Here is Your Money:
Using the Standard Cost Model to Measure Regulatory Compliance Costs in Developing Countries
Here Is Your Money!

Using the Standard Cost Model
To Measure Regulatory Compliance Costs
In Developing Countries
About the Investment Climate Advisory Services of the World Bank Group

The Investment Climate Advisory Services of the World Bank Group helps governments implement reforms to improve their business environment, and encourage and retain investment, thus fostering competitive markets, growth and job creation. Funding is provided by the World Bank Group (IFC, MIGA, and the World Bank) and over fifteen donor partners working through the multi-donor FIAS platform.

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Executive Summary

Over the last few years the Standard Cost Model (SCM) has become the regulatory reform tool of choice in EU and OECD countries for identifying and reducing regulatory compliance costs. SCM provides a relatively simple methodology to measure and communicate businesses’ paperwork obligations arising from compliance with governments’ regulations. More recently the SCM has also been adapted and applied in a number of developing countries, including Kenya, Zambia, Vietnam, Burkina Faso and Rwanda. It is still too early days to conclude much on the SCM model’s general applicability in developing countries. However as part of a broader reform package the SCM has proven capable of strengthening momentum by providing new insights into regulatory obligations, by quantifying the costs and time associated with information obligations both at aggregate and at a rule-specific level. It has hence proven useful both as a tool to target specific interventions and to monitor the impact of reform.

This document provides a number of lessons from the first few years of using SCM in regulatory reforms, with a focus on business licensing, in developing countries. Among the most important are:

1. Since a business licensing reform often starts with a mapping of all licenses in an inventory, this research can be used to collect data related to SCM. Such an approach requires however adequate training of the staff before the work starts. In cases where only a few of the licenses will be subject to a detailed standard cost measurement, it is advisable to separate the SCM work from that of the inventory.

2. When applying SCM in developing countries, it needs to be adapted to cover costs important to the specific context; in developing countries factors such as corruption and waiting time may be important. Any adjustments require both local knowledge and a good understanding for the capacity and limitations of SCM. It is however important to understand that adjustments often come with a cost, and any additions needs to be assessed in light of its benefits. The aspiration to make SCM as useful as possible in each individual context establishes the fact that SCM should not be used in comparative measurements.

3. Some World Bank Group measurements have shown that the model can be simplified and still produce useful results. This can be done both in the overall methodology (e.g. by measuring a lower level of detail) or in its implementation (by collecting information through focus groups). Any simplification needs however to be assessed in relation to its potential consequences and to the objectives of the project.

4. In addition to the role of monitoring and targeting reforms, the easily understood output of SCM is also a useful tool for building momentum and interest among the decision makers and a wider audience. Also, the simplicity of the model makes it a useful tool for decision makers in designing effective simplifications.

These lessons are not intended to provide a final account on how SCM is to be carried out in developing countries. Along with its dissemination across the globe, SCM has experienced a constant development. This document aims to point out a number of important issues that have been observed and tested during the initial measurements in World Bank client countries to prevent future practitioners from the need to re-invent the wheel.
What is the Standard Cost Model?

Background

SCM is a methodology for the measurement of “administrative burdens,” imposed on the private sector by laws and secondary regulation. Developed in the Netherlands in the early 2000s, SCM contrasted with many previous measurement tools through its high level of detail. This enables a careful analysis of how specific components of a regulation cause certain generating activities in firms. The compliance costs can thereby be calculated for each of these activities.

From the Netherlands, SCM quickly spread to a wide range of countries in the EU and OECD. Much of the methodological development has taken place in a network of SCM countries, and although many of the users develop their own versions of the model with associated guidance documents, there is a common manual referred to as the “International Standard Cost Model Manual.” This “traditional SCM”—as described in the manual—quantifies costs of activities occurring within firms when complying with laws and secondary regulations. More specifically, the focus is on “obligations arising from regulation to provide information and data to the public sector or third parties” (SCM Network 2006, page 8). It does not measure different fees and taxes (direct financial costs), nor does it measure specific investments that firms have to make to comply with the law (substantive compliance costs).

This relatively simple model offers a very valuable proxy for administrative compliance costs, and its application spread rapidly throughout the OECD countries. The World Bank Group started using SCM as a diagnostic tool in business licensing reforms in the mid-2000s, and has since then used it in projects in Africa, Asia, Eastern Europe and Oceania.

How it works

The starting point of SCM is a breakdown of regulation into manageable components called information obligations (IO). The IOs make up the core analytical components of SCM, which are analyzed to identify the activities required within the firms to comply. A regulation may contain one or several information obligations. Each IO results in at least one activity in the private sector. An IO can be identified through its requirements on firms to:

- **Collect information**: E.g. the requirement for a bureau de change to collect personal information on the people changing money.

- **Store/make information available**: E.g. information that companies are required to store for regulatory and auditing purposes.

- **Submit information**: E.g. all requirements to submit applications for different licenses and permits before engaging in particular activities.

While the IOs in the legal text require the firms to collect, make available, and store the information, other requirements commonly explain how the firm is supposed to carry out the task. If the IO is an application for a license, the data requirements may include submitting a particular application form, a tax clearance certificate, and a copy of the company registration. Depending on the particular country context, data requirements may be found in the law, but also in secondary legislation and other instructions by the regulator.

Each of these data requirements will cause one or several administrative activities in the firms. The administrative activities are the activities required in the firm in order to comply with a specific data requirement, and hence also the information obligation. A data requirement that requests the applicant to submit a particular application form may cause administrative activities such as going to the regulator to pick up the form, retrieve required information, fill out the forms, bring it to the...
director for signature, and bring the completed application to the regulator. The relationship between information obligations, data requirements and administrative requirements forms a tree as described in the figure below.

FIGURE 1
A regulation may contain one or several information obligations. Each information obligation results in at least one activity in the private sector.

When the IOs are identified, information is collected from firms on how they work in complying with the IO; how much time they spend complying with the obligation, and how much it costs. The next step is to multiply the required working time \( H \) by the salary costs \( S \) (including an overhead percentage, covering general office costs) for the employee who is dealing with the process. Additional costs \( E \) occurred by the company that are directly related to the application such as hiring a consultant to finalize the application, and paying license fees, as well as acquisitions \( A \) that can be directly related to the application (such as an envelope for the submission) are thereafter added to arrive at the total cost for the individual firm for each IO under review. Acquisitions not directly related to the application, such as computers and office rent are not added as a separate cost but are included as part of the overhead percentage.

The cost for one individual firm may be of certain interest, but in order to study the total compliance cost and effects of simplification of a legal text it is also critical to look at the total annual cost caused on all affected firms for each IO under review. This extrapolation is done by simply multiplying the cost \( C \) of the typical (e.g. normally efficient) firm by the population \( P \) (the annual number of occurrences for the relevant IO in the jurisdiction).

\[
\text{Administrative Burden} = C \times P
\]

\[
(H \times S) + (A + E)
\]

Cost Parameters
- \( H \) = Working time to comply
- \( S \) = Salary and overhead cost
- \( A \) = Acquisitions
- \( E \) = Additional costs

Population
- \( N \) = Number of businesses
- \( F \) = Frequency of IO
This means that if a particular legal obligation is highly time-consuming for the individual company it may not come across as expensive to the overall private sector unless there are a sufficient number of firms affected by the regulation each year. Similarly, the total administrative costs can appear relatively low in countries where salary costs are low, although they are heavily regulated.

If detailed data is available on the population, it should also be used to determine the size of different segments. Different segments of firms are affected by the same IO in a different way. If for instance an application form is available online which reduces the application procedure significantly while only a few firms have access to computers, then the population can be divided in one segment of firms submitting online and another submitting through other means. Segmenting should not be done excessively, i.e. an endless number of segments would be created if every individual factor affecting the compliance cost would be taken into account. Generally, variations in application for different types of firms mentioned in the law should always be taken into account, as well as factors with significant impact such as firms on the countryside v. those in the city if the former have to visit the city to complete their application.

**SCM in Business Licensing Reforms**

SCM has two major roles in business licensing review and reform projects. The first one is to provide input to the reform design by pointing out particularly burdensome laws or parts thereof (although some World Bank Group supported business licensing projects have initiated the reform work prior to the SCM study, which obviously limits SCM’s input in the reform design). It is important to emphasize that the standard cost model is indeed a diagnostic tool, rather than an independent tool for administrative simplification or reform. This said, some users tend to associate SCM with the measures for the reduction of administrative burdens, so that SCM may come across as a simplification tool in itself, e.g. “Our Regulatory Impact Analysis (RIA) has not been able to prevent excessive compliance costs in the regulation, so we are now using SCM to simplify the stock.”

However, this document only refers to SCM as a measurement tool, and its output never forms a single basis for decision making on simplification and reform. No licenses are thus eliminated solely because they are burdensome since they may fulfill an important regulatory function. However, there may still be scope to reduce compliance costs by simplifying administrative procedures or adjusting license fees. In the end each license must be subject to a more comprehensive review before any changes are made, but SCM may serve as a good starting point by showing which licenses and which procedures are the most costly. This addresses the concerns expressed by some researchers—such as Wiener (2006) and Weigel (2008)—who argue that SCM’s narrow focus on administrative burdens while ignoring potential benefits of the information obligations leads to a flawed regulatory reform work.

The second role of SCM is to keep track of the reductions in administrative burdens, i.e. a monitoring function. It starts with a baseline measurement of the situation before the reforms, which is completed by one or several follow-ups to measure changes. This can also enable quantitative reform targets to be formulated; the EU has for instance agreed on a 25% reduction in all member states. Since in World Bank Group supported projects SCM has sometimes been carried out the after the reform measures, a baseline measurement of pre-reform situation must be carried out retroactively in order to use the model to monitor the outcome. While this way of working offers a greater efficiency in terms of time and cost, it imposes more methodological challenges and is likely to impede collection of reliable data. Historical documentation may be difficult to retrieve, while it may be challenging for the private sector to recall the characteristics of outdated regulation. To be able to make a meaningful comparison, it is crucial that consistency is ensured throughout the process. This is one reason why all choices, data sources, estimates, etc. have to be documented during the baseline.
Regular follow-up measurements of changes in administrative costs throughout reform period help creating leverage for the implementing agencies to implement reforms (i.e., ‘what gets measured gets done’). Some OECD countries update the baseline measurements on a regular basis (e.g., once a year in Sweden) to monitor progress. In Kenya, the first follow-up was made more than two years after the reform had been implemented.

There are several ways to conduct an SCM update, but it normally does not mean that the entire baseline study is carried out once again. On the contrary, it is an advantage to keep as many of the parameters constant, in order to measure nothing but the results of the changes. SCM has the advantage of being able to determine costs on a detailed level, and by only adjusting those details that have been changed as part of the streamlining/reforms in the update, changes can be measured on an equally detailed level. Factors such as salary levels and populations are almost never updated in the follow-up since they normally do not change as a result of the reforms (but they may change, and in that case this must be reflected in the measurement).

The way the update is conducted depends on what changes have been made, but in many cases there is no need to conduct new focus groups. The easiest method can be applied when an information obligation is removed from the law, since its time and costs can simply be excluded from the calculation. If an IO is modified or added, there may be scope to see if similar IOs have already been analyzed in the same license or other licenses included in the baseline. Expert assessments can also be a useful tool in determining costs of new information obligations. Additionally, the Netherlands has used a database called CASH, which—based on data for thousands of administrative activities—can facilitate the estimation of time consumption and required skills where no data is available (Nijsen & Vellinga 2002). However, this data has been collected for one particular country, and would require much adaptation before being used in an entirely different context.

**SCM and Other Tools for Measuring Compliance Costs**

The number of tools available to benchmark and monitor compliance costs may both confuse new practitioners and raise questions about the need for yet another measurement methodology. While SCM clearly has its advantages under certain circumstances it has not the potential, nor the ambition to replace tools such as the Doing Business Indicators or Business Surveys. The three methodologies have distinct roles and comparative advantages in different contexts:

- Due to its high level of detail on the level of regulation, SCM has an advantage in benchmarking to detect particularly burdensome regulations and parts thereof as well as to measure impact of reforms over time.

- The Doing Business Indicators take as its starting point a particular event along with a number of pre-determined assumptions, which makes it the preferred tool for large cross-jurisdiction comparisons (see also the “Adjustments and comparability of data” section in Lesson 2 below).

- Finally, the large sample size of a business survey makes it superior in providing statistically reliable data and its starting point—looking at the total burdens of a particular firm, rather than those caused by a particular regulation—provides a more comprehensive picture of the total costs faced by the firms. A survey may also be more easily adapted to detect relations between different factors, such as gender and administrative costs.

Annex 2 provides an overview and comparison of strengths and weaknesses of a few methodologies used by the World Bank Group.
Organization of an SCM Project

In countries that have institutionalized SCM, the measurement is normally coordinated by a government agency. This entity works with other parts of the government to identify laws and regulations to be included in the analysis. A specialized consulting firm is involved in carrying out the study, from the identification of information obligations and administrative activities, to the collection of data and the final consolidation and validation of the final results with the ministries and the industry. The degree of involvement by the coordinating agency in the work of the consulting firm varies. As mentioned above, many countries have developed SCM manuals which provide the consultants with regularly updated guidance based on national specificities and desired coverage of the study. However, in most cases the agency still asks for much insight and a high degree of participation in the consultants’ work, for quality control purposes and to ensure consistency across measurements.

During the first few years of SCM measurements supported by the WBG Investment Climate Department, world leading SCM experts provided guidance to local consultants and public sector officials. The use of experts from countries with SCM experience comes rather naturally and has significantly helped WBG in strengthening its knowledge of compliance costs measurements. For this reason, the experts have had a relatively strong and rather independent role in shaping the methodology in the first few experimental studies. From time to time however, this caused weaknesses due to limited understanding of the country specific environment as well as of the characteristics of business licensing reforms.

Since SCM has become a more integrated component of regulatory reforms, WBG staff needs to take on a more active leadership role. The role of ensuring consistency in methodology between projects may not necessarily be the same as in countries carrying out larger studies of entire legal fields or jurisdictions, since WBG SCMs may vary significantly in scope and surrounding environment. However, it is clear that the Investment Climate Department has gathered a critical mass of experience on previous mistakes and success stories to take a leadership role in the design and implementation, whereas international experts may provide specialized input in limited moments of the process.

The World Bank Group—together with local counterparts—has an important role in coordinating the work of the international and the local consultants. By assuming a central position in capacity building and transfer of knowledge in new projects, the Investment Climate Department can ensure quality and consistency both in project administration and methodological issues. This document is intended to be a first attempt to put together some of the lessons learned, hopefully to be followed by others in a later stage.
Lesson 1: Plan for SCM Early in the Reform Process

In a broad SCM review of regulation, the first step is usually the identification of the IOs in the legal text. This can be done simply by highlighting the IOs with a yellow marker or—if the legal texts are available in electronic format—copy and paste the IOs to a separate document. Many business licensing reforms on the other hand start with the mapping of all business licenses by a consultant and as the SCM is due to start, the list of all licenses is already available.

Use a Basic Template for the Business License Inventory

This complete inventory of all licenses is often one of the first crucial steps in any reform efforts (World Bank 2009). The inventory is a crucial part of the reform preparation, but is also a prerequisite for a transparent and efficient licensing regime through measures such as e-registries. The creation of the license inventory is normally assigned to local consultants, using a template provided by the Business Operations team in the Investment Climate Department. Given that SCM will be applied on the same licenses as are included in the inventory, the inventory should ideally capture as much baseline data as possible. A more comprehensive template has therefore been tested in some projects but the highly ambitious form leaves many openings for errors, resulting in incomplete and inconsistent data.

Train the Team at an Early Stage of the Project...

Further, there has to be an understanding that SCM is, although a simple methodology, an approach that requires a great deal of understanding by all staff involved in the collection of information. SCM relies to a high degree on qualitative data collection, which requires much professionalism and skills by the person collecting the information. In some cases the required information will not be available and the consultant will then have to identify an expert to provide an estimate. As a last resort, the staff itself has to do qualified estimates based on available data and sound professional judgment, as explained further in Lesson 3. There is also a need for stringency in the methodology used to collect the data. If an inventory is carried out covering hundreds of licenses, this work is likely to involve several persons. It will require good project management and quality assurance in order to ensure consistency in issues such as similar understanding of questions by the interviewees, and consistent judgment of the reliability of the information.

Local lawyers have proved well suited to carry out the information collection, but may need support from economists or statisticians in consolidating the data. A specialized SCM training before the work starts is however a crucial component of the project. This training—which is often given by
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...or Separate SCM from the Inventory

In many cases however, the project team decides not to calculate the administrative cost for every single license, but to target their work on a few selected key licenses. This may be the case in smaller reforms, or if the result of the small measurement can be used to estimate broader costs. The economies of scale of combining the inventory and the SCM work will not be that important, and a two step approach is more easily motivated. This allows for the consultants creating the inventory to focus on a few central data points. There will be no need for special SCM training prior to the creation of an inventory if the template asks for clear-cut data, such as number of licenses issued per year, official fees and legal basis for the licenses. Based on this lighter inventory, the project team will subsequently be able to make a more informed decision about the standard cost model.

To sum up, the project team will hence have to make a choice between whether to use the initial inventory to collect much data for the SCM or to go for a separate SCM at a later stage. The first option requires a stronger project management and a well-trained team from the onset. If only a few licenses are to be studied, it is arguably better to wait for the outcome of the inventory and let it inform the selection of licenses.

Lessons Learned

1. If the business license inventory will provide an important foundation for the SCM, it is crucial for the entire team to be properly trained from the onset.
2. The template used for the inventory should be clear and easily understandable by the consultants.
3. A less comprehensive inventory requires less resources and upfront preparations provide a better input for an SCM at a later stage.

Box 2

Training Stakeholders in SCM

SCM training should necessarily equip the implementing team with sufficient knowledge to carry out a measurement. This means that the more the training can be adapted to the scope of the project, the country context and the capacity of the target audience, the better. One example would be to select in advance an existing license, with all supporting documents (legal texts, application forms, etc.) and make it available in advance so the training can be based on this example.

At the same time, the training should build on lessons learned in previous projects. The training may include the following, but may also be adjusted to the particular context:

- Selecting the most burdensome or high priority licenses for the regulatory reform.
- Preparations for the baseline measurement.
- Collection of data on licenses and related application procedures.
- Applying SCM to quantify administrative burdens.
- How to use the results of SCM
Lesson 2: Expanding the Scope and Customizing the Model

SCM is not complicated. Fed by input of standardized working time, salary rates, and number of occurrences, the core formula can provide a surprisingly useful proxy for the cost to comply with a certain legally required information obligations. When it comes to the actual implementation however, the model tends to grow incrementally and countries and projects develop their own versions of the Standard Cost Model by adding various components. A set of basic methodological choices to be made by the implementing entity is presented in the International SCM manual, such as whether to measure voluntary regulation, full or actual compliance, etc. (SCM Network, 2006: Ch. 4). A number of users have also choose to go far beyond the options of the SCM manual and have created models more adjusted to their needs by including additional cost factors such as substantive compliance costs (Nijsen 2009) and certain direct financial costs.

FIGURE 3
Some costs caused by regulation
Traditional SCM measures only “Administrative Burden” component (in practice, the administrative costs).

Adding Additional Components

The reasons for adjusting the scope of SCM may vary. Although the main reason is obviously to cover as much as possible of the costs of interest in the current review and reform, other reasons may range from certain client demands to limited availability of data. In the following, we provide a short description of how the traditional SCM has been developed to cover a couple of important costs in ICAS projects.

Direct Financial Costs: A direct financial cost is “the result of a concrete and direct obligation to transfer a sum of money to the Government or the competent authority” (SCM Network, 2006: p. 6). Some direct Financial Costs—namely licensing fees—have come to form a key cost to be measured in a business licensing SCM. This is because in the developing world, licensing fees tend to be far more important than the relatively low salary rates. Hence, although fees are not a part of the traditional SCM as described in the International SCM Manual, they have been added to the model. Other direct financial costs, such as taxes and VAT are however left out.

It is important to understand that this concerns transactions of a sum of money, with different long term effects than those of the labor costs. The salary costs for this work constitute an opportunity...
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Cost that is a net welfare loss to the economy. Staff have to spend their time carrying out activities to comply with laws and regulations, and when they cannot contribute to the production the productivity will decrease. The license fees on the other hand, are a simple transfer of money from the private sector to the public sector.

Waiting Time: Waiting time tends to be higher in developing and emerging countries. Although not an actual expense in itself it can result in costs, by acting as a catalyst for corruption and by delaying potential revenue generating activities. It also creates an opportunity cost equal to the interest rate on the capital left idle. There have been several attempts to measure opportunity costs for firms caused by waiting times in licensing procedures. Some SCM measurements where the World Bank Group has been involved have calculated the opportunity cost based on the gross fixed capital formation, i.e. spending on investment in assets (Jacobs & Associates, 2008, also explained in Cordova-Novion 2008). The average investment of a company is thereafter multiplied with the banks’ deposit rate to arrive at a typical return on investment (the loss incurred by a business when it is prevented from investing). Another World Bank Group study (Liepina et al. 2009) used the average annual net profit for start-up companies as a cost of waiting for business registration permits. A third, more multifaceted study is carried out in France where companies’ waiting for business permits is understood to result in three different costs. The “operative costs” occur when companies face increased overhead costs and lowered productivity. The “financial costs” are caused when invested capital does not generate a return, while the “social costs” are due to a decreased recruitment, and even layoffs (DGME/SQS 2006). This may be a more precise approach, while also requiring a more sophisticated input in terms of work and data. Measuring the cost of missed opportunities is a delicate task which can add a complex component to an otherwise simple model. The three approaches mentioned above shows the difficulty in estimating the true cost of waiting. Should an erroneous methodology be used the whole measurement may be affected. In addition, obtaining accurate statistical input for this calculation in a developing country may be easier said than done. Hence, the most accurate description of waiting time is to simply express it in days and weeks, and to add a note describing the possibility of opportunity costs.

Box 3

Business-as-usual costs vs. Administrative Burdens

As already pointed out, the focus of SCM is on the administrative burdens. In practice, we are however measuring the total administrative cost which is made up of 2 categories:

- **Business as usual costs**: Costs caused by activities that are required by the law, but that would be continuously conducted by firms in spite of a removal of the legal obligation. Firms may for example choose to keep the payroll records, even if the legal requirements would be removed.

- **Administrative burdens**: These are the costs caused by activities that firms would not pursue if the legal requirement would be removed.

The focus of SCM is on the administrative burdens, since they can be directly linked to requirements in the regulation. However, it is very complicated to differentiate between Business as usual costs and administrative burdens; some countries that have tried have eventually abandoned that way of working. In line with The International SCM Manual, this guidance recommends that users not make any particular distinction between the activities that would be discontinued if the legal obligation would be removed, and those that would continue. Activities that are carried out on an entirely voluntary basis—i.e. they are not prescribed in any legal document—are never measured.
Making Methodological Choices to Address Country-Specific Problems

The rationale for this paper is to point out the specificities of working in developing countries compared to a traditional SCM context (i.e. OECD countries). This implies weaknesses in the public administration, leading to difficulties in obtaining necessary data, while at the same time the traditional assumptions of SCM may no longer be true. It is impossible to list all potential challenges and solutions in this report. However, it is certain that these challenges require more personal skills and local knowledge of the project team, than is common in developed countries. Below are some examples of problems that have been faced in SCMs:

- In some low-capacity countries, the laws are not consolidated and a review needs to go through years of official “gazettes.” The original text might be from one year; amendments might show up at various points in later years and the involved experts need to consolidate it all. This results in a huge work load.

- If there is no register of licenses, one may need to go to the business registry to obtain lists of eligible firms. In some cases, the use of official business registries firms may greatly over-state the numbers since dead posts are never removed. This problem tends to worsen over time unless or until the government computerizes and links the company registry with the tax authority (which can see what firms are still filing regularly) and the statistical agency. The expert will have to rely on this data or estimate the figures based on this and/or other data.

- It may be difficult to detect different segments of firms (for separate analyses), since the variations may depend on factors that the regulator may want to discuss. The “well connected” businesses get good treatment and everyone else received poor treatment (delays, demands for “additional documentation,” etc.). If this is a common and established practice in the society, the project team is likely to find firms that would like to talk about it.

- In one case, it was discovered that a number of the reforms had been “enacted” but not publicized, even to the relevant government officials. These were excluded from the analysis of “after reform” cost-savings. However, a mistake was made and no one verified with business representatives (beyond a handful in the capital) whether all the rest had indeed been implemented throughout the country. This would have required a more extensive data fact finding from around the country.

It is thus the role of the project team to detect “traps” like these and, if possible, mitigate them through methodological adjustments. In many cases, resource constraints may make any mitigation measures impossible and in that situation it is important that the teams evaluate the possible implications of not being able to address all issues, and that they clearly document the choices made and their possible implications.

Adjustments vs. Comparability of Data

While it would have been useful to make cross country comparisons of administrative burdens, there is a trade-off between comparability and the methodological flexibility described above. Naturally, the more the model is being adjusted to different projects or specific environments, the harder it gets to make cross country or project comparisons. Had the objective been to make a comparative measurement, the starting point should rather be a predefined standardized information event which can be identified in each country (Kox 2005). This is the guiding methodology of the World Bank Group’s Doing Business Indicators.

Comparing compliance costs in different countries would require strong similarities in the measured jurisdictions in order to avoid calls for adjustment. However, early attempts to use SCM as a tool to compare administrative costs caused by certain EU regulation in a number of member states have proved very difficult. Although all measured regulations were based on the same legal texts, there were a
number of national variations in the implementation (SCM Network, 2005a). Moreover, SCM partly relies on qualitative information and interpretation of data, which obviously lowers the possibility for comparison (SCM Network, 2005b).

OECD developed a measurement tool for comparative studies of administrative burdens (OECD 2007), which draws from SCM methodology. However, just like the World Bank Group’s Doing Business Indicators, it takes as its starting point specific events / procedures, rather than information obligations in a selected piece of law. Within these procedures, the model only analyzes a selected number of legal obligations, in order to enable comparisons. This significantly reduces the comprehensiveness of individual country measurements. Hence, while these measurements may be of limited value in establishing administrative burdens at country level, the tool can be used to compare the burdens imposed by procedures in different countries.

**Lessons Learned**

- To make use of the full potential of SCM in measuring compliance costs in developing countries, the World Bank Group is experimenting with cost components not in the traditional model. The add-ons are carefully considered in light of the quality and costs of obtaining the additional data. In licensing projects, licensing fees are generally added to the calculation due to their relative cost. While waiting times are measured, no cost is calculated because of the methodological complexity.

- A country with a low capacity context offers many traps for the researcher, who has to be proactive and document all methodological decisions.

- This flexibility to adjust the model when needed increases the functionality, but it also means that SCM is not a standardized measurement that can be used for accurate comparative analyses.
Lesson 3: Simplifying the Methodology

The previous section explained how cost components are added to allow for a measurement that is better suited to a particular environment. However, any development and customization of the Standard Cost Model should be done only when the additional work can be justified in terms of benefits.

Avoid Gold Plating

Experience, not least from OECD countries, has shown that SCM users tend to expand the scope of the model without really getting any returns on the spiraling investments in additional resources into the project. The key is to understand that SCM is a simple methodology that will never present absolute accuracy, but can—if used correctly—present a good proxy of the administrative compliance costs. Although the scope of the study may be varied by adjusting the basic formula and adding different cost factors to the core model, the actual implementation can often be simplified.

Measures to Simplify SCM in World Bank Group Projects

Most ICAS SCM measurements have used variations of what is sometimes labeled “SCM Light.” The first iteration, developed 2008 by a consulting firm in Kenya, does not study each individual element of information that is required in the license application. Additionally, it makes no distinctions between segments of firms that are affected differently. It further only uses one salary cost for the calculation (if several persons are involved in an application process, it may take an average salary cost). In the Kenya measurements, both of a fully developed SCM and a light version were deployed, which resulted in some very useful lessons. The study concludes that: “these limitations of the SCM version [of SCM Light] have proven to be a marginal problem when assessing the Kenyan licenses, compared to the advantages it affords in terms of conducting assessments more quickly, as each data requirement does not have to be assessed independently. Hence, the detailed knowledge that is generated when using the full SCM methodology is of little added value when assessing the costs of Kenyan licenses” (Jacobs & Associates, 2008).

The success of a simplified model in the case of Kenya can be ascribed to the fact that in licensing, a major cost component is that of direct financial costs. In such cases a very detailed measurement of administrative costs has a limited relevance, resulting in a situation where the majority of the measurement efforts are spent on the measurement of a fraction of the total compliance cost. Other ways to carry out SCM more efficiently include:

**Use of standardized cost components:** Many procedures within license application process look relatively similar, while activities carried out in applying for different licenses are common. E.g. going to a bank to pay the licensing fee is a common activity in applications for business licenses. If there are no specific reasons for variations in time taken for similar activities within different application processes, the time taken should be consistent. If possible, a set of standardized common procedures can be defined at an early stage of the process, and reviewed and validated by the focus groups to allow for a wide agreement on the most common procedures.

**Use focus groups to collect information:** The most costly component of a traditional SCM is normally the collection of information from the private sector. The default way described in the International SCM Manual is individual interviews with firms; normally 5-10 such meetings per regulation. The results from these interviews will thereafter require standardization and finally to be validated by the relevant authorities. Needless to say, this procedure consumes both the lion share of the time and financial resources of a project.


Instead of relying on interviews, several World Bank Group projects have used focus groups in the collection of this data. Bringing a number of firms as well as the regulator together to agree on procedures and time taken will provide a good use of resources. As shown in the Kenyan SCM light, the major costs for companies tend to be the licensing fees—not the administrative compliance costs—and resource consuming interviews may tend to cost more than their potential benefits. This said, focus groups may be complicated and may come with many risks (see Table 1 for some examples) and interviews may be the preferred option when, for instance, the development of the private-public dialogue is in an infant stage. The use of focus groups is further discussed in Thomas et al. (2009).

**Estimates and assumptions**

It would be very difficult to conduct any SCM at all without relying on estimates in some form. SCM is not a strictly quantitative methodology and even when interviews are carried out, the collected information is always subject to the interpretation of the SCM expert, who also decides which interviewees are reliable, etc. While some required information will not be available, the available information may also be inconsistent or unreliable. An International SCM Manual prepared by SCM officials from EU Countries acknowledges this and opens for the opportunity to make use of qualified estimates to arrive at various figures in SCM (SCM Network, 2006: pp. 31-33). Obviously, estimates are a softer and more unreliable type of data than statistics and should be used with caution. The preferred way is to get as much “high quality” data as possible, and if this is not possible experts should be asked for estimates. If no expert is available, the project team may need to do the estimates themselves—often based on other data or statistics. Just like all other information used in SCM, the origin of this information has to be well documented. The data sheet needs to include information about how the estimate has been arrived at, and/or who has provided the estimate.

Used in a controlled manner, assumptions and estimates can also be used to facilitate the study. A common way is to apply the Pareto Principle (or the 80-20 rule) to the population of licenses, where the 20 percent most costly licenses are assumed to contain about 80 percent of the total administrative burdens. The Pareto principle has previously been used in European studies of regulations, but has also proven useful in countries such as Kenya, Rwanda and Vietnam to extrapolate the compliance cost of a small number of licenses to the national level. Annex 1 describes gives a few examples of how this type of SCM can be conducted and how to determine the 20% most burdensome licenses.

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**Box 4**

**Some Specificities of the Focus Group Method**

A focus group aiming to agree on a standard procedure and standard times should be composed of a rather homogeneous set of individuals to produce a high quality result (Fern 2001, p. 17). This means that if the SCM aims to study different segments it should run several different sessions.

A focus group is not likely to be successful if it discusses sensitive subjects. For example, asking the group about the need for bribes in obtaining a license may cause an uncooperative atmosphere if the regulator is present.

One difference in a focus group context from that of individual firm interviews is the social norm dimension, which the facilitator has to be aware of. The fact that the entire group agrees with one of the individuals may mean that the other participants are being supportive or are avoiding conflict, rather than that they share the same experiences. The facilitator needs to play an active role in easing the opinions of all participants to be raised. As the differences are revealed, the facilitator needs to discuss possible causes of the differences and have them agree on a standard procedure. The objective is to identify a normally efficient firm that the participants can agree on, not to create one as a result of the average answers.
Many times however, estimates have to be relied on when the data is unavailable or incomplete. The most difficult data to obtain in a licensing study is generally the quantity (e.g. the annual number of licenses). This is not a specific problem for developing countries—it is normally the most difficult information to obtain in OECD countries as well (Nijisen 2009: p. 63)—but carrying out the study in a low capacity environment certainly does not improve the situation.

SCM allows for some flexibility by making assumptions when data are lacking and when a quantity figure is not necessarily an actual number of occurrences. In a business licensing reform, it could be the annual number of licenses issued, the annual number of licenses applied for, or the number of licenses that should have been applied for/issued if all firms were fully compliant. Even if the number of issued licenses may be available, the regulator is not likely to provide data on how many licenses have been rejected and have to be resubmitted by the applicant. This can be an important administrative cost in low-capacity countries, where rejection rates are high due to unclear instructions. In such cases the study will have to rely on figures for issued licenses, or if possible, obtain an estimate of the rejection rate.

What is important in this context is to document carefully who has provided the estimate and the basis for the estimate. Sometimes even a rough approximation by the project team may be a good starting point, since it can engage officials and other experts with insight to provide more precise input.

**But Simplification is not Always the Way to Go!**

Although simplified versions have proved to work very well in certain contexts, all measures mentioned above may not be accurate at all times. The degree to which SCM can be simplified should always be done based on careful considerations of the potential consequences, and with the distinctiveness of the country and the objective of the measurements in mind. Table 1 below provides some examples of potential weaknesses when using simplified versions.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Issues to think of when applying simplified methods of SCM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Data collection method</strong></td>
<td>Comprehensive SCM: 5-10 Qualitative interviews per IO; the standardized results are thereafter validated by the regulator.</td>
</tr>
<tr>
<td><strong>Segments</strong></td>
<td>The businesses affected by the IO are classified in relevant segments, according to the scope of resources used to comply. Important factors may include firm size, geographic location, outsourcing of procedures, and use of ICT.</td>
</tr>
<tr>
<td><strong>Level of analysis</strong></td>
<td>The IO is divided in individual data requirements, each of which results in a number of activities which are analyzed separately.</td>
</tr>
</tbody>
</table>

15
Lessons Learned

- There is a tendency to strive for absolute accuracy by adding a range of additional elements, making the model difficult to handle.
- Simplified versions of SCM can often provide a very good proxy, particularly when the major share of the cost is attributed to licensing fees.
- Simplified versions should however be used with care, and their potential consequences to be assessed in the context of the country environment and the objective of the project.
- Some ways to simplify includes the use of standardized procedural components, the use of workshops to collect information, and qualified estimates to extrapolate or to get data that cannot be easily obtained.
Lesson 4: Use SCM to Present Compelling and Understandable Results

A key advantage of SCM is the possibility to present the findings in a way that is easily understandable to the audience. By illustrating administrative burdens in terms of time and cost, the results can be used not only as a tool for measurements and tracking of reform within the project, but also to inform and build momentum for reform in the administration and among policymakers. Evidence from Europe show that while SCM—as a high profile tool with strong political backing—may divert focus and resources from other reform work (such as Regulatory Impact Analysis, a common methodology for ex-ante assessment of new regulation), the high degree of attention given to administrative burdens can also be used as an asset in leveraging a broader interest in regulatory tools (Jacob et al 2008).

Giving Decision Makers the Right Tool to Make Decisions

It is crucial that politician’s and public officials’ understanding extends beyond the results. In order to design a reform, it is also critical that they have a basic understanding of the methodology. SCM depends essentially on salaries, working time and number of occurrences (along with additional factors such as waiting time and license fees)—and if this is not clear to politicians and technical staff, they do not know what factors to target to lower compliance costs. This is also why decision makers are urged to attend the initial training. It may not be possible for all involved stakeholders to devote two days in a training session, but measures such as a robust communication exercise can target a range of decision makers across Government. This engenders greater understanding of the methodology across a wider decision making audience.

SCM itself does not introduce a very complex terminology, but if the SCM Manual is strictly adhered to, an audience with no deeper interest in the methodology can easily get overwhelmed by expressions such as population, information obligations, data requirements and administrative activities. At one occasion, the audience of a meeting believed that the speaker was talking about the number of inhabitants when the expression ‘population’ was used to describe the number of license applications.

The processes may also be presented in an easily understandable manner. Flowcharts have successfully been used to describe activities in application processes, as well the required working time and waiting time. This flowchart can be linked to the SCM if supported by the software. Consistency is critical.

Another way to improve understanding and create momentum within government is to point out the direct savings that the government itself can realize from reform. A licensing review may cause resistance among regulators, since they fear loss of revenues, while also facing calls for better services without corresponding budget increases. A way to establish their interest in the reform would be to measure the costs of the public sector working time using SCM methodology. The idea is that firms’ waiting time is reflected in the public sector’s working time (or inefficiency/deliberate delays by bureaucrats in search of bribes). Evidence that regulators can make monetary savings through greater efficiency may reduce the perception that the public sector loses when the private sector gains. Hence, although a cut in public sector salary costs may not promote the private sector development agenda, cutting the firms’ waiting time serves the interests of both the public and private sectors. This method is successfully used in the Burkina Faso and Vietnam licensing projects.

Lessons Learned

- SCM should be used as a tool to give decision makers an uncomplicated overview of compliance costs.
- The costs of administering licensing can be measured to illustrate potential direct savings.
Conclusions

While SCM quickly become a success story throughout EU and OECD, the use in the developed countries has barely started. The environment and the main problems may look different, but the first few SCM pilots have proven that the Standard Cost model can be successfully adapted to monitor reform results and provide input to reforms in different environments.

Recent licensing reviews have showed how new cost components can be added to the calculation to make it more relevant in a developing country context. At the same time a simplified methodology allows for a less resource consuming procedure.

While these adjustments allow for a more comprehensive and cheaper Standard Cost Model, they also pose challenges for the future. One major dilemma is that of standardization; how much common ground can there be among the different projects? As explained, SCM has not only benefited much from its flexibility when transferred from OECD to the developing world, but also when applied in different developing world contexts. On the one hand, there is a need to adjust the model to cover as much as possible, and on the other hand the Investment Climate Department needs to be able to build on lessons learned, and transfer best practices across projects. On the one hand, there is an issue of saving resources, and on the other a low-capacity administration may require a higher degree of attention to detect and mitigate country-specific problems.

Another key challenge is that of the data quality; one strength of SCM is its capability to rely on estimates which is updated along with availability of new data. Additionally, the output of SCM does not claim to represent a precise depiction of reality, but a proxy for the administrative burdens. In low capacity environments however, the data quality is still a huge challenge and more research has to be carried out to understand how to measure the reliability of the input data, and how it affects the output. One way would be to compare the results of SCM with that of other methods and seek explanations for the possible differences, such as the recent study by the Investment Climate Department in the Balkans (Coolidge 2009).

This note has only presented a few lessons learned and now may be the time for a more comprehensive overview of the foundations on which to build future projects.

Endnotes

1. The SCM was first developed to be used to measure administrative burdens of the private sector. However it can and has been used to measure burdens imposed on other entities, such as charities and the voluntary sector in England; and citizens and public owned businesses in the Netherlands.

2. The SCM dissemination process is analyzed in Wegrich (2009).

3. The International SCM Network (see: www.administrative-burdens.com)

4. It is useful to base the identification of administrative activities on “Standard Administrative Activities.” The International SCM manual provides a list of 16 Standard Administrative Activities, all of which are not relevant in the context of business licensing (listed in Annex 3). The World Bank Group has also experimented with specialized set of standardized activities for business licensing, but they tend to be incomplete in more complex application procedures.

5. Business licenses are defined broadly as: “any ex-ante authorizations required for any business activity to commence.” This includes all licenses, authorizations, agreements, permits, and fees.
Licenses as defined here may also include licensing activities which de facto function as revenue generating mechanisms (i.e. as a tax). In other words, where the commencement of a business activity is contingent on the payment of a particular fee, this fee or tax is considered a license.

6. For suggestions of modifications necessary in order to use SCM to obtain gender-disaggregated information in business licensing reforms, see Simavi, Manuel & Blackden (2010).

7. The industry and the ministries should approve the final data. But none of them can have the final word, and in case of disputes between firms and regulator the project team must review the collected data with them, and maybe conduct a deeper analysis with additional interviews based on any new information. In the end the judgment of the reliability of different opinions has to be made by the project team and the basis for decision has to be documented.

8. Available on Business Operations Intranet

9. A consultant evaluation of the template also points at other problems: much of the confusion emerges in fields where the expert collecting the information has to make an analysis of the data. This includes information on different measures that can be taken to reform the license (convert to notification, apply silence is consent or denial; introduce thresholds, etc.). As was pointed out by a previous assessment, these decisions should be taken at a later stage of the process by a higher political level. If a consultant provides input to these decisions, it would probably be more useful to do that in a different format than just a “yes” or “no” in an Excel table.

10. The results of the OECD led pilot study were strongly correlated with those of Doing Business.

11. The International SCM Manual recommends segmenting affected firms “according to the criteria that affect the scope of resources used to comply with information obligations and data requirements” and to carry out individual analyses for each segment.

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ANNEX 1: Selection of Business Licenses for a Standard Cost Measurement

As was pointed out in this paper, it is often more effective to select a few key licenses for a detailed analysis, rather than to carry out a complete measurement of all licenses. If the objective of the study is to arrive at a measure of administrative costs for the entire universe of regulations, the Pareto Principle has proven to be a relatively reliable help in the identification of a small sample of licenses that can be extrapolated. This means that as a rule of thumb, the 20 percent most burdensome licenses represent approximately 80 percent of the administrative costs for companies.

The selection of the 20 percent most burdensome licenses for the SCM can be described as a Catch 22, since if the administrative burdens would be known beforehand there would be no reason to carry out an SCM in the first place. Although it may be impossible to have a complete overview of all licenses, the inventory should have collected some basic information that can be used for a triage to give licenses a certain score that can be used for the selection.

The method of measuring not more than a few licenses becomes even more understandable when countries are interested in reforming only a few licenses in one or several priority sectors or “quick wins” to build momentum for a wider reform at a later stage. This will however change the criteria for the selection of licenses, since administrative costs may no longer be the primary criteria for the selection of licenses for reform and simplification.

A key factor for the selection of the most important licenses is the number of licenses issued per year, and this figure should therefore be included in any inventory. Other factors will depend much on the present environment; if there is a sense that licensing fees are an important cost it may be included. If there is a small number of licenses which allows for an easy overview, a rough number of steps can be calculated for each license in order to get an understanding for their complexity.
It is important that the private sector is thoroughly involved in the process of selecting priority licenses. The private industry has to be involved in the entire reform process and sign off on the selection of licenses. This may be problematic unless there is an understanding for the objective of the selection of licenses, since it may otherwise result in the use of wrong criteria for the selection. There could be licenses among the most burdensome that companies consider reasonable and hence would not select for reform. At the same time, other licenses may cause a limited total administrative cost, while they are very annoying to firms. It is therefore desirable that all actors involved in the selection of priority licenses are trained before the process starts.

**How has it been done?**

**Kenya 2008**

In Kenya, the importance of all 1,321 licenses were ranked by the consultants, by giving points according to three criteria: number of licenses submitted annually (score between 1-3); cost of filing license (score between 1-3); and other common sense criteria (score between 0-3). Since the objective was to select the 20% most important licenses in terms of administrative costs the top-264 were supposed to be chosen. Since these criteria proved to be a bit too imprecise, subsequent fine-tuning had to be conducted to arrive at a correct number of licenses. The weight of the number of licenses criterion was increased by 20%. Since there were still problems to arrive at an appropriate figure, the total number of licenses selected after the triage was 336 (about 25%).

**Madagascar 2008**

In Madagascar, the consultants collected quantitative data on the licenses during the inventory. A first list of the top-24 licenses was prepared based on data from the inventory (administrative burden, waiting time and unit cost). After a review by an expert consultant, it was however concluded that the ranking did not sufficiently reflect the way the Business Licenses were perceived by the authorities and the companies in Madagascar. Subsequently a new ranking was developed through input from the private sector and Government.

**Rwanda 2008–2009**

In Rwanda, a baseline measurement was carried out, comprising an in-depth measurement of an initial list of 20 priority licenses and extrapolation to the rest of the licenses. The priority list was drawn up by the IFC-appointed Rwandan law firm based on the “difficulty” of acquiring and operating the license as reported by the country’s business sector. A full SCM study was carried out for these licenses. However, the Business Licensing Reform Committee preferred an in-depth review of a few key licenses. A number of licenses were then selected through consultations with firms in priority sectors. No particular methodology was followed, more than general impression of the licensing being burdensome by the firms. Although the selected licenses were considered the most problematic for private firms, the problems were not always their time consumption and costs, and other measures than simplification has been recommended.

**Vietnam 2009**

Initially there was a plan to focus on four priority sectors: advertisement, investment/construction, Education, and Mining, from which 31 licenses were selected. It was however soon understood that a focus on these sectors only may not encompass the most important licenses. A questionnaire was thereafter sent out to firms, asking for the most burdensome licenses. Based on the survey a priority list was created, but since a majority of the licenses included were related to one single industry it was decided to widen the scope a bit to get a more balanced selection of licenses. The final sample therefore included licenses from a number of sectors.
### ANNEX 2: Tools used to Measure and Monitor Costs of Regulation to Businesses

#### TABLE 1  **Standard Cost Method**  Has been used in more than 40 countries since 2003

<table>
<thead>
<tr>
<th>Primary Unit of Observation &amp; Analysis</th>
<th>Assumptions about Firms</th>
<th>Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual administrative burdens imposed on the private sector by information obligations (“obligations arising from regulation to provide information and data to the public sector or third parties”). Other costs, such as license fees are often included. E.g. a legal requirement to keep a register of sales, or to submit a license application.</td>
<td>Efficiency &amp; Time Required to Learn about the Rules</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compliance with the rules</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Time &amp; Cost to individual firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Population &amp; Frequency</td>
<td></td>
</tr>
<tr>
<td>Efficiency: SCM calculates administrative burdens on &quot;normally efficient firms,&quot; defined as firms dealing with the information obligation &quot;neither better nor worse than may be reasonably expected.&quot; This may or may not be the most efficient way to carry out the task. Learning Time: If the normally efficient firm needs time for familiarization with the obligation, this time consumption is included in the analysis.</td>
<td>In SCM, compliance assumptions may vary:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Full compliance—If compliance rate cannot be identified while the total number of eligible firms is known, it may be assumed that all firms comply fully with the regulation (firm costs are then multiplied with the total number of eligible firms to arrive at the cost for the entire population).</td>
<td></td>
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<tr>
<td></td>
<td>2. Actual compliance – For permits and licenses, it may be difficult to identify how many firms would actually need a license but are non-compliant. However, the total number of licensees may be known (firm costs are thus multiplied with the total number of issued licenses).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The technique used to collect data from firm varies:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Focus groups: (mixed public / private) are a more difficult but less resource consuming method.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Qualitative Interviews: Many countries carry out 5-10 interviews (about 1 h) for each information obligation.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Expert Assessment: In case no affected firms are identified or if interviews are not feasible, an expert can estimate the time and costs.</td>
<td></td>
</tr>
</tbody>
</table>

#### TABLE 2  **ECA Aggregate Cost Savings**  Has been used in 13 regulatory reforms in six ECA Countries

<table>
<thead>
<tr>
<th>Primary Unit of Observation &amp; Analysis</th>
<th>Assumptions about Firms</th>
<th>Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual administrative burdens imposed on the private sector by a certain procedure E.g. Business Registration, Inspections</td>
<td>Efficiency &amp; Time Required to Learn about the Rules</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Compliance with the rules</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Time &amp; Cost to individual firms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Population &amp; Frequency</td>
<td></td>
</tr>
<tr>
<td>Efficiency: Uses survey data which measure time and cost of an average firm in a representative population. Learning Time: Survey methodology allows for the measurement of the actual time, meaning that the particular needs of each individual firm are taken into account in the analysis.</td>
<td>Based on the SME survey; i.e. firms may or may not comply and the regulation may or may not be enforced.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SME Surveys</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Official Sources</td>
<td></td>
</tr>
</tbody>
</table>
### Dealing with other costs/risks associated with government regulations

<table>
<thead>
<tr>
<th>Waiting time can be:</th>
<th>Main Strengths</th>
<th>Main Weaknesses</th>
<th>In which types of economies should it be applied?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Measured and presented as total number of days on firm level and in jurisdiction.</td>
<td>1. High level of detail makes it easy to define and demarcate compliance costs related to a particular regulation. It can also be used to predict what outcome a specific change in regulation or procedure would create.</td>
<td>1. Since it takes as its starting point the regulation rather than an event, it is difficult to standardize and use for cross-country comparisons.</td>
<td>The most difficult data to retrieve is that on population. This is not always easy in OECD countries, but gets even more difficult in a weak administration. SCM is however often used in spite of scarce data. It can rely on estimates to be updated as new information becomes available.</td>
</tr>
<tr>
<td>• Monetized (e.g. through [Waiting time] × [average gross investment] × [daily interest rate]).</td>
<td>2. Only the relevant components are modified in follow-up studies, enabling an inexpensive and precise tracking of results.</td>
<td>2. Small sample of firms makes the model better suited for monitoring changes or to compare relative administrative burdens of different obligations, than to produce a reliable and statistically significant value of compliance costs.</td>
<td></td>
</tr>
<tr>
<td>Corruption: can be included in the calculation just like any other cost. However, capturing these costs is difficult (particularly through focus groups).</td>
<td>3. Requires limited resources (time and money)</td>
<td>3. The assumption of a normally efficient firm can easily become a representation of only one segment of the private sector.</td>
<td></td>
</tr>
<tr>
<td>Dealing with inconsistent treatment of businesses and favoritism: SCM can measure this but it may be difficult to collect the information.</td>
<td>4. Great flexibility in costs and application (USD 50,000 and upwards).</td>
<td>4. Focus groups tend to be difficult to conduct for inexperienced users.</td>
<td></td>
</tr>
<tr>
<td>Rejections or demands for additional information: SCM can deal with this, but data can be difficult to obtain.</td>
<td>5. Experience has shown that SCM can be successfully implemented by IFC staff and clients after initial training.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The most difficult data to retrieve is that on population. This is not always easy in OECD countries, but gets even more difficult in a weak administration. SCM is however often used in spite of scarce data. It can rely on estimates to be updated as new information becomes available.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If focus groups are being conducted, a good relationship between the public and private sectors is an advantage.

### Dealing with other costs/risks associated with government regulations

<table>
<thead>
<tr>
<th>Waiting time: is measured and monetized for:</th>
<th>Main Strengths</th>
<th>Main Weaknesses</th>
<th>In which types of economies should it be applied?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Delay of entry, using (i) average annual net profit for start-up companies, (ii) average time spent in each administrative procedure, and (iii) number of working days per year as variables.</td>
<td>1. Can present both waiting time and unofficial costs as a sum of money.</td>
<td>1. Relies on SME surveys, which are expensive and difficult to carry out ad hoc for monitoring purposes.</td>
<td>Should preferably be used in an environment where high-quality official data is available under consistent definitions, such as the annual net profit, firms’ profit margins, etc.</td>
</tr>
<tr>
<td>• Temporary closure of firm, calculated using (i) average annual losses for temporary closed firms; (ii) average time stopped; (iii) and average profit tax rate.</td>
<td>2. Uses high quality input data, from a representative sample of firms as well as reliable official sources.</td>
<td>2. Its broad scope may complicate data collection; corruption costs and consistent detailed official statistics may be difficult to obtain.</td>
<td>Just like SCM this model can rely on estimates by experts, but a full reliance on estimates may be more difficult.</td>
</tr>
<tr>
<td>Corruption: costs are captured through SME Surveys.</td>
<td>3. Strives for comparability across countries by normalizing the results for country size</td>
<td>3. Because of its reliance on survey data it may be difficult to ensure the direct applicability of the collected information on a regulation.</td>
<td></td>
</tr>
<tr>
<td>Dealing with inconsistent treatment of businesses and favoritism: Yes, as included in SME surveys.</td>
<td>4. The Excel template is easy to grasp and can be used by IFC staff and government officials with prior knowledge of regulatory reform.</td>
<td>4. In a low capacity administration the extensive data requirements may come across as difficult to complete, and may deter users.</td>
<td></td>
</tr>
<tr>
<td>Rejections or demands for additional information: Yes, as included in SME surveys.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 2 continued

### TABLE 3 Doing Business

Has been issued in seven annual comparisons. The 2010 update includes 183 economies.

<table>
<thead>
<tr>
<th>Primary Unit of Observation &amp; Analysis</th>
<th>Assumptions about Firms</th>
<th>Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Efficiency &amp; Time Required to Learn about the Rules</td>
<td>Compliance with the rules</td>
</tr>
<tr>
<td>Measures the time and official cost a synthetic firm should expect if a standardized process in a certain predetermined scenario is carried out in accordance with the law.</td>
<td>Efficiency: All firms are assumed to carry out their legal obligations in the most efficient way.</td>
<td>All firms comply with all regulations.</td>
</tr>
<tr>
<td>E.g. An SME of a certain size, geographic location, etc. applies for a construction permit and utility connections when building a warehouse with a number of predefined features.</td>
<td>Learning Time: No time is needed to become familiar with the rules.</td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 4 LAC Municipal Scorecard

Two reports have been issued (2007 and 2008). The 2008 version covered 176 municipalities in nine Latin American economies.

<table>
<thead>
<tr>
<th>Primary Unit of Observation &amp; Analysis</th>
<th>Assumptions about Firms</th>
<th>Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Efficiency &amp; Time Required to Learn about the Rules</td>
<td>Compliance with the rules</td>
</tr>
<tr>
<td>Annual administrative burdens imposed on the private sector by a certain procedure</td>
<td>Efficiency: Uses survey data which measure time and cost of an average firm in a representative population.</td>
<td>Based on the SME survey; i.e. firms may or may not comply and the regulation may or may not be enforced.</td>
</tr>
<tr>
<td>E.g. Business Registration, Inspections</td>
<td>Learning Time: Survey methodology allows for the measurement of the actual time, meaning that the particular needs of each individual firm are taken into account in the analysis.</td>
<td></td>
</tr>
<tr>
<td>Dealing with other costs/risks associated with government regulations</td>
<td>Main Strengths</td>
<td>Main Weaknesses</td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
</tbody>
</table>
| Waiting time: is measured and added to the time required to complete internal paperwork in the firm, as a sum of total days or hours. | 1. Provides a standardized scenario and can therefore be compared across jurisdictions.  
2. Compares some of the most crucial business transactions and can hence be used to identify bottlenecks in a country's business climate.  
3. By relying on official data and estimates by experts, it requires a relatively small amount of resources. | 11. Its focus on standardized procedures may fail to provide an accurate representation of the country's particularities.  
2. The results are only valid for a firm with rather narrow attributes in a particular scenario. Also, the assumptions of full compliance and no corruption provide less reliable results in corrupt countries and those with high discretion and low enforcement capacity.  
3. Relies to a high degree on estimates by a limited base of intermediaries which does not always change year to year.  
4. Cannot easily be implemented by inexperienced IFC / Government Staff. DBI type comparisons are complicated and need expertise and understanding in several different areas. | DBI relies mainly on input from intermediaries, which can be found in all economies. The validity of the data will depend to a large degree on the quality and interests of the engaged intermediaries. |
| Corruption: is not taken into account. Only the most effective legal way of completing a procedure is measured. | Dealing with inconsistent treatment of businesses and favoritism: This is not measured. | | |
| Rejections or demands for additional information: This is not measured. | | | |

<table>
<thead>
<tr>
<th>Dealing with other costs/risks associated with government regulations</th>
<th>Main Strengths</th>
<th>Main Weaknesses</th>
<th>In which types of economies should it be applied?</th>
</tr>
</thead>
</table>
| Waiting time: is measured and added to the required work time, to be presented as a sum of total days or hours. | Its ambitions correlate with those of Doing Business (i.e. providing a comparison of the ease of carrying out a pre-defined set of procedures), but takes a different methodological stance in:  
1. Asking a large sample of firms directly about their experiences;  
2. Focus on the average firm, rather than a synthetic firm in a certain scenario | 1. Is not very detailed in terms of legal obligations and may be difficult to use in tracking results of specific reforms.  
2. Its focus on standardized procedures may fail to take into account the particularities of certain countries.  
3. Is demanding in terms of time and cost.  
4. Only looks at the municipal parts of certain events rather than having a comprehensive firm perspective.  
5. Cannot easily be implemented by inexperienced IFC / Government Staff. To roll out a survey is complicated and expensive and require much expertise and comparisons of regulation and procedures are complicated. | Adjusted to be used in low capacity data contexts. E.g. when no register of licensed firm is available, the interviewers will ask random firms if they have the license and if so, an interview is conducted. This model requires political will by municipalities, but in addition to that it can be used in most contexts. |
| Corruption: No direct questions are asked about corruption. | Dealing with inconsistent treatment of businesses and favoritism: Yes, is included in the surveys. | | |
| Rejections or demands for additional information: Yes, as included in the surveys. | | | |
### TABLE 5 Business Surveys

Enterprise Surveys have been conducted by WB in 117 economies. The Investment Climate Department (BOP) has piloted Business License Surveys in Bosnia, Madagascar and Serbia.

<table>
<thead>
<tr>
<th>Primary Unit of Observation &amp; Analysis</th>
<th>Assumptions about Firms</th>
<th>Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency &amp; Time Required to Learn about the Rules</td>
<td>Compliance with the rules</td>
<td>Time &amp; Cost to individual firms</td>
</tr>
<tr>
<td>Annual administrative burdens per firm</td>
<td>Firms may or may not comply and the regulation may or may not be enforced. Firms may need time to become familiarized with the regulation.</td>
<td>Survey</td>
</tr>
<tr>
<td>E.g. time spent on dealing with licenses annually per firm, official costs, bribes paid, hiring of external staff, waiting time for each license, etc.</td>
<td>Efficiency: Survey data measures time and cost of an average firm in a representative population. Learning Time: Survey methodology allows for the measurement of the actual time, meaning that the particular needs of each individual firm are taken into account.</td>
<td></td>
</tr>
</tbody>
</table>
Dealing with other costs/risks associated with government regulations

<table>
<thead>
<tr>
<th>Waiting time: is often included and may be presented as an average waiting time.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption: may be measured with surveys. The World Bank Group’s Enterprise Surveys cover this aspect but acknowledges that it is difficult to measure. An assessment of the BOP licensing surveys explains that “the reliability of answers about corruption is always a source of doubt and survey data must therefore be taken with several grains of salt.”</td>
</tr>
<tr>
<td>Dealing with inconsistent treatment of businesses and favoritism: Yes, is included in the surveys.</td>
</tr>
<tr>
<td>Rejections or demands for additional information: Yes, as included in the surveys.</td>
</tr>
</tbody>
</table>

**Main Strengths**

1. Provides statistically reliable data.
2. Can better measure actual rather than official figures.
3. Takes as its starting point the firm rather than the regulation and can thereby capture unanticipated problems.
4. Provides a full range of data on a large, representative sample of firms and can therefore quantify problems such as rejection rates, demands for “additional documentation,” demands for bribes, inconsistent treatment and other important variables.

**Main Weaknesses**

1. Difficult to ensure consistency in respondents understanding of questions if the surveys are carried out in a range of countries with different administrative environments.
2. Difficult to identify reliable linkages between collected information and the legal text or procedure.
3. Is demanding in terms of time and cost.
4. Cannot easily be implemented by inexperienced IFC / Government Staff. To roll out a survey is complicated and expensive and require much expertise.

**In which types of economies should it be applied?**

A basic survey could rely only on interview data and thus operate in any data environment. If however, the idea is to select representative samples in different segments, a register of firms and segments must be made available.

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**Other Comparisons of Tools for Red Tape Measurements:**

- Bertelsmann Stiftung, 2009: "International Methods for Measuring Regulatory Costs (v. 1.1)"
- Coolidge, Jacqueline, 2009: “How big is a rat’s nest? The challenge of M&E for Business Operations—a comparison of survey data and the ‘standard cost model’ to measure the burden of licenses and permits for businesses.” FIAS.
ANNEX 3: The Standard Administrative Activities Provided by the International SCM Manual

1. **Familiarization with the information obligation.** The resource consumption of businesses in connection with familiarizing themselves with the rules for a given information obligation.

2. **Information retrieval.** Retrieving the relevant figures and information needed to comply with a given information obligation.

3. **Assessment.** Assessing which figures and information are necessary for the public authorities to accept the report.

4. **Calculation.** Performing the relevant calculations needed for the public authorities to accept the report.

5. **Presentation of figures.** Presenting the calculated figures in tables or the like.

6. **Checking.** Checking the calculated figures, e.g. by reconciliation with other data.

7. **Correction.** If the business’s own checks reveal errors in the calculations, corrections are made afterwards.

8. **Description.** Preparation of description, e.g. the directors’ report in the Danish Financial Statements Act.

9. **Settlement/payment.** Payment of tax, charges or the like.

10. **Internal meetings.** Meeting held internally between the various personnel groups involved in complying with the information obligation.

11. **External meetings.** Meetings held in cases where compliance with the information obligation requires meetings with an auditor, lawyer or the like.

12. **Inspection by public authorities.** Businesses must assist external inspectors when they carry out their inspection at the business.

13. **Correction result from inspection by public authorities.** If the external inspection identifies faults/defects, corrections are made afterwards.

14. **Training, updating on statutory requirements.** Relevant employees must be kept up to date with rules that change frequently (at least once a year).

15. **Copying, distribution, filing, etc.** In some cases the report is copied, distributed and/or filed in order to comply with the information obligation. It may also be necessary to store the information obligation with a view to subsequent production in connection with an inspection.

16. **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.