South Asia FDI Roundtable

Keynote Address 3: International benchmarks for administrative barriers and lessons concerning reforms

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Maldives, 9-10 April 2003

Foreign Investment Advisory Service
A joint service of the International Finance Corporation and The World Bank

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1 Administrative and regulatory costs surveys

Survey approach

As a part of FIAS work on administrative barriers to investment in various countries, we have been making use of business survey data on administrative and regulatory costs. We gather information on **"both sides of the story.":**

- We ask officials from the relevant **government agencies** about the official fees and processing times for a range of administrative procedures.

- We also ask **businesses** about their experiences: how much time did it actually take them to complete the procedures, how much did it cost, and what kind of problems did they encounter?

The **business surveys** are mostly based on representative samples of 300 – 500 firms in each country (or region of a large country, such as in Russia), using a questionnaire with standard questions (Appendix 1). Most of the surveys were conducted in 2002, although some took place as early as 1998 (Appendix 2). FIAS has compiled the survey results into a database, which can be used for cross-country comparisons. The data presented in this paper are taken from **the database.**

The results have proven useful for **analytical purposes:**

- Some of the questions are **"perception-based"** (e.g., "How severe an obstacle are tax rates to the operation and growth of your business?"), and

- others are relatively objective **"hard data"** (e.g., How many calendar days did it take you to receive all your construction permits?").

Perceptions of the investment climate

The answers to the perception questions are very useful for:

- **ranking problems within a country**, and

- for examining the **change in those rankings over time**.

For example, on a world-wide basis, taxes (including both tax rates and tax administration) are usually ranked the highest (or among the highest) of obstacles to business operation and growth, and even as a deterrent to new investment. Thus, if a survey shows that taxes are the highest ranked obstacle in a particular country, that may be "normal", and not *necessarily* a reason to embark on major tax reform. On the other hand, obstacles that are higher ranked than tax in a particular country usually deserve special attention.

Below are examples of the rating of a series of obstacles in two countries. Both in Russia (Figure 1) and Macedonia (Figure 2) general problems such as "corruption" as well as specific problems such as "access to land" and "access to construction permits" are ranked at the top of the list of obstacles to business, which suggests they are high-priority candidates for reform.

Figure 1

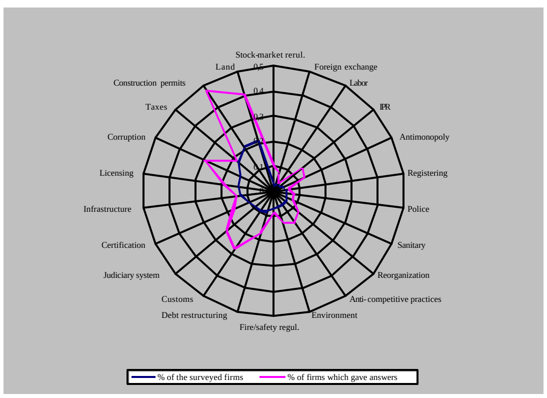
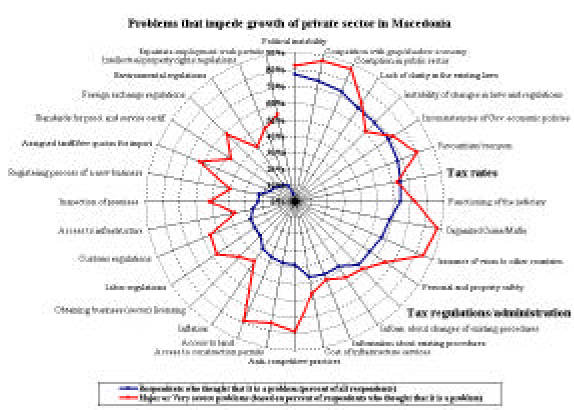


Figure 2



We display two aspects of the data:

- The firms who responded that they found a particular item to be an "obstacle" of any degree for the operation or growth of their business, as a **percentage of all firms** in the survey database;

- The percentage of firms who responded that they found a particular item to be a major obstacle as a **percentage of firms who have indicated they have experience** with that item at all.[1]

We **look at both measures**, because the first one can point out obstacles that are problems for most firms. However, they may be relatively minor obstacles. The second takes into account the fact that some procedures are ***not*** encountered very frequently by most firms (such as the need to acquire land or construction permits), but may be very severe obstacles for firms that ***do*** encounter them.

It is often **difficult to make cross-country comparisons** based on such perception questions.

For example, businesses in Croatia are very close to the EU, and have relatively high expectations and standards. Businesses in Azerbaijan, by contrast, are not as much exposed to business practices in OECD countries, and have lower expectations. Some cultures are more prone to "complaining" than others. Finally, countries with a relatively small, protected business community may *highly appreciate* barriers to new investment, as it spares them from having to compete. They may therefore perceive a generally positive business climate, while potential investors (who are not normally included in such surveys) may be badly deterred by barriers to investment.

Hard data about costs, and cross-country comparisons

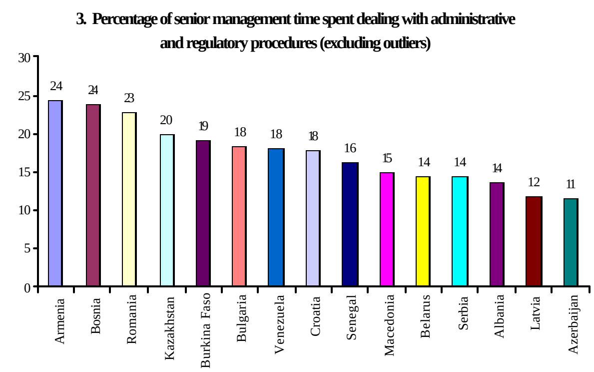
The "hard data" from the surveys can be **used with more confidence** for comparisons across countries, and with more precision to measure change over time within a country. Several examples of cross-country comparisons of hard data are discussed below.

Senior management time

The "percentage of senior management time spent dealing with administrative and regulatory procedures" (Figure 3) is a good summary measure of the burden of administrative barriers that can be compared across countries. This ranges from a high of 24% of senior management time in Armenia to a low of 11% in next-door Azerbaijan. Azerbaijan has a reputation for high rates of

[1] Definitions vary across different surveys, which is an important reason to avoid cross-country comparisons of these particular data.

corruption (e.g., it consistently ranks quite poorly in the Transparency International Corruption Perceptions Index[2]), whereas Armenia has a reputation as a place where "personal connections" are more important than bribes. However, "personal connections" might involve more time than handing over a bit of cash.



Coun-try	Arme-nia	Bos-nia	Roma-nia	Kazakh-stan	Burkina Faso	Bulga-ria	Venez-uela	Croa-tia	Sene-gal	Mace-donia	Bela-rus	Ser-bia	Alba-nia	Lat-via	Azerba-ijan
Obser-vations	180	26	481	189	106	402	171	484	171	329	540	350	446	341	452

Figure 3

Individual procedures or sets of procedures show even wider variation.

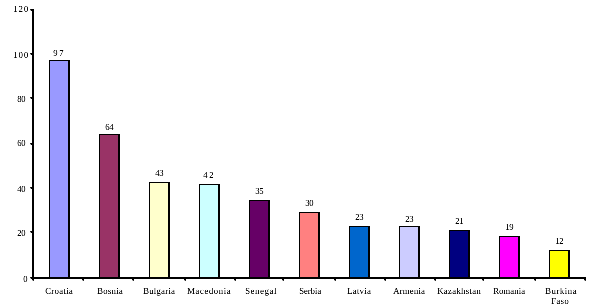
All registration procedures

The total time required to complete all registration procedures (e.g., basic company registration, tax registration, and all related procedures) ranges from 97 days in Croatia down to 12 days in Burkina Faso (Figure 4).

Figure 4

[2] See TI website: http://www.transparency.org/cpi/2002/cpi2002.en.html

4. Total registration - Total Days (excluding outliers)



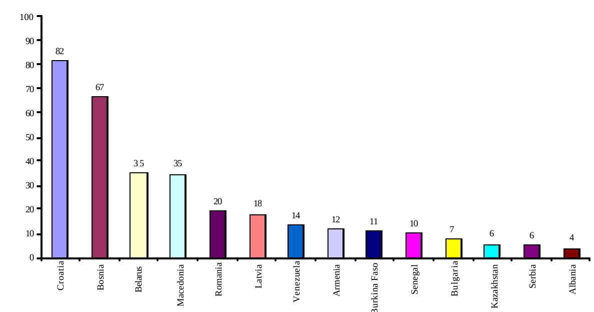
Country	Croatia	Bosnia	Bulgaria	Macedonia	Senegal	Serbia	Latvia	Armenia	Kazakistan	Romania	Burkina Faso
Obser - vations	364	39	529	147	32	208	331	176	189	84	46

Company registration

Looking just at Company registration itself, we see a range of 82 days in Croatia to 4 days in Albania (Figure 5).

Figure 5

5. Company Registration - Total Days (excluding outliers)



Coun- try	Croa -tia	Bos- nia	Bela - rus	Mace- donia	Roma -nia	Lat- via	Venez -uela	Arme- nia	Burkina Faso	Sene - gal	Bulga -ria	Kazakh -stan	Serbia	Alba - nia
Obser- vations	240	219	557	166	281	346	136	139	34	101	394	76	108	365

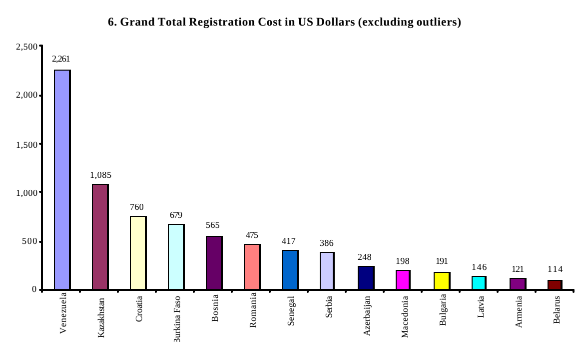
Now under the best of circumstances, it is expected to take at least 50 days to complete all registration-related formalities in Croatia,[3] but clearly the average firm usually faces a longer period of time. Croatia has about 13 required procedures, but Serbia has 16 required procedures and Burkina Faso has 15 required procedures, but lower periods of time required, on average and in practice, than Croatia. Why should this be? We would expect Croatia to be more effic ient that Burkina Faso (on the basis of, e.g., average labor productivity), and they both have a similar "continental" legal background (as opposed to an Anglo/American legal background, which usually involves fewer ex-ante formalities).

To find an answer would require more intensive investigation. Sometimes we see a trade-off between time and cost. In our survey data, the range of costs is even higher than the range of time requirements associated with business registration:

All registration costs

The total of all costs associated with all registration procedures (including official fees, required notary fees, the costs of hiring a consultant to facilitate the process, bribes, and other unofficial costs) ranges from over $2,200 dollars in Venezuela to $114 in Belarus (Figure 6).

Figure 6



Country	Venez -uela	Kazakh -stan	Croatia	Burkina Faso	Bosnia	Roma-nia	Senegal	Serbia	Azer-baijan	Mace-donia	Bulga-ria	Latvia	Arme-nia
Obser-vations	99	189	259	77	47	305	69	167	111	261	311	265	151

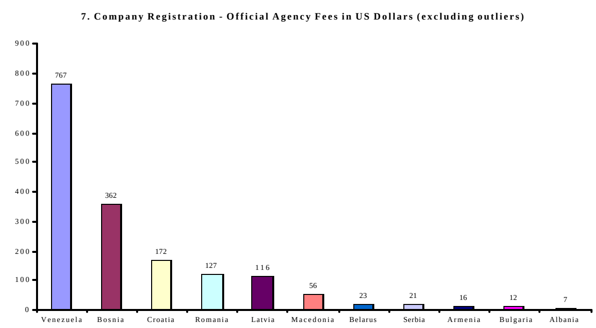
Company registration official costs

Looking only at official fees for just Company registration, we see a smaller range: from a high of $767 in Venezuela to $7 in Albania (Figure 7).

[3] World Bank "Doing Business" Database, web-address: http://rru.worldbank.org/DoingBusiness/

We also see that one of the fastest countries for registration, Kazakhstan, is also one of the most expensive. Serbia is in the middle in both the “total time” chart and “total cost” chart, but there is a noteworthy difference between the official fees for company registration in Serbia, which are quite low, and the average bribe associated with the procedure, which is ten times higher than the official fee (on which please see more below). However, we also see that Latvia is among the lowest for both time AND cost, AND is relatively low in the incidence and size of bribes associated with registration procedures.

Figure 7



Country	Venezuela	Bosnia	Croatia	Romania	Latvia	Macedonia	Belarus	Serbia	Armenia	Bulgaria	Albania
Obser-vations	55	157	155	261	210	54	398	19	137	191	353

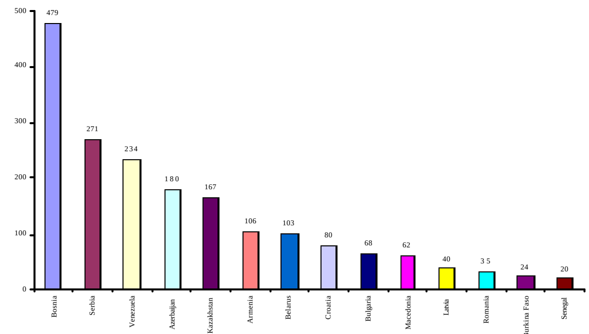
All registration bribes

Data on bribes is often problematic due to low response rates. However, it is sometimes interesting to look at the data. Our dataset show a range of bribes associated with registration ranging from $479 in Bosnia to $20 in Senegal (Figure 8).

The size of the bribe may correlate roughly with per capita GDP, but the relative frequency of bribes seems to be affected by many other variables as well. In most surveys, we expect the incidence and amount of bribes to be under-reported. However, the ranking of these data across procedures **within a country** is usually fairly reliable. Again, a more definitive analysis would require a much deeper investigation.

Figure 8

8. Grand Total Bribes in US Dollars - Registration (excluding outliers)



Coun-try	Bos -nia	Ser-bia	Venez -uela	Azer-baijan	Kazakh-stan	Arme -nia	Bela-rus	Croa-tia	Bulga-ria	Mace-donia	Lat-via	Roma-nia	Burkina Faso	Sene-gal
Obser-vations	5	6	8	23	38	49	143	12	18	16	5	30	8	6

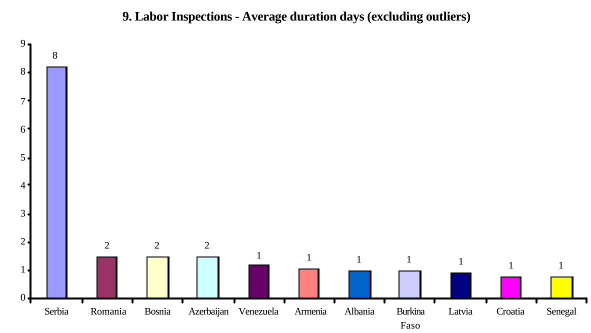
Frequency and duration of inspections

We also ask about the frequency and duration of inspections. These too show significant variation. For example, the average duration of labor inspections in Serbia is eight days, while it is only 1 – 2 days in most other countries in the data set (Figure 9). The number of police inspections ranges from an average of 7 per year in Venezuela and Azerbaijan to just one per year in Senegal and Burkina Faso (Figure 10).[4]

If a country has much more onerous requirements than other countries for essentially the same function, it may be an indication of inefficiency, corruption, or harassment, and should trigger a deeper investigation.

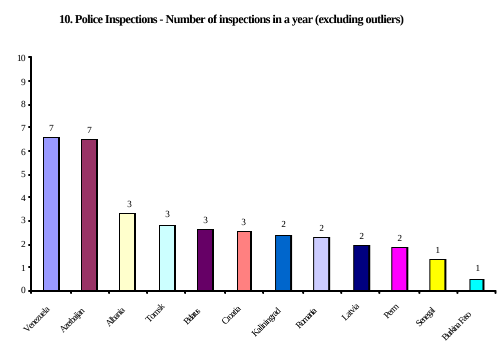
Figure 9

[4] The same data for most OECD countries would be close to zero.



Country	Serbia	Romania	Bosnia	Azerbaijan	Venezuela	Armenia	Albania	Burkina Faso	Latvia	Croatia	Senegal
Obser - vations	145	331	202	52	61	11	219	13	185	247	29

Figure 10



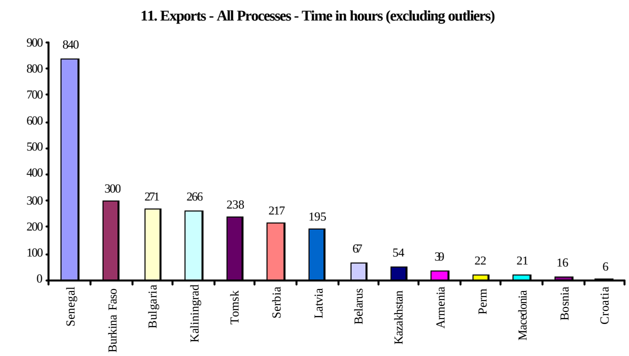
Country	Venez -uela	Azer - baijan	Albania	Tomsk	Belarus	Croatia	Kalinin - grad	Roma- nia	Latvia	Perm	Senegal	Burkina Faso
Obser- vations	17	48	116	116	173	64	119	188	121	108	6	2

Export procedures

Looking at export procedures, we see an extreme time range from 840 hours (105 days) delay in Senegal, to less than one day in Croatia (Figure 11). Total costs (including storage costs, bribes, etc.) for a single shipment ranges from over $7600 in Burkina Faso to only $25 in Serbia (Figure 12).

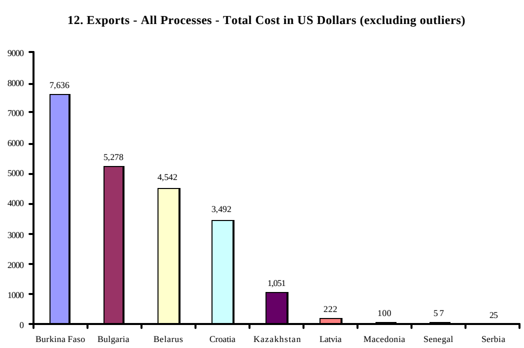
Even setting aside the cash costs, what do you think happens to an exporter whose shipment to a customer (e.g., for children's sweaters destined for North America, Europe, or Japan) is delayed by three and a half months? Where do you suppose a foreign inve stors interested in manufacturing for export would be more inclined to invest? How much of a "labor cost" advantage do you think would be required to overcome these differentials in the costs and delays at customs?

Figure 11



Coun-try	Sene-gal	Burkina Faso	Bulga-ria	Kalinin-grad	Tom-sk	Ser-bia	Lat-via	Bela-rus	Kazakh-stan	Arme-nia	Perm	Mace-donia	Bos-nia	Croa-tia
Obser-vations	6	8	67	25	21	47	52	110	42	18	25	21	17	57

Figure 12



Coun-try	Burkina Faso	Bulgaria	Belarus	Croatia	Kazakhstan	Latvia	Macedonia	Senegal	Serbia
Obser-vations	62	16	44	69	17	34	90	36	54

Note: For Armenia, mean was 31,306 for 10 observations.

Tax inspections

Looking just at data from S. E. Europe, we see that Albania has more tax inspections per company per year than any other country in the region (Figure 13). On the other hand, the duration of each tax inspection is the lowest in the region (Figure 14), and the value of official fines and seized goods is also relatively low within the region (Figure 15). Now is it much of a surprise to see that it also has the highest reported value of bribes associated with tax administration? (Figure 16).

Figure 13

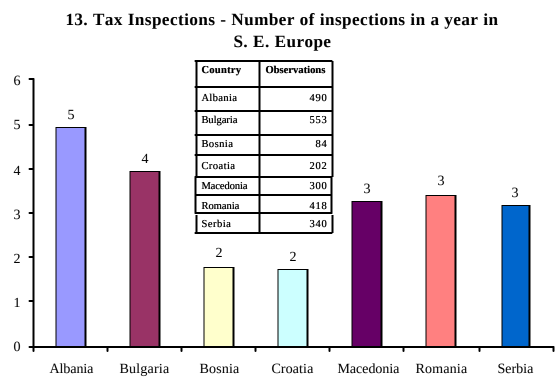


Figure 14

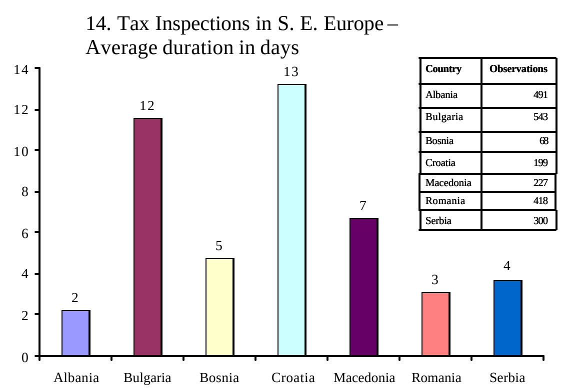


Figure 15

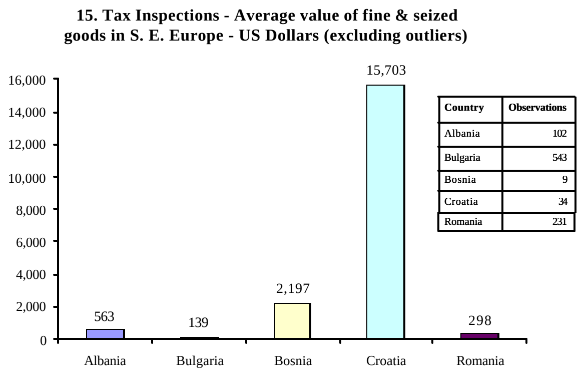
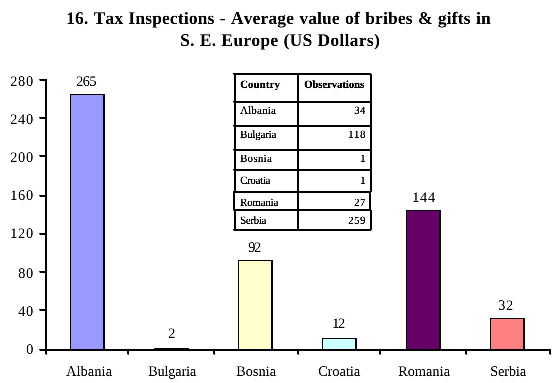


Figure 16



2 Lessons from efforts to remove administrative barriers

Complexity of issues

The costs and burdens of administrative barriers are well-documented, and would seem relatively easy to address. However, even the most committed reformers find that removing administrative barriers to investment is **no easy task**, for the following reasons:

The devil is in the detail

Reform of laws is hard enough, but reform of all the associated "implementing regulations" across a range of **overlapping mandates and jurisdictions** is extremely complicated, even for the most committed and competent reformers. Contradictions between different laws are common, and such contradictions proliferate at the level of norms, guidelines, and internal instructions. Such contradictions are almost inevitable during major reform and transition programs, such as those recently enacted in Central Europe.

It takes a detailed analysis to identify precisely where the **bottle -necks and contradictions** occur. For example, it is not uncommon for investors to discover a pattern such as the following: In order to get an investment approval, a potential investor must show proof of the location of the premises. To rent premises, the landlord will need proof that the investor has a tax I.D. number. To get a tax I.D. number, the potential investor must show proof of an investment approval.

Even after specific bottle-necks are identified, it is not always easy to remove them. Each individual reform seems relatively unimportant and low-priority, and vested bureaucratic interests resist reform because they claim it has only a minor impact. Cumulatively, however, every bottle-neck is a delay, and a long list of "minor" investment procedures adds up to a **long cumulative delay**.

Multiple levels of government

Most countries have **at least two levels** of government: national and local; while some countries have three or four levels of government. Countries with a decentralized administration often suffer from disparate regulatory procedures or disparate interpretations of national laws and regulations. This leads to significant difficulties for firms with branches or subsidiaries throughout the country, or even those simply trying to carry out business consistently throughout the country:

- In **Poland**, for example, many firms complain that tax officials in different regions of the country used contradictory tax regulations, making it impossible to reconcile accounts for tax purposes at the national level.

- In **another country**, businesses complain that moving across regions is almost like moving across an international border; regional-level “standards” work to protect regionally-based business from competition from other regions in the same country.

While tiers of government have many merits, national governments need to guard against **inconsistent or even contradictory treatment** of firms in different parts of the country. This is not only with regard to national legislation, but also in respect of inconsistent enforcement of laws and regulations in different parts of the country.

It depends on the definition of “is”

A related problem arises from **inconsistent interpretations** of vague laws and regulations. This can give rise both to discrimination between different types of investors (foreign/domestic, large/small) and to corruption. Even where corruption is not an issue, and even if two differing interpretations are both "reasonable", investors often can not tolerate an outcome that treats competing companies differently. A firm that is treated more harshly by the tax authorities than another firm faces obstacles and costs that the other firm avoids. A firm whose imports are held up at the border is seriously disadvantaged relative to a rival whose imports clear customs expeditiously. A start-up enterprise whose construction permits are delayed may suffer if a competitor enjoys a head-start. For this reason, inconsistency can *not* be dismissed as a "minor" problem.

Even relatively progressive, business-friendly jurisdictions sometimes fall into the **trap of relying on “individual assistance”** to investors instead of clarifying and simplifying procedures. As investment levels grow, as they should, such administrations will discover that it is impossible to provide “individual assistance” to all or even most investors. They usually end up helping only a favored few, which exacerbates the problem of the un-level playing field and deters many potential new investors.

Holy cows

Many administrative barriers are actually manifestations of **major policy constraints**, for the maintenance of which there may be strong political pressure. A common example is restriction against foreign ownership of land. If there is such a restriction against foreign ownership, then even domestic investors will have to go through a set of procedures to prove the source of capital and to guard against domestic agents serving as "fronts" for foreign owners, or shell companies with multiple layers of ownership. Such requirements may be onerous and time consuming, especially for small domestic businesses, which are often intended as the beneficiaries of such protection.

This is the way we've always done it

This is an **old cliché**, but manifests itself not only within the civil service, but also within the business community. Of course, the usual source of resistance is indeed within the civil service, as bureaucrats do not want to learn new procedures, are unaccustomed to strong accountability and performance standards, fear for their positions, or have become accustomed to supplementing their salaries with bribes (on which more below).

Strong civil service tenure makes it relatively easy for bureaucrats to resist reform simply by ignoring it. This problem can be exacerbated by **lack of transparency** and accessible sources of communication.

For example, in one poor African country with a history of non-transparency and of deep suspicion between the public and private sectors, the government decided to eliminate several requirements for permits. The decisions were announced in the official "Gazette," which is not widely available, due to the costs of printing and distribution in a very poor country. In the days and weeks that followed, businesses tried to renew their permits, and were told they were no longer required. Many businessmen actually argued that they needed to have those permits to show to others (including other business partners as well as bureaucrats from other agencies), because everyone expected to see the permits.

Even in better-off countries, where the official Gazette announces all relevant amendments to laws and regulations, it is often **difficult for most businesses to keep up with all the changes**. While well-run law firms may develop and maintain a database to keep up with such changes, businesses who can't afford such lawyers are at the mercy of bureaucrats.

I think you need a new business partner…

Meanwhile, in countries with relatively low rates of new investment, the business community may be dominated by a relative handful of well-connected "cronies", "oligarchs" or other powerful business interests. In many such countries, there are **few laws against conflict of interest** for politicians and civil servants, and government officials may even be in a position to regulate an industry where they (or their family) may have direct or indirect investments of their own.

In such a setting, **there may not be a significant constituency for reform**. The established business community "knows the rules of the game" and probably benefits from the lack of competition as foreign investors and potential new SMEs are deterred. In such a setting, even business surveys may fail to identify the barriers that hold back new investment, and those who have been deterred from starting a business in that country do not have an opportunity to respond to a "business survey" at all. Yet unless the barriers are removed, investment rates are likely to remain low, and competition well below the level needed for a sound market economy.

Gifts, dash, chai, un soborno

Petty corruption associated with administrative barriers to investment is extremely common in the developing and transition world, and another reason for the civil service to resist reforms, especially where public sector salaries are low. Within the business community, they may justify such petty corruption as culturally expected. While routine boxes of chocolates, if "everyone does it", may be relatively benign, it is easy for expectations to rise and for bureaucrats to give expedited treatment to the most generous bribers.

The most straightforward reform is to eliminate unnecessary administrative procedures to remove opportunities for corruption. "Speed payments" can be formalized into **official "fast track" procedures**, with higher fees that can add to the resources available for public services.

Lessons from successful reform processes

Latvian 'model'

One **notable success story** is Latvia, which used structured dialog between the public and private sectors, and the analysis and recommendations of a FIAS report on administrative barriers to investment to develop an "Action Plan" for removal of such barriers.

In 1999, FIAS completed a study of administrative barriers to investment in Latvia for the Latvian Development Agency (LDA) and the Ministry of Finance. There were many recommendations made in the study, and there was a consensus that the list should be prioritized and that possible solutions should be considered. Since 1999, with the assistance of FIAS, Latvia has introduced and maintained a **systematic approach to using public/private partnership** in implementing regulatory reform.

FIAS advised the LDA to organize a dialog between representatives of Government and the business community. The business representatives should be invited to identify which recommendations were most urgent from their point of view and come up with recommendations on how to achieve the desired reforms. Government had to decide which were feasible from the public sector point of view. Issues agreed between both sides should be entered into an **Action Plan**.

In the Spring of 1999, the Prime Minister formed a **"Steering Committee"** with the participation of government and private sector representatives for development of the Action Plan to Reduce Administrative Barriers. The Steering Committee first agreed on several high-priority areas for reform.

Technical sub-committees for each of the agreed areas were then created to develop detailed, concrete proposals for consideration by government. Staff of the LDA served as the **secretariat** and ensured that draft proposals were prepared, debated, revised, and refined until consensus was achieved and the tasks were included in the draft Action Plan.

A high-level dialog between the **newly-formed Foreign Investors Council** of Latvia (FICIL) and senior government decision makers was also initiated, and this dialog became an important ongoing mechanism for reviewing and revising the Action Plan.

The draft Action Plan was **approved by the Cabinet of Ministers** in May 1999, and implementation of reforms began immediately. For some of the most difficult areas, (i.e., reform of Inspectorates and of the construction approval process) the Government of Latvia requested **international expertise** from FIAS and the World Bank. The EU was also a major source of assistance for reforms related to EU accession.

The LDA was responsible for **monitoring** enactment of reforms as well as for monitoring the impact of the reforms on the business community, using a series of regular business surveys and other feedback instruments.

The **public/private dialog was continued** on a regular basis to update the Action Plan. Approximately every six months, the plan was reviewed and revised. Items deemed successful by both the public and private sector were moved from the Action Plan to a database of completed reforms for further impact monitoring. Reforms that were not successful were revisited and alternative strategies agreed. New priority issues were added to the Action Plan.

Steady improvements have been made in a variety of areas, including but not limited to tax policy and tax administration, customs and border crossing, administration of real estate, cooperation in anti-corruption efforts, improvement in the coordination of government inspections, and enhancement of administrative culture.

Key achievements

Some of the key achievements in Latvia over a three year period include the following:

- Government agencies are more active in seeking private sector comments on draft legislation.
- The capacity of business associations is gradually increasing in order to meet the challenge of engaging the government in dialogue.
- Accessibility of information on various business-related procedures has improved.
- Following the suggestion of FIAS and a number of business associations that it is necessary to separate liability for technical errors from liability for deliberate infringements, amendments to the Administrative Violations Code were adopted by the Saeima (Parliament) on June 14, 2001 and came into force on July 16, 2001.
- Strengthening of appeals mechanisms in the State Revenue Service
- Combining company registration and tax registration into a single process, using the same “identification number”
- Streamlining procedures for approval of expatriate work permits and residence permits;

- Issuance of a Government Instruction regarding Inspectorates, which clarifies the rights and responsibilities of both government inspectors and businesses that are being inspected;

- Formation of an Inspection Coordination Council to reduce the burden of inspections on businesses and to provide training for a greater "client orientation" within the Inspectorates.

- Customer feedback surveys for Customs/Border posts, jointly developed by the Latvian Development Agency and the State Customs Service.

- A series of business surveys to monitor the impact of the overall reform program, jointly developed by the LDA, FIAS, and a number of business associations in Latvia.

- Development of "templates" to up-date the administrative barriers study on a regular basis, in order to publicize changes in procedures and to gather data relevant for "performance indicators" for the relevant government agencies, including:

    - The volume of applications processed

    - The number of successfully completed applications

    - The number of rejected applications (and reasons)

    - The number of appeals

    - The outcome of appeals

    - The average processing time for applications

    - The number of complaints and follow-up action

    - Feedback mechanisms

- A more complete list of achievements can be found on the FIAS web-site: http://www.fias.net.

After three years, a total of 68 of 77 suggested measures that were included in the Action Plan (and its various up-dates) were **successfully implemented**. The European Commission in 2001 awarded its "Candidate Country BEST" designation to the efforts undertaken in Latvia in improving the business environment through constructive dialog between the public and private sectors.

More importantly, the Government of Latvia, in addition to **building capacity** to carry out updates of the administrative barriers analysis on a self-assessment basis (and assisting FIAS in developing self-assessment tools that can be used in other countries), is now working to develop a more fully-rounded program of regulatory impact assessment as an institutionalized feature of government.

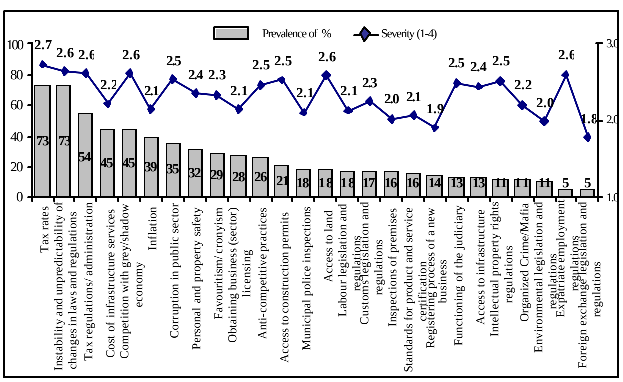
The **latest challenge** for the national government is to encourage reforms at the municipal level of government, also in dialog with representatives of the business community. To do this, it has leveraged the results of the self-assessment templates and business survey to verify where investors are still facing the biggest problems.

Analysis of illustrative country data

The **ranking of obstacles within Latvia**, as of December 2001 is shown below (Figure 17). The bars show the firms who reported a particular item as being an obstacle, as a percentage of all firms participating in the survey. The line graph shows the average "severity" of the obstacle, based on the number of firms who cited it as an obstacle at all.

Figure 17

17. Business Obstacles in Latvia



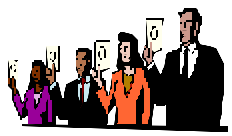
As is **commonly found**, tax rates and tax administration rank high on both scales. However, other specific items that rank high in severity include corruption, access to land, and access to construction permits (all receiving a severity rating of 2.5 or 2.6, where the highest rating among all listed obstacles in Latvia is 2.7). By contrast, company registration is ranked quite low as a potential obstacle to business, as are most "inspections" in general.

The information about these ranking is reinforced by survey questions that asked companies how they rate **the quality of "service"** provided by various government agencies (Figure 18). Here we can see that the Enterprise Registration Agency and three of the inspectorates were among the top four rated agencies in Latvia, while three agencies associated with administrative procedures for real estate and construction are among the five worst-ranked agencies. Construction permits, in particular, are procedures governed primarily at the municipal level in Latvia.

Figure 18

18. Ratings of Services in Latvia

- **Top Four**:
  - Enterprise Registration
  - Fire and Rescue Service
  - Environmental Inspectorate
  - Labor Inspectorate



- **Bottom Five**:
  - Architectural and Planning Task
  - Coordination of Building Design
  - Technical Regulations for Construction
  - Customs
  - Certification Organization

Looking at the incidence of **corruption** we found more interesting data (Figure 19):

19. Ranking of Corruption in Latvia

- **Lowest Incidence**:
  - State Revenue Service/Tax Inspection (2%)
  - Enterprise Registry (3%)
- **Highest Incidence**:
  - Coordination/Approval of Building Design (11%)
  - Customs (12% export, 15% import)
  - Formal Acceptance of Building (18%)

First, that the State Revenue Service and the Enterprise Registry are ranked the **lowest in the incidence of corruption**. This bolsters the evidence that the Enterprise Registry is a well-functioning agency that does not cause problems for business. It also suggests that although companies hate paying their taxes (which is a common reaction around the world), bribery is probably *not* among the main problems associated with the State Revenue Service.

However, the survey did tell us that customs procedures are among the **highest-ranked** in terms of corruption (another common problem in many developing and transition countries), along with two procedures associated with construction approval. **Time and cost data** also showed construction permits to be among the most complicated among administrative procedures in the country (i.e., involving many steps and many separate government agencies), and the most time-consuming and costly (not necessarily in comparison with other developing and transition countries, but definitely in comparison with other administrative procedures within the country).

The data were therefore able to **highlight the urgent need for reform** of construction permits in Latvia as a high priority, and even to specify particular agencies and steps as being more problematic than others. This in turn will require cooperation between the national and municipal levels of government, which is more complicated and difficult than reforms within one level of government alone.

3 Key features for successful reform

The reform cycle

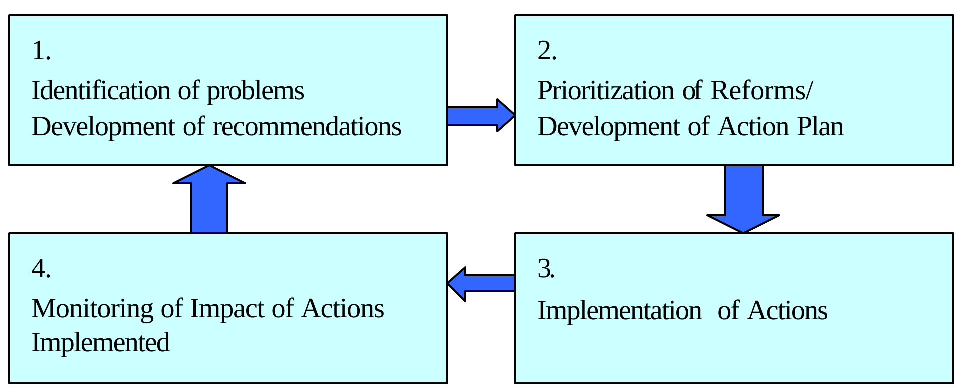
The model the Latvians followed is a cycle of reform, which is composed of four parts (see the diagram below). The basic principles are:

- a methodical **identification of problems** (e.g. with a study of administrative barriers to investment, survey of administrative and regulatory costs, and/or other means) followed by a list of **recommendations for improvement**;

- the drawing into a **structured dialogue of interested parties** from government and the business community in order to prioritize the reforms and **agree on an Action Plan** for improvement;

- the **implementation** of the agreed reform program; and

- a **regular reporting and assessment** of the effectiveness of these activities, along with the means to identify new problems.



Critical success factors

The successes in Latvia highlight **various features** that are associated with successful efforts to remove administrative barriers to investment. These include the following:

- **A Government generally committed to reform**. In the case of Latvia, there was a consensus across all major political parties that the country should strive to join Western institutions such as the EU, and to make the necessary reforms a top priority.

- **A Champion at a high level within government** (e.g., President, Prime Minister, Deputy Prime Minister) who is sincerely interested in the reforms, is willing to listen to the concerns and practical suggestions of the business community, and has authority over the various ministries and agencies that are the targets of the reform effort.

- **A Steering Committee within Government, including senior technocrats** from the relevant government agencies, who are willing to cooperate with each other and with the private sector to develop a detailed program of reform.

- **An interested and constructive business community**, preferably organized into several active business associations. Developing a dialog between the public sector and private sector is much easier if there are readily identifiable representatives of a diverse range of the business community. Government must be willing to listen not only to those business leaders it is "comfortable with", but those who are frank critics. In the case of Latvia, a key role was played by the Foreign Investors' Council of Latvia (FICL), which could help bring examples of international "best practice" to their host country.

- **An active and committed secretariat within Government** (although it may be staffed with a combination of government staff and local consultants) with the capacity to gather and analyze information, organize necessary meetings, collect and/or draft detailed reform proposals, and follow-up on commitments. In the case of Latvia, the secretariat was provided by the Latvian Development Agency (LDA).

- **Active support by donors**, including (in the case of Latvia), FIAS, the World Bank, EU, the Swedish International Development Agency, and others. Such donors provide both international expertise and financial resources to support the reform effort.

While other country settings may not be as conducive to such reforms as in Latvia, similar successes in Africa, Latin America, and Asia suggest that removal of administrative barriers to investment is possible in all countries with a supportive leadership within Government.

Ongoing regulatory reform

Governments **committed** to reform administrative barriers need to work system systematically and **over the longer term to**:

- build **capacity to identify** problematic administrative barriers to investment,

- discuss and agree on **priorities** with representatives of the business community and develop an **Action Plan** for reform,

- **implement reforms**, and
- **monitor and evaluate** the success of the reform program.

Such **capacity needs to be developed**, because regulatory reform is never a one-off effort, but rather an on-going need. Even “developed” countries go through regulatory reform on a regular basis, in order to keep pace with changes in the global market place, and in order to stay competitive.

This is **not a “race to the bottom”,** as all OECD countries all have strong regulatory controls to protect human health, safety and welfare and to protect the environment, and still receive the bulk of global FDI inflows.

Rather, the objectives is to improve the **efficiency, transparency, and business friendliness of necessary regulations, on an on-going basis.**

Appendix 1: Administrative and Regulatory Cost Survey (ARCS) Questionnaire

1. In what year did your firm begin operations in this country? ___________

2. What is the current legal status of your firm? ___________

Publicly listed company	=	1
Private held, limited company	=	2
Partnership	=	3
Sole proprietorship	=	4
Cooperative	=	5
Other (specify:_________)	=	6

3. What percentage of your firm is owned by:

a) Private Sector: domestic ____ %

b) Private Sector: foreign ____ %

c) Government/State ____%

d) Other ____%

100

4. a) Was your firm previously owned by the government (the state)? ______ *Yes =1 No=0*

b) If yes, when was it privatized? ______ (year)

5. a) How many establishments (separate operating facilities) does your firm have in this country? ____

b) Does your firm have holdings or operations in other countries? _____ *Yes =1 No=0*

NOTE: For the remainder of this survey, please answer with respect to this establishment (factory, store or service outlet).

c) Is your firm located in the capital city of your country[region]? _____ *Yes =1 No=0*

d) How many full-time, permanent employees does your firm have: _________

e) How many part-time or contract employees does your firms have: _________

6. What percent of your workers are engaged in each of the following types of activities?

a) Manufacturing: specify main line of business (e.g. textiles)__________ ____%

b) Services: main service provided ______________ (e.g. consulting, transportation): ____%

c) Commerce (retail/wholesale trade): ____%

d) Construction: ____%

e) Other (specify) ______________________ ____%

100%

7. Please tell us if any of the following issues are a problem for the operation and growth of your business. If an issue poses a problem, please judge its severity as an obstacle on a four-point scale where:

	0= No Obstacle	1= Minor obstacle	2 = Moderate	3 = Major obstacle	4 = Very Severe obstacle
a) Telecommunications	0	1	2	3	4
b) Electricity	0	1	2	3	4
c) Transportation	0	1	2	3	4
d) Tax rates	0	1	2	3	4
e) Skills and Education of Available Workers	0	1	2	3	4
f) Access to Financing (e.g. collateral)	0	1	2	3	4
g) Cost of Financing (e.g. interest rates)	0	1	2	3	4
h) Economic and Regulatory Policy Uncertainty	0	1	2	3	4
i) Macroeconomic Instability (inflation, exchange rate)	0	1	2	3	4
j) Corruption	0	1	2	3	4
k) Crime, theft and disorder	0	1	2	3	4
l) Anti-competitive practices	0	1	2	3	4

8. Are the following administrative procedures and regulations an obstacle for your firm's operations and growth? If yes, how severe an obstacle is it?

	0= No Obstacle	1= Minor obstacle	2 = Moderate	3 = Major obstacle	4 = Very Severe obstacle
a) registering a new enterprise	0	1	2	3	4
b) business/sectoral licensing	0	1	2	3	4
c) tax administration	0	1	2	3	4
d) customs regulations	0	1	2	3	4
e) standards and certification	0	1	2	3	4
f) labor regulations	0	1	2	3	4
g) environmental regulations	0	1	2	3	4
h) fire/ safety and sanitary regulations	0	1	2	3	4
i) foreign exchange/currency regulations	0	1	2	3	4
j) price regulations	0	1	2	3	4
k) procedures for access to land and premises	0	1	2	3	4
l) business inspections (of all types)	0	1	2	3	4
m) competition law regulations	0	1	2	3	4
n) patent and trademark regulations	0	1	2	3	4

9. Please rate your current perception of the relation between government and/or bureaucracy and your business.

a) All in all, in relation to your business do you perceive the national government to be:

very helpful	mildly helpful	Neutral	mildly unhelpful	very unhelpful
0	1	2	3	4

b) All in all, in relation to **your** business do **you** perceive the regional and local government to be:

very helpful	mildly helpful	Neutral	mildly unhelpful	very unhelpful
0	1	2	3	4

10. What percentage of the working time of all your firm's business senior management (CEO, CFO and deputies) is spent dealing with government regulatory and administrative requirements? ______%

11. When did the firm have to deal with the following registration procedures the last time?

	Year
a. Register business	
b. Re-register or make changes in the firm's registered documents	

12. If the firm was registered or re-registered during the last 36 months, please answer the questions in the table below for the most recent registration experience.

	Total Time (Calendar Days)	Total Agency time (Calendar days)	Total Cost	Official Fees at Agency	Did you give a bribe or gift?	If so, value of bribe or gift
Total (including all registration procedures), of which...	(1)	(2)	(3)	(4)	(5)	(6)
Firm Registration						
Tax Registration						

13. a) If the firm was registered or re-registered in the last 36 months, did you hire an outside firm to help you complete registration procedures? _____ Yes=1, No=0

b) If so, how much was the professional fee? ___________

14. If your firm has received any of the sector licenses listed below in the last 36 months, please answer the questions in the table.

	Total Time to obtain license (Calendar Days)	Total time of Licensing Agency to obtain license (Calendar Days)	Total Cost	Official Fees at Licensing Agency	Did you give a bribe or gift?	If so, value of bribe or gift
	(1)	(2)	(3)	(4)	(5)	(6)
Basic Activity License/Permit						
Construction						
Wholesale/Retail						
Restaurant						

15. Does the firm own or rent premises where its most important activity takes place as well as the plot of land on which these premises are located?

	a) Own	b) Rent from private owners /firms	c) Rent from government institution	d) Given without compensation by government institution	e) Occupied without right	f) Not applicable
	(1)	(2)	(3)	(4)	(5)	(6)
a. Premises/bldg						
b. Land						

16. For the firm's most recent land acquisition procedure, please fill out the table below.

	Total Time (Calendar Days)	Total Agency time (Calendar Days)	Total Cost	Official Fees at Agency	Did you give a bribe or gift?	If so, value of bribe or gift
	(1)	(2)	(3)	(4)	(5)	(6)
Total, Land Acquisition Identifying, contacting, dealing with owners						
Obtaining a land survey						
Registering title in the land office/cadastre						

17. For the firm's most recent building construction permit process, please answer the questions in the table below.

	Total Time (Calendar Days)	Total Agency time (Calendar days)	Total Cost	Official Fees at Agency	Did you give a bribe or gift?	If so, value of bribe or gift
	(1)	(2)	(3)	(4)	(5)	(6)
Total, Construction Permit and Approval						
Design Approval						
Construction Permit						
Occupancy/Use Permit						

18. If your firm has obtained new utility hookups in the past 36 months, please answer the questions in the table below.

	Simple connection = 0; Expansion of capacity = 1	Total Time (Calendar Days)	Total Agency time (Calendar days)	Total Cost	Cost of Expansion (if applicable)	Official Fees at Agency	Did you give a bribe or gift?	If so, value of bribe or gift
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total Utility Hookups								
Electricity								
Gas								
Water/Sewer								
Phone/Telecom								

19. If your company has been inspected by government agencies during last 12 months, please answer the questions in the table below for an average/typical inspection.

	No. of Inspections	Total no. of Inspections in the past 12 months			Number of inspectors
		Avg. Duration of inspection	Avg. Value of Fines, Seized Goods	Avg. Value of Gifts, Bribes	
Total inspections of which..					
1. Labor Inspectorate					
2. Municipal police					

3. Sanitary/Epidem'l					
5. Fire					
6. Tax Inspection					
7. Environmental					

20. Please evaluate the following areas regarding tax administration in respect of your firm's activities, over the past 12 months.

Tax Administration	0= No Obstacle	1= Minor obstacle	2 = Moderate	3 = Major obstacle	4 = Very Severe obstacle
Your firm's treatment by tax authorities	0	1	2	3	4
Availability of information on tax requirements	0	1	2	3	4
Completing tax forms/ filing	0	1	2	3	4
Burden of Audits	0	1	2	3	4
Frequency of changes in rules and rates	0	1	2	3	4
Severity of Penalties	0	1	2	3	4
Effectiveness of Appeals mechanisms	0	1	2	3	4

21. Did your firm submit ... *(read out the type of tax)* forms/ reports in the past 12 months? If so, please answer the questions in the table.

	Declaration		Times	Days
	YES	NO	No. of submissions per year	Person Days of firm's time
a) **Total taxes, of which…**				
b) Corporate Income Tax	1	2		
c) VAT				

d) Social Security payments	1	2		
e) Excise Tax	1	2		

22. a) Has your firm hired an outside accounting/audit firm during the past 12 months? Yes=1, No=0

b) If so, how much was this firm's fees over the past 12 months? ____________

23. a) Was your firm assessed any fines by the tax authorities in the past 12 months? Yes=1, No=0

b) If so, how much in total? ___________

24. a) Did your firm give any gifts or bribes to tax officials in the past 12 months? Yes=1, No=0

b) If so, how much in total? ___________

25. In the last 12 months, did your company go through the following procedures? If so, please answer the questions in the table below.

Last 12 months	Did you…? Yes=1 No=0	Number Of Procedures requiring customs clearance	Estimated Total Value of goods
Export			
Import			

26. The questions in the table below refer to an **average/typical** customs transaction. If your firm had such transactions within the last 12 months, please use your firm's experience to answer the questions in the table below.

Type of transaction	Total time (Hrs., incl. Queuing time)	Agency processing time (Hrs)	Total Costs	Official fees	Storage/ Demurrage	Unofficial payments
EXPORTS						
a) **Total, of which**						
b) Border police						
c) vetr. & phyto-sanitary inspections						
d) Customs clearance						
e) VAT rebate						
IMPORTS						
a) Total, of which						
b) Border police						
c) vetr. & phyto-sanitary inspections						
d) Customs clearance						

27. a) Did your firm use a brokerage or freight forward service in the last 12 months? Yes=1, No=0

b) If so, how much was the fee as a percentage of the transaction value? _____________

28. In the past 36 months, has your firm been involved in any legal dispute with the authorities?

	Yes=1, No=0
National Government	
Regional/local Government	

29. In the last 36 months, how many of such disputes have been resolved in each of the following ways:

(1) Through the courts (2) Through arbitration/mediation (3) Other

30. If your firm did not go to court to resolve any dispute with the authorities, why not?

	Yes=1 No=0
The problem was too small to go to the court	
Court process is too long	
Court decision will not be fair to the firm	
An eventual court decision in favor of my firm will not be enforceable	
Lack of firm money to pay lawyers	
Necessity to pay bribes	
Easier to settle out of court	
Fear of retribution by authorities	
Concern that the judge will lack sufficient training to render an appropriate judgment	

31. What percentage of total sales do you estimate the typical firm in your area of activity reports for tax purposes? ___________%

Appendix 2: Database of countries and years surveyed for ARCS

List of Countries / year of survey

Albania - 2002

Armenia - 2000

Azerbaijan - 2001

Belarus - 2000

Burkina Faso - 2002

Bulgaria - 2002

Bosnia - 2002

Croatia - 2002

Kazakhstan - 2001

Latvia - 2001

Macedonia - 2002

Romania - 2002

Russia (Kaliningrad) - 2002

Russia (Perm) - 2002

Russia (Tomsk) 2002

Senegal - 2002

Venezuela - 2002

Serbia - 2001