).

Good practice: Agencification and performance management in Sweden

The Swedish administration is characterised by a substantial of delegation of responsibilities to agencies. Around 300 agencies are subordinated to 10 ministries. Sweden is also the European country with the longest experience of agencification in public administration. Decentralisation and disaggregation of service provision and production even goes back to the 17th century (Moynihan, 2006).

Agencies are seen as an instrument of professionalising administration services, reducing a negative influence of politics, and limiting centralised power. Management by performance began in Sweden's public administration during the late 1980s, both as a tool for improving the budget process and as an instrument to control agencies (Küchen and Nordman, 2008). Together with management by rules and ordinances, economic control plays an important part in that respect. In 2000, a White Book spurred the process to performance-based management and performance-based budgeting.

Performance targets in policy areas are set during the budgeting process. Goals are proposed by the government and are approved by the Legislature. Policy areas are divided further into programmes with detailed objectives tailored for specific agencies. Each agency's activities are also subdivided into one or more branches. Each branch is unique in that it can only belong to one policy area. Yet, a single agency can nevertheless be active in more than one policy area. This division creates a close link between political goals and performance results. Moreover, it allows to compare and to benchmark an agency's performance results. Goals, budget appropriations and reporting requirements of government agencies are determined through annual Instruction Letters issued to agencies. The annual reports, comprising both traditional financial accounting and a statement of operations, are controlled in an external audit from the supreme audit institution, which is subordinate to Parliament. Another tool for monitoring and evaluating agency performance are informal performance dialogues between the management of the agencies and responsible line ministers.

However, Sweden's experience also shows flaws, weaknesses and problems with some basic aspects of performance management. The goals set by government often are too vague, giving

[38] More information about successful implementation of Regulatory Impact Assessments can be found at the website of the OECD.

agencies significant discretion in coming up with specific measures. There is also only little evidence that performance information has changed the fundamentals of decision-making or resource allocation as performance information is seldom used as a basis for negotiations or decisions on future resources (Moynihan, 2006). Experience so far shows that the government is unable to demand accountability on the part of the agencies or to reallocate resources solely on the basis of performance information (Küchen and Nordman, 2008).

6.2.2.4. Elements of human resources management (HRM)

Strategic and effective management of the government personnel is a prerequisite for a highly motivated and well-educated staff. In order to deal with the challenges of a modernised administration increasing professionalism, flexibility and mobility of the public workforce are at the heart of reforms. The organisation of the public employment system is a core element of a country's administrative tradition, combining aspects of job security, competitive salaries in relation to the private sector, recruitment system, career orientation etc., in very distinct ways. In some cases, public employment regulation falls under specific public law, frequently associated with a stronger protection from dismissals of tenured civil servants. In some other cases it is regulated under private law (and many mixed cases) giving more flexibility with respect to pay and hiring and firing practices.

Differences between public and private employees today are smaller than they used to be, however. Although many aspects of HRM are related to the abolition of several traditions of hierarchical bureaucracy, introduction of HRM instruments does not depend on a civil service system. Moreover, as the Demmke and Moilanen (2010) study shows, outcomes of reforms do not indicate that post-bureaucratic systems necessarily have better performance.

Despite the differences some common characteristics of a modernised public administration remain as regards the management of human resources which could serve as guidelines for policy recommendations to increase public employees' motivation, flexibility and mobility (e.g., OECD, 2008A).

- Delegation and decentralisation of personnel planning and management are key to empower public managers and to enable them to adapt their human resource systems to the needs of their organisations. The responsibilities for recruitment of staff should be delegated to lower levels in the administrative hierarchy, also as to promote a certain differentiation in pay and other employment conditions. For example, departments and line ministries can be given greater flexibility to determine their staffing needs, recruiting, and setting employment conditions (OECD, 2011C). Positive effects of a decentralisation of human resource management also depend on the managerial capacity and competence at lower levels. Delegation of personnel management must therefore be accompanied by adequate capacity building and qualification through the training and competence building of public managers.
- More open recruitment processes at all levels of posts also provide the flexibility to bring new skills into the workforce at different levels of the hierarchy, particularly in career-based systems (OECD, 2011C).
- Performance orientation of the public workforce must be addressed through various channels (Reichard, 2002). The ability of the personnel can be improved by measures to increase the transparency of performance (targets, inputs, outputs, outcomes) and by the qualification of the staff. The willingness of the administrative staff is encouraged through performance-related rewards and sanctions as well as through motivational measures for joining the civil service and for job performance, including mission statements and building-up a corporate identity of the public sector employees.

- A substantial part of the employees' salaries can be performance-related, also allowing for decentralised determination of pay in departments or agencies. Good performance must be supported not just by monetary rewards, such as pay increases, bonuses, time off and promotions, but also through non-monetary items. Evidence suggests that soft HRM measures which aim at an improvement of job satisfaction and morale are even more important than hard aspects like performance-related pay. Acceptance of performance-related among staff members pay should be ensured by fair and transparent measurement procedures, not-too-small bonuses, bonus allocation according to merit and not according to 'equal share' etc. (Reichard, 2002).
- Performance goals for bureaucratic staff have to be closely related to the organisation's declared targets and objectives. At the individual level performance management thus also requires that the "employees understand what is expected of them, assessing their performance, providing them with feedback, and helping them do better" (OECD, 2008A, p. 47). Thus, human resources and organisational performance management systems will have to be integrated and linked (Pollitt, 2001). Such a matching of organisational and HRM concepts is particular relevant in the planning stage of the management process. Performance-related goal setting and individual performance contracts should be narrowly correlated, also through various feedback modes and procedures (Reichard, 2002).
- Strategic forward-planning of public workforce structures must be an integral part of a modern personnel management. Developing a longer-term vision is a cornerstone of public management and HRM reforms in order (i) to avoid a rapid ageing process in the civil service (e.g. following times of hiring freezes and restrictions on new recruitment), or (ii) to take into account new challenges and skill requirements for the staff when new public policy issues (like e-government) arise. According to OECD (2011B, p. 91) many OECD Members (and probably also the Member States' administrations) still lack such a strategic and forward-looking planning system.
- A further core recommendation for HRM strategies in the public sector is to provide an environment conducive to creativity and innovation activities of the administrative staff. Higher flexibility and more competitive environment and recruitment procedures create incentives for internally induced modernisation. This requires a cultural change to bring more entrepreneurship into public organisations.

6.2.3. Policy implications: Corruption and fraud

6.2.3.1. Introduction

Corruption has far reaching detrimental effects. In undermining the rule of law, lowering investment, distorting competition and the efficient allocation of public funds, corruption has significant effects on a country's competitiveness. In fact, estimates show that annually up to 1% of Member States' GDP is diverted through corruption (European Commission, 2011b). Increased recognition of problems induced by corruption has therefore led to numerous international anti-corruption initiatives such as UNAC (United Nations Convention Against Corruption, United Nations, 2004). Although up to 160 countries have ratified programs such as UNCAC, most of their commonly proposed anti-corruption mechanisms have failed to bring down corruption levels (Bauhr and Nasiritousi, 2011). This clearly shows that fighting corruption is complex and cannot be achieved by applying best-practice approaches. It is rather necessary to take country-specific conditions and the differences between various forms of corruption into account. Below, we present policy recommendations with respect to general corruption, state capture and administrative corruption.

6.2.3.2. Policy recommendations

General

In order to successfully combat corruption it is necessary to address the causes rather than the symptoms (Kaufmann, 2005). This requires analysing deep determinants such as cultural aspects and trust (Aghion et al., 2010). One very common proposal of international anti-corruption programs is the establishment of dedicated independent **anti-corruption agencies** with law enforcement powers (OECD, 2007). Following the example and success of Hong Kong in fighting corruption with the support of such a commission, this approach has been used in numerous eastern European Member States as well. However, to ensure the contribution of such agencies to the fight against corruption, as a precondition it is necessary to **strengthen the independence of the judiciary**. For instance, the government of Bulgaria is suspected of using its anti-corruption agency as a political tool against the opposition (Smilov and Ganev, 2011). Therefore, in countries lacking a sufficient level of judicial independence, anti-corruption agencies will not succeed in fighting corruption; rather reforms of the judiciary are likely to be more effective.

State capture

In the context of state capture, **increasing accountability and the required level of transparency** could make an important contribution. Here, the central aim is to increase the potential costs for public servants and firms when they make decisions at the expense of the public. Accountability and transparency may be achieved as follows:

- Obligation for public administration to **publish details on their spending and funding decisions**. Especially in the context of procurement tenders, the public disclosure of all applications, accepted as well as rejected, should be implemented on electronic platforms. For instance, Portugal has reached a share of 75% in fully digitalised public procurement tenders, whereas this value is below 5% for the rest of Europe (European Commission, 2011a). The disadvantage of such an approach is an increase of administrative costs however.
- Establishment of an **independent and dedicated complaints handling mechanism for public procurement tenders**, which deals actively and on-demand with incidents of misconduct and which further has the possibility to apply sanctions such as the exclusion of dishonest applicants from further tenders (OECD, 2009).
- Disclosure of **asset declarations** of staff and dedicated rules for handling conflicts of interest not only at the level of members of parliament but for administration as well.
- Conducting compulsory public **hearings of draft laws** with the attendance of experts.
- Effective **supervision of the financing** of political parties.
- Strengthening the **independence of media**.

Good practice: Asset declaration and political financing regulation in Latvia

In terms of fighting state capture corruption, the asset declaration and party financing regulations in Latvia provide good examples. The *Corruption Prevention and Combating Bureau* (CPCB) is a dedicated authority that investigates corruption-related offences, that educates the public officials as well as the society, and that monitors parties' compliance with financing regulations.

Latvia's political party financing regulation requires a timely and comprehensive public disclosure of both party revenue and expenditure. Two compulsory reports, namely a

declaration of election revenue as well as expenditure and an annual report, have to be prepared and transmitted to the CPCB. The CPCB is than obliged to publish them in the official bulletin and online within 10 days after the receipt (Transparency International, 2012). Strict rules also apply for donations outside election periods. In these cases, parties must promptly inform the CPCB, which then publishes this information in an online database including the source, the recipient, and the value of the donation. In order to prevent hiding of donations through membership fees, a similar online database is set containing information on membership dues paid.

Besides the financing of political parties, Latvia also exhibits a comprehensive asset declaration system. This regulation does not only apply to members of parliament, but covers public officials as well. The declaration system requires public officials to disclose information about their income, savings, debt, property, stocks, loans given, transactions performed and information about their nearest relatives. This information as well is published online and has to be renewed annually.

Administrative corruption

At the root of administrative corruption (i.e., corruption that affects the implementation of existing laws) is discretion on the part of public servants, which may discriminate or prioritise service delivery and apply exemptions to existing regulation. Therefore, one step to curb administrative corruption would be to **reduce red tape** and to **conduct risk analyses** of existing laws on a regular basis to identify those bearing a high risk of misapplication. Additionally, implementing and strengthening **systems of whistle-blowing** could reinforce efforts to reduce administrative corruption as well.

A further powerful step would be increased usage of e-government tools for interactions with public administration. In particular, this allows for **anonymising interactions** between firms and public sector officials which could be an effective measure to curb administrative corruption. Most importantly, this would allow for:

- Rotation of responsible public officials. The identity of the public servants and their number involved in specific decisions would remain unknown to firms, consequently raising significantly the transaction costs of administrative corruption.
- Only allowing for e-payments. Disentangling payments from personal contact with public officials and the obligation to use electronic means of payments for administrative fees could complement the rotation of public officials.

Good Practice: Whistle-blower protection in the United Kingdom

The basic precondition for the fight against corruption is transparency. However, due to the fact that both bribe taker and -giver are likely to conceal their collusion, the revelation of administrative corruption in particular depends significantly on information provided by insiders. Therefore, it is necessary to set up a credible and comprehensive framework to protect disclosers. Surveys often reveal that a high fraction of respondents do not report their observations of corruption due to fear of reprisal. Whistle-blowing is often associated with stigmatisation and a negative connotation. Thus, whistle-blower protection is essential to uncover administrative corruption and mismanagement.

So far only a minority of Member States has introduced a dedicated whistle-blower protection law including Hungary, the Netherlands, Romania and the UK (Transparency International, 2012). The UK is however the leader in terms of effectiveness and coverage.

The Public Interest Disclosure Act (PIDA) came into force in 1999 and was intended to protect whistle-blowers from detrimental treatment by their employers. Compared to laws in

other Member States, the distinguishing feature is that all employees in the public and private sector are covered. PIDA exhibits a three-tiered framework for disclosure:

- *Internal disclosure,* i.e. initial disclosure to internal conflict handling mechanisms
- *Regulatory disclosure,* i.e. initial disclosure to bodies such as Financial Services Authority or Inland Review
- *Wider disclosure,* i.e. initial disclosure to authorities such as the police, MP's or the media

Every tier features an increasing number of conditions which have to be satisfied to ensure whistle-blower protection under the PIDA. The intention of this increasing threshold is to encourage internal disclosure at the first place and to use wider public disclosure as last resort.

Since a potential dismissal by their employer is likely to be the greatest threat for whistle-blowers, PIDA guarantees a fair hearing in front of an impartial forum with the full right of appeal in front of the Employment Tribunal. Even further, PIDA contains the possibility for compensation for whistle-blowers that suffered from consequences of their disclosure such as disciplinary action or non-promotion.

6.2.4. Policy implications: Starting-up a business and obtaining licenses

6.2.4.1. Introduction

The ease of starting-up a company and obtaining production licenses is a central aspect of administrative excellence for competitiveness. It is of major importance for a vital and dynamic economy and the development of a climate of innovation and entrepreneurship. On the one hand, this link is heavily influenced by the laws and regulations introduced by policy-makers in the legislative process. On the other hand, cumbersome procedures, red tape and unnecessary paperwork can also be the consequence of an 'over-bureaucratisation' in the sphere of public administration itself.

6.2.4.2. Policy recommendations

Advancing the Better Regulation initiatives and administrative simplifications

Complex rules that aim at detailed control and steering are usually at the root of uncertainties, delays and high administrative and compliance costs when applying for permits and licenses. Primary addressees are therefore policy makers that will have to assess the regulatory burdens caused by the rules set by the government. The **Better Regulation** initiatives across the European Union, based on a thorough investigation of the impact of regulatory rules, address these problems.

Administrative simplification is complementary to smart regulation. Easier access to required information may, for instance, already contribute to a reduction of the burdens for businesses when applying for authorisations. Here, one main focus would be on easing the communication and processing of licensing between public administration and businesses, for example through ICT-applications. The other is to reduce requirements for documents to be shown or an improved information exchange between administrative bodies. Administrative simplification should therefore be integrated and co-ordinated with regulatory reform. Because ICTs are major tools to simplify bureaucratic procedures, e-government and a reduction of procedures and document requests should also be closely integrated.

E-government tools for starting-up procedures and licensing

Application of e-government tools to start-up a company or to apply for licenses, can help to reduce the throughput time to finish the procedures, help companies to find all relevant information in one place and can guide companies better in adding all necessary documents (if not available in authentic sources) without forgetting any documents (that would extend

the throughput time). If that is possible, all information required from companies should also be integrated into one single form (which avoids filling in the same information several times). By applying electronically, companies can consult the actual status of the processing of their application, thus reducing uncertainty (see *uncertainty channel of transmission* in chapter 3).

Good practice: Business Link in the UK and e-Depot in Belgium

Business Link is the UK's government's online resource for businesses. It contains essential and up-to-date information, support and services for businesses. It is designed as single point of contact to be the first place to go to find guidance on regulations and to access government services. *Business Link* website contains content and transactions from over 170 government websites. It also has a number of useful **online tools**, calculators, and best practice case studies and provides access to funding options, as well as wider support. The information is structured around the life cycles of a company (creation, exploitation, R&D, environment, international trade, selling a business, etc.). The 'starting up' section of the website contains tutorials, videos and other valuable information in order to be able to start-up a business online. It is possible both to incorporate online and to apply for licenses directly online. The 2009-2010 annual review claims that the starting up section on the website received almost 1.7 million visitors (on a total of 19.4 million visits). The overall satisfaction rate was at 93%.

e-Depot is a tool used in Belgium. It offers notaries a quick and easy way to complete, sign and deposit the forms and documents required to create a company in all administrative databases. Tax, social security and land registry information can also be researched electronically. As a result of collaboration between the Federal Public Service Chancellery of the Prime Minister and the Royal Federation of Belgian Notaries, an electronic point of contact has been established based on an infrastructure that is interconnected with the National Registry and Federal Public Services for Economy and Justice. Thanks to e-depot a company can be set up in just three days since 2007, in comparison with the three months required previously. Overall, e-Depot provides complete and integrated services for notaries and their clients, as well as the authorities. It improves their work by providing access to a complete database, reduces time and costs, facilitates trade, improves administrative work, and allows for paperless interaction.

The quality of the service delivery process has been substantially enhanced by simplifying the administrative procedure through the use of authentic data sources. This not only eliminates front-desk tasks, thereby freeing up capacity for other added-value tasks, but also facilitates official data entry by civil servants, resulting in cost reductions (for example, by minimising paper use and error correction) for 4,000 to 5,500 transactions daily. Electronic procedures take from 10 minutes to an hour, and the e-Depot has completely eliminated three forms, as well as approximately 12,000 pages and 4,000 letters per month. The case can be transferred to other countries, taking into account national notary regulations.

Limited capital requirements

The German Act to Modernise the Law Governing Private Limited Companies and to Combat Abuse (*Gesetz zur Modernisierung des GmbH-Rechts und zur Bekämpfung von Missbräuchen - MoMiG*) came into effect in November 2008. The act aims at strengthening the competitiveness of the Gesellschaft für beschränkte Haftung (GmbH) in regard to the English private company limited by shares (Limited) by introducing a subset of the GmbH, the Unternehmersgesellschaft (UG), which does not require any substantial minimum share capital. For an UG the general rules for GmbHs are applicable, with the minimum capital as the main distinguishing feature. Just 1 euro suffices as a cash investment for the founding of an UG. This minimum capital must be fully paid in cash before the company can be registered. Since the UG is obliged to reserve a portion of its profits until the ordinary

minimum capital of € 25,000 is reached, successful UGs will generally become full-fledged GmbHs at some point.

6.2.5. Policy implications: Public procurement

6.2.5.1. Introduction

Improving the efficiency of public procurement procedures is related to a simplification of procurement rules that are set in the legislative arena and to an easier, more transparent and less formalistic management of the procurement process by the administration itself. Again, ICT solutions may be useful in that respect. Lax public sector payment morale appears to be especially detrimental for private companies during times of crisis. Hence, unnecessary payment delays should be avoided in general.

6.2.5.2. Policy recommendations

Enhance legal clarity and transparency

Complex and non-transparent rules are at the heart of many of the problems associated with public procurement. On the one hand, lack of transparency may be a gateway to corruption in that it offers a potential for hidden transactions at the expense of the taxpayers. On the other hand, even in the case of trustful and honest transaction partners, the cost and duration of the procurement process are substantially higher when procedures rules are non-transparent. Enhancing **legal clarity** and **transparency** with respect to procurement rules will contribute substantially to a reduction of costs and uncertainty for companies planning to participate in a competition. Open and transparent evaluation procedures will promote competition, offer better protection against corruption and enable taxpayers to benefit from more effective and better value services (European Commission, 2011c).

Electronic public procurement platforms

ICT-solution may contribute to enhanced transparency, administrative simplification and a general speeding-up of the procurement process. A good example is the digitalised public procurement programme in Portugal.[39] Since November 2009 tender procedures in Portugal must be performed through an **electronic platform**. This means that up to the contract award all procedures must be done by electronic means and this by almost all public purchasers. This makes Portugal one of the forerunners in Europe in implementing e-procurement. The aim of the mandatory digitalisation is to reduce bureaucracy and administrative costs and to increase transparency and competition. Before the digitalisation public procurement was a process with a huge amount of paperwork and very little information was disclosed to citizens and businesses.

The successful adoption of e-public procurement in Portugal was based on the commitment of all stakeholders with high-level political support. Thanks to a strict planning e-procurement could be successfully implemented in a relatively short time-frame. The expected advantages of digitalised public procurement procedures are summarised in Table 6.1:

[39] www.ancp.gov.pt

Table 6.1 - Advantages of digitalised public procurement

Process	Transparency	Security
• Simplified relationship suppliers/public entities • Reduced paper consumption • Improved standard tendering process	• Better monitoring of the value of contracts above and below thresholds; • Improved auditing • Faster and more efficient processes	• Introduction of e-signature and e-registation • Workflow document management • Improve data auditing processes

Source: e-public procurement platform in Portugal.

Public procurement as a tool to achieve common societal goals

A further access point for administrative modernisation is to **strategically** enable the public authorities to **achieve common societal goals** (like a protection of the environment, higher resource and energy efficiency, or promoting innovation and social inclusion) **through the procurement process.** This will help the procurement process to deal better with the evolving political, societal and economic context and to support smart, sustainable and inclusive growth (Europe 2020 strategy). This also often requires a modification of strict rules. For example, a rule that commits the administration to buy the 'cheapest' solution may be at odds with a more long-term goal to support innovative processes, which may, in the end, even be a less expensive solution for the government sector.

Good practice: ÖkoKauf Wien/EcoBuy Vienna (Austria)

A good example is the **green procurement** initiative "ÖkoKauf Wien/EcoBuy Vienna"[40] ÖkoKauf Wien is a program initiated in 1998 for green and sustainable public procurement across the entire city administration of Vienna. The program is one of the forerunners in green procurement and its sheer size is something without much comparison. With its ÖkoKauf project, the City of Vienna has developed an international role model in terms of sustainable public procurement. It has developed about 100 product catalogues for supply, construction and other services regularly procured in the City of Vienna. ÖkoKauf Wien has won the EPSA 2011 award in the third theme (Going Green – Concrete Solutions from the Public Sector). It has shown that 'greening' is possible by changing administrative routines and not necessarily more expensive. The program had a significant financial and environmental impact by savings of about 17 million € and 30,000 tons of CO2 emissions per year. It demonstrates that green products don't need to cost more and educating suppliers are important results alongside the contribution to a greener environment. The core element of the program has been ownership because about 180 public procurement practitioners of all parts of the administration are heavily involved in 22 working groups and are developing product categories and product groups with green criteria. ÖkoKauf Wien is thus not a top down process, which is a key factor in its success and has lead to widespread acceptance.

Increase access to public procurement for SMEs

Specific attention should also be given to an easy access for SMEs to procurement markets as these SMEs have a huge potential for job creation, growth and innovation. In order to make public contracts as accessible as possible the European Commission has published in 2008 the

[40] www.oekokauf.wien.at

European Code of Best Practices facilitating access for SMEs to public contracts. Here we focus on some elements that can influence the score of the chosen indicators in our framework in a direct way.

As a large part of the preparation of an offer is a fixed cost, SMEs are disproportionally disadvantaged in comparison with large companies. It is therefore essential to limit administrative requirements as far as possible. One way to do this is to accept declarations on their honour and to ask only to the competitor with the best offer to issue all relevant original certificates. Contracting authorities should also accept that tenderers do not have to submit documentary evidence that has already been submitted recently for a previous procurement procedure. Also short and standardised forms and certificates help SMEs to provide relevant information on time. In Member States like Belgium, the Netherlands and Hungary, for example contracting authorities are not allowed to request tenderers to provide facts or data that can be easily verified by the contracting authority in electronically authenticated databases.

In order to overcome difficulties relating to the size of contracts contracting authorities can sub-divide contracts into lots, they can conclude framework agreements with several economic operators (and not only with one operator) and make sub-contracting more visible Another way to improve the access for SMEs is to alleviate the administrative burden as this is one of the most common complaints from SMEs. In France for example the general rule is to award contracts in the form of separate lots

Another recommendation from the Code of Best Practices is to ensure on time payments by contracting authorities. The current economic and financial crisis in Europe even made these on time payments more urgent. In the UK, for example, government departments and their agencies are required to monitor their own payment performance and to publish data on these performances. Also agencies are advised to do interim payments if appropriate.

6.2.6. Policy implications: Tax compliance and tax administration

6.2.6.1. Introduction

From our discussion follows that an efficient tax system should minimise tax compliance costs for firms as well as costs of tax administration in order to reduce the excess burden of taxation. However, to a large extent, tax policy drives the efficiency of tax administration and firms' compliance costs. Taking the regulatory framework as given, we will nevertheless be able to present various recommendations to lower tax compliance costs.

6.2.6.2. Policy recommendations

Autonomous revenue agencies

Creating autonomous revenue agencies that are independent from the Ministry of Finance may enhance tax administration efficiency because they are able to manage their tasks better and more efficiently in a business type way (Kidd and Crandall, 2006, and OECD, 2011). This could include the preparation of business plans and the possibility for improved budget expenditure management. Beyond that, an autonomous revenue agency would have the freedom to recruit and dismiss staff independently from constraints of the civil service system.

Dedicated complaints handling mechanisms and independent oversight

Whereas the implementation of autonomous revenue agencies tackles primarily the internal efficiency of tax administration, the proposal for conflict resolution mechanisms and independent oversight represents a further instrument for the reduction of tax compliance costs of firms and individuals. Following the example of the UKs '*Adjudicator's Office*', such

an institutional arrangement would primarily deal with complaints concerning mistakes, unreasonable delays, poor or misleading advice, inappropriate staff behaviour and the use of discretion (OECD, 2011). An '*Adjudicator's Office*' would therefore directly impact on the cost and uncertainty channel of transmission of our conceptual framework and could represent a powerful tool to reduce incurred compliance costs for firms as well as individuals.

We recommend implementing an office that is handling dedicated complaints independently from the revenue body itself to avoid internal collusion which would ensure the execution of impartial and independent reviews of service-related complaints. Moreover, this would allow for the identification and systematic review of service-related issues facilitating further reform recommendations.

Good practice: The Adjudicator's Office in United Kingdom

The Adjudicator's Office in UK provides a good example for a dedicated conflict handling mechanism that is independent of the revenue body. It represents a central contact point for complaints about decisions made by public administration in relation to individuals as well as businesses. In particular, the Adjudicator's Office can be seen as an impartial institution dealing with complaints about HM Revenue & Customs, the Valuation Office Agency, and the Insolvency Service. This implies that it primarily focuses on topics relevant for taxation such as the valuation of properties for the purpose of council tax. Anyone irrespective of citizenship may appeal to the Adjudicator's Office.

The main duty of the Adjudicator's Office is to investigate *on-demand* whether the respective institutions under its scope of responsibility have handled applications as well as possible complaints appropriately and have decided correctly with respect to given regulation. Queries and complaints for the investigation by the Adjudicator's Office are accepted on the following cases:

- *Misleading advice*, e.g. when inaccurate or misleading advice has been given prior or during procedures in relation to public administration
- *Procedural mistakes*, e.g. when information provided have been used incorrectly or have been ignored
- *Unreasonable delays*
- *Inappropriate staff behaviour*
- *Use of discretion*, e.g. when exceptional circumstances have not been taken into account or regulation has not been applied to the full extent

Matters which are not within the scope of responsibility of the Adjudicator's Office include:

- Government or departmental policy
- Complaints where there is a specific right of determination by any court
- Complaints about ongoing investigations or enquiries

In cases of complaints covered by the competency of the Adjudicator's Office, its assessments and investigations always follow the same three-step procedure.

- *Subsidiarity and assistance*: As a first step, it is necessary to review whether the Adjudicator's Office has to take action irrespective of the content of the complaint. In order to be able to forward a complaint to the Adjudicator's Office, the respective department must have had the proper opportunity to deal with the complaint in the first place. If the Adjudicator's Office asserts that the own complaint handling mechanisms of the respective departments have not been exhausted, the complaint will be referred back

accordingly. Many complaints are resolved at this stage without any further involvement of the Adjudicator's Office. However, if the initial complaint has been fully dealt with, individuals or businesses can call the Adjudicator's office within six months of the final reply from the respective department.

- *Investigation*: During this step the Adjudicator's Office asks each department to provide further information on the case and reasoning for its decisions. The office will review all the evidence and will evaluate the decisions taken by public administration. This process could also involve meetings with the appellant or its representative.
- *Resolution*: The Adjudicator's Office can choose between two tools for the resolution of complaints. The first is to reach a resolution by *mediation*. Here, the Adjudicator's Office will first check if there is scope for a mediated settlement of the complaint and will propose such an approach. The second tool is to settle the complaint by *recommendation*. In these cases the Adjudicator's Office will publish a letter of recommendation in which it sets out necessary actions to be taken by the administration to resolve the case. In addition, this letter may also include suggestions for general service improvements. However, if the Adjudicator's Office concludes that public administration has dealt with the case adequately, it could also confirm its prior decisions. In cases where the administration has to adapt taken decisions, the letter of recommendation could also contain obligations to meet additional costs that have incurred as a direct result of their inaccurate decisions as well as compensation payments for possible distress.

Benchmarking

There are only few instances when where tax administration publicly reports performance results. However, benchmarking is important to assess gaps between the actual and desired performance and would allow identifying reasons of poor performance on a regular basis (Vázquez-Caro and Bird, 2011). A critical prerequisite in this context is accurate reporting of the relevant data by the tax administration. In order to achieve this, we would recommend to combine benchmarking with the proposal in the previous section and to mandate the independent oversight or complaints handling office to prepare and publish such benchmarking indicators. A proposal for benchmarking to assess tax administration has already been made in the past, see European Commission (2007), but we recommend to extent this proposal:

- **Timeliness in processing tax returns**: setting standards and benchmarking the timeliness in service provision and the processing of personal income tax, corporate income tax as well as VAT returns.
- **Timeliness of responding to inquiries**: setting standards and benchmarking the timeliness of responses to written inquiries or by telephone made by firms as well as individuals.
- **Frequency and duration of taxpayers' complaints**: setting standards and benchmarking the frequency, results and duration to resolve taxpayers' complaints.

Tools of e-government in tax administration

The availability of electronic services in the context of paying taxes has increased significantly in recent years. A remaining challenge is however to increase the usage of these means (OECD, 2011). Their application can be a powerful tool to reduce tax compliance costs for firms as well as individuals. In this regard, Estonia provides an impressive example where last year 94% of tax returns were made online and on average within few minutes in the case of the personal income tax (Kingsley, 2012). It is therefore not surprising that Estonia is a top

performer in terms of tax administration efficiency and tax compliance costs. The following aspects of e-government are likely to contribute most to the reduction of tax compliance costs:

- **Re-use of data and pre-filling**: Tax compliance costs can be reduced significantly by asking firms and households only once to provide specific information and by using data from tax returns from previous years for pre-filling so that only minor adjustments would be necessary (European Commission, 2011b).
- **Provision of information**: As we noted in previous sections, tax compliance costs also comprise learning and preparation costs. Therefore, the implementation and usage of electronic taxation platforms containing concentrated and complete information may contribute to significantly reduce compliance cost.

Good Practice: The Austrian FinanzOnline Portal

With respect to electronic taxpayer services, the Austrian FinanzOnline Portal of the Federal Ministry of Finance provides an outstanding example. Online since 2003, it provides wide-ranging information and advice on tax matters for individuals and businesses and allows communicating and transferring documents electronically to authorities. Due to its modular structure, it can easily be expanded and has been updated frequently since 2003. With recent amendments it has been developed to an integral one-stop shop for individuals as well as businesses. Even further, FinanzOnline provides dedicated tools for public administration, such as the *combating fraud* tool and an interface for *electronic personnel management*.

- *Services for citizens*: The central service for citizen is given by the possibility to file and transfer tax returns electronically. The usage of the service does not require any special software, and the service may be accessed with a domestic ID card. The services provided by FinanzOnline include the application for family allowance, refund application, payment of taxes and the access to past tax files and account statements. Furthermore, it is possible to calculate the tax due in advance without the necessity for registration. For all services offered, relevant information on tax regulation is provided. So far, already 1.2 million Austrians process their tax returns online via FinanzOnline.
- *Services for businesses*: Businesses as well can use FinanzOnline to file and pay corporate taxes. In particular, FinanzOnline offers dedicated tools for the electronic processing of the corporate tax return, the income tax return, the annual VAT return, the advance VAT return and the EU-wide refund of input VAT. As in the case for citizens, businesses are able to calculate their tax due in advance without prior registration. Assessment notices of tax files are also delivered electronically to the respective corporate account. In addition, the portal allows to easily fulfil information obligations with social security institutions, it enables a quick and complete customs clearance, and it constitutes the basis for the exchange of data throughout the EU. The *Pan-European Public Procurement Online* interface is part of FinanzOnline as well. All these services are likely to significantly reduce compliance costs of firms.

6.2.7. Efficiency of civil justice

6.2.7.1. Introduction

Efficiency of the civil justice system is of overwhelming importance for the quality of the business environment. While the direct costs of 'using' the system constitute a burden for the firms and affect the access to justice, direct costs are probably a minor issue compared to the indirect costs associated with a long duration of procedures. This may distract firms from using the judicial system for conflict resolution at all, and may lead to a strategic advantage for 'big players' and to a long-term attenuation of trust in the law system. An inefficient

judiciary that is vulnerable to political or special interest influence and corruption is probably one of the most important obstacles to economic development and competitiveness.

6.2.7.2. Policy recommendations

The justice systems in the EU countries were shaped by very different histories and legal traditions. Even all EU Member States are high income or upper middle-income countries, their legal systems are far from homogeneous. Their legal systems belong to different branches of law families. Increased globalisation and European integration has led to common trends and cross-fertilisation, but the structure and performance of the systems continues to vary. Even the comparability of quantitative cross-country data is limited because of the lack of common definitions and statistical systems. Differences in the organisation of the system of civil justice are substantial. To give a few illustrative examples: the share of court fees in the court budget varies from 0.9% in Sweden to 110.9 % in Austria, the number of professional judges per 100,000 inhabitants varies from 3.3 in Ireland to 53.5 in Slovenia, the number of lawyers per 100,000 inhabitants varies from 34.4 in Finland to 350.6 in Greece (CEPEJ 2010).

These differences make the formulation of policy recommendations a difficult task. Complex systems such as the system of civil just are characterised by the property that the coherence of the system may be more relevant for the overall efficiency than the performance of the single elements. At the same time all Member States rapid increases in the demand for civil justice caused backlogs and delays that eventually led to the implementation of performance-based justice reforms. Thus the focus of the policy recommendations is on reforms that introduce elements of new public management reforms in the justice system.

Independence and impartiality of the judicial system

Perceived independence and **impartiality** of the judicial system can only be achieved if there is a credible commitment of the political sphere not to intervene into decisions. Thus, the repeated political **acceptance of judicial sentences** even if they are contrary to the short-term interests of politicians is prerequisite for building up such a reputation.

The independence of the courts and justices is also under pressure if there is a conflict of interest between lawyers and judges and the users of the judicial system regarding the ways how to reach the goals of a speedy and fair justice system. This extends to the introduction of case management methods and alternative dispute resolution, describe in more detail below. Such conflicts can easily become politicised. Thus **reforms must take into account measures that aligning incentives between lawyers, judges and the users of the judicial system**. In the case of lawyers this refers to the remuneration practices. In the case of judges this primarily refers to recruitment, nomination, promotion and training of judges and prosecutors.

The European experience with justice reforms shows that the pressure for reform comes from an increase in litigation and the associated increases in delays. Traditional ways to deal with this issue (increase of number of judges, establishment of new courts) proved unsuccessful in most countries, especially in Southern Europe. Although judicial reforms need to be tailored to each particular country, experience shows that involvement of main stakeholders affected by the changes increases chances for success. Decker et al. (2011) emphasize that the success of judicial reforms depends on the cooperation of a range of institutional stakeholders. The central aspect is the nexus between judicial independence and accountability.

Good practice: The court fee system as instrument to avoid litigation in the UK

In England and Wales the cost and delay in civil justice were a concern. Following the Lord Woolf report in 1996 a reforms have been undertaken in order to achieve proportionality and

the access of justice. The main tenet of the Lord Woolf reforms was to reduce litigation in civil courts by channelling cases through alternative dispute resolution (ADR) mechanisms. Different tracks have been instituted for civil litigation according to the complexity and value of cases. The court was given more power to limit the amount of the expert fees and expenses and to actively manage the case. One additional central aspect was the government policy of litigation cost recovery in civil court cases, except where fee remission is justified. Thus court fees in England and Wales have to be set at a level that allows the services of a court to be self-funded. This restriction of access is supposed to ensure that citizens bring only reasonable cases in front of the court. A fee remission system ensures that citizens with limited means are not denied access to the legal system. The experience of the UK is that fees may work to reduce the number of cases initiated by limiting the misuse of the legal system. However, there is also substantial criticism of the principle of full costing, as it may lead to an inefficiently low number of trials that may not be in the public interest, especially if this hampers access to justice.

Performance measurement: Setting reasonable and measurable timeframes

In order to speed up the processing of cases increasingly techniques and methods inspired by new public management and case management are increasingly implemented. This requires the definition of quantified objectives (timeframes for different case types) and an evaluation of performance.

A fundamental step towards a timelier processing of cases is the establishment of timeframes. They are primarily tools to aid case management. They need to measureable and realistic in order to allow comparisons of timeliness and court case load. Realistic and measureable timeframes are essentially targets for average cases and are different from time limits. Time limits refer to procedural rules that apply to specific cases. Many countries have established methods to set up timeframes at different levels (state, court and even judge level) in order to achieve timeliness of processing:

- In Finland and Sweden timeframes are set by the by the Ministry of Justice.
- In Denmark the timeframes allow for the different kinds of procedures.
- In the UK timeframes are established with reference to the case complexity.

However, organisational tools need to be implemented in order to support and to enforce the agreed timeframes. These organisational tools are most effective if they are shared and supported by the stakeholders and the legal profession.

Internal actions may be triggered if the timeframe is passed. The judges are informed, caseload may be reallocated and in case of responsibility of the judges they may even result in disciplinary action. In many countries this is done internally in the justice system. The head of court can take necessary measures to cope with slowness of procedures. In some regions of Germany (e.g. the Stuttgart Court of Appeal) exists a system of inspections ('*Nachschau*') through which the Court of appeal judges visit lower courts to look at cases pending longer than a certain period.

The use of court performance data (including timeframes and duration) is a key element of public accountability of courts and helps to set up processes where delays are identified and generate action. Timeframes and performance measurement is central, as it is the only way to understand real inefficiencies and to draft reforms capable to speed-up civil procedures. The introduction of performance measurement is also necessary step towards an appropriate regulatory impact analysis that allows assessing the effects of enacted reforms (Giorgiantonio, 2009). However, it needs to be taken into account that the choice of indicators used for performance measurement affects the behaviour of those working in the organisation. The experience shows that the use of timeframes and performance measurement is not a one-time

solution. It is a process of constant learning and improvement in order to improve the excellence of civil justice in an encompassing way.

Case management policies

A longer duration of judicial procedures increases uncertainty and the cost for the plaintiff and the defendant. Delays can be associated to the regulation of proceedings but also to tactics to lengthen the process. **Processing rules** containing standards for certain case types, and enhanced powers of judges in the conduct of the proceeding are central in reducing the length of contract disputes. Procedural case management techniques are strongly influenced by the specific procedural rules of justice systems. But they are also important elements to pursue timeframes and to speed up the processing of cases:

- Trials should be as concentrated as possible to be effective. In the Slovak Republic an obligation exists to try and decide a case on the first hearing. Adjournments are allowed only for serious reasons. CEPEJ (2006) recommends a limitation on two hearings for a typical case.
- Adjournments and excessive intervals between hearings have been identified as important causes for unreasonable delay (CEPEJ, 2008). Limitations on adjournments thus are an important tool for a timelier justice.
- Judges are able to set the pace of litigation independent of the parties' interests. Providing the judge with a pro-active role in case management gives him the authority to push cases forward and to guarantee a fair and speed case processing according to time frames. In Ireland a system of intensive case management is in place that allows reducing timeframes. It is possible to strike out cases or to impose cost penalties for non-compliance with the case management by the judge.
- Stimulation of early meetings between parties can help to institute a clear schedule of events and is an effective tool to help settlements, avoid adjournments and keep timeframes.
- Procedures should be consistent with case complexity. The management of cases should be differentiated considering value, number of parties and legal issues involved. This allows summary procedures to dispose cases with a low level of complexity. One example is the triage into three different tracks in England and Wales: Small claims (up to £5,000) fast track (up to abort £15,000) and a multi track (above £15,000).
- Flexible limits to the number of pages of court decisions can help to meet timeframes. In Norway there have been efforts to reduce the length of judgements. A standard judgement should have no more than 10 to 12 pages.
- Limitations on extrajudicial activities aid to improve timeframes. CEPEJ identified the participation of judges in extra-judicial activities as one of the sources of unreasonable delay. In Denmark some limitation of the involvement in arbitration activities has been introduced already in 2001. In the Netherlands judges are obliged to report their interests outside the court in a (electronic) public register.
- Filtering and deflective tools limit the number of cases filed in courts. This applies especially to appeals. In Norway there is the practice that corresponds to a preliminary examination of appeals by three judges. If all three judges agree that appeal will not succeed, they can deny referral to an appeal hearing.

Alternative dispute resolution

An important element to resolve disputes in a rapid and economic way are Alternative Dispute Resolution (ADR) mechanisms. ADR are external dispute resolution processes and techniques that can be used by disagreeing parties as a means for to come to an agreement short of litigation in court, such as arbitration, conciliation and meditation. Many of these processes are organised and conducted outside the judicial system by different institutions. Thus ADR includes all different informal and formal methods to resolve disputes outside of the official judicial mechanisms. But ADR refers also to informal methods attached or pendant to official judicial mechanisms and to free-standing methods such as mediation programs or *Ombuds*-offices.

The main contribution to the efficiency and effectiveness of the judicial system derives from the fact that **ADR procedures provide a faster and cheaper way to resolve disputes**. An increased use of ADR methods allows courts to concentrate primarily on those matters that require the resolution by a judge. ADR as alternatives to regular judicial proceedings have gained widespread acceptance in most EU Member States. Early settlements trough ADR can have a strong impact on the workload of courts.

The efficient use of ADR depends on the acceptance of the ADR by the involved parties. In general ADR methods are more likely to succeed if the ADR bodies are located within the community and if they specialise in types of disputes for which members of the community want conciliation. Thus governments should focus their effort on encouraging the impartiality of conciliation bodies and the use of such methods.

ADR can also be used by the law maker as a means to speed-up dispute resolution in **specific areas**. One good example is the use of dispute adjudication in UK construction law. The "Housing Grants, Construction, and Regeneration Act 1996" recommended to contracting parties to include in their contracts provisions for adjudication of disputes. Adjudication is given a specific role for dispute resolution because the act stipulates that either party has the right to defer disputes to adjudication, even if there are no specific provisions in the contract. If one of the parties chooses arbitration the other party has no option to accede to adjudication if that is what the referring party chooses.

Adjudication refers to a specific type of arbitration, where an adjudicator reviews evidence and argumentation including legal arguments set forth by the litigants in order to come to a decision that determines rights and obligations between the parties involved. The decision is legally binding but can be reviewed by a court. The goal of the adjudication procedure is to provide an fast and efficient instrument for settling disputes in construction contracts on a provisional basis, and requiring the decisions of adjudicators to be enforced pending the final determination of disputes by arbitration, litigation or agreement.[41]

The adjudication process has been widely considered to have been successful in reducing the number of litigations and the cost associated with construction contract disputes. Over time adjudication changed from being a procedure to solve disputes related to quite simple problems of payment to be a method that is also used to disputes involving larger sums of money and complex legal questions (Kennedy et al., 2010). This example shows that ADR mechanisms can be tailored to the specific needs of specific industries and contribute to a faster and cheaper form of dispute resolution. The use of ADR mechanisms can be strengthened and reinforced by establishing links between ADR procedures and litigation, for example, by taking into account the proportionality of a refusal of an ADR proposal by one of the parties in the allocation of legal costs in subsequent court proceedings.

[41] For an overview see Construction Industry Council (2003).

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7. COUNTRY FICHES

7.1. Austria

7.1.1. Background information

Legal system	Civil law system (German tradition)
State system	Federal Republic
No. of administrative tiers	4 (central/regional/provincial/municipal), no elected authorities on provincial level
%-share of compensation of employees in economy-wide compensation of employees	
general government	19.4 (2010)
core administration (w/o military service)	7.9 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.1.2. Summary assessment

Austria's overall public administration performance, as depicted by the World Bank's *government effectiveness* indicator, is well above the EU-average. The perceived quality of public services, including the quality of the civil service and policy implementation, are high according to that measure.

Innovative *tools to improve public administration* performance in general (e.g. ICT-based solutions, evidence-based steering and planning instruments, measures to improve the flexibility, performance-orientation and mobility of the administrative staff) are used more intensely as compared to Member States' average. This is particularly due to the widespread adoption of business-related e-government solutions, where Austria is one of the top-performers among the Member States. Reliance on human resources management instruments such as performance-related pay instead of seniority pay, or measures to increase the internal flexibility and the mobility of the civil service, is slightly below the EU-average. Moreover, Austria still follows predominantly a more traditional role of steering and managing its administrative staff.

Corruption indicators show a slightly better than average performance, which means that Austria observes less than average corruption. Perceptions based measures for 'diversion of public funds' as well as for 'irregular payments and bribes' however indicate that Austria is not free from corruption-related problems but it still fares better than the EU-average. As regards the individual experience of corruption (11% of all cases), the data show a worse performance than the EU-mean (10%), albeit only to a minor degree.

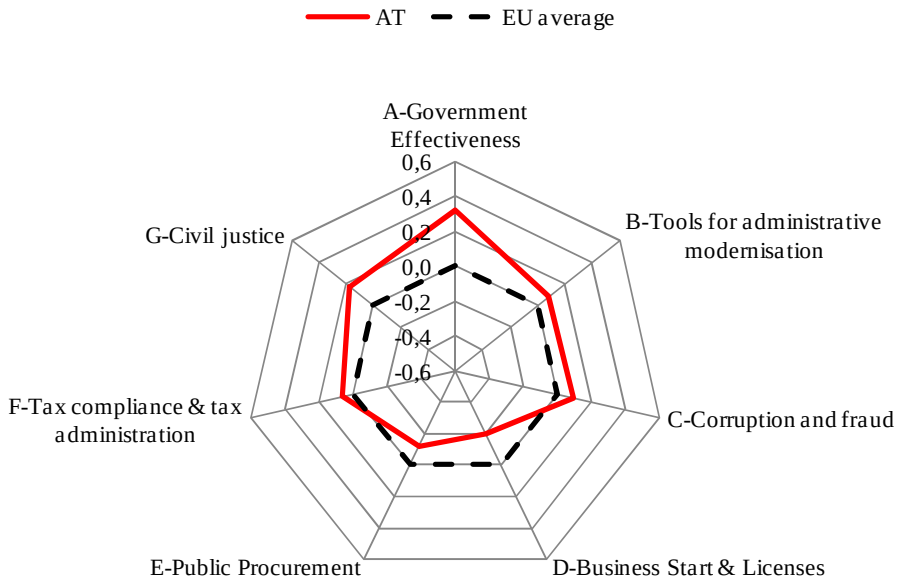
The composite summary indicators for *tax compliance and tax administration* indicate a better than average performance. The time required for preparation of tax files is 170 hours per year, as compared to the EU-mean of 208 hours. Administrative costs of taxation in % of total revenue amount to 0.85% as compared to 1.32% across the Member States.

Two composite indicators show figures below EU-average. As regards the requirements for *starting a business and obtaining licenses*, this is due to the duration to start-up a business, as measured by Doing Business model company procedures. Although Austria already provides a fully operational one-stop shop, the time required to start-up the model company (28 days) is substantially higher than the EU-mean of 13.7 days. While the costs of starting up are slightly below the average, licensing procedures are more complex.

The composite *public procurement* index is also signalling some scope for improvement in reducing the time and especially the cost to take part in government procurements. Whereas on average the typical costs of taking part in a tender amount to 0.19 percent of GDP per capita, participation in Austria causes cost of 0.26 percent. Payment delays of public authorities apparently exist but are less problematic than in many other Member States, as delays amount to only 14 instead of 28.2 days (EU-mean).

The efficiency of the *civil justice system* measured by sub-indicators for the time and costs to enforce contracts and the perceived independence of the judiciary is better than average. For example, the time of enforcing contracts is 397 days in Austria as compared to the EU- mean of 556 days. Resolving insolvency issues takes 1.1 years as compared to an EU-mean of almost 2 years.

Figure 7.1 – Summary indicators graph: Austria



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.1.3. Country Factsheet Austria

A. EPA-competitiveness link	**Ref. year**	**Absolute value**	**EU mean***	**Difference to mean on normalised scale****
A. General governance		**0.84**	**0.53**	**+0.32**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.89	1.18	+0.32
B. Tools for administrative modernisation		**0.62**	**0.54**	**+0.08**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	6.33	3.87***	+0.15
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	23.70	32.30	-0.11
C. Corruption and fraud		**0.69**	**0.60**	**+0.09**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.30	4.37	+0.22
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.80	5.14	+0.21
C3) Experience of corruption [% share of respondents reporting an incident]	2011	11.00	10.00	-0,03
D. Starting a business and licensing		**0.42**	**0.62**	**0.20**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	28.00	13.69	-0.51
D3) Cost to start-up a company [% of income per capita]	2011	5.20	5.05	-0.01
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	22.00	15.32	-0.33

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.53**	**0.66**	**-0.12**
E1) Total person-days per firm per competition [firm days per company and per bid)]	2010	20.00	16.60	-0.11
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.26	0.19	-0.36
E3) Average delay in payments from public authorities [days]	2012	14.00	28.23	+0.14
F. Tax compliance and tax administration		**0.86**	**0.79**	**+0.06**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	170.00	208.20	+0.08
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.85	1.32	+0.05
G. Efficiency of civil justice		**0.77**	**0.59**	**+0.18**
G1) Enforcing contracts: Time [Calendar days]	2011	397.00	556.40	+0.16
G2) Enforcing contracts: Cost [Percentage of claim]	2011	18.00	20.60	+0.11
G3) Resolving insolvency: Time [Years]	2011	1.10	1.95	+0.24
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	5.54	4.77	+0.19

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT.
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU- mean

7.2. Belgium

7.2.1. Background information

Legal system	Civil law system (French tradition)
State system	Federal Kingdom
No. of administrative tiers	4 (central/regional/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	24.4 (2010)
core administration (w/o military service)	10.4 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.2.2. Summary assessment

Belgium's overall public administration performance, as depicted by the World Bank's *government effectiveness* indicator, is better than the EU-average. The perceived quality of public services, including quality of the civil service and policy implementation in Belgium is quite good, although not exceptional. In spite of a reduction of the administrative burden over the last decade, inefficient government bureaucracy is still listed as one of the three major problems for doing business, with environmental legislation as the main factor. Both on the federal and the regional level initiatives are launched to further reduce the administrative burden.

The use of innovative *tools* to improve public administration performance (e.g. ICT solutions, evidence-based steering and planning instruments, reforms to improve mobility, flexibility, and performance-orientation mobility of staff) is less widespread. All sub-indexes are below EU-average. The use of *evidence-based instruments* is particularly low in comparison (index value in Belgium is 1.00 compared to 3.87 in EU), as only the Flemish government is using Regulatory Impact Analyses. The procedures for e-invoicing have been simplified at the federal level, and property registration has accelerated for entrepreneurs by the introduction of time limits and implementation of the 'e-notariat' system.

Belgium's situation regarding *corruption and fraud* is better than average. Indeed, irregular payments, as well as diversion of public funds and perception of corruption are rarer than in other Member States. As regards the individual experience of corruption (3% of all cases), it is much lower than the EU-mean (10%).

The composite s*tarting a business and licensing* index is higher than EU average, indicating a better than average performance. In Belgium there is a fully operational one-stop-shop to start-up a company. Especially with respect to the time to start-up a business, Belgium is among the best performing Member States, as it only takes 4 days to register and start-up a

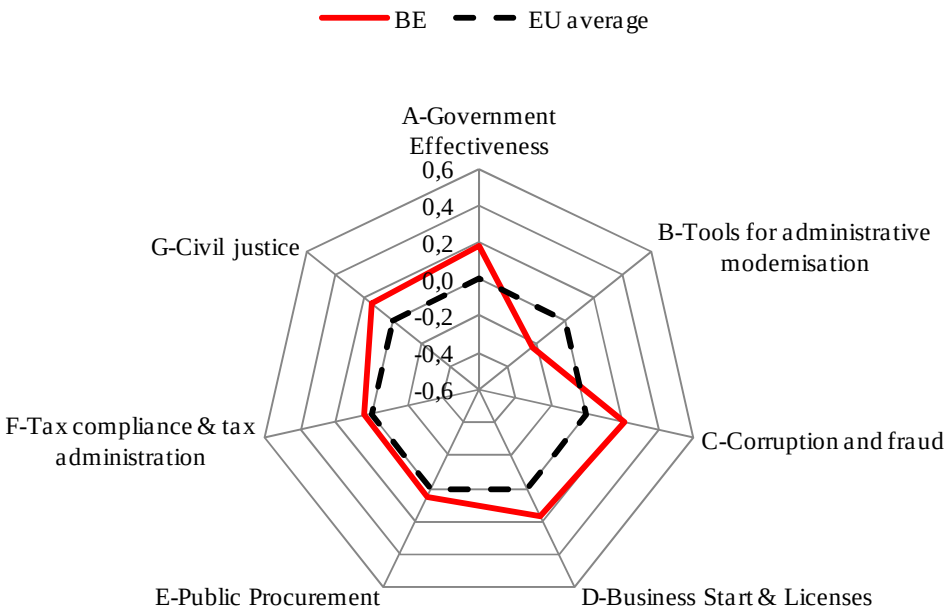
company legally, compared to 13.7 days in the EU. The cost of starting-up a company and the licensing complexity sub-indexes are closer to the EU-average.

The composite *public procurement* index is slightly above Member States average, and so are all the sub-indicators. Whereas in the average Member State the typical cost of taking part in a tender amounts to 0.19 percent of GDP per capita, participation in Belgium causes cost of 0.18 percent of GDP per capita. Payment delays of public authorities are very close to the Member States average. Belgium has recently adopted a package to modernise its public procurement legislation.

Tax compliance and tax administration indicators are slightly better than average. In Belgium it only takes 156 hours yearly to prepare and file tax returns and to pay taxes, which is more than 50 hours less than the EU average. Nevertheless administrative costs of taxation are slightly higher than the EU average. Since the latest reform in 2010 (when the tax payment process and administration were improved by mandating electronic filing for medium-size businesses), no new tax reforms to make paying taxes faster or easier for businesses, have been recorded.

The civil justice indicator is above EU average. All the sub-indicators are better than Member States' average. Time for resolving insolvency is short compared to EU mean. In Belgium it take less than one year to resolve insolvency, while it takes on average almost two years in other Member States.

Figure 7.2 – Summary indicators graph: Belgium



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.2.3. Country Factsheet Belgium

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.71**	**0.53**	**+0.18**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.59	1.18	+0.18
B. Tools for administrative modernisation		**0.30**	**0.54**	**-0.23**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	-0.03
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	1.00	3.87***	-0.49
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	18.60	32.30	-0.18
C. Corruption and fraud		**0.81**	**0.60**	**+0.21**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.20	4.37	+0.20
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.70	5.14	+0.18
C3) Experience of corruption [% share of respondents reporting an incident]	2011	3.00	10.00	+0.24
D. Starting a business and licensing		**0.78**	**0.62**	**+0.16**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	4.00	13.69	+0.35
D3) Cost to start-up a company [% of income per capita]	2011	5.20	5.05	-0.01
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	13.80	15.32	+0.09

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.71**	**0.66**	**+0.05**
E1) Total person-days per firm per competition [firm days per company and per bid)]	2010	14.00	16.60	+0.14
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.18	0.19	+0.04
E3) Average delay in payments from public authorities [days]	2012	28.00	28.23	+0.01
F. Tax compliance and tax administration		**0.83**	**0.79**	**+0.04**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	156.00	208.20	+0.10
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.40	1.32	-0.03
G. Efficiency of civil justice		**0.74**	**0.59**	**+0.15**
G1) Enforcing contracts: Time [Calendar days]	2011	505.00	556.40	+0.05
G2) Enforcing contracts: Cost [Percentage of claim]	2011	17.70	20.60	+0.12
G3) Resolving insolvency: Time [Years]	2011	0.90	1.95	+0.29
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	5.27	4.77	+0.13

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.3. Bulgaria

7.3.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary, decentralised
No. of administrative tiers	4 (central/regional/provincial/municipal, no elected authorities on regional and provincial level)
%-share of compensation of employees in economy-wide compensation of employees	
general government	25.5 (2010)
core administration (w/o military service)	12.7 (2006)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.3.2. Summary assessment

Bulgaria performs significantly below the EU-average as measured by the World Bank's *government effectiveness* indicator, which provides an assessment of the quality of public administration in a broad sense. Hence, perceptions of the quality of public services, the quality of policy formulation, the implementation of policy and the credibility of public servants' commitment to such policies are considerably worse than the EU-average. In addition, Bulgaria's scores have remained virtually unchanged since 2006.

Bulgaria also lags behind in terms of the implementation and usage of *tools for administrative modernisation* such as ICT-based solutions, performance orientation and the flexibility of administrative staff. Sub-indicators reveal that this is due to a lower availability of business-related e-government services (e.g. e-government applications for the electronic submission of the corporate tax return, the submission of VAT, the registration of new companies and the submission of statistical data), although there have been improvements. As of 2010, Bulgaria implemented six out of eight relevant business related e-government services. At the same time, Bulgaria performs below EU-average in terms of implementation of modern human resource management tools, as it still relies relatively heavily on civil servants and exhibits a high centralisation of powers and competences concerning human resources.

Corruption indicators scores are lower than the EU-average. In this context, the 'diversion of public funds' as well as 'irregular payments and bribes' by firms are perceived to be very common and indicate that administrative corruption and state capture corruption are major issues in Bulgaria. Regarding the individual experience of corruption, 25% of respondents report an incidence whereas the EU average is only 10%.

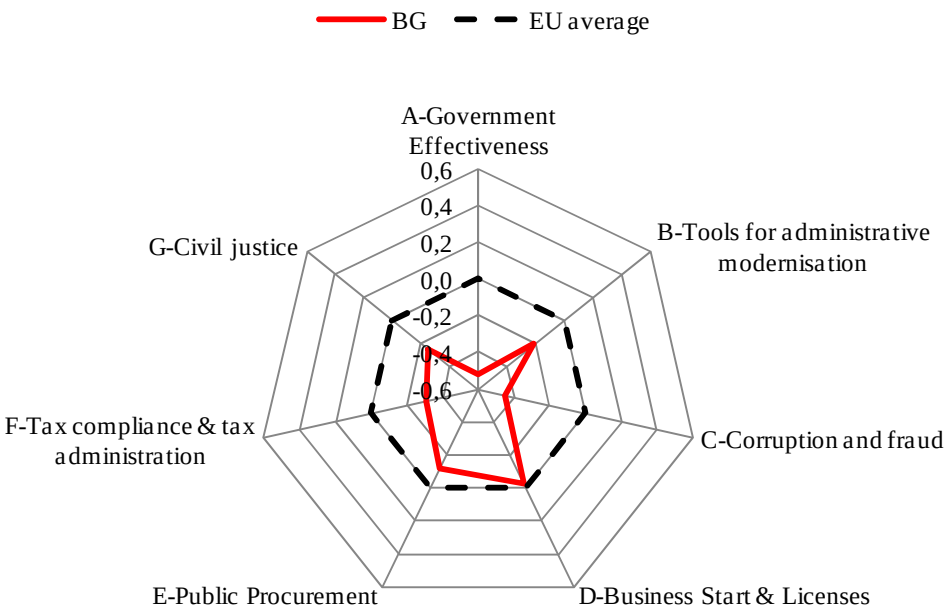
Bulgaria's performance in terms of *starting a business and licensing* is fairly equal to the EU-average. Looking at included aspects reveals heterogeneous results though. While in terms of costs to start a business and the implementation of one-stop-shops Bulgaria performs better than the EU average, the opposite is true for the time required to start a business (18 days instead of 13.69 days) and the complexity to obtain licenses.

In terms of *public procurement*, Bulgaria performs below EU-average which is mainly driven by the time necessary to take part in the competition for public procurement tenders. While corresponding costs are fairly equal to the EU-average, time requirements for individual firms in Bulgaria are much higher (25 days instead of 16.6 days). In terms of average payment delays by public administration, Bulgaria's public administration exhibits a slightly superior performance than the EU-average with delays summing up to 22 instead of 28.2 days.

With respect to *tax compliance and tax administration*, indicators report a score for Bulgaria that is significantly worse than the EU average. Administrative costs of taxation (1.37%) are almost identical to the EU- average (1.32%), but this is mainly driven by tax compliance costs for enterprises. Compared to the EU-average of 208 hours per year, the time required in Bulgaria is 500 hours which is more than twice as long.

In terms of *efficiency of civil justice*, Bulgaria underperforms the EU-average. Whereas costs and time necessary for the enforcement of contracts is nearly equivalent to the EU-average, in terms of the perceived level of judicial independence and the time necessary to resolve insolvency, Bulgaria's performance is considerably worse. In fact, whereas 3.3 years are necessary to resolve insolvencies in Bulgaria, the EU-average is around 2 years.

Figure 7.3 – Summary indicators graph: Bulgaria



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.3.3. Country Factsheet Bulgaria

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.00**	**0.53**	**-0.53**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.01	1.18	-0.53
B. Tools for administrative modernisation		**0.33**	**0.54**	**-0.21**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	75.00	89.10	-0.29
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(-0.30)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	28.90	32.30	-0.04
C. Corruption and fraud		**0.14**	**0.60**	**-0.45**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.90	4.37	-0.35
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.60	5.14	-0.48
C3) Experience of corruption [% share of respondents reporting an incident]	2011	25.00	10.00	-0.50
D. Starting a business and licensing		**0.60**	**0.62**	**-0.02**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	18.00	13.69	-0.15
D3) Cost to start-up a company [% of income per capita]	2011	1.50	5.05	+0.18
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	20.40	15.32	-0.25

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.54**	**0.66**	**-0.12**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	25.00	16.60	-0.32
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.20	0.19	-0.06
E3) Average delay in payments from public authorities [days]	2012	22.00	28.23	+0.07
F. Tax compliance and tax administration		**0.49**	**0.79**	**-0.30**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	500.00	208.20	-0.59
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.37	1.32	-0.03
G. Efficiency of civil justice		**0.34**	**0.59**	**-0.25**
G1) Enforcing contracts: Time [Calendar days]	2011	564.00	556.40	-0.01
G2) Enforcing contracts: Cost [Percentage of claim]	2011	23.80	20.60	-0.14
G3) Resolving insolvency: Time [Years]	2011	3.30	1.95	-0.38
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	2.94	4.77	-0.47

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.4. Cyprus

7.4.1. Background information

Legal system	Mixed legal system of English common law and civil law with Greek Orthodox religious law influence
State system	Unitary Republic, centralised
No. of administrative tiers	3 (central/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	34.8 (2010)
core administration (w/o military service)	17.6 (2009)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.4.2. Summary assessment

The public administration of Cyprus shows in many aspects a performance which is close to the average of Member States. The World Bank's *government effectiveness*-measure, which can be interpreted as a comprehensive assessment of the quality of a public administration in a very broad sense, indicates a public service quality that is better than the EU-mean.

As compared to the other Member States, Cyprus somehow lags behind in the adoption of innovative *tools for administration modernisation* (e.g. ICT-solutions, modern steering and planning instruments for administrative staff). Not all business-related e-government services are already implemented (the adoption rate is only 75%), and the reliance on instruments of a modern human resources management is also below the EU-average. Comparable data on the use of evidence-based steering instruments in public administration are not available.[42]

Corruption measures also indicate a more or less average performance of the administration. Index values for irregular payments and for diversion of public funds are very close to the EU-average. Individual experience with corruptive public suppliers occurs slightly less frequently, i.e. in about 6% of all cases, than the Member States' average (10% of all cases),

The indicators for *starting a business and licensing* point to some scope for improvement; this holds especially for the cost for starting up a company. In Cyprus, it costs about 13.1% of income per capita to start-up a (model) company. This is much higher than the EU-average of 5%. On the contrary, the time needed for registering and starting up a business is only 8 days, which is substantially less than the EU-mean of 13.7 days. Cyprus is one of the Member States which already have implemented a fully operational one-stop-shop to start a business.

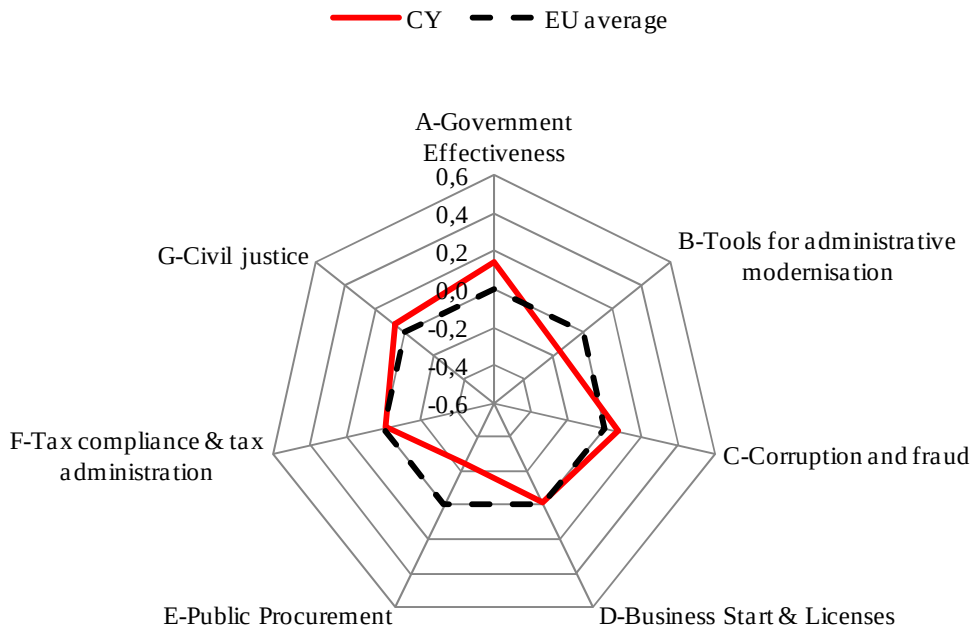
[42] The respective composite indicator for *tools for public administration modernisation* is therefore partly based on an imputed indicator value, and should be treated with caution.

The *public procurement* system has some weaknesses in comparison with the rest of the EU Member Countries. Although payment delays of public authorities (23 days) are slightly shorter than average (28.3 days), the typical cost and time used up in the procurement process are substantially higher than average cost and time.

While the time to prepare the necessary tax forms is 149 days as compared to an EU-average of 208 days, the administrative cost of taxation, i.e. public expenditure on *tax administration* in percent of tax revenues, are by far the highest in the sample. A value of 7.4% of total receipts is more than five times higher than the EU-mean of 1.4%. This corresponds to high personnel spending on core administration (w/o military services) which are also by far the highest across Member States.

Efficiency of civil justice in Cyprus is a little better than in EU-27 average as revealed by the composite indicator. Costs of enforcing contracts (16.4% of the claim) and the time required for resolving insolvency (1.5 years) are slightly lower than the respective EU-averages; however, the time for contract enforcement is higher than on average (735 days as compared to 556 days). The overall perception of independence of the judiciary is a little better than at the EU-mean.

Figure 7.4 – Summary indicators graph: Cyprus



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.4.3. Country Factsheet Cyprus

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.67**	**0.53**	**+0.14**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.50	1.18	+0.14
B. Tools for administrative modernisation		**0.38**	**0.54**	**-0.16**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	75.00	89.10	-0.29
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(+0.11)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	9.70	32.30	-0.30
C. Corruption and fraud		**0.68**	**0.60**	**+0.08**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.70	4.37	+0.08
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.00	5.14	-0.04
C3) Experience of corruption [% share of respondents reporting an incident]	2011	6.00	10.00	+0.14
D. Starting a business and licensing		**0.61**	**0.62**	**-0.01**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	8.00	13.69	+0.20
D3) Cost to start-up a company [% of income per capita]	2011	13.10	5.05	-0.40
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	15.20	15.32	+0.02

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.41**	**0.66**	**-0.24**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	29.00	16.60	-0.49
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.24	0.19	-0.26
E3) Average delay in payments from public authorities [days]	2012	23.00	28.23	+0.06
F. Tax compliance and tax administration		**0.78**	**0.79**	**-0.02**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	149.00	208.20	+0.12
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	7.37	1.32	-0.16
G. Efficiency of civil justice		**0.66**	**0.59**	**+0.07**
G1) Enforcing contracts: Time [Calendar days]	2011	735.00	556.40	-0.18
G2) Enforcing contracts: Cost [Percentage of claim]	2011	16.40	20.60	+0.18
G3) Resolving insolvency: Time [Years]	2011	1.50	1.95	+0.12
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	5.29	4.77	+0.13

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.5. Czech Republic

7.5.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary state
No. of administrative tiers	3 (central/regional/municipal), provincial level only territorial division for state administration
%-share of compensation of employees in economy-wide compensation of employees	
general government	18.1 (2010)
core administration (w/o military service)	8.6 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.5.2. Summary assessment

The Czech Republic ranks slightly below the EU-average in terms of *overall public administration performance,* as depicted by World Bank's *government effectiveness*-indicator. With respect to this broad measure of administrative quality, reported perceptions of the quality of public services, the quality of policy implementation and the independence from political pressure indicate a slightly inferior performance compared to the EU-average.

In contrast, in terms of *tools for administrative modernisation* (e.g. ICT-based solutions, evidence based steering and planning instruments and performance orientation) the Czech Republic exhibits a performance significantly better than the EU-average. In fact, the Czech Republic is one of the best performing countries in the EU. This result is mainly driven by the fact that the Czech Republic exclusively relies on public employees instead of civil servants and powers and responsibilities for human resources are highly decentralised. Furthermore, all eight business-related e-government tools such as the electronic registration of new companies and systems for the electronic payment of corporate tax and VAT are fully implemented. In addition, results implicate that the Czech Republic relies more intensely on evidence-based instruments such as regulatory impact analyses.

However, in terms of *corruption* indicators show that administrative as well as state capture corruption is still a major issue in the Czech Republic. In fact, the Czech Republic exhibits a significantly lower performance compared to the average of Member States. Especially the 'diversion of public funds' due to the influence of vested interests is perceived to be very common by a majority of respondents. Regarding the individual experience of corruption, 18% of respondents report an incidence whereas the EU average is 10%.

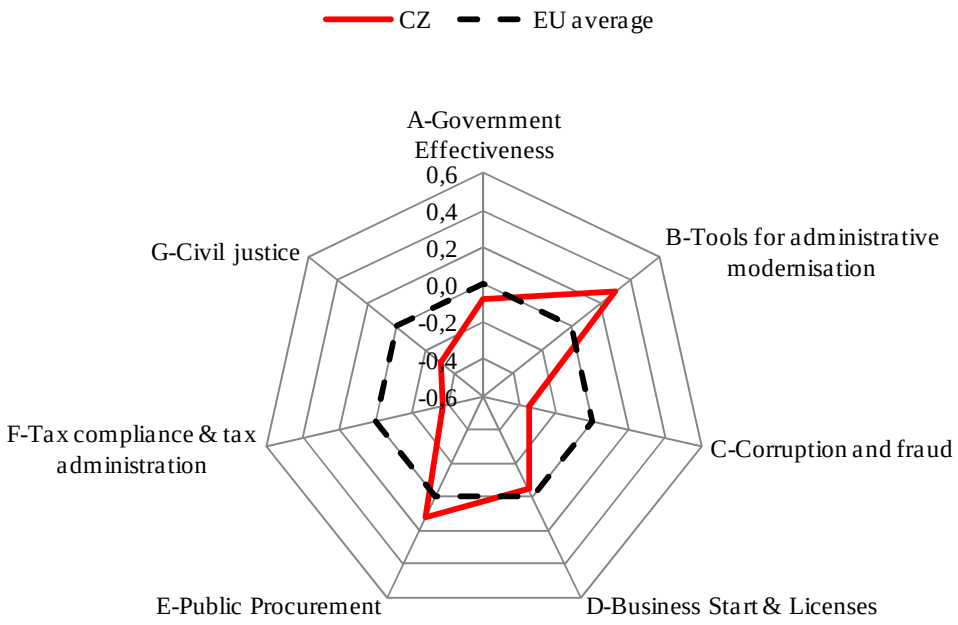
Regarding *starting a business and licensing*, Czech Republic's performance is fairly equal to the EU-average. However, looking at sub-indicators reveals that this result is mainly driven by the complexity of obtaining permits. By contrast, as of 2010 no one-stop-shop has been implemented and time needs and costs to start-ups are significantly above the EU-average indicating scope for improvement in the Czech Republic.

With respect to *public procurement*, the Czech Republic performs better than the EU-average. For instance, while on average time requirements for the competition for public tenders amount to more than 16 days and payments by public administration are delayed up to 28 days, for the Czech Republic these values are equal to 15 days and 12 days, respectively.

With respect to *tax compliance and tax administration* our composite indicator reports a score which is significantly lower than the EU average. This holds true for both the time needed to prepare tax returns as well as administrative costs. Whereas on average for the EU the time necessary to prepare and file tax returns amounts to 208 hours per year and administrative costs per 100 units of revenue sum up to 1.32%, for the Czech Republic these values are 557 hours and 1.46%, respectively, thus indicating that the effectiveness of tax administration in the Czech Republic is lower.

In terms of *efficiency of civil justice*, the Czech Republic again performs worse than the EU average. For instance, it takes up to 100 days longer to enforce contracts and costs are significantly higher than the EU average. Furthermore, whereas 3.2 years are necessary to resolve insolvencies in the Czech Republic, this value is slightly below 2 years for the EU average.

Figure 7.5 – Summary indicators graph: Czech Republic



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.5.3. Country Factsheet Czech Republic

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.45**	**0.53**	**-0.08**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.01	1.18	-0.08
B. Tools for administrative modernisation		**0.84**	**0.54**	**+0.31**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	6.33	3.87***	+0.15
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	73.00	32.30	+0.55
C. Corruption and fraud		**0.25**	**0.60**	**-0.35**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.30	4.37	-0.49
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.90	5.14	-0.38
C3) Experience of corruption [% share of respondents reporting an incident]	2011	18.00	10.00	-0.26
D. Starting a business and licensing		**0.57**	**0.62**	**-0.05**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	20.00	13.69	-0.23
D3) Cost to start-up a company [% of income per capita]	2011	8.40	5.05	-0.17
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	4.00	15.32	+0.58

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.77**	**0.66**	**+0.12**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	15.00	16.60	+0.09
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.16	0.19	+0.14
E3) Average delay in payments from public authorities [days]	2012	12.00	28.23	+0.16
F. Tax compliance and tax administration		**0.42**	**0.79**	**-0.37**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	557.00	208.20	-0.70
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.46	1.32	-0.04
G. Efficiency of civil justice		**0.29**	**0.59**	**-0.30**
G1) Enforcing contracts: Time [Calendar days]	2011	611.00	556.40	-0.05
G2) Enforcing contracts: Cost [Percentage of claim]	2011	33.00	20.60	-0.53
G3) Resolving insolvency: Time [Years]	2011	3.20	1.95	-0.35
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.70	4.77	-0.28

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.6. Denmark

7.6.1. Background information

Legal system	Civil law system (Scandinavian tradition)
State system	Constitutional monarchy, unitary state plus two autonomous regions, decentralised
No. of administrative tiers	3 (central/regional/municipal), provincial level abolished in 2007
%-share of compensation of employees in economy-wide compensation of employees	
general government	34.2 (2010)
core administration (w/o military service)	7.0 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.6.2. Summary assessment

Denmark's overall public administration performance, according to World Bank's *government effectiveness* indicator, is significantly better than the EU-average.[43] Denmark is one of the countries where the quality of public service provision is perceived to be most excellent in international comparison.

The implementation of *tools for public administration modernisation* (like ICT applications, modern human resources management techniques and evidence-based steering and planning instruments), is comparatively advanced. This is largely owed to the full online availability of business services and the high diffusion of instruments targeting the strategic management of public personnel. As for the usage of evidence-based instruments for steering of the public administration, Bertelsmann's Sustainable Governance sub-index for the quality of impact assessments, while above the EU-average, indicates some scope for further development.

The composite indicator for *corruption and fraud* displays very good results in comparison to the EU-mean, with irregular payments and the diversion of public funds being far less common than on average in the Member States. Individual corruption experience appears to be especially limited, with a value of not more than 2% of all respondents in the according survey. This corresponds well to the overall assessment of similar corruption assessments (such as in the Worldwide Governance Indicators) where Denmark repeatedly performs best.

The indicators for *tax compliance and tax administration* suggest that managing tax payments is a bit cheaper and consumes considerably less time and resources both for the administration as well as for businesses than in the average Member State.

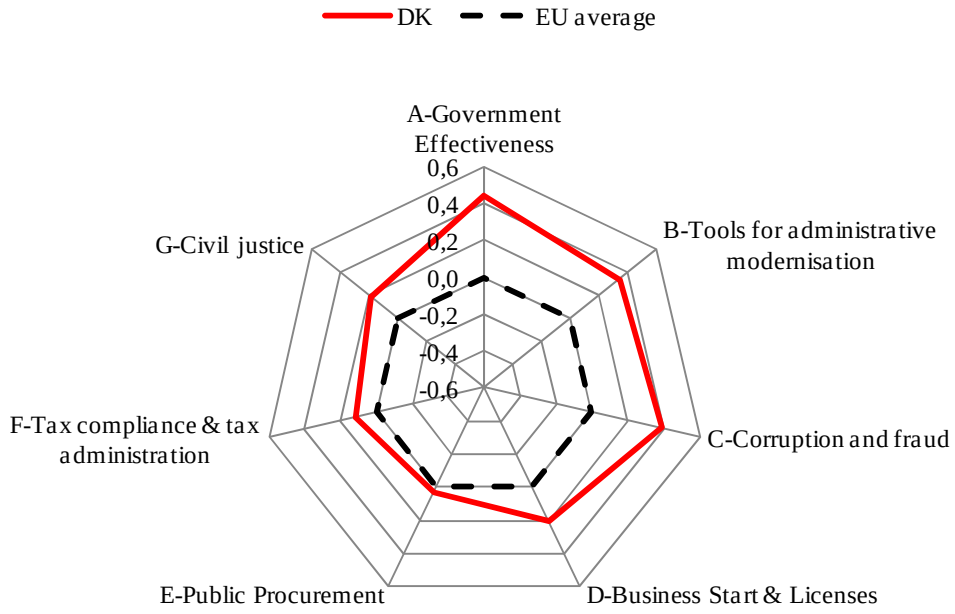
[43] As many data are unavailable, we decided to calculate EU-wide averages without Malta.

The compound index for *public procurement* signals some scope for smaller improvement. The average delay in payments from the public administration is 12 days, and is thus shorter than in most other Member States. However, the cost to participate in public tenders is only slightly lower and the costs of participation in a competition are at the EU-average.

The composite headline indicator for *starting a business and licensing* reflects a similarly good performance in Denmark, including a fully operational one-stop shop for start-up purposes and licensing procedures that are less complex than the EU-average. Most striking are the fast procedures to start-up a company and the elimination of all related administrative costs whatsoever.

Most sub-indicators measuring the *efficiency of civil justice* are well above the EU-mean, especially due to the perception of the judiciary as highly independent from political pressure and the short time necessary to enforce contracts as well as to resolve insolvency. However, the costs of enforcing said contracts (23.3% of a claim) are slightly above average (20.6%), which indicates some room for improvement.

Figure 7.6 – Summary indicators graph: Denmark



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.6.3. Country Factsheet Denmark

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.97**	**0.53**	**+0.44**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	2.17	1.18	+0.44
B. Tools for administrative modernisation		**0.87**	**0.54**	**+0.34**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	7.67	3.87***	+0.31
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	68.20	32.30	+0.49
C. Corruption and fraud		**0.98**	**0.60**	**+0.39**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.50	4.37	+0.51
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.70	5.14	+0.49
C3) Experience of corruption [% share of respondents reporting an incident]	2011	2.00	10.00	+0.27
D. Starting a business and licensing		**0.83**	**0.62**	**+0.20**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	6.00	13.69	+0.27
D3) Cost to start-up a company [% of income per capita]	2011	0.00	5.05	+0.25
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	14.60	15.32	+0.05

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.68**	**0.66**	**+0.03**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	18.00	16.60	-0.03
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.19	0.19	-0.01
E3) Average delay in payments from public authorities [days]	2012	12.00	28.23	+0.16
F. Tax compliance and tax administration		**0.90**	**0.79**	**+0.11**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	135.00	208.20	+0.15
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.67	1.32	+0.07
G. Efficiency of civil justice		**0.78**	**0.59**	**+0.19**
G1) Enforcing contracts: Time [Calendar days]	2011	410.00	556.40	+0.14
G2) Enforcing contracts: Cost [Percentage of claim]	2011	23.30	20.60	-0.12
G3) Resolving insolvency: Time [Years]	2011	1.00	1.95	+0.26
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.55	4.77	+0.45

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.7. Estonia

7.7.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary state, centralised
No. of administrative tiers	3 (central/regional/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	24.8 (2010)
core administration (w/o military service)	9.5 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.7.2. Summary assessment

Estonia performs slightly better than the EU-average as measured by the World Bank's *government effectiveness* indicator, which provides an assessment of the quality of public administration in a broad sense. Hence, perceptions on the quality of public services, the quality of policy formulation, its implementation and the credibility of public servants' commitment to such policies indicate an assessment fairly equal to the EU-average.

In terms of *tools for administrative modernisation* (e.g. ICT-based solutions, evidence based steering and planning instruments and performance orientation) Estonia exhibits a better performance than the EU-average. As of 2010, Estonia implemented all eight business related e-government services such as the electronic submission and payment of corporate tax return and electronic registration of start-ups. However, with respect to modern human resource management tools Estonia performs only slightly above the EU-average. This may be due to a high reliance on civil servants and a relatively low decentralisation of powers and responsibilities for human resources.

Compared to the EU-average, *corruption* indicators point to a superior performance implying that corruption is a minor issue in Estonia. Both, the 'diversion of public funds' due to state capture and 'irregular payments and bribes' due to administrative corruption appear to only seldom occur. Regarding the individual experience of corruption, 5% of respondents report an incidence whereas the EU average is 10%.

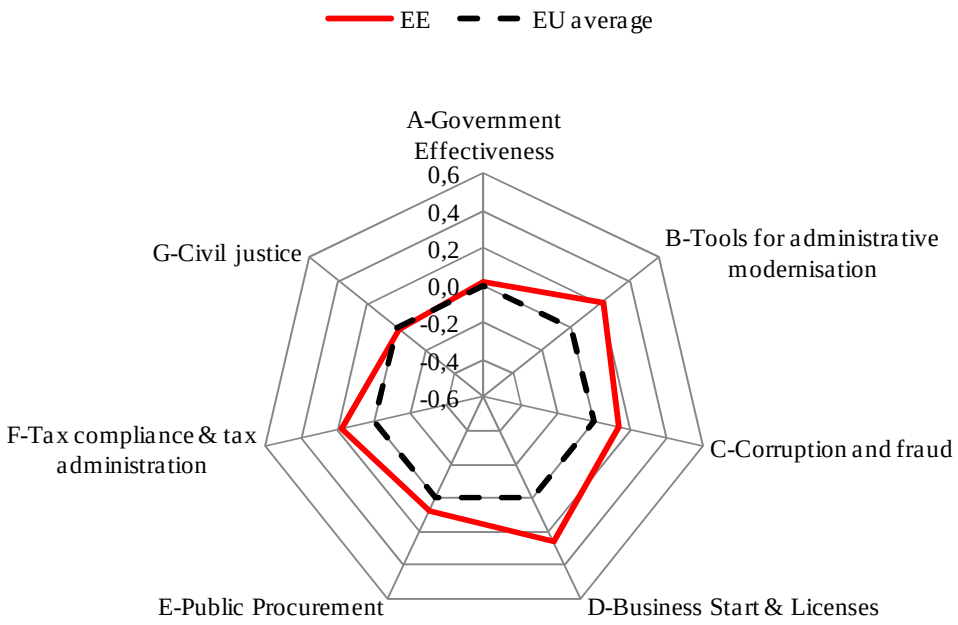
In terms of *starting a business and licensing*, Estonia again ranks in the top group. Especially costs and time needed to start a business are very low compared to the EU-average. For instance, time required to start a business amounts to 7 days and takes only half as long compared to the EU average. In terms of corresponding costs, Estonia performs even better with costs summing up to approximately 1/3 of the EU-average. In addition, licensing is assessed as only as half as complex compared to the EU-average.

With respect to *public procurement*, Estonia again shows a performance above the EU-average. While the average delay for Member States is 28 days, in Estonia this value is only 10 days. With respect to time requirements and costs to participate in the competition for public procurement tenders, Estonia's performance is fairly equal to the EU-average.

In terms of *tax compliance and tax administration*, Estonia's scores are considerably above the EU-average. Whereas the time necessary to prepare and file tax returns is 208 hours per year for the EU-average, only 85 hours are needed in Estonia. In fact, here Estonia belongs to the top performing countries. In addition, the scores also indicate that tax administration efficiency is well above the EU-average. Here, administrative costs of revenue collection amount to only 1/3 of the EU-average.

With respect to the *efficiency of civil justice*, Estonia exhibits a heterogeneous performance. While time needed for the enforcement of contracts is significantly lower than the EU–average (425 days instead 556.4 days) and independence is assessed as superior, the duration for resolving insolvency is much longer and takes up to 3 years (instead of 1.95 years for the EU-average).

Figure 7.7 – Summary indicators graph: Estonia



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.7.3. Country Factsheet Estonia

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.54**	**0.53**	**+0.02**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.22	1.18	+0.02
B. Tools for administrative modernisation		**0.76**	**0.54**	**+0.22**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(+0.36)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	38.30	32.30	+0.08
C. Corruption and fraud		**0.74**	**0.60**	**+0.14**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.80	4.37	+0.10
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.50	5.14	+0.12
C3) Experience of corruption [% share of respondents reporting an incident]	2011	5.00	10.00	+0.17
D. Starting a business and licensing		**0.89**	**0.62**	**+0.26**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	7.00	13.69	+0.24
D3) Cost to start-up a company [% of income per capita]	2011	1.80	5.05	+0.16
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	8.00	15.32	+0.38

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.73**	**0.66**	**+0.08**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	16.00	16.60	+0.05
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.18	0.19	+0.04
E3) Average delay in payments from public authorities [days]	2012	10.00	28.23	+0.18
F. Tax compliance and tax administration		**0.97**	**0.79**	**+0.18**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	85.00	208.20	+0.25
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.40	1.32	+0.11
G. Efficiency of civil justice		**0.58**	**0.59**	**-0.01**
G1) Enforcing contracts: Time [Calendar days]	2011	425.00	556.40	+0.13
G2) Enforcing contracts: Cost [Percentage of claim]	2011	22.30	20.60	-0.07
G3) Resolving insolvency: Time [Years]	2011	3.00	1.95	-0.29
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	5.51	4.77	+0.19

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.8. Finland

7.8.1. Background information

Legal system	Civil law system (Scandinavian tradition)
State system	Unitary state plus one autonomous region, decentralised
No. of administrative tiers	3 (central/regional/municipal), provincial level only a de-concentrated territorial division of state administration
%-share of compensation of employees in economy-wide compensation of employees	
general government	28.1 (2010)
core administration (w/o military service)	6,8 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.8.2. Summary assessment

Finland is one of the top performers in public administration according to the World Bank's *government effectiveness* Index, which displays the highest value of all Member States. This indicates a high perceived quality of public service provision in Finland.

The country's performance is above the Member States' average in all sections of the *tools to improve public modernisation* composite indicator, which includes measures for ICT-based solutions in government, the use of evidence-based steering and planning instruments like Regulatory Impact Assessments, and measures to improve the flexibility, performance-orientation and mobility of the administrative staff. Finland is one of the top performers for e-government and has increased online availability of services for enterprises considerably over the past years. Also, the usage of a comprehensive evidence-based impact assessment has been improved since its implementation in 2004, while the application of instruments that facilitate a strategic management of public employees was slightly more intense than average.

The summary indicators for *corruption and fraud* are significantly superior to the average performance in the Member States. With only 4% of individual corruption experiences, Finland outperforms the majority of other Member States. The perception of irregular payments and bribes as well as the diversion of public funds is much lower than the EU-mean.

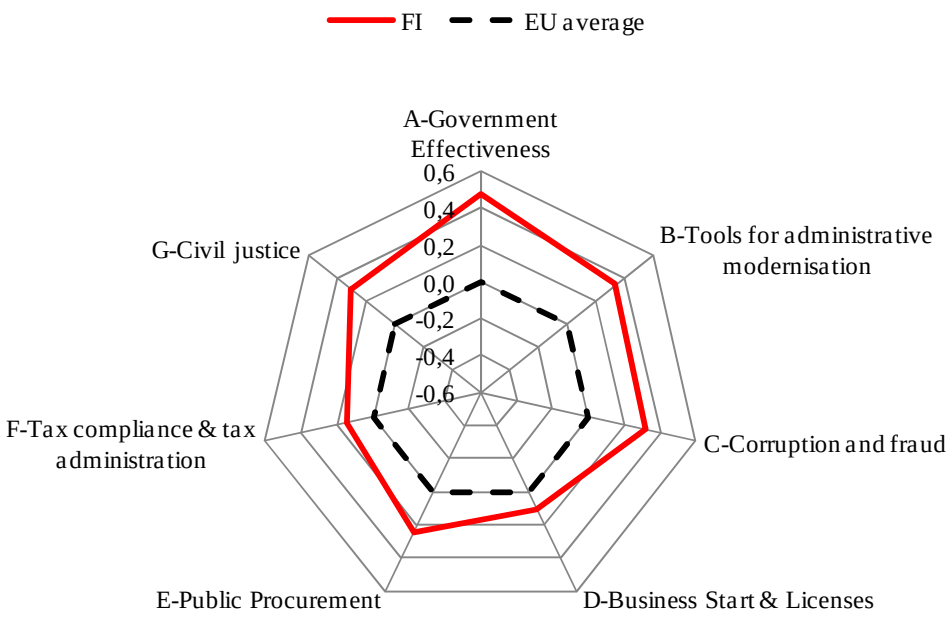
Tax compliance and tax administration indicators are higher than average, too, reflecting especially a far better than average performance in the time to prepare and file tax returns and to pay taxes (only 93 days, EU-mean is 208 days), whereas the administrative costs of taxation (0.9% of revenues) are only slightly better than the EU-mean (1.3%).

The composite index reflecting the procedures for *starting a business and obtaining* licenses is slightly better than average, with the exception of the time required to start-up a company, which takes approximately as long in Finland as in the average Member State, as stated in the World Bank's Doing Business report. In spite of the comparatively good performance in setting up a fully operational one-stop shop to start-up a company, there is still potential for improvement.

The composite headline indicator for *public procurement* is well above average, with the average delay in payments (only 4 days as compared to the EU-mean of 28.3 days) as well as the cost to participate in government procurements (0.14 percent of GDP per capita as typical costs of taking part in a competition, while the EU-mean amounts to 0.19 percent of GDP per capita) being substantially lower than the EU-average.

Finland also observes an extraordinary good performance as regards its *civil justice system*. The time required to enforce contracts (375 days) is far shorter than the EU-mean (556 days), and the costs thereof are substantially lower (13.3% of a claim in Finland as compared to the EU-mean of 20.6%). Resolving bankruptcy issues is similarly faster (0.9 years) than in most other countries (mean of 1.95 years). Perceived independence of the judiciary is one of the highest of all Member States with a score of 6.41 on a scale from 1 to 7.

Figure 7.8 – Summary indicators graph: Finland



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.8.3. Country Factsheet Finland

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**1.00**	**0.53**	**+0.47**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	2.24	1.18	+0.47
B. Tools for administrative modernisation		**0.87**	**0.54**	**+0.34**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	9.33	3.87***	+0.51
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	53.40	32.30	+0.29
C. Corruption and fraud		**0.92**	**0.60**	**+0.32**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.20	4.37	+0.44
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.50	5.14	+0.43
C3) Experience of corruption [% share of respondents reporting an incident]	2011	4.00	10.00	+0.20
D. Starting a business and licensing		**0.73**	**0.62**	**+0.10**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	14.00	13.69	-0.01
D3) Cost to start-up a company [% of income per capita]	2011	1.00	5.05	+0.20
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	15.00	15.32	+0.03

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.90**	**0.66**	**+0.24**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	10.00	16.60	+0.30
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.14	0.19	+0.24
E3) Average delay in payments from public authorities [days]	2012	4.00	28.23	+0.23
F. Tax compliance and tax administration		**0.93**	**0.79**	**+0.14**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	93.00	208.20	+0.23
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.87	1.32	+0.04
G. Efficiency of civil justice		**0.89**	**0.59**	**+0.30**
G1) Enforcing contracts: Time [Calendar days]	2011	375.00	556.40	+0.18
G2) Enforcing contracts: Cost [Percentage of claim]	2011	13.30	20.60	+0.31
G3) Resolving insolvency: Time [Years]	2011	0.90	1.95	+0.29
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.41	4.77	+0.42

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.9. France

7.9.1. Background information

Legal system	Civil law system (French tradition)
State system	Unitary state, decentralised
No. of administrative tiers	4 (central/regional/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	25.2 (2010)
core administration (w/o military service)	8.7 (2009)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.9.2. Summary assessment

The overall assessment of the quality of the public administration using the *government effectiveness* indicator from the World Bank reveals that the France performance is slightly above average compared to the other Member States. Captured perceptions on the quality of public services, the quality of policy formulation, its implementation and the credibility of public servants' commitment to such policies are positive with a score of 1.44 as compared to 1.18 in the Member States on average.

The use of innovative *tools* to improve administration performance (like ICT applications, modern human resources management and evidence-based steering and planning measures) is less intense than average in the Member States. Most of the sub-indexes are below the EU-average. The availability of businesses related e-Government services and the use of steering and planning instruments like Regulatory Impact Assessments are only slightly below EU average, but the post bureaucracy-index reveals that public administration in France is still following a quite traditional human resources management model and does not use many instruments that facilitate a strategic management of public employees (France scores 16.3 points versus the EU average of 32.3 points).

With respect to *corruption and fraud*, selected indicators show that France scores better than the EU-average. All three sub-indices indicate a lower level of perceived corruption in the French public administration as compared to the EU-mean. The indicator 'experience of corruption' also illustrates that France is performing better than the EU-average (only 3% of respondents report an incident vs. 10% in the EU-average).

The composite *starting a business and obtaining licenses*-index is above EU-average. France performs especially well on the sub-indicator that measures the cost to start-up a company as it takes less than 1% of GDP per capita, which is 5 times less than the Member States on average. Also the time to start-up a business is clearly better than the EU-average (7 days vs.

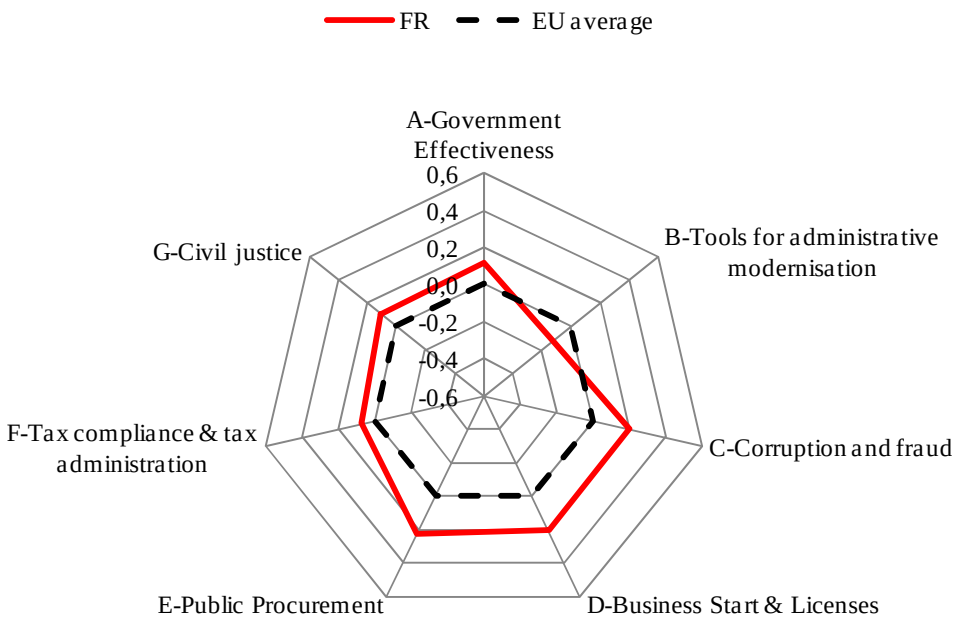
the EU-average of 13.69 days). Also with regard to total licensing complexity France scores better than the EU-average.

France is performing well on the cost of a competition for firms per competition which is only 0.12% of GDP per capita (as compared to 0.19% in EU on average). Payment delays of public authorities are 7 days less than the average over the Member States (21 days vs. 28.23 days). Hence, the composite *public procurement* index is also well above average.

With regard to the *tax compliance and tax administration-indicator* France performs better than the EU-average. In France it takes 132 hours yearly to prepare and file tax returns and to pay taxes, which is significantly better than the EU as a whole (208 hours). However, the administrative costs of taxation are similar to the Member States average at 1.3% of collected revenues

All sub-indicator values of the composite *civil justice* indicator are better than Member States' average. The time to enforce contracts is significantly below the EU-mean as it takes 331 calendar days in France as compared to 556 in the Member States on average. Enforcement costs make up 17.4% of the claim as compared to the EU-mean of 20.6%. As regards the time to resolve insolvency (1.9 years) and the perceived independence of the judiciary, France performs almost similar to the average.

Figure 7.9 – Summary indicators graph: France



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.9.3. Country Factsheet France

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.64**	**0.53**	**+0.12**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.44	1.18	+0.12
B. Tools for administrative modernisation		**0.41**	**0.54**	**-0.12**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	-0.03
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	4.00	3.87***	0.13
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	16.30	32.30	-0.21
C. Corruption and fraud		**0.80**	**0.60**	**+0.20**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.10	4.37	+0.18
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.60	5.14	+0.15
C3) Experience of corruption [% share of respondents reporting an incident]	2011	3.00	10.00	+0.24
D. Starting a business and licensing		**0.83**	**0.62**	**+0.20**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	7.00	13.69	+0.24
D3) Cost to start-up a company [% of income per capita]	2011	0.90	5.05	+0.21
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	13.00	15.32	+0.13

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.88**	**0.66**	**+0.23**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	10.00	16.60	+0.30
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.12	0.19	+0.34
E3) Average delay in payments from public authorities [days]	2012	21.00	28.23	+0.08
F. Tax compliance and tax administration		**0.86**	**0.79**	**+0.07**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	132.00	208.20	+0.15
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.31	1.32	-0.02
G. Efficiency of civil justice		**0.69**	**0.59**	**+0.10**
G1) Enforcing contracts: Time [Calendar days]	2011	331.00	556.40	+0.22
G2) Enforcing contracts: Cost [Percentage of claim]	2011	17.40	20.60	+0.14
G3) Resolving insolvency: Time [Years]	2011	1.90	1.95	+0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	4.90	4.77	+0.03

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.10. Germany

7.10.1. Background information

Legal system	Civil law system (German tradition)
State system	Federal Republic, composed of *Länder*
No. of administrative tiers	4 (central/regional/provincial/municipal), status and responsibilities of provincial level and municipal level differs among *Länder*
%-share of compensation of employees in economy-wide compensation of employees	
general government	15.4 (2010)
core administration (w/o military service)	8.1 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.10.2. Summary assessment

An overall assessment of the quality of the German public administration by the *government effectiveness* indicator from the World Bank ranks Germany slightly better than the average Member State. The indicator measures the perceived quality of public services and of the administration in Germany. Hence the assessment indicates some scope for improvements.

The use of new *tools for administrative modernisation* is only partially advanced. Germany has the maximum number of business-related e-government services, and a high above EU-average adoption of modern evidence-based steering instruments like Regulatory Impact Analyses. In contrast, the use of modern management instruments for public administration staff, e.g. performance related pay, or a shift from civil servants to private employment contracts, is still less sophisticated as compared to the EU-average.

With respect to *corruption and fraud*, selected indicators clearly show that Germany scores far better than the EU-average. All three sub-indices indicate a lower level of perceived as well as experienced corruption in Germany's public administration as compared to the EU-mean.

There is obviously room for improvement as regards the procedures for s*tarting-up a business and licensing*. A fully operational one-stop-shop for registering and starting-up a company does not yet exist. The time required to start-up (15 days) is slightly longer than average (13.7 days); the administrative costs for a start-up of 4.6% of per capita GDP are slightly lower, as compared to the EU-mean of 5%. According to the respective index, Germany's licensing procedures are more complex than in other EU-Member States.

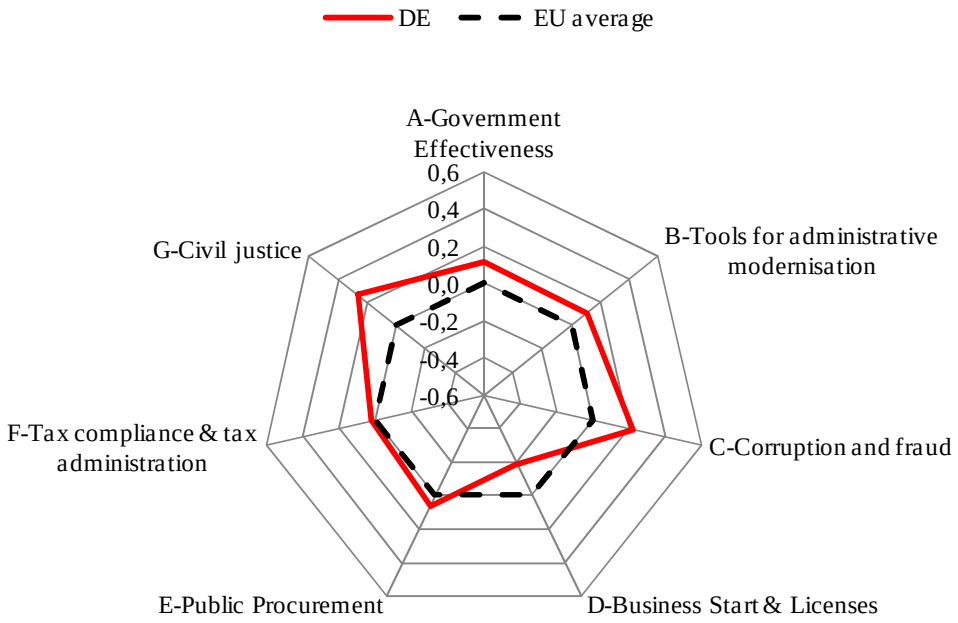
Public procurement processes on average seem to be only very slightly better organised than in other countries. The costs per firm to participate in a tender in relation to per capita GDP

amount to 0.18%, which is minimally smaller than the EU-average of 0.19%. The person-days required in such a competition are at the EU-mean (17 days in Germany as compared to the mean of 16.6 days).[44] Average payment delays of the German administration however are only 11 days, as compared to an EU-mean of 28.3 days.

Both sub-indicators for *tax compliance and tax administration* are around the sample mean. The time required to prepare tax forms is 221 hours per year, which is somewhat above the EU-mean of 208 hours. The cost of tax administration in percent of tax receipts is slightly smaller (0.79%) than the mean (1.32%).

The *efficiency of the civil justice system* in Germany is highly ranked according to all selected indicators. Enforcing contracts takes less than average time (394 days vs. 556 days) and less than average costs (14.4% of claims in Germany, EU-average is at 20.6%). The time to resolve insolvency issues (1.2 years) is also shorter than on EU-average (1.95 years). These hard facts are supported by a much higher level of perceived independence of the judiciary than in many other countries.

Figure 7.10 – Summary indicators graph: Germany



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

[44] That the normalised indicator has nevertheless a positive value is due to the fact that for calculation the sample includes all available data. In this case, Malta is included.

7.10.3. Country Factsheet Germany

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.64**	**0.53**	**+0.12**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.44	1.18	+0.12
B. Tools for administrative modernisation		**0.64**	**0.54**	**+0.11**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	7.67	3.87***	+0.31
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	16.60	32.30	-0.21
C. Corruption and fraud		**0.82**	**0.60**	**+0.22**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.60	4.37	+0.29
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.90	5.14	+0.24
C3) Experience of corruption [% share of respondents reporting an incident]	2011	5.00	10.00	+0.17
D. Starting a business and licensing		**0.43**	**0.62**	**-0.19**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	15.00	13.69	-0.05
D3) Cost to start-up a company [% of income per capita]	2011	4.60	5.05	+0.02
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	21.20	15.32	-0.29

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.71**	**0.66**	**+0.06**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	17.00	16.60	+0.01
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.18	0.19	+0.04
E3) Average delay in payments from public authorities [days]	2012	11.00	28.23	+0.17
F. Tax compliance and tax administration		**0.81**	**0.79**	**+0.02**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	221.00	208.20	-0.03
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.79	1.32	+0.06
G. Efficiency of civil justice		**0.85**	**0.59**	**+0.26**
G1) Enforcing contracts: Time [Calendar days]	2011	394.00	556.40	+0.16
G2) Enforcing contracts: Cost [Percentage of claim]	2011	14.40	20.60	+0.27
G3) Resolving insolvency: Time [Years]	2011	1.20	1.95	+0.21
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.33	4.77	+0.40

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.11. Greece

7.11.1. Background information

Legal system	Civil law system (French tradition)
State system	Unitary state, decentralised
No. of administrative tiers	4, (central/regional/provincial/municipal). regions are only de-concentrated territorial divisions of state administration
%-share of compensation of employees in economy-wide compensation of employees	
general government	33.6 (2010)
core administration (w/o military service)	13.8 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.11.2. Summary assessment

Greece's overall public administration performance, as measured by the World Bank's *government effectiveness* indicator, is far below the EU-average. The perceived quality of public services, including the quality of the civil service and policy implementation, is very low. A worse than average performance of Greece's administration is common also when other indicators are assessed. Obviously there is much scope for improvement.

The use of novel *tools to improve public administration* performance (like ICT applications, modern human resources management and evidence-based steering and planning instruments) is far below the average of the Member States. Especially the availability of business related e-government services is particularly low compared to the other Member States. Evidence-based steering instruments in administration such as Regulatory Impact Analyses, as well as modern human resources steering instruments, are also not well-developed.

The composite *corruption and fraud* indicator shows a very challenging situation in Greece, due to all the criteria taken into account. Irregular payments and bribes seem especially prevalent; a wide gap can be observed in comparison to the EU-average. According to the respective indicator, a diversion of public funds which is an indication of state capture by special interest, is also perceived as highly problematic.

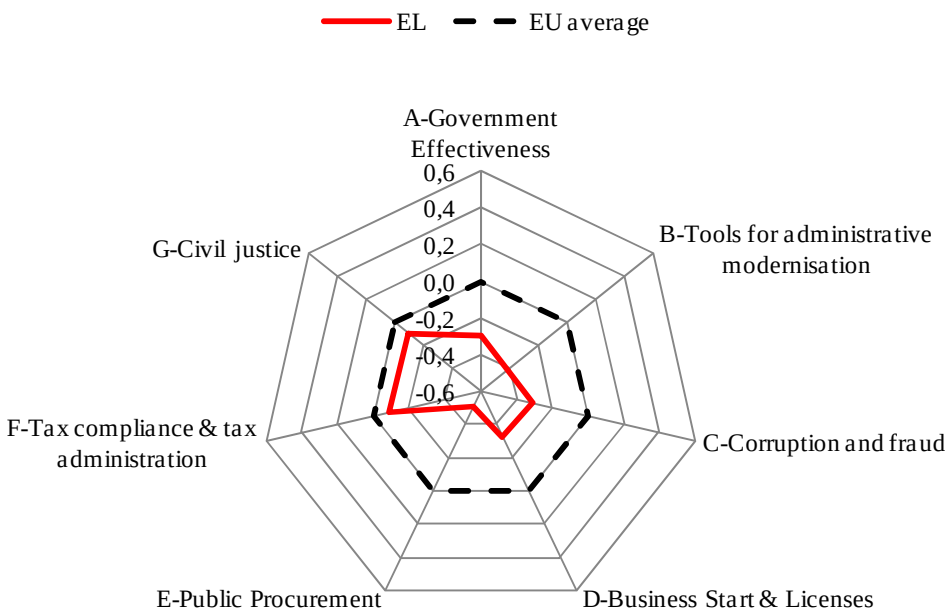
The composite *starting a business and licensing* indicator shows worse than EU-average values in Greece, mainly due to the non existing fully operational one-stop-shop to start-up a company, and to the extraordinary high costs to start-up a business (20 % of GDP per capita, which is 4 times higher than the Member States' average). A notable exception is the shorter duration of procedures to start-up a company. In Greece it takes 10 days to start-up a company which is 3 days faster than the EU average.

The performance of Greece in terms of *public procurement* is also well below average. The three sub-indexes show more or less the same degree of weakness. The delay in administrative payments is very high compared to the EU-average. Due to the difficult budgetary situation of the Greek state, payment delays have risen to 114 calendar days, 4 times longer than the Member States average. The typical costs of private firms to take part in procurement procedures also exceed the EU-average.

With regard to *tax compliance*, the sub-indicators also measures a performance slightly worse the EU-average, however to a lesser extent compared to the other aspects of the assessment framework. The time to prepare and file tax returns and to pay taxes is 224 hours per year, compared to the EU-average of 208 hours. Data for tax administration costs are not available.

The *efficiency of the civil justice system* is only slightly below the EU-average according to the composite headline indicator. However, the data give a very heterogeneous picture. The time to enforce contracts is problematic as it takes 819 days for enforcement as compared to 556 days in the Member States on average. On the other hand, the costs of enforcing contracts is far less (14.4% of the claim) than the EU-average (20.6% of the claim). The perceived independence of the judicial system is also lower than in most member States.

Figure 7.11 – Summary indicators graph: Greece



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.11.3. Country Factsheet Greece

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.23**	**0.53**	**-0.30**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.52	1.18	-0.30
B. Tools for administrative modernisation		**0.13**	**0.54**	**-0.41**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	63.00	89.10	-0.53
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	2.00	3.87***	-0.37
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	7.20	32.30	-0.34
C. Corruption and fraud		**0.29**	**0.60**	**-0.31**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.70	4.37	-0.40
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.50	5.14	-0.51
C3) Experience of corruption [% share of respondents reporting an incident]	2011	15.00	10.00	-0.16
D. Starting a business and licensing		**0.30**	**0.62**	**-0.32**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	10.00	13.69	+0.13
D3) Cost to start-up a company [% of income per capita]	2011	20.10	5.05	-0.75
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	18.60	15.32	-0.15

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.14**	**0.66**	**-0.51**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	25.00	16.60	-0.32
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.27	0.19	-0.41
E3) Average delay in payments from public authorities [days]	2012	114.00	28.23	-0.77
F. Tax compliance and tax administration		**0.70**	**0.79**	**-0.09**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	224.00	208.20	-0.03
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009		1.32	-0.16****
G. Efficiency of civil justice		**0.50**	**0.59**	**-0.09**
G1) Enforcing contracts: Time [Calendar days]	2011	819.00	556.40	-0.26
G2) Enforcing contracts: Cost [Percentage of claim]	2011	14.40	20.60	+0.27
G3) Resolving insolvency: Time [Years]	2011	2.00	1.95	-0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.33	4.77	-0.37

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.12. Hungary

7.12.1. Background information

Legal system	Civil law system (German tradition)
State system	Unitary state, decentralised
No. of administrative tiers	3 (central/provincial/municipal), regions are only statistical and planning units
%-share of compensation of employees in economy-wide compensation of employees	
general government	24.9 (2010)
core administration (w/o military service)	10.2 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.12.2. Summary assessment

In terms of overall public administration performance, Hungary performs poorly compared to the EU-average as measured by the World Bank's *government effectiveness* indicator. Hence, perceptions indicate a lower quality of public services, policy formulation, its implementation and the credibility of public servants' commitment to such policies. Scores have been continuously declining since 2006. In order to enhance the effectiveness of the public administration, several initiatives have been launched in the last two years.

With respect to the use of *tools for administrative modernisation* (e.g. ICT-based solutions, evidence based steering and planning instruments and performance orientation) Hungary is again underperforming. In part this is due to a lower availability of business related e-government services (e.g. electronic submission and payment of corporate tax return, electronic tools for customs clearance and registration of start-ups) where only 4 of 8 services are fully implemented. In addition, reliance on tools for modernisation of human resource management such as the implementation of flexible modes of public employment, flexible recruitment and tenure systems as well as flexible salary systems is also low.

In terms of *corruption* Hungary exhibits a significantly lower performance than the EU-average. In this context, especially the 'diversion of public funds' as a result of state capture is perceived to be very common. Regarding the experience of corruption, the indicator shows that bribery is still a major issue with a share of 20% of respondents reporting an incidence whereas the EU-average is only 10%. In order to combat corruption, the government approved and launched a new anti-corruption programme in 2012 on the integrity approach with the involvement of all partners.

Hungary's performance in terms of *starting a business and licensing* is notably above the EU-average. This is mainly due to the short time necessary for incorporation (4 days instead of

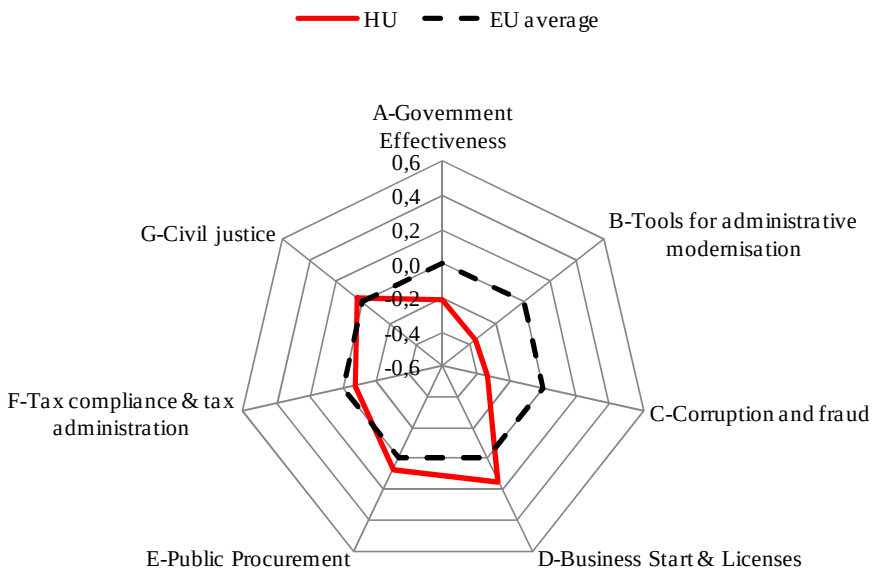
13.69 days), the relative convenience in obtaining licenses compared to the EU-average as well as the implementation of a fully operational one-stop-shop. However, concerning costs for incorporation Hungary performs worse with costs amounting to 7.6% of per capita GDP which is significantly higher than the EU average (5.05% of per capita GDP).

With respect to *public procurement* Hungary's performance is slightly above the EU-average. This result is mainly driven by lower resource requirements in terms of time (15 days instead of 16.6 days) as well as costs (0.16% instead of 0.19% of per capita GDP) to take part in the competition in public procurement tenders. Beyond that, Hungary also exhibits a slightly better performance in terms of payment delays from public authorities which sum up to 27 days instead of 28.23 days. A new public procurement law was adopted in July 2011. It aims at ensuring a more transparent spending of public funds and at increasing the chances of SMEs to successfully participate in public procurement procedures.

For Hungary, the composite indicator for *tax compliance and tax administration* has a marginally lower score than the EU-average. On the one hand, it takes longer to prepare and file tax returns compared to the EU average (277 days instead of 208.2 days). On the other hand, Hungary's tax administration operates more efficiently than the EU average. Administrative costs sum up to 1.2% of revenues compared to 1.32% for the EU-average. Beyond that, the Simple State Programme launched in 2011 aims at improving electronic tax return submissions and at reducing the number of tax obligations.

In terms of *efficiency of civil justice*, Hungary shows a performance that is marginally above the EU-average. Whereas costs and time necessary for the enforcement of contracts are significantly lower than the EU-average (15% of contract value and 395 days instead of 20.6% and 556.4 days, respectively), in terms of the perceived level of judicial independence Hungary's judicial system is assessed as less independent compared to the EU average.

Figure 7.12 – Summary indicators graph: Hungary



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.12.3. Country Factsheet Hungary

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.31**	**0.53**	**-0.22**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.70	1.18	-0.22
B. Tools for administrative modernisation		**0.18**	**0.54**	**-0.36**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	50.00	89.10	-0.79
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	3.70	3.87***	-0.17
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	22.90	32.30	-0.12
C. Corruption and fraud		**0.26**	**0.60**	**-0.33**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.60	4.37	-0.42
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.30	5.14	-0.26
C3) Experience of corruption [% share of respondents reporting an incident]	2011	20.00	10.00	-0.33
D. Starting a business and licensing		**0.77**	**0.62**	**+0.15**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	4.00	13.69	+0.35
D3) Cost to start-up a company [% of income per capita]	2011	7.60	5.05	-0.13
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	12.40	15.32	+0.16

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.73**	**0.66**	**+0.07**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	15.00	16.60	+0.09
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.16	0.19	+0.14
E3) Average delay in payments from public authorities [days]	2012	27.00	28.23	+0.02
F. Tax compliance and tax administration		**0.72**	**0.79**	**-0.07**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	277.00	208.20	-0.14
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.20	1.32	-0.00
G. Efficiency of civil justice		**0.63**	**0.59**	**+0.04**
G1) Enforcing contracts: Time [Calendar days]	2011	395.00	556.40	+0.16
G2) Enforcing contracts: Cost [Percentage of claim]	2011	15.00	20.60	+0.24
G3) Resolving insolvency: Time [Years]	2011	2.00	1.95	-0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.92	4.77	-0.22

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.13. Ireland

7.13.1. Background information

Legal system	Common law system based on the English model but substantially modified by customary law
State system	Unitary state, centralised
No. of administrative tiers	4 (central/regional/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	26.5 (2010)
core administration (w/o military service)	6.8 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.13.2. Summary assessment

The *government effectiveness*-measure from the World Bank's is a comprehensive assessment of the quality of administration in a broad sense, and measures perceptions of the quality of public services, of policy formulation, its implementation and the credibility of public servants' commitment to such policies. According to this indicator, the public administration of Ireland shows a performance slightly better than the average of the Member States.

The employment of innovative *tools for administrative modernisation* like ICT-applications, evidence-based steering and planning and modern human resources management in public administration, is somewhat heterogeneous. On the one hand, Ireland offers full availability of business-related e-government services, and the use of Regulatory Impact Assessments as a tool for evidence-based policies is also already highly sophisticated as compared to other Member States. On the other hand, Ireland's public administration is much more 'traditional' in the sense that instruments of modernised ("post-bureaucratic") personnel management are not as widely used as in other countries.

Problems of *corruption and fraud* are not distinctive in Ireland's administration, according to the indicators related to that link. The perceptions-based indicators for irregular payments and for diversion of public funds show values that are clearly better than the EU-mean. With an individual corruption experience in only 2% of all cases, Ireland also shows substantially better than average values according to the third indicator.

In general, Ireland's performance as regards *starting up a business and obtaining licenses* is better than the average of Member States. The time required to start-up a company (123 days) is slightly below average (13.7 days), and the costs are substantially lower (0.4% as compared to 5% of income per capita). In line with this is the lower score of the index of total licensing

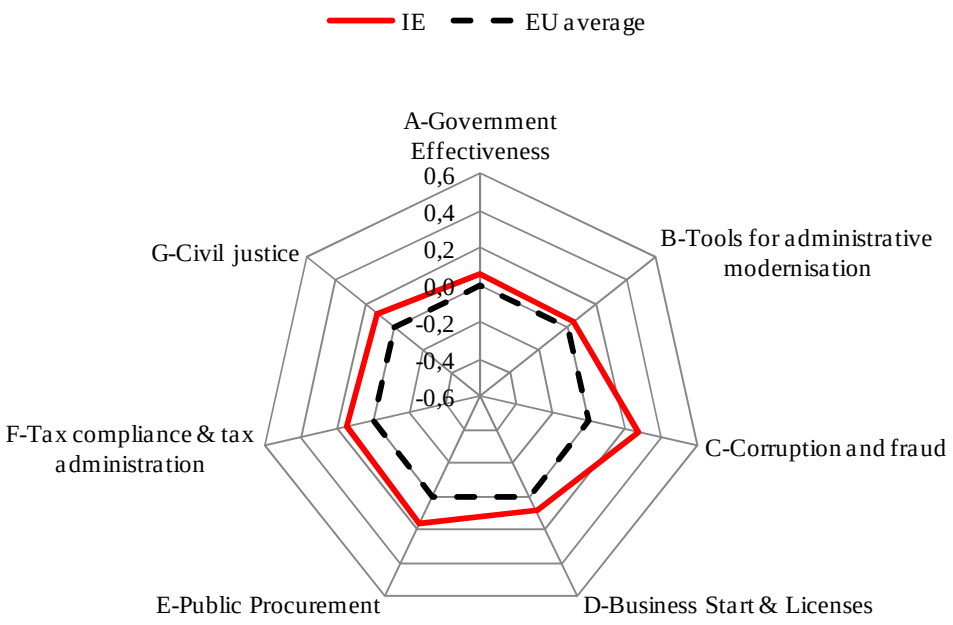
complexity, indicating less complex procedures that on EU-average. However, in 2010 a fully operational one-stop-shop did not exist.

Public procurement procedures are at an advanced level. With 15 total person-days per firm per competition Ireland is slightly better than the EU-average of 16.6 days. Also, the typical cost (in % of GDP per capita) of taking part in a competition is smaller (0.13%) than the EU-mean (0.19%). Despite its significant budgetary problems Ireland's public authorities still show high payment morale: Average payment delays amount to 13 days as compared to the EU-average of 28.3 days.

As regards *tax compliance and tax administration* Ireland is among the top performers. The average time to prepare and file tax returns is 76 hours per year which is far below the EU-average of 208 hours. The administrative costs of taxation, depicted by the per 100 units cost of revenue collection come up to 1.1%, as compared to an average of 1.3% across the Member Countries.

The *civil justice system* is evaluated better than average but there is still some scope for further improvement. Both the time (650 days) and the costs (26.9% of a claim) of enforcing contracts are higher than the average EU-figures. On the other hand, only 0.4 years are required to resolve insolvency cases, which is significantly faster than the EU-mean of 1.95 years. The perceived independence of the judiciary is very high.

Figure 7.13 – Summary indicators graph: Ireland



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.13.3. Country Factsheet Ireland

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.58**	**0.53**	**+0.06**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.31	1.18	+0.06
B. Tools for administrative modernisation		**0.58**	**0.54**	**+0.04**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	6.33	3.87***	+0.15
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	13.60	32.30	-0.25
C. Corruption and fraud		**0.87**	**0.60**	**+0.27**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.40	4.37	+0.25
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.10	5.14	+0.30
C3) Experience of corruption [% share of respondents reporting an incident]	2011	2.00	10.00	+0.27
D. Starting a business and licensing		**0.71**	**0.62**	**+0.09**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	13.00	13.69	+0.02
D3) Cost to start-up a company [% of income per capita]	2011	0.40	5.05	+0.23
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	7.40	15.32	+0.41

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.82**	**0.66**	**+0.16**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	15.00	16.60	+0.09
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.13	0.19	+0.29
E3) Average delay in payments from public authorities [days]	2012	13.00	28.23	+0.15
F. Tax compliance and tax administration		**0.93**	**0.79**	**+0.14**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	76.00	208.20	+0.27
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.08	1.32	+0.01
G. Efficiency of civil justice		**0.71**	**0.59**	**+0.11**
G1) Enforcing contracts: Time [Calendar days]	2011	650.00	556.40	-0.09
G2) Enforcing contracts: Cost [Percentage of claim]	2011	26.90	20.60	-0.27
G3) Resolving insolvency: Time [Years]	2011	0.40	1.95	+0.43
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.27	4.77	+0.38

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.14. Italy

7.14.1. Background information

Legal system	Civil law system (French tradition)
State system	Unitary state, regionalised
No. of administrative tiers	4 (central/regional/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	26.3 (2010)
core administration (w/o military service)	8.3 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.14.2. Summary assessment

The indicator *government effectiveness* from the World Bank provides a comprehensive assessment of the quality of administration in a broad sense. It measures perceptions of the quality of public services, of policy formulation, its implementation and the credibility of public servants' commitment to such policies. According to this indicator, Italy performs significantly worse than the average Member state (Italy obtains a normalized score of 0.23 compared to the EU average of 0.53). The bad performance of this summary indicator is also reflected in the scores of many of more specific links in the assessment framework.

However, the below average overall performance is not caused by not applying management *tools to improve public administration* performance (like ICT applications, modern human resources management and evidence-based steering and planning instruments). This is the only dimension where the performance of the Italian public administration is at the level of the average Member states. Italy has an above average performance in the implementation of business-related All 8 business-related e-government services considered in the assessment framework are fully available online. The use of evidence-based steering instruments like impact assessments is slightly below the EU-average. Hence, the Italian administration still follows a quite traditional bureaucratic model of personnel steering and management.

Corruption indicators scores are lower than the EU-average. A 'diversion of public funds' as well as 'irregular payments and bribes' by firms are perceived to be problematic, and suggest that corruption and fraud are important issues in Italy. Regarding the individual experience of corruption, 12% of respondents report an incidence whereas the EU average is 10%.

The ease of procedures to *start-up a business and licensing* is slightly below the EU-average. Indicators show quite some heterogeneity for the individual indicators. In Italy it takes 6 days to start-up a company compared to the EU average of 13.7 days. However the cost associated with the start-up is very high compared to the Member States' average (18.2% compared to

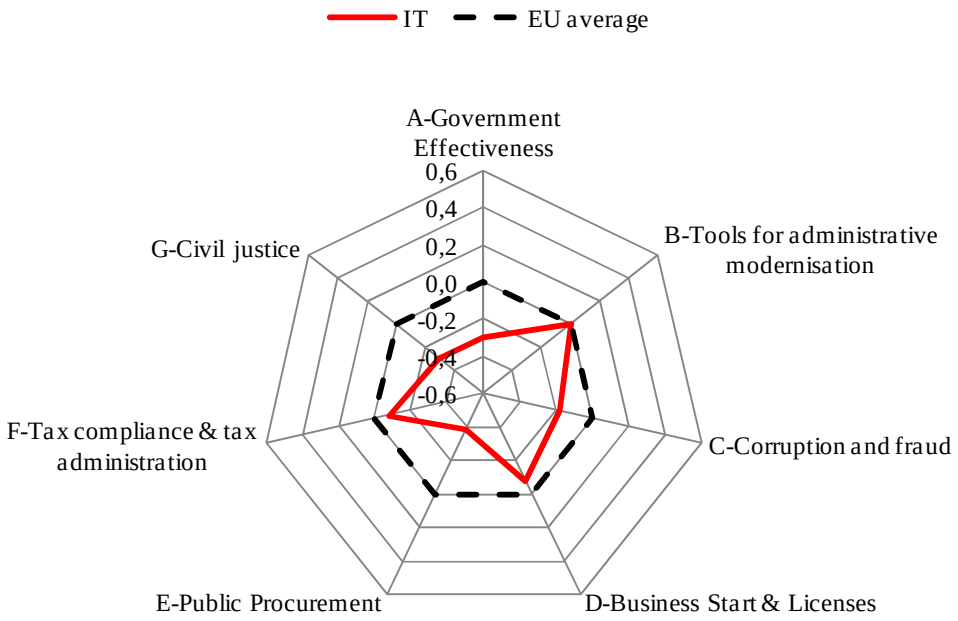
5.1% in terms of GDP per capita). The index of total licensing complexity indicates that Italy's licensing procedures are close to the EU-average level.

The composite indicator for *public procurement* indicates a below average performance. The effort and the cost per competition are clearly above the EU-average. However, especially relevant are payment delays from public authorities, which amount to 90 calendar days as compared to 28 calendar days on average in the EU.

The *tax compliance and tax administration* index is slightly below the EU average. In Italy it takes 285 hours per year to prepare and file tax returns and to pay taxes, as compared to 208 hours in the Member States on average. The administrative costs of taxation in Italy amount to 1.2% of total collected revenues. Here Italy shows a performance that is slightly better than the EU-average of 1.3%.

The composite indicator for the *efficiency of the civil justice system* indicates that one of the most important challenges to increase the performance of the Italian public administration is to increase efficiency and speed of civil justice. The time to enforce contracts is extremely high compared to the average. In Italy it takes the tremendous amount of 1210 calendar days to enforce contracts, which is more than twice the number of calendar days in the Member States on average (556 days). Consequently also the cost of using the civil justice system is substantially above the EU-average (29.9% of the claim compared to the EU-average of 20.6%). The perceived independence of the judicial system is also lower than in most member States. In contrast, the average time needed for resolving insolvency is slightly lower than the average of the Member States.

Figure 7.14 – Summary indicators graph: Italy



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.14.3. Country Factsheet Italy

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.23**	**0.53**	**-0.30**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.52	1.18	-0.30
B. Tools for administrative modernisation		**0.54**	**0.54**	**+0.00**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	4.67	3.87***	-0.05
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	20.40	32.30	-0.16
C. Corruption and fraud		**0.42**	**0.60**	**-0.18**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.20	4.37	-0.28
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.10	5.14	-0.32
C3) Experience of corruption [% share of respondents reporting an incident]	2011	12.00	10.00	-0.06
D. Starting a business and licensing		**0.54**	**0.62**	**-0.08**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	6.00	13.69	+0.27
D3) Cost to start-up a company [% of income per capita]	2011	18.20	5.05	-0.65
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	16.20	15.32	-0.03

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.27**	**0.66**	**-0.39**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	20.00	16.60	-0.11
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.28	0.19	-0.46
E3) Average delay in payments from public authorities [days]	2012	90.00	28.23	-0.55
F. Tax compliance and tax administration		**0.72**	**0.79**	**-0.08**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	285.00	208.20	-0.15
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.20	1.32	-0.00
G. Efficiency of civil justice		**0.29**	**0.59**	**-0.30**
G1) Enforcing contracts: Time [Calendar days]	2011	1210.00	556.40	-0.64
G2) Enforcing contracts: Cost [Percentage of claim]	2011	29.90	20.60	-0.40
G3) Resolving insolvency: Time [Years]	2011	1.80	1.95	+0.04
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.99	4.77	-0.20

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.15. Latvia

7.15.1. Background information

Legal system	Civil law system (German tradition) former socialist
State system	Unitary state
No. of administrative tiers	3 (central/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	23.8 (2010)
core administration (w/o military service)	8.2 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.15.2. Summary assessment

Latvia performs considerably below the EU-average as measured by the World Bank's *government effectiveness* indicator, which provides an assessment of the quality of public administration in a broad sense. Hence, perceptions of the quality of public services, the quality of policy formulation, its implementation and the credibility of public servants' commitment to such policies indicate a notably inferior performance when compared to the EU-average. In addition, Latvia's scores have remained virtually the same since 2004.

In contrast, with respect to the use of *tools for administrative modernisation* (e.g. ICT-based solutions, performance orientation and evidence based steering and planning instruments) Latvia exhibits a performance that exceeds the EU-average. Besides the full implementation of 8 business related e-government services (e.g. electronic registration of start-ups and the electronic submission and payment of corporate tax return and social security contributions), public administration also relies more intensely on tools of modern human resource management, such as public employment instead of civil servants, flexible recruitment, salary, and tenure systems, for public service employees. Data on the use of evidence based steering instruments in public administration are not available.

Compared to the EU-average, Latvia's performance in terms of *corruption* is significantly inferior implying that corruption is an important issue. Diversion of public funds due to political influence of vested interests as well as a high frequency of undocumented payments and bribes by firms connected with public services are seen as common by a majority of respondents. With respect to the individual experience of corruption, 16% of respondents report an incidence whereas the EU-average is only 10%.

In terms of *starting a business and licensing*, Latvia's performance is fairly equal to the EU-average. However, looking at all included aspects reveals a heterogeneous picture. Whereas

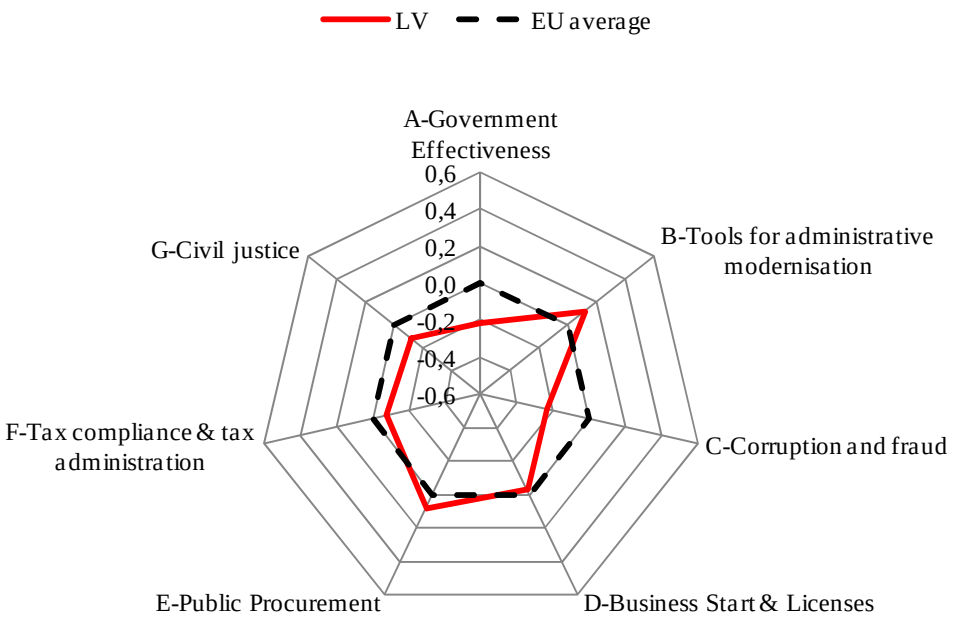
time requirements for incorporation are higher than the EU-average (16 days instead of 13.69 days) and no 'one-stop-shop' is implemented (as of 2010), costs for incorporation are significantly lower (2.6% of per capita GDP instead of 5.05%) and licensing procedures are assessed as more convenient.

With respect to *public procurement*, Latvia's performance exceeds the EU-average. Whereas typical costs for firms to take part in the competition for public procurement tenders are fairly equal to the EU average, corresponding time requirements are notably lower (14 days instead of 16.6 days). In addition, payment delays by public authorities in the context of public procurement contracts are significantly lower. While payment delays for the EU-average amount to more than 28 days, for Latvia this value is only 18 days.

With respect to *tax compliance and tax administration*, indicator scores are slightly below the EU-average. Whereas the time necessary to prepare and file tax returns amounts to 208 hours per year on average in the EU, in Latvia 290 hours are required. In contrast, the score for administrative costs of taxation indicates that Latvia's tax administration is more efficient compared to the EU-average with costs summing up to 1.14% of revenues instead of 1.32%.

In terms of *efficiency of civil justice*, Latvia performs worse than the EU-average. However, whereas costs for the enforcement of contracts are notably higher (23.1% of the claim instead of 20.6%), time requirements amount to 369 calendar days only, which is significantly below the EU-average (556.4 days). Nevertheless, the time necessary to resolve insolvency in Latvia significantly exceeds the EU-average (3 years instead of 1.95 years), and the independence of the judiciary is perceived as inferior compared to the EU-average.

Figure 7.15 – Summary indicators graph: Latvia



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.15.3. Country Factsheet Latvia

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.31**	**0.53**	**-0.22**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.70	1.18	-0.22
B. Tools for administrative modernisation		**0.65**	**0.54**	**+0.12**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(+0.02)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	40.20	32.30	+0.11
C. Corruption and fraud		**0.36**	**0.60**	**-0.23**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.30	4.37	-0.25
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.20	5.14	-0.29
C3) Experience of corruption [% share of respondents reporting an incident]	2011	16.00	10.00	-0.20
D. Starting a business and licensing		**0.59**	**0.62**	**-0.03**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	16.00	13.69	-0.08
D3) Cost to start-up a company [% of income per capita]	2011	2.60	5.05	+0.12
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	11.20	15.32	+0.22

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.74**	**0.66**	**+0.08**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	14.00	16.60	+0.14
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.18	0.19	+0.04
E3) Average delay in payments from public authorities [days]	2012	18.00	28.23	+0.10
F. Tax compliance and tax administration		**0.71**	**0.79**	**-0.08**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	290.00	208.20	-0.16
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.14	1.32	+0.01
G. Efficiency of civil justice		**0.48**	**0.59**	**-0.12**
G1) Enforcing contracts: Time [Calendar days]	2011	369.00	556.40	+0.18
G2) Enforcing contracts: Cost [Percentage of claim]	2011	23.10	20.60	-0.11
G3) Resolving insolvency: Time [Years]	2011	3.00	1.95	-0.29
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.81	4.77	-0.25

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.16. Lithuania

7.16.1. Background information

Legal system	Civil law system (French tradition), former socialist
State system	Unitary state, decentralised
No. of administrative tiers	3 (central/provincial/municipal), no regional level
%-share of compensation of employees in economy-wide compensation of employees	
general government	26.7 (2010)
core administration (w/o military service)	6.5 (2007)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.16.2. Summary assessment

In terms of overall performance, Lithuania's administration is considerably below the EU-average as measured by the World Bank's *government effectiveness* indicator which provides an assessment of the quality of public administration in a broad sense. Hence, the perceptions of the quality of public services and the quality of policy implementation tend to be negative. Since 2006, indicator scores have remained virtually identical.

Lithuania's performance with respect to the use of *tools for administrative modernisation* (e.g. ICT-based solutions, performance orientation and evidence based steering) is notably below the EU-average. This is primarily due to a lower availability of business related e-government services (e.g. electronic submission and payment of corporate tax return, submission of social security contributions and the registration of start-ups) where only six out of eight relevant services are implemented as well as shortcomings in the application of modern and flexible human resource management tools for public service employees such as flexible recruitment, tenure and salary systems.

Compared to the EU-average, *corruption* indicators scores imply a significantly inferior performance for Lithuania. The main driver for this result is the high share of respondents reporting an incidence of corruption in interaction with public administration. While the EU-average is 10%, in the case for Lithuania, 27% of respondents report an incidence of corruption. At the same time, diversion of public funds due to state capture and a high frequency of undocumented payments and bribes by firms connected with public services are seen as common by the majority of respondents.

In terms of *starting a business and licensing*, Lithuania's performance is fairly equal to the EU-average. However, while costs for incorporation are lower than the EU-average (2.8% of per capita GDP versus 5.1%), the corresponding time requirements are considerably higher

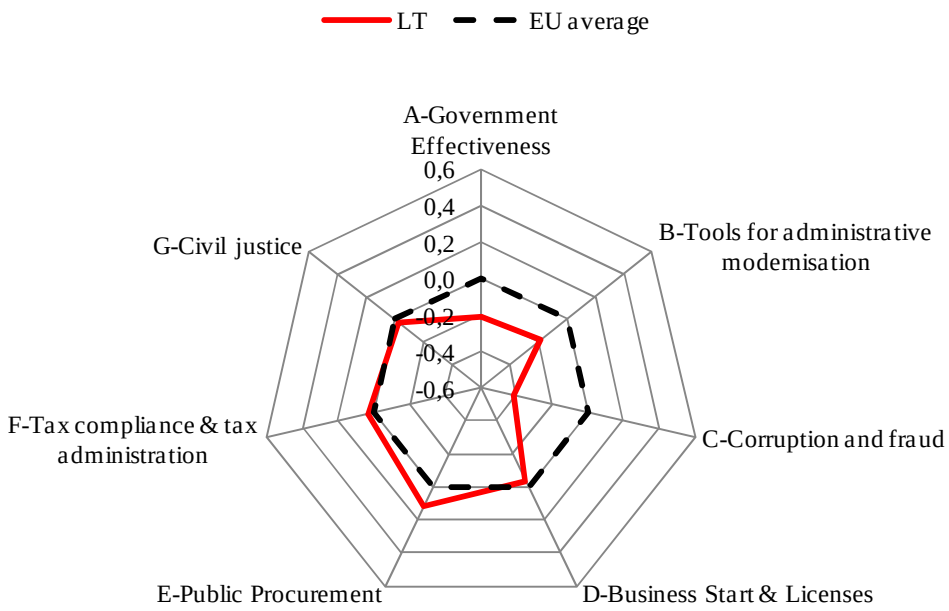
(22 days instead of 13.7 days) and obtaining licenses is assessed as more complex compared to the EU average.

Lithuania's performance in terms of *public procurement* exceeds the EU-average. The main drivers for Lithuania's performance are lower costs and time requirements for the competition in public procurement tenders. Whereas on average 16.6 days and 0.19% of per capita GDP are necessary to take part in the competition for public procurement tenders in all Member States, in Lithuania, only 13 days and 0.15% are necessary.

In terms of *tax compliance and tax administration* Lithuania's results are slightly better than the EU-average. Whereas the time necessary to prepare and file tax returns in Lithuania amounts to 175 hours per year and administrative costs of taxation amount to 1.18 per 100 units of revenue collection, the corresponding EU-averages are 208 hours and 1.32 units, respectively.

With respect to the *efficiency of civil justice*, Lithuania's performance is almost identical to the EU-average. While time requirements for the enforcement of contracts are significantly lower compared to the EU average, the costs are slightly higher than the EU-average (23.6% of the claim instead of 20.6%). Beyond that, the perceived level of judicial independence is significantly lower than the EU-average.

Figure 7.16 – Summary indicators graph: Lithuania



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.16.3. Country Factsheet Lithuania

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.32**	**0.53**	**-0.21**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.72	1.18	-0.21
B. Tools for administrative modernisation		**0.36**	**0.54**	**-0.18**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	75.00	89.10	-0.29
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(-0.16)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	24.30	32.30	-0.11
C. Corruption and fraud		**0.19**	**0.60**	**-0.41**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.00	4.37	-0.32
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.50	5.14	-0.20
C3) Experience of corruption [% share of respondents reporting an incident]	2011	27.00	10.00	-056
D. Starting a business and licensing		**0.59**	**0.62**	**-0.03**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	22.00	13.69	-0.30
D3) Cost to start-up a company [% of income per capita]	2011	2.80	5.05	+0.11
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	17.00	15.32	-0.07

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.78**	**0.66**	**+0.12**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	13.00	16.60	+0.18
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.15	0.19	+0.19
E3) Average delay in payments from public authorities [days]	2012	26.00	28.23	+0.03
F. Tax compliance and tax administration		**0.83**	**0.79**	**+0.04**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	175.00	208.20	+0.07
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.18	1.32	+0.00
G. Efficiency of civil justice		**0.57**	**0.59**	**-0.02**
G1) Enforcing contracts: Time [Calendar days]	2011	275.00	556.40	+0.28
G2) Enforcing contracts: Cost [Percentage of claim]	2011	23.60	20.60	-0.13
G3) Resolving insolvency: Time [Years]	2011	1.50	1.95	+0.12
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.39	4.77	-0.36

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.17. Luxembourg

7.17.1. Background information

Legal system	Civil law system (French tradition)
State system	Constitutional monarchy, unitary state
No. of administrative tiers	3 (central/provincial/municipal), provincial level is a de-concentrated level of state administration, no regional level
%-share of compensation of employees in economy-wide compensation of employees	
general government	17.4 (2010)
core administration (w/o military service)	7.7 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.17.2. Summary assessment

Luxembourg's overall public administration assessment is far better than the EU-average. According to the World Bank's *government effectiveness* index, perceptions on the quality of public services and the quality of policy implementation indicate a superior performance when compared to the EU-average. As illustrated below, Luxembourg is performing better than the Member States' average on almost all dimensions.

The use of innovative *tools* to improve administration performance (like ICT applications, modern human resources management and evidence-based steering tools) is the only major weakness of Luxembourg. This reflects a weakness on all three sub-indicators. Only 6 of 8 business related e-Government services are available online in Luxembourg, and the reliance on evidence-based steering and planning instruments like Regulatory Impact Assessments is much less sophisticated than in the Member States on average. The post-bureaucracy index which measures the use of modern human resources management instruments shows a very low score, indicating much space for improvement by relying more on tools such as flexible recruitment, performance related pay, and tenure systems for public service employees.

The *corruption* indicators show a much better performance for Luxembourg than in the Member States on average. Performances are especially good regarding irregular payments and diversion of public funds which both almost never appear to occur.

The composite *starting a business and obtaining licenses* indicator is almost similar to EU average. The values composing the indicator show some heterogeneity however. Luxembourg has a fully operational one-stop-shop to start-up a company but despite this tool it takes 19 days to start-up a company legally, which is well above the EU average of almost 14 days. On

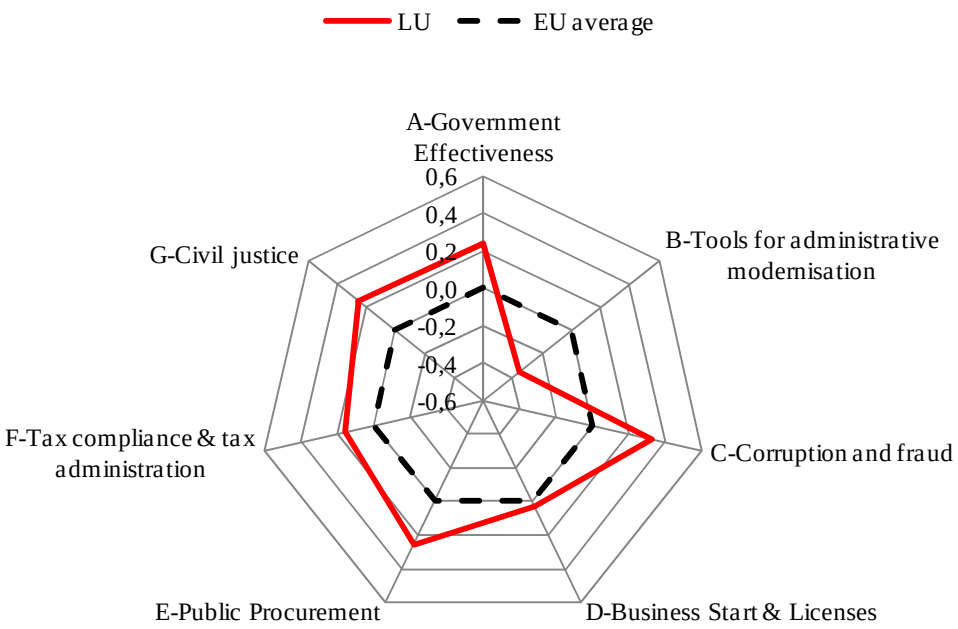
the other hand the cost to start-up a company is substantially below the Member States' average (2% of GDP per capita in Luxembourg as compared to 5% in the EU).

The performance of Luxembourg on the composite p*ublic procurement* indicator is also well above Member States average. There are no notable weaknesses in this country. The cost of a competition for firms per competition, expressed in relation to per capita GDP is particularly low in Luxembourg (0.08% compared to 0.19% in the Member States on average).

Tax compliance and tax administration-indicators for administrative performance are above average in Luxembourg, especially thanks to the very short time to prepare and file tax returns and to pay taxes, which takes only 59 hours per year, as compared to 208 hours in the EU. The administrative costs of taxation (1.1% of revenues) are also slightly below EU average of 1.3% of revenues.

Civil justice is more efficient in Luxembourg than in the Member States on average according to the set of assessment indicators. This is mainly due to the low costs and the reduced time to enforce contracts, which are more or less half the EU-average. In Luxembourg it only takes 321 days to enforce contracts (compared to 556 days in the EU), and the costs are limited to 9.7% of claim (compared to 20.6% in the Member States on average. The time to resolve insolvency issues is similar to the EU average. Overall, the judiciary is considered as significantly more independent compared to the EU average.

Figure 7.17 – Summary indicators graph: Luxembourg



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.17.3. Country Factsheet Luxembourg

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.76**	**0.53**	**+0.24**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.71	1.18	+0.24
B. Tools for administrative modernisation		**0.18**	**0.54**	**-0.36**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	75.00	89.10	-0.29
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	1.33	3.87***	-0.45
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	7.20	32.30	-0.34
C. Corruption and fraud		**0.92**	**0.60**	**+0.32**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.10	4.37	+0.41
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.40	5.14	+0.40
C3) Experience of corruption [% share of respondents reporting an incident]	2011	3.00	10.00	+0.24
D. Starting a business and licensing		**0.65**	**0.62**	**+0.03**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	19.00	13.69	-0.19
D3) Cost to start-up a company [% of income per capita]	2011	1.90	5.05	+0.16
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	15.60	15.32	-0.00

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.91**	**0.66**	**+0.26**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	11.00	16.60	+0.26
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.08	0.19	+0.54
E3) Average delay in payments from public authorities [days]	2012		28.23	+0.01
F. Tax compliance and tax administration		**0.95**	**0.79**	**+0.16**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	59.00	208.20	+0.30
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.13	1.32	+0.01
G. Efficiency of civil justice		**0.85**	**0.59**	**+0.26**
G1) Enforcing contracts: Time [Calendar days]	2011	321.00	556.40	+0.23
G2) Enforcing contracts: Cost [Percentage of claim]	2011	9.70	20.60	+0.47
G3) Resolving insolvency: Time [Years]	2011	2.00	1.95	-0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.09	4.77	+0.34

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.18. Malta

7.18.1. Background information

Legal system	Mixed legal system of English common law and civil law (based on the French civil codes)
State system	Unitary republic, centralised
No. of administrative tiers	2 (central/municipal), no regional, no provincial level
%-share of compensation of employees in economy-wide compensation of employees	
general government	31.2 (2010)
core administration (w/o military service)	9.5 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.18.2. Summary assessment

As many data on administrative issues is missing for Malta, composite indicators cannot be calculated. Hence, we also do not to use (available) data from Malta to calculate the respective EU-averages. This makes it difficult to give a comprehensive assessment of its public administration performance. However, a few elements independently considered point out specific both positive and negative evaluations.

An overall assessment of the quality of the Maltese public administration by the *government effectiveness* indicator from the World Bank, which reflects the perceived quality of public services, including the quality of the civil service and policy implementation, ranks Malta almost at the average level of the Member States.

Regarding the use of *tools for administrative modernisation* (like e-government applications, personnel resources management and evidence-based steering and planning instruments), available indicators show a reasonable sophistication of the Maltese public administration. Indeed, all 8 businesses related e-government services under consideration are available, and the post-bureaucracy index, measuring the use of modernised human resources management instruments, is just slightly below EU average. However, we don't have enough data in order to assess the overall performance in terms of administrative modernisation.

With respect to *corruption and fraud*, all indicators are available for an overall assessment. Malta scores are slightly better than the EU-average. Although individual experience of corruption shows a better score than average, perception of irregular payments and bribes are more common than in the rest of Member States, as well as the diversion of public funds.

Indicators related to s*tarting up a business and obtaining licenses* are not fully available. Taking into account this limitation, both available sub-indicators show a performance that is

clearly worse than average. Malta has no fully operational one-stop-shop available to start-up a company, and also the licensing complexity process is well higher than at the EU-average. There seems to be some scope for improvement on with respect to the ease of starting up businesses in Malta.

Despite one sub-index is missing to make a complete overall assessment for the *public procurement* indicator, it appears that also in this field improvements can be made, as both sub-indicators available show performance below EU-average. The performance of Malta on the total person-day cost per individual firm per competition indicator is especially low compared to EU average as it takes double the amount of days compared to the Member States on average (34 days in Malta versus 17 days in the EU). The typical cost of a competition for a firm, expressed as the percentage share of income per capita, is closer, albeit still worse than the EU average.

An overall assessment with regard to *tax compliance and tax administration* cannot be made in a meaningful way, as the tax compliance indicator for the time required to prepare and file tax returns and to pay taxes is missing. However, administrative costs of taxation are at only 0.5% of revenues. Malta is hence performing much better than the EU-average.

Only one sub-indicator is available with respect to *efficiency and civil justice*. The judiciary is perceived to be slightly more independent in Malta than in the Member States on average.

7.18.3. Country Factsheet Malta

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.52**	**0.53**	**-0.01**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.16	1.18	-0.01
B. Tools for administrative modernisation			**0.54**	**not available**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	29.30	32.30	-0.04
C. Corruption and fraud		**0.66**	**0.60**	**+0.07**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.20	4.37	-0.04
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.80	5.14	-0.10
C3) Experience of corruption [% share of respondents reporting an incident]	2011	4.00	10.00	+0.20
D. Starting a business and licensing			**0.62**	**not available**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011		13.69	
D3) Cost to start-up a company [% of income per capita]	2011		5.05	
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	21.50	15.32	-0.30

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement			**0.66**	**not available**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	34.00	16.60	-0.70
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.23	0.19	-0.21
E3) Average delay in payments from public authorities [days]	2012		28.23	
F. Tax compliance and tax administration			**0.79**	**not available**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010		208.20	
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.48	1.32	+0.10
G. Efficiency of civil justice			**0.59**	**not available**
G1) Enforcing contracts: Time [Calendar days]	2011		556.40	
G2) Enforcing contracts: Cost [Percentage of claim]	2011		20.60	
G3) Resolving insolvency: Time [Years]	2011		1.95	
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	5.13	4.77	+0.09

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.19. The Netherlands

7.19.1. Background information

Legal system	Civil law system (French tradition)
State system	Unitary monarchy, decentralised
No. of administrative tiers	3 (central/provincial/municipal), no regional level
%-share of compensation of employees in economy-wide compensation of employees	
general government	19.7 (2010)
core administration (w/o military service)	7.7 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.19.2. Summary assessment

The Netherlands perform considerably better than the EU-average as measured by the World Bank's *government effectiveness* indicator, which provides an assessment of the quality of public administration in a broad sense. The perceptions of the quality of public services, the quality of policy formulation, its implementation and the credibility of public servants' commitment to such policies indicate a considerably better performance when compared to the EU-average.

In terms of *tools for administrative modernisation* such as the implementation of ICT-based solutions, the usage of evidence based measures and performance orientation, the Netherlands performs better than the EU-average. This is mainly due to the use of evidence-based instruments such as Regulatory Impact Assessments and the application of modern human resource management tools. Availability of business related e-government could be improved. The Netherlands is one of the countries in which not the whole set of services is implemented.

With respect to *corruption,* the Netherlands show a better performance than the EU-average. The indicators capturing 'diversion of public funds' and 'irregular payments and bribes' indicate that corruption is a minor issue in the Netherlands. Only 1% of respondents report an incidence of corruption in interaction with public authorities, while the EU-average is 10%.

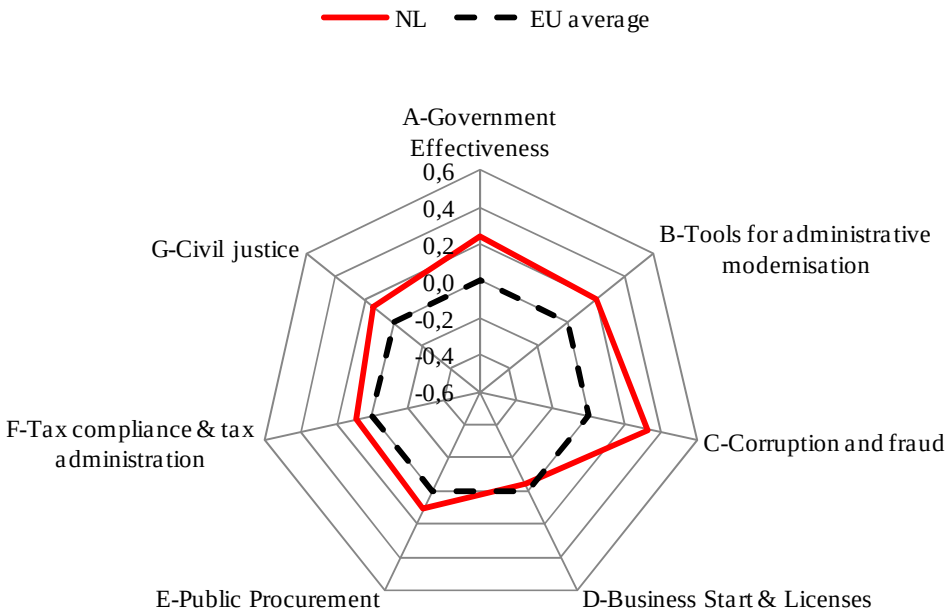
In terms of *starting a business and licensing*, the Netherlands' performance is slightly worse than the EU-average. This is mainly due to the fact that no fully operational one-stop-shop to start-up a company does exist. The average time required to start-up an incorporated business is 8 working days, while the EU-average is 13.7 days. The cost to start-up a business, in contrast, is close to the EU-average (5.5% of income per capital in the Netherlands versus 5.05%). The index of total licensing complexity suggests that the complexity of obtaining licenses in the Netherlands is similar as the EU-average.

The composite *public procurement* index is slightly above average; the sub-indicators are remarkably homogeneous. The average delay in payments from public authorities is almost 10 days lower than the Member States' average. The average total person-days per firm in public procurement competitions in the Netherlands is 3.6 days lower than the EU average (13 person days in the Netherlands vs. 16.6 days). The typical cost to take part in a competition is slightly lower in the Netherlands compared to the EU-average (0.17% of per capita GDP vs. 0.19%).

Tax compliance and indicators for *tax administration*- performance are slightly above average in the Netherlands. The time to prepare and file tax returns and to pay taxes is shorter in the Netherlands (127 hours per year), as compared to 208 hours in the EU. The administrative costs of taxation (1.1% of revenues) are also slightly below EU-average of 1.3% of revenues.

Civil justice is more efficient in the Netherlands than in the Member States on average, according to the set of assessment indicators. This is mainly due to the high assessment of the independence of the judiciary. The time to enforce contracts is quite similar to the EU-average. In the Netherlands it takes 513 days to enforce contracts (compared to 556 days for the EU average). The time to resolve an insolvency is considerably lower in the Netherlands (1.1 years on average), compared to 1.95 years in the Member States on average. However, the costs of enforcing contracts in the Netherlands are higher than in the Member States on average (23.9% of the claim versus 20.6%).

Figure 7.19 – Summary indicators graph: The Netherlands



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.19.3. Country Factsheet the Netherlands

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.77**	**0.53**	**+0.25**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.73	1.18	+0.25
B. Tools for administrative modernisation		**0.74**	**0.54**	**+0.20**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	-0.03
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	8.67	3.87***	+0.43
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	47.10	32.30	+0.20
C. Corruption and fraud		**0.93**	**0.60**	**+0.33**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.00	4.37	+0.39
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.20	5.14	+0.34
C3) Experience of corruption [% share of respondents reporting an incident]	2011	1.00	10.00	+0.30
D. Starting a business and licensing		**0.58**	**0.62**	**-0.04**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	8.00	13.69	+0.20
D3) Cost to start-up a company [% of income per capita]	2011	5.50	5.05	-0.02
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	14.80	15.32	+0.04

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.76**	**0.66**	**+0.11**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	13.00	16.60	+0.18
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.17	0.19	+0.09
E3) Average delay in payments from public authorities [days]	2012	19.00	28.23	+0.09
F. Tax compliance and tax administration		**0.88**	**0.79**	**+0.09**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	127.00	208.20	+0.16
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.11	1.32	+0.01
G. Efficiency of civil justice		**0.73**	**0.59**	**+0.14**
G1) Enforcing contracts: Time [Calendar days]	2011	514.00	556.40	+0.04
G2) Enforcing contracts: Cost [Percentage of claim]	2011	23.90	20.60	-0.14
G3) Resolving insolvency: Time [Years]	2011	1.10	1.95	+0.24
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.35	4.77	+0.40

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.20. Poland

7.20.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary republic, centralised
No. of administrative tiers	4 (central/regional/provincial/municipal), regions, counties and municipalities have only administrative competences
%-share of compensation of employees in economy-wide compensation of employees	
general government	27.2 (2010)
core administration (w/o military service)	9.1 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.20.2. Summary assessment

In terms of *overall public administration performance*, Poland scores below the EU-average as measured by the World Bank's *government effectiveness* indicator. Hence, perceptions indicate a lower quality of public services, policy formulation, its implementation and the credibility of public servants' commitment to such policies. However, since 2007 a continuous positive trend can be observed.

In terms of *tools for administrative modernisation* such as the implementation of ICT-based solutions, the usage of evidence based measures and performance orientation, indicators Poland again underperforms the EU-average. While Poland relies more heavily on evidence based instruments such as regulatory impact analyses, it applies modern human resource management tools such as flexible modes of tenure and salary systems to a lesser extent and still has a high centralisation concerning powers and responsibilities for human resources management.

With respect to *corruption*, Poland underperforms the EU-average indicating that corruption is still an issue. Whereas 'diversion of public funds' due to state capture corruption and the commonness of 'irregular payments and bribes' by firms are perceived to be fairly equal to the EU-average, the overall result is mainly driven by the experience of corruption. Here, 14% of respondents report an incidence of corruption in interaction with public authorities, while the EU-average is only 10%.

In terms of *starting a business and licensing*, Poland's performance is significantly worse than the EU-average. This is mainly due to relatively high time requirements as well as costs for incorporation (32 days and 17.3% of income per capita in Poland versus 13.69 days and

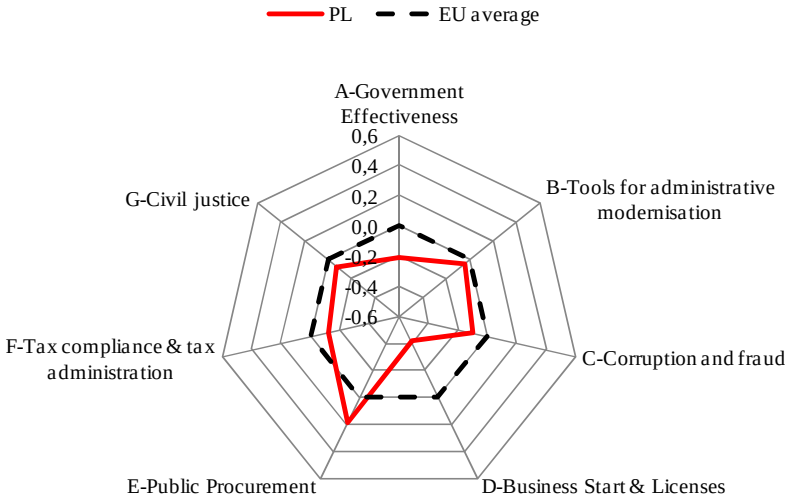
5.05%). Furthermore, obtaining licenses is assessed as more complex than the EU-average. As of 2010, the indicators show that Poland lacks a one-stop-shop for start-ups. However, since July 2011 a fully operational one-stop-shop has been implemented.[45]

In contrast, in terms of *public procurement* Poland shows a significantly better performance than the EU-average. For instance, while on average time requirements for the competition for public tenders amount to more than 16 days and payments by public administrations are delayed up to 28 days, in Poland, this only takes 11 and 19 days, respectively. Furthermore, costs for the participation in public procurement tenders are also below the EU-average. Typical costs for the competition in public procurement tenders are 0.14% of per capita GDP in Poland while the EU-average is 0.19%.

With respect to *tax compliance and tax administration* Poland scores significantly lower than the EU-average. This holds true for both the time requirements to prepare tax returns as well as tax administration costs. Whereas on average the time necessary to prepare and file tax returns amounts to 208 hours per year and administrative costs per 100 units of revenue amount to 1.32 in the EU, for Poland these values are 296 hours and 1.72, respectively, thus pointing to some scope for improvement.

In terms of *efficiency of civil justice*, Poland again performs slightly below the EU-average. However, while the costs of enforcing contracts amount to only 12% of the claim which is below the EU-average, the corresponding time requirements exceed the EU average by almost 300 days. Furthermore, the time necessary to resolve insolvencies is 50% higher than the EU-average, and the judiciary is perceived to be less independent from political influence compare to the EU-average.

Figure 7.20 – Summary indicators graph: Poland



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

45 https://prod.ceidg.gov.pl/CEIDG.CMS.ENGINE/?D;f124ce8a-3e72-4588-8380-63e8ad33621f

7.20.3. Country Factsheet Poland

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.31**	**0.53**	**-0.21**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.71	1.18	-0.21
B. Tools for administrative modernisation		**0.49**	**0.54**	**-0.04**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	-0.03
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	4.67	3.87***	-0.05
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	27.70	32.30	-0.06
C. Corruption and fraud		**0.50**	**0.60**	**-0.10**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.10	4.37	-0.06
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.90	5.14	-0.07
C3) Experience of corruption [% share of respondents reporting an incident]	2011	14.00	10.00	-0.13
D. Starting a business and licensing		**0.21**	**0.62**	**-0.41**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	32.00	13.69	-0.65
D3) Cost to start-up a company [% of income per capita]	2011	17.30	5.05	-0.61
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	12.00	15.32	+0.18

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.84**	**0.66**	**+0.19**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	11.00	16.60	+0.26
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.14	0.19	+0.24
E3) Average delay in payments from public authorities [days]	2012	19.00	28.23	+0.09
F. Tax compliance and tax administration		**0.67**	**0.79**	**-0.12**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	296.00	208.20	-0.18
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.72	1.32	-0.08
G. Efficiency of civil justice		**0.52**	**0.59**	**-0.08**
G1) Enforcing contracts: Time [Calendar days]	2011	830.00	556.40	-0.27
G2) Enforcing contracts: Cost [Percentage of claim]	2011	12.00	20.60	+0.37
G3) Resolving insolvency: Time [Years]	2011	3.00	1.95	-0.29
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	4.33	4.77	-0.12

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.21. Portugal

7.21.1. Background information

Legal system	Civil law system (French tradition)
State system	Unitary republic plus two autonomous regions, centralised
No. of administrative tiers	4 (central/regional/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	23.9 (2010)
core administration (w/o military service)	10.7 (2009)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.21.2. Summary assessment

Portugal's overall public administration performance, as depicted by the World Bank's *government effectiveness* indicator, is worse than the EU-average. Hence, perceptions point to a relatively low quality of public services, policy implementation and commitment of public servants to those when compared to the EU-benchmark.

The use of novel *tools* to improve public administration performance (like ICT applications, modern human resources management and evidence-based steering and planning instruments) shows a heterogeneous picture. On the one hand, all 8 business-related e-government services considered by the respective sub-index are available in Portugal, and the use of evidence based instruments like Regulatory Impact Analyses is quite widespread. On the other hand, the Post-Bureaucracy indicator reveals that there is some scope for increased sophistication by using modern human resource management tools in the public administration.

On the dimension *corruption and fraud* Portugal performs slightly better than Member States on average. The above average performance is due to the indicator that measures the experience of corruption at the individual level: In Portugal 5% of respondents report a corruption incident, the EU-average is 10%. However, the indicator relating to the perceptions of diversion of public funds indicates that there is still room for improvement to reduce corruption and fraud in the Portuguese public administration.

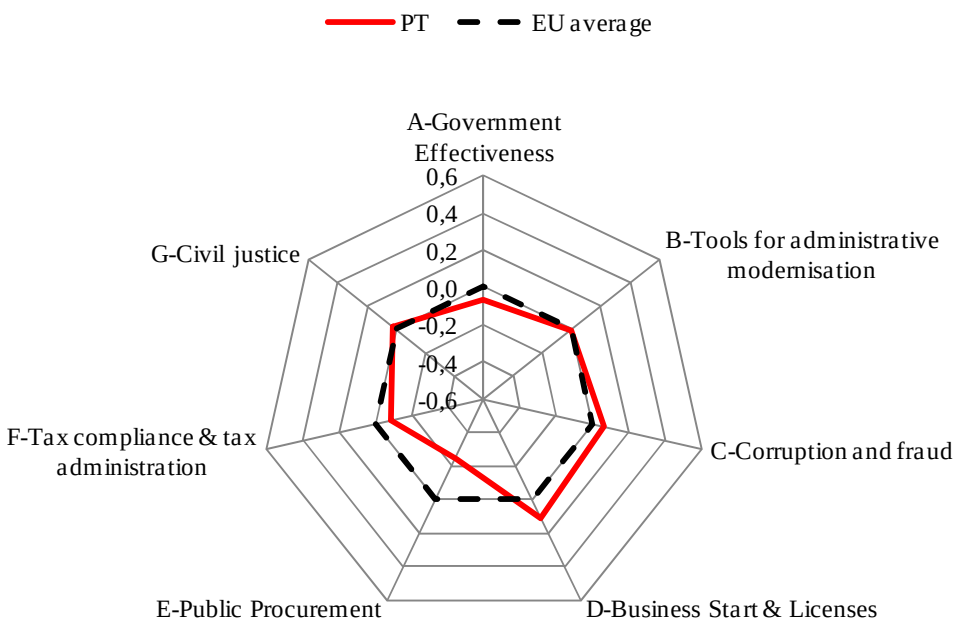
Starting a business and obtaining licenses is overall slightly easier in Portugal than in the Member States. A one-stop-shop to start-ups is fully operational and the time required to start-up a company is lower than in the EU-average (5 calendar days as compared to 14 calendar days in the EU on average). The cost to start-up a company is slightly half the average in the Member States (2.3% vs. 5.1% of income per capita). However, licensing complexity in Portugal high compared to the other Member States.

Despite the extensive use of e-procurement, the performance of Portugal with regard to the *public procurement* indicator is substantially below EU average. It is mainly due to very long payment delays from public authorities (79 days in Portugal as compared to 28.2 days on average in the Member States), being almost 3 times higher than the EU average. The typical cost of participating in a public procurement competition is higher in Portugal than in most other Member States (0.25 % per capita GDP vs. EU-average of 0.19%). However, the costs in terms of person-day units per individual firm are slightly below Member States-average.

The performance of Portugal on the *tax compliance and tax administration* indicator is slightly lower than the EU-average. In Portugal it takes 275 hours yearly to prepare and file tax returns and to pay taxes as compared to 208 hours in the Member States on average. The administrative costs of taxation (1.44% of total revenue) are also higher than the EU average (1.32%).

The efficiency of the *civil justice system* is comparable to the average performance of the Member States. Both the time to enforce contracts and the time to resolve insolvency are very close to the EU-average. The cost to enforce contracts (as a percentage of the claim) is almost 8 percentage points lower in Portugal. However, the judicial system is considered to be less independent than in other Member States.

Figure 7.21 – Summary indicators graph: Portugal



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.21.3. Country Factsheet Portugal

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.46**	**0.53**	**-0.06**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.04	1.18	-0.06
B. Tools for administrative modernisation		**0.53**	**0.54**	**-0.00**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	5.00	3.87***	-0.01
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	16.30	32.30	-0.21
C. Corruption and fraud		**0.65**	**0.60**	**+0.06**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.90	4.37	-0.11
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.10	5.14	-0.01
C3) Experience of corruption [% share of respondents reporting an incident]	2011	5.00	10.00	+0.17
D. Starting a business and licensing		**0.73**	**0.62**	**+0.10**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	5.00	13.69	+0.31
D3) Cost to start-up a company [% of income per capita]	2011	2.30	5.05	+0.14
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	20.00	15.32	-0.23

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.41**	**0.66**	**-0.25**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	16.00	16.60	+0.05
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.25	0.19	-0.31
E3) Average delay in payments from public authorities [days]	2012	79.00	28.23	-0.45
F. Tax compliance and tax administration		**0.71**	**0.79**	**-0.08**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	275.00	208.20	-0.13
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.44	1.32	-0.04
G. Efficiency of civil justice		**0.62**	**0.59**	**+0.03**
G1) Enforcing contracts: Time [Calendar days]	2011	547.00	556.40	+0.01
G2) Enforcing contracts: Cost [Percentage of claim]	2011	13.00	20.60	+0.33
G3) Resolving insolvency: Time [Years]	2011	2.00	1.95	-0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.93	4.77	-0.22

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.22. Romania

7.22.1. Background information

Legal system	Civil law system (French tradition), former socialist
State system	Unitary republic,decentralised
No. of administrative tiers	4 (central/regional/provincial/municipal), no electoion on regional level
%-share of compensation of employees in economy-wide compensation of employees	
general government	24.3 (2010)
core administration (w/o military service)	8.0 (2009)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.22.2. Summary assessment

In terms of *overall public administration performance*, Romania scores significantly below the EU-average which implies negative perceptions of the quality of public services and the quality of policy implementation. This performance has hardly changed in recent years.

In terms of the use of *tools for administrative modernisation* (e.g. ICT-based solutions, performance orientation and evidence based steering) Romania performs below the EU-average. This is primarily due to a lower availability of business related e-government services (e.g. electronic submission and payment of corporate tax returns, submission of social security contributions and the registration of start-ups) as well as limitations in the implementation of modern human resource management tools such as flexible modes of tenure and salary systems as well as decentralisation of powers and responsibilities for human resources.

Compared to the EU-average, *corruption* indicator scores are poorfor Romania. The key issue in this context is the diversion of public funds due to state capture corruption indicating that this particular type of corruption is perceived to be very common by a majority of respondents. Regarding the individual experience of corruption, 31% of respondents report an incidence whereas the EU-average is only 10%.

In terms of *starting a business and licensing*, Romania's performance is almost identical to the EU-average. However, obtaining licenses is considerably more complex. In contrast, the time needed for starting a business is equivalent to the EU-average, and the corresponding costs are even lower (3% of income per capita instead of 5.05%).

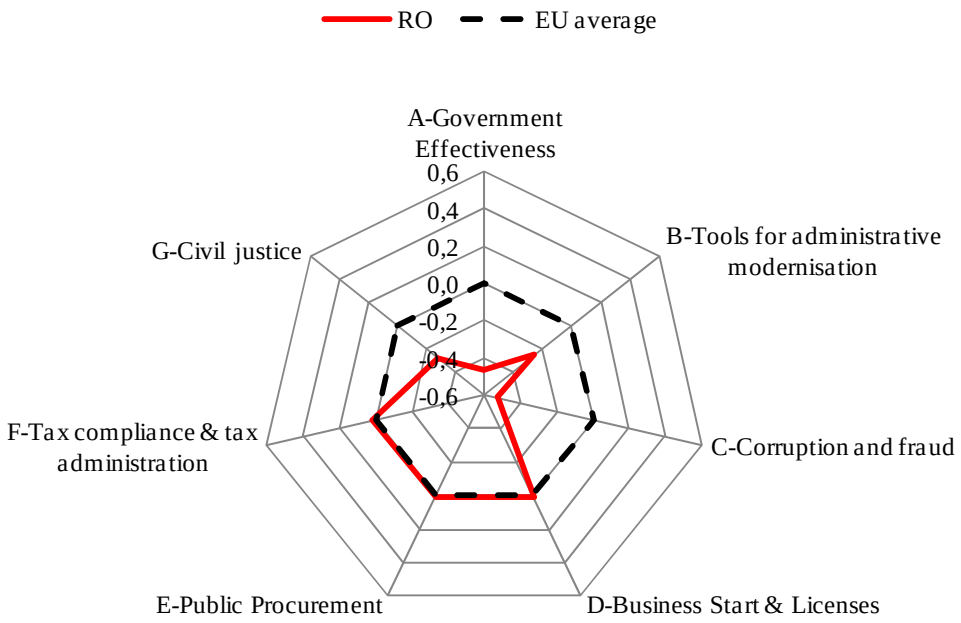
With respect to *public procurement* Romania's performance slightly exceeds the EU-average. This result is mainly driven by the average payment delays by public authorities. While

average delays for the EU-average amount to 28 days, for Romania this value is only 20 days. With respect to the time requirements and costs to take part in the competition for public procurement tenders, Romania's performance is fairly equal to the EU-average.

In terms of *tax compliance and tax administration* Romania scores slightly better than the EU-average. Whereas Romania's performance in terms of time needed to prepare and file tax returns is slightly below the EU-average (222 hours per year versus 208.2 hours), the overall assessment is mainly driven by costs of tax administration. While on average costs per 100 units of revenue collection are 1.32, in Romania this value is only 0.72, thus indicating that tax administration appears to be much more efficient.

With respect to the *efficiency of civil justice*, Romania performs worse than the EU-average. While time requirements for the enforcement of contracts are below the EU-average, the corresponding costs, the perceived level of judicial independence and the time necessary to resolve insolvency all indicate a weaker performance.

Figure 7.22 – Summary indicators graph: Romania



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.22.3. Country Factsheet Romania

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.06**	**0.53**	**-0.47**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.14	1.18	-0.47
B. Tools for administrative modernisation		**0.29**	**0.54**	**-0.25**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	75.00	89.10	-0.29
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(-0.30)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	19.70	32.30	-0.17
C. Corruption and fraud		**0.07**	**0.60**	**-0.53**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.80	4.37	-0.37
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.00	5.14	-0.35
C3) Experience of corruption [% share of respondents reporting an incident]	2011	31.00	10.00	-0.70
D. Starting a business and licensing		**0.63**	**0.62**	**+0.01**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	14.00	13.69	-0.01
D3) Cost to start-up a company [% of income per capita]	2011	3.00	5.05	+0.10
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	19.40	15.32	-0.19

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.67**	**0.66**	**+0.01**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	15.00	16.60	+0.09
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.21	0.19	-0.11
E3) Average delay in payments from public authorities [days]	2012	20.00	28.23	+0.08
F. Tax compliance and tax administration		**0.81**	**0.79**	**+0.02**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	222.00	208.20	-0.03
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.72	1.32	+0.07
G. Efficiency of civil justice		**0.31**	**0.59**	**-0.28**
G1) Enforcing contracts: Time [Calendar days]	2011	512.00	556.40	+0.04
G2) Enforcing contracts: Cost [Percentage of claim]	2011	28.90	20.60	-0.36
G3) Resolving insolvency: Time [Years]	2011	3.30	1.95	-0.38
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.11	4.77	-0.43

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.23. Slovakia

7.23.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary republic, decentralised
No. of administrative tiers	4 (central/regional/provincial/municipal), provincial level is just territorial unit of central government
%-share of compensation of employees in economy-wide compensation of employees	
general government	20.3 (2010)
core administration (w/o military service)	10.2 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.23.2. Summary assessment

In terms of *overall public administration performance* Slovakia performs considerably worse than the EU-average. In other words, perceptions of the quality of public services and the quality of policy implementation imply a relatively weak performance.

With respect to the use of *tools for administrative modernisation* such as ICT-based solutions, performance orientation and evidence based steering, Slovakia's performance is similar to the EU-average. While Slovakia relies to a greater extent on flexible modes of tenure and salary systems for public employment when compared to the EU-average, the application of evidence based tools such as regulatory impact assessments are less pronounced. Furthermore, Slovakia implemented 7 out of 8 business related e-government services (e.g. electronic submission and payment of corporate tax return, electronic submission of social security contributions and the registration of start-ups).

C*orruption* indicator scores are significantly below the EU-average. Especially perceptions of the 'diversion of public funds' due to state capture corruption and 'irregular payments and bribes' due to administrative corruption are seen as far more common compared to the EU-average. Results for the experience of corruption also indicate that corruption in Slovakia is a major issue with 27% of respondents reporting an incidence of corruption, whereas the EU-average is only 10%.

In terms of *starting a business and licensing*, Slovakia's performance is slightly below the EU-average. This result is mainly driven by comparatively high time requirements for incorporation (18 days versus 13.69 days) and the lack of a 'one-stop-shop' for start-ups when compared to the average of Member States. However, the corresponding costs for

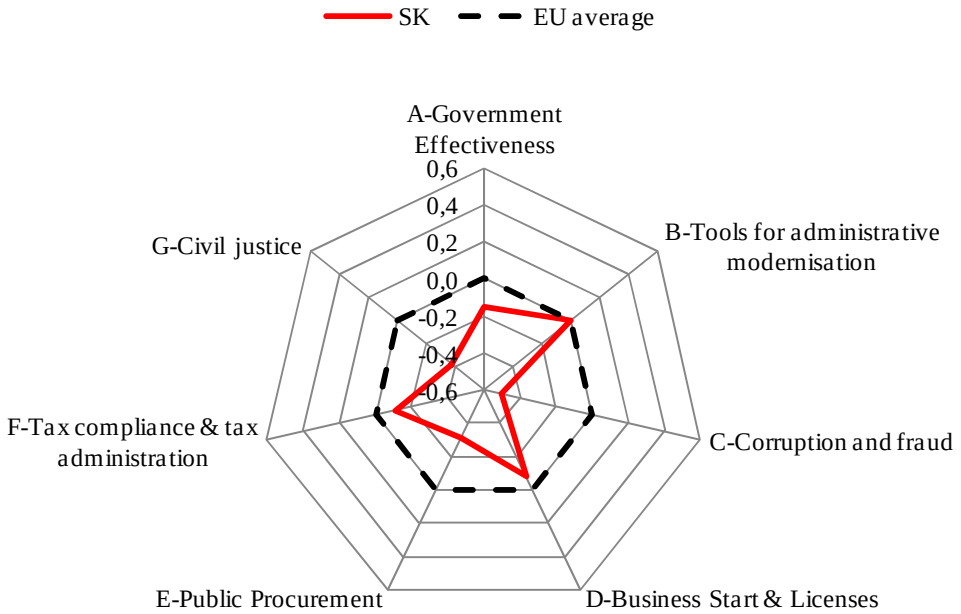
incorporation are significantly lower (1.8% of income per capita versus 5.05%). In terms of the complexity of obtaining permits, licensing procedures are assessed as slightly more convenient compared to the EU-average.

With respect to *public procurement* Slovakia scores considerably below the EU-average. For instance, while on average time requirements and costs for the competition for public tenders amount to more than 16 days and 0.19% of per capita GDP, for Slovakia these values are 30 days and 0.26% of per capita GDP, respectively. Furthermore, average payment delays by public authorities in Slovakia are significantly higher than the EU-average (32 days instead of 28.23 days).

With respect to *tax compliance and tax administration* Slovakia performs below the EU-average. Whereas the EU-average of the time necessary to prepare and file tax returns amounts to 208 hours per year, for Slovakia this value is 231 hours indicating that slightly higher efforts to comply with tax regulations are necessary. In addition, the efficiency of tax administration in Slovakia appears to be much lower than the EU average when the costs of tax administration per revenue collected are compared (2.41% of revenues collected versus 1.32%).

In terms of *efficiency of civil justice,* Slovakia again performs worse than the EU-average. For instance, it takes more than twice as long to resolve insolvency, and the judicial system is perceived to be significantly less independent when compared to the EU-average. In addition, costs for the enforcement of contracts are significantly above the EU-average (30% of the claim versus 20.6%), whereas the time requirements to resolve insolvency are fairly equal to the average for Member States.

Figure 7.23 – Summary indicators graph: Slovakia



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet.
Source: Author's calculations.

7.23.3. Country Factsheet Slovakia

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.38**	**0.53**	**-0.15**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.85	1.18	-0.15
B. Tools for administrative modernisation		**0.54**	**0.54**	**+0.01**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	-0.03
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	3.33	3.87***	-0.21
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	51.00	32.30	+0.25
C. Corruption and fraud		**0.09**	**0.60**	**-0.50**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.50	4.37	-0.44
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.70	5.14	-0.45
C3) Experience of corruption [% share of respondents reporting an incident]	2011	27.00	10.00	-0.56
D. Starting a business and licensing		**0.54**	**0.62**	**-0.08**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	0.00	0.69	-0.67
D2) Time required to start-up a company [number of calendar days]	2011	18.00	13.69	-0.15
D3) Cost to start-up a company [% of income per capita]	2011	1.80	5.05	+0.16
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	14.00	15.32	+0.08

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.34**	**0.66**	**-0.32**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	30.00	16.60	-0.53
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.26	0.19	-0.36
E3) Average delay in payments from public authorities [days]	2012	32.00	28.23	-0.02
F. Tax compliance and tax administration		**0.68**	**0.79**	**-0.11**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	231.00	208.20	-0.05
F2) Administrative costs of taxation [per 100 units of revenue collection]	2007	2.41	1.32	-0.18
G. Efficiency of civil justice		**0.21**	**0.59**	**-0.38**
G1) Enforcing contracts: Time [Calendar days]	2011	565.00	556.40	-0.01
G2) Enforcing contracts: Cost [Percentage of claim]	2011	30.00	20.60	-0.40
G3) Resolving insolvency: Time [Years]	2011	4.00	1.95	-0.57
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	2.66	4.77	-0.55

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.24. Slovenia

7.24.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary republic
No. of administrative tiers	4 (central/regional/provincial/municipal), regional level established in 2008
%-share of compensation of employees in economy-wide compensation of employees	
general government	23.7 (2010)
core administration (w/o military service)	6.8 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.24.2. Summary assessment

According to the World Bank's government effectiveness indicator which can be interpreted as an overall assessment of perceived *public administration* quality Slovenia scores slightly below the EU-average.

Information on the use of novel instruments and tools for *public administration modernisation* in general (e.g. ICT-applications or evidence-based steering models like Regulatory Impact Assessments) is restricted to two out of three indicators. Among the 8 business-related e-government services under consideration, Slovenia implemented only 7, which is also the average of all Member States. As regards the use of new models of Human Resources Management in the public administration to improve flexibility, motivation and mobility of the administrative staff, Slovenia also performs at an average level.

As regards the *corruption*-link, Slovenia also ranks somewhat below the EU-mean. Not all sub-indicators, however, point into the same direction. While the perception of irregular payments and bribes is slightly worse than average, the individual experience of corruption scores with 7% as compared to the EU-mean of 10% of all cases better. The most important weakness in this field is the perceived high diversion of public funds, which is related to the problem of state corruption.

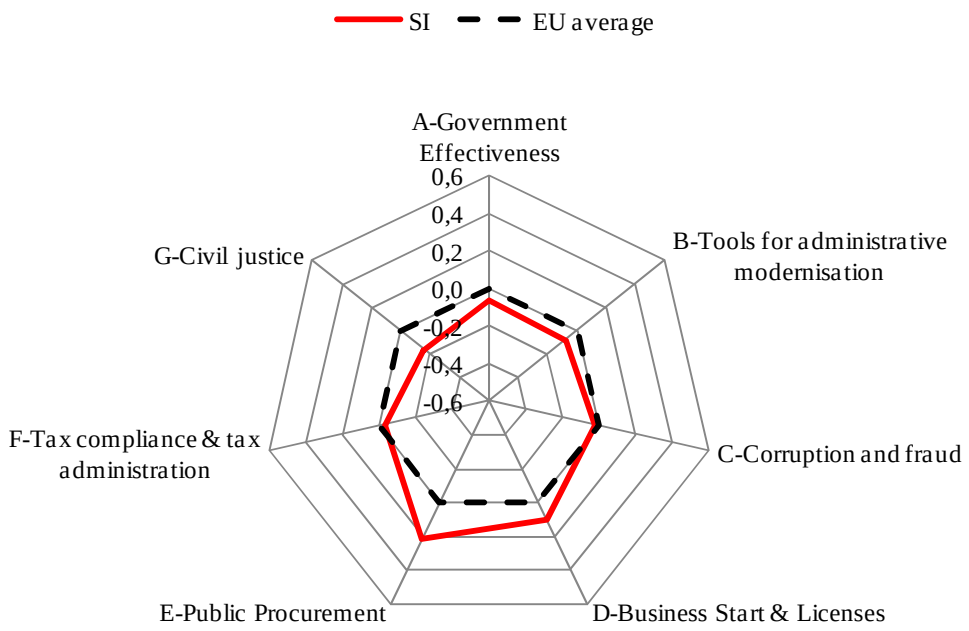
In contrast, Slovenia performs reasonably well in the policy-link of *starting-up a business*. A fully operational one-stop-shop to start-up a company is active, the time required to start a company is only 6 calendar days as compared to the EU-average of 13.7 days. The costs to start-up a business are virtually none. However, a high complexity of licensing procedures other than at the start-up phase of a business leads to lower composite index. In this respect, there is obviously some scope for improvement.

With respect to *public procurement*, Slovenia's administrative regulations are also strictly more business-friendly than the EU-average. Both the time and the costs required to take part in a competition are far lower than EU-means. Payment morale of public authorities is also far better than average: In 2012, average payment delays were 15 days in Slovenia, and 28.3 days is the EU-mean.

The data for *tax compliance and tax administration* show that the firms' time required to fulfil their tax duties is higher than average (260 hours per year in Slovenia vs. 208 hours on EU-average), but administrative costs of 0.9 % of total revenues are below the EU-average of 1.3%.

Scope for improvement also exists in the *efficiency of the civil justice* system. A major problem is the time required for enforcing contracts, calculated at 1290 days as compared to an EU-mean of 556 days. This lack of speed in the judicial system can only in part be compensated through comparably lower costs of enforcement of 12.7% per claim (EU-average is 20.6%). With a time to resolve insolvency issues of 2 years, Slovenia's system of dealing with bankruptcy issues is at the EU-mean. In general, the perceived independence of the judiciary is significantly below EU-average, confirming these weaknesses.

Figure 7.24 – Summary indicators graph: Slovenia



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.24.3. Country Factsheet Slovenia

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.46**	**0.53**	**-0.07**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.03	1.18	-0.07
B. Tools for administrative modernisation		**0.46**	**0.54**	**-0.08**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	-0.03
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	(-0.18)****
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	29.50	32.30	-0.04
C. Corruption and fraud		**0.57**	**0.60**	**-0.02**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.40	4.37	-0.23
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	4.90	5.14	-0.07
C3) Experience of corruption [% share of respondents reporting an incident]	2011	7.00	10.00	+0.10
D. Starting a business and licensing		**0.73**	**0.62**	**+0.10**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	6.00	13.69	+0.27
D3) Cost to start-up a company [% of income per capita]	2011	0.00	5.05	+0.25
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	21.60	15.32	-0.31

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.87**	**0.66**	**+0.22**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	12.00	16.60	+0.22
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.12	0.19	+0.34
E3) Average delay in payments from public authorities [days]	2012	15.00	28.23	+0.13
F. Tax compliance and tax administration		**0.76**	**0.79**	**-0.03**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	260.00	208.20	-0.10
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.90	1.32	+0.04
G. Efficiency of civil justice		**0.43**	**0.59**	**-0.16**
G1) Enforcing contracts: Time [Calendar days]	2011	1290.00	556.40	-0.72
G2) Enforcing contracts: Cost [Percentage of claim]	2011	12.70	20.60	+0.34
G3) Resolving insolvency: Time [Years]	2011	2.00	1.95	-0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.78	4.77	-0.26

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean
**** Normalised value based on imputing regressions

7.25. Spain

7.25.1. Background information

Legal system	Civil law system (French tradition), regional variations
State system	Constitutional monarchy, compound, regionalised state (emerging federalist system)
No. of administrative tiers	4 (central/regional/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	24.6 (2010)
core administration (w/o military service)	8.7 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.25.2. Summary assessment

Spain's overall public administration performance, as depicted by the World Bank's *government effectiveness* indicator, is slightly below the Member States' average. This implies that the perceptions of the quality of public services and the quality of policy implementation that there is room for improved performance when compared to the EU-average.

The use of sophisticated *tools for enhancing administrative modernisation*, covering ICT-based solutions, performance orientation and evidence based steering and management instruments is slightly below average. However, this result is mainly due to the fact that all 8 considered business-related e-government services are fully available. The other sub-indexes indicate some room for improvement. Evidence-based instruments are not used as much intense as on EU-average. The post-bureaucracy sub-index indicates that Spain still follows predominantly a traditional model of administrative steering and personnel management when compared to other Member States.

The performance of Spain on the *fraud and corruption* dimension is almost at the level of the EU-average. Although individual perceptions of incidents relative to corruption reported are clearly below average (3% as compared to 10% in the Member States on average), diversion of public funds as a measure for state capture and irregular payments and bribes show less positive picture for Spain, when compared to the other EU Member States.

Spain's performance with regard to *starting a business and licensing* is below the EU average. A positive element to point out is the fully operational of one-stop-shop to start-up a company. However, the time required to start-up a company is considerably longer compared to most other EU countries, and higher than EU average. In Spain it takes 28 days to start-up a business, while the EU average is 13.69 days. The cost to start-up a company is quite similar

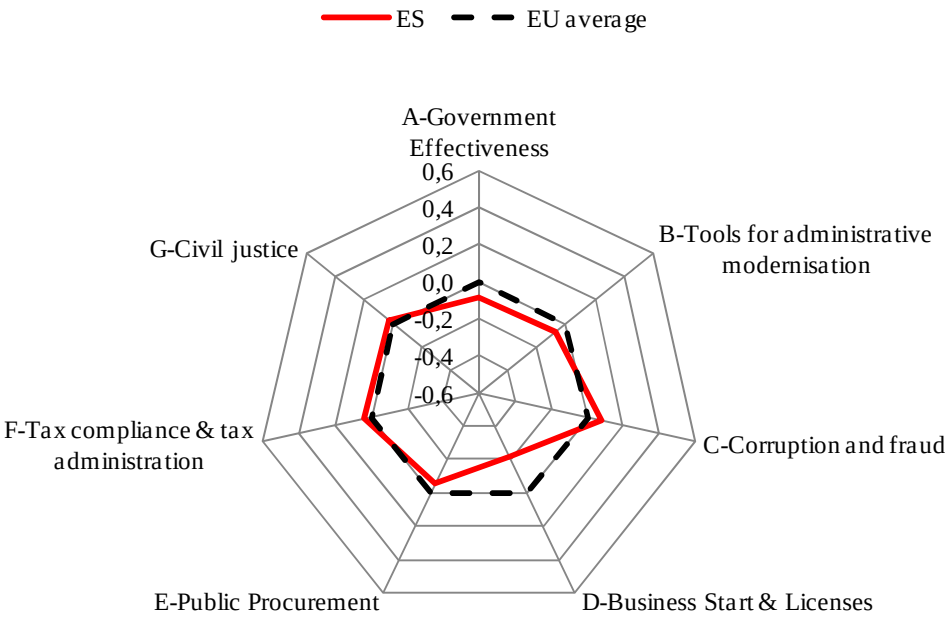
to the EU average. This indicates that the problems are related primarily to regulation and the efficiency of the licensing process. In fact, Spain is one of the countries with the highest complexity of licensing procedures.

The composite *public procurement* index is also slightly below average, signalling some scope for improvement. In particular the duration of payments from public authorities is problematic. Spain is one of the worst performing countries on this indicator: the average delay in payments from public authorities in Spain is 80 days, compared to the EU-average of 28.23 days. The indicators relating to the costs of participating in public procurement competitions, however, are better than the EU-average.

With regard to the issues of *tax compliance and tax administration* Spain shows a slightly above average performance. The single components of the indicator are quite homogeneous. In Spain it takes annually 187 hours to prepare and file tax returns and to pay taxes, which is 21 hours less than EU-average. Administrative costs of taxation make up slightly less than 1% of total revenues, and also below the Member States' average of 1.32% of collected revenues.

The assessment indicators show that efficiency of the *civil justice system* in Spain is slightly above the EU-average. The time required to enforce contracts (515 days) is shorter than the EU-average (556 days), and the costs of enforcement are lower (17.2% of a claim as compared to the EU-mean of 20.6%). Resolving insolvency issues is also faster (1.5 years) than in many other Member States (EU-average of 1.95 years). However, the indicator of independency of the judiciary points towards problems in the quality of justice, as Spain scores worse than the EU-average.

Figure 7.25 – Summary indicators graph: Spain



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.25.3. Country Factsheet Spain

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.43**	**0.53**	**-0.09**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.98	1.18	-0.09
B. Tools for administrative modernisation		**0.47**	**0.54**	**-0.07**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	3.00	3.87***	-0.25
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	19.10	32.30	-0.18
C. Corruption and fraud		**0.68**	**0.60**	**+0.08**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.90	4.37	-0.11
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.00	5.14	-0.04
C3) Experience of corruption [% share of respondents reporting an incident]	2011	3.00	10.00	+0.24
D. Starting a business and licensing		**0.40**	**0.62**	**-0.22**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	28.00	13.69	-0.51
D3) Cost to start-up a company [% of income per capita]	2011	4.70	5.05	+0.02
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	23.80	15.32	-0.42

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.60**	**0.66**	**-0.06**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	14.00	16.60	+0.14
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.15	0.19	+0.19
E3) Average delay in payments from public authorities [days]	2012	80.00	28.23	-0.46
F. Tax compliance and tax administration		**0.83**	**0.79**	**+0.04**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	187.00	208.20	+0.04
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.97	1.32	+0.03
G. Efficiency of civil justice		**0.62**	**0.59**	**+0.02**
G1) Enforcing contracts: Time [Calendar days]	2011	515.00	556.40	+0.04
G2) Enforcing contracts: Cost [Percentage of claim]	2011	17.20	20.60	+0.15
G3) Resolving insolvency: Time [Years]	2011	1.50	1.95	+0.12
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.92	4.77	-0.22

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.26. Sweden

7.26.1. Background information

Legal system	Civil law system (Scandinavian tradition)
State system	Constitutional monarchy, unitary state, decentralised
No. of administrative tiers	3 (central/provincial/municipal), counties and communes have only administrative competences
%-share of compensation of employees in economy-wide compensation of employees	
general government	27.5 (2010)
core administration (w/o military service)	5.4 (2010)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.26.2. Summary assessment

Sweden's public administration is among the best performing bureaucracies in the sample. According to the *government effectiveness* index of the World Bank, perceived overall quality of provided services and the bureaucracy is ranked high above the EU-mean.

As in other Scandinavian countries, the implementation of *tools for public administration modernisation* which cover the use of ICT-solutions, modern personnel management, planning and steering instruments in the public administration, is highly advanced. In addition to a full online availability of 8 considered business-related services, administration steering through evidence-based instruments (Regulatory Impact Analyses) is sophisticated, and also the instruments targeting the strategic management of public personnel are used intensely as compared to other Member States

The composite summary indicators for *corruption and fraud* show a significantly better than average performance. With only 2% of concrete individual corruption experiences, Sweden clearly outperforms most other Member States. Perception of irregular payments and bribes as well as the diversion of public funds is substantially lower than at the EU-mean.

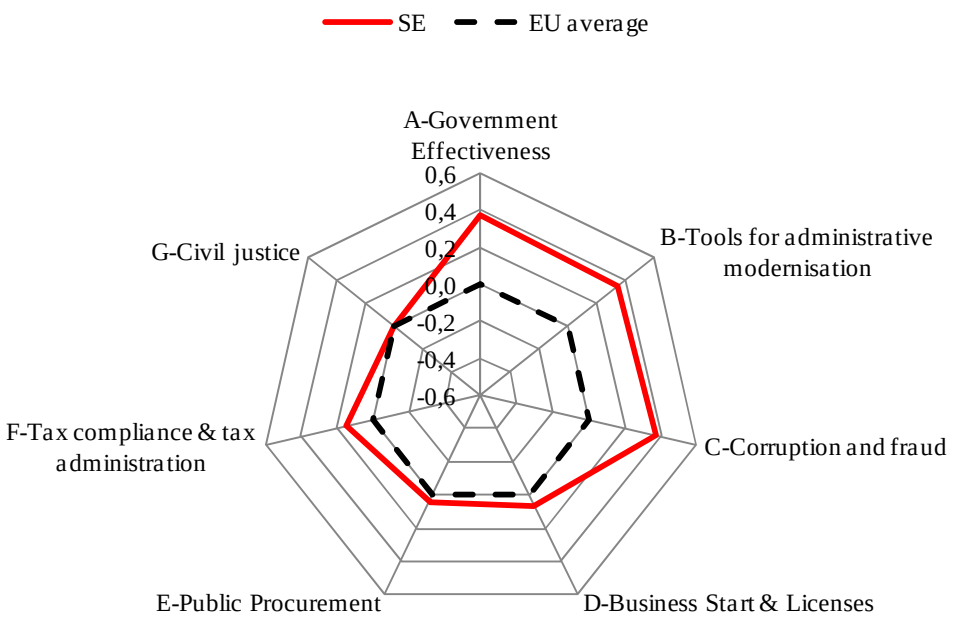
As regards the procedures of *starting a business and licensing* we obtain a heterogeneous picture for Swedish administration. While firms have access to a fully operational One-Stop-Shop to start-up a business, the time required to start-up is a little bit longer than at the EU-average (15 days as compared to 13.7 days). This is also confirmed by a slightly worse than average performance with respect to the complexity of licensing procedures. On the other hand, the costs to start-up a company are only 0.6% of per capita GDP, which is far better than the EU-average of 5%.

The summary indicator for *public procurement* shows an only slightly better than average performance as compared to the EU-mean. While payment delays of the public administration are far less problematic (7 days in relation to the EU-average of 28.3 days), both the time in total person-days as well as the costs (in % of per capita GDP) to take part in a competition are close to an average level.

According to the indicators employed, the Swedish *tax administration* performs better than the EU-average, and *tax compliance* procedures are less time-consuming. The time needed to prepare and file tax returns and to pay taxes is 122 hours per year, while EU-average is about 208 hours. Also, the cost of the tax bureaucracy is only 0.4 per 100 units of tax revenues, as compared to the EU-average of 1.32 per 100 units.

Efficiency of civil justice in Sweden's judicial system is only average in EU-comparison. The time to resolve insolvency cases (2 years) and the time required to enforce contracts (508 days) are around or only slightly better than the simple mean of all Member States. The third process-oriented indicator is significantly worse than average: the costs of enforcing contracts arrive at a 31.2% of the claim, which is more than 10 percentage points above the EU-mean of 20.6%. In the aggregate, this is compensated by an overall highly valued independence of the judiciary.

Figure 7.26 – Summary indicators graph: Sweden



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.26.3. Country Factsheet Sweden

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.90**	**0.53**	**+0.38**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	2.02	1.18	+0.38
B. Tools for administrative modernisation		**0.88**	**0.54**	**+0.34**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	6.33	3.87***	+0.15
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	81.40	32.30	+0.66
C. Corruption and fraud		**0.97**	**0.60**	**+0.37**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.40	4.37	+0.49
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	6.60	5.14	+0.46
C3) Experience of corruption [% share of respondents reporting an incident]	2011	2.00	10.00	+0.27
D. Starting a business and licensing		**0.69**	**0.62**	**+0.07**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	15.00	13.69	-0.05
D3) Cost to start-up a company [% of income per capita]	2011	0.60	5.05	+0.22
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	17.20	15.32	-0.08

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.69**	**0.66**	**+0.04**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	17.00	16.60	+0.01
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.20	0.19	-0.06
E3) Average delay in payments from public authorities [days]	2012	7.00	28.23	+0.20
F. Tax compliance and tax administration		**0.94**	**0.79**	**+0.14**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	122.00	208.20	+0.17
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	0.40	1.32	+0.11
G. Efficiency of civil justice		**0.60**	**0.59**	**+0.00**
G1) Enforcing contracts: Time [Calendar days]	2011	508.00	556.40	+0.05
G2) Enforcing contracts: Cost [Percentage of claim]	2011	31.20	20.60	-0.45
G3) Resolving insolvency: Time [Years]	2011	2.00	1.95	-0.01
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.47	4.77	+0.43

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.27. United Kingdom

7.27.1. Background information

Legal system	Common law system
State system	Constitutional monarchy, compound, regional: unitary for England, regionalised for Scotland, Wales, and Northern Ireland
No. of administrative tiers	3-4 (depends on nation). Scotland, Wales, and Northern Ireland with own institutions and legislative and administrative competences at regional level
%-share of compensation of employees in economy-wide compensation of employees	
general government	20.8 (2010)
core administration (w/o military service)	5.6 (2007)

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.27.2. Summary assessment

The UK's public administration scores strongly above the EU-average according to the World Bank's *government effectiveness* Indicator. The perceived quality of the public services including the quality of the civil service and of policy implementation is well above the Member States' mean.

In line with the notion that countries with a common law background have a higher propensity to employ modern instruments in public administration, the UK observes indicator values high above the average for the reliance on evidence-based instruments for steering and performance control, such as Regulatory Impact Assessments. Also, there is full online availability for all 8 business-related services captured by the respective index. In sum, the public administration of the UK is more in line with the standard view of a 'modern' public administration.

Measures for administrative corruption (irregular payments) as well as for state capture (diversion of public funds) indicate that *corruption and fraud* are not perceived to be major problems in the UK's administration. Individual experiences of bureaucratic corruption as regards the consumption of public services pertain to only 2% of the inquired cases, as compared to an average of 10% across the Member States.

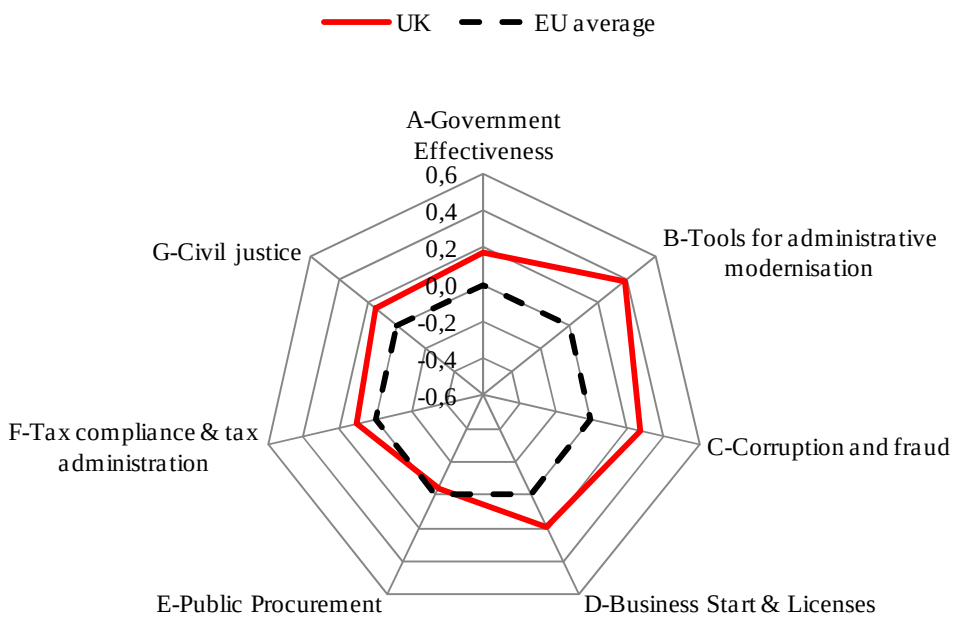
In general it also appears to be easier, slightly faster and far less expensive in the UK to s*tart-up a business and obtain licenses* as compared to the EU-average. For example, whereas on average across the Member States slightly more than 5% of per capita income is required as costs to start-up a business, the corresponding value in the UK is only 0.7%.

The composite *public procurement* index is slightly below average, signalling some scope for improvement of procurement procedures. The sub-indices show that especially the firms' costs to take part in government procurement procedures are higher than in the Member States on average. Payment delays of public authorities are 18 days, and are therefore less problematic than at the EU-average of 28.3 days.

The time required to prepare the tax paperwork is substantially lower than at the EU-average. It amounts to only 110 hours per year for the model companies, as compared to 208 hours per year for the average across all EU-countries. The tax administration cost in relation to tax receipts is 1.14% and therefore slightly lower than the EU-average of 1.3%. In summary, the composite indicator for *tax compliance and tax administration* thus shows a better than EU-average performance for the UK.

As regards the *efficiency of the civil justice system*, the UK also observes a better than average performance. Whereas the time of enforcing contracts is far shorter than average (399 days vs. 556 days), the typical costs exceed the EU-mean. In the UK 24.8% of the claim is required according to the Doing Business database, as compared to the EU-mean of 20.6%. Insolvency procedures are also substantially faster than at the EU-average. The perceived independence of the judiciary is very high.

Figure 7.27 – Summary indicators graph: United Kingdom



Interpretation: The spider graph shows the derivation of headline (summary) country indicator scores from the EU-average. Positive values indicate better than average performance, negative values indicate below average performance in the respective field. Due to data limitation Malta is not included in the calculation of EU averages. For components of the summary indicators (headline indicators) see the Country Factsheet. *Source*: Author's calculations.

7.27.3. Country Factsheet United Kingdom

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance		**0.70**	**0.53**	**+0.17**
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	1.57	1.18	+0.17
B. Tools for administrative modernisation		**0.92**	**0.54**	**+0.39**
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	100.00	89.10	+0.21
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010	9.33	3.87***	+0.51
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010	64.10	32.30	+0.43
C. Corruption and fraud		**0.87**	**0.60**	**+0.28**
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.70	4.37	+0.32
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	5.90	5.14	+0.24
C3) Experience of corruption [% share of respondents reporting an incident]	2011	2.00	10.00	+0.27
D. Starting a business and licensing		**0.81**	**0.62**	**+0.19**
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011	1.00	0.69	+0.33
D2) Time required to start-up a company [number of calendar days]	2011	13.00	13.69	+0.02
D3) Cost to start-up a company [% of income per capita]	2011	0.70	5.05	+0.22
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	9.80	15.32	+0.29

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement		**0.61**	**0.66**	**-0.04**
E1) Total person-days per firm per competition [firm days per company and per bid]	2010	17.00	16.60	+0.01
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010	0.23	0.19	-0.21
E3) Average delay in payments from public authorities [days]	2012	18.00	28.23	+0.10
F. Tax compliance and tax administration		**0.90**	**0.79**	**+0.10**
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	110.00	208.20	+0.20
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009	1.14	1.32	+0.01
G. Efficiency of civil justice		**0.74**	**0.59**	**+0.15**
G1) Enforcing contracts: Time [Calendar days]	2011	399.00	556.40	+0.16
G2) Enforcing contracts: Cost [Percentage of claim]	2011	24.80	20.60	-0.18
G3) Resolving insolvency: Time [Years]	2011	1.00	1.95	+0.26
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	6.20	4.77	+0.36

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

7.28. Croatia

7.28.1. Background information

Legal system	Civil law system (German tradition), former socialist
State system	Unitary, decentralised
No. of administrative tiers	3 (central/provincial/municipal)
%-share of compensation of employees in economy-wide compensation of employees	
general government	not available
core administration (w/o military service)	not available

Note: Legal system data from Djankov, McLiesh, and Shleifer (2007) and Central Intelligence Agency (n.y.). Classification of State system and administrative organisation are based on European University Institute (2009), Spanish Ministry of the Presidency (2010) and Treisman (2007). General government spending refers to the government sector (S.13) in ESA 1995 classification. Core public administration according to NACE Rev. 2, Section O, military spending data are from Eurostat's COFOG data.

7.28.2. Summary assessment

As Croatia is not yet a Member State, many data that would allow us a more comprehensive assessment of its public administration performance is not available. We therefore decided not to calculate composite indicators, and also not to use (available) data from Croatia to calculate the respective EU-averages for sub-indicators.

The *government effectiveness* indicator from the World Bank database assigns a value below the EU-average to Croatia, although the difference to the EU-mean is not overwhelmingly large. Hence, scope for improvements in administrative quality appears still to exist.

Seven out of eight business-related *e-government* services under consideration are already implemented, which would give Croatia an average ranking across the Member States. Further indicators for the use of modernising tools in public administration are not available.

As regards the *corruption*-link, the two available perceptions-based indicators for "diversion of public funds" and "irregular payments and bribes" show values far worse the EU-mean. This is a strong signal that Croatia observes a higher level of corruption than most other Member Countries.

The procedures to *start-up a business* do not show a clear assessment. On the one hand, the time required to start-up a business in Croatia is substantially smaller (7 days) than the EU-average (13.7 days). On the other hand, the costs in terms of income per capita are higher (8.6% in Croatia vs. 5.1% on EU-mean), and the index of licensing signals a higher than average complexity.

The time to prepare tax files is 196 hours per year, which is slightly below the mean of 208 days. Data on administrative costs in relation to tax revenues is not available.

The four indicators for the *efficiency of civil justice* also show a mixed picture. The average time for enforcing contracts (561 days) is around the EU-average (556 days), and – according to the Doing Business data – the costs of enforcing contracts (13.8% of a claim) are lower than the EU-mean of 20.6%. Bankruptcy and insolvency issues are, on the contrary, resolved in 3.1 years (EU-mean is 1.95 years), and perceived independence of the Croatian judiciary is comparably weak.

7.28.3. Country Factsheet Croatia

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
A. General governance			**0.53**	
A1) Government effectiveness [Index range -2.5 to +2.5, higher values indicate better performance]	2010	0.62	1.18	
B. Tools for administrative modernisation			**0.54**	
B1) Availability of 8 business related E-Government services [% of total of 8 services]	2010	88.00	89.10	
B2) Use of Evidence-Based Instruments [Index 0 to 10, high values indicate intensive reliance]	2010		3.87***	
B3) Post-Bureaucracy Index [Index 0 to 100, high values indicate intensive reliance]	2010		32.30	
C. Corruption and fraud			**0.60**	
C1) Diversion of public funds [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	2.90	4.37	
C2) Irregular payments and bribes [Index on a scale from 1 (very common) to 7 (never occurs)]	2011	3.80	5.14	
C3) Experience of corruption [% share of respondents reporting an incident]	2011		10.00	
D. Starting a business and licensing			**0.62**	
D1) Fully operational one-stop-shop to start-up a company [does not exist =0, does exist = 1]	2011		0.69	
D2) Time required to start-up a company [number of calendar days]	2011	7.00	13.69	
D3) Cost to start-up a company [% of income per capita]	2011	8.60	5.05	
D4) Index of total licensing complexity [range 1 to 26, high values indicate high complexity]	2010	21.80	15.32	

EPA-competitiveness link	Ref. year	Absolute value	EU mean*	Difference to mean on normalised scale**
E. Public procurement			**0.66**	
E1) Total person-days per firm per competition [firm days per company and per bid]	2010		16.60	
E2) Typical cost of a competition for firms per competition [% of per capita GDP]	2010		0.19	
E3) Average delay in payments from public authorities [days]	2012		28.23	
F. Tax compliance and tax administration			**0.79**	
F1) Time to prepare and file tax returns and to pay taxes [hours per year]	2010	196.00	208.20	
F2) Administrative costs of taxation [per 100 units of revenue collection]	2009		1.32	
G. Efficiency of civil justice			**0.59**	
G1) Enforcing contracts: Time [Calendar days]	2011	561.00	556.40	
G2) Enforcing contracts: Cost [Percentage of claim]	2011	13.80	20.60	
G3) Resolving insolvency: Time [Years]	2011	3.10	1.95	
G4) Independent judiciary [Index from 1 to 7, high values indicate independence]	2011	3.05	4.77	

Headline indicators A) to G) on a normalised 0-1-scale.

* Averages are calculated for EU-27 except MT
** Normalisation to 0-1 scale. Positive values indicate 'better than average', negative values indicate 'worse than average'
*** BG, CY, EE, LV, LT, MT, RO, SI not included in EU-26 mean

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8. GLOSSARY

Administrative Capacities

Skills, experience, technical and management knowledge within the administration to perform its tasks.

Caseload

The number of cases that a court has to deal with in a period of time.

Competitiveness

Set of institutions, policies and factors that determine the level of productivity of a country.

Composite indicator

An indicator formed by compiling individual measures into a single index on the basis of an underlying model and aggregation procedure.

Core public administration

Narrow definition of the public administration from the NACE statistics. Core administration includes enactment and judicial interpretation of laws and regulations, administration of government programmes, legislative activities, taxation, defence, public order and safety, immigration services, foreign affairs and compulsory social security. Activities such as teaching at schools or universities or health services activities are excluded, administration of these services is included.

Corruption

Corruption is the misuse or the abuse of public office for private gain. Various forms and a wide array of illicit behaviour fall under this heading, including bribery, extortion, fraud, nepotism, graft, speed money, etc. Administrative corruption is defined as an attempt to influence the implementation of existing laws and regulations to provide advantages to individuals or firms through corruption. State capture covers the effect of corruption through attempts of individuals or firms to influence the formation of laws or regulations and to alter government decisions with respect to spending and funding.

Court

A body established by the law appointed to adjudicate on specific type(s) of cases within a specified administrative structure where one or several judge(s) is/are sitting, on a temporary or permanent basis.

e-government

The use of information and communication technologies (ICTs), especially the Internet and social media, in public administration to enhance the access to and delivery of all facets of

government services and operations for the benefit of citizens, businesses, employees, and other stakeholders.

Effectiveness

The extent to which a public organisation's stated objectives are met.

Efficiency

Efficiency means achieving maximum output from a given level of resources used to carry out an activity, or, alternatively, achieving a given output with a minimum level of resources.

Federalism

System of government in which sovereignty and responsibilities are constitutionally divided between a central authority and constituent political units (such as states or provinces).

General government

The general government sector consists mainly of central, state and local government units together with social security funds imposed and controlled by those units. In addition, it includes non-profit institutions engaged in non-market production that are controlled and mainly financed by government units or social security funds.

Governance

Exercise of political, economic and administrative authority necessary to manage public affairs and public resources, especially the process by which decisions are made and implemented.

Human resource management (HRM)

Strategic personnel management to improve the capabilities of the public administration staff. It includes the modes how public employees are paid, managed and motivated, recruited and developed.

Input

Physical factors and non-tangible factors such as laws and regulation used to produce output.

Judge

An independent and impartial person who adjudicates cases in a court according to the law and follows an organised procedure, on any issue within his/her jurisdiction.

Judicial system

The judiciary is the system of courts that interprets and applies the law in the name of the state. The judicial system also includes the mechanism for the resolution of disputes.

Lawyer

A person qualified and authorised according to national law to plead and act on behalf of his or her clients, to engage in the practice of law, to appear before the courts or advise and represent his or her clients in legal matters.

Mediation

A dispute resolution process whereby parties negotiate over the issues in disputes in order to reach an agreement with the assistance of one or more mediators.

Multi-level governance

The set of institutional arrangements which regulate the mutually dependent relationships (vertical, horizontal, or networked) between public actors situated at different levels of government.

NACE

Nomenclature generale des activites economiques dans les Communautes europeennes (NACE) refers to the industrial classification which is used by Eurostat.

Outcome

The intended or unintended results of government actions, but other factors are also implicated. In performance assessments, outcomes are defined as the impacts on social, economic, or other indicators (goals) arising from the delivery of outputs (e.g., student learning, social equity).

Outsourcing

Delegation of (part of) public sector activities to an outside contractor.

Output

The result derived from the direct measurement of produced volume and associated quality characteristics of government goods and services. In performance assessment in government, outputs are defined as the goods or services produced by government agencies (e.g., teaching hours delivered, welfare benefits assessed and paid).

Performance orientation

Measurement and use of information which refers to the impacts of certain policies to assess the quality of public service provision. In general, the term 'performance' is used non-

analytically to convey that achievements matter as well as probity and parsimony in resource use.

Policy

A procedure of actions adopted or proposed by an organisation.

Public administration

Producer of collective goods and services, ranging from the basic protective governmental functions like running a court system or providing police services, to the management of public infrastructures and the supply of educational institutions. A commonly accepted definition of 'public administration' does, however, not exist. In statistical terms, the public administration corresponds to the staff of the general government.

Public procurement

Acquisition of goods or services by the public administration. It includes acquisition by purchase, rental, lease, hire purchase, license, tenancy, franchise, or any other type of works, services or supplies.

Regulation

Imposition of rules by the government backed by the use of sanctions, that are intended to modify the economic behaviour of individuals and firms in the private sector. Economic regulations intervene directly in market decisions such as pricing, competition, market entry, or exit.

Regulatory Impact Assessment

Information-based analytical approach to assess probable costs, consequences, and side effects of planned and already existing policy instruments (laws, regulations, etc.) to evaluate the real costs and consequences of policy instruments. It is a means to inform government choices about policy instruments, the design of a specific instrument, or the need to reforms.

Service orientation

Cooperation and interaction between public administrations and clients (citizens, businesses, and other stakeholders).

Small and medium-sized enterprises (SMEs)

Non-subsidiary independent firms which employ only a limited number of employees. The most frequent upper limit designating an SME is 250 employees in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, micro firms have less than 10 employees. In EU Law, the definition whether a company is an SME also depends on either turnover or balance sheet total.

Timeframe

A period of time during which an action occurs or will occur. Timeframes are targets to be used as inter-organisational means to pursue the timeliness of court proceedings.

Time limit

In judicial proceedings, this term indicate mainly the limits established by procedural rules. These limits can be mandatory and with consequences in a specific proceeding (e.g. the prohibition of presenting evidences after a specific time) or simply intimation without consequence (as when a judge should write a sentence within a week after the decision but nothing happens if the provision is not fulfilled). On the contrary timeframes should not be specified by procedural rules. They are just inter-organisational goals with consequences at this level.