



Concept and Practice of the Regulatory Guillotine™

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Economic growth and USAID interventions

- Systemic: seeking large and systemic impacts
- Catalytic: set in motion an expanding reform program



Many governments have lost control of their regulatory functions

- Regulatory systems are fragmented, decentralized, captured and resistant to change
- Who regulates? How much?
 - ◆ Kenya: Estimated 300 licenses in 2005...found 1,500 in 2006. 178 regulatory bodies.
 - ◆ Moldova: Est. 400-500 business regulations... then found 1,300
 - ◆ Croatia: Identified 300 procedures – then found almost 1,500 from 68 regulators
 - ◆ Egypt: Est. 30,000 to hundreds of thousands of decrees
- Reforms aimed at single rules will never catch up with the capacities of governments to create regulations .
- Regulatory reform is clearly a systemic issue.



Survival Strategy for Open Economies

No ideal regulatory model, but....

Success as an open, innovative, competitive economy requires a

low-cost, low-risk regulatory system

that also

**reduces health, safety, and environmental risks
and protects other public interests**

Cost and risks ↓ Compliance with rules ↑

Four Main Regulatory Reform Tasks

- Picture the regulatory system as a swimming pool
- To create a healthy, clean pool for businesses you must:
 - ◆ **Clean** the water in the pool (the regulatory stock)
 - ◆ **Filter** new water coming into the pool (the regulatory flow)
 - ◆ **Maintain** the pool infrastructure (institutions)
 - ◆ **Ensure that someone is responsible** for keeping the pool clean (regulatory quality control)





OECD Agenda for low-cost, low-risk regulation: Tools of Regulatory Reform

I. Build a regulatory management system

- ◆ Strategic medium-term regulatory reform policy (5 years)
- ◆ Engines of reform at the center of government

II. Build the institutions to carry out good regulation

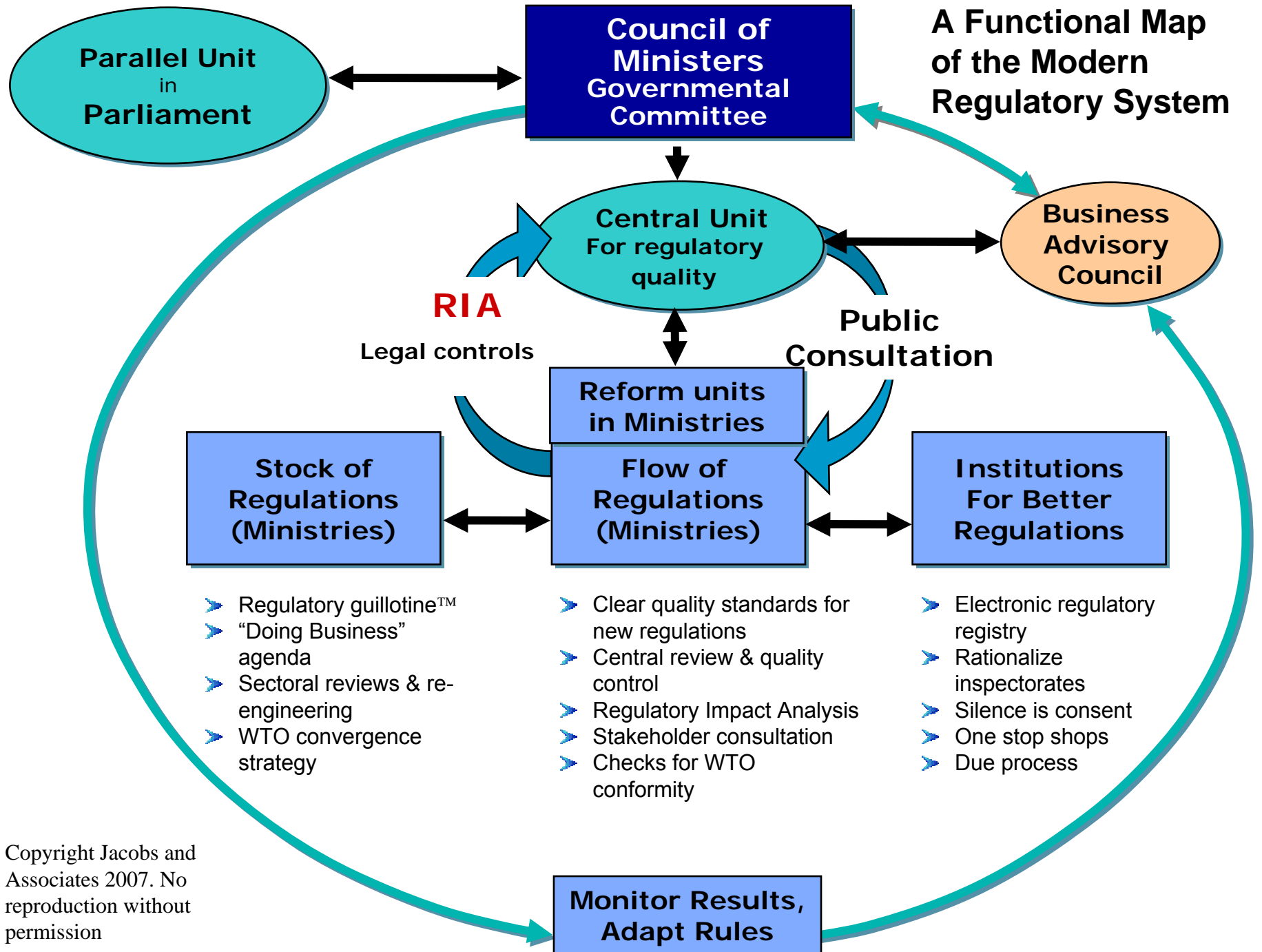
- ◆ Inspections reforms
- ◆ Due process
- ◆ Online regulatory registries

III. Improve the quality of new regulations (flow)

- ◆ Regulatory Impact Analysis (RIA)
- ◆ Stakeholder consultation
- ◆ Central quality checks

IV. Upgrade quality of existing regulations (stock)

- ◆ Targeted deregulation, simplification, codification (Doing Business)
- ◆ Broad-based reforms (**Regulatory Guillotine™**)





What is the Regulatory Guillotine™?

- A national commitment to large-scale regulatory simplification to support economic growth and competitiveness
- An orderly, careful, and transparent process:
 - ◆ Rapidly counts and reviews a large number of regulations against simple market filters.
 - ◆ Eliminates regulations not needed and simplifies regulations that are too complex.
 - ◆ Moves rapidly – from start to finish in 12-18 months.
 - ◆ Creates foundation for sustained reforms.

Results of the Regulatory Guillotine™

	Type of review	Target of Reform	Number of regulations before cleanup	% of regulations eliminated in the reform	% of regulations simplified in the reform
Korea <i>(11 months)</i>	Legality, Need	Regulations	11,125	48.8%	21.7%
Mexico <i>(9 months)</i>	Legality, Need	Formalities	2,038	54%	27%
Moldova <i>(6 months)</i>	Legality	Regulations	1,130	44.5%	12.5%
	Legality	Fee-based Permits	400	68%	20.3%
Ukraine <i>(12 weeks)</i>	Legality	Regulations	14,000	36 %	7.2%
Bosnia /RS <i>(4 months)</i>	Legality, Need	Formalities	331	21.1 %	22.7 %
	Legality	Inspections	2,473	58%	-
Croatia <i>(9 months)</i>	Legality, Need	Business Regulations	2,683	27% (leg pending)	28% (leg pending)



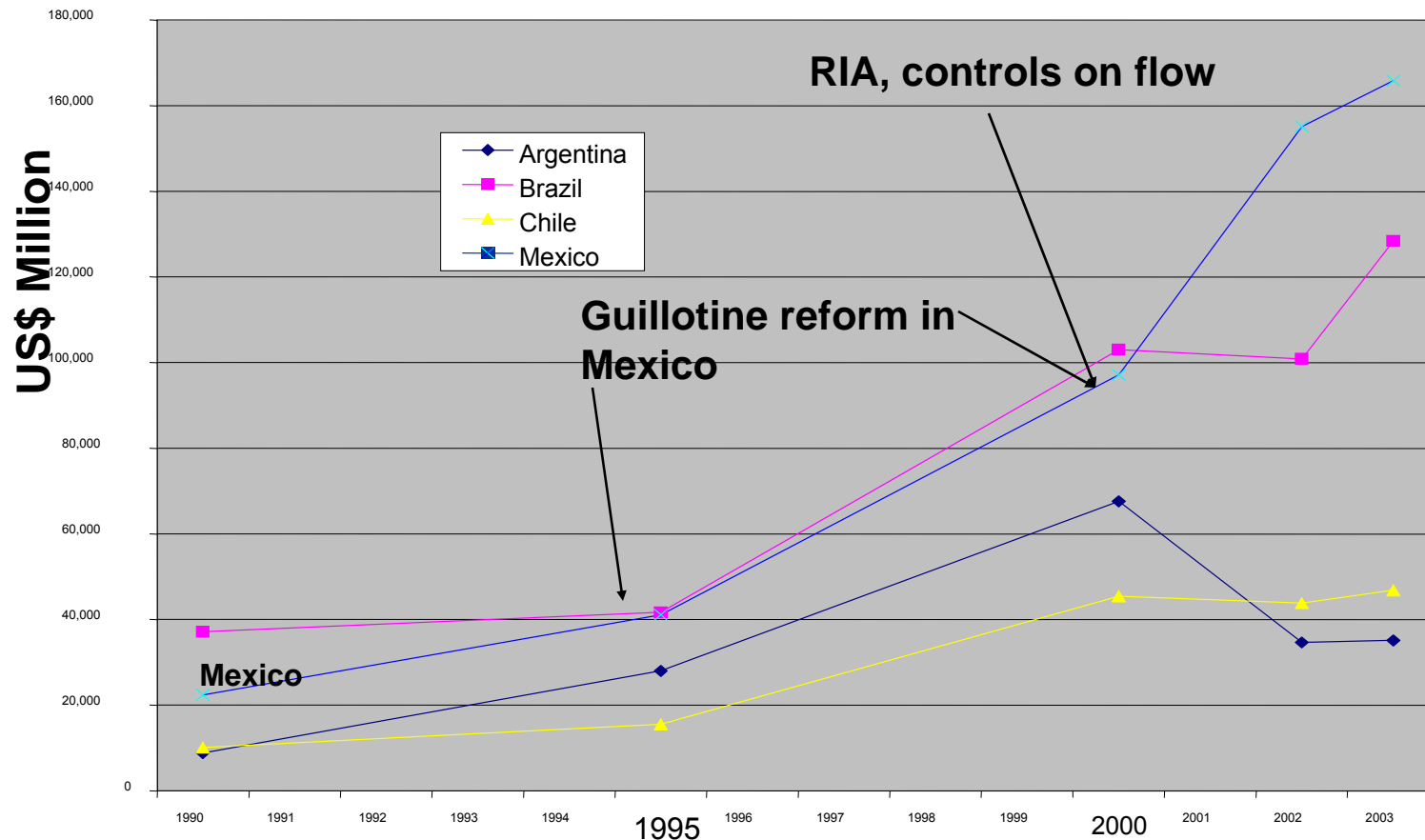
Economic Impacts of the Korea Guillotine

Created Jobs	1,066,200
Reduced Public Burden	18.7 trillion won (4.4% of GDP in 1997)
Reduced Government Costs	590 billion won
Increased Foreign Direct Investment	\$36.5 billion extra FDI over 5 years

All numbers are projections. Source: Byung Ki Ha(1999), The Economic Effects of Korea's Regulatory Reform (in Korean), KIET



Absolute level of Inward FDI Stock for Selected Latin American Countries 1990 - 2003



Source: UNCTAD, World Investment Report 2004.

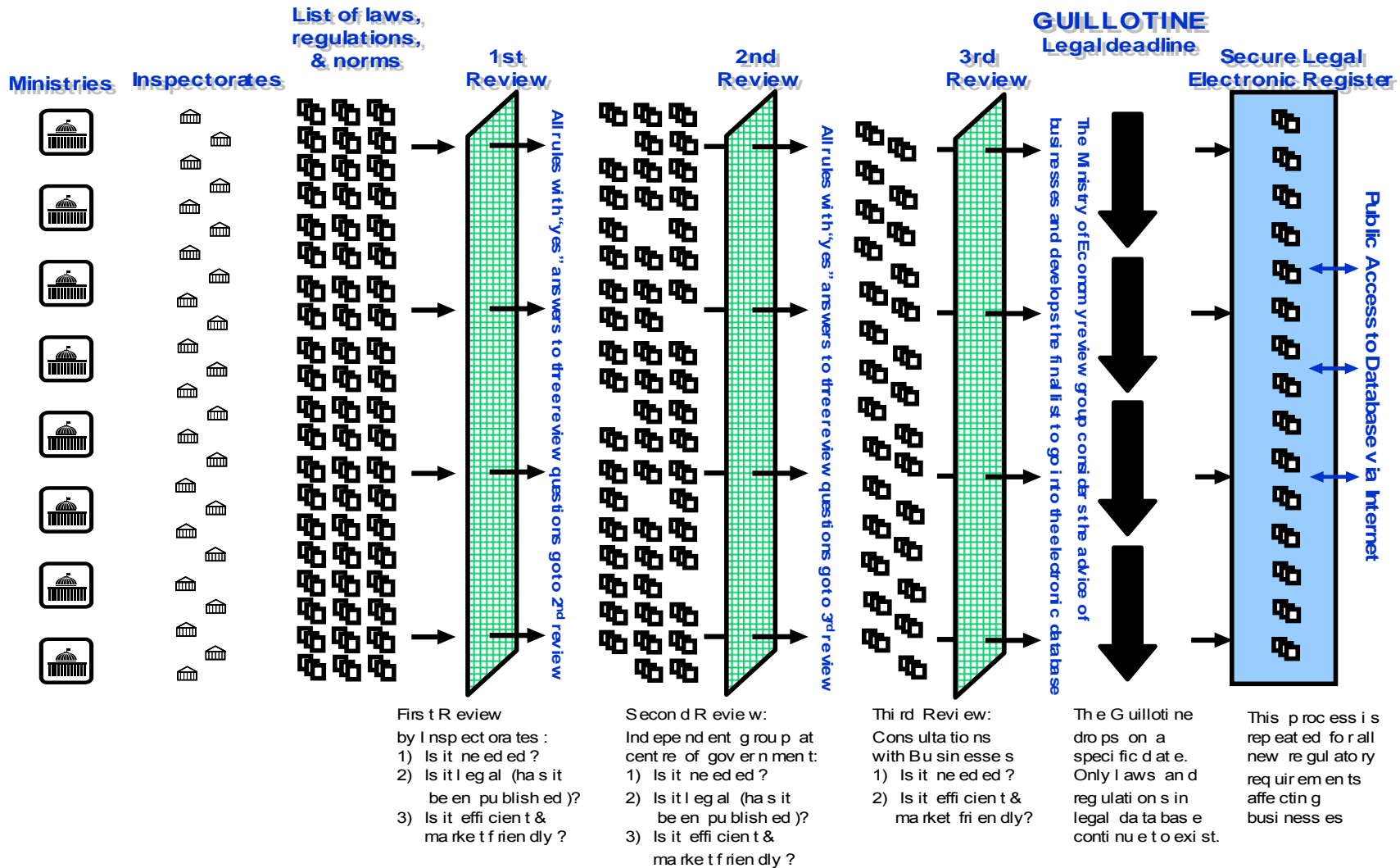


How does the regulatory guillotine operate?

- A central unit – the independent guillotine unit – is created to oversee the whole process.
- Ministries first count all their regulations and the central unit puts them into a database.
- Each regulation is reviewed 3 times against the core criteria:
 - Is it legal?
 - Is it needed?
 - Is it business friendly?
- The first review is by the ministries themselves.
- The second review is by the guillotine unit
- The third review is by business associations.
- Only regulations that are clearly justified as legal, needed, and business friendly are maintained. All others are deleted or simplified in a single reform package prepared by the guillotine unit and adopted by the Cabinet or Parliament.
- Surviving regulations are placed into an online Regulatory Registry



The Guillotine Strategy to Rapidly Reform Existing Regulations





Eight “building block” strategies of the guillotine

- **Political strategy** to create and sustain a supportive political coalition;
- **Legal strategy:** a formal legal mandate and fast legal revisions
- **Administrative strategy** to establish the guillotine unit and the process of the inventory and review
- **IT strategy** to ensure that the document management is adequate, and that the eRegistry is well-designed and credible
- **Analytical strategy** to measure the concrete results (the cost-savings) of the reform
- **Communications and consultation strategy** to enlist the assistance of key stakeholders throughout the process
- **Monitoring and implementation strategy** to ensure that the legal changes are translated into action by inspectors
- **Sustainable change strategy** to institutionalize the regulatory quality processes



A flexible tool: options for scope of the guillotine

Guillotine works best across multiple institutions:

- One ministry (very limited impact – not recommended)
- Core group of selected ministries (Egypt)
- All ministries (Mexico, Vietnam)
- All ministries and institutions that regulate the business sector (full national reform) (Korea, Croatia)

AND/OR

- Regional level or major municipality

Scope across legal instruments

- Laws
- Government Decrees (PM and Minister Decrees)
- Licenses
- Formalities and procedures

Scope across reference groups

- Focus on Business Regulations
- Focus on Regulations on Citizens



What is the independent guillotine unit and ministerial units?

The central unit is:

- Created by law or decree, and responsible to the Government
- Autonomous and separate from the ministries being reviewed
- Charged with overseeing the reform and ensuring that it is completed on schedule
- Responsible for helping the ministries carry out the inventories and reviews
- Headed by a Director or Commission
- Staffed with lawyers, economists and business experts

Ministerial units are:

- A responsible coordinator for each Ministry
- Small teams established in each Ministry dedicated to carrying out the inventory and review process



What is the role of business associations?

- Business associations and other stakeholders will have a chance to comment on every regulation included in the guillotine
- Each regulation will be placed on the Internet for comment
- Participating business associations will organize their members to provide high-quality feedback on regulations
- The guillotine unit will take into account all comments received in making its final recommendation



What is the eGuillotine?

- In sensitive, legally-precise, and dynamic projects like the Regulatory Guillotine that deal with potentially tens of thousands of documents and other types of information, such as emails and scanned forms, good process management is needed.
- eGuillotine™ document management software provides project teams with a tool for:
 - ◆ efficient control of project processes and monitoring of team performance;
 - ◆ archiving of documents and information in different formats;
 - ◆ assuring transparency for the public through an integrated content management system.
- Speeds up the reform, improves results, and reduces overall costs.
- Precision in management is important when legal documents are being reformed

Communication plan is essential

- The guillotine must work with maximum transparency
- A public communications and media campaign is needed:
 - ◆ Media strategy
 - ◆ Press conferences
 - ◆ TV spots
 - ◆ Website
 - ◆ National hotline





What is the eRegistry?

- A central on-line registry of regulations and forms affecting businesses for participating ministries
- Complete, containing laws, ministerial decrees, and administrative decrees
- Available free of charge on the Web
- Easily accessible so that businesses can determine which regulations exist, and which do not
- Maintained over time as new regulations are adopted



After the Guillotine: MOMENTUM for sustained reform

- Guillotine is a catalyst mobilizing reform energies
- Sustainable approaches to regulatory quality were adopted in phase 2
 - ◆ Moldova: Law on Basic Principles Regulating Entrepreneurial Activity (2006)
 - ◆ Ukraine: Examining improvements to 2003 Regulatory Policy Law
 - ◆ Kenya: Drafting (2007) new regulatory policy law
 - ◆ Croatia: Drafting (2007) regulatory impact analysis law

“...a fast-track approach that can deliver short-term results (the “guillotine approach”). This combination of simplicity and speed, and the results already achieved, provide a relatively promising foundation for the reform, **and for using its achievements as a stepping stone for further regulatory reforms.**”

Business Licensing Reform: A Toolkit for Development Practitioners, World Bank, 2006



Reactions from Donors

- “Evidence compiled to date suggests that guillotining can be an effective means of reducing needless bureaucracy and achieving a more carefully considered regulatory system.” ***Best Practice Guide for a Positive Business and Investment Climate. Organization for Security and Co-operation in Europe (OSCE), 2006***
- “Application of the Guillotine Law is one of the most significant events in the reform process since Moldova’s departure from the USSR.” ***USAID Frontlines, February 2006***
- The "guillotine of regulations" will cut through unnecessary measures that prevent investments in BIH.” ***USAID BIH Director Howard Sumka***
- “Reduction by regulatory guillotine of business licenses in Kenya ... is a key result that will contribute to reducing the cost of regulation of the private sector in Kenya , and toward improving transparency and fighting corruption.” ***Demba Ba, Head, Africa Region’s Private Sector Development Group in the World Bank (June 2006)***



Thank you

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