Administrative Simplification in MENA and OECD Countries

Standard Cost Model

Dutch approach and experiences

Budapest – feb -2012

Brian Huijts
Regulatory Reform Group
Contents

• What are AB?
• Why reduce AB?
• Who is causing AB?
• How to Calculate AB?
• What is needed for AB reduction programme?
• How to reduce AB?
1. What are Administrative Burdens (AB)?

Laws and regulations are necessary, but regulating a society and an economy imposes costs on the industry and citizens.

A part of these costs are the Administrative Burdens (AB)

<table>
<thead>
<tr>
<th>Financial costs</th>
<th>Compliance costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Taxes</td>
<td>1. Substansive compliance costs</td>
</tr>
<tr>
<td>2. Contributions</td>
<td>2. Administrative cost and burden</td>
</tr>
<tr>
<td>3. Dues and charges</td>
<td></td>
</tr>
<tr>
<td>4. Fines</td>
<td></td>
</tr>
</tbody>
</table>
1. What are Administrative Burdens (AB)?

AB are the costs for citizens and industry which result from complying with **Information Obligations** laid down in government regulations.

- **Administrative Activities** have to be carried out, such as collecting, processing, registering, archiving and delivering information to the government.

- carried out by citizens, employees of companies and hired professionals.

- Sometimes, **Out of Pocket Costs** have to be made.

- The sum of these costs are the Administrative Burdens and they are measured in Euro’s per year (or any other currency).
2. Why should we reduce AB?

AB reduction results for the industry:
- Increase in GDP
- Increased labour productivity
- Country and regions become more attractive to industry

AB reduction results for the government:
- Less paperwork and Institutional Administrative Burden for Gvmt
- Regulations of better quality
- Improved compliance
- Professional satisfaction and improved quality of work

Shared benefits:
- Improved transparency of regulations
- Better interfacing between Government and Industry / Citizens
3. Who is causing AB and for whom?

Issuing laws & regulations:
- European Comm.
- National Gvmt.
- Local Author.
- Towns

Institutional Burden for the Government
3. Who is causing AB and for whom?

- Issuing laws & regulations
  - Regulation
  - Statutory instrument
    - European Comm.
      - Directive
    - National Gvmt.
      - Act
    - Local Author.
  - Bye-law
  - Industry
  - Towns
    - Institutional Burden for the Government
  - Citizens
3. Who is causing AB and for whom?

- **AB for the Industry**
  - Industry
  - AB for the Industry

- **AB for Citizens**
  - Citizens

- **Institutional Burden for the Government**
  - AB for Citizens
  - Towns
    - Local Author.
    - National Gvmt.
    - European Comm.

**Issuing laws & regulations**
- European Comm.
- National Gvmt.
- Local Author.
4. How to calculate AB?

To calculate AB the Standard Cost Model (SCM) was developed in the Netherlands.

The SCM intents to provide:
- An understanding of the scale of the AB.
- Identify opportunities for burden reduction.
- Monitor future progress in reducing AB.
- Mechanisms to integrate better regulation.

The SCM is adopted in many countries and the European Union.
Better regulation, better business.

Administrative Simplification
Budapest - Feb 2012

Law or Regulation

Information Obligations

Administrative activities

P
Costs Administrative activities

Q
Number Adm. Activities per year

Administrative Burden (AB) = P x Q

Man-hours
Internal Tariff

Internal Costs

Man-hours
External Tariff

External Costs

Out of Pocket Costs

Number of companies
Yearly frequency of the license

Number of new license applications per year

I or

Internal Costs

External Costs

Man-hours

External Tariff

Out of Pocket Costs

Number of companies
Yearly frequency of the license

Number of new license applications per year

Administrative Burden (AB) = P x Q
4. How to calculate AB?

Dutch Top 10 AB

<table>
<thead>
<tr>
<th>Legislation</th>
<th>AB (in millions €) in the Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. VAT</td>
<td>1,500</td>
</tr>
<tr>
<td>2. Financial accounting</td>
<td>750</td>
</tr>
<tr>
<td>3. Income tax</td>
<td>500</td>
</tr>
<tr>
<td>4. Tax on wages/salaries</td>
<td>375</td>
</tr>
<tr>
<td>5. Employees' insurances</td>
<td>375</td>
</tr>
<tr>
<td>6. Excise duty (customs)</td>
<td>360</td>
</tr>
<tr>
<td>7. National health service act</td>
<td>190</td>
</tr>
<tr>
<td>8. Application environmental permit</td>
<td>130</td>
</tr>
<tr>
<td>9. Application building permit</td>
<td>85</td>
</tr>
<tr>
<td>10. Working conditions</td>
<td>81</td>
</tr>
<tr>
<td>Total</td>
<td>8,400</td>
</tr>
</tbody>
</table>
### 4. How to calculate AB?

Each administrative activity has attributes:

- Amount of man-hours (internal & external)
- Tariff (internal and external)
- Out of Pocket Costs
- Number of occurrences per year

<table>
<thead>
<tr>
<th>Law or Regulation</th>
<th>Information Obligations</th>
<th>Administrative Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment Protection Law</td>
<td>X.1 Environmental permit</td>
<td>X.1.1 Filling in forms</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X.1.2 Soil protection plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X.1.3 Sound investigation</td>
</tr>
<tr>
<td></td>
<td>X.2 CO₂ Emission Trade</td>
<td>X.2.1 Measure emissions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X.2.2 Annual Trade report</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X.2.3 Audit by accountant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>X.2.4 Registration of units</td>
</tr>
</tbody>
</table>
5. What is necessary for an AB reduction program?

The 5 necessary elements for an AB Reduction Program:

• **Content**
  – Inventory and analysis of origin and amount of AB
  – Possibilities for the reduction of AB

• **Process**
  – Communicating with the stakeholders: “owners” and industry
  – Reaching consensus and commitment

• **Instruments**
  – Standard Cost Model (SCM)

• **Organisation and planning**
  – Who is doing what with whom (tasks, responsibilities, authorities)
  – Time frame and allocation of resources

• **Motivation**
  – How to move the stakeholders: “owners” and the industry?
Better regulation, better business.

Administrative Simplification
Budapest - Feb 2012
Advantages of an AB reduction program?

SCM makes hidden costs transparent
SCM gives insight in size of the problem
SCM provides reduction possibilities

By means of:

- 25% nett reduction target
- Budgeting AB: creates scarcity
- Compensation required
- Interministerial framework
- Ministerial ‘satellites’
- Independent advisory board
- Involvement stakeholders
6. What AB can be reduced?

**Legislation:**
- Can information obligations be removed from the legislation or regulation?

**Information obligations:**
- Can regulatory information obligations be simplified?

**Administrative activities:**
- Can certain administrative activities be removed?
- **Can certain administrative activities be simplified?**
  - Reduction of the target group.
  - Reduction of frequency.
  - Reduction of time involved.
  - Reduction of costs.
Results AB reduction 2003-2011 in the Netherlands

In 2003: AB totalled 16 billion AB for the Dutch Business Community

2003-2007: achieved reduction 25% = 4 billion saved structurally

2007-2010: achieved reduction 22% = 3 billion

Remaining 9 billion will have been reduced with another 25% in 2015

Total cost: 6 million Euros, total savings (over) 7 billion Euros

‘Return on investment’ = 1166 % + political profit
Summary

AB result from information obligations:

- An obligation from the government to provide information.
- These can be found in a layers of legislation.
- Activities that will be carried out regardless of legislation are administrative costs and are not measured.

AB can be measured in four steps:

1. Identify the IO in the legislation.
2. Gather information from the government experts.
3. Gather information from the target group.
4. Calculate and report the results.
Better regulation, better business.

Administrative Simplification
Budapest - Feb 2012

Brian Huijts
Regulatory Reform Group
Ministry of Economic Affairs, Agriculture and Innovation

+31-70-379 62 81
B.B.W.Huijts@RR.nl