

The regulatory burden and administrative compliance costs for companies

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Executive summary

Over the past decades Sweden has fallen from a top ranking world-wide, in terms of economic performance, to a much lower position. The reasons for this are many, but one explanation put forward is a reluctant business climate, where it is expensive, difficult and not very encouraging to start or run a company.

One such difficulty is to comply with all regulations that are stipulated mainly by the government, but also by municipalities and the EU. The regulatory environment is comprehensive and lengthy. It is a burden for business both in terms of money and time, which diverts resources from productive investments and generally discourages entrepreneurship. Cumbersome regulation is clearly linked with lower productivity. According to OECD, administrative compliance costs represent 4 % of business wide GDP and are increasing.

In general SMEs have less capacity to handle all the legislation due to limited resources. The cost for a small company to comply with regulation is, as a consequence, nearly six times higher than for a medium sized or large company. For a company with 1 to 19 employees the cost is over 4.000 € per year per employee.

The service sector, which covers two thirds of the private economy, bears higher costs than the manufacturing sector.

The focus in this paper is on one part of the regulatory burden namely administrative costs. This entails all the formalities and paperwork that businesses have to deal with.

Of the three main areas of concern – employment, environment and tax regulation, compliance with tax regulation is the most costly.

Results from studies and surveys carry the message that the administrative burden in Sweden is more complex than in many other countries, particularly when comparing to the nearest neighbours.

Businesses in Sweden have through the employers' organisation, Swedish Enterprise, put forward a list of priorities for the government in order to reduce the regulatory burden. The government is aware of the problems, but the process is slow and action is needed now.

Also on an international level the issue of regulation is at the top of the agenda. Everyone involved at these different levels are aware that major changes have to be implemented in order to meet the ambitious goals set for 2010 in the Lisbon agenda.

Some countries often perform better than others regarding better regulation and reduction in compliance costs. Three countries – the Netherlands, UK and Denmark – have been in the forefront over the past few years. This survey describes the work in these countries on alleviating the administrative burden for companies.

If Europe is going to be the most competitive and dynamic knowledge based economy of the world, we need to improve the business climate since the economy is very dependent on innovative, creative and expanding companies.

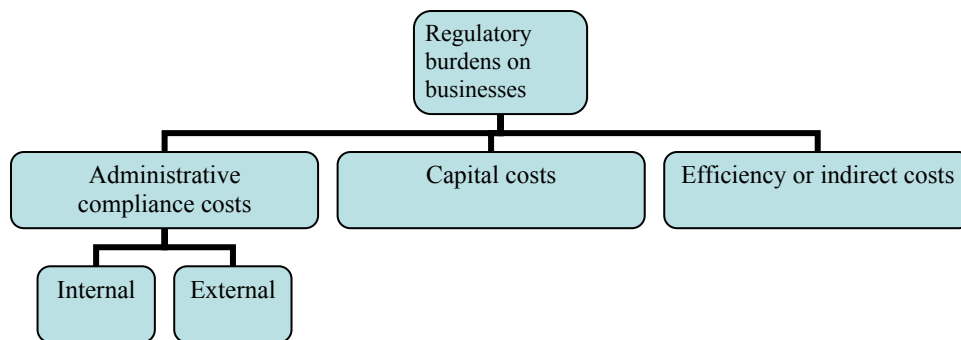
1 Introduction

Business faces extensive regulation. There are several kinds of regulations, the most common concern taxation, environment and employment. In order to comply with them, businesses have to deal with formalities and paperwork, which takes time and cost money. This cost is often referred to as administrative compliance cost. The definition includes all the time and resources spent by owners, managers, staff or hired experts to understand regulations, collect, plan, process, report, retain data and fill in forms required by governments. (OECD, 2001)

The administrative compliance cost is divided into internal and external costs. Internal cost is the cost that is incurred when staff within the organisation deal with the formalities and paperwork and external cost is incurred when outsourcing part of the paperwork to outside bodies i.e. experts.

Figure 1 shows an outline of the different costs that affect businesses.

Figure 1. Main categories of regulatory burdens



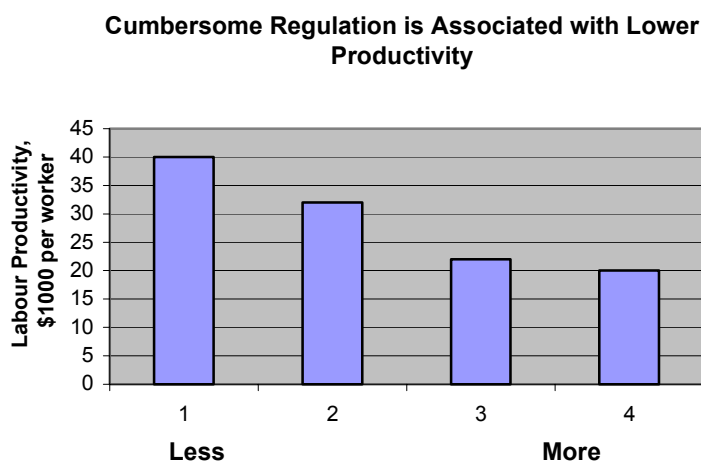
Source: Adapted from Jacobs, Scott, et al. (1997), in OECD (2001)

Regulations are said to be essential for a properly functioning society and economy. At their best, regulations create order and provide a basis for stable progress¹. At their worst, they impede innovation and create unnecessary barriers to trade, investment and economic efficiency.

¹ Regulation can be good or bad. To be 'good', regulation must not only bring net benefits to society, it must also be the most effective way of addressing an identified problem and impose the least possible burden on those regulated and on the broader community.

Figure 2 shows how heavy regulation is related to lower labour productivity. The more regulation that exists in a country the lower is the productivity.

Figure 2.



Source: *Doing Business, 2004*

At the Lisbon summit 2000, a goal was set for 2010. The goal is to achieve the most competitive and dynamic knowledge based economy of the world. In order to reach the goal many organisations and institutions agreed that a strategy for further coordinated action to simplify the regulatory environment, including the performance of public administration, at both national and community level, was necessary. In Sweden this had been pushed for since the early 1970s. Over-regulation of business is primarily a national problem, but EU also enforces laws and regulations, particularly through the *acquis communautaire*.

2 Some definitions

There are three main areas of concern for businesses regarding regulation and compliance costs. These are compliance with taxation rules, environmental standards and employment legislation. These broad areas include the following:

Employment regulations include hiring and firing employees, complying with health and safety standards, worker's rights, consulting with worker councils or unions, statistical reporting of employment-related data, administering employment-related or payroll taxes, social security and pensions, or mandatory employee benefits (e.g. maternity leave, sick leave etc.).

Environmental regulations include licences, planning and environmental impact assessments; complying with emission/discharge and hazardous substance requirements, process or product quality standards, pollution control and product regulations; environmental reporting and testing, record-keeping and day-to-day administrative requirements related to the environment, such as environmental levies and taxes; eco-labelling of products or processes.

Tax regulations include business profits tax/corporate income tax, other taxes on capital and assets (e.g. dividend tax, property tax), sales taxes (e.g. VAT, general sales taxes), and tax deduction requests such as PAYE income taxes). (OECD, 2001:43-44)

3 The regulatory environment in Sweden - enforced by the EU?

In Sweden most regulations come from the central government agencies, which consist of some 300 public bodies. The government has issued special codes of statutes. In these codes other agencies publish their regulatory instruments. Today there are 55 of these codes, which are used by a total of 93 agencies. In other words, this means that there are approximately 7,000 regulatory instruments, two-thirds are regulations and one-third recommendations. What this implies in terms of volume is estimated to approximately 40,000 pages, roughly half i.e. 20,000 pages affect businesses and the annual regulatory production is about 5,000 pages. According to a survey done by the Confederation of Swedish Enterprise it was shown that regulations had increased by 25% over the past 12 years. (Sterzel, 2001)

By way of comparison, it may be mentioned that the continuous series of statutes issued by Parliament and the Government in Sweden comprises around 2,000 pages a year. Thus, the aggregate business regulations correspond to ten times this volume. The regulations for businesses are though to be increasing by some 2-3 per cent a year. Only about a fifth of the regulations produced remain, while four fifths are amendments that come and go. This means a lack of stability in the system, which is a disadvantage for companies.

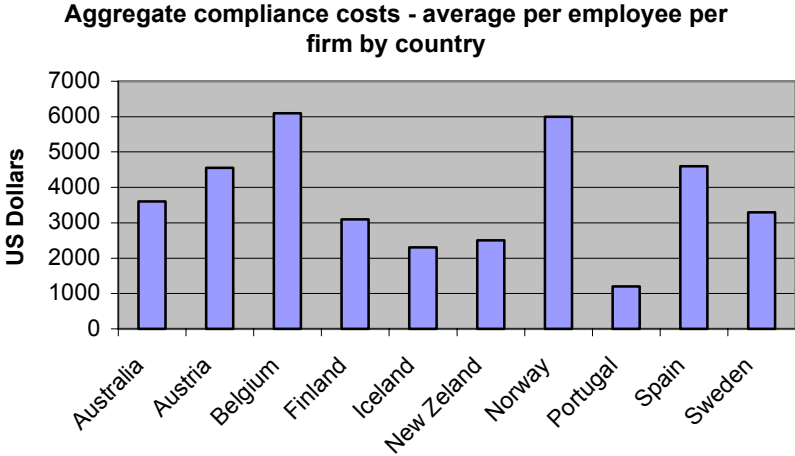
28 per cent of Swedish businesses perceive that the regulatory burden has increased over the past year and 65 per cent perceive the burden to be the same. (SIFO, Oct 2002).
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In Sweden there are approximately 75 authorities that collect different types of information from companies. In order to comply with all these regulations businesses have to fill in 1150 different papers. Roughly 73 million papers are handed in each year to the authorities. Overall the private sector has some 2 million employees, of which SMEs make up half. This implies that for each employee the company has to hand in 35 official papers to municipalities, state and authorities. According to research done by NNR (Näringslivets Nämnd för regelgranskning) the total burden cost Swedish enterprises on average 30 000 SEK per year and employee. For small companies the cost is higher, for example to comply with employment, environmental and tax regulations small enterprises, 1-19 employees pay 30 000 Skr and larger ones 50-500 employees pay 6000 SKr. (Svenskt Näringsliv, May 2003).

Today, when Sweden is a member of the EU, regulatory issues cannot be dealt with on a purely national basis. A negative image of the EU as a regulatory producer was and still is a key feature in the Swedish debate. Due to this negative attitude towards the EU a survey was carried out by SAF and the Swedish Agency for Public Management, to investigate the scope and impact of EU regulations. It emerged that 196 Swedish laws and ordinances implemented Community directives and 68 supplemented Community regulations. In other words, this means that 8,3% were linked to the EU. This was a considerably lower figure than had been expected. Hence, the figures normally quoted, that roughly 60% of the laws are produced by EU, is therefore more of a myth. Due to the extended use of the open-method of coordination more regulation can however be derived from the EU.

Figure 3 shows compliance cost per employee by country. Sweden is among the high cost countries. The graph pictures a fairly high compliance cost all over the European countries, which means that there is scope for more focus on this issue at EU level.

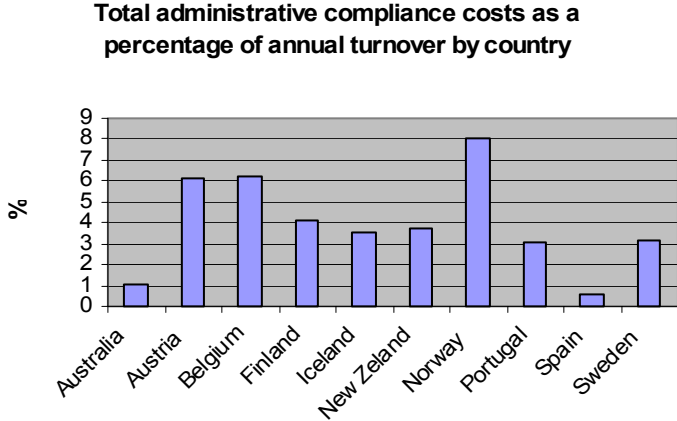
Figure 3.



Source: OECD, 2001

Figure 4 shows how some OECD countries are doing regarding compliance cost and annual turnover.

Figure 4.



Source: OECD, 2001

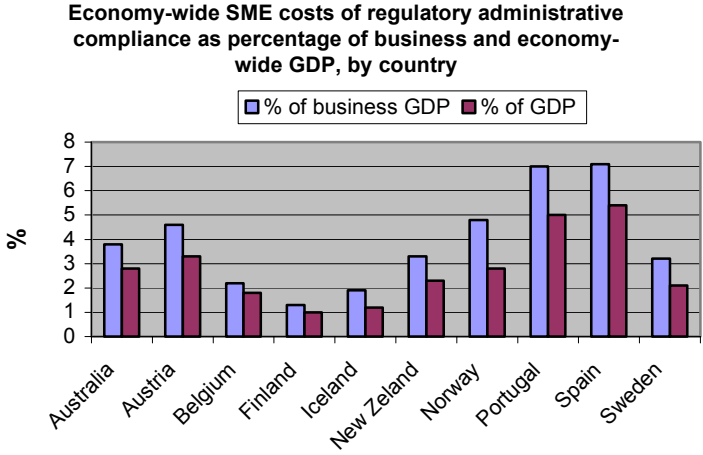
A Swedish survey by SAF also set out to study the content of the EU’s *acquis communautaire*. A rapid count showed that the Swedish version of the *acquis* comprised approximately 70,000 pages. These pages include nine different types of legal instruments, implying 10,000 legislations, of which several thousands were decisions related to specific cases. In the end one found that 1,200 were core legislation, over half were issued by the council and less than half was directives issued by the commission. Excluding agriculture, fisheries and external relations, the ‘core’ is made up of only 430 directives and 200 regulations.

In conclusion, fewer than 10 per cent of Swedish laws, ordinances and official regulatory instruments (statutes, regulations and general recommendations issued by agencies) are linked to the EU, and the EU connection usually relates only to details. Therefore EU membership constitutes no obstacles to Swedish deregulation work, especially not when excluding the agricultural sector.

A special problem is the so called non- regression clauses in EU directives. Non-regression clauses have been advanced as a means by which to preserve the status quo of current social protection in Member States. This often leads to so called gold plating when implemented, which is costly and cumbersome for business.

Figure 5 shows how many per cent of business GDP and economy-wide GDP that is paid in compliance costs. Sweden is doing relatively good when comparing with other OECD countries, but when comparing to countries that are more similar, like Finland, Iceland and Belgium, Sweden is doing badly.

Figure 5.



Source: OECD, 2001

4 Compliance cost

Red tape is a burden for business both in terms of money and time. There is a risk in time of profound and rapid change in economic and social conditions, that regulations and formalities can impede innovation or create unnecessary barriers to trade, investment, and economic efficiency. The cumulative effect of many regulations from multiple institutions is to slow down business responsiveness, divert resources away from productive investments, hamper entry into markets, reduce innovation and job creation, and generally discourage entrepreneurship. These effects are more costly in global markets, where business competitiveness can be affected by the efficiency of the domestic regulatory and administrative environment.

Regulation is not generally differentiated according to firm size, and therefore often disproportionately affects smaller firms.

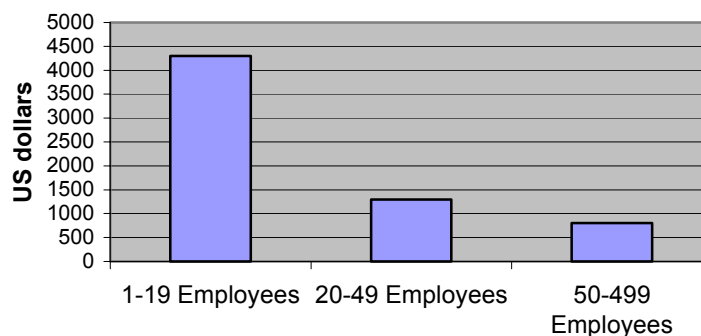
There are three primary reasons for disproportionate regulatory costs on smaller firms.

1. **The scale of cost.** Regulatory cost makes up a large proportion of overhead cost and net margin. At the firm level it often implies a direct reduction in profitability and retained earnings. This may affect investments and the return to shareholders.
2. **The nature of the compliance cost.** Administrative costs tend to be fixed, so that changes in sales have no effect on the costs in the short-run. In other words, if sales go down the cost is still the same meaning that the “break-even” point is raised.
3. **Diversion of entrepreneurial attention.** In small companies the owner, senior manager or director has to deal with the paperwork while they instead could focus attention on business management.

Figure 6 shows how the cost is spread between small, medium and large SMEs. The smallest businesses being the most affected.

Figure 6.

Annual administrative costs per employee by company size - average all countries



Source: OECD, 2001

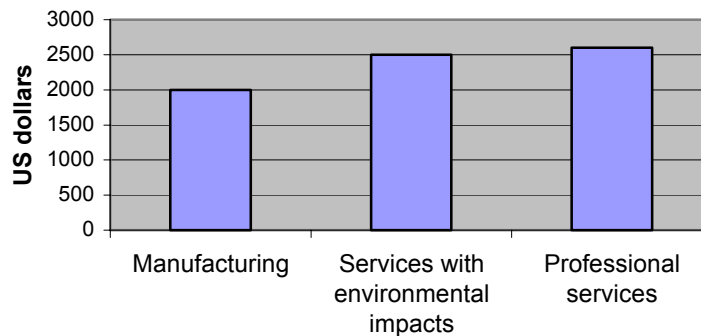
5 Results from surveys

The OECD has in a survey tried to identify and measure the effects of regulatory environments on the economy. The results stems from a multi-country business survey implemented in the late 1990s covering almost 8,000 SMEs in 11 OECD member countries. The survey focused on three key areas; tax, employment and environmental protection regulations. It measured enterprises' perceptions of the quality of the regulations and formalities, perceptions of the quality of the regulatory administration, and estimates of the administrative costs of complying with the regulations.

Figure 7 shows administrative compliance costs in different sectors, professional services pay more than the others.

Figure 7.

Annual administrative costs per employee by economic sector - average all countries



Source: OECD, 2001

Some of the main findings from the survey were:

- Administrative compliance costs represent around 4% of business Sector GDP across the countries surveyed.
- On average the SMEs declared that they spent 27,500 \$ each per year, complying with the administrative requirements of tax, employment and environmental regulations, or 4,100\$ per employee or 4% of the annual turnover of companies. Regulatory costs have an increasingly disproportionate impact on smaller businesses.
- Significant differences in total administrative compliance costs were reported between economic sectors. For example the service sector had a higher proportional cost per employee than the manufacturing sector.
- Companies used a mix of internal and external resources to comply with regulations. Approximately 44 per cent of these costs were internal to the company, and around 56 per cent were external, often in the form of external experts.
- The majority of the compliance costs were spent on tax (46%) and employment (35%). On average the cost for environmental compliance was (19%), but these costs were growing rapidly.
- A majority of companies reported that administrative costs increased over the survey period.

The survey also tried to estimate some indirect costs. For example, around 80% of SMEs believed that compliance with the employment regulations negatively impacted their business performance, particularly through:

- increased non-wage labour costs,
- created difficulties in making staff reductions
- created difficulties in hiring new staff.

The tax and employment regulations were criticised because they were not flexible enough to be implemented efficiently, they did not achieve their objectives, they were not easy to understand and changes were unpredictable. SMEs perceived that the degree of consultation during the process of developing new regulations was low. Almost 77% of companies believed that businesses were seldom or never consulted. Companies also found it difficult to get a response from the general public when they sought information.

Every economy has established a complex system of laws and institutions intended to protect the interests of workers and to guarantee a minimum standard of living for its population. The World Bank has computed an Employment Laws Index that covers three areas: flexibility of hiring, conditions of employment, and flexibility of firing².

² Flexibility of hiring covers the availability of part-time, fixed-term, and family members' contracts. Conditions of employment cover working time requirements, including mandatory minimum daily rest, maximum number of hours in a normal workweek, premium for overtime work, and restrictions on weekly holiday; mandatory payment for non-working days, which includes days of annual leave with pay and paid time off for holidays; and minimum wage legislation. Flexibility of firing covers workers' legal protections against dismissal, including the grounds for dismissal, procedures for dismissal (individual and collective), notice period, and severance payment.

Table 1 shows the hiring and firing indices. Sweden is performing relatively bad in terms of hiring, better on employment conditions and firing and fairly good on the employment index. The nearest neighbour Denmark is however doing much better than Sweden. It could therefore be worthwhile to analyse what Denmark has done and how. The acceding countries show high rates on employment conditions, implying that workers have much worse working conditions in those countries. This is something that is known, but that might change in the future when these countries have to implement EU legislation after the 1 of May 2004.

Table 1.

Hiring and Firing Indices				
Country	Flexibility of hiring	Conditions of employment	Flexibility of firing	Employment laws index
Sweden	56	39	31	42
Denmark	33	25	17	25
Germany	63	46	45	51
France	63	61	26	50
United Kingdom	33	42	9	28
Netherland	51	79	33	54
Italy	76	62	40	59
Spain	76	88	45	70
Polen	33	92	39	55
Czech Republic	17	63	27	36
Hungary	46	92	23	54
Latvia	58	87	42	62

* each index assigns values between 0 and 100, with higher values representing more rigid regulations.

Source: World Bank database, 2003

A study performed for the UK cabinet Office/DTI showed that when businesses were asked to state whether or not regulations are of benefit, a majority 63% of respondents acknowledged that government regulation did bring benefits. This study was based on a modest number of fifteen businesses from three diverse service and manufacturing activities³.

³ These were electronics and aluminium Recycling from manufacturing and Restaurants representing the service sector. Different regulation types implied different costs. For example employment regulations recorded a generally moderate level of costs, whereas environmental regulations incurred high costs particularly for the Aluminium Recyclers and VAT and Tax on profits displayed almost identical costs throughout the different sectors.

5.1 STARTING A BUSINESS

When an entrepreneur draws up a business plan and tries to get it underway, the first hurdle that needs to be overcome is the bureaucratic and legal procedures to incorporate and register the new firm.

Economies differ significantly in the way in which they regulate the entry of new businesses. Table 2 shows an outline for some European countries, from a survey conducted by the World Bank⁴, of the number of procedures there are to start a business, how long time it takes and the cost as a percentage of GNI per capita. There is a large difference between countries, but no consequent difference between EU-15 countries and the acceding countries. Denmark seems to be the country where it is easiest and cheapest to start a business, this is not surprising since the authorities have made an effort to reduce the administrative burden. Denmark is a country of good practice. Sweden is performing fairly well, but the length of time to set up a business could be reduced. In the acceding countries it takes relatively long time to start a business and the cost is fairly high.

Table 2.

Starting A Business			
Country	Number of procedures	Duration	Cost
Sweden	3	16	0,8
Denmark	4	4	0
Germany	9	45	5,9
France	9	49	1,4
United Kingdom	6	18	1
Netherlands	7	11	13,7
Italy	9	23	24,1
Spain	11	115	18,7
Polen	12	43	20,3
Czech Republic	10	88	11,7
Hungary	5	65	64,3
Latvia	7	11	14,7

* Duration is the number of days and cost is % of GNI per capita.

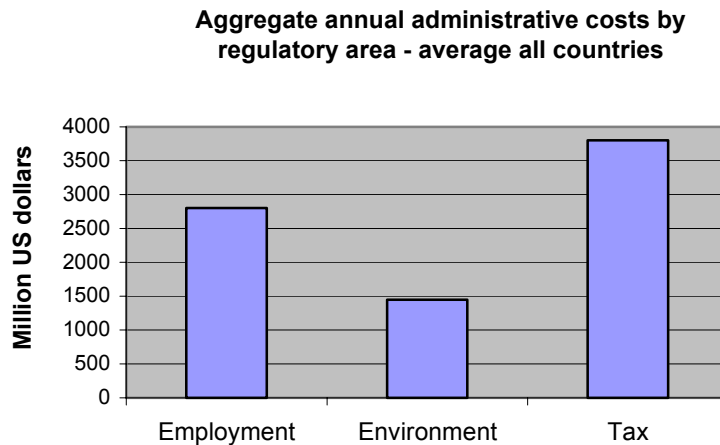
Source: World Bank database, 2003

⁴ Commercial or industrial firms with up to 50 employees and start-up capital of 10 times the economy's per-capita GNI (Gross National Income) were examined. It counted all procedures (defined as a legal requirement that involves a separate interaction between the firm and an outside entity - officials, notaries, etc) required to register a firm. Data also include screening procedures by a set of overseeing government entities, tax- and labour-related registration procedures, health and safety procedures, and environment-related procedures. (World Bank, 2003)

5.2 COMPLYING WITH EMPLOYMENT, TAXATION AND ENVIRONMENTAL REGULATION

Employment, Taxation and environmental legislation are three areas of much concern for businesses since they take a lot of time to comply with and cost money. Tax regulation seems to be the most costly to comply with according to the OECD study, see figure 8. Employment and environmental regulation is also costly, but not as high as taxation.

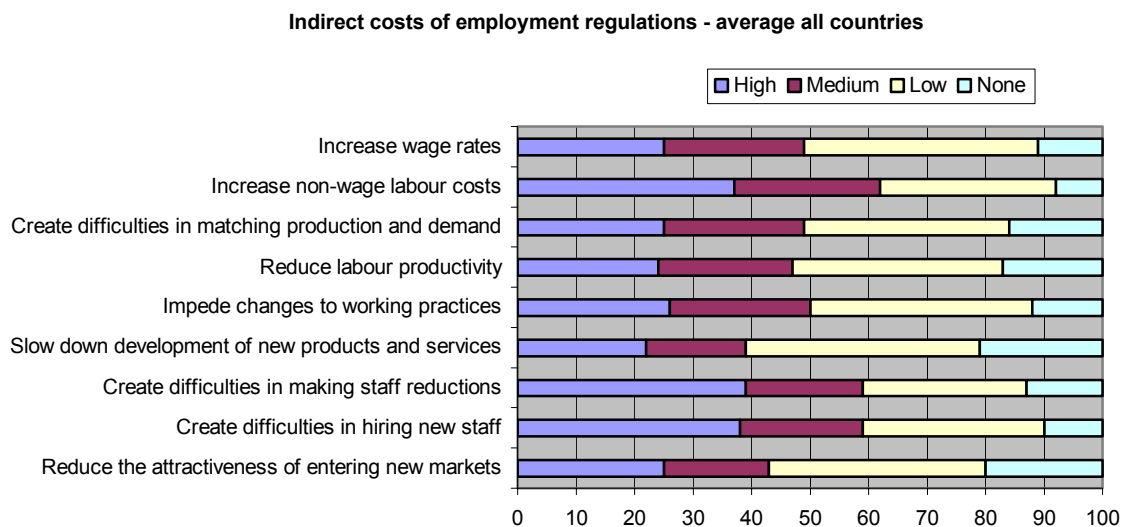
Figure 8.



Source: OECD, 2001

When SMEs were asked whether or not compliance with employment regulations impacted business and its performance negatively, the majority believed it does. The results of the questions are presented in figure 9. The effects were most marked in three areas; regulation increased non-wage labour costs; regulations created difficulties in making staff reductions; and difficulties in hiring new staff.

Figure 9.

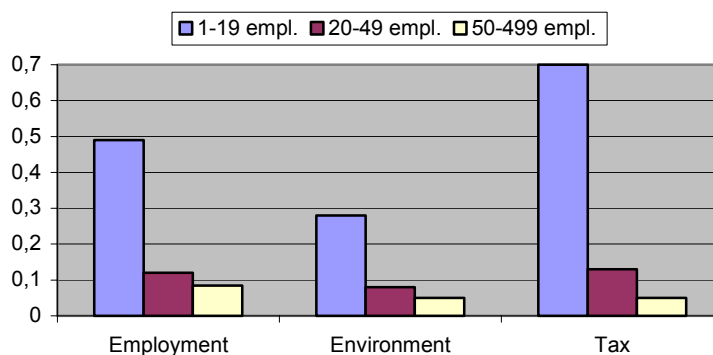


Source: OECD, 2001

On a relative basis the small companies have to deal much more often with authorities than the larger firms. The number of requests for permissions per employee is much higher among small companies, 1-19 employees. This interaction with authorities takes up a lot of time, something that small businesses have little of. Therefore it would be of utmost importance for small business if these procedures were reduced. The reduction should be focused on the time it takes to apply and get permission, but also the number of regulations for SMEs. Figure 10 outlines the different regulations according to firm size. As has already been mentioned tax regulation is the heaviest regulation to comply with, particularly for the smallest companies.

Figure 10.

Annual number of requests for permissions per employee per firm per regulatory area - average all countries



Source: OECD, 2001

6 What is being done, about the heavy burden of regulation, at EU and national level?

At national level in Sweden work is in progress. On the 5th of May 45 authorities are required to hand in suggestions for regulation simplifications to their respective ministry. Later, on the 1st of June all ministries will deliver the collected suggestions to the government. The government will then present a program on how the state will reduce the regulatory burden for businesses until 2006. Parallel to this NUTEK is in the process of making a model in order to measure the regulatory burden.

A first priority is to get the Swedish parliament to take a decision on reduced compliance costs for businesses with 25 per cent until 2010 and to implement a ceiling on regulations, which implies that no new burdens for businesses will be introduced without abolishing an old one. This should also encompass those rules that are part of EU's common legislation.

Priorities from businesses are:

- Shortening of the time it takes to handle environmental issues or legislation. The long handling process hit businesses hard, due to the effects on production, investments and competitiveness.
- To make accounting and bookkeeping regulations more simple through skipping parts of it for SMEs.
- Prolong the time for payments of VAT and other debts.
- Change or simplify the legislation regarding vacation and employment protection.

The European Commission together with the Council and the European Parliament, has set up a twofold objective: simplifying the body of Community law and reducing its volume. The aim is to reduce the volume by 25% in terms of the number of pages and/or the number of legislative acts by 2005. In order to achieve this, the following steps must be taken:

The institutions must jointly define a programme for simplifying the substance of community legislation. The commission must identify those sectors that are affected and inform the legislator. The Council and the European Parliament should change their working methods by creating, for instance, *ad hoc* bodies which have the responsibility to simplifying legislation. The experience with the SLIM programme has shown the need for such bodies as it is often difficult for those that have stipulated the legislation to simplify it subsequently. The Commission considers it essential that interinstitutional agreements on simplification be drawn up.

6.1 COUNTRY FOCUS

Some countries are performing better than others regarding better regulation and reductions in compliance costs. The countries that have been on the forefront over the past few years are Netherlands, United Kingdom and Denmark.

6.1.1 NETHERLANDS

In the Netherlands the alleviation of administrative burdens on enterprises is enforced on the political agenda as part of broader regulatory reform plans. The government has placed a lot of emphasis on the institutionalisation of administrative simplification. This has been done by setting up an independent body, ACTAL, whose main task is to propose initiatives for administrative simplification. In addition to this, a methodology to measure regulatory burden MISTRAL, has been developed. Mistral helps to maintain a cost-focused pragmatic approach to administrative simplification. With the help of these tools the Dutch government monitors and sets up targets for administrative simplifications.

Twice a year, all relevant ministerial departments, have to present their plans, programmes and results with regard to administrative simplification or reduction to the parliament. The advisory board, ACTAL, oversees the departmental implementation of this task. Proposed laws and regulations as well as reports on existing laws and regulations have to be submitted to the advisory board. ACTAL has the power to advise the cabinet and the council of state not to discuss a proposed law or regulation if there is no accompanying report on administrative burden.

ACTAL was designed to give strong backing to the government's objective of reducing the administrative burden by 25%. The ACTAL group is set up temporarily to achieve this goal, most likely within three years time. The aim is to achieve a cultural shift among legislators and regulators to encourage them to find ways to significantly cut back the regulatory burden for businesses. The group also tries to increase the understanding about the impacts of laws and regulations on enterprises.

ACTAL's review procedure regarding proposed laws and regulations are as follows:

- Proposed laws and regulations which have impact on the overall administrative burden on businesses are conveyed to ACTAL for review.
- ACTAL decides on the basis of a set of selection criteria which laws and regulations should be selected for a deeper analysis.
- ACTAL analyses the proposed law or regulation according to a set criteria.
- The results of the analysis are communicated to the minister or deputy minister or initiator, as a final judgement.

The most important creation related to the work of administrative burden was the set up of the Slechte committee. This committee put emphasis on economic significance of administrative burdens and also participated in creating a permanent focus on administrative burdens in a structural and cultural sense. The Slechte Committee built its approach to administrative reduction on two pillars, first the re-use of information already provided by enterprises to public authorities, and second, the use of IT mechanisms.

There are a number of technologically facilitated mechanisms put in place in order to reduce administrative burdens. One such mechanism that is under progress is the creation of one single web site where one can find questionnaires and forms of central, regional and local authorities that any enterprise has to fill out. A visit to the website will suffice to ascertain which information has to be supplied for which authority or for which kind of activity. The assembly can take place over internet.

In 2000 the government launched a pilot project aiming at standardising and facilitating electronic transfer of data from enterprises to government authorities. Once it is installed in the accounting models of the enterprise, data required by tax, administration, organisations in the social security sector or the statistical office can be imported directly without the involvement of any people. Cost reductions in five legislative fiscal areas are estimated to have totalled an amount of €680 million, which is approximately 50% of the legislative burden.

There are other projects like IDEA, which is an interchange of data project, RINIS which is an inter-sectoral reference system and One-stop shops, which are virtual service counters for enterprises.

6.1.2 UNITED KINGDOM

Reduction of the administrative burden in the UK has been on the agenda since the beginning of the 1980s. Over time this agenda has become more diverse and comprehensive ranging from better regulation, alternatives to administrative regulation, small business support and to e-government. An array of institutions have been set up among them are Regulatory Impact Unit and Better Regulation Task Force.

The Regulatory Impact Unit (RIU) is directed to work with government departments, agencies and regulatory bodies to find the “right” balance in regulation according to the “principles of good regulation”, to identify risks and support Better Regulation Task Force. In addition the Unit should remove regulatory burdens via measures to be implemented and improve the instruments of conducting regulatory impact assessments. The activities are not only targeted at national level, but also EU level and its rulemaking. The Better Regulation Task Force (BRTF) was established 1997 and the Public Sector Team was established 1999, both are located within RIU. BRTFs function is to act as an independent advisory group. Its members are people from businesses, citizen and consumer groups and the voluntary sector. BRTFs task is to advice the government on the effectiveness and credibility of regulatory measures by ensuring that they are necessary, fair and affordable. The group also has to make sure the regulations are simple to understand and administer. Another group set up is the Panel for Regulatory accountability, which was established by the prime Minister in 1999 to add political weight to the coordinating activity of the RIU and to provide political brokerage on contentious issues. The panel meets once a month and usually Ministers are there to report on their departments programmes of regulatory reform and to justify specific costly or controversial proposals.

There are some technologically driven mechanisms to streamline transactions and reduce cost. These are the priorities:

- Interconnection between departments to increase the immediacy of communication between ministers and officials.
- Intensive use of IT within the departments’ major processes. This includes social security benefits and contributions, income tax, VAT, driver and vehicle licensing among others.
- More imaginative use of IT in the direct interface between government and citizens or individual businesses.

The so called One-stop shops are also set up mainly by local authority service providers, one such example is the “info4local”, which is a virtual one-stop shop.

The UK has long tradition of promoting alternatives to state regulation as a means of securing public policy objectives. An early example is the development and application of self-regulating instruments, a leading example of self-regulation is the Advertising Standard Authority. The conservative government promoted the development of competition as an alternative to regulation where this was possible in key public utility services.

6.1.3 DENMARK

Regulatory reform has been on the agenda in Denmark for decades, but 1993 the reform programme was relaunched. Since then much has been achieved and today Denmark is among the leading OECD countries in important areas of reform. Innovative approaches have been adopted and new tools developed to achieve reform goals. The Danish approach has been to complement broad policy frameworks with decentralised initiatives at the ministerial level. A strength of the current reform programme is that it is firmly based on a balanced concept of regulatory quality encompassing both good regulation and less regulation where justified. The Danish regulatory reforms are also closely linked to a broad array of efforts to improve the efficiency and effectiveness of the public sector. Denmark's regulatory programme has important political and institutional backing.

A major part of the regulatory quality improvement programme has been devoted to areas of legislative simplification and particularly the reduction of administrative burden for SMEs. However, business representatives have been interviewed regarding the administrative burden and emphasise that the burden is of second order importance compared with regulation that constrains the development of new business opportunities.

Danish pragmatism seems to promote policy innovativeness. Denmark has adopted highly innovative approaches to regulatory reform. One example is the establishment of the Business Test Panel structure, which was unique at the inception. The system is a valuable mechanism for providing "early warning" of unexpectedly large burdens, but there are considerable doubts as to its ability to supply cost data of any precision. The Business Test Panels have now been taken up as a pilot project by the European Commission, with eight countries currently participating. The EU project has gone beyond the Danish model by extending the information gathering role of the panels to all compliance costs, rather than only administrative burdens.

There are also other promising initiatives in Denmark. Within the framework of the Business Test Panels, focus groups have been established to provide scrutiny of proposals with more narrowly focused effects. There is also significant work being undertaken to ensure that the potential of new electronic technologies for improved regulatory quality is fully exploited.

The annual report to the Parliament on the burden to businesses of legislation adopted during the past year, which draws on input from business representatives is also of major importance. This report is said to be unique, even though the USA has adopted an annual report on the costs and benefits of all subordinate regulation.⁵

⁵ For further information regarding specific initiatives and programmes in Denmark and some other OECD countries, see "From Red Tape to Smart Tape", OECD 2003.

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