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QUALITY IMPROVEMENTS IN BUSINESS REGISTERS AND IMPLICATIONS OF  
REVISIONS OF NACE (NOMENCLATURE GÉNÉRALE DES ACTIVITÉS  
ÉCONOMIQUES DANS LES COMMUNAUTÉS EUROPÉENNES) AND INTERNATIONAL  
STANDARD INDUSTRIAL CLASSIFICATION (ISIC)

QUALITY IMPROVEMENTS IN CROATIAN BUSINESS REGISTER  
AND IMPLICATIONS OF REVISION OF NACE

Submitted by Croatia

The meeting is organised jointly with the Commission of the European Communities (Eurostat) and the Organisation for Economic Co-operation and Development (OECD)

**SUMMARY**

Project of establishing the Statistical Business Register (SBR) began within the Twinning project with Statistics Denmark and Statistics Sweden in 2003. The first version of the SBR in the Central Bureau of Statistics (CBS) was set up in 2004.

Following the demands from the Business Register Regulation from 1993 the Croatian SBR contains legal unit, enterprise and local unit. Legal units are transferred from administrative sources. Enterprises are linked to the legal units by one-to-one connection which means that each legal unit forms its own enterprise. Every enterprise has at least one local unit. Local units are either compiled from administrative sources or added into the SBR according to the information

obtained directly from the enterprises, from the Internet, etc. Enterprise groups are still not included in the Croatian SBR.

The Croatian SBR covers about 90 per cent of total economy since it contains all legal persons, state government bodies, bodies of local and regional self-government units and natural persons (crafts). Free lances are missing but there is a plan to include them into the SBR in the near future. The administrative sources used for compiling the units and updating the SBR are: the Register of Business Entities (RBE), the Central Register of Crafts (CRC), Financial Agency (FINA) and Tax Administration (TA). Legal persons and government bodies are registered by the RBE which is also situated in the CBS and it is the basic source for the SBR. Crafts are registered by the CRC which is established by the Ministry of Economy. The RBE and the CRC are used for detecting new units and updating the changes of the exiting ones. FINA holds the Register of Annual Financial Reports that provides a lot of business and financial information and the TA holds The Register of Tax Payers. The most important data from FINA and TA used for updating the SBR are net turnover, number of employees, activity code and activity status. Besides that, data from business statistics departments e.g. results from statistical surveys are also used for improving the quality of main and secondary activities and data about local units of enterprises.

Main improvements in quality of the SBR last year are achieved by using the first SBS construction survey to correct the main activity codes for units covered in that survey. Besides that the coverage of the SBR was extended by including natural persons (crafts) into the SBR.

There is also a plan to make use of the activities regarding implementation of NACE Rev. 2 in 2007 as opportunity to improve the quality of main activity codes.

Moreover, coverage of units in the SBR will also advance in next two years when free lances and enterprise groups will be introduced into the SBR.

## **I. INTRODUCTION**

1. The need for the Statistical Business Register (SBR) in the Central Bureau of Statistic (CBS) was recognised rather long time ago because existing Register of Business Entities (RBE) that has been kept in the CBS since 1976 was not fulfilling the needs of the users inside the statistical office. Preparation of the ground for it started almost 10 years ago but actual project of establishing the Statistical Business Register started with the Twinning project with Statistics Denmark and Statistics Sweden in 2003. Although the twinning project finished in 2006, developing and improving of the SBR is still going on but the first version of the SBR was set up in 2004 (with a lot of difficulties with human and IT resources).

2. When creating the SBR the intention was to follow EU regulations concerning business registers for statistical purposes to achieve certain point of standardisation and harmonisation with other national business registers in European countries as well as complying with the

demands from the users inside the CBS. Most of the demands from the BR regulation<sup>1</sup> from 1993 we managed to meet especially concerning the units and conditional variables.

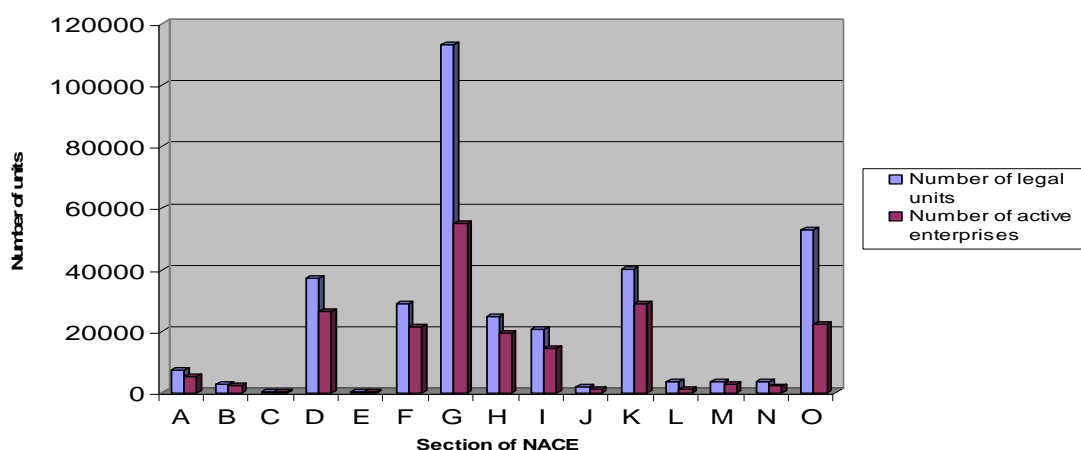
## II. UNITS IN THE SBR

3. The Croatian SBR has legal unit, enterprise and local unit. The proposal of the new BR regulation points out enterprise groups as obligatory units, but in the Croatian SBR due to the asset constraints their inclusion was not priority task so far, so they are not included at the moment.

4. Legal units are transferred from administrative sources and stored in the SBR without any change of the information. So it is the copy of units registered in another registers. The most important variables of the legal units are ID number (for connecting SBR with other administrative sources), name, address, activity code, legal form etc. There are 342.361 legal units in the SBR (on 31 March 2007).

5. Enterprises are linked to the legal units by one-to-one connection which means that each legal unit forms its own enterprise. Data concerning enterprises are compiled from different sources – both administrative and statistical. They refer to economic activity status, activity code that is eventually different from the one assigned at original registration body (more accurate one), secondary activities, employment and turnover figures. Enterprises are considered as active if they have submitted annual financial report to the Register of Annual Financial Reports where they stated to have some employment or turnover or to be in bankruptcy. To extend the coverage of active enterprises tax files are checked for those enterprises who did not submit financial report but according to this source they had some activity in previous year.

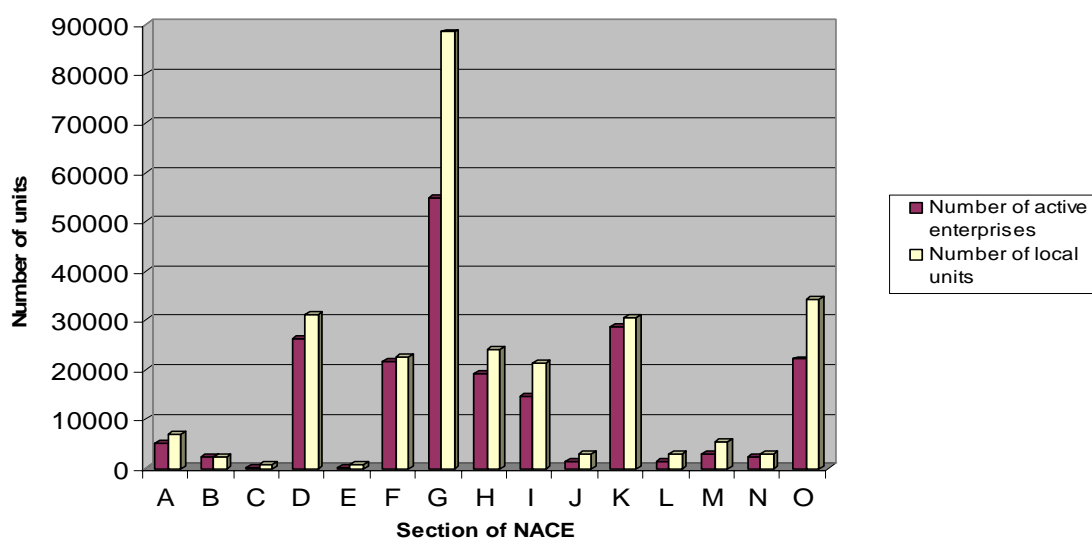
Chart 1  
Legal units and active enterprises



<sup>1</sup> COUNCIL REGULATION (EEC) No 2186/93 of 22 July 1993 on Community co-ordination in drawing up business registers for statistical purposes.

6. Every enterprise has at least one local unit. Majority of local units in the SBR are compiled from administrative sources: the RBE and the Central Register of Crafts (CRC). The coverage of local units in the RBE is not satisfactory because they are not consistently registered. There is no obligation for the companies to register all local units. Certain number of local units is added to the SBR according to the information obtained directly from the enterprise (by phone or by fax) or from the Internet (web site of the enterprise). The CRC has better coverage of the local units because crafts are obliged to register their local units.

Chart 2  
Active enterprises and local units



### III. COVERAGE

7. Regarding the registration bodies and procedures, business entities in Croatia are divided in three types:

- (a) Legal persons and government bodies;
- (b) Crafts;
- (c) Free lances.

8. The Croatian SBR covers all legal persons, state government bodies and bodies of local and regional self-government units registered by the RBE.

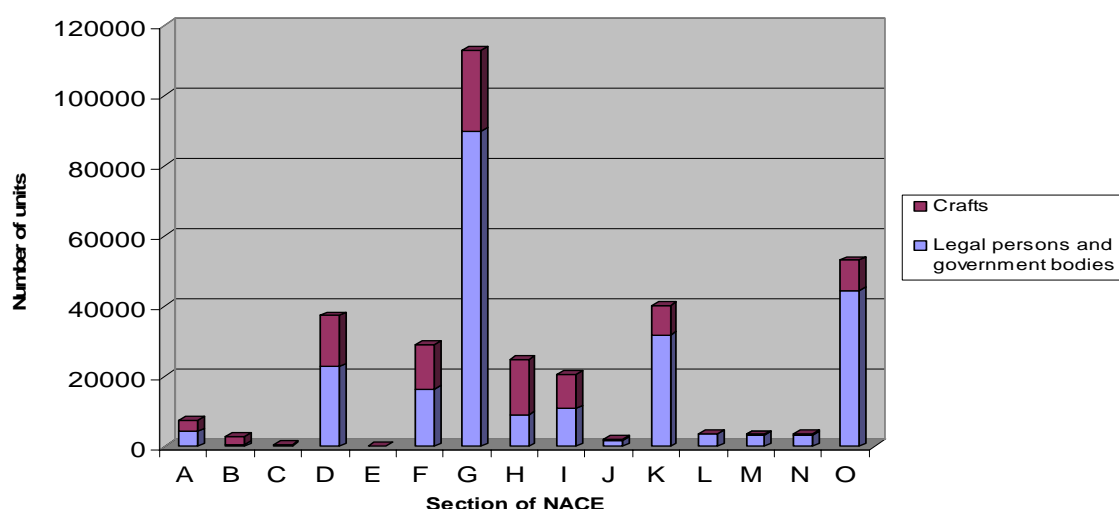
9. Crafts and free lances are considered as natural persons since their business operation is connected to the owner of the business.

10. Since 2006 crafts are also included in the SBR but at the moment the coverage is 90 % of all crafts registered by the CRC. Missing 10 per cent of crafts is due to the incorrect identification data. Method of matching the data needs to be developed to improve the coverage.

11. Free lances are registered in the number of different registration offices and bodies but they are not yet included in the SBR. There are about 30.000 units of that type and there is a plan to cover at least a part of them which are feasible to transfer from their original register and with the possibility of regular updating.

12. All sections of the NACE are covered and there are no size constraints among all units.

**Chart 3**  
**Enterprises according to NACE**



#### **IV. SOURCES OF THE SBR**

##### **A. Basic administrative sources**

##### **1. Register of Business Entities (RBE)**

13. Legal persons and government bodies are registered by the RBE. The RBE is the basic source for the SBR as the most important units and the data comes from it. Although the RBE is also situated in the CBS, it is pure administrative register. At the moment of registration in the RBE, the company is assigned unique ID number which is used by all other administrative institutions. By registration each company is also assigned the NACE code. Besides activity code and ID number, the RBE keeps a number of other data about the company, such us:

- (a) Name;
- (b) Address;
- (c) Legal form;
- (d) Origin of the capital;
- (e) Type of ownership;
- (f) Legal status;
- (g) Local units, etc.

14. The RBE is updated daily and also provides information about changes of the variables which are reported by companies themselves.

15. There are approx. 242.000 legal persons registered in the RBE which are legally active but a large proportion of them are economically inactive or dormant. This information about economic activity status does not exist in the RBE.

16. In the moment of establishing, the SBR took over all RBE data and since then has been regularly, once a month, taking over changes - adding new units and updating the data on existing units.

## 2. Central Register of Crafts (CRC)

17. Another important source for improving the coverage of units in the SBR is the CRC established by the Ministry of Economy. The CRC is the original register of crafts and has complete coverage of that type of the companies. The CRC is used as a source for the SBR since autumn 2006.

18. Available data in this source are:

- (a) ID number of the craft;
- (b) Personal ID number of the holder of the craft;
- (c) Name;
- (d) Address;
- (e) local units, etc.

19. For each craft the CRC keeps one or more NACE codes for activities that are permitted to be carried out by the craft but there is no way to detect the ones that craft actually perform. Moreover, activity codes are of poor quality and that is why this variable is added to enterprises from another source – Tax Administration. Craft register has more accurate information whether the craft is in operation, dormant or it is dead.

20. There are approx. 112.000 crafts registered by the CRC.

## B. Other administrative sources

### 1. Financial Agency (FINA)

21. FINA is the state owned agency that deals with financial mediation. It provides different kind of services such as business information, cash operations, e-business, etc. Among other activities FINA holds a number of registers. For the SBR at this moment the most important one is the Register of Annual Financial Reports.

22. The Register of Annual Financial Reports contains all annual financial reports submitted by:

- (a) Non financial enterprises - all economically active legal persons and small part of crafts and free lances that are in the profit tax system (and also legal and natural persons in bankruptcy);
- (b) Banks and credit institutions;
- (c) Insurance companies.

23. Besides the data from the Register of Annual Financial Reports, FINA provides the data from the annual reports of:

- (a) Non-profit organisations;
- (b) State and budget institutions.

24. FINA provides a lot of business and financial information (balance sheet, profit and loss account), and for the SBR the most important are indication whether the unit is economically active, net turnover and employment information.

25. The good thing about this source is that FINA provides a complete coverage of the legal persons and government bodies according to all measures: size, ownership, activity code.

26. The data are available in the middle of the year for the previous year.

## 2. Tax Administration (TA)

27. The TA holds the Register of Tax Payers, from which three types of taxation data are of interest for the SBR:

- (a) Profit tax (corporate income tax) – covers legal persons and a small part of the crafts and free lances;
- (b) Income tax - covers only crafts and free lances;
- (c) VAT – covers all types of businesses whose annual income exceeds 11.500 EUR (approx. 75 per cent of all legal and natural persons).

28. Data used from this source are:

- (a) Activity status for crafts and for legal persons that are not found in the FINA database (units that are active according to the knowledge of the TA but for some reason did not submit annual financial report to FINA in time);
- (b) Activity code for the crafts;
- (c) Number of employees for the crafts and for enterprises not found in FINA database.

29. The weakness of this source is that the data are available with big delay – almost a year, and for income tax data even longer.

### C. Statistical sources

30. Besides administrative sources, the SBR is also updated with the data from the statistical surveys. In 2006 the first Structural Business Statistic (SBS) survey for construction (section F of NACE) was conducted and the collected data was also used to update the SBR. Since it was conducted for the first time, all active units registered in section F were surveyed to obtain information about correct activity codes. 7.031 enterprises were covered, response rate was 81 per cent (5.689) - and 900 out of 5.689 returned questionnaires reported different activity code (15,8 per cent). So this information was used for updating the activity codes in the SBR.

31. This year, besides for section F, SBS survey will be conducted for section G using the sample and hopefully it will provide useful information for updating the SBR.

## V. **UPDATING OF THE SBR**

32. The SBR is updated from administrative and statistical sources as described in the table below (Table 1).

Table 1  
Sources for SBR updating

Source	Frequency	Variable
Register of Business Entities	Monthly	Births Deaths Changes of name, address, activity code, legal form, etc.
Central Register of Crafts	Semi-annually	Births Deaths Changes of name, address, etc.
Financial Agency	Annually	Activity status Net turnover Employment
Tax Administration	Annually	Activity status Activity codes for crafts Employment for crafts
SBS	Annually	Change of the activity code

## VI. **IMPLICATIONS OF REVISION OF NACE**

33. Preparatory activities for reclassification of business entities have been carried out since November 2006.

34. Since the RBE is situated in the CBS and is the basic source of the SBR, it is decided that it has to be reclassified first and the SBR will be reclassified after that, actually new codes for the units in the RBE will be taken over into the SBR.



A. Reclassification of units in the RBE

35. Due to the lack of financial assets there will not be a survey to question enterprises about their new activity code. It is decided to involve statisticians from all business statistics, national accounts and labour statistics as well as business register staff in the work of reclassifying units in the RBE.

36. The frozen state of the RBE data will be taken on 30 June 2007. Temporary working database will be created with this frozen state where all changes of activity codes will be stored.

37. First, the automatic recoding will be done for those units whose activity code is changing using 1:1 and n:1 relation. In the cases 1:n and n:m selection will be made to extract active units which have 10 or more employees. This set of units will be recoded manually in the statistical departments that usually cover them in regular surveys according to the best knowledge about their activity and production.

38. The rest of the units: inactive and those under 10 employees will be reclassified automatically, that means using correspondence tables for achieving the most probable match.

Table 2  
Units that have to be reclassified according to the type of relation

Type of relation	Number of legal units	Share of legal units	Economically active units with 10 or more employees	Share of economically active units
1:1	150.875	62,81%	8.071	59,58%
n:1	8.338	3,47%	435	3,21%
1:n	9.029	3,76%	524	3,87%
n:m	71.980	29,96%	4.517	33,34%
Total	240.222	100,00%	13.547	100,00%

Chart 4  
Number of legal units that has to be reclassified

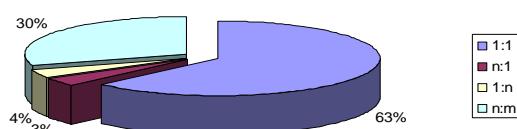
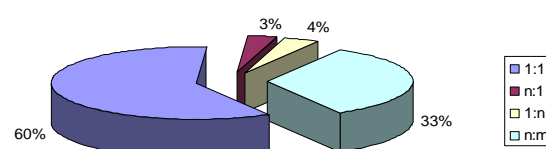


Chart 5  
Economically active units with 10 or more employees



39. After all units are reclassified in the working database, all new codes will be transferred into the real base of the RBE at a certain point in time, so from that day both codes NACE Rev. 1.1 (national version is NKD 2002) and NACE Rev. 2 (national version is NKD 2007) will be in use. The CBS intends to have dual coding of units for two years.

B. Improving the quality of the registered activity codes

40. Implementation of NACE Rev. 2 is also an opportunity to improve the quality of activity codes. So far activity codes in the RBE were only exceptionally updated from statistical sources because of the administrative nature of this register. Every change needs to be justified with the proper documentation for every single unit and with the approval of the business entity. Normally the changes are made on the request of the business entity. A certain number of activity codes are incorrect because business entities are not obliged to report activity changes, so it is not unusual that the first registration code remains all the time even if activity has changed in the real world.

41. For the purpose of improving the quality of existing codes in the RBE for active units with 10 or more employees, activity codes will be revised according to knowledge about their real activity and production gained through statistical surveys and daily contacts with business entities. After correcting the code, the units will be reclassified according to NACE Rev 2.

C. Sending the notification about the new code to the companies

42. The RBE will inform all active units about the newly assigned codes through the Notification about classification - the document that every business entity receives by the first registration in the RBE and by every registered change.

43. If the business entity is not satisfied with new NACE code, it will be asked to react and inform the RBE. If the NACE code is assigned on the basis of previous statistical surveys and business entity is still not satisfied with the new code it will have to justify its own arguments with appropriate documentation why the assigned code is not appropriate one. According to the plan major part of Notifications about new classification codes will be delivered through the offices of Financial Agency which are in daily contact with the most of the business entities. The rest of them will receive Notification by mail.

D. Taking over main activity codes into the SBR

44. After the work on reclassifying the RBE, new codes will be taken over in the SBR. Since the SBR also covers crafts, we expect that reclassification will be done in similar way at Central Register of Crafts and by Tax Administration so the new activity codes for crafts (hopefully with improved quality) will be as well taken over in the SBR. It is expected that all work of implementing the new classification will be done by the end of the year.

45. Besides main activity, 1.879 enterprises have secondary activities. Those will be recoded using the previously mentioned correspondence tables. The same will be done with the local units which have activity codes different from main activity of the enterprise. The intention is to

revise a number of such automatically assigned codes in the next year quality survey that is planned to be carried out for the first time.

## VII. CONCLUSION

46. Quality improvements of the SBR are continuing task that is among the key priorities in Croatian CBS. During this and next year the coverage of units in the SBR will be improved when the method of matching misidentified crafts is developed and at least most important sets of free lances is included in the SBR. Moreover, in order to comply with the proposed new BR Regulation, preparations for including enterprise groups will be started.

47. Besides using the implementation of NACE Rev. 2 as opportunity to improve the quality of main activity codes for at least part of the units of the SBR, there is also intention to include the results from other statistical surveys, not just from the existing SBS surveys, to update activity codes in the SBR.

48. Some other administrative sources are under consideration to be used for updating or adding the new data to the SBR, and there are negotiations going on with sources currently used about improving their data quality and mutual cooperation in this task.

49. Scarce resources (especially IT and SBR staff, and funding for SBR surveys) are the major obstacle to bigger progress, but development of the Croatian SBR is steadily going on in fulfilling the task that is primarily finding the way to meet the users' needs.

### Abbreviations

Abbreviations	Description
CBS	Central Bureau of Statistic of Republic of Croatia
SBR	Statistical Business Register
RBE	Register of Business Entities
CRC	Central Register of Crafts
FINA	Financial Agency
TA	Tax Administration
SBS	Structural Business Statistics

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