



# **How to cut and simplify red tape and Administrative Procedures (APs)**

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## **Content of presentation**

1. Old regulation – new regulation
2. How do you know when to cut APs?
3. How do you know when to simplify APs?
4. What are the methods for simplification?



## Reducing red tape and formalities could greatly reduce business costs

- If a government succeeds in:
  - **Cutting at least 25% of the cost of APs, and**
  - **Simplifying most of the rest**
- ....Economic impacts could be large.
- Potential boost in GDP by 1-3%.
- The Dutch Bureau for Economic Policy Analysis estimated that a 25 percent reduction in the costs of administrative burdens would lead to a 1.7 percent GDP increase in Europe.





## **Cutting red tape should not be done in small doses.**

- The focus of a successful AP reform is to find significant impacts.
- That means producing substantial cuts in unneeded and inefficient red tape
- Small changes will mean failure, since governments continually create more red tape, which will reverse any small gains



## **Governments can do fake simplification: Examples of fake simplification**

- US: President Ford, facing an election campaign, ordered his department heads to cut the number of reports by 10%. The action backfired. Agencies simply combined two or three reports into one, so the number of reports went down, but the burden to businesses went up.
- Even in the Netherlands, lauded as a “world leader” in administrative burden reduction, the concrete benefits for businesses are slow to emerge, and “some of the 196 simplification measures to reach the 25% reduction have only small benefits for businesses.”



# The New Style of Regulation: A cultural change

- Traditional Regulation

- Reflexive (automatic response to problem)
- Static
- Standardised
- Deliberative
- Means-oriented
- Opaque and interest-group-based
- Single-mission
- National
- 
- Replacement of markets
- Effective
- Authoritarian and top-down

- New-style regulation

- Sceptical (is intervention really needed?)
- Dynamic
- Flexible
- Responsive
- Results-oriented
- Transparent and empirically based
- Balanced and integrative
- Co-ordinated or harmonised internationally
- Strategic use of markets
- Cost-effective and efficient
- Co-operative and bottom-up



## Target your cuts and simplifications

- **Real goal is not to cut APs, but to cut business costs. A 30-50% cut in APs should focus on those with real costs.**
- An AP reform should not be aimed at small changes
- To determine where to focus your efforts, you should identify the main cost drivers, such as:
  - Unneeded business conditions
  - Time needed by businesses to complete paperwork
  - Delays by government in responding
- Focus on areas where you can make significant reductions in cost:
  - Costs to businesses
  - Costs to citizens
  - Costs to government administration



# When do you cut APs?



Cut when:

1. There is no clear purpose relevant to the Government's goals
2. The AP is outdated and no longer needed for the future
3. The AP duplicates **or contradicts** other APs.
4. **The AP is implemented so badly it has no value**
5. The AP produces information of little value to the government **(too late, too inaccurate)**
6. The AP violates consumer choice about quality of goods and services
7. The AP is inconsistent with the needs of the market or WTO/international commitments





## There is no clear purpose relevant to the Government's goals: Example 1

- **Trade License (Kenya)**
- License required every commercial activity in the country to get a “trading” license, in addition to being registered.
- Purpose? This license was adopted in 1930 by the British to control the African businesses
- Since independence, Government had no clear reason for the license. It had become just a way to collect fees from businesses.
- It was CUT (2008).



## **There is no clear purpose relevant to the Government's goals: Example 2**

- **Computer license, Ukraine**
- Computer programmers are required to get a professional license.
- There is no clear reason for this license. There are no safety, health, or environmental risks from this work.
- It should be CUT.



## The AP is outdated and no longer needed for the future: Example 1

- **US regulations on rest breaks for railway workers**
- Breaks were required every 180 miles for railroad engineers.
- Why? This regulation was adopted in the 1880s when 180 miles was the distance between water towers for steam engines
- No longer relevant – it was CUT.



## The AP is outdated and no longer needed for the future: Example 2

- **Employee labor book registration, Vietnam**
- Employees are required to register their labor books with the local Dept of Labor.
- This requirement was adopted in 1985 and copied from a similar law in the Soviet Union. It was intended to monitor the labor force and keep information about employment history.
- It has no purpose in a competitive labor market.
- It should be CUT.



## The AP duplicates **or contradicts** other APs: Example 1

- Requirements for separate reports on tax, pension, and worker insurance (Netherlands)
- In the past, employers had to send separate annual payment statements to the Workers Insurance Authority for employees' social insurance contributions and a wage tax return to the revenue body.
- Since January 2006, these reports were combined into a single report. Employers need only file one report with the revenue body and this is done electronically.
- All other reports were CUT.
- Cost-savings were estimated at over €300 million per year.



## **The AP is implemented so badly it has no value: Example 1**

- Requirements that property developers pay a % of value to a municipal fund as a condition of approval (Ukraine)
- This was meant to give the municipality a financing source for other development needs, such as streets and water.
- But there was so little accountability that the moneys were stolen, and corruption was very high. The money was not used for its intended purpose.
- This requirement was CUT.



## The AP produces information of little value to the government: Example 1

- Requirement for notarized documents when buying a car (Italy)
- In the past, people who bought a car had to have a notary stamp on the title to the car. This was intended to prevent some kinds of fraud through misrepresentation.
- Officials could not find any evidence that the notary stamp had any value in preventing fraud, but it did cost citizens a lot.
- This requirement was CUT.
- It is now possible to transfer ownership of a motor vehicle in Italy without the signature of a notary.



## The AP produces information of little value to the government: Example 2

- Requirement to get certification from local police on loss of identify papers (Vietnam)
- This requirement is meant to reduce fraudulent reporting of lost IDs before new ID is issued.
- But the local police cannot certify the loss of an ID or the residence of the person. The certification has little value in preventing fraud.
- This requirement should be CUT.





## **The AP violates consumer choice about quality of goods and services: Example 1**

- Hotel license condition that hotel managers be certified as having management training (Kenya).
- This licensing condition was intended to improve the quality of hotel services in Kenya to promote tourism
- But tourists did not care about whether hotel managers were certified...they cared about quality of hotels.
- Tourists used international ratings such as the “Star” system to choose their hotels. The condition for staff certification had nothing to do with tourist selection or hotel rating.
- The condition was CUT.



## The AP is inconsistent with the needs of the developing market or WTO: Example 1

- Requirement that new bakeries be approved (Russia)
- The Russian ministry required that new bakeries be approved so that the ministry could determine if another bakery was already in that area, and if a new bakery is needed.
- But the test about if a new bakery is “needed” depends on what consumers want. If the new baker provides more choice and value, it is good for the society. That can be decided only by consumers after the bakery is built.
- The approval was CUT.



## The AP is inconsistent with the needs of the developing market or WTO: Example 2

- Requirement for pharmacy license that new pharmacies be one half kilometer from other pharmacies (Ireland)
- The Irish Ministry of Health wanted pharmacies to be far away from each other so their profits were safe
- But this increased the costs of medicines for citizens and travel time for citizens.
- The test about if a new pharmacy is “needed” depends on what consumers want. If the new pharmacy provides more choice and value, it is good for the society.
- The approval was CUT.



## The AP is inconsistent with the needs of the developing market or WTO: Example 3

- Requirement that advertisements be approved for accuracy by the Ministry of Health (Vietnam)
- Vietnam's Ministry approves advertisements to ensure that citizens have accurate information.
- But this increased the costs of advertising, and slows down advertising. The Ministry does not usually know if ads actually used are those that are approved.
- As Vietnam becomes richer, advertising to consumers will be increasingly important in providing product and price information. Advertising promotes competition and consumer choice. Most countries do not approve ads.
- The approval should be CUT and replaced by general rules on advertising content.



## **The AP is inconsistent with the needs of the developing market or WTO: Example 4**

- **Requirement for automatic import licensing (Vietnam)**
- Vietnam's Ministry of Industry and Trade requires importers to obtain import licenses for some products.
- This is intended to monitor import flows, and has the effect of slowing down imports. It is a form of trade management.
- This requirement might conflict with WTO requirements on import licenses, which requires that such licenses be temporary and used only when other methods to achieve the State goals are not available.
- Recommended solution: CUT.



## When do you simplify an AP?

1. When none of the conditions for cutting the AP are present
2. When forms can be reduced, clarified or shortened while meeting government needs
3. When a license or approval can be replaced with a notification
4. When a reporting requirement can be replaced by a general rule



## How do you simplify?

- Reduce the number of businesses affected by the requirement (population)
  - Restrict the AP only to high-risk businesses or large businesses
- Reduce the annual number of times they have to report (frequency)
  - Require a license renewal every 5 years rather than every year
- Reduce the cost per business
  - Reduce forms, reduce information, clarify requirements



## Bad AP practices (1)

1. Require ex ante permits and approvals for activities that can be better monitored ex post
2. Require same reporting by everyone, regardless of risk, frequency, or size
3. Require information not actually relevant to government needs
4. Require information that is not clear
5. Require information that is poor quality and not useful to government needs
6. Require information already available to the government or already reported on other forms





## Bad AP Practices (2)

7. Require reporting more often than is needed by government users, such as requiring frequent reporting on a rigid schedule regardless of changes (every quarter)
8. Require multiple recordings of similar information
9. Require reporting in costly forms, such as on complex paper forms that require information to be transcribed from other forms held by businesses
10. Require frequent reporting on a rigid schedule regardless of changes in the business
11. Require businesses to wait for responses on an unclear time schedule



## **Bad practice: Require ex ante permits and approvals for activities that can be better monitored ex post**

### **Simplification strategies**

- Replace permits with general rules and inspections
- The Belgian Establishment of Businesses Act governs entry to 42 professions. The act was simplified so that an entrepreneur who wants to start an enterprise in one of the areas will no longer need to demonstrate to the authorities before starting his business that he meets all the requirements of the act. Instead, he can just get started. Of course, when public interests are at stake such as public health or fire safety rules, there are still legal requirements. The difference lies in demonstrating compliance: no longer ex-ante when starting a business, but after start-up during normal operations when businesses are inspected (on the basis of a risk assessment).



## **Bad practice: Require ex ante permits and approvals for activities that can be better monitored ex post**

### **Simplification strategies**

- Rather than requiring advertisers to submit ads for approval to the Ministry of Culture, publish general rules about what kinds of ads are not acceptable



## **Bad practice: Require same reporting by everyone, regardless of risk, frequency, or size**

### **Simplification strategies**

- Require more frequent reporting by high risk entities, less frequent reporting by low-risk entities
  - Tax reporting is needed less frequently for businesses with small revenues
    - Tax bodies are increasingly moving away from a “one size fits all” approach to verifying taxpayers’ liabilities, by developing a more tailored/ less burdensome set of interventions to deal with the specific risks presented by the different categories of taxpayer.
  - Driver’s license renewal is needed less frequently for private citizens than for commercial drivers



## **Bad practice: Require same reporting by everyone, regardless of risk, frequency, or size**

### **Simplification strategies**

- United Kingdom: Required pharmaceutical companies to apply for approval for every change to labelling of medicines. But found that simple or small changes did not endanger patients, so replaced approval with self-certification that the change did not reduce information for patients. Savings for medicine producers: \$15 million/year.
- In Ireland, all limited companies were required by law to have an audit and have their accounts statutorily audited each year. An amendment of the Companies Act introduced an audit exemption for small companies. Savings for companies is euro 3.735 million/year.



**Bad practice: Require reporting more often than is needed by government users, such as requiring frequent reporting on a rigid schedule regardless of changes (every quarter)**

**Simplification strategies (1)**

- Require reporting only when there are substantial changes
  - Rather than requiring companies to report their Directors every year, require them to report changes to Directors
  - Rather than require construction companies to report on accidents every month, only require that accidents be reported when they actually occur



**Bad practice: Require reporting more often than is needed by government users, such as requiring frequent reporting on a rigid schedule regardless of changes (every quarter)**

### **Simplification strategies (2)**

- Change reporting to notifications
  - The Belgian Establishment of Businesses Act governs entry to 42 professions. The act is being simplified so that an entrepreneur who wants to start an enterprise in one of the areas currently covered by the act will no longer need to demonstrate to the authorities before starting his business that he meets all the requirements of the act, but instead he can just get started. Of course whenever public interests are at stake such as public health or fire safety rules there will still be legal requirements. The difference (and the gain in terms of admin burdens, compliance costs and annoyance) lies in demonstrating compliance: no longer ex-ante when starting a business, but after start-up during normal operations when businesses are inspected (on the basis of a risk assessment).



## **Bad practice: Require information not actually relevant to government needs**

### **Simplification strategies**

- Check that the information is actually used by government, and not simply filed away. Eliminate any information not actively used to implement government programs





## **Bad practice: Require information that is not clear**

### **Simplification strategies**

- Provide better guidance and instructions
  - U.S.: Takes the most time read instructions for workplace safety requirements
- Draft APs in “plain language”
- Reduce the number of forms
- Release guides to show the practical results of any changes to rules
- Reduce the frequency of changes to pre-established schedules



**Bad practice: Require reporting in costly forms, such as on complex paper forms that require information to be transcribed from other forms held by businesses**

### **Simplification strategies**

- Simplify forms to the maximum extent
- Allow businesses to report using accepted business accounting methods
- Use reporting methods that are less costly
  - In United Kingdom, restrictions were removed so that 1.2 million companies can send information to shareholders by e-mail, saving €83.1 million annually; and making it possible for businesses to apply for planning permission electronically, saving a total of €9 million annually.



## Bad practice: Require information already available to the government or already reported on other forms

### Simplification strategies

- Merge forms
- Share information between programs
- Allow submission of existing documents, such as tax statements, rather than require new documents containing the same information

United States: How much duplication is there in the information collected?

A. Not Much		0%
B. A Little	1	17%
C. Some	1	17%
D. A Great Deal	3	50%
E. Don't Know	1	17%



## **Bad practice: Require information already available to the government or already reported on other forms**

### **Simplification strategies**

- Create simplified forms for repeat reporting
- Create standard forms that can be used for multiple programs.
- US Department of Agriculture: Rural Development Guaranteed Loans created a common set of forms across four loan programs. This created efficiencies in reporting and reduced burden to lenders and borrowers. Estimated cost savings: \$750,000/year



## **Bad practice: Require businesses to wait for responses on an unclear time schedule**

### **Simplification strategies**

- Administrative accountability (for example, tracking applications online)
- Adopt a deadline for government response, with a “silence is consent” provision. An automatic approval is issued on the final day.
  - In the United Kingdom, applicants for modifications to pharmaceutical packaging or information are now notified of the validity of applications within 14 days of receipt, a considerable improvement on what in the past could take up to 90 days. This saves industry and consumers €131 million per year because companies are able to bring medicines to the market more quickly.
  - In Italy, a business man can start a productive activity if the public administration concerned does not deny its permission within 30 days of a request (the 'silent-consent' rule).



- Thank you!