POLICY BRIEF

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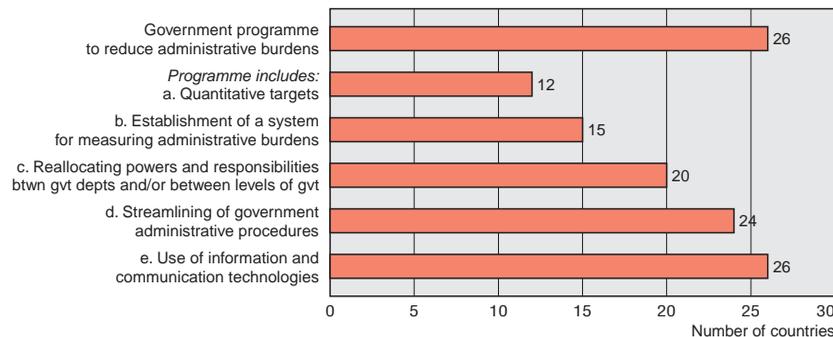**Where to contact us?**

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From Red Tape to Smart Tape: Administrative Simplification in OECD Countries

Introduction

One of the most common complaints raised by businesses and citizens in OECD countries is the amount and complexity of government formalities and paperwork. Enterprises and citizens spend much time and devote significant resources to activities such as filling out forms, applying for permits and licences, reporting business information, notifying changes etc. In many cases, practices have become extremely complex, or irrelevant and cumbersome, generating unnecessary regulatory burdens – so-called "red tape". The costs imposed on the economy as a whole are significant. When excessive in number and complexity, administrative regulations can impede innovation, create unnecessary barriers to trade, investment and economic efficiency, and even threaten the legitimacy of regulation and the rule of law.

In response to these challenges, governments have over the past two decades increasingly focussed on reviewing and simplifying red tape (see Figure 1). Initiatives to improve the efficiency of transactions with citizens and business have included removing obsolete or contradictory provisions, producing guidelines on administrative regulations, and introducing new ways to measure administrative regulations and reduce their impact. Increasingly, innovative thinking and skilful use of information technology (IT) are leading to new and more effective approaches to administrative regulation. In this respect, "smart tape" rather than "red tape" may soon be a more appropriate label for many governments' approach to administrative regulations.

Organisation for Economic Co-operation and Development

Figure 1. **Aspects of OECD countries' strategies to reduce administrative burdens (28 surveyed countries)**

Category	Number of countries
Government programme to reduce administrative burdens	26
Programme includes: a. Quantitative targets	12
b. Establishment of a system for measuring administrative burdens	15
c. Reallocating powers and responsibilities btwn gvt depts and/or between levels of gvt	20
d. Streamlining of government administrative procedures	24
e. Use of information and communication technologies	26

Source: PUMA/OECD (2000/2001), *Responses to the Survey on Regulatory Capacities in OECD Countries*, Paris.

The report *From Red Tape to Smart Tape: Administrative Simplification in OECD Countries*, reviews policies and tools used by OECD countries to simplify administrative regulations. It provides an overview of experiences and promising practices, which can inspire countries in the OECD and beyond to develop and implement policies to simplify their administrative procedures. The report is based on case studies of efforts to cut red tape in seven countries: Australia, France, the Netherlands, Mexico, Korea, the United Kingdom, and the United States. It also draws on country studies conducted as part of the OECD Programme on Regulatory Reform. ■

What are the main trends in cutting red tape?

The report identifies four broad trends in government efforts to cut red tape. Among the most important is a gradual shift from an approach focused on easing administrative burdens after the event to one that recognises the need to ensure that unnecessary or unreasonable burdens are not implemented in the first place.

A second trend is that, while simplification initiatives have generally been "bottom-up" in nature over the past years, they are being supplemented by "top-down" initiatives by governments and increasingly integrated into broader reform programmes. Typical bottom-up initiatives are business licence services. They often initially serve a specific need of a particular constituency, but tend to broaden their profile over time to cover additional information and transactions of value to the same or related constituencies. A prime example of "top-down" initiatives is the adoption of government Web portals and the merger of one-stop shops.

A third trend is that market-based economic policies are encouraging simplification. Administrative simplification policies are increasingly influenced by the idea that economic agents should be free to conduct their business unless compelling arguments can be made for the need to protect the public, replacing previous more restrictive approaches to reform.

Finally, IT is putting governments under increasing pressure to cut red tape. IT is not only the most important "physical" tool enabling governments to reduce the amount of paper-shuffling involved in dealing with the public and business; it also provides strong dynamics and pressure to reduce administrative burdens. The exposure on the Internet of bureaucratic, unclear or duplicative forms has in many cases triggered strong direct reac-

tions from users and media, urging the issuing authority to simplify the relevant process and subsequently the back-office procedures. Aware of this effect, groups within and outside government pushing for less red tape have used "shaming strategies" to pressure reluctant reformers to take action. Such pressures often go beyond aspirations for further "simplification" of regulations. They can also lead to substantial changes in regulations and how they are applied. ■

How to measure progress?

"Cutting red tape" is firmly on the political agenda in most OECD countries. Despite the high profile, however, governments seldom have a detailed understanding of the extent of the total administrative burden imposed on businesses, citizens and government itself, nor of the cost-efficiency of many of the tools used to simplify the administrative system.

In the absence of evidence-based appraisals, policies to simplify administration are often made in an information vacuum, where governments are unaware of the actual size of the burden and unable to measure progress and setbacks in reducing it. Measuring the existing administrative burden can be an important approach to foster political support for developing a policy to reduce it. Determining the size of the existing administrative burden can also form the basis for evaluating what policy initiatives are needed to improve and sustain long-lasting government efforts. The report describes how some governments have taken first steps to measure administrative burdens and to set objectives to reduce them over time. ■

One-stop shops are popular, but are they cost-efficient?

The report shows that "one-stop shops" can deliver substantial savings in time and costs for users by providing seamless, integrated and easily accessible points of contact. One-stop shops are

offices or Web sites where businesses and citizens can obtain all the information necessary to their query or can process different transactions (such as filling out an application). As well as reducing the administrative burden they can make it easier to reform the way governments do business by highlighting areas of overlap and/or duplication and redundancies.

More broadly, the expansion of one-stop shop initiatives raises a range of policy questions. Some of these are strategic, such as the range of services to be offered by a single one-stop shop, and what approach governments should take to their funding. There are also practical questions of how to equip one-stop shops with everything their customers need, and how one-stop shops interact and compete with each other. For example, how can the private sector be given opportunities to run one-stop shops, either by receiving funding for this activity from the government or by charging customers directly? Finally, there is an increasing demand for empirical evidence on the overall cost-efficiency of one-stop shops. One possible concern is that one-stop shops can, in some cases, simply shift the burden of red tape from one place to another without reducing it. Although most one-stop shops clearly reduce administrative burdens for the immediate target groups, little is known about the full economic impact for governments and taxpayers of establishing and maintaining them. ■

Is making it easier to do business a good place to start?

Business licensing requirements are widely believed to have the potential to cause serious economic harm. They raise real and perceived barriers to new start-ups, and thus detract from innovation. Licensing may also support anti-competitive behaviour, since incumbent firms have strong incentives to lobby regulators to use these arrangements to protect them from competition. The report demonstrates that the problem of ensuring compliance with licensing requirements is clearly of concern to both business and government. For some

Monitoring and measuring administrative burdens

OECD countries have introduced varying methods of measuring red tape and their success in reducing it. Examples from the US, the Netherlands and Norway give some idea of the scope of methods currently in use and their success.

The United States operates a highly developed, comprehensive and centrally enforced programme, the U.S. Paperwork Reduction Act (PRA), for analysing and clearing individual government information collection requirements. The PRA is intended to minimise the amount of paperwork the public is required to complete for federal agencies. It requires federal agencies to request approval from the Office of Management and Budget (OMB) before collecting information from the public. The OMB is responsible for evaluating such requests by weighing the practical utility of the information to the agency against the burden it imposes on the public. Agencies must publish their request to collect information in the Federal Register for a 60-day public comment period, and then submit the request to OMB for review. To obtain the OMB's approval, the agency needs to demonstrate that its proposal represents the most efficient way of obtaining information necessary for the proper performance of the agency's functions, that it does not duplicate information already being collected by the agency and that the agency will make practical use of the information collected. The agency must also certify that its proposal "reduces to the extent practicable and appropriate the burden" on respondents, including small business, local government, and other small entities.

An example of an advanced system for measuring administrative burdens is the MISTRAL methodology developed and employed in the Netherlands. MISTRAL works in three stages: first, all "data transfers" between a business and the authority are clearly identified (*e.g.*, a document, a telephone call, an inspection, etc.); second, the time involved in each "data transfer" and the level of expertise of the person performing the task are determined; third, the data are computed to produce estimates for the administrative burdens incurred by the information requirement under review. Burdens are quantified in time as well as in monetary terms. MISTRAL has been used to quantify the administrative compliance costs of a wide range of laws and regulations, including legislation concerning working conditions, the environment, annual accounts, corporate tax, and social premiums.

Norway also has a sophisticated regime for measuring and monitoring administrative burdens on enterprises. The Register of Reporting Obligations for Enterprises maintains a constantly updated overview of businesses' reporting obligations to central government. Public authorities are obliged by law to co-ordinate their reporting requests to businesses. The register also maintains an overview of permits required to operate within various businesses and industries, and provides information on how to obtain such permits. On a yearly basis, the register publishes estimates for the total reporting obligations imposed on business by central government. The Register is responsible for the methodology and for collecting burden estimates, whereas individual ministries and agencies are primarily responsible for measuring the actual burdens of a reporting obligation. Burdens are measured in time spent on filling out forms and preparatory work for the reporting obligation.

countries, corruption may also be a risk, as licensing may imply that civil servants have a high degree of discretionary power through their regulatory contact with business.

The report shows that authorities have adopted various ways of linking reform of licensing strate-

gies to general regulatory reform policies. Reforms of licensing strategies also vary in terms of their scope and focus, with some reducing the number of permits, while others simplify and streamline the application procedure. Reviews of licensing systems may be exhaustive, encompassing all permits and licences, or selective, concentrating on

specific types of permits. In the latter category, countries have focussed, for example, on reviews of the most frequently requested permits, business start-ups or permits relevant to a specific sector.

Because it is easily quantifiable, simplification of licensing procedures differs from many of the other tools considered in the report. Indeed, this may be one reason for the popularity of this initiative among many OECD countries. However, simple numerical indicators that report on licence reduction initiatives can be misleading. It is often said of licence or permit reduction programmes that they are only "window dressing" exercises that achieve little meaningful reform.

If such initiatives are to achieve good results, careful programme design is important. The adoption by governments of an explicit policy on minimising the burden of licences and permits also seems to be an important driver of improvement. Another key element is to establish clear accountability for achieving results through administrative or political oversight agencies. Well-designed and implemented licence reduction programmes can be an important first step in a regulatory reform programme, achieving highly visible results within short time frames. In this respect, they can help mobilise constituencies for reform.
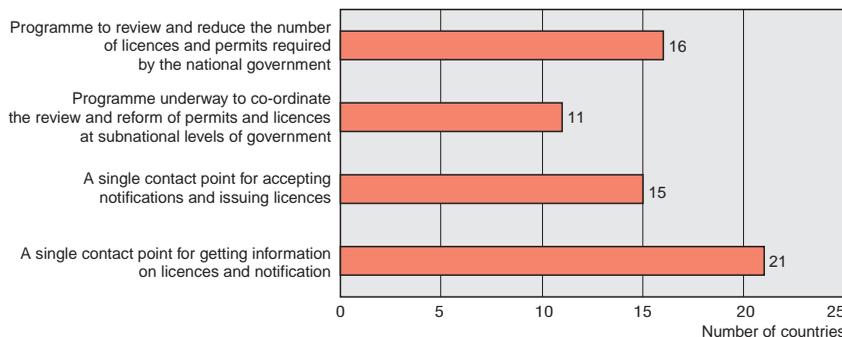
A further approach to driving reform is to establish data about the quality and performance of a country's permits and licensing procedures, to enable cross-country comparison. Adopting open and transparent procedures that allow opportunities for public input and evaluation is also likely to make licence simplification efforts more effective. ■

Can time limits for government decision-making reduce costs and improve accountability?

An important factor determining the extent of administrative burdens is the time taken to make a decision after an application is submitted. The weight of red tape is only partly determined by the time and effort involved in collecting the required information, filling out forms and dealing with administrators. Costs are also imposed by time delays and uncertainty in the provision of information or answers to requests. Setting time limits can lead to reduced costs for businesses and citizens, and can also make administrations more accountable and responsive.

Helpful approaches for encouraging compliance with time limits include monitoring and reporting performance, and applying sanctions for substantial under-performance. The use of the "silence is

Figure 2. **Strategies to simplify licensing procedures (28 surveyed countries)**

Strategy	Number of countries
Programme to review and reduce the number of licences and permits required by the national government	16
Programme underway to co-ordinate the review and reform of permits and licences at subnational levels of government	11
A single contact point for accepting notifications and issuing licences	15
A single contact point for getting information on licences and notification	21

Source: PUMA/OECD (2000/2001), *Responses to the Survey on Regulatory Capacities in OECD Countries*, Paris.

consent" or the "silence is denial" rule in many cases provides an effective assurance to applicants that they will obtain a timely resolution to their request. However time limits must reflect the need for decisions to be properly considered and competently made according to the subject matter and jurisdiction involved. ■

How to balance helping small businesses with other priorities?

OECD countries have generally adopted the view that small and medium-sized enterprises (SMEs) are of particular importance in the economy, and that burdensome red tape can undermine their competitiveness. The report describes three approaches used by governments to address these issues:

■ Provide special assistance and guidance to help SMEs meet their compliance requirements for administrative regulations.

■ Amend the administrative requirements themselves to make them less stringent for small businesses.

■ Ensure that new and amended regulatory requirements are, from the outset, sensitive to small business compliance issues. These include institutional approaches with government bodies dedicated to helping smaller firms and representing them within government. They also include procedurally oriented approaches requiring agencies to perform and prepare statements (so-called Regulatory Impact Assessments) for regulations affecting small business.

There is often a limited factual basis for the design of special SME support programmes; relatively limited research has been undertaken on the interface between small businesses and the regulatory process in most OECD countries. To answer some basic questions, more needs to be known about the actual burdens faced by small businesses and the effectiveness of the mechanisms in place to support them. The question is, to what extent

should the design of administrative regulations be more responsive to small business needs. Any responsiveness must be measured against what the outcome would have been without such a special effort. "Positive discrimination" in favour of SMEs may, for example, provide such businesses with incentives not to grow beyond thresholds qualifying for special support, or to break up strategically as soon as the threshold is passed. However, as the report shows, it is clear that the political will to continue, and to expand, these programmes is strong, while experience with their implementation is beginning to accumulate. ■

How to go about reducing red tape?

There is considerable variety in the organisational models which countries use to cut red tape. The report classifies such organisations in four categories:

■ "*Single Purpose Entities*" – promoting one particular aspect of simplification: for example, plain language, IT application, or reducing the administrative burden for particular groups or sectors;

■ "*Administrative Simplification Agencies*" – promoting administrative simplification "across the board" for businesses, citizens and the public sector, rather than focussing on one particular tool;

■ "*Regulatory Reform Agencies*" – integrating the promotion of administrative simplification policies in units or agencies responsible for broader regulatory quality management issues; and

■ "*External Committees*" - delegating the red tape-cutting effort to committees established by government and made up of a majority of non-governmental representatives such as academia and business organisations.

Single-purpose entities are widely used, most commonly with the remit to improve administrative regulations for businesses and SMEs in particular. Administrative Simplification Agencies seem to be

less widespread than single-purpose units. Under this approach administrative simplification is often seen as a relatively independent and high-priority policy area, not necessarily strongly linked to the broader regulatory reform agenda. The report shows that the institutional basis of both approaches provides visibility and drive, and may easily attract resources and expertise.

The success of an external advisory group will depend upon the degree to which the advice of the group receives political support from within government. Even the best and most practical reform concepts from such bodies will wither and die without the political will to carry them through. "Taskforces" are also often introduced in order to reduce the adversarial character that has shaped previous attempts at reform.

An important distinction also needs to be drawn between permanent and *ad hoc* bodies or committees. The key advantage of the use of a short-term taskforce is that it can provide a high-profile and focused response to a political priority. However, the *ad hoc* nature of a body can create difficulties in ensuring implementation and follow-up. A further problem can arise in cases where the administrative simplification effort becomes too personalised around a figurehead. ■

Can the "attractiveness" of cutting red tape distort the regulatory reform agenda?

From the perspective of regulatory reform authorities, pursuing administrative simplification policies can often represent a feasible and pragmatic approach. Integrating administrative simplification into government regulatory reform policies can bring important benefits. Cutting red tape is often seen as beneficial for all parties and suitable to foster a strong pro-reform constituency of citizens and businesses, in particular SMEs. In the absence of strong opposition from vested interests, administrative simplification is therefore often used as an important lever for other regulatory reforms. Tangible results can be delivered within relatively short time lines, nicely suiting the political cycle.

However, there are risks that administrative simplification policies might divert the energies of reformers from wider and more rigorous regulatory quality programmes. The report suggests that the best basis for developing and prioritising administrative simplification may occur where these efforts are integrated into a broader regulatory quality agenda. ■

Further information

For more information on this subject and publication, please contact Peter Ladegaard; email: peter.ladegaard@oecd.org ■

For further reading

■ **1995 Recommendation of the Council of the OECD on Improving the Quality of Government Regulation – The OECD Reference checklist for Regulatory Decision-Making** - **Available at: www.oecd.org/regref**

■ **The OECD Report on Regulatory Reform: Synthesis,** 1997
Available at: www.oecd.org/regref

■ **Regulatory Policies in OECD Countries – From Interventionism to Regulatory Governance,** 2002
ISBN: 92-64-19893-8, €40, 196p.

■ **From Red Tape to Smart Tape – Administrative Simplification in OECD Countries**, 2003
ISBN: 92-64-10067-9, €58, 284p.

■ **OECD Reviews of Regulatory Reform**
[**Canada** (2002)**, Czech Republic** (2001), **Denmark** (2000)**, Finland** (2003), **France** (2004)**, Germany** (2004), **Greece** (2001), **Hungary** (2000), **Italy** (2001), **Ireland** (2001), **Japan** (1999), **Korea** (2000), **Mexico** (1999), **The Netherlands** (1999), **Norway** (2003), **Poland** (2002), **Spain** (2000), **Turkey** (2002), **The United Kingdom** (2002), **The United States** (1999)]
are available through the OECD bookshop, www.oecd.org/bookshop

■ **Businesses' Views on Red Tape: Administrative and Regulatory Burdens on Small and Medium-Sized Enterprises**, 2001
ISBN: 92-64-18716-2, €25, 128p.

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