

Inspections Reforms: Do Models Exist?

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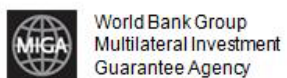


THE WORLD BANK

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December 2010

Investment Climate Advisory Services of the World Bank Group



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Web release: March 2011 (www.wbginvestmentclimate.org)

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The Investment Climate Advisory Services of the World Bank Group helps governments implement reforms to improve their business environments and encourage and retain investment, thus fostering competitive markets, growth, and job creation. Funding is provided by the World Bank Group (IFC, MIGA, and the World Bank) and over 15 donor partners working through the multidonor FIAS platform).

Acknowledgments

This paper was written by **Cesar Cordova-Novion**, Director, Jacobs and Associates, and **Tarik Sahovic**, Private Sector Development Specialist, the World Bank Group.

Valuable guidance and peer review comments were received from Eugeniu Osmochescu, Florentin Blanc, Katarzyna Bednarz, Sanda Liepina, Vladimir Kreacic, Wafa M. Aranki, and Wendy Werner.

Data gathering was done by Tarik Sahovic and Velimir Zivkovic. Special thanks for desktop formatting and review to Goran Stefatic.

Abstract

Analytical review of Inspections reforms in 25 countries worldwide, with analysis of models and features of reforms undertaken. This paper provides a detailed look at the organizational and operational aspects of inspection reform and provides the basis for a substantive analysis of principles, commonalities and processes thereof. This paper attempts to standardize various approaches to inspection reform in a common framework. The paper identifies several models of organizational inspection reform and groups them into five general models/categories, applying a matrix approach to link this to the operational aspects of inspection reform. The paper features a detailed account of different models of inspection reforms in selected countries.

TABLE OF CONTENTS

A. Summary	6
B. Introduction - The inspection function is vital to business and governance environments	6
C. Goals of inspection reforms	9
Improving the rule of law	10
Making inspection more cost effective	11
Improving the business environment.....	12
Comparative Table of inspection reform in Emerging Countries.....	13
D. Key features of recent inspection reforms	15
Reforming the inspection institutional framework	16
a) Setting up specific coordination bodies and mechanisms.....	16
b) Merging inspection bodies.....	17
Strengthening the legality of inspection acts and procedures.....	19
Reforms to inspection processes and procedures.....	20
a) Controlling the number, frequency and duration of inspection visit	21
b) Set clear standards, rights and obligations of inspectors and inspected entities	22
c) Setting up checklists and manuals - Inspection Registration Books (IRB)	23
d) Establishing risk-based inspections	24
Other process and procedural reforms	25
E. Do models for, and approaches to, reforming inspections exist?	27
F. Conclusion	29
G. Bibliography	31
H. ANNEX.....	32

A. Summary

This paper documents recent inspection reforms undertaken in different countries. Its main aim is to take stock of approaches launched over the past 15 years. The paper focuses on the institutional, organizational and operational changes introduced in each country and, in cases where information was available, outlines outcomes of the reforms. However, the available outcomes are not synthesized because of the lack of homogeneity and independent verification and because many of the reforms are too recent for evaluation.

The paper identifies three main driving elements for reform: Rule of Law, Cost Effectiveness and Improved Business environment. It further classifies inspections reforms into five categories (models/approaches) that are not mutually exclusive: 1) the reforming individual inspections approach; 2) creating a common legal framework for all inspections; 3) creating an overall coordinating body; 4) merging inspections, and 5) the centralized inspectorate model.

Finally, the paper provides 25 country briefs containing essential information on country inspection reforms (with bibliographies). Country reform briefs are grouped in the Annex.

B. Introduction - The inspection function is vital to business and governance

The main objectives of the paper are (a) to increase understanding of different approaches to the organization, operation and legal framework of inspection services, and (b) identify models of the inspection reform framework. It avoids a normative stance listing better or best approaches, though even in this early stage of the research the paper provides a comparative analysis of the 25 approaches to inspection reform undertaken so far, looking to help future reformers better frame their initiatives.

Government inspections are an essential component of a modern regulatory state. Given the current fiscal and budgetary constraints, regulation has become the single most important tool of public governance. Many aspects of business life are subject to government requirements and obligations and, hence, their monitoring and control. The central purpose of the inspection function is to ensure compliance with applicable legal provisions, regulations and governmental requirements. Moreover, the inspection function plays an important role by providing feedback on the impact and application of regulations; based on the lessons of actual field inspections,

policymakers (i.e. ministries) may obtain feedback on the feasibility of relevant legislation and can thereby justify legal reform.

In theory, the implementation of legal provisions should create incentives for those bound by them. In practice, compliance with legal provisions means refraining from any action or behaviour that would constitute a violation of those provisions. The primary responsibility for legal compliance lies with citizens and businesses themselves; inspection intervention is only a secondary control method.

Certainly inspections are critical in providing benefits to society, businesses and citizens. In most instances laws and regulations require enforcement incentives to be effective. Yet the inspection function is necessary for maintaining the 'rule of law'; governments must establish limitations that control, restrict or even prohibit certain types of conduct, products or services. If a government does not ensure supervision and control, widespread compliance with laws and legal provisions would be highly unlikely.

Inspections also have important costs. Besides the direct compliance costs borne by citizens and firms, inspections impose additional burdens and challenges for businesses. Poor quality inspections have deep indirect consequences for society and for law-abiding businesses. Activities that are illegal or part of the informal economy, and hence not subject to formal enforcement, create comparative advantages for those firms not complying with regulations or beyond the scope of inspections.

A well designed inspection system can create a 'win-win' solution. If the underlying legal requirements are well-targeted and well-designed, their inspection can create more benefits than costs by fostering accountability and due process and, thus, enhancing social welfare. However, if the inspection function is badly designed, it not only puts excessive burdens on the business sector and creates opportunities for corruption and abuse, but also leads to higher enforcement costs and, often, a failure to achieve policy objectives. The latter of course diminishes any trust citizens and businesses have for their governments, regulators and authorities.

In the complex legal and institutional environments that are characteristic of transition and developing countries, the inspection function is highly susceptible to failure, inefficiency and abuse. These countries often experience the worst of both worlds: low compliance and high costs for businesses and government. Recent studies of administrative barriers to investment, carried

out by the World Bank Group and other organizations in many countries, have found that government inspections for compliance with legal obligations can cause substantial problems for businesses, including disruption of business activities, risk of unpredictable sanctions and corruption.¹ Typically, such problems are not confined to single sectors: patterns are often seen across the whole of government, through departments and inspectorates responsible for taxes, safety, customs, sanitation, environment, consumer protection, and labour protection. A problem with inspections usually signals systemic weaknesses.

Failures of the inspection system are often related to poor regulatory quality. The unparalleled growth of laws and regulations across developed, emerging and developing countries in recent decades has usually been accompanied by the simultaneous development of inspections systems. Frequent and isolated legislative changes, coupled with uncertain regulatory policies, can create overlapping and unclear inspections provisions and mandates. At the same time, fragmented interventions – involving weak planning and implementation capacities, inadequate inter-ministerial coordination and poor dialogue with the business community – are often the result of poor coordination among inspections, a failure to standardize inspection procedures and an overall lack of planning.

Therefore, setting up (or reforming) an inspection system is rarely easy. Developing a high quality inspection system involves many skills – particularly political and managerial – and requires additional budgetary expenditures, at least in the short term. Inspection reform connects many processes and institutions. Indeed, inspections are one of the most difficult parts of the regulatory system to reform. Yet they are well worth doing, as well-orchestrated reform efforts can reduce the burden on businesses, enable greater exports and create jobs as well as provide 'rule of law' benefits for society at large. The challenges related to inspections reform are in large part the result of a lack of understanding of the task and a failure to adequately review and consider previous research.

Based on recent reforms, Part C analyzes the most common objectives governments have pursued when launching inspection reform. Part D looks more closely at three key dimensions: the institutional structures for the inspection function, the transparency and accountability

¹Jacobs and Cordova IFC Inspection Toolkit; Client and business surveys done by WBG

framework for their operation and internal changes to the ways and means of inspections. As the concluding section, Part E offers a comparative analysis, organizing the broad lessons of past years into different reform approaches and mapping out some promising ideas for further work.

This paper includes an inventory and diagnostic of recent inspection reforms in emerging and developing countries over the past 15 years, presented in the Annex. This constitutes the primary source of information of the paper.

C. Goals of inspection reforms

As shown in the inventory of inspection reforms in the Annex, countries have pursued different goals when launching inspection reforms. Overall, three main objectives dominate:

- Improving the transparency and accountability of the management of public services and encouraging the rule of law;
- Responding within limited enforcement budgets to new or newly heightened risks and threats, requiring better enforcement and public interventions; and
- Enhancing the business environment through a reduction of the burdens and costs supported by businesses before, during and after inspections.

In some cases countries have primarily pursued one of these goals. Often, however, they have tried to reach all objectives or more than one simultaneously. The latter has been in particular linked to an overall effort to converge to better practices or to adopt international standards as has been the case in Europe. One of the contributions of this paper to the existing wealth of knowledge is presenting reformers with a well-considered combination of approaches. These goals, of course, are not mutually exclusive. Governments have often shifted emphasis during reforms as different components are implemented. All of these initiatives have sought, in one way or another, to modify and transform the way governments relate to and influence the behaviour of citizens and businesses in an attempt to ensure compliance with laws and regulations. The social, political and economic context of a given country should generally provide the driving force for a government to embark on this type of complex reform, which often involves amending laws and administrative procedures.

However, constraints do typically limit the scope of reform. Constitutional, political, human and resource limitations have deep ramifications for the goals, design, management and implementation of reforms. They vary from administrative tradition and history to constitutional and legal imperatives and day-to-day priorities. The connection between inspection and corruption has furthermore meant that any serious reform effort tends to be opposed by powerful interest groups. Moreover, different external drivers operate when launching a reform, as is the case in many Southeast European countries aspiring to European Union accession or improving export capacities linked to new trade agreements. It should also be noted that inspection reform often requires setting up new information management systems as well as deep budgetary resources to compensate some reform ‘losers,’ such as old-style inspectors.

Improving the rule of law

Strengthening the rule of law has proved to be an important justification for launching recent inspection reforms. These efforts have targeted many aspects of the inspection function, from ensuring the legality of inspections to strengthening appeal mechanisms.

For instance, as part of their ‘good governance’ agenda, some governments have strived to anchor the inspection system into a more coherent framework, binding all inspection actions within the limits of clear administrative procedures and a proper play of the Executive and Judiciary branches. This has been central to motivating the governments of *Spain* and *Mexico*, which have strengthened inspections through new Administrative Procedure Laws or Inspection Laws (like *Ukraine*, *Tajikistan*, *Bosnia and Herzegovina (BiH)*, *Croatia*, and others). In such cases, the new law has clarified processes and procedures, framing and providing detailed regulations of the roles and responsibilities of the inspector and the inspected party and setting accountability mechanisms that frame the discretions of inspectors and inspection bodies.

Often urged by businesses, citizens, foreign investors and competitors (the last two via international negotiations), governments have engaged in the tough fight against corruption in order to raise trust in government and reduce political abuses. For instance, *Mexico*, together with a number of other countries, has reformed and deployed new mechanisms to control and monitor inspection at customs and border offices. *Romania*, together with other countries, has reviewed its internal procedures to ensure due process in the internal operations of inspection bodies. Through the general trend of establishing inspection checklists for on-site assessments,

such governments have also sought to reduce excessive discretion and reduce the opportunities for bribe requests. For instance, Inspection Registration Books (IRB) and other registries aim to ensure that inspectors record visits and follow-up actions and verify that duration and frequency norms are respected. Moreover, the fight against corruption and excessive discretion has also been used to protect property rights and ensure a level playing field, thus avoiding cases where particular businesses fall prey to political vendettas.

As part of a rule of law system, governments have also provided – or enhanced the efficiency, accessibility and speediness of – the right for inspected businesses to make low-cost complaints and appeals, while ensuring that this redress system is reliable, timely and clear for all parties. Further efforts to improve the rule of law include improving access to the regulatory compliance framework. In *Bosnia & Herzegovina* (Republika Srpska), for instance, an online database was established in 2007 detailing all licenses, permits and other formalities, as well as providing a specific inventory of inspection related measures.

Making inspection more cost effective

A less common goal driving inspection reform, particularly in developing and emerging countries, has been the explicit effort to ***better address safety and risk concerns***. Also, goals are often combined, which can lead to redoubled safety and further cost reductions. In such cases, government reformers give credence to the public demand for immediate attention and reform after a major show of vulnerability – particularly after a crisis, such as the recent Avian Flu or SARS episodes. For instance, inspection reform tends to refocus the inspection body toward more tangible targets and achievable goals by retooling enforcement at the source, developing intelligence and targeting a profiling system, as well as implementing early detection systems. A primary driver for this type of reform approach has been to focus inspections on real risks to health, safety, the environment or common assets.

In many cases these efforts have resulted in merging inspection functions and resources, especially for governments in small countries. Through such economies of scale, reformers are often able to maximize human and budgetary resources as well as inspectorate assets (e.g. laboratories, vehicles, information systems).

Furthermore, the goal of making inspections more efficient has driven some reformers to target crucial areas of international trade. For instance, local exporters and importers advocate the reform of customs and food and veterinary inspections, in order to create a more even ‘playing field’ with other countries. Without proper inspection, exports would never gain access to certain key markets.

Improving the business environment

The third and perhaps most important driver of recent inspection reform is improving the business environment. Numerous surveys, studies and anecdotes confirm that businesses tend to suffer from the existing inspection systems in the hands of myriad inspectors from different agencies and levels of government. This perception and actual evidence-based assessment is truer for micro, small and medium-sized enterprises (MSMEs). For these firms an inspection not only takes time and resources from the senior echelons of the firm, but also increases risks of future costs and vulnerability in front of state authorities.

With help from international organizations like the World Bank and USAID, governments often launch inspection reforms seeking to achieve rule of law or efficiency objectives, such as:

- The inspectorate informs target businesses by distributing government statements on regulatory requirements and inspection policy and processes.
- The inspection administrative procedure is clear and simple, for instance, the general inspection process is well-defined, as are the responsibilities of inspectorates – including objectives, services, rights, duties, and the rights/responsibilities of those inspected.
- Genuine effort is made to ensure that inspections by different public authorities at different levels of government (i.e. national, regional and sub-national) are compatible and avoid duplication and contradiction.
- Inspection outcomes are predictable, fair and conform to the application of rules and regulations applicable to all business, without preferential treatment. That is, the government informs targeted businesses of their degree of compliance, hence avoiding varying standards of compliance and the constant interpretations and misinterpretations of the regulatory policies and inspection procedures.

- The burden of successive and/or parallel inspections is coordinated carefully to avoid unnecessary costs for businesses – above and beyond those already assessed for complying with standards.
- Privacy and confidentiality implications during the inspection are respected, as an inspector often has access to otherwise confidential commercial practices and sensitive business know-how.
- Improved inspectors’ training, better use of checklists and more adequate supervision of inspectors during visits.

Though no country's inspection reform is the same as another's, a growing set of common experiences and initiatives provide a clearer view of what has been done and why.

This report looks at recent inspection reforms in over 25 developed and developing countries. However, the following table and the details assessed in the following sections focus mostly on the experiences of 17 emerging and developing countries that have implemented substantial inspection reforms.

Comparative Table of inspection reform in Emerging Countries

	Start date of reform	Reform achieved through Single Law	Inst'l reform done	Targeted Policy Area	Main approach	New inst. created	Limiting Frequency of inspections ²	Clarification Procedures	Checklist/Manual/IRBs*	Risk-based targeting	ICT solutions
Armenia	2000	Yes	Yes	Tax, Labour	Merger of inspections			Yes		No	
Belarus	2004			Fire, Sanitary, Labour	Coordination		Yes	Yes		Planned	
Bosnia	2006-2007	Yes	Yes	All inspections except Tax	Centralized/Unified Inspectorate	General Inspectorate	Yes	Yes	Yes	Planned	Yes
Croatia	1999-2008	Yes	Yes	Most of inspections	Centralized/Unified Inspectorate	General Inspectorate		Yes		Planned	Yes
Georgia	2001	Yes	Yes	Most inspectorates FSVP, Customs	Merger of inspections		Yes	Yes		Yes	
Jordan	2005			Labour, Environment, Food	Coordination			Yes	Yes	Yes	
Latvia	1999	Yes	Yes	Most inspectorates	Coordination	Inspectorate Coordination Council (ICC)		Yes	Yes	Yes	Yes

² Through limit on total duration of all inspections in a given year

	Start date of reform	Reform achieved through Single Law	Inst'l reform done	Targeted Policy Area	Main approach	New inst. created	Limiting Frequency of inspections	Clarification Procedures	Checklist/ Manual/ IRBs*	Risk-based targeting	ICT solutions
Moldova	2003	Yes		Most inspectorate	Coordination		Yes	Yes		Yes	
Mongolia	2002	Yes	Yes	Most inspectorates	Centralized/unified Inspectorate	Centralized/Unified Inspectorate		Yes		Planned	
Poland	2000-2009	Yes	Yes	Selected inspections	Coordination	General Trade Ins. merged with Office of Competition and Consumer Protection	Yes	Yes	Yes	Yes	Yes
Romania	2002	Yes	Yes	Most inspectorates	Centralized/Unified Inspectorate ³	National Control Authority (NCA)		Yes	Yes	Yes	
Russia	2001	Yes	Yes	Most inspectorates			Yes	Yes	Yes		
Slovenia	2002	Yes	Yes	Most inspectorates	Coordination	Inspection Council (2002)		Yes	Yes	Yes	
Tajikistan	2005	Yes		Most inspectorates			Yes	Yes	Yes	Yes	
Ukraine	2005	Yes		Most inspectorates tax	Coordination		Yes	Yes	Yes	Yes	
Uzbekistan	1996	Yes	Yes	Most inspectorates	Coordination	National Council for the Coordination of Activities Pursued by Control Agencies (NCCA)	Yes	To some extent – yes	Yes	Yes	

Source: See Annex

³ The Unified Inspectorate was abolished in 2005

D. Key features of recent inspection reforms

As always, the design and management of reforms are subject to a country's unique context and political situation. For a new government overcoming an economic or political crisis, the emergence of a champion can and will motivate, hasten, and drive reforms.

In addition, the best way to strengthen and increase the durability of any reform is strong support from a political constituency. Support from inspected parties – and in particular from the business sector – is crucial. For instance, important reforms of customs inspections in ***Georgia, Mexico, Mongolia, Poland*** and ***Romania***, and in the food and veterinary area in ***Georgia*** and ***Jordan***, were made possible in large part due to the strong support of exporters (and, to a lesser degree, importers) wishing to participate in the expanding possibilities and opportunities created by trade globalization.

A parallel driver of reform, as indicated above, has been the role played by key development donors, such as the World Bank Group and in particular the International Finance Corporation, as well as bilateral assistance from countries like the United Kingdom (Department for International Development) or Germany (Gesellschaft für Internationale Zusammenarbeit, as of January 1, 2011). The interests behind these drivers may be able to sway political support and define the scope of the reform (rule of law vs. lower inspection costs, for example) and the scale of the reform (one or all inspection bodies) as well as the depth or even type of instruments chosen to launch the reform (a programme vs. a framework law approved by Parliament). Reforms backed by powerful backers, including international donors, have often been launched by encompassing horizontal procedural laws affecting most or all inspection principles, design and procedures – as was the case in laws passed in ***Armenia*** (2000), ***Bosnia & Herzegovina*** (2005/2006), ***Georgia*** (2001), ***Poland*** (2004), ***Russia*** (2001), ***Tajikistan*** (2006), ***Ukraine*** (2007) and ***Uzbekistan*** (1998).

Furthermore, most reforms have been constructed gradually through a series of partial changes. New inspection policies *that have created new institutional architectures and retooled key administrative procedures* have often been preceded by more modest developments. ***Ukraine's*** 2007 Law was based on the reforms of fire and tax inspections, which had experimented with risk-based systems. Moreover, a law is often just the first step, with sustained

additional efforts required for harmonizing and reforming a number of bylaws and other regulations of individual policy areas or the authority of particular inspection bodies.

Given the heterogeneity of reforms and implementing approaches, three main dimensions are apparent and worth analyzing: exploring ways of redesigning the institutional framework; strengthening the transparency and accountability of inspectorates' undertakings (and their individual inspectors), and finally, the reform and re-engineering of key inspection procedures.

Reforming the inspection institutional framework

Governments have largely followed one of two distinct approaches to institutional reform: improving coordination and coherence before and after inspections through a special body, or the merging of inspectorate bodies.

a) Setting up specific coordination bodies and mechanisms

A typical institutional approach has been to improve the *coordination* and *coherence* of the inspection function across many, or all, inspection bodies. For instance, *Uzbekistan* established a coordination body, first through a 1996 Presidential Decree and then through a 1998 law: the Republican Inspectorate Coordination Council (RICC, also known as NCCA), tasked with improving inspection practices to enhance the business environment. The RICC was put in charge of inspection schedules for inspection bodies (tax inspection being deemed the most important) and then allowed to decide on the conduct of inspections for all government bodies. In practice, the RICC approves/disapproves inspection plans of specific inspectorates and receives annual reports of delivered inspections.

In 2000, *Latvia* established an Inspectorate Coordination Council, which, among other duties, promoted information sharing and operational collaboration between various inspectorates and piloted the organization and coordination of joint inspections.

Starting in 2002, the government of *Slovenia* created a new inter-ministerial coordination body, the Inception Council, tasked with leading improvements to coordination and cooperation between different inspectorates, organising joint inspections and promoting exchange of data and legal aid.

A slightly different model has been followed by **Moldova**. Instead of setting up a special coordination body, in 2003 the government decided to strengthen the coordination of all inspections by making the Ministry of Economy the *de facto* general coordinator of government controlling bodies at the national and regional levels.

Improving the coordination of national inspection bodies, particularly when dealing with regional and district inspections, is an approach also followed by **Belarus** since 2008.

b) Merging inspection bodies and creating a centralized inspectorate

A more radical approach to inspection reform has been the ***merging of inspection bodies and/or creating a centralized inspectorate***. Often through a major law, the intent has been to employ ‘shock therapy’ to merge several inspections under one inspectorate (sectoral approach) or establish a new institution by consolidating all or most inspection bodies in order to achieve economies of scale and scope, reduce the budgetary burden, improve the coordination and systematization of procedures and accelerate the diffusion of better practices. A specific practical goal has been the additional possibility of organizing joint inspections in a simpler and more effective way, thus minimizing the burden of inspections on businesses.

Under this premise, in 1997 the **Croatian** government established a new State Inspectorate through the *Law on the organization of Ministries and State Administrative organizations*, followed by a specific *Law on the State Inspectorate* in 1999. The State Inspectorate assumed the former responsibilities of 12 various inspectorates (labor and workers safety and protection; trade and market surveillance; power, mining and equipment) that had been split between four ministries. Croatia reduced the number of inspections bodies from about 25 to less than 20 (for the 12 inspections moved to the Central Inspectorate, 4 inspectorates were established; but subsequently few inspections have been added) and the number of inspection units (representing different branches and departments in Croatia) from 100 to 49. This significantly reduced the number of inspections needed for an effective level of compliance, and has permitted the sharing of the reform’s benefits between the state administration and the business community.

In 2005 the government of **Mongolia** also launched a far-reaching merger of a number of separate inspectorates, establishing the State Professional Inspections Agency (SPIA). Mongolia created a strong central inspectorate that combined all inspections at the national and local level.

In 2003, **Romania** launched a narrower effort to centralise its inspection function by consolidating a number of inspections under the National Control Authority. The aim was to streamline the inspection regime, reduce corruption, and ensure effective coordination and oversight of individual inspectorates. The NCA had the following institutions and activities under its jurisdiction: National Environment Guard, State Inspectorate for Construction, Financial Guard, and National Customs Inspection.⁴

In 2005-2006, Bosnia & Herzegovina also undertook a major inspectorate merging effort for both entities of the State: Republika Srpska and the BiH Federation. A General Inspectorate was created by both regional governments, consolidating 26 different types of inspections into about 10 inspections within the General Inspectorate and 4-5 within individual ministries. Those excluded from the General Inspectorate included fiscal inspections (tax and financial), culture inspections, and public administration inspections.

More partial merger approaches include **Estonia's** initiative to consolidate five regulatory and surveillance boards/inspectorates into two supervisory bodies under the Ministry of Economic Affairs and Communications. **Georgia** launched a similar effort in 2001, when the government merged several inspectorates into a new Food Safety, Veterinary and Plant (FSVP) inspection agency, lowering the number of inspectorates from 46 to 30.

Partial mergers involve a few inspectorates sharing specific policies. They are the rule more than the exception (across-the-board consolidation of bodies is rare). Often partial mergers follow risk-based rationale, for instance the merging of market inspection and consumer protection or the consolidation of food safety and veterinary inspections. For instance, **Poland** moved its trade inspectorate to the Office of Competition and Consumer Protection to improve market surveillance systems in adapting to the EU's single market.

⁴However, a new government partially devolved some inspectorate functions in 2005.

Strengthening the legality of inspection acts and procedures

A second reform agenda is the improvement of the legality of the inspection function. Initiatives falling under this agenda can have varying objectives. For instance, many countries have made efforts to clarify the mandates of inspection bodies and the work of inspectors. This is the case of the *Armenian Law on Organizing and Carrying Out Inspections (LOCI)* of 2000, which limited the misuse of follow-up inspections, established stricter rules, precise definitions and a requirement that inspectors stipulate the reasons for the visit. The law also underlined the basic principle that all inspection actions should avoid hindering on-going business operations.

Other countries, like *BiH*, have focused on grounding the inspection function in new principles, such as stimulating teamwork, increasing inspections' efficiency, improving public relations, and establishing clear procedures focused on prevention and correction rather than repression.

Some countries have explored new ways to enlist the private sector to foster compliance and complement inspections. This has been the case with *Mexico's* environmental and custom inspection reforms, which expanded the use of third party certification bodies to complement official inspection and reduce the costs of enforcement. These reforms increased inspections' effectiveness and made the private sector pay for this crucial public service at competitive prices under a scheme based on technical standards accreditations.

Still other countries have sought to strengthen the legality of inspection activities. In particular, governments and inspection bodies have devoted effort and resources to instilling transparency and accountability for inspectors' actions by reforming inspection bodies' internal and external procedures. For instance, a key area of reform has been the clarification of the rights and obligations of inspectors and inspected entities during the inspection visit, for instance (see below).

Other areas of reform have included the reform of appeals and dispute settlement systems, like those set up by the 2000 *Armenian Law on Organising and Carrying out Inspections (LOCI)* and *Law on Tax Service*. In *Latvia*, the Administrative Court has rapidly improved the protection of due process rights since 2004.

Establishing an arm's length relationship between the adjudicating bodies (line ministries and their subordinate entities) and issuing licenses from the entities in charge of inspecting and sanctioning those licenses has also reduced abuses, as in *Georgia* and *Croatia*.

Other countries have worked on the 'pre-inspection' phase by improving access to, and the work of, appeal systems and court procedures. For instance, *Georgia's* 2001 *Law on Entrepreneurial Activity* instituted that court approval was required for all inspections. *BiH's* 2005 reforms established the need for prior approval from the Director-General of the Inspectorate for all inspections.

Complementing this accountability framework, some governments have sped up the frequency and thoroughness of the external and internal auditing of inspectorates. For instance, in *Latvia* seven inspectorates have introduced internal audit divisions and nine others remain under the auditing authority of their respective ministries. Increasing accountability has been linked, in some cases, to more efficient record keeping systems. *Latvia* has introduced a system of "report cards" in order to evaluate the progress of reform for each of the different inspection bodies. A similar system has been introduced in *BiH*, where a detailed log of activities is established to monitor the work of inspectors.

Finally, transparency and efficiency have been fostered through the granting of greater autonomy and, in some cases, like Croatia, near-independence, to inspection bodies. For example, the *Croatian* 1999 *State Inspectorate Law* ensured the technical independence of inspectors by requiring that the whole government, upon the proposal of the prime minister, officially designate the chief inspector of the State Inspectorate.

Reforms to inspection processes and procedures

A third key area of reform has concentrated on *clarifying, re-engineering and improving the effectiveness, efficiency and transparency of the targeting criteria and actual undertaking of inspections*.

Such efforts are often supported with the publication of a handbook detailing the procedural steps required to select, undertake, and report the results of an inspection. Crucially, these procedural reforms have focused on changing the way basic inspection visits are

undertaken and include re-engineering all steps from the selection of the firm to better risk analysis and improved conduct of inspectors. Four key areas of improvements are worth noting:

a) *Controlling the number, frequency and duration of inspection visits*

Businesses often think inspectors visit their firm too often and for too long. Consequently, many reforms have tried to reduce the number and frequency of visits as well as their length. In **Belarus** unplanned tax inspections are permitted in only seven of the 107 district inspectorates. The frequency of inspections has also been regulated depending on the nature of the inspection, while duration has also been limited.

Some countries have set limits on the number of inspections to which a single firm can be subjected. For example, since 2001 many inspectorates in **Georgia** cannot inspect the same business twice in the same year for the same licenses and permits. A similar rule has existed in **BiH** since 2005.

Other countries have limited the maximum number of days an inspection can last. In **Armenia**, the duration of an inspection visit cannot exceed 15 days, while in **Poland** SMEs can be inspected for a maximum of four weeks a year with each inspection lasting no longer than 12 working days for microenterprises and 48 working days for large enterprises. Polish law also establishes limits on the duration and frequency of inspections per calendar year (except with specific authorisation). **Ukraine** has also set clear limits on the duration and frequency of inspection visits.

The duration and number of visits can be dramatically reduced through better coordination between inspectorates. Some countries like **Moldova** have introduced 'joint/complex inspections' and 'joint selection and scheduling of firms.' These guidelines establish clear exception criteria developed in coordination with the Ministry of Economy, which can exempt certain firms from excessive inspection.

In **Uzbekistan** the government has introduced "joint inspections" to reduce the frequency of inspections. A joint inspection is an inspection carried out simultaneously by two or more inspection bodies. Through the work of the country's Coordination Council, all planned inspections have been transformed into joint inspections, whereby the council approves the visit

and different inspection bodies visit a given enterprise at the same time and not more than once per year. Such joint inspections cannot last longer than 30 days.

Lastly, some countries have moved to the extreme limit of this strategy: declaring total inspections moratoria. For instance, in 2009, *Tajikistan* declared a two-year moratorium on inspections of SMEs. A moratorium can provide needed relief to the business sector and is often welcomed by inspectors, who in most cases continue to be paid for little or no work. However, if such moratoria are not accompanied by a transformation of the inspectorates or the inspection system, they can rapidly corrode the ‘rule of law’ and reduce the benefits of a sound regulatory regime.

b) Set clear standards, rights and obligations of inspectors and inspected entities

A second type of reform of inspection procedures has been aimed at reducing vague and confusing regulations that permit excessive discretion from inspectors, and setting more precise standards that help firms comply.

Some of these reforms have consisted of simple actions like those in *BiH* and *Mexico*, where governments introduced official identification cards and official inspection orders for inspectors to avoid ‘pirate inspectors’ preying on businesses.

Other reforms have consisted of re-defining the rights and obligations of inspectors and those being inspected with more precision, partly through a Code of Conduct. Such codes contain a series of provisions governing the way inspections are carried out. For instance, they have clarified not only the different administrative procedures, but also framed the expected behaviour of inspectors during a visit. For example, *Armenia* developed the Code of Conduct for Tax Inspection and *Romania* developed the Code of Conduct and a Guide for Controllers for Tax inspection and Customs. Similarly, the *Uzbek* government approved a general Code of Conduct in 2004 indicating the rights and obligations of inspectors and their specific functions and outlining the rights and obligations of entrepreneurs during on-site inspections.

Beyond and alongside ‘soft measures’ like codes of conduct, which can lack strong sanctioning mechanisms, some governments have instructed all inspectorates to adopt binding standardization through internal rules clarifying all relevant procedures, distributing these new ‘rule books’ to the business community. *Latvia* is one such case, where standardized procedures

and principles also cover on-site inspections, reporting, appeals procedures and informational materials regarding the mandate of inspectors. By focusing on client-orientated approaches, these ‘rule books’ have also improved the understanding of procedures by all parties and raised accountability and compliance. Several countries like *Tajikistan* and *Ukraine* have also developed within their inspections laws detailed rules on how the inspection should proceed. In the same vein, *Poland’s* 2004 *Law on Freedom of Economic Activity* sets minimum procedural standards to protect the rights of businesses against intrusive inspections.

Meanwhile, some countries have focused on narrow aspects of their inspection procedures – the areas where most abuses can occur and, hence, where reforms can yield the greatest benefit. The *Mexican Environment Agency*, for instance, introduced “inspection orders,” detailed legal mandates that require the signature of department heads. The same agency also established “closing orders,” for which an inspector requires authorisation from senior officials over the telephone in order to close a business.

Tajikistan’s and *Ukraine’s* inspection laws mandate an official order to start inspection, which cites the object of the inspection and clarifies the exceptional circumstances that allow the inspector to close that businesses. The latter is a crucial point as this is the main source of bribes.

In *Ukraine*, inspectors must offer a specific justification before a visit as well as reasons for unplanned inspections. In *Poland, Tajikistan, and Ukraine*, representation of the interests of the inspected firm should be present during an inspection visit. *Georgia’s* 2001 *Law on Entrepreneurial Activity* requires that a business be informed of the rights and obligations of inspectors in an official letter delivered prior to the inspection. Similar laws apply in *Tajikistan, Ukraine, BiH, the Netherlands*, and a few other countries.

c) *Setting up checklists and manuals - Inspection Registration Books*

Among the many improvements of inspection procedures, the past decade has seen increased emphasis on the creation of checklists and Inspection Registration Books.

Inspection checklists are important tools to help manage the inspection visit in a transparent and accountable way. Depending on the nature of the inspection, checklists or standard protocols ensure that the inspection covers all the necessary requirements and

regulations. In theory, the idea is that the checklist is presented at the beginning of the inspection, filled in during the inspection, and signed by the firm's management at the end of the visit.

For instance, in *Jordan* a review of the inspections manuals of the ministry of Labour, Environment and the Food Agency resulted in the development of precise inspection checklists adapted to each substantive regulatory area. *Belarus* has also developed checklists for Fire, Sanitary and Labour inspectorates, while *Mexico* created checklists and made them publicly available prior to the inspection. Similarly, the *Tajikistan* 2006 Law on Inspection requires that checklists for all inspections are published – as has been in large part done.

Typically, an IRB is an official ledger form filled out by both the inspected enterprise (in particular, it should reflect a firm's consent or disagreement with inspection results) and the inspecting authority (stating the purpose, scope and result of inspection, position and full names of inspectors, and permission from the proper authority to conduct the inspection). Importantly, an IRB keeps an official record of any immediate closures resulting from an inspection visit. IRBs also help control the frequency of visits to any single premises.

In terms of IRBs, *Poland's* 2004 *Law on Freedom of Economic Activity* established the obligation to set bookkeeping by inspected businesses on the organization of inspection visits and the course of action required by inspectors. In the case of an inspector's refusal to complete the IRB entry, an entrepreneur would have the right to refuse access to facilities. Other countries with similar IRB policies include *Russia, Tajikistan, Uzbekistan* and *Moldova*. Ukraine has a similar system.

d) Establishing risk-based inspections

A particularly crucial reform concerning inspection procedures reform involves targeting inspection efforts based on the risks an activity poses to society, the environment, consumers or the economy. This fundamental reform anchors the inspections on a legitimate justification, making the process more reasonable for the inspected businesses. In addition, organizing inspection based on risk ensures better use and more cost-efficient use of scarce public inspection resources. Such a development has been possible thanks in part to more precise business registry and the use of information technology tools.

Today a growing number of countries, like *Ukraine*, *Latvia* (fire), *Jordan* (food agency) and *Mexico* (environment, customs) have established risk-based inspection systems, while some others are in the development phase. Other examples worth noting include *BiH*'s development of a computer management system to ensure transparent planning of annual inspections, risk-based inspections, standardized reporting forms and functional and effective control over the required work of inspections.

Latvia's Inspectorate Coordination Council (ICC) has introduced a system to prepare an annual list of routine inspections based on priorities devised from risk management techniques. The system includes, in particular, a mechanism for rating inspected bodies to promote self-improvement.

Less sophisticated reforms, though with high pay-offs, have also been developed. The *Georgian* government set up a weighing system to assist the scheduling of inspection visits for larger and more risky businesses, as opposed to SMEs.

Based on risk or not, a complementary targeting approach can be based on a computer model that generates a random list of firms to be inspected to encourage generalized compliance – like the one introduced for customs inspection in *Mexico*. This approach has been further deployed in that country to audit inspection units and ensure proper behaviour.

Other process and procedural reforms

Reforms to the institutional framework, transparency and accountability of the governance of inspection bodies, as well as the day-to-day procedures of inspecting firms, are necessary. However, they are often insufficient to change the reality of inspections. Hence, governments have launched a series of pointed initiatives to accompany more structural reforms of the inspection systems.

As with any public management endeavour, the success of reform is linked to better motivation and incentives of the civil servants responsible for the undertaking. In *Latvia*, inspection reforms included increased salaries for inspectors and a “smart” mechanism to distribute bonuses and work incentives. Motivating elements have also included the retiring or firing of “old school” inspectors, as was the case in *BiH*, accompanied by a sustained effort to recruit and train a new generation of officials.

In parallel to better incentives, certain governments, such as **BiH**, have invested in enhancing inspectors' technical skills. New procedures and tools have also required special emphasis. In *Latvia*, intensive training was undertaken to introduce the concept and techniques for risk assessment into the work of the inspectorates, while post-reform targeting of entities is risk-based. Also in *Latvia*, the School of Public Administration, a leading academic institution, was charged with the development and organization of specially tailored courses for inspectors and the heads of inspectorates. *Latvia* also introduced a programme to train its employees to university degree level.

In parallel to better incentives for inspection staff, some governments have worked to improve the infrastructure of inspectorates. For instance, the government of Jordan, with public donors' assistance, equipped inspectors of the Food Agency with new laboratory equipment and better linkages with laboratories within the EU system.

Finally, some countries have improved the communications within their inspectorates. For instance in *BiH*, the Republika Srpska Inspectorate holds regular monthly media conferences and has invested in developing a modern website. The FBH Inspectorate has promoted transparency and accountability by running whole-page newspaper advertisements to inform the public about an upcoming inspection campaign. *Latvia* has been investing in information systems for communication and data exchange between the central and regional offices of the Inspectorate Coordination Council. Reforms in *Latvia* were also accompanied by an intensive media campaign detailing inspectorate activities and procedures. The introduction of websites for inspectorates, offering news about inspection processes and information on activities and relevant legislation increased the transparency of their work.

E. Do models for, and approaches to, reforming inspections exist?

With the limited data available, this report cannot hope to comparatively evaluate the impacts and results of the reforms described. An accurate, useful evaluation would prove extremely difficult given the lack of objective indicators, the heterogeneity of the situations, the limited knowledge regarding each country's context, the many factors that can influence the impact of a reform, and finally, the counterfactual: how these countries would have performed without any reform.

However, some trends and commonalities seem to emerge. The paper managed to identify five main models/approaches to inspection reform. They are not mutually exclusive. The following table underlines some of the most interesting dimensions of these approaches. Certainly, each chosen model/approach will produce different results depending on the goals and objectives of the reform; some reforms will have long- or short-term effects if they seek to change institutional organization or day-to-day inspection operations. To be sure, whatever reform model is chosen, it must be underpinned by new legislation.

Determining a country's optimal reform approach depends on a series of distinct elements, such as 1) how deep and far a government wants to reform inspections; 2) the main goal of the reform (business climate improvement, better rule of law, efficiency of the inspection function), and 3) whether the government wants to change the culture and operational policies of inspections as well as reduce corruption. It is important to emphasize that these models are not mutually exclusive. A combination of models may prove most appropriate for some countries. The recent example is *Albania*, where an Impact Assessment (IA) resulted in the creation of a reform package combining models 2, 4 and 5.

Model/approaches	Basic description	Institutional changes needed to implement the reform	Increased efficiency and effectiveness of inspections	Who has effective control over inspections
1. Reforming selected inspections (usually few) or sectors	This ‘bottom up’ approach is based on legal and regulatory reforms of selected inspections; possibly changing organizational settings, but more likely introducing risk-assessment and standards	Possibly some	Potentially significant for selected inspections if properly supported	Different ministries and agencies supervising the inspection bodies
2. Common legal framework for inspections, or inspection procedures having an impact on all inspections	Enacting a single horizontal/procedural framework ‘Law on Inspection’ governing all inspection procedures throughout the country; this can be done by selecting one of two options: 1) no reference to the institutional organization, sanctions, competencies, mandate of inspections, etc. 2) containing elements of the above, depending on the scope of the reform.	Negligible if under option 1; notable if option 2	Significant if properly enforced across inspection bodies	Different ministries and agencies supervising the inspection bodies
3. Coordinating body at central level to overview key inspection activities	Establishment of a coordinating body (in most cases voluntary) of chief inspectors and other officials to control inspections and, in particular, overlapping visits and contradiction and discrepancies of procedures; the framework for establishment of this body often doesn’t contain penalties and strict enforcement mechanisms; no legal framework to change the institutional setting, sanctions, competencies, operations, mandate of inspections etc.	Some	Potentially significant if properly supported	Different ministries and agencies supervising the inspection bodies
4. Merging and consolidating related inspections	Inspections are merged or combined under a single authority within a ministry (inspectorate) or a specialized agency (general inspectorate). This can be done by sectors to: a) respond to a country’s EU priorities, b) emphasize important sectors for the country, c) curb informality and fight corruption etc.	Moderate	Potential impact, particularly for small public administrations	Different ministries and agencies supervising the inspection bodies
5. Centralised supervision/control model	Establishment of a centralized inspection supervisory body, such as a General Inspectorate, outside ministries; reform of operational policies of inspections, mandate, institutional organization, competencies, coordination etc; this model can contain all or most of the inspections or can be set up as a centralized supervision of inspections	Significant	Yes, though there a possible limits to the economies of scale and scope that can be achieved	General Inspectorate or Inspector General’s office, and Government/ Cabinet

F. Conclusion

This report highlights five non-mutually exclusive models of inspections reform. The optimal approach would likely be well-considered combination of these models.

This report has sought to synthesise, in a purely descriptive mode, the goals and approaches of recent inspection reforms in Europe and Central Asia. However, a final assessment is incomplete without a proper, or at least partial, understanding of the outcomes of these reform efforts. At this point, any performance assessment remains patchy at best.

Nonetheless, some early trends and lessons have emerged. Firstly, reforming is essentially a dynamic exercise. More or less voluntary coordination mechanisms, without strict enforcement penalties, seem to work better in the early stages of reforms, when a focus on improving the inspection procedures of individual bodies can yield quick results. On the other hand, lasting results require a stronger and more enforceable approach built on coordination, cooperation or structural change.

Dynamism also implies reforms that may initially target second-best solutions, seeking marginal improvements that with time gather strength and embolden reformers. For instance, in some OECD countries inspectorates may shy away from establishing precise limitations on the frequency and number of visits and time spent on the premises. However, for many emerging and developing countries, this type of limitation can prod inspectorates to focus inspection regimes on key risks and better focus and manage their activities, beginning a virtual circle of improvements.

Secondly, there is evidently an important link between inspection reform and regulatory reform of inspection-related measures. Inspection reform under any model or combination of models described in the previous section should be accompanied by reforms to the underpinning laws and regulations, in order to rationalize the pool of existing laws governing relevant procedures. Such regulatory reform should include legal, technical and economic reviews of the existing inventory to clarify the regulatory environment, sequence the changes and further enhance the results of reform across the state's entire inspection function.

Greater results can be achieved when the inspection reform is part of a country-wide mid-to-long term "competitiveness drive" that includes a systemic regulatory reform (not only

inspection-related measures) and a comprehensive set of reforms that seek to ensure easier opening, operation and closure of businesses. The key issue here is how to ensure mid-to-long term political commitment. In many cases, initial enthusiasm with long-term and deep-rooted structural reforms – including top-down reforms such as the “Guillotine⁵” programs - are successfully confronted by well-organized interested groups fearing, for instance, short-term staffing cuts.

Fourth, while institutional reform is launched and the regulatory framework cleaned, governments need to invest in (re)training inspectors to implement new rules and procedures. In this way, reforms can ensure that the new standards will be enforced and the new principles and systems will be introduced to all inspectors in practical terms.

Finally, success is also linked to the provision of an adequate management information system, including not only the ICT dimension but the development of indicators and data gathering aspects which should ensure independent and transparent annual inspection planning, risk-based inspections, standardized reporting forms and functional and effective control over the work of inspectors. The economies of scale and scope provided by a new technical platform will improve targeting, minimize the number of inspections, systematize inspection reporting, reduce administrative compliance costs and information requirement burdens on businesses, and, ultimately, ensure proper and effective control of all inspections activities.

In an effort to provide more definitive answers to critical questions regarding inspection reforms, outcomes and the implications for policy, work to expand this report – to include more reform efforts and more results – is ongoing.

⁵A “Regulatory Guillotine” reviews large quantities of regulations or procedures in a systemic way over short period of time using “business need and necessity” analysis. Following the review, a final decision on simplification or elimination of regulations or procedures is taken and implemented, reducing costs and risks of doing business.

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H. ANNEX

DENMARK

Timing of the Reform

Start date – 1997

Key milestones

- 1997- Introduction of the Danish Veterinary and Food Administration (1 – p.34)
- 1998 - Introduction of the Adapted Inspections System (2 – p. 7) circa 2003, unification of certain labour inspection structures (2 – p. 4)

Scope of the Reform

- Merger of the inspection functions of the Ministry of Agriculture, Ministry of Fisheries and a large number of municipalities into a newly-formed Danish Veterinary and Food Administration (DVFA) – further consolidation came in 1999 and 2000, while in 2004 the DVFA became part of a new Ministry of Family and Consumer Affairs, retaining its autonomy.(1 – p. 34)
- Around 2003, the central inspectorate and 14 regional labour inspection offices, each with relatively high autonomy, were merged into a single unified structure (2 – p. 4)
- Procedures were developed in accordance with Adapted Inspections System and an associated handbook. (2 – p.7-9)

Substance of the Reform

- Checklists, standards, protocols – the Adapted Inspections System handbook contains a detailed description of standard procedures to be undertaken in relation to each body under inspection. Steps generally include preparation, basic visit, compiling a report for the enterprise and conducting a follow-up visit.
- In addition, inspectors must fill out two checklists concerning the working environment in its present state and activities aimed at improving the working environment (2 – p.7-9).
- Risk-based selection – DVFA operates on principles of risk management and risk-based targeting of bodies for inspection. Yet risk assessment is conducted not by the DVFA, but rather the Danish Institute for Food and Veterinary research, a separate institution, while the results are used by the DVFA. (1 – p. 34). Labour inspection also operates on risk-management principles, choosing its inspection targets based on previous behaviour and outstanding issues (2 – p.7-9).

Impact of Reforms and Other Information

1. The stakeholder response to the consolidation of the food inspection system was positive, with both the industry and consumers agreeing that the reform had improved the efficiency of the inspection system. (1 – p.35-36)
2. The same can be said of the Adapted inspections, which were positively appraised by both the employers and workers' organizations (2 – p.9-10)

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IRELAND

Timing of the Reform

Start date – 1998

Key milestones:

- 1998 – Legislation enacted to establish the Food Safety Authority of Ireland (FSAI) (1 – p. 41)
- 1999 – FSAI established (1 – p. 41)
- 2006 – Office of Director of Employment Rights and Compliance (ODERC) established (2)

Scope of the Reform

- Single inspectorate – The old labour inspectorate was reformed to become the ODERC (2)
- Over 50 agencies (including many inspectorates) with food inspection authority were merged into the FSAI (1 – p.41-42)

Substance of the Reform

Mandate of the inspectorate

- FSAI inspectors are mandated to oversee compliance with all food safety laws (1 – p.41-43)

Risk-based targeting

- FSAI operates on a risk assessment basis (1 – p.43-44)

Additional support to inspectorates

- **ODERC – the number of labour inspectors has tripled; for support, the number of non-inspecting staff also increased. ODERC has new offices.** (2)

Impact of the Reforms and Other Information

- The establishment of the FSAI was met with positive reactions from both the food industry and consumers. (1 – p.45)

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UNITED KINGDOM

Timing of the Reform

Start date – 2000

Key milestones:

- 2000 – Food Standards Agency (FSA) introduced (1 – p.53-54)
- 2005 – Inspectorate reform plans (4)

Scope of the Reform

Many inspectorates

- Several inspection bodies were merged into the FSA (1 – p.53-54)
- The number of public service inspectorates was reduced from 11 with plans to total four from 2005 onward (4)
- Local inspection authorities improved coordination.
- (quote) “The Government is looking at the scope for reducing inspectorate expenditures by around a third over the medium term as overall inspectorate activity is reformed, rationalized and ultimately reduced” (5)

Particular procedures

- Introduction of the concept of intervention, broader than simple inspection for health and safety inspections (2)

Substance of the Reform

Risk-based targeting

- The new FSA operates on a risk assessment and management basis (1 – p.53-54)
- Principle: inspections should be based on risk assessment and monitored performance assessments (3), (4)

Impact and Other Information

- The FSA’s introduction improved transparency, raised public awareness and education about food safety and improved consumer confidence (1 – p.55)

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CANADA

Timing of the Reform

Start date – 1980s

Key milestones:

- 1985 – New Regulatory policy (1 – p.16-20)
- 1997 – Establishment of the Canadian Food Inspection Agency (CFIA) (2 – p.30-31)

Scope of the Reform

Many inspectorates

- Three different inspection bodies were merged into the CFIA (2 – p.30-31)

Particular procedures

- Compliance and enforcement policies were reformed. (1 – p.16-20)

Substance of the Reform

Mandate of the inspectorate

- The orientation of enforcing inspectors was changed to a compliance-seeking model accompanied by a new inspection manual; (1 – p.16-20)
- Introduction of the Delegated Administrative Authorities, non-profit bodies for licensing and enforcement (4 – p.14)

Clarifying inspection procedures

- Improved transparency and access to information; establishment of clear criteria and direction for inspections (1 – p.16-20)

Checklists, standards, protocols

- Introduction of detailed record-keeping; standardised rules for conduct of inspections and follow-up inspections (1 – p.16-20)

Risk-based targeting

- Compliance strategies to introduce the necessity for strategic thinking and risk assessment in action;(1 –p.16 - 20) risk-based targeting is used by the CFIA, but risk assessment is conducted separately by Health Canada (2 – p.32)

Third party certifiers introduced to the forestry industry (4 – p.18)

Impact of the Reform and Other Information

- Positive reaction of consumers and the food industry to the establishment of the CFIA (3), (2 – p.32)
- Certain drawbacks recorded (2 – p.32), (1 – p.16-20)

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NETHERLANDS

Establishment of the Inspection Council in the Netherlands

The large-scale modernisation of approaches to inspection reform in the Netherlands is linked horizontally to regulatory reform. As such, it includes efforts to reduce the inspections burden on businesses, which is monitored by the central government.

The Inspection Reform Programme is carried out by the Inspection Council, in collaboration with 14 central government inspectorates and Customs & Excise authorities.

Most collaboration takes place within the Regulatory Burden on Businesses Programme (ministries of economic affairs and finance). The Inspection Council is chaired by a member of the Business Regulatory Burden Commission, which in turn is led by the chair of the Federation of Netherlands Industry and Employers.

The framework for reform is twofold: a domain-orientated approach and implementation of common themes.

- Within the domain-orientated approach, the Inspection Council's 2009 Work Programme contains a summary of each domain's target goal. The central government's inspectorates work together on the reform process within each domain, with the inspectorate most directly involved taking the pivotal role. Where necessary, cooperation is established with other public bodies, such as Customs & Excise or the Public Prosecution Service.
- Within the common themes' approach, themes are generally developed jointly, followed by individual integration within the relevant inspectorate. The Inspection Council bears the costs and supervises these activities. Responsibility for these activities lies with various parties. Common themes include the following:
 - E-Inspection Programme
 - Communication and PR
 - Collaboration with other institutions
 - Strategy and instrumental frameworks
 - Field effectiveness and monitoring

Food inspection:

- In 2002 and late 2006, the Food and Consumer Product Safety Authority (FCPSA) was created, merging the inspection functions of the health and agriculture ministries
- Special training was conducted for inspectors
- FCPSA operates on the basis of risk assessment and risk communication
- Following the merger, the reform was welcomed by the industry and consumer surveys showed high confidence in food safety (all data from 1 – p.46-49)

Broader level:

- (quote) “In the Netherlands, a new approach to regulatory compliance was aimed at improving outcomes while simultaneously reducing costs for both government and business. The Government of the Netherlands developed a checklist of several key determinants of compliance grouped into three categories as follows:

- Self-enforcement: such as the constituents' (i.e., businesses') knowledge of the objectives of the rules and their level of acceptance of such objectives.
- Mechanisms of control: such as the probability of a business being subject to an inspection, the probability of detection of an offense during an inspection, and the possibility of using risk assessment to increase the efficiency of inspection programs to identify high-priority problems.
- Sanctions: such as the probability and severity of sanctions, as a last resort to ensure compliance when self-enforcement and control dimensions are considered inadequate.

- The Government of the Netherlands uses the Table T-11 to tailor the most effective compliance strategy for all kinds of business regulation. Those that are subject

to a high degree of “self enforcement” (e.g., workplace fires) usually require fewer mechanisms of control or sanctions.

- Conversely, where self-enforcement is not a realistic expectation (e.g., tax compliance), a targeted inspection strategy, and the possibility of sanctions, may be required to ensure an adequate level of compliance.

- To replace many government inspections, the Government of the Netherlands included a program of self-inspection, which enabled (for example) the ministry responsible for maritime safety to greatly reduce the administrative burden on shipowners. The ministry simplified detailed reporting and inspection requirements and, in most cases, made the ship-owner, not the inspector, responsible for safety. These reforms reduced the number of ships needing inspection and the number of follow-up investigations required—without affecting such outcomes as the incidence of shipping accidents. They reduced the administrative costs for shipowners by about €80 million per year, with similar improvements for most other government inspectorates.” (2 – p.2-3)

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NEW ZEALAND

Timing of the Reform

Start date – 2002

Key milestones:

- 2002 – New Zealand Food Safety Authority (NZFSA) established (1 – p.50)

Scope of the Reform

Many inspectorates

Substance of the Reform

Mandate of the inspectorates

- The NZFSA has a mandate to inspect regulatory compliance in domestic and export-oriented food manufacturing, compounds and veterinary service. These had been scattered among different ministries prior to the reform (1 – p.50-51)

Institutional structures

- Merging of the inspection functions of the Ministry of Agriculture & Forestry and the Ministry of Health (1 – p.50-51)

Impact of the Reforms and Other Information

- According to a study performed by NZFSA in 2003, public confidence in food safety was improving, despite certain problems. Consumer organizations supported the establishment of a single agency. The food industry, which had spent years advocating for the move, expressed support for improvement of food controls organization and NZFSA's continuing discussions with stakeholder groups. (1 - p. 52)

References

(1) United States Government Accountability Office, *Food Safety – Experiences of Seven Countries in Consolidating their Food Safety Systems*, February 2005, available at: www.gao.gov/new.items/d05212.pdf

(2) *Web-search*

ARMENIA

Timing of the Reform

Start date – 2000

Key milestones:

- 2000 – *Law on Organising and Conducting Inspections (LOCI)* (1 – p. 14-15)
- 2002 – *Law on Tax Service, Code of Conduct* (1 – p. 14-15)
- 2004 – *Inspection guidelines for Tax Inspection* (1 – p. 14-15)
- 2005 – *Law on State Labour Inspectorate* (6)
- 2008 – *Inspection agency for controlling large taxpayers* (2)

Scope of the Reform

Single inspectorate

- Reform of the tax and labour inspectorates (1 – p. 14-15), (6)

Many inspectorates

- 2000 LOCI covers the work of all inspection bodies; 2008 reform merges several tax inspection agencies into one for large taxpayers (1 – p. 14-15), (2)

Single law

- LOCI and the Tax and Labour inspection-related laws

Substance of the Reform

Mandate of the inspection bodies

- The Mandate sets limitations on follow-up inspections, inspection subject matter rules, precise definitions of reasons for inspection, maximum inspection duration of 15 days and provisions that inspections not hinder ongoing business (1 – p. 14-15)

Clarifying inspection procedures

- Defining the list of all authorised inspection bodies, rules for follow-up inspections, necessity for three-day advance notices of imminent inspections, clear description of rights and obligations of inspectorates and inspected entities (1 – p. 14-15)
- Tax inspection – law and Code of Conduct clarifying tax inspection procedures (1 – p. 14-15)
- Tax inspections – Code of Conduct – rules on fines, protocol obligations, feedback collection requirements (1 – p. 14-15)
- Labour inspections – to be coordinated with the inspections of other inspectorates (6)

Checklists, standards and protocols

- Introduction of a standardized system of inspection planning, introduction of tax inspection guidelines as rules for all tax inspections (1 – p. 14-15)

Risk-based targeting

- Risk-based selection of targets introduced to the work of the Labour Inspectorate (6)

Accountability and Transparency

- General improvement of transparency and accountability as a result of reforms
- LOCI and Tax law improved appeals and dispute settlement systems (1 – p. 14-15)
- Inspected entities are able to hire experts on their own as a means of strengthening their protection (1 – p. 14-15)

Impact of Reforms and Other Information

- New regulations still need to be fully implemented in practice and problems persist (1 – p. 15)
- Data on inspections in Armenia (5 – p. 149 – 152)

References

(1) Sanda Putnina, *Review of International Practice in Inspections Reform*, IFC SME Survey and Policy Project in Tajikistan

(2) USAID Armenia Social Protection Systems Strengthening Project, *The International Experience with Inspectorate Reform*, available at: www.spss.am/data.php/29.pdf

(3) <http://www.arka.am/eng/economy/2008/07/25/10445.html>

(4) *Tax Reform in Armenia*, available at: unpan1.un.org/intradoc/groups/public/documents/NISPAcee/UNPAN004781.pdf

(5) *Armenia - Assessment of Administrative Procedures for Doing Business in Armenia - Part II - Review of Specific Administrative Procedures*, available at: [http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/FIAS_Resources_Georgia_Implementation_of_AdministrativeBarriersStudyRecommendations\(FY2004\)/\\$FILE/Georgia_Implementation_of_Administrative_Barriers_Study_Recommendations_-_June2004.pdf](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/FIAS_Resources_Georgia_Implementation_of_AdministrativeBarriersStudyRecommendations(FY2004)/$FILE/Georgia_Implementation_of_Administrative_Barriers_Study_Recommendations_-_June2004.pdf)

(6) <http://www.apr.am/pages/or.php>

BELARUS

Timing of the Reform

Start date

- 2004 (limited scope)
- Reform completed

Key milestones

- Circa 2004 – control activity coordination councils established at regional and district capitals (2 – p. 33)
- 2007 – comprehensive IFC-supported reform program initiated (1)

Scope and Substance of the Reform

- Coordination mechanisms established at regional and district levels (2 – p. 33)
- Unplanned tax inspections now only permitted for seven district inspectorates instead of 107 district inspectorates (1)
- IFC established cooperation and partnership for reform with State Control Committee, Mogilev regional authorities, Fire, Sanitary and Labour inspectorates (1)
- Risk-based management paper developed and distributed to Sanitary and Labour inspectorates (1)
- Council of Ministers Resolution supports the reforms (1)

The 2007 IFC Plans and Recommendations:

- Training and consultation of Belarus inspectors by international experts (1)
- Development of checklists for Fire, Sanitary and Labour inspectorates (1)
- Development and promotion of a legal framework for inspections (1)
- Educating and informing the business community about risk-based management systems

References

(1) *Inspections reform – Belarus*, Interregional seminar, Kiev, Ukraine, June 2008

(2) *Business Environment In Belarus 2005*, IFC/SIDA, available at: <http://www.ifc.org/ifcext/belarus.nsf/Content/BusinessEnv>

BOSNIA & HERZEGOVINA

Timing of the Reform

Start date – 2005

Key milestones

- 2005 – Republika Srpska and Federation Bosnia & Herzegovina pass their respective inspection laws and establish entity inspectorates
- 2008 – 2009 inspection checklists and E-inspector risk-management system piloted

Scope of the Reform

Merging inspectorates

- Creation of a General Inspectorate by merging the 26 different types of inspections per entity that existed prior to the reform.
- Major reduction and rationalization of the type of inspections and inspection bodies. FBH now has some 15 types of inspections, of which 10 belong to the General Inspectorate and five are still within ministries. In RS there are also some 15 types of inspections, of which 11 belong to the General Inspectorate.
- The General Inspectorate does not include fiscal inspections (tax and financial), culture and public administration inspections.

Single law

- A completely new legal framework for inspections, providing a detailed description of the new organization of inspections, rules and operational procedures; policies, competencies of individual inspections and even minor details, such as describing the standards for annual inspection plans and visits.

Introduction of a risk-management system and revised inspectors' checklists

Substance of the Reform

Mandate of the inspectorate

- Court approval needed for the inspection and the same business cannot be inspected twice in the same year for the same issue (1)

Clarifying inspection procedures

- Modern inspection procedures focus on prevention and correction, rather than repression; teamwork, efficient and effective inspections and even better public relations.
- Organization of joint inspections to minimize the burden of inspections on businesses
- Checklist being prepared

Training of inspectors

- Emphasis on the technical skills of individual inspectors and stronger internal controls; increased openness of the inspectors' work to public scrutiny through availability of information and more transparent practices.

Risk-based targeting

- Development of a computer management system to ensure transparent annual inspection planning, risk-based inspections, standardized reporting forms and required functional and effective control over inspection activities.

Other information

- The RS Inspectorate holds monthly media conferences and has invested in a modern website. The FBH Inspectorate has promoted transparency and accountability via the publishing of whole-page newspaper adverts to inform the public about the upcoming inspection campaign in the labor sector.

Impact of Reforms and Other Information

- Initially, there was a slight reduction in the number of inspectors in BiH (up to 5% of the pre-reform number), but as many inspections were understaffed, the current numbers are as high as they were prior to the reform. Most replaced inspectors did not have adequate education levels to perform an inspector's job. As such, through their dismissal the government ensured that new standards would be reinforced and new inspection concepts would be introduced in practical terms to all inspectors. (1)
- Cost savings for businesses:

Number of days of inspection per year per business

	Baseline (2001)	Mid-term (2004)	2007
FBIH	18	26	9.9
RS	28	34	7.5

- The table above shows a significant reduction in the number of days devoted to inspection for an average company after the 2005 reform. Estimating the economic benefits by monetizing such results shows significant gains for businesses. Assuming that one employee is designated to deal with inspections during an on-site visit and that, on average, companies in BiH (combined average of days in RS and FBiH) saved some 28 days per annum compared to the baseline, and that the average daily gross salary in BiH in 2006 was 43.7 Bosnian Convertible Marka (KM),⁶ the savings of the reform per individual inspected firm is 1,224 KM per annum. (1)
- On the other hand, considering that some 34,000 companies were registered and active⁷ in 2006 and 70,000⁸ entrepreneurs and sole-traders were reported in BiH and that, based on ARCS survey in 2005, some 65% of companies had been inspected by three major inspections, coupled with a WB BAC survey from 2007 showing that 25% of companies are inspected by at least three of these inspections annually. This equates to direct annual

⁶Based on an average BiH monthly gross salary of 918 KM.

⁷IFC Enterprise survey

⁸RS and FBiH statistical offices

savings of 10.4 million KM⁹ for BiH companies inspected, due to the reduced frequency of inspections. This does not take into account any savings for sole traders and entrepreneurs. In addition, there are also one-off cost savings to the overall economy, due to reduced inspections and the number of companies inspected, equal to 15.79 million KM¹⁰. This impact was emphasized further by risk-based inspections introduced through the reform, which further reduced the number of companies subjected to inspection. (1)

- While both inspectorates find it difficult to compare their achievements with the activities of their predecessor organizations due to a lack of indicators and comparable historical data, their results nonetheless illustrate the level of effort and a shift in approach. The RS General Inspectorate conducted a total of 186,449 inspections in the first year of operations (of which 156,606 on the border), 15,539 inspection measures were taken and 2,710 infringement reports filed. Nearly 11 million KM in fines was paid into the budget. A particularly apt example is provided by results of labour inspections. In RS, the inspectorate discovered 7,437 illegal workers among the 97,085 working in the 10,196 firms visited. Subsequently, 4,633 workers were registered (which should bring additional tax and contributions revenue of eight million KM annually). (1)
- Other benefits of the reform are also evident, most notably in the fight against the gray economy. During the recent campaign of the FBiH General Inspectorate against unreported workers, which ran from June to December 2007, the FBiH pension fund reported an additional 60,000 workers who were previously undetected as officially employed by their employers¹¹. These workers form a significant part of the gray economy, as they were not reported on unemployment bureaus or anywhere else. This number represents 12 percent the country's unemployed. Among these workers there were some 25,000 that are now officially de-listed from the unemployment bureau, where they were collecting social benefits but made living working off-the-books in companies. (1)
- The Federation BiH Chamber of Commerce¹² claims that the effect of this action will equate to the payment of about 193 million KM of gross salaries, of which 76.5 million KM would have contributed to the Federation BiH budget in the form of social and pension contributions in the first half of 2008. This action was not possible prior to the reform and, clearly, the newly established Inspectorate provided the government and legal businesses with an adequate tool to tackle the gray economy. (1)

⁹1,224 KM in savings per firm per annum x 8,500 companies

¹⁰22,000 firms in 2005 terms, minus 8,500 in 2007 terms = 13,500 fewer inspected firms per year overall => av.gross salary 2005 and 2006 is 877KM, which translates into a daily rate of 41.79KM, providing total savings per non-inspected firm of 1,170KM x 13,500 firms = 15,795,000 KM

¹¹Mr. Ibrahim Tirak, Director, FBiH General Inspectorate

¹²Mr. Jago Lajsic, Deputy Director of FBH Chamber of Commerce, Press statement

References

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- (2) Tarik Sahovic, Working paper for The World Bank SEE GDLN conference, February 2008
- (3) Republika Srpska and Federation BH Inspectorates Annual reports 2006, 2007.

CROATIA

Timing of the Reforms

Start date – 1999

Key milestones:

- 1999 - State Inspectorate Law of Croatia
- 2008 - Reform of the State Inspectorate Law

Scope of the Reform

Merging inspection bodies

- The Croatian State Inspectorate was established by the 1997 Law on the organization of Ministries and State Administrative organizations and the 1999 Law on the State Inspectorate.
- The State Inspectorate has taken over the responsibilities of 12 various inspectorates that existed previously and were split between four ministries.
- The General Inspectorate enforces and controls the implementation of over 200 rules and regulations.

Improvement of inspection bodies

- A new law was adopted in 2008 to govern the organization and tasks of this State Inspectorate.

Substance of the Reform

- Inspections and inspectors of the State Inspectorate are classified into five areas of specialisation:
 - inspection for economic affairs,
 - labor inspection,
 - inspection of electric power supply, and
 - inspection of the mining industry and inspectors for pressure vessels.
- The law ensures the technical independence of inspectors. The government, upon the proposal of the prime minister, designates the chief inspector of the State Inspectorate.

- The aim of establishing a separate state administration body directly accountable to the Government of the Republic of Croatia was to ensure that key inspections could be concentrated in one place, working conditions could be improved, the expert level of inspection supervision raised, cooperation and coordination among various inspections improved and the costs of performing several inspections of the same entity reduced.
- Institutional separation between the public authority issuing licenses and permits and the body conducting inspections (i.e. on the grounds of transparency, line ministries and their subordinate institutions that issue licenses should not have the right to inspect). The greatest advantage of this arrangement consists of reducing the number of inspections needed and, thus, raising the benefits for both state administration and the business community.
- There are territorial divisions (five Regional Units and 44 Branch offices). Divisions and Departments of the State Inspectorate have been established, as follows:

Legal Affairs Division	Department of Legal Affairs and Human Resources
	Department of Control and Instructional Internal Supervision
General Affairs Division	Department of Finances, Accounting and Procurement
	Department of General Affairs
	IT Department
Commerce, Catering and Crafts Supervisory Division	Department of Commerce and Crafts
	Department of Catering and Tourism
Product Quality Control Division	Department of Product Quality Control for Imported Goods and Domestic Products
	Department of Product Quality Control for Goods in Traffic
Division of Supervision in Agriculture and Forestry	Department of Wine-Growing, Fishing Industry and Cattle Breeding
	Department of Forestry
Labour Relations and Occupational Safety Division	Department of Labour Relations
	Department of Occupational Safety
Electric Power Supply, Mining and Pressure Vessels Supervisory	Department of the Electrical Power Supply Industry

Division	Department of the Mining Industry
	Department of Pressure Equipment

Impact of Reforms and Other Information

- The General Inspectorate was officially launched in 1999, with results immediately visible.
- The number of inspection units fell from 100 to 49 and the number of field branches from 22 to five.
- In terms of results, according to Mr Branko Jordanic, former Inspector General of the Croatian Inspectorate, greater efficiency was immediately realized, with 15-20 percent more inspection visits per inspector (with the same number of inspectors). He claimed that reform in Croatia introduced the rationalization of inspection services, increased efficiency and the introduction of risk-based inspections. Mr Jordanic also indicated that the new General Inspectorate has been able to increase budgetary revenue by some 20 percent in recent years, while reducing costs (excluding one-off costs).

Reference

- (1) *Croatian State Inspectorate* - www.inspektorat.hr
- (2) Tarik Sahovic, Working paper for The World Bank SEE GDLN conference, February 2008

GEORGIA

Timing of the Reform

Start date – 2001

Key milestones:

- 2001 – Law on Entrepreneurial Activity (LEA) (1)
- 2003 – 2005 – reform of certain inspecting agencies – reduction and abolishment (2 – p.28)
- 2006 – Food Safety Law (1)

Scope of the Reform

Single inspectorate

- Newly-established Food Safety, Veterinary and Plant (FSVP) inspection agency (2 – p.29)

Many inspectorates

- Merger of several inspectorates into the FSVP, leading to a general reduction in the number of inspectorates from 46 in 2003 to 30 in 2005. (2 – p.28-29)

Single law

- LEA contains provisions relevant for a large number of government inspection bodies (1)

Particular procedures

- Number of improvements in various procedures; increased targeting of larger businesses instead of SMEs (2 – p.28)
- Since 2006, there are no food and safety inspections in Georgia.

Substance of the Reform

Mandate of the inspectorate

- Court approval needed for inspection; ban on the same business being inspected twice in the same year on the same issue. However, a number of agencies were exempted from the need for court approval.

Clarifying inspection procedures

- The rights and obligations of inspectors and businesses must be explained in a written notice submitted to the business prior to the inspection; all inspection bodies must be registered within an official registry that is made publicly available. (1) , (2 – p.28-30)

Risk-based targeting

- FSVP (as provided by the Food Safety Law) and customs have developed tailor-made systems and are legally obliged to use risk assessment in their work. The customs system is implemented in ASICUDA. (1)

Other aspects of the reform

- Inspections are still penalty-based and not compliance oriented (1)
- IFC proposed a number of recommendations for improvement, most importantly checklists, third-party inspection bodies and the further development of clear inspection procedures and risk-based targeting (1)

Impact of Reforms and Other Information

- The number of inspected companies fell from 78 percent in 2003 to 32 percent in 2005 (may also impact a lack of funding)
- 52 percent of inspected companies found inspections difficult in 2003, but only 32 percent felt the same in 2005
- Average days required to complete an inspection – 9.5 (2003) – 4.5 (2005)
- Percentage of SMEs fined – 52 percent (2003) – 30 percent (2005) (all data from 1)
- However, in certain cases court approval was merely a formality and not based on evidence submitted (1)
- Funding problems might impact the work of inspections (1)

References

- (1) *How to capture quality and effectiveness: Inspections in Georgia – looking for the regulatory “golden middle” ...*, IFC Georgia Business Enabling Environment Project, June 2008
- (2) *Analytical Report – Business Environment in Georgia*, IFC, 2006, available at: go.worldbank.org/GNKMOET140
- (3) *Doing Business – Georgia 2008*, IFC, available at: www.doingbusiness.org/Documents/CountryProfiles/GEO.pdf

JORDAN

Timing of the Reform

Start date – 2005

Key milestones

- 2005 – Committee on Awareness, Instruction and Supervision for the Industrial Sector (1)
- 2006 – PEP-MENA inspection reform project commences (1)

Scope of the Reform

Many inspectorates

- PEP-MENA project underway with the inspections of the Ministry of Labour and Ministry of Environment; twinning project conducted with the Food Agency

Particular procedures

- Improvements to various procedures of different inspections

Substance of the Reform

Checklists, standards, protocols

- New inspection policy and strategy, as well as an improved inspection structure and a new inspections manual for the Ministry of Labour (1)
- Inspections bylaws changed to implement good inspection practices for the Ministry of Environment (1)
- New implementation strategy and Food Inspection manual for the Food Agency (3 – p.3)

Risk-based targeting

- Risk-based system of border inspections established for the Food Agency (3 - p.3)

Additional support to inspectorates

- Specialized training for inspectors of the Ministry of Labour (1)
- New action plan for the Ministry of Environment (1)

- New laboratory equipment and training manuals for the Food Agency laboratories, linking laboratories with the EU system (3 – p.3)

Other information

- Twinning project was carried out in cooperation with Denmark (3)
- A national conference and a number of seminars regarding inspections reform have been planned (2)
- Development of an information management system is planned for labor inspection and other inspectorates (1)

References

(1) *Jordan Inspection Reform*, Interregional Seminar, Kiev, Ukraine, 2008

(2) *Jordan: Inspection Reform*, IFC

(3) *Activity Report - Twinning and TAIEX within the ENPI*, European Commission, available at:

ec.europa.eu/europeaid/where/neighbourhood/overview/documents/activity_report_en.pdf

ESTONIA

Timing of the Reform

Scope of the Reform

Many inspectorates

- Consolidation of inspectorates within the Ministry of Economic Affairs and Communications
 - Five regulatory and surveillance boards/inspectorates were consolidated with two supervisory bodies under the authority of the Estonian Ministry of Economic Affairs and Communications.
 - The Estonian Energy Market Inspectorate, the Estonian Competition Board, the Estonian Railway Inspectorate, the Estonian National Communications Board and the Technical Inspectorate were merged under the auspices of the Estonian Competition Authority, which was thereafter responsible for economic regulatory issues of non-competitive markets, and the Estonian Technical Surveillance Authority, now responsible for technical safety relating to a number of categories of products covered by New and Old Approach EU Directives.
 - Other regulatory areas are not involved in this partial consolidation. The Labor Inspectorate, under the Ministry of Social Affairs, covers the inspection of Personal Protective Equipment (New Approach EU Directives) and the Health Protection Inspectorate, under the Ministry of Social Affairs, is in charge of inspecting toys and cosmetics.

LATVIA

Timing of the Reform

Start date – 1999 (labour inspection as early as 1988)

Key milestones:

- 1999 – Action Plan for Improving the Business Environment (1 – p.18)
- 2000 – Establishment of the Inspectorate coordination Council (ICC) and adoption of the Inspectorate Improvement Programme (1 – p. 6 & 23)
- 2000 – 2001 – Most reforms conducted (1 – p. 6)
- 2002 – ICC ceased to exist after attaining its goals (5 – p. 11)
- Administrative Court reform has rapidly improved the protection of due process rights since 2004.

Scope of the Reform

Many inspectorates

- Creation of a new coordination body: establishment of the Inspectorate Coordination Council, which, among other duties, promotes information sharing and operational collaboration between various inspectorates and piloted the organization and coordination of complex inspections (1 – p.24-26 & 4 – p. 6)
- Particular procedures – broad scope for improving and reforming procedures, including clarifying, post-inspection reports and reorganization of the approach to inspections

Substance of the Reform

Clarifying inspection procedures

- As instructed by the Council of Ministers, all inspectorates adopted standardised internal rules clarifying all relevant procedures and distributing them to the business community (1 – p. 20 – 24).
- Adoption of the new client-oriented approach was also aimed at serving the purpose of understanding procedures. (1 – p.26-27).
- An intensive media campaign was conducted to publish inspectorate activities and procedures. (1 – p.27)

Checklists, protocols and standards

- Through the adoption of internal procedures and a manual for all inspectorates, this reform produced common principles for all inspections. (1 – p. 20 et al.) These standardized procedures and principles cover on-site inspections, reporting, appeals procedures and information materials regarding the mandates of inspectors. A system of “report cards” was introduced to evaluate the progress of reform. (7 – p. 52)

Risk-based selection of inspection visits

- A system of annual priorities along risk management was introduced, as was a system of rating-inspected bodies to improve risk assessment for the future. (1 – p.26 & 29)
- Intensive training was undertaken to introduce the concept of risk assessment into the work of the inspectorates, with entities targeted for inspection in the post-reform period on the basis of risk. (1 – p.26 & 29)

Additional support to inspectorates

- Intensive training of inspectorate chiefs and inspectors carried out, with courses specially-tailored by the School of Public Administration. Nearly 500 participants completed these special training courses. (4 – p.5-6)
- The State Labor Inspectorate, one of the more advanced in terms of reform, introduced programmes for the training of its employees to university degree level. It also improved employees' salaries by regulating special bonuses and incentives for quality work. (6 – p.6-8 & 2 – p.23 & 26)
- Introduction of an information system for communication and data exchange between the central and regional offices of the CCI (costs in 2003 – \$110,520) (2 - p.35)

Enhancing accountability and transparency

- Written information must be officially submitted by inspectors to inspected entities, containing a detailed explanation of the appeal procedure and, thus, creating increased transparency and accountability among inspectors (1 – p.29 & 2 – p.101)
- The requirement for inspectors to compile written reports of conducted inspections lowers the possibility of inspectors not being held accountable for illegal operations (1 – p.29 & 2 – p.101)
- The clarification of every single inspectorate mandate improves the overall transparency of the inspection system
- Introduction of websites for inspectorates, providing news, information on activities and relevant legislation, increased the transparency of their work (1 – p.29-30)
- The administrative court, operational since 2004, rapidly improved the level of protection of due process rights (2 – p. 112)
- Along with the reforms of the procedures, internal auditing of inspectorates was greatly improved, with seven inspectorates introducing internal audit divisions and nine others remaining under the auditing authority of their respective ministries. (1 – p. 28)

Impact of Reforms and Other Information

- The reforms reduced the duration of various inspections and led to an overall decrease in the burden of inspections on businesses. Detailed information and charts – (1 – p. 31 – 48 & 5 – p.32 – 42)
- The overall success of the reforms had a demonstrative effect on the municipal police, which had previously dealt with an unreformed local inspections system. (1 – p.44-46)

Measures have been taken to improve local municipal inspections, on the basis of national-level reform, and positive steps have been recorded.

- Some 91 of the 106 tasks outlined in the Action Plan have been achieved (3 – p.15)
- The country's Transparency International corruption index rating improved from 2.7 to 4.0 (1 – p.113)

References

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- (6) *Modern Labour Inspection in the 21st Century - Conference Report*, available at: www.oit.org/public/english/protection/safework/labinsp/modern.pdf
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MEXICO

Timing of the Reform

Start date – 1990s

Key milestones

- 1995 – Adoption of the Federal Administrative Procedure Law (LFPA) (1 – p.23-24)

Scope of the Reform

Many inspectorates

- New Environmental Audit Agency created
- Third Party certification for some inspection functions in customs reform

Single laws

- Comprehensive LFPA adopted (1 – p.23-24)

Particular procedures

- Large overhaul of various inspection procedures (1 – p.23-24)

Substance of the Reform

Mandate of the inspectorates

- Introduction of “inspection orders” with detailed legal mandates of inspection. This order can only be signed by the heads of the inspection services, while a close of business or an installation is only permitted for senior officials following a strict administrative procedure. (1 – p.23-24)

Clarifying inspection procedures

- Inspection orders clarify the procedure, as do the newly introduced internal inspection manuals. Transparency of inspection procedures is thus improved (e.g. by posting information on the Internet) (1 – p.23-24)

Checklists, standards and protocols

- Introduction of (quote) “‘exhaustive inspection record,’ including a specific checklist of items to be inspected that were publicly available before the inspection.” Special identification cards planned for the elimination of illegal inspections (1 – p.23-24)

Risk-based targeting

- Introduced to customs and environmental inspections (2 – p.3) (4)

Third-party inspectors/certifiers

- Outsourcing in customs inspections (2-p.3)

Additional support to inspectorates

- Increased training for inspectors (2) and introduction of electronic systems (5 – p.48) and staff rotation (3 – p.55)

Impact of Reforms and Other Information

- *“Authorities and independent researchers have not undertaken a systematic assessment of the impact of these reforms on the cost of doing business and the investment climate. This lack of monitoring has also slowed progress and hindered cross-fertilization of success to other inspection procedures. Difficulties in co-ordinating inspections between different authorities have also undermined results.”*

- The most important positive lessons that can be elicited from the Mexico experience are the following:

- Reforming the inspection system requires many years to fine-tune the institutions, change human resources, business perceptions and trust.

- Framework administrative laws can set minimum “due process” standards that underpin sectoral reforms.

- Inspections reform goes beyond administrative aspects into wider legal and procedural changes.
 - An “engine of regulatory reform” at the core of government can drive reform and disseminate good practices. (1- p.24)
 - (quote) “Compliance with environmental regulation has increased significantly due to more efficient enforcement systems and incentive schemes.
 - An annual pre-established programme of risk-based inspections resulted in better monitoring of environmental compliance.
 - AA covers 10 percent of industrial facilities, but 70 to 80 percent of the most risky and polluting sources in Mexico.
 - Reforms have encouraged the professionalization of auditors and inspectors.
 - Pirate inspectors have disappeared, at least from formal sector enterprises.
 - The number of business complaints directly connected to inspections and audits has dropped.
 - Lower insurance costs for audited firms, due to lower risks
 - Benefits reported by firms range from increased incomes and savings to higher productive efficiency and lower risks. (4)

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MOLDOVA

Timing of the Reform

Start date – 2003 (earlier reforming act from 2000 was repealed)

Key milestones

- February 2003 – decision regarding inspection coordination G.D. 168/2003 (2 – p.16)
- April 2003 – Decision 395/2003 (2 – p.16)

Scope of the Reform

Many inspectorates

Coordination mechanisms

- G.D 168/2003 established that the Ministry of economy as the general coordinator of government controlling bodies and in specific regions (2 – p.16);
- Introduction of joint preparations for inspections and a joint Companies Inspection Schedule (2 – p.34)

Particular procedures

- Decision 395/2003 – regulates the frequency of inspections and targeting of entities for inspection (2 – p.16)

Substance of the Reform

Mandate of the inspectorate

- Schedules of the inspections and rules for exempting certain entities from inspection were developed in coordination with the Ministry of Economy (2 – p.16)
- Frequency of inspections was regulated, depending on the nature of the inspection, and limited in terms of time (2 – p.16)
- More comprehensive reforming act – G.D. 1081/2000 which, in addition to frequency of inspection rules, contained regulation for unannounced visits and their procedure, while Inspection Registration Books (IRB) were repealed in 2003 (2 – p.15-16)

Impact of Reforms and Other Information

- 2004 OECD reform review gave inspection reform in Moldova the worst grade – 1 (1) (2)
- From 2006 onward the EU has been assisting Moldova in a project to reform the inspection system of public bodies into an internal audit system (3)
- TI corruption index improved, but others (regulatory quality and government effectiveness) worsened (4 – p.67)

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MONGOLIA

Timing of the Reform

Start date – 2002

Key milestone

- 2002 – Establishment of the State Professional Inspections Agency (1-p.14)
- 2005 – Establishment of a new inspectorate with duties concerning unfair competition – UCRA (2 – p.3)
- 2010 – ongoing (risk based inspections; further improvement of inspection law, etc)

Scope of the Reform

- Merging a number of separate inspectorates into SPIA (1 – p.14)
- Comprehensive customs inspection reform

Substance of the Reform

- Introduction of risk management into the customs inspection system (4 – p.2-4)
- Development of an electronic information management system GAMAS. (4 – p.2-4)

Impact of Reforms and Other Information

- Inspection data from November 2007 shows that “*Mongolian firms spend, on average, 23 days per year in meetings with inspectors from a variety of government agencies. On average, inspectors from these agencies visited an establishment 7.5 times during the year. SMEs tended to be the most frequently visited, more than both micro-enterprises and large firms. Nearly 60 percent of the visits were unanticipated 'surprise' visits.*” (3 – p.28 quotation)
- A lack of environmental inspections is perceived as a problem in Mongolia (3 – p.47-48 & 53)

- Excessive discretion of inspection bodies is a problem with Mongolian inspections (3 – p.27 & 36)
- Inspections reform is supported by a recently formed Private Sector Development working group (3 – p.53)
- The general recommendation for the future is that the whole inspection system must be reviewed, rationalized or additionally resourced. (3 – p.53)

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- (1) Scott Jacobs and Cesar Cordova, “Good Practices for Regulatory Inspections: Guidelines for Reformers,” Prepared for the World Bank, December 2005, <http://rru.worldbank.org/Documents/PapersLinks/6943.pdf>
- (2) Scott Jacobs, *Inspections Reform: Policy Options and Lessons Learned in Mexico and the Philippines* available at: info.worldbank.org/etools/library/latestversion.asp?122722 and any text here would merely be restating the already said or quoting the whole document.

POLAND

Timing of the Reform

Start date – 1997

Key milestones:

- 1997 – Some customs inspection reforms launched (4 – p.441)
- 2000 – The trade inspection system was reformed
- 2002 – 2003 - The EU market surveillance system was implemented.
- 2004 – Law on Business Activity/Freedom of Economic Activity (LBA) (1 – p.25-26)
- 2008 - 2009 – Cancellation of General Trade Inspectorate (2)

Scope of the Reform

Many inspectorates

- New coordination institutions at the ministerial level (2)
- Merger of the General Trade Inspectorate and the Office of Competition and Consumer Protection (2)

Single laws

- LBA provided unification and standardisation of a number of norms of various legislative acts (1 – p.25-26)

Particular procedures

- Key elements of procedures were unified across all inspections (1 – p.25-26)

Substance of the Reform

- The 2004 Law on Freedom of Economic Activity sets minimum procedural standards to protect rights of businesses against intrusive inspections. Key provisions include the following:
 - Justification of the quality of the inspector and a written mandate to conduct inspections.
 - Representation of the interests of the inspected firm during the inspection visit.
 - Bookkeeping by inspected businesses on the organization of inspection visits and the course of action required by inspectors.
 - Limitation of the duration and frequency of inspections per calendar year, except in cases of specific authorisation duly motivated, 12 business days for micro-enterprises up to 48 business days for large enterprises.
 - Provisions that reserve the application of EU rules in relation to health and safety or protection of competition.

Reform of inspection procedures

- Clarifying inspection procedures – LBA, as a general law, simplifies the legislation and limits the need for secondary legislation, though exceptions still exist (1 – p.25-26)

Checklists, standards, protocols

- Introduction of improved official identification cards for inspectors (1 – p.25-26)
- Inspections can be conducted only in the presence of an entrepreneur or individual authorised by said entrepreneur (1 – p.25-26)
- Improved Inspection Registration Books (IRB) introduced (1 – p.25-26)
- No more than one inspection can be conducted simultaneously (specific exceptions listed in law) (1 – p.25-26)
- SMEs can be inspected for a maximum of four weeks per year (1 – p.25-26)

Impacts of Reforms and Other information

- Internal inspection/audit reform was conducted in 1994 (3 – p.111-112)
- Starosta, as the head of local government, supervises certain local inspections (3 - p. 114)

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ROMANIA

Timing of the Reform

Start date – 2002

Key milestones:

- 2002 – Action Plan for various business-related reforms, including inspections; Business Environment Unit formed as an overall coordinator of the plan (1 – p.27-28)
- 2003 – National Control Authority (NCA) established; Unique Register for Control (URC) established; Code of Conduct and a Guide for Controllers developed and introduced for Tax inspection and Customs (1 – p.27-28)
- Recently – this reform has been reversed and inspections were taken out of this authority.

Scope of the Reform

Single inspectorate; Many inspectorates

- Creation of NCA, with a wide scope of authority in coordinating the work of inspectorates (1 – p.27-28)
- This reform was reversed in the recent years.

Particular procedures

- Code of Conduct and Guide for Controllers to reform certain procedures (1 – p.27-28)

Substance of the Reform

Merging of inspectorates

- In 2003 Romania consolidated a number of inspections under the National Control Authority (NCA). The aim was to streamline the inspections regime, to ensure effective coordination and oversight of individual inspectorates and reduce corruption.

- The NCA had the following institutions and activities under its jurisdiction: National Environment Guard, State Inspectorate for Construction, Financial Guard and National Customs Inspection.
- The National Control Authority was also responsible for coordinating the enforcement activities of other inspectorates/supervisory bodies: National Control Agency for Export, Labor Inspection, Veterinary-Sanitary Inspection, Sanitary Inspection, National Authority for Consumer Protection, National Commission for Nuclear Control, National Office for Prevention and Fight against Money Laundering

Clarifying inspection procedures

- Dialogue with the private sector, as a duty of the NCA, while the NCA's other duties include the unification of procedures and the provision of information to the business community (1 – p.27-28)

Checklists, standards, protocols

- Development of internal regulations for all inspectorates, URC provides for detailed registering of all inspections and their results, overall policy, strategy and improving compliance with the rights of the inspected entities as a duty of the NCA (1 – p.27-28); Risk-based targeting
- Risk management introduced into inspectorates (1 – p.27-28)

Impact of Reforms and Other Information

- Negative assessment of the whole reform process, as inspections are not centralized and goals are yet to be achieved. (1 – p.27-28)
- Problems with the implementation of the provisions concerning URC (1–p.27-28)
- Labour inspectorate deemed to have improved administrative capabilities and conducted training of inspectors (2)
- General investment climate and a number of indexes (corruption, regulatory quality) are improving for Romania, which could potentially also be attributed to the inspection reform (3 – p. 76) (4)

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RUSSIA

Timing of the Reform

Start date – 2001

Key milestones

- 2001 – Federal Law #134-FZ on protection of legal entities and individual entrepreneurs under government control (Inspections Law) (1 – p.29)
- 2008 – Amendments to the Inspections Law and President Medvedev’s decree (2)

Scope of the Reform

Single law

- 2001 Inspections Law, as a single legislative act, regulates different questions for various inspections - though extensive additional legislation exists

Particular procedures

- Far-reaching reforms in frequency and conduct of inspections, clarifications of the procedure and an improved appeals mechanism

Substance of the Reform

Mandate of the inspectorate

- Maximum duration and frequency of inspections regulated – inspections can last a maximum of one month and can be conducted only once every two years for a single agency (1 – p.29)
- Additionally, new limitation was imposed to ensure that a small business can be inspected only after three years have passed since its creation (1 – p.29)
- Unscheduled inspections are not subject to inspectorate discretion, but grounds for them are regulated in detail. (1- p.30)
- Unplanned, surprise inspections can be conducted only after consultations with the regional prosecutor and in cases posing a direct threat to life and the health of the population (2)

- Only properly authorised officials can exercise control rights (1 – p.30)

The objective of the inspection must be relevant to the inspection body (1 – p.30)

Clarifying inspection procedures

- The overall rights and obligations of both inspected bodies and inspectors, contained in a plethora of other acts, are summarised and clarified (1 – p.30)

Checklists, standards, protocols

- Inspection Registration Books (IRB) have been introduced (1 – p.29)
- Inspection orders must be presented at the site of the inspection (1 – p.29-30)
- All results of the inspection must be documented in writing, through official forms (1 – p.29-30)
- The rights of inspected entities during inspection are further strengthened (2)
- Ban on “*non-due-process*” *SME inspections by police* and police penalties under the administrative violations code (2)

Risk-based targeting

- Although not specifically mentioned, the limits imposed on the frequency of the inspection could lead to their targeting based on risk

Accountability and transparency

- Publicity of rights and obligations, inspection orders and inspection results add to the transparency of the system and possible accountability of inspectors
- Improved appeal mechanisms – handled by court – rights to be presented before court are also given to groups which are not legal entities (1 – p.30)
- (quote) “In case the court satisfies the complaint of a legal entity or individual entrepreneur, the inspection acts on its own violations” (1 - p.30)

Impact of Reforms and Other Information

CEFIR reports that (quote) – “After the enactment of the new law, a significant fall occurred in the number of inspections by all government agencies. On average, the number of inspections in the first half of 2002 compared to the first half of 2001 fell by 21 percent and compared to the second half of 2001 by 27 percent. Consequently, both the time that management spends on inspections and the costs of inspections to firms decreased. Some 61 percent of firms have not had a single inspection by fire safety inspectors, while 73 percent have had no inspection from sanitary inspection agencies in the first half of 2002 (these were the two most problematic inspection agencies among those regulated by the new law). The percentages are higher for all other inspecting agencies. During the first half of 2002, fire safety inspectors came to 11 percent of firms more than once and sanitary inspectors visited 9 percent of the firms at least twice.

The observed fall in the number of inspections between the first half of 2001 and the first half of 2002 is especially striking because the respondents have a tendency to forget distant past and under-report the numbers in the more remote time periods. Thus, the number of inspections in the first half of 2001 have likely been underestimated. Even with this under-estimation, the progress is visible for all inspecting agencies.

Abuse of power by inspecting agencies was still visible in the first half of 2002, however: 6.4 percent of firms have experienced a direct violation of the new law by fire safety inspectors and 5.2 percent of firms by sanitary inspectors. These agencies conducted more than one planned inspection in these firms. Firms still report large numbers of unplanned inspections, especially by

the police department, for whom the share of unplanned visits is 45 percent; 12 percent of firms reported that inspections present a problem for them that can be characterized as “very serious” or “threatening the existence of the firm.”

The irregular nature of the inspections is also emphasised by the fact that during two-thirds of all unplanned inspections in the first half of 2002, inspectors did not show a warrant; and about a third of all fines were not based on an official schedule. (3 – p.2)

“BEEPS data indicates that in the Russian Federation, the problem with unofficial payments to tax inspectors is on an upward trend (see Box 2-1). In 2005, the percent of firms who claim that unofficial payments to fire and building inspectors has increased by 5 percent from 2002, and the percent of firms who claim to pay unofficial payments to occupational health and safety inspectors has also increased in this time period.” (4 – p.11)

“Moreover, CEFIR underlines that there are still series of drawbacks in the actual execution of inspections. First, even though the time spent dealing with inspectors decreased in 2005, these results greatly vary depending on the region. For instance, in Primorskiy Krai, 70 percent of the firms surveyed said they spent less than 5 percent of their time dealing with inspections, while in Moscow oblast only 30 percent of firms could make the same statement.”

Secondly, the share of firms reporting an increase in the number of “fines not based on the official scale (or simply bribes)” increased in 2004 and 2005. This suggests that even though the frequency of inspections is decreasing, the incentives to “obtain the most bribes” in fewer rounds may be immune to new legislation. This needs to be addressed. These results are confirmed by the trends showed in the BEEPS charts presented Figure 2-6 to 2-8.

In this case, the information gathered, especially among small businesses, seems to challenge both the *design* and the *implementation* of the new inspection laws. While at first, the rules seemed to promote greater transparency and manageability, it is now emerging that probably a stronger regulatory reform is needed in order to assign a definite, business-friendly role to this area. (4 – p.24)

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SLOVENIA

Timing of the Reform

Start date – 2002

Key milestones

- 2002 – (1 – p.29) Law passed establishing the Inspection Council
- 2007 – Reform to the governance of the Inspection Council
- Amendments to the Inspections Law

Scope of the Reform

- Systemic
- Creation of a coordination body, the Inception Council, as an inter-ministerial coordinating body. The Council coordinates the cooperation of different inspectorates, organizes joint inspections and promotes exchange of data and legal aid

Substance of the Reform

Monitoring and evaluation

- The job description and employment position of inspectors is regulated, including heads of inspectorates, with an emphasis on professional competence.
- Inspectorates are organised as a separate and autonomous body, based on:
 - (1) financial (own budget),
 - (2) human resources (it is the chief inspector, rather than the minister who functions as the employees' supervisor), and
 - (3) professional (the minister is prevented from influencing decisions in specific tangible cases).
- Inspectorates are encouraged to increase the quality of procedures
- Inspectorates receive a mandate for preventive measures, for example, they were provided with the ability to provide a warning for minor offences

The Inspection Council has prepared methodology for monitoring different inspection services based on indicators of performance. The first set of indicators was gathered in 2007 on a trial basis

Impact of Reforms and Other Information

- According to the opinions of several stakeholders, primarily representatives of inspectorates, but including, for example, the Chamber of Commerce and Industry, the general trend has been positive. After several years, the IBs have become more effective - the initially predominantly repressive function fostered stability, order and legally proper action on the market among those subjected to supervision. (1)
- Significant decrease in the number of appeals filed against the decisions of inspectors. (1)

- Decreased presence of inspectors in the field and different territorial organization – the closing down of smaller organizational units, etc.

References

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TAJKISTAN

Timing of the Reform

Start date – 2005

Key milestones

- 2005 – Beginning of the work on new inspection legislation (5)
- 2006 – Adoption of the new Law on Inspections (3)

Scope of the Reform

- Single law and particular procedures for government-wide inspections
- A new IFC project supported and proposed a *Law on Inspections*. This project was adopted, providing a general legal framework on inspections and unifying key principles for all inspection procedures. In addition, it introduces new concepts and strengthens due process rights for SMEs. (3)
- In 2009, Tajikistan introduced a two-year moratorium on inspection of SMEs.

Substance of the Reform

Mandate of the inspectorate

- Forbids inspectors to issue sanctions themselves; no right to conduct inspections unless precise conditions are met; (4)
- Ban against inspecting unrelated documentation. (4)
- Frequency and direction of inspections limited and based on risk assessment. (1 & 4)
- Additional clarification through information contained in checklists and an Inspection Registration Book (IRB) (1)

Checklists, protocols and standards

- Official list of inspection bodies created and distributed to businesses. (1)
- Unplanned inspections only permitted in cases of emergencies or special tax inspections. (4)
- All inspections must have official checklists that must be published. (1)
- Advanced notice of inspection must be sent to enterprises and inspections must be conducted under a clear and transparent procedure. (4)

- Furthermore, IRB assures that all inspections are registered and that all relevant data concerning them is recorded and maintained.

Risk-based targeting

- All inspectorates plan their inspections based on the risks that the actions of specific firms can pose to public health, safety and the environment. (1)

Additional support to inspectorates

- Comprehensive training of over 600 inspectors in new inspection procedures (1)

Enhancing Accountability and Transparency

- Inspection Registration Books (IRB) to ensure that inspection results are transparent
- Checklists create transparency in inspection processes and improve the accountability of inspectors if they do not follow them
- No direct issuance of fines (fines issued by courts) ensures that an inspector proposing fines without due grounding can be held personally accountable

Impact of Reforms and Other Information

- Expected savings for the businesses in Tajikistan, calculated by multiplying the number of working hours lost to inspections and productivity, are in the region of 7 million dollars. (1)
- Four Public Service Announcements regarding the new Law on Inspections were broadcast nationwide.(1)

References

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UKRAINE

Timing of the Reform

Start date – 2005

Key milestones

- 2006 – Limited inspectorate reforms (2 – p.59 & 62)
- 2007 – Law on Business Inspections passed (1, 3)

Scope of the Reforms

Single law

- New comprehensive law on business inspections with a broad application scope
Particular procedures
- New procedures were developed earlier introducing risk assessment for Fire and Tax inspections (2 – p.59 & 62)

Substance of the Reforms

Mandate of the inspectorate

- Limits the duration of inspections
- Clarifies inspection procedures – all rights and responsibilities of controlling agencies regarding inspections are precisely defined (4)
- Clarifies the justification and schedule of unplanned inspections or tax inspections (2 – p.51)

Checklists, protocols and standards

- All government agencies now have consistent and unified control procedures
- The rights of controlling agencies can only be established by law
- Checklists have been introduced and are to be used by all inspectorates (4)

Risk-based targeting

- Fire and tax inspectorates introduced risk-based targeting of inspections in 2006 (2 – p.59 & 62)
- New Law on Business Inspections introduces the risk-based concept to all business inspectorates – businesses posing the highest risks to safety and the environment are targeted (4)
- The degree of risk is a basis for determining the frequency of inspections for tax inspections (2 – p.51)

Enhancing Accountability and Transparency

- The introduction of checklists allows more transparent inspection procedures and better assessment of inspector accountability.

- The clarifying of rights and obligations also clearly add to the transparency of the inspection system

Impact of Reforms and Other Information

- Expected savings for Ukrainian businesses are around US\$10 million annually
- The Law still contains the provision that other laws containing more detailed rules for specific inspections have supremacy over it. Moreover, the amending of various legislation is required for the Law to take full effect (4)
- Currently, eight agencies have adopted risk targeting criteria, while checklists for inspectorates are under development (4)

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UZBEKISTAN

Timing of the Reform

Start date – 1996

Key milestones:

- 1996 – National Council for the Coordination of Activities Pursued by Control Agencies (NCCA) established by Presidential decree N 1503 (1)
- 1998 – Law on Government Inspections (LGI) adopted (2)
- 2000 – Inspection Registration Book (IRB) introduced (3)
- 2004 – Government Action Plan (GAP) adopted for Tax, Fire and Sanitary Inspections (2)
- 2005 – Two Presidential decrees signed concerning inspector mandates (3)
- 2006 – Two action plans signed between IFC and the State Committee of Uzbekistan for
- De-monopolisation and Promotion of Competition and

- Private Enterprise, the Sanitary-Epidemiological
- Service and Fire Safety Directorate.(1)

Scope of the Reform

Many inspectorates

Coordination mechanisms

- New coordination body: Republican Inspectorate Coordination Council (RICC, also known as NCCA) was instituted as part of an IFC project on SMEs and improved business environment.
- The RICC is composed of 21 members at the state level and is the focal point for all inspections within Uzbekistan.
- This Council coordinates inspections and analyses their results, while all inspections (with the exception of inspections in connection with a criminal investigation) have to be approved by the Council.
- The RICC establishes inspection schedules for the inspection bodies (tax inspection being deemed as the most important) and then decides on the conducting of inspections as a mandatory activity of all government bodies. In practice, the RICC approves/denies inspection plans for specific inspectorates and receives annual reports on delivered inspections. (1), (2) (4)

Single law

- The Law on Government Inspections contains general provisions on inspections, but does not unify the procedure – there are still a large number of regulations on specific inspections and inspectorates.(2),(3)

Particular Procedures

- Improvement of a number of procedures, based on the provisions of the LGI, Government Action Plan and presidential decrees.

Substance of the Reform

Mandate of the inspectorate

- The first Presidential decree, from 2005, waived the rights of inspectors to close businesses, freeze bank accounts, impose severe fines or confiscate goods - transferring these rights to the courts. A second Presidential decree limited the size of fines inspections can impose and ordered their waiver in the case of a first offence. It also established a six-month grace period for the payment of fines in cases where the fine exceeds 20% of the businesses' assets. (3)

Clarifying inspection procedures

- A specific Government Action Plan (GAP) established that inspections should indicate the rights and obligations of inspectors and their specific functions, as well as the rights and obligations of the entrepreneurs during an on-site inspection.

- GAP orders the introduction of a unified register of inspecting authorities, including information on the scope of their competence during an on-site business inspection.(2)
- IFC developed a Code of Conduct, which was approved and contained all provisions concerning inspections from various legislative acts, which was not formally adopted by the government (being a mere restatement of the law). However, its content was agreed to and can be used by SMEs for clarifying inspection procedures.(3)
- New inspection forms (checklists) listing all aspects to be covered by the inspection were developed in accordance with the two action plans signed in 2006.(1)

Setting checklists, protocols and standards

- Introduction of an Inspections Registration Book (IRB) in 2000. The IRB is an official document that must be completed by both the enterprise under inspection (in particular, it should reflect a firm's consent or disagreement with inspection results) and the inspecting authority (stating the purpose and result of inspection, positions and full names of inspectors and permission from the proper authority to conduct the inspection). In the case of an inspector refusing to complete the IRB entry, an entrepreneur has the right to refuse access to facilities.(3)
- GAP ordered the development and implementation of control checklists for each type of inspection implemented by individual inspectorates. (2)
- In close cooperation with the Fire and Sanitary Inspectorates, the IFC developed two pilot sector checklists – for fuel stations and retail trade outlets. (3)
- The second innovation, introduced in order to reduce inspection frequency, is the "joint inspection". A joint inspection is an inspection carried out simultaneously by two or more controlling agencies. All planned inspections have been transformed into joint inspections, whereby (according to the plan approved by the coordination Council) controlling agencies must visit a given enterprise at the same time and not more than once per year. This joint inspection cannot last longer than 30 days.(3)

Risk-based selection of inspection visits (targeting)

- GAP approved methodology for selecting inspection targets on the basis of criteria established by inspectorates. (2)
- A system of risk-based inspections is presently being developed by IFC with the Sanitary Authorities. (3)

Impacts and Other Information

Enhancing Accountability and Transparency

- The introduction of checklists and the establishment of a risk-based system of inspections are measures that improve the transparency of the inspection system, legal certainty and allow for improved accountability of the inspectors in the cases that they disregard procedures.(3)

References

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