**THE REFORMRESULTSCALCULATOR** (RRC)© –

*A Standard Cost Model developed to evaluate the results of a Regulatory Guillotine™*

*Cesar Cordova-Novion*[1]

*June 2008*

This note describes the ReformResultsCalculator (RRC) developed by Jacobs and Associates[2] using the concepts of Standard Cost Model (SCM) methodology as a starting point. The key objective of the RRC is to estimate rapidly and systematically the main economic benefits and cost-savings of reforming formalities[3] and administrative procedures that arise from the implementation of a Regulatory Guillotine™ or other systemic reforms of information obligations and requirements.

***The J&A ReformResultsCalculator (RRC)***

The RRC was first used during the implementation of the Regulatory Guillotine™ in the Republic of Srpska (RS) from June to September 2006 and in Croatia from November 2006 – June 2007. It is currently being adapted for the Regulatory Guillotines™ in the municipalities of Bosnia and Herzegovina and Serbia (see below) and in Kenya.

The RRC provides decision makers with quick monetized estimates of the net cost savings that expect to be realized or have been realized thanks to administrative procedure or deeper regulatory reforms, such as the Regulatory Guillotine™ reforms. That is, it compares the regulatory costs before and after the reforms.

The model is based on the SCM approach which is one of several evaluation and quantification tools (including cost benefit analysis and surveys) that can be used to review and assess the economic benefits of reforms aimed at eliminating and simplifying business regulations, formalities. The SCM invented by the Netherlands has now been implemented in Denmark, the United Kingdom, Norway, France, Germany and many other EU countries.[4]

However the SCM tends to be resource intensive and can cost millions of Euros to implement and thus is beyond the reach of most countries or donors. The RRC was developed to use the traditional SCM approach to information requirements but applied in a concrete and simpler way. The RRC was also developed to be applied by managers and staffers of Regulatory Guillotines™. Guillotine Task Forces may apply it to 10-20%

---

[1] Jacobs and Associates is an international consulting firm specializing in regulatory reform in transitional economies. Its website can be found at www.regulatoryreform.com.

[2] The term regulatory guillotine has been used for several years to describe variations of the basic reform, but Regulatory Guillotine is a trademark of Jacobs and Associates Inc.

[3] A formality consists of any requirement that involves the presentation or retention of a document or information by businesses, including forms which, in accordance with the requirements of municipality authorities or other public authorities need to be completed. It includes all approval, certification, authorization, concessions, permissions or payment of fees for any commercial activity, or any legal document giving official permission to carry out a commercial activity.

[4] http://www.administrative-burdens.com/

of reformed formalities, where potential net benefits are thought to be relatively high. The idea of this selective analysis is to provide an estimate of the minimum costs savings to be realized by the reform process.

Through its use, the Government of the RS and of Croatia were able to estimate that the reforms achieved minimum potential savings of more than US $76 million and US$250 million in administrative fees, waiting time and opportunity costs respectively.

***How it works***

The RRC is embedded in user-friendly Excel sheets into which data about each license must be entered for analysis.[5] As most SCM the RRC model multiplies the cost of a single license by the frequency of its enforcement (i.e. the number of application processed). [6]

In term of costs, a given license is decomposed along five simple dimensions to be multiplied by the number of times per year the license is filed:

1. The time spent gathering the information and the required documents, as well as filling out the license. This will be assessed for both the pre- and post-reform license. The time is then multiplied by the average hourly salary of a medium level white collar employee for SMEs, in case of micro businesses by an average hourly revenue.
2. A standard cost of reproducing and certifying the documents that must be attached to a license7 (as this is an important administrative burden in many countries).
3. The cost of waiting for the authority's reply. This estimate is calculated by multiplying the official waiting time with an estimate of opportunity cost of investing in the bank. The latter is based on macro variables: Gross Private Investment and Deposit Bank Rate.8
4. The cost of the fees and stamps that are disbursed to start the license.
5. Other costs -- in particular the charges due to external help (notaries, lawyers, accountant, architects and other specialists)

In term of the license frequency (i.e. the number of licenses applied and processes by public authorities), the model has the capacity to assess the different cost estimates according to the size of firms (small, medium and large) or by the type of solicitor (citizen, single entrepreneur, business).

These five elements are compared in three ways: (i.e., the model provides three main columns):

1. Situation before the reform,
2. Situation after the last reform induced by the reform

---

[5] For the Kenya project deployment a multi-users database is being developed and should be operational in August 2008.

[6] Each of these five elements is analyzed on a separate row.

[7] The reproduction of documents can represent an important cost for micro firms.

[8] This 'opportunity cost of waiting time' represents a major difference with the SMC methodology developed by Netherlands and now adopted in many countries

3. Situation if all reforms proposed by the reform are approved and published in the Official Gazette.

As reforms are implemented and transposed into the legal framework, the estimates in column b should converge with those in column in c.

The model has also the capacity to assess the different cost estimates before and after the reforms according to the size of firms (small, medium and large) or by the type of solicitor (citizen, single entrepreneur, business).