

# Models to reduce the disproportionate regulatory burden on SMEs

Report of the Expert Group





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Promotion of SMEs' competitiveness  
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## **REPORT OF THE EXPERT GROUP**

# **MODELS TO REDUCE THE DISPROPORTIONATE REGULATORY BURDEN ON SMEs**

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## Legal Notice

This project was conducted with national experts nominated by the national authorities of the EU Member States, Candidate/Accession Countries and EFTA/EEA countries under the Multiannual Programme for Enterprise and Entrepreneurship.

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### Further Information:

European Commission

Enterprise and Industry Directorate General

Unit E.1.

B-1049 Brussels, Belgium

Fax: + 32.2.29.66 27 8

E-mail: [Entr-Business/Support@ec.europa.eu](mailto:Entr-Business/Support@ec.europa.eu)

[http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/index.htm)

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## EXECUTIVE SUMMARY

In March **2006** the **European Council** explicitly recognised the crucial role of SMEs in creating growth and better jobs in Europe and underlined the need for a regulatory environment that was simple and transparent and conformed to the principle "**think small first**". Accordingly, the Council invited the Commission "to bring forward specific provisions to encourage SME growth and development, such as longer transition periods, reduced fees, simplified reporting requirements and exemptions."

Following the mandate by the Council, the Commission and Member States nominated a **group of experts on regulatory issues** to collect and analyse information on the various methods that have been used successfully to reduce the burden of public regulation on small businesses.

The work of the expert group ties in with other activities that the Commission undertakes in the context of its **Better Regulation Strategy** and the various policies that target SMEs in particular, as outlined in the communication "Implementing the Community Lisbon Programme. **Modern SME policy for growth and employment**". Better regulation is a key topic of the **European Charter for Small Enterprises** and is embedded within the Commission's administrative structure in the shape of the **SME Envoy**.

Various studies find that small enterprises bear a disproportionate regulatory burden in comparison with larger businesses: **On average, where a big company spends one euro per employee to comply with a regulatory duty a medium-sized enterprise might have to spend around four euros and a small business up to ten euros.**

Several reasons are responsible for the disproportionate distribution of regulatory costs. First, a large part of **regulation** results in **costs** that are **fixed** or do not change much with the size of a business. Filling in a form takes a certain amount of time, and it makes no difference that a larger business might have to fill in bigger figures than a smaller enterprise. Second, larger businesses can employ specialists to deal with regulatory obligations more efficiently. For larger businesses, investment in computerisation and rationalisation of regulatory obligations will often be worthwhile because of the larger number of cases to be dealt with. This too results in higher efficiency. Third, in small enterprises the entrepreneur himself will often be responsible for taking care of the regulatory obligations. This means that the most valuable resource of the small business will be occupied with tasks that do not directly contribute to the success of the enterprise.

For its work, the expert group decided on a **broad definition** of the term regulatory burden, including all costs that result from mandatory obligations placed on businesses by public authorities on the basis of a law, decree or similar act. The group wanted to ensure that potentially interesting initiatives and measures to

improve the regulatory environment for small enterprises would not be excluded because of too narrow a definition.

The main purpose of the report is not scientific rigour but the collection and dissemination of **good practices** and an exchange of ideas and experiences across the European Union. In order not to overlook useful initiatives, the group accepted that some measures could be included which were not closely connected to regulatory issues. While the fiscal burden on enterprises is not considered in this report, certain regulatory obligations connected to taxes such as filing tax statements, keeping records etc. will be discussed.

The experts collected a total number of around 100 good practice cases from the participating countries. From these, the group selected around 30 cases to be presented in this report.<sup>1</sup> Ideally, a selected measure should have a clear focus on smaller businesses, be well established, and be backed up by some empirical evidence regarding its positive effects. The most interesting measures are those that are transferable to other countries. Last but not least, the group tried to find measures that were relatively original or outstanding in one or more respects. It should be noted that the good practices presented in this report are just examples of what can be done to help small businesses to cope with regulation. The selection should not be viewed as a ranking of countries.

The models presented here can be grouped into the following ten categories:

1. Size-related exemptions
2. Reduced obligations (i.e. partial exemptions)
3. Simplified obligations
4. Temporal exemptions
5. Administrative coordination, especially one-stop shops
6. Common commencement dates
7. Tailor-made information, coaching, training
8. Electronic services
9. Privileged treatment of small businesses
10. Early evaluation of regulatory impact on small businesses

1) **Exemptions** are the most widely used method to reduce the regulatory burden for small enterprises and can be found in almost all areas of regulation. Exemptions are either applied directly (i.e. businesses below certain thresholds do not have to comply with certain rules) or indirectly (i.e. the exemption depends on a criterion strongly correlated with size such as economic sector or legal form).

2) Applying a **reduced** set of regulatory **obligations** for smaller businesses is often used as an alternative when a complete exemption is not possible without

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<sup>1</sup> Complete list of cases at:  
[http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/index.htm).

jeopardising the original purpose of the regulation (e.g. reduced obligations for taxation and record-keeping).

3) **Simplified obligations** for small businesses may be achieved by introducing simpler formal requirements or “standard treatments” (e.g. a forfeiture tax).

4) **Temporal reductions or exemptions** do not appear to be used very often. Possibilities include longer intervals for certain obligations (e.g. annual instead of quarterly tax payments), a lower frequency/probability (e.g. for audits) or longer transitional periods (e.g. for new regulation).

5) Typical forms of improved **administrative coordination** benefiting small businesses are one-stop shops where businesses can take care of different obligations with different authorities at one local point. The majority of one-stop shops currently address start-up businesses.

6) One or two annual **common commencement dates** for all new rules and regulation (including changes to existing rules) can greatly facilitate life for small businesses, since businesses can concentrate search, information and learning activities at certain times of the year.

7) Small businesses need to be informed about the regulations that apply to them in a way that is understandable and straightforward. Typical **information activities** include websites, helpdesks, handbooks and brochures, but can involve coaching and training activities as well.

8) Adapting information to the needs of small businesses requires some omissions and simplifications. Yet it has to be avoided that a business does not receive all the necessary information to comply with regulation. **Electronic services** with databases that provide specific information on the basis of a relatively detailed profile of the individual business provide a solution to this problem.

9) **Privileged treatment** of small businesses by the public authorities (e.g. lower fees, shorter periods for processing applications) appears to be only rarely used.

10) General impact assessments are used by an increasing number of governments to estimate the likely effect of new regulation. Given the disproportionate burden on small businesses, it is important to ensure **early evaluation of the specific regulatory effects on small businesses**. In some countries, the general impact assessments already take into account the special situation of small businesses. Moreover, impact assessments can be used to judge the possibility of introducing special measures for small enterprises into the new rules.

On the basis of the analysis of good practice cases, the expert group also put forward a set of **recommendations** on how to improve the regulatory environment for small enterprises in particular:

1. Think small first. Embed this principle **systematically** in all new policies that bear on businesses.
2. Evaluate the special impact of new rules on small businesses and systematically include an evaluation of special options for small businesses in impact assessments.
3. Make simplification and improvement of the regulatory environment a permanent task.
4. Exempt small businesses whenever possible. Use partial or at least temporal exemptions if a full exemption would defeat the purpose of the regulation.
5. Simplify regulatory obligations for small businesses.
6. Introduce common commencement dates for all new laws, regulations and directives that bear on businesses.
7. Give small enterprises enough time to adjust to new regulation.
8. Provide unambiguous, tailor-made information for small enterprises.
9. Coordinate and streamline administrative activities (e.g. audits) and requests for information.
10. Create one-stop shops for typical administrative/regulatory obligations.
11. Give businesses the possibility to interact with government and take care of administrative duties electronically.
12. Consider reduced fees, faster service and similar forms of privileged treatment for small enterprises.

## **GOOD PRACTICE CASES PRESENTED IN THIS REPORT**

### **Size-related exemptions**

Exemption of small businesses from VAT registration in the UK

Exemption of small businesses from having to set up employee safety groups in Denmark

No prior authorisation for numerous trades and crafts in Germany

No duty to notify small mergers in Norway

### **Reduced obligations**

Hazard analysis critical control points (HACCP) in Belgium (Federal level)

The Custom's Stairway in Sweden

The Osmotherly Guarantee to reduce statistical obligations in the UK

On-the-spot firm in Portugal

### **Simplified obligations**

Simplified registration of employees in Belgium (Federal level)

Flat-rate tax expenses in Slovakia

Corporation tax prepayment in Ireland

Tax representative in Sweden

### **Temporal exemptions**

EU Directives on working time for lorry drivers and on unit prices

### **Administrative coordination, especially one-stop shops**

The Belgian one-stop shop for start-ups

The Swedish collaboration group on business start-ups

### **Common commencement dates**

The common commencement dates initiative in the United Kingdom

### **Tailor-made information, coaching, training**

The no-nonsense guide to government rules and regulations for starting and growing a business in the United Kingdom

The calendar of statistics in Luxembourg  
The Startothek in Germany  
The Swedish start-up information service  
Coaching of young entrepreneurs in Italy  
Mentoring business transfers in France

**Electronic services**

The Romanian SME portal  
The E-depot in Belgium (Federal Level)  
Setting up a new SME on-line in Spain  
The personalised checklist of regulations in the United Kingdom

**Privileged treatment of small businesses**

The express patent search of the Austrian Patent Office  
Reduced fees for student entrepreneurs in Romania  
The Contribution Payment Centres in Bulgaria

**Early evaluation of regulatory effects on small businesses**

The UK Small Firms Impact Test  
Impact assessment in Sweden

## 1. INTRODUCTION

### 1.1. Objectives of the project and structure of the report

"Bureaucracy", "overregulation", "red tape" are frequently mentioned by businesses as obstacles to their development and growth, as unchangeable cost factors that undermine their competitiveness and, not least, as daily nuisances that diminish the attractiveness of being an entrepreneur. Dealing with legal, governmental and administrative requirements is also the major obstacle to the success of young enterprises.<sup>2</sup>

Highly developed societies need a certain amount of regulation for environmental protection, the improvement of social standards and other important societal goals that would not come about by themselves. Regulation is not a goal per se, it should be targeted and effective, and should not go beyond what is necessary to achieve its specific purpose. Moreover, it must not be forgotten that regulation also has side-effects that may, over time, accumulate in a way unpredicted and undesired by political and administrative decision-makers.

In March 2006 the European Council explicitly recognised the crucial role of SMEs in creating growth and better jobs in Europe and underlined the need for a regulatory environment that was simple and transparent and conformed to the "think small first" principle. Accordingly, the Council invited the Commission "to bring forward specific provisions to encourage SME growth and development, such as longer transition periods, reduced fees, simplified reporting requirements and exemptions."<sup>3</sup>

Following the Council's mandate, the Commission invited Member States to nominate a group of national experts on regulatory issues to collect information on the various methods that have been used successfully by Member States to reduce the burden of public regulation and in particular the burden on small businesses. While the group was asked to consider (where possible) the quantitative effects of such methods, its mandate was not to work on methods for measuring the administrative burden as this was already being discussed in other circles.<sup>4</sup>

The following chapter briefly outlines the better regulation context at European level and briefly summarises recent initiatives to improve the

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<sup>2</sup> Around 60% of enterprises cite administration as their major problem, see ESTAT (2006).

<sup>3</sup> European Council, 23/24 March 2006, Presidency Conclusions, point 28.

<sup>4</sup> Work Programme 2006 as approved by the Enterprise Programme Management Committee (EPMC) on 24 November 2005 and 9 March 2006.

regulatory framework. Chapter 2 provides an overview of some empirical research on the regulatory burden on small businesses in comparison with larger companies and offers some ideas as to how the ubiquitous results — a disproportionately higher burden on smaller businesses — might be explained. Chapter 3 describes various models that help to reduce the disproportionate regulatory burden on small enterprises (e.g. exemptions, simplifications etc.) and presents good practice examples from the participating countries. Chapter 4 offers some more general conclusions as to how the regulatory environment could be improved for small businesses.

## **1.2. The Commission's initiatives for better regulation**

In the re-launched Lisbon Strategy, the Commission has recognised that a better regulatory environment is a key factor in improving Europe's economic performance. The ambitious goal is a regulatory framework that is at the same time simple and of a high quality. In its Communication of 16 March 2005<sup>5</sup> on “Better Regulation for Growth and Jobs in the European Union” the Commission distinguishes between different means to achieve better regulation at both European and national level and the level, i.e.:

- Impact assessments and consultations for new proposals;
- Screening of pending (European) legislative proposals;
- Simplification of existing EU legislation.

Moreover, the Communication calls for a high-level group of national regulatory experts to advise the Commission on better regulation issues, to act as a facilitator in cooperation between the Commission and Member States and to contribute to the distribution of best practices identified at EU and Member State level within the EU.<sup>6</sup>

### *Impact Assessment*

In recent years the Commission has undertaken extensive work in order to develop a coherent framework for impact assessments. Several new important elements are worth mentioning:

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<sup>5</sup> COM(2005) 97 final. For further information see also the Commission's Better Regulation Website: [http://ec.europa.eu/enterprise/regulation/better\\_regulation/index\\_en.htm](http://ec.europa.eu/enterprise/regulation/better_regulation/index_en.htm).

<sup>6</sup> Commission's decision of 28 February 2006, OJ L76/3, 15.3.2006, and the website: [http://ec.europa.eu/enterprise/regulation/better\\_regulation/high\\_level\\_group.htm](http://ec.europa.eu/enterprise/regulation/better_regulation/high_level_group.htm).

- The Commission systematically uses integrated impact assessments, taking into account economic, social and environmental aspects and their possible trade-offs.
- Analysis of the economic impact will be strengthened and take into account competitiveness aspects.
- Assessments will in future aim more often to monetise impacts.

All major legislative and policy proposals in the Commission's annual work programme are now subject to an impact assessment. The scope and depth of the assessment will be proportional to the probable effects of the proposal assessed. Since 2003, when the integrated approach was introduced, the Commission has completed over 160 impact assessments.

To ensure the high quality and transparency of its impact assessments, the Commission has set up an independent Impact Assessment Board (IAB) of high-level Commission experts under the direct responsibility of the President of the European Commission. It examines draft impact assessments and provides advice regarding methodological questions.

An important element in the impact assessment process will be the assessment of administrative costs, i.e. costs resulting from obligations on businesses to provide public authorities (or sometimes third parties) with certain information. Based on empirical results from various Member States, it is estimated that administrative costs in Europe amount to 3.5 % of GDP. In March 2007 the European Council agreed that the administrative burden arising from EU legislation should be reduced by 25% by the year 2012, thus freeing up the potential for an increase of 1½% in GDP.

In January 2007 the European Commission decided on an action programme for reducing administrative burdens that contained a number of concrete proposals.<sup>7</sup> The package of immediate measures in the action plan is estimated to yield an annual reduction in administrative costs of 1.3 billion euros. Moreover, the action programme sets out a number of priority areas for further reducing administrative costs in 2007 and 2008.

### *Screening*

In April 2005 the Commission launched an exercise to screen a total of 489 pending legislative proposals. Of these proposals, 183 dated back to before January 2004 and had not made significant progress for quite some time. 68 of these proposals were withdrawn by early 2006 and a further ten are

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<sup>7</sup> For more information: [http://ec.europa.eu/enterprise/regulation/better\\_regulation/index\\_en.htm](http://ec.europa.eu/enterprise/regulation/better_regulation/index_en.htm).

scheduled to be withdrawn in 2007.<sup>8</sup> A few proposals were also held back as it was deemed necessary to undertake an impact assessment before further decisions could be taken.

### *Simplification*

On 25 October 2005 the Commission published the Communication "Implementing the Community Lisbon Programme: A strategy for the simplification of the regulatory environment", which outlined a three-year rolling programme to simplify the "*acquis*" of the European Communities. Initially, a batch of about 100 simplification initiatives with a dynamic schedule was defined. 43 new initiatives — extending progressively the scope of the simplification exercise to all EU policy areas — were added in November 2006. New batches will follow, since the simplification strategy is not a one-off event but a process that will extend over a number of years.<sup>9</sup>

In line with the general "Better Regulation" approach the aim of this programme was not to reduce essential regulatory protection but to analyse whether the individual regulatory measures actually represent the most effective and efficient ways to reach the desired objectives. The approaches used to simplify and improve regulatory acts are:

- Repealing obsolete acts.
- Consolidating the original act and subsequent modifications in one act.
- Recasting and simplifying acts.
- Selecting the most appropriate legal tool.
- Increasing the use of modern information technology.

### *Better regulation and SMEs*

Impact assessment, screening and simplification concern businesses of all sizes. In the partnership for growth and jobs the disproportionate problems faced by SMEs in dealing with regulation are nonetheless recognised.<sup>10</sup>

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<sup>8</sup> Commission's Communication to the Council and the European Parliament "Outcome of the screening of legislative proposals pending before the Legislator", 27.9.2005, COM(2005) 462 final.

<sup>9</sup> See: [http://ec.europa.eu/enterprise/regulation/better\\_regulation/simplification/intro.htm](http://ec.europa.eu/enterprise/regulation/better_regulation/simplification/intro.htm).

<sup>10</sup> Communication to the Spring European Council "Working together for growth and jobs. A new start for the Lisbon Strategy", 2.2.2005, COM(2005) 24, pp. 19-20. The communication and further information are available at: [http://ec.europa.eu/growthandjobs/index\\_en.htm](http://ec.europa.eu/growthandjobs/index_en.htm).

In its communication "Implementing the Community Lisbon Programme. Modern SME policy for growth and employment"<sup>11</sup> the Commission provides a framework for the various enterprise policy instruments in order to make the "Think Small First" principle effective across all EU policies.

The Commission proposes specific actions in five areas:

- Integrating the 'Think Small First' principle within all EU policies by examining the SME dimension in impact assessments and by including in proposals special rules for SMEs such as longer transitional periods, reduced fees, simplified reporting requirements or exemptions.
- Strengthening the consultation with SME stakeholders, including SME panels and a "European Enterprise Award".
- Promoting entrepreneurship and skills.
- Improving SME access to markets, public procurement and standardisation.
- Improving the growth potential of SMEs by strengthening their capacity for innovation and research and by increasing financial support.

Better regulation is also a key topic of the European Charter for Small Enterprises<sup>12</sup>, which calls for new regulations level to be screened to assess their impact on small enterprises and proposes that small enterprises could be exempted from certain regulatory obligation, that certain rules should be simplified and that governments should adopt user-friendly administrative documents.

The annual Charter Conferences disseminate good practice in areas of relevance for small businesses. The annual Charter Report, which assesses policies and measures initiated by Member States, has now been integrated into the Lisbon Strategy for Jobs and Growth to increase the visibility of SME policy measures and to streamline reporting by Member States.

Better regulation for SMEs is also embedded within the Commission's administrative structure in the shape of the SME Envoy. Outside the Commission, the Envoy serves as a visible interface with the SME community. The Envoy maintains regular contact with SMEs and their representative organisations, providing information and collecting feedback. Inside the Commission the Envoy ensures that SME interests are taken into account in new EU laws and policies.<sup>13</sup>

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<sup>11</sup> Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, 10.11.2005, COM(2005) 551 final.

<sup>12</sup> More information at: [http://ec.europa.eu/enterprise/enterprise\\_policy/charter/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/charter/index_en.htm).

<sup>13</sup> More information at: [http://ec.europa.eu/enterprise/smes/sme\\_envoy\\_en.htm](http://ec.europa.eu/enterprise/smes/sme_envoy_en.htm).

## 2. EMPIRICAL ANALYSIS: THE DISPROPORTIONATE REGULATORY BURDEN ON SMES

### 2.1. The definition of regulatory burden

Numerous definitions exist of what constitutes an administrative or regulatory burden. The choice of definition is important; it influences the measurement and quantification of the burden. Moreover, different perceptions of the term can influence policy reactions.

For the purpose of this report, an explicit distinction is made between administrative burden and other forms of regulatory burden. Over recent years, a consensus has emerged that the administrative burden only covers the costs stemming from (non-voluntary) information duties, in particular the costs of filling in forms and sending them to administrative bodies and the connected costs of collecting, processing and storing the information.

The concept of administrative burden has several advantages. The measurement is straightforward: identifying the mandatory information requests, counting them, estimating the amount of time needed and valuing this time with a reference wage.<sup>14</sup> In addition, the simple measurement allows concrete political aims to be set for its reduction.

From the point of view of the entrepreneur, however, the distinction between administrative costs and other regulatory burdens is not so important. For entrepreneurs, administrative reporting duties, the costs involved in researching and understanding the rules, the lack of service provided by officials or the misapplication of administrative discretion are all obstacles that prevent them from doing business successfully.<sup>15</sup>

In the present context, the accepted definition of what constitutes an administrative burden is too narrow. The main objective of this report is to collect and disseminate initiatives, practices and measures introduced by Governments and other regulators across the European Union to improve the regulatory environment and make life easier for small businesses.

In order not to exclude potentially interesting measures, the **definition of regulatory burden in this report is very broad**. It includes all costs that result from mandatory obligations placed on businesses by public authorities on the basis of a law, decree or similar act.<sup>16</sup> The present interpretation of

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<sup>14</sup> For the measurement of the administrative burden see the International Standard Cost Model Manual at: <http://www.oecd.org/dataoecd/32/54/34227698.pdf>.

<sup>15</sup> For a discussion of the term ‘bureaucracy costs’ see Schorn, M.; Richter, M. (2006).

<sup>16</sup> Not included are obligations that result from a market relationship between businesses and public authorities, e.g. requirements to supply information in connection with public procurement.

regulatory burden also includes costs that could be termed psychological costs or "irritation costs". Measures to reduce them include, e.g. clearer and more targeted information services.

The concept of regulatory burden used here is rather broad, yet not every burden is a regulatory burden. A distinction has to be made between the regulatory burden and the fiscal burden: taxes are not considered in this report. Taxes have special characteristics that distinguish them from other types of regulatory burden. However, certain obligations connected to taxes such as filing tax statements and keeping records and measures developed to simplify them for small enterprises will be considered here.

## 2.2. Overview of empirical results

On average, a business with fewer than ten employees has to face a regulatory burden (measured per employee) that is roughly twice as high as the burden of a business with more than ten but less than twenty employees and about three times as high as the burden of businesses with more than twenty but less than fifty employees. For bigger companies, the burden per employee is only one fifth or less of that of small enterprises (see table).

**In other terms: where a big enterprise spends one euro per employee to comply with a regulatory duty a medium-sized enterprise might have to spend around four euros and a small business up to ten euros.**

These averages are calculated from several European studies. Admittedly, these studies are not fully comparable. They measure the regulatory burden in different units (money or time), use different definitions of regulatory burden and different size categories for enterprises and look at different economic sectors. But the aim of this overview is not an exact quantification of the average burden. The important insight provided by the overview is that, no matter which research approach is selected, smaller businesses bear a higher average regulatory burden than larger companies. This holds true not only for European countries but also for the US and Australia.<sup>17</sup>

While it is generally true that smaller enterprises bear higher than average regulatory costs, two qualifications are necessary. First, very small businesses (especially enterprises without employees) might face a lower average burden than small or medium-sized enterprises. Second, the disproportionate distribution of the burden is not found in all regulatory areas, the main reason being that certain regulatory and administrative rules do not apply to small businesses.

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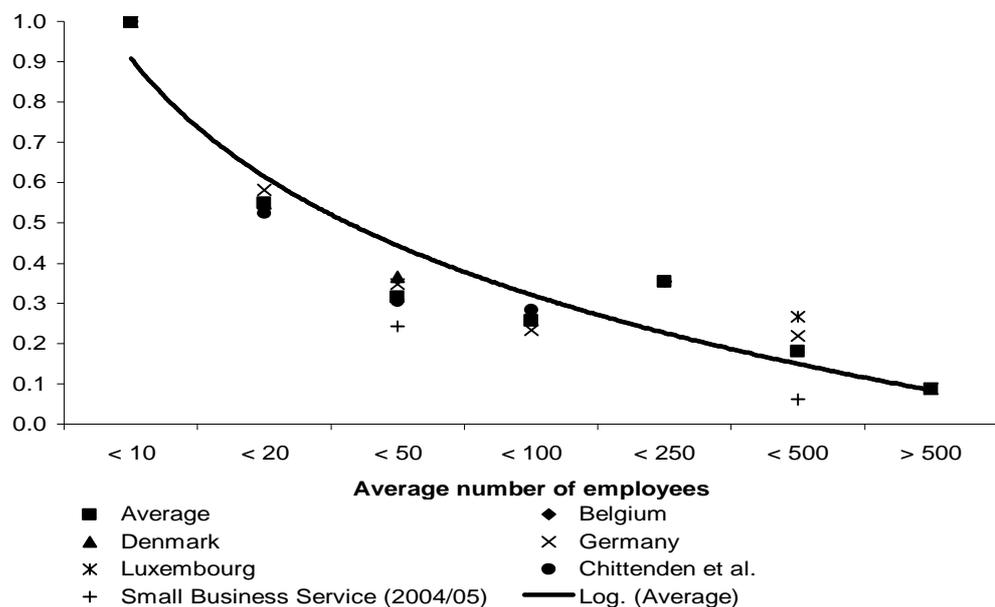
<sup>17</sup> For the USA see e.g. Crain and Hopkins (2001). Data for Australia can be found in Bickerdyke and Lattimore (1997).

Apart from the regressive regulatory burden, smaller businesses are disadvantaged in a second way: large companies often have good access to administrative and political decision-makers and can to some extent influence policy in their own interest. This is generally not true for small businesses.

**Table/Graph: Regulatory burden – comparison between small and larger businesses**

Country	Size class (number of employees)						
	< 10	< 20	< 50	< 100	< 250	< 500	> 500
<b>Belgium</b> Janssen, Keels, Verschuren (2005)	1.0				0.4		
<b>Denmark</b> Danish Commerce & Companies Agency (2003)	1.0	0.5	0.4				
<b>Germany</b> Ifm (2004)	1.0	0.6	0.3	0.2		0.2	0.1
<b>Luxembourg</b> Chambre des Metiers (2004)	1.0					0.3	
<b>United Kingdom</b> Chittenden et al. Small Business Service (2004/05)	1.0	0.5	0.3	0.3			
			0.2			0.1	
<b>Average</b>	1.0	0.6	0.3	0.3	0.4	0.2	0.1

**Ratio: Regulatory Burden per Employee  
(small enterprises = 1)**



### **2.3. Reasons for the disproportionate burden on small businesses**

Usually three explanations are offered for the disproportionate regulatory burden on smaller businesses:

- The fixed-cost nature of regulation.
- The lower efficiency of smaller businesses in dealing with regulation.
- The fact that in small businesses the most important resource, the entrepreneur himself, has to deal with regulation.

A large part of regulation results in costs that are more or less fixed, i.e. do not change much with the size of a business. This is for example true for most information duties. Filling in a questionnaire takes a certain amount of time, and it makes no difference that a larger business might have to fill in bigger figures than a small enterprise.

In absolute terms, the regulatory burden on a large company will often be higher, e.g. when withholding taxes have to be calculated for all employees. But per employee the costs will usually be lower. First, large businesses can employ specialists to deal with regulatory obligations. In a small enterprise the administrative staff will have to deal with a wide variety of issues and thus will be less specialised and less efficient. Second, for larger enterprises investment in computerisation and rationalisation of regulatory obligations will often be worthwhile because of the larger number of cases to be dealt with. Finally, in small businesses the entrepreneur himself will often be responsible for taking care of the various regulatory duties. This means that the most valuable resource of the business will be occupied with tasks that do not directly contribute to the success of the business.

Theoretically, the disproportionate distribution of the regulatory burden might be a measurement error. For example, when businesses are interviewed regarding the hours spent on regulatory issues, the owners of small businesses who take care of these duties themselves might tend to overestimate the burden, which they consider onerous anyway. Yet, fact that the disproportionate effects of regulation are demonstrated in practically all studies regardless of scope and method makes it more likely that these effects are indeed genuine.

### 3. TEN MODELS TO REDUCE THE REGULATORY BURDEN ON SMALL BUSINESSES

In this chapter, more than 30 examples are presented to show ways of reducing the disproportionate regulatory burden on small businesses. The cases were selected from the more than 100 proposals submitted by the experts for consideration by the group. All examples were presented to the group and discussed before a vote was taken on the selection. In addition, some experts had informally consulted representatives of business organisations on the selection of the proposals and brought their comments into the group's discussions.

The group also discussed the criteria for the selection of examples. Ideally, a measure should have a clear focus on smaller businesses.<sup>18</sup> Moreover, it should be well established and should, if possible, be backed up by empirical evidence to support its claim of usefulness. Plans and pilot projects were generally not considered. A measure should also have a sizable effect on small businesses and should not only apply to special cases.

The most interesting cases are of course those that are adaptable and transferable to other countries, since the idea with this project was to give countries the opportunity to learn from each other in order to improve their own environments for small businesses. Last but not least, the group tried to find measures that were relatively original or outstanding in one or more respects.

It should be noted, that the good practices presented in this report are only examples of what can be done to help small businesses to cope with regulation. It might well be that a certain measure selected for this report from country A exists (maybe with some modifications) in countries B and C as well. Moreover, the group could not make an in-depth evaluation of all the different proposals. So the selection of a measure from country A does not mean that it is necessarily "better" than a corresponding measure in other countries.

A further caveat is necessary: The selection of examples cannot be used to establish a ranking of countries. The expert group did not judge the overall quality of the regulatory environment for small enterprises in the participating countries. If there are more examples from country X than from country Y in this report, this does not mean that the situation in country X is better.

The complete list of proposed models is available as an annex to this report at:

[http://europa.eu.int/comm/enterprise/entrepreneurship/support\\_measures/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/index.htm)

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<sup>18</sup> The measures need not to apply to all SMEs. The European SME definition (Recommendation 2003/361/EC of 6 May 2003) defines SMEs as businesses with fewer than 250 employees and a turnover not exceeding 50 million euros or a balance sheet not exceeding 43 million euros. According to this definition almost 99% of all European businesses are SMEs. ([http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm)).

The models presented here can be grouped into the following ten categories:

1. Size-related exemptions
2. Reduced obligations (i.e. partial exemptions)
3. Simplified obligations
4. Temporal exemptions
5. Administrative coordination
6. Common commencement dates
7. Tailor-made information, coaching, training
8. Electronic services
9. Privileged treatment of small businesses
10. Early evaluation of regulatory effects on SMEs

The classification of examples is not always clear and straightforward. In several cases, a proposal could e.g. have been classified either as information or as an electronic service. The experts tried to identify the most salient feature of each proposal and to classify it accordingly. Yet, in some cases another group might have come to different conclusions.

The group recognised that the individual measures selected should not be seen in isolation but as the result of a business-oriented culture in public administrations. How to best bring about such a culture is beyond the remit of this report. Nonetheless, the group found that the programme "Enterprise Experience" recently launched by the European Commission serves as a good example of what can be done. Under this programme, Commission officials from the Directorate General for Enterprise and Industry work in a European enterprise for a while to gain practical and hands-on experience of life in a small or medium-sized enterprise.<sup>19</sup>

### **3.1. Size-related exemptions**

Exemptions from regulatory duties are probably the most widely used direct method to reduce the regulatory burden for small businesses. Exemptions can be found in almost all areas of regulation, such as taxation, employment rules, safety and health standards or reporting duties.

Exemptions are applied to small businesses in two ways. The first is to explicitly exempt businesses because of their size. For the identification of exempted businesses a financial indicator is often used, such as turnover, profit, sales or assets. A frequently found indicator is the number of employees, but other criteria are also employed such as the square metres of a store. And naturally combinations of various criteria are also used. In

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<sup>19</sup> For more information see: [http://ec.europa.eu/enterprise/exp\\_prog/index.htm](http://ec.europa.eu/enterprise/exp_prog/index.htm).

defining the thresholds, it is important for them to be simple and transparent so that businesses can easily decide themselves whether they have to comply with a certain regulation or whether they are exempt.

#### **Exemption of small business from VAT registration in the UK**

According to Article 24(2) of the Sixth VAT Directive (Directive 77/388/EEC), Member States can exempt small businesses, i.e. businesses with a turnover below certain thresholds, from the obligation to register for VAT. On the other hand, these businesses are also not entitled to reclaim the VAT they paid on their inputs. However, especially for small businesses and for businesses with little investment and high labour costs, this disadvantage is more than outweighed by the administrative savings that they gain from not having to declare and pay VAT.

The size of the VAT thresholds (defined in annual turnover) varies between the Member States of the EU.<sup>20</sup> For those countries that allow VAT exemptions the average is around €25 000. In the United Kingdom, the threshold is close to €85 000 and thus by far the highest in the EU.

More information at:

[http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?\\_nfpb=true&\\_pageLabel=pageVAT\\_Home](http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_Home)

The actual effects of a threshold, especially the percentage of businesses that can benefit from the exemption, will not depend on its absolute but on its relative amount and therefore on the economic situation in a given country and the average size and turnover of businesses. Taking this into account, the thresholds in several of the new Member States have to be considered rather high. The VAT threshold for **Bulgaria** for example is €25 000.

#### **Exemption of small businesses from having to set up employee safety groups in Denmark**

In order to improve the safety and health of workers at work, businesses have to establish a "safety group", i.e. one or more employees are given the task of ensuring compliance with the principles of workplace safety (Council Directive of 12 June 1989). For small companies, the owner can assume this

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<sup>20</sup> See: [http://ec.europa.eu/taxation\\_customs/taxation/vat/traders/vat\\_community/index\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/vat/traders/vat_community/index_en.htm).

responsibility him/herself. Denmark has increased the threshold for such companies from 5 to 10 employees.

The changes mean that a further 37 587 businesses are now exempt from the obligation to set up an employee safety group, bringing the current total up to 74 174. The effect is to reduce the annual regulatory burden on businesses with fewer than 10 employees by €3 million at national level.

A second way of exempting small businesses from regulation is more indirect: the exemption depends on a criterion that does not directly involve the size of a business but is strongly correlated with it. Examples are the economic sector and/or legal form of a company.

#### **No prior authorisation for numerous trades and crafts in Germany**

This reform (in force as of 1.1.2004) is an example of an indirect exemption. While in principle enterprises of all sizes are covered, most will be small businesses, since about 90% of all craft enterprises have fewer than 20 employees and 99% fewer than 100 employees.

For more than 50 different crafts, the reform abolished the need for prior authorisation before establishing a business. Today, such an authorisation is necessary only for 41 crafts. The main reason for maintaining prior authorisation in these cases is consumer protection (it is still needed for crafts dealing e.g. with electricity, gas heating etc.).

In addition, those trades still subject to the requirement can more easily obtain authorisation, the focus being now on the prevention of danger. With the reform, difficulties arising from the distinctions between individual activities, thus preventing the provision of services (e.g. dry mortarless construction and tiling) by one and the same provider, have been reduced and the opportunities for starting up new businesses have been increased.

More information at:

[www.bmwi.de/BMWi/Navigation/root,did=60984.html](http://www.bmwi.de/BMWi/Navigation/root,did=60984.html)

One important reason why small businesses are exempt from certain obligations is that the regulatory and administrative burdens are considered too high to be borne by a small business. On the other hand, it has to be recalled that the vast majority of all businesses are small. If all small businesses are exempted from a regulation, the regulation might not achieve its purpose because of the numerous exempt cases. It is thus important for

the individual regulation to strike the right balance between reducing the regulatory burden by exempting small businesses and covering enough businesses to achieve its original purpose. In some “lucky” cases, however, there is no conflict between the goals, i.e. the purpose of a regulation can be achieved even if small businesses are excluded. A typical case is the exemption of small businesses from merger notifications: Even if small businesses merge, the resulting larger businesses will often be too small to exercise a strong influence over the market.

#### **No duty to notify small mergers in Norway**

Small businesses with a combined annual turnover of less than NOK 20 million (€2 503 129) are exempted from the duty to report a decision to merge so that their market position can be assessed (FOR 2004-04-28 No 673). The same holds true for merging enterprises where one of the two has an annual turnover of less than NOK 5 million (€625 782).

This exemption is based on the fact that a merger between small businesses, or between one small and one large company, will have only a limited influence on the market situation. Reporting the merger would not result in any action by the authorities, so the obligation to report would not meet the purpose of the law in question.

Usually, thresholds are individually defined in each piece of regulation and not by referring to a general definition of what constitutes an SME. While this means that thresholds can be adjusted in an optimal way for each regulation, it also means that enterprises are confronted with a large number of different thresholds. A business that grows gradually will have to apply more and more rules over time. However, while regulation in general might be an obstacle to growth there is no empirical evidence that the number of thresholds as such constitutes an obstacle. Spreading out the increase in the regulatory burden in this way may well allow businesses to grow into their increased obligations more smoothly.

Thresholds are frequently introduced or modified in the political process of negotiating and deciding on new regulation. This has two disadvantages. First, the public debate on new regulation may create uncertainty and apprehension among businesses to which the new regulation will, in the end, not be applied. Secondly, the setting of the threshold may be the result of a political compromise and not ideal from a technical point of view. It would therefore be desirable to take into account exemptions for small businesses in the design of new regulation and also to structure any impact assessment so as to indicate possible thresholds.

### 3.2. Reduced obligations

In some cases a complete exemption of small businesses is not possible without jeopardising the purpose of a regulation. But even in such cases it will often be possible to alleviate the regulatory burden on small businesses by subjecting them only to parts of the regulation or a reduced set of obligations. For example, all businesses need to keep financial records, but the scope and detail of such records increases with the size of the business (often defined in an indirect way, i.e. in terms of the legal form of a business or whether its shares are publicly traded).

#### **Hazard analysis critical control points (HACCP) in Belgium (Federal level)**

As of 18 November 2005, small businesses that sell to consumers (B2C), employ fewer than 5 people (full-time equivalents) and have a selling surface of less than 400 square metres, plus all small sales businesses that employ fewer than 2 people, do not have to apply the full HACCP rules but can use a simplified system. Businesses that use a certified guide (provided by the sector) pay lower fees and levies to the Agency for Food Safety. Archiving and registration obligations are limited to 6 months.

Sometimes it is not justifiable to reduce obligations for a business just because of its size, i.e. when the risk of not achieving the purpose of a regulation is not sufficiently correlated with the size of enterprises. The risk of tax revenue losses does indeed correlate with the size of businesses, so larger enterprises are more frequently audited by the tax authorities than smaller companies. However, such sized-based reductions might not always be appropriate. In such cases, it might still be possible to reduce the burden on enterprises by checking their control procedures instead of checking the individual results of the procedures.

#### **The Custom's Stairway in Sweden**

The Custom's Stairway (introduced in 2002) is a system for customs clearance to reduce burdens on enterprises. Through the Stairway, businesses can be certified by the Swedish Customs Service after having their routines quality-assured. Once certified, businesses enjoy a better service and simpler handling of their customs procedures. Customs and enterprises cooperate by ensuring that the information is correct from the outset, which in turn guarantees a smoother passage across the border.

The Stairway is open to all importers, exporters and forwarding agents, regardless of size or line of business. The Swedish Customs Service has developed the system in cooperation with the business community.

The Stairway consists of five steps. Businesses that are not quality-assured and have no (step 1) or some (step 2) special permits (e.g. credit, summary declaration, etc) have to undergo the standard customs procedures. Businesses that apply for step 3 have some of their routines checked and quality-assured by the customs service. For such businesses, the only intervention by customs will then be in those goods flows that have not been quality-assured. Businesses that have had all their customs routines quality-assured can go on to step 4. For them, there will be no intervention by customs in the flow of goods. Step 5 is reserved for businesses that can trace goods at article level in all their customs routines.

To date, 227 businesses have been certified. More information at: [www.tullverket.se/en/Business/the\\_stairway/](http://www.tullverket.se/en/Business/the_stairway/)

If not all (small) businesses need to be covered by a rule, only the minimum number of enterprises sufficient to achieve the purpose of the regulation should be subject to it. However, there remains the problem of finding a fair way to select those who have to bear the regulatory burden and those who do not. This is especially true for statistical surveys, where it is often unnecessary for all enterprises to participate and random sampling is usually sufficient. A good solution was found in the United Kingdom, which has introduced the “Osmotherly Guarantee” to exempt micro-businesses from repeatedly being surveyed over a given period of time.

### **The Osmotherly Guarantee to reduce statistical obligations in the UK**

Completing statistical returns can be particularly burdensome for small businesses. In many cases, the data requested may not be readily available. Finding such information is time-consuming and expensive for small firms. Since 1997, the UK has applied the “Osmotherly Guarantee”. Businesses employing between 0 and 9 persons are guaranteed that, if selected for an Office of National Statistics (ONS) survey:

- they will be notified of the period during which they will be included in the survey (generally not exceeding 15 months);
- they will not be required to contribute to another of ONS’s statutory surveys during that time; and
- following this period, they will not be required to contribute to any statutory ONS postal survey for a further three years.

ONS has been largely successful in applying the guarantee. There have been a few exceptions, for example where it has been necessary to ensure that the results of a survey are sufficient in quality and coverage to permit appropriate evaluation. ONS continues to adopt sampling strategies designed to avoid burdening smaller businesses as far as possible, and is currently considering whether the Guarantee can be extended further.

More information at:

[http://212.58.231.21/methods\\_quality/downloads/ReducingBurden.pdf](http://212.58.231.21/methods_quality/downloads/ReducingBurden.pdf)

Often the regulatory and administrative burden on businesses is not really related to the purpose of a regulation. There are cases where the regulatory burden can be reduced by streamlining and optimising several similar or parallel duties.

#### **On-the-spot firm in Portugal**

As of July 2005, commercial enterprises can be set up "on the spot" in Portugal, i.e. at a single contact point, in just one hour by filling in one form at a cost of around €360. The new system is designed for individual entrepreneurs, limited liability companies as well as joint stock companies. Future entrepreneurs no longer need to obtain a "certificate of admissibility" for the enterprise's name from the National Registry of Bodies Corporate (RNPC) in advance if they select their name from a predefined list. Nor is there any need for a notarised deed to record the formation of the business. The company's definitive "body corporate identity card", social security number, memorandum and articles of association, and trade registry certificate are all provided on the spot.

Until July 2005, starting a business in Portugal took approximately 2 months and involved more than 10 procedures with different public services. According to the World Bank (*Doing Business*, 2006), Portugal's start-up procedures were ranked 18th among 22 European Union countries.

By mid-2006, almost 6000 businesses had been established under this new procedure at the 35 "On-the-Spot Firm" contact points in Portugal. It is estimated that the new system has led to savings of 135 000 days or €700 000, and has helped to create more than 10 000 new jobs.

### **3.3. Simplified obligations**

It is not always possible to exempt enterprises from certain duties or drastically reduce such obligations. Yet by simplifying obligations it is often

possible to make compliance easier for small enterprises. For example, it is important for small businesses if and to what extent formal rules have to be followed in complying with regulation.

#### **Simplified registration of employees in Belgium (Federal level)**

As of 1 January 2003, self-employed persons or businesses can register new employees with the social security office electronically or by phone (the same applies for employees who leave their jobs). While this facility is available to all employers, it is particularly useful for the self-employed and small enterprises since it considerably reduces the time and paperwork connected with employment (e.g. abolition of the personnel register that had to be kept by every employer with data on employees).

More information at: [www.socialsecurity.fgov.be](http://www.socialsecurity.fgov.be).

Simplification can also save businesses a large amount of internal work. Simplified flat-tax schemes not requiring exact records of business expenses can be helpful. While exact verification of expenses might ultimately result in a more favourable outcome for the business, the administrative savings often outweigh such considerations, especially for very small businesses.

#### **Flat-rate tax expenses in Slovakia**

As of 1 January 2004, small businesses (i.e. physical persons that are exempted from VAT) can opt out of standard tax accounting. For income tax purposes, they may choose to declare flat-rate expenses amounting to 40% of their gross income. Craftspersons with no other activities may even declare standard expenses of 60% of their gross income (Tax Act 595/2003 Coll. on income taxes). Opting for the standard expense rate means that businesses need only register their income, stocks and receivables for a given period, which can simplify their accounting and filing.

#### **Corporation tax prepayment in Ireland**

As of 2002, companies liable to pay tax of less than €50 000 for an accounting period may base their preliminary tax payment on the liability for the preceding accounting period. For such companies, when the final tax liability for the accounting period is determined, interest will not be charged on any balance of tax payable if the preliminary tax paid for the accounting

period is at least 90% of the liability for the accounting period or 100% of the final liability for the preceding accounting period.

Usually a preliminary tax payment for an accounting period is due one month before the end of the accounting period. Any balance of tax is due nine months after the end of the accounting period. It will carry interest unless the preliminary payment is at least 90% of the final liability for the accounting period. This modified arrangement eases the burden on small companies. They do not have to estimate what their tax liability will be before the end of the accounting period and can simply base their preliminary tax payment on the final liability for the preceding accounting period. 38 000 firms are eligible for this arrangement.

More information at:

[www.revenue.ie/index.htm?/revguide/corporationtax.htm](http://www.revenue.ie/index.htm?/revguide/corporationtax.htm)

Electronic services (discussed in chapter 3.9) sometimes require additional simplification measures for their full potential to be realised. Simply replacing paper forms with electronic documents as such has only a limited effect, especially where there are still bottlenecks that prevent a complete switch to an electronic system. In such cases, simplified procedures are then necessary, as illustrated by the example of the Swedish tax representative.

#### **Tax representative in Sweden**

Since April 2006, business owners who use an electronic tax return form can authorise a representative — e.g. a tax accountant — to declare taxes for them (sign in their name). While owners still bear responsibility for their tax declarations, the new rule now allows them to use an external tax and book-keeping service to handle all the procedures connected with tax return forms.

### **3.4. Temporal exemptions**

Temporal exemptions are known in several forms. The first type is fairly similar to a partial reduction in obligations, i.e. a certain obligation (e.g. information duty or tax prepayment) can be met at longer intervals/less frequently or is less likely to arise (e.g. tax pre-payments and tax audits).

In the second case, small businesses are granted a temporal exemption from rules (or at least a temporal reduction in rules) on certain occasions. This could be when the business is set up or when new legislation is introduced.

A third possibility is to give small enterprises more time than large companies to adjust to new rules and obligations.

#### **EU Directives on working time for lorry drivers and on unit prices**

Directive 2002/15/EC of the European Parliament and of the Council of 11 March 2002 on the organisation of the working time of persons performing mobile road transport activities establishes minimum for the organisation of working time to improve the health and safety protection of persons performing mobile road transport activities and to improve road safety and align conditions of competition. The rules entered into force in 2005 but self-employed drivers — i.e. micro enterprises — have a longer transitional period, since the Directive does not apply to them until 23 March 2009.

Directive 98/6/EC of the European Parliament and the Council of 16 February 1998 on consumer protection in the indication of the prices of products provides that the selling price and the price per unit of measurement (i.e. “the unit price”, e.g. price per kilo, price per litre) should use a single unit of quantity widely known in the Member States, in order to make price comparisons easier for customers. In Article 6, however, the Directive states that “If the obligation to indicate the unit price were to constitute an excessive burden for certain small retail businesses because of the number of products on sale, the sales area, the nature of the place of sale, specific conditions of sale where the product is not directly accessible for the consumer or certain forms of business, such as certain types of itinerant trade, Member States may, for a transitional period ... provide that the obligation to indicate the unit price of products other than those sold in bulk, which are sold in the said businesses, shall not apply...”.

### **3.5. Administrative coordination, especially one-stop shops**

In many countries, setting up a new business still requires several administrative procedures, often with several public administrations (e.g. registration of the enterprise in the business register, registration for VAT, income tax and other taxes with the tax office, applying for licenses etc.). For new entrepreneurs this has two important disadvantages. Firstly, having to deal with several different administrations is time-consuming and often costly. Here, a one-stop-shop can reduce business expenses. Secondly, and maybe even more importantly, especially for inexperienced entrepreneurs, having to deal with several public bodies might give rise to uncertainty as to which steps and procedures are necessary.

While one-stop shops are frequently used for business start-ups, they can also be put in place for other tasks. One example of the use of one-stop

shops is the "point of single contact" under Article 6 of the European Service Directive,<sup>21</sup> where service providers can take care of all the declarations, applications, notifications etc. needed for them to be authorised to provide services in another EU country.

Over recent years, many countries have set up one-stop shops where entrepreneurs can take care of their obligations at one contact point. In addition, the European Council of 23 and 24 March 2006 asked Member States to "establish, by 2007, a one-stop shop, or arrangements with equivalent effect, for setting up a business in a quick and simple way".<sup>22</sup>

One-stop shops can be organised either as real places or offices where entrepreneurs can meet representatives of the public administrations face to face or as virtual one-stop shops, i.e. internet sites. One example of a "real" one-stop shop is the Belgian initiative for start-ups.

#### **The Belgian one-stop shop for start-ups**

Since 1 July 2003, persons wanting to start their own business have been able to go to a one-stop shop in their neighbourhood. There they receive a unique enterprise number that they use to communicate with all public services. The one-stop shop takes care of all start-up formalities and can give advice on financing, licensing, etc. on request. The one-stop shop handles all the administrative steps involved, which formerly required separate visits to the Commercial Court, the chambers of "Métiers et Négoces", the VAT office and (for an employer's number) the Social Security Office. The one-stop shop contributed to the 12% increase in new businesses in 2003/2004 and the 5.5% rise in 2004/2005.

It is interesting to note that improved administrative coordination does not always have to be imposed from the top down but can also be brought about by the various different institutions involved in start-ups.

#### **The Swedish collaboration group for business start-ups**

Since May 2005, a group representing all six agencies involved in business start-up procedures (Nutek – Agency for Economic and Regional Growth, Skatteverket – Tax Agency, Bolagsverket – Companies Registration Office,

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<sup>21</sup> Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market.

<sup>22</sup> European Council of 23/24 March 2006, Presidency Conclusions, point 30.

Försäkringskassan – Social Insurance Agency, Tullverket – Customs, AMS – National Labour Market Board and Verva – Administrative Development Agency) has been holding regular discussions to identify ways of simplifying business start-ups and better coordinating their own activities.

These discussions have led to a number of projects, starting in the spring of 2005. For example, a common brochure (instead of a variety of different brochures), a common web-based tool with targeted information, a monthly information day on how to start a business with every agency taking part, and a project to help with business registration as the first step toward a one-stop-shop solution for starting businesses.

### **3.6. Common commencement dates**

One-stop shops are the most prominent and best-known examples of administrative coordination efforts to facilitate life for enterprises. However, better coordination to avoid double and parallel work is also possible in other areas such as legislation and adoption of new rules as the United Kingdom's initiative for a common commencement shows.

#### **The common commencement dates initiative in the United Kingdom**

Under the Common Commencement Dates (CCDs) initiative, launched in 2005, domestic regulation bearing on businesses will come into effect **only** on either 6 April or 1 October each year. The purpose of CCDs, and especially the annual statement that government departments are required to publish at the start of each year, is to help businesses plan for new regulation each year and to increase awareness of the introduction of new or changed requirements. The overwhelming majority of small businesses and their representatives who responded to the common commencement date consultation during 2004 supported the concept of having two common commencement dates a year for all domestic regulations bearing on businesses. They particularly liked the annual statement setting out all new regulations in the coming year, as this would cut down the need for "horizon scanning", and they also felt that such a list would give legislators pause for thought when they saw the cumulative burden of regulation. The business community hoped that this could lead to a reduction in regulation and costs.

A cautious estimate is that CCDs could save SMEs anything between £10 - 20 million a year. However, if the 10% saving suggested by the business community (in focus groups and in public consultations) is accepted, the figure is a massive £629 million a year. Neither of these figures includes the savings for big business (which would boost them still further).

More information at:

[www.sbs.gov.uk/SBS\\_Gov\\_files/consultations/ccdimpactassessment.pdf](http://www.sbs.gov.uk/SBS_Gov_files/consultations/ccdimpactassessment.pdf)

### 3.7. **Tailor-made information for SMEs, coaching, training**

Information activities such as websites, handbooks, brochures and helpdesks are one of the most frequently used models by public administrations to help small businesses cope with regulatory duties. One reason why small enterprises bear a comparatively high regulatory burden is that their lack of specialisation means they are less effective in dealing with regulation than larger enterprises. Small businesses therefore need to be informed about the regulations that apply to them in way that is understandable and straightforward. It also saves time and costs if they only have to deal with those parts of regulations that actually apply to them.

However, tailor-made information cannot change unclear legal texts. In the drafting procedure and in simplification programmes, it is therefore important to bring in lawyer-linguists to improve the linguistic and editorial quality of legal acts. A user-friendly regulatory framework is especially beneficial to SMEs. The “Fight-the-fog” campaign in the **European Commission** is one example worth mentioning in this context. It almost goes without saying that in legal and administrative texts specific terms should be used in a consistent manner. The **Bulgarian** law of 2003 on reducing the administrative regulation and control of business activity can be cited as an example of streamlining legal terms for small businesses.

Another example of straightforward information in a language understandable to small businesses is the UK No-Nonsense Guide.

#### **The No-Nonsense Guide to government rules and regulations in starting and growing a business in the United Kingdom**

The No-Nonsense Guide to Government Rules and Regulations in Starting and Growing a Business is a booklet designed to help budding entrepreneurs by explaining the legal and official side of starting up a business. The guide also explains the regulations that might affect a growing business — from getting new premises to employing people. It:

- clarifies the regulatory requirements for those considering starting or about to start in business;
- saves budding entrepreneurs time and money in getting to grips with government requirements; and
- helps prospective owners or managers maximise the benefit of any face-to-face business advice they may then go on to receive.

Over 400 000 copies of the guide have been distributed since it was published for the first time in 2003. It is tested for accessibility and usability and updated annually.

The Guide was inspired by the demand from customers for a single reference point where new businesses could identify what government expects of them and how to access government sources of advice. The guide provides signposts to more detailed information but nonetheless constitutes a complete overview of what government requires of a new business. It is produced by the Small Business Service in conjunction with HM Treasury, Inland Revenue, HM Customs and Excise (as it then was), the Department of Trade and Industry and the Department for Work and Pensions.

More information at: [www.businesslink.gov.uk/publications](http://www.businesslink.gov.uk/publications)

While sources of comprehensive information are particularly important for new businesses, specific information on certain requirements (e.g. in the areas of taxation, labour law or statistics) can also help businesses to better plan and organise compliance with their obligations.

### **The calendar of statistics in Luxembourg**

Since 2006, all businesses (trades, crafts, regulated or agricultural professions) have been able to consult a calendar of statistical reporting duties on the website of the Statistical Office of Luxembourg (STATEC) and on the better regulation website in order to see well in advance which statistics have to be returned and what the deadlines are.

Adapting information to the needs of small businesses requires some omissions and simplifications. While this is important in order to provide understandable information, there is always the risk that occasionally a business will not receive all the information it needs. Electronic systems with comprehensive databases providing specific information on the basis of a relatively detailed profile of each individual case can provide a solution here.

### **The Startothek in Germany**

The Startothek was launched in January 2006 as an internet-based database containing all the important information on trade law, commercial law, tax

law, social security law, occupational health and safety law, construction law and environmental law as well as details of the contact persons that new entrepreneurs need to know. Unlike most other information sources, the information provided by the Startothek is tailor-made for the individual start-up, i.e. the Startothek takes into account a number of search criteria (branch, size etc.) and thus only provides the information relevant to the specific business. The Startothek thus reduces the complexity of the regulatory environment for the entrepreneur, which is usually a bigger problem than the individual regulations themselves.

To ensure correct use of the database, queries are made by authorised advisers, who pay a fee to the KfW — the state-run business promotion bank. An especially important feature of the Startothek is that it contains regulations at Federal, state and municipal level. (However, the inclusion of municipal regulations relies on the participation of the municipalities. While some already participate in the Startothek, there is still considerable potential for improvement.) Entrepreneurs view the system very positively: 84% of those interviewed are pleased or very pleased with the service.

More information at: <https://www.startothek.de>

Start-ups usually have a great demand for information. A particular problem for them is that many of their information needs arise suddenly and have to be answered quickly. The Swedish start-up information service is one example of how new enterprises can be helped rapidly and efficiently.

### **The Swedish start-up information service**

The Swedish Agency for Economic and Regional Growth, NUTEK, provides a web-based information tool for business start-ups. Företagarguiden ([www.nutek.se/foretagarguiden](http://www.nutek.se/foretagarguiden)), the "Entrepreneur's guide", is a website that provides information from the authorities and tools for starting up, running and developing a business. It is designed as an easy-to-navigate directory of useful information and links, especially packaged for both inexperienced and experienced entrepreneurs. The information is supplied by more than 70 government agencies and other public organisations in Sweden, all of which participate in Företagarguiden as partners or information providers. The visitor may communicate directly with the relevant authority by e-mail and will normally get an answer within 48 hours (more complex questions involving more than one authority might take somewhat longer). In 2006, the website had almost 360 000 visitors. The share of users pleased with the service was 96% and the share of visitors who would recommend the website to others was 97%.

Since some prefer to talk to a person instead of using the internet, Nutek also provides a telephone service, the "Startlinjen", or start-up line (tel. 020-35 10 10). The service offers free information and guidance on starting up a business in Sweden. In 2006, the telephone service fielded 8 040 queries, including phone calls and questions posted by e-mail. The share of users pleased with the service was 80% and the share of callers who would recommend it to others was 98%.

Information on the regulatory and administrative requirements that apply to individual cases can be enhanced still further if it is provided in the context of more general entrepreneurial coaching and support, e.g. as in the case of the Italian Youth Entrepreneurship initiative.

### **Coaching of young entrepreneurs in Italy**

In 1986 Italy launched an initiative to encourage young people to start new firms in the farming, craftwork and industry sectors and in business services (excluding tourism, training and trading) and to develop entrepreneurial know-how in Italian regions (mainly in central and southern Italy) affected by high levels of unemployment and low rates of entrepreneurial growth.<sup>23</sup>

Projects are evaluated on the basis of the credibility of applicants, project market potential and profitability, as well as the effectiveness of organisation and planning. Accepted projects are granted various forms of financial aid by the regional offices of Sviluppo Italia S.p.A., an ad-hoc company founded in 1999.

What makes the measure particularly effective is the fact that business start-ups are supported not only through funding but also through entrepreneurial tutoring in business management, regardless of the product or service selected, giving new young entrepreneurs a initial competitive advantage. Once set up, new businesses are then monitored not only in auditing terms, but also to assess their potential and quality.

Within the first 7 years of this measure, over 1.7 million euros were spent on business creation, with more than 4 000 business plans presented (mainly from southern Italy) and 875 projects approved, generating over 17 700 employees and some 600 associates. 50% of projects were devoted to

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<sup>23</sup> Law 44/86 and subsequent amendments. In 1999 (Government Decree 147/99), eligibility was extended to include existing farming businesses transferred to younger family members and requiring new development plans.

manufacturing, 29% to farming and 21% to services, with an 80% long-term business survival rate (over 7 years).

Apart from information and training on general business topics new entrepreneurs also need advice for their specific business. A mentoring system to facilitate the smooth transfer of a business from one generation to the next is such a special solution for an important problem that hinders many business transfers.

### **Mentoring business transfers in France**

Those who transfer trade, craft or service businesses may pass on their professional experience as entrepreneurs by becoming mentors of the new owners. The terms and conditions of the mentoring arrangement are set out in a mentoring agreement. The mentor may receive remuneration.

The person transferring a craft or trade business receives a bonus if he or she is eligible for a retirement pension and has signed a mentoring agreement with the person taking over the business. The bonus is paid by the RSI (*régime social des indépendants*, self-employed social security scheme).

The mentoring bonus is intended to facilitate the transfer of businesses to younger entrepreneurs. This transfer of knowledge, including the regulatory procedures etc. that a business has to follow, should help improve the viability of the transferred business and maintain the know-how and skills embedded in it.

The bonus is designed to replace the retirement aid for older artisans and tradespersons, in force since 1982, and to provide them with social compensation for businesses that are no longer economic. However, the new scheme is intended to foster the continuation of such businesses as viable concerns, not the closing of unviable businesses.

### **3.8. Electronic services**

Over recent years, many public authorities in Member States have begun to set up information websites for the public in general and businesses in particular. Official websites are chiefly used for the dissemination of information on e.g. regulatory obligations, news, contacts etc., In many countries, moreover, it is now possible to fill in official forms (e.g. for taxation) on-line rather than on paper. One example of an information and service portal is the SME portal recently set up in Romania.

### **The Romanian SME portal**

The SME portal recently set up in Romania provides special services and applications for small businesses in order to promote the development of the SME sector. It provides:

- Information services;
- Consultancy services;
- Internet-enabled applications and solutions;
- Additional products/services.

The portal is run by the National Agency for SMEs and Cooperatives (NASMEC), a government institution with the task of promoting Romania's 403 000 SMEs. Its use is free of charge and contents include:

- Comprehensive and up-to-date business information
- Specific e-governance applications;
- Specific e-business and e-commerce applications;
- All legislation for SMEs and any changes in the legislation;
- EU legal acts;
- Information on the state support available to entrepreneurs;
- Information on events open to the entrepreneurial community.

A single portal dedicated to the needs of small enterprises and providing information in a comprehensive and well-structured way can save businesses considerable costs in searching for information. However, electronic services can also be used for more specific purposes. It is even possible to handle important legal matters that usually require specific formal procedures (paper forms, original signatures etc.) with the help of electronic services, such as e.g. the Belgian E-depot for the registration of enterprises. Or even to set up a company on-line as for the Spanish "Sociedades de responsabilidad limitada"

### **The E-depot in Belgium (Federal level)**

Since June 2006, enterprises have been able to start up a business in 3 days using the 'E-depot', an IT tool developed by the government and the Federation of Notaries. The E-depot allows new businesses to deposit their registration documents electronically, which then have the same legal force as paper documents. The start-up procedure consists of three steps, each taking about one day:

- On the first day, the required capital is deposited at the bank.

- On the second day, the notary deposits the registration documents electronically at the Justice Department and Crossroad Bank for Enterprises, which automatically returns the unique enterprise number of the newly created business.
- On the third day, the one stop shop activates the enterprise number and the business can start its activities.

### **Setting up a new SME on-line in Spain**

The CIRCE network was set up in 2003 as a hardware platform to host new on-line developments for entrepreneurs. So far, there are 170 “Points for Advice and Registration” (PAITs) connected to CIRCE around the country. The PAITs provide information for entrepreneurs setting up and registering a new SME. A “Single Electronic Document” (DUE) is used on-line to gather all the information required to register a new SME. This electronic document has replaced 15 paper documents. In addition, all the information services for entrepreneurs are available in an information system connected to CIRCE: <http://www.circe.es>.

Through CIRCE, the cost of registering a new company in the form of an SL (Sociedad de Responsabilidad Limitada) has been cut by two thirds. The SL is the most common legal form for a new business in Spain (32%). Today, it is possible to register a new business on-line (90% of cases) in three days. Up to February 2007, 2 648 new SMEs had been registered on-line. The government department responsible for SME policy (DGPYME-MITYC) carries out a daily follow-up of results.

The system offers new facilities on-line: free change of legal status for SMEs, checking of business plan (TUTELA Program) and training for entrepreneurs (14 activities were implemented with more than 350 participants during 2005-2006).

Electronic services are of particular use if they are tailor-made to the needs of the individual business, as with the United Kingdom’s personalised checklist for regulations.

### **The personalised checklist of regulations in the United Kingdom**

Since April 2004, small and medium-sized businesses in the UK have been able to get a personalised checklist of regulations that apply to their business, covering information from every relevant department of government, including tax, VAT, employment law, health and safety, patent

law, and consumer protection law. Each regulation comes with easy-to-follow "plain English" guidance.

The content is selected for the user from 2 000 screens of guidance. These screens are approved by experts and reviewed once every six months. Users can save their list or sign up for email alerts on each regulation. They can also ask for their list to be emailed to them.

108 000 users have used the tool over the last 12 months, of which 50 540 have completed the procedure and received a full description of the regulations applying to them. The Department of Trade and Industry (DTI), estimates that this initiative will cut implementation costs by reducing the need for "horizon scanning", saving small business £15.9 million every year (conservative assessment) for DTI regulations alone.

More information at: [www.businesslink.gov.uk/regulationchecklist](http://www.businesslink.gov.uk/regulationchecklist).

### **3.9. Privileged treatment of small businesses**

The privileged treatment of small businesses is a kind of "positive discrimination" to balance the disadvantages that these enterprises have compared to large businesses in dealing with regulation. Such privileged treatment may include lower fees, faster service ("small in – first out"), and free or price-reduced advice and consultancy services for small enterprises (similar to tailor-made information for SMEs).

#### **The express patent search at the Austrian Patent Office**

The express patent search was introduced in 2004. It is intended for SMEs that urgently need to know if a technical solution can be patented and if the patent procedure would be successful. The express search conforms to the Patent Cooperation Treaty rules (PCT) and covers the literature on patents in German, English and French, i.e. more than 45 million documents. Results are delivered within one month. Entrepreneurs can then assess quickly and without the risk of a time-consuming patent application (which can take up to a year) whether their new solution can be patented. For SMEs in particular, this is an important help in managing their technical assets.

A similar system has been established in **Romania**, where the Romanian State Office for Inventions and Trademarks gives small businesses privileged treatment in the shape of reduced fees and duties.

Examples for reduced fees are provided by some European regulations, notably the regulation for the registration of chemicals and the registration of medicines. There are also reduced fees and taxes for start-ups by young Romanian entrepreneurs.

#### **Reduced fees for student entrepreneurs in Romania**

Since early 2003, the Romanian government has charged reduced fees and taxes for students who want to create their own businesses (government decision No 166/2003, promoting and developing youth entrepreneurship in Romania). In particular, the following are reduced:

- tax and fees for registration at the National Office of the Trade Registry, tax and fees for assistance provided by the offices of the Trade Registry in connection with registration,
- tax and fees for the authorisation to operate,
- tax and fees for obtaining authorisation for carrying out certain economic activities,
- fees for the publication of the registration in the Romanian official journal and for the registration deed,
- stamp duty for the notary act required for legal documents.

#### **The Contribution Payment Centres in Bulgaria**

In Bulgaria, small enterprises with up to 50 employees (since 2006 — when the measure was introduced in 2001 it was restricted to businesses with no more than 10 employees) can transfer the administration of social security procedures and the payment of contributions to contribution payment centres (CPCs). Such centres can be set up by a minimum of five natural persons or legal entities. The CPCs are registered with the regional offices of the National Revenue Agency. They are obliged to inform the National Revenue Agency when their membership changes.

The centres relieve small businesses from regulatory and administrative burdens and ensure compliance with official regulations. They

- collect social security contributions and transfer them to the national social security institute (NSSI) in accordance with the Compulsory Public Insurance Code and the Health Insurance Act,
- pay compensation and aid on behalf of the NSSI,
- send electronic data on social security to the NSSI in accordance with the Compulsory Public Insurance Code,
- provide self-insured persons with insurance cards,

- draw up, keep and file the insurance cards and other documents required for the social security of their members,
- submit the documents required for the retirement of the employees of their members,
- present payment claims and proof of payments for certification by the NSSI
- keep all documents related to their members' social security,
- every year by the 25<sup>th</sup> of January they present to their members proof of the amounts transferred in social security contributions for the past year.

### 3.10. Early evaluation of regulatory impact on small businesses

Impact assessments are systematic and comprehensive investigations of the effects of planned (ex ante impact assessment) or existing regulatory acts (laws, decrees, etc.) on certain predefined indicators such as the quality of the environment, demographic change, gender equality, public health, etc. The purpose of an impact assessment is to draw a complete picture of all intentional and unintentional effects of a regulation, to estimate the costs of implementing the regulation, to gauge the effectiveness of the regulation and to analyse alternatives in order to arrive at a rational and fully informed decision whether to implement it. Impact assessments often attempt to quantify effects and sometimes even monetise them.

Where a full impact assessment is not possible for technical reasons, or where it does not appear proportionate, consultation of small enterprises and their associations can also provide important insights into the possible effects of new regulation and could also help to uncover ways how the regulation itself or its implementation could be modified in order to minimise negative effects on small businesses, as is done e.g. in **Luxembourg**, where the Chambre des Commerces and the Chambre des Métiers have to be consulted on any legislative proposal concerning small businesses.<sup>24</sup>

In the present context, the impact of regulation on the business environment and competitiveness of businesses is of interest. The assessment of such impacts may be carried out for businesses in general or can aim to identify the effects on different categories of businesses.

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<sup>24</sup> For more information see the report of the expert group "Consultation with Stakeholders in the Shaping of National and Regional Policies Affecting Small Business", October 2005.

### **The UK Small Firms Impact Test**

The Small Firms Impact Test (SFIT) is a mandatory requirement in the Regulatory Impact Assessment (RIA) process. The government's manifesto commitment in 2001 ensured that the 'think small first' principle would be followed in UK policy development. Applicable since 2003, the SFIT is intended to provide sufficient guidance for policymakers to confidently determine the impact on small businesses. Over 90% of all regulatory impact assessments now include a Small Firms Impact Test.

There are about 4.3 million enterprises in the UK — 99% of them small. Small enterprises and self-employed sole traders represent well over half of private sector jobs and make up 56% of UK turnover. In contrast, there are only 7000 firms employing more than 250 people. Small firms seldom have the time or resources to devote to responding to government consultations. Proportionally very few are members of associations. Moreover, the ability of small businesses to adapt to new or changed regulatory requirements is often limited. Good policy-making therefore demands that the impact of policy proposals on small businesses is fully considered before they are implemented. High compliance levels with new or changed requirements are unlikely to be achieved unless full account is taken of the practicalities confronted by small businesses. A “one size fits all” approach to regulatory or policy problems is often unlikely to be appropriate. The SFIT embeds the “*Think Small First*” principle, giving small businesses the chance to influence policy development in the early stages.

More information at:

[www.sbs.gov.uk/SBS\\_Gov\\_files/regulations/SmallFirmsImpactTest.pdf](http://www.sbs.gov.uk/SBS_Gov_files/regulations/SmallFirmsImpactTest.pdf).

Impact assessments are not only important in order to discover the possible general effects of new rules on small businesses. They could and should also be used to assess — before the implementation of new laws — how special measures to alleviate the burden on small businesses could be implemented right from the start.

### **Impact assessment in Sweden**

Since 1999, a small business cost compliance impact assessment has been used in Sweden for all policy areas that affect the conditions for small business. The impact assessment is based on twelve questions to be answered by regulators developing new or changed regulations. Most of these questions focus on the situation of small businesses:

1. What is the problem to be solved by the regulation and what happens if no regulation is introduced?
2. Are there any alternative solutions?
3. Which administrative or other measures must the small businesses take as a consequence of the regulation?
4. How much time does a small business need to comply with the regulation?
5. Would the regulation lead to additional costs in the form of wages, other expenses or stress for small businesses?
6. Could the regulation distort competition to the disadvantage of small businesses or otherwise decrease their competitiveness?
7. Will the regulation affect small businesses in any other aspects?
8. Is it possible to monitor compliance with the regulation, and how will the effects of the regulation on small businesses be observed and reviewed/scrutinised?
9. Should the regulation be in force only for a limited amount of time to prevent possible negative effects on small businesses?
10. Does particular consideration need to be given to small businesses in planning the entry into force of the regulation?
11. Are any special information measures needed?
12. How has the necessary consultation with business and the authorities concerned been carried out and what significant points of view have been expressed?

The checklist has been in use for about seven years. Independent regulators claim that the checklist has proved to be a valuable tool in taking into account the needs of small business early in the policy development process. Results of the assessments are published in the bills presented to Parliament.

The initial use of the checklist indicated that the restriction to new or changed regulations was not enough, so more initiatives were needed in particular to address the administrative burden of existing regulations. Since 2004, therefore, the efforts in this area have been reinforced by a rolling programme for the simplification and measurement of the administrative burden on businesses. The new Government has set an overall horizontal target for a reduction of at least 25 percent in administrative burdens by 2010, and a new action plan is under preparation.

A new impact assessment method, with a larger scope, is under development. However, the burdens and other effects on SMEs together with their competitiveness will remain a key issue.

#### 4. RECOMMENDATIONS

The models described in chapter 3 show what can be done and what is available in order to help small enterprises better cope with their regulatory burden. In addition, following an analysis of the examples, the group has drawn some more general conclusions as to how the regulatory environment for small businesses can be improved.

The recommendations are in the first place addressed to public administrations, law makers and regulators. Yet the group believes that they could also be of interest to other parties involved in better regulation, notably business organisations. For example, the group hopes that the good practice cases and recommendations will assist the representatives of businesses in playing an active part in consultation procedures and inspire them to contribute concrete and tangible proposals for improving the regulatory environment.

##### **1. Think small first. Embed this principle systematically in all policies that bear on businesses.**

After the political endorsement of the "think small first" principle at the 2006 Spring Council, this principle now needs to be applied by regulators throughout the public sector. Ideally, regulation — if necessary at all — should right from the start be designed so that even a small business can cope with it easily and efficiently without being greatly disadvantaged in comparison with larger companies that can employ specialists or procure help from external experts.

This implies that all regulation, after having passed a thorough test whether it is necessary at all, has to be limited to the minimum extent compatible with its effectiveness. Moreover, regulation has to be regarded from the point of view of the enterprise. For example: How will a business obtain the information it has to pass on to a public administration? Will a small business be able to comply with regulation without external help? Will new investment be necessary? Will it be necessary to reorganise internal processes, etc.?

In designing new rules it has to be considered whether they will entail an additional burden, adding to the cumulative compliance costs that businesses already have to bear due to older regulation. For many businesses, it is not the individual regulation that poses a problem but the sheer mass of rules and obligations.

## **2. Evaluate the particular impact of new rules on small businesses and systematically include an evaluation of special options for small businesses in impact assessments.**

(Ex ante) impact assessments and consultations should not only consider the general or average effects of new rules on businesses. The special problems of small businesses in dealing with regulation, which often result in relatively high compliance costs and a disproportionate distribution of the regulatory and administrative burden, should be systematically included in any impact assessment.

Regulation not only affects existing businesses. It can also constitute a barrier to new entrants into a market (and such newcomers are often SMEs) and to the creation of new businesses. This aspect requires particular attention from regulators when carrying out an impact assessment.

Moreover, impact assessments could also be used to judge how and to what extent special measures and models (such as exemptions, simplifications etc.) could be used to reduce the regulatory burden on small businesses: What would be the impact of a new regulation if small businesses were completely exempted? Could the purpose of the regulation be achieved if small businesses have to comply only partially or less frequently or in a simplified form?

All too often, special measures for small businesses are only introduced in the new regulation during the political decision-making process. It would be preferable to consider special rules right from the start: this could also reduce the uncertainty and apprehension of small businesses in the face of new regulation.

## **3. Make the simplification and improvement of the regulatory environment a permanent task.**

Impact assessments for new regulation are only the starting point for developing an administrative culture of permanent evaluation, simplification and improvement of existing regulation. In general, it is difficult to link the administrative and regulatory problems of small enterprises to individual pieces of regulation. It is the bulk of regulation, the interplay of different rules and the resulting complexity that pose the biggest problems for small businesses.

Therefore, existing regulation needs to be permanently evaluated: Is it still necessary? Is it still effective, adequate and proportionate? Are there new and better ways to achieve the same purpose at a lower regulatory cost to businesses?

#### **4. Exempt small businesses whenever possible. Use partial or at least temporal exemptions if a full exemption would defeat the purpose of the regulation.**

Exemptions are always called for when the purpose of a certain regulation can be achieved sufficiently without creating obligations for small businesses. The possibility to exempt small enterprises should be considered right from the start in designing new regulations. For example, the possibilities and effects could be considered in the impact assessment. Existing regulation should be screened in order to find hitherto undiscovered possibilities for exempting small businesses.

Many European directives allow Member States to exempt small businesses when implementing the directive. These possibilities should systematically be considered in the implementation process. In particular, Member States should refrain from taking the opportunity when implementing European law to “gold plate” the core rules with additional requirements for businesses.

Thresholds have to be defined in a clear and transparent way. A business should be able to see without specialised help if a certain regulation applies to it or not.

The thresholds for exemptions should be regularly checked in order to avoid businesses “growing into” obligations due to increases in the general level of prices.

In many cases, the full exemption of small businesses might not be possible. However, it might be sufficient if only a certain number of such businesses were covered by the regulation.

The exclusion of small enterprises can be considered on the basis of different criteria, e.g. region, economic sector or legal form. Where a simple criterion does not suggest itself, small business might be excluded on a random basis. To maintain fair conditions for the competition, a mechanism to change the businesses coming under the regulation at regular intervals could be envisaged.

#### **5. Simplify regulatory obligations for small businesses.**

In designing new or screening existing rules, the viewpoint of small businesses should be systematically considered. Formal requirements should be reduced as far as possible (where compatible with legal certainty). For example, telephone, fax and email communication between businesses and public administrations should be possible as alternatives to written communication. Communication channels should allow for businesses to take care of procedures “after hours”.

Rules and forms have to be drafted in a non-technical, comprehensible way. For forms that have to be filled in, explanatory guides should be available.

Especially where regulation is particularly complex (e.g. taxation), small enterprises should be able to opt for simplified standard procedures (e.g. simplified way of calculating taxable income).

Checks and audits could be replaced by self-declarations. Dates for different audits and inspections should be combined.

## **6. Introduce common commencement dates for all new laws, regulations and directives that bear on businesses.**

One of the biggest problems for small businesses and one of the major reasons for high compliance costs are frequent changes in the regulatory environment. Changes should therefore be kept to an absolute minimum.

New regulation that bears on businesses should be implemented on only one or two dates a year and always on fixed dates. Exceptions to such "Common Commencement Dates" (CCDs) should be strictly limited. (Such rare circumstances may include e.g. obvious emergencies, urgent anti-avoidance measures, measures to remove significant risks from businesses or instances where the costs of timing a measure to meet a CCD would be wholly disproportionate for the public purse and/or the business).

An annual statement should be available to businesses at the start of each year, detailing which regulations or directives will commence and when. The statement should contain links to guidance to ensure that businesses are informed well in advance (minimum 12 weeks) of the new regulation coming into force, e.g. by a "regulatory pipeline website" showing which rules are being prepared and the stage they are at.

This principle should be applied to all legislative and regulatory requirements affecting businesses at local, regional, national and European levels.

## **7. Give small enterprises enough time to adjust to new regulation.**

Legislation introduced quickly may not leave the owners of small businesses enough time to prepare, absorb and implement the changes. When a new piece of legislation is introduced, businesses should be given enough time to adjust to it.

Businesses and small firms in particular should be allowed sufficient time to prepare for the implementation of new legislation. Guidance on new legislation should be issued at least 12 weeks before the legislation comes into force. Moreover, since smaller businesses will often have more difficulties in complying with new rules, they could be given more time to adjust than the average or large company.

## **8. Provide unambiguous tailor-made information for small enterprises.**

Information regarding rules and regulation should be drafted in a clear and concise way. Communication specialists might be employed to ensure that the information is provided in the language of entrepreneur instead of the legal language of public administrations. Any exemptions, thresholds or specific issues for SMEs should be put “up front” in an “at-a-glance” format — making it easier for small businesses to understand and comply.

The information should be easy to find, and the planning of distribution channels should take into account how and where entrepreneurs usually look for information. For online information an obvious domain name should be used, which could also be publicised in special awareness campaigns. Ideally, all information should be accessible from one entry point in the public system (e.g. an internet portal).

The information provided should be structured from the point of view of an entrepreneur and should not simply reflect the organisation of public administrations. More than one information channel should be available. In particular, the entrepreneur should always be able to receive binding information on his/her particular case within a reasonable period (e.g. from help desks or one-stop shops). Standard information (brochures etc.) should always indicate where more precise information regarding individual cases can be obtained.

Good information is necessary. But good information does not replace good regulation. Simple, transparent and clear regulation comes first. An unclear form or a complicated procedure cannot be rectified by a five-page information leaflet.

## **9. Coordinate and streamline administrative activities (e.g. audits) and requests for information.**

Public administration processes should be coordinated and streamlined, with information shared in order to avoid enterprises having to comply with identical or similar obligations for different purposes. The same type of information should e.g. not be asked twice from an enterprise by different administrations when the information could be exchanged between the public bodies concerned.

Dates for different audits should be combined. Decisions on audits and similar procedures should rely on a risk-based approach. A comprehensive risk assessment should be the foundation of all regulatory enforcement programmes. There should be no inspections without a reason, and data requirements for less risky businesses should be lower than for riskier businesses. Resources released from unnecessary inspections should be redirected towards advice to improve compliance. Regulators should produce fewer, simpler forms, and data requirements, including the design of forms, should be coordinated and shared across regulators. When new regulations are being devised, regulators should already plan for an efficient enforcement.

## **10. Create one-stop shops for typical administrative/regulatory obligations.**

Typical examples for public coordination are one-stop shops for start-ups. Similarly, one-stop shops could also be created for certain activities such as employing staff (i.e. coordination of tax registration, registration for social security, accident insurance, medical check-ups etc.) or for investment purposes (procurement of different licences etc.).

Where a fully integrated one-stop-shop system is not possible, it can be helpful to establish a “one-window” or “one-contact” system, in which one public administration takes care of the coordination of all the various tasks. Ideally, the enterprise would have to deal with only one person representing the administration.

## **11. Give businesses the possibility to interact with government and take care of administrative duties electronically.**

As a matter of principle, all printed information (brochures, forms and explanations of how to use them) should also be available on-line. Yet the mere electronic availability of printable material is not sufficient, and the special opportunities that the electronic medium offers should be fully exploited. For example, businesses should be able to sign up to a (free) e-mail alert service when a regulation changes.

Electronic services can also be used to provide information that is more specialised and targeted to individual cases than brochures. Filter questions can eliminate information useless for the individual case in question. With filter questions that establish a particular profile (regarding e.g. size, sector, region, etc.), it is also possible to ensure that no important information is overlooked.

Apart from providing information, electronic services can be used for immediate compliance with obligations (such as filling in forms on-line etc.). This should always be as an alternative to other communication media. For small businesses electronic compliance should always be optional.

Electronic compliance mechanisms should use plausibility checks and electronic services should include a feedback mechanism to help improve the process.

The introduction of electronic services should always be considered as an opportunity for implementing simplification measures (e.g. shortening paper forms before they are converted into electronic form).

## **12. Consider reduced fees, faster service and similar forms of privileged treatment for small enterprises.**

The smaller the enterprise, the more problems it will have complying with certain regulation issues and the more disadvantaged it will be in comparison with larger firms. Special, more favourable treatment of small enterprises by public administrations could to some extent alleviate these difficulties. Possibilities to be considered include: longer adjustment periods for new regulation (see above), reduced fees, faster treatment (e.g. faster return of tax prepayments), “small in — first served” (instead of “first in — first served”), special advice programmes, special coaching and training in new rules, etc.

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## LIST OF EXPERTS

### **Belgium (Federal level)**

Mr Dannie Goossens  
Dienst voor de Administratieve Vereenvoudiging  
Hertogstraat 4  
B-1000 Bruxelles  
Tel.: +32 2 289 00 71  
Fax: +32 2 289 00 76  
[dannie.goossens@premier.fed.be](mailto:dannie.goossens@premier.fed.be)

### **Bulgaria**

Ms Vyara Andreycheva  
Head of Internal Control of Project Implementation Department  
Bulgarian SME Promotion Agency, BSMEPA  
1, Sveta Nedelya Sq.  
1000 Sofia  
Tel: +359 2 9329 279  
Fax: +359 2 980 58 69  
[v.andreycheva@sme.government.bg](mailto:v.andreycheva@sme.government.bg)

### **The Czech Republic**

Mr Jan Šoun  
Ministry of Industry and Trade  
Na Frantisku 32  
110 15 Prague  
Tel: +420 224 85 2208  
Fax: +420 224 85 3367  
[soun@mpo.cz](mailto:soun@mpo.cz)

### **Denmark**

Ms Signe Jensen  
Fuldmægtig / Head of Section  
Erhvervs- og Selskabsstyrelsen / Danish Commerce and Companies Agency  
Center for Kvalitet i Erhvervsregulering / Division for Better Business Regulation  
Kampmannsgade 1  
DK - 1780 København V  
Tel: +45 33 30 76 98  
[sij@eogs.dk](mailto:sij@eogs.dk)

### **Germany**

Mr Michael Schorn  
IWP Institut für Wirtschafts- und Politikforschung  
Strundener Str. 75b  
51069 Köln  
Tel: + 49 221 823456-0  
Fax: +49 221 823456-11

[m.schorn@iwp-koeln.org](mailto:m.schorn@iwp-koeln.org)

**Spain**

Mr Jesus Plaza Llorente  
Jefe de Área de Estudios y Análisis  
Ministerio de Industria, Turismo y Comercio  
C/Maria de Molina, 50  
28006 Madrid  
Tel: +34 91 545 08 64  
Fax: +34 91 545 09 10  
[jplaza@ipyme.org](mailto:jplaza@ipyme.org)

**France**

Ms Elisabeth Roure  
Ministère des petites et moyennes entreprises  
3-5, rue Barbet-de Jouy  
75353 Paris 07 SP  
Tel: 01 43 19 54 31  
Fax: 01 43 19 54 27  
[elisabeth.roure@dcaapl.pme.gouv.fr](mailto:elisabeth.roure@dcaapl.pme.gouv.fr)

**Ireland**

Mr Don O'Connor  
Department of Enterprise, Trade and Employment  
Earlsfort Centre  
Hatch Street  
Dublin 2  
Tel: +353 1 631 2735  
Fax: +353 1 631 2550  
[don.oconnor@enterprise-ireland.com](mailto:don.oconnor@enterprise-ireland.com)

**Italy**

Dott. Francesco D'Aprile  
P&D Consulting  
Via De Gasperi 278  
70125 Bari  
Tel: +39 080 5648544  
Fax: +39 178 270 1000  
[fdaprile@pedconsulting.it](mailto:fdaprile@pedconsulting.it)

**Cyprus**

Mr Konstantinos Christofides  
Assistant Director General  
Cyprus Employers & Industrialists Federation  
P.O. Box 21657  
1511 Lefkosia  
Tel + 357 22 665 102  
Fax: + 357 22 669 459

[cchristofides@oeb.org.cy](mailto:cchristofides@oeb.org.cy)

**Lithuania**

Ms Živilė Kriščiūnienė  
Head of Small and Medium Business Division  
Ministry of Economy  
Gedimino av. 38/2  
LT-2600 Vilnius  
Tel: +370 5 262 8813  
Fax: +370 5 262 ...  
[z.krisciuniene@ukmin.lt](mailto:z.krisciuniene@ukmin.lt)

**Luxembourg**

Ms Annick Hartung  
Attaché de Gouvernement  
Ministère des Classes Moyennes, du Tourisme et du Logement  
6, av. Emile Reuter  
L-2937 Luxembourg  
Tel: +352 478 4723  
Fax: + 352 478 4740  
[annick.hartung@cmt.etat.lu](mailto:annick.hartung@cmt.etat.lu)

**Hungary**

Dr. Márta Hegedüs  
Counsellor  
Ministry of Economy and Transport  
Honved u. 13-15  
H-1055 Budapest  
Tel: + 36 1 475 34 71  
Fax: +36 1 475 34 70  
[hegedus.marta@gkm.gov.hu](mailto:hegedus.marta@gkm.gov.hu)

**Austria**

Mr Stefan Trojer  
Oberrat  
Bundesministerium für Wirtschaft und Arbeit  
Stubenring 1  
A-1010 Wien  
Tel: +43 1 711 00-5782  
Fax: +43 1 714 2718  
[stefan.trojer@bmwa.gv.at](mailto:stefan.trojer@bmwa.gv.at)

**Portugal**

Mr Eduardo Augusto  
IAPMEI – Portuguese Agency for SMEs  
Ministry of Economy and Innovation  
Rua Rodrigo da Fonseca, 73  
1260-158 Lisboa

Tel: +351 21 383 6000  
Fax: +351 21 383 6234  
[eduardo.augusto@iapmei.pt](mailto:eduardo.augusto@iapmei.pt)

**Romania**

Ms Florentina Ionescu  
National Agency for SMEs and Cooperatives  
11, Poterasi Street Sector 4  
021156 Bucharest  
Tel: +0040 213361451  
Fax: +0040 213353413  
[florentina.ionescu@mimmc.ro](mailto:florentina.ionescu@mimmc.ro)

**Slovakia**

Mr Juraj Majtan  
Nominated by the Slovak Entrepreneur Chamber  
Profesor.sk, Inc.  
Sturova 8  
811 02 Bratislava  
Tel: +421 2 529 62 511  
Fax: +421 2 526 38 189  
[majtan@profesor.sk](mailto:majtan@profesor.sk)

**Sweden**

Mr Henrik Wingfors  
Ministry of Enterprise, Energy and Communications  
SE-103 33 Stockholm  
Tel: +46 8 405 2703  
Fax: +46 8 543 560 41  
[henrik.wingfors@enterprise.ministry.se](mailto:henrik.wingfors@enterprise.ministry.se)

**United Kingdom**

Mr Andy Harrison  
Assistant Director  
Small Business Service  
Bay 189, 1-19 Victoria Street  
London SW1H 0ET  
Tel: +44 20 7215 6032  
Fax: +44 20 7215 6768  
[andy.harrison@dti.gsi.gov.uk](mailto:andy.harrison@dti.gsi.gov.uk)

**Norway**

Mr Arild Tyse Helland  
Ministry of Trade and Industry  
P.O. box 8014 Dep  
NO-0030 Oslo  
Email: [arild.helland@nhd.dep.no](mailto:arild.helland@nhd.dep.no)

**Turkey**

Mr Serkan Cakir  
Union of Chambers and Commodity Exchanges/  
Türkiye Odalar ve Borsalar Birliđi  
Atatürk Bulvarı No:149 06640 Bakanlıklar  
Ankara  
Tel: +90 312 413 83 13  
Fax: + 90 312 425 14 22  
[serkan@tobb.org.tr](mailto:serkan@tobb.org.tr)

**European Commission**

Mr Thomas Jaegers  
DG Enterprise and Industry  
European Commission  
B-1049 Brussels  
Tel: +32 (0)2 29 91587  
Fax: +32 (0)2 29 66278  
Email: [Thomas.Jaegers@ec.europa.eu](mailto:Thomas.Jaegers@ec.europa.eu)

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