The Regulatory Guillotine™ Strategy

Preparing the Business Environment in Croatia for Competitiveness in Europe

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.
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EXECUTIVE SUMMARY

As the Croatian economy becomes more integrated into European and global markets, its businesses will come under increasing pressure to compete on the basis of efficiency, innovation, and adaptability. Yet Croatian businesses today face a domestic regulatory environment that is relatively high cost and high risk, and that will impose even higher costs as the 93,000 pages of Single Market legislation are adopted into domestic regulation.

Accession talks should be accompanied by broad regulatory reform if Croatia is to improve its competitive position in Europe. Such reform will be culturally difficult to implement, because the Croatian public administration has almost no experience in assessing the consequences of its actions on the private sector. This report recommends that the Government of Croatia initiate in 2006 and 2007 a series of reforms to reduce the regulatory costs and risks that will increasingly impede the ability of Croatian businesses to succeed in European markets. In brief, the Government should:

1. Launch in 2006 a short-term regulatory guillotine project aimed at counting, reviewing, and quickly streamlining business procedures in Croatia;

2. Use the results and institutions of the regulatory guillotine to develop a sustainable, medium-term regulatory reform strategy, incorporated into the national development strategy, to converge with good regulatory practices in Europe and recommended by the OECD.
1. BACKGROUND

As Croatia begins the EU accession process, the Croatian business climate faces serious challenges. Overall, Croatia is ranked 79th out of 104 counties on the Global Competitiveness Index. Croatia lags behind all EU members, as well as two countries, Bulgaria and Romania, that are candidates for membership. According to the National Competitiveness Council (NCC), Croatia's ranking in global competitiveness has fallen significantly since 2002 due to government subsidies, a generally low quality of public and judicial services, corruption, and low productivity in financial, labor and product markets.¹

The business enabling environment has been singled out for special concern. Business growth and competitiveness in Croatia are hampered by an oppressive business climate that has been documented by polls of businesses operating in Croatia and in various international indicators. The 2006 Cost of Doing Business indicators were poor and increased concerns about the slow pace of reforms and the lack of a strategy for general improvement. These kinds of concerns will not be addressed through adoption of the aquis communautaire, but only through a medium-term domestic program of reform.

The Government has recognized that more effort is needed to remove barriers to business investment, growth, and job creation at all levels of government, and to simplify administration as a corruption-fighting measure. These efforts are expected to take a prominent role in the new development concept for Croatia that should be completed by Spring 2006. The challenge is to build on and integrate the regulatory reform components of the various initiatives underway through EU accession, eGovernment, and legal and competitiveness reforms. Regulatory reform is a core element of the fight against corruption, and hence coordination with the National Program for Suppression of Corruption would also be useful.

The Government’s current reforms are attempting to reduce these burdens through eGovernment strategies, in effect, regulatory reform through information technology. This approach is proceeding bottom-up by selecting individual business procedures and re-engineering them with IT solutions. The IT solutions do not question the need for the procedures, but do replace existing multiple transactions with single windows, and replace paperwork with electronic submissions, virtual signatures, and virtual notaries. The most notable reforms now underway include:

- HITRO, launched on 11 May 2005, is a Government service that is part of the e-Croatia 2007 program. HITRO is meant to increase the quality of government services for businesses and citizens by increasing the speed, efficiency, flexibility and transparency of state administration. Its main strategy is to create a one-stop shop for services such as company registration. A state-owned company, the Financijska agencija (FINA), has been contracted to provide this service.

- The intent is to start with company registration and then to address an expanding set of business and citizen services over the next several years. The first process to be re-engineered by HITRO is reform of company

¹ Croatian National Competitiveness Council Press Release: Croatia lagging in key areas of competitiveness, NCC, Zagreb, 4 July 2005
registration. FINA has been contracted to act as a single window for registration procedures. It will collect applications and then liaise with separate government offices involved in granting permissions and numbers. A local branch of FINA in Zagreb has launched a pilot one-stop-shop project on company registration. This pilot project should be completed and assessed in 2006. The objective is to achieve by 2008 the following benchmarks: registration time for companies: 3 days, number of forms: 5 days, only 1 official license.

- In 2004, Croatia simplified the registration of craftsmen through establishment of the Central Register of Crafts in the Ministry of Economy, Labour and Entrepreneurship. The Register is intended to make the collection of data on registered craftsmen faster and more transparent. Electronically linked to the central register, 108 registration bodies have been established locally. If the applicant fulfils all the legally prescribed conditions, the usual registration time is 2 days, with a maximum 15 days.

- HITRO has also introduced an e-cadaster service to give citizens and business people better access to information about the 16.5 million land plots in Croatia.

- The Government of Croatia has also said it would introduce the principle of “silent consent” as a general reform strategy. This is a good practice that has been recommended by the OECD. The strategy for introducing this principle has not yet been clarified, however.

These efforts to reduce regulatory costs through process re-engineering and information technologies are common-sense and useful steps. However, they will be unable by themselves to sustainably reduce the total regulatory costs and risks facing businesses from the thousands of regulations and procedures that have accumulated in Croatia. It is important not to underestimate the sheer scale of the problem. While HITRO is currently addressing 8 or 9 procedures, Croatia’s businesses must comply with over 300 business procedures (the total number is uncertain, and FINA is still counting). There is also a continuing flow of new requirements, since Croatia’s regulators are continually producing new procedures, regulations, and laws. There are hundreds and probably thousands of laws and ministerial bylaws on the books, many of which are inconsistent with the realities of competitive markets, and which are unjustified by any clear public-policy need. In short, Croatian legal regimes and administrative practices are badly outdated and actively harmful to future development.

Like many countries, Croatia is suffering from the overproduction of laws and regulations that are not matched by implementation capacities in the public sector or by compliance capacities in the private sector. This is a phenomenon called “legal optimism” in Croatia, a term that means a legal instrument is justified without regard to results and implementation. This same situation is called “hyper-legislation” in France and “regulatory inflation” by the OECD. It is a destructive habit caused by poor incentives and lack of accountability among multiple institutions.

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In this situation, reforms aimed at single processes and rules will never catch up with the productive capacities and incentives of the government to create regulations and controls or even to correct the regulations already on the books. The issue is clearly a systemic one, which requires a systemic solution.
2. THE GUILLOTINE STRATEGY

Better competitiveness means that Croatia should not try just to keep up, but to move faster than other economies in the market. In view of the increased pressures on good governance and business performance from EU accession, the Government of Croatia should seek more rapid and comprehensive reforms that will produce faster and sustained benefits for businesses. In developing its strategy, Croatia can benefit from experiences in other countries that have moved to quickly deal with the legacy of out-dated and burdensome regulations that were holding back growth.

The guillotine strategy proposed here is simply a means of rapidly reviewing a large number of regulations, and eliminating those that are no longer needed without the need for lengthy and costly legal action on each regulation. It is of a systematic and transparent approach to reviewing, eliminating, and streamlining business regulations. It adapts a technique used in other countries in transition to carry out rapid deregulation. It provides both a quick fix to the most critical problems of unneeded and inefficient regulation, and creates an opportunity to build a permanent system for quality control of new business regulations to avoid re-occurrence of the same problems (so-called creeping re-regulation). It is designed to reduce the costs of reform within a political and legislative system that is already overburdened with difficult reforms.

The regulatory guillotine is based on the view that the regulatory problem facing businesses is systemic, and that isolated and marginal reforms must be supplemented by broad-scale and systematic reforms that extend across the public sector. It is expressly designed to:

- Reverse incentives in the reform process, and so overcome some of the barriers that have slowed or blocked broad-based regulatory reforms in the past. These barriers include high political and administrative costs, intense insider resistance to change, and lack of planning on how to sustain change into the future;
- Create a sustainable process for future quality control and legal security, mainly by establishing a quality checklist and review process and by creating a comprehensive and central regulatory registry with positive security;
- Create the institutional infrastructure for continuous and effective regulatory reform implementation, including establishment of mechanisms for inter-ministerial coordination and cooperation, strengthening the engines of reform, and building core capacities for regulatory analysis.

There are many possible variations in design, scope, speed, and results, but the general principles of the guillotine are the same across countries. In general, the guillotine works through a simple checklist applied through three stages of review:

- The government establishes the scope of the guillotine. The scope can vary from narrow to broad. Some countries, such as Mexico, restricted the guillotine to business formalities and procedures, which were the main source
of corruption in the public administration. Other countries, such as Korea, seeking broad-based economic restructuring, included all regulations affecting the business sector within the scope of the guillotine.

- The government adopts a legal framework for the guillotine that creates the processes, institutions, and schedule for the guillotine. This can be done either by law or by government decree.

- In the decree, the government instructs all public bodies to establish, by a specified date – usually a few weeks – a comprehensive list of their regulations included in the scope of the guillotine.

- In preparing its list, each public body assesses each regulation in writing, using a simple, standardized checklist. The three key tests are:
  
  - Is it necessary?
  - Is it legal?
  - Is it business friendly?

Any regulation that passes the three tests is put into the “Retain” category. Any regulation that fails the first two tests is put into the “Eliminate” category. Any regulation that passes the first two and fails the third is put into the “Revise” category.

- These self-assessments are given to an independent and central review body that carries out precisely the same assessment, but develops its own three categories. The central, independent review produces most of the benefits of the guillotine, typically putting 20 to 50% of the regulations into the “Eliminate” category.

- Finally, key stakeholders are consulted, and the central review body develops a final list of regulations to be eliminated, retained, and revised.

- By the deadline, the final list is given to the Government, and the Government adopts the list in one decision. With this decision, any regulation on the “Eliminate” list is automatically cancelled without further legal action (the guillotine drops).

- The list becomes, by definition, a comprehensive registry of all regulations in force under the scope of the guillotine, and should be recognized in law as the legal database of regulations for purposes of compliance. The registry should have legal security – no regulation not in the registry can be enforced against a business.

- In future, all new regulations and changes are entered into the registry within one day of adoption and/or publication. In effect, entry into the registry becomes a mandatory publication requirement.

International experience with this approach is positive. Hungary, Mexico, and Korea successfully used the guillotine approach to rapidly review and eliminate thousands of unnecessary and outdated business regulations. If the guillotine is well-prepared and enjoys strong political support, past experience suggests that it can reduce the number of existing regulations by 20 to 50% in less than a year.
The reductions in cost and risk associated with such broad-scale deregulations can have important effects on the business environment. In Korea, the effects directly associated with the guillotine included the creation of over one million new jobs and receipt of over $26 billion in new FDI.

One of the most important benefits of the guillotine is that these governments were able to build comprehensive inventories of regulatory instruments that were more accessible to the private sector. For the first time, the scope and importance of the problem of overregulation and bad regulation was seen clearly. Using the inventory to establish an electronic registry with positive security is the way to sustain these benefits into the future. Accessibility and clarity would be a major benefit in Croatia, which badly needs a more organized and accessible registry. Currently, the government does not know how many regulations face the private sector. The national gazette is published in electronic form, but the electronic register is run for profit by a state-owned company, and hence access is fee-based. Since the acts are not consolidated, transparency is poor even in the electronic registry. Official gazettes are also published by local and regional governments, and therefore there is no single point of access to applicable regulations.

3. USING THE GUILLOTINE TO MOVE TO A REGULATORY QUALITY STRATEGY: THE FOUR TASKS OF REGULATORY REFORM FOR CROATIA

The guillotine is only one step in a longer process of preparing the public administration to use smarter regulation. Development of a modern regulatory system is neither simple nor fast. The problem is vast, and sustainable change requires not only reforms to thousands of instruments, but also new institutional capacities and a shift by the public administration from a culture of control and rent-seeking to a culture of results-orientation and client services.

There is no ideal model for the “right” regulatory system. The role that markets and governments can play varies from country to country and from sector to sector. However, a growing body of literature on the determinants of growth suggests that the modern state needs to:

- Free up the market and stimulate competition so that enterprises can adapt and innovate more quickly, and;
- Enhance the capacity of the public sector to provide an enabling environment of sound regulation and efficient public services.

Modernizing the regulatory role of the state is a “good governance” agenda, not a narrow “deregulation” agenda. Regulatory reform is a multifaceted strategy that includes deregulation, re-regulation, simplification and institution-building (including public sector reforms). Regulatory reform requires changes to the role and mode of the state itself. Governments must learn when and how to regulate in a market economy. The OECD, for its part, calls for a “pro-active “quality assurance” role” for the regulatory functions of government.3

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Sustained results are achieved by changing regulatory behaviors. Reform usually falters, not because governments do not know what to do, but because they lack the skills and capacities to do it. Many countries have launched many regulatory reforms, but most have difficulties in achieving solid results. Their difficulties are mostly problems of design and implementation, including coordinating across ministries, involving stakeholders, prioritizing goals, identifying practical solutions, implementing on schedule, and monitoring results. These challenges go to the entire governance process.

There are four main tasks of regulatory reform:

- The most obvious task in the current regulatory system is the enormous stock of existing laws and other kinds of regulations that go back decades or even longer. This is the target of the guillotine. This stock of regulations is incoherent in most countries. It developed over time, over different economic strategies, and over political regimes that are remembered only in the history books. Outdated regulations and inefficient regulatory techniques survive deep in the regulatory jungle because there is no accountability for their performance, and no review and updating process in place.

- The second task is controlling the flows of new laws and other regulations. These flows of new regulations are increasing in volume and cost in most countries. This is because governments, even while they are deregulating in some areas, are producing more regulations in many policy fields, such as safety and health, consumer protection, and environmental protection, and are building new regulatory regimes for sectors such as financial services, utilities, and other emerging private markets. Reforms in many countries are focused on improving the quality of new regulations through tools such as regulatory impact analysis. The Croatian government already has three key elements of quality checks in place for some new legal instruments. New laws must be reviewed by the Ministry of Foreign Affairs and European Integration to check that a proposal is consistent with EU legislation. For all new regulations, ministries must assess financial impacts on the state budget, and these assessments must be reviewed by the Ministry of Finance, which has issued detailed procedures and templates for this financial assessment. The Office of Legislation of the Government reviews proposed laws and government decrees to ensure constitutionality. These various assessments are not yet regulatory impact analysis, because they miss entirely the crucial aspect of impacts on economic activities, but they do provide a foundation for moving to full-fledged RIA. The World Bank is already supporting a pilot three-pillar RIA in the Ministry of Economy, Labor and Entrepreneurs. Analysis of social and environmental impacts will be piloted in 2006, followed by economic impact assessment. This effort could provide useful information on good RIA approaches in the Croatian context.

- The third task is building the capacities of the whole panoply of institutions that develop and implement regulatory instruments. These are the ministries that develop regulations, the central agencies such as the Council of Ministers and the parliament, the inspectorates that enforce them, the

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4 This global phenomenon of increasing regulatory flows has been called "regulatory inflation" by the OECD.
adjudicating institutions such as the administrative and criminal courts, and the many other institutions that deal with various aspects of regulation, such as the national gazette. The required institutions include the procedures used to consult with stakeholders such as the private sector. Current consultation processes in Croatia are not sufficiently developed to meet international standards of transparency. The Social Economic Council reviews some draft proposals, but not consistently and uses no consistent review criteria. It has little impact on policy content. The National Competitiveness Council (NCC) might be better body to organize business consultation, but does not represent small businesses very well.

- The fourth task is improving the capacity for reform by building new incentives and institutions to drive the other three tasks. Capacity for reform is stunted and underdeveloped in most countries, though the task of taking on the other three elements is difficult, costly, inter-ministerial, and multi-year. Most OECD countries and an increasing number of transition countries have developed wholly new “engines of reform” at the center of government tasks accompanied by reforms to the regulatory system of government.

Figure 1 shows how the modern regulatory system consists of interlocked institutions and procedures that together create checks and balances that promote good regulation. As this figure suggests, a medium-term, sustainable regulatory reform strategy must address all four tasks. As reformers have seen too frequently, changing rules without changing the way that the ministries regulate does not sustain change – the ministries simply re-regulate and extend their powers once again. The reform effort must control the ‘flow’ of new rules as well as the ‘stock’ of old rules.

Corresponding to the four regulatory system tasks, then, the four pillars of the regulatory reform strategy for Croatia are:

- Modernizing the existing regulatory stock to remove barriers to entry, reduce regulatory costs, and fill in regulatory gaps;
- Controlling the regulatory flow by adopting processes and tools for checking and assessing the quality of new laws and regulations, such as central review bodies, impact assessment, principles of good regulation, and meaningful stakeholder consultation. In five years, every civil servant in Croatia, before making a decision, should ask about the impact on the private sector, and should consult with the private sector to provide confidence that the impacts are well understood.
- Building better regulatory institutions throughout the public sector such as by improving transparency mechanisms and due processes, and improving the application of laws and regulations through improvement of inspection and testing functions;
- Building capacities for reform by adopting a medium-term reform strategy and strengthening capacities to implement it through central “engines of reform” and private participation, with powers to promote, oversee, and monitor results over the medium-term.
Figure 1: Illustrative elements of a modern regulatory system©
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4. DECISIONS TO IMPLEMENT THE GUILLOTINE STRATEGY IN CROATIA

The guillotine is primarily aimed at the first task of regulatory reform, and so potentially involves hundreds or thousands of regulatory instruments developed by ministries and other public bodies across the whole of the public administration. Careful preparation is necessary in order to achieve good results. The guillotine process is based on three strategies:

- A political strategy that sustains vigorous top-down political support from the prime minister and key ministers, and builds public support for radical reform affecting many stakeholders;
- A legal strategy to create an over-arching legal framework that enhances legal security and transparency, rather than creating legal chaos;
- An administrative strategy to carry out a highly structured “top-down” review process with clear filters and incentives for reform.

4.1. The political strategy

The guillotine is not a bottom-up, consensus-driven reform strategy. Such a strategy takes a long time to launch, and is highly vulnerable to capture by interests who do not want reform. Rather, the guillotine is a top-down strategy driven by politicians and reform units from the center of government. It is designed to overcome passive resistance within the public administration. It must rest on high-level and vigorous political support from the very center of government. Typically, the political strategy consists of a small group of reform-minded ministers with inter-ministerial authority, such as economy and finance, with active support from the prime minister or president.

It is important that, in Croatia, the regulatory guillotine be launched with the personal support of the prime minister. Regulatory habits are so deeply entrenched, and past efforts at implementing broad-based reforms have been so difficult, that the guillotine strategy must be fueled with credible and personal political commitment.

The political strategy must be sustained through a public-relations campaign that shows the public the importance of the reforms, and commits to specific results. In Korea, the president of the country publicly committed to a 50% reduction in all regulations in one year. Such an ambitious, clear, and measurable commitment enabled the reformers to set out league tables that held each Ministry to strict account for performance, and to push ahead against resistance. This kind of clear performance indicator will speed up results, and help build a public constituency for reform in the business community.

If the reform is credible, it will generate increasing support from key stakeholders in the private sector and wider public. It is important that the guillotine help create an active business constituency for further reforms. In Croatia, the prime minister might commit to a target of a 50% reduction in business procedures within one year, which would be an ambitious but feasible target that would produce real benefits for competitiveness, and stimulate support among the public.
4.2. The legal strategy

The purpose of the regulatory guillotine is to improve legal security and transparency, not legal chaos. Reforming hundreds of ministerial or government bylaws in one stroke requires careful legal thinking in order to ensure that decisions are carried out exactly as planned, without causing any legal confusion. A legal strategy must be drawn up with the government's top legal experts such as, in Croatia, the Ministry of Justice, the Secretary of the Government, or the Office of Legislation.

The legal strategy must set out in very precise terms the scope of the guillotine. This is because the processes of reform are different depending on the kinds of legal instruments included in the guillotine. The guillotine is flexible in terms of scope. The scope must be defined in two dimensions: by functionality and by legal instrument. For example, Mexico included in its guillotine all "business formalities", which were functionally defined as all requests for the business community to provide information to the public administration. Further, Mexico limited the scope of the guillotine to ministerial and government bylaws, leaving parliamentary laws outside of the scope of the first phase of the guillotine. This definition was clear enough to prevent the escape of relevant regulations, and left no ambiguity as to the legal forms included in the process.

As suggested above, the government of Croatia might consider limiting the scope of the guillotine to business procedures imposed by government or ministerial bylaws. This would include hundreds of procedures (the actual number is unknown), but would speed up reform because legal decisions could be taken by the Government rather than waiting for parliamentary action. The term "business procedures" could be defined as any request for any business to submit any information to the public administration. This is broad enough to ensure that burdens on businesses are completely captured in the guillotine. This scope would exclude many other kinds of important regulatory costs, such as capital costs, but a wider guillotine could be put into place later, based on the experience of the first phase.

Finally, the legal strategy must consider how to implement the electronic regulatory registry so that it has positive security (that is, nothing outside of the registry has legal effect). In most countries, this is done by defining inclusion in the electronic registry as mandatory publication, either supplementing or replacing publication in the national gazette.

4.3. The administrative strategy

The administrative strategy is crucial, because the implementation challenge of carrying out in government wide reform involving hundreds of procedures and regulations is formidable. Fortunately, the guillotine strategy has been tested and refined, so that the key elements of the administrative strategy are fairly clear. Of course, this design must be adapted to the specific conditions and institutions in Croatia.

There are two key elements of the administrative strategy:

- First, the framework and the institutions for the guillotine must be formally and credibly established. This can be done in Croatia through a government decision that lays out the process, institutions, goals, and the deadline for completion.
Second, the key institution of the guillotine is the central expert unit that manages implementation and carries out a substantive, independent review of each regulation included in the guillotine. This is not a very large unit – it would be 10-12 full-time people working for 6-8 months in Croatia.Governments have set up this unit in various ways, but there are common characteristics of successful units. It must:

- **Have a formal mandate** for clear results;
- **Have an active inter-ministerial component** to coordinate the reform among the public administration;
- **Be authorized, connected, and accountable for results to the centre of government** to strengthen policy coordination and oversight capacities.
- **Have strong relations and an active involvement with the private sector**;
- **Command the resources needed to get the job done**, including a dedicated secretariat with the right skills and financing to move reform forward.

Setting up the central institution is a crucial decision for the success of the reform. Croatia currently has no central unit that meets these criteria. Indeed, the Croatian government has little tradition of setting up central units with technical skills and procedural authority to carry out inter-ministerial reforms. However, the need for policy planning and analysis on several fronts as part of the economic transition of Croatia has already resulted in the creation of new units at the center of government that could be adapted to carry out this role. For example:

- The State Office for the Development Strategy of Croatia is a professional department with the task of coordinating the preparation, drawing up and implementing strategic guidelines from the Government Program, making proposals for strategic development documents, and ensuring the bases for the elaboration and implementation of the project for the strategic development of Croatia in the 21st century. The Strategy Project has a Central Council headed by the Deputy Prime Minister. This office is sufficiently high-level and has a sufficiently broad mandate, with an economic focus, to carry out the regulatory guillotine.

- Other policy units that meet some of the criteria have been set up or have been proposed. The Central Government Office for Public Administration is in charge of civil service reform in public administration decentralization, and may be in a good position to carry out government wide reforms. A new central office is being considered to oversee the HITRO reforms that will have technical and business-oriented mandate that overlaps with the regulatory reform tasks of the guillotine. The Coordinating Committee on the Accession of the Republic of Croatia to the European Union is an interdepartmental working body that discusses all issues related to negotiations on the accession of Croatia to the European Union. This body, through its Negotiating Teams for the Accession of the Republic of Croatia to the EU, is already reviewing existing laws and regulations of Croatia for
consistency with the acquis communitaire. The Coordinating Committee is very high level, including the Minister of Foreign Affairs and European Integration, the Vice Prime Ministers, and all ministers in the Government.

- There are existing technical units in the government that also meet some of the criteria. They include the Office of Legislation, which carries out a review of draft laws and government decrees for legal quality, and the Secretary of the Government, which supports the functions of the Cabinet of Ministers.

A single implementing office should be selected and its capacities built for the guillotine process. However, none of these existing or planned bodies has the mandate to reduce the number of existing laws, regulations, and procedures nor to take the larger regulatory quality task to sustainably improve the enabling environment for businesses in Croatia. For that reason, a new mandate and investment in building personnel and capacities will be needed, regardless of whether a new or existing body is used.

Each of these various bodies is carrying out tasks that are relevant to the objectives and processes of the regulatory guillotine. Close coordination among them will be needed to prevent duplication or wasteful use of resources. For example, the inventory of laws and regulations created through the EU accession process will be a valuable input to the regulatory guillotine.

In the longer term, some institutional restructuring might be necessary. For example, the legal reviews carried out by the Office of Legislation should be closely coordinated with the economic reviews carried out by a future regulatory reform unit so that a single seamless process of quality control is created.

5. ACTION PLAN TO IMPLEMENT THE GUILLOTINE STRATEGY IN CROATIA

As noted, the design of the regulatory guillotine has been similar in all countries, and this basic design will also serve Croatia well if it is suitably adapted. The action plan is built around the following elements.

- Adoption of Government Decree setting out the goals, scope, institutions, process, and schedule for the reform;
- Creation and staffing of a policy unit responsible for carrying out the reform;
- Communication with, and training, of ministries and regulatory bodies engaged in the reform process;
- Carrying out a public campaign to gain public understanding and support;
- Consulting with private sector bodies and setting up consultation procedures;
- Organizing the reviews to meet the schedule for completion.

To carry out these elements, this report proposes that the Croatian guillotine process follow 17 steps and a clear schedule:
Table 1: 17 steps for the Croatian guillotine

<table>
<thead>
<tr>
<th>Steps</th>
<th>Possible Schedule</th>
<th>Tasks</th>
<th>Inputs</th>
</tr>
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<tbody>
<tr>
<td>1. Decision by political authority to launch the regulatory guillotine</td>
<td>January 2006</td>
<td>-- Decision is taken at the highest political level to commit the Government to this reform. -- Prepare key interest groups to support the decision</td>
<td>-- Briefing of major players -- Preparation of briefing materials for the government -- Quick scan diagnostic of Croatian reforms and institutions to ensure suitability of reform</td>
</tr>
<tr>
<td>2. Prepare guillotine plan</td>
<td>February 2006</td>
<td>-- Choose scope and schedule of guillotine (limited scope in light of the innovative reform and tight deadlines) -- Design schedule of guillotine process over implementation cycle -- Design administrative strategy and select implementation unit -- Design and organize private sector representation -- Design communication plan for Croatian public -- Begin consultation with key stakeholders -- Develop draft operational documents (such as government decree, review template, and guidance to ministries)</td>
<td>-- Technical assistance in designing the implementation strategy (1-2 weeks expert assistance) -- Begin hiring staff for central implementation unit (10-12 economists and lawyers) -- Training and preparation of implementation unit staff (at least 3 days training for staff and key players such as Ministry of Justice and private sector reps)</td>
</tr>
<tr>
<td>3. Select a ministry (the pilot ministry) for more in-depth capacity building and preparation for regulatory quality</td>
<td>January-February 2006</td>
<td>-- Develop medium-term capacity-building plan for pilot ministry, including public consultation and RIA strategies</td>
<td>-- Technical assistance in developing a 12-month strategy, institutional reform, and training program to bring ministry regulatory capacities to European quality</td>
</tr>
<tr>
<td>4. Government adopts guillotine decree</td>
<td>End February 2006</td>
<td>-- Prepare Decree for decision</td>
<td>-- Time needed by implementation unit to draft decree and documents -- Technical assistance in developing decree</td>
</tr>
</tbody>
</table>
| 5. Instructions and templates are distributed to the public authorities included in the guillotine, and training is provided | First two weeks of March 2006 | -- Implementation unit drafts instructions and guidance
-- Central website for guillotine process is established
-- Each ministry should organize an internal team to prepare the lists
-- Implementation unit holds meetings with each ministry to answer questions
-- Implementation unit prepares an electronic questionnaire that can be used to prepare the lists, as well as a paper template
-- Training of ministry staff in good market regulation begins
-- Targeted training of ministry internal teams on guillotine methods | -- Foreign technical assistance to implementation unit in preparation of guidance (2-4 days)
-- Broad training of ministry staff (2 days training in good regulation principles, for 200 people,
-- Targeted training for ministry internal teams (1 day) in methods of guillotine review and assessing market impacts |
| 6. Planning begins for electronic registry | March 2006 | -- Design legal strategy for implementing and sustaining the electronic registry
-- Design electronic registry, identifying software and hardware needs, and set out financing strategy | -- Begin software development, purchase of hardware to put registry on line. |
| 7. Stakeholders are given information on the guillotine process and organized to provide input | First two weeks of March 2006 | -- Draft information for stakeholders
-- Hold meetings with each major stakeholder body to answer questions
-- Identify contacts in each stakeholder body and agree on method of distributing information | -- Implementation unit staff must organize stakeholders and draft briefing materials |
| 8. Start communication strategy with public | March-April 2006 | -- Launch publicity of guillotine process to win public support | -- Costs of public awareness campaign. Communication messages and strategy are packaged and rolled out through media channels |
| 9. First Review: public bodies prepare the initial lists and assessments | 1 April – 30 April | -- Implementation unit provides continued help-desk assistance to the public bodies throughout the review
-- Implementation unit begins its own review of regulations that it has separately identified
-- Ministry lists and recommendations published on central website as they are completed
-- Ministries must devote at least 2 fulltime people each to the job
-- Implementation unit will devote most of its time to help-desk activities and to managing the document flow into the central list |

| 10. Second Review: Implementation unit conducts its detailed review of the lists. | 15 April – 15 June | -- Implementation Unit allocates workload. Each regulation is reviewed by a legal expert and a business or economic expert,
-- A recommendation following a standard template is drafted by the two experts explaining the reasons behind it, with the legal amendments needed to implement the recommendation
-- The experts may consult with business associations in the course of their review.
-- The Implementation Unit discusses the draft and, at its discretion, invites the public body or business associations to further justify it
-- The Implementation Unit consults with the EU Negotiating Teams to ensure that its recommendations are consistent with EU law
-- Implementation Unit decides on its recommendation on each regulation
-- The recommendation is placed on the Internet
-- For each regulation review, an average of 8 hours of staff time is needed. To review 300 regulations, 1,800 hours of staff time are needed in the Implementation Unit. If there are 10 full-time staff, 300 reviews can be completed in 6 weeks.
-- Office equipment must be available – computers, desks |
| 11. Third Review: Formal consultation with stakeholders | 1 May – 31 July | -- Recommendations of Implementation Unit are submitted to stakeholder processes  
-- This review must be fully transparent and the participation of businesses must be carefully structured to avoid any bias in the results.  
-- Results of business consultation will be considered by the Implementation Unit and any changes included in the draft Recommendation prepared for Government consideration | -- Business organizations must cooperate in setting up review groups to handle the workload on schedule. Business organizations will bear their own costs.  
-- Implementation Unit support is needed to facilitate the discussions and flow of material. |
| 12. Prepare the draft List and transmission memo and schedule any appeals from Ministries | 1 August – 1 September | -- Schedule any appeals from ministries with the head of the Implementation Unit  
-- Prepare the final List for Government consideration, assess impacts of package of reforms on businesses, public policies, and fiscal budget  
-- Prepare package of implementing legal changes | -- Foreign technical assistance might be needed to resolve difficult cases of market impact |
| 13. Finalize electronic registry for online operation | 1 June – 31 August 2006 | -- Finalize software, Internet access, and hardware needs for Registry.  
-- Prepare Registry for operational status | -- Costs of IT equipment and internet connections |
<p>| 14. Submit final recommendation as single package to the Government. | 1 September 2006 | -- Final package is submitted with decision memo, with annexes explaining rationale for each recommendation and implementing legal changes | -- Briefings by Implementation Unit for Office of Legislation and Secretary of Government |</p>
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<th>15. Government adopts package of legal amendments (the guillotine drops), Registry goes online. All instruments not included in the legal electronic Registry are eliminated, and cannot be enforced against businesses.</th>
<th>15 October 2006</th>
<th>-- Full Internet access is established to the Registry so that businesses have access to the database 24 hours a day. Paper version of registry is also available (published by national gazette?) -- Communication with businesses to inform them of their new rights under the reforms. Newspaper ads, radio and TV ads. -- Information provided to ministries informing them of legal situation</th>
<th>-- Public announcements -- Businesses are provided information on new rights and role of Registry</th>
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<td>16. Assessment of Guillotine and pilot ministry is done, medium-term regulatory strategy is developed, and permanent process of review begins.</td>
<td>October-December 2006</td>
<td>-- Implementation Unit develops assessments and proposed medium-term strategy, including expanding the guillotine, and putting into place the institutions, process and legal instruments for continued review of new procedures -- Amend administrative procedures to require that, in future, all new licenses under the scope of the Registry pass through a review process before being entered into the Registry.</td>
<td>-- Draft medium-term regulatory reform strategy, with technical assistance -- New government decree is drafted, with technical assistance -- Training in new procedures and quality standards is carried out, particularly in regulatory impact analysis and consultation methods</td>
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<td>17. Registry is maintained on an ongoing basis</td>
<td>From end of guillotine in 2006</td>
<td>-- Integrate Registry into publication process of national gazette</td>
<td>-- Finalization of software, Internet access, and hardware needs -- Incorporation of ongoing costs into fiscal budget</td>
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