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USAID BUSINESS ENABLING PROJECT

STANDARD COST MODEL BASELINE MEASUREMENT –
SERBIA 2011

BRANKO RADULOVIĆ, BALKAN CENTER FOR REGULATORY REFORM

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CONTENTS

1.	BACKGROUND.....	3
2.	OUTLINE OF THE STANDARD COST MODEL.....	4
2.1.	DEFINITIONS.....	5
2.2.	BASIC EQUATION OF THE COST MODEL.....	8
2.2.1.	PRICE.....	8
2.2.2.	QUANTITY.....	10
3.	THE ASSUMPTIONS OF THE MODEL.....	10
4.	STEPS.....	12
4.1.	SELECTION OF ADMINISTRATIVE REQUIREMENTS FOR STANDARD COST MEASUREMENT.....	15
4.1.1.	SELECTION CRITERIA.....	16
5.	CASE STUDIES.....	17
5.1.1.	CASE STUDY – MATERNITY LEAVE ADMINISTRATIVE REQUIREMENTS.....	18
5.1.2.	CASE STUDY – ISSUANCE OF AN INVOICE: EXTRAPOLATION OF COSTS.....	23
6.	ESTIMATE OF TOTAL ADMINISTRATIVE COSTS.....	27
7.	BURDEN REDUCTION POSSIBILITIES.....	31

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1. BACKGROUND

The foremost goal of this study is to enable the measurement and verifiability of red tape reduction in Serbia. The study will provide Office for Regulatory Reform and Impact Assessments with a *baseline from which it can identify priorities for action and track progress, but it will also serve as a common basis that will enable all stakeholders including private sector to examine and debate proposals for simplification.* By focusing on administrative requirements likely to be producing the highest administrative burden, a robust indication can be arrived at of where the greatest potential for cutting red tape lies and how to develop proposals to reduce that burden. Thus, presented results represent a starting point for elimination of redundant administrative requirements and simplification of existing obligations.

Experience in other countries (the Netherlands, Denmark, the United Kingdom, Austria, etc.), shows that the systematic identification and assessment of administrative costs i.e. costs of compliance with administrative requirements (or in technical jargon - information obligations) is achievable task.¹ Such systematic measurement of administrative costs represents an essential prerequisite for an organized, across-the-board reduction of administrative costs and burdens. In addition, through the measurement responsibilities for administrative costs are more clearly allocated (across the ministries and regulatory bodies) and the possibilities for comparing Serbia with the other countries are improved.

In Serbia, the Comprehensive Regulatory Review showed that the Standard Cost Model (SCM) was very helpful in reducing administrative burdens and costs, as calculated savings put a lot of pressure on ministries and regulatory bodies to implement reforms. In addition, Regulatory Reform Strategy for 2008-2011 has set a reduction target on 25% of the overall administrative burdens for businesses. This study will also provide us with an answer to what extent this goal of the Strategy was achieved.

The Study has several shortcomings, we opted to use only administrative costs and not burdens, the scope could be broader, some calculations could be more segmented, and additional savings could be identified. While we are aware of these shortcomings, we believe that this study is useful first step of the systematic measurement of administrative costs and eventually burdens in Serbia. We will appreciate both general and administrative requirements specific comments that would improve or correct findings of this study. Finally, the measurement took place during year 2011, and the study uses year 2010 as a baseline. In 2013, next measurement will take

¹ Over the last few years the Standard Cost Model (SCM) has become the regulatory reform tool of choice in the EU, EU member states and OECD countries for identifying and reducing regulatory compliance costs. While certain EU Member States, above all the Netherlands, Sweden, Denmark, the UK, Austria, Czech Republic and Germany had a strong tradition and well developed methodology, more recently other EU Member States (Bulgaria, Cyprus, Finland, Greece, Hungary, Poland, Spain, etc.) launched major national burden reduction programs centered around the Standard Cost Model.



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place and we will be able to assess whether Serbia managed to reduce administrative costs during 2011 and 2012, and to improve some methodological insufficiencies.

Chapter two contains an outline of the Standard Cost Model, including description of the costs related to administrative burdens and explanation and definition of central SCM concepts. This chapter seeks to give an overview of the model that has been built to measure the administrative costs for Serbian businesses. In Chapter three we explain choices that we made before starting a SCM measurement for Serbia and compare them to the choices made in Denmark, the Netherlands, Norway, Sweden, Germany, Italy and the United Kingdom. Chapter four contains a detailed “step by step guide” on how we carried out SCM measurement using a case study and describe the triage process i.e. selection of administrative requirements for SCM. Chapter five presents main findings of the study. Chapter six provides examples of some analysis of areas of high burden, gives a short presentation on how SCM measurements can be applied in the simplification process and lists the most important potential savings. Chapter 7 concludes.

2. OUTLINE OF THE STANDARD COST MODEL

The SCM has been developed to provide a simplified, consistent method for estimating the administrative costs and determining the administrative burdens for businesses imposed by legislation. The SCM breaks down administrative requirements imposed by regulation into components that can be assessed with reasonable accuracy. In doing this, it takes a pragmatic approach to measurement and provides estimates that are consistent across policy areas. The SCM methodology is an activity-based measurement of the businesses’ administrative costs and burdens. When seeking to reduce administrative burdens for businesses, it is necessary to know from where the burdens stem and how they can be minimized.

The SCM focuses on the administrative activities that must be undertaken in order to comply with regulation and not whether the objective of regulation is reasonable or not. The SCM neither addresses nor questions the policy objectives of each piece of regulation (analysis focus only on the administrative activities that must be undertaken in order to comply with regulation not on the benefits that accrue and not on whether the regulation itself is justified). As such, the measurement and analysis focus only on the administrative activities that must be undertaken in order to comply with regulation, not on the benefits that accrue from the legislation.

The SCM presents relatively reliable estimates where the most costly areas of regulation are. The SCM specifically does not aim at producing statistically valid results but creates credible estimates (i.e. figures based on relatively small samples or expert judgment). Estimates of administrative costs obtained using the SCM are indicative. A key strength of the SCM is that it uses a high degree of detail in the measurement of the administrative costs, in particular drilling down to the level of individual activities. The costs are primarily determined through business interviews, where it is possible to specify in detail the time companies use to fulfill government



obligations. However, very small samples are used and, as such, it is not possible to say that the burden has a particular value with confidence. To do otherwise would not be cost-efficient (considering the level of detail and the number of parameters involved).

Pros of the Standard Cost Model

- *Very detailed, yet simple and comprehensible*
- *What gets measured gets done!*
- *It can be easily adjusted or corrected*

Cons of the Standard Cost Model

- *Not statistically representative ("quick and dirty" approach)*
- *Could the firm spent lost time more productively?*
- *What if there is a low compliance?*

2.1. DEFINITIONS

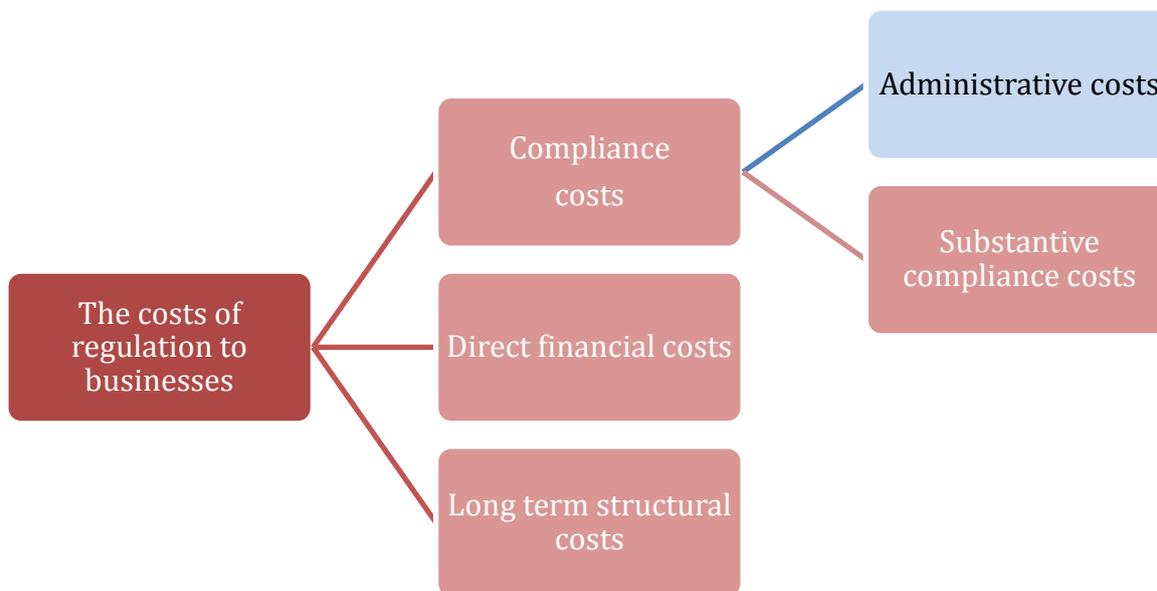
Regulation has a number of consequences for businesses. There are different types of costs that regulation can impose on regulated subjects.

- 1) *Direct financial costs.* Financial costs are the result of a direct obligation to transfer a sum of money to the Government. In general, these costs are not related to a need for information on the part of the Government (e.g. taxes, duties, etc.). However, administrative charges related to the information obligations could be treated as an administrative cost of regulation.
- 2) *Substantive compliance costs.* Substantive compliance costs are the direct compliance costs with substantive obligations arising from regulations (e.g. obligation to change the nature of specific products and/or production processes) mainly in order to meet new economic, social or environmental standards.² These costs are also known as only substantive or generic costs.
- 3) *Administrative costs.* Administrative costs are usually defined as the costs incurred by regulated subjects (firms, but in a broader terms CSOs, public authorities and citizens) in meeting legal obligations to provide information, either to public authorities or to private

² These are the costs of specific requirements prescribed (technical requirements, procedures and so on) for the way people conduct themselves, the condition of buildings, means of production, the production process or operating process, the way records are kept for purposes other than direct compliance with information obligations to the government, products, and/or services.



parties. The administrative costs consist of two different cost components: the business-as-usual costs and administrative burdens.



- 4) Business-as-usual costs. The business-as-usual costs correspond to the costs resulting from collecting and processing information which would be done by an entity even in the absence of the legislation.
- 5) Administrative burdens. Administrative burdens are the part of administrative costs that businesses sustain simply because it is a regulatory requirement. The administrative burdens are a subset of the administrative costs in that the administrative costs also encompass the administrative activities that the businesses will continue to conduct if the regulations were removed.

The fundamental concept behind a Standard Cost Model measurement is the information obligation that is imposed to the regulated subjects, as a consequence of regulation. In other words, IO represents the basic unit of measurement of administrative costs.³

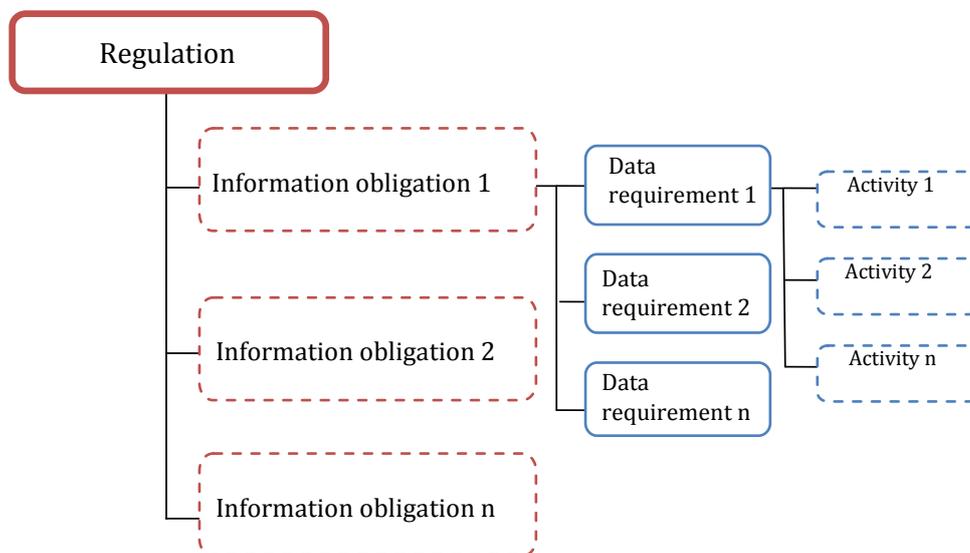
- 6) Information obligations (IO). Information obligations (or administrative requirements) are obligations existing on the basis of laws, decrees, by-laws or other regulations to obtain or keep available for, or transfer to, public authorities or third parties in electronic or written form. Information obligations are to be interpreted in a broad sense, i.e. including labeling, reporting, registration, monitoring and assessment needed to provide the information. In some cases, the information has to be transferred to public authorities or private parties. In others, it only has to be available for inspection

³ In our study we use terms information obligation and administrative requirement interchangeably



or supply on request.⁴Every Information Obligation has attributes that describe the content of data required or –data requirement (what must be provided), target group (who must provide it), and frequency (when it must be provided).

- 7) Data requirements. Each information obligation consists of one or more data requirements. A data requirement is each element of information that must be provided in complying with administrative requirements. Each spreadsheet contains specific data requirements (or even forms) related to administrative requirement.



- 8) Administrative activities. To provide the information for each data requirement a number of specific administrative activities must be undertaken. The SCM estimates the costs of completing each activity. Activities may be done internally or be outsourced (i.e. done externally). It may be necessary to make acquisitions to complete a specific activity and where these are only used in complying with the requirement they are included in the estimate.
- 9) One-off administrative costs. One-off administrative costs are usually defined as the costs that are only sustained once in connection with the businesses adapting to a new or amended legislation/regulation. *However, unlike in the other studies we included costs that a business may have in relation to complying with existing regulations for the first time, e.g. as a consequence of increased turnover or expansion with new areas of activity in the business.* Thus, not only the introduction of a new or amended regulation can give rise to one-off costs, but also new entrants face one-off administrative costs. *Still, from the economy perspective, these costs are recurring, as every year there are new entrants that have to comply with specific requirements.*



10) Recurring costs. Recurring costs are the administrative costs that the businesses constantly have in complying with the information obligations from regulation. They may be costs that arise at regular intervals, e.g. with VAT returns or costs that arise at irregular intervals for the individual business, e.g. if they submit an application. They can similarly be an administrative task that the individual business only experiences on one occasion, e.g. in connection with business registration where one applies for a VAT number or upon application for authorization. Common to these two types of costs is that they arise in connection with a given situation for the business, hence the term situation-determined costs. Such costs include those associated with starting and expanding a business.

*In our study the following costs are **not administrative costs**:*

- *Financial costs, such as premiums, duties, penalties and repayments*
- *Substantive compliance costs, such as (technical) facilities in connection with hygiene*
- *Acquisition of professional qualifications*
- *Profit loss by the entrepreneur as a result of compliance with information requirements (opportunity cost)*
- *Irritation burdens, or the quantitative expression of annoyance*
- *Costs induced by exercising a right to complain*

Finally, although businesses are subject to a range of different inspections, we limit ourselves and measured only few inspections. There are two reasons for this decision. First, administrative costs as defined by the SCM are only incurred where the inspection relates entirely to an information obligation. Second, small sample approach did not allow us to have estimates with acceptable level of confidence. Thus, inspections with a broader focus, apart from the Trade Inspectorate, are not included in our study.

2.2. BASIC EQUATION OF THE COST MODEL

The costs of each specific information obligation must be calculated separately. The individual results for each information obligation are then added together to yield the total for the specific regulation.

2.2.1. PRICE



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Price consists of a tariff, wage costs (plus non-wage costs) for activities done internally or hourly cost for external service providers and time, the amount of time required to complete the activity.

- T (Tariff). The parameter tariff (T) is the wage rate per unit of time for the performance of an administrative activity by regulatory subject. A distinction is made between an internal wage rate and an external tariff.
- Internal wage rate. As a rule, the administrative activities are carried out by the affected regulated subjects themselves. This gives rise to costs in the form of wages and salaries. An appropriate wage could be determined qualitatively on the basis of what qualification level is necessary in order to carry out specific activity. However, we opted for a simpler approach, as for our particular purpose was not practical to use case specific estimates nor it was feasible to have accurate differentiation by qualification level for a number of administrative requirements. Instead, for reasons of practicability (including available financial resources and time involved) we used an average wage. Still, we used different average wage depending on whether the obligation in question is sector-specific or cross-sectoral. In the case of sector-specific requirements, the wage costs of the affected sectors were used; in the case of cross-sectoral obligations, by contrast, the wage costs of all sectors were used.
- External tariff. If specific administrative processes are outsourced to external service providers (such as accountants, tax advisors, lawyers), the tariff of these external providers shall be taken as a basis for calculation. We paid special attention in cases when specific administrative processes are usually outsourced to external service providers (such as accountants, lawyers, tax consultants, etc.). In such cases we used the tariff of these external service providers as a basis for calculation.
- Time (H). The parameter time (T) is amount of time (in minutes) required to fulfill an information obligation, for instance the time required to fill out an application. The time for certain standard activity required to carry out the information obligation is obtained in the course of the SCM measurement.
- Acquisition (A). If an acquisition is made solely to enable the regulated subject to comply with specific information obligations, the amount corresponding to the annual depreciation can be included into the calculations. However, if the acquisition is not made solely for the purpose of complying with the information obligation or procuring data, it shall not be factored into the measurement. If, for example, a regulated subject needs an Internet connection in order to comply with a digital reporting obligation but also uses the connection for other business purposes, this acquisition shall not be taken into account.
- Other (O). If additional costs are made solely to enable the regulated subject to comply with specific information obligations, the amount corresponding to the additional costs should be included into the calculations. The additional costs could arise with respect to obtaining additional forms, copying, paying specific administrative tax, etc.



2.2.2. QUANTITY

Quantity comprises of the size of the population of businesses affected and the frequency that the activity must be completed each year.

- Frequency (F). The parameter frequency (F) indicates how many times a year a certain information obligation must be fulfilled. This figure is often specified in the regulation.
- Size of the target group (N). The parameter size of the target group refers to the number of regulated subjects affected by a specific information obligation. The size of the target group can be determined by the fact that the regulated subject has to comply with an information obligation on a periodically recurring basis. In this case the size of the target group is the number of entities affected by the statutory regulation.
- Cases that actually arise. (Q) The number of cases that actually arise should be used when information obligations regulatory subjects must only fulfill if they undertake certain actions. In such cases, the parameter frequency might not be necessary.

THE SCM FORMULA

Combining abovementioned elements give the SCM formula:

$$AC=P \times Q = (H \times T + A + E) \times (N \times F)$$

Administrative Cost = Price x Quantity =

$$= (\text{tariff} \times \text{time} + \text{acquisitions} + \text{other}) \times (\text{population} \times \text{frequency})$$

The administrative costs were assessed on the basis of specific quantitative parameters (e.g. number of hours required by specific activities), and the business-as-usual costs were assessed as a percentage of these total administrative costs. The overall percentage was determined on the basis of expert judgment and/or qualitative data collected during interviews with businesses.

3. THE ASSUMPTIONS OF THE MODEL



The SCM measures administrative costs from central government regulation. Central government is defined to include all regulatory bodies that are principally controlled and financed by the Government of Serbia. It includes all agencies and other central government (republican) bodies.

This SCM measurement covers regulation that affects active regulated subjects (in most cases this is narrowed down to firms and entrepreneurs) operating in Serbia.⁵

The SCM measures compulsory regulations and voluntary rules regarded as being necessary to follow including application for subsidies. We measure all regulation that businesses have to follow and voluntary rules that are considered as necessary or usual in relation to being on the market. A voluntary rule is regarded as being necessary to follow when the majority of the businesses for which the rule is relevant, choose to observe the rule, e.g. playing music in coffee shop.

The SCM measures both businesses' information obligations to the public sector and businesses' information obligations to third parties. Both types of information obligations are obligations arising from regulation and causes administrative burdens for businesses. Examples of information obligations to third parties are: announcements in press, labeling, etc.

The SCM model for Serbia measures full compliance, i.e. the SCM measures the costs that regulated subjects have in following the rules completely. It is thus not the actual number of businesses that observe a rule that is measured. However, in transition countries like Serbia the compliance is sometimes very low, thus making the SCM calculation biased towards potential administrative savings. Whenever actual compliance is known, we used conservative estimates when calculating savings.

We believe that the SCM model in Serbia should omit the overhead costs. Overhead includes costs that are added to the direct wage costs for an individual employee. There are several problems with such approach (e.g. in most cases such costs are sunk, or not necessarily related to the information obligation), thus the application of the SCM in Serbia omitted these costs. However, as it is usual to include overhead costs in the calculation (costs related to the individual employee and represents costs in addition to direct pay costs in connection with fixed administration costs.) to make our study comparable to other studies we provide estimate of total administrative costs in the economy including overhead costs. Thus, overhead is not directly factored into the specific SCM calculations. To enable international comparisons (benchmarking), we used a comparable overhead percentage (20%).

⁵ This definition therefore includes business entities, associations and the other similar legal entities.



4. STEPS

1. Identification of administrative requirements to be included in the analysis. In the first step, we prepared an initial data set of the administrative requirements and relevant business related regulation to be included in the analysis. We started with the data base from the CRR project, and subsequently added more and more information to the data set. As the study covers all regulations in force by 31 December 2010, we had to update the CRR database with the list of regulations in force since the CRR database was created (June 2009). New regulations were then broken down into information obligations (new administrative requirements).
2. Classification of administrative requirements (information obligations) according to the type and identifying data requirements and administrative activities necessary to fulfill information obligation.

Classification of administrative requirements (information obligations) used in the Study

1. *Notification of activities - e.g. notification of the transportation of dangerous cargo;*
2. *Reporting - e.g. submission of tax forms;*
3. *Statutory labeling of products with consumer information (for the sake of third parties) - e.g. energy labeling of domestic appliances;*
4. *Providing statutory information for third parties - e.g. publishing a financial prospectus in a daily newspaper.*
5. *Applications for authorization of specific activity*
6. *Applications for a general permission for or exemption - e.g. application for a license to sell spirits;*
7. *Entry in a register - e.g. businesses having to be entered in a register or on a list (entry in the business register);*
8. *Certification of products or processes - e.g. certification procedure for pharmaceuticals;*
9. *Cooperating with audits/inspections - e.g. to providing data and assisting trade inspectors who carry out inspections of and auditing work for a business, or who visit a business in connection with enforcement of a regulation;*
10. *Applications for subsidies or financial assistance - e.g. a subsidy for employing a disabled person.*
11. *Other requirements*

Once a regulation has been broken down into one or more information obligations, the information obligations are broken down into data requirements. Next after the data



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requirements have been determined, we initially identified the administrative activities that businesses have to go through in order to comply with administrative requirements. The identification of administrative activities is based on 16 standard administrative activities, which are described in box below.

Standard administrative activities used in the Study

1. *Familiarisation with the information obligation - the resource consumption of businesses in connection with familiarising themselves with the rules for a given information obligation.*
2. *Training on statutory requirement – new employees must be trained and relevant employees must be kept up to date with rules*
3. *Retrieval of necessary information - obtaining relevant information needed to comply with a given administrative requirement.*
4. *Adopting existing information – e.g. performing the relevant calculations,*
5. *Preparing the information material – e.g. assessing which figures and information are necessary for the public authorities to accept the report, preparing description or public announcements, etc.*
6. *Internal and external meetings. Meeting held internally between employees involved in complying with the information obligation and meetings held in cases where compliance with the information obligation requires meetings with an auditor, lawyer or the like.*
7. *Inspection by public authorities. Businesses must assist external inspectors when they carry out their inspection at the business.*
8. *Copying and labelling - making copies of the form or report to comply with the information obligation*
9. *Reporting/submitting information. In cases where compliance with an information obligation requires the submission of information on the business, the information must be sent to the relevant authority.*
10. *Filling information – filling forms*
11. *Filing - storing the information (data) with a view to subsequent production in connection with an inspection*
12. *Settlement/payment -payment of tax, charges or the like.*
13. *Other*

3. *Identification of specific regulation imposing administrative requirements.* After identifying all administrative activities, we checked again link between specific regulation and administrative requirement. We link specific section and/or subsection of the primary or secondary legislation that gives rise to administrative requirements.



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4. Identification of relevant business segments. Next we segmented businesses according based on specific administrative requirements (industry, size, turnover, etc.). We paid special attention to cases where a digital solution has been made (or will be made) available and to those requirements where it is usual for businesses to opt to use outsourcing, that is to pay for external assistance to perform the task. If these criteria were not relevant we applied calculation to the whole sample. Due to limitations of the project we were not always in position to capture the whole segments
5. Obtaining data on population and frequency. In this step we identified population for each information obligation, established rate for each data requirement, and determine frequency for each data requirement/information obligation. All data or estimates are provided for each calculation. Whenever available we used annual frequency data obtained from the respective ministry or regulatory authority. Each calculation contains sources of the information and in situations where an estimate has been made the criteria for the estimate was documented.
6. Decision on business interviews vs. expert assessment. Due to a number of limitations we were not in a position to evaluate all administrative requirements by means of business interviews. More specifically, we used estimates for requirements that only cover a very small number of businesses or induce minimal administrative costs. We also relied heavily on expert assessment obtained through interviews. Namely, for a number of requirements we interviewed accounting firms, lawyers or relevant experts with considerable knowledge of the field in question to obtain best possible estimates of the administrative costs for a normally efficient business.
7. Identification of relevant cost parameters. In this step we identified and obtained the relevant cost parameters of businesses. However, we limited ourselves only to economy or sector specific average wages and not on which occupation groups perform a given administrative activity. The reason to do so is the fact that sector specific wages play much more important role. In addition, number of small or medium sized companies outsources tasks of complying with administrative requirements to accountants, lawyers and other relevant experts. For employees, i.e. internal occupation groups we obtained hourly pay based on pay statistics from the Statistic Office. For external service providers and consultants we used fees they charge for their services or we obtained necessary cost parameters based on monthly fees they charge.
8. Business interviews and expert assessment. We selected businesses in several ways. Whenever the target group is easy to define (e.g. sector specific registry exists) and where a large proportion of the target group is judged in advance to be affected, we took a random sample and contacted the businesses. In some cases it was difficult to find sufficient number of affected businesses (e.g. maternity leave). In these cases we relied both on business interviews and expert assessment. Also in some cases we used stopwatch method. In total, we conducted more than 300 interviews. Each calculation contains details about interviews conducted and how the relevant parameters based on these interviews were determined.



9. Calculation and extrapolation. Based on collected data we performed standardization of time and resource estimates for each segment by activity. Then we inserted data into previously prepared sheets that do automatic calculations. Each calculation is accompanied with a summary of the measurement process, the number of interviews conducted, assumptions, problems encountered, etc., presented in a way as to summarise the main issues.
10. First Review – In this step we reviewed obtained results and determined calculations that needed to be double checked or required additional data gathering.
11. Reporting and transfer to database. Once the first review was finished key results for each administrative requirement were transferred to database.
12. Second Review – we performed control, and checked several outliers.

4.1. SELECTION OF ADMINISTRATIVE REQUIREMENTS FOR STANDARD COST MEASUREMENT

Due to several constraints we had to select a certain number of (most costly and/or most burdensome) administrative requirements for a detailed analysis, rather than to carry out a comprehensive measurement of all administrative requirements. As a rule of thumb, the 20 percent most “burdensome” or at least most costly administrative requirements represent 80 percent of the administrative costs for companies. In some cases (sector specific studies or regulatory reform projects) it is enough to measure not more than a few administrative requirements when studies are interested in reforming only a few requirements in one or several priority areas. However, in our case calculation of administrative costs was the primary criteria for the selection of administrative requirements and we had to narrow the potential list of requirements to a manageable short-list of 20 percent most costly administrative requirements.

The selection of the 20 percent most costly administrative requirements for the SCM is far from being an easy task. As a first step we have collected data compiled during the Comprehensive Regulatory Review and to update the list of administrative requirements. Based on collected information we gave to specific administrative requirements a proper weight that can be used for the selection.

Based on data collected during the Comprehensive Regulatory Review, we were able to extract 1235 administrative requirements. However, some of these requirements were related to citizens (natural persons) not entrepreneurs or companies and some were court related. In addition, among these 1235 procedures a number of identified procedures are actually part of another procedure (e.g. issuing excerpt from the Business Registration Agency). To focus on administrative procedures and private sector and to avoid double counting, all these procedures were removed from the data base, thus leaving us with around 800 procedures.



The initial data base was somewhat outdated, and we had to undertake a major update. Thus, in the second stage we observed the most important changes for the second half of 2009 and 2010. We found more than 250 amended or new administrative requirements (of which 150 were relevant for our study and subject to further examination on whether to perform standard cost measurement).

4.1.1. SELECTION CRITERIA

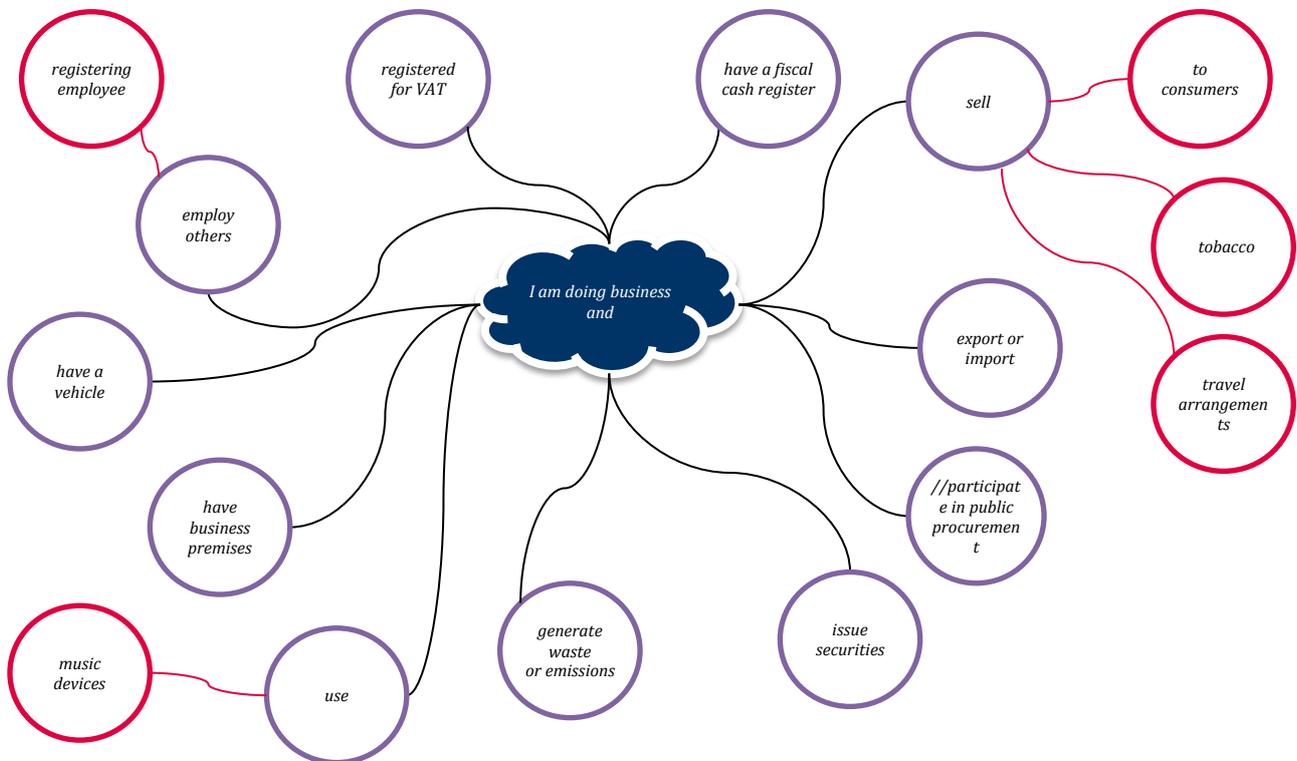
The effort of assessment should remain proportionate to the scale of the administrative costs imposed by the legislation. If the amount of time per action is small and the frequency low the administrative costs tend to be insignificant and there is no need to perform costing. Decisions not to perform costing were taken on a case-by-case basis.

The most important factor for the selection was *the number of requirements per year*, depending on the coverage and frequency (see Annex 1). Obviously, all requirements with high number per year were included in an inventory. Besides annual frequency other factors were taken into account. In some cases we include certain requirements if there is a sense that *administrative fees* were an issue, even though there were a small number of requirements fulfilled on the annual basis. In other cases, important determinant was *complexity of the requirement*.

We tried to involve the private sector in the process of selecting priority requirements, mainly through interviews we conducted in order to focus on *"nuisance" factor*, i.e. private sector complaints. While this was generally helpful, in some cases companies misunderstood the objective of the selection of requirements arguing in favor of requirements that cause only limited administrative costs, but were rather annoying to firms. Consequently, we ended up with several requirements that were irritating but have a rather modest cost.

In addition, we paid special attention to key priority areas identified in other studies including annual accounts and company law, health protection, working environment and employment relations, tax laws (and especially VAT), statistics, agriculture and agricultural subsidies, food labeling and transport.

Finally, we also used common sense approach and checked what common firm or firm in specific sector need to do to comply with administrative requirements. Figure shows the logic behind this approach that was used to correct for missing administrative requirements.



When creating the final list we used all criteria and did not have any specific lower threshold limit. However, implicitly majority of requirements assessed would fall into this category as they imply large number of regulated subjects and/or significant number of hours of administrative work per year per regulated subject.

5. CASE STUDIES

Some calculations are relatively simple, some are quite complex. Complexity of calculation depends on two key factors – 1) outsourcing option - whether outsourcing is viable and most often used option, what percentage of companies use outsourcing, whether prices of outsourcing are readily available, etc.; 2) optional ways of providing information or performing specific administrative actions, depend on whether regulatory body uses different procedures for different companies, whether there is parallel electronic and hard copy submission of documents, etc. In these cases we had to make explicit assumptions about several parameters. In other cases, due to a lack of data we made assumptions based on other relevant studies. Most often we extrapolate data based on the EU SCM results.

To illustrate how we obtained results we will use two examples using the specific data structure/report sheet. First example represents relatively simple calculation (maternity leave procedure). Second example illustrates extrapolation case describing “issuance of an invoice”.



5.1.1. EXAMPLE – MATERNITY LEAVE ADMINISTRATIVE REQUIREMENTS

In the first step, once we determined the information obligation and its' type, we relate it to the responsible authority and to the specific section in the law or other relevant regulation. Next we determine type and sector regulated subjects. ⁶ We also classify IO based on whether it is one-time or recurring> As we already stated this division depends whether you look from the national or firm level. In our first case for a firm-this is one-time obligation (assuming that it does not repeat unless there is a new maternity leave. But from the perspective of the economy, this cost appears each and every year.

No	Information obligation	IO Type	Responsible body	Name of law or other regulation	Section	Recurring or one-time obligation	Regulated subject	
							Sector	NACE
1	Reporting maternity leave	Reporting	Center for Social Work	Law on financial support of family with children ("Off. gazette RS", 16/2002, 115/2005 и 107/2009)	10	One time	PS	All

In the second step, based on detailed assessment, interviews, stopwatch method and experts' views, we determine administrative activities and set the time needed for each activity to be performed and potential savings. If needed additional administrative fees and other direct costs (e.g. copying) are added.

In our first example there are five administrative activities. As the requirement is not sector specific hourly wage is average hourly wage for the whole economy. For each activity we estimate potential savings in terms of time needed based on the detailed assessment of data requirements, possibilities to use electronic means of communication or other simplification measures.

Administrative activities	Hourly wage	Type of Activity	Time needed (minutes)		Administrative fees and other direct costs (copying, printing, etc.)	
			potential	real	potential	real
			2	2A	3	3A
Familiarization with the information obligation	324,60	One-time	30	30		
Retrieval of necessary information	324,60	Recurring	45	180		
Copying and labeling	324,60	Recurring	10	20		30
Filing information	324,60	Recurring	20	20		
Reporting/Submitting documents	324,60	Recurring	60	60		

⁶ Note that this specific case in fact contains two administrative requirements reporting and reimbursement procedure. However, for the practical purposes we treated them as one.



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In the third step we perform calculations. Prior to calculations, we need either to determine frequency and the number of affected entities or cases, or if available to obtain data based on the registered total number of activities per annum. In the first example, we obtained official number of maternity leaves per year and knowing frequency for each activity and hourly price we were able to determine total administrative costs.

Price		Frequency		Number		Total number of activities per annum	
potential	real	potential	real	potential	real	potential	real
$4=1 \times 2+3$	$4=1 \times 2A+3A$	5	5A	6	6A	7=5×6 or exact number	7=5A×6A or exact number
162,30	162,30	1	1	30.918	30.918	30.918	30.918
243,45	973,79	12	12	30.918	30.918	371.016	371.016
108,20	138,20	12	12	30.918	30.918	371.016	371.016
54,10	108,20	12	12	30.918	30.918	371.016	371.016
324,60	324,60	12	12	30.918	30.918	371.016	371.016

Finally, taking into account estimated savings, we were able to determine total savings as well as type of savings (one-time or recurring). Most problematic part of calculation was to determine business as usual costs in order to determine administrative burden. In this case the estimate is that two thirds of most costly administrative activity represents a burden, as businesses would not continue to conduct if the requirements were removed.

Total Administrative Costs		Total Savings	Total One-time Savings	Total Recurring Savings	Business as usual costs	Administrative burden
$10=4 \times 7+6 \times (8+9)$	$10A=4A \times 7A+6A \times (8A+9A)$	11	11A	11B	12	$13=10 \times 12/100\%$
5,017,918	5,017,918				100%	
90,322,520	361,290,081	270,967,560		270,967,560	33%	240.860.054
20,071,671	51,273,822	31,202,151		31,202,151	20%	
40,143,342	40,143,342				100%	
120.430.02	120.430.02				100%	

When all the interviews have been carried out we collected the additional data and obtained expert assessments, or even applying stop-watch method we were able to make an assessment on how long it takes (a normally efficient business) to carry out the various administrative activities required to comply with a data requirement. In other words, based on the information provided by the businesses in the interviews, we had to make a qualitative assessment of how long businesses spend on each individual administrative activity connected with compliance with this particular data requirement.⁷ This should make it possible to insert a standardized

⁷ Within the measurement phase of the project, the data collection covering XX% of the identified administrative requirements relied on data collection through interviews with companies or assessed by interviewed experts. The remaining XX percent of administrative requirements was estimated through expert assessments.



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figure in the data template. Next table illustrates interviews we carried out for this particular administrative requirement.

Interw.	size	Number of employees	Sector	Administrative activity	one-time or recurring	Time needed	
			NACE			potential	real
A...			G	<i>Familiarization with the information obligation</i>	one-time		30
				<i>Retrieval of necessary information</i>	recurring	60	180
				<i>Copying and labeling</i>	recurring		20
				<i>Filing information</i>	recurring		20
				<i>Reporting/Submitting documents</i>	recurring		60
P...			H	<i>Familiarization with the information obligation</i>	one-time		30
				<i>Retrieval of necessary information</i>	recurring		180-240
				<i>Filing information</i>	recurring		20
				<i>Reporting/Submitting documents</i>	recurring		60

Finally, from the obtained results we extract summary table that we use to obtain estimates of the total administrative costs and savings.

<i>Savings</i>	302,169,712
<i>Total repetitive costs</i>	366,307,998
<i>One time costs for businesses</i>	211,847,191
<i>Total administrative costs</i>	578,155,190
<i>Administrative burden</i>	281,879,113



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Each calculation has a detailed description of identified data requirements, administrative activities, data sources, assumptions adopted.

Comments and Assumptions

Data requirements and Administrative Activities

After receiving notice about the maternity leave, the employer must prepare documents related to employee and submit them to the Center for Social Work (CSW).

Documentation (data requirements) consists of:

- *The decision on granting the employer's maternity leave (document preparation)*
- *Contract with the employee; (copying)*
- *Confirmation from the employer (with letterhead) on the data about employee, including employees period of employment - if more than one year or less and employees status (permanent or temporary employee); (calculation, document preparation)*
- *Confirmation from the employer on the amount of base salary plus employees past work at a rate of 0.4% for each full year of operation, for the last 12 months preceding the month in which maternity leave commenced; (document preparation, calculation)*

Note: A Confirmation is issued for each month separately as well as the calculation of earnings for the past 12 salary (excluding bonuses and allowances) on the letterhead of the employer

- *Statement by the Director confirming that the employee paid all contributions and taxes (document preparation)*
- *Employees account statements for last 12 salaries, NZ-1 form in duplicate, (preparing, copying, calculating)*
- *Photocopy of the whole Labor Record Booklets (copying)*
- *Photocopy of the whole Health Insurance cards, (copying)*
- *Photocopy of the M form (copying)*
- *Copies of OP OD1 form. (copying)*

Employer performs calculation and payment of wages.

Calculated and paid wage will be compensated by the relevant Ministry in charge.

Center for Social Work checks calculation for correctness before the refund based on documentations submitted by the employer.

The employer is required for each month to submit to the CSW:

- *Form NZ1, in duplicate,*
- *Form and Form PP OPJ and PP OD 1, certified by the Tax Directorate Branch as a proof that that the payments of wage to the employee on maternity leave actually happened.*

Data sources

Data were obtained from the Public Health Institute

In year 2010. Total number of births was 67,142, out of which in 30,918 cases mothers were employed by the employer and in additional 2761 cases mothers had a status of an entrepreneur.

Note: This case applies only to mother who are employees, not to mothers who are entrepreneurs

Assumptions:

Decrease in time needed is based on the assumption of abolishing a number of data requirements (own calculations and proposals made by UVRA and eventual establishment of the electronic communication



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between Tax Directorate and the CSW.



5.1.2. CASE STUDY – ISSUANCE OF AN INVOICE: EXTRAPOLATION OF COSTS

Given the time and resource constraints and to avoid relying on small samples, for specific and very costly administrative requirements the costs were extrapolated and/or supplemented with available data. The data from the EU SCM Study were used as the basis for the extrapolation to related administrative requirements in Serbia. We paid special attention to most cost-intensive and burdensome IOs. We use example of one of these requirements - obligation of businesses to “issuance of an invoice related to VAT bookkeeping”. This is somewhat more complex calculation, as we besides using numerous assumptions, had to identify the business segments covered by the regulation.

More specifically, there are four groups which differ in time needed to fulfill the IO and the frequency – large, medium sized and small business and entrepreneurs and other natural persons (e.g. lawyers) who issue invoices related to VAT bookkeeping. For the purpose of simplicity, we show only one segment – large businesses.

No	Information obligation	IO Type	Responsible body	Name of law or other regulation	Section	Recurring or one-time obligation	Regulated subject	
							Sector	NACE
1A	Issuing Invoice (Large businesses)	Other	Tax Directorate (Ministry of Finance)	Law on Value Added Tax ("Official Gazette of RS", Nos. 84/04, 86/04 - correction, 61/05 and 61/07) Rules on the determination of cases in which there is no obligation to deliver accounts and accounts with which to leave out certain information ("Official Gazette of RS", no. 105/04, 140/04 and 67/05) and Law on electronic Documents Act ("Official Gazette of RS", No. 51/09))	42 2, 4	Recurring	PS	All

Following the EU SCM approach we assume that gathering the required data can be achieved using two main methods - electronically through an electronic client database (once it is allowed) or through paper client records. Legislation does not dictate how these data should be collected. However, software applications applied by especially by large and medium sized businesses are often more efficient than traditional paper client records, like in micro enterprises who issue invoices manually.⁸ As a result time spent to draft a single VAT compliant invoice differs from segment to segment.

⁸ See Final Report -Measurement data and analysis As specified in the specific contract 5&6 on Modules 3&4 under the Framework contract n° ENTR/06/061 Report on the Tax Law (VAT) Priority Area



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We estimate time needed based on weighted averages on time spent and costs incurred on the information obligation “Issuance of an invoice” for several EU members. For example total time needed to issue invoice for a large business is three minutes (could be narrow down to 1 min 45 seconds). For example, in the EU SCM study large businesses need an average time of 0.67 to 2.5 minutes to issue a VAT compliant invoice, while micro businesses, relying on time-consuming manual processes, require between 3.38 and 4.50 minutes per invoice.

Administrative activities	Hourly wage	Type of Activity	Time needed (minutes)		Administrative fees and other direct costs (copying, printing, etc.)	
			potential	real	potential	real
			2	2A	3	3A
Retrieval of necessary information	324,60	Recurring	0.50	0.50		
Filling information	324,60	Recurring	1.00	1.50		1
Other (Checking for correctness)	324,60	Recurring	0.25	1.00		

Similarly, based on estimates on frequency for several EU members, we estimate adequate frequency for Serbia. However, we do not assume that there will be any change in total number of activities on a yearly basis. For a segment of large businesses in Serbia, we assume that annually there are 17.5 million invoices (roughly 20 to 25 invoices per day).

Frequency for Serbia is somewhat lower than figures used for large businesses in the EU SCM Study (between 10,429 and 42,216 invoices) and closer to the medium sized businesses. We believe that this conservative assessment better reflects the fact that, measured in terms of turnover; Serbian large companies on average are closer to large medium sized companies in the EU between (7,036 invoices).

Price		Frequency		Number		Total number of activities per annum	
potential	real	potential	real	potential	real	potential	real
4= 1×2+3	4= 1×2A+3A	5	5A	6	6A	7=5×6 or exact number	7=5A×6A or exact number
2.70	2.70	6,431	6,431	2,721	2,721	17,500,000	17,500,000
5.41	8.11	6,431	6,431	2,721	2,721	17,500,000	17,500,000
1.35	6.41	6,431	6,431	2,721	2,721	17,500,000	17,500,000

Again, based on these assumptions, it is relatively easy to obtain total administrative costs and savings. Following the similar procedure for other four segments we obtain, estimates of total savings and total costs.

Total Administrative Costs		Total Savings	Total One-time Savings	Total Recurring Savings	Business as usual costs (%)	Administrative burden
10=	10A=	11	11A	11B	12	13=

Bookkeeping “ERP software can allow businesses to extract client data, but also applicable VAT rates, descriptions of delivered goods, prices and even references to specific VAT rules from their databases. Depending on the internal business processes, time spent in complying with this process step is mainly focused either on gathering data manually or on recording the necessary data into businesses’ electronic databases.”



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4x7+6x (8+9)	4Ax7A+6Ax (8A+9A)					10x12/100%
47,336,806	47,336,806					
94,673,611	142,010,417		47,336,806	47,336,806		
23,668,403	112,173,611		88,505,208	88,505,208		

<i>Savings</i>		425,313,244
<i>Total repetitive costs</i>		1,071,122,520
<i>One time costs</i>		0
<i>Total administrative costs</i>		1,071,122,520
<i>Administrative burden</i>		n.a.

Comments and Assumptions (shortened version)



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Administrative Activities

In accordance with the EU SCM measurement, we consider only the three steps (administrative activities) as part of the information obligation "issuance of an invoice". The measurement was limited to the VAT-specific part by isolating the data requirements exclusively relating to VAT and estimating the time needed in order to

- *collect data required to be presented in the invoice;*
- *draft invoices by recording the data in the desired format;*
- *review the correctness of the invoice (before the invoice is provided to the customer, it is reviewed either by the person drafting the invoice or in some cases a higher ranking individual in the business).*

This approach is consistent with the provisions of Article 42 Paragraph 2 of the Law on Value Added Tax that requires from the taxpayer to issue an invoice or other document for each supply of goods and services to other taxpayers.

In accordance with the provisions of Article 2 Electronic Documents Act, electronic document data set is composed of letters, numbers, symbols, graphics, audio and video contained in the petition, in writing, as a document or in any other form... , ... if it is electronically created, digitalized, sent, received, stored or archived on electronic, magnetic, optical or other media. According to the provisions of Article 4 of the Law on electronic document, electronic document cannot be denied validity or the probative force only because it is in electronic form. See also opinion of the Ministry of Finance 413-00-552/2011.

Data requirements*Each invoice includes the following information:*

- *The name, address and TIN of the taxpayer - the account of the issuer;*
- *Place and date of issue and invoice number;*
- *Name, address and TIN of the taxpayer - the recipient account;*
- *The type and quantity of goods delivered or the type and volume of services;*
- *Date of supply of goods and services and the amount of advance payments;*
- *The amount of the tax base;*
- *Tax rate being applied;*
- *The amount of VAT which is charged;*
- *Note on tax exemption.*

Data sources

We used data on the total number of taxpayers included in the VAT regime. Data on total number of invoices is estimated based on data from Croatia (50 million invoices per annum) and data on the number of VAT invoices in the EU countries, taking into account GDP, number of taxpayers in the VAT regime and other relevant factors.

Data on total number of taxpayers per size is estimated based on data from the BRA and Tax Directorate.

Assumptions:

- *We do not consider as an invoice fiscal clip and internal account for the delivery of goods and services between business units of the same tax payers. This administrative requirement refers only to "issuance of an invoice related to VAT bookkeeping".*
- *It is assumed that half of entrepreneurs and small businesses issue invoices manually.*
- *The outsourcing segment is not relevant and out of scope*
- *Division of population among segments is based on the APR and Tax Directorate data.*



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- *The measurement assumes that all businesses (end 2010) issued paper invoices.*

6. ESTIMATE OF TOTAL ADMINISTRATIVE COSTS



The methodology is designed to focus on those administrative requirements which are the source of the highest administrative costs and burden for business and to enable ministries and regulatory bodies to take a targeted approach to reducing the burden in those areas. As in these two examples, we follow similar procedure for the remaining 154 administrative requirements to obtain summary table, with all estimated costs and savings. In total, 275 separate calculations were made.

Eventually, we opted not to calculate administrative burden. On the average in the EU SCM study, administrative burdens are 80.4% of total administrative costs (see Annex). For example, similar percentage the EU SCM study uses for issuance of invoice, which is probably exaggerated compared to the real business as usual costs. This is the reason why we decided to aggregate total costs and savings only and not to calculate administrative burden for each and every administrative requirement.

Table shows aggregate administrative costs and identified potential savings.

<i>Aggregate administrative costs (in million dinars)</i>	<i>69,265</i>
---	---------------

According to the IMF, nominal GDP 2010 in billions of dinars was 2.987. Using these data we obtain that our 156 administrative procedures create costs of approximately 2.3% of GDP. However, this figure is not the final one, as we have to made several adjustments in order to compare this figure to other baseline measurements. First, in our calculations we used average wage and lower outsourcing costs. Second, we did not use overhead costs. Third, we still need to add remaining 20% of administrative costs, because of 20:80 rule.

Table 1: Estimated total administrative costs for alternative assumptions (% of GDP, 2010)

Assumptions	Low wages	High wages	Overhead costs	20:80 rule
Low costs (low wages and outsourcing costs, overhead costs 20%)	2.31%	2.31%	2.77%	3.47%
Medium costs (medium wages and outsourcing costs, overhead costs 20%)	2.31%	2.54%	3.05%	3.81%
Medium high costs (high wages and outsourcing costs, overhead costs 20%)	2.31%	2.77%	3.33%	4.16%
High costs (high wages and outsourcing costs, overhead costs 25%)	2.31%	2.77%	3.47%	4.33%

Thus, we believe that total estimated administrative costs should be in a range between 3.8 to 4.2 percent of GDP, probably biased towards higher percentage. This is significantly higher than is



some EU member states. However, we should emphasize that due to various approaches to measurement these figures are not perfectly comparable.

Table 2 SCM Measurement

Country	Administrative costs (% of GDP)
Serbia	4.2%
United Kingdom	2.5%
Denmark	2.2%
Netherlands	3.6%
Czech Republic	3.0%
Austria	2.8%
EU*	1.1%

Published figure: NL: Netherlands Bureau for Economic Policy Analysis (CPB) (2004), Reducing the administrative burden in the European Union, CPB Memorandum. DK: SCM Network (2006), Information about the Danish SCM measurements. CZ: Office of the Government of the Czech Republic (2006), Regulatory Reform in the Czech Republic. For the EU, figure measures only costs in specific priority areas.

6.1. THE MOST COSTLY ADMINISTRATIVE REQUIREMENTS

The most costly administrative requirements are presented in the table. In general, the most costly administrative requirements stem from bookkeeping business books as well as other reporting requirements related mostly to tax authorities. Obtained results are in line with similar studies in other countries as well as with the EU SCM assessment.

Table 3 Most costly administrative requirements

Administrative Requirement	Administrative costs in dinars
Keeping business books	27.432.590.141
Inventory (of assets and liabilities)	7.081.702.749
Imports of goods and customs clearance	3.612.397.443
Auditing	2.588.024.328
Keeping the book of daily reports (fiscal cash registers)	2.198.290.714
Keeping KEPU	2.125.127.476
Daily turnover payment	1.940.657.550
General public procurement procedure	1.285.771.954
Registration of employees on mandatory social insurance	1.269.598.788
Preparation and delivery of PP OPJ and PP OD tax forms	1.082.112.970
Invoicing	1.071.122.519
Servicing of fiscal cash registers	944.215.893
Deregistration of employees on mandatory social insurance	928.752.320
Maternity leave procedure	578.155.190



There is a high concentration of costs and burdens: 10% of the administrative requirements account for almost 80% of the total administrative cost. Again this is in line with the other baseline assessments.

6.2. ADMINISTRATIVE COSTS CREATED BY MINISTRIES AND OTHER REGULATORY AUTHORITIES

The table below provides an overview of the administrative burden per ministry and other regulatory authorities. Vast majority of administrative costs relates to regulation imposed by Ministry of Finance and directorates within the Ministry of Finance. This is again similar to findings of the EU SCM model that allocates 83% of calculated costs to two areas tax and bookkeeping.

Examined administrative requirements relate to 34 various ministries, agencies, directorates and organizations that are entrusted with specific administrative requirement by the law. Table below provides the list of the ministries and other regulatory authorities with respective administrative costs.

Regulatory Authority	Total Administrative Costs
Ministry of Finance – Tax Directorate	32,528,929,892
Ministry of Finance	12,745,979,008
Ministry of Finance – Customs Directorate	11,856,021,579
Ministry of Agriculture, Trade, Forestry and Water Management	2,478,146,043
Pension Insurance Fund/ Republic Institute for Health Insurance	2,198,351,109
Business Registration Agency	1,386,198,881
Ministry of Finance and Public Procurement Directorate	1,285,771,954
Center for Social Work	667,443,657
Ministry of Labor and Social Affairs - Work Safety Directorate	645,767,442
Republic Institute for Health Insurance	638,575,944
Securities Commission	478,555,745
Ministry for infrastructure and energy and Ministry of internal affairs	467,041,253
Medicines and Medical Devices Agency of Serbia	265,602,437
Ministry of Labor and Social Affairs	219,187,553
Intellectual Property Office	208,529,829
Ministry of Finance –Foreign Exchange Inspectorate	199,846,896
Pension and Insurance Fund	193,267,943
Directorate for Tobacco	192,858,633
Ministry for infrastructure and energy	140,589,328
Chamber of Commerce	130,781,309
National Employment Bureau	112,067,524
Other (requirement could not be located to particular regulatory authority)	101,499,097
Ministry of Internal Affairs	79,771,657
Ministry of Finance - Treasury	75,306,672
Republican Social Insurance Institute	23,119,917
Serbian Music Authors' Organization - SOKOJ	8,591,208



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Register of National Internet Domain Names of Serbia	6,718,935
Ministry of Health	4,867,675
Ministry of Agriculture, Trade, Forestry and Water Management - Plant protection Directorate	4,160,306
Organization of Phonogram Producers of Serbia (OFPS)	2,002,869
Ministry of economy and regional development	1,930,672
Ministry of environment, mining and spatial planning	1,086,312
National Bank of Serbia	441,245
Ministry of environment, mining and spatial planning – Environmental Protection Fund	308,985

7. BURDEN REDUCTION POSSIBILITIES

The major aim of the study was to map and measure administrative costs (and burdens). However, the important aim (of regulatory reform in general) is to bring about a reduction in administrative burdens. This study and SCM methodology per se could help but are obviously not sufficient tool for achieving this goal.

To identify specific burden reduction possibilities do so we tried to identify, describe and calculate reduction recommendations. We should note that even seemingly a very small change in the regulation or implementing process can in practice produce major savings for the whole economy, specific sectors or certain types of businesses. The detailed analysis of the processes for compliance with administrative requirements which is inherent in the methodology also makes it possible to identify ideas for improvements within single activities – for example, adapting an electronic reporting system in the Tax Directorate or modifying one-stop shop approach for reporting employees which are not achieving optimal effect because their design is not sufficiently adapted to businesses' needs and approaches.

The approach and processes for the burden reduction work of the project were divided into two main steps. First, we tried to identify and select reduction recommendations. Second, we tried to describe and quantify reduction recommendations

To identify and select reduction recommendation we examined a number of possibilities. With respect to changing or amending legislation we focused on possibility

- to reduce frequency of administrative requirement (keeping xxx documentation) or to reduce, merge or eliminate obsolete requirements (e.g. forestry protection fee, KEPU statement, employees booklets);
- to simplify administrative requirements (maternity leave);
- to introduce e-government (ICT) solutions (e.g. submission of documents to the BRA, Foreign Exchange Directorate, Tax Directorate, etc.);
- to improve data-sharing between public authorities;
- to provide better guidance and information (e.g. providing codebook of (business) activities by the BRA)



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We consulted several sources of potential reduction including the results and information from the CRR project and NALED's "Out of maze" project, other changes proposed by different stakeholders (e.g. UVRA's maternity leave simplification proposal), and new ideas generated through our measurement project.



7.1. TOP IDENTIFIED POTENTIAL SAVINGS

Identified aggregate potential savings 6,698 million dinars with more than 80 procedures that could be either simplified, abolished or improved.

<i>Identified aggregate potential savings (in million dinars)</i>	6,698
<i>Aggregate administrative costs (in million dinars)</i>	69,265

As the obtained aggregate administrative costs equal to 69,265, total savings equal to 9.7% of aggregate costs. However, there are several potential savings that we did not calculate (e.g. the Draft Law on Auditing reduces the scope of businesses that are obliged to audit their accounts), and there are probably other possibilities that we did not identified while we prepared the baseline assessment. The table below sows top potential savings.

Table 4

Administrative Requirement	Potential savings in dinars
Keeping KEPU	2.125.127.476
General public procurement procedure	636.434.896
Preparation and delivery of PP OPJ and PP OD tax forms	615.344.325
Invoicing	425.313.244
Public companies announcements in the daily newspaper	420.603.444
Maternity leave procedure	311.110.903
Preparation of the daily turnover list (DPU List)	302.779.389
Application for the retail sale of tobacco products permit	188.018.270
Issuance that certificates of tax liabilities have been settled	134.085.966
Verification of health insurance cards	113.843.902
Registration (various) with the BRA	99.945.058
Forestry Protection fee payment	99.182.658
Submission of the M4 form	95.067.067
Admission of service in the book	94.649.310



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8. CONCLUSION

As stated in the Introduction the Comprehensive Regulatory Review showed that the Standard Cost Model (SCM) was very helpful in reducing administrative burdens and costs, as calculated savings put a lot of pressure on ministries and regulatory bodies to implement reforms. Total savings (so far) were estimated to be around 200 million euros (this estimate does not include overhead costs) or around 0,66% of GDP. These reductions are rather significant having in mind that even in some of the most developed members of the EU reduction program took more than 5, or in some cases almost 10 years to achieve 25% reduction of administrative burden.

Despite these achievements, there is a long way to go. Administrative costs (and administrative burden in Serbia) is higher than in other countries that conducted baseline measurement. Identified potential savings represent only a share of what can be achieved. Implementing these recommendations and identifying new ones can help Serbia to improve its business environment and make more productive use of available resources.



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ANNEX 1: ADMINISTRATIVE REQUIREMENTS THAT AFFECT LARGEST NUMBER OF BUSINESSES

Most widely applied administrative requirements	Calculated	Deadlines/Frequency fo reporting
Preparation of calculations for the goods to be debited and its recording in KEPU book	Y	Daily* (activity dependent) next day deadline
Recording of actual turnover and daily receipts in KEPU book	Y	Daily
Making daily cash register report and its registration in KDI	Y	Daily
Calculation of turnover in the last 365 days and in case it exceeds the amount of 4 million, preparing the list of stocks of merchandise, changes in tax rates in fiscal cash register and start keeping VAT records	NA	Daily
Registering employees on mandatory social security contributions (pension, health, unemployment), refers to the limited work on probation	Y	Activity dependent(3 days deadline)
Submission of all accounting related documents to accounting firm (if outsourced)	Y	Daily (activity dependent) 5 days deadline
Recording changes based on received accounting documents deadline	Y	Daily (activity dependant) 5 days deadline
Submitting IEPDV form to the Tax Directorate if any relevant change occurs	Y	Activity dependent
Payments on current account of daily receipts and all other cash received on any ground	Y	Weekly / Activity dependent
Submission of copies of foreign invoices for completed or received services from abroad to foreign exchange inspectorate with the review of invoices	Y	Activity dependent(10 days deadline)
Filing a tax return under the Law on Property Tax	N	Activity dependent (yearly)
Submitting application to register for VAT in case that turnover reached 4 million dinars in the last 365 days (Form EPPDV)	Y	Activity dependent
Submission to the Tax Directorate of the collective form for the tax return for the withholding tax and for any payment made in the previous month (PP OD and PP OPJ forms)	Y	Monthly (5 days after the end of month)
Filing a tax return on Form PPPDV and accompanying forms for the previous month for tax payers who are in the monthly VAT regime	Y	Monthly (10 days after the end of month)
Payment of tax liabilities for tax payers who pay VAT for the calendar month (if there is no overpayment)	Y	Monthly (10 days after the end of month)
Advance payments of corporate income tax for the previous month;		Monthly (15 days after the end of month)
Advance payment of income tax on income from self-employment for the previous month for		Monthly (15 days after the end of month)



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entrepreneurs;		
Advance payments of social security contributions for entrepreneurs and founders of companies working in the company and not been employed;		Monthly (15 days after the end of month)
Payment of fees for use of urban construction sites and communal fees	Y	Monthly (15 days after the end of month)
Payment of compulsory social insurance at the lowest monthly basis to employers who pay wages for the previous month by the end of the current month obligations	N	Monthly (30 days after the end of month)
Filing a tax return on Form PPPDV and accompanying forms for the preceding quarter tax payers who are in the quarterly VAT regime	Y	Quarterly(10 days after the end of quarter)
Payment of tax liabilities for tax payers who are in the quarterly VAT if there is no overpayment if the tax return or previously		Quarterly(10 days after the end of quarter)
Advance payment of property taxes for the current quarter		Quarterly(45 days since the beginning of the quarter)
Submission to the Tax Directorate for the change of the tax period in the calendar month for taxpayers whose tax period is a quarter, and they want to move to monthly payments;		Yearly - until January 15th
Submission of the PPP form (submission of individual tax returns for calculated and paid tax and contributions for social insurance withholding income at the expense of the last years payer)	Y	Yearly - until January 31st
Submission of PPDG1 form – reporting change in the volume and turnover for lump sum tax payers		Yearly - until January 31st
Submission of financial statements to the Business Registers Agency for the past year	Y	Yearly - until February 28th
Submission of the PB1 (PBN1) form (Tax Balance Sheet) to the Tax Directorate		Yearly - until March 10th
Submission of Tax return to determine the corporate income tax (Form PDP (PDN);		Yearly - until March 10th
Submission to the Tax Administration income statement and balance sheet and other documents with the patterns PB1 and PDP		Yearly - until March 10th
Submission of a business bank accounts to pay the difference between the paid advance tax and accrued liabilities on the final tax statement;		Yearly - until March 10th
Submission (entrepreneurs with the exception of those that pay lump sum income tax) of the PB2 form - final calculation of income tax		Yearly - until March 15th
Submission of Income statement and other documents including forms PB2 and PPDG1	Y	Yearly - until March 15th



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Submission of forms PPI1 and PPI2 – determination of property tax for the current year for all legal entities and entrepreneurs that are keeping books		Yearly - until March 31st
Submission of M4 forms (the duration of employment and wages of employees for the preceding year)	Y	Yearly - until April 30th
Submitting requests for lump-sum taxation of entrepreneurs in the coming year	Y	Yearly - until November 30th
Submitting the tax balance sheets for companies and entrepreneurs who decide to change the amount of the advance income tax or personal income tax payment (for entrepreneurs submission is accompanied by a request for the reduction of the advance)	Y	Yearly, (30 days after the expiry of the deadline)
Re-servicing cash registers (365 days from the date of its previous service)	Y	Yearly



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ANNEX 2 OVERVIEW OF SCM BASELINE MEASUREMENTS IN OTHER COUNTRIES

In 2003, the Dutch Bureau of Economic Policy Analysis estimated that the administration of regulations was costing businesses in the Netherlands €16.4 billion on an annual basis, corresponding to 3.6 percent of Dutch GDP. In Denmark, the total administrative costs on business are estimated at €4.3 billion annually, equivalent to 2.2 percent of Danish GDP. In the UK, a recent inventory showed the total administrative burdens on business, the voluntary sector (charities, etc.) and the public sector were £18.8 billion (€28 billion) annually, 1.5 percent of GDP. The administrative burden of regulations has been estimated at between 2 and 3 percent of GDP in a range of European countries.

The UK expresses its target in terms of administrative burdens, whereas both the Netherlands and Denmark are talking about costs. The difference between these is what are known as “Business As Usual” costs. Businesses will carry out these activities, despite their cost, because they provide some benefit to the business. As more countries implement the Standard Cost Model, measurement has become focused on the burdens of regulation, the reduction of which would really benefit businesses. It has been found that reducing the total costs of regulation can be less effective if businesses continue to carry out the same activities despite no longer being required to do so.

AUSTRIA

The baseline measurement, completed in June 2007, collected data on information obligations for businesses resulting from federal and European regulation. Information obligations in EU regulations were measured, when a national legislative act was necessary for their implementation. Costs were evaluated using the Standard Cost model for all regulations in force by 31 December 2006. The measurement was carried out by external consultants, while the Federal Ministries contributed their know-how on legal provisions and administration. Administrative costs incurred as a result of 5687 information obligations in 561 legal provisions were measured. In the first half of 2007 all legal provisions in force by 31 December 2006 containing information obligations and administrative burdens for businesses were analyzed and measured. The measurement was carried out by external consultants using face-to-face interviews in businesses and expert panels. The method used was the Dutch Standard Cost Model. In Austria 561 legal provisions with 5687 information obligations have been analyzed and measured. These information obligations cause administrative burdens for Austrian businesses of 4.3 billion EUR or 1.6 per cent of the Gross Domestic Product.

DANEMARK

SCM baseline measurement from August 2004 to March 2006, 263 laws and 1.100 statutory orders were mapped and measured 1.100 businesses interviews were carried out, corresponding to a total of 3.000 hours. More than 90 percent were face to face interviews. The



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results of the SCM baseline measurement - total administrative burdens for Danish businesses equaled € 4.3 billion or 2.2 percent of GDP. Burdens were highly concentrated as around 90 % of the AB were related to the 10 most burdensome regulations within each ministry

GERMANY

The identification of information obligations, particularly those which arise for companies, started in July 2006. The identification phase took approximately six months and came up with a total of about 10.400 information obligations for enterprises (see the second annual Government Report to Parliament on the use of SCM of December 2008). This stage was more or less finished at the end of October 2006; the relevant baseline date for the measurement is 30 September 2006.

After completing the identification of all information obligations for enterprises based on federal and EU-legislation, the actual baseline measurement started in the beginning of January 2007 and was completed in December 2008. The measurements were carried out by the Federal Statistical Office which is highly professional in collecting and analysing data and has access to useful information about companies and citizens, already stored in existing databases. The possibility to ask external experts for their input from time to time in a later stage of the process is not precluded.

The Federal Statistical Office Several uses several field-tested practices such as questionnaires, surveys of experts or on-site face-to-face interviews, in each case depending on the number of enterprises concerned and the complexity of the relevant information obligation. Measurement results (see Second Interim Report of the Committee of State Secretaries on bureaucracy reduction, June 2009):

From the 10.400 information obligations, businesses incur total administrative costs of some 47.6 bn Euros per year. More than half of this amount (25.1 bn Euros) results from transposed international and especially EU legal acts; the 22.5 bn Euros stem from purely national acts.

CZECH REPUBLIC

The Czech Republic the SCM baseline measurement of overall administrative burden undertaken between March 2005 and September 2005. The baseline measurement included a measurement of all business related generally binding regulations in 12 ministries, 10 central administrative authorities. The results of the measurement were sent to the Department of Regulatory Reform and Central State Administration Reform by the end of September 2005. Subsequently, the Department carried out the analytical report of overall administrative burdens on businesses