

QUALITY OF PUBLIC ADMINISTRATION

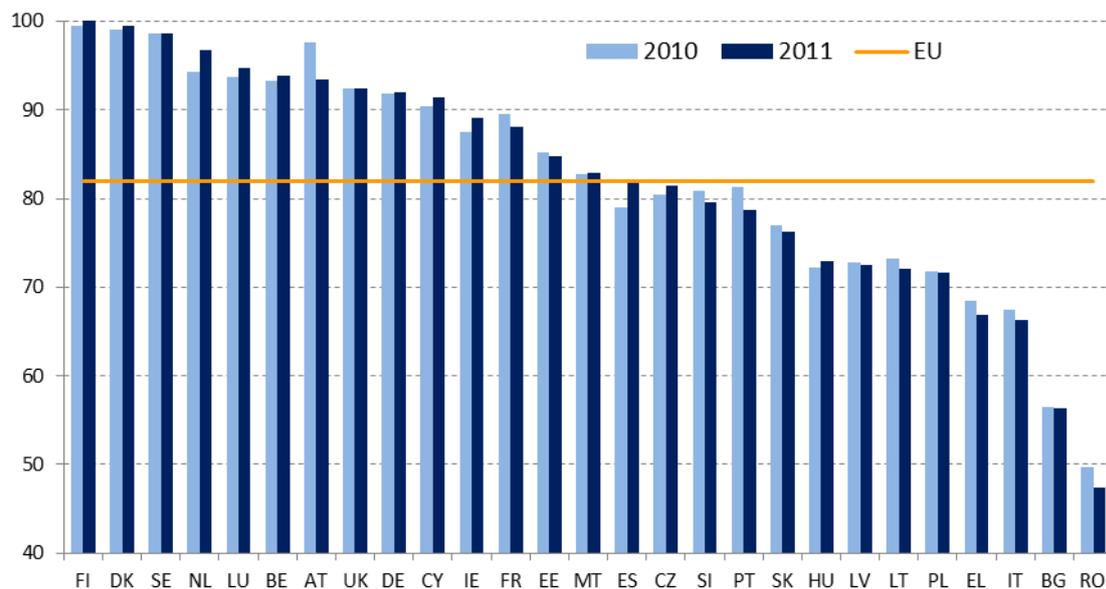
The quality of the public administration is important for economic competitiveness and societal well-being. At a time when Member States are facing increasing pressures on public budgets, the challenge of ensuring high-quality public services requires technological and organisational innovation to boost efficiency, both in public administration and in the delivery of public services and quality public investment. At the same time, good governance and legal certainty are necessary for a stable business environment. It is essential that the institutions that govern economic and social interactions within a country fulfil a number of key criteria, such as the absence of corruption, a workable approach to competition and procurement policy, an effective legal environment, and an independent and efficient judicial system. Moreover, strengthening institutional and administrative capacity, reducing the administrative burden and improving the quality of legislation underpins structural adjustments and fosters economic growth, as well as employment.

1. Key statistical indicators

Assessment of the quality of public administration in Member States should take into account the following factors likely to affect overall competitiveness in terms of employment generation, creation of value added and competition: **(A)** general governance (e.g. government effectiveness); **(B)** tools for modernising public administration (e.g. eGovernment; strategic human resources management; use of evidence-based instruments); **(C)** the administrative burden on businesses (e.g. time and cost to start up a business; time needed to obtain licences; tax compliance burden); **(D)** quality, independence and efficiency of the justice system; and **(E)** corruption (e.g. irregular payments and bribes; diversion of public funds).

A. Government effectiveness is a general governance indicator providing a summary assessment of the quality of public administration in general, depending on its regulatory system, of its impartiality, and of the quality of the services it provides.

Figure 1: Government effectiveness



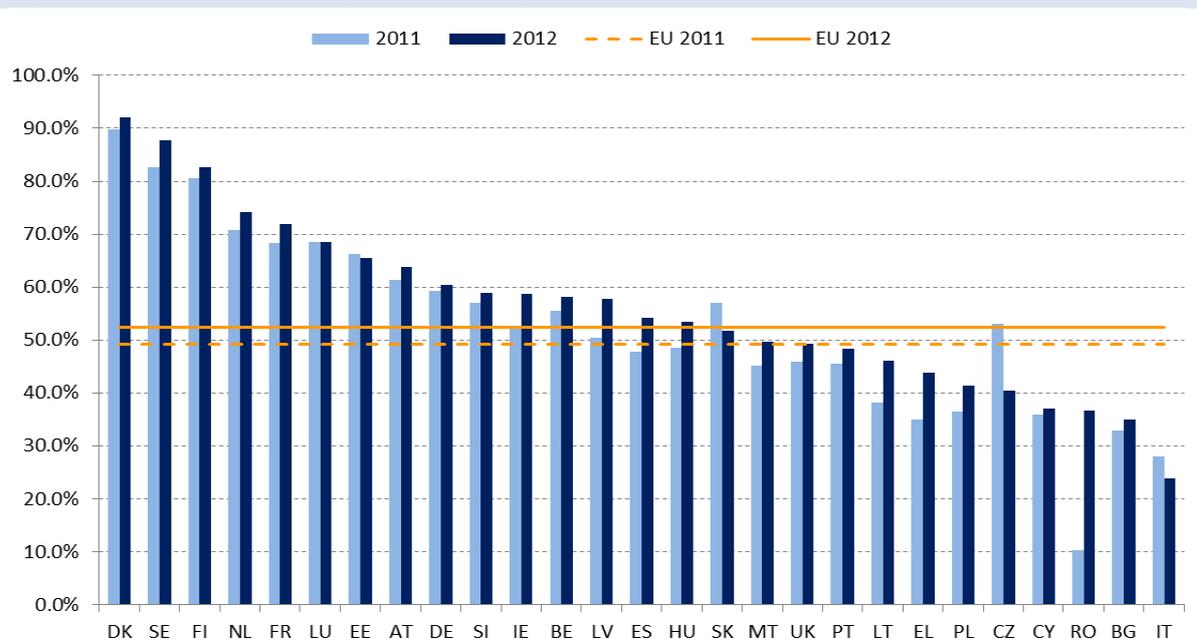
Note: The Worldwide Governance Indicators summarise information from 30 existing data sources on views and experiences of citizens, businesspeople and experts in the public, private and NGO sectors. Government effectiveness captures perceptions of the quality of the public service, its degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (scale 0 to 100, 100 = best).

Data source: World Bank – *Worldwide Governance Indicators* (2010; 2011)

B. Administrative modernisation

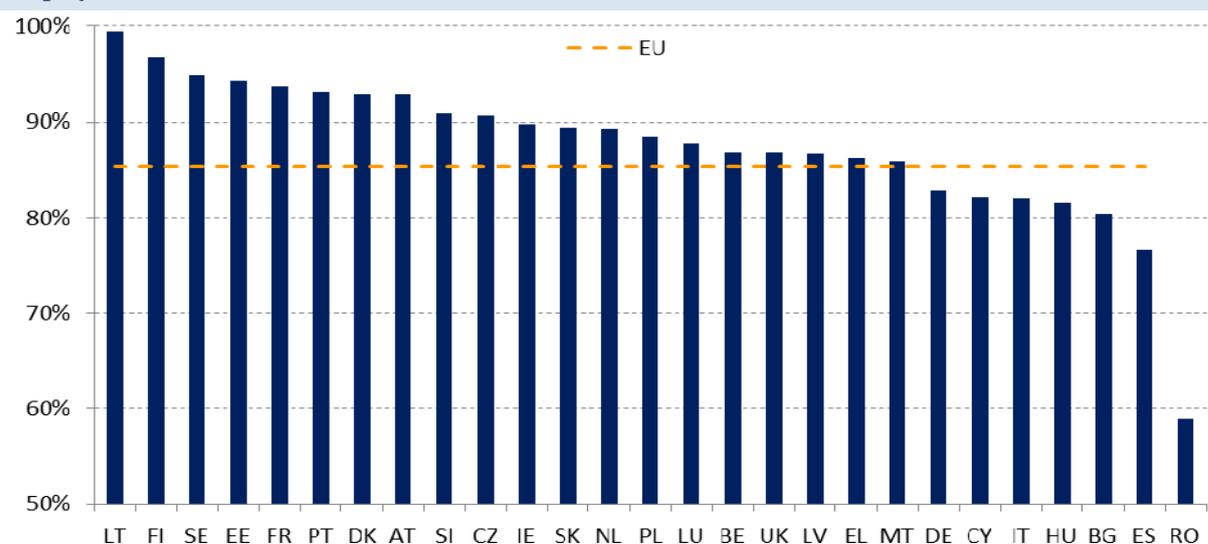
- (1) Use of online public services is a procedural solution to many general problems currently facing the public sector — this includes accessibility, facilitating internal and external administrative processes, removing administrative burdens and cutting red tape — thereby harvesting the gains in transparency, efficiency and effectiveness of services. The **take-up of eGovernment services** by citizens and enterprises (see the two graphs below) is particularly useful to assess the quality of available services, raising the challenge for the public sector to rethink how public services can become more user-centric and move away from a one-size-fits-all approach to eGovernment services and towards greater personalisation.

Figure 2: eGovernment use by citizens 25-54 years old (last 12 months)



Note: Since the intensity of use of eGovernment services varies widely between age groups, the selection of the working-age population avoids effects on the scores that are simply due to the demographic composition of the country.
Data source: Eurostat, *Community survey on ICT use in households and by individuals* (2011; 2012)

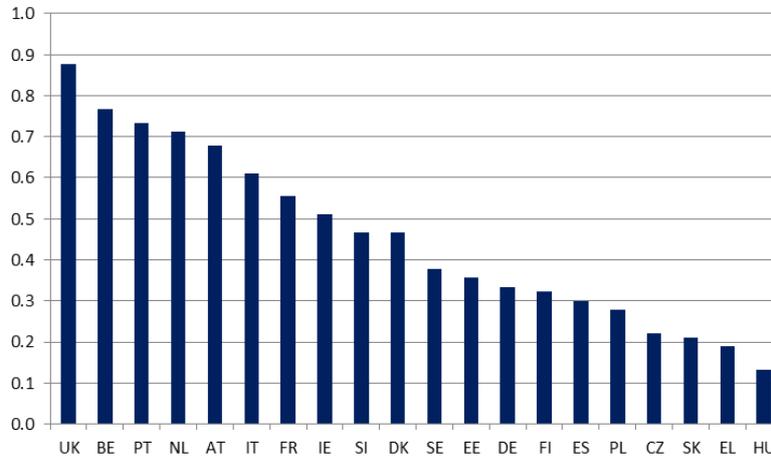
Figure 3: Enterprises using Internet for interaction with public authorities (small enterprises, 10-49 employees)



Note: This size classification has been chosen because the behaviour of medium-sized and large firms is much more homogeneous between countries and therefore not an adequate indicator of the situation of eGovernment use. Including the figure for all businesses instead of for small firms would have been biased by the different weight of the size classes in the various EU countries.
Data source: Eurostat, *Community survey on ICT use in households and by individuals* (2012).

- (2) Strategic and effective management of human resources (HRM) is a prerequisite for an efficient and professionalised administrative staff. The OECD composite indicator of strategic human resources management (see Figure 4) captures important aspects on HRM practices in central governments, such as the extent to which centralised HRM bodies use performance assessments, capacity reviews and other tools to engage and promote strategic workforce planning.

Figure 4: Utilisation of strategic human resources management practices in central government (2010)

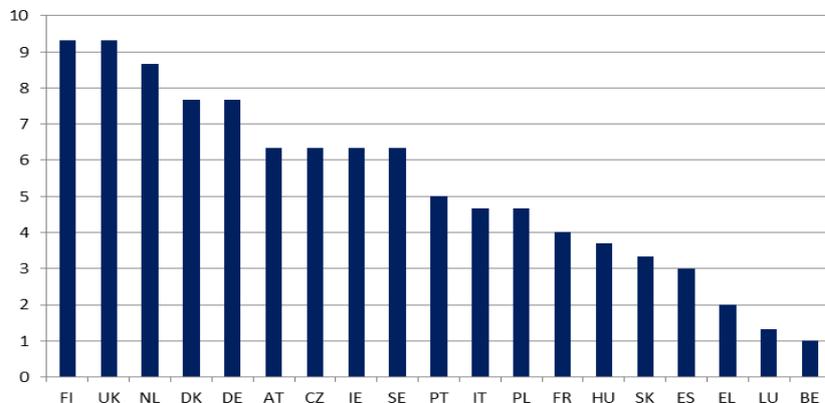


Note: The index is composed of the following variables: the existence of a general accountability framework; the existence of HRM targets built into performance assessments of top and middle managers; elements that top and middle management should take into account when planning and reporting within the general accountability framework; regular review and assessment of Ministries'/Departments' HRM capacity; existence of forward planning to adjust for adequate workforces to deliver services; and elements considered in governments' forward planning. The index ranges between 0 (low utilisation of strategic HRM practices) and 1 (high utilisation of strategic HRM practices).

Data source: OECD, *Survey on Strategic Human Resources Management in Central/Federal Governments (2010)*.

- (3) The quality of administrative service provision depends crucially on the use of performance information as an integral part of a feedback process for strategic thinking and steering of the administration. From an internal perspective, performance measurement aims at a general improvement of the manageability of public sector organisations by providing information to facilitate informed decision-making and supporting evidence-based instruments such as impact assessments; from an external perspective it is a prerequisite for benchmarking. The sub-index '**evidence-based instruments**' (Figure 5) serves as an indicator for the discourse and quality of performance-based steering tools by describing (a) the application of Regulatory Impact Assessments (RIAs) in general, (b) the inclusion of a needs analysis for potential new regulations, and (c) the consideration of alternative options.

Figure 5: Utilisation of evidence-based instruments (2011)

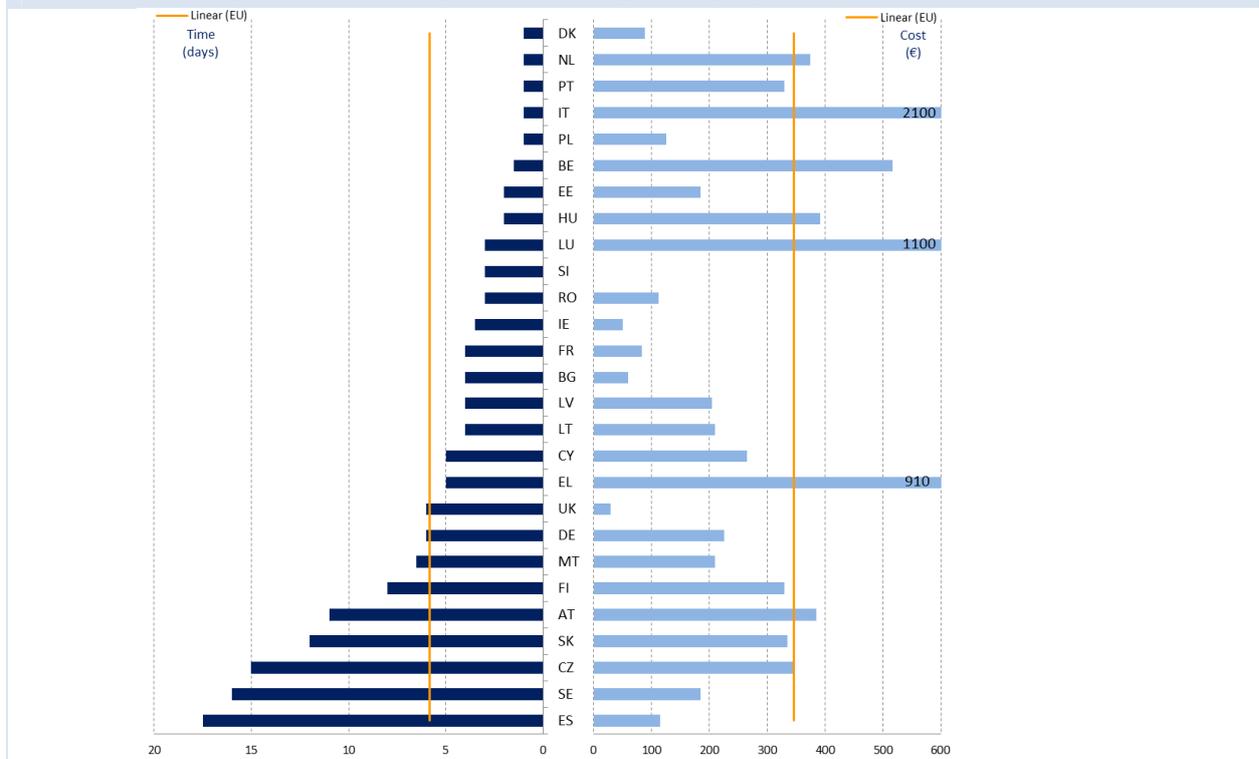


Note: The 'evidence-based instruments'-indicator includes qualitative assessments by country experts based on a standardised survey in which the sophistication of all three aspects - the application of RIAs in general; the inclusion of a needs analysis for potential new regulations; and the consideration of alternative options - is weighted on a unified scale between 10 (applicable) and 1 (not applicable).

Data source: Sustainable Government Indices (2011), Bertelsmann Stiftung

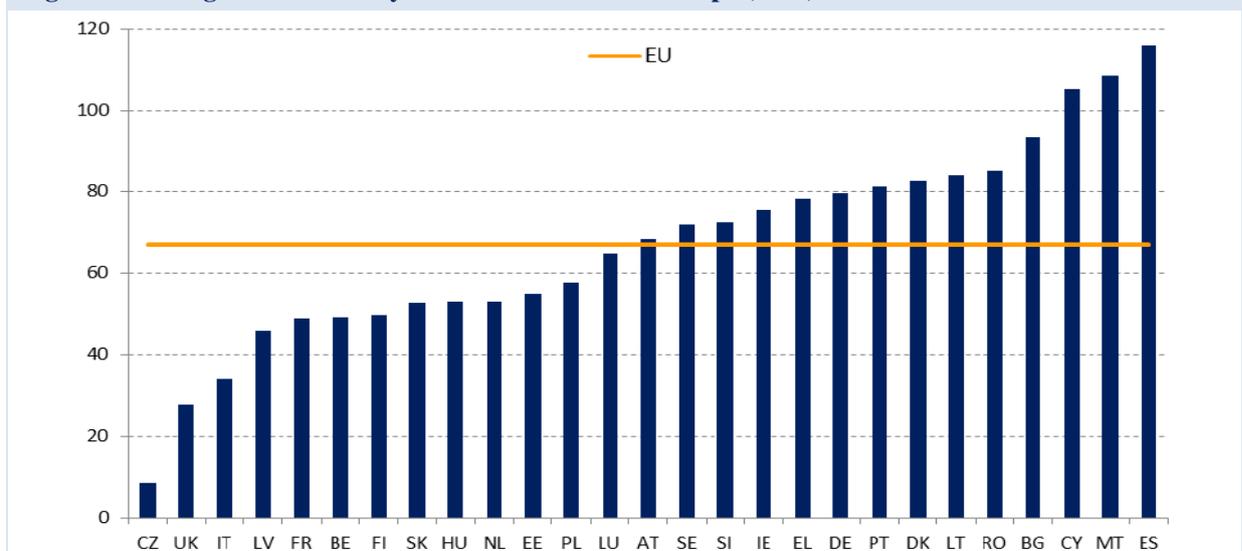
C. Making public administration responsive to SMEs' needs entails reducing the administrative burden, thus saving them time and money, especially when it comes to **starting up a company** or to **obtain licences** (see the graphs below). The conclusions of the Competitiveness Council of 31 May 2011 included a call on Member States to reduce the start-up time for new enterprises to three days and the cost to €100 by 2012, as well as the time needed to obtain licences and permits to take up and perform the specific activity of an enterprise to three months by the end of 2013.

Figure 6: Time required and cost required to start-up a company (2012)



Data source: 2012 data based on information provided by Member States. Calculation methods in SEC (2007) 129.

Figure 7: Average number of days to obtain licences in Europe (2010)

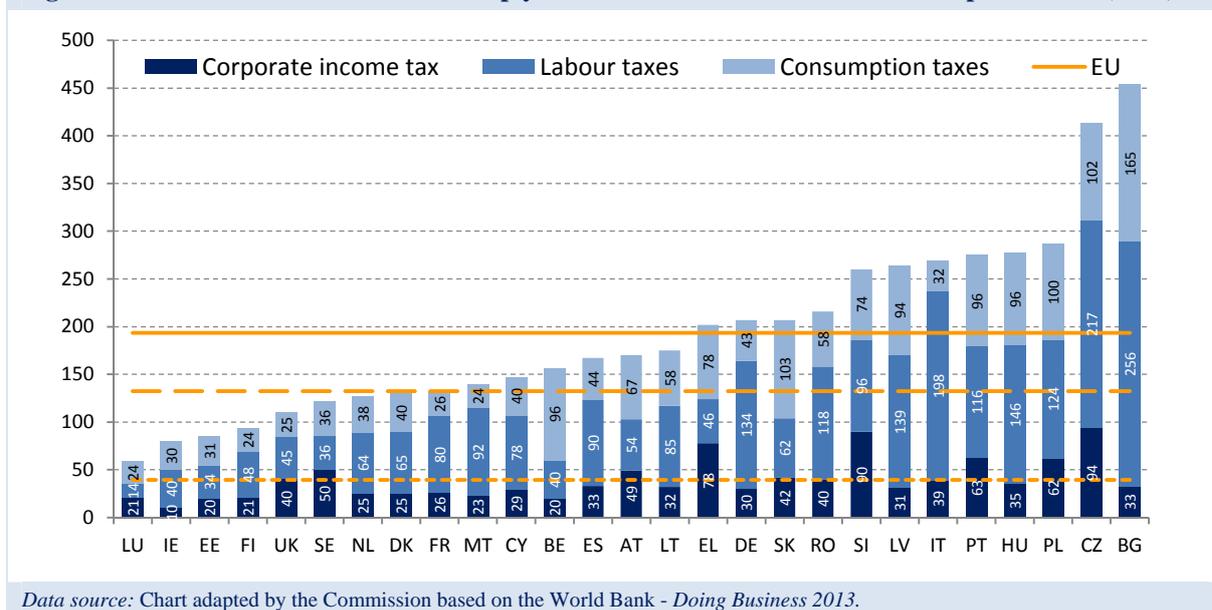


Note: This indicator is based on aggregated data concerning licences required to open five different activities: manufacture of steel products; manufacture of small IT devices; a hotel with a restaurant, a plumbing company; wholesale distribution; and retail distribution.

Data source: European Commission based on the pilot survey 'Business Dynamics: Start-ups, Business Transfers and bankruptcy', January 2011. This was carried out in 2010 with a limited number of respondents (2 in the case of Malta), which may have skewed the results. An extended survey will be carried out in 2013.

Last but not least, an efficient tax system should minimise tax compliance costs for firms as well as costs of tax administration in order to reduce the excess burden of taxation. The indicator **time to prepare and file tax returns** below measures and compares the average needed time to comply across three major types of taxes (see Figure 8).

Figure 8: Number of hours needed to comply with tax return rules across the European Union (2013)



- D. Timely and correct resolutions of business disputes, insolvencies, commercial claims and labour disputes, and swift enforcement of decisions, provide the necessary confidence for doing business and making investments in a given Member State. These are the responsibility of each national justice system.

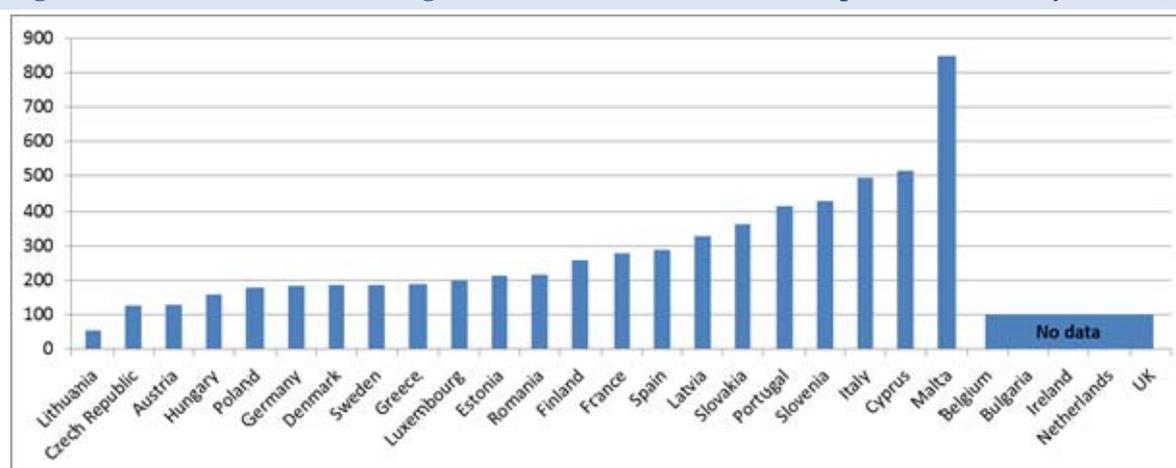
However, shortcomings in the national justice systems are not only a problem for a specific Member State. The national courts and the national judicial systems are the courts of all EU citizens and businesses. The inefficiencies of the justice systems in one Member State impact negatively not only on its own business environment but also on the functioning of the Single Market, and thereby the economies of other Member States.

The **quality, independence and efficiency of the justice system** in Member States are considered as important factors for both growth and competitiveness. It is treated as part of the quality of public administration, while keeping in mind that the functioning of the judicial system is independent from the administration of the Member State.

For the European Semester 2013, the analysis will focus on the following six indicators on the efficiency of justice, which are strongly linked to the improvement in business and investment climate:

- The **disposition time** and the **clearance rate** are two standard output indicators for measuring the length of procedures. They are related to the time it takes for courts to process and decide on a commercial dispute or to enforce a judicial decision.

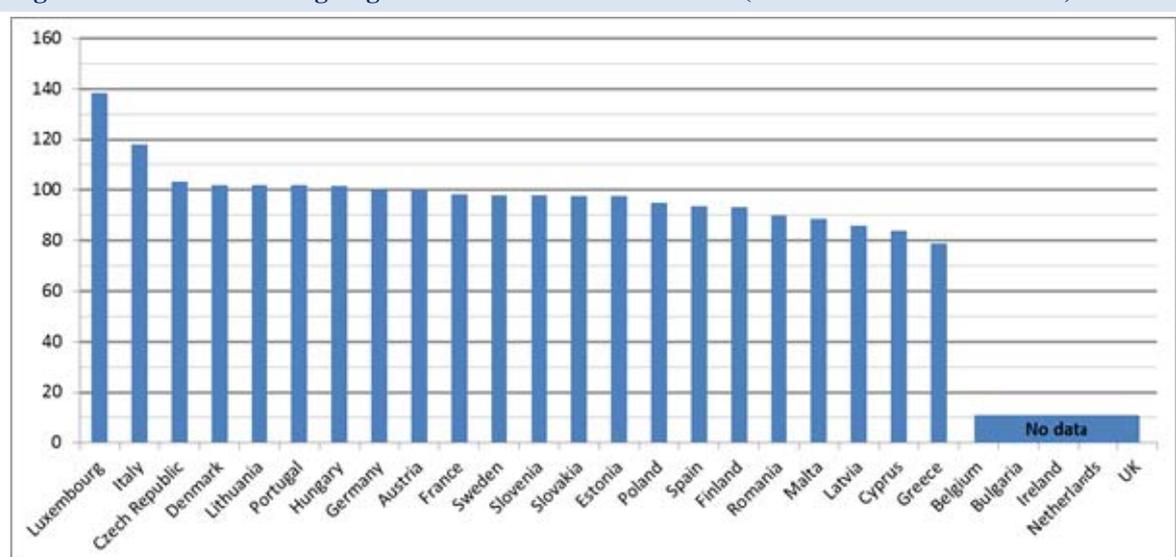
Figure 9: Time needed to resolve litigious civil and commercial cases (disposition time in days in 2010)



Note: Litigious civil and commercial cases concern disputes between parties, for example disputes regarding contracts and the insolvency proceedings.

Data source: The EU Justice Scoreboard¹ (2013).

Figure 10: Rate of resolving litigious civil and commercial cases (clearance rate in % in 2010)



Note: Values higher than 100% indicate that more cases are resolved than come in, while values below 100% indicate that fewer cases are resolved than come in.

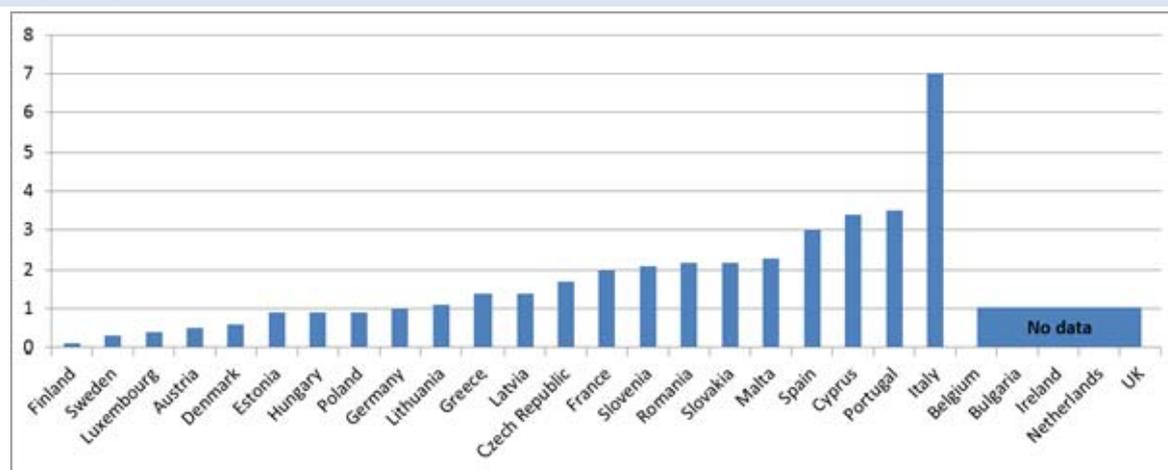
Data source: The EU Justice Scoreboard (2013)¹.

When the clearance rate is below 100%, it means that the courts are resolving fewer cases than the number of incoming cases, and as a result, at the end of the year, the number of unresolved cases adds up as pending cases. If this situation persists over several years, this could be indicative of a more systemic problem as backlogs build up which further aggravate the workload of courts, and which cause the length of proceedings to rise further.

- The **number of pending cases** expresses the number of cases that still have to be treated at the start of a period (e.g. a year). These pending cases add up to the incoming cases, and thereby delays for treating and solving cases continue to rise.

¹ The EU Justice Scoreboard – A tool to promote effective justice and growth, COM(2013)160 final.

Figure 11: Number of litigious civil and commercial pending cases (per 100 inhabitants at the beginning of 2010)

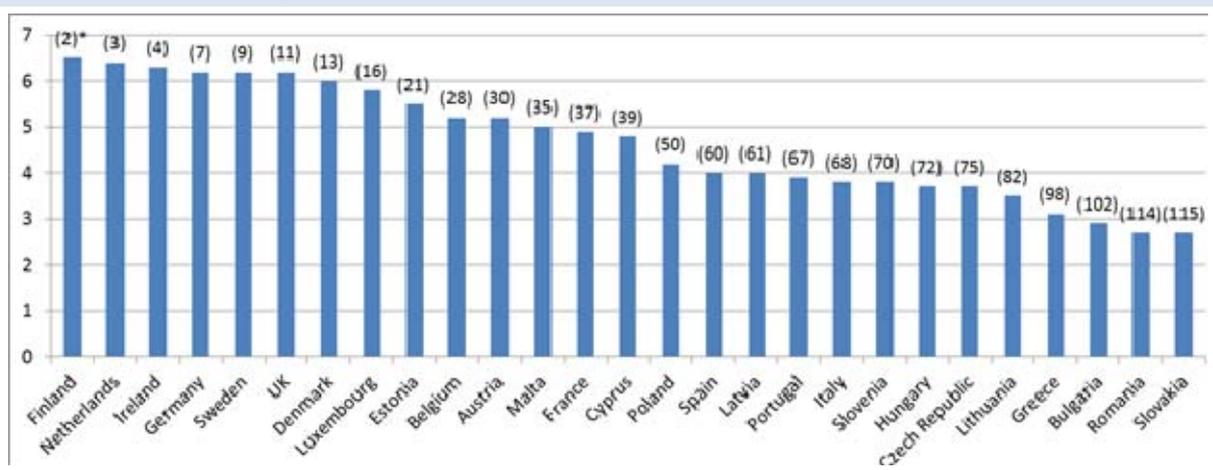


Data source: The EU Justice Scoreboard (2013)¹.

- **ICT systems for courts:** this indicator reflects the percentage of availability of ICT tools: computer facilities used for the direct assistance of judges and court clerks, systems for registration and management of cases, electronic communication and information exchange between the courts and their environment. For an effective time management of cases, the systems for the registration and management of cases are particularly relevant. The good functioning of these systems is important to improve the rate at which the court can treat cases and thereby helping reduce the overall length of procedures. The duration of proceedings can also be improved by the use of electronic means to facilitate the exchange of data and information between the courts and the parties.
- **The monitoring and evaluation of court activities, including statistics:** this indicator reflects the availability of monitoring systems of court activities, of evaluation systems and of comparable statistics. An effective time management of court cases requires that the courts and the judiciary is conscious about its performance. What is not measured cannot be evaluated and improved. The length of judicial proceedings should be monitored through a comprehensive and transparent system of collection of information and the general statistical data on the length of procedures should be publically available. Evaluation of the performance of courts is also necessary with regard to the quality and impartiality of judgements. Quality is essential to ensure trust, predictability and timeliness of judicial decisions. Evaluation of performance is a delicate task that should take fully into account the sensitivity of judges on their independence.
- **Alternative treatment of certain litigious civil and commercial cases:** this indicator reflects the availability of alternative treatments of litigious cases, in particular the availability of mediation and alternative dispute resolution methods (ADR). Mediation and ADR in their various forms may be seen as sound competitors to the traditional judicial procedure. Effective mediation and ADR methods provide early settlement between parties in a non conflictual spirit and on voluntary basis, reduce the number of pending cases and thereby have a strong impact on the workload of courts, which are then more able to keep reasonable timeframes.

Furthermore it is essential to keep in mind that **independence of the judiciary** is also a growth enhancing factor and must be combined with the above efficiency criteria, as it guarantees the predictability, certainty, fairness and stability of the legal system in which enterprises operate. Businesses need to rely on an independent application of the law, which guarantees that rules will be enforced in absence of any external pressure in a fully transparent way.

Figure 12: Judicial independence (perception measured in 2010 and 2011)

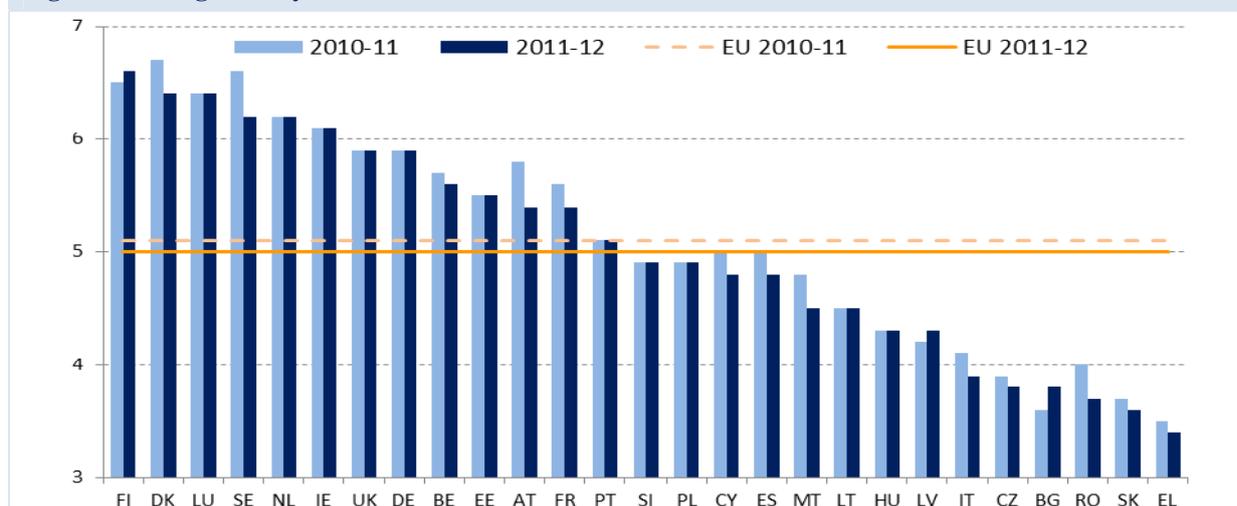


Note: * Number displays the rank among 144 countries in the world. Higher value means better perception.
 Data source: The EU Justice Scoreboard (2013) ¹ based on the World Economic Forum - *Global Competitiveness Report* (2012-2013).

E. In general, favouritism by public administration induced through **corruption** creates inefficiencies and misallocations because as services are not offered on a fair basis to all firms based on objective criteria, but are rather based on vested interests and how willing they are to pay bribes. This significantly deters innovation and considerably slows down the adoption of new technologies, thereby reduces the level of investment, obstructs the fair operation of the internal market and has a negative impact on public finances, productivity growth and competitiveness. The economic cost of corruption in Europe is estimated at approximately 120 billion euros per year (the equivalent of 1 % of EU GDP)².

The 'irregular payment and bribes' indicator (see Figure 13) quantifies perceptions of administrative corruption based on a survey asking firms to report on the frequency of irregular payments connected with a number of economic operations.

Figure 13: Irregular Payments and Bribes

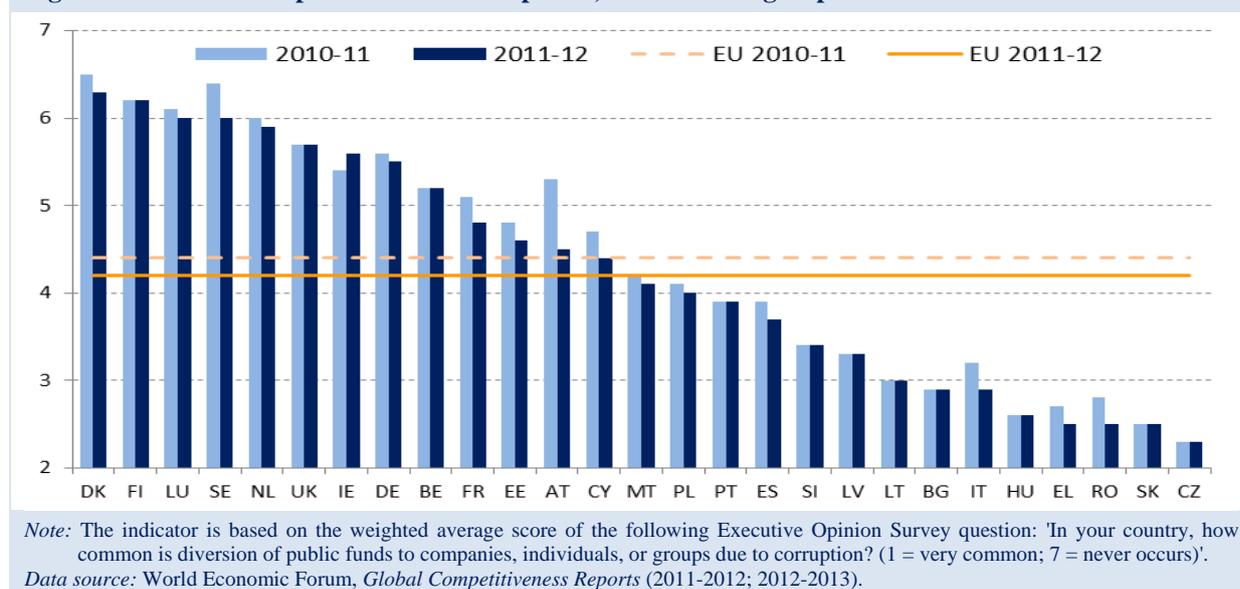


Note: The indicator is based on the weighted average score across the five components of the following Executive Opinion Survey question: 'In your country, how common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licences; (e) obtaining favourable judicial decisions'. In each case, the answer ranges from 1 (very common) to 7 (never occurs)'.
 Data source: World Economic Forum, *Global Competitiveness Reports* (2011-2012; 2012-2013).

² European Commission (2011), Fighting Corruption in the EU. Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee, COM(2011) 308.

The '**diversion of public funds**' indicator (see Figure 14) quantifies perceptions of administrative corruption based on a survey asking how common the diversion of public funds to companies, individuals, or groups is due to corruption.

Figure 14: Diversion of public funds to companies, individual or groups



2. Assessment of the main challenges in the Member States

General Governance

The latest data from the World Bank on government effectiveness in 2011 shows that while most countries either maintained or improved their position relative to 2010; nine countries fell in their ranking: Austria, France, Slovenia, Portugal, Slovakia, Lithuania, Greece, Italy and Romania. The unweighted average for the European Union was an index reading of 82 on a scale from 0 to 100 in both 2011 and 2010, and eleven Member States achieved an index reading below the EU average. These are: Slovenia, Portugal, Slovakia, Hungary, Latvia, Lithuania, Poland, **Greece, Italy, Bulgaria** and **Romania**. The last four countries score lowest in the overall ranking.

Administrative Modernisation

In 2012, most larger enterprises used the Internet for interactions with public authorities. For small enterprises, however, the EU-27 average was 85 %. **Romania** is lagging behind other EU countries (59 %, 18 pp. below the second last). The use of the Internet for interactions with public authorities by small enterprises is below the EU average also in **Spain, Bulgaria, Hungary, Italy, Cyprus** and **Germany**.

The take-up of eGovernment services in 2012 reached, on average, 52.5 % of EU **citizens** aged 25-54 years old (compared to 49.3 % in 2011). Countries that showed the highest increase between 2011 and 2012 are Romania (+26 pp) and Greece (+8.7 pp), while some showed a marked decrease, e.g. the Czech Republic³ (-12.5 pp). **Italy** shows a very low level (23.9%) of take-up of eGovernment services by citizens. **Bulgaria, Romania** and **Cyprus** also show low levels of eGovernment use by citizens (less than two fifths of citizens).

Quality of public investment

The effective delivery of public policies and public investment in fields such as transport, energy, broadband, environment, health and education is an essential prerequisite for economic

³ The marked decrease is due to the abnormally high number of eGovernment users in CZ in 2011, namely 53% (+22 pp from wrt 21010). This high value was due to the possibility given (for the first time) to Czech citizens being invited in that year to fill the questionnaire for the (decennial) census of the population through the Internet.

development. In a number of Member States the governance and capacities of public institutions involved in planning of public investment needs to be improved. This should include strengthening **capacities for strategic and budgetary planning**. More effective public policies is also essential for the effective use of EU funding which in some Member States accounts for 50% or more of total public investment.

At the same time, human resources management plays an important role in this respect, as high levels of **staff rotation** constrain implementation of public investment in several Member States: the **Czech Republic, Poland, Slovakia, Hungary, Bulgaria, and Romania**.

In terms of use of **strategic human resource management** practices in central governments (as measured by the OECD index) there is a large variance among EU Member States. The United Kingdom, Belgium, Portugal, the Netherlands and Austria are leaders in this regard, while the **Czech Republic, Slovakia, Greece and Hungary** use strategic human resource management practices to a lesser extent. Also, many of these practices are not in place in several EU Member States not included in the OECD survey (e.g. in Bulgaria, Cyprus, Latvia, Lithuania, and Romania).

Furthermore, the quality of policy making depends greatly on the use of **evidence-based instruments** (e.g. regulatory impact assessments) for informed decisions. In this respect, the latest available data⁴ from 2011 shows that Finland, the United Kingdom and the Netherlands are top performers, while in **Slovakia, Spain, Greece, Luxembourg and Belgium** the use of this type of instruments is limited.

Administrative Burden on Businesses

In 2012, the average time to start up a private limited company was 5.4 days and the cost was €372⁵ (the corresponding values in 2011 were 6.5 days and €397). The reduction of average time is due mostly to simplifications implemented in Poland, the Netherlands, Bulgaria and Luxembourg, while the reduction in average cost is due mostly to simplifications implemented in the Netherlands, Poland and Bulgaria. The **time** to start up a company in 2012 was still more than the three days recommended by the Competitiveness Council in 15 Member States. With more than 15 days required to start up a company, the performance of **Spain and Sweden** is particularly poor. In the **Czech Republic, Slovakia, Austria and Finland** the time required to start up a company is **above the EU average**.

The **cost** to start up a company in 2012 was still more than the €100 recommended by the Competitiveness Council in 20 Member States. The start-up cost is particularly high in **Italy** (€2100). In the **Luxembourg, Greece, Belgium, Hungary and Austria** the cost to start up a company is **above the EU average**.

In 2011, the average time to obtain **licences** in Europe was 67 days. In **Spain, Malta, Cyprus and Bulgaria** the time needed to obtain licences is still more than the three months recommended by the Competitiveness Council.

In terms of **hours needed to comply with tax returns** in the EU, the average company spends 193 hours per annum on tax compliance across three types of taxes: corporate income tax (40 hours), labour tax time (93 hours) and consumption tax forms (60 hours). There is large variance in the burden caused by any of the three tax types and Member States can have a light burden for one tax and a very heavy one for the others. **Bulgaria** and the **Czech Republic** show a very poor performance compared to other EU Member States with a total of 454 hours and 413 hours respectively.

⁴ The 'evidence-based instruments' sub-index of the bi-annual Bertelsmann Foundation's Sustainable Governance Index covers only nineteen EU Member States. Data are not available for the following countries: Bulgaria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania and Slovenia.

⁵ DG Enterprise and Industry (http://ec.europa.eu/enterprise/policies/sme/business-environment/start-up-procedures/progress-2012/index_en.htm).

Quality, independence and efficiency of Justice

Data made available in 2012 (2010 and 2011 statistics)⁶ show that part of Member States (**Cyprus, Greece, Italy, Latvia, Malta, Portugal, Romania, Slovakia, Slovenia, Spain**) combine unfavorable factors: lengthy first instance proceedings together with low clearance rates and/or a large number of pending cases.

Regarding perceived judicial independence, even though several Member States are among the top 10 worldwide leaders in terms of the perception of judicial independence, data show a low level of perception of judicial independence by business end-users of the justice system in certain Member States, and in particular in **Bulgaria, Greece, Romania and Slovakia**. Furthermore, the legal and political developments that **Hungary** experienced in 2012 and 2013 raise concerns about the judiciary's independence.

Corruption

In terms of **irregular payments and bribes**, the unweighted average has fallen by 0.1 points to 5.0 points in 2011-10. The data suggests with the exception of Finland (+0.1pp), Latvia (+0.1pp) and Bulgaria (+0.2pp), most Member States maintained or even fell in their ranking compared with the previous year. Similar to last year, fourteen Member States score below the EU average of 5.0. The score is particularly low in **Italy, the Czech Republic, Bulgaria, Romania, Slovakia and Greece** which all score below 4.0.

As regards **diversion of public funds**, there is a large variance among EU Member States. While a total of fourteen Member States rank below the EU average of 4.2, diversion of public funds is particularly common in **Hungary, Greece, Romania, Slovakia and the Czech Republic**.

The 2011 Eurobarometer⁷ survey on corruption carried out in all 27 Member States showed that the majority (74%) of Europeans believe that corruption is a major problem in their country. The differences of perception among Member States are considerable (i.e. from 98% to 19%). Most Europeans think corruption exists within local (76%), regional (75%) and national (79%) institutions. The majority (57%) of Europeans believe that bribery and the abuse of positions of power for personal gain are most widespread amongst national politicians, followed by regional and local politicians (48% and 46% respectively) and officials awarding public tenders (47%) and building permits (46%). Respondents in Slovenia, Greece and Cyprus tend to hold the least positive perceptions of public officials and public sector workers. In the area of awarding public tenders, bribery and abuse of positions for private gain were perceived as most widespread in Cyprus, Slovenia, the Czech Republic, Greece, Italy, Latvia and Bulgaria. Corruption in the public healthcare sector was perceived as most widespread in Greece, Lithuania, Bulgaria, Romania, Cyprus, Slovenia and Latvia.

3. Horizontal issues

A new generation of open, flexible and collaborative **eGovernment** services is needed to empower European citizens and businesses to improve their mobility within the internal market of the 21st century and to ensure that public services can serve an economy which relies on the networks of the future. To further improve availability and usage, Member States should consider several key aspects, such as reorganising the back office and up-skilling staff to increase the number of eGovernment services tailored around users' needs, and using common technical platforms and facilitating data exchange across all levels of government.

Policy example: e-Government and administrative simplification

Since January 2010 the Estonian Business Register has used an electronic data transmission system for submitting annual reports. Under the Accounting Act, the state or local government institutions have no longer been entitled to require businesses to provide data which they have already submitted to the Business Register in their annual reports.

⁶ Data does not reflect the effects of the recently adopted and on-going reforms.

⁷ Special Eurobarometer 374, February 2012 (http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf).

Building on the Small Business Act, the EU and Member States should make public administrations responsive to SME needs, not least by **reducing the administrative burdens on businesses**. The time to start up a company should not be over three days and its cost should not be over €100. They should also systematically simplify licensing procedures and reduce the time to obtain business licenses to a maximum of three months before the end of 2013 and to a maximum of one month before the end of 2015. Each Member States should have a wide-ranging action programme to lower the administrative burden on enterprises, including that related to social contributions and taxes, in particular VAT payments. They should also fully implement the SME test and the 'Think Small First' principle in all legislation and administration. In this respect, the Member States should use **competitiveness proofing** to test the effect of new legislative proposals on businesses. Further, they should use quantified impact assessments and other evidence-based approaches such as systematic evaluations to measure and aim to reduce the overall costs of rules and regulations on businesses.

Policy example: The UK's One-In-One-Out Rule

The UK is operating a 'one in, one out' rule to prevent any government department introducing new regulation that will impose a direct net cost on business and voluntary organisations - unless the department can find savings by removing or modifying another regulation.

When developing a new regulatory or deregulatory proposal, each government department must carry out an impact assessment. This includes estimating the likely cost to business. Any cost must be offset by removing regulation of an equivalent value.

The Member States should also pay attention to reforms aiming at **facilitating internal and external administrative processes**, such as strengthening the capacity for strategic and budgetary planning; and encouraging innovation, by introducing new organisational and communication models, and by supporting public procurement of innovative solutions. At the same time, in order to raise the professionalism and attractiveness of public administrations, human resources management should be improved, by encouraging transparent and modern recruitment, performance appraisal, skills development and merit-based promotion practices, and making the civil service independent from the political cycle.

The **EU Justice Scoreboard** is a new tool to assist Member States to achieve more effective justice and to support the justice reforms engaged for a renewed growth, by providing objective, reliable and comparable data on the quality, independence and efficiency of the justice systems in all Member States. Having predictable, timely and enforceable judicial decisions is a necessity, but remains a major challenge throughout the EU. Basic elements of an effective judicial system, such as reasonable length of judicial procedures and independence of the judiciary are not met in all Member States.

Furthermore, despite the good EU average for the existence of monitoring systems, some Member States do not collect data in a way which allows for an objective evaluation and comparison with other Member States. In addition, some data are missing for nearly all Member States on issues such as the costs of proceedings, interim measures, mediation cases, and the enforcement procedures. Member States should pay attention to address the **collection of impartial, reliable, objective and comparable data on the functioning of their judicial system**.

Corruption remains an issue in the EU, in particular effective enforcement of the anti-corruption legislation and policies, including accountability and transparency requirements. Specific areas such as public procurement are considered at higher risk. Following the adoption of an anti-corruption package in June 2011, through which an EU anti-corruption reporting mechanism was set up for periodic assessment of the Member States' efforts in combating corruption, the Commission is currently working on the first EU Anti-Corruption Report due in 2013. In the report, the Commission will provide a more detailed 'diagnosis' of corruption-related matters in the EU.