



Kafka works:

Reducing red tape in Belgium

Electronic Billing: functioning and advantages – CERTIPOST
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Agenda

- I. Kafka: a unique approach to reducing red tape
- II. Kafka works: facts and figures
- III. Case: VAT directive in practice
- IV. Conclusion



I. Kafka: a unique approach to reducing red tape in Belgium



Unique approach to reducing red tape

- Better regulation hot issue on the political agenda everywhere
 - EU Commission decision to repeal 68 pending legislative initiatives (incl. Directive on uniform opening hours)
- However, approach usually theoretical, vague and formal
 - Often only formal adaptation of legislation (codification & coordination)
 - Too much focus on general reports, analyses
 - Unclear political responsibility



Unique approach to reducing red tape

- Belgium opted for a different approach:
 - 12 reform projects in Belgian Coalition agreement July 2003: focus on tangible simplifications for citizens and entrepreneurs
 - Appointment of a full-time political decision-maker

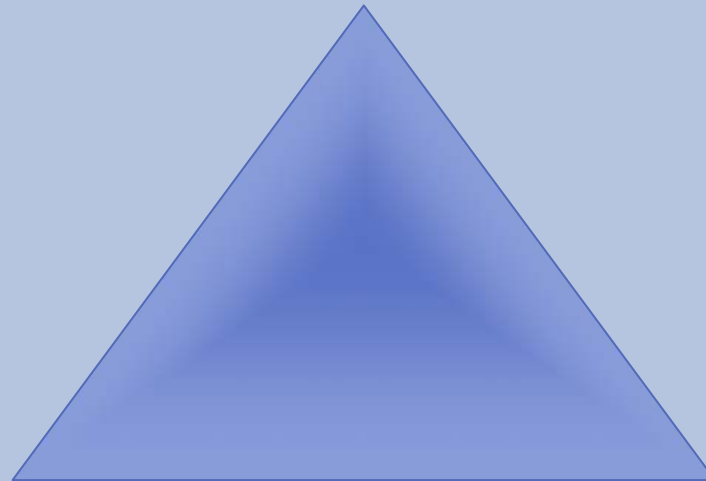


Cutting red tape in practice

KAFKA = THE SOLUTION

Kafka contact point:

in touch with day-to-day problems
via the website www.kafka.be (> 15000 suggestions)



Kafka measuring model:

exact calculation of benefit of reform
and cost of proposed new regulation

Kafka test:

screen and simplify new
regulations

Result = sustainable + in-depth regulatory reforms



II. Kafka works: facts and figures



Kafka works: facts and figures

In 2003:

- 9 billion euro (3,4% GDP) of administrative costs for companies
 - Over 40% of these costs are directly related to EU regulation

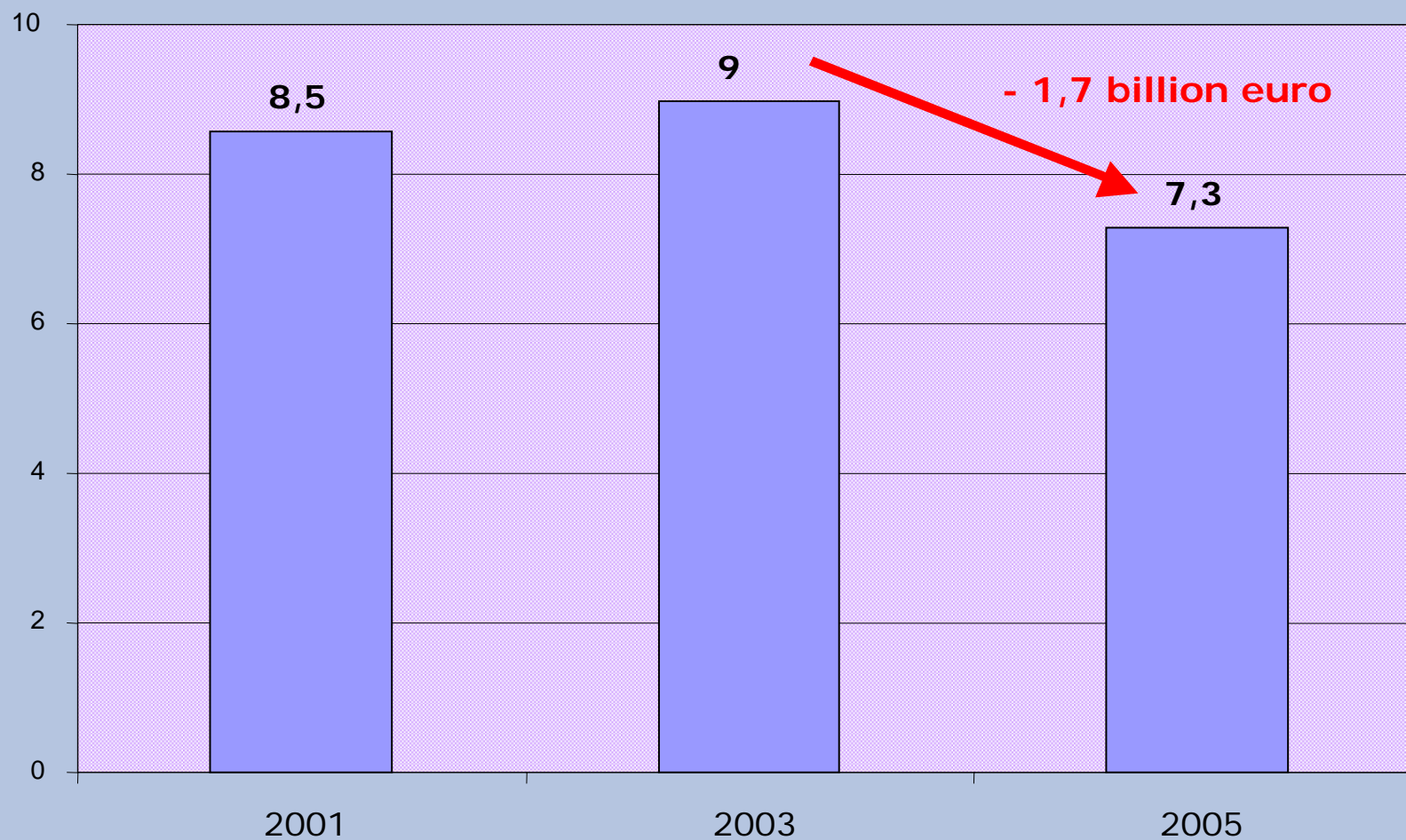
In 2005:

- 2 years of action against red tape:
 - Administrative burden for businesses **reduced by 25%**, a reduction of 1.7 billion euro between 2002 and 2004
 - Administrative burden in Belgium now lower than in the Netherlands and in the United States
 - Regulatory reforms have boosted entrepreneurship: +20% start ups between 2003 and 2005



Kafka works: facts and figures

Administrative burden in billion euro



Source: Federal Planning Bureau



Kafka works: facts and figures

- Execution Kafka plan:
 - **2/3 of Coalition agreement executed** beginning of 2006 (8 out of 12 Works), including:
 - Work VIII: elimination of certification notes for federal public procurement
 - Work X: single identification number for enterprises (thanks to the Crossroads Bank for Enterprises)
 - In addition, **nearly 140 tangible simplifications carried through**, including:
 - Electronic identity card and unique identification number
 - introduction Dimona and DMFA (thanks to the Crossroads Bank for Social Security)
 - number of days to start up a business reduced from 56 to 26
 - elimination of paper accounting books
 - simplification publication of notice to shareholders' meeting



Kafka works: facts and figures

- Top 3 cost reducers:
 - elimination of paper accounting books
 - simplification of notice to shareholders' meeting
 - e-invoicing
- Potentially most important (administrative) cost reducer is e-invoicing:
 - If every invoice is handled electronically = cost reduction of 3.051.516.507 euro

Cost per paper invoice	Cost per e-invoice
4 euro	1 euro

- Therefore: government must take measures to encourage and promote e-invoicing



III. Case: VAT directive and Belgian practice



Case: VAT directive and Belgian practice

- Europe:
 - Directive of 20 December 2001
 - Goal:
 - Harmonise, modernise and simplify legislation relating to invoicing and VAT
 - Reducing (administrative) costs relating to processing and archiving of invoices of up to 75%
 - Flexible framework regarding format
 - EDI (Electronic Data Interchange)
 - Electronic signature
 - Or: third way (agreement among companies)
 - But: authenticity and integrity of procedures must be guaranteed



Case: VAT directive and Belgian practice

- Belgium:
 - Originally certain hurdles were introduced in 2004
 - Third way needs to be approved by Minister of Finance;
 - Restrictions on self-billing;
 - Prohibition to scan and store invoices electronically;
 - Restrictions related to storing invoices outside EU;
 - Storage period of 10 years whilst prescription period of 7 years
 - Domestic “add-ons” (goldplating) reduce the effects of harmonisation and increase costs for Belgian companies and multinationals with Belgian activities



Case: VAT directive and Belgian practice

- We have introduced certain amendments to lower administrative costs (in effect as of 2006):
 - Authorization for companies to scan and store original paper invoices electronically
 - Especially important for smaller companies
 - Reduction of overall cost of EUR 0.78 per invoice
 - Reduction of storage period from 10 to 7 years
- In addition, a circular is in preparation by the Finance Federal Public Service
 - Aimed at creating legal security for companies and third party providers of authentication services
 - Specifying generic conditions for 'third way' e-invoicing mechanisms



IV. Conclusion



Conclusion

- E-billing has the greatest potential (administrative) cost reduction for businesses and government should actively promote its adoption:
 - Reduction of storage period
 - Authorization to scan and store digitally
 - No exclusion of new and innovative “third way” electronic invoicing
 - If needed, create legal security through concise and transparent government circulars
- Lessons learnt from VAT Directive-case:
- Success factors for transposition of EU directives to Belgian law
 - No gold plating
 - Efficient and effective conversion
 - No ‘adding on’ by local government agencies
 - Using Kafka-test before introducing new regulation or transposing EU Directives