

## **ADMINISTRATIVE SIMPLIFICATION IN THE NETHERLANDS**

### **Main findings by the OECD and World Bank Group.**

**Presented by Josef Konvitz at the conference *Challenges of Cutting Red Tape*, sponsored by the Dutch Ministry of Finance, March 1, 2007, Rotterdam.**

#### **Slide 1: Title slide**

#### **Slide 2: Review by the OECD and the World Bank Group**

- The two organisations have carried out a review on the invitation of the Dutch government, represented by former minister of Finance, Mr. Gerrit Zalm.
- OECD and the World Bank Group have done the fact-finding in cooperation and have discussed findings and recommendations. This is a “first” in the field of regulatory reform.
- I would like to take the opportunity to thank the members of the team: Simeon Djankov, Peter Ladegaard, and Caralee McLiesh of the World Bank Group, and Flemming Olsen of the OECD.
- Due to differences in the working methods of the two organisations, we present separate reports – but we are aligned on the main conclusions even if there may be minor differences in where we put the emphasis.
- The World Bank Group has finalised its work and has presented its final report, which is available at this conference.
- The OECD will conduct a peer review of the draft report at the meeting of the Working Party on Regulatory Management and Reform in May this year.
- The report will be finalised and published after this meeting.

#### **Slide 3: Administrative simplification and broader regulatory reform**

- In 1997, the OECD presented its first comprehensive report on Regulatory Reform, including a conceptual framework for analysing and implementing regulatory reform.

- Regulation concerns the legal instruments through which governments intervene in the economy. It therefore combines two fundamental aspects of public welfare; rule of law, and conditions favourable to economic activities.
- OECD recommendations have been refined over the years – with a revised set of recommendations being issued in 2005 – but the core remains a call for policies, institutions and tools that can improve regulatory systems, and thereby the outcome of regulatory interventions by governments.
- The main issue is how regulation – aiming at achieving a broad variety of societal goals – can be more efficient, given growing volume and complexity of regulation and the responsibility of government for compliance and enforcement.
- We know we are dealing with a technical subject of political importance, or a political issue which requires mastery of technical details; either way, there are no simple answers.
- Burdens imposed on the private sector can be divided into three categories; administrative compliance costs; capital costs; and efficiency or indirect costs (ie. effect on the competition for and on markets, introduction of entry barriers etc.).

#### **Slide 4: Reduction of administrative burdens in NL – What did we find?**

- The review of the Netherlands has been focused on a part of the regulatory reform agenda – on the programme aiming at reducing the administrative compliance costs on companies.
- This has come to be known as the administrative burden and has been estimated to amount to 2-4% of GDP – or even more.
- Impressive as these figures are, they should not be interpreted to mean that the problem of administrative burdens is severe. The Netherlands is perhaps average in this respect.
- The Netherlands has been one of the frontrunners – if not to say the world leader – in this pursuit of improving the regulatory framework for businesses. Various programmes have been in place since the late 1980's, and quantitative targets for AB reduction have been formulated. But until 2003, the programmes were without significant effect.
- Our first and most important conclusion is that the Dutch programme for reduction of administrative burdens has been a success.
- We have sought to explain how this success has been achieved in order make these positive experiences available to other countries that want to reduce the administrative burdens.
- We have found, that the NL have been able to develop methods to measure the administrative burden; to formulate clear quantitative targets; to create the institutions and identify the tools that could drive the programme and present possible simplifications.

- There has been a strong political support for the programme within and around the Cabinet, which has made it possible to overcome bureaucratic inertia and resistance to change – factors that according to the textbooks on political economy of reform always will have to overcome, if a reform programme shall be sustained over time.
- We have also sought to answer the question of how the next phase of regulatory reform in the Netherlands can be undertaken – building on the strengths of the current phase but also expanding the programme into areas that are now receiving less attention.
- Let me first spend a few minutes on the main characteristics of what could be labelled “the Dutch Model”; the six parameters that we have found to be the main explanations of the remarkable success of the current phase of the programme.

#### **Slide 5: Measurement and quantitative targets**

- Firstly, the Dutch have measured the administrative burden in a way that makes it possible to trace the burdens back to their origin; individual laws and regulations.
- The method of measurement has become known as the Standard Cost Model (SCM). It starts from the legal texts where information obligations are identified.
- After this qualitative break down of legal reporting obligations on companies, a quantitative layer is added by what could be described as a modelling of the time consumption in companies complying with regulation. This is informed by interviews with real life companies, but we are not talking of a statistical method in the strict sense – so let’s not discuss size of samples today!
- Finally, the number of companies complying with the individual information obligations is put into the equation. Now we have the total burden on companies from each information obligation – which can be aggregated to the total burden from each regulation, from each ministry, and of the totality of business regulation in force.
- No one would claim that it is an easy task to undertake a burden assessment by use of the SCM method. It is costly and it involves a large number of people across the administration and from participating businesses.
- But it would seem to be worth the while; the assessment provides detailed qualitative and quantitative information on the legal provisions and their effect on companies. Moreover, that law drafters are forced to answer a series of questions that they – to be honest and realistic – would otherwise not be inclined to answer, let alone even ask: Who are we regulating? How many and how often? And how do the legal obligations affect the day-to-day routines of different types of companies?
- Asking these questions, and having to provide fairly good answers too, leads the civil service into a new way of thinking, which may be of significant importance to future regulatory quality. Being aware of secondary effects of regulation and being aware of the stakeholders’ points of view marks a cultural change in the way the administration functions – and a very desirable change, too! This is perhaps one of the stickiest problems in the regulatory field.

- The SCM method is widely acknowledged for its qualities and has been copied in a number of – mainly European – countries. The SCM community is constantly growing. Some 20 countries are using or preparing to use the method for either total or partial measurements of the administrative burden. Also the European Commission has decided to join the SCM community and use this tool to strengthen its impact assessment and simplification programmes.
- The methodology itself is not a political matter in the partisan sense, but should be agreed by all stakeholders.
- Measurement alone will not change the world. Knowledge is good, but it is action that counts. By establishing quantitative and time bound targets for reduction the Cabinet made a clear statement of what it wants to achieve and promised to deliver. The targets have been split among ministries – some having to deliver more than others – and divided into annual targets.
- This creates a system where progress can be monitored and where accountability is at the core.

#### **Slide 6: Institutional setup and political support**

- Having a vision and making clear statements of targets is not all. The programme has sustained through a number of meticulous steps, day after day, week after week, month after month, and year after year. Solutions will have to be found and resistance to be overcome.
- The Dutch Model is characterised by a clear and strong institutional setup, where a centrally placed inter ministerial unit (IPAL) ensures horizontal coordination. The team assists in performing measurements, in assessing simplification initiatives – effects as well as challenges and risks – and in providing data on progress.
- Add to this an independent watchdog (Actal) with a clear mandate to give advice to ministries and to make its views heard – by the Cabinet as well as by the Parliament – and you have a setup with strong coordination and a high degree of accountability. It is not easy for ministries or departments to neglect reducing administrative burdens in this institutional setting.
- Finally, the programme has enjoyed strong political support and has been linked to the budget cycle. This has been done by including the administrative burdens topic in the list of requirements for submitting contributions to the annual budget. Departments have to report on plans for and progress on reduction of administrative burdens at the same time and in the same format as they report on plans for spending and account for spending to Cabinet and Parliament.
- The link can also be made in discussions and negotiations between the Ministry of Finance and other ministries – also at the level of ministers.

#### **Slide 7: Where are the challenges?**

- Things went well for the AB reduction programme in its last phase, which is now formally concluded – even if many initiatives are yet to be implemented.
- There is much to learn for other countries wanting to reduce administrative burdens.

- A few words of caution may also be in place: Regulation may not yet be perfect in the Netherlands, and the Dutch Model may not be the ultimate system for ensuring regulatory quality.
- In our two reports, we identify four types of challenges for the administrative burden reduction programme. We recommend that these challenges be taken into account when the design for the next phase of the programme is decided upon, and we feel that adequate answers to these problems can be found and can lead to even better results.
- The **first challenge** lies within the definition of the programme. There is no mistake that what the last cabinet promised to do – and what has also been delivered – was to reduce the burden on businesses of complying with information obligations.
- But the design of the programme has left the benefit side of regulation out of the equation. There is not a systematic assessment of whether individual regulations or regulatory regimes are an expression of the right balance between the cost of regulation and the benefits obtained by regulation. Or – using the language of the Cabinet Agreement of the last Cabinet – the right balance between protection and dynamism.
- The AB reduction programme has sought improvements in the cost effectiveness of regulation – without changing the regulation. I will return to this in a moment.
- A focus on administrative burdens can give the misleading impression that the problem is severe in the Netherlands, which is in fact not the case.
- The **second challenge** to the programme is communication. It has been a surprise and perhaps even a disappointment for those involved in the Dutch operation that results do not seem to have been acknowledged or appreciated. The expectations of the business community seem not to have been met – or to have changed and increased in the time since the programme was started. Something went wrong in the communication with businesses and their organisations.
- This problem of communication and management of expectations will be examined in one of the workshops this afternoon, where the World Bank Group is also going to present some of its ideas for improving the link to the private sector when targeting the next phase of the programme and communication on intentions and results.
- The **third challenge** is to improve co-ordination between different programmes working in the same field or sharing the same objectives, and co-ordination between different layers of government (central level and municipalities). This is always a challenge, and there will always be explanations for poor co-ordination that are easier understood from the inside than from the outside. But improved co-ordination – however achieved – will lead to better results in more efficient ways and will also make communication – inwards as well as outwards – on intentions and results more straightforward.
- The **fourth and last challenge** that I will mention here is linked to the first. It is the concept of political neutrality which we have found to be central in the AB reduction programme.

## **Slide 8: Political neutrality**

- Political neutrality was instituted as a basic principle in the efforts to reduce administrative burdens in the Netherlands by the Slechte Committee, which reported to Cabinet in 1999. The Committee made a distinction between information obligations on the one hand and content obligations on the other hand. It recommended that efforts to reduce administrative burdens should focus solely on the former and leave the latter out of discussion.
- This would have the advantage of leaving the purpose of regulations unchallenged and to avoid being side-tracked in time consuming political discussion on proposals for simplifications.
- This effort to depoliticise cutting red tape can explain the broad political support for the programme, which surely makes the journey more smooth and predictable. We found this support remarkable when we started our investigations; it goes beyond Cabinet and Parliament as even organisations of civil society expresses support.
- But to put it bluntly, political neutrality can be another way to describe a programme which risks becoming a technocratic housekeeping exercise more than a reform process.
- To be fair – for it is of course easy to ask others to be courageous – I would like to stress that a programme of administrative simplification founded on the principle of political neutrality is consistent with the way the OECD describes this field. In our most recent report on the subject – Cutting Red Tape from December 2006 – we also make a distinction between administrative regulations and economic/social regulations.
- The point is not, then, that the Dutch way of making administrative simplification is not good. The reduction of this burden will free resources and stimulate initiative. But the total regulatory burden on businesses and the economy consists also of capital costs and indirect costs, and these may be of even larger importance. Administrative simplification is not the complete answer to the challenge of providing high quality regulation.

## **Slide 9: Narrow focus on administrative burdens is a good place to start**

- We can use this figure to illustrate how many current regulatory quality programmes are focused – perhaps especially in European countries. There is a very strong focus on the administrative burden of regulation. The focus is strongest on the business sector, but there is a development towards including – perhaps in parallel programmes as in the Netherlands – burdens on citizens. There is also a trend including the third element of the total administrative burden; the burden on government itself (RIG; Regulation Inside Government), especially in public services such as transport, health and education.
- Methods for measurement are being developed and a wide range of tools are being used, perhaps most notably use of new ICT tools that produce results while still respecting the principle of political neutrality.
- And results are achieved; regulation is improved and a cultural shift within administrations is underway.

### **Slide 10: Responsible regulation**

- We would, however, like to remind everyone of the greater picture: The administrative burden is only part of the story, and attention should ultimately be on the net welfare benefit of regulation.
- We have coined this broader approach to regulatory quality “responsible regulation”. Cost effectiveness is not enough, if the regulation is not fundamentally beneficial. A responsible regulator making responsible interventions in the economy and society should aim for transparent, effective and efficient regulation.
- This is not an effort to de-regulate by stealth. Regulatory reform is consistent with social and environmental protection. Indeed, efforts to regulate with fewer burdens are more likely to achieve higher levels of compliance, thereby contributing to a broad range of policy objectives.

### **Slide 11: Future directions**

- Our answer to the question of possible future directions for the Dutch programme on administrative simplification will be that we see a number of possibilities for both deepening and widening the programme.
- It will be a precondition that there is a clear indication on the overall societal goals that binds initiatives together. Reducing administrative burdens is a clear mission statement, and as the programme expands to other effects of regulation, a similarly clear mission statement should be offered.
- Responsible regulation and increased regulatory quality are possible answers to this question. This will indicate continuity as well as a broadening of scope compared to the previous phases.
- Reframing the programme could and should also entail improved co-ordination between different sub programmes of which several are already in existence.
- This will decrease overlap and duplication and allow clearer communication and better results.
- Co-ordination between ministries could be improved – and this is always recommendable – as could the co-ordination between central government and lower levels of government. Scarce resources in municipalities should not be diversified by a lack of co-ordination between programmes of different ministries, if these programmes are basically aiming at the same things.

### **Slide 12: Deepening**

- There is appetite for further reduction of administrative burdens in the Netherlands. Deepening the programme will mean that additional reductions are sought – adding to the 25% that are to be realised this year.
- We believe that sizeable burden reductions can still be reached by further ICT initiatives. E-Government initiatives hold promise of simplifying the communication between businesses and

authorities and could also lead to reductions in the cost of administration within government authorities.

- As part of the regulation leading to administrative burdens has its offspring in the European Union, further reductions should also be sought at this level, and there are promising signs of a widespread willingness for this.
- Regulation issued nationally is often administered at local level. Achieving further reductions may require an increased effort at this level – possibly supported and facilitated by central government.
- Achieving further reductions may also require a shift from only examining the information obligations in regulation to also including content obligations.
- This leads to the question of whether political neutrality can still be guaranteed. Under this principle, the simplification efforts are guided by a focus on the cost side of regulation and performed as a search for improved cost effectiveness.
- It is well established that there is a diminishing return on investment. Full protection from the risks and dangers of life is a noble ambition, but it can never be delivered by government. Coming close is the second best option – but how close should we seek to come and at what cost? As the cost increases, resources are diverted from other use.
- This implicitly leads to a prioritisation between societal goals. A more conscious and transparent way of doing this could be beneficial. But this requires a willingness and ability to include benefits of regulation in the assessment.

### **Slide 13: Widening**

- As already mentioned, we recommend that other effects of regulation than the administrative burden is given attention.
- Businesses do not only experience the burden of information transfers, but do also have to accept other costs such as capital investments, increased labour costs and restrictions on methods of production.
- Responsible companies accept that these costs are there for a reason – but lower costs would always be welcome. We believe that the methodology and institutional setup used for reducing administrative burdens could also be adapted to work for lower compliance costs.
- The same goes for the cost of regulation inside government. Both the cost of monitoring and enforcing compliance with regulation, and the cost of regulation of government, e.g. from central to local level. Measuring this burden and setting targets for reduction could lead to reduced costs and better use of taxpayer's money.

**Slide 14: Political economy – or never change a winning team**

- To conclude, we have been impressed by what we have seen. And we find the willingness to further expand the programme very encouraging, and also timely.
- What I have called ‘the Dutch Model’ is very innovative, and this innovative spirit combined with current momentum for reform should be used actively to achieve further results.
- A cultural change has been initiated and should be continued and embedded.
- Building on the strengths identified, addressing some of the weaknesses and carefully choosing how continue the effort will lead to results that will make us all want to come back in four years time to celebrate and get new inspiration.