



**Review**  
of the Dutch Administrative Burden  
Reduction Programme



# **Review**

## of the Dutch Administrative Burden Reduction Programme

World Bank Group

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## Foreword

This report reviews the Dutch government's 2003–2007 Administrative Burdens Reduction Programme. The review is carried out in response to a request by the Dutch Minister of Finance Mr. Gerrit Zalm to the World Bank Group in the summer of 2006.

The purpose of the report is to review the Dutch reform model, i.e. the institutional and procedural set-up of the Burden Reduction Programme: What worked, what didn't, and how the Programme can be enhanced to address regulatory reform challenges of the future.<sup>1</sup>

The report has been prepared by Peter Ladegaard (FIAS) and Simeon Djankov and Caralee McLiesh of the World Bank Group. The review team visited the Netherlands twice during the preparation of this report, and was provided with extensive documentation from the Interministerial Burden Reduction Unit (IPAL). The team wishes to thank Dutch officials, policy-makers, parliamentarians and others for their time and invaluable input provided in interviews in the preparation of the report. Earlier versions of the report have been reviewed by Thomas Hopkins, Professor at the Rochester Institute of Technology and Andrea Randa, Senior Research Fellow and the European Policy Research Center. This report is issued in February 2007.



## Summary and Recommendations

The Dutch regulatory reform programme is a world leader. It is set to eliminate €4 billion of administrative burdens on business by 2007. The programme's innovative design—a 25% target reduction in regulatory costs, a link between regulatory reforms and the budget cycle, and the establishment of ACTAL (the Dutch Advisory Board on Administrative Burden) as an independent watchdog of the reforms—lies behind the success. These features are now being adopted by other countries around the world.

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### **The Dutch government can remain a world leader in regulatory reform by:**

- Consolidating regulatory reform and management systems in the Ministry of Finance under a Regulatory Reform Unit built on the existing IPAL. This includes the consolidation of measures to reduce compliance cost on existing regulations as well as the overall responsibility for impact assessments of new regulation;
- Broadening the regulatory reform focus from administrative burdens to broader impacts of regulation. Based on the existing reporting structures for administrative burdens, a revised and strengthened system for Regulatory Impact Assessment (RIA) can become the backbone for integrated assessments of new regulations, with administrative burdens being just one of several impact categories;
- Setting a new 25% target for reduction in regulatory costs by 2011. The new target would cover both information and direct compliance costs, in the latter addressing the major regulatory constraints faced by businesses;
- Significantly expanding and refocusing communication efforts. Dedicated communications staff within IPAL is needed to present messages to the public and ensure that businesses know how to take advantage of the reforms, as well as learn from businesses on what else can be done or needs to be done differently;
- Improve data quality, transparency and accessibility to compliance cost measurements. A new baseline measurement of regulatory costs going beyond administrative burden reductions would benefit from the advanced lessons of other countries. Key new measures can include: a central database, clear links from aggregated burdens to specific regulatory obligations, and public access to cost data and measurements.

# How to Organize Regulatory Reform

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## The Dutch regulatory reform is a world leader

Starting in 1994 and significantly enhanced in 2003, the Dutch regulatory reform is among the world's best. It is well-known internationally as the most innovative initiative in cutting red tape, and is currently appreciated more abroad than at home. Since 2003, the reforms have either eliminated or credibly committed to eliminate €4 billion of administrative burdens on business-making the Netherlands the first country to achieve a 25% reduction in administrative burdens.

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## Four reasons for success

Four features contribute to the Dutch success. First, announcing a specific 25% target attracts attention and makes it easy to communicate reform. At the start of the Dutch programme, no other country had such a target. Since then, several countries have adopted the Dutch approach.

Second, locating the “coordinating” unit in the Ministry of Finance made reforms feasible: because of the link to the budget and the leverage that the Finance Minister has in the cabinet; and because of the personal dedication of Minister Zalm.

Third, the establishment of ACTAL as an independent agency made evaluation independent of any one ministry and also built momentum for reforms.

Fourth is the commitment across all major political parties of Parliament to reduce business costs. This is greatly helped by the annual budget reporting and the regular reports of IPAL and ACTAL to the Parliament; by the presence of ACTAL and their interaction with parliamentarians. This makes it likely that reforms would continue beyond a particular government.

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## Now is the time for consolidation

Several features of the current structure can be adjusted for better results. First, reform programmes and overall coordination can be consolidated and located in IPAL (Ministry of Finance). Overall coordination of regulatory reform activities with IPAL is likely to reduce transaction costs and increase focus. It would also reinforce the transition from a primarily project driven reform programme to a sustainable and institutionalized system for reform.

A range of projects, most of them innovative and successful, have been initiated and implemented without sufficient coordination. As a consequence there is some fatigue and confusion in the private sector, in Parliament and even within government about who does what, the links between various reform activities, and the overall efficiency of the programme. Reform efforts can be strengthened by giving IPAL primary responsibility for regulatory management and reform.

At the core of this transition would be the consolidation of responsibility to lead the Regulatory Impact Assessment (RIA) process with the responsibility to lead the Administrative Burden Reduction programme. It is important that continued efforts to reduce administrative burdens are put in a context of other and often more significant regulatory impacts and risks. A well-calibrated RIA system, in which administrative burdens is just one of several factors of concern, would be the appropriate framework in which to consolidate the coordination of future policy impact assessments. Experience from other countries—and that of the Netherlands as well—clearly suggests that the Ministry of Fi-



nance is an appropriate institutional location of a Unit, which can be charged with driving cross-cutting and often politically difficult regulatory reform processes.

Within this context, individual ministries would remain responsible for project innovation and implementation in their respective areas of expertise. The Ministry of Interior and the Ministry of Economic Affairs for example, have successfully led or contributed to a number of administrative burden projects such as the burden reduction for citizens, the Stevens Report, the licensing review and efforts to eliminate contradictory regulation.<sup>2</sup> Under this model, individual ministries would also remain responsible for preparing regulatory impact assessments (RIAs) in their areas of responsibility. IPAL would provide guidelines for the RIAs and perform a review and quality assurance role as they are prepared.<sup>3</sup>

However the coordination with other regulatory reform efforts going beyond the realm of the individual ministries should be with the Ministry of Finance.

A second aspect of the consolidation would bring more businesses into ACTAL<sup>4</sup> and IPAL<sup>5</sup>, to help align priorities with what matters most for business. This can come through permanent representation of businesses in ACTAL and through seconding or short-term hiring of staff from enterprises to work for IPAL (e.g. for 1–2 years). The UK's Better Regulation Commission and Better Regulation Executive are examples of ACTAL and IPAL sister organizations with stronger and permanent business sector representation. Needless to say, care must be taken to ensure the representativeness of business representation, in particular in ACTAL. The manner in which business representation occurs must not allow the particular self-interests of those involved to run roughshod over the broader interests of other parts of the business sector.

Third, regardless the next reform programme's targets, data quality and accessibility to "burden information" can be significantly improved. The current absence of a central database, no clear links between aggregated burden targets and disaggregated information obligations, and little public access to detailed "burden accounts" is, to a large extent, the consequence of the Netherlands being a first-mover with no country to learn from when establishing the measurement system. However other countries that benefited from the early Dutch experiences have now developed data gathering, storing and monitoring systems, which offer significant advantages compared to the current Dutch set-up.<sup>6</sup>

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## **Dutch leadership on better regulation in the EU can be deepened**

Significant effort has gone into getting Brussels to understand the benefits of simpler regulation. The push for better EU regulation has taken place on four fronts: First, and most importantly, through a high-level political prioritization of the Better Regulation Agenda in particular during the 2004 Dutch EU Presidency. Second, through an increased focus on administrative burdens in the regular process for reviewing EU regulation. Third, through seconding staff to the Dutch Permanent Representation and to Internal Market and Secretariat General and charging them with promoting the Better Regulation Agenda. And fourth, through informal networks such as the Directors of Better Regulation and its spin-off, the Standard Cost Model network. The Dutch Government has also invested in disseminating reform results and promoting the Standard Cost Model in other international fora, including the OECD and the World Bank Group.

This is starting to pay off.<sup>7</sup> The awareness of EU politicians and bureaucrats about the benefits of reform has increased significantly. Earlier this year, the EU started using the standard cost model methodology in measuring its initiatives. There are indications that Brussels will continue in further integrating Better Regulation perspectives in policy development, and in reviewing current regulations. The EU has just recently announced a 25% administrative burden reduction target very similar to the Dutch approach. Although these results stem from efforts of a number of EU Member Countries, the Netherlands has

played a lead role. Some observers remain skeptical towards EU's approach to targeting of administrative burdens and to the way administrative burdens have been integrated in the European Commission's RIA process.<sup>8</sup>

Continuing and expanding efforts to improve EU regulation is important for lightening burdens on Dutch businesses. EU regulations account for approximately 40% of all regulations implemented in the Netherlands. More active lobbying early in the process, as well as working with the Ministry of Foreign Affairs to keep instructions to the Dutch EU Ambassadors and Working Groups short and simple can better influence EU work programmes. In addition to stronger and better lobbying, a critical perspective must be kept on the administrative processes through which the Better Regulation Agenda is pursued at the European level.

As for the Netherlands, a disproportionate focus in EU's Better Regulation Agenda on one particular aspect of better regulation—such as cutting red tape—may distort reform efforts away from broader and more important regulatory impacts. The Netherlands is well placed to mobilize its significant experience and credibility in the pursuit of broad and balanced approach to Better Regulation in the EU.

## Measuring Progress and Targeting Results

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### **The 25% target is the main success factor**

The 2003 base line measurement of €16 billion administrative burdens is the most important factor behind the success of the Dutch reform programme. The quantification and target allow for a transparent evaluation of progress and a way to track the performance of individual ministries. Housing leadership of the programme at the Ministry of Finance creates in effect a regulatory budgeting system for administrative cost reductions. The Minister of Finance can use the budget process to urge other Ministers to reform.

### **...but the 25% target does not fully capture the concerns of businesses.**

Although a great success in establishing political accountability in the ministries, the 25% reduction target is perceived by government and business associations as only partially successful in addressing the main complaints of businesses. There is, however, no systematic evidence that businesses have not experienced improvements. Moreover, the time lag between announcement of measures and their implementation may account for the mismatch of perceptions versus actions taken.

Nevertheless, some of the 196 simplification measures to reach the 25% reduction have only small benefits for businesses. Eliminated measures may be seldom used or already internalized in the way enterprises do business. An example of the latter is the elimination of the requirement for businesses to put price tags on display items. The approach to identify and eliminate burdens has focused on the burdens identified by the Standard Cost Model. As applied, the model has not identified “annoyance factors”, i.e. regulations that may have little quantitative impact on businesses, yet are considered a significant irritation. This assessment is consistent with a 2005 review by the Dutch Court of Audit.

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## Introducing business surveys will address the gap

The best way to get at annoyance factors is by conducting annual business surveys. These surveys will ask entrepreneurs to identify the top 10–20 regulatory burdens they face. The surveys will also cover: what are the perceived improvements in the business environment over the last year (name them); what are the perceived deteriorations (name them); what is the single most important change that they would like to see. As businesses in different industries face different regulatory burdens, the sample of interviewed businesses can be constructed to cover particular sectors. The results can be analyzed by sector, by location (to provide ideas about reform at the municipal level), and by type of regulatory burden (and the responsible ministry).

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## ... at relatively low cost

There is much international experience in conducting business surveys. In the United States, businesses are surveyed by the Department of Commerce on business conditions, by the Labor Department on labor regulations and skill needs and by the Federal Reserve on export competitiveness. In Germany, an annual survey is conducted by the Chamber of Commerce. The World Bank conducts such surveys in about 90 developing countries.<sup>9</sup> The approximate cost is 90 euro per survey. To get a representative sample of businesses in the Netherlands, approximately 1,600 businesses would be interviewed. This brings the total survey cost (excluding the analysis) to about 150,000 euro a year.

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## Much greater reductions are possible...

There is ample room for further reductions in the regulatory costs and risks in the Netherlands. International comparisons of administrative burdens suggest that the level of administrative burdens in the Netherlands is higher than in many other countries.<sup>10</sup> Calculations by Kox (2005) suggest that the 25% reduction in the Netherlands will reduce administrative burdens from 3.7% to 2.8% of GDP. This is still significantly above the UK (1.5%), Denmark (1.9%) as well as several other countries.<sup>11</sup> Also, experience from the UK suggests that 1/3 of administrative burdens are considered by entrepreneurs as “business-as-usual-costs.” With some exceptions, the “business-as-usual-costs” were included in the Dutch 25% target, and therefore included activities which businesses would carry out even if regulatory requirements were eliminated. By comparison, the UK—which already has a lower share of administrative burdens relative to GDP than the Netherlands—is targeting a 25% reduction that excludes “business-as-usual-costs.”

Another indicator of ample room for more administrative burden reductions is the fact that none or very few of the 196 measures included in the Dutch reform programme to-date have required political trade-offs between the gains of burden reductions and the real or perceived reduction in level of regulatory protection.

Other areas of regulation that account for significant administrative burdens—such as EU and municipal regulations—have been given some attention in the current reforms. However, there is scope for further improvements, for example in greater use of information technology.

Going beyond administrative burdens, there are also indications that there is scope for improved regulatory performance. The World Bank Group’s *Doing Business 2007* report ranks the Netherlands 10th in the European Union, with a level of regulatory burdens similar to that in Belgium and Germany. The OECD in 1997 estimated that the potential GDP effect of regulatory reform in the Netherlands was 3.5% (compared to about 1% in the United States).<sup>12</sup>

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## ... and this is discussed as “increasing trust” between government and businesses

Both reformers and businesses recognize the large benefits that can be gained by further reforms. They often talk about simplifying regulations and allowing for more trust between government agencies and businesses. Ministry of Justice reformers call this regulating on the basis of “duty of care.” Put simply, the government can write broad principles of regulation and leave room for various parties to agree by contract. In the business field, one example can be employment conditions that can be negotiated between employer and employee organizations. In education, such “contracts” can be struck between university administrations, student and teacher unions. The move towards simpler regulation and more opportunity to contract may significantly reduce both information and compliance costs.

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## A new and broader 25% target is needed

The benefits of a quantitative target are already proven. So is the Dutch government’s capacity to implement it. The desire to continue regulatory reforms in the Netherlands seems universal. There is also widespread agreement that additional reform is needed as well as feasible. The Dutch government can use the momentum to set a new, ambitious target for improvements in regulatory quality: reduce the regulatory cost on businesses by 25% by 2011. The new quantitative target would go beyond administrative burdens and address the broader compliance costs on businesses and citizens. The new target would also address the “annoyance” factors of dealing with the government. A broader view on regulations would also look at the compliance costs in existing regulation, not just from new regulation. The new target should be a “net” target, which excludes business as usual costs.

It is important for the government to set a single 25% target covering both information and other compliance costs. The message needs to stay simple in order to build support for the reforms and hold reformers accountable. Within this, the government can specify the exact scope of the measurement and the methodologies to be applied.<sup>13</sup>

The target could also take into account improvements stemming from all levels of government, including municipalities and the EU. Results of burden reduction efforts at the EU and local level can be as relevant for Dutch businesses (and citizens) as initiatives by the central government. The Government should therefore explore ways to include burdens reduction results from other levels of government in the overall goal achievement.<sup>14</sup>

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## The costs of existing regulation can be measured

A debate is ongoing in the Netherlands whether compliance cost (beyond administrative burdens) of existing regulation can or should be measured. The debate is well influenced by international experiences and discussions in the academic literature.

The answer to the question is yes—costs of existing regulation can be measured. Retrospective studies are likely to provide more accurate results than prospective studies because there are fewer unknowns to deal with. There have been many efforts since the 1960s to quantify the impact of existing regulation. Several studies investigate the total compliance costs and benefits of all government regulation; the majority of studies have taken a sector or otherwise selective approach. So far, only one government—the United States’ federal government—prepares annual estimates of total compliance costs and benefits. Several other governments are preparing similar approaches. (See Annex 1).

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## The challenge is to select and target regulatory burden reductions

Measuring total compliance cost is expensive and time consuming. It is not practical or desirable to measure all existing regulations. Most analyses in other countries take a selective view, studying a particular sector or looking at particular effects (typically on costs or competitiveness). For the next round of reforms in the Netherlands, this type of selective approach is recommended—looking at specific sets of regulations that businesses say are the most burdensome.

Existing measurements in the Netherlands can be improved to better prioritize reforms. There is already some experience within the Netherlands with measuring the costs of individual regulations as well as with cost/benefit analysis in the infrastructure area (motorways, waterways, airports). The following criteria will make further improvement possible:

- **Be selective.** It is sufficient to measure the impacts of selected high-priority regulatory regimes. Traditional candidates are environmental, zoning, safety-at-work, and construction industry regulations.
- **Rely on business input.** Use business surveys and consultation groups to target regulations subject to measurement. Business input could also be used to identify “business-as-usual-costs”, which should not be subject to reduction targets. The impact of reforms can be checked by simulating the actual effects on a dozen standard businesses. This will help in communicating the benefits of reform as well as in checking that measures identified actually have an impact on firms.<sup>15</sup>
- **Focus on direct costs.** Focus on the quantification of direct compliance costs (capital costs, operating costs, paperwork costs, and time costs incurred in complying with regulations). While useful for the political debate, the quantification of risks and benefits should only be used on a select basis, where the debate is heated and/or where data is more readily available.<sup>16</sup>
- **Set criteria for identifying reductions.** Establish clear criteria for the assessments and for the “values” to be promoted when implementing reduction targets. Politically endorsed review criteria and “values” may reduce the controversy of difficult trade-offs and facilitate administrative execution.<sup>17, 18</sup>

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## Some practical steps to consider

The new target can be achieved with a combination of the standard cost model and the adaptation of other methodologies including the use of time-and-motion studies on standard businesses and the introduction of business surveys to measure annoyance costs and target the reforms.

This section proposes eight practical steps in the process of setting and implementing new targets for the reduction of regulatory risks and costs. The eight steps builds on well-known approaches developed under the Administrative Burdens reduction programme:<sup>19</sup>

1. Identify regulations to simplify
2. Assess regulatory obligations
3. Establish the counterfactual situation to measure against
4. Assess the incremental burden
5. Decide on reduction target
6. Search for regulatory improvements
7. Assess cost reduction resulting from decided simplification initiatives, and
8. Calculate cost reduction compared to target

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## 1. Identify regulations to simplify

Conducting business surveys is the best way to target reforms that both reduce annoyance of businesses and identify large cost savings. These surveys could ask entrepreneurs to list the top 10 or 20 regulatory burdens they face. Reformers should use the information from business surveys as a guide to reform priorities, not as a mandate.

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## 2. Assess regulatory obligations

When specific regulations or regulatory areas (e.g. workplace safety) have been selected, the next step will be to make an inventory of all provisions in the relevant regulations, which oblige companies to undertake certain activities. This exercise can be done in a way similar to the SCM method for decomposing the information obligations in order to assess administrative burdens. To obtain a sufficiently precise description of the provisions it is necessary to include secondary regulation, guidelines, administrative practises (administrative decisions related to inspections etc.) and court rulings. From this, a first description of mandatory actions, investments etc. of companies can be made in order to decide what companies must do to comply with the regulation. In many cases it will be needed to operate on the basis of one or more archetypes of companies (size, sector, activities) to capture the possible variation in activities needed for compliance.

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## 3. Establish the counterfactual situation to measure against (a baseline year)

Regulatory reform programmes are full of warnings against measuring all regulatory compliance costs and benefits. One problem is establishing a credible baseline. This involves determining the counterfactual: How things would have been if the regulation had not been issued. This is difficult, for 3 reasons.

First, sources may be biased. Partially because of the interests of the surveyed parties. Partially because of the way data is recorded.

Second, even if estimates are unbiased at the time, technological change or “learning-by-doing” may result in those estimates overstating compliance costs.

Third, sunk costs, such as specialized capital costs and the cost of changing procedures already in place, make the cost savings from eliminating regulation less than the cost of complying with those regulations.

Although the baseline problem raises important challenges, they are manageable. Firstly, as argued elsewhere in the report, by limiting the number of cost (and benefit) categories examined. By looking primarily at direct compliance costs, the uncertainties related to estimates of market development are largely reduced, as are the resources required for calculating these costs. Consequently, cost estimates of direct compliance costs are not as comprehensive as full-blown cost-benefit analysis. However, as for administrative burdens pursued under the current regulatory reform programme in the Netherlands, direct compliance costs can be assumed to be sufficiently reasonable proxies for the costs and risks imposed by the reviewed regulations.

Secondly, instead of departing from a situation where the regulation is non-existent, the challenge is to describe a counterfactual situation, where the regulation is different from the actual situation. It may be possible to map all activities related to generate and transfer information, but it is a well-known problem that not all of these activities would be obsolete if the regulation were removed. A pragmatic and operational solution to this problem would be to select a baseline year, that is, a baseline scenario defined as the regulatory “state of affairs” as it was in one particular year. In most cases, the baseline year should not go back any more than 20 years (and possibly less) in order to be able to establish credible causalities between regulatory requirements and business behaviour.



An alternative to selecting a baseline year could be a description of a complete regulatory alternative as the baseline. The alternative could be derived from a scrap-and-build approach like the one already applied in relation to the Dutch Greenfield approach.<sup>20</sup> This approach may be particularly relevant in cases where a significant overhaul of the regulatory regime is required. The regulatory alternative could also include parts of the existing regulatory regime.

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#### **4. Assess the incremental burden (and benefits)**

With an identification of regulatory obligations and a selection of the baseline year or scenario, the assessment of the incremental burden would be done by describing the changes in behaviour by the individual company (or archetype): How processes for production would be altered, what types of investment would become necessary or obsolete, how monetary costs would be affected and so forth.

In order to calculate the total incremental burden, the next step will be to determine how many companies are affected by the regulation and to develop well-grounded assumptions on the extent to which they are affected. This could be done by allocating a share of the total number of business to each of the archetypes used for describing variations in compliance behaviour. The Standard Cost Model measurements could be used for administrative costs, whereas other models should be adapted to measure other costs (and benefits). In some cases, the use of time-and-motion studies of standard businesses will be sufficient to quantify the effects of reform.<sup>21</sup> For larger reforms, for example in construction regulations or insurance or environmental regulation, more sophisticated cost/benefit studies can be performed to inform the necessary political choices.<sup>22</sup>

The assessment of the incremental burdens should focus on direct compliance costs. In parallel with this exercise, efforts should be made to capture benefits to businesses and the society at large arising from the imposed regulatory requirements. Given the difficulties with quantifying benefits, it may not be feasible to request monetized benefit values of the reviewed regulations. Rather, qualitative benefit assessments could be used to better guide decision on simplification measures.<sup>23</sup>

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#### **5. Decide on reduction target**

The next step would be to establish a quantitative reduction target expressed as a share of the measured costs, e.g. a 25% reduction in direct compliance costs over the next five years.

Initially, clear-cut and similar (25%) reduction targets should be allocated to each of the (10–20) regulatory regimes subject to streamlining. The fact that these regulatory regimes (and not others) have been identified as particularly burdensome or low-quality regulations by businesses would indicate (but not guarantee) that significant reductions in risks and costs are possible. Within the overall 25% target, there should be some flexibility—mediated by IPAL—to re-allocate reduction targets. Ministries may be incentivized to deliver “above-target” reductions by the prospect of fiscal compensatory/award mechanism, e.g. to fund new technology to facilitate regulatory transactions and services to businesses.

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#### **6. Search for simplification measures**

Following establishment of the baseline and the assessment of incremental burdens (and benefits), the next step is to identify the measures that can “deliver” the reduction target. This involves considerations about elimination and simplification of the regulatory obligations identified under step 2. As part of the exercise, obligations that are already fully internalised in the way businesses do business should be excluded. In other words, the so-called “business-as-usual-costs” should not be part of possibly proposed simplification

measures, since businesses would carry them out even absent the regulatory obligation. In addition to elimination and simplification of existing measures, proposal could also establish regulatory alternatives. Needless to say, systematic involvement of private sector stakeholder will be important both to identify and assess the feasibility of simplification measures.

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#### **7. Assess cost reduction resulting from decided simplification initiatives**

When possible simplifications have been identified, an assessment of each measure should be made by use of the same methodology as under step 4. This will lead to a modelling of the reduction of compliance cost following from the simplification initiatives. There should also be an assessment of other consequences of the realisation of these initiatives, both related to the benefits of the regulation and related to wider consequences on the cost side (link to other regulations, dynamic changes resulting from adjustment in the behaviour of companies, effect on competition and innovation etc.). The need for in depth analysis of these consequences will vary, leading to a recommendation for flexible and proportionate assessments. The main concern should be to present a sound basis for political decision, ensuring that improvements on one parameter do not lead to unforeseen negative consequences on another parameter.

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#### **8. Calculate cost reduction compared to target**

When a final decision has been reached on what simplifications to adopt or to suggest for political decision, progress would be related to the general reduction target.

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### **The Netherlands can remain a world leader in regulatory reform**

With a new 25% target to reduce information and (the largest perceived) compliance costs, and the use of an expanded set of methodologies to prioritize reforms and measure their impact, the Netherlands has the opportunity to remain an international trend-setter in regulatory reform. Establishing a broader quantitative target for reducing regulatory costs will allow for a more comprehensive approach to improving regulatory quality that will be experienced directly by businesses.



## Communicating Results

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### Good reformers are usually bad marketers

This is certainly true in the Netherlands where little thought has been given to communicating the successes of the regulatory reform programme and learning from businesses about what other reforms are needed. The current communication strategy relies on speeches by ministers, reports to parliament, website information and stories placed in various industry newsletters. This approach makes it difficult to reach the desired audience: businesses and citizens. The result is fewer perceived benefits of the reform, less effective implementation (as fewer businesses know about reforms) and inadequate ways for government to hear from business about their concerns. A radically different approach is needed in communication.

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### Selecting new spokespersons

Having ministers as the main spokespeople for successful regulatory reforms is an ineffective communications strategy. Ministers, regardless of how well-respected they may be, do not relate to businesses as much as other business people do. If the main audience for the regulatory reform is the businesses, select some entrepreneurs and use them in the information campaigns. This can be combined with new data from business surveys to give a “personal” view of the reforms. “You gain from reforms” messages are easier to deliver if the spokesperson is also a beneficiary. (This is why shampoo commercials show people with long hair, not the CEO of the shampoo company.)

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### Using mass communication channels

People have access to so much information that using specialized “passive” information channels are unlikely to reach them. Yet this is what is currently being done, especially at the Ministry of Finance. Ask yourself the question: if a business person comes home after work, is she: 1. likely to log on the Ministry of Finance website; 2. read the industry e-newsletter she printed in the office; 3. read her favorite newspaper; or 4. watch TV. If you think the answer is 1 or 2, you are in the minority. Sharing information about the benefits of the reforms, as well as publicizing the results of business surveys on what remaining obstacles exist, would best be done through the mass media. News stories could feature entrepreneurs, present new statistics, and describe what current reforms are taking place. To do this effectively, communications staff could be hired with IPAL, as was recently done in the Ministry of Interior.

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### Organize public events

As part of a new communication strategy, feature public events where entrepreneurs are invited to talk about existing problems, as well as what improvements they see. Results from the standard cost model exercise and the business surveys could be presented at these events, as soon as they become available. Invite the media and always leave ample time for questions. Do not organize only with the business associations, invite entrepreneurs directly. Communication works both ways in such events, as they also allow businesses to explain their priorities to government.

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## **In communications, use comparisons with other countries**

All businesses are patriotic, regardless of how businesses regard their government's effort to reform. Comparisons with the regulatory burdens in other countries, especially in areas where the Netherlands is reforming, would catch the attention of entrepreneurs and media. They are especially good for newspaper (print) stories where figures can be shown.

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## **Talk about future reforms**

Dutch officials have expressed apprehension about “trumpeting future reforms.” This has been mentioned as a reason for the perception that reforms are not felt directly by the business community. For example, talking about reaching the 25% target now when it is expected to be achieved only in 2007 is considered a mistake. This concern is unfounded. Everyone has seen pictures of the ceremonial laying of the foundation stone at the start of new infrastructure projects, as well as cutting the ribbon when the project is complete. Talking about future reforms that reach a set target is analogous to the former. Talking about finished reforms is equivalent to the latter. The longer the message stays in the news, the more likely it is that businesses would notice. The communication just needs to be clear and direct on when the announced measures will be implemented.

This is not just good marketing. Reforms are only useful if businesses learn how to take advantage of them. And they would only learn if the news has reached them. In Belgium, for example, simplification of business registration were delayed by 15 months simply because reformers changed the system in the summer vacation period and neglected to tell the people who used the system.

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## **A lot can be done, with little additional effort**

Much more can be done to improve communications on the reform efforts. Better communications are useful in two directions: you present your messages to citizens but you also learn from them on what else can be done or what needs to be done differently. The costs are trivial: this is primarily a question of approach. Integrating communications in the reform work, not viewing it as a secondary (and just self-promoting) feature, is one example. Recent changes in the Ministry of Interior point the way.

## Selected international experiences with measuring impacts of existing regulation

- In the United States, the Office of Information and Regulatory Affairs (OIRA) is responsible for preparing The Report to Congress on the Costs and Benefits of Federal Regulations. This annual report is an attempt to provide an overall estimate of the costs and benefits of regulations and recommendations for regulatory reforms. Available at [http://www.whitehouse.gov/omb/inforeg/regpol-reports\\_congress.html](http://www.whitehouse.gov/omb/inforeg/regpol-reports_congress.html);
  - The so-called multiplier approach developed by Weidenbaum and DeFina has been used in both Canada and the United States to estimate the total cost of compliance for the private sector. The approach stipulates that for every dollar that the public sector spends to administer regulatory activity, the private sector spends \$20 to comply with government regulation. During the years, the approach has been criticized, but recent research by the Canadian Policy Research Initiative supports the notion that there is a significant relationship between government regulatory expenditures and the regulatory compliance costs imposed on the rest of the economy.<sup>24</sup> The multiplier ratio is likely to depend on the specific national regulatory regime. In 2001, using multiplier approach, the Canadian Fraser Institute estimated that cost of complying with Canadian government regulation totaled \$103 billion in 1997/1998;
  - In 2005, it was argued that Canada still lacked a coherent, systematic, and integrated information system about the cost of regulating or the impacts of regulations on regulated sectors. To address this scarcity of research and data, the PRI and the Privy Council Office's Regulatory Affairs Division have launched the Regulatory Data Development and Analysis Project. Participants include experts from the Treasury Board Secretariat, Statistics Canada, and other departments. The project focuses on taking incremental steps toward building a regulatory knowledge base, on the premise that a concerted effort to collect and organize various regulatory data and information in a systematic and integrated framework, conjoined with a deliberate strategy to build up the regulatory research and analysis infrastructure, will make a vital contribution to Canada's ongoing efforts to improve regulatory management and quality; The Policy Research Initiative in Canada has recently (September 2006) published working papers on assessing regulatory impact on innovation, productivity and businesses.<sup>25</sup> The papers proposes a framework and parameters on which to measure total regulator costs;
  - In Australia, the Productivity Commission is currently undertaking a study on performance indicators and reporting frameworks across all levels of government to assist the Council of Australian Governments to implement its in-principle decision to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden on business. The study is to be undertaken in 2 stages. The first stage will develop a range of feasible quantitative and qualitative performance indicators and reporting framework options. The second stage will apply the preferred indicators, review their operation and assess the results. The Commission reported on stage 1 in February 2007;<sup>26</sup>
  - The Australian Government has developed a Business Cost Calculator, which is a computer programme that uses an activity-based costing method to provide a consistent measurement of compliance cost for businesses.<sup>27</sup> The Business Cost Calculator can be used for estimating costing of existing regulations. Available at <http://online.industry.gov.au/costingmodel>;
  - In the United Kingdom, the HM Treasury Green Book, Appraisal and Evaluation in Central Government defines criteria for assessing and quantifying policies.<sup>28</sup> Existing legislation could also be subject to these types of analysis;
  - In the United Kingdom, The Better Regulation Task Force recommended in 2005 that the government should start developing a methodology for assessing the total cumulative costs of regulatory proposals. Within two years the fundamental elements of such a methodology should be available. At that point, the government should reassess whether full regulatory budgets, taking into account the cumulative impact of regulation, should be introduced. The British Government has not yet responded to the recommendations of the BRTEF.
- Other selected Studies:**
- “An Assessment of Cross-National Regulatory Burden Comparisons,” *Fordham Urban Law Journal*, Vol. 33, No. 4, May 2006
- Crain, W. Mark and Thomas D. Hopkins, “The Impact of Regulatory Costs on Small Firms,” co-author W. Mark Crain, U.S. Small Business Administration, Washington, 2001 (NTIS #PB2001 107067), <http://www.sba.gov/advo/research/rs207tot.pdf>
- Crain, W. Mark, “The Impact of Regulatory Costs on Small Firms,” U.S. Small Business Administration, Washington, 2005, SBHQ-03-M-0522, <http://www.sba.gov/advo>
- Hahn, Robert W. “Regulatory Reform: What do the Numbers Tell Us?,” in Hahn, Robert W., ed., *Risks, Costs, and Lives Saved: Getting Better Results From Regulation*, (New York: Oxford University Press and AEI Press, 1996).
- Hahn, Robert W. and John A. Hird. “The Costs and Benefits of Regulation: Review and Synthesis,” *Yale Journal on Regulation*, (Vol. 8, No. 1, Winter 1991).

Hahn, Robert W. and Robert E. Litan. *Improving Regulatory Accountability* (Washington D.C.: American Enterprise Institute and the Brookings Institution, 1997).

Hopkins, Thomas D. "Cost of Regulation," Report Prepared for the Regulatory Information Service Center, Washington, D.C., (August 1991).

Hopkins, Thomas D. "Cost of Regulation: Filling the Gaps," Report Prepared for the Regulatory Information Service Center, Washington D.C., (August 1992).

Hopkins, Thomas D. "Profiles of Regulatory Costs," Report to U.S. Small Business Administration, (November 1995).

Hopkins, Thomas D. "Regulatory Costs in Profile," Policy Study No. 132, Center for the Study of American Business, (August 1996).

Tozzi, Jim, ed. (1979) *Towards a Regulatory Budget: A Working Paper on the Cost of Federal Regulation* provides a thorough analysis of the economic and legal foundations for a regulatory budgeting.

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## Notes

- 1 The report does not provide a detailed description of the Programme's design, or an assessment of technical aspects of the Standard Cost Model. For a detailed description of the Dutch Administrative Burdens Programme, see for example the OECD report prepared in parallel with this review. For a detailed description and technical assessment of the Standard Cost Model, see for example Boenheim, Michail et. Al (2007): Pilot project on Administrative Burdens. Prepared by WiFo and CEPS for the European Commission.
- 2 These programmes have a link to Administrative Burdens, but still have an independent basis, sometimes stemming from the narrow focus of the Administrative Burdens programme.
- 3 The need for consolidation seems evident in the area of impact assessments of new policies and regulation. Currently, three parallel systems are in play. ACTAL vets new regulation with regard to expected impacts on administrative burdens. The Ministry of Economic Affairs prepares impact assessments that focus on other impacts on businesses of new regulation. Finally, the Central Planning Bureau prepares broad-based cost-benefit assessments of policy proposals regarding large infrastructure projects. The screening process for administrative burdens impacts is generally considered to be efficient and comprehensive. The BIA (Business Impact Assessments)-process, however, seems to have been partially "crowded out" by the strong focus on administrative burdens.
- 4 Actal has a board of three, currently headed by a former deputy Minister of Social Affairs, and a secretariat of twelve people.
- 5 IPAL has a staff of 18 full time positions, seven of which are seconded from other ministries.
- 6 For a recent description and comparison of countries in the EU applying the Standard Cost Model, see Boenheim et. al (2007).
- 7 The European Commission's current approach to reducing administrative burdens is well reflected in the January 2007 "Action Programme for Reducing Administrative Burdens in the European Union", (COM(2007) 23 final).
- 8 For an overview of RIA in the EU, see Renda, Andrea (2005): *Impact Assessment in the EU: The State of the Art and the Art of the State*, CEPS Paperbooks, Brussels, 2006.
- 9 The methodology and results are available at [www.enterprisesurveys.org](http://www.enterprisesurveys.org).
- 10 See *Doing Business 2007* ([www.doingbusiness.org](http://www.doingbusiness.org)) for the relative ranking on the ease of doing business. The Netherlands is in 10th place in the European Union, with a level of regulatory burdens similar to that in Belgium and Germany.
- 11 Kox, Henk (2005): *Intra-EU differences in regulation-caused administrative burden for Companies*. CPB Memorandum Number : 136 . Rev.1.
- 12 OECD (1997): *The OECD report on Regulatory Reform* (Volume II table 1.1).
- 13 There is an issue of whether a second 25% target may be confusing to citizens and businesses. They may ask "Didn't you already achieve this?" A different number can be picked, say 20%, to avoid this confusion. The point here is that the authors believe that a second 25% target is achievable.
- 14 Although the Dutch central government has limited authority over municipalities and regulation at the EU level, it has already demonstrated ways to influence these to focus on administrative burdens reductions. For the local government level, fiscal incentives can be provided for local governments to adapt a "certified" approach to measure administrative burdens, and by having local governments report to the Hague on their achieved burden reductions. At the EU level, continued efforts to lobby the Administrative Burden Reduction Agenda could assure that the applied methodology is/be consistent with the Dutch applied Standard Cost Model.
- 15 This approach is successfully applied by the Dutch Ministry of Interior in their simulation of the impact of reforms on 9 hypothetical citizens.
- 16 This is not to say that an overall ambition about fairly comprehensive cost-benefit analysis should be rejected. However where measurements and quantitative targets must be translated into operational policy options, there is a need to focus on the most robust, readily available and actionable assessments of impacts. This leads us to recommend focusing on direct compliance costs.
- 17 Examples of guiding criteria and "values" from the current Dutch debate include "trust", "duty-of-care", pro-competitiveness, business friendly. Spelled out in further detail such values would facilitate the targeting and implementation of reduction measures..

- 18 The Australian government's approach to implementing the ambitious National Competition Policy (NCP) reforms that began in 1994 and are still underway may provide useful guidance for the Dutch government in setting up public benefit criteria to guide reforms. (See: FIAS, 2007, forthcoming).
- 19 These eight steps are based upon a note prepared in cooperation with the OECD as part of this review. The note, which includes additional details on the eight steps, is tabled separately.
- 20 The Greenfield approach starts from a hypothetical situation with no regulation dealing with a given problem (the Greenfield). From this starting point, the optimal regulation is to be designed, finding the right mix between protection and dynamism and taking enforcement issues and secondary consequences—as administrative burdens on companies—into account.
- 21 This is analogous to the methodology used in Doing Business. Note that it captures both information and compliance costs.
- 22 These require more resources and are needed in reforms where the perceived trade-offs between social costs and benefits are large. Several landmark studies can provide sufficient knowledge to standardize these studies and use them more routinely in the future.
- 23 It is important that the data gathering exercise for any new baseline measurement of compliance cost systematically includes qualitative aspects of the regulation under review. The reporting on qualitative (benefit) aspects should be done as an integral part of the "cost reporting", e.g. as this was done in the UK's recent comprehensive measurement of administrative burdens.
- 24 Fidèle Ndayisenga and Doug Blair (2006), "Regulatory Expenditures and Compliance Costs: Verifying the Link Using US Data", Policy Research Initiative.
- 25 Roy Atkinson (2006), "Developing a Framework for Assessing Innovation, Productivity, and Business Impacts of Regulation", Policy Research Initiative Working Paper Series.
- Bryne Purchase (2006) "Regulation, Growth and Prosperity—An Alternative Approach to Assessing the Implications of Regulations for Innovation, Productivity, and the Business Environment in Canada", PRI Working Paper Series.
- 26 <http://www.pc.gov.au/study/regulationbenchmarking>
- 27 The Council of Australian Governments endorsed the Calculator in February 2006.
- 28 <http://greenbook.treasury.gov.uk>



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