Business Inspection Reform in Lithuania

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About Lithuania

Population: 3.2 million
GDP 2011: 30.7 bn EUR
GDP growth rate: 5.9%
State budget 2011: 6.9 bn EUR
Global Competitiveness rank: #44 (out of 142)
Ease of Doing Business: #27 (out of 185)
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Introduction and goals
Why we need to change?

1. Burden on businesses

- Does not comply with rule No. 1855 on page No. 390 of regulation No. 612
- Regulations are excessive and complex
- Surprise inspections without prior notice
- Difficult to find information & consistent consultations
- Large number of inspections: **150 000** visits per year – or 60% of all businesses
Why we need to change?

(2)

Room for effectiveness

Evaluation based on number of violations found & sanctions imposed

Lack of focus on risks

Not possible to inspect every detail — Inspectors’ subjective views on what to check

Lack of collaboration between institutions

956 violations found

1492 violations found

1023 violations found
The reform was initiated and is coordinated by two ministries:

- Rimantas Žylius  
  Minister of Economy

- Remigijus Šimašius  
  Minister of Justice
First step — end of 2008

Programme of the Government of the Republic of Lithuania
(approved by a Resolution of the Parliament of Lithuania, December 9, 2008)

Goal: to reduce the number of business supervisory institutions.

Take No.1
Results of the consolidation of institutions in 2010-2012 – minus 10

The number of business supervisory institutions was reduced:

16 institutions were merged into 6.

There are 60 remaining business supervisory institutions.
Take No. 2

- To reduce the burden on business
- To improve the efficiency and transparency of business supervisory institutions
The slogan for the reform:

“From punishment to advice”
Law on Public Administration

Principles of Supervision
1) a burden of minimum and proportional supervision
2) non-discrimination
3) planning;
4) publicity;
5) provision of methodological assistance;
6) functional separation

Providing Consultations to Business

General rules on inspection

The criteria of the evaluation of activities of supervisory institutions and officials

Only one new chapter on business supervision (June 22, 2010)
Resolution on the Optimization of Supervision Functions Performed by Inspectorates

No 511            May 4, 2010

- Supervision Guidelines formulated and confirmed
- List of business supervisory institutions compiled
- Committee of Experts formed

First ever!
Committee of Experts

The 9 largest inspectorates, along with the Reform Team, created a panel for sharing experience and forming examples of best practices.

- Fire and Rescue Department (PAGD)
- State Labor Inspectorate (VDI)
- State Non-food Product Inspectorate (VNMPD)
- State Food and Veterinary Service (VMVT)
- State Tax Inspectorate (VMI)
- Road Transport Inspectorate (VKTI)
- State Public Health Service (VKTI)
- State Territorial Planning and Construction Inspectorate (VTPSI)
- Environmental Protection Agency and Regional Environmental Protection Departments under the Ministry of Environment (AAA)
Tools
Tools

1. Declaration on the First Year of Business
2. Business-friendly checklists
3. Uniform telephone consulting
4. Risk based planning
5. Managing insignificant irregularities
6. Measurement of inspection performance
7. Consolidation of IT
1. Declaration on the First Year of Business

Sir, it’s my first day…

Penalty for violating safety requirements

- To improve the business environment
- To promote job creation
- To help understand that businesses, especially small ones, need advice, not sanctions, during the first year
- To allow more business growth - during the first year of business, sanctions/punishments are not applied
- To promote good behaviour instead of simply punishing
In September 2011, the Declaration on the First Year of Business was signed by the 9 largest business supervision institutions; 34 others later joined.

The main objectives of the Declaration:

- To not apply sanctions/punishments during the first year of business;
- To determine the appropriate time for correcting violations;
- To allocate resources for advising and providing guidance during companies’ first year of operations.
2. What is a checklist?

A checklist is a document which consists of explicit questions that reflect the key requirements of the law. The inspector asks questions from the checklist while performing an inspection.

- A business owner can download checklists from www.versloartai.lt
- Business owners can be sure that they will not receive a fine if the requirements listed on the checklist are met
- More transparent inspection

No question – no fine !!!!
2. Checklist preparation progress

December 2011
7 checklists

April 2012
39 checklists

October 2012
66 checklists for various business activities
From October 2012
62,000 inspections (41%)
3. Uniform consultation by telephone

There was a need for uniform telephone consulting lines, where conversations are recorded and the business supervisory institution **assumes responsibility** for the advice given.

But the last consultant said **X**, and the consultant before him said **Y**!!!

The correct answer is **Z**.
Supervisory authorities must ensure that businesses receive the same consistent advice on issues falling within the competence of the supervising authority.

Therefore, a practice of uniform telephone consultation is being established. So far, 6 institutions have “call centres”:

- State Tax Inspectorate (since April 2006)
- State Food and Veterinary Service (since October 2011)
- State Consumer Rights Protection Authority (since December 2011)
- State Labour Inspectorate (since January 2012)
- State Non-Food Product Inspectorate (since March 2012)
- Territorial Planning and Building Inspectorate (since June 2012)
4. Risk-based planning

- The problem: low-risk companies get inspected often, while inspectorates struggle to perform all of their inspections.

- Resources and attention should be concentrated on critical objects.

- Risk-based inspection systems provide assistance in effectively choosing risky companies and performing supervisory functions.

- In 2011, guidelines on risk-based supervision were prepared.
Risk-based supervision

- Supervisory institutions are to introduce risk management systems, i.e., organizational and technological means for categorizing businesses by their degree of risk, thus allowing institutions to plan the frequency of inspections and other supervisory means.

- Risk-based supervision:
  - Helps eliminate the most dangerous, large-scale violations
  - The institution’s resources are used most efficiently, without being wasted on random activity
  - Supervisory actions are transparent, well founded and proportional to the scope of the violation
  - The bulk of the supervisory burden falls on the most frequent and egregious violators
5. Insignificant violations

It’s too narrow. It should be 2 millimeters more.

To punish or not to punish?

What if 1 mm?
4 mm?
Or 10 mm?
5. Insignificant violations

- On 2012-07-11, the **Memorandum on Minor Labelling Discrepancies** was signed.

The State Non-food Product Inspectorate, the State Food and Veterinary Service and the State Plant Service have signed this Memorandum.

- Some institutions (e.g., Labour, Territorial planning) have enacted simplified complaint investigation procedures.
Institutions have started being assessed according to pre-defined performance measures (indicators) related to the degree of reform implementation. The aim of this measurement is to:

- Ensure that the goals of the institution are clear match the expectations of businesses and the public

- Identify activity priorities, especially consulting, risk-based supervision and checklist use

- Guarantee a reallocation of resources to high-priority areas of activity

- Ensure the transparency of institutional performance

“Tell me how you measure me, I will tell you how I will behave”
E.M. Goldratt (TOC)
7. Consolidation of IT

Creation of a common inspection management IT system

56 institutions
The need for consolidating information systems

- Data exchange between various institutions is vital for effective inspection, planning and evaluation, especially for risk management systems.

- Processes and data from supervisory institutions about businesses are essentially the same (identification of businesses, data needed for inspections, inspection and complaint investigation results, etc.).

- Each supervisory institution, regardless of its size and the scope of its inspections, acquires, implements and develops different information systems, which complicates data exchange.

- Under construction…
68% of businesses interviewed this year say inspectors’ attitudes have improved
Keys to success and challenges
Difficulties we are facing

- A gulf between supervisory institution’s leaders and inspectors: the goals and means of reform do not easily reach inspectors also in remote towns and villages.

- No significant reduction of the number of inspections (in 2011, 60% of businesses were inspected)

- Though we have obligated institutions to adopt goal-based performance indicators, they are not yet reaching their intended recipients; institution heads and their ministries are not still using them.
Difficulties we facing

- “Inspectorates want to punish, they think they are obliged to punish”
- No bottom up approach – inspectorates still are not actively using the reform as a vehicle to solve their problems.
- We are currently working with the 9 institutions that conduct the most inspections, but the reforms are having difficulty reaching the other 51 supervisory bodies.
Keys to success

- Top-down but soft measures. Guidelines, expert meetings, education of inspectors and heads.
- No expressed intent to deregulate on our side - inspectorates and sectorial ministries do not feel threatened.
- Two ministers heading and coordinating the reform.
Keys to success

- Existing differences among inspectorates exploited successfully.
- Clear goal. Adaptive and dynamic choice of tools.
Thank you for your attention

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