BUREAUCRACY INDEX

Create Bureaucracy Index for your country!
bureaucracyindex.org
Bureaucracy Index 2018
in Your Country

Bureaucracy Index is a simple and transparent quantification of the proverbial “red tape”, which is mentioned daily in media, but rarely in any quantitative terms.

Bureaucracy Index was introduced in 2016 in Slovakia by the Institute of Economic and Social Studies (INESS). The goal was to establish a comprehensive list and subsequent cost of bureaucratic burden for a SME in the country. The 2016 Slovak pilot attracted wide attention of national media, business leaders and policymakers. In 2017, two foreign partners, Liberalni institut from Czech Republic and Institute for Market Economics from Bulgaria joined Bureaucracy Index.

Our ultimate goal is to turn the Bureaucracy Index into an international tool for economics, business and competitiveness focused advocacy groups and think tanks. Based on the feedback from the 2016 and 2017 editions, INESS fine-tuned the methodology and made it even more straight-forward and adaptable for international partners.
How Bureaucracy Index works – the basics

Bureaucracy Index follows bureaucratic duties of a fictional model SME conducting business activities for one year. These duties are split into several categories and each assigned time cost. The sum of these time costs is the resulting index value. Unlike the Doing Business subcategory “Starting a business”, the Bureaucracy Index (herein BI) focuses on assessing the red tape amount for a company, which has already been established.

Utilization of Bureaucracy Index (perspective of your organization):

• BI distills the red tape into a single number, which can be communicated easily. The detailed story of the model company Gates of Heaven ltd. make the results more humane and tangible.

• BI will provide you with a structured database of all bureaucratic duties for SMEs in your country. This database can help you track changes in your country, or serve as a useful tool for prospecting small entrepreneurs.

• BI is a great networking tool with business leaders. You can offer partnerships, or involve them directly in the creation and promoting of the BI.

• BI is a fundraising tool which can become a flagship of your competitiveness advocacy efforts.

• BI will enable international comparison of the results.
The Bureaucracy Index of your country will be your project and the responsibility for creating your national version lies on the shoulders of your organization. However, we at INESS will gladly assist you should any methodological, communication or strategic question arise during the process. We also suggest you contact us before you start implementing the Bureaucracy Index in your country to coordinate the efforts and timing. There may be other institutions in the country already working on it. The contact person for Bureaucratic Index agenda is Martin Vlachynsky, the director of the Research Center for Competitiveness and Business Environment at INESS.

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RESOURCES

Constructing your own Bureaucracy Index will require mainly expert-time. Depending on your in-house expertise, you may need to reach out to various experts (accountants, managers, lawyers) to complete the list of bureaucratic duties and provide you with the time estimates for the duties. You will need a project manager putting the inputs together. And you will need to invest time and probably also some financial resources to communication - a website, leaflets, events, etc.

Unless you are dealing with an exceedingly complex region of regulation, an experienced consultant should be able to answer these questions in an hour-long sitting, maybe with some subsequent email exchange for clarification. Often, you can get these service for free in exchange for partnership. In some countries, Ministry of Economy or its subordinate organizations already conducted wide analysis of bureaucratic duties with calculation of time costs. This can help as well.

On the low end, you should be able to prepare the Bureaucracy Index with budget around EUR/USD 2,000 – if you are able to cover the majority of activities in-house (including web presentation, design of promotion materials etc.). A budget of EUR/USD 4,000 will give you more breathing space. In terms of work-hours, expect to spend around 30-60 hours for the Index calculation itself and additional 15-30 hours on project management and communication. A good knowledge of your national legal environment for business should help you to substantially reduce the time cost.

METHODOLOGY

Creation of your national Bureaucracy Index involves two broad steps.

1. Identify all bureaucratic duties relevant for the model company, which fit into some of the duty categories (see below)
2. Assign time cost (and monetary cost, where appropriate)
The model company

We are examining a fictitious company Gateway to Heaven Ltd. It has the following characteristics:

- It has been operational for several years already.
- If there are regional business rules in the country, the company is located in the capital of the country.
- The company manufactures iron gates, fences and other blacksmith products.
- It has four full-time employees. Two of them aged 20, and the remaining two aged 50. Two males and two females. The entrepreneur (owner) is not an employee and does not change over time.
- During the year one employee would be fired and one would be hired. Legal probation time is applied (if possible).
- Each of the 4 employees is sick for 5-working days per year.
- Each of the employees uses all of his or her legal holiday leaves.
- Annual turnover of the company is EUR/USD 100,000.
- Pre-tax profit is EUR/USD 5,000.
- It sells its products both to other business and consumers.
- The company is a VAT payer (if applicable in your country).
- The company accepts cash, card and wire payments.
- It does not import or export goods and materials outside of the EU (if your country is not an EU member, the model company does not import or export at all – do not regard any bureaucratic duties which are related to international trade).
- The company produces waste on a monthly basis: 5 kg of electronics, 10 kg of oils/colors/chemicals (hazardous), 10 kg of mixed glass, 50 kg of metal, 25 kg of mixed plastics, 25 kg of mixed paper, 25 kg of unsorted (non-hazardous) waste per month.
- The company owns one delivery diesel truck with a 100kW engine with one dedicated driver from the staff members. The truck is replaced with a brand new one every four years.
• Both indoor (10 pieces) and outdoor (10 pieces) power tools are used by the employees.

• Risk factor of the working environment is considered medium (higher than office work, lower than high risk environments like a steel-mill).

• The company resides in its own building.

• There are no trade-unions (if such option is legally possible).

• The company uses standard accounting software, but does not outsource accounting.

• The company communicates with the public institutions electronically, when such option is possible.

• The company strictly follows the law and fully complies with all requirements.

• If there is an externally provided service (required by law, like health and safety training), the company searches for a new provider once in four years.

Bureaucratic duties

To calculate the index, we identify all the relevant bureaucratic duties of the model company. “Relevant” means they fulfil two conditions:

1. They are imposed by law or any kind of regulation issued by a relevant public authority.

2. They fail the market test. It means that the same duty would not be required by the market, or the market requirements would be substantially lower and/or flexible. One example is accounting - bookkeeping would exist also without legal requirement. Therefore, accounting is not counted into administrative duties – except for tax and social/health contributions related accounting events. Similarly, the duty of creating an employment contract does not fail the market test. However, any related agenda required by law (in Slovakia, hired employees have to sign “responsibility agreement”) is counted towards the administrative duties.
The identified administrative duties should fall into these two broad categories and subcategories:

1. EMPLOYMENT

This category should encompass duties related to employing people:

**Wages, taxes and contributions administration** – everything related to the tax and obligatory insurance (health, pension, social) administration on behalf of the existing employee (only in the case the law requires the employer to provide these to the employee). Activities related to the salary (anything more than the payment itself, which does not fail the market test) also come in this category. This category also includes additional administration of sick leave and holidays.

**Hiring and firing administration** – our model company hires one and fires one employee during the year. This subcategory may include obligatory introductory health and safety training, entry medical examination, registration of the new employee in the tax office, social insurance agency (and, eventually, deregistration of the fired one).

**Worktime reporting** – the model company has only 4 employees. However, some countries require in their labor code detailed and recorded management of worktime, holidays etc.

2. OPERATION

This category should encompass all activities related to daily operations of the model company, besides employment.

**Taxes administration** – administration of any taxes (except taxes and contributions on behalf of the employee, which should be treated in the “Employment” category). These would typically involve corporate income tax, VAT, real estate tax, … Also management of fees to public institutions (Public broadcasting fee is a Slovak example), which do not fit into other categories (below) should appear here.

**Waste administration** – especially in the EU, keeping record about waste creation and disposal represents large bureaucratic burden. We created a separate category for it.
Vehicle administration – any bureaucratic duties related to purchase (one in 4 years – see below the section about counting the time cost), sale, operation and driving of the company vehicle.

Obligatory certification and external services – this category should involve any activities regarding obligatory certification (either from public or private providers), including various safety and technical checks (of power tools for example), which are imposed by law. Also, any kind of service provided by private or public bodies, which is required by law and fails the market test should be included here. See below on how to count time cost for regular certification provided by an external contractor.

Besides the two main (EMPLOYMENT and OPERATION) we also include a special category OTHER. Here, any important duty which does not fit previously mentioned categories should be listed. However, to make the Bureaucracy Index as comparable between countries as possible, duties should be placed in this category only in special occasion, after consulting it with the coordinator (INESS).

The duties you record should be explained in a layman details, so their list can serve not only as an internal repository of data for the calculation of the index, but also as a knowledge database of the bureaucratic duties of your country for other countries.
Calculating the time cost

Each of the bureaucratic duties from the list should be assigned a time cost. You should select one of the four possible values:

**SHORT**
0.25 hour

Typically, you should assign this time cost to an automatized, repetitive action, often assisted with electronic solutions. Think of reports generated by accounting software, or by online tools of your tax authority, social/health insurance authority etc., and which do not require further manual elaboration, generic short forms, which require minimum inputs (signature, etc.) and similar.

**MEDIUM**
1 hour

Reports, forms, declarations etc., which require numerous manual inputs and personalization, calculations (which are not done automatically in 0 time by software, or which require corrections or checks by human). Consider this category also when communication within the company or with external environment (authorities etc.) is required.

**LONG – HALF DAY**
4 hours

Duties, which require intensive manual input, analysis and calculations, large number of inputs, which have to be personalized, require creation of long texts, schemes, maps, etc. This may also include activities which require presence of an employee on an event (think entry medical exam).

**LONG – FULL DAY**
8 hours

Duties, which require intensive manual input, analysis and calculations, very large number of inputs with difficult data collection, require creation of long texts, schemes, maps, etc and which occupy the responsible person for a whole work day. This may also include activities which require presence of an employee on an event (think health and safety training) during the whole workday.

There are four more time assignments, which may influence the final time cost: payment, submission, travel and market search.
PAYMENT
0/0.25 hour
If a bureaucratic duty requires manual payment, the payment will add 0.25 hour of time cost (no matter if it’s paid cash, by cheque or electronically). If the payment is fully automated recurring payment, it costs 0 hours.

TRAVEL
2 hours
If a responsible person has to leave the workplace to fulfill the bureaucratic duty (to visit a bureau for example), add 2 hours travel cost. This does not count for the visits of post office (see submission) or a bank (see payment).

SUBMISSION
0/0.25 hour
If the required form, application or any other outcome of a bureaucratic duty can be submitted electronically, it cost 0 hours. If it has to be submitted in paper, add 0.25 hour (it represents the time cost of printing, fitting in envelope, marking with address etc.)

MARKET SEARCH
1 hour
If any duty requires a commercial provider (think health and safety training), market search cost has to be added. The methodology sets that such a provider is searched on the market every 4 years and the search takes 4 hours, therefore the annual cost is 1 hour. The market test (see above) applies – consider only duties, required by law. Market search cost for a new truck is not considered, because the purchase of a truck is not required by law.

If more employees are affected by the duty at the same time (for example, a law requires all employees to undergo regular health and safety training), the time cost is multiplied by the number of persons involved! The time cost represents the time during which the entrepreneur or any of his employees were absent from work.
**Periodicity**

You are counting annual time cost. Therefore you have to take periodicity of the bureaucratic duties into account. Periodicity is counted according to your local legal requirements. If the law requires your model company to submit tax statement every month, you have to multiply the cost 12-times. For duties with periodicity longer than one year, you should divide the time cost with the number of years. An example could be a power tool check, required by law every two years. In this case, you divide the time cost of the duty (4 hours for example) by 2, so the resulting time cost is 2 hours per year. In the case of *irregular duties, we consider such events occur in our model company every 4 years.* One example is the purchase of a new truck.

**Legal changes – time cost**

An entrepreneur (or his/her employees) have to be up to date with certain laws. Rapid changes in crucial laws require time to study the changes and incur time cost. We consider three bodies of laws: *labor code, corporate tax code,* and *commercial code.* If there is a novelization during the considered year to any of these three laws, you should add 1 hour per law per novelization to the final time cost. *Example: if there was one novelization to the labor code, three to the corporate tax code and zero to the commercial code, you should add 4 hours (1+3) to the final time cost.*
Time cost calculation examples

**EXAMPLE 1**

Every month, employer has to report the paid social insurance contributions to the Social Insurance Agency. It is a routine duty, with inputs quickly generated by a standard accounting software used by the company, so it is considered “short” with 0.25 hour cost, but multiplied by 12 (monthly periodicity). The report is submitted electronically and requires no payment, so there is no payment, submission or travel cost added. Final annual time cost for this duty is 3 hours.

**EXAMPLE 2**

All employees have to undergo health and safety training once in two years. This training must be contracted from a licensed provider. The training requires all employees of the company to visit the offices of the provider. This training will take several hours (yet not a full day) so we count it into the “long – half day” category, with 4 hour cost assigned. However, it requires the presence of all 4 employees, who have to travel to the event venue. Therefore, we end up with 4 employees times 4 hour + 2 hour travel, which equals 24 hours divided by two years, coming to 12 hours cost. The training is provided by a commercial provider, so we also have to add the market search cost 1 hour. Final times cost is 13 hours.

**EXAMPLE 3**

The Company sells the old one and buys a new vehicle every 4 years. This operation itself is a standard market operation as it not counted as a time cost in the Bureaucracy Index. But deregistration of the old vehicle and registration of the new vehicle is counted. Suppose the registration itself is a medium process with cost 1 hour. It has to be done personally in a transport authority bureau building; therefore 2 hours travel cost is added. The procedure includes also cash payment for the stamp, with additional 0.25 hour cost. It sums up to 3.25 hours. However, since this event happens only once in four years, the time cost is $3.25/4 = 0.813$ hours annually.
The key deadline is **September 29 each year**. This date is marked as the birthday of the economist Ludwig von Mises. Among other things, he was one of the first economists who systematically studied the phenomenon of bureaucracy. He published his findings in the book *Bureaucracy*. For this reason we decided September 29 to be the **International Bureaucracy Day**.

We believe it is ideal to begin constructing your national Bureaucracy Index clone 4-5 months in advance.

**Suggested timeline:**

**APRIL—MAY:**
- Fundraising. Project plan. Outline of the areas of bureaucracy, which will be analyzed.
- Consultations with business owners. Identification of experts for each area.

**MAY—JULY:**
- Consultations with experts. List of bureaucratic duties. Consultations with project coordinator (INESS).

**AUGUST—SEPTEMBER:**
- Consolidation of data, calculations, preparation of your national communication strategy, and creation of dissemination tools (press releases, reports, infographics, website...).

**SEPTEMBER 15:**
- Prepare and send your results to the coordinator (INESS), so we can prepare the publication of international comparison report, which will be published on September 29.

**SEPTEMBER 29:**
- Publication of national results, international comparison report, accompanying events and advocacy initiatives.
Communicating the results, methodology and intention of your national version of the Bureaucracy Index is the key part of the project. You will be responsible for the communication of the project and its results to your national audience. INESS will establish early communication with all participating international partners and will coordinate also the international communication campaign about the International Bureaucracy Index during the International Bureaucracy Day.

Each organization has different resources and experience when it comes to communication projects with audience. As an inspiration, INESS communication activities promoting the previous Bureaucracy Index results in Slovakia involved:

- Dedicated website
- Press release
- Press conference for journalists
- Leaflets
- Stunt act in the streets of the capital with broadcast media presence (creating Bureaucratic snake, interviewing pedestrians)
- Intensive promotion on social networks
- Infographics, hand made by a young Slovak artist
- Preparation of an illustrated wall calendar for the next year with 12 selected deregulation suggestions
- Local/international conference
What has changed compared to 2017 methodology?

Based both on our experience and foreign partners’ feedback, we made several changes to our methodology in 2018. Changes of methodology are inevitable part of Index development and are common also for established indices, like Doing Business. If you just come across the Bureaucracy Index for the first time, you do not need to understand these.

• “Starting a business” subsection was dropped. BI’s main aim is to analyse operational company and a subsection focused on starting of company was demanding additional resources, without contributing to the main goal.

• Bureaucratic duties were restructured into two main groups (Employment and Operation) and several subcategories. This will provide better international compatibility.

• Time cost categories were created to provide anchors for estimates.

• Some of the previously identified duties were revisited and merged/deleted from the list, some new were added
I am interested in creating national Bureaucratic Index. What should I do?

1. Contact INESS at martin.vlachynsky@iness.sk and let us know about your interest. We want to avoid any collision with another organization working on the Bureaucracy Index in your country at the same time.

2. Collect your questions or comments and we will arrange a Skype meeting with you, where we will discuss the project with you.

3. Start working, fingers crossed!