

## **Reducing Red Tape and the Administrative Burden on SMEs**

The regulatory and compliance burden poses a serious problem for small businesses in particular. This is mainly due to the fact that SMEs lack the necessary resources to understand and respond to the myriad of regulations imposed by government. The disproportionate impact on small firms is especially important given that SMEs are a critical driver of the Canadian economy and firms with less than 50 employees account for 97% of companies in Canada.

The costs of complying with regulations represent a significant proportion of overhead expense and net margin. Cumbersome red tape, lengthy processing times for approval and complex reporting obligations mean that companies must expend valuable time and resources on understanding and meeting technical requirements, and that many must even hire external consultants just to administer the associated paperwork. As a result, companies have fewer internal resources to finance investments in assets, knowledge and innovation. In other words, all of this adds up to less time and resources for investing in the business.

The lack of clarity, when it comes to accessing information and assistance, results in frustration for many companies as there is difficulty in identifying who does what in government, and finding the most appropriate individual(s) who can provide concrete answers. The problem is further compounded by the strict approach to compliance taken by many officials. We need to shift from zero tolerance, process focused enforcement to an outcome sensitive approach. And in enforcement there needs to be a clear accountability framework for regulators. At the moment, it is business which must absorb the costs in the process focused approach; and there is no down side for regulators when their actions create delay, confusion and/or contradictory instruction for a regulated company.

Another challenge is that most government agencies lack dedicated client-outreach bureaus and substantive private sector participation in the policy-making process. Accordingly, regulations are usually based on policy derived from line ministry or bureaucrat direction, with almost no input from business.

There is an immediate need for change as Canadian businesses spend significant amounts each year adhering to regulations. In addition, there is significant risk that regulatory problems will get worse if action is not taken in a timely manner.

Reducing the compliance burden will require concerted action to pinpoint and eliminate existing irritants that have a clear detrimental effect on growth, competitiveness and innovation. To succeed, the commitment to cut red tape needs to be top of mind in government, driven by the Prime Minister's office. Therefore, creation of the Red Tape Reduction Commission, which aims to work to reduce the burden of federal regulatory requirements on Canadian enterprises, especially SMEs, is a welcome and positive development. It is key that this important initiative be allowed to follow through on its plan of action in order to help ensure SMEs can grow, prosper and create jobs without being continually impeded by unnecessary government regulations.

The stated goals of the Red Tape Reduction Commission are to: 1) identify the top irritants facing business, and 2) devise permanent solutions focused on systemic changes that measure, control, and reduce the compliance burden on an ongoing basis.

In carrying out its work, the Red Tape Reduction Commission will need to recognize certain clear principles and guidelines concerning red tape and SMEs. It will be important to "think small first" where the owner/operator is responsible for compliance along with all other aspects of the business. Information already available within the administration should not be requested (except for updating purposes). Single points of contact through which businesses can obtain all relevant information and complete all necessary procedures by electronic means need to be established. Before a potential

regulation is drafted, the process needs to be communicated, defining the objective, cost of compliance (to business and to the taxpayer), who is accountable and where feedback will be housed. A sunset clause should be considered. Those businesses /sectors impacted need to be consulted and changes not made, especially with cost considerations, without appropriate notice. Lastly, determine if it will replace an old regulation or if it will be an add-on, and why? A new regulation that aligns with one already in place in a province/ municipality may not still be required. Always test whether compliance is reasonable and define what happens if it is not.

### **Recommendations**

That the federal government: reduce SMEs' compliance burden and costs by:

1. Providing a more efficient business-government interface such as "one window" access online to a myriad of government services , and
2. Implementing, in an aggressive timeframe, the recommendations of the Red Tape Reduction Commission

**Submitted by the SME Committee**