BETTER REGULATION FOR GROWTH
GOVERNANCE FRAMEWORKS AND TOOLS FOR EFFECTIVE REGULATORY REFORM

REGULATORY QUALITY INDICATORS

INVESTMENT CLIMATE ADVISORY SERVICES
WORLD BANK GROUP
About the Investment Climate Advisory Services of the World Bank Group

The Investment Climate Advisory Services (IC) of the World Bank Group helps governments implement reforms to improve their business environment, and encourage and retain investment, thus fostering competitive markets, growth and job creation. Funding is provided by the World Bank Group (the International Finance Corporation–IFC, the Multilateral Investment Guarantee Agency–MIGA, and the World Bank) and over 15 donor partners working through the multi-donor FIAS platform.

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Better Regulation for Growth Program

The Better Regulation for Growth (BRG) Program was launched in 2007 by the Dutch Ministry of Foreign Affairs, the UK Department for International Development (DFID) and the IC of the World Bank Group.

The objective of the BRG Program is to review and synthesize experiences with regulatory governance initiatives in developing countries, and to develop and disseminate practical tools and guidance that will help developing countries design and implement effective regulatory reform programs. Reports and other documentation developed under the BRG Program are available at: www.ifc.org/brg
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EXECUTIVE SUMMARY

This working paper is part of a set of two papers commissioned by IC to critically discuss the state of the art in regulatory indicators and make suggestions for project-level indicators.

In this first working paper we present and compare systems of indicators of regulatory quality, analyzing their conceptual underpinnings, technical properties, and usage by governments, stakeholders and academics. After having discussed the datasets and the types of data available, we consider a set of critical aspects related to the design, data-gathering and utilization of indicators, providing suggestions for improvement.

Our major findings and proposals are the following:

- Systems of indicators have been developed ad hoc, by organizations pursuing different objectives over time and across the world. Conceptual underpinnings, modalities of data-gathering, and types of usage reflect different operationalizations of regulatory quality.

- In the construction of regulatory indicator datasets, the first essential step is to gauge the quality of data, in order to construct insightful and meaningful measurements. Especially in developing countries, the consideration of the quality of data is preliminary to any technical and statistical discussion on how to treat data.

- Western governments tend to use single measures with the specific purpose of improving methods of regulatory analysis (through studies that analyze the conduct of regulators). Little attention is paid to indicators of the economic outcomes of regulatory reform programs and to improving their accuracy. This is also due to the complexity in disentangling...
We have not found systematic attempts to measure how regulatory reform is changing the attitudes towards regulation of regulators and policy officers who develop legislation. Surveys of regulators are scarce and not-coordinated. Yet if one fundamental aspect of regulatory reform is to change attitudes and approaches to regulation, this dimension cannot be ignored. The experience with business surveys is more robust.

Most datasets contain simple measures rather than composite indexes. The necessary integration of regulatory quality measures with other components of structural reform and governance is generally low. Exceptions are the regulatory quality indicators of the World Bank – integrated with other dimensions of good governance – and the integration of administrative burdens indicators and targets with the European Union (EU) Lisbon agenda for growth and jobs. Statistical analysis shows that regulatory reform is correlated with other broader dimensions of governance.

Although the indicators currently available have been created for different purposes, the systems are not mutually exclusive. Indeed, there is scope for cumulating different sources or combining insights from different measures. However, this potential has not as yet been exploited.

Different indicators track different dimensions of quality and measure the performance of different tools. Per se, this is not a limitation. Governments need an integrated, comprehensive approach to regulatory reform. Different systems provide different insights on dimensions that can be usefully combined. However, the predominant mode of usage at the level of governments is still a rather eclectic “pick and choose” from the wide range of measures available. Accordingly, in the second part of the paper we argue that a system of measurement should balance the different indicators in relation to their purpose, data source, and methodology.

We have not found systematic attempts to measure how regulatory reform is changing the attitudes towards regulation of regulators and policy officers who develop legislation. Surveys of regulators are scarce and not-coordinated. Yet if one fundamental aspect of regulatory reform is to change attitudes and approaches to regulation, this dimension cannot be ignored. The experience with business surveys is more robust.

Apart from the fundamental issue of data-gathering, it is important, particularly in developing countries, to link regulatory indicators with processes of knowledge utilization and decision making. Knowledge utilization is more important than knowledge production in this field. Very few governments have taken credible commitments about which indicators they are going to use, when, and how. Examples are targets, benchmarking exercises in international organizations, peer reviews, and regulatory budgets.

Turning to usage, indicators can be used for a variety of purposes, such as learning, oversight, monitoring compliance with regulatory policy, naming and shaming, and comparative benchmarking. There is a full range of possible usages, in a continuum from “hard” to “soft” system of indicators. In one extreme, one can find indicators that are used for overseeing regulators and monitoring compliance with government’s regulatory policy. In the middle ground there are comparative benchmarks. Finally, indicators are also learning tools.

Consultants and academics have presented several ways in which regulatory indicators should be aggregated. In this working paper, however, we make the point that aggregation performed directly by policymakers is the best option – obviously subject to technical controls on the consistency of the aggregation. Aggregation of simple measures is one major way in which preferences about regulatory

the mechanism that links an improvement of regulatory outcome to economic performance. Thus, the usefulness of reform programs and regulation itself is poorly understood. This may be even truer in developing countries where the quality of micro and macroeconomic indicators is lower than in developed countries.
quality of political actors are revealed. When a government transparently chooses an indicator instead of another, or aggregates by putting more weight on a measure rather than another in order to create an index, it makes a choice about how to value different dimensions of regulatory quality. It also sets the basis for possible usages of regulatory measures, by clarifying why an index reflects reform priorities better than another. Thus, processes of aggregation that involve those who are directly responsible for setting regulatory policy are the first step in the direction of utilization.

To clarify this point and introduce accountability, we envisage a division of labor between independent experts, on the one hand, and senior civil servants and elected politicians, on the other. Experts should be the guardians of the technical quality of menus of indicators suggested for adoption to policymakers. The selection and aggregation of measures taken from these menus should be usefully left to a process of deliberation and choice led by policymakers. They should use selection and aggregation to reveal their definition of regulatory quality and sort out their preferences transparently. This does not mean that anything goes, and that senior bureaucrats and elected politicians should operate within unaccountable processes. They should be accountable to their citizens about why and how they choose a specific measurement system and what they want to achieve with it. Moreover, as the paper on Project Level Indicators shows in detail, we propose also a system of measurement that relies exclusively on the judgment of professional independent evaluation in order to review, correct and improve (through evaluation standards) the overall better regulation policy.

Aggregation should reflect basic technical rules, but more importantly, it should be performed in a way that conveys messages to those who are supposed to make use of the composite measures. To illustrate, if the goals of regulatory reform are institutionalization, economic growth, accountability, interaction with the stakeholders and communication, aggregation should be performed along these four dimensions, not in relation to abstract technical properties.

Finally, utilization should also involve regulators. At the moment, regulatory datasets are not a resource for a desk officer developing regulations on, for instance, energy efficiency in country A. This officer will not have access to the methods and data used by other officers in countries B, C and D to prepare their impact assessments or other evidence-based analyses on this topic. Since the number of key regulations is not infinite, and processes of convergence, standardization, and regulatory harmonization have ushered in some forms of regulatory rapprochement, there is a demand for datasets that would improve regulatory analysis and methodology. We have found a prototype of this approach to indicators, Diadem (Section 2), a product still under construction but with considerable potential.

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2 Project Level Indicators of the Better Regulation for Growth (BRG) Program.
With the emergence of the regulatory state and the consolidation of the new public management movement, scholars, international organizations and governments have paid attention to the concepts and measures of extent and quality of regulation. Indeed, indicators of regulatory quality, performance measures of regulatory governance and targets for the reduction of paperwork and administrative burdens have become prominent items on the reform agenda of governments and international organizations.

In this paper we review the literature and the experience of governments with indicators of regulatory quality, identifying their main advantages and limitations. This choice is informed by the delicate balance between positive and normative considerations at work in this field. Indeed, indicators are a common language in evaluative processes through which people translate diversity of observations into manageable information “bits” (Whitmore et al., 2006: 345). They “only provide information about the incidence of anticipated phenomena of change . . . [and are] in relation to the goals that are meant to be achieved, they are couched in terms of what is expected to happen” (Whitmore et al., 2006: 345).

And what is expected to happen is an improvement of the regulatory environment. Since quality refers to properties that constitute or characterize something (the features) as well as appraisal and judgment of the features, it is necessary to set a clear association between indicators (the measure, the yardstick) as a component of broader evaluation processes and the phenomena to observe and measure. In doing so, it is possible to clarify the definition of (regulatory) quality, the latter being the concern and claim of evaluation studies (Stake and Schwandt, 2006: 404).

The next essential step is to recognize that regulatory quality is not univocal and depends, among other things, on the institutional and administrative context in which the term is used (Radaelli and De Francesco, 2007: chapter 2). Accordingly, there are several methodologies, methods and techniques
to discern and represent quality – via external standards, participants and stakeholders’ judgment and perception, and arguably even intuition, and lived experience (Stake and Schwandt, 2006). Unless we enter context, “[q]uality is multi-faceted, contested, and never fully representable” (Stake and Schwandt, 2006: 405). In other words, political institutions and administrative contexts reduce complexity, since they provide established rules of the game for the democratic aggregation of preferences and discipline of the access and participation of stakeholders in policy formulation processes (Radaelli and De Francesco, 2007: chapter 2).

Given this set of analytical challenges, this paper is structured as follows. The next section examines the conceptual basis of our analysis of indicators of regulatory quality. We then provide a map (in Sections 2 and 3) of the properties and features of indicators currently in use, to compare and identify gaps and flaws in evaluation systems used by governments and international organizations such as the Organization for Economic Cooperation and Development (OECD), World Bank and the European Union (EU). With two tables we also draw attention to the relationship between indicators and dimensions of evaluation. We relate indicators to better regulation policy tools, what type of data are used (objective or subjective measures), what is measured (the quality of regulatory environment or the broader quality of governance), and finally whether and how they are integrated in an overall evaluation process.

It is important to note that regulatory indicators can operate as an information device. Information is an important resource on which the relationship among politicians, regulators and stakeholders is based. By providing new additional information on the quality of regulatory process and environment, indicators are capable of modifying the relationship among the interest parties (De Francesco and Radaelli, 2007). Thus, we argue for a transparent and accountable process of adoption and selection. Section 4 concludes by formulating several suggestions on how to improve the measurement systems for regulatory quality.
Before we embark upon an examination of measures, we need to look at the concepts around which indicators are developed. Most of the indicators developed so far are linked to a notion of regulatory reform captured by the labels “better regulation” or “capacity of governments to produce high quality regulation.” But exactly what is regulatory quality?

The concept of regulatory quality is particularly difficult to define. It is contingent on different regulatory reform priorities such as deregulation, public protection from hazards at a reasonable cost, or the creation of different political opportunity structures for pressure groups and bureaucrats, without having a final regulatory outcome in mind.

Moreover, different stakeholders have different preferences about regulatory quality. For development agents such as the World Bank, the purpose of good regulation is to support sustainable and equitable economic growth, poverty reduction and better governance. For a politician in office, however, regulatory quality often means that regulations survive scrutiny in cabinet and parliament, and increase the popularity of the incumbent. For a social scientist, good regulation means either “efficient regulation” or “legitimate regulation,” depending on how economic and socio-political considerations are balanced within the preference function of the social scientist.

For a civil servant educated in the continental European legal tradition, more often then not procedures and administrative acts provide the most visible clue to good regulation. Hence a civil servant would normally feel that good regulations are the ones developed by following standard operating procedures and administrative procedures. Thus, there are different legitimate claims about what is high-quality regulation. Most countries have provided list of principles and regulatory priorities documents to make the notion of regulatory quality more concrete.

The great advantage of committing a government to a set of indicators is that by selecting an indicator or a set of measures a government makes concepts and principles operational. It provides a
practical way to sort out the different claims about quality. A commitment to a set of indicators also reveals a government's preferences about the purpose of regulation, and about regulatory quality.

There is a difference between quality of the regulatory tools employed by a government (such as regulatory impact assessment, consultation, simplification plans, codification exercises, plans to reduce administrative burdens, regulatory cost ceilings for departments and agencies), quality of the overall process to produce regulations through different administrative requirements (administrative procedure acts, freedom of information acts, notice-and-comment, and obligation to respond to the received comments), and quality of the regulations as experienced by firms and citizens. Most of the indicators available track down the first dimension. To capture the other dimensions is more difficult, since regulations fail or succeed not just because of how they were appraised in the first place. More decisive are variables such as the culture of compliance of the firms, the strategies pursued by inspectors, the administrative culture and the implementation of contingent and complimentary reforms, the role of courts in enforcing regulations, and more generally the behaviour of the actors involved in regulatory implementation. Regulation is an incomplete contract when it is designed. Indicators of regulatory outcomes and impact have to be designed taking into account the problems of the causal chain that goes from regulatory tools to real-world regulations and their economic impact. Further, even though the causal complexity has been tackled, there is still the issue of the quality of data, an important aspect to consider especially among the developing countries. With these conceptual caveats in mind, we can turn to the discussion of the main datasets for regulatory quality.
The aim of this section is to provide a schematic review of the existing databases on regulatory governance and, more specifically, on better regulation tools, including regulatory impact assessment (RIA). We believe that this exercise is a necessary precondition to discuss and propose comprehensive typologies of index/indicators of regulatory quality. Table 1 summarizes the purpose, the contents, and the methodology of each database. In the remainder, we focus on the most relevant indicators of regulatory quality developed by the World Bank and the OECD. We will group the other datasets according to their purpose. Presenting a synthetic table (Table 3), the final part of this section presents the main findings according to various dimensions of measurement system. It gives also a comprehensive overview of available database (generated also by academic research) on regulatory governance and reform (Table 2).

**OECD Product Market Regulation**

Product Market Regulation indicators measure the extent to which regulatory settings promote or inhibit competition. These economy-wide indicators summarize a wide array of regulatory provisions across the OECD countries (including state control, barriers to entrepreneurship, international trade, and investment). They have been calculated for 1998 and 2003. Relying on empirical findings that a reduction of regulation is closely intertwined with an enhancement of competition and productivity in product markets (Conway et al., 2003: 4), the aim of those indicators is to assess the relative friendliness of regulations to market mechanisms across countries and to show the interrelations between certain types of indicators and clusters of countries, covering several regulatory areas (Conway et al., 2005). There is an explicit orientation towards policy-relevant recommendations and specific suggestions for policy reform.

This is a database composed of objective indicators, covering both economic and administrative types of regulation. All these indicators can be broken down into their constituent elements (e.g., state control over business enterprises; barriers to entrepreneurship; and barriers to
<table>
<thead>
<tr>
<th>Dataset</th>
<th>Purpose and Level of Evaluation</th>
<th>Contents</th>
<th>Countries</th>
<th>Years of Observation</th>
<th>Methodology</th>
<th>Webpage</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank: Doing Business indicators</td>
<td>Ranking, Quality of regulatory outcome</td>
<td>Regulatory costs of carrying out business activities</td>
<td>181 worldwide countries</td>
<td>Annual since 2004</td>
<td>The methodology varies according to the regulatory sector under analysis</td>
<td><a href="http://www.doingbusiness.org">www.doingbusiness.org</a></td>
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<tr>
<td>Title</td>
<td>Description</td>
<td>Jurisdiction</td>
<td>Year</td>
<td>Methodology</td>
<td>Source</td>
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<tr>
<td>Canadian surveys of regulators – Regulatory Consulting Group and Delphi Group</td>
<td>Evaluation of RIA Extent of impact and quality of Canadian government’s regulatory policy</td>
<td>Canada</td>
<td>1999</td>
<td>Mixed (Survey of regulators and case-studies)</td>
<td>On file by the authors</td>
<td></td>
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<tr>
<td>OECD Implementation Guidelines of the Multi-Country Business Survey: benchmarking regulatory and administrative business environment (1998)</td>
<td>Survey design recommendation and data creation Quality of regulation Survey business perception survey about regulatory areas (employment, environmental, taxation) is composed of the following sections: Quality of regulations Quality of administration (enforcing regulations) Administrative compliance costs of regulations.</td>
<td>OECD countries</td>
<td>1997</td>
<td>Postal questionnaire sent to businesses in the OECD countries.</td>
<td>On file by the authors</td>
<td></td>
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<tr>
<td>OECD. Regulatory Performance: Ex Post Evaluation of Regulation Policies (2003)</td>
<td>Descriptive – country comparison (benchmarking) Quality of better regulation and RIA General context of the strategies/policies (to evaluate regulatory tools and institutions) and details about evaluation</td>
<td>OECD countries</td>
<td>2002</td>
<td>Self-assessed questionnaire sent to the formal group of directors and experts for better regulation and RIA programs</td>
<td><a href="http://www.oecd.org/document/27/0,3343">http://www.oecd.org/document/27/0,3343</a>, en_2649_34141_ 34238491_1_1_1_1,00.html</td>
<td></td>
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<tr>
<td>OECD RIA Inventory</td>
<td>Data collection (fact sheets) Quality of RIA Elements of RIA systems in OECD countries such as: - Type of analysis - Scope of coverage - Public disclosure - Quality control - Cost-benefit analysis - Social discount rate - Risk assessment - Effects on competition and market openness - Ex-post monitoring.</td>
<td>OECD Member States</td>
<td>2003</td>
<td>Desk research followed up by a government review</td>
<td><a href="http://www.oecd.org/dataoecd/22/9/35258430.pdf">http://www.oecd.org/dataoecd/22/9/35258430.pdf</a></td>
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<th>Dataset</th>
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<th>Years of Observation</th>
<th>Methodology</th>
<th>Webpage</th>
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<tr>
<td>Report of the Greek Presidency on the implementation progress of the Action Plan of the ‘Mandelkern Report on Better Regulation’ – Spring 2002</td>
<td>Cross-country comparison and policy formulation Quality of RIA</td>
<td>The extent of institutional design and implementation of the EU MS better regulation tools The items are around 30.</td>
<td>13 old Member States.</td>
<td>2002</td>
<td>EU directors of better regulation self-assessment questionnaire</td>
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<tr>
<td>Indicators of regulatory quality</td>
<td>Descriptive overview of BR &amp; RIA Quality of RIA</td>
<td>Overview of the extent, coherence and integration of the different components of better regulation as a public policy</td>
<td>20 EU member states and Norway</td>
<td>2004, 2006, 2007</td>
<td>Survey of EU directors of better regulation</td>
<td></td>
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<tr>
<td>EVIA</td>
<td>Comparative analysis of RIA Quality of RIA</td>
<td>Evaluation study on the impact of RIA on decision making containing normative recommendations</td>
<td>27 EU member states and RIA cases studies (EU, UK, NL, Den, Pol)</td>
<td>2007</td>
<td>Mixed (desk research, survey, evaluative measurement)</td>
<td><a href="http://web.fu-berlin.de/ffu/evia">http://web.fu-berlin.de/ffu/evia</a></td>
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<tr>
<td>ENBR/DIADEM</td>
<td>Data creation Quality of RIA</td>
<td>Cross-country comparison of RIA systems through three levels of analysis: macro-institutional, RIA program level, and individual RIA level</td>
<td>25 countries and 4 non-EU countries</td>
<td>2007</td>
<td>Comparative measurements</td>
<td><a href="http://www.enbr.org">www.enbr.org</a></td>
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<tr>
<td>OECD Red Tape Assessment project</td>
<td>Cross-country comparison (benchmarking), measurement methodology test (SCM), and policy recommendations</td>
<td>Country performance and practice on selected administrative procedures, permits, and licensing (both in general and on specific sectors – road freight), and concerning SME business activities</td>
<td>11 OECD countries</td>
<td>2005–2007</td>
<td>Revised version of the Dutch Standard Cost Model</td>
<td><a href="http://www.oecd.org/document/3/0,3343,en_2649_34141_34061123_1_1_1_1,00.html">http://www.oecd.org/document/3/0,3343,en_2649_34141_34061123_1_1_1_1,00.html</a></td>
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<tr>
<td>The cost effectiveness analysis register (Tufts Medical Center, USA)</td>
<td>Collection of data and standardization of cost-effectiveness methodology</td>
<td>List of publications containing cost-utility analyses and the population target. The list includes also the ration $/QALY expressed in 2002$ and an assessment of the quality of the publication (value from 1 to 7).</td>
<td>Not applicable</td>
<td>Literature review conducted according to a specific coding</td>
<td></td>
<td><a href="http://research.tufts-nemc.org/cear/default.aspx">http://research.tufts-nemc.org/cear/default.aspx</a></td>
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</table>
The data sources are a self-assessment and multiple-choice questionnaire sent to OECD member states’ governments and, in minimal part, external sources, i.e. documents (published and unpublished) by the OECD and other organizations. Where it was necessary, a follow-up validation of data has been conducted through conversation between the OECD and national officials.

To attain an overall indicator, all regulatory provisions have been grouped according to specific areas. Survey-based and qualitative information has been transformed into a numerical format by creating a scale from 0 (little market regulation) to 6 (a highly regulated market). A subjective weight has been assigned to each variable. The sum of values of each regulatory provision of a specific regulatory area provides the first level of indicators. The system of indicators is designed as “a pyramid with 16 low-level indicators at the base and one overall indicator of product market regulation at the top” (Conway et al., 2005: 7).

This methodology of data collection involves some subjective judgments in replying and interpreting the responses, scoring qualitative information into ordinal indicators, and finally compiling the data’ (Nicoletti et al., 2000: 16–17). The analysis of product market regulation can be used to reveal the presence of different clusters or countries, such as common law countries, continental European countries, and so on.

Reckoning that this dataset focuses on the extent of product market regulation as a narrow manifestation of quality (derived by the underlying assumption that less regulation increase the level of productivity and that in turn produce more economic growth), this dataset can also be used to connect some measures to the tools of better regulation. An example is the indicator “barriers to entrepreneurship.” This can be related to the results of simplification initiatives or to the programs to remove red tape. Obviously, the data-collection relies on questionnaires that contain a measure of subjective discretion.

World Bank: Indicators of governance and institutional quality

This database is a set of indicators covering the quality of regulatory outcomes within an overall governance framework. Based on numerous indexes of regulatory quality as perceived by stakeholders, the World Bank’s indicators of governance and institutional quality provide countries with a tool for comparison and benchmarking. There are two broad types of institutional measures: performance measures that provide assessment of the quality of governance and process measures that describe the institutional input. Kaufmann et al. (2008; 2005; 2003) identify six dimensions of governance, i.e. voice and accountability, policy stability, government effectiveness, rule of law, control of corruption, and regulatory quality. Correlations across the different dimensions over the years are quite high.

Figure 1 shows the correlation between government effectiveness (GE) and the other dimensions (QR = regulatory quality, RL = rule of law; CC = control of corruption; PS = political stability; VA = voice and accountability) for every year of observation since 1996.

The correlation between regulatory quality and government effectiveness has increased from an initial \( p = 0.8 \) (in 1996) to \( p = 0.95 \) in 2005. Specifically on regulatory quality, this dimension of governance “includes measures of the incidence of market-unfriendly policies such as price control or inadequate bank supervision, as well as perception of the burdens imposed by excessive regulation in areas such as foreign trade and business development” (Kaufmann et al., 2003: 3).

Kaufmann et al. (2003: 39) acknowledge that their system of subjective indicators contains...
In addition, ideological biases in the perceptions of experts have been addressed, investigated and mostly discounted by Kaufmann et al. as irrelevant. Standard errors of the different dimensions tend to decrease over time, showing that the judgments on which the indicators are based tend to become more homogeneous. The quality here is subjective and represented through improvements in the table of countries: the more a country has raised its ranking, the more its regulatory environment has been perceived as improved.

World Bank: Doing Business indicators

The Doing Business (DB) database provides objective measures of business regulations and their enforcement, comparable across 181 economies. The dataset is popular for the ranking of countries according to the number of procedures, time and costs borne by a typical firm to carry out activities. These are other measures of the strictness of regulations assumed not associated to safeguarding consumers’ choice but to policymakers’
activities in creating and increasing the rents for their constituents.

The accuracy of data collected through government publication and online information is tested by contacting government agencies and law firms. Time and official costs are usually aggregated into a summary “full cost” measure, which in case of business start up “adds up the official expenses and an estimate of the value of the entrepreneur’s time, valuing his time at the country’s per capita income per working day” (Djankov et al., 2001: 11). In employment protection law, the methodology of aggregation is substantially different. The analysis covered three areas of regulation – employment, collective bargaining and social security laws – in 85 countries. Each of these three areas is divided into more specific fields.

Aggregation is multi-staged and similar to the OECD’s indicators of Product Market Regulation. First, all variables of a regulatory area are codified. Variables are assigned a value of one when regulation constrained the negotiation between employer and employee, and zero otherwise. For example, fixed-term contracts are allowed in Venezuela only for temporary tasks, while in Vietnam they are allowed for any task. On this component of the employment law index, Venezuela scores 1, Vietnam 0. Second, the variables comprising a regulatory area were aggregated into sub-indexes. Finally, the three overall measures, namely employment law, collective bargaining and social security law indexes, were derived from an arithmetic sum of the sub-indexes. This is an example of a simple but effective aggregation in which the weights are given by the presence of sub-components of comprehensive indexes. This is our recommended aggregation method if government wishes to get more aggregate indicators of regulatory quality.4

There is a correlation between the measures of regulation of labor and measures of entry. Countries that tend to regulate labor markets strictly also tend to regulate procedures for setting a new firm up and judicial proceedings relatively more heavily than other countries (Botero et al., 2003: 26–9).

Although they are often praised for their capacity to reach a high-political impact on policymakers and stakeholders, there have been criticisms of the theoretical and methodological approach of DB indicators. Indeed, the Independent Evaluation Group (IEG) at the World Bank has recently published an evaluation report (IEG, 2008). The report concludes that “the indicators have been highly effective in drawing attention to the burdens of business regulation, but cannot by themselves capture other key dimensions of a country’s business climate, the benefits of regulation, or key related aspects of development effectiveness. Thus, the Bank Group and stakeholders need to consider the DB indicators in a country context and interpret them accordingly” (IEG, 2008: xv). From a theoretical perspective the report stresses that the association between business regulatory environment and macroeconomic outcomes has not been fully explored and explained because of the “[m]any other factors affecting macroeconomic outcomes has not been fully explored and explained because of the “[m]any other factors affecting macroeconomic outcomes, and the direction of causality between regulation and economic outcome is very difficult to isolate” (IEG, 2008: xv).

Moreover, the theoretical assumption behind the regulatory benchmark is that less regulation is desirable. This assumption has essentially three flaws. Firstly, other variables such as infrastructure, labor and skill impact on firms’ investment decisions. Secondly, regulatory reforms aimed at reducing the quantity of regulations overlook the associated regulatory benefits. Thirdly, the actual regulatory costs do not derive from what is written on a piece of legislation but on how the legislation is observed, complied and enforced. We now turn to more specific indicators of the quality of regulatory reform and RIA programs.

4 For further information see the paper Project Level Indicators prepared for the Better Regulation for Growth (BRG) Program, available at www.ifc.org/brg
OECD: Indicators of government capacity to produce high-quality regulations

It is the pioneering OECD project on a database on RIA and regulatory reform. There are three versions of this database (1998, 2000, and 2005). Although explicit benchmarking is not unanimously endorsed by OECD members, this is an obvious practical way to use these data. The OECD defined regulatory quality in the basis of the following principles: necessary, efficiency, effectiveness, transparency, and protection of public interest. The OECD approach to regulatory process is innovative not only for fixing principles of better regulation but also the way these principles have been used in a more comprehensive transnational evaluation exercise. An overview of good practice provides normative hints for defining the principles that in turn are also standards of checklists, used by the OECD in its peer review of regulatory processes and governance.

To assess each country’s regulatory governance, a detailed 2005 self-assessment questionnaire was sent to the formal group of directors and experts for better regulation and RIA programs. It was composed of five sections:

- Content of regulatory policies
- Regulatory quality tools
- Institutional arrangements to promote regulatory quality
- Dynamic aspects of regulatory quality
- Performance/outcome indicators

The last two sections are clearly a recent evolution of the OECD benchmarking exercise. The database is composed of around 80 items.

Governments in this case are evaluated on the basis of the political attention and commitment in implementing policy for better regulatory governance. Recently, the OECD has run a principal component analysis of the self-assessed indicators to derive patterns and build clusters of countries. To control for consistency with other sets of indicators, the OECD has performed a correlation analysis with Doing Business and other datasets (OECD 2008).

Surveys of independent regulatory authorities and regulators

The rationale for surveys of regulators is simple. It is difficult to establish a causal relationship between regulatory reform tools and final economic outcomes. But it is simpler to assume that if regulators make use of the tools for a certain number of years, their attitude towards regulation, stakeholders, consultation, and overall governance will change. These surveys are designed to capture how the attitudes of regulators compare to an “ideal” attitude, assumed to be the best for supporting regulatory excellence. The causal chain between reform and change is shorter in this case.

We often hear the slogan that better regulation “makes institutions think.” Surveys of regulators inform us on whether and how beliefs and attitudes are changing. Having established their importance at the conceptual level, when we turned to empirical analysis we did not find many examples.

Two studies can be included in this category. In June 2005, NERA, a London based economic consultancy group, published the result of a survey of regulators conducted for the World Bank on the topic of transparency. In operational terms, transparency has been defined in a relatively broad manner, as the centerpiece of “good regulation” (NERA, 2005, 11). In turn the seven characteristics of good regulation (clarity of roles and objectives; autonomy; predictability; transparency of decisions; accountability; participation; and open access to information) have been transformed in specific concepts of regulatory transparency.
The survey identifies “the tools that regulators currently use to improve transparency, their views on how effective such tools are and on the barriers they face to improve transparency” (NERA, 2005: 20). Another survey of regulators was conducted by Wallsten and his associates with the aim of providing “new tools for studying network industry reform” through cross-country or cross-industries empirical analysis (Wallsten et al, 2004). This project produced two downloadable datasets on telecommunication and electricity regulatory sectors. The coverage of the database is relevant: the electricity database has 374 variables; 178 are the variables of the telecommunication database.

Finally, we found two examples of surveys of regulators on their capacity to analyze future regulatory effects, conducted for the Canadian government and the European Commission. These studies will be presented in the initial part of Section 4 on the experiences of governments with measurement systems.

**Surveys of business**

This is an area where governments and international organizations have been active with postal and internet-based surveys, especially in relation to the measurement of administrative obligations. We will comment on this later in Section 4, illustrating how governments produce and use surveys.5

**Country fact-sheets on regulatory reform, Better Regulation and RIA**

This group is the most numerous. In addition to its review of member states’ regulatory reform and the above-mentioned indicators of government capacity to produce high-quality regulations (recently dubbed Indicators of regulatory management systems), the OECD has compiled different data summarized in the following report/documents: the OECD report on Ex Post Evaluation of Regulatory Policies (2003) and the RIA Inventory. At the EU level, the European Commission and the member states have been active in collecting cross-countries data on the better regulation policies.

Stemming from the Mandelkern report (drafted by national experts on better regulation in 2001), different presidencies of the EU Council prepared two documents: the 2002 Report of the Greek Presidency on the implementation progress of the Action Plan of the “Mandelkern Report on Better Regulation,” and the Italian, Irish and Dutch presidencies of the Council of the EU “Regulatory Impact Assessment in 10 Countries: State of the Art, Core Aspect, and Best Practices,” a report prepared for the ad hoc group of experts on better regulation in May 2004. The comparison of EU member states according to their progress on better regulation methods has been institutionalized in the EU charter for small and medium enterprises (SME) and successively in the Lisbon agenda. Both policies required national governments to annually report on the policy progress put in place toward enhancing the quality of the business regulatory environment.

Academics have produced information on EU member states’ RIA programs (Radaelli and De Francesco 2007; Radaelli, De Francesco, Troeger 2008). The European Commission’s 6th framework program has funded two projects on RIA: Evaluating Integrated Impact Assessments (EVIA) and the European Network of Better Regulation (ENBR). The first project produced 27 EU member states, country fact-sheets and 22 case studies on the use of RIA in Poland, the UK, and the European Commission. The project also included an internet-based survey on the use of economic analysis by RIA desk officers and stakeholders. ENBR is currently setting up a database of RIA (the so-called DIADEM) in 25 EU member

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5 Currently the European Commission is undertaking a major program of 25% reduction of burdens arising out of EU legislation which includes online consultation of all stakeholders (http://ec.europa.eu/enterprise/admin-burdens-reduction/home_en.htm).
datasets and the Commission as well as Israel, Moldova, Serbia, and Ukraine. Individual RIAs have been classified and scored using a slightly different version of the 22 indicators of regulatory quality design by Radaelli and De Francesco (2007) for DG Enterprise of the European Commission.

Datasets on RIAs and methodology

Indicators of the quality of RIAs are the micro level in the assessment of regulatory quality. Such indicators gauge quality according to the simple assumption that systematic analysis of regulatory impacts would produce better regulatory outcomes. It is obvious that this assumption holds only for regulations reviewed and cannot provide any hint on the overall regulatory environment. In this group we find the former AEI-Brookings Joint Center with its database on U.S. RIAs, the already mentioned DIADEM segment of ENBR and the cost effectiveness analysis register. The OECD Red Tape Assessment project is an attempt to further develop the Standard Cost Model (SCM), a methodology that emerged in the Netherlands to quantify administrative burdens for business in a more comparative setting.

An overview

The purpose and content of the databases vary considerably, especially among international organizations. The World Bank has produced ranking indicators and new approaches to measuring complex concepts (the reference is to the NERA survey). The OECD has relied on a descriptive/comparative approach, and, when allowed by the member states, benchmarking. A similar approach has been taken by the European Commission. In the EU, the main aim is to institutionalize measurement exercises and to embed them in regulatory management processes (details below in Section 4). Academic studies are generally comparative and generate composite indicators. As section 4 and Table 2 show, each aggregate indicator has advantages and disadvantages. The ultimate and perfect indicator does not exist.

As Van de Walle (2008a, 2008b) points out, it is advisable to focus on specific projects and areas of reform, because of the limitations of comprehensive measures of the performance of governments and the public sector (Van de Walle 2008a; 2008b). Subjective and composite indicators are useful because they focus on the real world outcome as perceived by stakeholders, especially businesses. But they may not be so informative for governments in search of tracking regulatory reform. Objective composite indicators are more informative, given their capacity to refer to specific regulatory areas and better regulation tools but they cannot deliver an overarching evaluation. However, the Doing Business indicators cover many regulatory sectors affecting the life cycle of a business, and address this concern. Only academics supported by international organizations are able to constantly update regulatory governance and reform variables.

On the other hand, the majority of datasets produces single measures generally generated by government surveys and not integrated with the business perception surveys (see Table 3). Few databases aim directly to improve the methodology of economic analysis, collecting RIAs and additional useful data.

Thus, an officer who is developing regulation on, say, the disposal of refrigerators in country A cannot make use of the data and analysis produced by regulators in countries B, C, D when they faced the same regulatory problem. Since most regulatory problems are similar, and some regulatory solutions are made similar via harmonization, mutual recognition, WTO jurisprudence and other tools of regulatory rapprochement, this type of datasets would be useful. Diadem – the main product of the European Network of Better
<table>
<thead>
<tr>
<th>Pryor (2002)</th>
<th>Composite subjective</th>
<th>Across-the-board rules (general economic regulation)</th>
<th>Laissez faire</th>
<th>The concept of regulatory quality is comprehensive</th>
<th>Quality is related to only one stakeholder, i.e., business</th>
<th>This relationship between regulation and quality is indirect as it is mediated by the index of government’s effectiveness</th>
<th>The index is not informative for policymakers</th>
<th>Real-world outcome</th>
<th>No specific relation to any tool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaufmann et al. (2008)</td>
<td>Composite subjective</td>
<td>Across-the-board rules</td>
<td>Index of regulatory quality as a component of the overall index of good governance</td>
<td>All stakeholders’ perceptions are taken into account</td>
<td>Margins of error and ideological biases are taken into account</td>
<td>Possible benchmarking tool</td>
<td>Integration between regulatory quality and wider reforms of governance</td>
<td>The index may not be sufficiently informative for policymakers</td>
<td>It may not achieve the learning purpose at the level of civil servants</td>
</tr>
<tr>
<td>Koedijk and Kremers (1996)</td>
<td>Composite objective</td>
<td>Product market and employment regulation</td>
<td>Index of product market, employment, and overall market regulation</td>
<td>Regulatory quality in EU context</td>
<td>Regulatory quality differs by cluster. Hence the indexes are sensitive to context (worlds of regulation)</td>
<td>- The analysis is focused on the extent of regulation, not on quality</td>
<td>- Quality of statistical analysis can be questioned</td>
<td>- Data out of date</td>
<td>Real-world outcome</td>
</tr>
<tr>
<td>Source</td>
<td>Composite objective</td>
<td>Regulation of entry, and legal framework regulation (contract enforcement)</td>
<td>Methodological approach</td>
<td>Real-world outcome</td>
<td>Simplification</td>
<td></td>
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<tr>
<td>Knack and Kugler (2002)</td>
<td></td>
<td>Index of good governance, regulation of entry, and contract enforcement</td>
<td>The index does not provide any useful input on the understanding of regulatory quality</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conway et al. (2005)</td>
<td></td>
<td>Overall index of economic regulation, and employment protection legislation</td>
<td>Three-stage methodology leads to evaluation of tools and policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Djankov et al. (2001)</td>
<td></td>
<td></td>
<td>Flexible system of measurement that can be applied to specific policies (e.g. Innovation policy)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Botero et al. (2003)</td>
<td></td>
<td></td>
<td>Clear relation to simplification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simple measures</td>
<td>Objective or subjective</td>
<td>Compliance costs</td>
<td>Easy to understand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Costs of administering regulation</td>
<td>Targeted</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cost effectiveness of regulatory program</td>
<td>Lists of simple measures (in the Yes/No format) are very informative on the quality of RIA and simplification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Measures of CBA quality</td>
<td>Often difficult to gather with precision, accuracy, and possibility to replicate</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Radaelli and De Francesco (2007).
Table 3: Purpose, Aim and Types of Measurement of Databases

<table>
<thead>
<tr>
<th>Dataset</th>
<th>Data utilization</th>
<th>Aimed at BR tools or regulatory reform outcome</th>
<th>Objective or survey-based</th>
<th>Simple or composite</th>
<th>Measure of governance or regulatory environment</th>
<th>Integrated with larger sets of data or comprehensive assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank: Indicators of governance and institutional quality (regulatory quality)</td>
<td>Ranking</td>
<td>regulatory reform outcome</td>
<td>survey-based</td>
<td>Composite</td>
<td>Governance</td>
<td>YES</td>
</tr>
<tr>
<td>World Bank: Doing Business indicators</td>
<td>Ranking</td>
<td>Both</td>
<td>Objective</td>
<td>Composite</td>
<td>Regulatory environment</td>
<td>NO</td>
</tr>
<tr>
<td>OECD Product Market Regulation</td>
<td>Cross countries comparison and policy recommendation</td>
<td>Both</td>
<td>survey-based</td>
<td>Composite</td>
<td>Regulatory environment</td>
<td>NO</td>
</tr>
<tr>
<td>OECD: Indicators of regulatory management systems (2007) or indicators of government capacity to produce high-quality regulations</td>
<td>Descriptive and benchmarking</td>
<td>BR tools</td>
<td>survey-based</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>World Bank: Regulatory transparency (NERA Consulting)</td>
<td>Data generation and concept formation</td>
<td>regulatory reform outcome</td>
<td>survey-based</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>Telecommunications and electricity regulation database (AEI Brookings)</td>
<td>Data generation</td>
<td>regulatory reform outcome</td>
<td>survey-based</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>Canadian surveys</td>
<td>Evaluation</td>
<td>regulatory reform outcome</td>
<td>survey-based</td>
<td>Simple</td>
<td>Regulatory environment</td>
<td>NO</td>
</tr>
<tr>
<td>Source</td>
<td>Methodology</td>
<td>BR tools</td>
<td>Approach</td>
<td>Complexity</td>
<td>Governance</td>
<td>Applicability</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------</td>
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</tr>
<tr>
<td>OECD RIA Inventory</td>
<td>Descriptive</td>
<td>BR tools</td>
<td>Objective</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>European Commission: Report on the implementation of the European Charter for Small Enterprises in the Member States of the European Union</td>
<td>Descriptive and policy orientation</td>
<td>BR tools</td>
<td>survey-based</td>
<td>Simple and composite</td>
<td>Governance</td>
<td>YES</td>
</tr>
<tr>
<td>Indicators of regulatory quality</td>
<td>Cross-country comparison</td>
<td>BR tools</td>
<td>survey-based</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>EVIA</td>
<td>Cross-country comparison</td>
<td>BR tools</td>
<td>Both</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>ENBR/DIADEM</td>
<td>Cross-country comparison</td>
<td>BR tools</td>
<td>Objective</td>
<td>Simple</td>
<td>Governance</td>
<td>NO</td>
</tr>
<tr>
<td>OECD Red Tape Assessment project</td>
<td>Methodology enhancement</td>
<td>BR tools</td>
<td>Objective</td>
<td>Composite</td>
<td>Regulatory environment</td>
<td>NO</td>
</tr>
<tr>
<td>The cost-effectiveness analysis register (Tufts Medical Center, USA)</td>
<td>Methodology enhancement</td>
<td>Both</td>
<td>Not applicable</td>
<td>Simple</td>
<td>Regulatory environment</td>
<td>NO</td>
</tr>
</tbody>
</table>
Regulation (see Section 2) is one of the few datasets developed with this specific aim. It is still under construction, but it definitively goes in the right direction.

Overall, the databases measure both the quality of regulatory process and its institutional input, and the quality of regulatory environment as the real world outcome of better regulation programs (see Table 3). There is still room for improvement both in term of quantity and quality in each category of indicators, especially in better understanding the relationship between quality of governance and quality of the regulatory environment. But here our point is that each indicator represents only a specific discernment and representation of quality. In order to have a broader appraisal of quality it is necessary to take into account many measures, cumulating different bits of information, and possibly correcting for the bias of one measure with another measures.

Great attention should be paid to this process, since wrong choices in the construction of the menu of indicators may lead to adding the bias of one measure to the bias of other measures: two wrongs do not make one right. Further, there is a gap concerning the integration of these measures with a broader measurement system. With the exclusion of Kaufmann's indicators and the EU Commission measurement of narrow regulatory sectors and their integration in the Lisbon agenda for growth and jobs, the measures are isolated and not connected with broader and different measures.
USE OF INDICATORS

After having identified, mapped and classified the main databases, this section reviews how governments, international organizations and academics use data and measures related to regulatory quality and governance.

How governments use existing indicators

We review the measures and tools related to RIA programs in eight countries, namely, Australia, Belgium, Denmark, Canada, the Netherlands, Sweden, the UK, and the United States. Essentially, measures and tools can be grouped in three types of retrospective studies (OECD 1999, 19):

a. Conduct studies – By assessing whether appropriate guidance or generally accepted practices were followed, these studies identify possible improvements in the methodology to carry out ex ante economic analysis.

b. Impact studies – These studies focus on the impact of regulatory quality tools on decision making, identifying reasons for no or minimal impact of economic analysis and RIA on the decision making.

c. Accuracy studies – These assess the quality of ex ante regulatory analysis by comparing predicted versus actual impacts.

Conduct studies require one of the following measures: indicators, scorecards, process standards or checklists. Using the latter methodologies, several independent audit offices have reported on regulatory quality. Surveys are generally used to conduct impact as well as accuracy retrospective studies. Ex post data are essential for setting a sound (regulatory) budget system. With the exception of few studies conducted in the United States (OTA, 1995 and the Pollution Abatement and Control Expenditures calculated by the U.S. Census Bureau7), accuracy studies are not common within governments.

The following sections introduce and examine the tools used in conduct studies.

7 www.census.gov/econ/overview/mu1100.html
Set of indicators

There is only one case of use of a coherent set of simple indicators of regulatory quality. In Australia, departments and agencies are required to compile every year a set of Regulatory Performance Indicators (RPI). The Office of Small Business (OSB) has developed nine RPIs, inspired by the six objectives of regulatory policy. The explicit link between what the country wants from the regulatory overview system (the six objectives) and the indicators is an element of the strength of this approach. The Australian indicators are rich in information, easy to understand, and are monitored by the government. Indicators are therefore inserted organically into regulatory reform. However, a publication recently concluded pessimistically that “the indicators were of limited value, caused by the neglect of output and impact measures, the limited range of regulation covered and a failure to integrate the indicators into departmental performance management systems” (Carroll, 2008: 2).

Scorecards

Scorecards are tools widely used to assess the quality of RIA. Scorecards are composed of a series of yes/no questions that generate simple measures. A feature of these measures is that they can be weighted and aggregated in an overall composite indicator. This differentiates scorecards from the checklists. The latter are usually a set of single measures that are not aggregated.

The United States provides an interesting example of a scorecard aimed at ex post evaluation. The Program Assessment Rating Tool (PART) is “a diagnostic tool meant to provide a consistent approach to evaluating federal programs as part of the executive budget formulation process” (GAO, 2004: 2-3). It systematizes the Office of Management and Budget (OMB) performance measurement. Although PART is a tool to evaluate broad government programs that could be spending, regulatory, or a mix of both types of programs, its questions on regulatory programs are really detailed. Monitored by OMB, questions “are written in a Yes/No format and require the user to provide a brief narrative explanation of the answer, including any relevant evidence to substantiate the answer.” Responses should be evidence based and not rely on impressions or generalities (OMB, 2002: 2). As a result, these performance indicators are categorical and designed to be objective. They provide “a consistent approach to rating federal programs,” paying particular attention to the individual program results (GAO, 2004: 9). Indeed, the principle guiding the rating exercise is that regulatory programs are appropriate and deserve funding when they show a clear evidence of effectiveness and are capable of maximizing the benefits to society.

Scoreboards are also common across stakeholders. The British Chambers of Commerce (BCC) (2004) has collected information on simple measures of output, such as percentages of RIAs that present a summary of consultations; illustrate how proposed regulations have changed in response to consultation; consider non-regulatory options; include sunset clauses; quantify costs, on business, environment, citizens, and government; quantify benefits, on business, environment, citizens, and government; quantify net benefits; and report measures of compliance costs for SME. Scorecards are also used outside governments by academics (Cecot et al., 2007; Hahn et al., 2000; Hahn, Malik and Dudley, 2004; Lee and Kirkpatrick, 2004) and think tanks (Vibert, 2005; 2004; IEEP, 2004).

Regulatory process standards and checklists

In Canada, the oversight body, currently the Treasury Board Secretariat (TBS, 1996) is in charge of assuring compliance with the federal regulatory process management standards. These standards provide checklists for each stage of the regulatory process. In particular, the quality assurance process terminates with regular internal self-assessments of
accompanied by semi-structured interviews within the departments and at the Better Regulation Executive. In 2008, NAO has also assisted the House of Commons Inquiries on better regulation in the UK and on the burdens reduction program, sharing background data and providing state of the arts papers to parliamentary clerks (House of Common Regulatory Reform Committee, 2008).

In Canada, the auditor general (2000) has formulated recommendations to enhance the regulatory quality of health and safety regulations, without proposing any indicator to measure it, however. Although Canada and other countries do not use external review to propose indicators, these exercises provide standards and checklists. Typically, these are recommendations for changing guidance, improving training and rising the quality of resources dedicated to regulatory quality programs.

In 2006, the European Commission created a body – the Impact Assessment Board – reporting directly to President Jose Manuel Barroso. The Board includes the deputy secretary general of the Commission and four directors from the Directorates General for Economic and Financial Affairs, Enterprise and Industry, Employment and Social Affairs, and Environment. This body reviews the quality of the RIAs produced by the Commission. It can make negative comments and ask for more analysis. The IAB is chaired by the Deputy Secretary General of the European Commission – thus making a link between the mechanisms of control that flow through the Sec Gen and the IAB (http://ec.europa.eu/governance/impact/iab_en.htm). The IAB performance has been recently assessed in-house with some descriptive indicators in the year-one report on the Board, produced by the Commission itself (Impact Assessment Board, 2008).

The European Commission has also externally evaluated its RIA program. This study was carried out by the Evaluation Partnership, a London-based consulting company. The approach of the evaluation was three-fold, covering the institutional
design and the extent of implementation (process and methodology, support structure, and central overview), output, and impact on the policy process. The methodology involved analysis at the IA process and single IA levels. To obtain information on the IA process, the Evaluation Partnership conducted surveys both with stakeholders and regulators as well as desk research on documents, complemented with specific request of additional information on guidelines, policy document, and external reports. The analysis on the single IAs was conducted in three stages. First, 150 IAs were identified, selected, and screened. Second, a more depth analysis was conducted on 20 IA. This led to the final stage of identification of 6 case studies analysis, supported by expert interviews in order to understand the magnitude of the impact of IA on the policy-making process.

Surveys

Governments use two types of surveys: business surveys on regulatory costs and surveys of regulators on the impact of RIA programs. The United States provides an example of business survey that measures the cumulative impact of environmental regulations, that is, the Pollution Abatement Costs and Expenditures (PACE) Survey.8 The survey collects data on pollution abatement and prevention, capital expenditures and operating costs for air, water, solid waste, and multimedia. The survey also collects data on disposal, recycling, site cleanup, habitat protection, environmental monitoring, and testing and administrative costs as well as other payments, such as permits, fees, fines, penalties, and tradable permits bought or sold.

The Danish business test panels revolve around a collection of business administrative cost estimations in each regulatory sector, the aim of which is to select a regulatory sector in which simplification can yield the most efficient results. The selection relies on information gathered by business surveys, the so-called model companies. This model is based on a random sample of 1000 firms. These are then surveyed on how the stock of regulation affects the daily administration of a company, providing a quantification of the total administrative burdens. It considers the representative sample according to business sectors and the size of the firm. In Belgium business surveys capture the administrative burdens created by existing regulations. Recently, in Europe most EU countries and Norway have adopted the standard cost-model to measure administrative burdens. The model is often based on interviews carried out by consultants with a few typical firms per sector – hence it is not based on surveys of representative samples. In some cases, however, surveys of business have been used to answer the question whether firms feel that there has been a reduction in administrative burdens or not (NAO, 2007).

The accuracy of survey results depends on the intrinsic quality of the questionnaire and on the presence of mechanisms that validate the information provided by businesses. However, ex ante survey methods can have disadvantages too. First, they often rely on subjective data stemming from a typical regulated party: the business. Businesses tend to over-estimate regulatory costs and, ex ante, there will be limited mechanisms to validate their claims. Hence regulatory bias can affect the outcomes of surveys, especially when this bias has the potential to be large due to predicted outcomes being assessed rather than observed outcomes. In the absence of ex post assessment, predicted outcomes cannot be validated against observed outcomes to allow for correction in the bias. Second, experience shows that all too often, survey data are not compared with (and connected to) other research or sources that use different methodologies (SQW, 2005). This would be useful since it would take account of different sources of bias.

Turning to surveys of regulators, in Canada, interviews of a sample of regulators have measured the change in their perception of the usefulness of RIA (in the context of a systematic

8 http://www.census.gov/mcd/pace.htm
external evaluation of RIA, Regulatory Consulting Group Inc. and Delphi Group, 2000: 48-50). Canada shows how structured interviews can be usefully employed to look inside government rather than outside. The reliability of these indicators increases with the repetition of surveys across time.

Regulatory budgets, administrative burdens, and agendas

The regulatory budget is a document containing ceilings or targets of regulatory costs to be met by the various regulatory programs or agency departments. It is a tool that monitors the growth of regulatory costs. The regulatory budget generally takes the form of a report to the Parliament, thus enhancing accountability.

The international experience shows two different approaches to regulatory budgets. The holistic approach accounts for all regulatory costs and compares them to the regulatory benefits. The minimalist approach, instead, focuses on a single component of the total regulatory costs, such as compliance costs or administrative burdens.

The United States follows the former; several European countries (i.e., the Netherlands, Belgium, Sweden, the UK, Denmark,) the latter, estimating the total cost of administrative burdens. However, in the U.S. a full-blown cross-government regulatory budget has never been adopted. However, the Office for Information and Regulatory Affairs (OIRA) – within the White House’s Office for Management and Budget (OMB)9 – is required to assess the benefits and costs of existing federal regulatory programs and to recommend specific regulations for reform or elimination. Congress annually receives a report issued by OMB-OIRA on the results of RIA alongside the estimate of the total annual regulatory costs and benefits - in aggregate, by agency and program, and by major rule. Several indicators are considered. One is the sum of costs and benefits of regulations in a year calculated via RIA. The report adds up the results of the last 10 years to provide an estimate of the total impact of regulations over the decade. Another indicator is the overall impact of regulation on the public sector.

The OMB indicators, however, are simply a compilation of RIAs. The measures of costs and benefits derived from RIAs cannot be treated as measures of the actual impact of regulation. RIAs are prepared before a regulation enters the statute book and are enforced. Consequently, the costs and benefits included in an RIA are estimates. Actual costs and benefits can only be measured once the regulation is enforced. The literature on the accuracy of costs estimates suggests that the difference between a cost estimated in an RIA and the actual cost (as measured once the rule object of the RIA is implemented) can differ markedly (Harrington et al., 2000). As Parker (2003: 1367) argues, confusing ex ante estimations with the actual regulatory costs and benefits is a mistake similar to confusing a pre-game guess with the actual score of the game (see also McGarity and Ruttenberg, 2002).

The UK is the only country in Europe that has gone as far as to propose a cap on the annual cost (for the private sector) of new regulations within the context of a three or five-year budget structure (BERR, 2008a, 2008b). The British initiative has Prime Ministerial backing – operationally it is carried out by the Department for Business, Enterprise and Regulatory Reform (BERR10). The proposed budget works vertically (by department) but issues such as energy efficiency will be dealt with horizontally. The Conservatives have pledged since 2005 that, if in government, they will impose an annual limit on the regulatory costs imposed by each department – and that

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9 The Office for Management and Budget’s predominant mission is to assist the president of the United States in overseeing and coordinating the preparation of the federal budget, the administration’s procurement and financial management, and information and regulatory policies.

10 Renamed Department for Business, Innovation and Skills (BIS) in 2009.
“this limit will be reduced annually until over regulation is tackled” (Conservative Party, *Action on Deregulation*, 2005, p.1). Thus, this trend is pretty much bipartisan. Several EU countries and the European Commission have multi-annual targets of reduction of administrative burdens. The Netherlands has completed a round of 25 percent reduction and is now embarking upon a further 25 percent reduction.

In Europe, as mentioned several countries follow a sort of regulatory budget for administrative costs approach. The approach is based on the notion of administrative burdens. Interestingly, several EU countries and the EU have established the same policy goal that is to reduce them by 25 percent in a specific period of time. The strategy to reduce administrative burdens targets the stock of existing regulations, as well as the flow of new regulations. In both cases European governments use a specific tool, the so-called “standard cost model” (SCM). This accounting system has been created in the Netherlands and then has been adapted to the other European countries.

The Dutch SCM quantifies administrative costs and divides them according to departments and the origin of regulation (EU directive, EU regulation, and national regulation). In the case of ex ante assessment, the SCM quantifies administrative costs per regulatory option, showing the lowest burden achievable. The measurement of the existing regulations is based on “zero-base-measurement,” an inventory of all information obligations and administrative activities grouped according to the responsible ministry. The SCM allows the Dutch government to encourage departments to respect ceilings of administrative burdens. For instance, in the Netherlands the ceilings “are being created for all departments as a fixed component of the budget and accountability system” (ACTAL, 2003: 7).

The methodology to quantify administrative burdens involved in a single regulation is common to all countries that have adopted this approach. There are two steps. In the first step, costs per administrative action are quantified. They are composed of three variables: the single cost of action, the number of times a firm has to provide specific information in a year (the so-called “frequency”), and the number of businesses affected by regulation. The single cost of an action is given by the hourly labor cost and the time spent dealing with a specific information obligation per regulation. Time can be estimated through business surveys or alternatively through a simulation of an administrative action taken by a model firm for complying with a regulatory provision (Legislative Burden Department, 2003: 21-22).

The experience of European countries with SCM provides an interesting approach to total measures of administrative burdens. The Dutch program of 25 percent reduction of administrative burdens has been positively evaluated by the World Bank and the OECD in 2007 (World Bank Group 2007; OECD 2007). In terms of communicability, measures such as the total administrative burden created by, say, transport regulation score well and are easy to link to targets. However, the standard cost model has some limitations.

First, it is based on unrealistic assumptions about a total compliance with administrative requirements. Second, point estimates are often less informative than probabilistic ranges. Third, and more importantly, administrative burdens are only a component of direct costs. The other important component is compliance cost. The risk is one of focusing the public debate on a limited type of regulatory costs. Fourth, there is the political risk of tilting regulatory reform towards only one stakeholder, that is, the firm. Interestingly, some European countries and the European Commission have manifested the intention to take care of burdens affecting both firms and citizens.

We conclude with the link between budgets and regulatory agendas. Holistic budgets, inclusive of benefits, could be used to support an open annual parliamentary debate on the Regulatory Agenda
of the government (Doern 2007). Interestingly, Doern shows how Canada already has embryonic processes and latent sources of information that could be brought together to produce an annual regulatory agenda. The advantage of a regulatory agenda is that one can see synoptically all major regulatory priorities, their costs and their benefits. The presence of all major regulatory choices in a single document – Doern reasons – would facilitate the selection of major options, the allocation of resources and the solution to trade-offs between equally desirable goals.

More recently, the Australian government has launched a performance benchmarking exercise on business regulation across jurisdictions. The main idea supporting this measurement activity is that by benchmarking compliance costs one can identify unnecessary regulations and complement other regulatory reform initiatives. Compliance costs have been categorized in three groups associated to business activities: becoming and being a business; doing business; and doing business interstate. The project is not limited to indicators for compliance costs. It covers over time both quantity and quality of regulation. As a result, regulatory stock indicators are complemented and integrated in a broader measurement framework to capture the progress and performance as well as regulatory design administrative and enforcement.

An overview of the number of countries with measurement initiatives is increasing. The OECD (2003: 10) lists nine member states with some experiences in evaluation of RIA output. Moreover, in 2004 a specific OECD questionnaire on "ex post evaluation of regulatory tools and institutions" was sent to the national directors or experts of better regulation. The results of this self-assessed questionnaire are interesting: 8 out of 22 OECD member states have an explicit and current policy/strategy on ex post evaluation of regulatory tools and institutions; 3 out of 22 report that this policy/strategy is in preparation.

But one striking fact is that even European countries with information that can be potentially turned into systems of indicators (a set of measures classified for their purpose, data source and methodology, as opposed to the use of a single target) are not aware of this potential, or, if aware, they have not started activity along these lines. There is no evidence of the use of aggregate measures. Even the simplest among the indexes, time and costs to comply with regulation of entry (Djankov et al. 2001), is not currently used (with the only exception of Belgium). In other words, among Western governments, there is evidence of lack of systematic use of database reviewed in the previous section. Nevertheless, countries that focused on the reduction of administrative burdens rely on simple measures amply discussed by the literature, such as the time spent to deal with information requests, and hourly costs. Considering that most EU Member States are targeting red tape and that the literature has discussed several indexes, there is considerable potential for a closer dialogue between policymakers and social scientists.

How international organizations use indicators

The World Bank, OECD and EU have designed several sets and typologies of regulatory indicators. Their extent and purposes of utilization vary widely. The World Bank uses regulatory indicators for stimulating momentum for regulatory reform through the collation of comparative statistics and reports, the appraisal of proposed regulatory innovation projects in specific countries, and, together with other indicators, regulatory indicators contribute to major decisions on aid.

The OECD has typically made use of indicators to organize discussions within its regulatory reform working parties. A range of OECD indicators are collected by the member states via questionnaire circulated within these working parties, so in a sense the national delegates sitting on these committees are both the producers and the users of measures of regulatory quality.
Observing the difficulty of assessing the real-world impact of regulatory policies, the OECD in a recent study has further strengthened its practical approach to indicators (Jacobzone et al., 2007) by investing resources on indicators that capture whether countries comply with the implementation of good practice as identified by the OECD principles of good regulation. For the OECD, monitoring compliance with ministerial-level OECD decisions on better regulation is an important way to make use of indicators (OECD, 1995).

Discussions in OECD committees vary from the analysis of general reform trends to more specific peer-review sessions on the reform results achieved by individual countries. The OECD is undertaking a review of the old-15 EU member states, with funding and intellectual support from the European Commission. Indicators have been discussed as a possible component of a review process. But like in other cases individual countries may object to the publication of indicators. The general rule is that it is up to the members of the working parties to decide whether indicators are published in detail – several OECD reports on regulation report percentages but do not list how individual countries fare.

In the EU, the policy discussion on using regulatory indicators started with the IRQ study funded by DGENTR (see Section 2 above). The study was then presented by the Commission at a public conference, at meetings of the High Level Group Advising the Commission on Impact Assessment, and at a meeting of the Directors of Better Regulation of the EU hosted by the UK cabinet office in London, March 2005. The High Level Group is composed of delegates from the member states. Its aim is to advise the Commission on strategic choices about impact assessment, and to keep momentum for implementation of impact assessment at the EU level and in the member states. The Commission has sent discussion papers on indicators to this body. The High Level Group was also asked to examine the feasibility of collecting indicators country by country, and to start gathering simple measures. This was in the context of the Commission (2005) trying to implement the Communication on Better Regulation for Growth and Jobs in the EU, which contains the following wording on indicators:

“The Commission intends to discuss in this group the development of a coherent set of common indicators to monitor progress as regards the quality of the regulatory environment both at EU level and in the Member States themselves, as a basis for benchmarking. The Commission will encourage Member States to adopt such indicators to define targets and priorities for their better regulation programs for the coming years in their national Lisbon programs” (European Commission 2005, p. 10).

So far, however, the discussion has not progressed steadily. The main feeling is that some governments are “reluctant although not opposed” to make the step of adopting common indicators (Radaelli, 2007). The same can be said of the Council formations, where the Competitiveness Council and the European Policy Committee have debated regulatory indicators on some occasions, but without taking the step of adopting a common set of measures to keep track of progress with regulatory reform.

To date, the most important achievements in the EU context are the inclusion of measures of startup of firms (an indicator linked to the top priority of the Lisbon agenda for growth and jobs in Europe) and the adoption of targets for the reduction of administrative burdens at the EU level and in the individual member states (Council conclusions of 8–9 March 2007). The Council agreed the following, with some caution on the commitment of the individual countries. Note the caveats about the “starting points” and the “traditions”:

The European Council therefore agrees that administrative burdens arising from EU legislation should be reduced by 25% by 2012. Taking into account the different starting
points and traditions the European Council invites Member States to set their own national targets of comparable ambition within their spheres of competence by 2008.

Political hesitation notwithstanding, statements about wanting to use indicators in EU regulatory policy are plentiful. The Four Presidencies Initiative of January 2004 declared that “the Commission should propose indicators to measure progress with regulatory quality and reform at European and Member State level for activation through the Open Method of Coordination and for application in impact assessments.” The presidencies also stated that “[p]rogress can best be measured if such indicators are quantitative.” The results of a 2007 survey held among the Directors of Better Regulation in the context of the Intune research project (www.intune.it) also suggest that, apart from the official rhetoric, the adoption of indicators is not felt as a priority in this policy community. Only 20 percent of the respondents chose regulatory indicators as one of the three major items that should feature on the future better regulation agenda.

Yet it is the use of indicators rather than their design, which is pivotal to their success as aid in policy processes. First, indicators are more likely to be used if they capture variables on which policymakers can intervene – a large number of variables affecting the business and social environment are not controllable by governments. Second, the types of indicators likely to win agreement among all political actors are also likely to be the ones that are amenable to various uses and interpretations. Hence the usage of indicators in international organizations is about striking the balance between monitoring progress and compliance from the center, and enabling individual countries to learn at their own pace and in relation to their regulatory reform objectives. Given this tradeoff, a major function of indicators is to provide transparency to regulatory reform processes and to push governments to reveal their preferences by adopting specific indicators (or by not adopting other indicators).

How academics use indicators

This section reviews the academic discussion on quality of regulation and governance. Based on Radaelli and De Francesco (2007), a synthetic table (2) is presented to the state of the art of the methodological and theoretical insights of each indicator. Given space limitations and the fact that most of the table entries have been discussed in Section 3, we do not comment on the details of the studies, but only make references to some important points and classic approaches.

Knack and Kugler (2002) make the important observation that “different indicators of good governance are appropriate for different purposes” (Knack and Kugler, 2002: 1). According to these authors, there are two main dimensions that motivate different indicators. One is conventional and refers to the degree of aggregation. Indeed, most of the literature on indicators of governance or regulatory quality deals with different approaches to aggregation, with the implicit (but often flawed) notion that the more one aggregates, the better is the measure of quality. Knack and Kugler warn that the choice of indicators should account for the trade-off between the precision of measurement (of a phenomenon) and the robustness of more highly aggregated indicators. The other dimension is the degree of transparency and the extent to which indicators are replicable.

Koedijk and Kremers (1996) provide an often cited (although out of date) approach to comparative analysis of regulation and its effects on macroeconomic outcomes. The study was based on a regression analysis between the determinants of macroeconomic performance (growth, productivity and employment) and indexes of overall market regulation, product market regulation and labor market regulation. It is important to note that this analysis dealt only with regulation and ignored other factors that can enhance the structural growth of an economy. Regression analysis was followed by cluster analysis, identifying different groups of countries, according to
their economic performance and regulatory styles. This type of analysis shows that there are different worlds of regulatory reform. This is a useful antidote to the one-size-fits-all approach to policy recommendations. However, this approach has limitations too. The focus is not on regulatory quality, but the quantity of regulation. The quality of statistical analysis, based on crude regressions, is another weak point. To illustrate, the authors make a simple average of the indexes to construct the main composite measures. Although this avoids the problem of arbitrary weights, there is no justification of why all the indexes should weigh the same. Finally, their data are a bit out of date. Regulatory reforms have changed the landscape of regulation in several EU countries.

A recent paper by Jalilian et al. (2006) deals with the impact of regulation on developing countries’ economy. The study measures through an econometric model how variations of regulatory quality affect economic performance. The authors rely on two dimensions of Kaufmann et al: regulatory quality and government effectiveness. Theoretically, they rely on the concept of “growth accounting framework, where economic growth is used as the measure of economic performance and regulation is entered as an input in the [Cobb-Douglas] production function” (Jalilian et al, 2006: 91). Jalilian and his associates recognize two caveats in their research design: the inability “to rigorously demonstrate causation” and to solve the problem of endogeneity due to the lack of data. The authors, however, are confident in concluding that the quality of regulation positively affects economic growth of developing countries.

As already mentioned, the table shows that academics rely on composite indicators that attempt to capture the real-world quality of regulation in terms of economic growth. In order to do so, economists rely on theoretical assumptions or empirical evidences that reveal the causal links between regulation (usually less regulation) and better economic performance.

Overall, governments, academics, and international organizations have different approaches in using knowledge stemming from indicators of regulatory quality. Although using different modalities of studies, governments are dedicated to evaluating their efforts in governing regulation. Accordingly, the assessment is essentially (in those few existing cases) an evaluation of the better regulation policy and simplification or RIA programs. We are not aware of any evaluative activities among developing countries.

Apart from few studies commissioned by the Dutch government on the impact of reducing administrative burdens on GDP, we are not also aware of any attempt among the Western and OECD countries to measure the ultimate economic impact of better regulation policy on competition, productivity, and ultimately on GDP and economic growth. This gap has been filled by academics and economists, and international organizations have been successful in filling this gap in knowledge utilization promoting more macro level measurement across governments. In our proposal of regulatory quality indicators system, we suggest that governments systematically utilize a series of economic outcome indicators that are now available at the World Bank to complement their absolutely necessary (micro) evaluation of better regulation programs.
This working paper has discussed different datasets of regulatory indicators and their usage. In the conclusions, we sum up the main findings, make critical remarks on the state of the art, and formulate suggestions that link this paper to the approach chosen for the companion working paper.

At the outset of this conclusion, in paragraph (a), we address the relationship between the literature on regulatory indicators and the specific socio-economic conditions of the countries targeted by IC and the World Bank Group in general. We then move on to conclusions on the process of aggregation, and formulate suggestions on knowledge and policymaking by looking at a continuum of possible utilizations of regulatory indicators. We consider three ideal-types of utilization: oversight, monitoring, and learning.

a. When we deal with developing countries, we have to be aware of the problems of data-gathering, accuracy of measures, and limited administrative capacity to collect information. Apparently simple data, such as the numbers of regulations administered by a department, are often not available, even in the most developed countries (cfr. Jacobzone, et al. 2007). It takes time and political determination – typically direct pressure from the Prime Minister - to convince ministers to produce a list of their regulations. Projects aimed at the development of indicators in these countries should usefully start from an analysis of what is available on the ground. For example, in the case of a large continent like Africa, the first step would be the identification of 4-5 countries for which there is prima facie evidence that they have better quality information than the average country. Only by learning what is available in the first place can one then make suggestions as to how the data should be produced and gathered. In a sense, this is the approach followed by Doern (2007) and Radaelli and De Francesco (2007) in a different context with the same analytical hurdles. Both studies look at developed countries, but they start from a bottom-up approach, identifying measures and information that are already available.
(albeit not exploited yet) and latent processes through which measures could be used by policymakers.

b. There are several datasets available, most based on simple measures rather than composite indexes. International organizations have generated several regulatory indicators, and have tried to link measures both to their internal decision-making processes and to processes of regulatory convergence across countries. The results are variable, with more progress on technical issues and less on convergence.

c. The integration of regulatory quality measures with other components of structural reform and governance is generally low. Exceptions are the regulatory quality indicators of the World Bank – integrated with other dimensions of good governance – and the integration of administrative burdens indicators and targets with the EU Lisbon agenda for growth and jobs. Statistical analysis shows that regulatory reform is correlated with other dimensions of governance – suggesting that this form of integration is worth-pursuing.

d. Surveys of policymakers are few. We have not found systematic attempts to measure how regulatory reform is changing the attitudes towards regulation of regulators and policy officers who develop legislation. Yet if one fundamental aspect of regulatory reform is to change attitudes and approaches to regulation, this dimension cannot be ignored. The state of play is better in the domain of business surveys.

e. It seems that most of the progress so far has been on the middle segment of the process – that is, the technical discussion of indicators. The early steps (i.e., quality of data used to calculate indicators) and knowledge utilization have received less attention.

f. However, there is no point in designing indicators if processes of knowledge utilization are not designed at the same time. As shown by the example of the European Commission and its campaigns to convince the EU member states to adopt indicators, the crucial step is to create political commitment to adopt a set of indicators, and to spell out clearly how they will be used.

g. In this context, aggregation is most usefully performed by those who are to make use of information and knowledge to take regulatory reform decisions. By adopting a set of indicators out of the large number of measures theoretically available, policy actors already make an important choice. By saying how and how often indicators will be used, they show commitment to reform. By deciding on how a particular aggregation enables them to track down a dimension of reform, they reveal their preferences and choose between one reform trajectory and another. Thus, selection and aggregation are mechanisms that reveal preferences. Imagine that a government has the following main goals of regulatory reform: institutionalization, economic sophistication, accountability, interaction with the stakeholders and communication. Aggregation should then reflect these four dimensions, not in relation to abstract technical properties. Thus, a set of N indicators could be broken down in four indexes providing information on the main goals, and suggesting where resources have to be concentrated.

h. This brings us to a final critical point about usages of indicators. There are three categories of usage: by the donor to evaluate a project ex-ante and during the implementation; by a government to appraise reform and its outcomes; by constellations of governments and stakeholders to promote convergence in multi-lateral and supra-national organizations. Further, the specific usages by each of these categories, but most typically governments, are situated on a continuum that goes from oversight and monitoring to learning.
At the oversight pole, we find the need to monitor progress in relation to pre-established goals and targets. This is essentially a top-down usage of indicators. It secures convergence, but it may hinder processes of learning in a flexible and more experimental ways. It also makes the assumption that there is only one shared set of regulatory reform goals – and this is not even true in highly integrated political systems like the EU. There is a form of learning here, but it is about learning how to comply with targets and not lose position in the common march towards shared goals.

i. At the other extreme, we find experimental learning. Here, different countries select different sets of indicators or aggregate differently to reflect their own regulatory reform priorities and to experiment with innovations in governance. Countries learn at their own pace and in relation to their objectives. To avoid a sort of “anything goes” syndrome, where there is no common progress at all, even in the learning mode there has to be a process in which countries share their experience, and use indicators to talk about their different opinions. This approach enhances transparency and accountability. It relies on facilitated coordination in institutions like the OECD and the EU to create more evidence-based dialogue on regulatory reform.

j. There is no obvious choice between monitoring and learning. Learning can foster convergence, as shown by studies of diffusion, under certain conditions. Strict monitoring and oversight are the most intuitive ways to seek convergence or at least identify the information needed to foster convergence. Both work well when there is a shared set of beliefs on regulatory reform – which brings us back to the problem of getting the processes of knowledge utilization right. But the two mechanisms are intrinsically different. Monitoring is based on predictability, reporting, tasks well specified in advance, whereas learning is essentially disruptive of regularity and may lead to the breakdown of “monitorability” (Sabel 1994). There are also several options in-between, though. The continuum goes from oversight to learning via traffic-light systems, competitive benchmarking, comparative benchmarking, naming and shaming, shaming without naming particular countries, and different indicators within a common set of guidelines. Organizations like IC should discuss with their target countries these processes of knowledge utilization before they attend to the design of indicators. It is fundamental to have a transparent discussion and shared beliefs about what the indicators are about and how they will be used by whom to set the better regulation initiatives on the right tracks.
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The Better Regulation for Growth (BRG) Program was launched in 2007 by the Dutch Ministry of Foreign Affairs, the UK Department for International Development (DFID) and IC, the investment climate advisory service of the World Bank Group.

The objective of the BRG is to improve the regulatory and investment climate in developing countries, thereby stimulating private sector investment, economic growth and poverty reduction. The BRG program aims to achieve this by developing and disseminating for the first time widely practical and operational guidance that will help developing countries design and implement effective regulatory reform programs.

The BRG Program has resulted in preparation of eight policy papers on regulatory governance issues, covering a broad spectrum: from regulatory governance, links to competition policy, regulatory institutions, and tools to indicators for regulatory quality. It has also involved preparation of five country case studies on regulatory capacities in selected African countries.

The web portal www.ifc.org/brg is part of the BRG Program and contains key documents, including references extracted from a comprehensive compendium of resources on regulatory management and reform and a newly developed Regulatory Impact Analysis (RIA) database.