
Regulatory Burden: Reduction and Measurement Initiatives

Prepared for **Industry Canada**

by

PRICEWATERHOUSECOOPERS 



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Executive Summary

The Context

Reforming regulatory systems and reducing regulatory burden has become a top priority for governments around the world. In Canada, several provincial governments are undertaking regulatory reform initiatives that promise to ease the burden on government of creating, administering and enforcing regulations, as well as the burden of compliance on small and medium-sized enterprises (SMEs).

The Federal Government appointed an External Advisory Committee on Smart Regulation (EACSR) in 2003. The Federal government also released a report entitled “Smart Regulation: Report on Actions and Plans”, based on the EACSR report in March 2005. It defines regulation as “part of a continuum of government action, which includes scientific and policy research, policy development, the creation of legislative and/or regulations and enforcement of the regulations. A high-performing system requires a close interrelationship between all four elements.” (EACSR, 2004).

“Smart regulatory system will ease or reduce the regulatory burden on small- and medium enterprises (SMEs), and enable this key engine of economic growth to focus on what it does best”
www.regulation.gc.ca

“The burden of government, a subset of regulatory issues, is the intervention and interference of government in the operations of business ... the cost involved in complying with regulatory requirements, collecting taxes and responding to information demands from government. [It includes] the administrative hurdles, the lack of customer service, the delays, the uncertainties and frustration in dealing with public bureaucracy.” (Small Business Working Committee, 1994). This is the specific focus of this paper.

Budget 2004 announced the creation of a new public-private working group that will strive to make measurable reductions in paperwork burden facing small businesses. The Paperwork Burden Reduction Initiative (PBRI) is designed to ease the regulatory drag on the economy by making measurable reductions in the administrative burden facing small businesses. Administrative burdens, defined by the Paperwork Burden Reduction Initiative as the “productive time and resources spent by businesses to understand and comply with rules and regulations that exceed the normal day-to-day costs associated with running a business”, are identified as a key area for regulatory reform.

One of the challenges in reducing the administrative burden of regulation has been a lack of comprehensive quantitative data and a mechanism for measuring burden. There are a host of challenges in measuring the cost of regulatory compliance, such as: the scope of coverage (e.g. direct versus indirect costs), the type of coverage (e.g. systematic versus ad hoc) and practical means of gathering the data. While several governments have adopted approaches for measuring administrative burdens, little progress on actually reducing burden is evident.

Sample Findings of Costs

There have been many types of studies done in a large number of countries to estimate the cost of regulatory burden. Each of the studies considers different factors and covers a different scope. While comprehensive and consistent estimates of the costs of regulatory burden are not available for all countries, the estimates that have been prepared demonstrate that administrative burden costs are significant, as indicated by the following samples of studies:

- The OECD survey (2001) found that average administrative compliance costs are US\$27,500 per company per year or US\$4,100 per employee. Per company estimates varied significantly across countries: from US\$51,100 in Portugal to US\$8,900 in New Zealand. Small SMEs spent on average from US\$4,600 to US\$5,500 per employee versus large SMEs who spent US\$900 per employee per year. One study presented regulatory burden estimates as high as \$17,000 per employee. The majority of administrative compliance costs were spent on complying with tax (46%) and employment (35%) regulations with a lower environment regulation share (19%).
- Jones and Graf (2001) estimated that the federal government and provincial, territorial, and local governments in Canada spent \$5.2 billion administering their regulatory activities in 1997/98. They further estimated that for every \$1 that government spends to administer regulation, the private sector spends \$20 to comply and concluded that the private sector is estimated to have incurred a cost of \$103 billion.
- Based on the costs estimates from the Tax Foundation and various cost allocation assumption, aggregate regulatory compliance costs in the US were estimated to be in the range \$420-\$670 billion (World Bank, 2005).
- A World Bank study (2005) concluded that Sweden, UK, Norway, Belgium and the Netherlands spent from 8 to 11 percent of total government spending to administer business regulations. Administrative compliance costs incurred by SMEs represented an average of 4% of Business Sector GDP in the countries surveyed by World Bank (from less than 2% in Finland to around 7% in Spain). According to the World Bank study, red tape reduction of 15 percent would result in a 1.2 to 1.8 percent reduction in total government expenditures in Sweden, UK, Norway, Belgium, Netherlands.

Lessons Learned

Governments around the world have been working on improving regulatory efficiency for decades. However, few of them have systematically measured administrative burdens to assess how effective these reforms have been. Those that have attempted to measure administrative burdens have typically only done so recently, so it is not possible to assess performance to date. Of the few countries that have carried out consistent and repeated assessments, the reductions have not been significant.

- The Netherlands attempted to reduce administrative burdens for companies by 25% over the 1994 to 2002 period, and were successful in reducing burdens by just 7%.
- Denmark has set a goal of reducing administrative burdens by 25% in 2010. They monitor burdens annually based on interviews with a large number of representative companies. Administrative burdens were approximately the same in 2002 as they were in 1999.

The government of BC has promised to reduce red tape by a third in three years (Industry Canada, 2003). According to a survey by CFIB, 79% of businesses support BC's commitment to this initiative.

Promising Options for Canada

There do not appear to be comprehensive studies that definitively identify the critical success factors for reducing regulatory burdens. There is, however, much to be gained from reviewing what other countries have done. In some cases, initiatives have been met with early indicators of success, in other cases, they provide clues on what does not work, and in many cases they offer models that appear to be well thought-out, practical and credible.

The following chart summarizes some of the key initiatives and considerations that should be contemplated for Canada, and classifies them into various areas. It also identifies countries that have implemented or are implementing these initiatives. It presents the initiatives as short-term or medium-term to long-term initiatives, depending on the time that it would be expected to take to institute the initiative.

Regulatory Burden: Reduction and Measurement Initiatives

Regulatory Review and Burden Reduction	
Short-Term	Medium- to Long-Term
<p>“One-in – one-out” models keep pressure on the government to avoid “regulatory inflation”:</p> <ul style="list-style-type: none"> ▪ Example regions include: the Netherlands, the UK and BC. <p>Reward success: Awarding government departments that have been highly successful can motivate change:</p> <ul style="list-style-type: none"> ▪ Singapore offers a POWER award bi-annually to ministries particularly active in removing or amending rules. 	<p>Comprehensive Reviews: Many countries are reviewing all of their existing regulations to identify the need to repeal or simplify them:</p> <ul style="list-style-type: none"> ▪ Australia has reviewed all 1,200 acts to review effectiveness and ensure restrictions are justified. ▪ Austria has omitted all laws dating from before 1950 and are considering doing the same for laws dating from 1950-1970. ▪ France, Greece and Norway have eliminated and simplified a number of regulations. ▪ The UK and Singapore have developed a rolling program to review regulations. ▪ Denmark monitors burdens annually based on interviews with a large number of representative companies. <p>Simply clarifying instructions would go a long way in reducing the burden on businesses.</p> <p>Regulatory Impact Analysis (RIAs) are mandatory in many countries, such as: Australia, Austria, Canada, France, Denmark, Germany, Netherlands, Norway. In order to ensure regulatory efficiency, consideration of administrative burdens, by company size, should be a key feature of RIAs.</p> <p>Supporting and controlling instruments: A balance of initiatives should be applied, including both “supportive instruments” such as assistance, guidance and training for staff, together with a “controlling approach” that involves controls and formal evaluations.</p> <ul style="list-style-type: none"> ▪ The CBRB in Denmark has developed tools to help line ministries pay early attention to administrative impacts. <p>Setting targets is critical for effecting change.</p> <ul style="list-style-type: none"> ▪ Identifying a reduction in the number of regulations is common. It signals political commitment and communicates the philosophy of reduction. It is also easily measured and tracked. ▪ Businesses in BC have expressed strong support for the BC government’s target of reducing the number of regulations. ▪ In Belgium, the government concluded that quantitative targets were inappropriate “due to the difficulties in calculating the starting point and accurately measuring administrative and regulatory burdens. Taking a different approach, the Prime Minister set concrete performance goals such as permitting a new firm to be set up in only 3 days. The government abandoned quantitative targets in 2003”. ▪ Surveys or dialogue with businesses are critical, albeit more costly and complicated, to assessing whether initiatives have actually reduced their administrative regulatory costs.

Regulatory Burden: Reduction and Measurement Initiatives

Stakeholder engagement/communications	
Short-Term	Medium- to Long-Term
<p>Inviting stakeholders to prepare proposals has the effect of increasing the government’s resources to identify options and benefits/costs:</p> <ul style="list-style-type: none"> ▪ The Belgian government launched www.kafka.be to obtain ideas for cutting red tape. Over 3 months, they received more than 3,800 proposals and the website was visited 220,000 times. ▪ The UK is developing a mechanism to accept proposals from business, requiring them to submit evidence and options for reform. ▪ Germany uses a mailbox where businesses can report which laws are most burdensome. 	<p>Single access points for business are becoming ever more critical:</p> <ul style="list-style-type: none"> ▪ In Belgium each company has a personal interface where documents related to the service (including those sent by the public office) can be stored and consulted based around a secured web portal. The whole social security system uses only 27 simplified forms (50 forms were eliminated) and 24 online forms. Employers do not need to keep a paper registry as they can consult and modify their data using the website. The electronic business register system is accessible to all administrations and it was expected that businesses would be able to submit their information only once and have the right as of January 2005 to refuse supplying information that they have already provided. ▪ The US Business Advisor portal is a one-stop for all public information, services and transactions. ▪ By the end of 2004 all public service functions in Norway were expected to be able to receive electronic reports from the business sector. ▪ The Netherlands has a portal for start-ups and a portal with basic facts about companies, for use by the authorities. <p>Digitizing alone is not the solution: It is important to note that digitizing requirements is not the solution – digitizing requirements can reduce duplication, but only if departments have shared access to information. Furthermore, the problem is not just the paper format – it is often with the content of what is being requested.</p>

Organizational Considerations	
Short-Term	Medium- to Long-Term
<p>Organizations dedicated to minimizing regulatory burdens for small business can be highly effective</p> <ul style="list-style-type: none"> ▪ The Office of Advocacy is an independent entity with the US SBA, serving as an independent voice from small businesses within the federal government. ▪ SBA’s Office of the national Ombudsman is mandated “to create a more cooperative regulatory environment among agencies and small businesses that is less punitive and more solution-oriented, and to make Federal regulators more accountable for their enforcement actions”. ▪ The Dutch have established an independent public body (called Actal) to act as a watchdog. 	<p>Comprehensive, politically led: Regulatory policy will only work if it is comprehensive and lead by senior officials who are sincerely interested in simplification. Several different models exist, such as centralized models, coordination models, satellite models and independent unit models. The specific form appears to be less important; what is critical is that it be comprehensive, and led by senior officials.</p> <ul style="list-style-type: none"> ▪ Cordova-Novion and Jacobs (2004) have claimed that despite significant efforts in Belgium “the environment for business does not yet reflect significant improvement ... because the federal policy is still driven by a piecemeal and bottom-up approach dominated by those with the most to lose from simplification.”

Regulatory Burden: Reduction and Measurement Initiatives

Small Business Initiatives	
Short-Term	Medium- to Long-Term
<p>Building on proven initiatives in other countries can bring quick successes.</p> <ul style="list-style-type: none"> ▪ The OECD has published a book presenting 10 government initiatives to reform the regulatory environment for small business. Each of these initiatives should be reviewed by the respective line departments in Canada. <p>Respond to small businesses' comments: Respond to the suggestions that small businesses have already offered as described in the report Breaking through Barriers (Small Business Working Committee, 1994).</p>	<p>Reaching out to small businesses: Placing the onus on the government to be responsible for reaching out to small businesses can significantly reduce the burden on individual businesses in an efficient way.</p> <ul style="list-style-type: none"> ▪ In the US the federal government is required to publish an annual list of the compliance assistance resources, and to reach out to small businesses ▪ Each agency in the US has to document and justify that its regulations create a minimum cost to society, including special considerations of small firms. <p>Identifying thresholds for rate differences and exemptions for small businesses is one key way of reducing the burden specific to small businesses.</p> <ul style="list-style-type: none"> ▪ The UK has a number of thresholds specific to small businesses.

Measurement	
Short-Term	Medium- to Long-Term
<p>The impacts of new or amended regulations should be assessed. Many of the OECD countries appear to be moving to the Standard Cost Model (UK, Netherlands, etc.) or using similar models (Mistral in the Netherlands, TBCA in Belgium)</p>	<p>Surveys have been done in many countries. Most of this work has been led by the OECD. Taxes are generally found to represent the most significant burden.</p>
<p>Several critical factors need to be decided, whether short-term and/or long-term initiatives are adopted.</p> <ul style="list-style-type: none"> ▪ Types of costs: most studies tend to focus on just the ongoing operating compliance cost. They tend not to take into account the capital costs or the efficiency/indirect cost. They typically exclude these not because they are unimportant, but because they are much more difficult to measure. ▪ Types of regulations: most studies tend to gather information on tax, employment and environmental protection. <p>Bottom-up versus top-down regulations: most studies tend to have been top-down (survey based) rather than bottom-up (case study based). The former enable comprehensive estimates of the cost, which can be tracked through time. The latter enable impact assessments and cross-country comparisons and identification of best practices. There are a variety of bottom-up approaches, including Tableau de Bord des Charges Administrative (Belgium), Mistral (Netherlands) and the Standard Costing Model (OECD) and these are becoming more popular.</p>	

Next Steps

Despite the documented problems with regulatory burdens in Canada, Canada has been ranked as having low administrative burdens relative to other countries. By building on the lessons learned from successful initiatives in Canada, and other countries, Canada has the opportunity to firmly establish itself as a leader in this area. In summary, there are several key steps to take:

- Ensure the regulatory review and approval process specifically considers administrative burdens;
- Ensure that regulations are simplified and consolidated as much as possible;

Regulatory Burden: Reduction and Measurement Initiatives

- Set aggressive targets along a number of dimensions - the number of regulations (through counts), the overall cost to businesses (through surveys), and the burden associated with specific key areas (through standard cost accounting). The “one-in-one-out” approach sends the powerful message that things will change now;
- Measure performance and assess why targets have been met or haven’t been met;
- Ensure that a centralized organization has the power to both reward and limit government departments revising or devising policies;
- Creative use of the latest technologies will be key to fully exploiting opportunities; and
- Ensure that there is an independent voice that speaks for small business and has real influence over regulatory decision-making.

The critical next step is to assess the priority of each of these factors. It will be important to select some initiatives that can provide quick successes, as this is critical for setting the tone with the bureaucracy and business that government is serious. It will also be important to develop and assess comprehensive action plans that drive at the root cause of excessive regulatory burdens.

Purpose of this Report

The federal government recognizes that small business is a driving force of innovation, job growth and economic prosperity. The federal government also recognizes that the time and resources spent to understand and comply with government-imposed rules and regulations can place a significant burden on small businesses and unduly limit their ability to contribute to the overall economy. In recognition of this burden, the federal government has launched an initiative to improve regulatory efficiency in Canada. The Advisory Committee (co-chaired by Industry Canada and the Canadian Federation of Independent Businesses) leading this initiative is tasked with measuring the impact of administrative burdens arising from government regulations on businesses and identifying actions that will reduce the burden over time.

Industry Canada selected an initial list of literature to identify existing initiatives, assess and prioritize these initiatives and distinguish potential key success factors for improving regulatory efficiency. PricewaterhouseCoopers LLP was engaged to review this literature, and supplement it with additional literature, to prepare this summary report.

The purpose of this report is to provide an environmental scan of some of the existing literature on administrative burden reduction initiatives and identify lessons learned, best practices, and recommendations for the Advisory Committee to consider in moving forward. It is not meant, nor does it portend to be, a comprehensive analysis of all of the relevant literature, or a conclusion on the directions or actions that should be taken. This initial literature review is meant to be a broad scoping exercise that identifies the current landscape of information, and recommends on the suggested next steps based on this scoping exercise.

The focus of this study is on the administrative burdens arising from government regulations. There is also a significant amount of work involved in other aspects of regulation, such as standards assessment, international harmonization, etc. It is important to note that there is an overlap across these areas – the revision of regulations to achieve non-administrative objectives, will likely nevertheless impact on administrative costs. Hence, in order to set the context for issues directly and indirectly affecting administrative burdens, parts of this report do deal with the regulatory review process.

1 Regulatory Burden is a Growing Problem

1.1 The Problem of Regulatory Burden

Regulatory burdens on business have been increasingly raised as a serious problem for businesses around the world. “Direct taxation is one way that government commandeers the resources of citizens for its programs. The other major imposition on the wealth and freedom of the population comes through regulation.” (Jones and Gartner, 2004). In a study conducted by the CFIB in 2004, respondents indicated that government regulation and paper burden was identified as a significant issue in Canada (61%), second only to the total tax burden (81%), and more important than government debt/deficit (56%), shortage of qualified labour (47%), and availability of financing (28%) (Jones and Gartner, 2004). According to a recent study by Industry Canada, “the Canada-US regulatory gap [including economic, social and administrative regulations] explains about 33% of the innovation gap between the two countries during the 1991 to 2003 period.” (Rao and Sharma, 2004).

The burden of government is broadly defined as “the intervention and interference of government in the operations of a business. It is the cost involved in complying with regulatory requirements, collecting taxes and responding to information demands from government.” (Industry Canada, 2003). The problem is not necessarily with having regulations, but whether those regulations impose unnecessary and destructive costs.

Regulatory burdens pose a number of potential problems for any economy:

- **Inefficient allocation of resources:** “For business, too much red-tape means lower profitability and less time and money to expand operations. Not only is some business activity foregone for existing businesses, but also some businesses *never start* due to the cost of regulation.” (Jones and Gartner, 2004). A study entitled “Views on Red Tape” found that the majority of SMEs believed that compliance with employment regulations impacted business and its performance. These effects were most marked in three areas: regulations increased non-wage labour costs; regulations created difficulties in making staff reductions; and regulations created difficulties in hiring new staff. (OECD, 2001)
- **Limitation of resources invested in Canada:** Adverse regulations can serve as a deterrent to foreign firms investing in Canada.
- **Limitation of innovation and ability to change:** “Work by UNICE shows that the direct and indirect costs of regulations influence the extent to which companies can develop the capabilities that drive long-term success. Specifically, they affect the ability of companies: to innovate; to develop and exploit new products, services and operating processes; to maximize operating efficiency and to make structural adjustments over time.” (OECD, 2001).
- **Reduced welfare in the economy:** “The costs of regulation are felt most directly by companies, but, more importantly, regulations create costs for society at large if they undermine the competitiveness of companies, reduce consumer choice, restrict economic growth and inhibit the creation of new jobs. The challenge is to produce the benefits of public policies for citizens and the environment, while reducing the negative effects of policy instruments such as regulations and government formalities on economic performance.” (OECD, 2001).

Studies have found that the problems with regulation vary by type of regulation. “The OECD survey examined key design “features” of tax, employment, and environment regulation. Overall, SMEs were critical of the quality of tax and employment regulations in their countries, but they were, in general, less critical of the quality of environmental regulation.” (OECD, 2001).

1.2 The Disproportionate Burden on Small Business

It has frequently been argued that regulatory burdens pose a significant problem for small businesses in particular. Small businesses lack the resources that large firms have to understand and respond to the myriad of regulations imposed by government. An OECD study entitled “Views on Red tape” identified three primary reasons for disproportionate regulatory costs on smaller firms:

- **“The first is the scale of cost.** For many smaller companies, the costs of complying with regulations represent a significant proportion of overhead cost and net margin. ... As a result companies have fewer internal resources to finance investments in assets, knowledge, and innovation.
- **The second reason is the nature of administrative compliance costs.** Administrative compliance costs tend to be fixed in nature; changes in sales volume have no short-term effect on them.
- **The third reason is the diversion of entrepreneurial attention.** Compliance with government regulations demands some form of direct involvement of owners, senior managers or directors. ... This is more of a problem to smaller companies as they have fewer resources and, therefore, tend to be forced to involve senior staff in the detail of ensuring compliance with regulation.”

The disproportionate impact on small firms is particularly important given that firms with less than 50 employees account for 97% of firms in Canada. Moreover, firms with less than five employees account for 75% of the firms in Canada (Jones and Gartner, 2004).

1.3 The need for change

Many governments are seeking to improve the quality of regulations by improving design and implementation. “Studies have shown that there are significant shortcomings in the existing regulatory quality frameworks in many OECD countries, and OECD countries have agreed on the need to strengthen regulatory quality management at national and sub-national levels. Some have introduced programmes to reduce the quantity of regulation, while others have introduced initiatives to improve the quality of regulation and their administration.” (OECD, 2001).

One of the major problems in OECD countries is that the empirical evidence required to improve the quality of regulations is weak. “There is a lack of cross-country and cross-policy comparative data and benchmarks. The OECD set out to develop and implement a method to enable more detailed cross-country comparisons of costs and quality, based on business perceptions.” (OECD, 2001).

Measuring regulatory burden is critical for several reasons:

- “Measurement is critical to identifying whether these costs are increasing or decreasing, and deciding on whether the relative cost and benefit is consistent with society’s priorities.” (Jones and Gartner, 2004)
- “Measurement and public reporting provide fiscal transparency and accountability—critical to the effective functioning of our democracy.” (Jones and Gartner, 2004).

There is a significant risk that regulatory problems will get worse, as governments face increasing pressure to reduce the scale of their own activities. “There is considerable scope for the transfer of costs from the public to the private sector by, for example, putting additional responsibilities onto companies to provide information to governments, rather than finding alternative ways to collect information or better using existing information.” (OECD, 2001).

2 Policy Issues and Initiatives

2.1 Potential Problems with Regulations

A study published in the UK House of Commons Library (Keter, 2004) provides an overview of some of the key problems that increase regulatory burdens on businesses. While the specific issues may not be the same in Canada, the conceptual issues are consistent with those in Canada.

- **It is complex and inaccessible** – there are 30 Acts, 38 Statutory Instruments, 11 Codes of Practice and 12 EC Directives and Recommendations, which makes it hard for employers to keep track of their responsibilities.
- **It is inconsistent and therefore confusing** – key terms are still defined differently in different Acts, and the remedies that victims get vary depending on the reason for the discrimination.
- **It is backward looking, relying on victims to challenge discrimination** after the event instead of making sure institutions act to prevent discrimination happening.

The OECD conducted a study (2001) of 8,000 SMEs in 11 countries: Australia Austria, Belgium, Finland, Iceland, Mexico, New Zealand, Norway, Portugal, Spain and Sweden between April 1998 and March 1999. The OECD survey found that SMEs were critical of a host of factors, in addition to the magnitude of regulations:

- **The quality of regulations.** They claimed that tax and employment regulations are “not flexible enough to be implemented efficiently by companies; they do not achieve their objectives as simply as possible; they are not easy to understand; and changes are not predictable. Environmental regulations were also criticized, but less heavily.”
- **The quality of administration when they sought information from government offices.** SMEs were critical about the consistency of information received (if different people were contacted) and the ease with which they could contact responsible agencies.
- **The quality of administration when they sought decisions from government offices.** SMEs were “more critical of their contacts with government offices to obtain decisions than they were of their contacts to obtain information. Specifically, they were critical of the lack of clarity about who is responsible for decisions; the lack of consistency and predictability of decisions (over time and among similar companies) and the lack of accountability of the administrator in charge.”

2.2 Burden Reduction Barriers

PLS RAMBOLL Management and Institute for Growth Policy Studies (2003) identified a number of factors that limit the ability to improve the quality of business regulation and reduce administrative burdens:

- Dynamic development and complexity of advanced societies create an ongoing need for new regulation
- Lack of effective voices on the part of the business community
- Vested interests in maintaining laws within the business community
- Conflicting policy goals
- Reducing “red tape” for businesses is not core business for lawmakers
- Lack of clear responsibilities on the part of public authorities
- Lack of coordination between public authorities
- Time pressure in the law process.

2.3 Country Initiatives

PLS RAMBOLL Management and Institute for Growth Policy Studies (2003) prepared a comprehensive study that compares a host of countries in terms of a number of areas. Appendix A presents information on political priorities, organization, regulatory review, interaction with companies, reviews undertaken and results to date for key countries. A sampling of initiatives is discussed in greater depth here.

2.3.1 Canadian Initiatives

Rao and Sharma (2004), conducted an assessment of Canada's international competitiveness and regulatory framework. The paper looks at economic, social and administrative regulation. The authors provided a high-level summary of some of the regulatory history in Canada:

“Canada’s regulatory evolution has been characterized by important regulatory quality principles, such as the role of efficient markets and the need for benefits to exceed costs. A law, dating back to 1950, requires every regulation to be published and tabled in Parliament. In 1977, regulatory agencies were required to perform periodic evaluation of regulatory programs..

In a series of studies in 1978 on the effects of regulation, the Economic Council found “regulation inflation” on account of an increase in federal regulations by almost 350% between 1955 and 1975. In response to such a growth in regulation, the Regulatory Reform Strategy of 1986 saw deregulation in a number of sectors, and regulatory quality became an important policy goal in Canada..

Although provinces have exclusive legislative authority in such matters as education, transportation, social services, health and safety, there are also a number of important areas of shared jurisdiction, including agriculture, environment and some aspects of natural resources (federal law prevails in case of conflict).”

Johnson (2004) conducted a review of Canadian regulatory policies. He found that:

“... about half of the province/territories have policies or guidelines on regulation in place, a doubling since the mid-1990s. However, when regulatory impact assessment is taken into account, almost all of the jurisdictions surveyed have basic requirements in place ... The 1999 Government of Canada Regulatory Policy comprises an overarching policy objective statement to make regulation that will “result in the greatest net benefit to Canadian society” followed with specific policy statements that are in effect principles about the public interest as the overriding rationale for regulation, to be achieved in the most cost-effective way possible, and in a manner conducive to participatory governance.. The current edition requires:

- *Consultation and participation of Canadians in the regulation-making process*
- *Identification of a problem or risk, and justification that regulation is the best alternative*
- *Benefits outweigh costs, with requirement to show cost-effectiveness*
- *Minimization of regulatory burdens on economy, including*
 - *Minimization of information and administrative requirements at minimal cost*
 - *Special attention to small business*
 - *Positive consideration to parties proposing equivalent alternatives to regulation*
- *Adherence to international and intergovernmental agreements and coordination across government and between governments*
- *Effective management of regulatory resources with:*
 - *Regulatory Process Management Standards*
 - *A compliance and enforcement strategy*
 - *Approval of adequate resources for enforcement responsibilities*
- *Adherence to Cabinet Directives”*

Regulatory Burden: Reduction and Measurement Initiatives

According to Johnson (2004), the federally-appointed Advisory Committee on Smart Regulations identified the following principles for regulatory system from design to review:

Effectiveness	<ul style="list-style-type: none"> ▪ Meet its objectives ▪ Based on performance targets (flexibility in instruments) ▪ Evidence-based ▪ Regular review ▪ Up-to-date with changing environment
Cost-efficiency	<ul style="list-style-type: none"> ▪ Analysis, measures, and enforcement commensurate with risk or problem ▪ Least cost to achieve objective ▪ Single windows between departments and jurisdictions ▪ Minimize cumulative impact of regulation by avoiding overlap, duplication, inconsistency, unintended consequences
Timeliness	<ul style="list-style-type: none"> ▪ Regulatory decisions and services provide in way that new knowledge develops, consumer needs evolve, business operates ▪ Timeframes and standards for decision making
Transparency	<ul style="list-style-type: none"> ▪ Promote learning and information sharing ▪ Policy objectives clearly defined ▪ Explain priorities and decisions with justification to public interest ▪ Public scrutiny ▪ Information readily available in print and electronically ▪ Predictability for regulatees ▪ Business and citizens participate through active consultation and engagement
Accountability and Performance	<ul style="list-style-type: none"> ▪ Regulators must account for their performance Announce intended results and demonstrate progress in achieving them ▪ Performance monitored, measured and reported publicly

Johnson (2004) prepared an analysis of provincial regulation initiatives – these are included in Appendix B.

Regulatory issues have become a top priority for Canadian governments in the past couple of years. The Federal Government has launched a website in March 2005 dedicated to regulatory initiatives (www.regulation.gc.ca). The website announces a regulatory renewal initiative called Smart Regulation, a “collaborative effort of all federal regulatory departments and agencies, the provinces and territories, aboriginal communities and municipalities to create better regulations that advance the health, safety, environment, social interests and economic well being of Canadians.”

Regulations and regulatory reviews have a number of dimensions, such as health protection, competition promotion, etc. Administrative burdens, defined by the Paperwork Burden Reduction Initiative as the “productive time and resources spent by businesses to understand and comply with rules and regulations that exceed the normal day-to-day costs associated with running a business”, are identified as a key area for regulatory reform. The website claims that a “smart regulatory system will ease or reduce the regulatory burden on small- and medium enterprise (SMEs), and enable this key engine of economic growth to focus on what it does best”.

2.3.2 USA

The Small Business Paperwork Relief Act (SBPRA) of 2002 was enacted June 28, 2002. According to the SBPRA Task Force, the goal of this Act is to “... reduce the burden of Federal paperwork on small businesses.” The Act requires the Federal government to:

- Publish an annual list of the compliance assistance resources available to small businesses;
- Establish a single point of contact within agencies to interact with small businesses; and
- Establish an interagency Task Force to study and recommend additional means of reducing the burden on small businesses.

SBPRA Task Force found that “A number of government projects, including multi-agency projects, have proven the feasibility and desirability of the consolidation of information dissemination activities, as well as improving the labeling, organization, and visibility of Federally collected data.” (SBPRA Task Force, 2004) The SBPRA Task Force suggests that the following activities be undertaken/extended: Require Agencies to augment their Small Business outreach plans; Improve the Organization and Classification of Information; Improve Outreach To Small Businesses; Broaden and Improve Partnerships among Agencies with Similar or Overlapping Information Collections; Use the E-Government Cross-Agency Initiatives to Improve Dissemination of Information; Determine Customer Need; Explore Public/Private Partnerships with Web Services Companies; and Don’t Forget the Human Interface;

One important initiative is the Business Gateway E-Government. The objective is: “To reduce the burden on the Nation’s small businesses by simplifying and improving electronic access to Federal Government information, programs and services and provide businesses and citizens with a one-stop means to find, fill, sign and submit forms and transactions electronically.” (SBPRA Task Force, 2004) According to the Task Force, the goals of the Business Gateway are:

- To provide the Nation’s small business owner with a single access point to government services and information designed to assist them to start, run, and grow their business;
- To simplify, unify, and better manage citizen-facing E-forms infrastructure and processes on a government-wide basis; and
- To begin the process of harmonizing and streamlining small business data integration.

2.3.3 Australia

The Australian approach is to evaluate all new proposed regulations or programs against benchmarking criteria. According to Bickerdyke and Lattimore (1997): “Regulation impact analysis is part of the Commonwealth Government’s regulation review procedures. The process is designed to contribute to better quality regulations by providing a framework for adopting good practice in regulation making and review. This involves a consistent, systematic and transparent process of assessing alternative approaches to problems which may give rise to government intervention.

Bickerdyke and Lattimore (1997) emphasized in their study that Regulation Impact Statement (RIS) should include:

- *“Clear statement of the objectives of the government regulation, based on the nature and magnitude of the problem;*
- *Alternative approaches for dealing with the problem;*
- *Assessment of the expected benefits and costs to the community of each alternative approach;*
- *Analysis of the impact of the proposal on business, consumers, government and the community as a whole. Ideally, the RIS process should lead to selection of the option that maximizes the community’s net benefit;*
- *Public consultation; and*
- *Establishment of future review mechanisms.”*

As noted by Bickerdyke and Lattimore, the Commonwealth Government has implemented a number of initiatives aimed specifically at reducing tax compliance costs:

- Announced a three year Tax Law Improvement Project aimed principally at restructuring and rewriting the income tax law so that it could be more easily understood, but also at reducing compliance costs.
- Introduced a number of initiatives which focus on reducing compliance costs. These have included consultative arrangements with professional and business associations, and business taxpayer forums.
- Implemented a number of recommendations to reduce compliance costs including easier record keeping requirements, fewer tax forms and other issues.

2.3.4 Belgium

The Flemish Government has a long history of attempting to reduce regulatory burden. Cordova-Novion and Jacobs (2004) have compiled a study to review the many initiatives. A sampling of them is included here.

In 1998 the Flemish government created the Administrative Simplification Agency (ASA). This was a new federal institution under the prime minister, with the mandate of reducing red tape. The ASA program consists of four types of projects. (Cordova-Novion and Jacobs, 2004).

1. Specific simplification projects: “These projects often originate from the Steering Committee, and focus on resolving specific situations to reduce an identifiable burden. These projects are directed at identifying and reducing burdens in specific situations.

2. “Mammoth” projects: “A second series of projects, so called ‘mammoth’ projects, involve complete reform of the administrative infrastructure. One of the most significant of this type of projects is the Crossroad Bank for Enterprises - *Banque Carrefour des Entreprises* (BCE). The BCE is an electronic business register system accessible to all administrations where public and common information on enterprises are stocked. ... During a decade long and persistent effort, and under the coordination of the CBSS, which today counts more than 70 persons, social security processes and information flows have been thoroughly harmonized and reengineered. Based around a secured web portal, each company has a personal interface at its disposal where documents related to the service (including those sent by the public office) can be stored and consulted. The system has been supplemented with new forms and formalities avoiding duplication of information requirements. The results are impressive: the virtual “back offices” handle millions of electronic transactions daily. The whole social security system uses only 27 simplified forms (50 forms were eliminated) and 24 online forms. Employers do not need to keep a paper registry as they can consult and modify their data using the Social security website ... The ultimate objective of BCE is that businesses will submit their information only once and will have the right as of 1 January 2005 to refuse supplying information that they have already provided.” (Cordova-Novion and Jacobs, 2004). Another project has been the development of a tool for assessing administrative burdens called *Tableau de Bord des Charges Administratives* (TBCA). It is discussed in the section 3 of this report.

3. Kafka. The Belgian government launched www.kafka.be in December 2003 to serve as a focal point “where citizens, businesses, organizations and civil servants can suggest projects and ideas for cutting red tape.” (Cordova-Novion and Jacobs, 2004). The website was open until March 31, 2004, until which time it received more than 3,800 proposals and the website was visited 220,000 times.

4. Regulatory Impact Assessment: “The ASA has also worked on the source of the complexity in the policy, in the regulation or the interaction of these and other policies and regulations. Several options have been presented to the Government Council to overcome the problem of regulatory inflation, a tendency for regulations to continually increase, including a proposal for a Regulatory Impact Assessment (RIA) system in 2000. However, the Government Council opposed development by the ASA of a RIA program due to worries that RIA would shift the burden of proof from businesses having to prove that regulations imposed high costs to regulators having to prove that regulations had low costs. Indeed, RIA would have shifted the burden of proof to some extent, which is one reason why it is effective in improving regulatory quality. Instead of RIA, the Government Council directed ASA to further develop the TBCA.” (Cordova-Novion and Jacobs, 2004).

2.3.5 The Dutch Approach

The Dutch approach consists of three components, summarized by the Better Regulation Task Force, (2005) as follows:

1. Measuring the administrative burden

- *Every government department should use a standardised approach to measure the existing administrative burden which it imposes on business through its regulatory activities.*
- *The measurement should include all the administrative obligations imposed by central government departments and regulatory agencies under both national and European legislation.*

2. Committing to a target for reducing administrative burdens

- *The government needs to agree that it will be a priority to reduce the administrative burden across the whole of government regulation and set a sensible reduction target. The Netherlands chose a target of 25% over four years, implemented with some limited flexibility across different government departments.*
- *The target needs to be a net target, meaning that the agreed level of reduction is achieved after taking into account any new burdens from regulations brought in by the government or the EU during the period of the target.*

3. Setting up the necessary organizational structure

- *As an incentive to attain targets and ensure delivery, the government needs to set up an organisational structure to oversee the process. We think this requires a program management team, an independent monitoring and assessment body and dedicated resources within each department and regulator.*
- *The Dutch have established an independent public body (called Actal) to act as a watchdog. Departments are obliged to send Actal details of all new legislative proposals and their calculation of the administrative burden involved. Actal reviews the calculations before the proposed legislation is sent to the Dutch Council of Ministers and to Parliament and issues an opinion. Actal also evaluates the administrative burden reduction programmes that departments are obliged to present annually to Parliament.*
- *The Dutch Council of Ministers considers Actal's comments when deciding whether to endorse new legislation. If the Council of Ministers approves new legislation, Actal's comments are made available to the Dutch Parliament when it debates the bill."*

2.3.6 UK

The UK established a Better Regulation Task Force in October of 2004. Their report was released in March 2005 and contained the following recommendations:

- *Strengthen the structure for managing the total regulatory burden by:*
 - *Adopting the Standard Costs Model;*
 - *Setting a target for reducing the administrative burden;*
 - *Putting in place an organisational structure and the necessary resources to facilitate measurement and target achievement; and*
 - *Follow the "one in, one out" model*
- *Develop a robust mechanism for the submission of proposals for simplification by business and other stakeholders, requiring businesses and other stakeholder to submit evidence in support of their proposals, with options for reform.*
- *Develop a rolling program of simplification to identify regulations that can be simplified, repealed, reformed and/or consolidated.*
- *Develop a methodology for assessing the total cumulative costs of regulatory proposals to improve the measurement of regulatory costs.*

2.4 Lessons Learned

There have been a number of lessons learned in regulatory reform:

Regulatory reform does not have to be costly: “The costs are modest for many of the reforms outlined. Setting up a private credit bureau cost less than \$2 million in Bosnia and Herzegovina. Setting up an administrative agency for business registration cost less than \$2 million in Serbia and Montenegro. Integrating the business start-up process into a single access point cost \$10 million in Turkey. Simple calculations from growth analysis suggest that the benefit-to-cost ratios of such reforms are in the order of 25:1. Easing start-up was recently listed by a panel filled with Nobel laureates as one of the most cost-effective ways to spur development—ahead of investing in infrastructure, developing the financial sector and scaling up health services.” (World Bank, 2005).

Social protection does not necessarily require more business regulation: “All four Nordic economies in *Doing Business* are on the list of countries with the simplest business regulation: Norway (#5), Sweden (#9), Denmark (#12) and Finland (#14). Few would argue that they scrimp on social benefits relative to other countries, or regulate too little. Instead, they have simple regulations that allow businesses to be productive. And they focus regulation on where it counts—protecting property rights and providing social services.” (World Bank, 2005).

Much is understood already about the problems with current legislation. For example “the most frequently cited problem is unclear and/or confusing instructions (29%). The second most frequently cited difficulty is the volume of paperwork (24%). Duplicate information requests (11%) placed third, followed by maintenance of records that ordinarily would not be kept (10%) and requests for inaccessible or non-existent information (9%).” (NFIB, 2003).

2.5 Best Practices

2.5.1 General Principles

In 2003, the Belgian government identified the following principles for good regulation (Cordova-Novion and Jacobs, 2004):

- Necessity and effectiveness
- Efficiency and balance
- Easy to implement and enforce
- Respectfulness for the law
- Coherence
- Simplicity, clarity and accessibility
- Investigated and consulted.
- Continuously relevant and suitable
- Administrative charges reductions
- Legal simplification

There are a number of general principles that should be applied in the development of policies to reduce regulatory burden:

Review best practices published by international organizations

An OECD (2002) study cites that “Governments, academics, independent regulators and international organisations have set up various standards, tests or criteria, against which regulations can be benchmarked. Among them governments can use the “1995 OECD Council Recommendation of High Quality of Government Regulation” and the principles included in the 1997 Report to OECD ministers (which addressed the institutional and strategic aspects of driving regulatory reform). These broad criteria though, focus primarily on good governance standards. No empirically based or comprehensive analytical framework accompanies them.”

The Standard Cost Method, built on similar initiatives such as Mistral, has become widely accepted in OECD countries.

Consider evaluation factors, and ensure the policy is evaluated post-implementation.

The OECD has prepared a paper in which they have put forth a proposed method for evaluating regulatory performance and policies. These factors should be taken into account in devising good policies.

Framework for Expost Evaluation of Regulatory Policies

(Adapted from OECD, 2002)

Step 1: Assessing whether regulatory policy tools and institutions are applied in accordance with standards for high quality regulation

“Address the performance of regulatory policies as measured against a set of pre-defined standards, benchmarks or best practices”, such as the recommendations published by the OECD.

Ensure that “sound, commonsensical, and counter-factual considerations have guided the development of standards. Examples of two such considerations is the belief that distribution of draft regulations for comments by stakeholders can provide significant input to the regulatory process, as can the preparation of assessment of the anticipated impacts of laws and regulations.” Further Secretariat work within this approach could include a compilation, comparison and analysis of OECD Member country experiences with evaluating regulatory policies, such as the application of RIAs, consultation, etc.

Step 2. Assessing whether regulation meets its objectives

Address the performance of the regulation relative to the intended objectives of a regulation. Information on the extent to which regulations meet their objectives is essential to improve future decision-making, resource allocation and accountability in the regulatory/policy process.

Step 3: Assessing the effect of regulatory policies (tools and institutions) on regulatory outputs/outcomes

OECD’s regulatory reform review program has documented that longstanding sustained regulatory policies favours better economic performance. However, for individual laws and regulations the *relations* between the use of various regulatory tools/institutions and regulatory results have not been established empirically.

The approach should include “establishing *links* between indicators for regulatory policies (tools and institutions) on the one hand, and indicators of regulatory performance on the other. Possible outputs of this approach would be investigations of the relationship between the application of specific regulatory tools such as RIA or consultation and regulatory performance, *i.e.* accomplishment of the regulatory objective within the expected time and cost frame. For example, results could potentially show that high regulatory performance of labour market regulations is stronger when linked to the application of high-quality consultation procedures than to the application of high-quality cost-benefit analysis, and that the opposite may be the case for road-pricing. Potentially, sets of mappings could be pooled to show sector specific results, results for selected policy areas, across countries and over time.

Undertake regulatory impact assessments (RIA)

Regulatory impact analysis (RIA) is the main vehicle for managing trade-offs between the foreseen benefits of a future regulation and its costs for the administration and for the public and the economy, and in particular for SMEs. According to Cordova-Novion and Jacobs (2004), “... RIA attempts to clarify the relevant factors for decision-making. It pushes regulators toward making balanced decisions and justifying that a solution (including the decision to do nothing) to specific problems outweighs wider economic costs and distributional impacts. RIA system is a powerful, evidence-based tool to improve transparency, accountability and efficiency in rule-making processes.”

There is an abundant amount of evidence to suggest that undertaking RIAs is critical when designing regulatory policy. “The NAO strongly support the use of RIAs as a means to foster better regulation as was made clear in one of their reports published in November 2001: ‘RIAs add value to the policy making process and can help deliver better and lighter touch regulation. They represent a significant change in the way policy makers think through the consequences of Government action ... Since they were introduced

RIAs have improved both in design and application.’ The Task Force in its 2001- 02 annual report commented on RIAs as follows: ‘Regulatory Impact Assessments (RIAs) describe the costs and benefits of regulation and its alternatives. We firmly support them, and have already put considerable effort into helping the Government improve them. Where they are done well, they help the Government choose the best way to tackle a problem. They make the facts and assumptions transparent, and this helps stakeholders challenge them where necessary. The result is better policy making. Departments are meant to produce a high quality RIA at an early stage of the policy process. But not all take this seriously enough. The Government has set itself the target of full compliance by 2005 year end.’ (Keter, 2004). Since its development in the mid-1970s, 22 OECD countries had adopted RIA into their rulemaking systems by 2001. In June 2001, the European Commission also officially embraced RIA (Cordova-Novion and Jacobs, 2004).

2.5.2 Burden Reduction Organizational Models, Incentives and Instruments

According to PLS RAMBOLL Management and Institute for Growth Policy Studies (2003), there are four types of organizational models used by different countries to reduce red-tape:

- **Centralized Model:** The centralized model is consistent with a hierarchical structure, with one central unit responsible for fulfillment of the target. There are strong ties between the central unit and the line ministries, and procedures are fairly structured.
- **Coordination Model:** The center of this model is a coordinating unit, which has the responsibility for the political objectives and follow-up on these in collaboration with the line ministries.
- **Satellite Model:** The satellite model is based on a decentralized institutional set-up where each line ministry is made responsible for fulfillment of the political objectives.
- **Independent Unit Model:** Independent government units are defined as institutions partly or fully financed by the government, but placed outside the hierarchy of departments/ministries.

Regulatory policy will only work if it is comprehensive and lead by senior officials that are sincerely interested in simplification. The study concludes that: “... Dedicated institutions with sufficient resources and efficient instruments are necessary to change the conduct of government institutions, and convince officials that the improvement of business regulation and the reduction of administrative burdens is an important consideration in the law preparatory work.” Cordova-Novion and Jacobs (2004) have claimed that despite significant efforts in Belgium “the environment for business still does not reflect significant improvement ... because the federal policy is still driven by a piecemeal and bottom-up approach dominated by those with the most to lose from simplification.”

According to the study by PLS RAMBOLL Management and Institute for Growth Policy Studies (2003), to create incentives for the governmental institutions to carry out the policy of reducing the administrative burdens, most countries apply several different instruments at the same time, and the composition of the instruments applied also influences effectiveness. The instruments most frequently used across countries are categorized in the study as follows:

- Training;
- Assistance to impact assessments;
- Monitoring of administrative burdens;
- Monitoring of compliance;
- Evaluation (quality control) of impact assessments;
- Controlling and “gate-keeping” in final stage of law preparation; and
- Economic and budgetary measures aimed at controlling the development of administrative burdens of regulation.

PLS RAMBOLL Management and Institute for Growth Policy Studies (2003) emphasized that the strategies used to reduce administrative burdens should balance a **supportive approach** with a **controlling approach**:

- *“The supportive approach is characterized by the use of “soft” instruments like assistance, guidance and training. The rationale is that line ministries through communication and practical training will enter a learning curve, which ultimately will lead to greater awareness of the importance of reducing administrative burdens, and thus lead to better business regulation.*
- *The controlling approach is a more hands-on monitoring, control and influence on the law preparation and simplification processes. The focus is put on instruments such as evaluation of the work of the line ministries, management-by-objective approaches, such as performance and target setting, measurement and even imposing sanctions if targets are not reached.”*

Feedback mechanisms that establish a connection between the political level and the quality of business regulation are the **monitoring** of the development trend of the administrative burdens created by regulation and the **visibility** of the efforts and the work undertaken to improve the quality of business regulation. “Visibility initiatives include e.g. the publication of research papers and reports, annual reports to inform the general public and/or selected stakeholders about the results of the efforts to improve the quality of business regulation, and media relations and media coverage. ... Various visibility initiatives available may be considered on a scale that varies between *institutionalized* and *non-institutionalized*.” (PLS RAMBOLL Management and Institute for Growth Policy Studies, 2003).

2.5.3 Digital Solutions

Digital solutions are support tools to optimize the outcome of regulation, and ensure that the laws are implemented most efficiently among the end users. Public authorities should use digital solutions in order to improve information flows between authorities and businesses. PLS RAMBOLL Management and Institute for Growth Policy Studies (2003) illustrated five different levels of digital solutions. Each step adds new and increasingly advanced functionalities to the solutions:

- Publishing of information on websites;
- Two-way transactions by way of the Internet;
- Web portals;
- Efficient re-use of information in the public sector; and
- Individually adapted Internet services.

It is important to note that digitizing requirements alone is not the solution – digitizing requirements can reduce duplication, but only if departments have shared access to information. Furthermore, the problem is not just the paper format – it is often with the content of what is being requested. (Small Business Working Committee 1994).

2.5.4 Small Firms

The Cabinet Office in the UK requires “that all RIAs must include a “Small Firms’ Impact Test”, except where the proposal solely affects the public services.” (Keter, 2004). The Cabinet Office recommended that the government departments first test the idea and a range of options with small businesses. If the result is thought to be insignificant, then the government departments should agree on a policy form chosen with the SBS for the partial RIA. If the impact is expected to be significant, then the government department should convene small business focus groups which will help to explore the least burdensome ways of delivering the chosen policy. If the policy proposal has changed substantially as a result of the general consultation, focus groups/panels should be reconvened. The UK has a number of thresholds and exemptions pertaining to small firms. (Keter, 2004). They fall into the following categories:

- Union recognition
- Information and consultation
- Maternity and Parental Leave
- Disability discrimination: employment provisions
- Consultation on collective redundancies
- Statutory Maternity Pay (SMP)
- Written statement of disciplinary procedures
- Stakeholder pensions
- Health and Safety
- Information
- Trade

The OECD has published a book entitled *From Red Tape to Smart Tape: Administrative Simplification in OECD Countries* on the various tools and measures that have been used by various countries to reduce red tape and make regulations more efficient (World Bank, 2005). It gave an overview of 10 government initiatives to reform the regulatory environment for small business:

- Timesaver Initiative
- Carter Review of Payroll Services
- Small Firms Litmus Test
- Revitalizing Local Business Partnerships
- Parental Leave and Dispute Resolution
- Disability
- Better Regulation Task Force Small Shopkeepers Report
- Food Standards and Food Labeling Requirements
- Climate Change Levy
- Health and Safety Bill

2.5.5 Specific Regulations

In their joint study, the World Bank, the International Finance Corporation and Oxford University Press (World Bank, 2005), identified several simple, highly effective solutions as shown below:

Principles of good regulation – simple solutions and where they have worked

Starting a business

- Registration as an administrative process (Canada, Chile, Italy, Serbia And Montenegro)
- Use of single identification number (Belgium, Estonia, Morocco, Turkey)
- No minimum capital requirement (Botswana, Ireland, Tanzania, Thailand)
- Electronic application made possible (Latvia, Moldova, Sweden, Vietnam)
- Long duration of fixed-term contracts (Austria, Costa Rica, Denmark, Malaysia)

Hiring and firing workers

- Apprentice wages for young workers (Chile, Ecuador, Finland, Tunisia)
- Redundancy as grounds for dismissal (Armenia, Botswana, Lebanon, Russia)
- Moderate severance pay for redundancy (Finland, Madagascar, Namibia, Uruguay)

Registering Property

- Consolidate procedures at the registry (Lithuania, Norway, Thailand)
- Unify or link the cadastre and property (Australia, Netherlands, Slovakia)
- Make the registry electronic (Italy, New Zealand, Singapore)
- Complete the cadastre (Austria, Czech Republic, Denmark, Ireland)

Enforcing Contracts

- Summary proceedings for debt collection (Bosnia, Finland, Lithuania, Philippines)
- Case management in courts (India, Malaysia, Slovakia, United States)
- Appeals are limited (Botswana, Chile, Estonia, Greece)
- Enforcement moved out of court (Hungary, Ireland, Netherlands, Sweden)

Getting Credit

- Legal protections in collateral law (Albania, New Zealand, Slovakia, United States)
- No restrictions on assets for collateral (Australia, Singapore, United Kingdom)
- Sharing of positive credit information (Germany, Hong Kong, China, Malaysia)
- Data protection laws to ensure quality (Argentina, Belgium, United States)

Protecting Investors

- Derivative suits allowed (Chile, Czech Republic, Korea, Norway)
- Institutional investors active (Chile, Korea, United Kingdom, United States)
- Disclosure of family and indirect ownership (Denmark, Sweden, Thailand, Tunisia)
- Public access to ownership and financial data (Germany, Poland, South Africa)

Closing a Business

- Foreclosure focus in poor countries (Armenia, Kenya, Nepal, Paraguay)

- Specialized expertise in the courts (Colombia, India, Latvia, Tanzania)
- Appeals are limited (Australia, Estonia, Mexico, Romania)
- Administrators are paid for maximizing value (Denmark, Japan, Jordan, Malaysia)

3 Measurement Methodology

3.1 Issues in Measuring Regulatory Burden

There are a variety of issues to consider in deciding what to measure.

Enabling versus restrictive regulations: “The assessment of regulatory burden is different for the two types of regulations. For enabling regulations, it is a matter of simply determining whether the procedures prescribed are more arduous than necessary. Greater analysis is needed for restrictive regulations; the impact on businesses needs to be weighed against the objectives of regulations and their effectiveness in meeting those objectives.” (Industry Canada, 2003). For example, preparation of the SR&ED claim portion of a company’s tax return can be very time consuming. However, the benefit must outweigh the cost in order for the firm to undertake it. In this case, does the regulatory burden include the cost of preparing the filing, the cost associated with preparing the filing that is over and above what it needs to be to achieve its objectives, or no cost?

Voluntary regulations: The network formed by the UK, Norway, Sweden, Denmark, Belgium and the Netherlands in 2003 decided that administrative burdens associated with voluntary regulations should be counted. (European Commission, 2004).

Scope: It is important to consider whether the cost should include only the costs of complying with government imposed information obligations, or should include some additional costs, such as keeping up-to-date with frequently changing regulations, the cost of appeals, challenges, lobbying. (OECD, SCM, 2005).

Adjustment Costs: The network formed by the UK, Norway, Sweden, Denmark, Belgium and the Netherlands in 2003 decided that “although costs of adjustment are defined as administrative burdens, they should not be included in the measurement itself. The measurement only focuses on the running costs of regulation, i.e. costs that are recurring.” (European Commission, 2004).

Efficiency Costs: The impact of regulatory burdens on the efficiency and innovativeness of the company are well acknowledged. Measuring these costs is difficult, “as the costs are often incorporated into the production process of the design parameters of a product and, therefore are extremely difficult to value.” (OECD, 2001).

Compliance Costs. A multi-country study by the OECD, notes that, while compliance costs are more easily measured conceptually than efficiency costs, due to the fact that they are associated directly with a regulatory requirement, practical measurement is still difficult, as “companies do not monitor these costs within their management information system.” (OECD, 2001). As a result, there is a significant potential for over or underestimation. “Some may exaggerate the costs for “political purposes”, such as the desire to embarrass the government, or the desire to achieve a reduction in compliance costs ... Others may understate them because they simply do not know or cannot remember all of the formalities and paperwork that are routinely undertaken to comply with regulations.” (OECD, 2001).

Distinguishing management information from regulatory information: “Companies carry out a range of administrative procedures to meet the obligations resulting from regulations. Some of these provide valuable information, and the company would undertake some of them for their own purposes, even if no

regulation existed. It is difficult to disentangle these activities from regulatory compliance activities.” (OECD, 2001).

“Top down” versus “bottom-up” approach. There are essentially two ways of measuring regulatory burdens: “top-down” approaches and “bottom-up” approaches. Top-down approaches typically involve surveys of organizations. Bottom-up approaches typically involve in-depth discussions with a smaller number of individuals and groups and case studies to examine the impacts of specific regulations. The following chart presents a summary of the basic differences between the two approaches (Nijsen and Vellinga, 2002):

Overview of approaches and their main characteristics in order to assess administrative burdens

Aspects	Top-down approach	Bottom-up approach
Basic principle	Unit: enterprise	Unit: law/regulation
Coverage of policy areas	All policy areas	One policy area
Level of aggregation	High	Low
Research instrument	Mail questionnaire	Expert-interviews and group discussions

The relative strengths and weaknesses of various methods summarized in the following chart (Nijsen and Vellinga, 2002):

Relevant aspects	Top-down*	Bottom-up**
Level of representation by sample enterprises	+	-
Total scope of policy areas	+	-
Quick overview of administrative burdens by policy area	+	-
Ex-post assessment	+	+
Keys to solutions	-	+
Ex-ante assessment	-	+
Assessment of alternatives	-	+
Accuracy of results	-	+
Acceptation of results	-	+
Cost of research in one EU country	+	-
Cost of research in several EU-countries in case of harmonized legislation	-	+

* Based on a questionnaire. The enterprise is the measuring unit.

** Based on expert interviews (or stopwatch-method) combined with group discussions. The specific law or regulation is the measuring unit.

+ = an advantage or strength. / - = a disadvantage or weakness.

3.2 Regulatory benefits measurement

Regulatory costs are only one part of the equation. Regulations have economic and social objectives, thus it is useful to also measure the benefits if one is to provide a rational analysis of the issue, especially when using the macro approach (Industry Canada, 2003).

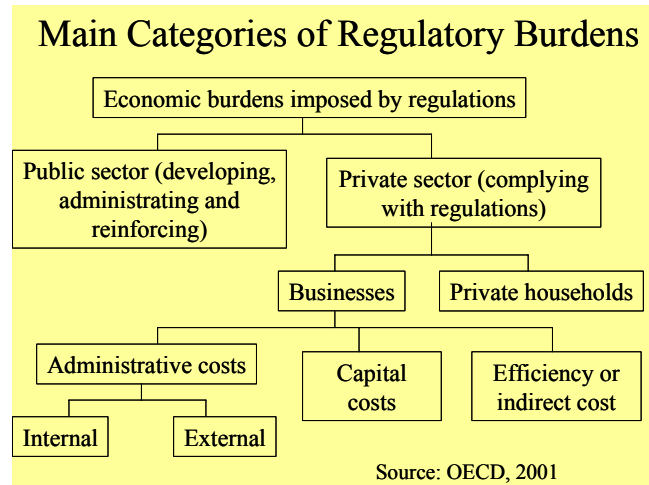
In a 1995 report to Congress, the U.S. Small Business Administration dismissed measurement of benefits. It claimed that there is no comprehensive research estimating benefits available and that it is nearly impossible to allocate benefits among the affected persons and businesses. The report asserted that irrespective of the benefits of a given regulation, the existence of a disproportionate cost impact on smaller firms is important to policymakers. Specifically, the size, nature and trends of the disproportionate effect should compel a policy response (Industry Canada, 2003).

3.3 Measurement Initiatives

The OECD (2005) presented an analysis of a variety of studies on measurement initiatives. The summary table is included in Appendix D.

3.3.1 OECD 2001 Study

The OECD has identified the main categories of regulatory burdens, as illustrated in the following chart. To avoid some of the greatest difficulties in measuring compliance costs, the OECD decided to concentrate primarily on ongoing administrative compliance costs incurred by businesses. These kinds of costs are likely to be the most visible and easily measured and past studies have found them to be significant. A cost-efficient methodology was needed to measure these costs ex post. The OECD (2001) considered two broad methods: “bottom-up approaches and “top-down approaches”. “After extensive consultation with Member countries, businesses, and experts, including examining other business surveys, the OECD decided to use the “top-down approach” based on a Multi-Country Business Survey to be implemented through the joint participation of national partners in individual countries.” (OECD, 2001)



The key features of the study are summarized as follows:

- “Only small and medium-sized enterprises were included in the sample to increase the likelihood that a single knowledgeable person would be able to answer the questions.
- “The survey included only three areas of regulation (tax, employment and environmental projection). These areas have been identified in other studies as the most important regulatory areas with respect to business costs.
- “The survey focussed on measuring the direct administrative compliance costs incurred by companies when complying with regulations. This covers the time and money spent by companies on the formalities and paperwork involved in complying with regulations. It did not include the non-administrative compliance costs, for instance capital costs incurred by business such as the investment and equipment needed to comply, although these non-included costs may be larger and of more economic importance”

“The survey was carried out in 11 countries, between April 1998 and March 1999. A total sample of 7,859 SMES responded out of 22,544 SMEs survey ... The sample covered SMEs in three size categories (1-19, 20-49, and 50-499) and both manufacturing and service sectors.” (OECD, 2001)

3.3.2 OECD: Standard Cost Model

As presented in the ‘OECD Red Tape Scoreboard’, a range of methodologies is available to measure administrative burdens. The Standard Cost Model (SCM), a model developed on the basis of the Dutch Mistral-model, is presented as the superior methodology as it avoids some of the problems with other methodologies, has already been applied in a number of countries (Netherlands), and it allows a fairly exact “location” of burdens. (OECD, 2005)

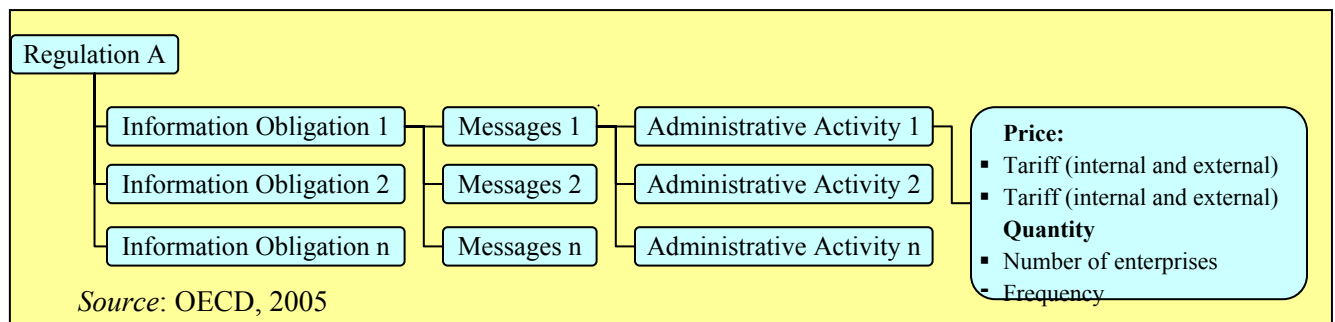
The key features of SCM approach involve:

- Providing a methodology for estimating the costs of providing a defined set of outputs; and
- Determining which administrative activities are required in order to provide those outputs.

The SCM defines administrative burdens as the cost imposed on businesses when complying with information obligations stemming from government regulation. To comply with such information obligations, businesses have to perform a certain amount of administrative work resulting in costs. The purpose of the model is to quantify these costs. According to OECD (2005) the quantification of administrative burdens in SCM is basically done in five steps:

- ‘Mapping’ of regulations, identifying information obligations for businesses;
- Identification of businesses affected by the given regulation; classification of businesses in relevant segments;
- Identifying and interviewing businesses “typical” of particular segments. to gain information on who performs the administrative activities necessary to comply with the information obligations;
- Calculation of burdens using estimates of wage costs for businesses and information on how frequent the information is delivered and by how many companies; and
- Reporting of the results.

Key Components of the Standard Cost Model



Although applied successfully on an “individual basis” in several countries, a number of possible limitations and problems with the SCM can be identified which are particularly relevant when applying the SCM to measure and compare burdens across countries (OECD, 2005):

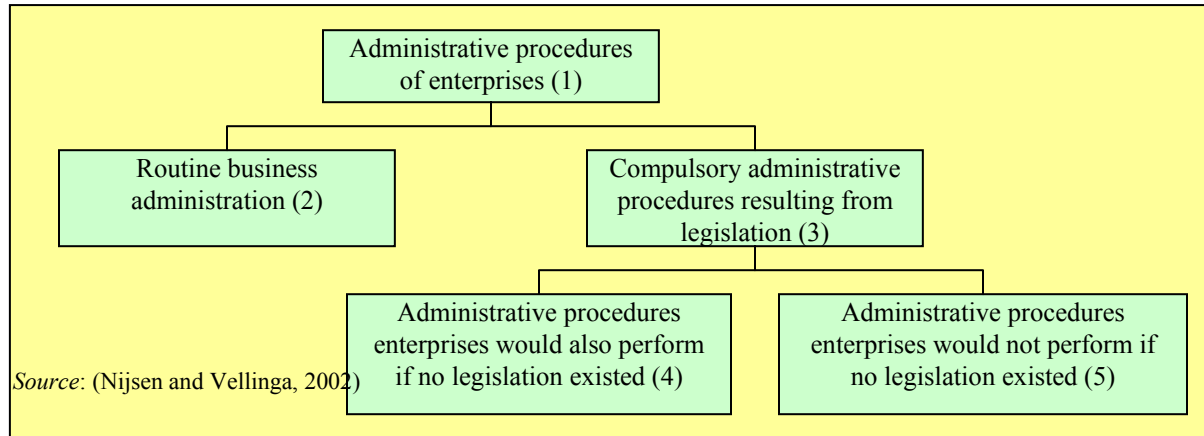
- Differences in political and organizational structures of countries do not seem to raise any fundamental difficulties for using the SCM, although it may give rise to some practical measurement issues.
- Differences in legal traditions and associated differences in regulatory enforcement and discretion may lead to a misleading assessment of burdens.
- Some ambiguity in the definition of “businesses”. As currently applied, the SCM appears to exclude the consideration of not-for-profit enterprises, as well as businesses owned partially or fully by the public sector.

3.3.3 Mistral Framework

In 1994 the Dutch government launched a program entitled Mistral (Measuring Instrument Administrative Burdens) and recommended that “all Dutch departments should use the results of Mistral measurements when compiling policy to reduce administrative burdens imposed on business. To date EIM has used Mistral to carry out baseline measurements on behalf of the Dutch Ministry of Finance, the Ministry of Economic Affairs, the Ministry of Social Affairs and Employment, the Ministry of Justice and the Ministry of Health, Welfare and Sport. Since 1999 EIM has also been responsible for the national monitor of administrative burdens for all policy areas.” (Nijssen and Vellinga, 2002).

The objective is to measure just the burden of those procedures that enterprises would not perform if no legislation existed (box 5 in the chart below).

Conceptual framework of types of administrative activities for enterprises



Mistral enables measurement of regulatory burdens using the “bottom-up” approach. As described in Nijssen and Vellinga (2002), it enables government departments to:

- “assess the extent of the administrative burdens for enterprises in one policy-area or for one legislation at a very detailed level and in an acceptably accurate way”;
- “carry out ex-ante evaluations of the administrative burdens for enterprises of a draft legislation and certain alternatives”;
- “find keys that can help to formulate strategies to reduce administrative burdens for enterprises in a certain policy area (useful policy instrument)”;
- “receive commitment and approval from the various authorities (politicians, representatives of statutory organisations and representatives of employers’ organisations) in the field”;
- “monitor the development of administrative burdens imposed by all laws and regulations on an annual basis”.

3.3.4 Belgium

The Flemish government developed a “tool for assessing administrative burdens called *Tableau de Bord des Charges Administratives* (TBCA) (see TBCA Chart below). The ASA chose to develop an indicator model showing relative weights and estimated changes around a baseline rather than an instrument that tried to measure precise figures in time and euros (such as the approach taken in the Dutch MISTRAL), assuming that the latter would be too time consuming and expensive. The ASA also wanted a ‘pedagogic tool’ that could help orientate, stimulate, and evaluate the simplification process, as well as to encourage a more general debate. As a user-friendly tool, TBCA is meant to be used by departments. Although it is not yet operational, it has been used in some pilot cases. According to ASA, the delays in implementation are due to a lack of resources and broad-based political support. However, the ASA hopes that by the end of 2004, all departments will use it.” (Cordova-Novion and Jacobs, 2004)

TBCA – Tool for assessment of administrative burdens

(extracted from Cordova-Novion and Jacobs, 2004)

The model compares different alternatives with the help of index numbers (%), for instance in terms of a percentage increase or decrease in administrative burdens when choosing between different alternatives. The TBCA gives insight into the most burdensome parts of a procedure. In consultation with business organizations, an indicator is calculated for each administrative procedure based to the following elements:

- Nature of the procedure
- Information requirement
- Administrative procedure
- Data and/or certificates to be provided.

Each indicator (or each aspect of an administrative procedure) is in turn subdivided into various options for reform. An index value is assigned to each of these options. In assigning these index values, account is taken of the importance that enterprises and their representatives attach to the various options as well as objectives of the government policy on the realization of the modern information society and the modernization of government. In order to determine the burden index for each formality, the sum of the burden index assigned to each indicator is calculated. In this way a picture is obtained of the burden of the formalities in question and a comparison is possible between the different formalities.

Finally, the number of times a year that the formality has to be completed is assessed. This is multiplied with the sum of the index values by the number of enterprises or citizens who have to complete it. The level of the global index value gives a picture of the administrative burden that is imposed on those subject to the law by the procedure in question.

Concurrent with these activities, the government concluded that quantitative targets were inappropriate “due to the difficulties in calculating the starting point and accurately measuring administrative and regulatory burdens. Taking a different approach, the Prime Minister set concrete performance goals such as permitting a new firm to be set up in only 3 days. The government abandoned quantitative targets in 2003.” (Cordova-Novion and Jacobs, 2004).

3.3.5 European Initiatives

In autumn of 2003 a number of European countries formed a network and committed to using the same methodological approach when measuring and tackling administrative burdens. The network currently consists of the UK, Norway, Sweden, Denmark, Belgium and the Netherlands. “Measuring the administrative burdens is performed by making in-depth interviews with a small number of businesses within the target group of the law. They are asked to specify how much time and money they spend, performing each administrative activity that is required when fulfilling a given information obligation. In order to take into account the different effects that a law may have on various types of businesses, a relevant segmentation of businesses is carried out. Often it will for instance be relevant to distinguish between smaller and bigger businesses ... Based on the data material collected during the interviews, a subsequent standardization of the time and money spend performing each administrative activity, is carried out.” (European Commission, 2004).

4 Regulatory Burden Estimates

4.1 International Studies

4.1.1 OECD Business Survey

The OECD (OECD, 2001) carried out a survey in 11 countries (Australia, Austria, Belgium, Finland, Ireland, Mexico, New Zealand, Norway, Portugal, Spain and Sweden). The average response rate was 37%. The sample covered SMEs in three size categories (1-19, 20-50 and 50-499 employees), and both manufacturing and service sectors.

The results from the OECD survey (OECD, 2001) showed that administrative compliance costs are substantial. The key findings were:

- SMEs spend nearly US\$27,500 per company per year or US\$4,100 per employee,
- Per company estimates vary significantly across countries: from a high in Portugal (US\$51,100 per SME) to a low in New Zealand (US\$8,900 per SME). (Appendix C, Figure 1)
- Costs per employee also vary significantly across countries ranging from a low of \$1,200 in Portugal to a high of \$6,100 in Belgium (Appendix C, Figure 2).
- The majority of administrative compliance costs were spent on complying with tax (46%) and employment (35%) regulations, with a lower environment regulation share (19%) (Appendix C, Figure 3)
- Small SMEs (with 1-19 employees) spent on average US\$25,000 per company or US\$4,600 per employee, while medium sized companies (with 20-49 employees) spent on average US\$45,000 per company or US\$1,500 per employee. Large SMEs (with 50-500 employees) spent US\$96,000 per company or US\$900 per employee per year.
- Companies used a mix of internal and external resources to comply with regulations. Approximately 44 of these costs were internal to the company, and around 56% were external.
- Administrative compliance costs incurred by SMEs represent an average of 4% of Business Sector GDP in the countries surveyed (from less than 2% in Finland to around 7% in Spain).

To put these estimated costs into a more general perspective, the OECD developed three indicators of the relative costs of administrative compliance: total compliance costs as a percentage of a company's annual turnover, country level total compliance costs as a percentage of the business sector and the economy-wide GDP. Total compliance costs equated to around 4% of the annual turnover of the companies in the 10 countries surveyed (Appendix C, Figure 4).

4.1.2 World Bank International Comparison for Doing Business

A World Bank study compared and ranked 145 countries based on a set of quantitative indicators on business regulations and their enforcement over time. The analysis is based on 7 indicators: starting a business, hiring and firing workers, enforcing contracts, getting credit, registering property, protecting investors and closing a business. The conclusion is that "all the top countries regulate, but they do so in less costly and burdensome ways and they focus their efforts more on protecting property rights than governments in other countries." (World Bank, 2005).

- Sweden, a top 10 country on the ease of doing business, spends \$7 billion a year or 8% of the government budget, and employs an estimated 100,000 government officials to deal with business regulations.
- The United Kingdom spends \$56 billion a year, or nearly 10% of the budget, to administer business regulation.
- The Netherlands spends \$22 billion or 11% of its budget.
- Belgium spends \$10 billion and Norway spends \$6 billion. In both countries, this amounts to about 9% of government spending. "If these countries were to reduce red tape by a moderate 15%, the

Regulatory Burden: Reduction and Measurement Initiatives

savings would amount to between 1.2% and 1.8% of total government expenditures, or approximately half of the public health budget.” (World Bank, 2005).

The study also identifies a direct positive relation between the ease of doing business and the human development index (Appendix C, Figure 6). Between 37 and 61 percent of firms reported that government regulations occupy 10 or more percent of senior management time. (Appendix C, Figure 5).

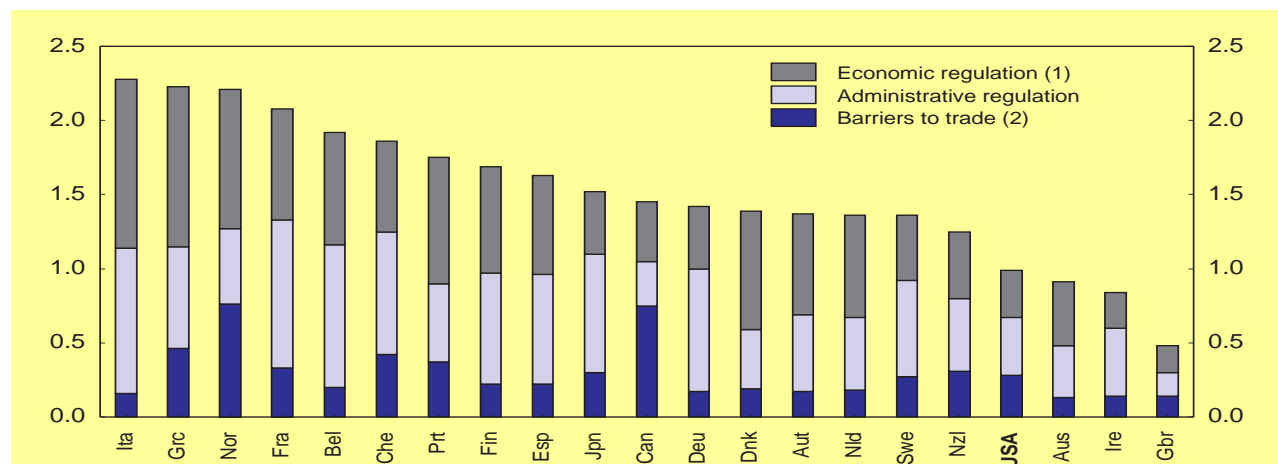
4.1.3 International Competitiveness and Regulatory Framework

Based on the OECD data and OECD working paper by Nicoletti, Scarpetta & Boylaud, Rao and Sharma (2004) in their study on international competitiveness and regulatory framework concluded that:

- Canada was more restrictive than the U.S. and U.K. in the use of (a) command and controls; (b) price controls; and (c) the size of the public sector.
- The U.S. was more restrictive in regard to the scope of public enterprises.
- Overall, the U.S., U.K. and Canada were less apt to resort to state controls than the other G7 countries. (Appendix C, Figures 8-9).

Indices of regulations affecting product market competition

0-6 indicator from least to most restrictive



1. Includes barriers to competition and state control.
2. Includes trade and FDI restrictions.

Source: Nicoletti and Scarpetta (2003).

On product market regulations Rao and Sharma (2004) indicated that:

- Overall, Canada’s product market regime was inward-liberal and outward-restrictive, whereas the U.S. was characterized by a combination of relatively liberal inward and outward-oriented regulatory policies.
- The United Kingdom was the least restrictive country.
- The United Kingdom, the United States and Germany had fewer barriers than Canada in the overall product market regulatory regime. (Appendix C, Figure 7)
- Regulation frameworks generally improved in Canada and other G7 countries;
- There is a regulatory gap between Canada and the U.S. and the gap has widened since 1999;
- Differences in FDI, intellectual property protection and FDI largely contributes to the Canada-U.S. regulatory gap;
- Differences in economic regulations, particularly FDI and intellectual property rights, are correlated with R&D-intensity and labour productivity differences among G7 countries; and

- The Canada-U.S. regulatory gap explains about one-third of the innovation gap and over 55 percent of the labour productivity gap between the two countries during the 1991 to 2003 period.

4.2 Country studies

4.2.1 Canada

There have been a number of measurement initiatives in Canada. These are summarized as follows.

Survey of SMEs: The 1995 study done for the Joint Forum on Paper Burden Reduction measured the cost to small and medium-sized enterprises in meeting federal information reporting requirements. The study used a panel of 710 SMEs representing companies with fewer than 100 employees across 16 industry sectors. Each was asked to estimate their costs in meeting federal information requirements. The study found that there were significant differences in the costs for businesses of different sizes. Smaller businesses spent a higher proportion of revenue compared to medium sized firms. Businesses with fewer than 5 employees spent, on average, just over 8 percent of revenue while businesses with 5-19 employees spent an average of 3.8 percent of revenue. For larger SMEs, the proportion declined further; it was 2.4 percent for firms with 20-49 employees and 1.8 percent for firms with 50-99 employees. In dollar terms, businesses with fewer than 5 employees spent, on average \$10,071, while firms with 50-99 employees spent \$27,643 (Appendix C, Figure 10).

The study found a wide variation in costs reported. When it compared the median with the average costs reported, there was often a significant discrepancy. The explanation given was that the average was typically higher than the median because there was a small group of companies reporting significantly higher costs. This underscores the difficulties of asking businesses to estimate their costs as discussed in the previous section.

Calculating Burdens as a Multiple of Government Costs: The Fraser Institute has collected from the public accounts the amounts federal, provincial and local governments spend, or what it calls the public sector “administration costs”, to design and implement regulations. It found that “in fiscal year 1997/1998, the federal government and provincial, territorial, and local governments in Canada spent \$5.2 billion administering their regulatory activities, down from price-change adjusted \$5.3 billion in 1995/1996 ... Conservative estimates suggest that for every \$1 that government spends to administer regulation, the private sector spends \$20 to comply” Using this methodology, the private sector is estimated to have incurred a cost of \$103 billion or \$13,700 for each family of four (or \$9,292 per family of 2.59 – the average household size according to Statistics Canada) to comply with federal and provincial regulation in Canada in 1997/98 (Jones and Graf, 2001).

Counts of regulations: The Fraser Institute estimated that between 1975 and 1999, over 117,000 new federal and provincial regulations were enacted, an average of 4,700 every year. Over this period, the federal government alone enacted 25,000 regulations. Between 1975 and 1999, the three levels of governments published over 505,000 pages of regulations, of which the federal government accounted for more than one-fifth. “Alberta is the only jurisdiction that shows a declining trend in the total number of regulations in force. In the 1990s, the number of regulations in force in Alberta declined by over 40%, to fewer than 1,000.” (Jones and Graf, 2001).

According to Jones and Gartner (2004), “given the near impossibility of getting a handle on the real cost of regulation to the economy, the BC government opted to use a measure of the volume of regulations as its primary accounting tool. The measure they chose is “regulatory requirement” which is defined as “a compulsion, obligation, demand or prohibition placed on an individual, entity or activity by or under the authority of a provincial Act, regulation or related policy.” This measure, while not perfect, is far superior to previous counting exercises. Not only does it capture the plethora of rules that can be associated with

any one government “regulation” but it includes Acts and related policies (which account for a significant portion of the regulatory burden).” The first count in BC revealed 382,139 regulatory requirements. Simply counting “regulations” as has been done in other jurisdictions would have yielded just over 2,200, hardly anything for the public to get too excited about. To track success at reducing the burden by one-third, the regulatory requirement counts are currently published quarterly by the ministry in BC and are available at www.deregulation.gov.bc.ca” (Appendix C, Figure 20).

“In a series of studies in 1978 on the effects of regulation, the Economic Council found “regulation inflation” on account of an increase in federal regulations by almost 350% between 1955 and 1975” (Rao and Sharma, 2004).

4.2.2 USA

The U.S. study relies on estimates that were obtained with varying degrees of rigour. On the one hand, it uses costs estimates by the Tax Foundation. Its approach was to multiply the compliance time required to fill out forms and the number of filings, and then multiply the total by various hourly wage rates that reflected the value of the preparer’s time or the rate for a tax professional. On the other hand, to determine the efficiency costs of domestic commerce regulations, the report uses OECD’s estimate that reforms in the transportation, energy, and telecommunications sectors would lead to an increase in U.S. GDP of 1 percent. The report estimates that regulation costed 1 percent of the country’s GDP in 2000. (Industry Canada, 2003)

Using cost allocation assumptions, the average small firm with under 20 employees appears to have spent \$5,500 per employee to comply with federal regulations in 1992. By contrast, firms with 500 or more employees spent on average \$3,000 per employee. In the services and trade sectors, 1992 regulatory costs per employee appeared to be in the \$4,000 range for firms with under 20 employees; these small firms faced about 85 percent higher costs per employee than did firms employing 500 or more. Manufacturing firms of all sizes had higher costs per employee than firms in other sectors, ranging from \$4,900 to \$10,600. (see Appendix C, Figure 21, Hopkins, 1995). In the aggregate, regulatory compliance costs were estimated to be in the range of \$420-670 billion (in 1995 dollars).

The most costly burdens were estimated to be created by process (largely tax paperwork) and environmental regulations. In 1995, process regulation was estimated to cost \$150-220 billion and spending on environmental regulation were estimated to be \$130-170 billion. The business community itself, as distinct from households and state/local governments, was estimated to have incurred \$290-420 billion in total regulatory costs in 1995. This is an increase from the \$240-330 billion range of 1988. (Hopkins, 1995).

4.2.3 UK

The UK ranked lowest in the index recently compiled by the OECD (2002) to illustrate barriers to entrepreneurship, which takes into account such factors as administrative burdens on start-up and the degree to which administrative systems are difficult to understand.

A study of legislation, taxation and regulation affecting established businesses in the USA and 9 EU countries concluded for the second consecutive year that the UK provides the most entrepreneurial friendly environment. (Small Business Services, 2004).

It is estimated by Keter (2004) that:

- Around 40% of regulation affecting UK business now emanates from the EU.
- The think-tank Global Britain estimates that the UK is now subject to over 200,000 EU Regulations.

- As many major EU Directives affecting business and employment have been implemented in the UK since 1997 as in the whole of the preceding 25 years.

The British Chambers of Commerce (BCC) has been conducting assessments in this area for several years. In an assessment published in February 2003 it was suggested that “the total cost of regulations introduced on business since 1998 is now £20.6 billion.” (Keter, 2004). This estimate rose to £30 billion in their figures released in March 2004.

4.2.4 Australia

An Australian study found that “compliance costs for collecting PAYE income taxes were equal to around 0.64 per cent of turnover for the smallest firms (with a turnover up to \$0.2 million), compared to only 0.01 per cent for firms with turnover of \$20 million or more.” (Bickerdyke and Lattimore, 1997). For more detailed information please refer to Appendix C, Figure 22 and 23.

4.2.5 Netherlands

Total administrative burdens were estimated at 878.1 million euros in 2000. The payment of contributions was estimated to account for almost 68% of all administrative burdens. Another important category of information requirements is related to the payment of benefits at 29%. Information related to starting up or ending the deduction of contributions were estimated to be responsible for the rest of the administrative burdens (3%).

The share of administrative burdens for small firms is 53%. The most burdensome policy areas for small firms are the Annual Account, VAT and Income tax. For large enterprises it appears that the policy areas linked to employees impose the greatest burden i.e. payroll tax and employees’ social insurance.

Appendix C, Figures 24 and 25 show that the administrative burdens of the selected policy areas are highest for repair and trade, real estate and business-to-business services and manufacturing. It appears from Figure 25 that the administrative burdens of all private enterprises are 1.5 percent of value added. It is emphasized that these are the administrative burdens for the six selected policy areas only. These six policy areas are subject to about 50% of all administrative burdens. One of the most striking facts is that small firms incur administrative burdens for the selected policy areas of 4% of their own value added. This is more than twice as much as the percentage for all firms, and almost six times as much for large enterprises. The administrative burdens of the selected policy areas are disproportionately severe for small firms and regressive with respect to the size class of the firms. (Nijssen & Vellinga, 2002).

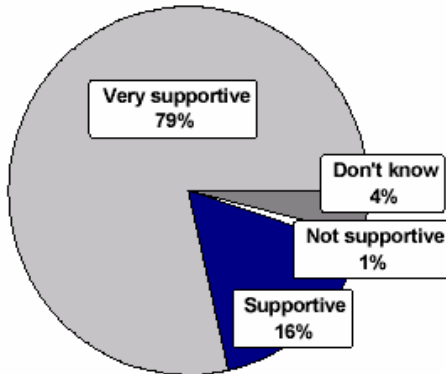
4.2.6 Belgium & Flanders

“The number of Flemish regulations more than doubled from 1997 to 2003 (see Figure 2). Some 70 per cent of current Flemish legislation dates from the 1980s or later.” (Cordova-Novion and Jacobs, 2004)

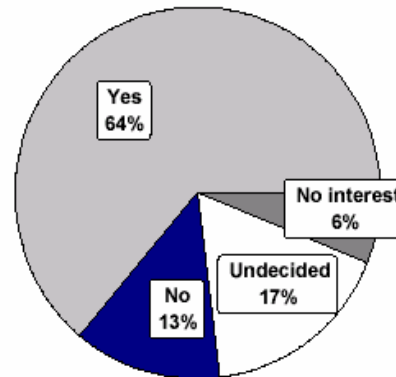
5 Industry Views

A survey conducted by the CFIB found that businesses in BC are strongly supportive of the government's initiatives to reduce regulatory burden (Jones and Gartner, 2004):

Support for BC's commitment to reduce red tape by one-third



Support for ongoing regulatory counts in BC



Jones and Gartner (2004) present the following recommendations by the CFIB regarding regulatory burden:

- Measure the regulatory burden;
- Institutionalize the measures by reporting them regularly to the public;
- Impose constraints on regulators;
- Ensure adequate communication of existing and proposed regulation;
- Focus on areas that will be most economically productive;
- Make regulatory accountability a political priority by appointing a Minister of Regulatory Oversight;
- Carefully consider the need for new regulations;
- Keep compliance flexible and provide basic examples and guidelines for what constitutes compliance;
- Consider the impact on small business; and
- Institute reverse onus guidelines for timeliness and communication.

In a report to ministers, Industry Canada Small Business Working Committee (Small Business Working Committee, 1994) identified some major problems that Canadian SMEs have with existing regulations:

- Cost of compliance is too high;
- Unclear requirements (it's not always clear what is expected of small business);
- Uncertainty of interpretation and enforcement;
- Regulations do not recognize the capabilities of, or the competitive impact on, small business;
- Timing of compliance, reporting and monitoring requirements;
- Regulations often reduce flexibility and innovative capabilities;
- Overlap and duplication of government regulations create additional costs to business;
- Regulations are often incompatible with prevailing market conditions, best business-practices, or efficient administration;
- Regulations are often incompatible with the requirements of other domestic or international jurisdictions or of regulating bodies; and
- Lack of transparency in regulatory design, interpretation and enforcement.

To address problems above, the Industry Canada Small Business Committee listed several recommendations:

Regulatory Burden: Reduction and Measurement Initiatives

- *“The federal government must remove ineffective or uncompetitive regulations that adversely affect SMEs.*
- *The federal government must encourage regulatory flexibility, including systems of self-regulation, in meeting government-defined performance standards. These systems must include specific measures to address small business needs.*
- *The federal government must rationalize existing regulations across departments and jurisdictions. ...*
- *The federal government should publicize and enforce its existing regulatory policy, which states that departments and agencies must justify the need for regulation, weigh the benefits of the regulations against their cost, and determine the relevance, success and cost-effectiveness of existing regulatory programs.*
- *A special provision should be made for assessing the impact that regulations have on small businesses.*
- *Small businesses must be involved in the process of regulatory design, assessment and revision from the very beginning. A process must be put in place for periodic review, updating and revision of regulatory requirements. ...*
- *The government must encourage SMEs to meet prevailing market standards. Governments must also ensure that the interests of small business are not prejudiced in their development, design and application.*
- *The government must act to harmonize standards across departmental and jurisdictional boundaries ...*
- *The federal government must speed up testing, approvals and certification processes and ensure that regulatory regimes respond to the needs of Canada’s innovative SMEs, particularly in the field of emerging technologies.*
- *The federal government must immediately assess the scale and scope of the burden problem and target a 10 percent annual reduction of the total information burden over the next five years.*
- *The government must consolidate reporting requirements, define essential information requirements, and impose a moratorium on additional requirements until such information targets are set.*
- *The government must immediately address specific irritants relating to the information burden on small business.*
- *The government must provide small business with better access to government contracts and provide prompt payment.” (Small Business Working Committee, 1994)*

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Appendix A

Extracted from PLS RAMBOLL Management and Institute for Growth Policy Studies (IGPS), 2003,

Country	Political Priority	Organization	Legislative review	Improving abilities of companies to comply	Reviews undertaken	Effectiveness to date
Australia	<ul style="list-style-type: none"> Set objective of reducing administrative burdens of business by 50% in 1997 	<ul style="list-style-type: none"> 1 Central Unit 1 Coordinating Unit 	<ul style="list-style-type: none"> Since 1997, RIAs are required. Available approaches include: risk analysis, cost-benefit analysis, cost effective analysis Analytical requirements are flexible - there is no standard or rule In 2001-02, 88% of 145 proposal had adequate RIs and 7 of 10 proposals with a significant impact had an adequate RIA 	<ul style="list-style-type: none"> www.fed.gov.au, offers comprehensive and integrated access to federal gov't information Business entry potion – wide range of services and information about start-up, taxation, licensing and legislation 	<ul style="list-style-type: none"> Have carried out a comprehensive review program of all 1,200 acts to improve effectiveness and ensure restrictions are justified. 	<ul style="list-style-type: none"> No evaluation of whether the gov't has fulfilled its objective Strong economic growth and productivity improvements are believed to be partly due to regulatory review and reform
Austria	<ul style="list-style-type: none"> Made a statement to work for deregulation and reduce costs for companies. No specific objective for the reduction of administrative burdens has been established 	<ul style="list-style-type: none"> 1 Coordinating Unit - An expert group supervises the regulation mechanism to understand associated economic costs (including administrative burdens) It is not the intention to establish a thorough system 	<ul style="list-style-type: none"> RIAs are required There is no formal way in which the administrative implications are researched Every proposed law goes to direct stakeholders for approval and the general public for input 	<ul style="list-style-type: none"> Interest groups help businesses comply Federal gov't is starting e-gov't programs to make it easier for companies 	<ul style="list-style-type: none"> Ministry of Economics and Labour has omitted all their laws dating from before 1950, and are considering doing the same for laws dating from 1950-1970 	<ul style="list-style-type: none"> No monitoring or assessment is done, so the effects cannot be documented
Belgium	<ul style="list-style-type: none"> The current gov't program emphasize "efficient administration as one of the three main priorities of the gov't Government promised in 1999 that "administrative burdens would be reduced by 25% over the 1999 to 2002 period. 	<ul style="list-style-type: none"> 1 Central Unit 1 Satellite Unit 2 Independent units 	<ul style="list-style-type: none"> No formal concept of an RIA They have a tool (TCA) to compare different alternatives and give insight in the most burdensome parts of a procedure. It was assumed that an assessment based on salary expenses or timed spent on administrative burdens would be too time consuming and expensive to develop There are no general procedures for the involvement of business organizations 	<ul style="list-style-type: none"> Gov't has introduced a number of e-gov't projects, including a single identification number of businesses, a portal with information and online public services and a website with forms 	<ul style="list-style-type: none"> Have established a quantitative monitoring system to measure administrative burdens 	<ul style="list-style-type: none"> The survey has only been carried out once, so trend data is not available
Canada	<ul style="list-style-type: none"> 2002 Speech from the Throne noted a commitment to smart regulation and reduction of administrative burdens 	<ul style="list-style-type: none"> 1 Central Unit Satellite Units in Departments 	<ul style="list-style-type: none"> RIAs are required in connection with all proposed regulation. There is a detailed guide of subjects to be dealt with, and it must specifically identify regulatory burdens Detailed guidelines for the regulatory process, including pre-publication 	<ul style="list-style-type: none"> The portal Business Gateway provides information and services on several subjects, based on a one-stop shopping approach 	<ul style="list-style-type: none"> There is no central quantitative monitoring. 	<ul style="list-style-type: none"> An OECD study nominated Canada to have the second best business regulation in the world

Regulatory Burden: Reduction and Measurement Initiatives

Country	Political Priority	Organization	Legislative review	Improving abilities of companies to comply	Reviews undertaken	Effectiveness to date
	<ul style="list-style-type: none"> There are no quantitative objectives 		<p>and a consultation procedure have been developed</p>			
Denmark	<ul style="list-style-type: none"> Gov't has set the goal of reducing administrative burdens by 25% by 2010 	<ul style="list-style-type: none"> 1 Central Unit 3 Coordinating Units 	<ul style="list-style-type: none"> All bills are subject to mandatory consultation with a business panel representing the gov't All ministries must review their acts in order to identify simplification All legislation is subject to an RIA requiring identification of administrative consequences for the gov't, business and the public, using test panels of 500 companies CBRB has developed tools to help line ministries pay early attention to administrative consequence 	<ul style="list-style-type: none"> There is a portal where companies can get an overview of the reporting requirements to which they must comply A portal is being considered for development that would tailor information for specific companies Have carried out a pilot project developing a website where enterprise may compare their expenditures to administer 8 different tasks, and offers information on best practices 	<ul style="list-style-type: none"> Gov't monitors burdens annually based on interviews with a large number of representative companies. 	<ul style="list-style-type: none"> Administrative burdens were approximately the same in 2002 as they were in 1999
France	<ul style="list-style-type: none"> Simplification of regulations is part of a general goal in the reform program of the French state The gov't has not determined specific objectives concerning business regulation 	<ul style="list-style-type: none"> 2 Coordinating Units 	<ul style="list-style-type: none"> RIAs were introduced in 1995 on experimental basis and made a requirement for all proposed/amended substantial laws or regulations 1998. The RIA specifically requires and assessment of the administrative impacts. No guidelines exist. 	<ul style="list-style-type: none"> Several e-gov't initiatives have been undertaken: a public service portal for citizens and business, with 80% of forms; website for companies to effectual their social protection declarations; and a site where all legislation is posted 	<ul style="list-style-type: none"> No assessment of administrative burdens has been conducted 	<ul style="list-style-type: none"> Millions of regulations have been abolished The number of formal reports has been reduced by 130 million
Germany	<ul style="list-style-type: none"> A master plan concerning administrative burden was scheduled to be released in the spring of 2003 A target of eliminating 20,000 regulations should be achieved over the 2003-2007 period 	<ul style="list-style-type: none"> 2 Coordinating Units 	<ul style="list-style-type: none"> Proposals for new laws must include a macro and a micro impact analysis. Administrative burden is part of the assessment, but there is no structure for it. When the proposal is made law, the gov't has to "decide if and when the expected impact will be test, to see whether side effects have occurred and if the costs made are in proportion to the results. 	<ul style="list-style-type: none"> RIAs are conducted by the gov't with help from interest groups. There is a mailbox where business can report which laws are most burdensome 	<ul style="list-style-type: none"> There is no systematic measuring of the burden MOVE project has involved research about the satisfaction of business about the interface with government – 56% said they were not well enough informed by the gov't. A service centre for SMEs was set up with about 500 experts 	

Regulatory Burden: Reduction and Measurement Initiatives

Country	Political Priority	Organization	Legislative review	Improving abilities of companies to comply	Reviews undertaken	Effectiveness to date
					of all legislation levels and areas.	
Greece	<ul style="list-style-type: none"> “Politeia” was launched in 2000 to enable continue reform. There are many initiatives towards enhancing the transparency of regulations, but none to secure a higher quality of regulation 		<ul style="list-style-type: none"> RIAs are required for all new legislation but not assessed formally 	<ul style="list-style-type: none"> There is an initiative to simplify and redesign about 1,000 administrative procedures and digitalize forms 		<ul style="list-style-type: none"> 420 administrative procedures were simplified in 2002, compared to about 275 in 2001 337 independent projects implemented the priority measures for 2002, where 35% included increased use of ICT and 22% improved improving and codifying procedures
Netherlands	<ul style="list-style-type: none"> The gov’t sought to reduce administrative burdens for companies by 25% in 2002, compared to 1994. It was later assess that the burden was reduced by 7%, and the target reduction was reset at 20% by 2006 in comparison to 2002. 	<ul style="list-style-type: none"> 1 Coordinating Unit Satellite Units in Departments 1 Independent unit 	<ul style="list-style-type: none"> RIAs are required for all new legislation, including assessments regarding the environment, economy and administrative burdens. All ministries have zero-based measurements and are setting up standard cost models (some based on MISTRAL). Ministries prepare an assessment and they are reviewed by an external evaluator (ACTAL) There are no general guidelines or procedures 	<ul style="list-style-type: none"> Since May 2000 every ministry has been required to publish a yearly action plan including scheduled initiatives and numbers for the fulfillment of objectives of reducing burdens. E-Governance: which consists of 1) a portal for start-ups and 2) a portal with basic facts about companies, for use by the authorities Stakeholder groups are organized around specific areas of law to provide suggested changes to existing legislation 	<ul style="list-style-type: none"> An annual survey is conducted to measure burdens 	<ul style="list-style-type: none"> While a reduction of 6% was achieved over the 1994-99 period, progress has slowed, largely due to the fact that it has become more difficult to find new areas for simplification
Norway	<ul style="list-style-type: none"> In 2001 the gov’t committed to create a more functional, transparency and cost-effective legislation in order to improve the efficiency and productivity of the business sector 	<ul style="list-style-type: none"> 1 Coordinating Unit 	<ul style="list-style-type: none"> RIAs need to be carried out for all new bills. Qualitative assessments are conducted with test panels and focus groups 	<ul style="list-style-type: none"> It is intended that by the end of 2004 all public service functions can receive electronic reports from the business sector. 	<ul style="list-style-type: none"> The gov’ts simplification project resulted in the repealing of more than 400 departmental orders, the requirement that all orders be available on the Internet 	
Singapore	<ul style="list-style-type: none"> Singapore has long 		<ul style="list-style-type: none"> Currently RIAs are not required for 	<ul style="list-style-type: none"> Reviews are done in reaction 	<ul style="list-style-type: none"> The gov’t has 	

Regulatory Burden: Reduction and Measurement Initiatives

Country	Political Priority	Organization	Legislative review	Improving abilities of companies to comply	Reviews undertaken	Effectiveness to date
	<p>been recognized as being responsive to the needs of businesses, for an efficient civil service and for good governance". More recently the gov't has begun to focus specifically on cutting red tape and rule simplification</p>		<p>new legislation.</p> <ul style="list-style-type: none"> All agencies have to proactively review all their existing rules within a three year period, by March 2005 and thereafter on a 5-year cycle. 	<p>to stakeholders. PEP has been actively soliciting feedback on reducing bureaucracy from the private sector. Senior public officials then review the propositions</p> <ul style="list-style-type: none"> There are a host of websites to facilitate interaction between government and business 	<p>launched the POWER awards to recognize ministries that have been particularly active in efforts to remove and amend rules.</p>	
USA	<ul style="list-style-type: none"> SBA's Office of the national Ombudsman is mandated "to create a more cooperative regulatory environment among agencies and small businesses that is less punitive and more solution-oriented, and to make Federal regulators more accountable for their enforcement actions" 	<ul style="list-style-type: none"> 1 Central Unit 1 Independent unit 	<ul style="list-style-type: none"> Executive Order 12866, issued in 1993 and the Regulatory Flexibility Act of 1980 define the principles and procedures which must be followed to ensure high quality regulation and ensure that federal agencies assess and minimize the impact of regulation on small business Each agency has to document and justify that its regulations create a minimum cost to society, including special consideration of small firms There are no strict guidelines for doing these reviews 	<ul style="list-style-type: none"> The US Business Advisor portal is a one-stop for a all public information, services and transactions The Office of Advocacy is an independent entity with the US SBA, serving as an independent voice from small business within the federal gov't 		

Appendix B

Regulatory Governance in Canadian Jurisdiction with Formal Policies on Regulation

	Purpose(s)	Impact Assessment	Pre-publication requirement	Evaluation and Assessment
Yukon	Public and business access and input Reduce red tape Guidance to departments	Code of Regulatory Conduct Fact Sheet	N/A	Review of statutes and regulations departmentally determined
British Columbia	Meet regulatory criteria Carry out deregulation	Regulatory criteria checklist	N/A	Review triggered by sunset clause or review date of regulation
Alberta	Agenda retain/adopt only regulations necessary for public interest	Regulatory Impact Report	N/A	Automatic review every ten years (changed from every five years)
Saskatchewan	Guidance to departments for regulatory proposals and review of regulations	Code of Regulatory Conduct Fact Sheet	N/A	Departmentally determined, but current governmental review exercise
Canada	Ensure net benefit to society	Regulatory Impact Assessment	Pre-publication of draft regulation	No review date of regulations set in policy - regulatory process evaluated (RPMS; RIA)
Quebec	Ensure net benefit	Impact Assessment	Pre-publication of draft regulation	Regulations impacting business reevaluated every 7 years

(adapted from Johnson, 2004)

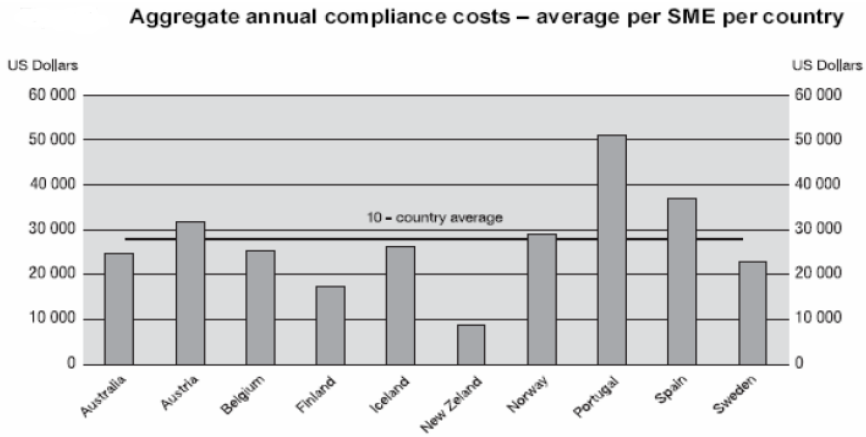
Regulatory Governance in other Canadian jurisdiction (no formal policy)

	Purpose(s)	Impact Assessment	Pre-publication requirement	Evaluation and Assessment
Manitoba	N/A	Regulation Impact Statement	No	Regulations: Departmental
Ontario	Develop Good Regulation	Regulatory Approval Form 17	No	Regulations: Departmental
New Brunswick	N/A	Business Impact Test	No	Regulations: On an on- going basis
Nova Scotia	N/A	Regulatory (Red Tape Reduction) Criteria Checklist	No	Regulations: Departmental Annual roundtable with business and labour to review regulatory performance
Newfoundland	N/A	N/A	No	Regulatory review recommended every five years
Prince Edward Island	To promote greater economic and administrative efficiency, while maintaining the safety and protection of the public	Regulations Development Checklist	No	Departmental

(adapted from Johnson, 2004)

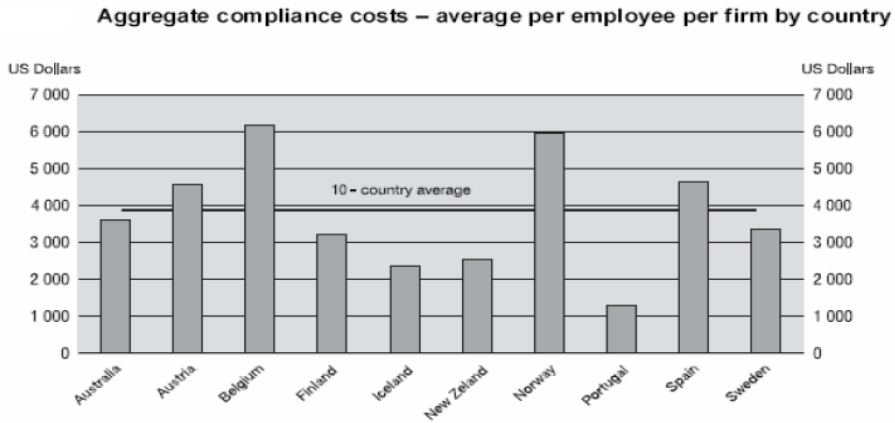
Appendix C: Figures

Figure 1 (source: OECD, 2001)



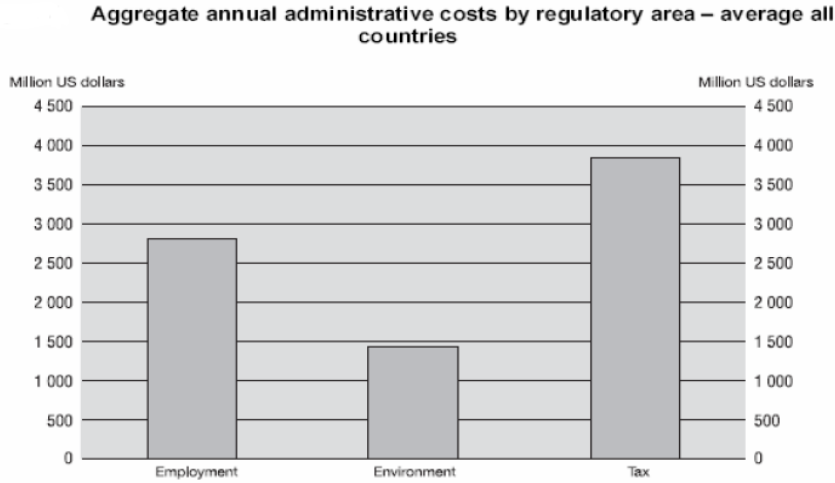
Note: : Data for Mexico are not available.

Figure 2 (source: OECD, 2001)



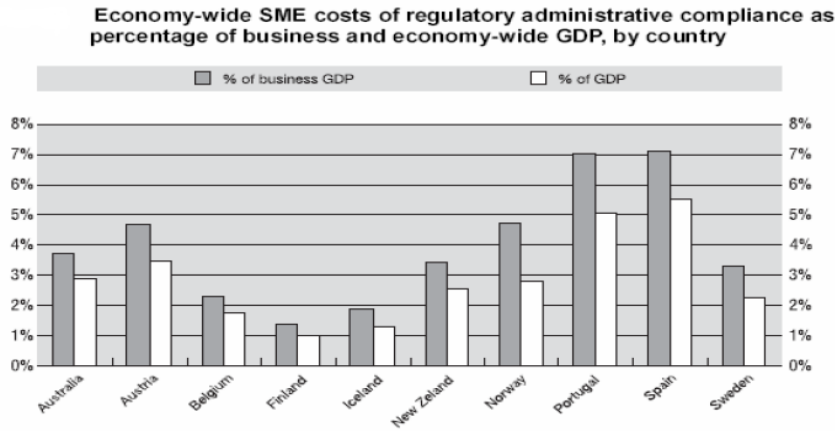
Note: : Data for Mexico are not available.

Figure 3 (source: OECD, 2001)



Note: : Data for Mexico are not available.

Figure 4 (source: OECD, 2001)



1. No estimate is available for the GDP of SMEs; therefore, this indicator reflects not only the different impacts of administrative compliance costs but also the different SMEs' share of the Business Sector GDP in each country. The values will, therefore, be higher for those countries in which SMEs play a larger role in the business economy.
2. Data for Mexico are not available.

Figure 5 and Figure 6 (source: World Bank, 2005)

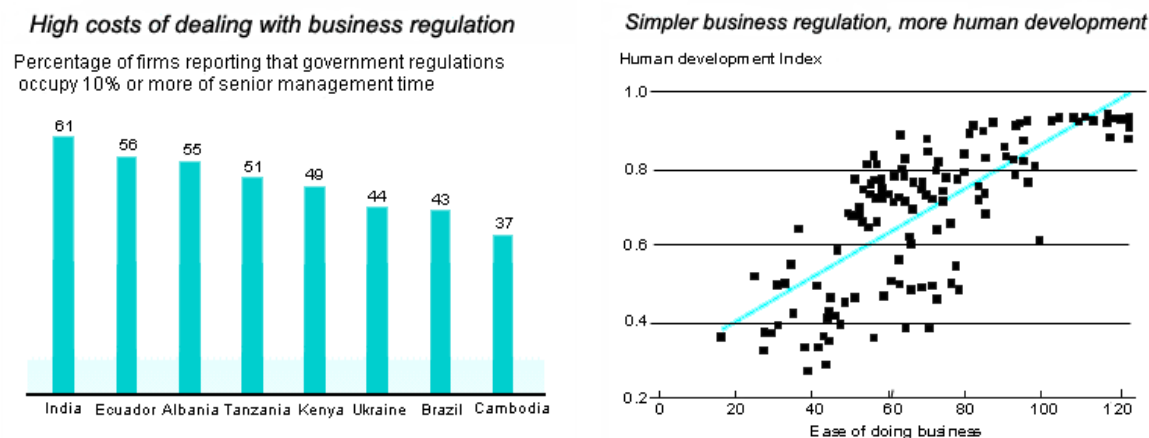


Figure 7 (source: Rao and Sharma, 2004)

Synopsis of summary OECD indicators of product market regulation by domain						
	<i>Overall indicator</i>					
	Product market regulation	State control	Barriers to entrepreneurship	Barriers to trade & investment	Economic regulation	Administrative regulation
Canada	1.5	1.3	0.8	2.2	1.1	0.9
United States	1.0	0.9	1.3	0.9	1.0	1.2
Japan	1.5	1.3	2.3	1.0	1.4	2.7
Germany	1.4	1.8	2.1	0.5	1.4	2.7
France	2.1	2.6	2.7	1.0	2.3	3.1
Italy	2.3	3.9	2.7	0.5	3.5	3.0
United Kingdom	0.5	0.6	0.5	0.4	0.6	0.5

Source: Nicoletti, Scarpetta & Boylaud, OECD Working Paper 226, (2000), Table A2.7.

Figure 8 (source: Rao and Sharma, 2004)

The Composition of OECD State Control Indicator						
	Scope of public enterprise sector	Size of public enterprise sector	Special voting rights	Control of public enterprises by legislative bodies	Use of command and control regulation	Price controls
Canada	1.8	1.4	2.0	0.0	1.6	1.0
United States	2.0	0.0	2.0	0.0	1.1	0.0
Japan	1.5	0.0	2.0	0.0	1.4	2.9
Germany	1.8	1.4	2.0	0.0	3.4	1.7
France	3.8	2.6	3.0	0.0	4.8	0.9
Italy	5.3	2.3	6.0	5.3	3.1	2.2
United Kingdom	0.0	0.0	0.0	0.0	2.3	0.6

Source: Nicoletti, Scarpetta & Boylaud, OECD Working Paper 226, (2000), Table A2.2.1

Figure 9 (source: Rao and Sharma, 2004)

The Composition of OECD Barriers to entrepreneurship Indicator							
	Licenses & permits system	Communication & simplification of rules and procedures	Administrative burdens for corporations	Administrative burdens for sole proprietor firms	Sector specific Administrative burdens	Legal barriers to entry	Antitrust exemptions
Canada	0.0	0.3	1.5	1.5	1.0	0.7	0.5
United States	4.0	0.6	0.5	1.3	0.5	1.0	1.3
Japan	6.0	1.5	2.3	2.3	1.5	2.3	0.3
Germany	4.0	1.3	2.5	3.3	2.3	0.5	0.0
France	4.0	0.9	3.3	3.8	3.6	2.0	1.1
Italy	0.0	0.8	5.3	4.3	4.5	3.0	1.3
United Kingdom	0.0	0.0	0.8	1.3	0.4	1.3	0.0

Source: Nicoletti, Scarpetta & Boylaud, OECD Working Paper 226, (2000), Table A2.2.2

Figure 10 (source: Industry Canada, 2003)

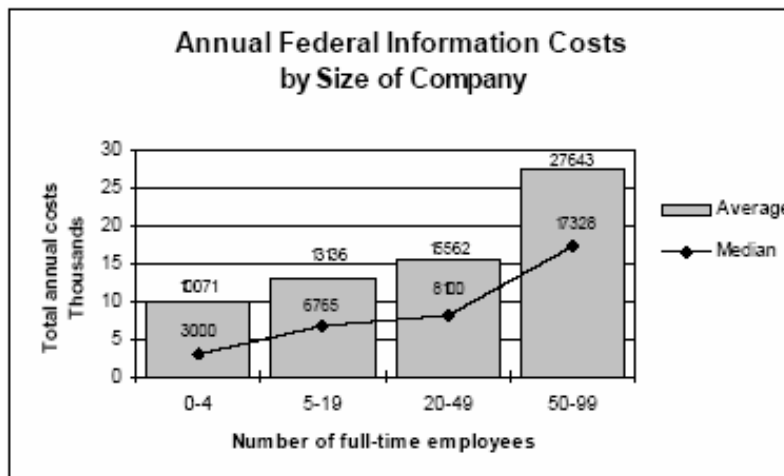


Figure 11 (Source: Jones and Graf, 2001)

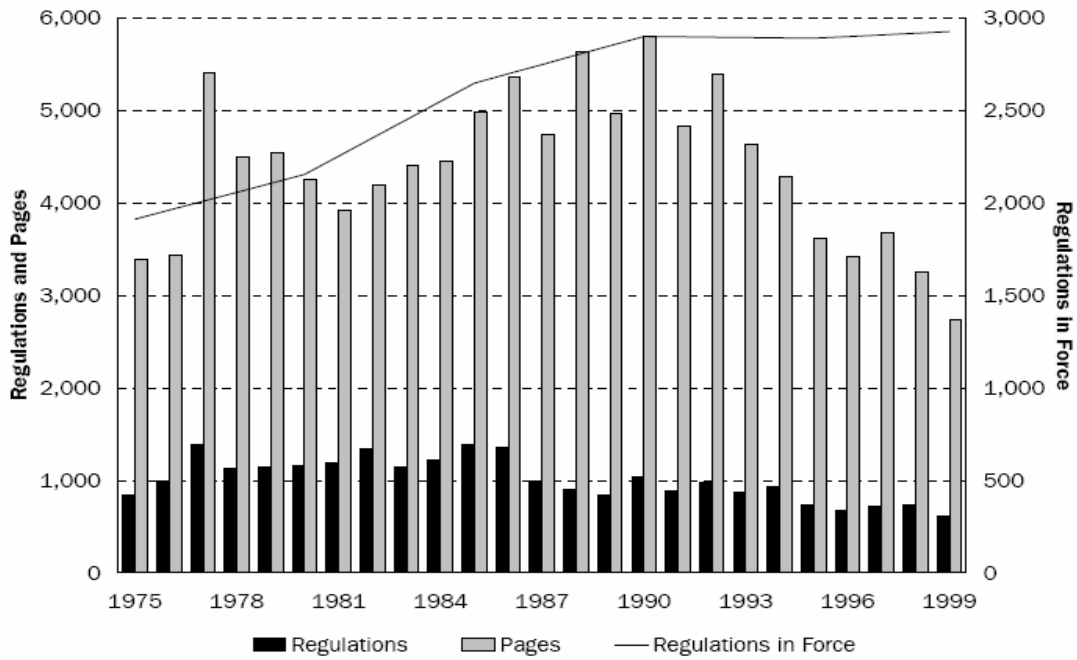


Figure 12 (Source: Jones and Graf, 2001)

Direct costs of regulation and costs of legislating and lobbying (in millions of constant dollars)

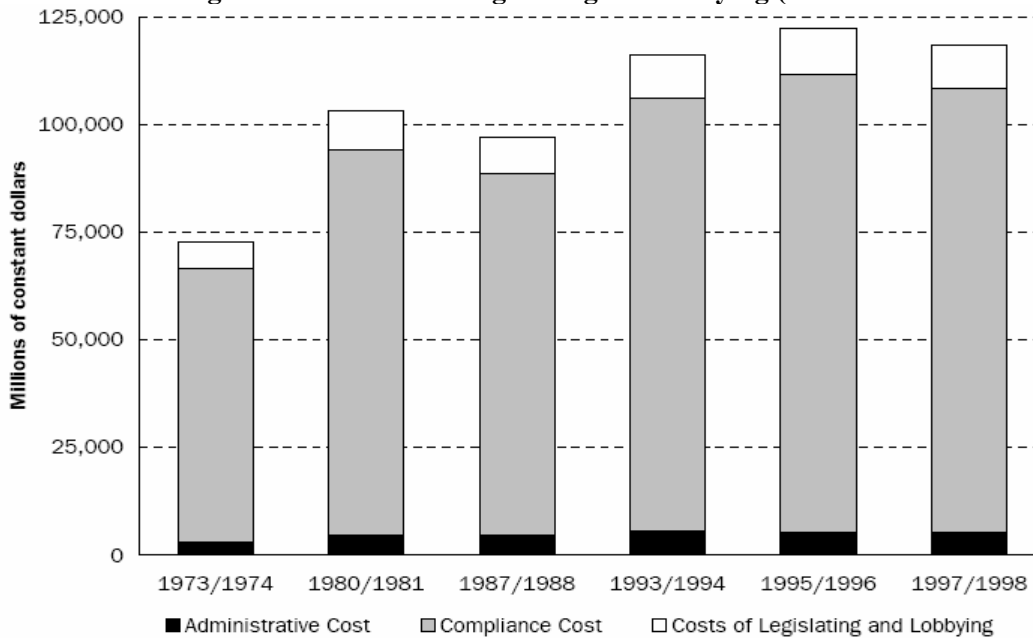


Figure 13 and Figure 14 (Source: Jones and Gartner, 2004)

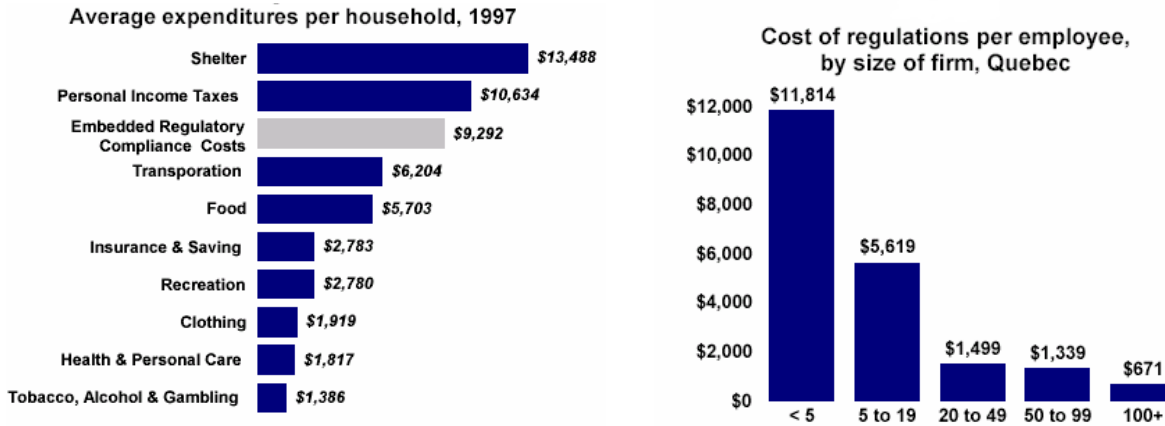


Figure 15 and Figure 16 (Source: Jones and Gartner, 2004)

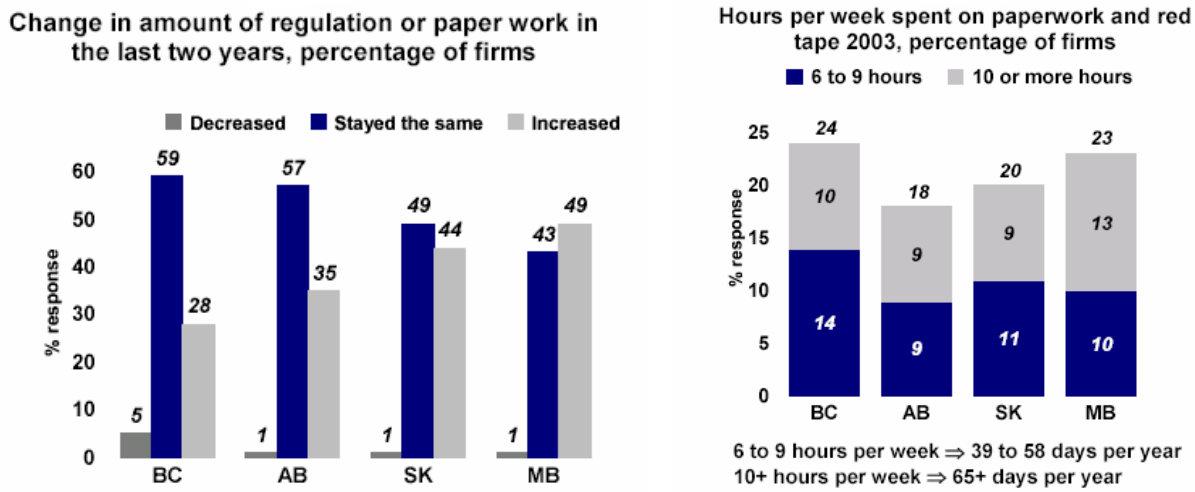
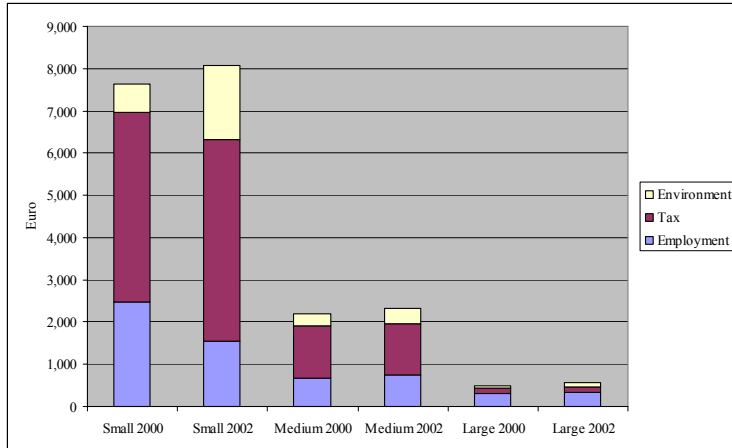


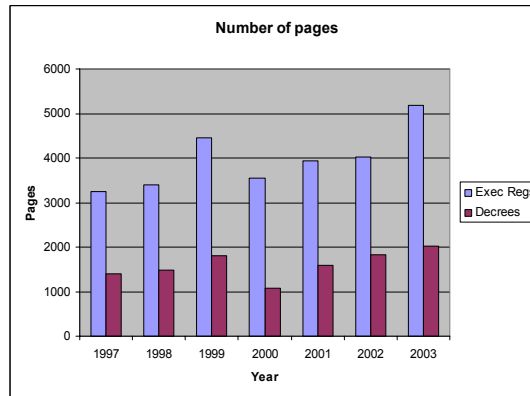
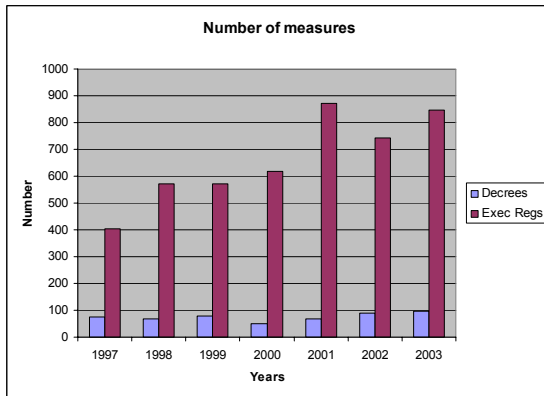
Figure 17. Cost per employee in Euro by policy area and firm's size

Regulatory Burden: Reduction and Measurement Initiatives



Source: Aurelie Joos and Chantal Kegel (2004) *Les Charges Administratives en Belgique pour l'Année 2002*, Bureau Fédéral du Plan. Janvier 2004.

Figure 18 and Figure 19: Regulatory inflation in Flanders 1997-2003 (Source: Nijsen and Vellinga 2002)



Regulatory Burden: Reduction and Measurement Initiatives

Figure 20 (Source: Jones and Gartner, 2004)

BC Quarterly Progress Report Reductions by ministry and major crowns/agencies

Ministry	Regulatory Requirements as of June 5, 2001 (restated)	Net change as of March 31, 2004	Results to March 31, 2004
Advanced Education	1,861	-269	1,592
Agriculture, Food Fisheries	4,538	-1,120	3,418
Attorney General	4,056	129	4,185
Children and Family Development	16,963	-8,722	8,241
Community, Aboriginal and Women's Services	71,238	-33,932	37,306
Education	27,597	-5,669	21,928
Energy and Mines	7,431	-1,740	5,691
BC Hydro	1,081	-35	1,046
BC Utilities Commission	1,099	-284	815
BC Transmission Corporation	749	0	858
Oil and Gas Commission	7,338	-2,670	4,668
Finance	41,382	-13,188	28,194
Forests	17,088	-8,552	8,536
Health Services	10,758	-544	10,214
Human Resources	2,005	-601	1,404
Management Services	618	36	654
BC Public Service Agency	5,760	-1,891	3,869
Provincial Revenue	13,478	-2,857	10,621
Public Safety and Solicitor General	26,979	-3,835	23,144
BC Lottery	3,272	0	3,272
Insurance Corporation of BC	10,555	-3,221	7,334
Liquor Distribution Branch	5,022	-2,713	2,309
Skills Development and Labour	8,688	-3,413	5,275
WCB	35,308	-10,606	24,702
Small Business and Economic Development	2,329	-724	1,605
BC Securities Commission	21,316	1,201	22,517
Sustainable Resource Management	8,766	-1,938	6,828
Environmental Assessment Office	607	-345	262
Transportation	1,531	-292	1,239
BC Ferries	82	-17	65
BC Rail	32	0	32
BC Transit	220	0	220
Motor Carrier Commission	824	-215	609
Water, Land and Air Protection	21,541	-5,413	16,128
Premier's Office – IGR	27	0	27
Ministries Total	289,866	-92,644	197,222
Crowns and Agencies Total	92,273	-20,796	71,477
GOVERNMENT TOTAL	382,139	-113,440	268,699

Note: the count includes rules associated with tax administration.

Figure 21 (Source: Hopkins, 1995)

Business Regulatory Costs, 1992			
Type of regulation	Costs per employee for firms with		
	1-19 employees	20-499 employees	500+ employees
Environmental	\$1,246	\$1,194	\$671
Other social	658	630	354
Econ. efficiency	574	550	309
Econ. transfer	1,050	890	501
Process	2,017	1,931	1,086
All federal regs.	\$5,532	\$5,298	\$2,979

Figure 22 (Source: Bickerdyke and Lattimore, 1997)

Table 6.2: Chamber of Manufactures of NSW survey — extent of firms' concern over different aspects of the regulatory burden ^a

<i>Regulatory burden</i>	<i>Proportion of firms indicating concern (%)</i>			
	<i>1-20 employees</i>	<i>21-99 employees</i>	<i>100-499 employees</i>	<i>500+ employees</i>
Business Taxation	68 (1)	69 (1)	67 (1)	72 (1)
Superannuation	48 (2)	56 (2)	46 (3)	36 (4)
OH&S	39 (3)	48 (3)	60 (2)	48 (3)
Environment	27 (4)	30 (4)	45 (4)	59 (2)
Planning & Development	11 (5)	16 (5)	11 (8)	10 (8)
Business Licensing	10 (6)	9 (10)	10 (9)	5 (9)
IR (Unfair dismissals)	9 (7)	10 (9)	7 (10)	3 (10)
Product Labelling	8 (8)	13 (6)	21 (5)	15 (7)
Handling and storage of dangerous goods	7 (9)	11 (7)	15 (7)	18 (5)
Corporations Law	3 (10)	11 (7)	18 (6)	18 (5)

Notes: Figures in brackets indicate rankings.

a. Issues of greatest concern.

Source: Chamber of Manufactures of NSW (1995).

Figure 23 (Source: Bickerdyke and Lattimore, 1997)

Table 6.3: Chamber of Manufactures of NSW survey — firms' main difficulties with regulations

<i>Nature of difficulty</i>	<i>Proportion of firms indicating concern as the main difficulty (%)</i>			
	<i>1–20 employees</i>	<i>21–99 employees</i>	<i>100–499 employees</i>	<i>500+ employees</i>
Compliance burden	64	76	87	84
Finding out which regulations apply	36	40	35	23
Inappropriate standards	15	19	13	23
Regulations not applicable to imported goods	13	14	11	10
Other	13	3	3	5
Lack of enforcement	10	7	4	5
Pace of change	2	2	1	3
Too many and too complex regulations	2	2	2	0

Source: Chamber of Manufactures of NSW (1995).

Figure 24 (Source: Nijssen & Vellinga, 2002)

Regulatory Burden: Reduction and Measurement Initiatives

Table 7.6 Administrative burdens for businesses in selected policy areas according to size class and industry, final results; the Netherlands, 2000, euros (x 1.000.000)

<i>Industry</i>	<i>Small firms</i>	<i>Medium sized firms</i>	<i>Large firms</i>	<i>Total</i>
Agriculture	177	5	2	184
Mining	2	1	2	5
Manufacturing	308	251	289	848
Electricity, water, gas	0	1	11	12
Building	174	156	77	407
Repair and trade	747	265	174	1.186
Hotel, catering	115	43	22	180
Transport, communication	83	77	95	255
Financing, insurances	72	19	64	155
Real estate, business to business	521	141	230	893
Health and welfare	89	16	89	193
Culture, sports and broadcasting, TV	18	3	2	22
All private industries	2,307	978	1,056	4,341

Figure 25 (Source: Nijssen & Vellinga, 2002)

Table 7.7 Administrative burdens for businesses in selected policy areas according to size class and industry as a percentage of value added in the Netherlands, 2000 (percentages)

<i>Industry</i>	<i>Small firms</i>	<i>Medium sized firms</i>	<i>Large firms</i>	<i>Total</i>
Agriculture	2.2	0.3	0.3	1.8
Mining	0.6	0.1	0.0	0.1
Manufacturing	5.0	1.8	0.8	1.5
Electricity, water, gas	4.8	0.5	0.3	0.3
Building	3.3	1.7	1.1	1.9
Repair and trade	5.1	1.4	1.0	2.3
Hotel, catering	3.9	2.6	1.3	2.9
Transport, communication	2.8	1.3	0.6	1.0
Financing, insurances	2.9	0.9	0.4	0.7
Real estate, business to business	4.4	0.5	0.8	1.3
Health and welfare	3.1	0.9	0.8	1.3
Culture, sports and broadcasting, TV	4.4	1.1	0.7	2.4
All private industries	4.0	1.1	0.7	1.5

APPENDIX D: OVERVIEW OF EXISTING APPROACHES AND METHODOLOGIES

Table below is taken from the ‘OECD Red Tape Scoreboard, 2005’ and it gives an overview of some of the important methodological approaches that have been applied in the measurement of administrative burdens.

Study	Objective / Focus	Basic methodology	Major findings	Comments / assessments
<u><i>The Paperwork Reduction Act (PRA) (1995), U.S. Office of Management and Budget (OMB)</i></u>	To quantify burdens and to set annual Government wide goals for the reduction of information collection burdens on the public.	Agencies use their knowledge of a program to consider how much time a respondent would need to respond to the information request. Multiplying the amount of time per respondent by the number of respondents and the number of times the information is submitted each year produces the total annual burden hours imposed by a given collection.	The Federal government imposed 8.1 billion hours of paperwork burden in Fiscal Year 2003.	The calculation has some similarities with the SCM. A major difference is that businesses are not interviewed but data is based on estimates by the government agencies.
<u><i>OECD (2001) Businesses’ Views on Red Tape</i></u>	To gather information about the cost and quality of regulations and their administration to enable governments to focus on areas of perceived weakness.	Measures via a questionnaire SME’s perceptions of direct administrative compliance costs, indirect costs, quality of regulations and formalities and quality of regulatory administration. Covers employment, environmental and tax regulations in 11 countries.	Administrative compliance costs for SMEs are around 4% of Business Sector GDP but there are substantial differences between the surveyed countries.	The costs are likely to be an underestimate as the study did not include all types of companies and costs. However, businesses may have over-estimated the costs for political reasons.
<u><i>Commission of the European Communities (2001) Benchmarking Enterprise Policy: Results from the 2001 Scoreboard</i></u>	To assess whether EU in the area of Enterprise Policy stays on the course set at the Lisbon European Council. The study highlights differences, but does not explain them. The	Measures of AB on SMEs are based on surveys by ENSR from 1999 and 2001: Share of SMEs picking AB from a list of possible major constraints for business performance. The	Compares EU countries on seven areas which according to the report are crucial for the dynamism of the enterprise sector. The findings provide an indication about where to look	Very simple methodology regarding AB. Does not indicate the exact location of burdens and therefore is difficult to use to find solutions.

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Study	Objective / Focus	Basic methodology	Major findings	Comments / assessments
	study covers 7 areas including the regulatory and administrative environment.	data is based on 8000 telephone interviews across Europe.	for good practices.	
<u>W. Mark Crain and Thomas D. Hopkins, The Office of Advocacy, U.S. Small Business Administration (2001) <i>The Impact of Regulatory Costs on Small Firms</i></u>	Focus on total direct costs of federal regulations for private sector enterprises. The report includes estimates of the impact on those who are regulated: the spending by business to install abatement equipment, hire engineers, and so forth. Does not include indirect costs or benefits.	Divides regulations into four categories: environmental, economic, workplace, and tax. Distinguishes between small, medium, and large firms and four sectors: manufacturing, trade, services, and other. One measure includes both efficiency costs and transfer costs, another includes only the efficiency costs. Uses data from various sources.	To comply with federal regulations, Americans spent \$843 billion in 2000 or 8 % of US GDP. Those hit hardest are small businesses. Environmental regulations and the paperwork burdens of tax compliance are particular disproportionate in hitting small businesses. Regulatory burdens continue to climb, and to disadvantage small firms.	In relation to the SCM, which concerns the cost of complying with information obligations stemming from government regulations, the study focuses on the substantive compliance costs of regulations. The disaggregating of sectors, firms, and types of regulations is useful.
<u>Union of Industrial and Employers' Confederations of Europe – UNICE (2001): <i>The reNEWed Economy: Business for a dynamic Europe - The UNICE Benchmarking Report 2001</i></u>	The report compares and contrasts the spread of new technologies in Europe, the US and Japan with the main purpose of explaining why the US has been ahead of Europe since the beginning of the 90s regarding GDP and employment. Deals with the consequences for businesses of the New Economy.	Indicators include: electronic capability and cutting red tape, based on a survey of member federations. This indicator measures whether there has been progress or not regarding the use of ICT technologies in reducing the cost to businesses of complying with government regulations.	If Europe is to be a dynamic and competitive knowledge based economy, governments must acknowledge entrepreneurship as the key to growth, start-up costs for new businesses must be competitive.	More about ICTs role in economic growth than about red tape. The sections about red tape are furthermore based on simple and questionable methodology.
<u>Agence pour la Simplification Administrative en Belgique (ASA) <i>Rapport Annuel 2001-2002</i></u>	L'ASA has as main purpose to reduce the administrative complexity and the AB for businesses. This report provides with concrete projects used to reach these	In quantifying the AB, 2658 enterprises and 4256 independents received questionnaires dealing with one of three regulatory domains: taxation,	The AB for independents were estimated to 2.3 billion € equivalent to 0.9 % of GDP, while the AB for enterprises were estimated to 6.3 billion € equivalent to 2.6 % of GDP.	The report is a good example of a broad integrated approach to reducing AB. The burdens have been measured, and concrete reduction initiatives have been decided.

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	goals as well as calculations of the size of the burdens.	employment or environment.	SMEs had significantly higher AB than large enterprises. Most burdensome regulatory areas were taxation for small enterprises, and employment for medium and large enterprises.	
<p><u>European Communities (2002) <i>Benchmarking the Administration of Business Start-Ups</i></u></p>	<p>To help member states of EU to establish ‘headline’ and ‘operational’ benchmarks. To assist member states to make improvements in the registration process of new businesses by identifying performance drivers. To identify examples of best practice in the member states.</p>	<p>Benchmarking of headline and operational procedures divided on 4 types of enterprises.</p> <p>In phase 1 the issues that influence the process for the administration of business start-ups were identified based on a review of the literature. In phase 2 a benchmarking exercise was undertaken with experts nominated by the 15 member states.</p>	<p>Identifies most influential performance drivers such as exploitation of modern ICT and administrative simplification including silence is consent rules and single access points.</p> <p>Identifies best practice and make case studies of these.</p> <p>It is not possible to develop a “one-size-fits-all” approach to the process of business start-ups.</p>	<p>Some similarities with the World Bank's <i>Doing Business</i> study. An important difference is that the study looks at four types of business units: Individual Enterprises, General Partnerships, Private Limited Companies, and Public Limited Companies.</p>
<p><u>Chittenden, F. Kauser, S., and Poutziouris, P. (2002) <i>Regulatory Burdens of Small Business: A Literature Review. A research project Funded by the Small Business Service</i></u></p>	<p>To review the academic literature and a variety of reports regarding techniques for estimating the cost and benefits of regulations, evidence on the regulatory burdens, and impact of research on the regulatory process in the U.S.A., the U.K., the EU, Australia and New Zealand.</p>	<p>Besides the literature, government regulatory bodies and their web sites as well as departments responsible for implementing regulations were consulted in order to obtain data.</p>	<p>Reports of the regulatory burden on businesses may be classified into four broad types: papers that synthesize results from a number of other studies; reports that collect data from government programs and aggregate this information; research that collects primary data from businesses about the costs of compliance; and initiatives that collect primary data from businesses about the</p>	<p>Useful for overview of for example classification of compliance costs and types of studies.</p> <p>The conclusion that burdens are difficult to compare across countries because of different methodological approaches, is relevant.</p>

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Study	Objective / Focus	Basic methodology	Major findings	Comments / assessments
<p><u>Greet De Vil et Chantal Kegels (2002): <i>Les charges administratives en Belgique pour l'année 2000</i></u></p>	<p>The objective is both quantitative and qualitative: to estimate the AB on enterprises and 'independents', and the quality of the regulations. Three regulatory areas are covered: taxation, employment an environment regulations.</p>	<p>The size of AB was measured through a questionnaire survey. The questionnaire was sent to 2658 enterprises and 4256 'independents'. The enterprises were divided into: three sizes (small, medium and large) two sectors (industry and services) and four activities (agriculture, industry, construction and services).</p>	<p>impact of one particular area of regulation.</p> <p>The average per employee cost differs from 7600€ in small enterprises to 2100€ in medium and 500€ in large enterprises. For 'independents' this number is around 4500€.</p> <p>The total costs for enterprises were estimated to 7.05 billion € equivalent to 2.9 % of GDP. The total costs for independents were estimated to 2.53 billion € equivalent to 1.0 % of GDP.</p>	<p>Good example of the use of a subjective methodology.</p> <p>In relation to the SCM the measurement also includes costs of technical equipment and necessary logistics to deal with administrative requirements.</p>
<p><u>Epinion Management and Analysis (2003) <i>Administrative byrder for erhvervslivet i Danmark, Aar 5 – 2003</i></u></p>	<p>To analyse the amount of AB for businesses in Denmark, the distribution of AB across business sizes and sectors, and the development over time of the burdens. Furthermore to analyse how the administrative set-up of businesses influences on the amount of AB.</p>	<p>The data is collected through interviews with 1059 enterprises of different sizes and from different sectors.</p>	<p>Percentage of burdens: Accounting: 56 %, production 15 %, salaries 8 %. The most important single burdens are the yearly account, VAT, getting familiar with new and changed rules, taxation.</p> <p>The amount of AB rises from 2000 to 2002, but is unchanged from 2002 to 2003. Reports also initiatives to reduce the AB.</p>	<p>An example of a subjective method that produces highly disaggregated results. Analyses development over time which is useful.</p> <p>Does not quantify the burdens in terms of time and money.</p>
<p><u>OECD (2003) <i>From Red Tape to Smart Tape</i></u></p>	<p>The report looks at commonly used tools and practices to simplify administrative regulations.</p>	<p>The report is based on seven case studies of administrative simplification in Australia, France, the Netherlands, Mexico, Korea, the United</p>	<p>Identifies tools and practices that can lead to new and more effective strategies to administrative simplification. These include one-stop shops,</p>	<p>Conceptualizing and overview. No specific methodology or measurement of AB as such.</p>

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		Kingdom, and the United States	simplification of permits and license procedures, time limits for decision-making, and methods to measure AB.	
<u>Danish Commerce and Companies Agency (2003) <i>International Study: Efforts to Reduce Administrative Burdens and Improve Business Regulation</i></u>	The efforts to improve the quality of business regulation, including the efforts to reduce AB for the business community, which result from government regulation. The main objective is to identify good practice and learn from the international experiences.	The report is based on qualitative data. The first phase of the study included research and telephone-based interviews in 20 countries. Phase two included more elaborate studies of 14 countries.	The study provides an overview of current efforts in countries inside and outside the EU. Provides many examples of good practice regarding institutions and instruments to reduce AB. These include training courses, assistance to impact analysis and monitoring of AB.	The report provides a good overview, but little or non value added regarding Methodology or comparative data on AB.
<u>OECD (2004) <i>Draft Indicator Paper: Product Market Regulation in OECD Countries: 1998 to 2003</i></u>	Describes changes in product market regulation in OECD countries from 1998 to the end of 2003. The OECD International Regulation Database was developed in 1998 to illustrate broad differences in product market policies in OECD countries.	A questionnaire sent to OECD member governments was the principal data source. The PMR Indicator System form a pyramid with 16 low-level indicators at the base and one overall indicator of product market regulation at the top. Indicators include the AB on 'start-ups'	Regarding barriers to entrepreneurship (regulatory and administrative capacity, AB of start-ups, and barriers to competition) the levels of such barriers have been reduced from 1998 to 2003. There are however still substantial differences between countries	Puts the issue of AB in a broader context of regulatory quality. Does not however provide with precise information on the exact information obligations causing AB for businesses.
<u>International working group on Administrative Burdens (2004): <i>The Standard Cost Model</i></u>	To answer three questions: What are AB? How do we measure AB? How do we identify the origin	Measures the costs imposed on business when complying with information obligations stemming from government regulation. The number and cost of these	No substantial conclusions as it is a methodological study. Has been applied by a number of countries including the Netherlands, Denmark, Sweden, Norway and Belgium.	Very useful regarding the measuring of AB. Very concrete and operational method. Is furthermore useful in a subsequent reduction process.

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Study	Objective / Focus	Basic methodology	Major findings	Comments / assessments
	of AB?	information obligations are calculated as $\sum (P * Q) = AB$. Information on P and Q is obtained through interviews, laws and registers.		
<p><u>The World Bank (2004): <i>Doing Business in 2004: Understanding Regulation</i></u></p> <p>The <i>Doing Business</i> project is a three year project and runs from 2004 to 2006.</p>	To measure the impact of regulations on economic outcome. The indicators are used to analyse economic outcomes and identify what reforms have worked, where, and why.	<p>The analysis is based on assessments of laws and regulations, with input from and verification by local experts who deal with practical situations of the type covered in the report.</p> <p><i>Doing Business in 2004</i> covers five aspects of a firm's life cycle: starting a business, hiring and firing workers, enforcing contracts, getting credit, and closing a business.</p>	<p>The study finds a link between regulatory output and economic outcome: Heavier regulation brings bad outcomes.</p> <p>One size can fit all – in the manner of business regulation.</p> <p>Regulation varies widely around the world. Rich countries regulate business in a consistent manner. Poor countries do not.</p>	Does not measure AB as such, but uses broader measures of regulatory costs such as procedures and days necessary to <i>e.g.</i> start a business.
<p><u>Commission of the European Communities (2004) <i>Indicators of Regulatory Quality</i></u></p>	To set up indicators of high quality regulations. The report classifies and discusses the advantages and limitations of indicators and indexes of regulatory quality.	The report classifies quality measures according to whether use/source is objective / subjective and distinguishes furthermore between <i>e.g.</i> complex / composite measures and simple measures.	Summarizes some countries' experiences in measuring AB. For example Sweden and Denmark's use of the SCM.	<p>Very thorough methodological analysis and literature review.</p> <p>Puts the issue of AB in a broader context of regulatory quality. However, no value added regarding concrete measurement and no actual measurement performed.</p>
<p><u>The World Bank (2005): <i>Doing Business in 2005: Removing Obstacles to Growth</i></u></p>	Updates the 2004 edition with measures of registering property and protecting investors.	Small changes have been made to improve every set of indicators.	Main findings: Businesses in poor countries face much larger regulatory burdens than those in rich countries. Heavy regulation and weak property	

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Study	Objective / Focus	Basic methodology	Major findings	Comments / assessments
			rights exclude the poor from doing business. The payoffs from reform appear large.	
<u>EIM & Ramböll (2005), International comparison: Measurements of administrative burdens related to VAT in the Netherlands, Denmark, Norway and Sweden</u>	To explore the comparability of different measurements using the SCM, to uncover cross country differences, to identify regulatory best practice and to develop the SCM further.	The SCM was used in all countries.	The SCM is a general framework that needs further development to be used in a comparative survey. The results were not initially comparable.	The study shows that despite some difficulties, comparative studies can be made on the basis of the SCM.