

**LESSONS LEARNED FROM
ADMINISTRATIVE SIMPLIFICATIONS
IMPROVING BUSINESS ENVIRONMENT
IN DEVELOPED COUNTRIES**

POSSIBLE IMPLICATIONS FOR ARMENIA

ABOUT CSERA

Center for Socio-Economic Research and Analysis is A think tank established in 2002 in Yerevan, Armenia.

Our mission is to promote the social and economic development of Armenia. Our activities are dedicated to addressing the social, economic and political issues that Armenia faces. These issues are as follows:

- Poverty reduction
- European integration
- Improvement of business environment
- Rehabilitation of earthquake zone and post conflict territories
- Strengthening state governance and local self-governance systems
- Protection of human rights, democracy and transparency

For more detailed information please visit our web site at: www.csera.org

"Center for Socio Economic
Research and Analysis"
NGO

The opinions expressed in this publication are those of the individual authors and are not meant to represent the opinions or official positions of the funding organizations, the OSCE office in Yerevan or EFSCCP.

TABLE OF CONTENTS

Foreword

Acknowledgements

PART A.

1. Brief assessment of Armenia's business environment.
2. Experience in removing administrative barriers to FDI and simplification of procedures for doing business in Armenia – Lessons learned from gained achievements and omitted opportunities.
3. Synopsis of key pillars in mid-term administrative simplification strategy of the Government of Armenia (GoA).

PART B.

Focus on the key overarching tools and practices.

1. Techniques for measuring administrative burdens.
2. Leveraging IT Solutions in reducing administrative barriers.
3. Choosing the approach to business registration reform.
4. Streamlining licensing procedures.
5. Do one-stop-shops work and how?
6. Time limits for decision making.
7. Other tools and practices.

PART C. Annexes and Tables

1. **ANNEX A.I** - Ease of Doing Business Indicators: Regional comparisons of Armenia with those countries of peer-group and global best performers.
2. Bibliography

ACKNOWLEDGEMENTS

The Center for Socio-Economic Research and Analysis would like to extend its appreciation to the team of experts who developed this White Paper: Hrayr Gyonyan, PhD, Team Leader/ Key Expert; Davit Karapetyan, PhD, Senior Expert; Karen Isahakyan, MBA, Expert; and Karen Martirosyan, PhD, Expert.

Special thanks to Dr. Vardan Bostanjyan, Professor of Economics, for editing this paper.

We are also thankful to Dr. Antal Szabo for peer reviewing the first draft and providing his positive assessment to initiative, used methodology and benchmarks, as well as for his remarks from which this initiative has significantly benefited.

We are grateful to OSCE Office in Yerevan and Eurasia Foundation's South Caucasus Cooperation Programme (EFSCCP) for providing broad support to the initiative since its inception in the form of financial assistance and methodological guidance. Particularly thanks go to the following individuals: Vladimir Pryakhin, Head of OSCE Office in Yerevan, Ambassador; Jeannette Kloetzer, Economic and Environmental Officer; Tigran Sukiasyan, Senior Economic Assistant; Robert O'Donovan, Regional Director of EFSCCP; Vazgen Karapetyan, Senior Programme Coordinator of EFSCCP; and Haykanush Iskandaryan, Grants Management Coordinator of EFSCCP.

FOREWORD

The composition of this WHITE PAPER has been initiated by the “Center for Socio-Economic Research and Analysis” NGO within the framework of its activities directed towards contribution to policy debates on future reformation of administrative procedures regulating business activities in Armenia. Our efforts have been inspired by the hope to see Armenia in the medium term as a country with quality of business regulations competing with top performing countries.

Increasingly the issue is given more significance, as Armenia joins as a member of the ENP and adopts the integration into the European Union as a political guide, it is essential to ensure compliance with EU legislation.

In an era of regional and global competition for FDI countries, the countries that remove administrative barriers and cut the “red tape” enhance their competitive advantage. Targeted countries have taken necessary steps to improve their investment climates at the macro level, for example, by liberalizing currency regimes and introducing investment incentives. However the investment response has been disappointing in terms of expected results, mainly demonstrating resource orientation pattern since the issue of excessive bureaucracy is often overlooked. Complex, non-transparent and time-consuming procedures not only deter new investment – both local and foreign – but also erode the competitiveness of local firms. Individually, administrative barriers seem like mere nuisances but jointly, they become overwhelming, adding considerable cost, time, uncertainty and risk to an investment project. All things being equal, investors locate countries or regions that are uncomplicated to realize their profit while complying with regulations.

In defining administrative barriers, a useful concept has been developed from “re-engineering government” approach. Borrowing from a private sector ethos, it is useful for government to view the person it interacts with – in this case a foreign investor – as the “customer” or “user” of government services. In this way, individual public servants and agencies begin to reorient themselves viewing procedures and systems not only as mechanisms to regulate but also to provide a service for a specific end user and make improvements to “keep the customer satisfied.” In this way, perspective administrative barriers are assessed from the point of view of the investor rather than that of the government. In so doing, an administrative barrier can have one or more of the following characteristics:

- poor access to accurate, clear, and up-to-date process information;
- cumbersome or overly complicated procedures, including unnecessary double checks, excessive steps required for completing a regulatory interaction, and repetitive approval requirements;
- slow processing of applications and unresponsiveness among civil servants in facilitating approval or access to information;
- excessive or unnecessary paperwork requirements; and
- poor allocation of costs for permits, licenses, forms, and other approvals.

With the purpose of contributing to the process, CSERA NGO (Center for Socio-Economic Research and Analysis) initiated and conducted this current project, funded

by OSCE office in Yerevan and Eurasia Foundation's South Caucasus Cooperation Programme (EFSCCP). Within the framework of this project and CSERA's activities directed towards contribution to the policy debates on future reformation of administrative procedures regulating business activities in Armenia, composition of the White Paper was initiated on "Lessons learned from administrative simplifications improving business environment in developed countries: Possible implications for Armenia". This document provides comprehensive research of the world's best practices and identifies set of commonly used tools and practices.

Along with thorough assessment of Armenia's business environment based on the set of indicators, comprehensive review of the following international best practices were undertaken:

- IT driven mechanisms to reduce administrative burdens,
- Physical one-stop shops for citizens and businesses,
- Simplification of licensing procedures,
- Assistance to SME's,
- Mechanisms for measuring administrative burdens,
- Time limits for decision making,
- Other tools and practices,
- Organizational approaches.

We anticipate that our visions for Armenia's development through the introduction of certain mechanisms, practices and institutions, will contribute to the efforts of the Government of Armenia. Together with the support of the donor community of the Foreign Investment Advisory Service, Armenia ought to be one of the best places to establish a business.

PART A.

1. BRIEF ASSESSMENT OF ARMENIA'S BUSINESS ENVIRONMENT

1.1. WB's Doing Business Ranking

The **Ease of Doing Business Index** ranks Armenia at 34th place among the 175 countries covered by the "Doing Business in 2007 – How to reform" report (some comparisons given in Table A.1.1).

Table A.1.1 - Ease of Doing Business Ranking – Regional comparisons of Armenia with those countries of peer-group and global best performers.

Economy	Ease of Doing Business Ranking
<i>Caucasus countries</i>	
Armenia	34
Azerbaijan	99
Georgia	37
<i>Other CIS countries</i>	
Russia	96
Moldova	103
Kazakhstan	63
Ukraine	128
<i>Countries of peer group</i>	
Lithuania	16
Estonia	17
Latvia	24
Slovakia	36
Poland	75
<i>Global best performers</i>	
Singapore	1
New Zealand	2
USA	3

The **Doing Business** research implemented annually by the World Bank and International Finance Corporation is the most all-embracing, including in itself quantitative indicators on business regulations and their enforcement compared across 175 countries and over time.

The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered by the **Doing Business in 2007**. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

In Table A.1.2 below, Armenia's ranking is listed for each of the 10 indicators covered by **Doing Business in 2007** along with a description. A detailed regional comparison tables with countries in peer-group as well as with global best performers is provided in Annex A.I.

Table A.1.2 - Description of Doing Business Indicators and Armenia's ranks

Indicator	Armenia's Rank
Starting a business ▪ Procedures, time, cost and minimum capital to open a new business	46
Dealing with licenses ▪ Procedures, time and cost of business inspections and licensing (construction industry)	36
Employing workers ▪ Difficulty of hiring index, rigidity of hours of index, difficulty of firing index, hiring and firing costs	41
Registering property ▪ Procedures, time and cost to register commercial real estate	2
Getting credit ▪ Strength of legal rights index, depth of credit information index	65
Protecting investors ▪ Indices on the extent of disclosure, extent of director liability and ease of shareholder suits	83
Paying taxes ▪ Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit	148
Trading across borders ▪ Number of documents and signatures and length of time to export and import	119
Enforcing contracts ▪ Procedures, time and cost to enforce a debt contract	18
Closing a business ▪ Time and cost to close down a business, and recovery rate	40

1.2. World Economic Forum's Business Competitiveness Index

The World Economic Forum has been measuring national competitiveness for more than 100 countries and subsequently calculating **Growth Competitiveness Index**, as well as **Business Competitiveness Index** for over two decades. During this period the specific methodology used to measure competitiveness has necessarily evolved, as we take into account the latest thinking on what drives the underlying productivity, critical to a country's ability to ensure sufficient and rising prosperity for its citizens.

WEF's indexes are calculated based on a combination of hard statistical data and information drawn from the World Economic Forum's Executive Opinion Survey. The latter helps to capture concepts for which hard data are typically unavailable, but which are, nevertheless, central to an appropriate understanding of the factors fuelling economic growth.

The Business Competitiveness Index (BCI) focuses on the underlying microeconomic factors which determine economies' current sustainable levels of productivity and competitiveness, thus providing a complementary approach to the forward-looking macroeconomic approach of the GCI described in the section above. The BCI rests on the idea that microeconomic factors are critical for national competitiveness, since wealth is actually created at the level of firms operating in an economy.

The BCI specifically measures two areas that are critical to the microeconomic business environment in an economy: **the sophistication of company operations and strategy**, as well as **the quality of the overarching national business environment** in which they are operating.

The comparative outlook for Armenia's GCI and BCI, as well as two important sub-indexes of the latter are presented in the Table A.1.3 below:

Table A.1.3 - WEF's Business Competitiveness Index

Economy	Growth Competitiveness Index	Business Competitiveness Index	Company Operation and Strategy Ranking	Quality of the National Business Environment Ranking
<i>Caucasus countries</i>				
Armenia	79	88	87	90
Azerbaijan	69	77	74	80
Georgia	86	96	94	95
<i>Other CIS countries</i>				
Russia	75	74	77	70
Moldova	82	93	90	94
Kazakhstan	61	62	72	60
Ukraine	84	75	71	76

Economy	Growth Competitive-ness Index	Business Competitive-ness Index	Company Operation and Strategy Ranking	Quality of the National Business Environment Ranking
<i>Countries of peer group</i>				
Lithuania	43	41	41	41
Latvia	44	48	51	48
Slovak Rep.	41	39	47	38
Poland	51	42	43	46
<i>Global best performers</i>				
Finland	1	2	9	1
USA	2	1	1	2
Sweden	3	12	7	14
Denmark	4	4	4	3
Taiwan	5	14	13	15

1.3. TI Corruption Perception Index

The TI Corruption Perceptions Index (CPI) ranks 159 countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on corruption related data in expert surveys carried out by a variety of reputable institutions. It reflects the views of business people and analysts from around the world, including experts who are most directly confronted with the realities of corruption in the countries evaluated.

Surveys are carried out among business people and country analysts, including surveys of residents of countries. It is important to note that residents' viewpoints correlate well with those of experts abroad. In the past, the experts surveyed in the CPI sources were often business people from industrialized countries; the viewpoint of less developed countries was underrepresented. This has changed over time, giving increasingly voice to respondents from emerging market economies. In summation, the CPI gathers perceptions that are broadly based, not biased by cultural preconditions, and not merely generated by American and European experts.

The CPI 2005 draws on 16 different polls and surveys from 10 independent institutions, such as Economist Intelligence Unit, Freedom House, Political and Economic Risk Consultancy, World Economic Forum and World Markets Research Centre. TI strives to ensure that the sources used are of the highest quality and that the survey is performed with complete integrity.

Comparative snapshot of Transparency International **Corruption Perception Index 2005** provided in Table A.1.4 below:

Table A.1.4 - Transparency International Corruption Perception Index 2005

Economy	Rank	2005 CPI Score ¹	Confidence Range ²	Surveys Used ³
<i>Caucasus countries</i>				
Armenia	88	2.9	2.5-3.2	4
Azerbaijan	137	2.2	1.9-2.5	6
Georgia	130	2.3	2.0-2.6	6
<i>Other CIS countries</i>				
Russia	126	2.4	2.3-2.6	12
Moldova	88	2.9	2.3-3.7	5
Kazakhstan	107	2.6	2.2-3.2	6
Ukraine	107	2.6	2.4-2.8	8
<i>Countries of peer group</i>				
Lithuania	44	4.8	4.5-5.1	8
Latvia	51	4.2	3.8-4.6	7
Slovak Rep.	47	4.3	3.8-4.8	10
Poland	70	3.4	3.0-3.9	11
<i>Global best performers</i>				
Iceland	1	9.7	9.5-9.8	8
Finland	2	9.6	9.5-9.7	9
New Zealand	2	9.6	9.5-9.7	9
Denmark	4	9.5	9.3-9.6	10
Singapore	5	9.4	9.3-9.5	12

1.4. EBRD-WB Business Environment and Enterprise Performance Survey 2005 (BEEPS)

The EBRD-WB Business Environment and Enterprise Performance Survey (BEEPS) is a joint initiative of the European Bank for Reconstruction and Development and the World Bank. The BEEPS has been carried out in three rounds in 1999, 2002, and 2005

¹ **CPI Score** relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

² **Confidence Range** provides a range of possible values of the CPI Score. This reflects the method a country's score varies, depending on measurement precision.

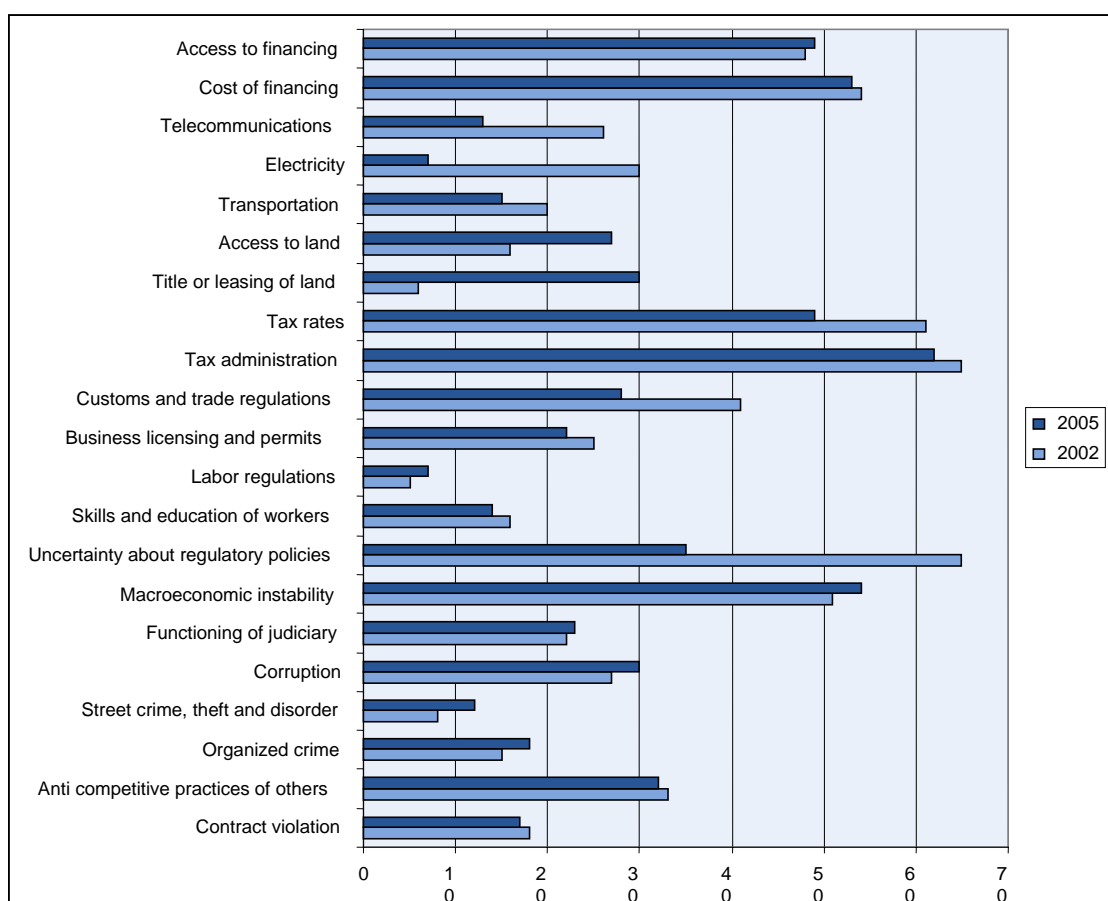
³ **Surveys used** refer to the number of surveys that assessed a country's performance.

and covers virtually all of the countries of Central and Eastern Europe and the former Soviet Union, as well as Turkey.

For the purpose of assessing Armenia's business environment executives of 200 companies, operating in different sectors and regions, with different size and ownership composition were surveyed in the year 2005.

The overarching goal of the Survey was the study of the executive's perception on the issues, hindering development and further expansion of their operations. The summarized picture compared with the data for the year 2002 is presented in the graph A.1.5 below:

Graph A.1.5 - Problems Doing Business - Over Time (Percent of firms indicating a problem)



1.5. Heritage Foundation-The Wall Street Journal Index of Economic Freedom 2006

Since 1995, the *Index of Economic Freedom* has offered the international community an annual in-depth examination of the factors that contribute most directly to economic freedom and prosperity. As the first comprehensive study of economic freedom ever

published, the 1995 *Index* defined the method by which economic freedom is measured in such vastly different places as Hong Kong and North Korea. Since then, other studies have joined the effort, analyzing such issues as trade or government intervention in the economy.

There is overlapping coverage among these indices, except the *Index of Economic Freedom* includes the broadest array of institutional factors determining economic freedom, among them:

- Corruption in the judiciary, customs service, and government bureaucracy;
- The rule of law, efficiency within the judiciary, and the ability to enforce contracts;
- Regulatory burdens on business, including health, safety, and environmental regulation;
- Labor market regulations, such as established work weeks and mandatory separation pay; and
- Informal market activities, including corruption, smuggling, piracy of intellectual property rights, and the underground provision of labor and other services.

Economic freedom is defined as *the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself*. To measure economic freedom and rate each country, the authors of the *Index* study 50 independent economic variables. These variables fall into 10 broad categories, or factors, of economic freedom:

- Trade policy,
- Fiscal burden of government,
- Government intervention in the economy,
- Monetary policy,
- Capital flows and foreign investment,
- Banking and finance,
- Wages and prices,
- Property rights,
- Regulation, and
- Informal market activity.

In the *Index of Economic Freedom*, all 10 factors are equally important to the level of economic freedom in any country. Thus, to determine a country's overall score, the factors are weighted equally. This is a common-sense approach.

Each country receives its overall economic freedom score based on the simple average of the 10 individual factor scores. Each factor is graded according to a unique scale. The scales run from 1 to 5: A score of 1 signifies an economic environment or set of policies that are most conducive to economic freedom, while a score of 5 signifies a set of policies that are least conducive to economic freedom. In addition,

following each factor score is a description—"better," "worse," or "stable" — to indicate, respectively, whether that factor of economic freedom has improved, worsened, or stayed constant compared with the country's score from the previous year.

Finally, the 10 factors are added and averaged, and an overall score is assigned to the country.

The four broad categories of economic freedom in the *Index* are:

- **Free**—countries with an average overall score of .99 or less;
- **Mostly Free**—countries with an average overall score of 2.00 to 2.99;
- **Mostly Un-free**—countries with an average overall score of 3.00 to 3.99; and
- **Repressed**—countries with an average overall score of 4.00 or higher.

For the 2006 *Index of Economic Freedom*, data for the period covering the second half of 2004 through the first half of 2005 were studied. To some degree, the information considered for each factor was current as of June 30, 2005.

Table A.1.6 – Regional Outlook for the Index of Economic Freedom 2006

SCORE	ARMENIA	AZERBAIJAN	GEORGIA
Index of Economic Freedom	27 <i>Mostly Free</i>	123 <i>Mostly Un-free</i>	68 <i>Mostly Free</i>
Trade policy	2-stable	3-better	3.5-stable
Fiscal burden of Government	2.1-better	3.6-worse	2.3-better
Government intervention in the economy	2-better	3-stable	1.5-stable
Monetary policy	2-stable	2-worse	2-better
Capital flows and FDI	1-better	4-stable	3-better
Banking and finance	1-stable	4-stable	2-better
Wages and prices	2-better	3-stable	3-stable
Property rights	3-stable	4-stable	4-stable
Regulation	4-stable	4-stable	4-stable
Informal market	3.5-better	4.5-stable	4.5-stable

2. EXPERIENCE IN REMOVING ADMINISTRATIVE BARRIERS TO FDI AND SIMPLIFICATION OF PROCEDURES FOR DOING BUSINESS IN ARMENIA – LESSONS LEARNED FROM GAINED ACHIEVEMENTS AND OMITTED OPPORTUNITIES

The first comprehensive and systematic assessment of Armenia's business environment, per request from the Government of the Republic of Armenia, was carried out in late 1999, by the joint WB/IFC Foreign Investment Advisory Service. The main objective of that study was to review and assess the existing business environment in Armenia. Based on the findings of the study, recommendations were made to improve the existing legal and administrative framework in a number of areas, combined with comprehensive suggestions to enhance institutional capacity. Findings and recommendations were discussed with the Government, the private sector and the donor community. The key areas of focus were: streamlining licensing procedures and reducing the scope of licensing requirements, consolidating and downsizing controlling/auditing agencies; and amending the legal and regulatory framework defining procedures for inspections of business activity.

Through consent, a high level Business Council chaired by the Prime Minister was established by the President in December 2000 to promote improvements in the business and investment climate with broad participation of local and foreign companies.

The table provided below presents the basic recommendations made by a research team, the importance, as well as the impact within 3 years.

**Table A.2.1 – Impact assessment of the basic recommendations of
FIAS Study 2000**

Recommendation	Importance	Impact	Notes
Develop a comprehensive public database on all pieces of legislation	Important	Partially implemented	
Design capacity building program for the court system	Important	Partially implemented	
Conduct anti-corruption campaign	Very Important	Fully implemented	While campaign is successfully conducted, progress in implementation of concrete actions significantly lags behind.
Develop a centralized company registration process	Very Important	Partially implemented	Despite significant progress in company registration process, centralised registration process is yet to be established

Recommendation	Importance	Impact	Notes
Eliminate tax audit pressure and design transparent inspection procedures	Very Important	Partially implemented	
Establish effective VAT and excise tax refund mechanism	Very Important	Partially implemented	While debt amount decreased significantly, this is primarily due to administrative efforts, not from the existence of an effective refund mechanism
Standardize and streamline construction permit process	Important	Partially implemented	Partial implementation of the recommendation does not ensure reduction of administrative burden
Re-design customs procedures to avoid discretion and corruption	Very Important	Fully implemented	While procedures were redesigned in accordance with best practices, administration left much to be desired

In order to assess the status of implementation from the year 2000 recommendations and provide objective assessment of the improvements and changes in the business environment, the GOA in 2004, requested an update of the FIAS study. In response to this request *Assessment of Administrative Procedures for Doing Business in Armenia* were undertaken.

Assessment of Administrative Procedures for Doing Business in Armenia was aimed at: evaluation of efforts to improve administrative procedures for doing business in Armenia, presentation and recommendation of methodologies for overall reform activities, identifying reform priorities, and development of an updated action plan for sustainable reforms.

The Assessment Report benefited from a number of different sources, including the 2000 FIAS Report and the track record of implementation of its recommendations, procedure templates completed by public institutions representing the official viewpoints of the institutions, results of four consecutive Administrative and Regulatory Costs surveys, focus groups with businesses, and legal research.

Overall, there have been notable improvements in a number of administrative procedures affecting businesses since the 2000 FIAS Study, including business registration and licensing. While strongly commending these achievements, it should be noted that the more difficult tasks such as ensuring efficient and fair tax and customs administration, transparent privatization and lease of public land and construction coordination remain to be tackled. Therefore, it is of critical importance that the Government recognizes and prioritizes some fundamental issues that have not been adequately addressed over the last several years. The most critical problems identified during the assessment research are described below. Those are followed by an overview of key issues with the start-up, locating and operating procedures.

Although investors do not consider entry procedures (visa and residence permit procedures) to be overly onerous, there is a notable dissatisfaction with the information provision, especially regarding residence permits. *Major improvements have been noted in the area of company registration.* The Law of the Republic of Armenia “On State Registration of Legal Persons” that came into effect as of 2002 clarified a number of issues related to state registration of legal entities and sole proprietors, simplified the registration procedure with the State Register, reduced the processing time and the number of required documents. *However, the key recommendations of the 2000 FIAS study, namely – to develop a centralized registration process and to eliminate the requirement for company seal – have seen partial improvement.*

In 2000 FIAS concluded that there were unclear licensing requirements and oftentimes the number and type of licenses required seemed unclear both for government and the businesses. Development of transparent licensing procedures including all information requirements and procedural steps was therefore recommended. The Law on Licensing that subsequently came into effect in July 2001 improved the situation considerably by clarifying the licensing requirements and procedures. In general, the current system for licensing is fairly reasonable, uniform and transparent.

Over the last four years, a variety of changes have occurred in the various locating processes that has helped accelerate land acquisition and planning approval procedures. Although significant progress has been made, further streamlining measures should be implemented to remove existing development barriers for investors. Attention should be given to further streamlining the existing land and construction processes, which remain cumbersome and onerous for investors and are not always transparent or accountable, in particular:

- Improving the approach to land policies, planning policies, and problem solving within the existing institutional/government structure.
- Making land reform a participatory process between the public and private sectors.
- Decentralizing the planning process and providing processing power to the local municipalities. Furthermore redefining the Mayor and Chief Architect’s Office role in the planning process.

Businesses still perceive tax administration as an obstacle to private sector development. Despite all of the positive changes both in the tax regime and administration since 2000, investors still cite tax administration to be the most problematic constraint seriously hindering the investment and private sector growth in Armenia. In particular, investors cite inspections, unequal treatment, discretionary use of the tax code and administration by the tax authorities.

The VAT refunds remain the most problematic tax administration issue facing investors. Both investors and the tax authorities agree that administration of VAT does not work. Investors claim that the VAT refund process is used by tax administration as an instrument to raise revenues by not issuing refunds; the tax authorities claim that normally in the course of the verification of VAT refund claims, the tax inspector typically finds “irregularities” in the enterprise accounting books and that off-setting VAT refunds against the penalties incurred from these irregularities is an efficient use of a tax inspector’s time.

Key recommendations in the tax area were:

- Providing the right incentives in tax administration
- Information sharing between tax and customs authorities
- Reform of the VAT refund system and tax administration ceasing to use VAT refunds as tax offsets

There has been a number of achievements in reforming the Customs System in Armenia, including the adoption of the new Customs Code and amendments (2001, 2002, 2003), which is in full accordance with the WTO requirements. The greatest practical implication of this change on the private sector is the significantly reduced number of papers to be presented on declaration. However, the number and time cost of customs procedures and foreign trade regulations continue to impose serious barriers to doing business.

A number of problems in the customs arena remain to be addressed, mainly due to the weak enforcement, corruption, and bureaucratic hassles. Although the existing Customs Code is formally in full compliance with WTO rules, the application of the market value in valuation of imported goods it is still a common practice. Customs officials complain that importers systematically underestimate the transaction value of goods to avoid import tariffs, VAT, and excise taxes. As a result, the Customs Department uses market valuations and tax administrators in an attempt to seize suspected tax evaders through the VAT refund verification process. In parallel, knowing that they will be subject to the market valuation exercise, importers under-report their imports. Thus a vicious circle of over-valuation and under-reporting perpetuates.

Despite recent legislative changes, the customs law and tax codes remain a complex and fragmented set of laws and regulations that create incentives for evasion and inducement to tax and customs inspectors and taxpayers alike. With pervasive confusion the current legal requirements allows for confusion as well as suspecting and unwitting evasion. Along with the legal framework confusion, there is also a lack of coordination between customs and tax administration. This problem, though not new, leads to lengthy delays in VAT refunds (see tax section), inconveniences for businesses, and inaccuracies in application of tax and customs laws.

Within this perspective, priority areas for focus in the customs arena area:

- Application of transaction valuation of imports
- Development and implementation of risk assessment procedure
- Implementation of written notification procedure

Despite the legislative and regulatory changes and improvements, inspections are still used as a punitive instrument toward businesses as opposed to being aimed at detecting tax dodgers or significant frauds. Some internal regulations remain vague regarding the responsibilities of taxpayers. Inspections continue to be used as an instrument to slow down or complicate tax refunds, and even as a “threatening tool”, i.e., vehicle for corruption.

Key recommendations in inspections arena were:

- Clarification and simplification of inspection procedures
- Focused tax inspection to address specific issues such as VAT transaction only, rather than general ones
- Develop Inspection Code of Conduct.

3. SYNOPSIS OF KEY PILLARS IN ARMENIA'S GOVERNMENT MID-TERM ADMINISTRATIVE SIMPLIFICATION STRATEGY

Since the year 2000 numerous promising initiatives targeted to the overall improvement of the business environment were initiated by and jointly implemented with the Government of the RA and donor organizations. And despite the fact, that since initial complex assessment of administrative procedures for doing business in Armenia, undertaken by WB's Foreign Investment Advisory Service in the year 2000, significant improvements in the field were recorded, Armenia still significantly lags behind not only from OECD average economy, but also from the numerous medium-income countries serving as peer-group for the measurement of Armenia's performance.

Overall, there have been notable improvements in a number of administrative procedures affecting businesses, including business registration and licensing. While strongly commending these achievements, it should be noted that the more difficult tasks remain to be tackled. Therefore, it is of critical importance that the Government recognizes and prioritizes some fundamental issues that have not been adequately addressed over the last several years.

The basic idea of this paper is to compile from several trustworthy resources, with strong methodological background, the major obstacles for doing business in Armenia and aim to quantitatively and qualitatively classify them, as well as, in the conclusion, provide some examples of best practices to eliminate these obstacles. Bearing in mind that numerous issues previously identified by researchers and the subsequent actions suggested have been unsuccessful

First and foremost the efforts aimed at the improvement of business environment needs to be reinvigorated by the political leadership, given clear sense and target and a capable institutional home that can ensure the necessary substantive depth and follow up on the commitments expressed.

Also of primary importance in our view is that the clear-cut methodology for assessment and classification of administrative burdens, their impact on businesses and also their importance needs to be deployed.

This paper is the first modest step towards direction mentioned.

At the first level the 5 indicators (out of 10), as well as their sub-components, for Doing Business were considered with the purpose to qualitatively systemize the impact of each impediment:

Table B.1 - Set of indicators from Doing Business directly reflecting key barriers in Armenia's business environment

Doing Business indicator	Rank	Sub-Component	Value	Importance
Paying taxes	147			A
		Number of payments	50	
		Time (hours)	1,120	
		Total tax payable (% gross profit)	53.8	
Trading across borders	82			B
		Documents for export (number)	7	
		Signatures for export (number)	12	
		Time for export (days)	34	
		Documents for import (number)	6	
		Signatures for import (number)	15	
		Time for import (days)	37	
Dealing with licenses	55			C
		Number of Procedures	20	
		Time (days)	176	
		Cost (% GNI per capita)	64.9	
Starting a business	41			C
		Number of Procedures	10	
		Duration (days)	25	
		Cost (% GNI per capita)	6.1	
		Min capital (% GNI per capita)	4.0	
Registering property	9			D
		Number of Procedures	4	
		Time (days)	6	
		Cost (% of property value)	0.5	

Doing Business methodology offers several advantages, such as factual information on regulations, inexpensiveness, and possibility to identify the source of obstacle. Despite this the ease of doing business index is limited in scope. It does not account for a country's proximity to large markets, quality of infrastructure services (other than services related to trading across borders), the security of property from theft and looting, macroeconomic conditions or the strength of underlying institutions. Thus while Jamaica ranks similarly (at 43) on the ease of doing business to France (at 44), this clearly does not mean that businesses are better off operating in Kingston as opposed to Paris.

Having a high ranking on the ease of doing business does not mean that a country has no regulation. Few would argue that it is every business for itself in New Zealand, that workers are abused in Canada or that creditors seize debtors' assets without a fair process in the Netherlands. To protect the rights of creditors and investors, as well as establish or upgrade property and credit registries, more regulation is required to have a high ranking.

Higher rankings do not necessarily mean better regulation. While on average high rankings on the *Doing Business* indicators are associated with better economic and social outcomes, this association need not be linear. For example, expedient court procedures to resolve commercial disputes are welcomed by businesses. But to ensure fair process, some procedural requirements are necessary, and these may cause delays. Often, improvements on the *Doing Business* indicators proxy for broader reforms, which affect more than the procedures, time and cost to comply with business regulation and the ease of access to credit.

For the purpose of rectification other sources of information are of primary importance. The combination of information from Table B.1 and Graph A.1.4 and correlation with actions suggested by the FIAS's study on "Administrative barriers for doing business in Armenia", the implementation of the following tasks emerged as the short list for Government's mid-term administrative simplification strategy.

BUSINESS START-UP

1. In place of the current system, involving 5-6 agencies responsible for different aspects of company registration, the government may want to establish a process where the investor receives all the key approvals within a single agency and within a specified period of time.

BUSINESS OPERATING

Tax administration

1. Consultations should be held with the business community on proposed changes in the legislation, allowing sufficient time for analysis and feedback.
2. Economic impact analysis should be performed prior to adoption or major modifications of tax laws and related government decisions.
3. The practice of producing and publishing official interpretations of the laws and regulations should be strengthened and placed on the web on a regular basis.

4. An effective information exchange system between the Tax and Customs authorities needs establishing.
5. With an effective information system in place, tax authorities should streamline the VAT refund system to expedite refunds.
6. The practice of conducting a general tax inspection when a VAT refund is requested should be eliminated. A better approach would be to follow international best practice where refunds are subject to ex post audits.

Customs administration

1. Implement the application of transaction valuation of imports to eliminate discretion on the part of the customs officials and standardize the imputed import values of a specific good.
2. Customs authorities should establish, utilize, and continually add to a data base documenting the transaction value of goods by country of origin to use as a tool of comparison. This process would establish whether invoices state legitimate transaction values and eventually can be applied as a standard transaction value.
3. A direct input system at customs points should be implemented and commercial importers and brokers should be allowed to input directly their customs declarations into the Customs computer system.
4. Streamline the procedure for obtaining certificates of origin, which is a necessary accompanying document in exporting. A single nominal fee should be charged for issuing certificates of origin for all goods, and the current requirement of examining and testing the good to confirm its origin should be eliminated.

Inspections

1. Clarify and simplify inspection procedures. It is highly advised that the tax service initiates classifying its taxpayers primarily based on the results of previous inspections. Good taxpayers must “suffer” inspections only if there is a certain piece of information regarding potential fraud, as opposed to be visited once a year.
2. Each inspecting body should publish (perhaps on the internet) the frequency of the required inspection and documentation required for each inspection.

PART B.

1. FOCUS ON THE KEY OVERARCHING TOOLS AND PRACTICES

1. Techniques for measuring administrative burdens

Introduction

Despite the numerous administrative simplification initiatives launched by the governments of developed countries over the past decades, governments paradoxically do not often have a detailed understanding of the extent of the burdens imposed on businesses and citizens.

Consequently policy is made in an information vacuum, and the size of the actual burdens (as well as progresses and setbacks in reducing them) may remain unappreciated.

The measurement of the size of existing burdens can be an important information-based approach to developing a policy on burden reduction and the basis for the evaluation of policy initiatives taken. The size of existing burdens can raise awareness amongst politicians, sustain a political constituency for changes, and help develop and maintain initiatives and policies on burden reduction.

Practices and experiences

Ideally, in order to measure regulatory burdens or to evaluate programmes for reducing regulatory burdens, a first step would be to develop a method of measuring existing burdens (baseline) as well as measuring the administrative burdens of new laws and regulations.

Some governments have established “macro” or top-down methodologies aiming at establishing government-wide estimates for administrative burdens. Other approaches – sometimes combined with the former – are based on bottom-up reviews of sectors or on individual estimates of regulations’ administrative burdens, sometimes as part of broader impact assessments.

A bottom-up approach: The Dutch MISTRAL methodology

The box below describes the Dutch *Meetinstrument Administratieve Lastendruk* methodology, MISTRAL. MISTRAL is among the earliest and most thoroughly applied systems to measure administrative burdens in OECD Countries. With the use of MISTRAL, it was estimated that from 1993 to 1998, the administrative burdens for enterprises in the Netherlands grew from approximately NLG 13 billion (EUR 5.9 billion) to NLG 16.5 billion (EUR 75 487 billion).

The Dutch government has set up successive policy goals for the reduction of these costs; minus 10% by 1998, and minus 25% by 2002, compared to the 1994 baseline.

According to EIM, a Dutch consultancy that participated in the development of MISTRAL, administrative burdens were reduced by 6.25% from 1994-1998, another 0.5% in 1999, and in 2000 – the most recent figure available – burdens fell by 0.2%, representing a total reduction of nearly almost 7% from 1994-2000.

To prevent excessive information requirements, the Dutch “Schlechte Committee” developed a set of general norms for individual regulators as well as the government to observe information gathering from businesses and citizens:

- *Re-use of information.* Government agencies should restrict information obligations as much as possible by re-using already available information. Enterprises register the information for their own management use and can be transmitted without further processing.
- *Information processing.* Government agencies should be encouraged to create common data definitions. Different authorities requiring divergent presentations of the same data often leads to different interpretations and a tendency to non-compliance.
- *Information creation.* Government agencies should only request information creation if it can be proved that re-use and processing of existing information cannot provide the relevant information. Government agencies should avoid changing information obligations during reporting periods, and give enterprises enough time to adapt their administration to new requirements. Information provision obligations of enterprises should be minimized by giving the authorities the right to collect information in existing databases.

The MISTRAL methodology

In the Netherlands, the MISTRAL methodology has been developed to measure the administrative burdens of enterprises. MISTRAL works in three stages: *a)* an in-depth analysis during which all “data transfers” between a business and the authority (*e.g.*, a document, a telephone call, an inspection, etc.) are isolated and defined; *b)* the time involved in each “data transfer” and the level of the person performing it (related to professional qualification and hourly wage-rate) are then determined; and *c)* the data are computed to produce cost estimates. The MISTRAL method is a bottom-up approach (although the methodology also allows for a less expensive and less time-consuming top-down approach).

When applied for the first time, MISTRAL is rather labor-intensive due to the need to establish a cost baseline on the basis of a detailed scrutiny of all administrative actions required by law. Administrative compliance costs are calculated on the basis of “average practices” observed by a third party (*i.e.* consultants), in consultation with affected businesses and the issuing ministry.

MISTRAL has been used to quantify administrative compliance costs of different laws and regulations, including evaluation of the information requirements of labor law, annual accounts, corporation tax, wage tax and social premiums, legislation concerning working conditions, and environmental legislation. Burdens are quantified in time as well as in monetary terms.

- *Information storage.* This may be expensive and risky since some governments demand storage for a long period and, electronically stored data may become un-retrievable (“digital durability”) after a few years. Government agencies should make storage period as brief as possible.
- *Information transfer.* Transferring information would be less burdensome if done electronically. If applications are completed manually then the administrative burden may be substantial. Government agencies should use IT to make information “place-independent”.
- *Information procedures.* Laws and regulations occasionally prescribe with great specificity which instruments should be used and how exactly the information should to be gathered. Such laws and regulations may not prescribe the most efficient way of information gathering. Authorities, therefore, should prescribe only the results to be achieved in terms of information collection and not the method in which the reporting should take place.

Information collection budgets

In the **United States**, the Paperwork Reduction Act (PRA), provides a framework for the measurement and management of the burdens, which federal information collections impose on individuals, businesses, and the government. Under the PRA, all federal agencies must request the approval from the Office of Budget and Management (OMB) prior to collecting information from the public. Detailed guidelines and standardized application forms enable the formation of comparable and cumulative information on paperwork burdens over time and between agencies and various types of regulations. The agency applying for permission collects information which provides the estimate for the expected number of respondents and the time estimated to provide the requested information. To ensure that regulators consider the need, and all relevant quality aspects of the information requirements they impose, the PRA requires that the head of each agency sign a certification stating that the information collection was developed under the observation of a number of provisions. Burdens are quantified in hours, however no guidance has been issued on how they are measured. OMB can approve data collection for no more than three years, at which point the agency must resubmit the information request for re-approval.

The Information Collection Budget (ICB) is the vehicle through which OMB, in consultation with each agency, sets annual agency goals to reduce information collection burdens. The ICB is built around fiscal budgeting concepts. Each agency calculates its total information collection “budget” by totaling the time required to complete all its information requests. This budgeting exercise is then used to measure progress toward reduction goals. Since 1980, the reduction targets have varied. In 1996 the ICB set an annual government-wide goal for the reduction of the total information collection burden of 10% during each of the fiscal years 1996 and 1997 and 5% during each of the fiscal years 1998 through 2001. However, during these years the actual burdens in terms of total hours only fell in 1998 (by 0.37%) whereas it increased in other years with between 2.5 to 4%, a total increase of approximately 12% from 6.8 billion man-hours in 1996 to 7.4 billion man-hours in 2001.

In the US, as for many other countries, the ability of agencies to reduce administrative burdens is sometimes constrained due to limited discretion. For example, requirements

in regulations may be changed only through existing administrative processes that may take years. Furthermore, reporting and record keeping requirements may be mandated by existing statute or may be necessary to implement recently enacted statutes. There are also factors that tend to increase paperwork burden that are outside the control of agencies. These include economic growth, natural disasters, and demographic trends. These factors can change the number of participants in a programme, which – while not creating new burdens – nonetheless increases the reporting burden of the entire programme.

Index based approach to assessing burdens

- In **Belgium**, a law passed in 1998 requesting the Agency for Administrative Simplification (ASA) develop a system to measure and reduce the burdens of administrative regulations. The system called “*tableau de bord*” (score board) records all the variables used in each procedure or formality of any kind. It makes use of indicators for each procedural step and gives index values to these indicators. The index values for a formality are added together, and the total is multiplied by the frequency of the procedure and by the number of persons concerned. The result obtained gives the procedure’s overall index value. Burden indexes for individual regulations can also be summarized to indicate the total size of administrative burdens. The advantage of the index based approach is the flexibility to changes in regulation, and the usage by the administrators themselves (under centralized monitoring). Most importantly, it constitutes an important element of regulatory impact analysis, since the burden assessments are made before the implementation of a regulation. However the system requires training prior to administrators’ usage creating difficulty in uniform application.

User surveys

Many developed countries (OECD) have employed survey-based methods, either to measure compliance costs directly or to measure satisfaction with the forms and/or processes used in administrative procedures.

- An example of the former is the survey conducted in **Australia** by the Small Business Deregulation Taskforce. The survey formed one of the basic data sources to guide the Taskforce’s recommendations for an integrated burden reduction programme. The survey results allowed the calculation of estimates of the total time spent on average by small businesses on administration and compliance activities (estimated at 16 hours per week). In addition, the distribution of the burden between broad regulatory areas was also revealed. (For example, approximately a quarter of the estimated total is devoted to government paperwork and compliance; taxation matters account for 75% of government paperwork and compliance burdens).
- In **Belgium**, a survey of enterprises’ views of administrative regulations and administrative burdens showed that for the year 2000, Belgian enterprises estimated that they faced government imposed administrative burdens at a size equal to 2.6% of GDP. The survey, commissioned by the Agency for Administrative Simplification in collaboration with the Federal Planning Bureau

also showed that nearly 70% of the burdens were borne by small enterprises. The survey invited enterprises to give their views on what the priorities should be for the government's administrative simplification policies.

- In order of priorities the responses were: to improve the quality of regulations, to make public services more user-friendly, to develop IT mechanisms and to introduce one-stop shops.
- In **France**, the Administrative Simplification Commission (COSA) launched in 2001 a set of consumer satisfaction surveys. These were conducted among user groups and the services managing case files or dealing with the general public in order to isolate key problem areas. The surveys led to the redrafting of forms with the help of a communications agency and the Committee for the Improvement of Administrative Language (COSLA).
- Similarly, in **Korea** a survey is conducted annually on citizens' satisfaction with the administrative processes set up by Government agencies. This programme forms a prominent part of the performance evaluation of those agencies.

Regulatory Impact Analyses programmes

Use of regulatory impact analyses (RIAs) is now widespread among OECD countries. RIAs, while more broadly based in their concerns on regulatory impacts, constitute one systematic means of ensuring that consideration is given to administrative burden issues during the regulatory development process. RIA constitutes an *ex ante* approach to burden measurement, in contrast to the *ex post* focus of most measures adopted in OECD countries and discussed in this report.

RIAs have the significant advantage of allowing a re-consideration of potentially substantial burdens *before* they are imposed, rather than after their damaging effects have become apparent. Another advantage of RIA as an approach to measuring administrative burdens is that it allows those burdens to be placed in a broader context, explicitly requiring those burdens to be weighed against the benefits deriving from the administrative procedure and a consideration to be made of the net impact of the procedure and its attendant regulation.

Measuring administrative burdens in Norway

In Norway, the Brønnøysund Registers (an administrative agency under the Ministry of Trade and Industry) provides the possibility for an outstanding overview of reporting obligations imposed on Norwegian businesses. It also facilitates the reduction of future reporting burdens by using and sharing identical reporting definitions across the whole of government.

Reporting Obligations for Enterprises

Created in 1997, the main task of the Register of Reporting Obligations for Enterprises is to maintain a constantly updated overview of businesses' reporting obligations to central government.

Law obliges public authorities to co-ordinate their reporting requests to businesses. The Register also maintains an overview of permits required to operate within various businesses and industries, and provides information on how to obtain such permits. On a yearly basis, the register publishes estimates for the total reporting obligations imposed on business by central government. The Register is responsible for the methodology and for collecting burden estimates, whereas individual ministries and agencies are primarily responsible for measuring the actual burden of a reporting obligation. Burdens are measured in time spent on filling out forms and preparatory work for the reporting obligation.

Applying national reporting definitions

The use of national definitions for information items simplifies processes in which two or more agencies require the same type of information from an enterprise, and eliminates ambiguity or confusion on requirements to businesses. In order to create such synergies and to increase co-ordination capabilities, the Register of Reporting Obligations for Enterprises has established a repository of reporting definitions based upon a database containing all the information collected from enterprises nation-wide. The national system of informational definitions also relies on a high degree of compatibility with international standards.

Experiences from Norway points to two basic but important preconditions for reaping the full benefits of a register measuring and monitoring administrative burdens and applying national reporting definitions. Firstly, regulatory ministries and agencies must be aware of their obligations to report, and to systematically calculate business' reporting obligations when preparing new regulation. Secondly, credible sanction and enforcement mechanisms must be in place to ensure that the obligation is honored.

Source: Regulatory Reform in Norway, OECD, 2003.

RIA also typically employs stakeholder consultation processes. Consultations have the benefit of verifying government estimates of the size of the burdens involved, as well as providing a forum for alternative proposals to be discussed. This ensures that regulatory proposals are the bare minimum required to achieve regulatory objectives. RIAs are usually subject to centralized review and/or clearance, such as by the Privy Council Office in Canada, the Regulatory Impact Unit in the United Kingdom, the Office of Management and Budget (OMB) in the United States or the Federal Regulatory Improvement Commission (COFEMER) in Mexico. This constitutes a further means of ensuring quality control over the estimates made and the conclusions reached.

Conclusions

Measuring administrative burdens is essential if governments wish to “benchmark” their performance in relation to this aspect of regulatory quality, either in a static sense and/or to verify the results of burden reduction initiatives over time. The various approaches used in OECD countries have generated some quite detailed estimates of the size of administrative burdens.

Experiences indicate that top-down approaches facilitate priority setting for broad burden reduction programmes, while bottom-up techniques are better adapted to the

design and evaluation of specific initiatives to reduce burdens. Survey-based approaches appear to have the potential to function as a relatively low-cost, yet reliable means of identifying areas of the greatest perceived burden among affected groups.

The “index” based approach to measuring burdens, as used in Belgium, also appears to have the potential benefit of being a less resource intensive approach to conducting top-down analyses. For this reason it may be a valuable method to priority setting for burden reduction programmes conducted at the macro level.

For a government, the paradox of measurements is that they are useful (in particular to sustain policy support) but tend to be costly if accuracy is needed. Administrative simplification bodies often have to deal with the dilemma of spending resources on evaluating results (and with this perhaps generating political support) or investing resources in specific simplification measures.

Another drawback of targeting specific burden reductions is that they raise expectations, which may be difficult to control and hard to fulfill by reformers. Simplifying the administration is extremely complex and difficult to predict. On the other hand, a measurable goal raises accountability of reformers. Measuring burdens is an area in which clearly defined best practices are yet to emerge.

Substantial questions remain which must be answered successfully before such best practices can be identified. These include:

- How a baseline is best established?
- What is the best way to measure burdens – on a micro or macro level or combined?
- Should benefits be taken into account, and, if so, how? Is it feasible to use such techniques to derive a “budget” for burdens?
- What is the best way to ensure that the regulatory impact analyses commonly used in regulatory reform programmes, take into account simplification issues?
- Are impact statement requirements useful tools in this context? Are they preferable to explicit burden measurement tools, due to their ability to locate burden measurements within a broader policy context and express them in terms of a benefit-cost framework?

Best Practice Learnt – Possibilities of benefiting from the use of STANDARD COST MODEL Method

In autumn 2003 a number of European countries joined forces and formed a network. The network enables the countries to make consistent comparisons and acts as a support network. The countries currently consists of the *UK, Norway, Sweden, Denmark, Belgium, The Netherlands, Poland, France, Hungary, the Czech Republic, Italy and Estonia*. The network has chosen the Standard Cost Model (SCM) as its common approach and in the summer of 2005 the *OECD* also chose to apply the SCM method for its ‘Red Tape Scoreboard’.

The SCM provides transparent and action-oriented measurements, which are ideal when trying to simplify legislation and lower administrative burdens. Further the SCM allows for a systematic analysis of administrative burdens within each country.

The Standard Cost Model as common methodological tool makes it possible for participating states to work systematically towards reducing the administrative burdens for businesses by:

- creating awareness amongst policy makers
- setting out a focused reduction strategy with well defined targets
- getting commitment and approval from various authorities
- monitoring the development of administrative burdens
- creating uniformity, transparency, reliability and comparability
- simulating ex-ante the administrative effects of draft legislation, in order to design regulation where costs and benefits are more carefully balanced

The SCM as a tool for simplification

Due to the action-orientated nature of its results, the natural extension for SCM measurements is simplification. The SCM provides a crucial baseline and source of ideas for simplification opportunities. The advantages of adopting the SCM in the simplification process are numerous:

- By using the method it is possible to point out some specific parts of the legislation that are particularly burdensome for businesses to comply with;
- A measurement reveals where administrative costs occur in business processes, and therefore expose simplification to its greatest effect;
- The collected data may be employed in analysing the amendments to an information obligation affecting the administrative costs; using a database it is possible to simulate changes in the regulation in order to examine the consequences for stakeholders;
- The SCM assists in the identification of which department / ministry is responsible for burdensome regulation
- Furthermore the qualitative results from the measurement are highly relevant. They can help identify which burdens provide the largest 'irritation' factor for businesses.

The SCM also enables comparisons between countries, including benchmark studies. Such benchmarks not only provide each country with fresh ideas for reducing its own burdens, but also provide a tool to highlight the impact of international legislation, especially EU regulation. With these insights, we can make joint efforts towards reducing the burdens.

Ex-post, ex-ante or both?

The SCM approach allows for both a measurement concentrating on some specific fields of existing regulation (ex-post measurement) or as part of impact assessment procedures measuring the administrative consequences of new legislative proposals (ex-ante measurement). A full scale measurement of administrative burdens, (a measurement of all existing legislation), is also possible.

How does the Standard Cost Model work?

The SCM method breaks down regulation into a range of manageable components that can be measured; information obligations⁴, data-requirements⁵ and activities⁶.

The SCM estimates the costs of completing each activity on the basis of a couple of cost parameters:

- *Price*: Price consists of a tariff, wage costs plus overhead for administrative activities done internally or hourly cost for external service providers.
- *Time*: the amount of time required to complete the administrative activity.
- *Quantity*: Quantity comprises of the size of the population of businesses affected and the *frequency* that the activity must be completed each year.

Combining these elements give the basic SCM formula:

$$\begin{aligned} \text{Activity Cost} &= \text{Price} \times \text{Quantity} \\ &= (\text{tariff} \times \text{time}) \times (\text{population} \times \text{frequency}) \end{aligned}$$

Administrative burdens are measured through in-depth interviews with a small number of businesses within the target group of the law. They are invited to specify how much time and money they spend performing each administrative activity that is required when fulfilling a given information obligation. In order to take into account, the different impact a law may have on various types of businesses, a relevant segmentation of businesses is carried out. It may for example be relevant to distinguish between smaller and larger businesses.

Based on the data material collected during the interviews, a subsequent standardization of the time and money spent performing each administrative activity, is carried out. The standardization gives a representative figure of the costs incurred by a normally efficient business within each segment, when complying with the information obligations of the law. A normally effective business is a company within the target group, which handles its administrative tasks in an ordinary way. In other words the enterprise does not handle its tasks better or worse than could be expected.

⁴ *Information obligations*: Information obligations (IO) are the obligations arising from regulation to provide information and data to the public sector or third parties. An IO does not necessarily mean that information has to be transferred to the public authority or private persons, but may include a duty to have information available for inspection or supply on request. A regulation may contain many information obligations.

⁵ *Data requirements*: Each information obligation consists of one or more data requirements. A data requirement is each element of information that must be provided in complying with an IO.

⁶ *Administrative activities*: To provide the information for each data requirement a number of specific administrative activities must be undertaken (e.g. filling in information, sending information, archiving information, etc). Activities may be done internally or be outsourced (i.e. done externally).

2. Leveraging IT solutions in reducing administrative barriers

Introduction

The use of information technology (IT) solutions has been a major driving force in administrative simplification programmes in most developed countries. The country studies confirm that the exploitation of IT in relation to transactions within and between government bodies and, between government bodies and business and citizens, is probably the most important enabler of administrative simplification. In this regard, IT is used in three basic areas:

- To facilitate the operation of complex systems within government agencies, such as those relating to welfare benefit, tax, and licensing programmes.
- To aid interconnection among government agencies.
- To improve the interface between government and a citizen or individual businesses.

Administrative simplification strategies based on IT tools are numerous. Much of the progress made via the introduction and refinement of these strategies is visible on government agency Web sites, which have shown striking developments in the past few years. Among the most important uses of IT that have been developed are electronic means of:

- Storing, compiling and providing information.
- Providing access to codified regulations.
- Communicating within and between government departments and between different jurisdictions (intranets).
- Online filing of applications, and other transactions.
- Compiling and reporting statistics.
- Assigning business identification numbers.
- Government collecting data from enterprises without active enterprise involvement.
- Streamlining government contracting.

This section represents the major aspects of studied government IT programmes focused on administrative simplification.

Practices and experiences

E-Government Plans. Government-wide plans to promote “e-government” have become common. E-government plans are overarching strategies for the application of key ITs throughout the government sector in a strategic and coordinated fashion. The key elements of these plans are typically: a) to enhance customer focus by facilitating access to government administrations by the public via the Internet; b) to modernize the state sector’s operation by using online operations to deliver efficiencies and better performance; and c) to increase the immediacy and the effectiveness of

communication between administrations, for example through the development of a secure “Intranet”.

These objectives incorporated within e-government plans are strongly aligned with, and support, administrative simplification. Indeed, much e-government activity is, in effect, pursuing an administrative simplification agenda. Increasingly, administrative simplification policies are becoming explicitly integrated and important components of governments’ e-government plans. E-government systems deliver administrative simplification primarily through improved accessibility of information and services and the creation of more integrated government services. Two examples of e-government strategies:

- **Australia’s** strategic priorities for e-government include several elements closely related to administrative simplification. Firstly agencies must take full advantage of the opportunities the Internet provides. Secondly the priority is to facilitate enablers such as *authentication, meta-data standards, electronic publishing and record keeping guidelines, accessibility, privacy and security*. And thirdly for facilitation of cross-agency services. The focus is on making services more integrated and more accessible, on improving service quality by being more responsive to customer’s needs, and on providing more cost effective government services.
- In **France**, the administrative simplification commission (“COSA”) has since 1998 been responsible for providing assistance in the development of online public services and on the content of the services offered. A new agency for information and communication technologies (“ATICA”) has been entrusted with providing technical support for the introduction of new IT applications in the administrations. Furthermore, a club for Web masters of public Web sites has been established and an external Web site has been set up to allow for the exchange of information, sharing of experience and pooling of good practices.

Centralized Government Portals. Related to above, the establishment of centralized government information portals is a key element in many e-government plans. The portals are attempts to create an access point through which citizens or entrepreneurs can find all relevant government information and, ultimately, conduct a wide range of transactions with the government. In more sophisticated versions of these portals, regulatory transactions are simplified by innovations. For example, by the creation of forms that are filled out automatically with previous information the government has regarding an enterprise. In addition, a central electronic access point enables entrepreneurs to be notified pro-actively about services and obligations. A further advantage of the system is that certain types of information would be submitted once only. Some examples:

- The **United States’** FirstGov.gov is the official US gateway to all government information. It consolidates 20 000 topical and customer focused government Web sites into one. The site helps clients find and conduct business with the government online, by phone, mail, or in person. On the home page, users may choose among three major customer gateways – citizens, business and government employees.
- **Korea’s** guiding map for civil applications has systematically classified over 4 000 civil applications in a government-wide portal site. According to a survey

conducted by the city of Seoul covering 1 245 citizens, 84.3% replied that the online system for handling applications contributed to achieving transparency and 72.3% declared that it accommodated their interests. The portal is still under expansion, and the government expects that a total WON 1.2 trillion (USD 91.7 million) of cost per year will be abstained once the system is totally in place.

- In **France**, provision of online services was ensured by introducing a national gateway portal in October 2000 that allowed online access to administrative forms (1 000 forms available out of 1 600). It was expected that by 2005 most public services would be available online. In 2000, 2.5 million people were able to determine their income tax online. Five million health care files are now exchanged each week on the health and social services network, which links medical practitioners to social security agencies.

Specialized Portals. More specialized portals are also used in many countries. They differ from the general portals described above in that they aim at assisting a particular sub-set of governments' "client" groups. Such groups include small businesses generally and, in some cases, businesses operating in a particular sector or industry. These specialized portals are often closely linked to a centralized government portal, such as that described above, and frequently represent an outgrowth of those general portals. In this way, they often constitute attempts to extend the logic of centralized portals by applying it to a range of particular groupings. Examples of such specialized portals are:

- In **Denmark** the Government portal indberetning.dk provides an overview of all reporting obligations for businesses, at the same time serving as a platform for the actual reporting. The portal provides broad information management mechanisms, by which businesses can identify, individualize and carry through reporting obligations. A "what if..." service based on the business' specific profile provides information on reporting requirements in case of particular changes to the business.
- Another example is the **Australian** Business Entry Point (BEP), which provides information in a linked and user-friendly format on a wide range of topics, including taxation, employment, business planning and financing, workplace relations, retirement benefits, and importing and exporting.

Internet-based Registers of Formalities. IT has enabled governments to use the Internet as a platform for registers of formalities imposed on citizens and businesses. This tool enables users to obtain all necessary forms online. Examples are:

- **Mexico** has established a "Federal Register of Formalities and Services" on the Internet. It includes the principal procedural requirements imposed by all federal departments and agencies on private citizens and businesses. The register enables users to obtain all business forms online and carry out electronically some regulatory transactions with the Ministry of Economy. An advisory service is available to assist users. The system contains over 3 400 entries, as well as links to a number of registers of state formalities and to national and international information on regulatory improvement processes.
- In **Spain**, a review of all administrative formalities was initiated in 1992 and resulted in the publication of an inventory of formalities in 1995. It was

subsequently updated and made available on the Internet in 1997. The current inventory categorizes the formalities, and provides information on the objectives of the formality, its legal basis, the responsible administrative unit, time limits for responses and the effect of non-responses.

- In **Greece**, the ARIADNE programme was originally set up to facilitate information access for people living on the islands in the Aegean Sea. Previously, the process of obtaining and lodging government forms would take two or more days as this entailed travelling to the district. The plan was to use the Internet for access and filing of administrative forms required for the issue of all certificates or permits. The programme involved redesigning over 300 application forms to be placed on the Internet. At the end of 2000, the programme included all necessary government documents that citizens in Greece would require. The programme is now operating in municipalities on the Islands in the Aegean Sea, providing access to computer terminals for all those citizens not connected to the Internet. The obvious value of this facility for the islands stirred interest in providing similar access to those living on the mainland. The programme has now been extended to other areas of Greece.

Electronic Tax Filing System in Canada

To streamline federal and provincial tax requirements and to reduce the paper burden on corporations, Canada Customs and Revenue Agency (CCRA) is introducing Corporate EFILE. Corporate EFILE will allow taxpayers to file corporate income tax information quickly and securely. This includes information from schedules, balance sheets, income statements, statements of retained earnings, and notes. Taxpayers would send tax data from taxpayers' computers to CCRA's through the services of a value added network (VAN), or through a transmitter.

Computer software then converts tax information into EDI format. Taxpayers file returns through the services of a VAN. To ensure confidentiality and security, tax information is transmitted in encrypted code and the information forwarded. The government bodies involved only receive information to which they are entitled. Corporations transmitting their own or subsidiaries tax returns, and transmitters offering transmission services to their clients, are required to complete a one-time application with CCRA. The application form and guide are downloaded, or paper copies obtained from any tax services office.

The benefits include the following: manual data capture is reduced or eliminated; built-in electronic acknowledgements and uniform communication with all trading partners; savings in paper handling and storage; built-in security controls; improved accuracy and audit trails; and all transactions are recorded and traceable. Other benefits:

- ← **Faster refunds** - Corporate EFILE streamlines the filing process, making it more efficient. This results in much quicker processing and faster refunds.
- ← **Accuracy** - By eliminating manual keying of tax data and by implementing a series of front-end computer checks, Corporate EFILE allows the process tax data more accurately.

- ← **Electronic** acknowledgements - Taxpayers know within a few hours whether their returns have been received, and whether there are any transmission errors. A second, more detailed tax return data acknowledgement indicating any invalid or missing data is forwarded by the following working day. Taxpayers are required to correct all the errors before retransmitting the return.
- ← **Secure** - With Corporate EFILE, tax data is encrypted to protect its confidentiality.
- ← **Better time management** - CCRA inquires of any necessary questions soon after filing, and provides a sooner response to taxpayers' questions in a timely manner.
- ← **Reduced paper** – A paper copy of a return or financial statements is not required to be filed with the tax administrations. Corporations will be able to file separate tax returns to federal and provincial tax administrations at the same time without generating paper. This will also save taxpayers time and money spent on photocopying, collating and mailing paper returns.
- ← **Government savings** - Reduced handling and transcribing costs convert to cost savings in government operations.

Source: Canada Customs and Revenue Agency

Internet-based Regulatory Transactions. In some cases, electronic registers also make it possible for users to fulfil some or all administrative formalities. These initiatives are based on the idea of extending the logic of an electronic information provision into a “clearinghouse” or a one-stop shop for license issues or other administrative formalities. An advanced use of Internet-based regulatory transactions is a computer based business approval that streamlines and provides a single contact point for all matters relating to business license applications, approvals, and issues relating to a targeted business activity or sector.

- **Australia** is currently implementing a national legislative scheme to allow for legal recognition of regulatory transactions (licence applications, renewals, etc.) conducted via the Internet. An additional related initiative is the development of a secure electronic signature technology. Australia has already implemented two trial versions of “Business Approvals Packages” (BAP). The Web-based trial versions so far implemented have been based around a single industry sector – Aquaculture. An evaluation study made into the Tasmanian BAP in 1999 indicated that the time saving in the provision of information by agencies to applicants amounted to 1-2 hours per enquiry.
- Examples from the **United States** include two systems based on “one-stop permitting” approaches operated by the Department of Commerce. The National Marine Fisheries Service Permit Shop enables organizations to engage and transact with online customers and partners for both business-to-consumer and business-to-business applications. The Simplified Network Application Process (SNAP) is an automated system for the submission of license applications to the Bureau of Export Administration via the Internet. It is a free service that allows exporters to submit export, re-export, high-

performance computer notices, and commodity classifications to the Bureau via the Internet in a secure environment.

- An example on the use of handling civil applications through the Internet is the system developed in the city of Seoul, **Korea**. In this instance applications from citizens are posted on an Internet site where users track their submission and locate whether the application has been received properly, the name of the person handling and reviewing the case, if a permit is expected to be granted, and, if refused or returned, the reasons stipulated. The system also allows citizens to ask questions or make comments directly to the staff handling their case. One-stop shops have been set up for all civil application services provided by all Korean administrative bodies, central or regional.

Internet-based registers of laws and regulations: A closely related initiative to the online registers of formalities is the provision of online databases of laws and regulations. This move is being progressively embraced across the OECD area and has reached a high state of development in many countries.

- For example, in **Norway** and **Denmark**, the full text of all primary and secondary legislation is available on free and easy searchable Web sites. These databases generally also include a range of related material, such as bills currently debated in parliament and many of the decisions of the superior courts.
- In **Belgium**, the *Moniteur belge* (official gazette) has been posted on the Internet for some ten years. All legislation is accessible online free of charge with an archiving system dating back to 1945.
- These initiatives have substantially enhanced the transparency of the law, and consequently of the government. More specifically, they have placed businesses in a much better position to acquire information on their obligations under the law and, in particular, to ensure that their knowledge of these obligations is kept up to date. At the same time, the inclusion of bills and other materials on draft laws also provides for improved consultation opportunities. All of these efforts have potential impacts in terms of burden reduction, while also serving a number of other, important governance values, such as transparency and accountability.

Automatic Transfers of Standardized Information from Enterprises to the Government. Equally central to IT's contributions to burden reduction are the projects relating to the standardization of data submitted to the government and to the interchange of data between enterprises and administrations. These "electronic data interchange" (EDI) projects are directed at facilitating the direct electronic transfer of enterprise data to governmental authorities. Another aim is to reduce enterprise data to its basic elements, subsequently providing every governmental authority the data it needs without duplicating requests.

- For example, in the **Netherlands**, the Tax Administration, the Social Security Office, and the National Statistical Office have developed common standards for the collection of data from businesses. In co-operation with participating small and medium-sized enterprises, common standards are built into the businesses' accounting systems, whereby the data required by the three agencies can be derived directly from the administrations of the enterprises by

“pushing a button”. The authorities collect the data with the participation of the enterprises – government authorities are allowed to penetrate into the accounting systems of the enterprises to collect the data they require.

- **Denmark** also has developed “electronic data interchange” (EDI) schemes that automatically transfer information between enterprises and the government. The first stage of the programme allowed accounting information, including tax returns, annual accounts and some statistical reports to be processed via EDI. The second stage of the programme focused on employee information, including taxes, wages and pension entitlements.

Unique Business Identification Numbers. The development of a unique business identification number allows for the creation of a business registration system, so that businesses only need to have a single identifier for all dealings with government. Putting such a system online makes electronic registration and searching for business ID numbers possible. This may be known as a “single enterprise register”.

- For example, **Australia** has developed the Australian Business Register (ABR), which is based on the use of a unique business identification number, the Australian Business Number (ABN). The ABN is designed to provide a business registration system, so that businesses only need to have a single identifier for all dealings with government.
- Businesses use their ABN to undertake a range of taxation-related transactions with the Australian Tax Office (ATO) and other businesses. Given that the ABR is online, electronic registration and searching of ABNs is available. In addition, the Commonwealth has developed the Australian Business Number-Digital Signature Certificate. ABR Online appears to have gained widespread acceptance by businesses, recording over half a million requests each month. The benefits delivered by the system are threefold. Firstly, the ABR has reduced the time and costs spent by businesses fulfilling tax registration obligations and other dealings with government agencies. Secondly, built-in edit checks within the application process combined with electronic registrations resulted in much lower error rates. Thirdly, the high level of online registration (60% of total ABN registrations) significantly reduced ATO resource requirements.
- The **Dutch** version of this technique is called the “Single Enterprise Register”. It was developed by the four main business registrars in the Netherlands – the Ministry of Finance, the Chamber of Commerce, the National Institute for Social Security, and Statistics Netherlands. It functions as a unique source of the basic data related to enterprises, self-employed professionals and other organizations. Its operating principle is that data is delivered once to the government, which may be used for a wide range of different functions.

As a corollary to single enterprise registers, digital signature certificates have been introduced to simplify and reduce the identity requirements for businesses when dealing online. For example, in 2000 and 2001, Denmark, France, and the United States enacted systems for the legal recognition of electronic signatures and to secure transmission of information.

Electronic Government Procurement. Government procurement systems have benefited greatly from the advent of the Internet. Such systems allow government purchasing units to list their goods, services, leasing and public work requirements on the Internet. These listings enable suppliers and contractors to identify opportunities, submit bids by the same means and subsequently follow the entire process to its completion. Some examples are:

- **Mexico** created the Electronic System of Government Procurement (Compranet) in 1996.
- Compranet produces greater transparency in government acquisition of goods, services, leases, and public works. This is believed to be particularly valuable in increasing the opportunity for small and medium enterprises to bid for government procurement work.
- **Italy** has developed a new centralised purchasing service for goods and services purchased by state administrations. The Ministry of Economy and Finance performs this duty through a government corporation (Consip S.p.A.) which stipulates the covenants that suppliers must follow. Suppliers agree to accept supply orders from a single administrative structure through an online system (www.acquisti.tesoro.it) which at present averages 90 000 connections monthly.
- In **Belgium**, a fully computerised management system for government procurement contracts is available to all potential bidders (joint e-public procurement). This system was at the origin of the Belgian government's computerisation of administrative files in which the data required could be accessed by means of a Universal Messaging Engine between administrations. This system has significantly reduced the administrative burdens in Belgium in relation to procurement procedure.
- **Canada** began using an electronic tendering service in 1992/93. Its current Government Electronic Tendering Service (GETS) has been in place since 1997. The number of participating agencies has increased due to the inclusion of the MASH Sector (Municipalities, Academic Institutions, Social Services and Hospitals) under Canada's Agreement on Internal Trade. In 2001, participating agencies advertised over 40 000 opportunities on GETS. The government has realised extensive operational savings through the outsourcing of the advertising and distribution functions. For Public Works and Government Services Canada (PWGSC), the central purchasing agency for the federal government, the savings amounted to approximately CAD1.5 million (more than USD 960 000) a year in photocopying and courier charges, CAD 2 million a year in newspaper advertising and CAD 1 million in the service start-up costs. The cost of the initial development and ongoing operation of GETS has been minimal since the Government of Canada contracted out the service. The operator of GETS recovers its costs by charging user-fees.

Conclusions

It is increasingly apparent that IT mechanisms are essential tools in most burden reduction and administrative simplification reforms in the countries studied. IT advances are allowing for a progressively more sophisticated electronic transfer of an

expanding range of information between government entities, levels of government, government and citizens, and government and businesses. The programmes reviewed above involve a mix of information dissemination and transactional aspects. Online reporting and editing of core business information has been successful in reducing business and government costs. In short, IT offers governments a way to reduce administrative burdens by facilitating the availability of relevant information to businesses and citizens and thereby improving the efficiency and effectiveness of the administrative process.

The use of IT made a relevant contribution to the advancement of the one-stop shop concept. The underlying rationale for the increasing availability of various services online through generalised or specialised portals is rooted in administrative simplification as well as in concepts of transparency and accountability as fundamental principles of good governance. These portals can provide substantial savings in information search costs for both citizens and businesses in relation to a wide range of interactions with government.

Similarly, the processing of electronic transactions – for example vehicle registration renewals, business license renewals, etc. – can also reduce regulatory related transaction costs for all parties involved. To a substantial extent, these portals can be regarded as burden reduction initiatives, based around the presentation of existing information and requirements in a more cost-effective manner through the application of technology. At the same time the development of systems allowing online transactions can often be a means by which the underlying processes themselves are reviewed and simplified.

There is a range of issues that has to be considered with regard to the use of IT as an administrative simplification tool. One fundamental point is the need to retain a benefit/cost perspective. This would mean that identified gains, including gains made by users of services, are weighed against the costs of developing and, more importantly, maintaining the mechanisms used to implement IT-based initiatives. In this regard the need for continuous assessment and updating of both the technical capabilities employed and the substantive content conveyed is too often overlooked. Related to this, the programmes must be client focused, meaning an incorporation of “feedback loops”, is required in order to ensure that the IT programme is assessed and modified to best meet the needs of the customers. There is a strong need for executive leadership, to secure a strategic focus and promote the adoption of consistent policy approaches across government, thus assuring the maximum inter-operability of the systems and facilities created. A highly contentious issue is that of determining the best way to promote this leadership. Finally, another important set of rapidly evolving issues revolves around questions of privacy, security, and archival concerns.

In addition to all this, the increasing use and importance of IT in government-business and government-citizen relations might create problems regarding the digital divide. Some businesses (e.g. SMEs) or groups of citizens might find it more difficult or impossible to get access to government services provided electronically. In this way, IT-based administration might increase already existing economic and social differences among businesses and citizens.

Furthermore, it is increasingly recognized that the use of IT often requires or promotes important changes in the administrative organization and the nature of the workplace.

Integrated online services, for example, require a reassessment of processes and administrative arrangements within all agencies involved and therefore embarking on IT-based initiatives is likely to have broader ramifications for the administration of government business. Such programmes often generate further reaching and more ambitious tasks than the initial statement of objectives may suggest. Furthermore, the implementation of IT initiatives necessarily involves close scrutiny of existing processes and procedures. The mapping of administrative requirements is obviously a fundamental pre-requisite to making them available via new channels. As part of this process, redundancies and overlaps would probably be identified and better policy options for achieving given objectives are likely to become apparent. This, in turn, may force administrative re-engineering to better meet citizens' and businesses' needs. IT practices to reduce administrative burdens can thus be considered not only as tools for achieving burden reduction within existing policy frameworks and administrative arrangements, but also as drivers of the simplification of the administrative regulations themselves.

Finally, making existing forms and procedures available on the Internet has in many countries created an interesting and often unanticipated side-effect. The immediate Internet access to and exposure of over-bureaucratic forms requesting information in an unclear or duplicative manner, has in many cases triggered strong direct reactions from users and media, urging the issuing authority to simplify the relevant forms. Aware of this effect, agencies pushing the administrative simplification agenda have sometimes used such "shaming" strategies *i.e.* exposing bad forms and procedures on the Internet, as a driver for further simplification among reluctant reformers.

Needless to say, increased use of IT does not guarantee in itself the positive changes in administrative organization and regulations mentioned above. The effects will also depend on the strength of the government's e-government policies. There is still need for evidence to substantiate how IT and e-government programmes can lead to legal and regulatory reform, and to demonstrate that e-driven reforms are not be confined to and constrained by the existing legal environment.

3. Choosing the Approach to Business Registration Reform

When reforming the business registration process, governments will be confronted with at least six fundamental issues, or choices, that must be specified at the planning stage, prior to commencement. In many cases there is no "right answer"; rather, the choices must be based on the particular characteristics and conditions of each situation/country.

Should the reform seek fundamental change or just administrative improvements in the current system?

Some reform efforts seek to comprehensively change the underlying regulatory framework for the business start-up system; others take a more modest approach by essentially attempting to build on the existing system. Spain, for example, did not really change the fundamental workings of its registration system but rather aimed to streamline its administration by delegating the primary contact functions (such as receipt of applications) to the municipalities.

The decision-making authority remains with the central government agencies. As a result, while registration has become much simpler, the total processing time remains several weeks in length. Ontario, Mexico and Australia, on the other hand, made efforts to address some of the underlying bottlenecks.

Should the reform effort seek broad or targeted results?

While a broader deregulation effort may allow for a comprehensive change in business regulations that includes the registration system, it is often easier to gather support for a narrower, high visibility project that focuses on the business start-up process. The streamlining effort in Spain, which was not part of any larger deregulation program, illustrates this latter approach. In contrast, Mexico's effort to streamline business registration was part of a major national program designed to significantly deregulate the country's economy. Ontario and Australia also followed a *broad* reform approach.

What should the role of technology be to facilitate the registration process?

Some reform efforts incorporate sophisticated technology to interface with businesses and process their applications; others take a more lowtech approach in which the simplification results from administrative or procedural changes rather than the incorporation of technology is exercised. Ontario has chosen a high-tech approach whereby virtually all aspects of business registration can be completed on-line within 20-30 minutes. Spain's effort, originally using a low-tech approach, is increasingly incorporating technology to streamline the process further. Naturally, this approach requires significant networking and database capacity to share the information among the relevant government agencies. Mexico and Australia also made serious efforts to use technology as a means to streamline the registration process in their countries.

What levels of government should and need to be involved in the reform effort?

Simplification projects can be carried out at different levels of government, either separately or jointly. In either case, a fair amount of coordination between central and local/regional governments is important to maintain consistency in the registration process. Generally, the constitutional devolution of power to state and local communities grants the federal government the facility to order collaboration.. Consequently, in some countries, states and local communities are not indebted to participate in reform efforts promoted by the federal government.

Australia, Mexico and Spain all took a similar approach to the issue of inter-jurisdictional collaboration. In general, federal agencies were required to participate in the project, although not the individual states neither the communities. However, states and local communities were invited and offered federal assistance to facilitate the reforms.

In Australia, the federal government provided partial funding as an incentive for reform allowing the states to develop their own programs. Queensland took the lead and developed the Smart license, a system that later served as a best practice example for other states. Efforts for collaboration were also met with success in Mexico and Spain. In Spain, for example, the success of the reforms resulted in an everincreasing number of municipalities wishing to sign on with the program. However, the voluntary and

somewhat gradual approach to reform has also produced some geographic differences in business registration procedures.

Should the reform focus on intra-agency procedures or inter-agency relationships?

A simplification process may emphasize the internal workings of government agencies or the interaction among them. Mexico focused its efforts on making the individual agencies more responsive and efficient, while Spain, Ontario and Australia emphasized the integration and harmonization of agency requirements. For example, in Ontario the streamlined business registration process encompasses several inter-jurisdictional divides, not only in terms of level of government, but also thematic areas such as health, taxes, labor and operational permits.

Principles for Streamlining Business Registration

The experiences in Australia, Peru, Spain, Mexico, Canada (Ontario) are instructive in identifying certain basic principles characterizing any reform effort of the business registration process. If applied, these principles enhance the likelihood of achieving a faster, less complicated and more responsive system of registering businesses, regardless of the choice made in relation to the six issues, or approaches, discussed earlier.

Estonia, comprising a six-step business registration process (similar to the Armenian case), significantly benefited from utilization of EC “Recommendations on Improving and Simplifying the Business Environment for Business Start-ups”:

- introducing a single business registration form;
- establishing single contact points where enterprises can deposit the single registration form mentioned above. The contact points would be responsible for forwarding the information contained in the application to all other departments within two working days;
- introducing a system whereby a business is identified by a single number used for any public or government department;
- ensuring the different government departments avoid introducing duplicated or superfluous forms and/or contact points;
- allowing businesses to reject a demand for non-confidential information, if this information is available from another government department;
- using information technology and databases as much as possible for the transmission and authentication of the information supplied and for the sharing of information between departments, subject to appropriate safeguards protecting private data;
- setting clear targets in terms of deadlines for the processing of enterprises' requests and the granting of licenses or authorizations;
- introducing, where appropriate, a system whereby an application is deemed to have been automatically granted if the administration has not responded within a fixed deadline.

Undertake a comprehensive review of business start-up formalities

Governments often lack comprehensive and detailed knowledge of their own business registration system—knowledge that is absolutely necessary for the design of an effective reform program.

As part of the simplification effort in Mexico, a special deregulation unit was set up under the Ministry of Industry and Commerce to review all existing business formalities, including start-up requirements. Although the review and revision of the regulatory process was time-consuming, the comprehensiveness of the approach led to much more fundamental reform than if the government had sought fast results.

Use widely available technology to facilitate the interaction between businesses and the government

The internet networking revolution is generating extraordinary opportunities for creating unified points of contact that are not limited by office hours, geographical location, or manpower. However, it is important that the technology used in the registration process correspond to the skills and abilities of agency staff and prospective clients. A highly sophisticated system such as Ontario's may not (yet) be feasible in countries where the use of technology has not come as far. For places with less technological sophistication and fewer financial resources, the state of Ceará in Brazil provides a good example of what can be achieved. In 1985, the state adopted a low-tech assembly-line system in which several of the agencies involved in the registration process stationed personnel at the offices of the Junta Commercial (municipality) who were authorized to process registration requests. As a result, the time to register at several agencies was cut from weeks to a few hours.

Establish a single business identification number to expedite and track the processing of official requests

While a unified government interface is important to businesses, a single identification number enhances the government's ability to provide fast and reliable service to businesses. Oregon and Ireland are examples of two governments that instigated the unification of various identification numbers. In Oregon, the single business identification number is used when reporting, paying, or making inquiries on employment-related obligations, such as withholding, unemployment, and transit taxes and workers' compensation assessments. Similarly, Ireland has brought tax registration details for income, social security, value-added taxes together under a single registration number.

Set target deadlines for as many procedures as possible

A useful principle is *affirma ficta*, whereby official requests accepted by the authorities are automatically approved if the responsible agency does not respond within the time period specified in the law. Mexico has successfully introduced such a system, which now allows businesses to start operations within 7 working days in the case of low-risk activities and 21 working days for businesses whose activities require health, safety or environmental controls. This compares to 46 days and 200 days, respectively, prior to the reform (SRI International, 1999). Peru provides another example of how to curtail the bureaucracy's ability to prolong the application process. Once an administrative process has been initiated, it may not be halted on grounds of insufficiency or inadequacy of the provided documentation except for reasons of inaccuracy.

Furthermore, if the applicant has not heard from the agency within 60 days, he or she has the right to assume that the application has been approved. Peru has also taken the additional step of instilling accountability among public agencies by forbidding them to demand machinetypered forms, more than one copy of any document, or uncommon forms of identification from clients.

Maintain close coordination between national and local authorities.

The case of Spain illustrates how close coordination between municipal, regional, and national governments has created a framework that can be easily expanded upon, in terms of both geographic coverage and functional scope. New municipalities wishing to register to the voluntary program need only sign standard, readymade agreements with the national and regional authorities that commit them to manage incoming paperwork in a standardized way. An on-line system will soon connect all layers of government over the internet, allowing officials from each level to track the status of applications and files.

Provide adequate training and resources to licensing authorities

One of the success factors in Australia was the federal funds award to help the states cover the costs of reform. Additionally, the federal government provided training to licensing authorities on the use of new technologies for business registration.

Make all information regarding registration requirements and procedures widely available and accessible to the public.

In Australia, entrepreneurs have easy access to regulatory information through the Internet and other media. The popular Business License Information Service (BLIS) provides a comprehensive database of registration and permit needs through the Internet, while other programs make the same information available via disk or telephone. In addition to these dissemination strategies, it is also important to provide assistance in completing the requirements. Technical assistance tends to have the greatest positive effect on small businesses and microenterprises, which generally do not have the resources to spend on legal assistance. The success of business registration efforts in Ceará, Brazil, is partly built on the technical assistance given to applicants, many of whom are illiterate or semiliterate.

Maintain a feedback loop whereby clients can express their (dis)satisfaction with the process.

The strength in Ontario's reform process comes from consistent review and innovation. The state has successfully incorporated the principles of customer input, review, and program innovation as core features of its streamlining efforts. For example, many of the new regulations have *sunset* clauses built in to ensure that these regulations will be reviewed within a certain time limit. This process helps to ensure that the red tape burden will be minimized in the future, as well.

Involve the private sector

In addition to the issues outlined above, the role of the private sector is becoming an increasingly important issue to consider. Business registration has traditionally been controlled and managed by the state. However, as ideological changes and technical advances create new opportunities for public-private partnerships, the role of the private sector in the registration process is becoming an increasingly important aspect to consider. In the United States, for example, individuals can hire the services of

private registered agents, and simply by calling or sending a fax, they can form a corporation in just 24 hours. Similar efficiency can be experienced in the United Kingdom, where private services provide *shell companies* that can be instantaneously activated. These shell companies are legally incorporated and registered companies that remain inactive until an owner has been identified and a business purpose established.

Costa Rica - A Case Study in Business Registration Reform

It is useful to learn on approaches and principles in international best practices, but how can theory be applied in practice? And how costly would it be? These are the basic questions a project officer or government official would face if tasked with the design of a proposal to streamline a country's business registration process. Because of the complexity of business registration reform, there is no single way to structure a reform effort. This is particularly true when country differences are taken into account. So, rather than defining a universal approach, it may be more useful to present a concrete example (Costa Rica) and let it serve as a basis for others to use and adapt as necessary. Suffice it to say that it is just *one* example of what can be achieved in this area.

The government of Costa Rica and the Inter-American Development Bank recently agreed to co-finance a reform of the country's business registration process. The reform slashes the total calendar time to register a business by an estimated 75 percent and reduce the cost by an estimated 25 percent. In total, over a ten year period, approximately 93,000 entrepreneurs would benefit, with each saving the equivalent of approximately US\$130 (in time and fees) as the result of faster and cheaper processing under the reformed system. The project not only benefits the entrepreneurs, but also the government, enabling them to monitor and analyze patterns of registration, including the partial evasion of certain requirements. While the total cost of the project amounts to US\$960,000, including approximately US\$180,000 for its administration (a coordinator and a part-time assistant), a tentative cost-benefit analysis indicates that the project will have a net present value of approximately US\$4.4 million, mainly as a result of the large number of entrepreneurs potentially benefiting.

The project will be implemented in close collaboration with a technical secretariat established by the Costa Rican government as part of a nationwide effort to eliminate and modify excessive and inappropriate regulations. This arrangement provides a direct path and the means to formally propose legal and regulatory changes to the executive and legislative branches of government. Alternatively, in other countries, the project could be co-financed and carried out by one or several private entities, with the collaboration of the government in submitting legal and regulatory proposals. In either case, it is obviously crucial to have a clear and strong commitment by the government.

The Maze of Business Registration in Costa Rica

In Costa Rica, it currently takes several months and several hundreds of dollars to register a business, depending on such factors as the company form (sole proprietorship, partnership or corporation), sector, or level of public health hazard

associated with the business. To fully register a business, entrepreneurs in Costa Rica typically must approach at least six government authorities:

1. Commercial Registry
2. Tax Authority
3. National Insurance Institute
4. Social Security Institute
5. Ministry of Health
6. Municipality

The sequence of these visits is largely mandated: Primarily the Commercial Registry is approached with the municipality last. In addition the registration at the National Insurance Institute must occur ahead of registration with the Social Security Institute.

Depending on the nature of the business, there may be additional requirements associated with each of these steps (for example, a restaurant must obtain clearance from the fire department before registering with the Ministry of Health). However, prior to approaching any of the six government institutions, the entrepreneur must first have the company's articles of incorporation notarized by an attorney, deposit a nominal amount of capital with a bank, and pay the stamp duties associated with the registration at the various institutions. At some point after registering with the Commercial Registry, the entrepreneur must also request the announcement of the company's creation in a particular official government journal.

The Nuts and Bolts of the Proposal

The proposal to create a one-stop-shop for business registration in Costa Rica has three dimensions: technical, legal and organizational.

The *technical* dimension of the project aims to establish the infrastructure of the streamlined registration system. In this case, it turns out to be quite simple. Basically, it consists of the installation and programming of a database through which all registration information are channeled. The database is based in a nonproprietary application such as Microsoft Access, and runs on a server hosted by a private company. The information in the database is accessible to the six government entities involved in the business registration process. The interface of the database looks like a web page, and the data is available for downloading once users provide the appropriate password. The entities connecting to the database do not need to acquire any additional hardware or software since the database application runs on the server. The connection is made using a simple dial-up modem. In addition to the database, the technical component includes the design of a unified registration form that integrates all the information requested by government agencies involved in the registration process from the entrepreneurs.

The *legal* dimension of the project focuses primarily on the legal and regulatory reforms desired to make the technical component work. The most important reforms for the functioning of the one-stop-shop system are regulatory in nature and are meant to ensure that the government agencies can legally recognize the electronic information transmitted through the database system. The applicants are not required to appear in

person at these agencies. In addition, the project seeks to update local laws to assure a generalized legal recognition of electronic information and to modify requirements relating to the notarization of a company's articles of incorporation and their publication in the official government journal.

The *organizational* dimension of the project addresses the issues of the means that the system is managed and the system the one-stop-shop service is provided to the public. This may be the most innovative aspect of the proposal, since it envisions the creation of a nonprofit association whose members would *jointly* manage the database and *individually* offer the service to the public. The founding members of the association would likely be the chambers of commerce and industry, with local offices in various cities and a direct mandate to serve entrepreneurs. However, membership is open to any organization that wishes to offer the registration service through its network.

To host and service the database, the association contracts a private firm and meets only occasionally to make the overall decisions regarding maintenance and upgrading of the system. As a result, the association does not require any facilities or staff of its own. The costs of maintenance and upgrading of the database is covered by a standard fee charged on each standard registration. A break-even analysis of the one-stop-shop system indicates that it is entirely sustainable with a standard charge of US\$12 per registration in year one, decreasing to US\$7 per registration by year 10.

Beyond the fee, the individual offices/affiliates of the association's members are free to add any charge to cover the costs of providing the service to the entrepreneurs. They are also able to customize and differentiate services as far as the underlying technology permits. Moreover, if the individual government entities so wished, they could offer the one-stop-shop services to their clients directly. The proposed arrangement for managing the one-stop-shop system is shaped by several important considerations. Firstly, through the local offices of the association's members, the system is able to provide wide geographic coverage at very reasonable cost. Secondly, the use of a nonprofit administrator prevents potential misuse of a monopolistic situation (since there is only one one-stop-shop network). Thirdly, the freedom of individual offices/affiliates to design and charge for their services encourage competition and innovation in the provision of one-stop-shop services to the ultimate clients. Fourthly, the fee financing signifies that the system is self-sustainable and not dependent upon the vagaries of yearly government budget negotiations. Lastly, since the association's members offer the services through its local offices/affiliates, there is a natural and seamless channel to raise complaints and suggestions for improvement of the system.

The government retains a supervisory role in the administration of the system through the creation of an inter-ministerial commission. This body ensures that the association strictly follows its statutes and operating procedures; it will not make day-to-day decisions regarding the one-stop-shop system.

4. Streamlining licensing procedures

Introduction

Licensing is the practice of requiring prior approval by a government authority for the establishment and conduct of a business or other activities. Approval is based on the provision of specific validated or certified information (usually in written form).

All governments use licenses – though in varying degrees and with different objectives – to protect the environment, to assure certain market allocations or to protect consumers.

It is a widespread form of government intervention in business activities, although different countries use it to differing degrees: some have reported that they administer a few hundred licenses, while others, several thousands.

Business licensing is widely believed to have the potential for serious economic harm, since it raises real and perceived barriers to new start-ups, and thus detracts from innovation. In particular, because of its anti-competitive possibilities which arise, incumbent firms have strong incentives to lobby regulators to use the licensing arrangements as a means to protect themselves from new entrants.

The issue of access to licensing requirements has become prominent since licensing occurs before engaging in a business or economic activity and because of the proliferation, duplication and contradiction of many business licenses. The search costs to businesses for identifying the range of licenses they are required to obtain in order to conduct their intended business, as well as the regulatory authorities responsible for administering those licenses can be considerable. The problem of ensuring compliance with all relevant licensing requirements is clearly of concern to both businesses and the government. For some countries corruption effects can also be involved, as licensing implies a degree of discretionary power from the side of the administrators and a situation that involves direct contact between low level civil servants and businesses eager to launch their activities.

Programmes to simplify permits and licenses have several outcomes. In some cases, licenses are abolished altogether, simplified or amalgamated with similar licenses. In other cases, the focus is on process re-engineering, with the result being a simplification or streamlining of internal procedures to obtain the authorization, leading to decreasing the time required for permit handling.

Deregulation and de-bureaucratization campaigns have traditionally been the driver behind many license simplification initiatives. Over recent years, however, the application of IT to *existing* license and permit requirements has also facilitated burden reductions and regulatory simplification of licensing procedures. Placing existing licenses on the Internet reduces administrative burdens by facilitating access and information. Making regulatory requirements easily accessible on the Internet also exposes overly numerous, time consuming and burdensome regulatory requirements, thereby often leading to pressure to simplify the regulatory requirements themselves.

Strategies to scrutinize existing permits and licenses

Four important distinctions can be made between the strategies used by developed (OECD) countries to review existing licenses. First, strategies vary in terms of their linkage to general regulatory reform policies or to centrally defined criteria for when and how to use licenses. The adoption of an explicit policy on the use of licenses and permits seems to be an important driver of efforts to achieve substantial improvements. Such policies can include setting general criteria as to when the use of licenses is appropriate, guidance on establishing administrative requirements, license renewals and/or the setting of appropriate fees and charges. Clear policy criteria for the use of licensing and permits can form the basis of self-assessment by regulatory agencies and help ensure that a consistent approach is taken. Explicit policies can provide a clear discipline on regulators, as well as a means of challenging licensing regimes that do not comply and are thus likely to be of low quality. The general policy of the **Dutch** government for the use of permits is that oversight based on general rules should be preferred over preventive restrictions, and that reporting on activities should be preferred over an obligation to ask for permission. A permit is considered to be an adequate policy instrument if: 1) it is necessary to regulate individual actions or acts by case-oriented rules and to monitor such actions; or 2), the interest, that has to be protected, is so important, that an exemption from an explicit ban can only be permitted on a case-by-case basis. Furthermore, strategies vary in terms of scope. Reviews of licenses may be general or exhaustive, *i.e.* encompassing all permits and licenses, or selective, *i.e.* concentrating the review on specific types of permits. In the latter category countries have focused on reviews of, for example, the most frequently requested permits, business start-ups or permits relevant to a specific sector.

- In **Korea**, for example, a review programme initiated in 2000 covers the most frequently requested documents such as business registrations, resident registrations, real estate titles, car registrations, and tax payment certificates. In addition, the programme also covers documents which are often required to be submitted even for cases where a simple check of identity cards or crosscheck between administrative bodies would be sufficient. Under the programme, ministries and agencies were asked to closely look at their civil applications to check whether document requirements could be eliminated, and if not, on what grounds. As a second step, Korea's Regulatory Reform Committee (RRC) re-examined the reasons reported by ministries and agencies to finally determine whether the requirements were necessary. As a final step, a government-wide system is to be established to let all the administrative bodies share information on civil applications with each other.

A permanent review: *The US Paperwork Reduction Act*

The general logic of the license and permit simplification schemes conducted has also been applied more generally in at least one country – the United States. The US Paperwork Reduction Act provides a comprehensive, centrally enforced programme for analyzing and clearing individual government information collection requirements and also for deriving a national paperwork budget. Importantly, it is also a permanent programme, which has been embedded in the legislation-making process since the passage of the Act in 1980.

This distinguishes it in an important respect from the license simplification programmes that have often been "one off" or "episodic" in nature.

The PRA requires federal agencies to request approval from the Office of Management and Budget (OMB) before collecting information from the public. The PRA was intended to minimize the amount of paperwork the public is required to complete for federal agencies.

To that end, the PRA gives OMB the responsibility to evaluate the agency's information collection request by weighing the practical utility of the information to the agency against the burden it imposes on the public. Agencies must publish their proposed information collection request in the Federal Register for a 60-day public comment period, and then submit the request to OMB for review. In seeking OMB's approval, the agency needs to demonstrate that the collection of information is the most efficient way of obtaining information necessary for the proper performance of the agency's functions, that the collection is not duplicative of others that the agency already maintains, and that the agency will make practical use of the information collected. The agency also must certify that the proposed information collection "reduces to the extent practicable and appropriate the burden" on respondents, including, for example, small business, local government, and other small entities.

- In January 2002, **Mexico** launched a Rapid Business Opening System (*Sistema de Apertura Rápida de Empresas*, or SARE). The SARE reduces the number of federal formalities to open a low-risk business for individuals (tax registration) and for businesses (tax registration and enterprise registration). The total time it takes to comply with federal start-up formalities is now one business day for low-risk activities. The remaining formalities, which are all required by law, were simplified by allowing businesses to comply up to three months following commencement of operations. A catalogue of low risk activities was published as an annex to the decree, in order to give entrepreneurs the certainty of qualifying for SARE. As of November 2002, over 226 000 individuals and 1 400 legal entities received their tax and enterprise registrations under this scheme. The programme also includes a co-operation initiative to help local authorities to implement SARE. Mexico's explicit government policy to coordinate programmes for the removal and/or simplification of federal formalities is illustrated below (see Figure 1.3). As can be seen from the illustration, the Mexican review includes, among others, considerations on reducing administrative burdens by transforming *ex ante* authorizations into notifications to be inspected *ex post*.
- Based on a comprehensive collection in 2000 of all procedural compliances for start-up enterprises, the **Belgian Agence pour la Simplification Administrative** (ASA) initiated a project aiming at integrating in one single procedure all formalities, broken down by professions, necessary to commence a business activity. Such consolidation of procedures into one procedure requires seamless co-ordination between the public services involved, an effective electronic medium, and usually a complete overhaul of the regulations and sometimes the services themselves. Currently the single procedure process (DEUS – *déclaration électronique unique des starters*) applies only to a few sectors.

Reviews and strategies vary in terms of their focus or objective. Some reviews focus on the achievement of specific quantitative reduction targets, established at the outset – for example a 25% reduction in an overall number of licenses, or a certain reduction in the number of days necessary for starting a business. These numerical targets often coincide with the adoption of a highly decentralized approach, in which it is simply mandated that administrative bodies must reduce the number of licenses by the required amount.

Some reviews have focused on setting or reducing time limits for providing answers to requests for permits and licenses, whereas other reviews have focused primarily on avoiding duplication or by reducing the coverage of individual regulations.

The latter may include releasing certain activities entirely from approval by the authorities, or by changing *ex ante* approvals into *ex post* notifications of the authorities, once the regulated activities have commenced.

Finally, reviews of permits vary in terms of their organizational set-up. Often examinations are carried out by the regulatory reform authority working in association with the license-administering agency. In other cases, reviews are carried out by external committees or bodies, either on an *ad hoc* or permanent basis. Examples and experiences with various organizational set-ups are covered in the section on organizational approaches of this report.

“Tutors” for applicants

A further tool for achieving burden reduction in relation to licenses and permits is the adoption of “tutors”, or mechanisms to assist those affected to complete the required administrative procedures.

- **Korea**, for example, has established a programme by which experienced “tutors”, who are highly familiar with administrative requirements in a particular area, are made available to help citizens complete applications.
- In the **United States**, a number of departmental level initiatives have been adopted, many of which focus on small businesses. For example, the Environment Protection Authority has a “Small Business Ombudsman” who produces a “resource guide” that details all of the agency’s small-business-specific activities. In addition, a number of departments are developing expert systems and intelligent technology to provide business compliance assistance. For example, the Department of Labor has developed 18 “E-law Advisors,” which are Web-based expert systems where the public may query through menus and routine questions to better understand and comply with its regulations.

Conclusions

License simplification and reduction programmes differ from many of the other policies considered in this report by being amenable to easy quantification. Indeed, it may be that this is one reason for the popularity of these initiatives with many OECD governments. As noted above, many of these programmes have begun with the announcement of a specific quantitative target for reduction in the number of licenses.

Some countries have reported impressive statistics. Mexico, for example, reported that a total of 45% of the formalities administered by its eleven ministries had been eliminated and over 95% simplified in some way within 2½ years of the adoption of its review programmed in 1996. Many permits and authorizations were converted into notification or other requirements that are not essential to the commencement of a business. In other cases, documentary requirements were reduced or simplified or departments substantially reduced the average length of time required to process applications. The Netherlands reported that its administrative burden reduction programme had reduced overall burdens by 10% between 1993 and 1996 and that a new target of 25% had subsequently been set. In some areas, the replacement of licenses by general rules was part of a more fundamental change of the legislation. They delivered a large-scale reduction of administrative burdens and significant savings.

However, simple numerical indicators that report on license reduction initiatives, such as the number or percentage of licenses eliminated can be easily mislead. For example, in cases when reductions are calculated on a static basis, the impact of licenses that were newly created during the life of the programme may be ignored. It is a common observation that license reduction programmes function in many cases as “window dressing” exercises that achieve little meaningful reform. This can be because the licenses removed under the programme were due to be repealed in any event because of other reforms already in progress, or because they had already become redundant and fallen largely into disuse. In addition, the tendency to decentralize the enforcement of regulations to local governments can also reduce the inventory on the national level. Such factors often mean that impressive numeric reductions claimed as the result of these programmes have difficulty in withstanding closer scrutiny.

Thus, while license reduction exercises can perform a useful function in prompting a systematic revisiting of the necessity and appropriateness of licensing arrangements, they are likely to lead to substantial change only under certain circumstances. A possible reason for the unimpressive outcomes of this type of reform in practice could be that, while the programmes are generally coordinated by a specialist regulatory reform body, the decision on the retention or removal of individual licenses invariably remains with the responsible Minister and the administering agency. Ministries will usually find it extremely difficult to be objective in evaluating their own licenses, so that important change will only occur if it is consistent with the administering Ministry’s own goals and agenda.

Careful programme design can, however, increase the likelihood of significant reform. The adoption of an explicit policy on the use of licenses and permits seem to be an important driver of efforts to achieve substantial improvements. Another key element would be to establish oversight and accountability for overall achievements via senior administrative or political bodies. For example, Korea’s Regulatory Reform Committee performed such a role on a very large scale in the context of the *Comprehensive Regulatory Improvement Plan* in 1998 and 1999. Another approach to drive such reforms is to establish comparable information on the quality and performance of countries’ permits and licensing procedures. The effectiveness of license simplification is also likely to be enhanced by the adoption of open and transparent procedures that allow effective opportunities for public inputs and suggestions. Given the nature of the license burden, affected parties can be expected to be an important resource in

identifying priority areas for reform and, potentially, for proposing less burdensome means of meeting the objectives underlying the license or permit requirement.

While some design elements of a relatively successful licence simplification/reduction exercise can thus be identified, there remains a threshold decision as to whether such generalized license reduction exercises should be undertaken at all. Theoretically, the establishment of rigorous regulatory quality processes, such as Regulatory Impact Analysis and more effective consultation procedures, in combination with robust review and/or “sun setting” processes should largely eliminate the need for such *ad hoc* license reduction exercises. It is also arguable that license reduction/simplification programmes have a prominence that is out of proportion to the rather limited empirical support available for the underlying presumption of the especially burdensome nature of licenses and permits. For example, a survey of barriers to business set-ups in the European Union showed that “discretionary activities” such as developing a business plan and obtaining finance (rather than obtaining relevant permits and licenses) had the greatest effect on the total elapsed time to set up a new enterprise. A danger of adopting such programmes may be that they divert scarce regulatory reform expertise away from larger reform tasks with potentially much greater benefits.

However, there are reasons for favoring license reduction programmes. They can be an important first step in a regulatory reform programme, achieving highly visible results within short timeframes. Thus, they can help in the process of mobilizing constituencies for reform. As well, they can assist in shifting perceptions more broadly away from assumptions that government permission is required to carry on a business and toward a presumption of freedom to operate. Finally, there are promising practices in the licensing and permitting areas that may not be most effectively disseminated through broader regulatory reform initiatives. Their implementation might be more efficient through a programme that is license-specific.

As with many regulatory reform initiatives, the choice of a particular license simplification programme or approach depends to a substantial extent on the individual circumstances facing the country. In some cases these programmes have proved more successful when designed as a response to economic crises. In other cases, these programmes may be particularly useful in the early stages of a regulatory reform programme. They can also potentially act as the starting point for wider reforms. This can particularly happen in a context where there are a very large number of licenses already in place and a clear case for revisiting the underlying approach to business licensing.

In a few countries, the general logic of license simplification and reduction programmes has also been applied more generally to all paperwork requirements. These programmes, which in the case of the United States are permanent and legislatively driven, arguably provide an ongoing discipline on the creation of new administrative burdens that is embedded into the legislative process. The question necessarily arises, however, as to whether such issues are best considered on a “stand alone” basis, or integrated into broader regulatory impact analysis efforts. The experience of the US programme appears to be that positive results have been achieved, but that the degree of success is essentially one of slowing the rate of growth in burdens, rather than reducing them overall.

5. Do one-stop-shops work and by what means?

Introduction

One-stop shops can in general terms be defined as offices where applicants and others interested in government services are able to obtain all the information necessary to their query in one location. They are often referred to as a “service counter”, “single window” or “information kiosk”.

One-stop shops are primarily designed to provide integrated and seamless services with as few and as easily accessible points of contacts with the clients as possible. The purpose of one-stop shops is to provide substantial savings in information search and transaction costs for users in relation to a wide range of interactions with the government. In addition to the direct savings in cost and time for applicants, the gains spread to the government and government staff. Additional benefits can also be recognized by increasing accountability, objectivity, and placing decision making as close to the citizens and enterprises as possible. The one-stop shop concept also offers remedies to “monopolies-of-information situations” where governmental agencies can withhold information from citizens and businesses, or deprive equal access to it.

As experience with one-stop shops has grown and improved technology,, the services provided have expanded. Users of one-stop shops can acquire lists of applicable laws and regulations, information on codes of practice and other guidance material, as well as information on licenses and permits required by various levels of government. Delivery mechanisms have expanded from traditional methods, such as face-to-face interviews, telephone and mail, to the use of IT-based tools, including, most importantly, Web portals, but also CD-ROM systems, information kiosks or automated teller machines. Increasingly, different mechanisms are being seen as elements of an overall service channel strategy, with all elements gaining from recent advances in IT use. This section of the report deals specifically with “physical” one-stop shops. Electronic one-stop shops, e.g. in the form of government-wide information search portals, were dealt with in the previous section of this report.

Practices and experiences

One-stop shops are aimed at assisting citizens and businesses. Services provided to citizens and businesses can appear in a segregated format, but, in many cases, a particular one-stop shop, like offices for wage and tax reporting, can serve both types of clients at the same time. According to the scope of the services offered, one-stop shops are either specialized or general. More specialized one-stop shops differ from the general ones by serving a particular sub-set of governments’ “client” group. At the same time, specialized one-stop shops are often closely linked, and may be the outgrowth of general ones. Finally, one-stop shops can be operated by the national, regional or local authorities on one hand, and, on the other, by some form of co-operation between public bodies and private entities, such as business or civil society associations.

One-stop shops for enterprises

One-stop shops are widely used to simplify the governments' interaction with enterprises. Some of these institutions deal with all kinds of businesses, others concentrate on companies of a certain size, like SMEs, or those operating in specific sectors and industries. Further specialization includes two categories of one-stop shops: business licensing services and enterprise service counters. Business licensing services focus their activities on the provision of information and opportunities for transactions related to the acquisition of permits necessary for engaging in a specific business activity. Enterprise service counters usually offer a broader type of services to enterprises. They are offices where entrepreneurs can obtain a broad range of services from different public authorities.

Their major advantage is that they provide integrated services. In an ideal situation, enterprises would contact one place in order to access all services they might require.

- For example, Enterprise Ireland, set up in 1998 in **Ireland**, is a development agency that services specifically to indigenous industries. Assuming the resources of three previously separate entities (Forbairt, the Irish Trade Board and the in-company training division of FÁS), Enterprise Ireland represents a more tailored approach to assisting small businesses in manufacturing and internationally traded services. The organization acts as a one-stop shop, providing information and advice on all aspects of business activities and organization.
- The **Dutch** "Enterprise Service Counter" has created a common service counter merging the services of municipalities, Chambers of Commerce, tax administrations, and the Ministry of Economic Affairs. At the local or regional level, provinces and local partners may also be involved.
- An interesting initiative in **Mexico** has been the development of private-sector-run one-stop-shops, typically established by business and industrial associations such as those organized by the Mexico City Chamber of Commerce. Most business chambers have their own tailor-made one-stop shops providing services, and supporting the applications and other requirements most commonly encountered by their members. The formalities for which the greatest amount of information is available are those for setting up businesses, exporting and importing goods, and registering trademarks. As the mandatory requirement to belong to a chamber is phased out, the government has pushed the chamber to compete on services provided to businesses and thus in managing efficient one-stop shops.

One of the most common types of specialized one-stop shops for businesses – and especially small businesses – is the **business licensing service**. These services are among the earliest burden reduction initiatives implemented by governments, having been used in some cases since the mid-1980s. Business licensing services act as one-stop regulatory information shops, identifying relevant licenses and providing application forms, information and contact details. Generally each service provides clients with tailored business licensing information packages that contain most or all of the following:

- A summary of the national and local government licenses required for the particular business;

- The contact details of the agency which administers each license (if not handled by the one-stop-shop itself);
- License application forms, combined where possible; and
- Details of license fees, periods of coverage and renewals.

Business licensing information services reduce administrative burdens for businesses by reducing the information search costs incurred while trying to establish their regulatory compliance obligations. Since they act as one-stop regulatory information shops, it removes the need for businesses to have an understanding of the fabric of government in order to determine their compliance obligations.

As noted above, some jurisdictions have extensive experience with business license services. In these cases, the services offered have usually been progressively expanded over time, as expertise in system design and service delivery accumulates in addition to technological advances increasing the range of possibilities. Examples of expanded services include provision of information on the licensing requirements of sub-national (*i.e.* state and/or regional) levels of government and listing of government support programmes available to inquiring businesses. Another direction of development is presenting business license services the ability to approve requests for licenses, to authorize requests, and to register the business entity.

- For example, **France** has a network of Business Formalities Centres, which operate as “front offices” for the provision of government information and transactions in relation to formalities. These are located in the chambers of commerce and industry for businesses, the industrial and commercial sector, chambers of trade for tradesmen and, more recently, chambers of agriculture. They provide new businesses with a single access point where all information on statutory start-up formalities are available. The Business Formalities Centres are authorised to consolidate all relevant documentary requirements from other ministries and social services. They also process any changes in the course of businesses’ operating lives. “Virtual” versions of the Business Formalities Centres have also been set up on the Internet.
- The concept of the Business License Information Service (BLIS) arose in **Australia** in the late 1980s. Pioneered by the state of Victoria, every State and Territory in Australia at present has implemented such services. BLIS units provide a single point of access for State, Commonwealth and local government licenses, including application forms. While the service is primarily aimed at providing information for prospective new businesses, it also provides information on license renewals, transfers and general regulatory issues concerning business expansion. According to the findings of a study, which assessed the effectiveness and efficiency of the Victorian BLIS in 1994, the benefit of the service to clients was estimated at AUD 21 million (USD 10.4 million), with a client benefit-cost ratio of 15:1.

Information and advice services provided by such one-stop shops are especially valuable for business start-ups. One-stop permitting approach, establishes a single access point for the registration of new businesses and reduce the costs and time involved. This can encourage entrepreneurial activities and facilitate the dynamic and the growth of local and national economies. There are an increasing number of countries following such practices.

- In 1999, a network of Single Access Points was set up in **Spain** to handle the administration of business start-ups. They provide advice to prospective entrepreneurs, act as a single point of contact for submission of all documents needed to set up a new enterprise and transmit documents to all government bodies involved in business registration. New IT tools are used to facilitate the process of transmitting information between government bodies. The network has contributed to a major reduction in the typical time needed to comply with the mandatory requirements to set up a new business.

Conclusions

The one-stop shop concept has been implemented in a vast number of permutations and combinations. There is evidence that many of the variations of this basic scheme have been successful in reducing administrative burdens on businesses and the general public.

These gains are due to reduction in time and cost saving seeking information, especially on license and permit requirements.

The one-stop-shop concept has been enhanced and driven by technological change. The first adoption of license information systems followed quickly from the widespread adoption of faxes, personal computers and associated software that enabled the compilation of searchable databases. The availability of these services was expanded by new delivery mechanisms – such as sales of the entire database and software in CD form to business advisers, and subsequently, delivery via the Internet. Increasingly, however, these services have become specific modules, or applications, within the larger government information portals that are either in use or under development in most OECD countries. Notwithstanding the fast growth of Internet-based one-stop shops, physical one-stop shops remain a very important means to reduce administrative burdens for citizens and businesses. This is because physical one-stop shops possess qualities, such as providing opportunities for personal advice and guidance, or a high level of accountability through the personal involvement of civil servants, that Web-based one-stop shops cannot offer.

There is arguably a combination of “top-down” and “bottom-up” dynamics in operation related to the development of one-stop shops. That is, generalized government one-stop shops can be considered “top-down” in approach, being designed with the objective of providing a broad range of government information to all potential clients. The business license services, on the other hand, takes a “bottom-up” approach, identifying a specific need and a particular constituency. The direction of development over time has been to move “upward”, identifying additional information of value to the same constituency and seeking to include it in the basic database to add value to the service.

The combination of the “top-down” and “bottom-up” dynamics may be the best means of ensuring that the one-stop shop concept is developed to its full potential. The bottom-up approach ensures a focus on the needs of particular client groups, while the “top-down” approach allows a broad view of the communication issue to be grasped.

The evolution of one-stop shops according to the “top-down” and “bottom-up” approaches indicates that there is room for a range of different variations on the one-stop shop concept. A central issue in the further development of these tools will be to

take a strategic approach focused on integrating the different tools into a coherent whole.

From the applicants' viewpoint, the major advantage of these services is that they organize government information on the basis of applicants' needs, without needing a global understanding of the government structure that lies behind the information, license, permit or approval required. This allows clients to deal with government on an "enterprise" basis, rather than as a collection of individual agencies. Further utilization of this characteristic is likely to occur in the future as additional content is identified for delivery through these services. This can include an increasing array of information that enables businesses to readily assess their overall regulatory compliance obligations. As many of these services now constitute well-recognized distribution channels, they are strategically well placed to engage in regulatory transactions (information, licenses, permits, approvals, fee-paying, etc.) with businesses.

In addition, the one-stop shop approach arguably has benefits in relation to the simplification of permits, licenses, and other authorizations that go beyond the savings in search costs that they appear to be generating. A key benefit for policy makers and others interested in reform is that, by bringing together the full range of licenses and permits required in relation to a given business, they tend to highlight areas of overlap and/or duplication and point out redundancies. Thus, they provide a potential resource in terms of programmers to simplify and rationalize license and permit arrangements. At the most basic level, one-stop shops may be the only readily available means of obtaining a full inventory of all licenses and permits currently in existence, an indispensable starting point for any license reduction programme.

However, the implementation of one-stop shops still entails substantial practical difficulties; the most significant difficulty arises from machinery-of-government issues, rather than technological ones. One possible concern is that one-stop shops can, in some cases, shift burdens rather than eliminate them. An example of this issue is that of business license information service systems. While these systems have been found to entail real reductions in information search costs for businesses, they have largely shifted administrative burdens from business to government.

More broadly, the continued expansion of one-stop shop type initiatives has raised a range of policy questions that remain to be addressed. Some of these are strategic, like the question of the scope of services offered by one single one-stop shop, the number of one-stop-shops needed, how they interact and compete with each other or how the one-stop-shop differs from the "service counter" idea. Others still are practical questions of how these one-stops can be equipped to respond to the customers' needs and what approach governments should take to their funding. Some argue that the private sector should be given opportunities to run one-stop shops as "regulated information brokers" and either receive funding for this activity from the government or charge customers directly. For some countries, corruption effects can also be involved as licensing implies a degree of discretionary powers which may be exploited for personal gain.

Furthermore, there are questions on how to overcome problems relating to coordination between one-stop-shops and the back offices of the regulatory authorities. If one-stop-shops are to make the leap from information provision centres to transactional agencies (or portals), the co-ordination calls for a close, reliable and streamlined collaboration.

Finally, and perhaps most fundamentally, there is an increasing demand for empirical evidence to guide policy makers on the overall cost-efficiency of one-stop shops. Although most one-stop shops by definition reduce administrative burdens for the immediate target groups, little is known on the full economic impact for businesses, governments, taxpayers, of establishing and maintaining one-stop shops.

Taking into account long-term operational costs may change the priorities for how, where and when to introduce one-stop shops.

6. Time limits for decision-making

Introduction

An important factor determining the extent of compliance burdens is the timeliness with which decisions are made and appeals are launched or considered after an application is submitted. That is, the extent of an administrative burden is determined only partially by the direct input involved in marshalling required information and engaging in completing forms and dealings with administrators. In addition, costs are also imposed on the business or the citizen by time delays and uncertainty, either in the provision of information, or in providing responses to requests. Setting time limits may not only lead to reduced administrative costs for businesses and citizens. In many cases, time limits also have important accountability implications by putting a stronger onus on the public authorities to provide citizens and businesses within a definite and binding time limit.

Practices and experiences

The legal basis for time limits on administrative decision-making

In some cases, time limits are established in administrative procedure laws; in others they are located in specific pieces of legislation relating solely to decisions made under that legislation. Usually time limits established in administrative procedure laws are subsidiary to time limits established in specific legislation. That is, if a law or regulation does not explicitly set a time limit, the administrative procedure law's requirements apply. Some examples:

- **Korea's** Administrative Procedure Law also requires administrative bodies to publish time limits for administrative decision-making. Sanctions for not meeting these time limits vary. In some cases the administrative body may be able to grant itself an extension as long as it immediately informs the applicant concerning its intention to seek an extension, the cause, and the expected date of final decision. In other situations, if an administrative body does not meet the time limit, the applicant can bring a petition for the purpose of urging rapid treatment either directly to the administrative body or to a government body that supervises the concerned administrative body.
- The **Dutch** administrative law requires that administrative decisions are taken within a "reasonable" time. This general requirement has been supplemented by the General Statute on Administrative Law. This document specifies a general time limit of four weeks, with a possible extension of a further four

weeks, during which public authorities provide an administrative decision on request, unless the special regulation concerned sets a different time limit.

- The **United States'** Administrative Procedure Act does not require agencies to act on rule-making proposals or case adjudications within a prescribed time after the end of public proceedings. However, Congress occasionally seeks to control and expedite agency action by imposing statutory deadlines within the context of individual Acts. Typically these statutory deadlines can be enforced only by court suits. However, in some cases Congress has included so-called "hammers" or other penalties that can be brought into effect if an agency fails to take timely action.
- A **French** initiative has enhanced citizens and businesses' effective ability to exercise their rights *vis-à-vis* public authorities by providing clearer rules on the validation of deadlines for submissions to public authorities. An Act of 12 April 2000 provides a postmark or other official (including online) procedure enabling the date of dispatch to be ascertained as proof of acceptance. The law replaces a series of practices or regulations that were frequently dissimilar and unfamiliar to the general public with a single rule.

In the absence of a statutory time limit, agencies sometimes find it helpful to set their own schedules for completion of the various steps in a rule making or adjudication. These schedules provide the agency with a practical yardstick for determining whether its proceeding is making satisfactory progress towards completion.

Tacit response: silence is consent and silence is denial rules

The technique of allowing an agency's silence to be construed as tacit authorization or denial of applications is used in some countries as a corollary of the establishment of time limits for administrative decision-making. The silence is consent or denial rule provides a more effective assurance to the applicant that a decision to their request will obtain a timely resolution. It puts the onus to act on the bureaucrat: The bureaucrat needs to take action prior to the deadline, including, if necessary, asking for additional time to consider the application. If the bureaucrat does not make an active decision before the time limit, the resulting decision will automatically be his responsibility. In the case of a tacit denial, the applicant can immediately appeal the decision (instead of waiting for a negative response that may never come, if time limits were not established and enforced).

- **Spain's** Administrative Procedure Law places an obligation on administrative bodies to respond to applications within at most six months, unless the relevant law specifies an earlier deadline. If no timely response is given to a procedure initiated by an interested person, it would be considered a tacit authorization. If an administrative body has initiated a procedure and there is no response by the addressee, it can be taken as a tacit rejection. To be exempted from the authorization or denial rule, agencies need to forward a formal request.
- "Silence is consent" rules are widely used in **Mexico**. Recent modifications to the Mexican Federal Law of Administrative Procedures reinforce the legal basis of the "silence is consent" rules, expanding their coverage to areas of public administration in which there is no risk of "under-regulating". These changes in the law establish that, with certain exceptions, the absence of a resolution

within the time limits laid down in the law implies the approval of a citizen's demand. The use of "silence is consent" rules has spread to many Mexican states and municipalities.

In cases where applications are poorly presented and lacking relevant information tension may arise between, on the one hand, the need to take the administrative decision on a sound and relevant basis of information, and, on the other, the obligation to honor the time limit. Countries have addressed this challenge by seeking to provide clear and unambiguous guidance on the information needs, and by assigning a time limit to the agency receiving the application.

A "silence is denial" rule may be used in certain situations where applicants need a rapid resolution – for example in programmes involving application for benefits or merger authorizations. If the administration does not act on an application within a certain timeframe, it is deemed to be denied and an "exhaustion of administrative remedies" and the applicant may go directly to court.

Conclusions

In many OECD countries time limits for administrative decision-making are very important for businesses and constitute part of an accountable public service. A key determinant of time limits' performance and relevance may be found in aspects of the broader administrative culture within which they are adopted.

In countries where traditions and means of redress are less well developed, the setting of legislated time limits may be a particularly important means to reduce administrative costs and uncertainty. In a number of countries, time limits were largely adopted as a result of the need for an effective incentive for the public sector, to provide reasonably quick responses to requests from businesses and citizens.

The silence is consent approach has the effect of creating a presumption that an administrative application is resolved positively, with a negative outcome requiring a deliberate action by the administration. Moreover, it provides an instant form of redress for applicants, who are relieved from the necessity to appeal against an administrative failure to make a decision. Thus, the silence is consent approach underpins and reinforces the underlying purpose of creating time limits for administrative decision-making. In this sense, they constitute an obvious complement to a time limit policy.

Silence is denial is in many ways an inferior rule to silence is consent, as it does not directly address the underlying reason for implementing time limits – *i.e.* the need to limit administrative burdens by providing a final resolution of an application in a timely way.

However, as explained above, the silence is denial rule can indeed speed an applicant's progress through administrative or judicial appeal processes by bringing a "deemed" closure to the initial application process.

Legislated time limits are difficult to apply "across the board". This is due to differing degrees of complexity and consequences in making incorrect judgments, time limits to exercise various kinds of administrative judgments can be legitimately varied. Silence is consent rules are not widely, or universally, used in any country. This reflects the reality that the result of an unwarranted approval of an application can be extremely serious and costly in some cases. The operation of silence is consent has the potential

to give rise to dangers in certain areas, whether of a safety-related or financial nature. The limited field of operation of silence is consent thus seems to reflect judgments by governments that the potential harms associated with such unwarranted approvals can, in many cases, outweigh the benefits of reduced administrative burdens and increased certainty.

In general, accountability mechanisms seem to be potentially important, particularly in contexts in which cultures of administrative responsiveness to citizens are not well established and have the potential to signal government expectations of performance in this regard. However, the issue of determining appropriate incentives and sanctions to ensure that the time lines are met remains a substantial challenge for the future. It is clear that the silence is consent rule has played a role in supporting the use of time limits. At the same time, there are substantial impediments to its more widespread use that will continue to limit the extent to which it is employed in the future. Other options for encouraging compliance with time limits, such as monitoring and reporting performance and applying sanctions for substantial under-performance may need to be considered if this tool is to be made fully effective. Nonetheless, these tools show a high level of consistency with the broader governance agenda and its focus on accountability, transparency and responsiveness to citizens.

7. Other tools and practices

Introduction

The preceding sections of this report identified and discussed tools commonly used to reduce burdens and simplify administrative regulations. Still, many developed countries use a variety of other burden reduction tools and practices. These include negotiated rule making, an ombudsman, “plain language” programmes, “simulated user” programmes, public service charters, and tax simplification initiatives. Some of these initiatives constitute recent experiments, with little information yet being available as to their performance in practice or as to critical success factors. Other initiatives – such as the ombudsman – represent more widely used tools that have policy goals that go well beyond the ambit of administrative simplification, but have been used in part to pursue simplification goals, at least in some contexts. The tools discussed in this section give a broader view of administrative simplification approaches and indicate some additional areas for future research and consideration.

Practices and experiences

Negotiated rule-making

In countries with a history of adversarial rule making, it is not unusual for the regulator and regulated parties to negotiate a settlement under the supervision of a court once the rule has been published. Reporting obligations and processes to settle disputes are sometimes claimed to be over-formalistic and adversarial, imposing administrative burdens on businesses as well as the public sector.

Negotiated rule-making in this context is a procedural innovation in which representatives of the regulatory agency and the various affected interests are brought together in a co-operative effort. This innovation facilitates to negotiate the text of a

proposed regulation that must meet statutory obligations and at the same time be accepted by the regulator and the issuing agency. Negotiation of a rule prior to the agency's publication of a proposed rule can save the agency and other parties both time and resources. By avoiding litigation, programmes become effective sooner and regulated businesses modify plans earlier than if they faced years of litigation and uncertainty on the outcome.

Negotiated rule making may lead to more innovative approaches that may reduce compliance costs and increase compliance. It can also ensure that less time, money, and effort are spent on developing, enforcing and implementing rules. Negotiated rule making is considered to work best where *a)* there is a manageable number of interested groups and issues to be negotiated, *b)* where the issues are negotiable, and *c)* where all interested participants have an incentive to move forward (perhaps due to a deadline or to the inevitability that *some* regulation will be issued anyway).

- One example is the **United States**, where, since 1982, 17 federal agencies have initiated 67 negotiated rule makings producing 35 final rules. Experiences point to substantial cost-savings due to early implementation, whereas the most significant deterrent to using negotiated rule making is the up-front cost in terms of time and information gathering.

“Plain language” drafting

Many countries have undertaken programmes to improve the clarity of their formalities and forms. Governments have ordered agencies to use plain language in all new rule-making documents. Instruction and training sessions have been held on how to make information requirements readable. The advice covers such things as format, headings, paragraphing, use of tables and illustrations, and use of active verbs. Some examples are:

- In **France**, a committee was established in 2001 to improve the administrative language (COSLA – *Comité d'orientation pour l'amélioration du langage administratif*). COSLA has embarked on redrafting forms most commonly used in order to make them easier for users to understand. To improve the quality of public servant's letters to citizens and businesses, COSLA is also preparing a glossary giving everyday language equivalents of technical and legal terms.
- The **United States** Government created a Web site called the “Plain Language Action Network” which was devoted to helping the implementation of this initiative. As part of this effort, the Vice President presented awards to federal employees for plain language accomplishments. Many other OECD countries have similar initiatives. Mexico's programme also includes the requirement that any government official who has direct contact with the population should fully identify himself or herself.

The simulated user programme

An innovative programme used in **Mexico** is the “simulated user programme.” The programme serves as a tool for assessing compliance with the deregulation and administrative simplification initiatives through random, surprise call visits by simulated users. Quality indicators and procedure ratings are then used to assess the

performance of government offices and employees. Between 1995 and 2000, the simulated user programme led to over 500 recommendations being made to simplify procedures and improve services for the public.

Public service charters

Public Service Charters may support administrative simplification by making clear the reporting obligations and information requirements necessary to obtain public services.

- In 1998, the **Korean** Ministry of Government Administration and Home Affairs (MOGAHA) launched a public service charter programme by requesting all administrative bodies to formulate and announce their own “public service charters”. Charters are supposed to include a description of services provided and their criteria, directions on how to obtain services, and possible remedies for mistreatment by government employees.

Business and citizen suggestion programmes

Ad hoc and systematic input from businesses and citizens on how to simplify administrative procedures are a key source of input to administrative simplification initiatives in many countries. Input channels vary from general (electronic) contact points where suggestions can be tabled, to a more systematic and targeted gathering of information.

- The **Korean** government has developed systematic ways to collect citizen suggestions to improve the public administration. Special bi-annual meetings are organized where citizens, generally represented by major NGOs, present suggestions for administrative reform. All administrative bodies at the regional level are also instructed to collect suggestions from businesses and citizens on ways to improve the public administration. The Ministry of Government Administration and Home Affairs collects the suggestions and presents them with relevant administrative bodies to discuss if and how to implement them.
- Pioneered in **Denmark** in 1996, test panels are an innovative way to incorporate businesses’ views on regulations prior to being finalized and implemented. In Denmark a Test Panel consists of 500 randomly selected representative businesses. Based on a summary of the proposed regulation and government estimates of the expected burdens, businesses in the panel are asked to fill out a standard questionnaire (which takes 10-15 minutes, communicated electronically over the Internet). Answers by businesses are summarized in a report prepared by a government agency and made available to the proponent ministry. Testing a regulation in the Test Panels takes approximately 20 days.

Public sector simplification

In 1999, the **British** Government developed a Public Sector Team (within its Cabinet Office Regulatory Impact Unit) with the sole purpose to reduce the regulatory burden on the public sector, *i.e.* in areas such as law enforcement offices, schools, hospitals, and local authorities. Its role is mainly to recommend best practices and to facilitate the

co-operation with government departments. A “new” technique, equivalent in its objectives to Regulatory Impact Assessment, currently labeled the “regulatory effects framework”, aims to measure the costs of administrative burdens to public sector organizations in terms of the hours of staff time required to meet them.

The Public Sector Team seems at present to be a unique concept in terms of its focus on administrative simplification specifically within the public sector context. However, this would appear to be a fruitful area for further work, given the size of the public sector, the number of different levels of government that can be involved and the complexity of many of the interactions among public sector agencies.

Conclusions

The series of initiatives discussed above are indicative of the wide-ranging nature of the attempts made by OECD Governments to address the issues of administrative simplification and burden reduction. At the same time, they also serve to highlight the links between simplification programmes and other policy objectives.

For example, plain language drafting programmes were originally developed with the primary objective of making the law more intelligible and accessible to those required to comply. While this is essentially a transparency based objective, it is equally apparent that the compliance effort involved in relation to a given law can be substantially reduced if there is a greater degree of clarity in the law itself as to the nature of its requirements.

Indeed, the drafting of regulations is often the crucial point in addressing potential administrative burdens, while the logic of plain language drafting suggests that close consultation with citizens is likely to constitute one of the most productive approaches.

The power of citizen’s suggestions seems to be a largely untapped resource. This appears to be an area for further experiment, focusing on the best way to bring the affected public into the process at the early stages of drafting proposed regulations. However in some cases it seems that a challenge remains to build a real win/win strategy convincing both users and administrations that procedures can in fact be simplified without detriment to either.

PART C.

ANNEX A.I - EASE OF DOING BUSINESS INDICATORS – REGIONAL COMPARISONS OF ARMENIA WITH THOSE COUNTRIES OF PEER-GROUP AND GLOBAL BEST PERFORMERS

Table A.I.1 - Starting a Business

Region or economy	Rank	Procedures (number)	Duration (days)	Cost (% GNI per capita)	Min. capital (% GNI per capita)
<i>Caucasus Countries</i>					
Armenia	46	9	24	5.1	3.3
Azerbaijan	96	15	53	9.5	0.0
Georgia	36	7	16	10.9	3.7
<i>Other CIS Countries</i>					
Russia	31	8	33	5.0	4.4
Moldova	69	10	30	17.1	22.0
Kazakhstan	33	7	24	8.6	26.6
Ukraine	110	15	34	10.6	183
<i>Countries of peer-group</i>					
Latvia	26	7	18	4.2	31.8
Lithuania	37	8	26	3.3	58.3
Poland	92	10	31	22.2	220.1
Slovak Republic	48	9	25	5.1	41.0
<i>Regional average</i>					
Europe and Central Asia	-	9.7	36.5	13.5	49.1
OECD	-	6.5	19.5	6.8	41.0
<i>Global best</i>					
Canada	1	2	3	0.9	0.0
Australia	2	2	2	1.9	0.0
USA	3	5	5	0.5	0.0

Table A.I.2 - Dealing with Licenses

Region or economy	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)
<i>Caucasus Countries</i>				
Armenia	36	18	112	43.1
Azerbaijan	162	28	212	977.4
Georgia	42	17	137	71.7
<i>Other CIS Countries</i>				
Russia	143	22	528	353.7
Moldova	63	20	122	215.0
Kazakhstan	112	32	258	68.3
Ukraine	96	18	265	229.4
<i>Countries of peer-group</i>				
Latvia	47	21	160	43.9
Lithuania	16	14	151	17.5
Poland	120	25	322	83.1
Slovak Republic	40	13	272	18.0
<i>Regional average</i>				
Europe and Central Asia	-	21.4	251.8	668.9
OECD	-	14.1	146.9	75.1
<i>Global best</i>				
Palau	1	6	67	18.8
New Zealand	2	7	65	29.3
Micronesia	3	6	53	41.4

Table A.I.3 - Employing Workers

Region or economy	Rank	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Hiring cost (% of salary)	Firing Costs (Weeks of wages)
<i>Caucasus Countries</i>							
Armenia	41	33	40	20	31	17.5	13.0
Azerbaijan	66	33	40	40	38	22.0	21.7
Georgia	6	0	20	0	7	20.0	4.3
<i>Other CIS Countries</i>							
Russia	57	0	60	30	30	35.8	16.6
Moldova	135	33	100	70	68	30.0	20.9
Kazakhstan	29	0	60	10	23	22.0	8.3
Ukraine	119	44	60	80	61	36.4	16.6
<i>Countries of peer-group</i>							
Latvia	108	67	40	70	59	22.4	17.0
Lithuania	93	33	60	40	44	28.0	33.8
Poland	64	11	60	40	37	25.8	24.9
Slovak Rep.	74	17	60	40	39	35.2	12.9
<i>Regional average</i>							
Europe and Central Asia	-	34.5	56.9	41.5	44.3	29.6	32.8
OECD	-	30.1	50.4	27.4	36.1	20.7	35.1
<i>Global best</i>							
Palau	1	0	0	0	0	6.0	0.0
Tonga	2	0	40	0	13	0.0	0.0
Hong Kong	3	0	0	0	0	5.0	12.9

Table A.I.4 - Registering Property

Region or economy	Rank	Procedures (number)	Time (days)	Cost (% of property value)
<i>Caucasus Countries</i>				
Armenia	2	3	4	0.4
Azerbaijan	59	7	61	0.3
Georgia	16	6	9	0.5
<i>Other CIS Countries</i>				
Russia	35	6	52	0.4
Moldova	40	6	48	1.5
Kazakhstan	68	8	52	1.6
Ukraine	127	10	93	3.8
<i>Countries of peer-group</i>				
Latvia	89	9	54	2.0
Lithuania	2	3	3	0.8
Poland	75	6	197	1.6
Slovak Republic	6	3	17	0.1
<i>Regional average</i>				
Europe and Central Asia	-	6.5	127.1	3.0
OECD	-	4.7	32.2	4.8
<i>Global best</i>				
New Zealand	1	2	2	0.1
Lithuania	2	3	3	0.8
Saudi Arabia	3	4	4	0

Table A.I.5 - Getting Credit

Region or economy	Rank	Legal Rights Index	Credit Information Index	Public Registry Coverage (% adults)	Private Bureau Coverage (% adults)
<i>Caucasus Countries</i>					
Armenia	65	5	3	1.5	0
Azerbaijan	21	7	4	1.1	0
Georgia	48	6	3	0	0
<i>Other CIS Countries</i>					
Russia	148	3	0	0	0
Moldova	97	6	0	0	0
Kazakhstan	117	5	0	0	0
Ukraine	75	8	0	0	0
<i>Countries of peer-group</i>					
Latvia	26	8	3	1.1	0
Lithuania	36	4	6	2.5	12.1
Poland	88	3	4	0	38.1
Slovak Republic	28	9	2	0.5	18.1
<i>Regional average</i>					
Europe and Central Asia	-	5.6	2.5	1.4	6.6
OECD	-	6.3	5.0	7.5	59.0
<i>Global best</i>					
United Kingdom	1	10	6	0	76.2
Hong Kong	2	10	5	0	64.5
Australia	3	9	5	0	100.0

Table A.I.6 - Protecting Investors

Region or economy	Rank	Disclosure Index	Director Liability Index	Shareholder Suites Index	Investor Protection Index
<i>Caucasus Countries</i>					
Armenia	83	5	2	8	5.0
Azerbaijan	118	4	1	8	4.3
Georgia	135	4	4	4	4.0
<i>Other CIS Countries</i>					
Russia	73	7	3	5	5.0
Moldova	89	7	1	6	4.7
Kazakhstan	70	7	2	6	5.0
Ukraine	141	1	3	4	2.7
<i>Countries of peer-group</i>					
Latvia	40	5	4	8	5.7
Lithuania	61	5	4	7	5.3
Poland	22	7	4	8	6.3
Slovak Republic	118	2	4	6	4.0
<i>Regional average</i>					
Europe and Central Asia	-	4.5	4.2	5.6	4.8
OECD	-	6.1	5.1	6.6	5.9
<i>Global best</i>					
New Zealand	1	10	9	10	9.7
Singapore	2	10	9	9	9.3
Canada	3	8	9	9	8.7

Table A.I.7 - Paying Taxes

Region or economy	Rank	Payments (number)	Time (hours)	Total tax payable (% gross profit)
<i>Caucasus Countries</i>				
Armenia	148	50	1,120	42.5
Azerbaijan	136	36	1000	44.9
Georgia	104	35	423	37.8
<i>Other CIS Countries</i>				
Russia	52	27	256	40.8
Moldova	89	44	250	44.7
Kazakhstan	48	34	156	41.6
Ukraine	151	84	2,185	51.0
<i>Countries of peer-group</i>				
Latvia	83	39	320	38.7
Lithuania	31	13	162	41.6
Poland	106	43	175	55.6
Slovak Republic	69	31	344	39.5
<i>Regional average</i>				
Europe and Central Asia	-	46.9	431.5	50.2
OECD	-	16.9	197.2	45.4
<i>Global best</i>				
Maldives	1	1	0	5.5
Hong Kong	2	1	80	14.3
Iraq	3	13	48	5.6

Table A.I.8 - Trading Across Borders

Region or economy	Rank	Documents for export (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
<i>Caucasus Countries</i>							
Armenia	119	7	12	34	6	15	37
Azerbaijan	158	7	69	69	18	55	79
Georgia	95	9	35	54	15	42	52
<i>Other CIS Countries</i>							
Russia	67	8	8	29	8	10	35
Moldova	80	7	12	33	7	13	35
Kazakhstan	142	14	15	93	18	17	87
Ukraine	78	6	9	34	10	10	46
<i>Countries of peer-group</i>							
Latvia	62	9	6	18	13	7	21
Lithuania	31	5	5	6	12	4	17
Poland	34	6	5	19	7	8	26
Slovak Rep.	60	9	8	20	8	10	21
<i>Regional average</i>							
Europe and Central Asia	-	7.7	10.9	31.6	11.7	15.0	43.0
OECD	-	5.3	3.2	12.6	6.9	3.3	14.0
<i>Global best</i>							
Denmark	1	3	2	5	3	1	5
Sweden	2	4	1	6	3	1	6
Germany	3	4	1	6	4	1	6

Table A.I.9 - Enforcing Contracts

Region or economy	Rank	Procedures (number)	Time (days)	Cost (% of debt)
<i>Caucasus Countries</i>				
Armenia	19	24	185	14.0
Azerbaijan	34	27	267	19.8
Georgia	32	24	285	20.5
<i>Other CIS Countries</i>				
Russia	62	29	330	20.3
Moldova	66	37	340	16.2
Kazakhstan	68	47	380	8.5
Ukraine	39	28	269	11.0
<i>Countries of peer-group</i>				
Latvia	15	20	186	10.4
Lithuania	7	17	154	9.1
Poland	104	41	980	8.7
Slovak Republic	81	27	565	15.0
<i>Regional average</i>				
Europe and Central Asia	-	29.6	393.0	17.4
OECD	-	19.5	225.7	10.6
<i>Global best</i>				
Norway	1	14	87	4.2
Denmark	2	15	83	5.3
Japan	3	16	60	8.6

Table A.I.10 - Closing a Business

Region or economy	Rank	Time (years)	Cost (% of estate)	Recovery Rate (cents on the dollar)
<i>Caucasus Countries</i>				
Armenia	40	1.9	4	42.0
Azerbaijan	70	2.7	8	32.5
Georgia	86	3.3	3.5	27.5
<i>Other CIS Countries</i>				
Russia	71	3.8	9	27.6
Moldova	72	2.8	9	27.4
Kazakhstan	92	3.3	18	20.0
Ukraine	123	2.9	42	8.5
<i>Countries of peer-group</i>				
Latvia	11	1.1	4	83.2
Lithuania	29	1.2	7	53.6
Poland	23	1.4	22	64.0
Slovak Republic	44	4.8	18	38.6
<i>Regional average</i>				
Europe and Central Asia	-	3.5	14.0	29.8
OECD	-	1.5	7.4	73.8
<i>Global best</i>				
Japan	1	0.6	4	92.7
Singapore	2	0.8	1	91.4
Norway	3	0.9	1	91.1

BIBLIOGRAPHY

European Commission (2002), *Benchmarking the Administration of Business Start-Ups*, European Commission, Brussels.

Van der Burg, BI and A.F.M. Nijssen (1998), "How can administrative burdens on enterprises be assessed?", in Kellermann, A., E. Azzi, S. Jacobs, and Rex

OECD (1997a), *Regulatory Impact Analysis. Best Practices in OECD Countries*, OECD, Paris.

OECD (1997b), *The OECD Report on Regulatory Reform*, Volume I-II, OECD, Paris.

OECD SYNTHESIS REPORT: ADMINISTRATIVE SIMPLIFICATION IN OECD COUNTRIES

OECD FROM RED TAPE TO SMART TAPE – ISBN 92-64-10067-9 – © OECD 2003

OECD (2000a), *OECD Small and Medium Enterprise Outlook*, Chapter 3, OECD, Paris.

OECD (2001a), *Businesses' views on Red Tape – Administrative and Regulatory Burdens on Small and Medium-Sized Enterprises*, OECD, Paris.

OECD (2002), *Regulatory Policies in OECD Countries from Interventionism to Regulatory Governance*, OECD, Paris.

World Bank, "Investment Climate", www.worldbank.org/investmentclimate

OECD Investment Compact: www.investmentcompact.org

Stability Pact for South Eastern Europe: www.stabilitypact.org/wt2/default.asp

EBRD, *Transition Report and Business Environment and Enterprise Performance Survey (BEEPS)*, <http://www.ebrd.com/pubs/econo/series/tr.htm>

World Bank, "Doing Business 2007: How to reform", www.doingbusiness.org

