Croatian Case of Regulatory Reform

General Overview

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Sense Consulting

Agenda

A. Project overview and recommendation
B. Implementation of recommendations
C. Reform impact
D. Lessons learned
A. Project overview and recommendation
Better Regulations

- Fully functional and integrated regulatory system (with RIA)
- Institutional and capacity building
- Institutional and Legal changes
- Review of regulations and recommendation
- Inventory of regulations (stock-taking)
- Sporadic regulatory reform actions

Regulatory reform includes a range of planned actions
HITROREZ is re-branded Regulatory Guillotine™

Government’s Special Unit for HITROREZ

**GOAL:**
Recommend simplification or cancellation of unnecessary/inefficient regulations to increase competitiveness and ease doing businesses

**SCOPE:**
Inventory of all regulations on the national level
Review of business regulations on the national level

**DURATION:**
9 months

Excluded: Tax forms issued by the Ministry of Finance, Business or Citizen procedures required for reasons of national security and defense; Regulations adopted by local authorities (counties, cities, municipalities)
Project approach through 7 strategies

1. Political
2. Legal
3. Regulatory Institutions
4. ICT
5. Administrative
6. Financial
7. Communication
Example: ICT strategy

• Development of the state-of-the-art open source, web-based Portal to manage the process, document citizen and business proposals/complaints, and inventory all regulations in the project scope

• Application included: Document Management System (DMS), Content Management System (CMS), and Basic Project Management functionality

• **Increased** legal, judicial and administrative **transparency**

• **Reduced costs** of operation

• Ensure timely **monitoring** and relevant **management information**

• **Track the staff and Unit’s performance**

• Increased **access to regulatory information** for all parties incl. public

• Publish **basic regulations registry** database over internet

• Structured approach to inventory and review process, with **traceability** to public comments and **statistical analysis**

• Create platform for future **official Gazette platform**

• Create **platform for** public web-based fully functional **electronic Registry of regulations**
Governance structure of HITROREZ

GoC Decision

PM
Cabinet

HITROREZ

Technical and Expert Support

e-Gov
Strategy
PA
Property

CENTRAL GOVERNMENT OFFICES

MINISTRIES and agencies
TOTAL: 67

Coordinator
MoE
Coordinator
MoF
Coordinator

Central Bank
Coordinator

... Coordinator

Independent AGENCIES

Coordinator

Coordinator

Coordinator

... Coordinator
Prime minister

State secretary

Special Unit for HITROREZ
Established as the Government working body

Donor Committee

Business Advisory Council (BAC)

www.hitrorez.hr

General Public

Reporting lines

1) Donor Committee = USAID, UNDP, FIAS (World bank); 2) Central Administrative Office for e-Croatia
RECOMMENDATIONS PACKAGES:

1. to independent Agencies with advice for implementation

2. to Ministries and associated Agencies for preparation and enactment (e.g. decrees, decisions)

3. to Ministries for preparation (3a), than through regular law making process from Ministries to GoC (3b), and then GoC to the Parliament
Regulatory Guillotine methodology

Businesses and citizens (individual approach)

RECOMMENDATIONS

Government of Croatia
Implementation plan

**Regulatory bodies**
- Inventory of ALL legal instruments in responsibility of each central Regulatory Body
- Name, objective, fees, legal ground, impact and forms

**1. review**
- Is it legal?
- Is it needed?
- Is it business friendly?
- Is it in accordance with WTOa?
- Is it harmonized with EU regulations?

**2. review**

**Recommend.**

**Guillotine!**

**e-Registry**

**BAC Working Groups**
- Review, evaluation and analysis of collected business procedures

**Special Unit for HITROREZ**
- Review, evaluation and analysis of collected business procedures
- Consultation with private sector stakeholders and interest groups (e.g. Sector Associations)

**Government**
- GoC decides on HITROREZ recommendations
- Recommended procedures are simplified or removed
- GoC forwards the recommendations to Parliament and other regulatory bodies
- Establishment of e-Registry
Guillotine time plan – intensive 9 months process

**Regulatory bodies**

- **Inventory of all procedures accomplished (Form 1)**
- **Instructions presented to the reg. bodies**
- **Review of business procedures accomplished (Form 2)**
- **WEB**
- **BAC Working groups established**
- **End of period for comment submissions through WEB/email/boxes (Form 3)**
- **End of period for comment submissions through BAC (Form 3)**
- **Beginning of 15 days appeal period**
- **PROPOSAL**
- **Final recommendations**

**Private sector**

- **30.10.**
  - 1.BAC
  - BAC Working groups established
- **1.12.**
  - 2.BAC
  - Review of business procedures accomplished (Form 2)
- **1.1.**
  - WEB
- **1.2.**
  - Instructions presented to the reg. bodies
- **1.3.**
  - WEB Review of business procedures accomplished (Form 2)
- **1.4.**
  - End of period for comment submissions through WEB/email/boxes (Form 3)
- **1.5.**
  - End of period for comment submissions through BAC (Form 3)
- **1.6.**
  - All recommendations published on the WEB
- **1.7.**
  - Final recommendations
Consultation process of the Guillotine

Regulatory bodies
- Ministries
- Agencies
- Independent regulators

Special Unit for Government

1. Inventory
   - Instructions
   - Appointments

2. Review
   - Jun 1, 2007.

Final recommendations
- Decision

Meeting with stakeholders
- Business Advisory Council (BAC)
- Working groups for priority areas
- Members (companies)

General Public
- www.hitrorez.hr
- All comments
- All forms
- Filled-in Forms 3
- Info

Information, call-center WEB

Donor Committee
1) Donor Committee = USAID, UNDP, FIAS (World bank)
Organizational chart of the Special Unit

- Head
  - Deputy Head
    - Chief Lawyer
      - Legal analyst
      - Legal analyst
      - Legal analyst
    - Chief Economist
      - Business analyst
      - Business analyst
      - Business analyst
    - Business administrator
      - Analysts
IT support was essential for the project efficiency

Web-based application (DMS) that contains all information received (Form 1, 2, 3, etc.) per regulation and presents a channel for feedback provision by the public.

Rezultati pretraživanja: pretraženo 3661 propisa, pronađeno 3661

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<tr>
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<th>Naziv propisa</th>
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<td>56: ZAKON O REFERENDUMU I DRUGIM OBICIMA OSOBNOG SUDJELOVANJA U OBRAVLJANJU DRŽAVNE VLASTI I LOKALNE SAMOUПRAVE</td>
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<td>62: ZAKON O IZBORU ČLANOVA PREDAVANJAKA U JEDINICIMA LOČALNE I PODRUČNE (REGIONALNE) SAMOUПRAVE</td>
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<tr>
<td>66: ZAKON O popisu birača</td>
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<tr>
<td>67: ZBRNULIČKI KOSeks</td>
<td></td>
</tr>
<tr>
<td>68: USTAVNI ZAKON O PRAVIMA NACIONALNIH MANJINI</td>
<td></td>
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<tr>
<td>69: PRAVLNIK O OBRASCIMA IZABRANOG REGISTRA IZBCA NACIONALNIH MANJINA</td>
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<td>71: PRAVLNIK O KORACIMA IZABRANOG REGISTRA IZBCA NACIONALNIH MANJINA</td>
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<tr>
<td>72: ZAKON O PODRUČIMA ŽUPANIJA, GRADOVA I OPCIJA U REPUBLIKA HRVATSKOJ</td>
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<td>73: ZAKON O BLAGDANIMA, SPOVJEDANIMA I NERADNIM DANIMA U REPUBLICI HRVATSKOJ</td>
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<tr>
<td>74: ZAKON O PRAVIMA EUŽNOSTIMA ZASTUPNIKA U HRVATSKIM DRŽAVNI Saboru</td>
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<td>75: ZAKON O VLADI REPUBLIKE HRVATSKOJ</td>
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### Business Advisory Council (BAC) members

<table>
<thead>
<tr>
<th>Chamber of Economy</th>
<th>Chamber of Crafts</th>
<th>Employers Association</th>
<th>Croatian Exporters</th>
<th>Competitiveness Counsel</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Public Law Institution</td>
<td>• Public Law Institution</td>
<td>• Represents Employer interests with Government and Trade Unions</td>
<td>• Represents members interest in Exports</td>
<td>• National leadership organizations comprised of prominent representatives from <strong>Academia, Business, Science, Labor and Government</strong></td>
</tr>
<tr>
<td>• <strong>550 Employees</strong></td>
<td>• <strong>180 Employees</strong></td>
<td>• <strong>34 Employees</strong></td>
<td>• <strong>3 Employees</strong></td>
<td>• Permanent Roundtable for 22 persons</td>
</tr>
<tr>
<td>• HQ + 21 county Chambers</td>
<td>• HQ + 20 county Chambers</td>
<td>• 3 Regional Offices in Croatia</td>
<td>• Voluntary Membership</td>
<td></td>
</tr>
<tr>
<td>• 7 representative offices (intl.)</td>
<td>• 114 Craft Associations</td>
<td>• Voluntary Membership</td>
<td>• <strong>800 Member Companies</strong></td>
<td></td>
</tr>
<tr>
<td>• Mandatory membership</td>
<td>• Representative Office in Brussels</td>
<td>• <strong>5,000 Member Companies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• <strong>Over 70,000 member companies</strong></td>
<td>• Mandatory Membership</td>
<td>• 23 Industry Sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 40 professional association</td>
<td>• <strong>105,000 Craft Members</strong></td>
<td>• Member of ILO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 87 groups</td>
<td>• <strong>8 Guilds</strong></td>
<td>• Member of Confederation of European Business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 19 affiliations</td>
<td></td>
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</table>
What are tasks for BAC and its members?

Promoting and reporting

1. Communicating the reform goals to business community

2. Strategic consulting and guidance

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Reviewing and proposing solutions

3. Collection of BAC and its members’ reviews (Form 3)

4. Organized review of priority business areas by BAC Working groups
More than 250 experts were engaged in the project

**Independent experts:**
- 8 legal experts
- 2 law offices

**State administration:**
- 80 coordinators
- 72 sector experts
- MFA, MFIN, GOL
  - etc.

**Special Unit for HITROREZ:**
- 14 permanent staff

**International experts:**
- USAID, Jacobs & Associates
- UNDP
- World bank (FIAS)

**Business sector:**
- 12 BAC\(^1\) members
- 52 BAC experts
  (etc. Pliva, Podravka)
- 26 CCE\(^2\) experts
- 28 CCC experts
- Experts from NCC, CEA, CE, CBRD

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1) Business Advisory Council; CCE = Croatia Chamber of Commerce; CCC = Croatian Chamber of Crafts; NCC = National Competitiveness Council; CEA = Croatian Employers Ass.; CE = Cro. Exporters Union; CBRD = Cro. Bank for Reconstruction and Development; MFA = Ministry of Foreign Affairs; GOL = Gov’s Office for Legislation
Operational organisation of the BAC Working Groups

Comments

- **Working Group task:**
  - Identify missing regulations in inventory
  - Identify priority regulations for review
  - Review set of regulations and develop recommendations of behalf of the private sector as inputs for HITROREZ

- **Working Group output:** filled in standardized form (3) with recommendations and rationale

- Working Groups experts with mixed skills and knowledge – Divided based on the area of expertise, type and volume of regulations

- **Head of Working Groups** from BAC members

- HITROREZ representatives as facilitators of each Working Group (not part of the WG)

- **Mandatory Working Group meetings** organized by HITROREZ

352 recommendations: simplify or cancel
12 STANDARD TESTS:

1. Legality test  
2. Duplication test  
3. Economic test  
4. Test of national treatment  
5. EU accession test  
6. New business activity test  
7. Justification test  
8. Scope test  
9. Test of reply-time  
10. Information requirement test  
11. Application form test  
12. Test of impact to state budget
Government stipulated full implementation

HITROREZ recommended:

Simplify or cut 55% of all business regulations

Notice: 7,598 individual regulations were counted (4,491 consolidated), of which 2,683 (1,452) business regulations; Recommended 742 (419) cancellations and 817 (372) simplifications, plus 791 + 8 additional regulations subsequently included
I. phase – Inventory

- Response rate = 100 %
- Received = 5,809 Form 1

II. phase – Review

- Response rate = 100 %
- Received = 5,264 Form 2
- Counted = 4,491 regulations\(^1\) – entered into the HITROREZ’s database

III. phase – Review & Consultations

- Received = 1,071 comments/suggestions from entrepreneurs and citizens
- Reviewed = 1,451 regulations\(^2\) directly related to the economy

Cancellation
419
+
Simplification
372
regulations\(^3\)

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1) 7,598 individual regulations; 2) 2,683 individual regulations; 3) 742 (419) i 817 (372) individual regulations; Tolerance ± 2%
Recommendations for central level regulations

Cancel – 29%

- Rule books: 252
- Commands: 69
- Decrees: 4
- Decisions: 21
- Laws: 11
- Guides: 2
- Other

Simplify – 26%

- Rule books: 255
- Decrees: 15
- Laws: 95
- Decisions: 4
- Other
Reviewed sectors and industries

Cross-sectoral: 112
  - Simplify: 58
  - Cancel: 54

Agriculture: 29
  - Simplify: 59
  - Cancel: 20

Transportation, warehousing: 21
  - Simplify: 53
  - Cancel: 18

Financial services: 29
  - Simplify: 25
  - Cancel: 4

Other sectors: 5
  - Simplify: 5
  - Cancel: 0

HORECA: 6
  - Simplify: 19
  - Cancel: 12

Construction: 7
  - Simplify: 9
  - Cancel: 4

Health protection: 7
  - Simplify: 7
  - Cancel: 0

Trade: 7
  - Simplify: 7
  - Cancel: 0

Tolerance ± 2%
Assumed savings using the Standard Cost Model

Savings to entrepreneurs i.e. economy through decrease of current time spent on the necessary administrative procedures (excluding direct impact to the State budget)

Administrative savings $^2 = \text{cost} \times \text{amount} = (\text{salary} \times \text{time}) \times (\text{population} \times \text{frequency})$

1) Simulation based on ±30% of recommendations
Example of application of SCM – Croatian case

Administrative cost = cost * volume
= (salary * time\(^1\)) * (population * frequency)

1. The **3 hours** time of an employee of a company is needed to comply with required administrative procedure e.g. *to submit a mandatory report to an authority*. The salary of the employee is estimated to be $10/hour. Hence, the cost is **$30** (3*$10).

2. The **100,000 companies** have to comply with this administrative procedure and is required **3 times a year**. Hence, the volume is **300,000** (3 times/year*100,000 companies). Therefore, before the Regulatory Guillotine the administrative cost of this administrative procedure was **$9,000,000** ($30*300,000).

3. For example, if Regulatory Guillotine recommend reduction in frequency from 3 to 2 times a year, administrative cost after the implementation of Regulatory Guillotine recommendations will be **$6,000,000** ($30*(2 times/year*100,000)).

Therefore, when recommendation is implemented, business sector i.e. economy will save **$3 million annually** ($9,000,000-$6,000,000)

1) Time spent to comply with regulation/procedure
B. Implementation of recommendations
Continuation of guillotine and regulatory reform

1. phase

Inventory of all and review of business regulations

Project start: Nov. 1, 2006.

Activities: Operations

2. phase

Implementation of 1st Phase recommendations

Implementation of 1st Phase recommendations

Government accepts recommendations and initiate implementation: July 1, 2007.

Monitoring & Improvement

Monitoring & Improvement

Guillotine of citizen’s procedures

Regulatory Impact Assessment

Guillotine on the sub-national level


Promotion of RIA, Capacity building and institutional strengthening

1) Further use of e-Registry tool;
2) Office for coordination of RIA system (UPUP) established as the Government office
High acceptance of recommendations by ministries

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Number of Recommendations</th>
<th>Acceptance Rate</th>
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</thead>
<tbody>
<tr>
<td>MFIN</td>
<td>28</td>
<td>93%</td>
</tr>
<tr>
<td>MMTPR</td>
<td>84</td>
<td>92%</td>
</tr>
<tr>
<td>MINGORP</td>
<td>179</td>
<td>85%</td>
</tr>
<tr>
<td>MPŠVG</td>
<td>99</td>
<td>84%</td>
</tr>
<tr>
<td>MZSS</td>
<td>20</td>
<td>77%</td>
</tr>
<tr>
<td>MZOPUG</td>
<td>44</td>
<td>70%</td>
</tr>
<tr>
<td>MZOŠ</td>
<td>20</td>
<td>70%</td>
</tr>
<tr>
<td>MUP</td>
<td>35</td>
<td>57%</td>
</tr>
<tr>
<td>MP</td>
<td>24</td>
<td>17%</td>
</tr>
<tr>
<td>MINK</td>
<td>8</td>
<td>13%</td>
</tr>
</tbody>
</table>
All recommendations to be implemented in 6 months

549 recommendations (69%)

799
312
70
79
88
158
92

1) 791 + 8 additional regulations for which have been discussed and agreed with ministries and agencies
2) Regulations for which the authority has to be confirmed and implementation plan developed
3) 21 regulation will be implemented according to NPPEU plan by February 2008, and remaining 67 regulations during NPPEU 2008-09
Ministries’ implementation dynamics by February 2008.
Monitoring implementation and reform impacts

- **Government monitoring** through weekly reporting by the HITOREZ/RIA Office
- **General public monitoring** and complains through existing mechanisms (e.g. web, media, etc.)
- **Business community monitoring** and feedback system through Media
- **International and donor monitoring** through diverse reports
Next steps towards Regulatory Management System

- **Supporting** of ministries and agencies regarding the implementation matters

- **Progress monitoring** and **reporting to the GOC** about implementation process

- **Strengthening PPP** by permanently **engaging private sector** and business community for **RIA system participation**

- **Developing** and implementing **communication strategy** and **training programs** for RIA system

- **Strengthening institutions** and capacities for **start of** comprehensive **RIA system** including **EIA, SIA, and BIA**
Vision of the modern regulatory system

Parallel Unit in the Parliament

Government

Central unit for RIA

Sub-units on the ministerial level

Inflow of new regulations (ministries)

Public consultations

Business Advisory Council

Sub-national Government

Current regulations (ministries)

- Review by sectors and reengineering of the system
- Review of citizen regulations

RIA

Institutions for better regulations

- Rationalize reg. bodies
- "Silent is consent"
- Central electronic register of regulations
- Business registration
- Central licensing
- Due process

Result monitoring

- Clear quality standards for new regulations
- Mandatory RIA for all modified and new regulations
- Stakeholder consultations
- RIA report in the standard package for GoC procedure

1) RIA = Regulatory Impact Assessment

Source: Jacobs & Associates; Adapted by SenseConsulting
C. Reform impact
World bank 2009: HITROREZ reform is saving 66 million per year

Evaluation conducted made following main conclusions:

1. Total cost savings that have been achieved through HITROREZ are **USD 66 million**. This corresponds to around **0.13% of GDP**

2. If all recommendations were implemented, additional reduction of administrative costs would be **USD 42 million** i.e. **0.08% of GDP**

3. Estimated impact of the HITROREZ recommendations that have been implemented in Croatia is an **increase in GDP of 0.19-0.29%**. If all of the reforms would be implemented, the estimated impact will be a rise in GDP of between 0.30% and 0.47%.
June 2008

Conference on the European Charter for Small Enterprises

European Commission Enterprise and Industry Directorate-General selected HITROREZ as a premium case that is recommended for implementation in EU member countries.

It is the only experience from a non-member country that is recommendation to member countries.
UNDP: Award for the best regulatory reform in the world

Croatia takes top prize for regulatory reform at global event on smart strategies and capable institutions for 2015 and beyond

MARRAKECH, Morocco – 18 March 2010 – A government regulatory reform programme in Croatia known as HITROREZ or “the guillotine” received worldwide acclaim at the Capacity is Development Global Event for enhancing the country’s economic competitiveness, decreasing costs for doing business and including the private sector in the design of regulatory frameworks.
Administrative simplification become Gov’s priority

Prime Minister

Cabinet

Gov’s Office for Legislation

Gov’s Office for NGOs

Gov’s Office for Social Partnership

Gov’s Office for …

Ministry for Administration

Administrative simplification department

Investment and competitiveness agency

Administrative simplification department

Regulators (Ministries)

BAC¹

MoE, MoF, MHSS, MEPUPC

1) Business Advisory Council = Private sector representatives
D. Lessons learned
Key success factors to create successful reform

TRANSPARENCY

TRUST

COMMITMENT
e-GOVERNMENT
Innovative principles applied in HITROREZ reform

- Corporate principles and rules in state administration
- Proactive engagement of the private sector
- Same standards and deadlines for all key stakeholders
- Transparency as the key project management tool
- Application of e-Government solution in regulatory reform
- Internal and external communication with stakeholders

Croatian regulatory reform
Application of (adjusted) best international practices

REGULATORY GUILLOTINE

STANDARD COST MODEL

RIA SISTEM INTEGRATION

INTERNATIONAL EXPERIENCES

e-GOVERNMENT

IMPACT ANALYSIS
What legacy was created?

- Creation of an **effective hands-on communication** between implementation unit and all regulators (ministries and agencies)

- Reform team is **engaged to provide its feedback and proposals** within the development of the new regulations

- Reform unit has become a **central point of communication** between businesses (e.g. complaints, proposals) and the government

- Setting the **processing standard** for development of better regulations across the government and regulators

- Cleaning and managing the stock of regulations, especially in the context of **regulations‘ authority** (who i responsible?)

- Setting the **platform for further development of e-government services** - within ministries as well as to businesses and public
What should have been done better?

- **Lack of "real" political commitment** leads to decreased dynamics and poor implementation of reform

- **Timing** of the implementation shall be aligned with any political dynamics e.g. elections

- **Poor communication and lack of communication plan** of project implementation decreases transparency and recognition of changes by the public/businesses

- **Not meeting the implementation guidelines** causes decrease of private sector engagement in the reform

- Institutional independence of the reform unit and its **closeness to the PM/Cabinet is essential** to ensure sustainable reform implementation
Lessons learned for other projects or countries (1/2)

- Ensure **very strong support by the Government** – **This is Knock-Out criteria:**
  - **Location** of the Unit – As higher as possible
  - Involvement and direct link to the **Prime Minister / Deputy Prime Minister**, 
  - Appropriate **budget and contingencies, and technical support**
  - **Full authority** and flexibility in **hiring and firing**

- Develop precise **activity plan, its timeline and responsibilities** – **Missing
deadlines or skipping tasks could harm you** – **Prioritize!**

- Ensure **consultant’s advices**, but be prepared to answer to all questions from the **public** – **Be self-esteem, innovative and creative** – Don’t forget your country **specifics!**

- Ensure **good local legal expertise and future leadership** – **Nobody knows better**
  that local expert the **legal system of your country**

- Ensure **good and high performing staff**, appropriate mix of skills and mix of institutional background – **Find the way to motivate them – all the time!**

- **Divide strategic from operational part** – Don’t let change in strategy to slow down your operations

- Ensure resources for performance based motivation of staff (variable salary) – **Only happy and satisfied experts could be productive under the pressure**
Lessons learned for other projects or countries (2/2)

- Cristal **clear guidelines** to regulatory bodies and private sector (written, presented, etc.) – **Do multiple checks of instructions by your team** (e.g. process optimization) and by local legal experts (e.g. terminology) to **avoid unnecessary re-explanations**

- Regulatory body to nominate a **liaison officer** for communication and coordination – **You will know whom to talk to and who is responsible**

- **Involve as much as possible the private sector institutions** on the structured way and by motivating (i.e. pushing) them – **Request their contribution in kind or money and tell them openly your expectations from them**

- Use **public relations** to promote the project (e.g. TV and media adds) – **Use the media force and pay attention to the marketing aspects**

- **Communicate project aims and intermediate results** transparently and clearly to everybody – **Fight under-informed public and business sector!**

- Apply only one standard for all stakeholders involved – **Don’t make unnecessary compromises - You have a clear mandate!**

- **Synchronize your efforts with EU accession process** – **You may find some winners for you there**

- **Identify quick and easy wins**, if possible – **This adds to your success**

- **Create safeguards** from potential enemies (Law School, Association, etc.) – **Protect yourself from interest groups**
Reform does pay-out!

Total project cost is around 0.5% of projected (ex-ante) administrative cost savings to economy

Croatian case: break-even was reached with implementation of 10 averaged recommendations
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