



Cutting Red Tape

Administrative Simplification in the Netherlands



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Foreword

Work on this report follows the study *Cutting Red Tape: National Strategies for Administrative Simplification* (OECD, 2006), launched by the OECD's Working Party on Regulatory Management and Reform as part of the work programme of the Public Governance Committee. This report, which takes the previous, more general study further, examines the strengths and weaknesses of the Dutch programme for reducing administrative burdens on companies and citizens. The report describes how it has been possible to reach ambitious and impressive targets for burden reduction within a limited time-span. The lessons learned regarding the political economy of reform will be highly relevant to other countries aiming at improving the regulatory framework and reducing administrative burdens. At the same time, the report shows how administrative burdens are only a partial picture of the total regulatory burden and that the benefit side of regulation will need to be taken into account if countries seek to assess and improve the quality of their regulation. The report contains a number of recommendations to further develop a structured programme for improving the regulatory framework in the Netherlands. This includes broadening the scope of the programme to include wider compliance costs and the burdens put on government itself, while at the same time maintaining the key features of the framework that has proven so successful in the current phase of the programme.

The report is in the nature of a peer-review assessment initiated at the request of the Dutch Ministry of Finance. The support of Gerrit Zalm, Deputy Prime Minister and Minister of Finance, is gratefully appreciated. The OECD enjoyed close co-operation with the IPAL unit in the Ministry, under the direction of Jeroen Nijland, and of ACTAL. Many officials and advisers provided background information and participated in interviews and meetings. The Government of the Netherlands asked the Doing Business programme of the World Bank to carry out an evaluation in close co-operation with the OECD. Teams from both organisations shared data and study missions, and discussed their assessments and recommendations, bringing their respective strengths to a topic of mutual interest. The Dutch government should be thanked for bringing these two institutions together.

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Executive Summary

Administrative simplification is becoming a priority of OECD countries seeking to improve public governance and regulatory quality. Cutting red tape will improve the framework for doing business, thus stimulating competitiveness and growth. The Netherlands have been a main driver in the trend towards more evidence-based programmes to reduce administrative burdens on companies and was among the first to launch a 25% burden reduction programme. A similar exercise has been undertaken to reduce administrative burdens on citizens. In both domains, the Netherlands is seen as a front-runner and has inspired other countries.

The main focus in this study is placed on the programme directed towards businesses. The aim was to assess to what extent the Netherlands reached its 25% target for the 2003-07 period. This involved examining the methods used for simplifying legislation or streamlining administration and the institutional set-up for managing the political economy of reform, creating change of behaviour and perception across ministries where bureaucratic inertia and resistance could in other cases stall reform. Furthermore, the Netherlands invited recommendations on how the programme could be deepened and widened in order to achieve higher benefits and exploit the momentum that had been created.

The first and most important finding is that it has been possible for the Dutch administration to develop action plans containing concrete measures to meet the burden reduction target by a quarter within the limited time span of a single Cabinet period. Even if there is still some uncertainty as to endorsement and implementation of some initiatives to be reached in the course of 2007, the achievement is remarkable. This can be illustrated by the fact that the Netherlands will be the first country to realise a reduction target of this scale – and also that previous efforts in the Netherlands to reduce administrative burdens on companies have been less successful.

The report points to six elements that contribute to explain the success of the current programme for administrative simplification. Together these elements constitute what could be called *the Dutch model* for reduction of administrative burdens:

- **Measurement:** A method for measuring the total administrative burden and for mapping the distribution of burdens on individual regulations and ministries has been developed. This Standard Cost Model (SCM), which has been taken up by a high number of countries and the European Commission, enables a targeting of simplification efforts for the most burdensome regulations and makes it possible to monitor the development of overall administrative burdens.
- **Quantitative target:** By establishing a quantitative, ambitious and time-bound target, and communicating this widely, the government accepted to be held accountable on a highly prioritised policy goal. The target has been divided among ministries and over years, thus providing a strong instrument for steering and monitoring simplification efforts across the administration.
- **Strong co-ordinating unit at the centre of government:** The inter-ministerial project team (IPAL), located in the Ministry of Finance, provided a coherent co-ordination of the programme across ministries. IPAL ensured methodological consistency, common and co-ordinated reporting and use of instruments such as risk assessment to increase the likelihood of successful implementation of the many initiatives to simplify the regulatory framework.
- **Independent monitoring:** The Advisory Board on Administrative Burdens (Actal) played the role of independent watchdog, monitoring progress towards meeting the reduction target and assessing the initiatives of individual ministries. Actal assisted in guiding and advising ministries and provided independent and horizontal advice to the Cabinet on ways and means to strengthen the programme. From the outset, the possibility of abandoning the programme in times of difficulty was removed, or at least made very costly. This independent body contributed to ensure sustained attention and support for the programme.
- **Link to the budget cycle:** Reporting to Cabinet and Parliament on plans for and progress on the burden reduction programme has been linked to well-established reporting procedures related to the budget. This led to unavoidable deadlines for reporting and ensured recurring attention from the Cabinet and Parliament. It also made clear to ministries that performance on the programme would be of relevance in budget discussions with the Ministry of Finance and its minister.
- **Political support:** The programme for the reduction of administrative burdens has had clear and sustained political support from the Cabinet, expressed from in the Coalition Agreement and onwards. The programme

enjoyed support of the responsible minister in dealing with colleagues and has also been backed by Parliament and relevant civil society organisations. This broad and sustained support protected the programme from being politicised or slowed down, e.g. from institutional inertia or unwillingness to change.

Further findings show that the linkage between the burden reduction programme and other programmes and initiatives for public sector modernisation and reform is rather weak. This may lead to a loss of possible synergies and difficulties of co-ordination and communication. The e-government programme is an example of a related programme with a high correspondence in goals, tools and target groups, which has not been linked to the programme for the reduction of administrative burdens. Problems of co-ordination are also seen in the relationship between central and local governments, the relationship between ministries, and programmes seem to have been suffering from a lack of integration.

Problems of communication may explain the relatively low appraisal of the achieved results by the business community in the Netherlands. Even if the government presented highly realistic action plans to remove EUR 4 billion worth of administrative burdens, expectations of the main target group, the Dutch businesses, are still not met. Expectations have been higher, or different. Finally, there may be a downside to political neutrality underpinning the programme and safeguarding its broad political support: initiatives in the programme can by definition only improve the cost effectiveness in the way societal goals are pursued by addressing regulation and information obligations on businesses (and not content obligations). The result is that the benefit side of regulations is left out of the equation as the balance between costs and benefits is not up for discussion.

Recommendations

The Netherlands should take advantage of the current momentum and the broad political support for public sector reform by deepening and widening the current programme for administrative burden reduction and by strengthening the link to other related government programmes.

Relevant aspects to consider are broader compliance costs for businesses, cost of regulation on the government side, and the balance between protection and dynamism. If some or all of these elements are included, a very clear formulation of definitions and goals will strengthen internal and external communication on the programme.

Deepening and widening the programme includes:

- Maintaining the core elements of the successful Dutch model to be carried over into new areas that become included in the programme: strong political support, a dedicated unit at the centre of government, an independent body with a mandate to give advice and act as watchdog, linkage to the budget cycle, measurement and quantitative targets.
- Expanding the work on administrative simplification by aiming for additional reductions. Further use of ICT holds promise of delivering substantial burden reductions.
- However, if a further 25% reduction is sought, it may be necessary to re-evaluate the principle of political neutrality and develop a more operational regulatory policy including a stronger risk-based approach and further examining possibilities of regulatory alternatives. Thoughts on the distribution of responsibilities between the state and the social partners and on the issue of trust *versus* control can inform this effort.
- The scope of the programme should be broadened from administrative burdens alone – firstly into broader compliance costs, in order to take investments and other direct costs into account when assessing the effect of regulation on businesses.
- Measurements and quantitative targets should accordingly be expanded to cover broader compliance costs, even if this will require some methodological development. A sectoral approach will give the opportunity to select target areas strategically, ideally strongly informed by the views of businesses.
- The scope should also be broadened to cover the cost of regulation inside government, and especially affecting public service delivery – again including measurement and quantitative reduction targets.
- All levels of government should be included. This will entail a renewed effort to bring the discussion at the European level forward, and creating incentives for stronger local and regional administration participation in the programme. A selective targeting must be recommended in order to respect limits of capacities at the municipal level.

Finally, the report includes a set of recommendations on project management and co-ordination, on further development of measurement methods and on communication and stakeholder involvement.

The OECD and the World Bank Group, which undertook a similar review in parallel with the OECD, have co-operated on outlining a method for expanding the measurements into the field of broader compliance costs. The suggested approach is described in a common note, annexed to this report.

Résumé

La simplification administrative devient une priorité des pays de l'OCDE qui cherchent à améliorer la gouvernance publique et la qualité de leur réglementation. L'allègement des formalités administratives améliorera l'environnement dans lequel évoluent les entreprises, et stimulera ainsi la compétitivité et la croissance. Les Pays-Bas ont été tout à fait moteurs dans le mouvement d'adoption de programmes plus factuels visant à atténuer les charges administratives qui pèsent sur les entreprises ; ils ont été parmi les premiers à lancer un programme de réduction de 25 % de ces charges. Un exercice similaire a été entrepris pour les charges administratives pesant sur les citoyens. Dans les deux domaines, les Pays-Bas font figure de pionniers et ont servi de modèle à d'autres pays.

Cette étude met essentiellement l'accent sur le programme visant les entreprises. Elle a pour but d'évaluer dans quelle mesure les Pays-Bas ont atteint l'objectif des 25 % pour la période 2003-2007. On a pour cela examiné les méthodes mises en œuvre pour simplifier la législation ou rationaliser l'administration, ainsi que l'organisation institutionnelle utilisée pour gérer l'économie politique de la réforme, susciter des changements de comportement et de perception dans différents ministères où l'inertie et la résistance de la bureaucratie pouvaient, sous d'autres cieux, faire traîner la réforme. Les Pays-Bas avaient en outre sollicité des recommandations sur la manière d'approfondir et d'élargir le programme dans l'optique d'en tirer de plus grands avantages et d'exploiter la dynamique instaurée.

La première conclusion – qui est aussi la plus importante – est que l'administration néerlandaise s'est montrée capable d'élaborer des plans d'action contenant des mesures concrètes afin de remplir l'objectif de réduction d'un quart des charges administratives dans le laps de temps limité d'un unique mandat gouvernemental. Malgré les incertitudes qui demeurent quant à l'adoption et la mise en œuvre de certaines initiatives prévues pour 2007, ce résultat est remarquable, comme l'illustre par exemple le fait que les Pays-Bas seront les premiers à atteindre un objectif de réduction de cette ampleur et, aussi, que les efforts néerlandais antérieurs de réduction des charges administratives pesant sur les entreprises avaient connu une moindre réussite.

Le rapport détaille six éléments contribuant à expliquer le succès du programme de simplification administrative en cours. Pris ensemble, ils constituent ce que l'on pourrait appeler le *modèle néerlandais* de réduction des charges administratives :

- **Mesure** : une méthode visant à mesurer les charges administratives totales et établir précisément la répartition des charges par réglementation et par ministère a été mise au point. Ce Modèle de coûts standard (MCS), adopté ensuite par de nombreux pays et la Commission européenne, permet d'axer l'effort de simplification sur les réglementations les plus fastidieuses et de suivre l'évolution des charges administratives globales.
- **Objectif quantitatif** : en établissant un objectif quantitatif, ambitieux, assorti de délais et largement rendu public, les autorités ont accepté d'endosser la responsabilité d'une action publique hautement prioritaire. Grâce à son éclatement entre plusieurs ministères et sur plusieurs années, cet objectif est devenu un solide instrument de pilotage et de suivi de l'effort inter administratif de simplification.
- **Puissant organe de coordination au cœur du gouvernement** : l'équipe interministérielle de projet (IPAL), rattachée au ministère des Finances, a efficacement coordonné le programme d'un ministère à l'autre. Elle a également assuré la cohérence méthodologique, la mutualisation et la coordination des rapports d'exécution et le recours à des outils tels que l'évaluation des risques afin d'accroître les chances de réussite dans la mise en œuvre des nombreuses initiatives de simplification du cadre réglementaire.
- **Suivi indépendant** : le Conseil consultatif pour l'examen des charges administratives (Actal) a joué un rôle de gendarme indépendant assurant le suivi des progrès effectués en direction de l'objectif de réduction et l'évaluation des initiatives de tel ou tel ministère. L'Actal a apporté son concours au pilotage et au soutien de l'action des ministères, et prodigué au gouvernement des conseils indépendants et transversaux sur la manière de renforcer le programme. On a d'emblée supprimé, ou rendu très coûteuse, la possibilité d'abandonner le programme en cas de difficultés. Cet organe indépendant a contribué à garantir au programme une attention et un soutien sans faille.
- **Mise en relation avec le cycle budgétaire** : un lien a été établi entre d'une part les rapports transmis au gouvernement et au Parlement sur les actions prévues et réalisées de réduction des charges administratives, et d'autre part les procédures déclaratives budgétaires de rigueur. Il en a résulté d'inévitables retards dans la transmission des rapports, mais aussi une vigilance répétée de la part du gouvernement et des parlementaires. Cette mise en relation a aussi signifié clairement aux ministères que les résultats obtenus dans le cadre du programme compteraient dans les débats budgétaires menés avec le ministère – et le ministre – des Finances.

- Soutien politique : le programme de réduction des charges administratives a bénéficié d'un appui politique clair et constant de la part du gouvernement, inscrit dans l'accord de coalition et réitéré depuis lors. Il a joui du soutien du ministre responsable tout au long des pourparlers avec ses collègues, mais aussi du Parlement et des organisations concernées de la société civile. Large et durable, ce soutien a protégé le programme de toute politisation et de tout ralentissement dû, par exemple, à l'inertie institutionnelle ou la réticence au changement.

D'autres constats montrent que le lien entre le programme de réduction des charges administratives et d'autres programmes et initiatives de modernisation et de réforme du secteur public est plutôt ténu. Il pourrait en résulter une perte de synergies ainsi que des difficultés de coordination et de communication. Le programme d'administration électronique est un exemple de programme connexe qui, malgré de fortes concordances d'objectifs, d'outils et de groupes cibles, n'a pas été relié au programme de réduction des charges administratives. On observe aussi des problèmes de coordination dans la relation entre des instances centrales et locales et entre les différents ministères, ainsi qu'une intégration insuffisante des programmes.

Des problèmes de communication peuvent expliquer l'évaluation assez peu amène des résultats que formule le milieu néerlandais des affaires. Même si les autorités ont présenté des plans d'action fort réalistes pour supprimer les charges administratives à hauteur de 4 milliards EUR, les attentes du principal groupe cible – les entreprises – ne sont pas satisfaites. Ces attentes étaient soit plus fortes, soit autres.

Enfin, la neutralité politique qui marque le programme, et préserve le vaste soutien politique dont il jouit, présente peut-être un inconvénient : par définition, les initiatives de ce programme ne peuvent qu'améliorer le rapport coût-efficacité des moyens mis au service des objectifs sociétaux, en agissant au niveau de la réglementation et en imposant aux entreprises des obligations d'information (et non pas des obligations d'observation). L'équilibre entre les coûts et les avantages n'étant pas proposé comme thème de débat, les avantages éventuels des réglementations ne sont pas pris en compte dans l'équation.

Recommandations

Les Pays-Bas devraient tirer profit de la dynamique actuelle et du vaste soutien politique en faveur de la réforme du secteur public pour approfondir et élargir le programme existant de réduction des charges administratives et renforcer les liens avec d'autres programmes gouvernementaux connexes.

Il conviendrait d'inclure d'autres aspects pertinents tels que l'élargissement de la définition des coûts liés au respect de la réglementation pour les entreprises, le coût de la réglementation pour le gouvernement et l'équilibre entre protection et dynamisme. Si ces éléments sont ajoutés en totalité ou partiellement, une formulation très claire des définitions et objectifs renforcera la communication interne et externe relative au programme.

L'approfondissement et l'élargissement du programme comprennent les éléments suivants :

- Les composantes centrales du modèle qui a réussi aux Pays-Bas doivent être conservées et intégrées aux nouveaux domaines d'action du programme : fort soutien politique, organe spécialisé de coordination au cœur même du gouvernement, organe consultatif indépendant faisant fonction d'autorité de surveillance, mise en relation avec le cycle budgétaire, système de mesure et objectifs quantitatifs.
- Les travaux sur la simplification administrative doivent être élargis en visant des réductions supplémentaires. Le renforcement du recours aux TIC est porteur de réductions conséquentes des charges.
- Si une diminution supplémentaire de 25 % est recherchée, il pourrait toutefois s'avérer nécessaire de réévaluer le principe de neutralité politique et d'élaborer une politique réglementaire plus opérationnelle incluant une démarche plus affirmée de gestion des risques et un nouvel examen des solutions réglementaires de substitution. Des réflexions sur une nouvelle répartition des responsabilités entre l'État et les partenaires sociaux, ainsi que sur la place à donner à la dimension « confiance » au détriment de la dimension « contrôle », pourraient apporter d'utiles éléments à ce processus.
- La portée du programme devra dépasser le cadre des seules charges administratives et inclure dans un premier temps une définition plus large des coûts liés au respect de la réglementation, afin de tenir compte des investissements et d'autres coûts directs dans l'appréciation de l'effet de la réglementation sur les entreprises.
- Même s'il faut pour cela mener un travail méthodologique, il conviendrait en conséquence d'étendre le système de mesure et les objectifs quantitatifs aux coûts plus généraux liés au respect de la réglementation. Une démarche sectorielle permettra de retenir tel ou tel domaine cible en s'appuyant fortement, dans l'idéal, sur les avis émis par les entreprises.
- Il faudrait aussi élargir la portée du programme au coût de la réglementation pour les administrations elles-mêmes, s'agissant notamment de la prestation des services publics, en l'assortissant là aussi d'un système de mesure et d'objectifs quantitatifs de réduction.

- Tous les échelons administratifs concernés devraient être pris en compte. Il faudra pour cela consentir un effort renouvelé visant à mettre en avant le débat au niveau européen, et créer des incitations pour que les administrations locales et régionales participent davantage au programme. Un ciblage sélectif doit être recommandé à cet égard afin de respecter les limites municipales de capacités.

Le rapport propose enfin une série de recommandations relatives à la gestion et la coordination du projet, à l'élaboration future de méthodes de mesure et au dispositif de communication et d'implication des parties prenantes.

L'OCDE et le Groupe de la Banque mondiale, qui a entrepris parallèlement une étude similaire, ont coopéré à la définition d'une méthode d'extension du système de mesure au domaine des coûts plus généraux liés au respect de la réglementation. La démarche suggérée fait l'objet d'une note conjointe annexée au rapport.

Introduction

When governments require businesses to ask for permits, to fill out forms and to report and notify activities, they impose administrative compliance costs on the business sector. If not well justified, these administrative burdens establish unnecessary and costly barriers to entry, trade and investment, and generally hamper economic efficiency. This red tape is especially burdensome to smaller businesses and may act as a disincentive to new business start-ups.

Cutting red tape and improving business conditions have become a priority for a growing number of OECD countries in the last decade.* In Europe, it has been part of the Lisbon agenda to stimulate economic growth and boost competitiveness. The Netherlands has been one of the front runners in this field, showing strong political will and many innovative initiatives. This position as the most advanced, well-developed and far reaching programme for reduction of administrative burdens on companies and citizens and with significant achievements makes the Dutch experience highly interesting for other countries facing similar problems of regulatory overstretch. By examining what has worked well and what has been less viable in the Netherlands, other countries can benefit from the Dutch experience.

The Dutch programme for reduction of administrative burdens is part of a dynamic sequence of policy measures to improve the regulatory process. It links to the discussion on when, how and where the government intervenes in the economy to achieve policy objectives, and puts a special focus on how these objectives can be met with greater effectiveness and efficiency. A change of administrative culture may be a precondition for obtaining a regulatory regime, in which regulation is justified, proportionate and evidence-based. Further challenges of a more institutional character are the fact that regulation is often made and administered in several sectors and at different levels of government (supranational, central, and local), and that governments often face a constituency that will at the same time ask for more freedom and also criticise the lack of responsibility and foresight in the event of unwanted incidents (accidents, health threats, environmental risks, etc.).

* *Cutting Red Tape. National Strategies for Administrative Simplification*, OECD (2006).

In light of the success of the previous phase of the Dutch burden reduction programme and in recognition of these challenges, the Government of the Netherlands asked the OECD and the World Bank to review their initiatives and results and for recommendations as to how to continue and improve its efforts.

The aims of the review are:

- To describe the key features of the programme(s) including measurement (by use of the SCM-method), the co-ordination infrastructure, use of incentives and targets, and communication to Parliament and the public. It will also explore how the selection of target areas and simplification tools has taken place.
- To assess to what extent the programme has reached its goals, and which elements have been crucial for the success of the programme. This should pave the way for further exchange of experience between the Netherlands and other countries.
- To evaluate the costs and the cost efficiency of the programme, partially by comparison with other countries with a highly developed programme in the field, evidence of the economic impact of the programme, and a tentative mapping of the derived reform initiatives, which may have been set off by the burden reduction programme and its initiatives.
- To explore options for future work on administrative simplification in the Netherlands including expanding the scope of the programme to cover compliance costs for businesses in a broader sense than just administrative burdens, to strengthen the initiatives directed towards burdens on citizens, or to direct attention to the regulation within government and between levels of government.

Chapter 1

Context

The Netherlands faced severe economic crisis in the early 1980s. This forced a re-examination of the Dutch post-war economic policies and the corporatist system. In this system, state sovereignty over public policy had been shared with organised business and labour. The model was praised for its capacity for flexible adjustment, social stability and pragmatic solutions, based on social consensus, to changing external conditions.¹ The flexibility of the system deteriorated over time, and came to be heavily influenced by “insiders”, often reflecting producer interests in protected markets. Rigidities accumulated, and the system was then seen as contributing to regulation that was complex, detailed, non-transparent and closely tied to narrow interest groups. This was in part a result of the tradition for seeking consensus, and at times adding details to regulation to balance competing interests. The result could be inefficient and ineffective regulation. Sometimes regulation was nearly impossible to implement (as concluded by the Government’s Commission on Deregulation of Governmental Regulation, Commissie Geelhoed, in 1984).

Faced with the realities of an increasingly open economy, inefficiencies in the labour market and strains on the public finances, the Netherlands initiated regulatory reform in the late 1980s. Dutch governments in the 1990s sought “a new balance between protection and dynamism”,² by means of increased competition, regulatory reform and market openness. The results were appraised by the OECD in its 1999 *Review of Regulatory Reform in the Netherlands*. It concluded that the Dutch programme for ensuring high quality regulation compared favourably with the OECD’s general recommendations, even if some of the elements were seen as more formal than real, leading to less than optimal results.

In 1994, the Government initiated the MDW programme (Marktwerking, Deregulering en Wetgevingskwaliteit), targeting the functioning of markets, deregulation and legislative quality. The Ministry of Justice and the Ministry for Economic Affairs were responsible for the day to day running of the programme. One of the aims of the programme was to streamline regulations to return to “what is strictly necessary”. Reduction of administrative burdens was part of the programme. In 1993, it was estimated that the aggregate costs of administrative burdens on companies was DFL 13 billion annually, or more than 2% of GDP. A target of reducing the costs by 10% was judged to have been met in 1998. The Parliament then came up with a widely-supported motion to

perform an additional 15% reduction. The target was accepted by the Cabinet and entered into the 1998 Cabinet coalition agreement.

In November 1998, the Cabinet set up an advisory committee on this subject: the Committee for Reduction of Administrative Burdens on Enterprises (better known as the Slechte Committee after its chairman). The Committee consisted of representatives of SMEs, large enterprises, lower levels of government, accounting firms, political parties, the European Parliament, and specialists in public administration, organisational consulting, and communication. Ministries were involved through a steering group. The Committee reported in November 1999 and presented 60 projects for reducing administrative burdens.³ The Committee built its approach on two pillars: re-use of information already provided by enterprises to public authorities, and use of ICT mechanisms. The committee also suggested a systematic and independent monitoring and measurement of administrative burdens.

Most of the recommendations of the Committee were accepted by the Cabinet and the Parliament. In May 2001, the Cabinet established an Advisory Board on Administrative Burdens (Actal, see Chapter 3), which was to work on the basis of the recommendations of the Slechte Committee.

The Slechte Committee decided to break away from the general international trend in regulatory quality management i.e. applying cost-benefit analysis to regulation. The Committee decided to focus solely on costs imposed on enterprises, thus excluding other target groups, including the cost of government oversight of compliance with regulation. The Committee further made a distinction between:

1. the costs of compliance for enterprises;
2. the costs of law enforcement by public authorities; and
3. the costs of information enterprises had to supply to make law enforcement possible.

Only costs belonging to the third category were the object of reduction attempts for the Slechte Committee. This narrow focus was maintained in the following phases of the programme, as will be described in Chapter 3. The consequence of these decisions was to depoliticise the issue of burden reduction, as the objectives of individual regulations would not be discussed, nor the balance between benefits and costs. The focus was on the “general interest” issue of reducing the administrative costs while maintaining the essence of the regulation. In other words: not less regulation, but smarter regulation.

Plans for Government reform under the Dutch Cabinet, 2003-06

After the election in 2003 and in accordance with the Coalition Agreement of 16 May 2003, the Dutch government presented its programme for public

sector reform, *Andere Overheid* (A Different Government).⁴ The programme, which was foreseen to run until the end of the Cabinet term, consisted of four major action lines:

1. The government will improve its provision of services to citizens.

This action line covered two separate initiatives: a) The development of key e-services such as the Citizen Service Number and the DigiD public sector e-authentication system; and b) encouragement of each government body to deliver services electronically via the Internet.

2. The government will regulate less, and differently.

The focus was to achieve administrative burden reduction through a general overhaul of each ministry's legislation and regulations towards businesses and citizens. A recent focus has been administrative burden reduction in relations between the government and its institutions.

3. Central government will organise itself better.

An overall review of government tasks was envisaged to eliminate duplication of work and strengthen horizontal cohesion in government operations with a focus on standardising common work processes and establishing a shared service centre for applications commonly used by ministries.

4. Central government will reform its relations with local authorities and provinces.

A new Code of Intergovernmental Relations stating principles for "... administrative financial relations between the different levels of government" was agreed to between local governments and the central government together with parallel "Modernising Government" action plans to be implemented by local governments.

The reform programme was accompanied by an action plan covering all four lines of action. The Cabinet reports annually to Parliament on its progress.⁵

Notes

1. *Regulatory Reform in the Netherlands*, OECD (1999).

2. Coalition Agreement of 19 December 1994.

3. *From Red Tape to Smart Tape. Administrative Simplification in OECD Countries*, OECD (2003), Chapter on the Netherlands.

4. Kabinetsvisie "Andere Overheid", 2 December 2003, see www.andereoverheid.nl.

5. The latest report *Voortgangsrapportage Programma Andere Overheid* (April 2006) can be found on www.andereoverheid.nl.

Chapter 2

International Trends in Administrative Simplification

Reduction of administrative burdens on businesses contributes to removing barriers to trade, investment and entrepreneurship. Administrative simplification policies contribute to the broader policy agenda to enhance performance and productivity. These policies have been regularly assessed by the OECD in recent years, with a first report on administrative simplification policies in 2003 and a second report on Cutting Red Tape in 2006.¹

Administrative burdens refer to regulatory costs in the form of asking for permits, filling out forms, and reporting and notification requirements for the government. Efforts to reduce administrative burdens in OECD countries have primarily been driven by ambitions to improve the cost-efficiency of administrative regulations. Direct administrative compliance costs include time and money spent on formalities and paperwork necessary to comply with regulations. Indirect or dynamic costs arise when regulations reduce the productivity and innovativeness of enterprises. Most of the measures and practices applied to reach this end also enhance transparency and accountability.

A key finding in the latest OECD report on administrative simplification strategies² is that these are increasingly becoming embedded within the overall regulatory quality systems of respective countries. In the past, administrative simplification was often undertaken on an *ad hoc* basis, but there is now a trend towards more coherent “whole-of-government” approaches.

There are two dimensions of regulatory quality programmes and of the efforts to minimise administrative burdens: *ex ante* control of the burden introduced by new regulations (a flow concept) and *ex post* assessment of burdens in existing regulation (a stock concept). The strongest programmes will have a focus on both dimensions, but countries in practice often chose to focus on either one or the other. In general, two trends can be observed:

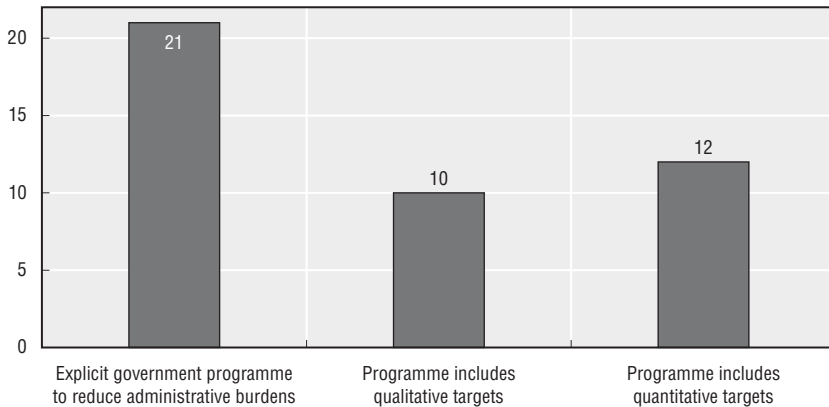
- Procedural controls are put in place so as to minimise new administrative burdens. These controls are mainly applied during the Regulatory Impact Assessment (RIA) process.
- Efforts to reduce burdens in existing regulation are becoming more systematic as opposed to the more sectoral and *ad hoc* approaches of the past.

Measurement is becoming an important part of the burden reduction programmes of many countries, again mainly with a focus on burdens on businesses. Countries are now turning to more sophisticated and precise techniques that allow a very detailed examination of the source of administrative

burdens. Under the 2005 OECD Survey on Regulatory Quality Indicators, 21 OECD countries reported government programmes to reduce administrative burdens, 14 established a system for measuring burdens, and 12 had quantitative reduction targets (see Figure 2.1).

Figure 2.1. **Government programmes to reduce administrative burdens**

Number of countries



Source: Jacobzone, Choi, Miguët (2007), OECD.

In many cases, measurement follows the SCM method (Standard Cost Model) developed in the Netherlands. In 2003, some European countries formed an informal network, the SCM Network, committed to use the same methodological approach when measuring administrative burdens. The network has gradually expanded, and in December 2006 it consisted of Austria, Belgium, Flanders (Belgium), the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Norway, Poland, Sweden, the United Kingdom, Spain and Portugal.

Tools for administrative simplification

Many traditional tools for administrative simplification – such as the use of one-stop shops and process re-engineering (including the simplification of licensing procedures) – continue to be used among OECD member countries to reduce administrative burdens. Generally, the focus is on the central level of government. More could be done at lower levels of government.

The innovation over recent years has been the increasing use of technology (ICT) to facilitate this process. These tools are increasingly being used via electronic or web-based delivery platforms rather than through the creation of physical facilities. This raises issues of co-ordination among ministries and

government agencies and the possibility that e-government services may be increasingly linked in the future to provide a “whole-of-government” access point.

Facilitating compliance is another important tool. Innovations in this area include:

- adopting risk-based approaches to reduce unnecessary inspections and data requirements;
- modifying thresholds to reduce the burdens on small and medium sized businesses; and
- providing more advice to firms on how to minimise burdens.

Institutional frameworks

The institutional framework for administrative simplification will depend on political and legal structures and the objectives and priorities of the government. While there is no single model, the following observations can be made:

- There is an increasing trend to include the responsibility for administrative simplification within the agency or organisation responsible for wider regulatory quality, often including the responsibility for ensuring the quality of regulatory impact analysis undertaken by ministries and regulators.
- External or independent committees and taskforces, both permanent and *ad hoc*, are playing an important role in maintaining the momentum for administrative simplification. Generally, these bodies demonstrate the high level of political support given to simplification efforts in many countries.
- Multi-level considerations, both between levels of government within a country and across countries at the EU level, are becoming increasingly important.

Notes

1. *From Red Tape to Smart Tape: Administrative Simplification in OECD Countries*, OECD (2003) and *Cutting Red Tape: National Strategies for Administrative Simplification*, OECD (2006).
2. *Cutting Red Tape: National Strategies for Administrative Simplification*, OECD (2006).

Chapter 3

Administrative Simplification in the Netherlands, 2003-06

In 2003 the government set up a goal of reducing the burdens by 25% before the end of 2007 as compared to the baseline measurement in 2003.

There are a number of interrelated programmes on public sector reform in the Netherlands, including:

- Administrative simplification for businesses.
- Administrative simplification for citizens.
- E-Government.

It is not the aim of this report to describe the totality of the regulatory management and reform system in the Netherlands. The focus is placed on administrative simplification and efforts to reduce administrative burdens on companies and citizens. These are the areas that have had the strongest attention in the regulatory quality debate – not only in the Netherlands but also in many other OECD countries – and where the development of instruments and management systems have been most significant over the last five years.

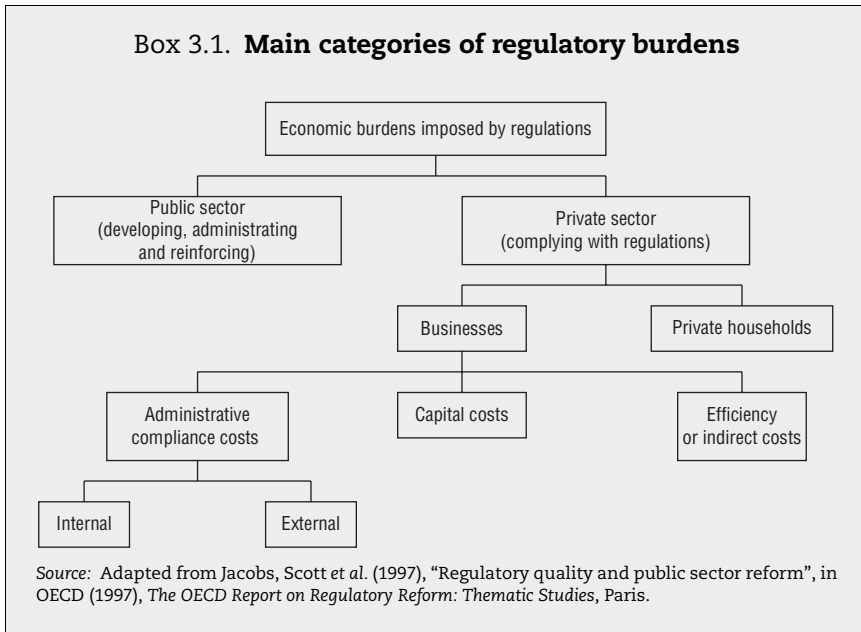
The main focus for programmes on regulatory quality in the Netherlands has been on reducing administrative burdens on companies. The current programme can be seen as a new phase linking to the work in the preceding decades. Yet at the same time, some distinct additions have been made, based on experiences from the former phases. This chapter analyses the main features of the current Dutch programme for reduction of administrative burdens on companies. The chapter also describes a similar programme related to burdens on citizens which has been added and to some extent been fitted into the same structures and methodologies. In both programmes, use of ICT has been one of the most central tools for achieving burden reductions. This makes it useful to include a brief description of the Dutch e-government programme. In Chapters 5 and 6, the links between these programmes will be discussed in further detail.

Administrative simplification is one of several tools to improve regulation. It aims at improving existing regulation by removing obsolete obligations (often by examination of licences and permits), by establishing one-stop shops for reducing administrative compliance costs or by increasing the use of ICT in order to lower information transaction costs or even to remove reporting obligations by re-use of data across different branches of government. Other tools in the regulatory reform toolbox aim at ensuring the quality of new regulation (i.e., consultation, regulatory alternatives and Regulatory Impact Assessments – RIA) or at improving accessibility and transparency.

The programme on administrative simplification for businesses

From the beginning, the Netherlands put a very strong focus on reducing the administrative burden on businesses, marked by a strong political awareness on this issue. A specific “Dutch model” was developed consisting of a measurement system, a clear general reduction target, and a strong institutional setup.

The design of a consistent and effective programme for administrative simplification needs to take account of the many channels in which regulation can affect individual businesses and the market as a whole. Some of these interactions are described in Box 3.1.



The current programme builds on the focus of the Slechte Committee.

The rhetoric of the government that took office in May 2003 indicated willingness not only to improve regulation, but also to scrutinise critically the necessity and proportionality of the current regulation. This can be illustrated by the following quotes from the Government policy statement when it took office on 11 June 2003:

“[This government] wants to (...) cut down on rules and regulations.”

“Top priority will be given to reducing the administrative burden, which impedes the growth of businesses. This applies to all sectors, agriculture being no exception. We will cast a critical eye over existing and new regulations, to assess whether they are useful and necessary. This includes European rules.”

And the coalition agreement of 16 May 2003:

“The government will strive to achieve a strong economy, effective governance, improved democracy and a safe and secure society. To this end it will pursue policies to restore national competitiveness, **control the proliferation of regulations and reduce bureaucracy** (...). The effective form of governance we envisage needs to **feature less bureaucracy and regulatory control** (...). Over the government’s period in office, each of the ministries will be expected to contribute to a reduction of 25% in the administrative burden on businesses and individuals compared with the situation on 31 December 2002. This ceiling will be maintained thereafter” (emphasis added).

Box 3.2. Definitions*

- Content obligations vs. information obligations: The Government imposes various measures on businesses and private individuals obliging them to carry out or avoid certain actions or conduct (content obligations). It also imposes obligations concerning the provision of information on actions and conduct (information obligations).
- Administrative burdens are defined as “the costs that the corporate sector must make in order to comply with the information obligations resulting from Government-imposed legislation and regulations. This also includes the obligation to provide information to third parties (for example consumers)”.

* From the Cabinet letter *More leeway for businesses thanks to fewer burdens – From producing burdens to reducing burdens*, 8 April 2004.

The programme has six main components (see Box 3.3). Each of the elements will be described in detail below.

Box 3.3. Main components of the Dutch model for administrative simplification (businesses)

The main elements describing the Dutch Model and explaining its success are:

- Measurement of administrative burdens.
- Quantitative target.
- Strong co-ordinating unit at the centre of government (IPAL).
- Independent advisory body (Actal).
- Link to the budget cycle.
- Strong political support.

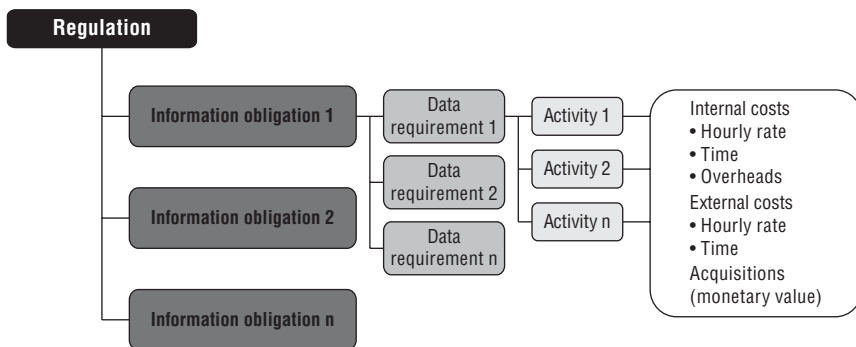
Measurement of administrative burdens

The very high clarity of the goal of the programme makes it possible to introduce a measurement system for the administrative burdens on companies. Administrative burdens are defined as “the costs to the businesses of complying with the information obligations resulting from Government-imposed legislation and regulations”. The Netherlands have been pioneers in developing a measurement system for administrative burdens, originally labelled MISTRAL (MeetInSTRument Administratieve Lastendruk), which in recent years has been applied by a large number of mainly European countries. The international “brand” for the increasingly standardised measurement method is the Standard Cost Model (SCM).

The SCM method is a way of modelling the total administrative burdens on companies in an economy. The method consists of a qualitative and a quantitative dimension:

1. As the definition has information obligations as its starting point, the first step is to find such obligations in the legal texts. In principle, every law is examined to determine where companies are obliged to deliver information to public authorities (or to third parties, as for instance in regulation on price labelling). The specifics of the obligation (data requirements) is then described in more detail by examining *inter alia* forms, thus mapping the exact information that the individual company must supply in order to meet the information obligation. Next, the necessary activities for providing this information are described, using a standard typology of activities (see Figure 3.1).
2. The quantitative dimension builds on this qualitative breakdown of information obligations by first determining the number of companies that have to comply with the obligation, and second, by fixing a standard cost for the individual company. This is done by determining how much time a

Figure 3.1. Structure of the Standard Cost Model



normally efficient company will spend on the necessary activities and the underlying frequency. The concept of the *normally efficient company* has been introduced as an attempt to make the assessment more objective than assessments made by use of surveys, as there is a risk of bias and subjectivity in this method. The standardised time consumption and unit prices (hourly wages, etc.) are fixed by interviewing a limited number of companies and consultants with special knowledge in the field. Some kind of clearance is normally made with business organisations.

3. The aggregated annual burden is calculated by multiplying the time consumption by the individual company (as the sum of time spent on each activity and each piece of information) by the number of companies affected and the annual frequency of the obligation.
4. Finally, the aggregated burden is monetised by multiplying the time consumed with a standardised hourly wage (which can vary according to the type of staff performing the task). The hourly wage is also determined by interviews, and includes an overhead.

The OECD is currently involved in a project, whereby a number of countries perform assessments of the administrative burdens in the same sector (transportation) by use of the SCM methodology. By using the same methodology and the same delineation of the sector for assessment, it becomes possible to undertake a benchmark analysis of the results. Ideally, differences in the level of burden can be explained by differences in regulation (after corrections for the size of the sector and possibly for variations in the use of technology in the sector across countries). Countries with lower burdens can be examined in more detail in order to identify good practice examples as inspiration for regulatory modifications in other countries. (The results of the project, *Cutting Red Tape: Comparing Administrative Burdens across Countries* were published by the OECD, in the fall of 2007.)

The precision of the method can be questioned, as the *normally efficient company* is not a statistically derived unit, but more a proxy of a real life business, established by examination of legal obligations (under the assumption of full compliance) and by modelling standard time consumption on administrative activities, informed by qualitative interviews with a smaller number of companies and business service providers. The main advantage of the method is, however, that it can give a fairly precise indication of the total level of the administrative burden and of the relative burden of individual laws (or regulations) and of individual information obligation within each law, and that it can be used to model the effect of changes in the regulation (*ex ante* as well as *ex post*). The method is well suited for establishing an index that can be used to follow the development in the total administrative burden over time.

The “zero measurement” (base line)

The zero measurement gives an inventory of administrative burdens as of 31 December 2002. The estimated total comes to EUR 16.4 billion (equivalent of 3.6% of the GDP), with the following distribution on ministries:

Ministry of Finance	EUR 4.32 billion
Ministry of Health	EUR 3.20 billion
Ministry of Social Affairs	EUR 2.53 billion
Ministry of Justice	EUR 2.51 billion
Ministry of the Environment	EUR 1.68 billion
Ministry of Transport	EUR 1.04 billion
Ministry of Economic Affairs	EUR 0.67 billion
Ministry of Agriculture	EUR 0.43 billion
Ministry of Education	EUR 0.02 billion

The zero measurement also shows the distribution of burdens on individual legislations. In its letter of April 2004 to Parliament, the Cabinet presented a list of the ten most burdensome laws, collectively accounting for more than half of the total administrative burden (see Table 3.1).

Table 3.1. **Top 10 most burdensome laws in the Netherlands**

Legislation	Ministry	Burden (EUR billion)	Information obligation
Annual Accounts Act	Justice	1.5	Drawing up annual accounts and providing the resultant information
Turnover Tax Act	Finance	1.4	Stating VAT number of invoices, VAT returns, payments to Tax Administration
Commodities Act	Health	1.2	Quality and safety regulations, including labeling and packaging regulations
Environmental Management Act	Environment	1.0	Information obligation relating to environmental permits, reporting, etc.
Wages and Salaries Tax Act	Finance	0.7	Salary administration and ensuring payment of wage tax
Compulsory Health Insurance Act	Health	0.7	Compulsory practices for the purposes of financing medical treatment for employees (declarations)
Social Security (Co-ordination) Act	Social Affairs	0.6	Maintaining salary administration and payment of employee insurance premiums (including disability insurance, unemployment insurance)
Income Tax Act	Finance	0.6	Drawing up income tax returns
Prices Act	Economic Affairs	0.5	Compulsory pricing of articles
Working Conditions Act	Social Affairs	0.5	Informing employees, risk inventories including action plans for risks in working conditions
Total		8.7	

In the measurements, the information obligations were divided into three categories according to their origin:

- Administrative burdens imposed and implemented at international level – accounting for more than 40% of the total burden.
- Administrative burdens imposed at international level, implemented at national level – accounting for approximately 10% of the total burden.
- Administrative burdens imposed and implemented at national level – accounting for more than 40% of the total burden.

The distribution of burdens on these three categories varies across ministries with some ministries having almost purely national legislation (Category 3), others having mainly international regulation (Category 1) and others having a mix of the three categories.

Quantitative reduction target

As described in Chapter 1, the Dutch government very early announced a quantitative reduction target. This can be seen as a way to signal the political will, both externally to the stakeholders and internally to the regulators (ministries responsible for the regulation). In principle, a quantitative target cannot make sense unless a clear definition of the subject matter has been made and an evaluation standard has been established. Furthermore, a baseline and an endpoint must be stated as well as a monitoring system of the progress made. Obvious as these conditions may seem, they are not commonly observed.

In the case of the Netherlands, the measurement system has made it possible to communicate very clearly – internally as well as externally – what the political goal has been. As the SCM method makes it possible to divide the aggregated burden between ministries according to the regulation under their domain, targets and action plans can be determined for individual ministries. This is an important aspect, as it eliminates the problem of free riding by the ministries by pointing to the regulation of other ministries as more burdensome.

Prior to the elections in 2003, administrative burdens had been reduced by 7%. As the administrative burdens following from new legislation were not yet systematically assessed at this stage, this percentage is the *gross* reduction compared to the level of burdens in 1994. The *net* reduction would be smaller due to the introduction of new burdens in new laws and regulations over the period.

In the current phase of the burden reduction programme, it has been decided not to impose the same reduction targets on all ministries. Instead, every ministry has submitted plans for simplifications and calculations of the resulting reductions.

Co-ordinating unit

Based on the perceived need to have strong co-ordination, a single purpose unit was originally established in the Ministry of Economic Affairs. After the election in 2003, this unit was moved to its current place in the Ministry of Finance. The main reason for this shift was a wish to strengthen the programme by using the position of this ministry within the administration. The shift also gave the possibility of creating a stronger link to the budget cycle, co-ordinated by the Ministry of Finance (see below).

The Inter-ministerial Unit for Administrative Burdens (IPAL) is staffed by the equivalent of 18 full time positions, of which 7 are on secondment from line ministries. The unit is responsible for the day-to-day co-ordination of the programme, in co-operation with the Ministry of Economic Affairs. The unit reports to the Minister of Finance and prepares dossiers for him, when the Cabinet is having discussions on administrative burdens.

Among IPAL's many tasks are the preparation of reports to the parliament, co-ordination of the EU policy regarding administrative burden reduction, which includes bilateral contacts with other member states and the European Commission, oversight and development of methodology, education and training of civil servants, risk analysis of burden reduction initiatives, and *ex post* measurements of the efficiency of burden reduction initiatives.

It is critical that each ministry is responsible for its own reduction target. The role of IPAL is to assist them, monitor their work and co-ordinate reporting to the Cabinet, the independent advisory body (Actal, see below), and the public.

The overall responsibility for the co-ordination of the burden reduction programme for businesses relies on the Ministry of Finance, in close co-operation with the Ministry of Economic Affairs.

Independent review body

In order to ensure accountability and transparency in the burden reduction programme, the government established an independent review body under the name Actal (*Adviescollege toetsing administratieve lasten*, or advisory board on administrative burdens) in May 2000.¹

The mandate for Actal was originally three years, but subsequently its mandate was renewed twice and now expires in June 2009. The mission of Actal is "to ensure a cultural transformation, so that rule makers will reduce administrative burdens automatically and independently". Actal describes its core activity as *to internalise the focus on a structural reduction of administrative burdens for both businesses and citizens*.²

The working area of Actal has constantly been broadened. The function of the unit was originally to advise ministries and the Government on consequences of administrative burdens for businesses resulting from proposed laws and

regulations (*ex ante*). This task was first expanded to the administrative burdens for businesses caused by existing laws and regulations. In January 2005, the function was widened to include administrative burdens for citizens, caused by both existing and new regulation.

Actal has a board of three, headed by a former deputy Minister of Social Affairs, Mr. Robin Linschoten, and a secretariat of twelve people. Actal's annual work programme is endorsed by the Minister of Finance and the Minister of Interior and Kingdom Relations, who then send the work programme to the Parliament. The Annual Report 2004 (March 2005) describes five priorities from the work programme for that year:

1. to advise on existing legislation and regulation;
2. differentiated testing of and advising on proposed legislation and regulations;
3. to promote the cluster approach;
4. to promote a European approach; and
5. to help with the embedding of the administrative burdens policy in the budget and accountability system.

This list illustrates the scope of the work of the review body. Apart from the two pillars of existing and new regulation, Actal also seeks to influence the way simplification is sought in the ministries by advocating "the cluster approach" which basically is to avoid seeing the individual regulation isolated from the general regulatory context for companies (the Annual Report 2004 described as a supra-departmental or supra-policy area strategy for easing the administrative burden). Furthermore, Actal is very active in promoting the burden reduction agenda at the European level. The measurements have shown that some 40% of the total administrative burdens can be traced back to regulation fully or partly issued by the European Union. Finally, Actal tries to achieve the cultural change, which ultimately will make the existence of a specific monitoring body like Actal obsolete.

In its daily life, the main function of Actal is however to give written advice to the Cabinet on proposed laws and regulations. In 2003, 2004 and 2005, Actal reviewed a total of 730 pieces of legislation and gave a formal report in 198 cases (half of these in 2005). The reports are divided into four categories, as Actal can approve the proposed regulation with no further comments, approve it conditionally (stating necessary changes), reject it conditionally, or fully reject it. Only in seven cases has the proposed regulation been fully rejected, while full or conditional approval is most common.

With regard to simplification of existing regulation, the role of Actal is to scrutinise progress reports from the Ministry of Finance and the Ministry of Interior and Kingdom Relations, and to give comments on these to the Cabinet

and to individual ministries. Actal has played an important role in this field by giving very blunt statements to the government on the progress towards the stated 25% goal.

Link to the budget cycle and burden ceilings

Progress on reducing the administrative burdens in companies is monitored via the annual Budget Memorandum and the Ministerial Budgets (September) and the Annual Reports (May).³

The relevant ministerial departments regularly discuss their plans, programmes, and results with IPAL. The Dutch Minister of Finance takes responsibility for achieving the administrative burden reduction target and delivers a progress report to Parliament every six months. The minister monitors the reduction programme progress via the annual budgetary cycle and checks the performances of other ministers.

The obligations for ministries with regard to the reduction of administrative burdens have been written into the budget instructions. Here a number of detailed instructions are laid out on how and when to report on development in the administrative burdens of the individual ministry. The report, which is made twice a year and linked to the presentation of and reporting on budget (thus linking administrative burdens to the budget cycle), must include a statement of expected increases and reductions respectively over the four year cabinet period, and deviations from previous reports are to be explained. According to the Ministry of Finance, this clear link to the budget cycle has one further advantage – apart from the obvious disciplinary effect – which is to make it possible to solve problems of financing burden reduction projects (e.g. ICT investments) as part of the normal wheeling and dealing related to budget discussions.

The Dutch government has decided to aim to avoid administrative burdens in relation to new regulations as much as possible. In cases where this is not possible, they are to be kept to a minimum and new burdens will have to be compensated by extra reductions on existing regulations. This will mean that the 25% reduction will be a net reduction, and that the new level of administrative burdens will be maintained (no *regulatory creep*).

Political support

There is remarkable widespread political support for the burden reduction programme. One explanation seems to be the depoliticised nature of the programme, as described in Chapter 1. But for a programme of this nature, which often runs contrary to the institutional interests and inertia in line ministries, it is not enough not to cause political stir and opposition. It is also necessary to have strong and continuous support from the centre of government and of the cabinet. It would seem to have been central for the relative success of the current phase of

the burden reduction programme, that the Minister of Finance is a strong minister (with a strong ministry), and that the minister has a personal interest – and has invested political capital – in this issue.

In the current phase of the programme, there seems to be no substantial opposition to the programme. All ministers and their civil servants agree on the objective and are willing to allocate the resources needed for scrutinising their legislation and the possibilities for improvements, though this appears to be with some variation in zeal.

In Parliament, there is widespread interest and support for the programme. The objective of improving the regulatory framework and reducing administrative burdens on companies and citizens is embedded across the political spectre. That the programme would most likely be maintained even if the government coalition would change also contributes to its stability and credibility.

The social partners are also largely supportive. Organisations for consumers and workers have trust in the political neutrality and are supporting the aim of making regulation more efficient.⁴ Business organisations are also very supportive, even if there is some dissatisfaction with the large number of programmes and initiatives and a growing consultation fatigue. There is some disappointment with the way the 25% is being delivered, as businesses and their organisations are claiming that the government is removing obligations that are not real administrative burdens, mainly activities that most companies will have to undertake as part of their normal administration. One example is the regulation on accounting, which is more seen as a codification of the normal practice of professional companies.

Guidance

IPAL and Actal meet officials from various ministries to explain the burden reduction programme and the SCM measurement. It seems that relatively few resources are used on general guidance on how to simplify the regulation.

Other business related initiatives

The Ministry of Economic Affairs maintains a strong focus on improving the business climate by removing hindrances to businesses' activity and also on reduction of administrative burdens. The ministry runs a number of specific projects aiming at addressing these problems from different angles. The projects are typically run as project organisations with participation from organisations representing the business community and the local governments as well as a number of ministries. As these projects are not always part of the formal action plans, they are not supervised or co-ordinated by IPAL, nor are they as closely monitored or followed by Actal.

Licensing

Licences, permits, etc. form a big hindrance for businesses in undertaking their activities (business start-up, specific environmental permits, building permits, etc.). Also the licences themselves and the dissatisfaction with the service provided by the authority issuing the licences lead to much irritation.

The Ministry of Economic Affairs is seeking to reduce these burdens and in 2002 set up a specific project. An inventory of licences (the term here is used in a broader sense covering as many as 20 different types of government approvals) has documented the existence of approximately 1 100 different licence systems with an annual flow of 2.7 million individual licences being issued (covering both citizens and companies).

Based on a scrutiny of the inventory, the number of licence systems was reduced by 22% and the number of individual licences was reduced by 42%. This was primarily obtained by use of ICT tools (re-use of data) or by scrapping obsolete or affluent licence systems.

As licences are also issued at the local level, the Ministry of Economic Affairs has invited the municipalities to undertake similar exercises. A special task force has been formed, with participation from all ministries, the business organisations and the organisation of municipalities, and headed by the Ministry of Economic Affairs. As the size of municipalities can be as low as 10 000 inhabitants, some municipalities do not have the resources to engage in this kind of exercise, nor are general framework conditions of similar importance to all units. Thirty (mainly larger) municipalities have accepted the invitation leading to a reduction in the number of licences by 10 to 50%. Eindhoven is reported as an especially successful case, having reduced the number of locally administered licence systems from 140 to 28. There is no assessment or estimate on the additional reduction of administrative burdens following from this initiative.

Contradictory rules and the Stevens Committee

Rules can be contradictory, if they relate to the same object, but are written from standpoints with different or even conflicting interests – either by the same or a different government body. The Ministry of Justice gives the following example of this in its 2004 white paper *A practical legal system*: Requests made by supervisors on the layout or use of business premises, on the one hand for the protection of workers, and on the other for the protection of the environment, can lead to contradictory instructions at implementation level.

The Ministry of Economic Affairs and the Ministry of Finance have jointly given the Business People's Sounding Board on Regulatory Pressure, lead by professor L.G. Stevens, the task of identifying the most serious regulatory

pressure for companies, and suggesting ways of dealing with them. This is primarily done by examining the effects of regulatory pressure at sectoral level.

The same insight can be gained from the *model companies'* project, which entails using the actual situation within a real business, which is representative of an average business within a certain sector, as the starting point. The administrative burdens during the various phases in the life of that business are then analysed. This results in practical insights into the accumulation, overlap and possible contradictions in the administrative burdens (during the various phases) at a business level.

“The greenfield approach”

In the Ministry of Economic Affairs, the subject of dealing with **risk in regulation** is being discussed in a project labelled *the greenfield approach*. The line of thought here is to start from a hypothetical situation with no regulation dealing with a given problem (the greenfield). From this starting point, the optimal regulation is to be designed, finding the right mix between protection and dynamism and taking enforcement issues and secondary consequences – such as administrative burdens on companies – into account. This *scrap-and-build*-approach is not yet used to re-design existing regulations, but illustrates a line of thought which is in accordance with the ideas underlying the *Andere Overheid* programme.

An interesting feature of this approach is that it may lead to qualitatively very different regulatory solutions, as the exercise is not only about optimising the current regulation (i.e., by introducing electronic reporting) but can also point to regulatory alternatives such as self-regulation where command-and-control has previously been used.

A Practical legal system – the Ministry of Justice

In a letter to Parliament in April 2004, the Minister of Justice announced a programme of activities under the heading “A Practical Legal System” (Bruikbare Rechtsorde). The programme is closely linked to the general government programme on public sector reform, *A Different Government* (*Andere Overheid*), as described in Chapter 1.

The aim of the programme is to examine possibilities and conditions for structural changes in regulation, by “submitting and amending legislative concepts that offer scope for diversity and dynamism, while giving the citizen greater responsibility”.⁵ The programme, which focuses on the regulatory burden in the broader sense, and not only on administrative burdens, aims at developing a new regulatory culture, based on a better understanding of the different regulatory and non-regulatory means for intervention and on the limits of State intervention in market and society. “Attention to legislative

Box 3.4. Risk in regulation

Risk is an aspect of regulation which will receive more attention in the future as governments: 1) cope with public pressures to enact and strengthen regulations in response to problems and accidents; 2) confront the introduction of new technologies and services in the market; and 3) consider pro-active strategies to meet the threats of insecurity, climate change and other problems that transcends borders and extends years into the future.

On the one hand, compliance costs, including administrative burdens, are likely to increase in the future as governments demand more extensive monitoring in risk-related issues. On the other hand, efforts to reduce total compliance costs are likely to involve a reassessment of the content of specific regulations, with the result that the relative responsibilities of the public and private sector will be altered.

Improved methodologies and consultation procedures are needed to regulate in conditions of uncertainty, and all the more so to take account of the interconnected nature of many risks.

The best regulatory answer to the problem of risk in society is to:

- a) Look for a solution with a policy mix of classical command-and-control regulation, fiscal instruments, self-regulation and information campaigns, etc.
- b) Make use of an approach like the Dutch greenfield approach, where regulation is not allowed to unlimited incremental development – with a new add-on for each new incident or perceived risk – but where a scrap-and-build revision is performed with regular intervals, each time seeking to answer to the question of what the best regulatory solution would be in the present situation, had there been no regulation in place previously.

policy and the burden of rules is not an incidental issue. Keeping a check on the burden of rules is just as vital as keeping a firm hand on government finance. The systems we maintain must also be such as will offer scope for diversity and dynamism without a perpetual need to adjust the rules.”⁶

The programme outlines three approaches that can serve this aim:

1. concepts that provide scope, such as duties of care, open standards and acknowledgement of binding acceptance of arrangements;
2. harmonisation and integration of terminology, orders, procedures and regulations; and
3. alternative enforcement arrangements.

The principle of duty of care has drawn special attention, as it marks a break with tradition and regulatory habits and entails the possibility of substituting detailed and intrusive regulation in a number of fields with contractual arrangements by making the principle of trust operational. Use of the principle has been made in a number of specific projects under the *Practical Legal System* programme, including in primary education, higher education, environmental regulation and waste management. The general principle is to formulate general norms and assign the responsibility of meeting these norms to defined agents – sometimes a number of agents who will have to enter into contractual arrangements in order to meet the norms – as opposed to have detailed prescriptions of actions in the regulation itself. This allows for more flexible solutions that can adapt to technological changes, etc. and leaves room for self-regulation.

Apart from developing the conceptual framework, the Ministry of Justice is co-ordinating cross-ministerial projects for use and further refinement of the new regulatory principles. There are also activities aiming at general knowledge transfer, with presentations and debates with legislative lawyers and policy makers from all ministries.⁷ This seems to overlap with some of the activities of IPAL and points to the possible need for a stronger co-ordination of activities within the regulatory management and reform agenda. Such co-ordination would be easier to attain and communicate, if this could be done within the framework of a general regulatory policy.

The EU agenda

As the inventory of administrative burdens resulting from the zero measurement showed that a large proportion of the burdens (some 40%) can be traced back to regulation from the European Union, and as a number of sizeable complexes of administrative burdens – including VAT, rules on accounting and reporting, the Commodities Act, the Prices Act and the Working Conditions Act – originate from Europe, the government decided to place focus on ways to address administrative burdens at the EU level. This was done in several ways:

- *More emphasis on administrative burdens on the EU agenda.* Reducing administrative burdens is a priority in the Lisbon strategy of the European Union, aiming at improving the competitiveness of the Union. The Netherlands, in co-operation with a series of other EU presidencies, has taken initiative to ensure long term planning of the work on better regulation by agreeing on priorities and policies with first four – later expanded to six – consecutive presidencies.⁸

- *Prevention of new European administrative burdens.* The Netherlands is working on both getting a stronger focus on administrative burdens in the EU system of Regulatory Impact Assessments (RIA) and is seeking to address the subject earlier and more systematically in its own preparation of national positions in the decision-making process on new commission proposals.
- *Tackling administrative burdens in existing European regulations.* The Action Plan for Better Regulation, presented by the European Commission in June 2002, entails a simplification programme for existing regulation. During the Dutch presidency of the European Council in the second half of 2004, a conference in Amsterdam on better regulation and administrative burdens was organised, and the Netherlands co-ordinated the collection of some 300 simplification proposals from the member States to feed into the Commission's simplification programme (as the Commission has the right of initiative).

The efforts to have a more comprehensive approach to reducing administrative burdens in the EU system have gained support from a wide range of other Member States and from the Commission. In November 2006 the European Commission issued a communication on this issue, presenting the first thoughts of an European-wide measurement of administrative burdens (by use of a SCM method) and the possible introduction of a common quantitative reduction target.⁹

The programme on administrative simplification for citizens

In the Coalition Agreement of 2003, "citizens" were added as a target group for the burden reduction programme. The overall setup from the business part was re-used: it had been decided to measure the administrative burdens on citizens using the SCM method with a target of a 25% reduction to be reached by the end of the government term. As of 1 January 2005, Actal was given the additional task of advising on the administrative burden for citizens, obliging ministries to also submit relevant draft proposals for assessment. Furthermore, Actal was empowered to advise on existing legislation regarding the administrative burden on citizens. Ministries will report to the Parliament on progress via the Ministry of the Interior and Kingdom Relations, which is also responsible for inter-ministerial co-ordination of the citizen programme.

The programme aims at reducing the burdens on the general citizens, but also focuses on four specific target groups that have been found to face especially high administrative burdens: the chronically ill and disabled, the elderly, benefit claimants and voluntary organisations (the organised citizen), as these groups are confronted with a "huge body of regulations".¹⁰ The legislation and regulations imposing a mandatory requirement to submit information aimed specifically at these target groups have been reviewed and the most

burdensome regulations were included in the selection used for the baseline measurements. As opposed to the programme relating to companies, the measurement related to citizen's burdens is thus not intended to be a total assessment, but is focused on selected areas imposing burdens on the selected target groups.

Eight ministries were selected for carrying out a baseline measurement using an adapted version of the SCM method.¹¹ These ministries reviewed their legislation with the greatest administrative burden. The burden at lower levels was measured on behalf of the Ministry of the Interior and Kingdom Relations. The burden for citizens as of 31 December 2002 was found to be 112 million hours annually plus a total of EUR 1.3 billion in out-of-pocket expenses.¹² This burden is caused by central government, provincial and local authorities. The main part of the burden – 103 million hours and almost all of the monetary expenses – can be traced to the regulation of central government. Most of the burden from the regional and local level ensues from regulations implemented by local and provincial authorities as part of government policy but with some policy discretion at the local level (“shared government”).

The specific administrative burdens on the above mentioned selected groups were (time spent on and out-of-pocket expenses for compliance):

- Chronically ill and disabled: 4.7 million hours and EUR 1.6 billion.
- Elderly: 1.4 million hours and EUR 1.2 billion.
- Benefit claimants: 21.7 million hours and EUR 12.7 billion.
- Voluntary organisations: 0.9 million hours and EUR 3.0 billion.

The most time-consuming law was found to be the Income Tax Act with 15.1 million hours, and the most expensive law (causing the greatest out-of-pocket expense) was the Netherlands Civil Code with EUR 745 million. The Civil Code regulates *inter alia* the establishment of mortgage by notarial deed and conveyance. The Road Traffic Act also scored high, both in terms of time and expenses, as it imposes an annually recurring burden for a high number of citizens.

Breakdowns were also made between ministries, showing that the Ministry of Social Affairs and Employment generates the largest administrative burdens, followed by the Ministry of the Interior and Kingdom Relations, the Ministry of Finance and the Ministry of Health, Welfare and Sport.

Dialogue with the target group organisations revealed that inconvenience and irritation resulting from the administrative burden mainly occurs among groups of citizens who are confronted with large bodies of laws and rules or among groups who have difficulties meeting their administrative obligation (for physical or financial reasons). This is especially the case for the above

mentioned groups (chronically ill and disabled, the elderly, benefit claimants and voluntary organisations).

According to the Ministry of the Interior and Kingdom Relations, local and provincial authorities have not set themselves reduction targets, but are making efforts to improve the quality of regulation and reduce the costs of their services. In July 2005 it was reported that the Association of Netherlands Municipalities (VNG) had completed a reduction plan forming the basis of an agreement on 18 March 2005 between the VNG, the Association of Municipal Secretaries (VGS) and the municipal secretaries of municipalities with more than 100 000 inhabitants. The aim of the agreement was to underpin efforts targeting effective government.

In July 2005 the Cabinet decided on a set of measures that were expected to lead to a gross reduction of the administrative burdens on citizens of 14% in time and 22% in expenses.¹³ In May 2006 a plan for achieving the rest of the target within the government term was presented.¹⁴

The report presents four lines of policies leading to burden reductions:

1. Make citizens pivotal and not the existing organisation and legislation structures (chain reversal).
2. Make citizen's rights and obligations transparent.
3. Balance accountability obligations with the justifiability (inspection and supervision).
4. Use the opportunities offered by the e-government (pro-active service).

The report furthermore presents initiatives for burden reductions for each of the four selected target groups. Of a total of 140 reduction proposals, 49 are targeted at reducing the burdens for these groups.

E-government¹⁵

The OECD defines e-government as “*the use of information and communication technologies, and particularly the Internet, as a tool to achieve better government*”.¹⁶ The Netherlands have been formulating policies and programmes in this field since the mid-1990s and formulated the first comprehensive government programme on e-government in 1998.¹⁷ The programme contained three goals:

- provide good electronic access to government;
- improve the quality of services towards citizens and businesses; and
- make service delivery more efficient and effective through the usage of ICT.

After the change of government in 2002, a new action plan was launched; the so-called *B4 (Beter Beleid voor Burger en Bedrijf – Better Government for Citizens and Businesses)*. This marks a shift from viewing e-government as a

goal in itself and to seeing it as a means to achieve a more efficient government in a number of respects, including the reduction of bureaucracy.

With the 2003 vision and action plan *Andere Overheid*, which covers the period 2003-07, the focus shifted from front-office activities (like the development of specific services) to a wider focus on back-office infrastructure and the need for co-operation horizontally and vertically.

The current programme is co-ordinated by four ministries: The Ministry of Government Reform and Kingdom Relations, the Ministry of Economic Affairs, the Ministry of Finance and the Ministry of Social Affairs and Employment. Reduction of administrative burdens is generally described as the most important and tangible driver for the programme.

A recent OECD review of e-government in the Netherlands stated that the consecutive Dutch governments have successfully implemented a number of e-government services, but that it continues to be a challenge to obtain take-up from citizens and companies. Furthermore, the review pointed to a lack of a focal point and leadership in the programme, as there were a number of co-ordinating bodies and structures.

Two of the main proposals for action in the OECD review were:

- *“The Netherlands should consider developing a broader initiative to address the challenge of a traditional organisational culture of non-collaboration and a ‘stove-piped’ working environment with regard to implementation of e-government. A new framework for cross-organisational collaboration on implementation should be developed and put in place, together with clear incentive structures that encourage civil servants to engage in cross-organisational implementation projects. (...)*
- *The Netherlands should consider developing a common strategy and action plan to support and encourage businesses to use e-services provided by the public sector. A ‘stick and carrot’ strategy could be considered as a part of such an action plan, moving towards mandatory electronic communication with public authorities. Prioritising quick development of fully integrated and seamless services for the Dutch private sector will likely provide rapid return on investment and increase user take-up, with the added benefit of improving the general competitiveness of Dutch companies in a global perspective.”*

Cultural change

Actal states as the fundamental objective a cultural change within and across ministries. Such a cultural change would mean that ministries would seek to ensure by themselves quality in regulations and to minimise the administrative burdens on companies and citizens. A recent study shows that this has not yet been accomplished.¹⁸

The study was commissioned to a private research institute (IOO) and was performed by use of a questionnaire to measure the degree of internalisation of attention to administrative burdens in government departments. The degree of internalisation is assumed to rely on three factors: i) the *knowledge* about administrative burdens on businesses (causes, measurement, extent, measures); ii) the *attitude* (problem perception, measures, future) to the administrative burden problem; and iii) the *behaviour* in day-to-day policy practice. The study was conducted among policy officials directly or indirectly involved in the development and supervision of new laws and regulations and among senior officials whose attitudes and behaviour is seen as important for the internalisation of attention to administrative burdens in the individual departments.

All relevant departments, with the exception of the Ministry of Justice, participated in the study. In total, 544 policy officials and 127 senior officials in nine departments participated.

In general, higher scores were recorded for knowledge about administrative burdens than for attitude and behaviour. The general score on knowledge of the policy officials was 62%, just over half of the policy officials (51%) were found to have a positive attitude, and a quarter of the policy officials (26%) displayed positive behaviour with respect to administrative burdens for businesses. A positive correlation was found between knowledge and attitude, meaning that policy officials with more knowledge about administrative burdens for businesses had a more positive attitude towards policy in this field. Policy officials with little or no knowledge on the other hand displayed a more negative attitude and less positive behaviour in relation to the problem.

Based on the study of internalisation in the individual ministries, in October 2005 Actal gave each minister advice on how the intended internalisation could be embedded more firmly. The results of the study and the advice on improvements were discussed between Actal and the ministries in the first quarter of 2006. On the basis of these discussions, Actal issued an additional outline with “examples for departmental practices”.

A second study was finalised in the first quarter of 2007, with participation of all relevant ministries. The follow-up study will make it possible to assess whether significant progress has been achieved in relation to cultural change over the last year. Furthermore, the cultural change concerning citizens and implementation organisations will be measured.¹⁹

Notes

1. Actal's website is www.actal.nl.
2. Annual Report 2005.

3. Leeway, p. 7 – with reference to Appendix 10 of the 2004 Budget Memorandum (titled *Rules for Administrative Burdens*).
4. The OECD has not met representatives of these organisations but the available information has indicated their support.
5. Ministry of Justice, *Progress of the programme A Practical Legal System*, letter to Parliament 14 June 2005, p. 2.
6. *Ibid.*, pp. 19-20.
7. Dutch Ministry of Justice, *Progress Report: "A Practical Legal System"*, the Hague 14 June 2005, p. 10.
8. See *Joint initiative on regulatory reform, letter from Irish, Dutch, Luxembourg and British Governments, January 2004, and Advancing regulatory reform in Europe. A joint statement of the Irish, Dutch, Luxembourg, UK, Austrian and Finnish Presidencies of the European Union*, December 2004.
9. European Commission, *A strategic review of Better Regulation in the European Union*, Brussels, 14 November 2006.
10. Note from the Dutch Government *Summary AB Citizen 2002/2005*.
11. *Standard Cost Model. Administrative burden for Citizens*, September 2004.
12. It has been chosen not to ascribe a monetary value to the time of citizens – as contrary to the method for assessing burdens on companies – but instead to report the amount of time for compliance *plus* out-of-pocket expenses.
13. *Actal Annual Report 2005*, March 2006.
14. *Citizens on centre Stage. Process evaluation report on the administrative burden reductions for citizens*, Last van de overheid, May 2006.
15. The following description builds on *OECD e-Government Studies – Netherlands*, OECD, 2007.
16. *The e-government Imperative*, OECD, 2003.
17. *The Electronic Government Action Programme*, Ministry of the Interior and Kingdom Relations, 1998.
18. *Internalisation of administrative burdens*, Co-ordinating report, IOO, August 2005.
19. Since the second study on cultural change was reported after the review was finalised, the results are not included in this publication.

Chapter 4

Results to Date

First package of burden reduction measures

On the basis of the information from the zero measurement, the various Ministries compiled inventories of proposals to reduce the administrative burdens. This was done in co-operation with the corporate sector.

In the Cabinet letter *More leeway for businesses thanks to fewer burdens* (April 2004) the Government presented its first package of initiatives to reduce the burdens. For each of the nine ministries participating in the burden reduction programme, a total gross reduction target for the period 2003-07 was presented. The reductions, which vary from 10% (Ministry of Health) to 31% (Ministry of Environment), add up to a total reduction of 18%. Most of the reductions were scheduled to materialise in the years 2006 and 2007, i.e., towards the end of the cabinet term, as many of the initiatives will have to be implemented by a lengthy legislation process and/or the development of ICT solutions.

When the first package was presented, it was made clear that an additional package would follow to increase the reduction of administrative burdens from 18 to 25%. At the same time, the mandate of Actal was renewed in order to include the simplification of existing regulations.

Second package of burden reduction measures

In June 2005, the Cabinet presented its second package of burden reduction measures to Parliament.¹ In this package, initiatives were presented to go from the previous 18% to 25% reduction. At the same time, burden ceilings for each of the now ten participating ministries were set. Thus, ministries will have to maintain the reduced level of burdens by compensating burdens in new regulations by further reducing burdens in existing regulations.

Reductions now vary from 18% (Ministry of Economic Affairs) to 37% (Ministry of Justice). The total reduction is estimated to be EUR 4.1 billion, corresponding to 25% of the EUR 16.3 billion in 2002 (according to the zero measurement in 2004), see Table 4.1.

In the latest Cabinet letter to Parliament on administrative burden reductions, figures were adjusted according to further developments (concerning both new burdens and new reduction initiatives). The total reduction is reported to be 25.9%, see Table 4.2, below.²

By comparing Tables 4.1 and 4.2, it can be seen that the expected overall reduction by the end of 2007 is stable (and even slightly increasing), indicating

Table 4.1. Overview of reductions per ministry – realised and anticipated – in EUR million

Presented in June 2005	Scale of zero measurement (2002)	2003 (realisation)	2004 (provisional realisation)	2005	2006	2007	Net reduction (%)
Finance	4 325	128	397	698	892	940	22
Health, Welfare, Sport	3 181	33	50	75	568	653	21
Social Affairs and Employment	2 533	42	233	395	529	633	25
Justice	2 500	58	60	66	476	921	37
Housing, Spatial Planning and Environment	1 714	7	49	138	151	505	29
Transportation, Public Works and Water Management	917	10	50	152	217	273	30
Economic Affairs	672	7	27	37	119	119	18
Agriculture, Nature and Food Quality	430	36	82	108	108	108	25
Education and Science	18	0	0	0	0	5	28
Interior and Kingdom Relations	17	-20	-20	-19	-18	-13	-76
Total	16 307	300	927	1 650	3 042	4 144	25

Table 4.2. Overview of reductions per ministry – realised and anticipated – in EUR million

Presented in October 2006

Cumulative overview of the reduction	Through 2005	Through 2006	Through 2007
Finance	646	786	915
Social Affairs and Employment	388	541	680
Health, Welfare, Sport	-1	676	755
Justice	60	144	903
Housing, Spatial Planning and Environment	96	160	519
Transportation, Public Works and Water Management	137	197	264
Economic Affairs	28	43	60
Agriculture, Nature and Food Quality	122	148	158
Education, Culture and Science	0.2	0.5	5
Interior and Kingdom Relations	-14	-13	-9
Total net reduction	1 463 (9%)	2 697 (16.4%)	4 251 (25.9%)

that most of the simplification initiatives are being realised and that the burden ceiling is generally efficient in prohibiting introduction of new burdens from new regulations without compensatory measures.³ Another observation is that the expected burden reductions by the end of 2006 have been modified significantly between the first and the second report (June 2005 and October 2006 respectively), indicating that around 10% of the simplification initiatives have been postponed or delayed.

Table 4.3 shows the ten initiatives leading to the largest burden reductions. Annex B contains a list of the 47 most important initiatives. A selection of initiatives is described in more detail later in this chapter.

Table 4.3. The ten most important burden reduction initiatives

Measure	Description	Implementation	Ministry	Target group	Tool	Reduction (EUR million)
1. Annual accounts	Use of same data for commercial accounts and accounts for tax purposes	January 2007	Justice Finance	All businesses	Harmonisation	400
2. Annual Accounts	Simplified provision of information by use of ICT, merger of reports to three different authorities	January 2007	Justice	All businesses	ICT/ harmonisation	350
3. Annual pay statement	Streamlining of definitions in interlinked laws	January 2005 to January 2006	Finance Social Affairs	All businesses	Harmonisation	295
4. Turnover tax	Possibility of electronic filing	January 2004	Finance	Other target groups	ICT	161
5. Financial information leaflet	The leaflet has been made available electronically	October 2006	Finance	Financial sector	ICT	97
6. Occupational health and safety act	Simplification and self-regulation	January 2007	Social Affairs	All businesses	Simplification of rules	93
7. Declaration procedure	Declaration procedures between insurers and service providers have been fully digitalised	January 2006	Health	Care sector	ICT	91
8. Occupational health and safety	Obligation to have regular work consultations, if working conditions required so, has been replaced by reliance on businesses' own initiative	May 2004	Social Affairs	All businesses	Simplification of rules	90
9. Manure legislation	Abolition of obligation to conclude and file a manure contracting agreement. Annual statement on manure will be lifted from some farmers due to a new risk-oriented approach and re-use of data	January 2006	Agriculture	Agricultural businesses	Simplification of rules/ICT	87
10. Annual accounts	Higher thresholds for meeting extensive reporting obligations	October 2006	Justice	All businesses	Simplification of rules	86
Total						1 750

Source: Information from the Cabinet letters of 2005 and 2006, adapted by the OECD.

In order to keep the action plans on track, IPAL has been co-operating with ministries on using risk analysis as a management tool in order to assess and reduce the risk of delays or failure of individual initiatives.

A final assessment of the results of the programme can be done by the end of 2007 as there is still some uncertainty regarding the bulk of initiatives expected to lead to reductions in the course of 2007. Bearing this reservation in mind, the main conclusion would still show that the government has been able to deliver the planned reduction of administrative burdens on companies within the Cabinet period. This has been confirmed by the Dutch National Audit Court which, in a report from June 2006, found that the formulated goals have fulfilled the criteria of being measurable and time limited, that they have been attained, and that there has been a good steering mechanism for the programme.

Preconditions for this success are that it will be possible to implement nearly all the initiatives presented in the consecutive Cabinet letters to Parliament, and that it will be possible to put a ceiling on new burdens stemming from new regulations, or that these burdens can be outweighed by compensatory measures by the ministries in order to comply with the burden ceilings.

Simplification initiatives

The reductions shown in Table 4.2 are the result of some 200 simplification initiatives.⁴ A comparison with Table 3.1 reveals – not surprisingly – that the larger reductions have been found in regulatory areas with most burdens.

The 152 initiatives presented in the 2005 report have resulted or are expected to result in burden reductions of EUR 1 billion or more, totalling EUR 3.9 billion. The ten most important initiatives alone lead to reductions of EUR 1.75 billion, see Table 4.3.

Tools for simplification

Simplification and reduction of administrative burdens can be obtained in a number of ways (see Box 4.1).⁵

One or more tools can be used in the same simplification exercise. An example is the simultaneous simplification of a reporting obligation (by removing some of the information requests), harmonisation of two or more forms and introduction of the possibility of electronic reporting.

Cost of the programme

The costs of running the programme on administrative burden reductions in the Netherlands can be divided into the costs of doing the baseline measurement and the running cost of maintaining the operation.

Box 4.1. **Tools for administrative simplification and reduction of administrative burdens**

- Simplification of rules and regulations:
 - ❖ An administrative obligation for companies can be removed by lifting a regulation (or part of it).
 - ❖ Groups of enterprises can be exempt from an obligation (*e.g.* by increase of thresholds or following risk assessments).
 - ❖ Frequency of reporting and/or inspection can be changed.
- Simplification of administrative procedures:
 - ❖ Information sharing between authorities (either across agencies or in partnerships across levels of government) can reduce requested information from businesses.
 - ❖ Reassessment of the need for information can lead to fewer reporting obligations.
- Use of ICT for easier compliance:
 - ❖ Possibility of electronic reporting with or without automatic generation of information from the businesses' own ICT systems.
 - ❖ Pre-printing of available information in electronic reporting forms.
 - ❖ Online validation of entered information, help functions, etc.
 - ❖ Data-sharing between authorities by use of advanced ICT solutions can make some reporting obligations simpler or completely obsolete.
- Better information and service:
 - ❖ Providing easier and faster help and guidance to companies.
 - ❖ Better guidelines for easy compliance.
 - ❖ Use of one-stop shops (physical or virtual) for single entry to authorities.
- Harmonisation:
 - ❖ Use of common definitions in different regulations can make reporting simpler (data can be re-used).
 - ❖ Harmonisation of dates for reporting or inspection.

The baseline measurement of administrative burdens on companies costs about EUR 3 million, including the development of the methodology. Minor additional measurement activities were later carried out, for example if complex calculations of the consequences of a reduction initiative were needed.

To these external costs should be added the cost of staffing. IPAL has about 18 fulltime employees and Actal 12. Furthermore, there are departmental teams (2-4 persons) in each department. These people often do not work fulltime on reducing administrative burdens on businesses, but also on related regulatory projects (simplifying licences, improving regulations related to citizens, etc.).

The project on licences in the Ministry of Economic Affairs is run by a unit consisting of 12 people (not all fulltime). The unit has existed since the beginning of 2006.

The baseline measurement of administrative burdens on citizens costs approximately EUR 500 000 in total. The programme is run by a project unit (PAL) consisting of approximately 10 fulltime employees.

For comparison, the costs of a similar measurement programme in Denmark, also using the SCM method, were approximately EUR 2 million for the consultants doing baseline measurement. To this should be added a staff in the co-ordinating agency of 6 fulltime employees and a number of people across ministries and agencies working part-time on assisting the consultants with the measurement. Maintaining the central database in Denmark and updating the measurements is estimated to cost two and a half staff in the co-ordinating agency, EUR 260 000 annually for consultants and some involvement by staff in individual ministries or agencies where changes in the legislation have been made.

Examples of simplification initiatives

In the following pages, a number of examples of initiatives in the Dutch programme are given to illustrate their character and the instruments used. Annex B contains a full list of the 47 initiatives that have led (or will lead) to annual burden reductions of EUR 20 million or more.

As shown in Table 3.1, the Annual Accounts Act is the single most burdensome act in the Netherlands, accounting for more than 15% of the total administrative burden. It is then very obvious that simplifications of this regulation – and the administration surrounding it – will have a large impact and affect many companies positively. Box 4.2 describes three major simplification initiatives related to the Annual Accounts Act and other regulations related to accounting. The initiatives cover a range of simplification tools, including harmonising interrelated regulations, increasing thresholds and use of ICT. The total burden reduction from these three initiatives is estimated to more than EUR 800 million annually.

Box 4.2. Reducing the burden of annual accounts

Previously, Dutch companies had to present two different sets of annual accounts to the Chambers of Commerce and the Tax and Customs Administration respectively. The underlying regulations have now been harmonised, allowing companies to use the same data for commercial accounts and accounts for tax purposes. In other words, the same set of annual accounts can be filed to both organisations.

On-line filing with the Chambers of Commerce has already been made possible, leading to major cost savings compared to previous workflows, where the cost of this filing would amount to approximately EUR 30 for each set of annual accounts. The cost of on-line filing is estimated to less than EUR 1. Further reductions are expected from an ambitious project on digital financial reports, using XBRL taxonomy. A digital data dictionary covering several financial reports (annual accounts, tax returns and lists of statistics) has been developed. When this data dictionary becomes included in the software used for bookkeeping and accounting by companies, it will be possible to automatically generate and submit financial reports simultaneously to the Chambers of Commerce, the Tax and Customs Administration and Statistics Netherlands.

Finally, the threshold for entrepreneurs having to meet certain obligations related to annual accounts has increased by 20%, i.e., more companies can meet their reporting obligations by completing and submitting the most simple annual accounts form. Changes in European legislation had to be negotiated in order to make this simplification possible.

Regulation aiming at environmental protection has caused some frustration in the Netherlands. For some activities, environmental permits are required. As different permits were issued by different authorities – and at different levels of government – obtaining necessary permits was time consuming and confusing to companies. To solve this problem, the burden reduction programme has included several initiatives aiming at reducing complexity in environmental regulation. Box 4.3 presents some of these initiatives, of which the single environmental permit is considered the most important.

Harmonisation of information obligations can pave the way for significant administrative simplification, facilitating streamlining of reporting obligations or merging of several reports into one. Data on the same basic concept, such as wage, is sometimes reported in different formats or at different times to different authorities. Harmonisation can be a technically challenging exercise,

Box 4.3. Introducing the single environmental permit

A new environmental permit replaces a number of former permits issued by the Ministry of Housing, Spatial Planning and the Environment. Permits of other authorities (ministries, municipalities, provinces and water boards) will also be replaced by the environmental permit by January 2008. Previously, businesses spent much time adhering to procedures and occasionally had to deal with contradictory decisions emanating from different bodies. Businesses can now apply once for a new environmental permit at a central desk, and the permit is geared towards the party requiring the permit.

As a consequence of a general modernisation of the environmental rules, the obligation to have an environmental permit for their activities will be lifted for some 37 000 companies. These companies will instead be subject to general rules related to environmental protection.

Finally, the measuring and registration obligations related to the environmental permit have been simplified, and the frequency of inspection of holders of environmental permits has been reduced.

but can in many cases reduce burdens without sacrificing any benefits of regulation. Box 4.4 presents an example of harmonisation exercise in the Netherlands.

Box 4.4. Harmonisation of wage concepts and merger of reports

In the past, entrepreneurs had to submit practically the same information several times to different government bodies with regard to wage tax (the annual pay statement) and social security contributions. The wage concepts in these regulations have now been harmonised allowing a uniform calculation method for the two payments. This again has made a merger of the two reports possible, meaning that employers now only need to submit data to the tax authorities, which will then share the data with other authorities. The resulting burden reduction is estimated to approximately EUR 300 million annually.

Rules regulating the relationship between employer and employee will naturally affect a very large number of companies. There is an ongoing discussion on the extent to which such rules should be very prescriptive in order to ensure protection of each and every individual or if they should rather stipulate the results to be achieved and allow the social partners to find solutions suited to their specific conditions and preferences. A more flexible setup can reduce

administrative burdens by removing redundant procedures and overly formalised processes. In the field of health and safety standards, the Netherlands has chosen to move towards allowing more room and responsibility to social partners, as described in Box 4.5.

Box 4.5. Flexibility in compliance with health and safety standards

The legislation on working conditions has been changed towards providing employers and employees more responsibility for occupational health and safety. The Government now determines a responsible protection level, and employers and employees then decide by mutual consent how to obtain this in practice. The process will be supported by catalogues on working conditions issued by the Ministry of Social Affairs and Employment.

In some cases, an assessment of the benefit of submitting companies to certain obligations and comparing these to the compliance costs incurred by them may reveal imbalances. When regulation aims at avoiding or reducing a certain risk, the risk-level should be taken into consideration (*i.e.*, how likely will the company engage in risk-prone activities and how serious would the consequences be) as well as the extent to which the regulation can be expected to improve the risk. When this is compared to the cost of compliance with the regulatory requirements, the conclusion may be that certain obligations can be lifted or that certain types of companies can be exempted. At times this can be done with almost no cost, *e.g.*, if too many companies are found to have been included initially. At other times there might be a cost in the form of a reduced level of protection. In such cases the cost of this protection are found to be unwarranted. Box 4.6 provides an example of re-regulation informed by a risk-oriented approach and leading to burden reductions.

Box 4.6. A risk-oriented approach in manure legislation

Dairy farmers, agricultural farmers, intermediaries, exporters and processors were formerly under an obligation to conclude a manure contracting agreement (MAO) and to send this to the Ministry of Agriculture, Nature and Food Quality. The agreement had to be signed prior to the year of production, and the agricultural farmers had to keep an updated overview during the first year for inspection purposes. Due to a new manure policy which has been guided by an explicit risk-oriented approach, the MAO has been abolished, and the annual statement will be abolished as well for half of the agricultural farmers.

Even the best simplification efforts can at times leave the impression that only bits and parts of the problems are solved: one corner of the legislation is being analysed and improved while the rest is left unaltered. It can be beneficial and satisfactory if an entire regulatory complex can be analysed in its totality, since this allows for a more comprehensive streamlining of what may have grown into place over decades.

Box 4.7 presents “the Purple Crocodile”, which is an example of streamlining of an entire regulatory regime, and simplifying it by abolishing detailed rules and complex differentiations.

Box 4.7. Purple crocodile – simplifications in the wage domain

Following an analysis reported in the report “Experience Counts”, a number of simplifications in the wage domain were presented, relating to wage tax and social security contributions. The initiatives include:

- Regulations relating to gifts are replaced by one single regulation. Taxation will hereafter be imposed at a fixed rate of 20% on one or more gifts in kind up to EUR 70 per calendar year (including the Christmas hamper). Any other regulations relating to gifts have been repealed.
- Numerous regulations relating to telephone and internet provided by the employer are repealed and replaced by one simple regulation.
- Rules related to tax reimbursement of business meals are simplified, which *inter alia* entails an abolishment of limits on the number and price of meals.

The total reduction resulting from initiatives in the *Purple Crocodile* package is estimated to EUR 50 million.

For administrative obligations that are recurring in nature, the level of administrative burdens will be directly linked to the frequency with which companies have to meet the obligation. In relation to *e.g.*, inspections, burdens can be reduced by a half if the interval between inspections is doubled. For this reason, it can be very rewarding to examine the frequency of reporting or inspection obligations carefully, assessing the risk of less frequent contact with companies. There might be a tendency to move towards zero-risk regulatory solutions, if there is no careful consideration of the balance between costs and benefits. The burden reduction programme in the Netherlands shows several examples of reducing burdens by changing the frequency of inspections etc. Box 4.8 presents an example.

Box 4.8. Reducing burdens by trimming inspection frequency

Companies that perform activities that may pollute the soil must have waterproof flooring. This concerns greenhouse farming, motor vehicle installations, gas stations, textile cleaning companies etc. The frequency of compulsory tests used to be approximately once every 18 month but was changed to once every six years in 2005.

Use of ICT is generally a very efficient means to reduce administrative burdens. Allowing reporting via the Internet is the simplest form. When reports can be automatically generated from the computer systems of the company, and transferred to relevant authorities, very large burden reductions become possible. Even if such solutions will often require initial investments both on the part of both the company and the public authorities, there can generally be a very high return on investment. There are several examples of both simple and advanced ICT initiatives contributing to burden reductions in the Netherlands, some of which are already mentioned above. Another example is a newly created possibility to electronically invoice turnover tax, which could reduce administrative burdens by EUR 161 annually.

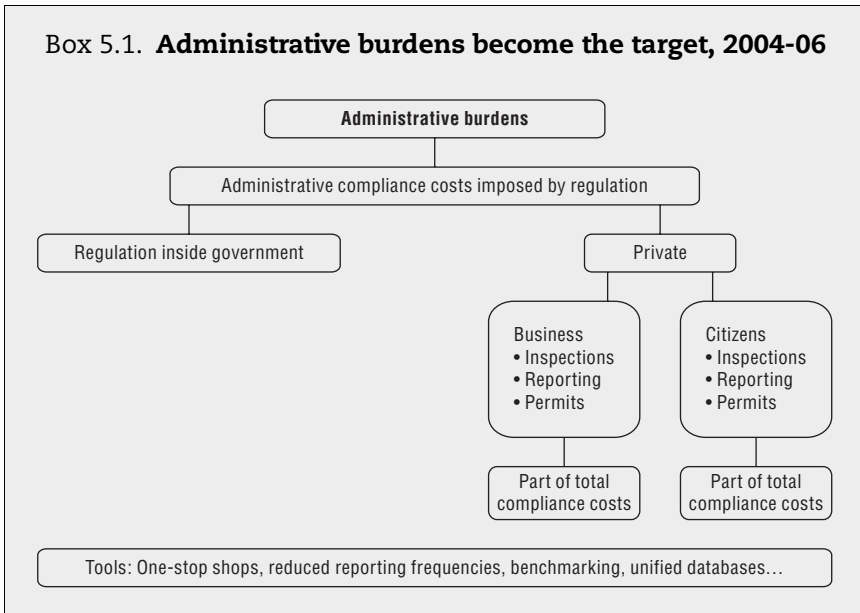
Notes

1. *Reducing administrative burdens: Now full steam ahead*, June 2005.
2. *We want to get rid of this too... Reduction of administrative burdens for companies*, Dutch Ministry of Finance, October 2006.
3. The expected net reductions by the end of 2007 have dropped significantly (from EUR 119 to 60 million or 50.4%) only for the Ministry of Economic Affairs.
4. The 2005 Cabinet letter *Reducing administrative burdens: Now full steam ahead* contains a list of all initiatives (194) reducing the burdens by EUR 1 million or more. The 2006 Cabinet letter contains a list of the “most important” measures for the 2003/07 period (168 initiatives).
5. Further description of simplification tools can be found in *Cutting Red Tape: National Strategies for Administrative Simplification*, OECD (2006) and *Guide to Systematic Simplification*, Danish Ministry of Finance, Danish Ministry of Taxation and Danish Ministry of Economic and Business Affairs (2005). See also 5 routes to simplification on www.administrative-burdens.com, the SCM Network’s homepage.

Chapter 5

Assessment of Strengths and Weaknesses

The focus of the current Dutch programme can seem narrow, compared to general recommendations on regulatory management and reform (even when it is taken into account that other programmes and activities address other elements of the regulatory quality agenda). Of three possible target groups – businesses, citizens, and the public administration itself (Regulation inside Government, or RIG) – only the first has been at the centre of the programme throughout the period. Within the broad range of possible effects of regulation on the businesses, only the administrative burdens have been given priority. The figure in Box 5.1 illustrates how administrative burdens have come to dominate the scene in the Netherlands and internationally (compared with Box 3.1 on the regulatory reform agenda in the 1990s).



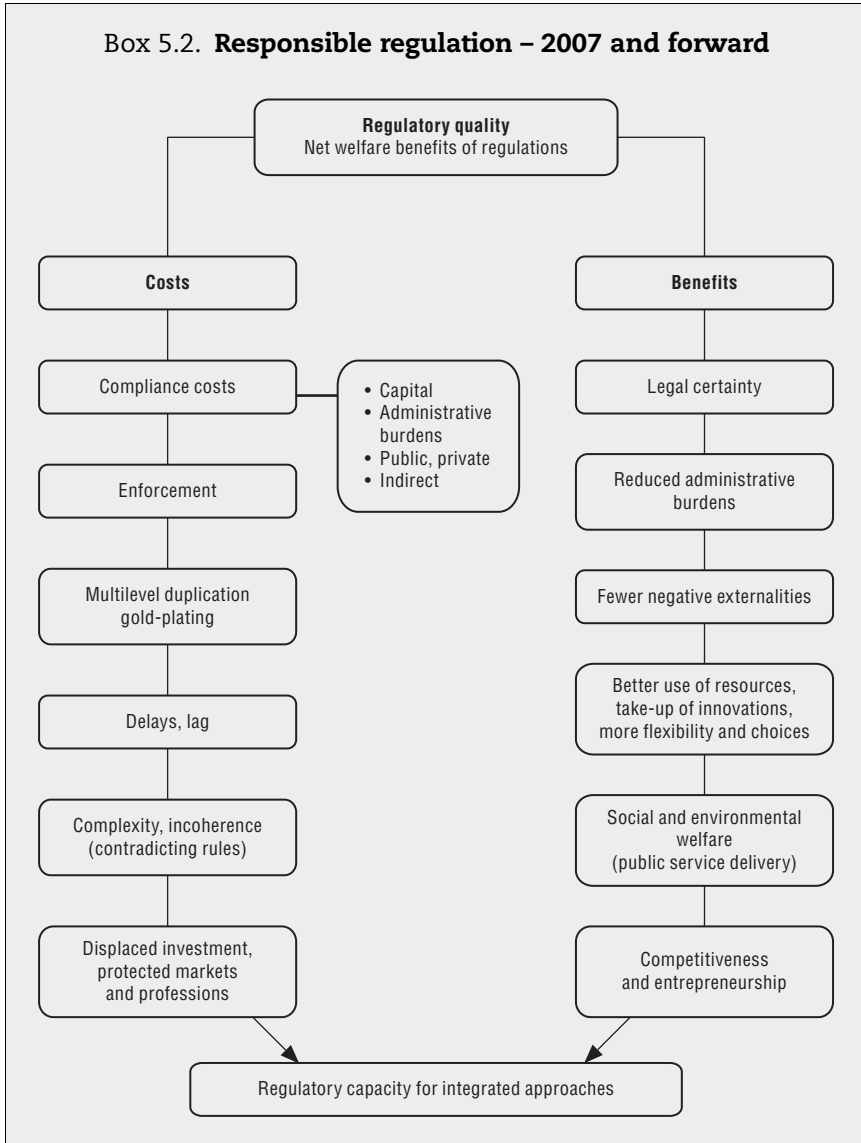
In the short run, the clear focus on the reduction of administrative burdens has probably been a strength for the programme, as it has made it very straightforward to formulate a target, to establish a measurement system and a strong institutional setup, to monitor progress, and to communicate with stakeholders. In this view, the programme for reducing administrative

burdens has paved the way for broadening the scope to other target groups and quality dimensions by initiating a cultural change where quality assurance becomes integrated into every activity related to issuing legislation.

In the long run, a single focus on administrative burdens could represent a weakness, as it leaves other important consequences of regulation behind, and results in a disproportional allocation of human, economic and political resources to a smaller fragment of the total regulatory quality picture. An unnecessarily narrow focus can in this view be regarded as a bias towards impacts of regulation on administrative burdens on businesses, which for many ministries with other primary societal missions could undermine potential support for the programme. This could explain the difficulties in embedding the programme across ministries. Beyond administrative burdens are total compliance costs and the cost of administering regulations by authorities.

Building on the insights of regulatory drivers and possible institutional solutions for addressing the problem of adverse effects of regulation, it would be possible to expand the current programme towards more comprehensive regulatory reform programmes (see Box 5.2). Quality regulation is not only a matter of costs. Regulation also delivers benefits which should be economy-wide, and include social and environmental welfare. Regulatory quality also refers to core elements of good governance, namely transparency, accountability and coherence between policy objectives and instruments.

The Netherlands has been the front runner in developing methods to measure administrative burdens and in constructing an institutional setup for making the results of measurements operational in relation to administrative simplification. Being a front runner means that there is little to gain from seeking inspiration abroad. It also means that improvement by *trial and error* is inevitable. Other countries have benefited from the innovative approach in the Netherlands and have adopted the method for measurement as well as the quantitative target – if not the entire package including independent monitoring – and have been able to learn from the Dutch experience and make adjustments and improvements. The Netherlands can now benefit from this and learn from the UK, Denmark, the Czech Republic and a number of other countries as well as the European Commission for the next phase of its burden reduction programme. A few examples are first, the conscious targeting in the UK of screening the regulation before measuring and excluding so-called Business As Usual (BAU) costs from the measurement, thus seeking to avoid the debate on discrepancies between government and businesses' perceptions of burden reductions. Second, Denmark and several other followers of the Netherlands have chosen to have a central co-ordination of the measurements – as opposed to the decentralised approach in the Netherlands – and have established central databases containing all the results of the baseline SCM measurement. This ensures methodological



consistency, allows cross-cutting analysis of data (and even simulation of simplification initiatives), and facilitates more effective benchmarking against results of SCM measurements in other European countries.

In both burden reduction programmes (for citizens and companies), use of ICT to simplify obligations and improve communication with authorities account for a large share of the overall reductions, which link the burden reduction

programmes to the broader work on e-government. Future work on burden reduction in the Netherlands could seek to bring closer the following elements: 1) administrative simplification for businesses; 2) administrative simplification for citizens; and 3) e-Government initiatives. Large variations appear when comparing the clarity of targets, institutional setups, political commitment, and progress and results. This could lead to considerations on the need for a better co-ordination between these interrelated programmes, with equally clear targets and a single structure for internal and external co-ordination and monitoring. The same could apply to the various projects run by a number of ministries (mainly the Ministry of Economic Affairs and the Ministry of Justice) on improving the business environment by streamlining regulations.

Chapter 6

Recommendations

The *Cutting Red Tape* report identifies the following main government challenges in relation to programmes on administrative simplification:

1. There is a risk that administrative simplification will divert energies from other – sometimes more fundamental – reforms which yield even greater economic and social benefits. Administrative simplification programmes should not be a substitute to a rigorous regulatory quality programme.
2. Governments need to consider ways in which sub-national levels of government can be better incorporated into administrative simplification and regulatory quality processes. Administrative simplification programmes have focused primarily on regulations emanating from the central government. However lower levels of government can be responsible for imposing significant administrative burdens and requirements on both businesses and citizens.
3. Businesses see administrative burdens as part of regulations as a whole. The challenge for governments is to communicate the results of their efforts to cut red tape, which may represent only a smaller portion of total compliance costs, the so-called “regulatory annoyance”.

All of these challenges can be found in the Dutch context, as well as other more country-specific challenges.

The corporatist tradition in the Netherlands has led to a broad support for policies but has also contributed to added complexity in regulation as a result of a process of adding details to reach compromises. The tradition of seeking consensus can also be associated as an insider/outsider problem, where established policy actors may use regulation to restrict access to markets. The general culture of seeking consensus can also explain the choice of *political neutrality* in burden reduction programmes, and can be traced back to the Slechte Committee.

Since the 1980s, there has been a high degree of continuity in the programmes for regulatory quality and simplification. Common traits are the search for compromise and political neutrality, and a narrow focus on administrative burdens on companies as opposed to broader compliance costs and inclusion of other target groups.

An overall assessment of the burden reduction programmes before 2002 shows that there were few tangible results. There was a clear gap between the planned burden reductions and the reductions themselves. After the programme

was transferred to the Ministry of Finance and the new setup was introduced in 2003, remarkable results have been achieved.

An important conclusion of this assessment is that the Netherlands is a best practice case for other countries. The Netherlands has successfully implemented an innovative institutional setup in order to reach the goal of reducing net administrative burdens on companies by a quarter within a rather limited time span.

The narrow focus of the programme has introduced a measurement system and a single progress indicator linked to a political-backed target which has enabled to monitor progress and to communicate on goals and obligations within the administration.

Recommendations

The Netherlands can benefit from the current momentum and the broad political support for public sector reform by deepening and widening the current programme for administrative burden reduction and by strengthening the link to other related government programmes. It is not enough to just maintain the current programme, as reform fatigue both internally (the civil service) and externally (consulted target groups) entails loss of momentum.

Relevant aspects considered for inclusion are broader compliance costs for companies, costs of regulation for the government, and the balance between protection and dynamism. If these elements are included, a very clear formulation of definitions and goals is needed.

Deepening and widening the programme

- The core elements of the successful Dutch model should be maintained and form the backbone of the next wave of reform efforts: a strong political support, a dedicated unit at the centre of government (IPAL), an independent watchdog and advisory body (Actal), linkage to the budget cycle, and measurement and quantitative targets.
- What has been achieved should be the foundation for a broader effort to improve regulation. The work on administrative simplification could be expanded by increasing reductions in the programme's next phase. Further use of ICT holds promises of delivering substantial burden reductions. If a further 25% reduction of administrative burdens is sought, it may be necessary to re-evaluate the principle of political neutrality and develop a more operational regulatory policy including the risk-based approach, and a new distribution of responsibilities between the state and social partners (the trust dimension).
- The scope of the programme could be widened to include broader compliance costs. Investments and other direct costs would then be taken into account when assessing the effects of regulations on businesses.

Measurement and the setting of targets should also take place with regard to compliance costs. The OECD and the World Bank Group wrote a background note containing initial suggestions on how this can be done. The note is annexed to this report.

- It is recommended to keep administrative and other compliance costs apart in order to avoid blurring the burden reduction programme. This programme could continue with a focus on total administrative burdens for the economy as a whole. In relation to compliance costs, it is recommended to work on a sectoral basis, which will enable a strategic selection of target areas (strongest urge for improvement by the business community, best opportunities for substantial changes in the regulation), the development of methodologies, and a controlled dialogue with stakeholders.
- As the total compliance costs are being addressed, questions will arise about how public policy objectives can be achieved in the most efficient and effective manner, and under what circumstances regulation is the most appropriate instrument. The government should integrate risk analysis in the process of adjusting responsibilities and roles of the public and private sectors which may occur due to a change of the content of regulations (see Box 3.4).
- The scope should also be broadened to include the cost of regulation inside government, as described in Box 6.1 (including measuring and setting of reduction targets).

Box 6.1. Regulation inside government

Regulation inside government involves one element of the public sector using a range of instruments and tools to regulate another public body at arms length. This topic has not been explored to the same degree as regulation in the private sector, particularly regulation on business. However, just as poor regulation in the private sector can inhibit competition, innovation and economic performance, poor regulation within government can impose burdens which may be passed onto the private sector, and inhibit the efficient and timely functioning of government processes.

Reducing the administrative burden inside government can be a tool for building more efficient governments. This process may be strengthened by developing methods for measuring the amount of burdens emanating from regulation inside government and by exploring possibilities to use already known tools for regulatory quality improvement – such as RIA; consultation; measurement and reduction targets.

- All relevant levels of government (regional, local and EU levels) should be included. This will require a renewed effort to advance the discussion at the European level and the creation of incentives for local and regional administrations to participate in the programme. A selective targeting is thus recommended to respect capacity limits at the municipal level. Box 6.2 further describes the issue of multi-level governance.

Improvements in project management and co-ordination

- If the current momentum is to sustain broadening the exercise to existing regulation and ensure a well-functioning system for quality assurance in new regulations, **the link to the programme on e-government must be strengthened**. Use of ICT is one of the most important paths to reduce administrative burdens. The next phase of the e-government programme will most likely raise a need for changes in regulation, and a cross-cutting effort to harmonise regulations across sectors and ministries to reduce the number of definitions and information obligations, and to increase the re-use of data.
- **A strong co-ordination with the programmes run by other ministries**, especially the Ministry of Economic Affairs, the Ministry of Justice and the Ministry of Internal Affairs and Public Sector Reform, is required to ensure a common understanding of goals and instruments, effective use of resources, and to improve communication and co-ordination with other ministries and local government.
- **The institutional setup used in the current phase of the burden reduction programme for businesses has proven to be very effective** and its continuation is highly recommended. Measurement methods should be developed and linked to quantitative targets for new elements included in the programme. Furthermore, a central unit should be given a clear mandate to co-ordinate the abovementioned programmes. The unit should enjoy strong political support* but with independent oversight. Together with progress reports to Parliament, this would create a credible commitment and contribute to transparency and accountability.
- To solve incentive and capacity problems, co-ordination should also be strengthened between levels of government.

* It will be possible to assign responsibility for different sub-programmes to different units, but the success of these programmes will most likely depend on the management systems, where measurement, use of quantitative targets, etc. have proven to be very efficient. A division of sub-programmes will increase the need for overall co-ordination and will probably be most successful if a clear reference to an overall programme on public sector modernisation exists.

Box 6.2. Multi-level governance and regulatory quality

Multi-level regulatory governance is of growing importance in terms of day-to-day regulatory management, rule-making and globalisation enforcement, expanding international, regional and bilateral trade agreements. Obligations incurred through international treaties and agreements of many kinds then constitute an over-riding imperative that must be allowed for in the content of regulatory governance. Within constitutional federations such as Canada or Germany, multi-level regulatory governance or power and competence sharing has always been carried out at the central level. In countries that are nominally unitary states, such as Sweden, France and Norway, strong traditions of local and regional governments also generate issues of co-ordination between regulatory levels and among regulatory bodies and agencies. Some countries, such as Italy, have undergone a significant transition towards increased decentralisation in recent years.

Democratic principles underpin the operation of multi-level rule making and compliance. These include: concepts of sovereignty and pooled sovereignty; subsidiarity, local democracy and flexibility to deal with different local and spatial problems and contexts; national and international harmonisation; co-operative federalism; mutual recognition of rules and standards; equality of regulatory and service delivery for citizens; and comparative transparent benchmarking of performance.

These principles and their interpretation by institutions of the state, citizens, communities, and businesses are all important and defensible, but they can also collide and conflict with each other in specific situations, and hence produce problems and challenges for regulatory governance. Regions and local municipalities may need more flexibility than previously to solve social and environmental issues and to ensure that communities are competitive in a global era.

Local decisions can create later impacts and concerns for national regulators who's task is to ensure integrated regulatory goals and compliance at the national level. The reverse is also true when national regulators create later impacts and concerns for local authorities. National and in particular international regulatory authorities face choices regarding how much they can or should supervise national, sub-national and local authorities. Without publicly available benchmarking information, regulatory performance and quality of service delivery to citizens is impossible to determine. The inherent complexity of multi-level regulatory governance can also lead actors and institutions to avoid responsibility, hiding behind layers of authority and bureaucracy, and practicing the art of blame and avoidance.

Box 6.2. Multi-level governance and regulatory quality (cont.)

Multi-level regulatory governance issues include regulatory policy among levels of government, regulatory competence sharing, and vertical and horizontal regulatory co-ordination. The different regulatory institutions set up and the tools designed and enforced to produce and implement high quality regulation are also relevant. Multi-level regulatory governance is explicitly recognised in the OECD (2005), *Guiding principles for regulatory quality and performance*.

In sum, the quality of regulation at different levels of government (supra-national, national and sub-national) affects the regulatory environment as a whole. Business and citizens routinely encounter problems at the local and regional levels such as delays, red tape, local licensing requirements and uncertainty in the application of rules. Sub-national jurisdictions may use their discretionary authority in ways that inhibit competition. Today, supra- and sub-national levels of government play a more significant role in issuing and enforcing regulations. National governments need to provide a regulatory framework able to respond to these interactions and develop co-ordination mechanisms that can harmonise them.

Possibilities for improvement and further development of measurement methods

- Benchmarking can be used as an instrument to identify best practices in local administrations and in areas where simplification ought to be sought. If benchmarking is used to this end, its parameters should be considered. For example, user-satisfaction could be measured in parallel to administrative burdens or compliance costs.
- Likewise, benchmarking between countries facing similar international regulations and using similar measurement methods – the SCM method in the case of administrative burdens on businesses – could be used to identify areas where the Netherlands could improve its performance by adopting regulatory practices used in other countries.
- Comparison of SCM measurement results would also be relevant in the policy dialogue with the European Union: reliable information on administrative burdens caused by regulation initiated at the community level could be used to target simplification efforts.
- Compared to other countries' SCM measurements, the Dutch measurement gives relatively sparse information on the administrative burdens of the so-called *B category* (regulations issued at community level but with potential for national implementation). On this particular issue, it is recommended that the Netherlands refine its measurement in a future baseline measurement.

- To allow better comparison between sectors and simplify international benchmarking, the Netherlands should improve its measurement co-ordination in different sectors (if they are to be performed by different operators). It is also recommended that a central database containing the results of all ministries' measurements be created in order to allow cross sectoral examination and modelling of simplification initiatives.

Communication and stakeholder involvement as a means for better targeting

- Consulting with relevant target groups will enable the programmes to tackle problems perceived as most important, and test the feasibility of proposed solutions. However, societal and/or economical optimal solutions can be contrary to special interests and ambitious simplification projects may at times have to disregard explicit opposition from stronger stakeholders.
- Communication could also be improved in terms of *expectation management* to ensure correspondence between the goals of the government's programmes and stakeholders' expectations. Part of this exercise could extensively involve stakeholders in formulating programmes ensuring a common understanding of goals.

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ANNEX A

OECD and World Bank Group: Regulatory Reform in the Netherlands

BACKGROUND NOTE

Introduction

This note was jointly prepared by the OECD and the World Bank Group as part of the two organisations' review of the Dutch Administrative Burden Reduction Programme. It elaborates on analysis and assessments set out in the two organisations' reports, which include a number of shared views on how to measure and target regulatory reform beyond the current programme ending in 2007.

Analysis and findings of this note were used to further support the OECD and the World Bank Group's individual reports. The note discusses the following issues:

- *Where to focus?* Using business surveys to target reform on high priority regulatory regimes.
- *What to measure?* Start with direct compliance costs and move gradually towards more comprehensive measurements.
- *How to measure?* Some methodological and practical steps to consider.
- *Get it out!* Communication strategies as a core component of successful reform.

Where to focus?

This section argues that the Dutch Government should use business surveys to target reform on high-priority regulatory regimes. A comprehensive measurement is not feasible for resource reasons and because business concerns tend to revolve around many of the same problems.

Conducting business surveys is the best way to target reforms that both reduce the annoyance to business and identify large cost savings. These surveys could target the top 10 or 20 regulatory burdens faced by entrepreneurs. The surveys could also cover the perceived improvements in the business environment over the last year (to be listed); the perceived deteriorations (to be listed); the single most important change that they wish to take place (a one paragraph description). As businesses face different regulatory burdens in different industries, the sample of interviewed businesses could cover particular sectors. The results would then be analysed by sector, by location in order to provide ideas about reform at the municipal level, and by type of the regulatory burden (and the responsible ministry).

There is much international experience in conducting business surveys. In the United States, business conditions are surveyed by the Department of Commerce, labor regulations and skill needs by the Labor Department, and the Federal Reserve on export competitiveness. In Germany, an annual survey is conducted by the Chamber of Commerce. The World Bank conducts such surveys in 100 developing countries, and publishes a list of the 10 main obstacles faced by businesses.¹ The World Economic Forum conducts annual surveys of business conditions in 130 countries and also prepares a list of the 10 biggest obstacles.

Some of the listed obstacles may have high annoyance costs but produce little monetary savings. One such example is completing various statistical forms. Reforming the underlying regulation may still be a good idea, as the assessment of businesses on improvements in the business environment depends on both perceived costs and actual costs. Other stated obstacles could be dropped for reform considerations upon review. For example, high tax rates are listed as a major obstacle in nearly every business survey. Yet tax revenues are used to provide the necessary infrastructure for businesses to function. Hence the level of taxation is a policy choice, and one which is not typically driven by the perceived annoyance of businesses. In short, reformers would use the information from business surveys as a guide to reform priorities, not as a mandate.

What to measure?

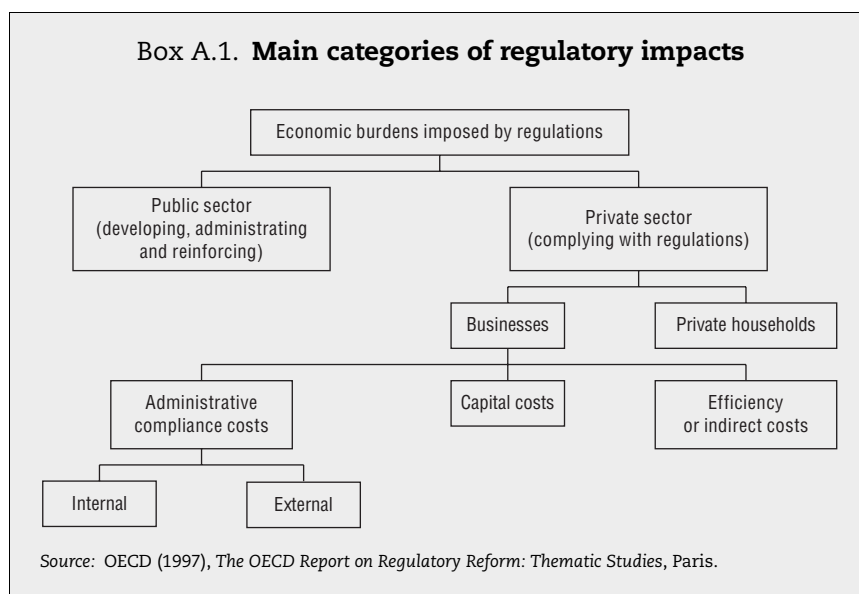
This section argues that a new ambitious quantitative target for improvement in regulatory costs and risks should initially focus on measuring direct compliance costs, and then gradually move more comprehensive measurements. Although important for the complete picture and the optimal basis for decision making, the costs and uncertainty associated with many cost-benefit analyses are significant, and should hold back the reform momentum.

Regulatory impacts go beyond administrative burdens

The administrative compliance costs (the administrative burden) currently measured under the SCM approach is only part of the total regulatory burden. Regulation also imposes burdens in the public sector (mainly enforcement activities) and compliance costs other than administrative on companies. These costs can be divided into direct and indirect costs.²

Direct costs	Indirect costs
<ul style="list-style-type: none"> ● Administrative ● Compliance 	<ul style="list-style-type: none"> ● Limits freedom to make choices for citizens and companies ● Dampens innovation ● Delays product development ● Stifles competition ● Slows productivity growth

This corresponds to the typology of business costs presented by the OECD in its 1997 report, (see Box A.1).



The indirect compliance costs are difficult to assess precisely, and it is highly problematic to determine the effect of individual regulations. It is possible to create indicators for *e.g.*, the level of competition in different sectors of the economy, by examining rates of entry and exit or rates of

returns. These indicators can draw a picture of the general state of play, but difficulties arise when seeking to determine the effect of regulation on the one hand and the effect of actions by economic agents on the other. Furthermore, the indicators are better suited to shed light on regulatory regimes than on individual regulations.

Direct compliance costs can more easily be assessed. Definitions of the concept vary, but in general it describes the *out-of-pocket* expenses for companies when complying with regulation. Administrative costs are often seen as part of the total direct compliance costs. Other components of the direct compliance costs are:

- Taxes and levies.
- Other monetary costs (e.g., fees, interest on deposits or borrowings/financial costs).
- Capital investments (workforce, equipment).
- Imposed inefficiencies in production (standards for input, transportation, storage, etc.).

Payment of taxes and levies are often treated separately from other compliance costs. The analytical reason for this would be that these expenses are indeed intended, whereas other compliance costs are unintended and generally unwanted. At the operational level, where measurement is pursued in relation to a reduction target, the inclusion of fiscal costs would entail a risk of substituting tax cuts for regulatory improvements. Assuming that government spends its revenue wisely, this would then be a double mistake. For these reasons costs of a fiscal nature are left out of the remainder of the analysis. However, it is important to stress the difference between such fiscally motivated costs and fees covering the administrative costs for authorities in relation to administrative obligations.

Ex ante versus ex post

An assessment of the direct compliance costs of any regulation will have to be done by examining the additional costs resulting from this regulation. As manufacturing and sale would also entail costs to companies even in a hypothetical economy with no regulations whatsoever, it is not feasible to make an assessment of the total cost. The assessment must, instead, be based on a comparison between two different levels of regulation, of which one would most reasonably be the present level. This is most straightforward if the regulation to be assessed is a proposed new regulation (an *ex ante* assessment). It should then be determined what extra obligations the companies will have to comply with, and the cost of these could then be examined. There is a long tradition for these types of studies, mainly in countries where, as part of the general RIA procedure, systems to assess costs and benefits are more advanced.³

In the *ex post* assessment of the cost of existing regulation, the same procedure can be followed by defining a situation with less, or different regulation. Choosing a situation where regulation is non-existent is generally not recommended, as this will often be too contra factual, given the benefits of regulation and the general public and political support for most regulation. For comparison purposes, it will generally be more feasible to use a lower level of regulation, or regulation by different tools. This could – but does not have to – be the level or type of regulation in a previous period, *e.g.*, five or ten years ago. It could also be a description of a regulatory alternative derived from a scrap-and-build approach such as the one described in the Dutch *Greenfield approach*.

From this point, the assessment would be done by describing the changes in behaviour by the individual company: How would processes for production be altered, what type of investments would become necessary or obsolete, how would monetary costs be affected and so forth.⁴

The SCM method developed for assessing administrative costs could be adapted to serve this purpose. The basic analytical questions would be:

- What are the changes in obligations for companies in terms of present obligations and obligations under a baseline scenario;
- How many companies will be affected by these changes;
- What are the cost drivers in each of the selected categories of direct compliance costs (similar to the standard activities in relation to administrative burdens); and
- What is the standardised (change of) cost for a normally efficient company (by segments of the economy if feasible).

The benefit side

Even the best assessment of the cost of regulation will not provide a full picture of how regulation affects society if the benefit aspect is not simultaneously taken into consideration. In general, the aim and challenges are to ensure that the benefits of regulation outweigh the costs, and that the benefits are generated in a cost-efficient manner.

When seeking to improve regulation, one method is to leave the benefit side unaltered and to improve the cost-effectiveness of the regulation. This approach is consistent with – or the defining feature of – operating on the basis of political neutrality. However, if benefits are entirely left out of the analysis, determining whether a given regulation leads to net benefits for society is impossible as costs may be higher than benefits.

Even when a net benefit is documented or made plausible, is the balance between costs and benefits right? Regulation motivated by protection concerns will often illustrate the general economic principle of diminishing

rates of return; the price of halving a risk may be constant, even as the remaining risk decreases in nominal terms.

Considerations of this kind can lead to significant reductions of costs and an increased societal welfare, if, in some cases one concludes that regulation has been excessive from a purely economical perspective. However, this could unmistakably affect the principle of political neutrality as a very high level of political commitment would normally be required as well as the ability to communicate clearly on what kind of broader societal goals the government is pursuing. If these goals are not shared by all groups of society, such as for example a general reduction of consumer prices, compensation strategies might be necessary.

A pragmatic approach to methodology and baseline measurements

Assessment of administrative burdens is only partial in terms of regulatory impacts. This indicates a policy choice whereby special attention is based on the perception of major shortcomings of previous quality assurance efforts. If the partial analysis of administrative consequences of regulation is not integrated into an overall RIA framework, there is a risk of distortion, as improvements in relation to administrative burdens on one group (companies or citizens) may be achieved at the expense of another group. In addition, benefits of regulation might not be taken into account, and more specifically considerations on the balance between costs and benefits. In theory a regulation may not entail a net benefit to the economy or society, even after an improved cost effectiveness resulting from the burden reduction programme.

In addition, improvements of single regulations will often take these regulations out of context and fail to include an analysis of wider regulatory framework and/or the dynamic effects of the regulation. An example is a licensing procedure which – even if being installed in order to counteract a perceived societal risk of malpractice – may to a larger extent serve as an entry barrier to a particular market, thus limiting competition in this market and lead to reduced innovation and increased consumer prices. A burden reduction exercise may lead to a simpler procedure for companies to comply with the regulation (through the introduction of ICT tools, etc.), but will leave out the analysis of indirect consequences of the regulation.

These precautions should be kept in mind in the Netherlands, even if the current burden reduction programme continues without any broadening. At the same time it must be clear that the best should not become the enemy of the good. By examining possibilities of improving cost effectiveness of business regulation, awareness of other shortcomings may be discovered, and a general cultural shift may be induced, moving the civil service – and law drafters more specifically – in a beneficial direction of increased awareness of the wider consequences of regulation.

For this reason, it would seem to be responsible – if not optimal – to aim for an incremental development of the very well embedded programme of administrative burden reduction, moving it in the direction of the broader compliance costs. This can be expected to improve the perception of regulatory improvements in the target groups (the business community and the general public) and towards improvements in economic efficiency and competitiveness.

Experience from the United States also seems to suggest that the “benefit side” of retrospective cost-benefit analysis is associated with uncertainties and it is problematic to use guidance for specific policy choices.⁵

In further support for starting with targets and measurements focussing primarily on direct compliance costs is the assumption that these are good proxies for the challenges associated with the regulatory regimes under review. The selection process of regulations subject to measurement and reduction targets – based on business sector inputs – should assure that these regulations are truly of importance for growth and investment. The fact that businesses point to particular areas of concern rather than others should reflect that the perceived benefits do not reflect the imposed costs – at least for the private sector.

How to measure?

This section proposes eight practical steps in the process of setting and implementing new targets for the reduction of regulatory risks and costs. The eight steps build in large extent to well-known approaches developed under the Administrative Burdens reduction programme:

1. Identification of regulations to simplify.
2. Assessment of obligations in the individual regulation to examine further.
3. Establishment of the counterfactual situation to measure against.
4. Assessment of the incremental burden (current situation compared to the chosen counterfactual situation).
5. Decision on reduction target.
6. Search for regulatory improvements (on the basis of findings in Step 2).
7. Assessment of cost reduction resulting from decided simplification initiatives, and calculation of cost reductions compared to targets.
8. Implementation of Action Plans, formal/legal endorsement of initiatives, monitoring and evaluation.

1. Identification of regulations to simplify

Business surveys should be used to identify main priorities for reform. Business priorities may of course be complemented with other government-

defined priorities not captured by incumbent businesses. See Section “Where to focus” above.

2. Identification of regulatory obligations

When specific regulations or regulatory areas (e.g., workplace safety) have been selected, the next step is to make an inventory of *all provisions in the relevant regulations*, which oblige companies to undertake certain activities. This exercise can be done in a way similar to the SCM method by itemising information obligations in order to assess the administrative burden. To obtain a sufficiently precise description of the provisions, it may be necessary to include secondary regulations, guidelines, administrative practises (administrative decisions related to inspections, etc.) and court rulings. It will then be possible to draw a first description of companies’ mandatory actions, investments, etc. to decide what they ought to do to comply with the regulation. In many cases, it will be necessary to operate on the basis of one or more company archetype (size, sector, activities) to capture the possible variation in activities needed for compliance.

3. Establishment of the counterfactual situation to measure against (a baseline year)

Much literature and experience from overambitious regulatory reform programmes warn against measuring all regulatory compliance costs and benefits. One intractable problem is establishing a credible baseline (see Box A.2).

Although the baseline problem raises important challenges, those are nevertheless manageable, first, as noted in the report, by limiting the number of cost (and benefit) categories examined. By looking primarily at direct compliance costs, uncertainties related to estimates of market development are largely reduced, as well as the resources required for calculating these costs. Consequently, cost estimates of direct compliance costs are not as comprehensive as full-blown cost-benefit analysis. However, as for administrative burdens pursued under the past regulatory reform programme in the Netherlands, direct compliance costs can be assumed to be sufficiently reasonable proxies for the costs and risks imposed by the reviewed regulations. Box A.3 describes the procedures to choose a baseline for measuring regulatory impacts in the United States.

Second, instead of departing from a situation where the regulation is *non-existent*, the challenge is to describe a hypothetical and counterfactual situation, where the regulation is *different* from the actual situation. In relation to the administrative burden it may be possible to map all activities related to generate and transfer information, but it is a well-known problem that not all of these activities would be obsolete if the regulation were removed. In relation to broader compliance costs it would be even more difficult to determine what

Box A.2. The baseline problem

Costs and benefits must be measured relative to a baseline. One has to determine the counterfactual – i.e., how things would have been if the regulation had not been issued. The baseline problem has several dimensions.

First, it is often impossible to determine the true counterfactual, since it never happened. What would have happened in the absence of the regulation can only be an educated guess. The greater the hypothesised difference between reality and the counterfactual, the more problematic the exercise.

Second, sources may be biased. Partially because of the interests of the surveyed parties, and also the way data is recorded. It is often alleged that strategic behavior may affect both regulators' and the regulated's estimates of the cost of regulation. The best studies are *ex post* studies carried out by individuals who do not have vested interests, but have the reputation of being objective analysts. But even if firms' or agencies' estimates are unbiased at a particular time, technological change or "learning-by-doing" may result in those estimates overstating compliance costs. Properly done, *ex post* studies are likely to be resource and time intensive. Firms do not usually keep their cost accounting estimates according to what regulations are driving them. Moreover, to date, virtually all studies on the costs of regulation are measuring firms' expenditures (*ex ante* or *ex post*) required by regulation, whereas the costs of regulations to society should be measured by the change in consumer and producer surplus or income associated with the regulation.

A third problem relates to the dynamic aspects of an economy, which may obscure the purpose for which the baseline is expected to be used. If the objective is to reduce the burden of existing regulations, even *ex post* evaluation surveys may be inadequate as they reflect the cost of gearing up to comply, not the cost savings of no longer having to comply with a given regulatory programme. Technological advances over time are likely to reduce start-up costs of compliance faced by enterprises. In addition, sunk costs, such as specialised capital costs and the cost of changing procedures already in place, make cost savings derived from eliminating regulation less attractive than the cost of complying with those regulations.

Fourth, and related to the above, changes in consumer preferences can create a "rising baseline" phenomenon, which reduces the ongoing significance of certain regulations. Estimates of aggregate regulatory costs using a pre-regulation baseline may thus overestimate the current costs compared to a post-regulation baseline.

Fifth, the construction of a baseline may be complicated where, as frequently occurs, there are several causes of the change in behaviour attributed to a regulation.

Box A.3. Guidelines from the United States: choosing a baseline for measuring regulatory impacts?

“You need to measure the benefits and costs of a rule against a baseline. This baseline should be the best assessment of the way the world would look absent the proposed regulation. The choice of a proper baseline may require consideration of a wide range of potential factors, including:

- Evolution of the market.
- Changes in external factors affecting benefits and costs.
- Changes in regulations promulgated by the agency or other government entities, and the degree of compliance by regulated entities with other regulations.”

You may often find it reasonable to forecast that the world, absent the regulation, will resemble the present. If you do so, however, your baseline should reflect the future effect of current programmes and policies. For review of an existing regulation, a baseline assuming “no change” in the regulatory programme generally provides an appropriate basis for evaluating reasonable regulatory alternatives. When more than one baseline is reasonable and the choice of baseline will significantly affect estimated benefits and costs, you should consider measuring benefits and costs against alternative baselines. In doing so you can analyse the effects on benefits and costs of making different assumptions about other agencies’ regulations, or the degree of compliance with your own existing rules. In all cases, you must evaluate benefits and costs against the same baseline. You should also discuss the reasonableness of the baselines used in these sensitivity analyses. [...]

In some cases, substantial portions of a rule may simply restate statutory requirements that would be self-implementing even in the absence of the regulatory action. In these cases, you should use a pre-statute baseline. If you are able to separate out those areas where the agency has discretion, you may also use a post-statute baseline to evaluate the discretionary elements of the action.

Source: OMB (2000), 64.

would be done by the average company in the hypothetical unregulated economy; would there be no heating in office buildings? Would flour be replaced by saw dust in bread? Would there be no concern for or countermeasures to pollution or other externalities of industrial production? A pragmatic and operational solution to this problem would be to select a baseline year, that is, a baseline scenario defined as the regulatory “state of affairs” as it was in one particular year. In most cases, the baseline year should not go back any more than 20 years (and possibly less) in order to be able to establish credible causalities between regulatory requirements and business behaviour.

An alternative to defining a particular year as the baseline, the baseline could be established by describing a regulatory alternative derived from a scrap-and-build approach like the one described in relation to the Dutch *Greenfield approach*. This approach may be particularly relevant in cases where a significant overhaul of the regulatory regime is required. The regulatory alternative could also include parts of the existing regulatory regime.

4. Assessment of the incremental burden (and benefits)

With an identification of regulatory obligations and a selection of the baseline year, the assessment would be done by describing the changes in behaviour by the individual company (or archetype): How would processes for production be altered, what type of investments would become necessary or obsolete, how would monetary costs be affected and so forth. In order to calculate the total incremental burden, the next step will be to determine how many companies are affected by the regulation and to develop well-grounded assumptions on the extent to which they are affected. This could be done by allocating a share of the total number of business to each of the archetypes used for describing variations in compliance behaviour.

The assessment of the incremental burdens should focus on direct compliance costs. In parallel with this exercise, efforts should be made to capture benefits to businesses and the society at large arising from the imposed regulatory requirements. Given the difficulties with quantifying benefits, it may not be feasible to request monetised benefit values of the reviewed regulations. Rather, qualitative benefit assessments could be used to better guide decision on simplification measures (see below).

5. Decision on the reduction target

To be consistent with the *modus operandi* of the AB reduction programme, the next step would be to establish a quantitative reduction target expressed as a share of the measured costs, e.g., a 25% reduction in direct compliance costs over the next five years.

Initially, clear-cut and similar (25%) reduction targets should be allocated to each of the (10-20) regulatory regimes subject to streamlining. The fact that these regulatory regimes (and not others) have been identified as particularly burdensome or low-quality regulations by businesses would suggest that significant reductions in risks and costs are possible. However there should be some flexibility for transferring some reduction targets between the (10-20) selected regulatory regimes. Ministries may be incentivised to deliver “above-target” reductions by the prospect of fiscal compensatory/award mechanism, e.g., to improve ITC-based regulatory transactions and services to businesses.

An alternative solution would be to work on the grounds of a nominal reduction target, at least in the first phase of the programme. A possibility

could be to aim for a reduction of compliance costs matching the reduction of administrative burdens that have been achieved in the last phase of the programme: EUR 4.1 billion.

6. Search for simplification measures

Following establishment of the baseline and the assessment of incremental burdens (and benefits) established, the next step is about identifying the measures that can “deliver” the reduction target. This involves elimination and simplification of the regulatory obligations identified under Step 2. As part of the exercise, obligations that are already fully internalised in the way businesses do business should be excluded. In other words, the so-called “business-as-usual-costs” should not be part of possibly proposed simplification measures, since businesses would carry them out even in the absence of the regulatory obligation. In addition to elimination and simplification of existing measures, proposal could also establish *regulatory alternatives*. Needless to say, systematic involvement of private sector stakeholders will be important to both identify and assess the feasibility of simplification measures.

7. Assessment of cost reduction resulting from decided simplification initiatives

When possible simplifications have been identified, an assessment of each measure should be made by use of the same methodology described in Step 4. This will lead to a modelling of the reduction of compliance costs derived from the simplification initiatives. There should also be an assessment of other consequences of the successful introduction of these initiatives, both related to the benefits of the regulation and related to wider consequences on the cost side (link to other regulations, dynamic changes resulting from adjustment in the behaviour of companies, effect on competition and innovation, etc.). The need for in-depth analysis of these consequences will vary, leading to a recommendation for flexible and proportionate assessments. The main concern should be to present a sound basis for political decision, ensuring that improvements on one parameter do not lead to unforeseen negative consequences on another parameter.

8. Calculating cost-reduction compared to target, monitoring and evaluation

When a final decision has been reached on what simplifications to adopt or to suggest for political decision, progress should be related to the general reduction target. This exercise should follow the modalities of the monitoring of the AB reduction programme.

Communication strategies

Furthermore, it is recommended that methods be developed for targeting the effort and directing the programme to the problems of regulation that are perceived as most pressing. The first reason for this recommendation is that the very comprehensive layout of the administrative burden reduction programme will not be feasible in relation to the broader compliance costs, pointing to a need to select regulatory areas for further examination. The second reason is that the political backing needed to sustain the programme will be endangered if the selection of areas is not done in an open and inclusive process.

Communication must be improved, both on the aim and expected deliveries of the programme and on the working methods and its limitations.

Notes

1. The methodology and results are available at www.enterprisesurveys.org.
2. Adapted from *Canada's Regulatory Burden. How Many Regulations? At What Cost?*, Laura Jones and Stephen Graf, The Fraser Institute (2001).
3. The United States is an example of this CBA tradition, where regulatory agencies – like the Occupational Safety and Health Agency (OSHA) or the Environmental Protection Agency (EPA) – are obliged to perform a CBA before introducing new regulation. See Robert W. Hahn (1996), “Regulatory Reform. What do the Government’s Numbers Tell Us”, in Hahn, Robert W. (ed.), *Risks, Costs, and Lives Saved: Getting Better Results from Regulation*, New York, Oxford University Press and AEI Press.
4. An example of this approach can be found in Harvey S. James Jr. (1998), *Implementing a regulatory budget: Estimating the mandated private expenditure of the Clean Air Act and Safe Drinking Water Act amendments*, in *Policy Sciences* 31.
5. This point is well illustrated by the Environmental Protection Agency’s 1998 Report to the American Congress on the benefits and costs of the Clean Air Act (amended in 1990). The report estimated the monetised benefits of the Act ranging from USD 6 to USD 50 trillion (present value in USD 1990) and direct compliance expenditures, R&D costs, and government costs to roughly USD 0.5 trillion. According to the report, “the results of the retrospective study provide useful lessons with respect to the value and limitations of cost-benefit analysis as a tool for evaluating environmental programs. Cost-benefit analysis can provide a valuable framework for organising and evaluating information on the effects of environmental programs. When used properly, cost-benefit analysis can help illuminate important effects of changes in policy and can help set priorities for closing information gaps and reducing uncertainty. Such proper use, however, requires that sufficient levels of time and resources be provided to permit careful, thorough, and technically and scientifically sound data-gathering and analysis. When cost-benefit analyses are presented without effective characterisation of the uncertainties associated with the results, cost-benefit studies can be used in highly misleading and damaging ways. Given the substantial uncertainties which permeate cost-benefit assessment of environmental programs, as demonstrated by the broad range of estimated benefits presented in this study, cost-benefit analysis is best used to inform, but not dictate, decisions related to environmental protection policies, programs, and research” [emphasis added].

Main simplification initiatives in the Netherlands

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
1.	Annual accounts	All businesses	1 January 2007	400	Justice and Finance	Harmonisation	The same data is now used for commercial accounts and accounts for tax purposes.
2.	Annual accounts	All businesses	1 January 2007	350	Justice	ICT Harmonisation	Simplified provision of information by use of electronic filing (XBRL) and merger of three reports to three different authorities.
3.	Annual pay statement	All businesses	1 January 2005 and 1 January 2006	295	Finance and Social Affairs	Harmonisation	Harmonisation of wage concept and subsequent merger of two reports on employees' wages and incomes to the tax administration and the social insurance authority.
4.	Turnover tax	Other target groups	1 January 2004	161	Finance	ICT	Possibility of electronic invoicing of turnover tax.
5.	Financial Information Leaflet	Financial sector	1 October 2006	97	Finance	ICT	The Financial Information Leaflet was made available electronically.
6.	Occupational health and safety	All businesses	1 January 2007	93	Social Affairs	Simplification of rules	A general simplification of the act gives employers and employees additional room and more responsibility to organise ways to meet occupational health and safety requirements in their branch.
7.	Declaration procedure	Care sector	1 January 2006	91	Health	ICT	Declaration procedures between insurers and service providers were fully digitalised, leading to a shift from high to very low error percentage.
8.	Occupational Health and Safety	All businesses	1 May 2004	89	Social Affairs	Simplification of rules	Consultation obligations on regular work requirements were abolished. Instead, businesses are trusted to organise such meetings on their own initiative.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
9.	Manure legislation	Agricultural businesses	1 January 2006	87	Agriculture	Simplification of rules ICT	Abolishment of the obligation for dairy and agricultural farmers, etc., to conclude a manure contracting agreement and send it to the Ministry of Agriculture. The annual statement on manure was removed for half of the agricultural farmers. The simplification was made possible by a new risk-oriented approach and through the use of data provided under other regulations.
10.	Annual accounts	All businesses	October 2006	86	Justice	Simplification of rules	The thresholds to meet extensive reporting obligations were increased. First, due to national legislation, and later to amendments in the relevant EU directive.
11.	Prescriptions for medicine	Care sector	Middle of 2007	85	Health	ICT	A paper prescription for medicine is no longer required as prescriptions can be sent from physicians to pharmacists electronically.
12.	Food chain: food labelling (EU)	Other target groups	1 January 2009	85	Health	Simplification of rules	The rules for food labelling have been consolidated and it is allowed to meet some of the information obligations towards consumers by use of the Internet. This is a more flexible solution for information that may often change.
13.	Company law: digital convocation notice of shareholders' meeting with private limited companies (BVs) and public limited companies (NVs)	All businesses	1 January 2007	69	Justice	Simplification of rules	Convocation of shareholders' meetings can be issued electronically. This allows companies to save the cost of publishing convocations in a newspaper or by regular mail.
14.	Environmental permit obligation: general rules replace permit	Environmental permit and businesses subject to compulsory reporting	2007	64	Environment	Simplification of rules	20 000 businesses in the metal sector will no longer have to apply for an environmental permit. Instead they will be obliged to follow the general environmental rules, requiring fewer reports and less inspection.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
15.	Environmental rules: general reform	Environmental permit and businesses subject to compulsory reporting	2007	64	Environment	Simplification of rules Streamlining	General environmental rules apply to some 300 000 businesses. Specific rules sometimes only concern a very small number of businesses. The rules are reformed to become more relevant and easier to implement, without affecting the level of protection of the environment. They will no longer be sector-oriented but be based on the nature of activities. They will allow for more flexibility in the way business comply, <i>e.g.</i> , by use of innovative techniques. The reform will mean that many businesses no longer will be obliged to have a permit.
16.	Reproduction Rights Organisation collects fees payable to copy right holders	All businesses	1 February 2003	57	Justice	Simplification of rules	The system for paying fees for photocopies of protected copyright material was changed into a flat-rate system. It distinguishes the activities of companies with a low and high average level of photocopy reproduction, subject to reproduction-rights based on information from Statistics Netherlands.
17.	Introduction of one environmental permit: combining permits and exemptions for housing, spatial planning and the environment	Environmental permit and businesses subject to compulsory reporting	2007	57	Environment	Harmonisation of simplification rules	A new environmental permit replaces a number of former permits issued by the Ministry of Housing, Spatial Planning and the Environment. Permits of other public authorities: ministries, municipalities, provinces and water boards, will also be replaced by the environmental permit. Previously, businesses spent much time adhering to procedures and occasionally had to deal with contradictory decisions emanating from different bodies. Businesses can now apply once for a new environmental permit at a central desk, and the permit is geared towards the party requiring the permit.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
18.	Occupational Health and Safety: Knowledge information on preventive policy	All businesses	2004-07	55	Social Affairs	Information	Statutory obligations in the field of safe working conditions are not clear to all small and medium-sized enterprises. Obtaining the required information through direct branch organisations or administrative offices will therefore make it easier. A better knowledge and understanding of these obligations will significantly contribute to employers adopting a more effective preventive policy. Adequate examples of efficient absenteeism prevention and work reinstatement measures as well as other practical tools, will reduce the burdens of complying with the regulation.
19.	General Exceptional Medical Expenses Act (AWBZ): simplification and digitalisation of own contribution scheme	Care sector	1 January 2006	51	Health	ICT	The registration of provided home care was simplified by applying the principle that unless modifications are reported, provided care equals planned care. In case of modifications, the care provider only needs to enter the adjustments into his or her planning. The system is supported by different ICT tools, <i>e.g.</i> , barcode pen, IO-loggers and PDA's, which makes the registration process less time-consuming and less error-prone.
20.	Wage tax: Purple Crocodile	All businesses	1 January 2007	50	Finance + Social Affairs	Streamlining Simplification of rules	A large number of simplifications in the wage domain were introduced (based on the report "Experience counts"). This included a general scheme for gifts, rules regarding representation, expenses for staff parties and trips. Rules for telephone and Internet access were streamlined and the scheme for fixed travel allowances free of tax was extended.
21.	Profit tax return and turnover tax return: henceforth electronically	All businesses	1 January 2005	50	Finance	ICT	Paper tax returns were replaced by an electronic tax return programme to enable businesses to file their income, corporate and turnover tax returns free of charge via the Internet. A dedicated website provided businesses with an overview of filed and outstanding tax returns.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
22.	Simplification operational phase environmental permit	Environmental permit and businesses subject to compulsory reporting	Mid 2007	50	Environment	Simplification of rules	The measuring and registration obligations included in the environmental permit were simplified, <i>e.g.</i> , by reducing the inspection frequency of proof floors and fire extinguishers (via the Use of Building Works Decree) and by performing less often some surveys such as the soil zero situation and energy surveys.
23.	Road haulage: simplification of consignment note	Transport sector	31 December 2005	49	Transport	Harmonisation	Forms for filling consignment notes by road haulage firms were simplified by reducing the number of fields to be completed from fifteen to five.
24.	Care Insurance Act: abolishing procedural authorization conditions	Care sector	1 January 2006	42	Health	Simplification of rules	The introduction of a new Care Insurance Act led to the abolishment of part of the procedural care authorisation conditions. The obligation to obtain prior permission for treatment from insurers became no longer a statutory condition, but in practice, permission from the care insurer continues to be necessary.
25.	One Agricultural Environmental Management Decree instead of dairy farming and arable farming decrees	Agricultural businesses	October 2006	40	Environment	Simplification of rules Harmonisation	With the introduction of a new decree harmonising provisions in three former decrees, 25 000 of Netherlands' 40 000 agricultural businesses were no longer subject to permits, but only had a reporting obligation, whereby fewer reports and surveys need to be submitted.
26.	Water supply Act: fewer businesses subject to legionella legislation	Care sector	28 December 2004	40	Environment	Streamlining Simplification of rules	Businesses operating collective water supply systems are subject to regulation aiming at reducing the risk of legionella. A new act reduced the number of businesses affected, and abolished the obligation to carry out a risk analysis every three years, given that the general situation was unaltered.
27.	Water supply Act: fewer businesses subject to legionella legislation	Catering industry, sports sector and leisure industry	28 December 2004	40	Environment	Streamlining Simplification of rules	Businesses operating collective water supply systems are subject to regulation aiming at reducing the risk of legionella. A new act has reduced the number of businesses affected, and has abolished the obligation to carry out a risk analysis every three years, given that the general situation is unaltered.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
28.	Compulsory Health Insurance Act: cancellation of contracting obligation	Care sector	1 January 2006	37	Health	Simplification of rules	The obligation for every care provider to sign a contract with each health insurance organisation has been abolished. Contracts are only signed with providers that can provide care and comply with the stipulations of the agreement (<i>e.g.</i> , quality and price).
29.	One Agricultural Environmental Management Decree instead of dairy farming and arable farming decrees	Agricultural businesses	31 December 2007	35	Environment	Exemptions	In line with the introduction of a new harmonised regulation of the agricultural sector, 15 000 businesses previously subject to permits (in particular intensive livestock farms) will fall under the scope of the general regulations.
30.	Employees' social insurance schemes – gifts to employees: no information required to determine annual pay	All businesses	1 January 2003	34	Social Affairs	Simplification of rules	The obligation for businesses to provide information to the tax authorities on gifts to employees has been abolished. This information was formerly used to determine the annual tax pay.
31.	Waterproof flooring: less frequent compulsory testing	Environmental permit and businesses subject to compulsory reporting	1 May 2005	33	Environment	Simplification of rules	The frequency of the compulsory tests of waterproof flooring was lowered from every 18 months to every 6 years. This affected companies obliged to have waterproof flooring due to performing activities that may pollute the soil (<i>e.g.</i> , greenhouse farming, motor vehicle installations, marinas, storage and transport firms, gas stations, textile cleaning companies and building and timber companies).
32.	Rightfulness of insurance cover under the Compulsory Health Insurance Act: simplified verification	All businesses	1 January 05	33	Health	ICT	Mandatory reports from employers to the workers' insurance authority on the health insurer of individual employees can now be made electronically via the Internet.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
33.	Authorizations: abolishing procedural authorization conditions	Care sector	1 January 2003	30	Health	Simplification of rules	Obligations for individual care providers and care institutions to have procedural permission (from the care insurer) for many of their activities were abolished, except for cases of complex hospitalisations (often longer than 21 days) and other specific situations. In these cases, the insurer confers with the care provider or care institutions. For all other cases protocols are drawn up whereby care providers and care insurers consult each other.
34.	Reduction data supply pharmacists: fewer data	Care sector	1 January 2007	30	Health	Simplification of rules	The obligations for pharmacists to record data relating to business operations were simplified by removing less relevant data.
35.	Occupational Health and Safety – Risk inventory and Evaluation: more economical test for Small and Medium-sized enterprises	All businesses	4 February 2004	28	Social Affairs	Simplification of rules	Smaller businesses (employing 10-25 workers) were given the possibility to reduce the burden of performing the mandatory Risk inventory and Evaluation regarding occupational health and safety if they complied with standardised branch specific formats that were agreed at the branch level between employers and employees and could be found on the Internet.
36.	Construction in the Care sector: fewer regulations: Phase II	Care sector	1 January 2006	28	Health	Simplification of rules Harmonisation	A new act regulating construction in the care sector aimed at gradually creating more freedom and responsibility for care institutions through less government interference with capacity and construction of care institutions. The act replaced a number of previous acts and regulations and set arrangements for obtaining authorisations and permits for care institutions.
37.	Employees' social insurance schemes: Cancellation of the Social Insurance Schemes (Report) Decree	All businesses	1 January 2006	27	Social Affairs	ICT Simplification of rules	The obligation for employers to provide social insurance reports to the authorities were cancelled. Instead, the information is obtained through new central information database (Walvis and SUB).

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
38.	Customs procedures: simplification	Export and import sector	1 January 2005	25	Finance	ICT Simplification of rules	Customs procedures applicable to import and export firms were simplified by use of electronic data exchange, by cancellation of certain statements, and by introduction of the “Schiphol free zone”.
39.	Wage tax: simplification of commuting allowance	All businesses	1 January 2004	25	Finance	Simplification of rules	Tax rules governing compensation of travel expenses by employers were simplified. Commuting distance is now regarded as business travel, and the maximum rate for tax-free business travel compensation has been fixed irrespective of the mode of transportation.
40.	Employees’ social insurance schemes: commuting distance regulation: simplification	All businesses	1 January 2004	25	Social Affairs	Simplification of rules	Commuting distance is now regarded as business travel, and the maximum rate for tax-free business travel compensation has been fixed irrespective of the mode of transportation.
41.	Occupational Health and Safety – Risk inventory and Evaluation: tailor-made RI&E development geared towards specific branches of trade and industry	All businesses	2004-06	23	Social Affairs	Information ICT	As filling a Risk Inventory and Evaluation (RI&E) can be complicated, many branches were offered a RI&E tailored to their specific needs via the Internet to make filling easier and faster.
42.	Ships Act: regular sounding of coffer dams and tanks requirement cancelled	Transport sector	31 December 2005	21	Transport	Simplification of rules	Previous rules for controlling safety of ships during a trip (relating to coffer dams and tanks) were abolished since these controls are now made by way of standard procedure.

Initiative number	Regulation	Target group	When	Reduction (million euros)	Ministry	Tool (primary/secondary)	Brief explanation
43.	Reporting unusual transactions: limited to suspicious transactions	Financial sector	1 November 2005	21	Finance	Simplification of rules	A new system regarding prevention of money laundering or financing of terrorism put emphasis on the financial institution's own judgment. This replaced a system where reporting from financial institutions was mandatory in specific pre-defined situations identified by a system indicator. As a result transactions need to be reported less frequently. In 2007, the scheme was extended by non-financial institutions, <i>e.g.</i> , car firms.
44.	Social accounting: one annual document	Care sector	1 January 2006	21	Health	Harmonisation	The system for rendering account by care institutions was simplified by letting the annual care document combine a large number of accounting channels of an institution, thus harmonising filing deadlines.
45.	Audit opinion: cancelled for VAMIL and MIA	All businesses	1 January 2003	20	Finance	Simplification of rules	The requirement for businesses to present an audit opinion when applying for specific types of random depreciation was abolished. This saved businesses the cost of audit opinion applications.
46.	Employees' social insurance schemes: abolishing the Disability Insurance (Self-employed Persons) Act	All businesses	1 August 2004	20	Social Affairs	Simplification of rules	The compulsory reassessment of incapacity for work within one year of the commencing date of the disability benefit (for self-employed persons) was cancelled.
47.	Modification of the Road Traffic Act	Car branch	31 December 2004	20	Transport	Information	By means of a publicity campaign and through specific instructions, car sellers were encouraged to retain streamlined administrative records of registration numbers of the motorcars in stock. This reduced the burden for car firms to retain compulsory administrative records.

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Cutting Red Tape

Administrative Simplification in the Netherlands

Cutting red tape and improving business conditions have become a priority in OECD countries. This study of the Netherlands, one of the front runners in the field, is the first OECD review of a national programme for administrative simplification. The Dutch programme, part of a dynamic sequence of policy measures to improve the regulatory process, is highly relevant for other countries facing the problems of regulatory overstretch. The report describes the key features of the Dutch programme including the measurement of burdens, the use of incentives and targets, and whole-of-government co-ordination. The OECD assessment of the success of the Dutch programme is based on comparisons with other countries, and on evidence of the economic impact of reforms. The report explores options for future work on administrative simplification relevant to OECD countries, highlighting the need to communicate better with stakeholders, cover compliance costs for business more broadly, and look at burdens on citizens and administrations.

This report is published in English only. However, a French translation of the executive summary has been included in this volume.

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