New Drivers of Reform: Regulatory Quality and Governance

Laws and regulations are essential instruments in achieving policy objectives. But they can be ineffective when poorly conceived and implemented, and impose unnecessary costs and risks on citizens and businesses.

Worldwide, policy makers are shifting from an exclusive focus on deregulation towards a complementary emphasis on developing “smart” regulation. One-off regulatory reforms are necessary and may cut costs and procedures. But early gains may be reversed if responsible institutions and stakeholders’ incentives are not changed. Furthermore, many countries experience a significant implementation gap between prescribed rules and actual delivery. Consequently, many regulatory reform efforts have not been as successful or sustainable as hoped for.

At the same time, competitiveness challenges and obligations under international agreements are also putting pressure on countries to develop transparent and effective regulatory frameworks. These include provisions for stakeholder consultations and for government accountability in implementing agreements, decisions, and reforms that they have pledged to deliver.

There is increasing appreciation of the close connection between regulatory quality, trade, investment, competitiveness, and good governance, and the role good regulatory practices play in de-risking countries.

To sustain impacts and promote system-wide changes, governments around the world are thus complementing regulatory streamlining with a focus on the quality and governance aspects of regulatory reforms, including the development of institutions and tools to assess, consult, design, deliver and monitor regulatory policy.

The World Bank Group’s offering on Good Regulatory Practices

To help developing countries respond to these new challenges, the World Bank Group (WBG) offers a Good Regulatory Practices (GRP) solution package. It includes various regulatory tools for enhancing effectiveness, transparency, accountability, and dialogue. Information and Communications Technology (ICT) is an integral part of the program and is used to leverage and facilitate reform. In addition, comparative and objective data have been collected to benchmark countries’ regulatory practices.

These offerings relate to the intersection of institutions, incentives and processes for business regulation and private sector development. Box 1 below illustrates this “joint
space”, and provides a spectrum of tools ranging from “regulation-specific” interventions to more systemic reforms.

**Figure 1: Integrated offerings on good regulatory practices**

This set of services helps countries improve the performance of their regulatory systems by:

- **Promoting regulatory simplification.** This includes streamlining and simplifying business registration and licensing procedures, reforming inspections, preparing inventories of laws, regulations and procedures affecting business, and implementing integrated and coordinated services such as one-stop shops and e-services to facilitate government-to-business interactions. Through such interventions, medium- to long-term systemic improvements can be identified, thus avoiding recurring cycles of regulatory failures.

- **Reducing regulatory risks and strengthening predictability.** Risk assessment and mitigation is an integral part of several products related to the design, consultation, and ex-post evaluation of regulations. For example, the Systemic Investment Response Mechanism (SIRM) detects investment grievances concerning government conduct, and the Implementation Gap work identifies poor regulatory delivery practices. They allow concerns to be addressed early on, before they can escalate into disputes, or before regulatory failures occur. Higher predictability of the regulatory environment contributes to lower risk and more investment.

- **Strengthening institutions for reform.** The aim is to help clients build strong governance frameworks for high-quality regulation. Elements include: support through tools and instruments such as regulatory simplification to improve the existing stock of regulations; improving the flow of new regulations through better design; introducing tools for impact assessment of new and existing regulations; and systematic monitoring and reviews of regulatory performance. Another key focus is on strengthening the capacities and governance of units and committees leading and coordinating regulatory reforms, as well as agencies responsible for regulatory enforcement.

- **Supporting transparency and engagement.** This covers policies that help improve the quality of regulatory design and delivery through transparent and inclusive rulemaking and enforcement. Elements supported include timely notification and open and inclusive consultation on new regulatory measures; information systems such as e-registries, ensuring public access to reachable, reliable, and timely
regulatory information; efficient grievance and complaints mechanisms, and feedback loops providing information on implementation gaps.

- **Improving GRP benchmarking.** In addition, the offering leverages the power of cross-country benchmarking through collaboration with the WBG Global Indicators Group, which has pioneered a data exercise on how governments engage stakeholders in the rulemaking process, and formulate evidence-based laws and regulations (http://rulemaking.worldbank.org).

- **Prioritization and programming.** Most countries face an abundance of important regulatory reform challenges, but are constrained by administrative capacities and the need to show early and tangible results. The *Regulatory Policy and Delivery Review* (RPDR) is a tool to review, measure and compare the practices of regulatory systems. The RPDR documents in an integrated manner regulatory policies, institutions, delivery mechanisms and procedures. The review creates a benchmark and roadmap for future GRP Reforms.

These combined interventions provide countries with comprehensive solutions by connecting the public and private sector perspectives on regulatory reform. They also link short-term adjustments to the sustainable and systemic improvements needed to avoid recurring cycles of regulatory failures and build long-term institutional capacities for high-quality regulations.

**Operational Instruments**

A wide variety of WBG instruments are available to provide support in the above areas. These instruments, summarized below, help identify reform priorities, support critical policy and legal measures, assist in designing and developing institutions and systems, and contribute to building reform commitment. The synergies between the various GRP tools allow for integration at the level of country programming. Rather than stand-alone programs on Investment Climate or Governance, the proposed approach encourages the design of integrated and cross-cutting programs on Good Regulatory Practices and Private Sector Development.

**Advisory services.** Advisory services can be either “stand-alone”, aimed at resolving policy and technical constraints to regulatory quality, or can complement lending operations. The latter can be done by building reform commitment in government agencies; through preparatory work, such as drafting policies, laws, and regulations; or by providing implementation support, such as streamlining of individual regulatory processes, capacity building in automation, and feedback loops to identify implementation gaps.

**Box 1: Armenia advisory work enhanced lending activities**

The Armenia Public Sector Modernization project sought to enhance public sector management for better service delivery, among others by strengthening institutional capacity in policy formulation. A follow-on survey identified overload and bottlenecks in decision-making processes as a key constraint for effective policy-making, as well as some inefficiencies and confusion in the use of “strategic planning” and “regulatory impact” tools.

Subsequent advisory work helped enhance the impact of the lending activity by supporting a reorganization and more targeted approach to Regulatory Impact Assessment and Strategic Planning.
Development Policy Operations (DPOs). DPOs can help create a reform momentum by supporting and funding critical GRP-related reforms linked to prior actions, triggers or disbursement-linked indicators. Examples include introduction of a policy and oversight mechanism on evidence-based rulemaking (such as regulatory impact assessments) and policy and legal actions mandating advance notice and stakeholder consultation on proposed rules.

### Box 2: Kazakhstan DPO triggers on RIA and business regulation law

A development policy operation in Kazakhstan, the First Macroeconomic Management and Competitiveness Programmatic Development Policy Financing Project, sought to strengthen the competitiveness of the non-oil economy, with measures to improve the trade, investment and regulatory policy regimes.

The design of the project leveraged the outputs of a Reimbursable Advisory Services (RAS) program, which informed two prior actions of the DPO, namely the introduction of mechanisms to assess the impact of business regulations through the adoption of rules on conducting Regulatory Impact Assessment (RIA), and establishment of an inter-agency regulatory oversight unit located in the Ministry of National Economy. An indicative trigger for the DPO was the enactment of a law to improve efficiency and transparency of the regulatory framework for businesses.

Program for Results (P4R) and Investment Lending. The instruments can support the direct financing of larger GRP systems such as RIA, Notice-and Comment, and Systemic Investment Response Mechanisms, including the automation of processes. They can also be helpful in financing improved inter-operability within government and supporting e-portals (both informational and transactional) and other e-applications.

### Box 3: Pakistan P4R supporting regulatory reforms

A sub-national project, the Punjab Jobs and Competitiveness Program for Results, is supporting reforms to reduce the cost and risks of doing business and promote investments by foreign investors. A disbursement-linked indicator of the operation requires improvement in four Doing Business indicators. The P4R project is providing investment support for process automation in these areas while a parallel Investment Climate advisory project is providing support on the “software” side. The advisory project is also supporting the development of institutional structures, such as an Investment Climate Reform Unit, to tackle business regulations more systematically.

### Teams and Contacts

In response to client demand, teams combining staff from the Governance and T&C global practices have been established in line with the nature of the tasks and the technical expertise required. The teams tap into a wide range of regulatory governance and business regulation expertise across the two practices, and apply the most relevant combinations of instruments to support reform efforts. For support and further information, please contact:

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