

**REDUCING ADMINISTRATIVE BURDEN
THE DUTCH EXPERIENCE SO FAR
JUNE 2004**

In 2003, the newly elected Dutch government agreed on reducing the administrative burden by a quarter at the end of its term in 2007. Its main aim is to eliminate inefficient and unnecessary administrative tasks and reporting requirements faced by the business community, and to replace them with more efficient and better-devised requirements. This frees up economic resources that may be allocated to more productive use. Moreover, it makes for a more conducive environment for setting up new businesses

The main traits of the actions undertaken so far are:

- In 2003, the administrative burden has been quantified. It amounted to 16.4 billion euros in 2002 and equates roughly 3.6% of GDP.
- In 2003 and 2004, the government and the business community identified legislation that could be improved. This led to a proposed package of 130 measures that was submitted to Parliament in early April 2004. The proposed measures are expected to shave off around 18% of the administrative burden. The proposed measures relating to the Financial Markets supervision even amount to a 30% reduction, e.g. by trimming the reporting requirements on commercial banks and making better use of existing data at the National Statistics Bureau.
- A second batch of possible measures are currently being identified and reviewed. Combined with the initial 130 measures, they should help reach the targeted one-quarter reduction in the total burden.
- The quantification effort carried out in 2003 has shown that more than half of the burden originates from EU legislation. Looking into rendering EU legislation more efficient has therefore been identified as a priority for the Dutch Presidency and it ties in with the joint initiative on better regulation subscribed to by the Luxembourg, Irish, Dutch, and UK Presidency.

Quantifying the administrative burden and its macro-economic impact

In order to gauge the burden stemming from administrative requirements, objective measurement is required. By use of the so called Standard Cost Model, each law or regulation is dissected into all information obligations businesses have to comply with. For each of the actions that are needed to fulfil the information obligation, both the time (Q) and cost (P) involved for an individual firm are estimated. These data are aggregated to arrive at the cost of each law or regulation for the economy as a whole.

The standard cost model allows for making a baseline calculation and for subsequent updates to gauge progress. For the Netherlands, the 2003 baseline calculation for the year 2002 yields a total volume of Dutch red tape for companies of 16.4 billion euros (3.6% of Dutch GDP) annually. The study showed that more than 40% (7 billion euros) of the administrative burden is a direct result of international (mainly Europe) regulations. The proportion resulting from national regulations is approximately the same. The remainder relates to legislation of an international nature, but implemented with some degree of discretion at the national level.

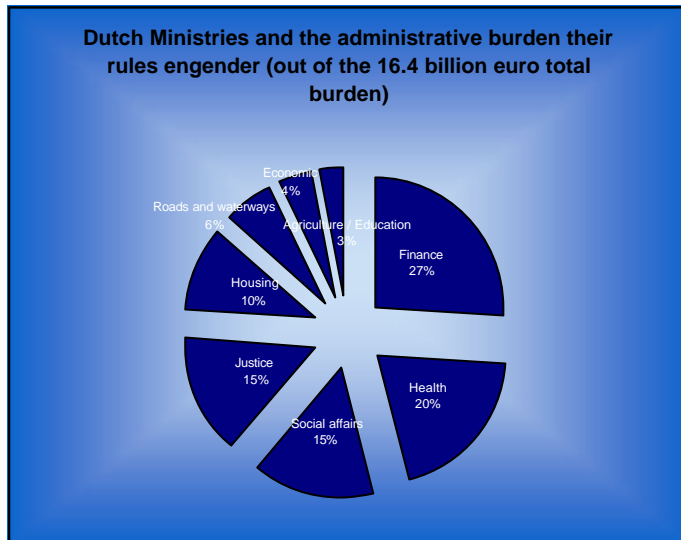
The Dutch Bureau for Policy Analysis (CPB) was commissioned to research the macro-economic effects of reducing administrative burden. Their calculations show that a red tape reduction of 25% results, in the long run, in a 1.5% GDP increase and a 1.7% rise in labour productivity.

National approach to lowering administrative burden

When it came to power, the government defined reducing administrative burden by one quarter to be one of its main aims. The ministries of Finance and Economic affairs are coordinating the national approach on behalf of the government. All ministries are assigned their own upper limit for AB (in two stages in 2004 and 2005). Every ministry is held responsible for an appropriate net reduction. Progress is monitored via the budgetary cycle: the annual Budget Memorandum and the Ministerial budgets (September), and the annual reports (May).

Based on each ministry's effort thus far, a first package of 130 measures has been identified and sent to Parliament (Cabinet letter "More leeway for businesses thanks to fewer burdens"). These measures are set to reduce red tape in the Dutch Economy by 3 billion euros. They involve withdrawing obsolete laws and rendering information requirements in others more efficient.

The corporate sector was closely involved in drawing up the plans. In its recent letter to Parliament, the government also discloses the 'current stock' and the origin of administrative burden. The extent of the administrative burdens per Ministry varies greatly. The Ministries of Finance, Health, Social Affairs and Employment and Justice appear to account for more than three-quarters of the total amount.



Currently, the government and the business community are looking into identifying a second batch of measures and proposals. The main focus now lies on the regulatory quality of EU legislation and its transposition at the member state level as well as on applying ICT solutions to enhance the efficiency of fulfilling information requirements.

A good example: the financial sector

Based on the national approach outlined above, the ministry of Finance and representatives from the financial sector have been working on proposals for lowering administrative burden. The baseline cost to the financial sector was calculated (by use of the SCM) to be approximately €700 million. The table below outlines the size and origin of that amount.

	Administrative costs	Origin: 100% International	Origin: International requirement; national discretion	Origin: 100% National
Business supervision	€398 million	53%	1%	46%
Prudential supervision	€161 million	0%	85%	15%
Integrity supervision	€64 million	10%	81%	9%
Balance of payments supervision	€75 million	0%	100%	0%
Total	€698 million	31%	39%	30%

The proposed measures will reduce this amount by approximately €210 million, which corresponds to a 30% reduction.

	Reduction 2003 - 2007	Reduction in % 2003 -2007
Business supervision	€94 million	24%
Prudential supervision	€49 million	30%
Integrity supervision	€28 million	44%
Balance of payments supervision	€38 million	51%
Total	€210 million	30%

Prime examples of large reduction proposals are:

	Reduction
Simplifying the required financial information leaflet	€56 million
Reducing number and frequency of financial reports to supervisors	€46 million
Reducing number of reporting investment companies	€12 million
Changing the definition of unusual transactions into suspect transactions	€21 million
Simplifying reporting systems for balance of payments supervision	€38 million

Administrative burden and the EU

The Spring meeting of the European Council asked the Commission to develop, in cooperation with the Council, a method for measuring the impact of red tape on the business community. In this regard, the experience of various European countries may feed into the preparatory work of the Commission:

- Norway, Sweden, Denmark and the Netherlands have started a joint project to apply the Standard Cost Model principles to VAT regulations. Recently Belgium decided to join the project as well. The UK, France, Hungary, Poland and the Czech Republic have indicated their interest in the SCM. The more countries take part, the easier it will become to learn from each other's experiences by benchmarking for example the way in which European regulations have been implemented.
- Proper insight into red tape, particularly with regard to the distribution across the various forms of legislation and regulations, is of course the first step towards tackling the problem. The work already carried out in the aforementioned countries shows that a number of issues will in particular call for attention, due to the large associated burden: VAT, rules on accounting and reporting, the Commodities regulation, Working Conditions regulation. The harmonisation of regulations relating to cross-border issues could be very important to the corporate sector.

The Commission will first present a paper on a possible European methodology for measuring administrative burden in the October ECOFIN Council. The methodology that the Commission develops at the request of the 2004 Spring Council, would provide a valuable addition for inclusion into the existing Regulatory Impact Assessments. These RIAs assess the effects of proposed regulations in advance and they are an important part of the Action Plan for Better Regulation that is discussed hereunder. The Netherlands and other EU Presidencies have asked for administrative burden to be quantified within these RIAs. This would enable decision-making on new regulation to take place while taking full account of the relevant issues relating to administrative burden.

Beside measurement, a number of other initiatives tie in well with the subject of reducing administrative burden:

- Implementing the Lisbon strategy. In June 2002, a better regulation initiative (also called action plan) is undertaken, in the context of the Lisbon Strategy, which aims to make Europe the most competitive and prosperous region. Simplifying and improving regulation may play a key role in achieving the Lisbon goals, making the European economy more dynamic. Proper attention should also be given in this respect to the subject of administrative burdens.
- Ireland, the Netherlands, Luxembourg and the United Kingdom jointly agreed on prioritising regulatory reform initiatives during their EU Presidencies in 2004 and 2005. During its Presidency, the Netherlands will pay close attention to the regulatory quality of EU legislation as well as to the transposition of EU legislation at member state level.
- An important aspect of the aforementioned Action plan concerns the simplification of regulation. Within the simplification programme the reduction of the administrative burdens caused by the existing stock of regulation is an important issue. To achieve this goal, the European Council will recommend to the Commission to review in its working programme for the year 2005 those regulations which are specifically burdensome. The Competitiveness Council takes the lead in this programme, especially by coordinating input of member states. In this context, the Irish and incoming Dutch Presidencies sent a letter to the Competitiveness Council colleagues, asking them to submit suggestions for priority simplification areas of EU legislation.

For more information about the Dutch national and European red tape approach, check out:

www.compliancecosts.com.