



# Summary of Workshop

## Accelerating Economic Regulatory Reform: Indonesia and International Experience <sup>1</sup>

Jakarta, April 10-11, 2007

The two day workshop on economic regulatory reform generated tremendous interest and was well attended by business people, academics, senior government officials, and representatives of civil society. The main conclusion was that, despite steady progress over the past two years, regulatory reform has been too slow. Consequently the business environment has not improved enough to support the high investment levels that Indonesia needs to boost economic growth, cut poverty and reduce unemployment. More rapid progress requires a more comprehensive approach that shifts the burden of proof from reformers to regulators. The international practitioners highlighted that in an 18 month window from today, if more effective approaches to economic regulatory reform are adopted, the web of regulations constraining business in Indonesia could be greatly simplified. The administration therefore has an historic opportunity within its current term to dramatically improve Indonesia's investment climate. A strong push from the top is needed to implement these reforms.

The purpose of the workshop was to discuss strategies to accelerate economic regulatory reform by sharing Indonesian and international experience. The goal was to improve the regulatory framework to support a more conducive business environment, leading to a more competitive economy with greater employment and investment levels and lower poverty.

### MAIN FINDINGS OF THE WORKSHOP:

1. There was general agreement that the pace of reform can and should be accelerated so that Indonesia is not left behind by its regional competitors.

*"If we are to maintain our competitive position and attract sufficient investment to reach our growth, poverty and employment goals, we need to improve the implementation of regulatory reform efforts at all levels of government" Dr. Mari Pangestu, Trade Minister.*

2. International experience has shown that an ad hoc or piecemeal approach to regulatory reform generally does not result in sustainable improvements to the regulatory framework. Bureaucratic resistance undermines efforts to clean up the existing stock of regulations, and bad regulations that are reformed or eliminated tend to be replaced over time by new regulations that are equally bad. A more comprehensive reform strategy is needed for effective and sustainable results. This requires commitment at a high level in government.

3. Neither a piecemeal nor a big bang approach is likely to work. Indonesia could aim at something in the middle, a "two-tier approach":

- Deal with immediate policy issues
- Have a long term reform strategy into which short-term reform efforts are framed and institutionalized.

4. While Indonesia faces legal constraints in improving regulations, many countries have found ways to accommodate economic regulatory reform in the context of existing laws.

*"Participants claim that article 33 of the constitution limits any possible reform, but that is a small obstacle; in Vietnam we had the entire constitution against us..." Vietnamese practitioner at Workshop.*

5. Broader participation from civil society could help accelerate reform.

6. Indonesia faces conditions that triggered systematic reform in other countries, like bilateral and multilateral trade negotiations and enhanced competition with regional economies.

The objective of regulatory reform is not deregulation; rather it is to improve the quality of regulations. Typically, one-half of regulations fail to achieve the objective of regulators, and many accomplish the opposite. Improving the capacity to create smart new regulations, particularly in areas such as consumer safety, health, and environment, is essential.

*The benefit of economic regulatory reform has been estimated to range from 1% of GDP in the US to 5 and 5½ % in Japan, Germany and France.*

7. Regulatory reform is not a panacea and will not solve all the country's problems. The public's expectations therefore need to be managed.

### MAIN RECOMMENDATIONS OF THE WORKSHOP:

1. An inventory of existing regulations should be established to improve legal certainty and to create awareness of the magnitude of the regulatory burden. As the saying goes, "what get measured, get changed". Domestic research institutions could support the Government in this effort.

2. A public-private working group could be established to promote regulatory reform. The group could examine reform models suitable to Indonesia and help build consensus through discussion. One of the topics for discussion could be whether a piecemeal approach should be continued or a comprehensive reform strategy introduced.

3. It is advisable to employ communication / advocacy tools to raise awareness and maintain momentum for reform. Regulatory reform can become very popular among voters, both as a means to cut red tape and to reduce official corruption. It was one of the main campaign messages during elections in Bosnia, Croatia and Korea and was supported by all the main parties.

<sup>1</sup> The Workshop was jointly organized by the Government of Indonesia, the World Bank Group, the Centre for Strategic and International Studies, and the Asia Foundation; with financial support from the Government of Japan, the Government of Netherlands, and United States Agency for International Development.

4. It is advisable to establish a central unit within government outside the line ministries to supervise the quality of regulations.

5. Other ministries could benefit from the internal reform program that the Indonesian Ministry of Finance has embarked on.

6. Consider introducing reform tools proven to work in other countries.

## TOOLS AVAILABLE FOR ECONOMIC REGULATORY REFORM

Experience in other countries shows that for lasting change, reforms must address the existing stock of regulations, the flow of new regulations, and the implementation of regulations. Countries have made use of the following tools to achieve these goals:

### Tools to Improve the Stock of Existing Regulations:

**Regulatory Guillotine:** The regulatory guillotine is a tool to reduce the stock of existing regulations. Line ministries and government agencies are required to submit a complete list of all regulations that they want to keep along with a justification for each regulation based on standard criteria. Only regulations justified as necessary remain; everything else is eliminated. An advantage of this approach is that the burden of proof is reversed. Rather than reformers having to justify every change, line ministries and government agencies must prove the need for their regulations. A reform-minded government therefore does not have to fight a political battle for each regulation. Three criteria are used to determine if a regulation should be kept: (1) is it needed?, (2) is it legal?, and (3) is it business friendly? A central review unit - combining officials, the business community, independent experts and civil society -- is established to ensure that the review is neutral. The package of filtered regulations is presented to the government, which gives a yes or no vote. The list of regulations is then published electronically for transparency and is updated continuously. No new

regulation is legally valid until entered into the electronic registry. The scope of the guillotine can be broad or selective in terms of the ministries and legal instruments covered. Eight countries have successfully adopted the approach. In Korea, about 50 percent of regulations were eliminated in 11 months, and the reform had a significant positive impact on the economy (table 1).

Table 1. Projected Economic Impacts of the Korea Guillotine

Created jobs:	1,066,200
Reduced public burden:	\$18.7 billion (4.4% of GDP in 1997)
Increased foreign direct investment:	\$36.5 billion extra over 5 years

Source: Byung Ki Ha (1999), cited in Workshop presentation by Scott Jacobs (2007) of Jacobs & Associates.

### Reduction of administrative burdens:

To simplify the burden of complying with existing regulations, departments and ministries are required to estimate the cost to the private sector of complying with their regulations in terms of man hours. Each ministry is then required to cut the cost by a certain percentage (for example, 25% in one year in the case of Netherlands) or risk being penalized by the Ministry of Finance for non-compliance.

### Tools to Ensure that the Flow of New Regulation is of Good Quality

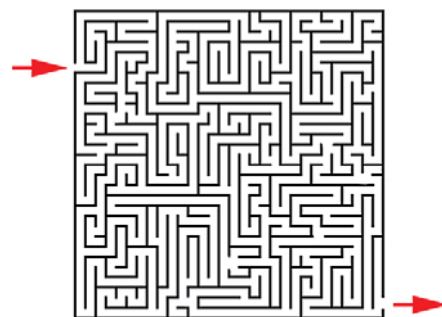
**Regulatory Impact Assessment (RIA)** consists of reviewing proposed new regulations to ensure that they are of good quality. It helps government officials identify whether a regulation is really needed, examine its potential impact, consider policy alternatives, and consult the relevant stakeholders early in the process. The OECD has found that the use of RIA improves cost-effectiveness of regulations and reduces the number of low-quality and unnecessary regulations. It also improves transparency of decisions, enhances consultation, and improves inter-ministerial communications. In Indonesia, RIA is being implemented in more than 20 districts and at the Ministry of Trade.

International experience suggests that a key requirement for sustainable regulatory reform is the establishment of a central unit reporting to the President and empowered to review existing and new regulations created by line ministries and government agencies.

### Tools to Secure the Effective Implementation of Regulations:

However, establishing a high quality regulatory framework is, in itself, not sufficient for a good investment climate. Effective implementation of regulations is also needed. The use of integrated investment service or "One-Stop Shops" (OSS) has proven effective in this regard. OSS helps reduce cumbersome business regulatory services by integrating services within one office, thus cutting time and costs. Factors for the successful establishment of an OSS include: previous simplification of existing regulations, political commitment, a narrowly-focused and clearly defined role, and clear delegation of authority from technical departments to the OSS. An OSS with imprecise authority runs the danger of turning into yet another stop for businesses, while a centralized OSS that replaces too many of the functions of line ministries could result in a huge and unwieldy bureaucracy, and might also be politically unfeasible. The most effective OSS are those established at the local-level with authority to issue local business licenses.

Popular saying: When you can complicate matters, why simplify?



For further information, contact:

Enrique Aldaz-Carroll  
Financial & Private Sector Development  
World Bank Office Jakarta  
E-mail: fpd\_id@worldbank.org  
Ph. 62 21 5299 3000  
Fax. 62 21 5299 3111

Raymond Atje  
Centre for Strategic and  
International Studies  
E-mail: csis@csis.or.id  
Ph. 62 21 386 5532-35  
Fax. 62 21 384 9641

Brasukra Sudjana  
Economic Program  
The Asia Foundation  
E-mail: bsudjana@tafindo.org  
Ph: 62 21 7278 8424  
Fax: 62 21 720 3123