

# ADMINISTRATIVE BURDENS ON BUSINESS ACTIVITIES: REGIONAL DISPARITIES

*Magda Bianco\* and Francesco Bripi\**

## Abstract

A significant strand of the recent literature endorses the thesis that “excessive” regulation (or a heavy administrative burden on firms) damages competition and growth. The Italian system has a poor ranking both in anti-competitive regulations (see the OECD product market regulations indicators) and in bureaucratic burdens (78<sup>th</sup> in “Doing Business” in 2010), despite improvements in the former over the last 10 years. But Italy’s position is the result of a combination of possibly very different contexts, so it is useful to evaluate the differences between Italian regions with reference to some indicators that are likely to take different values (i.e. those that do not depend simply on national laws).

The aim of this paper is to measure this variance with reference to the costs and the length of the various administrative procedures and to discuss the causes of the differences.

JEL classification: K2; L51.

Keywords: administrative burden, bureaucracy, regulation.

## 1. Introduction

There is an abundant recent literature suggesting that “excessive” regulation (or a heavy administrative burden on firms) is bad for competition and growth. The analyses based on the data collected under the World Bank Doing Business project (DB) would appear to confirm this hypothesis (Botero, Djankov, La Porta, Lopez-de-Silanes, Shleifer, 2004; Djankov, La Porta, Lopez de Silanes and Shleifer, 2002; Djankov, La Porta, Lopez de Silanes and Shleifer, 2003; Djankov, McLiesh and Shleifer, 2007; Djankov, La Porta, Lopez de Silanes and Shleifer, 2008; Djankov, Hart, McLiesh and Shleifer, 2008).

The Italian system ranks fairly poorly both in anti-competitive regulations (see the OECD product market regulations indicators) and in bureaucratic burdens (78<sup>th</sup> in “Doing Business” in 2010), despite some improvements in the former over the last 10 years.

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\* Bank of Italy, Economic Research and International Relations.

However, the Italian position is the product of a combination of sharply different contexts (actually, the DB reports on the situation in the capital city, whereas the OECD indicators refer to national legislation). So, it might be useful to gauge the differences between the different regions of Italy with reference to some indicators that are likely to show regional differences (*i.e.* those that are not simply based on national laws).

In this paper we measure this variance (with reference to the costs and the length of the various bureaucratic procedures that firms face) and when possible, discuss the reasons of the differences for each indicator. Our contributions involve both methodology and evidence. Concerning methodological issues, we observe that a number of these indicators do not “work well” in some environments (*i.e.*, in some countries the “typical case” may not be significant) and we consequently adapt them to the Italian context. Secondly, we show that even within a “relatively small” country such as Italy, there is significant variance across indicators. In terms of the evidence, we show that: a) as expected, a significant share of this variance can be attributed to the North-South divide, but not for all the indicators and some qualifications, especially as regards the cost and length of procedures, are of particular interest; b) we are able to document the effect of some reforms (in one case directly, in another more indirectly). The introduction of a Single Communication for business start-ups has shortened the time needed to start a firm, with a convergence towards the best performing regions; costs have not yet (at least not everywhere) shown significant improvements. The restructuring procedures (the “chapter 11” introduced with the 2005-06 bankruptcy reform) appear to be faster now than before the reform, according to the national statistics available on bankruptcy procedure in general. This suggests that, despite the shortcomings recently spotlighted by the literature and by bankruptcy judges themselves, the reform has been fairly effective in some respect and could prove to be an efficient instrument for resource reallocation.

## **2. The literature on regulatory indicators**

A substantial literature has developed on the relationship between “regulation” and economic performance, with a significant impulse from the construction of a number of international indicators on the quality of the legal framework, regulatory quality and the administrative burdens of doing business. The indicators are extremely varied and in some cases they measure performance (of countries under various respects), in others inputs (in terms of the institutional environment); in some cases they are “objective” (*i.e.*, they measure the regulatory framework, like the OECD product market regulation indicators), in others they are “subjective” measuring the perceptions of “experts”; in some cases they combine the two approaches (e.g., the Doing Business indicators)<sup>1</sup>.

Papers employing these measures tend to find that excessive administrative burdens or anticompetitive regulations have negative effects on performance and growth. Djankov et al. (2006) show that the growth of per capita GDP in 135 countries is negatively correlated with an aggregate index of business regulations in seven areas

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<sup>1</sup> See Forti and Ranci (2008) for a survey of the indicators available and their characteristics (weaknesses and strengths).

(starting a business, hiring and firing workers, registering property, getting bank credit, protecting equity investors, enforcing contracts in courts, closing a business). A number of other papers relate specific areas of regulation with a corresponding economic variable (e.g., entry regulation with firms' birth rates) finding generally significant effects (see footnote 1). Alesina et al. (2005), using OECD product market regulation indicators, find that regulatory reforms are associated with increased investments (with entry liberalization and privatization playing a significant role). Barone and Cingano (2008) analyse the effects of anti-competitive service regulation and find that less service regulation translates into faster growth of value added, productivity, and exports in downstream service-intensive industries: the negative growth effect of anti-competitive regulation is particularly great in the case of professional services and energy. Arnold et al. (2008) relate 15 years of productivity performance in OECD countries to differences in stringency of regulations in the product market and find that strict regulation of services has slowed down growth in ITC-using sectors and generally hinders efficient allocation/reallocation of resources to the more productive sectors.

### **3. The selected indicators and the methodology**

Given the importance of these measures in explaining the performance of the various national economies, it seems relevant, for a country that shows extremely high variance in growth performance, to consider the potential contribution of some of these factors. Since national regulations are mostly homogeneous, what we try to measure is indicators of local regulatory and administrative burdens that might have inter-regional variance within a country.

Since we need measures referring not only to national discipline but also to the local regulations and their actual enforcement by local authorities or professionals, we use the indicators built by the World Bank in its Doing Business reports. Among the 10 available indicators, we select those that most likely present a regional variance, *i.e.*, starting a business, getting building permits, registering a real estate property transfer, enforcing a contract, closing a business<sup>2</sup>.

For each of these topics we refer to the World Bank questionnaire (see [www.doingbusiness.org](http://www.doingbusiness.org)) slightly adapted to take into account the peculiarities of the Italian productive and institutional context (e.g., in some cases the size of the hypothetical firm has been reduced in order to have answers that could be relevant also for less developed regions). Our aim was to ensure the comparability across Italian regions, not internationally. These adaptations were agreed with experts in each of the fields considered.

All the indicators include a cost and a time length component, not the number of procedures, because these are determined by national laws and therefore are the same all over the country.

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<sup>2</sup> The DB project has also produced regional indicators for some countries (Mexico, Brazil, etc...). For Italy, it has produced a report on the Veneto region (more specifically on the city of Padua), whose indicators are quite close those of the national report (*stava alla fine del paragrafo precedente*).

Each of the 5 questionnaires<sup>3</sup> was submitted to local experts<sup>4</sup>: approximately 3 respondents for each of the 21 regional capital cities<sup>5</sup>. In some regions other cities were also surveyed, but here they will be considered only when we do not have sufficient answers for the capital.

### 3.1 *Starting a business*

The Starting a Business indicator records all bureaucratic procedures that are required for an entrepreneur to start up and formally operate a business. Specifically, it is a measure of the time and costs of starting a limited liability firm with an initial capital equivalent to 10 times the income per capita of the regional capital city where it is registered.

Start-up regulation was recently reformed in Italy, reducing the bureaucratic steps required to start a business<sup>6</sup>. The reform introduced the possibility of a “single communication” (SC) in place of for four different procedures (dealing with the enterprise registrar, the tax office, the social security administration and the work accident insurance office<sup>7</sup>, see table A.1 in the Appendix).

When the survey was conducted (December 2008-January 2009) it was possible to use either the new procedure or the old one. Since the two require a different sequence of steps, two different surveys were conducted. This had the additional benefit of allowing a comparison of the costs and time involved in the two procedures.

While both substantially replicate the Doing Business questionnaire, some adaptations were necessary. The most significant are the following: i) firm size for the standard case was reduced to 20 employees to take into account the Italian productive structure; ii) the number of owners (none of whom is a legal entity) was reduced from 5 to 3, since this is the median number of shareholders of unlisted firms in Italy (Bianchi et al., 2005), iii) the possibility for the founder to employ middlemen, accountants or lawyers was introduced, even when this is not mandatory<sup>8</sup>; iv) the minimum length of a procedure was set to one working hour<sup>9</sup>; v) both surveys included an additional procedure (the registration of the statute with the local tax office).

<sup>3</sup> Actually there were six, since the Starting a Business questionnaire was prepared in 2 versions, the second one taking into account of the “Single Communication” reform: see below.

<sup>4</sup> We asked the following professional experts categories to answer to the different questionnaires: accountants and notaries (Starting a Business); lawyers (Enforcing Contracts and Closing a Business); notaries (Registering Property); engineers and architects (Construction Permits).

<sup>5</sup> In the region Trentino Alto Adige, we considered the provinces of Trento and Bozen separately, given their status of “autonomous provinces” with respect to the national law.

<sup>6</sup> Law no. 40/2007.

<sup>7</sup> A file is compiled on line and submitted to the local Public Enterprises Registrar (RdI), which in turn sends the application to the other three offices: the tax office, the social security administration (INPS) and the workplace accident insurance office (INAIL).

<sup>8</sup> Delegation of bureaucratic procedures to middlemen is quite common among entrepreneurs in Italy, since this allows the firm to complete all procedures on time and correctly.

<sup>9</sup> Assuming that each working day has 8 hours, we report the data as a fraction of days; that is to say that one hour is equivalent to 0.125.

### 3.2 *Dealing with construction permits*

This indicator measures time and costs for each of the mandatory procedures that are necessary for a construction firm to build a warehouse. We consider a medium-sized company, with 5 owners (none of whom is a legal entity), 20 employees (instead of the 60 in Doing Business), including an architect (who is fully licensed to carry out construction projects, such as building warehouses). The warehouse has 1.300 square meters in floor space, has two stories, and it will be used for storing material that is not toxic, perishable, or polluting<sup>10</sup>. The building company owns the land, which is not located in any special economic or industrial zone. All procedures that are mandatory by law (or that are widely used in practice) have been considered, even if they can be avoided in particular cases (see table A.2 in the Appendix)<sup>11</sup>.

### 3.3 *Registering property*

The Registering Property indicator measures bureaucratic and legal burdens that 2 firms (a buyer and a seller of real estate) have to face to transfer a property deed. The questionnaire considers the case of a 550 square meter lot with a building, whose value is 50 times the per capita income in the regional capital city. The parties (seller and buyer) are limited liability companies with 50 employees. No other party has claims on the property in the period the sale takes place.

We consider all procedures that: *a)* are mandatory by law or that are widely used in common practice; *b)* must be completed by the buyer, the seller or a third party acting on their behalf (e.g.: the notary, public officials). All procedures are described in the Appendix (see table A.3). Finally, in order to simplify the comparability of the results across regions, we departed from DB by assuming that the buyer pays the full price (plus all the additional expenditures) with its own resources, without any external financing<sup>12</sup>.

### 3.4 *Enforcing contracts*

The Enforcing Contracts indicator measures the efficiency of the judicial system in resolving a commercial dispute. The standard case assumes a good's sale at a price equal to 200 per cent of the local per capita income. After delivery by the seller, the buyer does not pay, arguing that the quality is not adequate. The seller sues the buyer in the local court, where the judge decides that the buyer must pay the agreed price (the buyer does not appeal the judgment).

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<sup>10</sup> With this assumption we exclude that the nature of the goods stored may imply additional procedures for guaranteeing public health or safety.

<sup>11</sup> The number of procedures considered for this indicator – equivalent to the one of DB – is determined by national laws (see “Testo unico delle disposizioni legislative e regolamentari in materia edilizia,” Presidential Decree no. 380 of 6 June 2001), while time and costs of each single procedure are mainly determined by local regulation.

<sup>12</sup> External financing might have implied different costs of capital across local units. Such information would not have been easy to collect from our respondents (notaries).

The indicator measures all costs and time required for the creditor to recover the credit. To this end, we divide the whole dispute into three successive stages: filing and service; trial and judgment; enforcement<sup>13</sup>; we further subdivide each stage into single operations<sup>14</sup>. We measure the average time and actual cost necessary for each stage to be completed<sup>15</sup> (see table A.4 in the Appendix).

### 3.5 *Closing a business*

The Closing a Business indicator is a measure of the efficiency of bankruptcy proceedings. It measures times, costs and recovery rates by creditors of a business that defaults on its loan. In our standard case, due to an unexpected liquidity problem the business has no cash to repay the bank interest or principal in full. Since the business has too many creditors to negotiate an informal out-of-court settlement, three options are available: a debt enforcement procedure (foreclosure), aimed at selling the property either piecemeal or as a going concern; a judicial procedure aimed at the rehabilitation or reorganization of the business to allow its continued operation (even if this might fail and might be later transformed into a liquidation procedure); a judicial procedure aimed at the liquidation or winding up of the company.

With respect to the original standard case of DB, we have changed the assumptions relative to firm size: we have considered a medium-sized company with 51 employees (instead of 201) and an average annual revenue of 300 times per capita income over the past 3 years<sup>16</sup>.

### 3.6 *The use of Doing Business indicators*

The DB methodology has been widely debated among scholars in the recent years (Arrunada, 2007; Arrunada, 2008; Blanchet, 2006; Ménard and du Marais, 2006; IEG, 2008); there is not yet a consensus on whether the DB indicators are sufficiently reliable especially for policy making. The main critiques refer to: a) an excessive weight given to the relevance of simplification of procedures with an insufficient consideration of the possible trade-offs with the objectives of consumers/investors protection. In other terms, the DB methodology only takes into account initial costs of the procedures (measured in terms of time and money), while it disregards costs and benefits that different legal systems may provide in the future for both private and public entities (especially neglecting the possibility of high transaction costs and

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<sup>13</sup> Filing and service start when the plaintiff files the summons and complaint with the court, and ends with the counsel for the defence appearing before the court; trial and judgment start from the moment the judge fixes a first hearing of the parties until the moment the sentence becomes final. The last stage counts all remaining operations until the court orders that the proceeds of the public auction (or the direct sale) be delivered to plaintiff.

<sup>14</sup> These are actions undertaken by the plaintiff, the defendant, the judge or other third parties involved.

<sup>15</sup> Despite the fact that Italian law imposes deadlines for many of the procedures involved in the dispute, they are often not respected. Therefore, we required our respondents to indicate the actual length of each operation. Moreover, following DB, costs have been categorized as follows: attorney's fees, court costs (to register the case, etc...) and enforcement costs (see table A.4 in the Appendix).

<sup>16</sup> With the original assumptions of 201 employees, the company would have necessarily been subject to a different proceeding (extraordinary administration) that is purposely conceived for avoiding the winding up of large firms.

litigation associated with extremely simple but sometimes poor quality initial procedures)<sup>17</sup>; b) an insufficient consideration of the possibility of functional equivalence between different provisions in different legal systems (so that the absence of one measure included in the DB list does not necessarily imply a poorer legal framework); c) the use of a single representative case, which, even if necessary for significant international comparisons, might not be a relevant case for all countries considered.

Even if we are aware of these limits, we argue that the regional indicators suffer less of the weaknesses (even if they obviously share some of them). Issues a) and b) are less relevant in our within-country context since laws are usually set at the national level (with minor exceptions<sup>18</sup>). This means that we are actually mainly measuring the efficiency of local administration (or the role of local professional experts involved).

Issue c) should be less relevant for regional indicators, given that the significance of the representative case shows lower variability at the national level (we actually adapted the case, when needed, as compared to the DB)<sup>19</sup>. Regarding the quality of the answers, we double checked answers which provided outliers values.

#### 4. Descriptive evidence

Here we provide some descriptive analysis of the data. In what follows we concentrate on comparisons between the macro-regions of Italy (North-West, North-East, Centre, South and Islands<sup>20</sup>) – not single regions – and on the summary indicators, only in some cases providing details on their components, when they provide sensible information.

We computed mean values only for regional capital cities (only in rare cases, when we do not have enough observations we use other cities) and from these calculated macro region means both unweighted and weighted by regional GDP<sup>21</sup>. Table A.5 describes the size of the sample used.

Given the large North-South development divide, a characteristic that is more marked in Italy than in other advanced countries, we want to explore whether administrative burdens might contribute to explain the differences. Indeed, our data show that doing business is more difficult in the South and the Islands while it is relatively easier in the Centre and in the North of the country. Both the overall

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<sup>17</sup> According to Arrunada (2008): “By measuring only the costs prior to setting up the business, the Doing Business method favours countries which control legality ex – post using the judicial system, and is detrimental to countries, such as those applying continental Latin-Germanic Civil Law, which are more cautious a priori in the hope of avoiding litigation ex – post”.

<sup>18</sup> The indicator “Dealing with Construction Permits” depends significantly on local regulations in Italy.

<sup>19</sup> We also introduced minor changes to the procedures in order to mirror more precisely the actual Italian system.

<sup>20</sup> The macro regions comprise the following regions – North West: Aosta Valley, Piedmont, Lombardy and Liguria; North East: Trentino Alto Adige, Veneto, Friuli Venezia Giulia and Emilia Romagna; Center: Tuscany, Marche, Umbria and Lazio; South: Abruzzi, Molise, Campania, Apulia, Basilicata and Calabria; Islands: Sicily and Sardinia.

<sup>21</sup> In the rest of the paper all comments refer to weighted averages; however, graphs with both values are shown after the main text.

indicators (tables 1 and 2)<sup>22</sup> show that with the notable exception of Abruzzi, all the other regions of the South-Islands have a very low ranking. This result is due to the performance of some of (but not all) the indicators, as will be detailed below.

**Table 1**

**Doing Business overall indicator 1\***

Regions	DB Italy	Regions	DB Italy
Abruzzi	1	Sardinia	11
TAA	2	Umbria	12
Lombardy	3	Molise	13
FVG	4	Liguria	14
Piedmont	5	Apulia	15
Lazio	6	Campania	16
Veneto	7	ER	17
Marche	8	Calabria	18
Aosta Valley	9	Sicily	19
Tuscany	10	Basilicata	20

\* The Starting a Business indicator is computed with the Traditional method.

**Table 2**

**Doing Business overall indicator 2\***

Regions	DB Italy	Regions	DB Italy
TAA	1	Liguria	11
Abruzzi	2	ER	12
Lombardy	3	Umbria	13
FVG	4	Sardinia	14
Lazio	5	Apulia	15
Piedmont	6	Molise	16
Veneto	7	Campania	17
Marche	8	Calabria	18
Tuscany	9	Sicily	19
Aosta Valley	10	Basilicata	20

\* The Starting a Business indicator is computed with the SC method.

#### 4.1 Starting a business

Excessively burdensome entry regulation discourages entry by new firms, especially in sectors with “naturally” high turnover; it forces firms to enter with a larger than optimal size; and it constrains incumbents’ growth (Klapper *et al.*, 2006). Simpler procedures are also associated with higher productivity growth of existing firms (Barseghyan, 2008) and smoother reallocation of workers between sectors (Ciccone and Papaioannu, 2007). Finally, an easier regulatory environment facilitates the “emersion” of the underground economy (Kaplan *et al.*, 2007).

<sup>22</sup> For each region, the overall indicator is calculated as the ranking on the simple average of its percentile rankings on each of the five topics covered in our survey. The two indicators differ for the Starting a business component: the first indicator includes the one with the traditional method, while the second includes the one with SC.

Overall, starting a business is easier in the Center and North than in the South and the Islands (see figures 1 and 2). The average time required ranges from 12.1 days in the Center to 27.3 in the Islands. Also, average costs are higher in the South and the Islands (the average cost is equal to 29.7 per cent of per capita income) than in the rest of the country<sup>23</sup>.

**Table 3**

**Starting a Business (Traditional) indicator**

Regions	Starting a Business Traditional	Regions	Starting a Business Traditional
Lazio	1	Aosta Valley	11
Piedmont	2	Liguria	12
Lombardy	3	Umbria	13
ER	4	Basilicata	14
Abruzzi	5	Calabria	15
FVG	6	Apulia	16
TAA	7	Sicily	17
Tuscany	8	Sardinia	18
Veneto	9	Campania	19
Marche	10	Molise	20

**Table 4**

**Starting a Business (with SC) indicator**

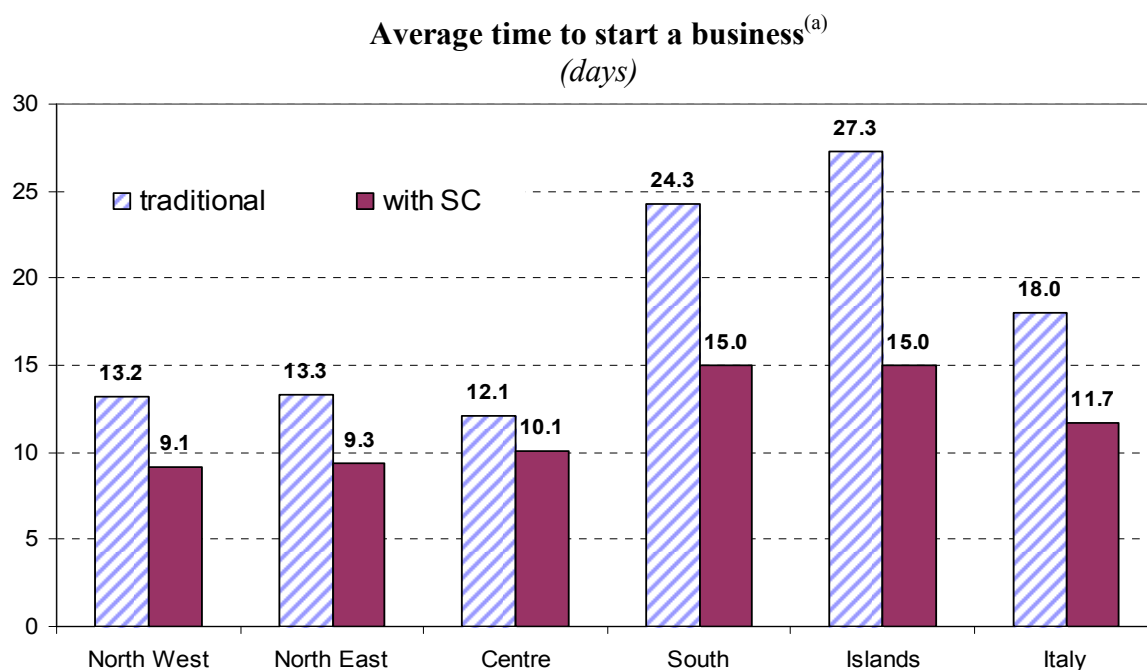
Regions	Starting a Business with SC	Regions	Starting a Business with SC
TAA	1	Tuscany	10
Lazio	2	Apulia	11
ER	3	Aosta Valley	12
Lombardy	4	Umbria	13
FVG	5	Calabria	14
Liguria	6	Basilicata	15
Piedmont	7	Sardinia	16
Veneto	8	Campania	17
Marche	9	Molise	18

The data collected allow us to evaluate the effects of the introduction of the Single Communication. SC reduces the time required to complete the procedures (-6.3 days), while costs are substantially unchanged. The analysis of the geographical differences – see figures 1 and 2 – shows not only that the time needed decreases everywhere, but also that the North-South divide is smaller. While we would expect

<sup>23</sup> The region where starting a business is fastest is Abruzzi (5.16 days), while the slowest is Molise (34 days). The process is cheapest in Lombardy, where it costs only 10.2 per cent of per capita income and most costly in Sardinia (38.2 per cent).

that with fewer procedures costs should decrease, they are almost unchanged in all areas: this might be due to a learning process by professional experts acting on behalf of the firms in areas where the entry rate is lower than elsewhere<sup>24</sup>. The regional rankings of the indicators<sup>25</sup> for each of the two methods<sup>26</sup> (table 3 and 4) confirm a North-South divide: indeed, only regions of the Centre – North are present in the first ten positions of both indicators.

**Figure 1**

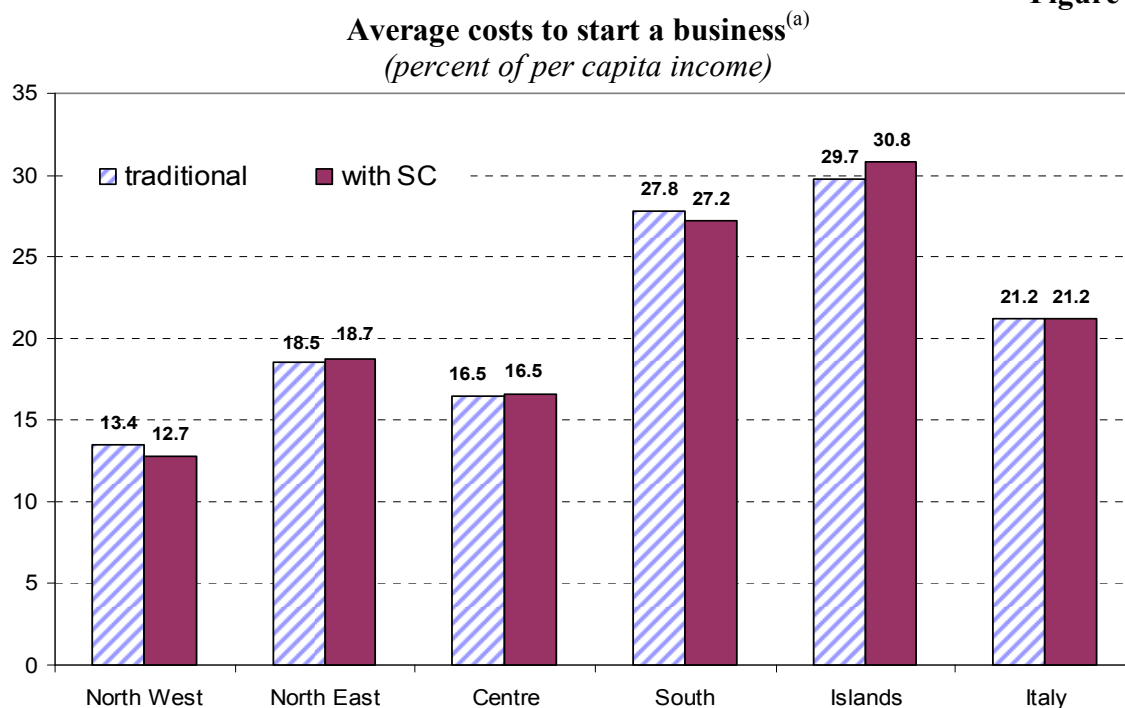


(a): Values for each area are weighted (by the regional GDP) averages of regional measures.

<sup>24</sup> In fact, the details of the costs components show that cost increases are associated to procedures where professional experts are involved (e.g., execution of public deed of incorporation and Single Communication).

<sup>25</sup> The ranking on each topic is computed in the same way as the Doing Business Report (2009), i.e., it is the simple average of the percentile rankings on its component indicators.

<sup>26</sup> With regard to the Starting a Business questionnaire, data are not available for two regions (Abruzzi and Sicily) because of no answers from our candidate respondents.

**Figure 2**

(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

#### 4.2 Dealing with construction permits

High fees for construction permits imposed by local governments are a deadweight loss for entrepreneurs, and more broadly for the society at large<sup>27</sup>. However, simplifications in construction licensing may create a trade-off between the need for safety and the need for reasonably short procedures. While it might be difficult to reconcile these aims and identify the correct intensity of checks, it is likely that excessively complex and costly procedures affect the building sector adversely (Advisory Board on Administrative Burden, 2007).

The results of the survey are shown in figures 3 to 4. The most demanding procedures are those related to obtaining the building permit, which can delay the beginning of construction works very substantially<sup>28</sup>. Time and costs vary across regions with different patterns: typically, in those areas where the procedures are relatively short (in the North East and North West the average time is 428.5 days, while the national average is 515), costs are greater (5.3 times per capita income against a national average of 3.3). Procedures are especially lengthy in Sicily (1246 days), and

<sup>27</sup> A study by PricewaterhouseCoopers (2005) suggests that simplifying complex procedures for construction permits may increase property tax revenues. Moreover, Bertrand and Kramarz (2002) show that introducing zoning permits at the discretion of municipal councils for retail stores in France reduced employment in that sector of about 10 per cent.

<sup>28</sup> Most of the remaining procedures, such as those relating to utility lock-ups, do not affect the overall time because they can be executed during the construction of the building.

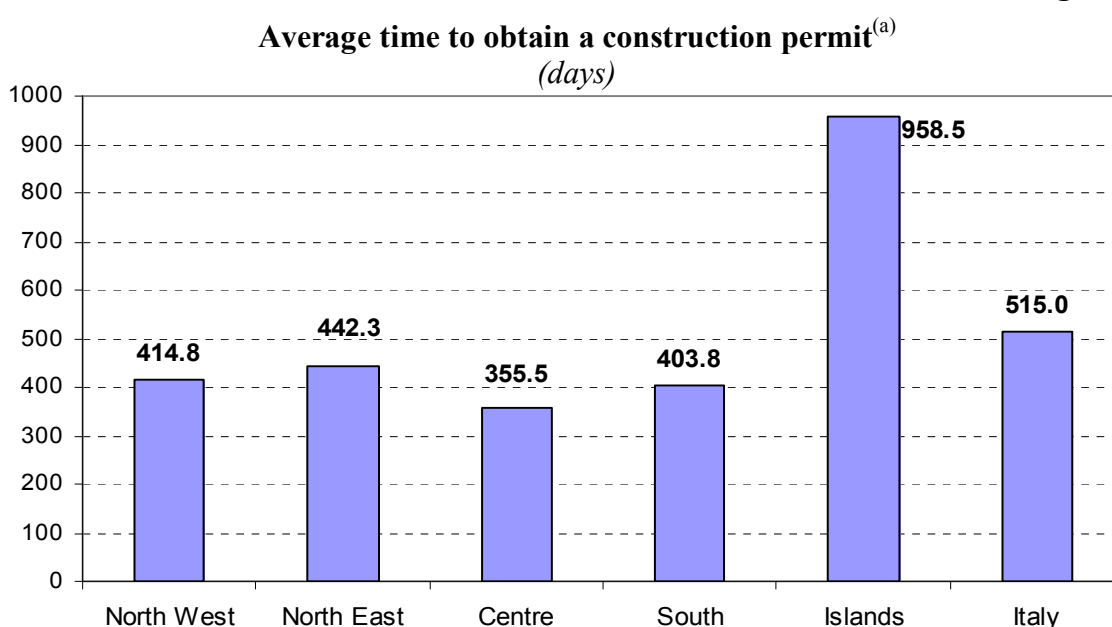
the low costs there (2.7 times regional per capita income) do not offset this poor performance<sup>29</sup>.

This mixed picture is also evident in the ranking of the indicator (table 5), where four regions of South and Islands are in the first ten positions, while six of the Centre – North are in the second part of the ranking.

**Table 5**

<b>Construction permits indicator</b>			
Regions	Construction permits	Regions	Construction permits
FVG	1	Abruzzi	11
Aosta Valley	2	Calabria	12
Lazio	3	Veneto	13
Marche	4	Basilicata	14
Campania	5	Lombardy	15
Sardinia	6	Tuscany	16
Molise	7	Sicily	17
Apulia	8	Liguria	18
TAA	9	Piedmont	19
Umbria	10	ER	20

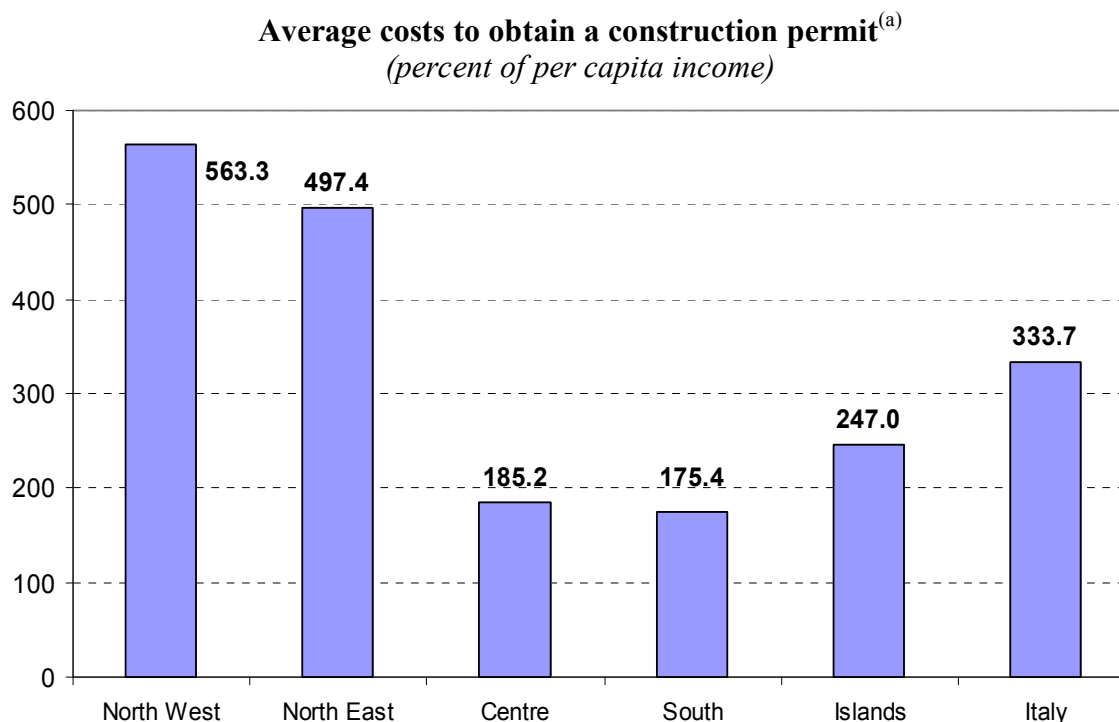
**Figure 3**



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

<sup>29</sup> At the opposite, times are shortest in Aosta Valley (62 days), while costs vary from a minimum of 51.4% to a maximum of 752.4% of per capita income (in Lazio and Emilia Romagna respectively).

**Figure 4**



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

### 4.3 Registering property

Simple, fast and cheap procedures of property registration produce easier access to formal credit, higher land values and greater opportunities to invest (Field, 2006), with potentially large benefits for the whole economy (Deininger, 2003)<sup>30</sup>.

Figures 5 and 6 summarize the evidence on the two components in the different geographical areas. The time needed to transfer a property in the specified case (on average equal to 10.5 days)<sup>31</sup> is mainly determined by the number of days necessary to obtain the permits from the municipality and those necessary to register the transfer at the Tax Office and the Cadastral Office<sup>32</sup>. In general, procedures are shorter in the North, where they take 10.5 days and lengthier in the South<sup>33</sup>.

<sup>30</sup> According to Fleisig, Safavian and de la Peña (2006) land and buildings account for between half and three-quarters of the wealth in most economies.

<sup>31</sup> All time data cited in this subsection take into account the possibility of doing some of the procedures simultaneously: in other words, we consider only the maximum time for procedures 1, 2, 3, 4 and 5: see table A.3 in the appendix.

<sup>32</sup> However, since the registration of the deed of sale can be executed on line, the time required for this procedure is mainly due to the overload of notaries, and not to the inefficiency of the public administration.

<sup>33</sup> The value for the Islands area is not considered here because it comprises only data from Sardinia. Indeed, with regard to this questionnaire, we did not receive data from Sicily and Campania. The

*(continues)*

**Table 6****Registering Property indicator**

Regions	Registering property	Regions	Registering property
Sardinia	1	Calabria	10
TAA	2	Piedmont	11
Abruzzi	3	Marche	12
Lazio	4	Umbria	13
Veneto	5	Molise	14
Lombardy	6	Basilicata	15
Tuscany	7	FVG	16
Aosta Valley	8	Liguria	17
ER	9	Apulia	18

Costs (as a percentage of the property value) are determined primarily by national taxes (approximately equal to 4 per cent of the property value). Hence, as a whole they do not show substantial variation by region, and what variation there is mainly reflects notaries' fees (the use of notary for the conveyancing services in the real estate property transfer is mandatory)<sup>34</sup>, which are based on local tariff schemes<sup>35</sup>. This also implies that the summary indicator (table 6) does not show an obvious North-South divide.

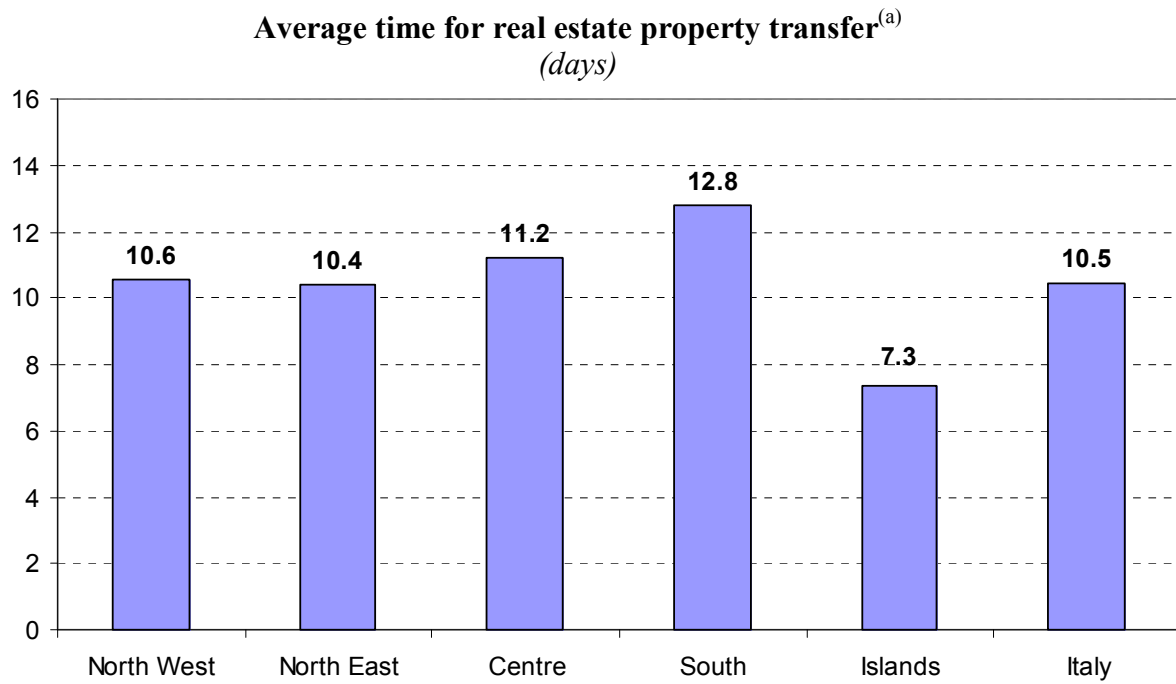
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minimum time value to complete all procedures is in Lazio with 6 days, while the maximum is that of Apulia: 32.3 days.

<sup>34</sup> Costs are highest in Apulia (4.74 per cent of the property value) and lowest in Lazio (4.32 per cent).

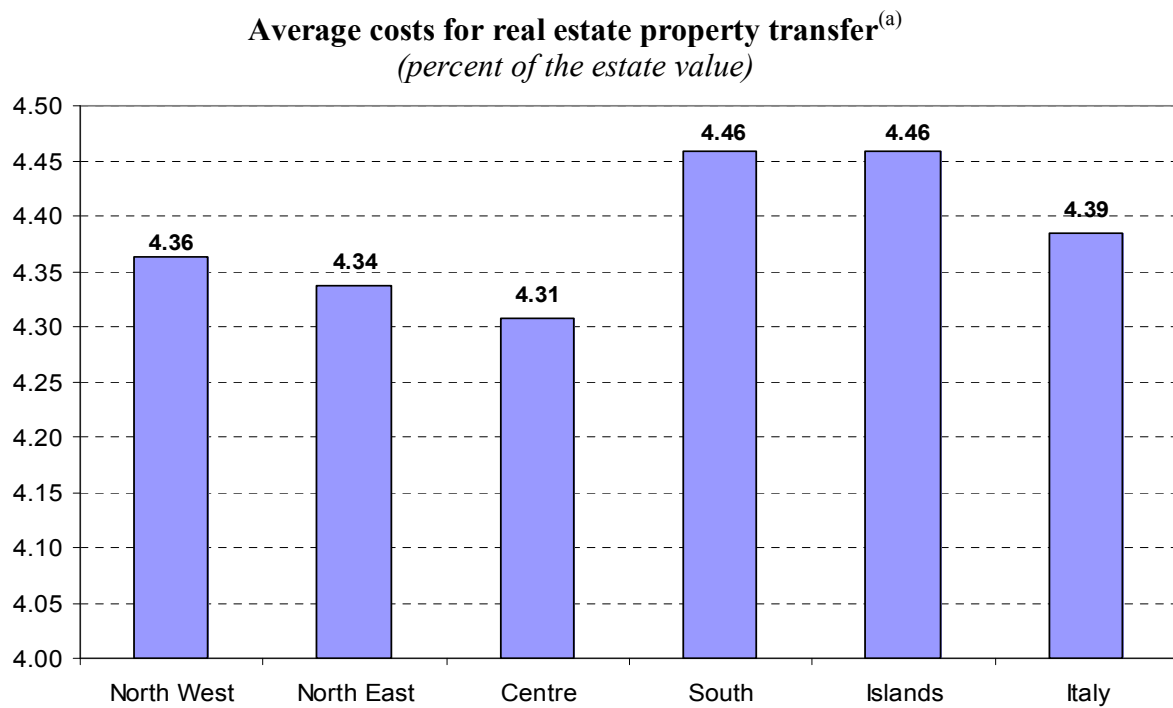
<sup>35</sup> Notary fees are adjusted according to local districts economic conditions and vary across the regions. They are set by the Minister of Justice, who has the power to approve the tariff scheme proposed by the National Notary Publics' Body (CNN). Notice that while these fees are no longer mandatory (due to Bersani decree, art. 2 of law no. 248/2006), a subsequent law greatly restricted the possibility of price competition (art. 3 of law no. 249/2006).

**Figure 5**



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 6**



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

#### 4.4 *Enforcing contracts*

Excessive length of trials has a negative impact on credit availability, firms' entry and size and the relative size of trade credit as a substitute for bank credit (Jappelli et al. (2005); Bianco and Giacomelli, 2004); Carmignani, 2005; Kumar et al. 1999; Cingano and Pinotti, 2009).

The Italian situation is – by international standards – extremely worrisome (see the Doing Business reports, or the report by the Cepej (Cepej, 2008)). Evidence based on data from the Ministry of Justice and the national statistical institute (Istat) show a worse performance in the South (Carmignani and Giacomelli, 2009).

The analysis here confirms that the procedures are extremely lengthy everywhere (figure 7). Most of the time is (obviously) spent for the trial and judgment, which account for about 2/3 of the total (figure 8). This stage also determines the greatest differences across the areas: the geographical comparison shows that procedures – especially those of trial and judgment stage – are longest in the South (2226.6 days), shortest in the North (1841 days)<sup>36</sup>.

With regard to costs – on which other sources of information are not available – our data show relatively high values in the South and in the Islands, where they amount on average to more than 40 per cent of the value of the claim, whereas in the Center and North they are much lower (figure 9)<sup>37</sup>. As shown in figure 10, most of them consist of attorneys' fees in court (the correlation between the time and costs related to the trial and judgment stage is equal to 0.77): this is not surprising since this is the longest stage and attorneys in Italy are usually paid on the basis of the number of acts produced, not the verdict<sup>38</sup>.

Overall, the ranking of the indicator shows a worse performance of the South and Islands (table 7): only two regions of these areas sit within the first ten positions<sup>39</sup>.

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<sup>36</sup> They are slowest in Lazio (2540 days) and fastest in Friuli Venezia Giulia (800 days).

<sup>37</sup> Overall costs are greatest in Calabria (63.4 per cent of the value of the claim) and smallest in Lombardy (20.5 per cent).

<sup>38</sup> Despite the fact that contingency fees are now allowed in Italy (art. 2, law no. 248/2006), an investigation conducted by the Italian Antitrust Authority (AGCM, 2009) revealed that legal experts still very frequently use the fixed fees recommended by the bar association (CNF).

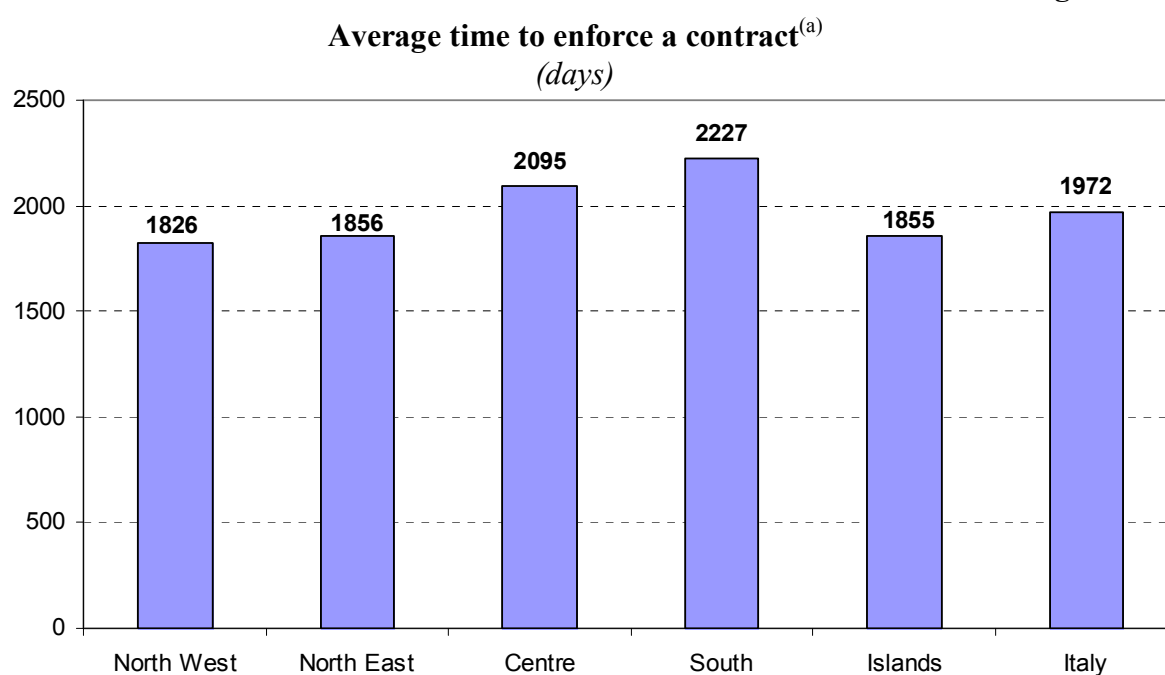
<sup>39</sup> The ranking is made of 19 regions, since we did not receive answers from the Aosta Valley.

**Table 7**

**Enforcing Contracts indicator**

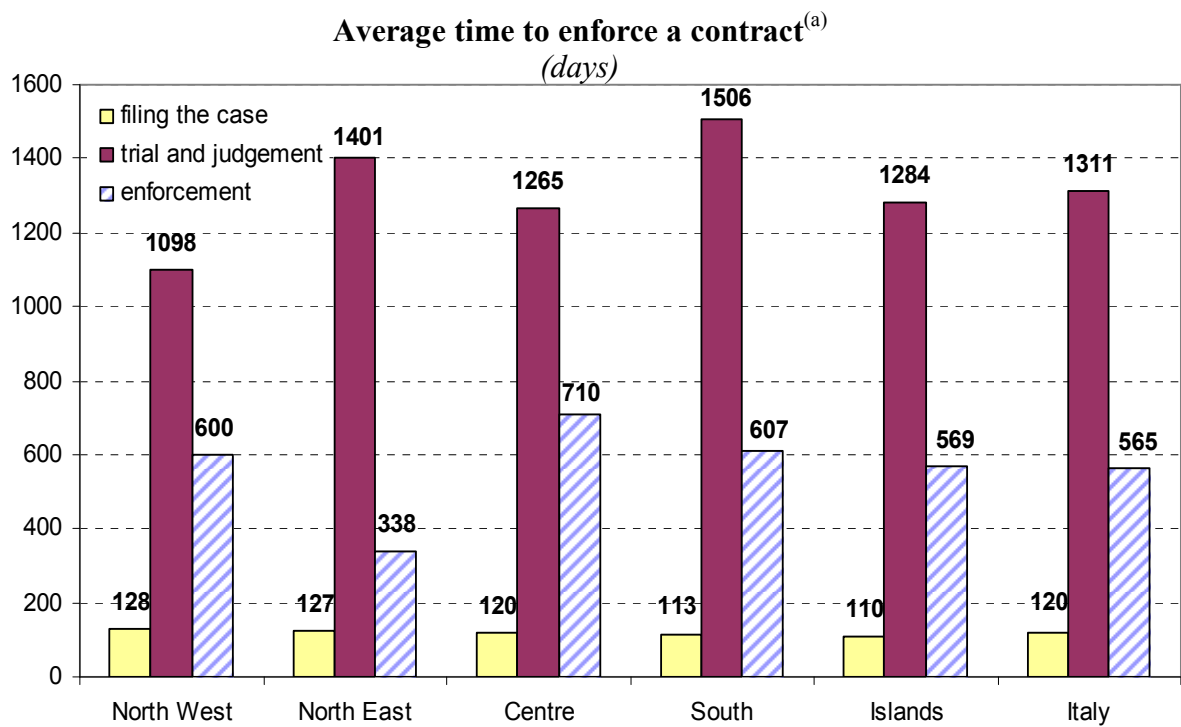
Regions	Enforcing Contracts	Regions	Enforcing Contracts
Piedmont	1	Veneto	11
Abruzzi	2	TAA	12
Tuscany	3	Campania	13
Lombardy	4	Apulia	14
Liguria	5	Lazio	15
Umbria	6	Basilicata	16
FVG	7	ER	17
Molise	8	Sicily	18
Sardinia	9	Calabria	19
Marche	10		

**Figure 7**



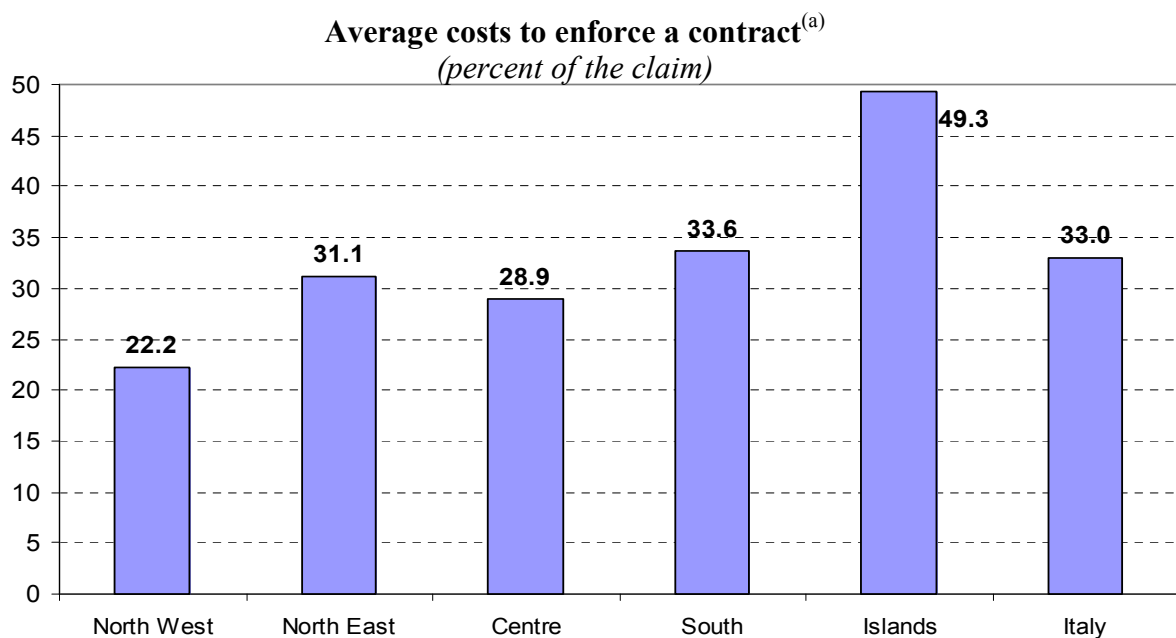
(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 8**



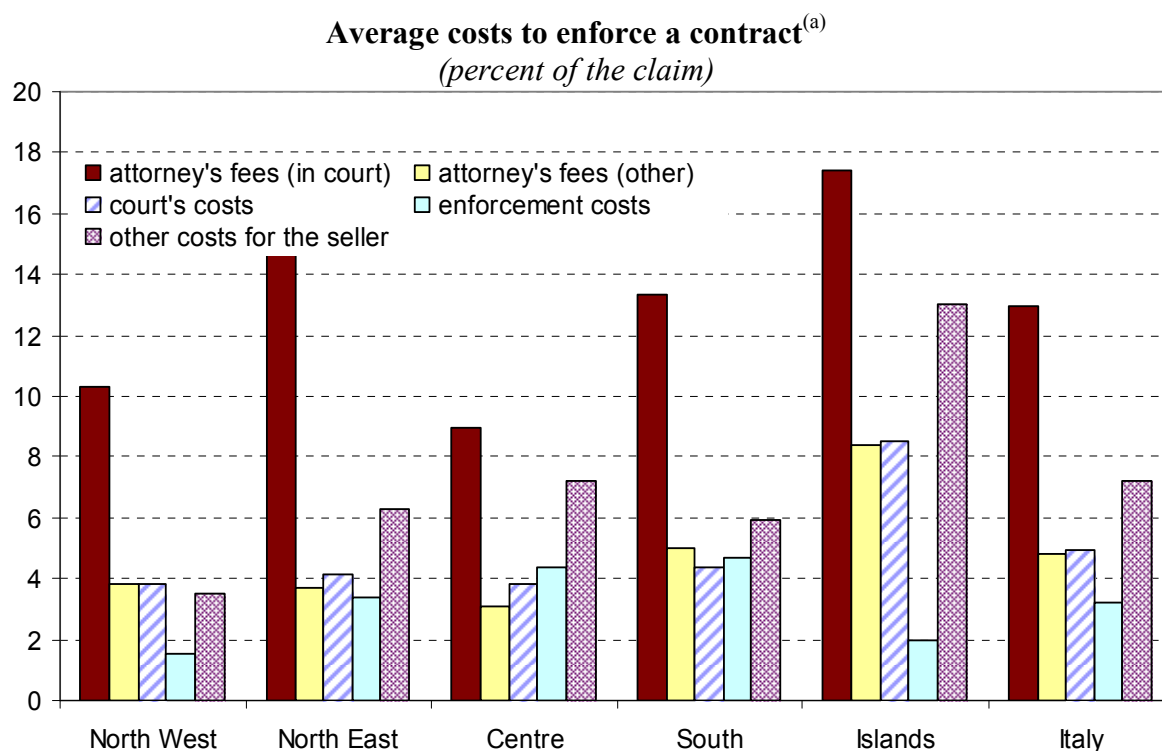
(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 9**



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 10**



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

#### 4.5 Closing a business

Efficient bankruptcy procedures ensure higher probabilities of survival for firms in temporary difficulties while also guaranteeing higher recovery rates for creditors and hence greater ex-ante credit availability (White and Berkowitz, 2004; Hart, 2000). They might affect investment and growth strategies of firms and the willingness of financiers (e.g. venture capitalists) to provide funds (Armour and Cumming (2003). In Italy procedures were extremely inefficient before the 2005-06 reforms, mainly due to the excessively “harsh” treatment of debtors, which caused extremely late revelation of the state of insolvency. Reforms – which substantially improved restructuring procedures and introduced a pre-packaged bankruptcy – have softened the treatment of debtors, favouring an earlier opening of the procedures, which should make efficient solutions more likely.

Given the structure of the questionnaire (respondents had to choose the most likely procedure: foreclosure, restructuring, bankruptcy and liquidation) it is more complex to build a synthetic indicator referring to all possible solutions. This is obtained by weighting each solution by its frequency. In what follows we discuss first summary results and then specifically restructuring and foreclosures (we do not discuss liquidations since they are “chosen” in an extremely limited number of cases).

If we average across regions (weighting by regional GDP) independently of the procedure adopted (figure 11), we find that the whole procedure is lengthier in the North East and Center (31 months), shorter in the South (20 months). Costs are on

average higher in the South and in the Islands, where they are approximately twice as much as in the Center and northern areas (figure 12).

If we take into account also the choices between the different procedures (*i.e.*, which is considered most likely to be used in the specified case), we observe that in half the cases (48 per cent) a foreclosure procedure is used and in the other half (again 48 per cent) a restructuring procedure is most likely (liquidation is marginal, it is chosen in just 4 per cent of the cases). There is a geographical difference: in the North the restructuring procedure is most likely to be chosen, whereas in the Center-South foreclosure is most frequent.

When the procedure is a foreclosure, it takes much longer (approximately 40 months, 43 if it involves the sale as a going concern; 28 if it is a piecemeal sale); a restructuring takes much less (approximately 14 months, both in cases when it involves a sale as a going concern and a successful restructuring) (figure 13).

The costs of the two procedures are similar at the aggregate level (the national average is respectively 13.2% and 14.2%), but show a different territorial pattern: restructuring has the highest cost in the Islands (29%), foreclosure in the South (28.4%) (figure 14).

Finally, recovery rates – the percentage of a credit that can be recovered through the bankruptcy procedure – for the two procedures are shown in figure 15<sup>40</sup>. On average they are higher than through a liquidation (Istat, 2009): both allow creditors to recover about 50 percent of their credit, with significant regional differences (from a minimum of 44.5% in the Center to a maximum of 59.2% in the North West<sup>41</sup>).

The overall ranking (table 8), which averages information from the three components (costs, time and recovery rate) with equal weights, does not show a clear North-South divide: indeed, four regions of the South and Islands are in the first ten positions. This mixed outcome is probably driven by the fact that there is a different pattern of choice for the two procedures (foreclosure is prevalent in the Centre and South, restructuring is chosen more often in the North).

This evidence can also be read as an evaluation of the recent reform of bankruptcy procedures. The fact that a restructuring procedure is the most likely choice half of the time, and the time needed for the whole procedure in this case (14 months on average, much less than the four years for an ordinary bankruptcy in the old system) imply as a whole a positive judgement on the reformed restructuring procedure.

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<sup>40</sup> The recovery rates are computed in the same way as Doing Business: see DB Report 2010 (2009).

<sup>41</sup> At regional level, the recovery rate is lowest in Basilicata (32.03%) and highest in Trentino Alto Adige (69.8%).

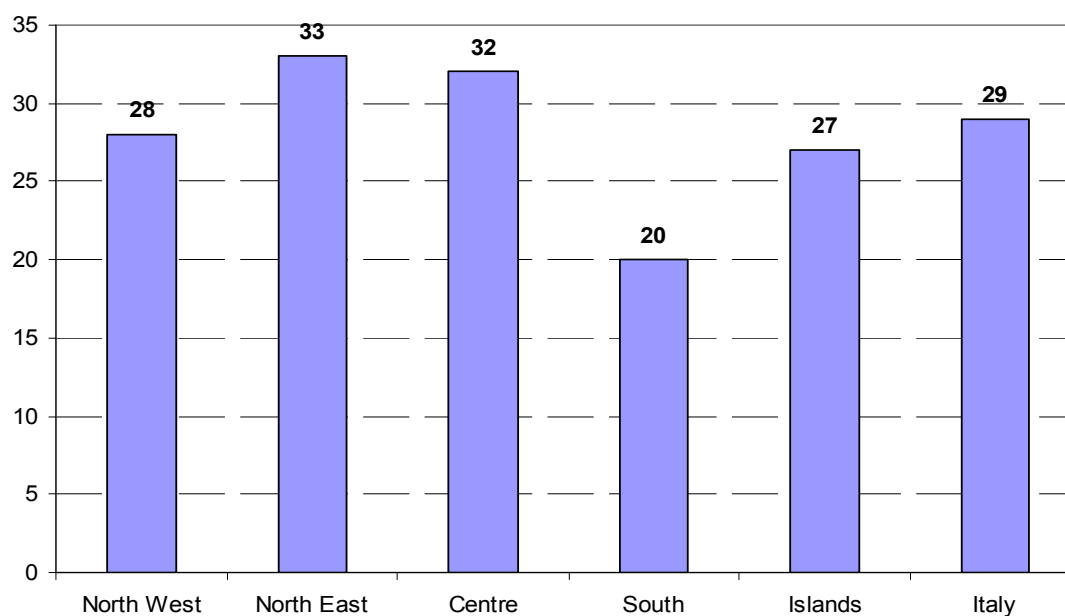
**Table 8**

**Closing a business indicator**

Regions	Enforcing Contracts	Regions	Enforcing Contracts
TAA	1	Marche	11
FVG	2	Campania	12
Piedmont	3	Umbria	13
Lombardy	4	ER	14
Apulia	5	Lazio	15
Veneto	6	Calabria	16
Molise	7	Tuscany	17
Abruzzi	8	Sardinia	18
Liguria	9	Aosta Valley	19
Sicily	10	Basilicata	20

**Figure 11**

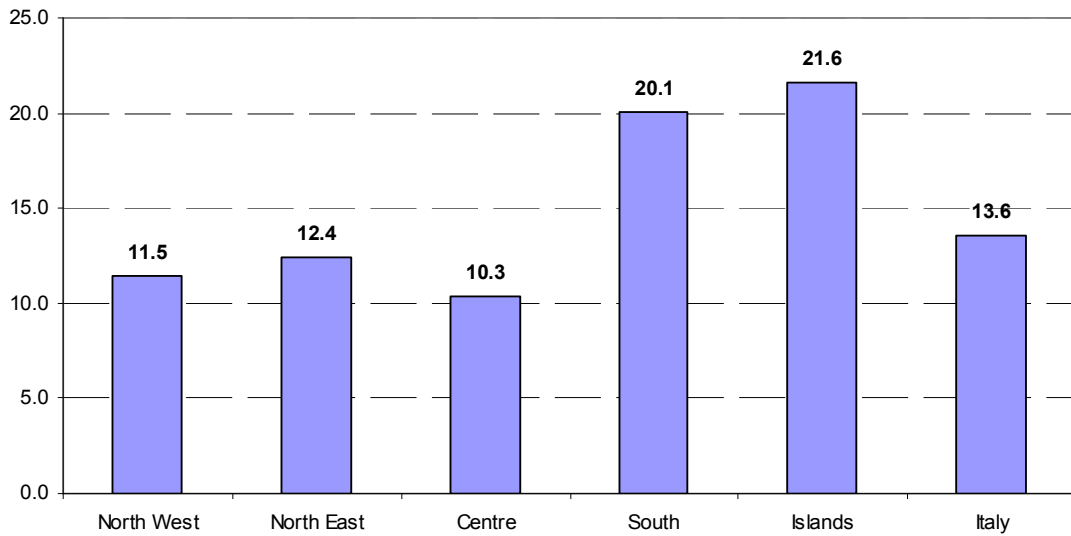
**Average time to close a business<sup>(a)</sup>**  
(months)



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 12**

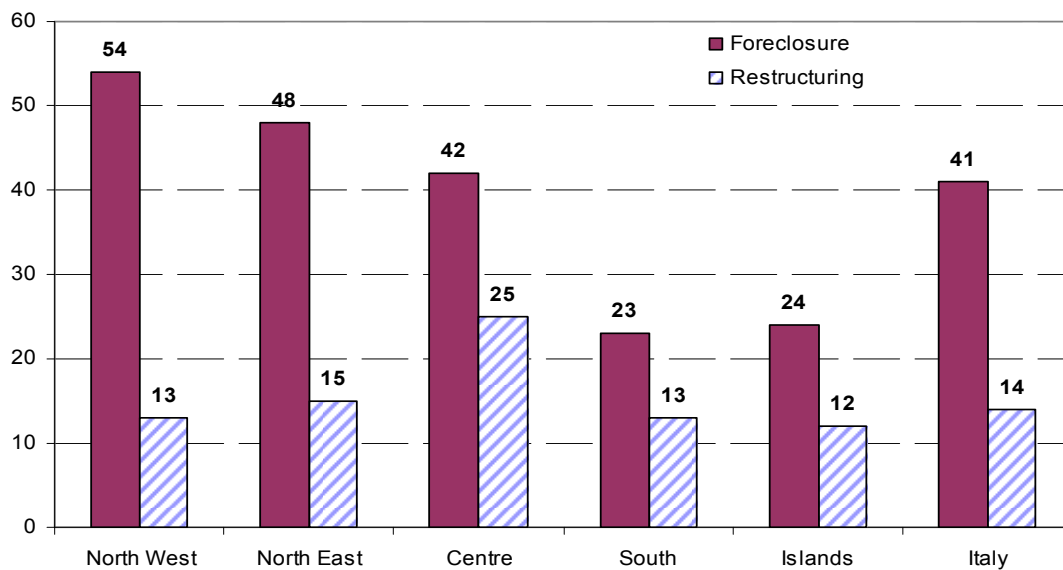
**Average costs to close a business<sup>(a)</sup>**  
*(percent of assets)*



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 13**

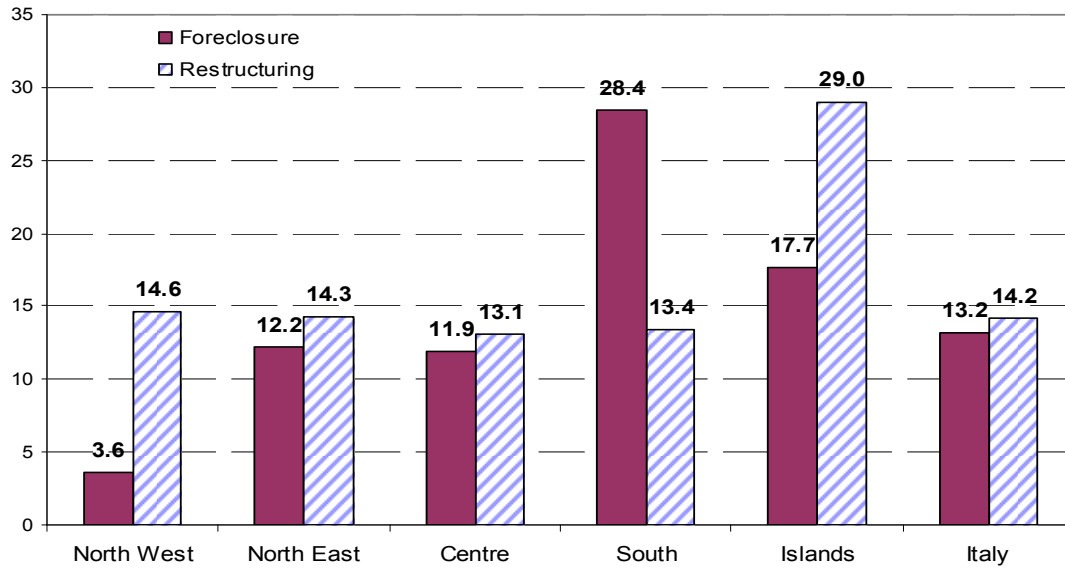
**Average time to close a business (Foreclosure and Restructuring)<sup>(a)</sup>**  
*(months)*



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 14**

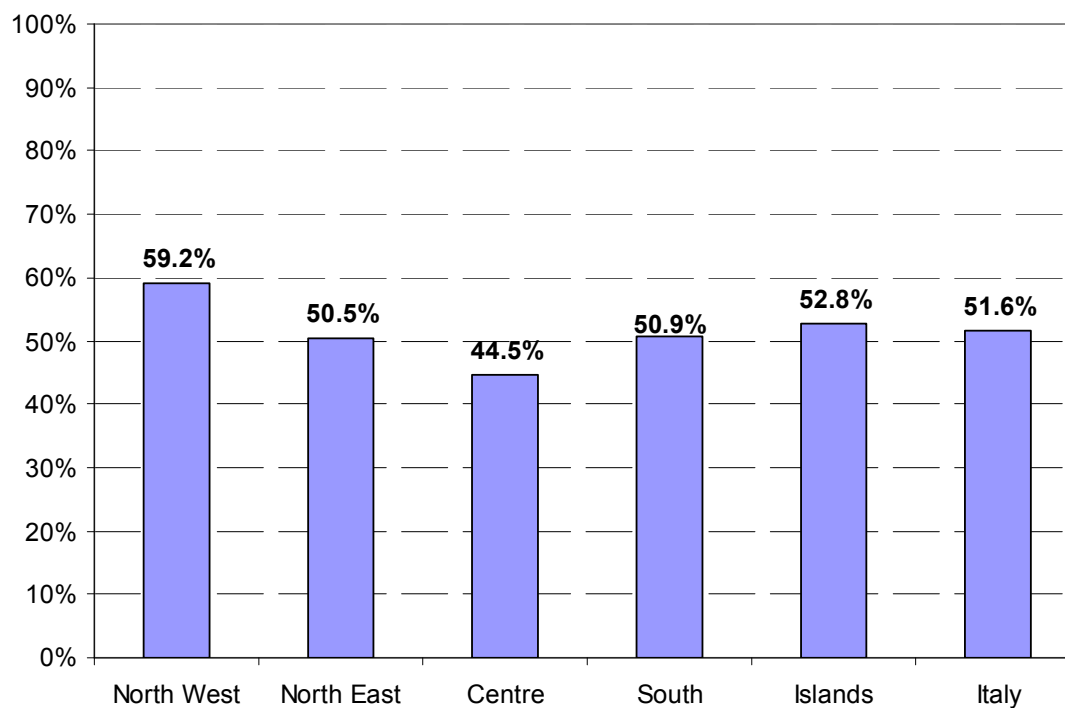
**Average costs to close a business (Foreclosure and Restructuring)<sup>(a)</sup>**  
*(percent of assets)*



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

**Figure 15**

**Recovery rate<sup>(a)</sup>**  
*(percent of credit)*



(a) Values for each macro region are weighted (by the regional GDP) averages of regional measures.

## 5. Conclusions

As we expected, the survey finds significant regional variance of the indicators in terms of length and costs of some of the procedures related to business activities. The North South divide is particularly evident with reference to some indicators. The South shows a worse performance in starting a business, enforcing contracts, time of dealing with construction permits and costs of closing a business, but it is relatively less inefficient in other cases (costs of construction permits and time of bankruptcy procedures). The procedures to register a property show a limited variability across the regions.

For those indicators where regional variability across regions is high, this might depend on various factors: given that in most cases (with the exception of construction permits) the discipline is set at national level, the reason may be the different efficiency of local public administrations (especially as regards the length of procedures) or the behaviour of the professionals involved (particularly with reference to some costs components). This implies that in principle substantial gains might be achieved if all regions converged towards the most efficient local administrations, or if there were more competition among professionals.

The evidence collected also suggests that recent reforms have generally moved in the right direction. Simplification in starting businesses procedures (whose effects we are able to evaluate quite precisely, even if they may not be fully realized, given that the new Single Communication procedure could be used as an alternative to the traditional method) shortened the time needed (but, did not reduce the costs). The reform of bankruptcy procedures made restructuring more appealing.

Finally, results might be compared to the values of these indicators in the World Bank Doing Business report (even if, as was shown in section 3, the questionnaires were in some cases adapted and hence a precise comparison is not possible): in most cases the indicators, especially when referred to the capital city, have lower values than those given by the World Bank; a notable exception is the “enforcing contracts” indicator which shows a much higher value.

## **APPENDIX**

**Table A.1****Procedures to start a business**

<b>Traditional (without SC)</b>		<b>with SC</b>	
<i>no.</i>	<i>Description</i>	<i>no.</i>	<i>Description</i>
1	Deposit of capital with a bank	1	Deposit of capital with a bank
2	Execution of public deed of incorporation	2	Execution of public deed of incorporation
3	Apply for tax id. number with local tax office	3	Pay government grant tax
4	Register deed of incorporation with tax office	4	Single Communication (SC) to register of enterprises
5	Pay government grant tax	5	Register deed of incorporation with tax office
6	Register with register of enterprises	6	Buy company and accounting books
7	Buy company and accounting books	7	Notify competent labor office the employment of workers
8	Register with public pension office (INPS)		
9	Register with accident insurance office (INAIL)		
10	Notify competent labor office the employment of workers		

**Table A.2****Procedures to obtain construction permits**

<i>no.</i>	<i>Description</i>	<i>no.</i>	<i>Description</i>
1	Obtain technical clearance from the Regional Technical Office	10	Water and sewerage installation
2	Building permit	11	Apply for electricity connection
3	Pay the building permit fees	12	On site inspection and estimation of power costs by electricity provider
4	Test building structure	13	Obtain power connection installation
5	On site inspection by fire dep.t	14	Obtain telephone connection
6	Occupancy certificate		
7	Register the building		
8	Apply for water and sewerage connections		
9	On-site inspection and estimation of water and sewerage costs		

**Table A.3****Procedures to register a property**

<i>no.</i> <sup>+</sup>	<i>Description</i>
*	Obtain building and occupancy permits from Municipality
2*	Obtain surveys from Land Registry (Ag. of Territory)
3*	Obtain surveys from Cadastral Registry (Ag. of Territory)
4*	Notary verifies powers of relevant signatories
5*	Authentication of seller's documents
6	Notary public drafts and executes the deed of sale
7	Registration of the deed at the Tax Office and at the Agency of Territory (Land and Cadastral registries)

+; procedures with asterisk \* can be executed simultaneously.

**Table A.4****Costs (paid by plaintiff) to enforce a contract**

<i>Type</i>	<i>Description</i>
Attorney's costs	Fees paid by plaintiff: a) to attorney for trial and judgment b) to attorney for other steps (enforcement).
Court costs	Court costs for trial and judgment (stamp duties, taxes, expert fees..)
Enforcement costs	Costs incurred by plaintiff to enforce judgment: a) through a public sale / auction of defendant's goods; b) other costs paid by plaintiff for the enforcement of the sentence.

Table A.5

## Questionnaires received

Region	Start up with SC		Start up w/o SC		Building permits		Registering property		Contract Enforcement		Closing a Business		Total	
	a	b	a	b	a	b	a	b	a	b	a	b	a	b
Aosta Valley	3		4		2		3				1		13	0
Piedmont	2		2		3		3		5		5		20	0
Lombardy	2		3		4		3		4		3		19	0
Liguria	3	1	3		4		2	2	3	1	3	1	18	5
Veneto		7		15	1	12	3	12	2	13	2	8	8	67
TAA*	2	2	4	4	5	1	2	1	4	2	1	1	18	11
FVG	2	1	2	1	1	1	1	2		1	2		8	6
ER	1		2		2		3		1		3		12	0
Tuscany	5	3	5	3		2		5		4		3	10	20
Umbria	2	1	3	1	4		1	1	3	1	5	1	18	5
Marche	4	1	4	1	3		3		3		3		20	2
Lazio	4		4		1		2		3		2		16	0
Abruzzi			4		4		3		2		2		15	0
Molise	2		2		2		3		2		2		13	0
Campania	2		2		3				2		2		11	0
Apulia	1		2	2	3	2	3	1	3	2	2	1	14	8
Basilicata	2		4		5		2	1	1	1	2	1	16	3
Calabria	4		5		2		3		4		5		23	0
Sicily			3		1	1			5		1		10	1
Sardinia	1	2		3	1	3	1	2	1	2	1	2	5	14
<b>Total</b>	<b>42</b>	<b>18</b>	<b>58</b>	<b>30</b>	<b>51</b>	<b>22</b>	<b>43</b>	<b>27</b>	<b>48</b>	<b>27</b>	<b>47</b>	<b>18</b>	<b>287</b>	<b>142</b>

(a) region capital city. – (b) other provinces capital cities. – \* in TAA, Trento is considered as the regional capital city.

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