**Pakistan Regulatory Modernisation Initiative (PRMI)**

# PAKISTAN REGULATORY GUIDEBOOK

February 2023

Board of Investment

**Pakistan Regulatory Modernisation Initiative (PRMI)**

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# Outline

**Note:**

# Acronyms and Abbreviations

| | |
|---|---|
| AI | Artificial Intelligence |
| BOI | Board of Investment |
| BEG | Business Expert Groups |
| CCI | Council of Common Interests |
| CNIC | Computerised National Identity Card |
| DB | Doing Business |
| EDB | Engineering Development Board |
| FBR | Federal Board of Revenue |
| FCDO | Foreign, Commonwealth & Development Office |
| FWG | Federal Working Group |
| GoP | Government of Pakistan |
| IFC | International Finance Corporation |
| KPI | Key Performance Indicators |
| KP | Khyber Pakhtunkhwa |
| MoIP | Ministry of Industries & Production |
| NCC | National Coordination Committee on SMEs |
| NRDO | National Regulatory Delivery Office |
| NOC | No-Objection Certificate |
| PBP | Pakistan Business Portal |
| PMO | Prime Minister's Office |
| PMU | Project Management Unit |
| PRG | Pakistan Regulators' Guidelines |
| PRMI | Pakistan Regulatory Modernisation Initiative |
| PSW | Pakistan Single Window |
| PWG | Provincial Working Group |
| RIA | Regulatory Impact Assessment |
| RLCOs | Registrations, Licences, Certificates, and Other Permits |
| RPA | Robotic Process Automation |
| SECP | Securities & Exchange Commission of Pakistan |
| SMEDA | Small and Medium Enterprises Development Authority |
| SEZ | Special Economic Zones |
| TA | Technical Assistance |
| TDAP | Trade Development Authority of Pakistan |
| VOSS | Virtual One-Stop Shop |
| WBG | World Bank Group |

# GLOSSARY

- **18th Amendment:** The parliament unanimously passed the 18th Constitutional Amendment and notified in the Gazette of Pakistan on 20 April 2010. This Amendment introduced a paradigm shift from a heavily centralised to a predominantly decentralised federation.

- **Crowdsourcing:** The practice of obtaining needed services, ideas, or content by soliciting contributions from a large group of people, especially from the online community, rather than traditional employees or suppliers. (Merriam Webster)

- **Regulatory Mapping:** Refers to an end-to-end mapping of regulatory processes, including the time and costs taken at each process stage.

- **EoDB:** The Ease of Doing Business (EoDB) rank measures an economy's position to the best regulatory practices. Though World Bank used to publish the Doing Business reports from 2003, the ranking of economies started only in 2006.

- **Key Performance Indicators (KPIs):** Key performance indicators are the critical (essential) indicators of progress toward an intended result. KPIs focus on strategic and operational improvement, create an analytical basis for decision-making and focus on what matters most.

- **Regulatory Guillotine:** The guillotine is an orderly, systematic, transparent, rapid, and low-cost means of counting and then rapidly reviewing many regulations against clear scientific criteria for reasonable regulation and eliminating those no longer needed. It results in economically significant regulatory cost reductions for businesses, either on a government-wide scale or targeted at specific problem areas such as licences or sectors. Extensive stakeholder participation helps to ensure that the reviews are realistic and factual.

- **Regulatory Impact Assessments:** A regulatory impact assessment (RIA) is a thorough analysis conducted and discussed with stakeholders before introducing a new government regulation. RIA provides crucial information to decision-makers on whether and how to regulate to achieve public policy goals. It examines the impacts and consequences of various alternative options and helps policymakers defend a decision not to intervene in markets where the costs outweigh the benefits. For more information, see: http://www.oecd.org/gov/regulatory-policy/regulatory-impact-assessment-7a9638cb-en.htm

- **Regulatory Sandboxes:** The regulatory sandbox allows regulators to test innovative regulatory features and processes with real businesses in a controlled environment to try and gauge the impact before rolling it out nationally.

- **RegTech:** RegTech is the management of regulatory processes through technology. The main functions of RegTech include regulatory monitoring, reporting and compliance.

- **Repositories:** An online storage space where documents, media and other digital information forms are stored to access whenever needed.

- **Standard Costing Model**: The standard cost model (SCM) is a method for determining the administrative burdens for businesses imposed by regulation. It is a quantitative methodology that can be applied in all countries and at different levels. The method can measure a single law or selected areas of legislation or perform a baseline measurement of all legislation in a country. Furthermore, the SCM is also suitable for measuring simplification proposals and the administrative consequences of a new legislative proposal.

- **Virtual One-Stop-Shop (VOSS):** VOSS is a business model that offers a wide variety of services in a

single online (virtualised) location.

- **Regulatory Stocktaking:** Collecting and maintaining a repository of all existing regulatory instruments using a standard template for data collection.

# ACKNOWLEDGEMENT

# EXECUTIVE SUMMARY

Pakistan has taken concrete steps to improve its investment climate. Efforts to attract investment are seen across sectors, including housing and construction, IT and IT-enabled services, petroleum exploration, automotive manufacturing, and pharmaceutical production. All these efforts show that Pakistan recognises the need to simplify the complex regulatory landscape that businesses must navigate at the federal, provincial and local levels. It also understands the importance of making these changes last. An unpredictable regulatory regime and lack of regulatory harmonisation among provinces have contributed to lower foreign direct investment (FDI) and private sector growth than its regional competitors. To create a lasting impact, the Government of Pakistan has launched the Pakistan Regulatory Modernisation Initiative (PRMI) to accelerate growth and unlock investment opportunities by transforming its regulatory landscape.

## What is PRMI?

Pakistan Regulatory Modernisation Initiative (PRMI) is a second-generation reform effort designed to build on the progress of the Ease of Doing Business (EoDB) programme. For the first time in Pakistan's history, a concerted approach is being undertaken to eliminate, critically analyse, simplify, reengineer, improve and eventually digitalise business registrations, licences, certificates, other permits and regulatory requirements associated with them.

## Strategy and implementation at a glance

PRMI has one overarching strategic objective: to make it easier for businesses (local and foreign) to invest and operate in Pakistan and comply with the regulatory regime.

The implementation of PRMI's core activities will comprise two phases. The first phase will deliver a comprehensive inventory and mapping of regulations, including a parallel optional legal framework that would mandate the elimination of all non-included rules and administrative procedures and establish an institutional framework for regulatory oversight. In parallel, capacity building of public sector officials will take place in undertaking regulatory reforms and BOI, together with Federal and Provincial Working Groups, will identify, analyse and share reform recommendations with relevant departments.

The second phase will focus on a comprehensive review of the remaining business regulations (registrations, licences, certificates, and other permits collectively called RLCOs) at the federal, provincial, and municipal levels. It will support their analysis using stakeholder consultations and methodologies consistent with regulatory impact assessment (RIA) principles. Best practice regulations will replace redundant and duplicative ones. Essential RLCOs will be simplified and streamlined. In line with global best practices, a National Regulatory Delivery Office (NRDO) will be created and charged with improving regulatory quality through accountability, advocacy, capacity building, and promoting a practical yet business-friendly regulatory enforcement culture. The approach suggested will require working across organisational boundaries and involving stakeholders from the federal and provincial governments. BOI will facilitate the transition from PRMI as a project to an institution. In doing so, it will transfer the responsibilities and knowledge acquired (on the design and implementation of regulatory reforms) to the newly established NRDO. A Pakistan Single Window (PSW) inspired model for the sustainability and automation of regulatory compliance in Pakistan will be espoused. The experience of regulatory reforms as part of Ease of Doing Business and PSW in automating compliance will be extensively leveraged by the stakeholders involved in PRMI implementation.

The initiative will see the development of Pakistan Regulators' Guidelines (PRG) to promote transparency and proportionality in business regulation, which all three government levels can adopt. It will provide a flexible, principle-based framework for regulatory delivery and enable regulators to

design their services and enforcement policies that best suit businesses' needs.
These principles of better business regulation will guide regulators to:

- Carry out their activities in a way that will encourage those they regulate to comply and support their growth.
- Engage effectively with businesses and listen to their views.
- Base their regulatory actions on risk assessment.
- Maximise transparency by sharing information about compliance and risk.
- Freely provide compliance guidance and advice to those they regulate.

## Stakeholders

The National Steering Committee on PRMI will steer the initiative, facilitated by the Board of Investment, and supported by the National Coordination Committee of SMEs, working groups with representation from the business community and the government's three tiers. As a national regulatory reform effort, the scope of PRMI includes all government institutions and regulatory agencies across Pakistan as the stakeholders responsible for its success.

**What constitutes success?** Upon its completion, the PRMI activities would have achieved the following milestones:

- Federal and provincial authorities trained in designing and delivering effective, risk-based, and low-cost regulatory delivery and inspections
- Elimination of all unnecessary RLCOs and regulatory requirements
- Simplified, streamlined, and consolidated stock of RLCOs that parallels the top economies in the average time, cost and procedures it takes to acquire them (as measured by the DB methodology)
- The PBP rolled out nationally as a virtual one-stop-shop for dealing with RLCOs online. Ninety per cent of federal, provincial and local RLCOs are administered, processed and applied for online via PBP by 2030.
- The PRMI is institutionalised by establishing and operationalising NRDO.
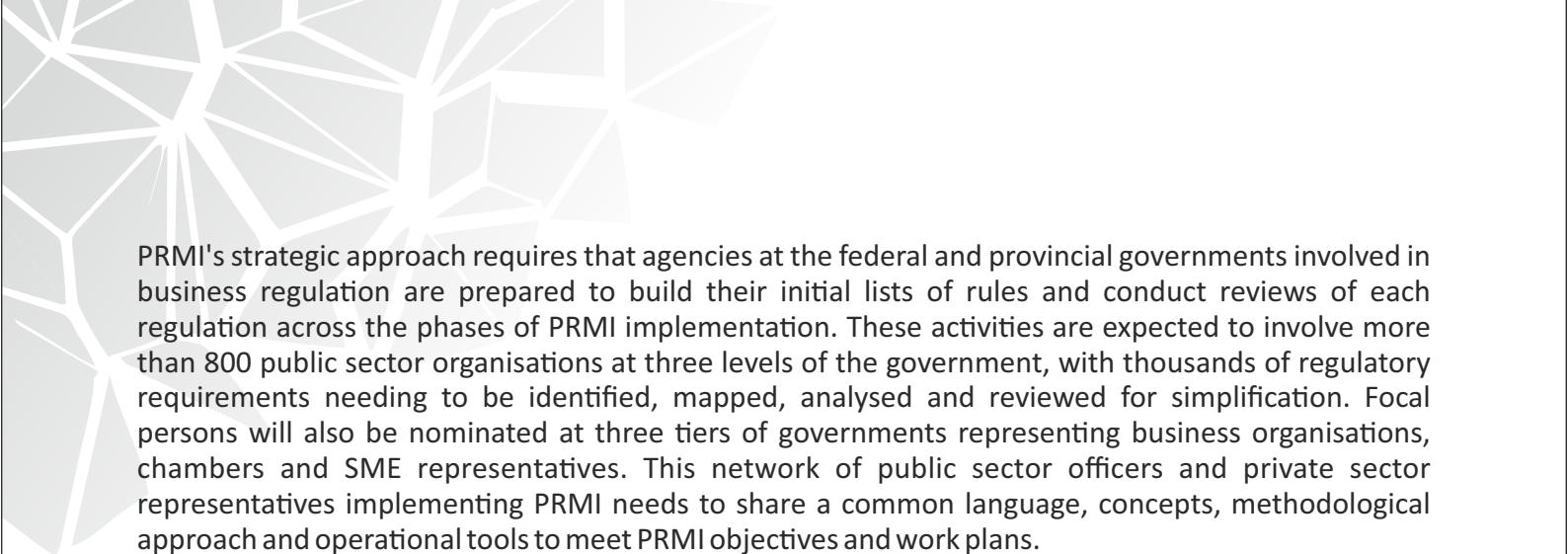
# PRMI Regulatory Guidebook

## Introduction

The Federal Government has approval Regulatory Principles and Code of Practice to be followed by all Ministries / Divisions / Regulators performing any regulatory functions for businesses. All Ministries / Divisions / Regulators to follow the Regulatory Principles and Code of Practice while formulating new regulations. For existing regulations, time period of six (06) months have been given by Federal Government for self-assessment to eliminate redundant and needless regulations and also simplify / modernize the cumbersome procedures. After the initial period of six (06) months, regulatory assessment / audit based on principle-based framework will be conducted by BOI through independent third parties and outcomes / recommendations will be placed before Federal Cabinet for consideration. The whole process will be carried out under supervision of Pakistan Regulatory Modernization Initiative (PRMI) Steering Committee with executive oversight by Prime Minister's Office.Pakistan Regulatory Modernisation Initiative (PRMI) was launched on 14 June 2021. The PRMI Strategy includes a concerted and comprehensive effort between federal and provincial governments to review regulations and compliance requirements and conditions for businesses registering and operating in Pakistan. The review will eliminate unnecessary regulations and administrative requirements, adopt the best instruments for regulating each case and simplify and digitalise administrative processes for the remaining rules.

The objective of PRMI is to eliminate cumbersome and unjustified regulatory requirements accumulated over the years and create a simple, transparent, online and business-friendly regulatory environment with minimum interaction/physical touch points between businesses and government departments. The expected outcome of the PRMI would be a much simplified and more efficient system of business regulation. An institutional structure and capability would be created to sustain the improvements achieved and continue with regulatory transformation.

As a comprehensive reform effort, PRMI will cover regulations across the life cycle of businesses, including business registration and rules affecting most aspects of business operations. After they register, businesses decide the economic activities they want to pursue, their offer of products and services and specific standards to adopt, locate and build the facilities and use the equipment and machinery they require. Various types of regulatory instruments will be covered. These include registration and multiple authorisations (declarations, licences, certificates, and permits) and associated requirements to obtain approval and conditions for maintaining the authorisations over time. This guidebook provides precise definitions for these instruments. For ease of reference and following the PRMI Strategy & Implementation document, the initialism RLCO (registration, licences, certificates and other permits and approvals) is used across this guidebook.

The implementation of PRMI's core activities will follow two phases. In the first one, every agency with a mandate to regulate businesses will deliver a list of their current regulations. A comprehensive inventory and mapping of rules will be constructed on that basis. A legal framework that federal and provincial governments would voluntarily adopt would mandate eliminating all RLCOs that are not in their declared inventory, legally backed, are unnecessary, unjustified, and non-business friendly.

The second phase will focus on a comprehensive review of the remaining RLCOs at the federal, provincial, and municipal levels. It will cover stakeholder consultations and training on methodologies consistent with global best practices on business regulation and regulatory impact assessment (RIA) principles. A set of principles will be officially enacted through the publication of Pakistan Regulators' Guidelines (PRG) which all three government levels could adopt. Best practice regulations will replace redundant and duplicative ones. Processes for compliance with essential RLCOs will be simplified and streamlined. In line with global best practices, a National Regulatory Delivery Office (NRDO) will be created and charged with improving regulatory quality through accountability, advocacy, capacity building, and promoting a practical yet business-friendly regulatory enforcement culture.

PRMI's strategic approach requires that agencies at the federal and provincial governments involved in business regulation are prepared to build their initial lists of rules and conduct reviews of each regulation across the phases of PRMI implementation. These activities are expected to involve more than 800 public sector organisations at three levels of the government, with thousands of regulatory requirements needing to be identified, mapped, analysed and reviewed for simplification. Focal persons will also be nominated at three tiers of governments representing business organisations, chambers and SME representatives. This network of public sector officers and private sector representatives implementing PRMI needs to share a common language, concepts, methodological approach and operational tools to meet PRMI objectives and work plans.

PRMI Action Plan anticipates that between 2021 and June 2027, agencies involved in its implementation will have:

- Been trained in designing and delivering effective, risk-based, and low-cost regulations and related inspections.
- Eliminated unnecessary RLCOs and regulatory requirements.
- Simplified, streamlined, and consolidated the stock of RLCOs.
- Established and fully operating the Pakistan Business Portal (PBP) nationwide as a virtual one-stop shop to access the regulatory requirements.
- Developed functionality in PBP for applications for registrations, licences, certificates, and other permits (RLCOs) to be submitted electronically and pay fees/charges online.
- Established and operationalised a National Regulatory Delivery Office to sustain the reforms process, filter the flow of new regulations and prevent the eliminated ones from being re-enforced.

## Purpose and Contents of the PRMI Regulatory Guidebook

The PRMI Regulatory Guidebook provides policymakers, regulators, and private sector stakeholders with the basic concepts and tools required to implement PRMI. It also provides relevant and applicable references to available material on business regulation reforms and modern regulation techniques.

This guidebook is structured in self-standing modules designed as a sequence to build the conceptual and practical foundations to implement PRMI. The initial two modules present the general principles of good regulation and a comprehensive glossary of terms and definitions to be used in the remaining modules of this guidebook and across the implementation of the PRMI Strategy. The following module provides specific toolkits for reviewing and reforming RLCOs organised by the business regulation area (registration and operations), plus the cross-cutting instruments for enforcement (inspections and fines) and the application of principles for setting fees for business regulatory procedures. Guides for implementing the sequential phases followed by PRMI are presented in the next module, going from mapping RLCOs, eliminating non-declared RLCOs, reviewing remaining RLCOs and process reengineering. A module has also been prepared on four aspects that need consideration for setting the

# PRMI Regulatory Guidebook

## Module 1: Terms and Definitions

A business is officially registered, and its activities and product and service offerings are regulated as required by various parties. Different levels of government regulate businesses following specific objectives and rationale. The spectrum of entities, mandates, and objectives involved generates a natural tendency to indiscriminately use terms such as registration, licence, permit, requirements, procedures, and certifications. It is even more so in Pakistan, as federal, provincial and district-level entities have regulatory mandates over business activities.

A comprehensive reform effort such as the Pakistan Regulatory Modernisation Initiative (PRMI) requires building a complete shared understanding of these risks among the different areas that regulate businesses. A critical starting point is sharing a common language, ideally, a taxonomy of terms and definitions to adopt in the reform effort. A common taxonomy also reduces the negative impact on investors and entrepreneurs indiscriminately using various terms and definitions to refer to similar regulations. It generates a lack of clarity and predictability for the local business community and international investors. Finally, standard terms and definitions are necessary for developing a single integrated electronic platform with the capabilities expected for Pakistan Business Portal.

This section provides a list of standard definitions, aligned as much as possible with definitions used globally for regulations and instruments used to regulate business activities. It also includes a list of acronyms and abbreviations for implementing PRMI. For ease of reference and following the PRMI Strategy & Implementation document across this guidebook, the initialism RLCO (registration, licences, certificates and other permits and approvals) is used as a general term to refer to business regulations. Later in this module, two annexes are included with a list of acronyms and abbreviations and a glossary of relevant terms for PRMI.

## Business Registration

Even though a business registration might not be considered a regulation (as it is usually just subject to a check of formal requirements), for ease of reference for PRMI implementation purposes, it has been pooled into the initialism RLCO. **Business Registration** strictly refers to the official registration in the business registry due to applying for registration. As a more general term, as used in this guidebook, **Business Registration** refers to completing three core procedures; check the uniqueness of the company name, register with the tax authorities, and inscribe the company in the public register.

## Authorisations for Business Operations

After a business is registered, it might start operating in one or more economic activities and offer a range of products or services. Business regulations might apply to most aspects of business operations, as operating in the economic activities and offering the products and services that they decide and the specific standards to adopt, locating and building the facilities and using the equipment and machinery they require. The general term to refer to these regulations is authorisations.

To be implemented, every authorisation **must** have an associated group of requirements (rules that the business needs to comply with before starting to operate) and conditions (rules that businesses must comply with during operations) to maintain an authorisation. Monitoring requirements and conditions imply that regulators use concrete Instruments. Enforcing compliance over time with conditions requires that regulators define sanctions. The diagram below includes definitions of these terms and some examples for each:

## INSTRUMENTS

Methods for monitoring compliance with requirements and conditions
- Authorisations (including licensing and accreditations)
- Inspections (for verification of documents and compliance with requirements for an authorisation or conditions over time)
- Informational instruments (declarations, reporting, markings)

## REQUIREMENTS

Parameters, rules, conditions and values that businesses must comply with by law: should be measurable and verifiable:
- Technical requirements (building norms, standards)
- Documented requirements (qualifications, bonds, insurance)
- Rules of operation
- Localisation in specific area as defined by cadastre
- Processes required on a regular basis

## SANCTIONS

Methods for enforcing compliance with requirements
- Fines
- Temporary or permanent revocation of authorisation
- Re-training
- Criminal proceedings

## AUTHORISATIONS FOR BUSINESS OPERATIONS

Authorisations can be classified according to the object they regulate, such as economic activities, use of objects, products, or one-time actions.

# 1. Authorisations for Economic Activities

Lower-risk economic activities do not require prior authorisation to start operating. However, as we move up the ladder or risks associated with economic activities, more burdensome regulatory instruments must be used, which could be refused or revoked as a mechanism to manage risks effectively. The least demanding tool is a **Declaration** or **Notification**.

**Notifications or Declarations:** Filling a list of the required information (not inspections or other licensing requirements), and once completed, a business can start operating without requiring prior authorisation. Risks to the activity are managed by reviewing licensing conditions (rules for activity) after the business begins operations.

**Licences:** Authorisations given to businesses or individuals before beginning their operations by government regulators, local authorities, business associations, chambers of commerce, and other agencies, governmental and non-governmental. Without these, business operations are deemed illegal as specified by legislation. A Licence does not prescribe how an activity should be performed; it only addresses minimising potential risks generated by the action. If certification of activity (usually services) by third parties is obligatory, this authorisation becomes, in fact, a licence.

Licences can themselves be divided into the following sub-categories:

- Operational licences: These are the most common type, frequently called business licences. They regulate the issues of public safety and well-being by reducing associated risks through enforced licensing requirements and conditions.

- Professional licences: These are similar to operational licences but applied to individuals (for certain professional activities) rather than businesses. Enforced licensing requirements and

conditions reduce the associated risks of an individual performing a professional activity.

- Licences for the use of limited resources: A distinct sub-category of licensing, as it does not aim at regulating public safety. These licences are mechanisms for allocating limited resources (tenders and quotas) and retribution or compensation that the state receives for using or exploiting such resources. Most commonly used for extracting natural resources or in cases in which some limitation to competition is warranted (e.g., public utility providers that operate in specific market segments or natural monopolies).

**Accreditations:** Authorisations that ensure compliance with predetermined standards for an activity or service to be officially recognised, accepted, or approved. Accreditations are a broader and more detailed type of authorisation than a Licence because they address various issues, not only risks. Unlike a Licence, an Accreditation prescribes how an activity should be performed. They are most used to ensure that businesses or individuals can fulfil some functions delegated by the government (e.g., accredited engineers are authorised to perform state inspections in construction, accredited schools issue state diplomas, and accredited laboratories provide obligatory certification of goods). The conditions of an Accreditation can regulate prices and profit margins.

**Concessions:** Authorisations issued under conditions of a negotiated contract with a government entity. In the same way as licences, concessions include pre-qualification (requirements) and rules (conditions). A key difference with licences is that concessions regulate prices and profit margins. Also, unlike accreditation, concessions always involve state-owned assets. It is most commonly used to procure operation and maintenance or exploit state (public) assets by private entities.

**Certification of Activities:** Businesses might seek a certification provided by state or private sector agencies, a procedure by which an independent and authorised third party validates some aspects of business activity about a model. Certificates are often required to pre-qualify to receive state assistance (participate in development programmes, receive monetary or in-kind aid, services, or special assistance from governmental agencies). Businesses might look for certifications also to address information asymmetries for marketing purposes (for instance, the hotel star system, which is applied as voluntary certification). Certificates can be either voluntary or mandatory.

## 2. Authorisations for the Use of Objects

**Permits:** Authorisations given by government authorities, business associations, chambers of commerce, and other agencies, both government and non-government, which are obligatory for the use of defined objects.

- **Land use permits:** An authorisation related to using a land plot or parcel with specific functionality (agriculture, construction of particular structure, other uses).
- **Construction permit:** An authorisation that relates to the approval of specific designs for structures and their technical specifications.
- **Exploitation permit:** An authorisation that relates to the specific use of building structure and its readiness for use. Premises (building) certification is a form of exploitation permit.
- **Movable property (vehicles, elevators, machinery) safety of use permit:** An authorisation that relates to the assurance of compliance with safety standards for the use of vehicles, complex machinery or other equipment. This permit is different from equipment certification, and it is commonly renewable regularly upon inspections.

**Product Certification:**

It is a broad category of authorisations that regulate market entry for products. Frequently the term "technical regulations" is used. The terminology used in this area varies by country. It commonly includes standardisation, metrology, required product certifications, product registrations, quality assurance systems (both obligatory and voluntary), and mandatory markings.

**Certification of Equipment:**

Authorisations to use specific equipment by a business. It also refers to technical regulations in the same way as product certification.

# 3. Authorisation for One-time Actions

**Permits for one-time actions:** Authorisations issued for specific one-time activities or events. Most commonly, these are used to ensure that special provisions are made by authorities to guarantee public safety or prevent conflicts (e.g., excavations, demonstrations, special parking, and massive public events).

An additional term that needs inclusion in a business regulation taxonomy in some countries is a **no-objection certificate (NOC)**. Some countries, including Pakistan and India, use the so-called NOCs as requirements for business regulation, which are legal documents issued by an organisation, entity or individual to declare that they have no objection to the mentioned details in the papers. NOCs are usually used as requirements for employment, trade, litigation, immigration, and other purposes to nullify any objection by the parties concerned in the process. NOCs are not authorisations but just requirements for authorisations that might involve more than one official or regulatory unit. They have no regulatory function but just an administrative role.

It is important to note that businesses need to comply with other administrative processes that overlap with Authorisations for their operations, including tax compliance, international trade operations (customs and other), labour regulations and specific rules that might be established as requirements for the operation of business activities. PRMI and this guidebook focus on RLCOs and do not cover tax, international trade or labour regulation procedures.

# PRMI Regulatory Guidebook

## Module 2: Principles of Good Regulation and Risk-Based Approach to Regulation and Smart Regulation

Following global best practices, the PRMI Strategy and Implementation document (June 2021) includes the development of Pakistan Regulators' Guidelines (PRG) as a set of principles and behaviour expectations of regulators, which all three government levels can adopt. PRG will provide a flexible, principle-based framework for regulatory delivery to promote transparency and proportionality in business regulation and enable regulators to design their services and enforcement policies to best suit businesses' needs. The proposed PRG will guide regulators to effectively deliver regulatory services while achieving their common social, environmental, and public protection objectives following good global practices. The PRG would be embedded in the legal framework for NRDO, thereby ensuring that existing and new regulations are transparent and based on sound principles. PRG's principles should guide the consistent behaviour of regulators across all aspects of their activities.

| Principles of Good Regulation | | |
|---|---|---|
| **Focus** | **Rulemaking** | |
| • Design and operate processes and channels for regulatory compliancs | Stock of regulations | Flow of new regulations |
| • Enforce compliance with regulation<br><br>• Design and operate processes for complaints and appeals | Periodical reviews of the stock of regulations, requirements, and conditions | Assess and filter proposals for new regulations<br><br>+<br><br>Manage a good assessment process |

Even though the final version of PRG principles is yet to be available, as this corresponds to one of the initial PRMI activities, this section of the regulatory guidebook presents a set of principles. The BOI adopted these at the core of the PRMI Strategy and some additional examples from other countries and organisations that might be considered global best practices. From the overarching principles that should guide the behaviour of regulators, this regulatory guidebook provides tools and advice consistent with sound regulation principles and operational guidance for reviewing existing regulations (RLCOs, requirements, and conditions), conducting regulations and assessing new rules.

The PRMI Strategy and Implementation document specify steps to develop and adopt PRG.

## Core Principles in PRMI Strategy and Implementation

A set of seven fundamental principles of better business regulation have been included in the PRMI Strategy and Implementation document to guide PRMI implementation:

1. **Regulatory Delivery:** When possible, prefer instruments to ensure regulatory compliance after a business is operational (ex-post supervision) over instruments that require approval before a business starts operating (ex-ante). Ex-post supervision reduces the regulatory hurdles faced when starting up. Ex-ante regulation identifies problems beforehand and shapes stakeholder behaviour and responses through regulatory intervention.

2. **Transparency:** Ensure full transparency by disseminating operative rules and relevant procedures in the public domain.

3. **Risk management:** Identify and mitigate risks associated with an activity instead of an umbrella approach covering all business activities. Regulation of each activity should be linked to the risk level associated with the action.

4. **Efficiency and effectiveness:** Systematically assess impacts and review regulations to ensure that they meet their desired objectives in a changing and complex economic and social environment without limiting competition.

5. **Simplification:** Eliminate unnecessary regulatory barriers to trade and investment by continuously reviewing regulatory requirements and conditions.

6. **Proportionality:** Regulations should be used only when necessary, with remedies for non-compliance appropriate to the risks posed and minimal costs for businesses.

7. **Set fees based on cost recovery:** Business regulation fees should be based on the recovery of costs to administer regulations and not as a revenue source.

Countries have adopted similar and other principles considered best practices for business regulation. The UK has adopted a Regulator's Code (UK Better Regulation Delivery Office. 2014). New Zealand follows a set of Principles for Best Practice regulation (New Zealand Government. 2015). Canada adopted Guiding Principles for its Federal Regulatory Policy. Other countries have followed a similar good practice of officially adopting principles to guide regulators' behaviours and decisions.

**Principles in UK Regulator's Code**

The code indicates six principles for regulatory agencies. Regulators should:

1. Carry out their activities in a way that supports those they regulate to comply and grow.

2. Provide simple ways to engage with those they regulate and hear their views.

3. Base their regulatory activities on risk.

4. Share information about compliance and risk.

5. Ensure clear information, guidance and advice are available to help those they regulate meet their responsibilities to comply.

6. Ensure that their approach to their regulatory activities is transparent.

**New Zealand's Principles for Best Practice Regulation**

New Zealand has adopted a set of six principles linked to specific attributes:

1. Growth compatible: Economic objectives are given an appropriate weighting relative to other specific purposes, including additional factors contributing to higher living standards.

2. Proportional: The burden of rules and their enforcement should be proportionate to the expected benefits.

3. Flexible, durable: Regulated entities have the scope to adopt the least cost and innovative approaches to meeting legal obligations. The regulatory system can evolve in response to changing circumstances.

4. Confident and predictable: Regulated entities have certainty about their legal obligations, and the regulatory regime provides predictability over time.

5. Transparent, accountable: Rules development, implementation, and enforcement should be transparent.

6. Capable regulators: The regulator has the people and systems necessary to operate an efficient and effective regulatory regime.

**Canada's Guiding Principles for Federal Regulatory Policy**

These Guiding Principles establish as a duty of the Government of Canada to ensure that regulations result in the most outstanding overall net benefits to current and future generations of Canadians. In fulfilling this duty, departments and agencies should be guided by four principles:

1. **Regulations protect and advance the public interest and support good government**: Regulations are justified by a clear rationale for protecting the health, safety, security, the social and economic well-being of Canadians and the environment.

2. **The regulatory process is open and transparent**: Regulations, and their related activities, are accessible and understandable and created in an open, transparent, and inclusive way that meaningfully engages the public and Aboriginal people early on.

3. **Regulatory decision-making is evidence-based**: Proposals are made, decisions

are based on evidence, robust analysis of costs and benefits, and the risk assessment while being open to public scrutiny.

4. **Regulations support a fair and competitive economy**: Regulations should aim to support and promote inclusive economic growth, entrepreneurship, and innovation for Canadians and businesses. Opportunities for regulatory cooperation and the development of aligned regulations should be considered wherever possible.

In addition, global organisations have also launched sets of principles. The OECD's Guiding Principles for Regulatory Quality and Performance (OECD, 2005) and the European Commission's Better Regulation Guidelines (European Commission, 2017) could be highlighted.

**OECD Guiding Principles for Regulatory Quality and Performance**

OECD has launched principles that guide the design and review of regulations and codes to guide the governance of regulators. The former includes:

1. Adopt at the political level comprehensive programmes of regulatory reform that establish clear objectives and frameworks for implementation.

2. Assess impacts and review regulations systematically to ensure they meet their intended objectives efficiently and effectively in a changing and complex economic and social environment.

3. Ensure that regulations, regulatory institutions, and processes are transparent and non-discriminatory.

4. Review and strengthen, where necessary, the scope, effectiveness and enforcement of competition policy.

5. Design economic regulations in all sectors to stimulate competition and efficiency and eliminate them except where clear evidence demonstrates that they are the best way to serve broad public interests.

6. Eliminate unnecessary regulatory barriers to trade and investment through continued liberalisation and enhance the consideration and better integration of market openness throughout the regulatory process, thus strengthening economic efficiency and competitiveness.

7. Identify essential linkages with other policy objectives and develop policies to achieve those objectives in ways that support reform.

The OECD set of principles to govern regulators indicates the following:

1. Role clarity

2. Preventing undue influence and maintaining trust

3. Decision-making and governing structure

4. Accountability and transparency

5. Engagement

6. Funding

7. Performance evaluation

> **EU Better Regulation Guidelines**
>
> The European Commission has adopted the concept of 'better regulation' with the specific meaning of designing EU policies and laws to achieve their objectives at minimum cost. 'Better regulation is not about regulating or deregulating. It is a way of working to ensure that political decisions are prepared in an open, transparent manner, informed by the best available evidence and backed by the comprehensive involvement of stakeholders. This is necessary to ensure that the Union's interventions respect the overarching principles of subsidiarity and proportionality, i.e. acting only where necessary at EU level and in a way that does not go beyond what is needed to resolve the problem. Better regulation covers the whole policy cycle—policy design and preparation, adoption, implementation (transposition, complementary non-regulatory actions), application (including monitoring and enforcement), evaluation and revision. For each phase of the policy cycle, there are a number of better regulation principles, objectives, tools and procedures to make sure that the EU has the best policy possible.' (European Commission, 2017)

> **ASEAN Good Regulatory Practice Core Principles**
>
> 1. The clarity in policy rationale, objectives, and institutional frameworks
> 2. Produce benefits that justify costs and be least distortive to the markets
> 3. Be consistent, transparent, and practical
> 4. Support regional regulatory cooperation
> 5. Promote stakeholder engagement and participation
> 6. Be subject to regular review for continued relevance, efficiency, and effectiveness

## Operational Guidance to Review RLCOs consistent with Principles of Good Regulation

The adoption of overarching principles for guiding the behaviour and decision-making of regulators will be a cornerstone on which a best practice regulatory regime will be developed and maintained. The implementation of PRMI includes an initial comprehensive review of the stock of RLCOs across the three levels of government. This review should be consistent with sound regulation principles. The following list of points to consider when conducting studies of RLCOs and associated requirements and conditions would align these reviews with principles of good regulation:

1. Assess whether the conditions are in place for the RLCO to be effective:

**First condition**: All components (requirements, conditions, and sanctions) must be in place and should be measurable or verifiable. If any of the regulation features are missing, it would not be practical to avoid risks, and there would be no impacts associated with eliminating this regulation.

**Second condition**: The regulator must effectively use all components in practice (especially requirements for compliance over time, such as inspections and sanctions). If for any reason, including that some features might not be measurable or verifiable, all components are not used, again, such regulation would not be practical for avoiding risks and should be eliminated.

2. Every regulation and each associated requirement or condition should be targeted towards

reducing the risk of a clearly defined hazard. Suppose no clear definition of a hazard can be provided, or no logical association between the hazard and the solution can be clearly spelt out. In that case, the regulation should be eliminated or changed. If the contribution of an associated requirement or condition to the reduction of the risk of a specified hazard cannot be determined, the requirement or condition should be eliminated.

3. In some cases, regulations could have been set in place with objectives other than reducing the risk of a hazard, including questionable objectives, or using regulation instead of more appropriate policy instruments. Three common mistakes are the following:

   a. Regulations sometimes are wrongfully set to limit competition (through quotas, scale or volume requirements or other entry barriers), looking for the market to 'mature'. Regulations should not restrict competition unless in the case of licences to exploit limited resources or issues of natural monopolies.

   b. Regulations are set in some cases to regulate aesthetics, which is an entirely subjective issue that requires a different approach, for instance, including predetermined options in building codes.

   c. In some cases, regulations regulate the quality of products or services, a subjective issue involving choice and price. Suppose the hazard is related to informational asymmetries (i.e. buyers having minimal information or references on the characteristics of products or services). In that case, it is possible to address through requirements for disclosure of information instead of using regulation to limit the entry of products to the market for quality control purposes (frequently confused with safety issues).

4. For regulatory purposes, hazards need not just be clearly defined, but the risk of a hazard must be measurable and measured. If the risk of danger cannot be measured, it does not exist for regulatory purposes. Periodic monitoring or risk measurements are critical factors for the efficiency and effectiveness of regulation.

5. If an ex-ante regulatory instrument is being used (i.e. applied before businesses start operating), check if using an ex-post tool (i.e. enforce compliance with some conditions through inspections or reporting requirements) would suffice. Alternatively, evaluate if a less burdening ex-ante instrument, such as a declaration or notification, could be a more reasonable alternative than an authorisation (licence, permit or other).

6. In case a regulation and associated requirements and conditions comply with all the previous four points, it could be the case that they still impose compliance costs that are too high for the risk mitigation results they generate. Regulations and instruments should be chosen to achieve sufficient risk mitigation results with the lowest compliance cost possible. Compliance costs should also be adequate to the realities of a country's economy. Countries with higher income levels can afford regulatory instruments requiring higher compliance costs.

7. Requirements for authorisation approval and conditions for maintaining authorisation need to be enforceable. Any provision or condition that cannot be enforced or if the regulator has any limitations for adequate enforcement generates compliance costs without bringing any benefits for risk mitigation should be eliminated or changed.

# Risk-based Approach to Business Regulation

Good regulation practices focus on managing the risks of potential hazards from business activities.

> RISKS: An excellent way to understand the meaning of risk for business regulation purposes is by using the following equation:
>
> RISK = likelihood of harm x potential severity
>
> In many instances, there's a reference to probability instead of likelihood, which is just a nuance to give a more operational and numeric sense. This guidebook has an entire section on a risk-based approach to regulation.
>
> HAZARDS: Potential danger factors related to physical safety, health, environment, well-being, or state security.

One of the fundamental principles for good business regulation adopted worldwide is focusing regulation on preventing and mitigating risks of hazards. In practice, this principle translates to managing regulation (selecting the type of regulation, the instruments to use, and enforcement mechanisms) following scales in the levels of risk of activities or objects.

As explained in Module 1 of Regulatory Guidelines, business regulations, like licences and other authorisations, are typically established to control activities that might pose potential risks to human safety and well-being through application requirements verified at application for the authorisation. Permanent rules for business activities (business conditions) are also established for the same purpose and confirmed through inspections along the life cycle of the business.

Risk-based regulation means adapting the government's degree of regulatory control (and the choice of the type of authorisation and related requirements and conditions) to the actual hazards and level of severity posed by industry sectors, economic activity, or business establishments. In general terms, the risk is the combination of the likelihood (or probability) of an adverse event (like a hazard or harm) occurring and the potential magnitude of the damage caused (e.g. the number of people affected and the severity of the damage for each).

Global best practices in applying a risk-based approach start with regulators adopting risk scales or classifications. These are typically five, four or three-level scales organising risk profiles of business activities or use of objects. A three-level scale, which could be further divided considering sub-scales for the medium and high levels, would look as follows:

1. **Lower-risk** business activities or use of objects require less stringent requirements, fewer ex-post checks, less frequent or no authorisation renewal requirements and fewer regular inspection visits. Self-reporting, information provision, and voluntary certification could suffice in some jurisdictions.

2. **Medium-risk** business activities or the use of objects would have moderate requirements compared to low-risk establishments. It may include a compliance audit, third-party certification, and a reasonable number of inspection visits.

3. **High-risk** establishments may require stringent requirements, strict enforcement, the fulfilment of ex-ante requirements, frequent authorisation renewals and regular inspection visits.

A well-designed risk-targeting approach would distinguish between business activities and the use of objects and build on scientific evidence. It could also be subject to expert judgment, previous experiences, and information on incidents. These approaches must be assessed and reviewed periodically to introduce updates and changes to ensure relevance and usefulness.

Inspections conducted in various regulatory areas such as labour, customs, tax, environmental protection, building and fire safety, and occupational health and safety can also use risk assessment tools and checklists. In this case, a risk assessment tool should comprise risk criteria and a rating scheme for the use of objects built around the profile of the business (sector, type of activity, products, location, size, and systems applied) and around the compliance history of the business such as number/type of violations, warnings, and citizen complaints.

Adopting a risk-based approach to business regulation improves regulation and regulatory enforcement outcomes. Under this approach, activities or objects that pose the highest risk to public well-being are the focus of regulation and enforcement. Government resources are, thus, better used, as they are directed towards the most needed areas. The risk-based approach also reduces burdens for most businesses as lower-risk sectors and firms are subject to lighter requirements and lower compliance burdens. Compliance is improved, and firms benefit from a more level playing field.

A risk-based approach to managing business regulation allows the regulator to move from a policy level to targeted, firm-level management, generating practical answers to the four key questions: Regulate or not? How to regulate? Whom to regulate? How to respond to violations?



Source: World Bank Group. 2020c.

Moreover, coordination among regulators with different mandates and objectives could lead to adopting risk classifications that share as much as possible standards and criteria. Coordination could result in single, integrated inspections moving in this direction. Coordinating common dates and having an integrated inspection file would be possible. Module 3, Section 4.3. explores these possibilities in more detail.

Adopting a risk-based approach to business regulation requires conducting risk assessments for activities or using objects and organising risk matrices. The risk assessment determines a quantitative or qualitative risk estimate related to a well-defined situation and a recognised threat (also called hazard). It is a process of identifying hazards, and their probability and assessing what could happen if a hazard occurs. In other words, it is the likelihood of a hazard occurring and the potential magnitude of the damage it can cause.

The following diagram illustrates the relationship between the likelihood of a hazard, potential harm and risks classification:

# Risk Classification

| Potential harm | Likelihood of a hazard | | |
|---|---|---|---|
| | Low | Medium | High |
| High | Medium risk | High risk | High risk |
| Medium | Medium risk | Medium risk | High risk |
| Low | Low risk | Medium risk | Medium risk |

## How to identify hazards and assess probabilities of occurrence?

Hazards cause damages (harm). The correct approach for identifying hazards is reviewing historical data on what generated harm. As the availability of reliable data might be potentially limited, hazard identification can be performed only through the analysis of plausible scenarios in well-defined situations. It is critical to use only likely scenarios because otherwise, the list of hazards would become too detailed and unmanageable. There needs to be a thoroughly reliable scientific method to assess plausibility. Even actual historical data analysis might provide an underestimation of plausible hazards. For example, before the first accidents with nuclear reactors, historical data would show zeros in all scenarios. It, however, does not mean that accidents with nuclear reactors were implausible.

A well-defined situation for hazard identification requires that hazards are explicitly identified for regulatory mitigation of risks associated with business activities or the use of objects. Generic examples of threats, among many others, include fire, explosions, spill or release of poisonous materials, structural failure, terrorism, disease, utility outage, mechanical breakdown, cyber-attack, critical supply interruption, theft, and transportation interruption.

The probability assessment (likelihood) of a hazard can be performed through in-depth plausible scenarios assessment and, where possible, the use of historical data (both domestic and international). It is generally recommended to use three to five probability categories. Using three probability categories is usually sufficient and provides a fast and straightforward overall risk assessment and design of regulatory mitigation policies.

## How to define the potential harm involved in specific risks?
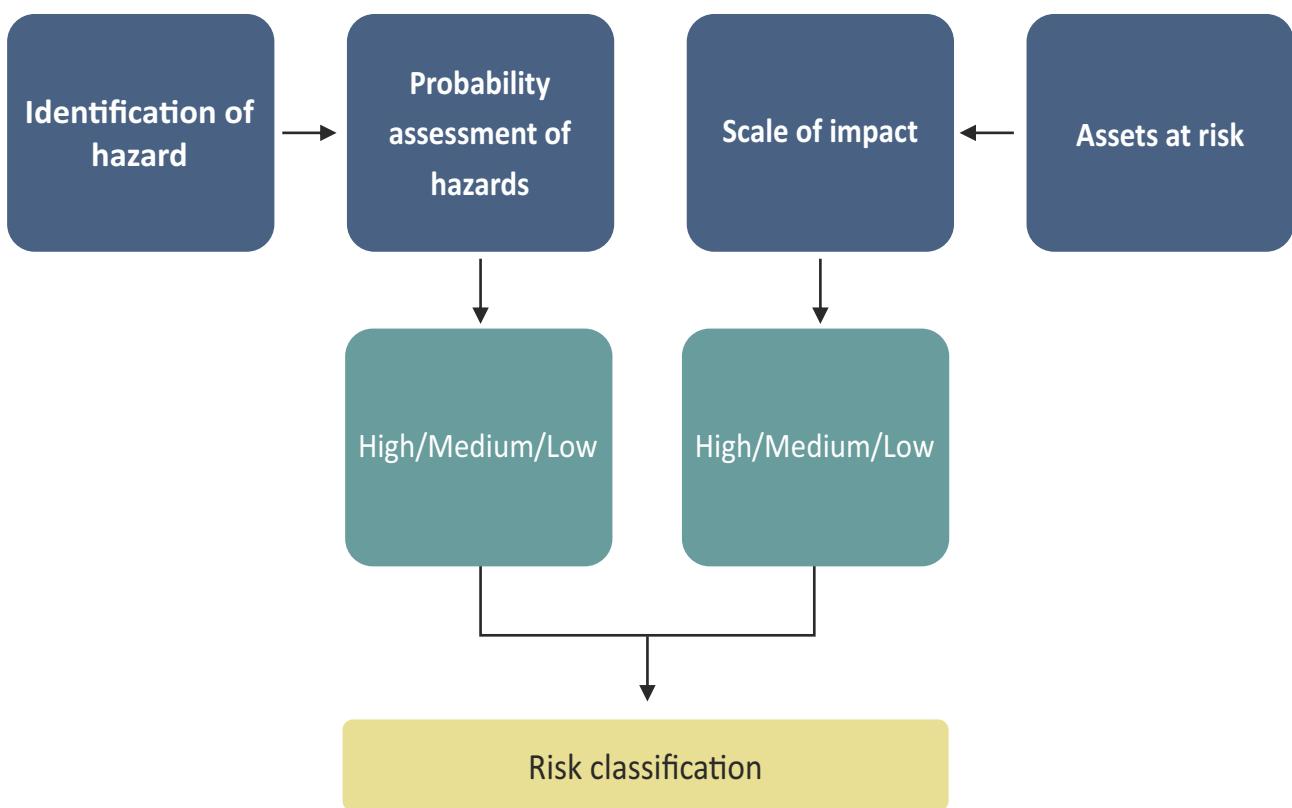
There could be several 'assets' at risk from hazards. First and foremost, the potential harm to people's life and health should be the top consideration of the risk assessment. Hazard scenarios that could cause deaths, significant injuries, or diseases, should be highlighted and prioritised.

Many other assets may also be at risk. These include, among others, buildings, information systems, utility infrastructure, machinery, raw materials, and finished goods. Environmental services provided by nature are an essential asset to consider. Finally, there are 'soft' assets such as the comfort and well-being of the community, the material well-being of people, broader state security, and religious and societal norms. All in all, these assets directly or indirectly affect the safety and well-being of people.
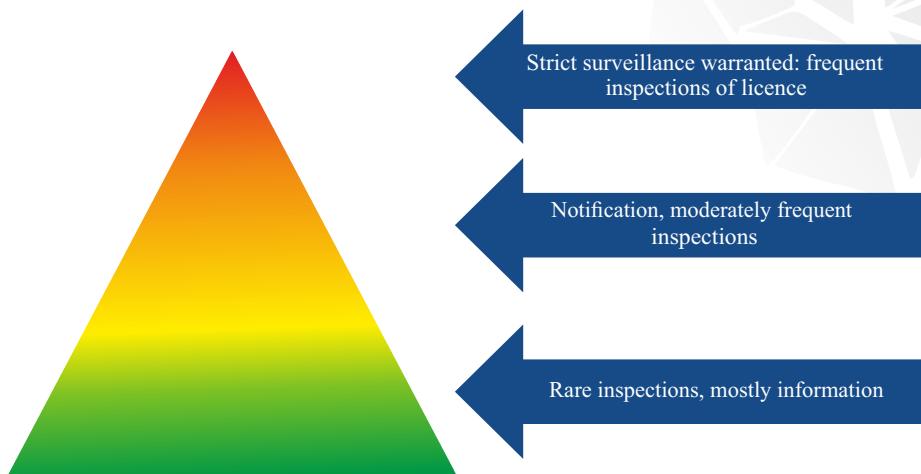
Society and government function to identify these assets and determine if they are sufficiently important to warrant risk mitigation.

A critical component in determining risk levels relates, thus, to the assessment of the potential scale of hazard impact on the identified assets. It relates to the scale of possible casualties, property damage, financial loss, business interruption, and environmental contamination.

Risk assessment follows a logical sequence as explained in the following diagram:

```
┌──────────────┐     ┌──────────────┐     ┌──────────────┐     ┌──────────────┐
│Identification│ ──▶ │ Probability  │     │  Scale of    │ ◀── │Assets at risk│
│  of hazard   │     │assessment of │     │   impact     │     │              │
│              │     │   hazards    │     │              │     │              │
└──────────────┘     └──────┬───────┘     └──────┬───────┘     └──────────────┘
                            │                    │
                            ▼                    ▼
                     ┌──────────────┐     ┌──────────────┐
                     │High/Medium/Low│    │High/Medium/Low│
                     └──────┬───────┘     └──────┬───────┘
                            │                    │
                            └─────────┬──────────┘
                                      ▼
                     ┌────────────────────────────┐
                     │     Risk classification     │
                     └────────────────────────────┘
```

Experience shows that risk profiles usually follow a pyramid shape that shows the distribution of establishments according to their risk scoring/rating. The pyramid base, usually including the most significant portion of businesses, comprises low-risk activities. In contrast, medium and high-risk activities are less prevalent and might conform to the top pyramid diagram. Jurisdictions or agencies that fail to achieve a similar, pyramid-like distribution profile may indicate a poorly designed risk-targeting approach that does not distinguish well among risks of business activities or the use of objects.

Strict surveillance warranted: frequent inspections of licence

Notification, moderately frequent inspections

Rare inspections, mostly information

**Source:** World Bank Group. 2020c.

Identification of risk profiles and their organisation along a risk matrix should guide the decision-making on instruments to use for regulating activities or objects, as shown below. Low-risk activities or use of objects require less stringent requirements, fewer ex-post checks, less frequent or no licence renewal requirements and less frequent inspection visits. In some jurisdictions, self-reporting, information provision and voluntary certification could suffice.

Medium-risk activities or the use of objects have moderate requirements compared to low-risk. These may include compliance audits, third-party certification, and a reasonable number of inspection visits. High-risk activities or use of objects may require stringent requirements, strict enforcement, fulfilment of ex-ante requirements, frequent licence renewal and frequent inspection visits.

| | **Likelihood of an adverse event** | | | | |
|---|---|---|---|---|---|
| **Rating** | **Very Low** | **Low** | **Medium** | **High** | **Very High** |
| **High** | Lower-Medium | Upper-Medium | Upper-Medium | High | High |
| **Upper-Medium** | Lower-Medium | Lower-Medium | Upper-Medium | Upper-Medium | High |
| **Lower-Medium** | Low | Lower-Medium | Lower-Medium | Upper-Medium | Upper-Medium |
| **Low** | Low | Low | Lower-Medium | Lower-Medium | Upper-Medium |

*Potential severity and magnitude*

**Source:** World Bank Group. 2020a.

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# PRMI Regulatory Guidebook
## Module 3: Best Practices in Reforming Business Regulation and Implementation of PRMI

Business regulations in Pakistan are multi-layered, outdated, and need more automation. This situation is highly inefficient and leads to numerous complaints from the private sector regarding time, cost, complexity, and uncertainty of outcomes. Pakistan Regulatory Modernisation Initiative (PRMI) has been launched as a reform effort designed to build on the progress of the Ease of Doing Business (EoDB) programme. PRMI is a **comprehensive reform** of business regulations to be implemented as a structured approach for **stocktaking, reviewing, eliminating, simplifying, and automating** compliance with all RLCOs across federal, provincial, and local jurisdictions. Its scope includes all rules and administrative procedures that apply to businesses across Pakistan, including its provinces and federal territories. It is important to note that PRMI does not include tax administration reforms and cross-border trade, which are being addressed in parallel by FBR and Pakistan Customs.

The overall PRMI Strategy design and its components have considered global experience on best practices and approaches to reform. The organisation for PRMI implementation follows successful international examples of reform.

Implementing the PRMI considers an initial review of the current stock of RLCOs. The academic and policy literature on regulation usually calls these processes an 'ex-post' review, i.e. a review of rules already in place.

OECD recently issued best practice principles for ex-post evaluations, building on its 2012 recommendations on regulatory policy and governance (OECD, 2020). The PRMI design has adopted these principles:

- Regulatory policy frameworks should explicitly incorporate ex-post reviews as an integral and permanent part of the regulatory cycle.

- A sound system for the ex-post review of regulation would ensure comprehensive coverage of the regulatory stock over time.

- Reviews should include an evidence-based assessment of the actual outcomes from regulations against their rationales and objectives, note any lessons and make recommendations to address any performance deficiencies.

The PRMI design has considered three distinct features:

1. A **comprehensive reform of business regulation** that will go beyond reforms covered by the Doing Business case and build on the success of the EoDB programme. Reforms driven by the EoDB programme have led to substantial changes in several indicators covered by the Doing Business report. The Doing Business indicators cover business regulations and property rights for local businesses along the whole business life cycle. Its methodological approach for comparing 190 economies requires adopting a standard case (a small local firm) for each indicator. PRMI covers the whole spectrum of regulations for business registration and operations for all sizes and types of businesses (local and foreign investors). EoDB reforms in Starting a Business and Dealing with Construction Permits are undoubtedly outstanding achievements, and reforms in these areas will continue. PRMI will build on them by coordinating deeper reforms for business registration, including activity and product-specific authorisations (licences, permits, accreditations, certifications), and expanding construction permit reforms to cover all types of buildings required for business operations. It will also consider compliance with the enforcement of these authorisations (inspections and others).

2. A reform effort including **complementary reform approaches** (Regulatory Guillotine™, followed by a comprehensive review of remaining RLCOs) **phased for maximum reform impact**. Global
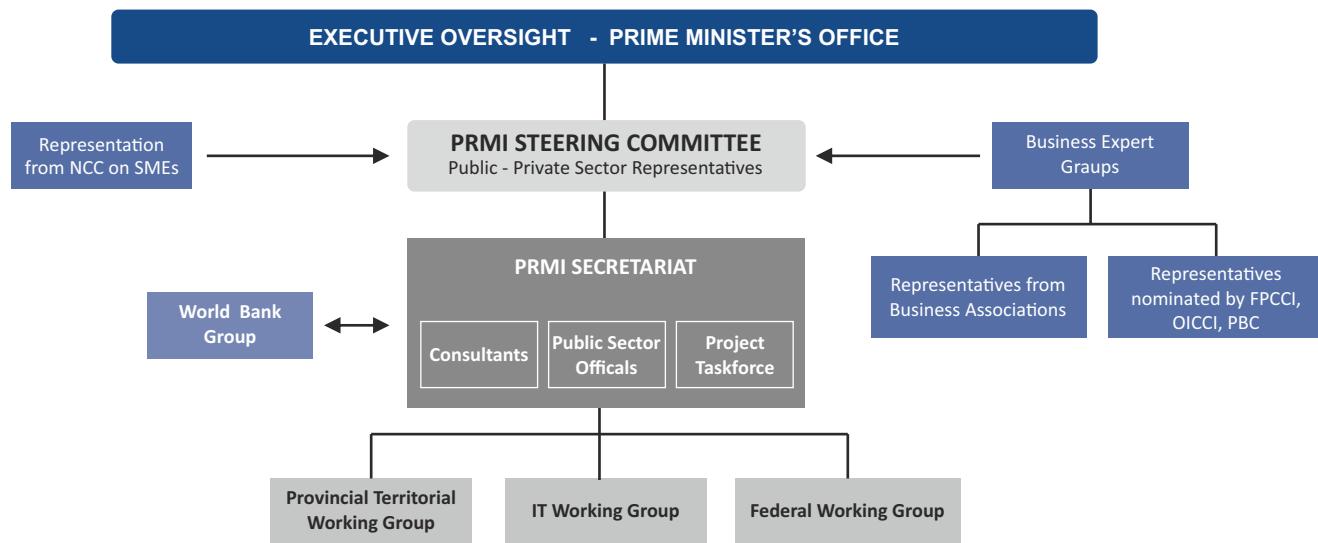
experience shows that one of the most critical challenges in comprehensive business reform programmes is collecting an initial inventory of regulations and associated requirements and conditions. BOI has decided to use a Regulatory Guillotine™ approach for the first phase of the programme, looking to build a comprehensive inventory and a rapid review of RLCOs and eliminate unnecessary RLCOs. The second phase will go through a thorough examination and process simplification for the remaining RLCOs, based on principles of good regulation and the tools included in this guidebook. Finally, the institutionalisation of the new, reformed regulatory regime will consist of the full adoption of regulatory impact assessment (RIA) to review the flow of new regulations (ex-ante reviews).

3. **Pakistan Business Portal as an integrated digital one-stop shop for business regulation compliance across all regulatory jurisdictions**. In parallel with the comprehensive regulatory review, the Pakistan Business Portal will be developed with features and capacity to handle all regulatory compliance processes, integrating federal, provincial and district-level procedures into a single platform. PRMI reform efforts point, thus, to produce reformed processes for compliance that follow a **common taxonomy** and **homogeneous process design**, ready to be integrated into a single-window integrated digital platform.

This module explains how the reform effort will be organised and the sequence of activities for the comprehensive review of the stock of RLCOs.

## Organisation for implementation of the PRMI

The activities planned for PRMI are executed by project implementation units (PIUs) for each provincial and thematical working group, which are coordinated by a programme management unit (PMU) at BOI, reporting to a PRMI Secretariat, and a steering committee under the Prime Minister's Office oversight.



The federal and provincial working groups drive the PRMI implementation. These groups include national and subnational regulators, business associations, and chambers of commerce. In addition to having their own PIUs, the working groups work closely with PMU. The working groups will undertake stock-taking, review, elimination of unnecessary RLCOs (including optional guillotine approach), simplification, and automating regulatory processes within their jurisdiction.

As mentioned, the planned organisation for the PRMI follows global best practices in the organisation of reform efforts of similar nature, leveraging a World Bank Group study on successful reform experiences. Three critical determinants of the success of business regulation reform programmes have been adopted:

- High-level leadership promoting and overseeing the reform programme
- Accountability at all levels that ties commitments to results
- Reform efforts institutionalised by setting up formal mandates and structures and eventually set permanent institutions for future reviews

Global experience of successful reforms (see box below on reform experiences in Malaysia, Russia, and Turkey) also shows the need to organise working groups with the following roles:

- Identifying constraints
- Deliberating and discussing these constraints with emphasis on improvements
- Developing reform recommendations
- Providing oversight of the reforms process within their jurisdictions

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**World Bank Group, 2020. 'Organising for Reform. Global Experiences'**

**Modernisation of Business Regulations in Mexico, Singapore, and Malaysia**

**Mexico**

Through a Commission for Regulatory Improvement (COFEMER) raised as an autonomous unit within the Ministry of Economy, Mexico introduced a complete overhaul of its licensing regime, starting from industrial licences to location-specific sanitary licences requiring ex-ante inspections.

**Singapore**

Singapore has managed a successful reform effort by leading it through the Prime Minister's Office and the Ministry of Trade and Industry (MTI). The country has established clear accountabilities and institutional channels to implement regulatory reforms:

1. The Pro-Enterprise Panel (PEP) actively engages the private sector to identify regulatory shortcomings. At the same time, PPDs are used as feedback and troubleshooting platforms when new policies and public initiatives are tested and rolled out.

2. The MTI supervises the ease of doing business agenda and closely monitors complaints lodged by the private sector to PEP. Regulatory agencies are given two weeks to formulate recommendations that address the issue.

3. Regular meetings between the agencies championing reforms and high-level government members increase accountability.

**Malaysia**

Malaysia has consistently improved its business environment to ensure that it is transparent and conducive, thus encouraging foreign direct investment and facilitating business. The privatisation policy introduced in 1986, the manufacturing sector's liberalisation in 1998 and 2003, and the progressive liberalisation of the service sector have been facilitated by the reform process. These have been augmented by efforts to improve the public delivery system and reduce bureaucratic intervention. The success of regulatory modernisation in Malaysia has been driven by the following:
- a sense of urgency
- public-private collaboration
- regulators adopting the role of facilitators
- lean regulatory scheme
- zero tolerance for corruption

# Phases for implementation of PRMI activities

The implementation of PRMI's core activities follows two consecutive stages.

## First Phase: Stocktaking, Fast-track Review and First Round of Elimination

The first phase will deliver a comprehensive inventory and mapping of regulations. For building their respective inventories, PIUs will have the option to adopt (through their federal and provincial legislatures) a Regulatory Guillotine legal framework that will define the scope of the review process, the schedule, and the deadline for submitting RLCOs and

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**The Regulatory Guillotine™**

The Regulatory Guillotine™ approach is a methodology designed by Jacobs and Associates for a comprehensive review of the vast stock of regulations and formalities that a country could have built over time, based on successful experiences in OECD countries such as Sweden and South Korea. Regulatory Guillotine is today's trademark of Jacobs, Cordova & Associates Inc. The guillotine is an orderly, systematic, transparent, rapid and low-cost means of TAKING STOCK and then RAPIDLY REVIEWING a large number of regulations against criteria for reasonable regulation and eliminating those that are no longer needed. Under its core principles, any rule not justified as legal and necessary for government policy should be eliminated. Any legal and needed regulation but not business-friendly should be simplified to the extent possible.

The guillotine process works as follows:

- The government rapidly counts all regulations or formalities affecting businesses. The inventory is placed into a database. It is the first complete inventory of rules in many countries and is a significant benefit.

- Each rule or formality is reviewed three times by 1) civil servants in regulators,  2) by business stakeholders, and 3) by a central unit.

- Each rule or formality is reviewed against simple filters in a checklist format:

    o   Is it legal?

    o   Is it needed?

    o   Is it business-friendly?

    o   Are fees necessary and reasonable?

- After review, each rule or formality is placed into one of three categories: maintain, simplify, or eliminate.

- The government eliminates unnecessary regulations and simplifies too complex rules by an omnibus process.

- The remaining rules or formalities are placed into a permanent registry where users can find information, download forms, and apply for permits. This registry can be the basis for a one-stop shop if desired.

http://regulatoryreform.com/regulatory-guillotine/

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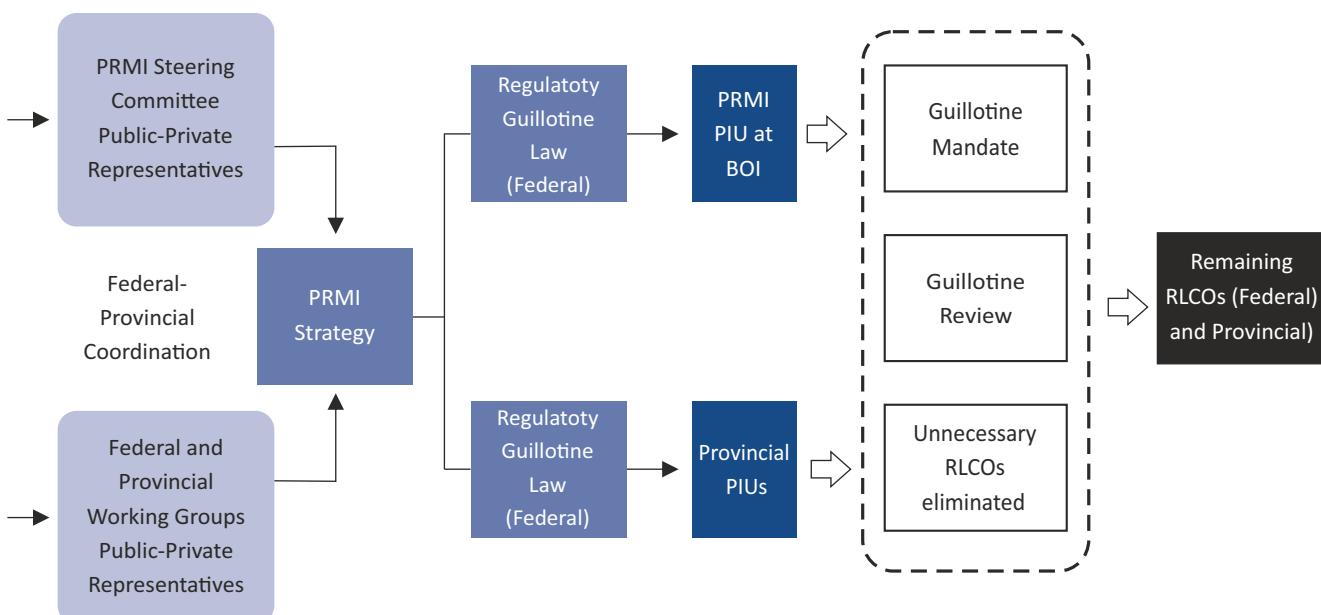
eliminating the rest. This legal framework will also mandate eliminating all RLCOs not legally backed, unnecessary, unjustified, and non-business friendly, and will follow the Regulatory Guillotine™ methodology for an initial fast-track inventory review. Guidelines for regulators for the Regulatory Guillotine™ process are not part of this document and will be produced parallel to the legal framework.

If they follow the guillotine approach, the respective PIUs will act as guillotine units for their jurisdictions during this phase. The PMU will collaborate with provincial PIUs and working groups to design and implement the Regulatory Guillotine within their respective jurisdictions. A criterion for review and elimination under the Regulatory Guillotine™ approach will be developed by BOI and approved by the steering committee and all working groups. They will create regulatory databases adhering to the three defined categories for RLCOs based on whether they will be eliminated, revised, or retained. All RLCOs falling in the 'eliminate' category and those not forwarded to the respective PIU by the designated guillotine deadline will become defunct. The federal and provincial legislatures will ratify the changes through a parliamentary process. The remaining stock of RLCOs will proceed to the second phase of PRMI for a comprehensive review followed by simplification, process re-engineering and automation. The box below provides additional details on this methodological approach.

PIUs that decide not to adopt the mentioned legal framework, based on the progress they have made to identify and take stock of RLCOs within their jurisdictions or other considerations, would generate their comprehensive inventories and move forward directly to a second phase.

## PRMI – First Phase
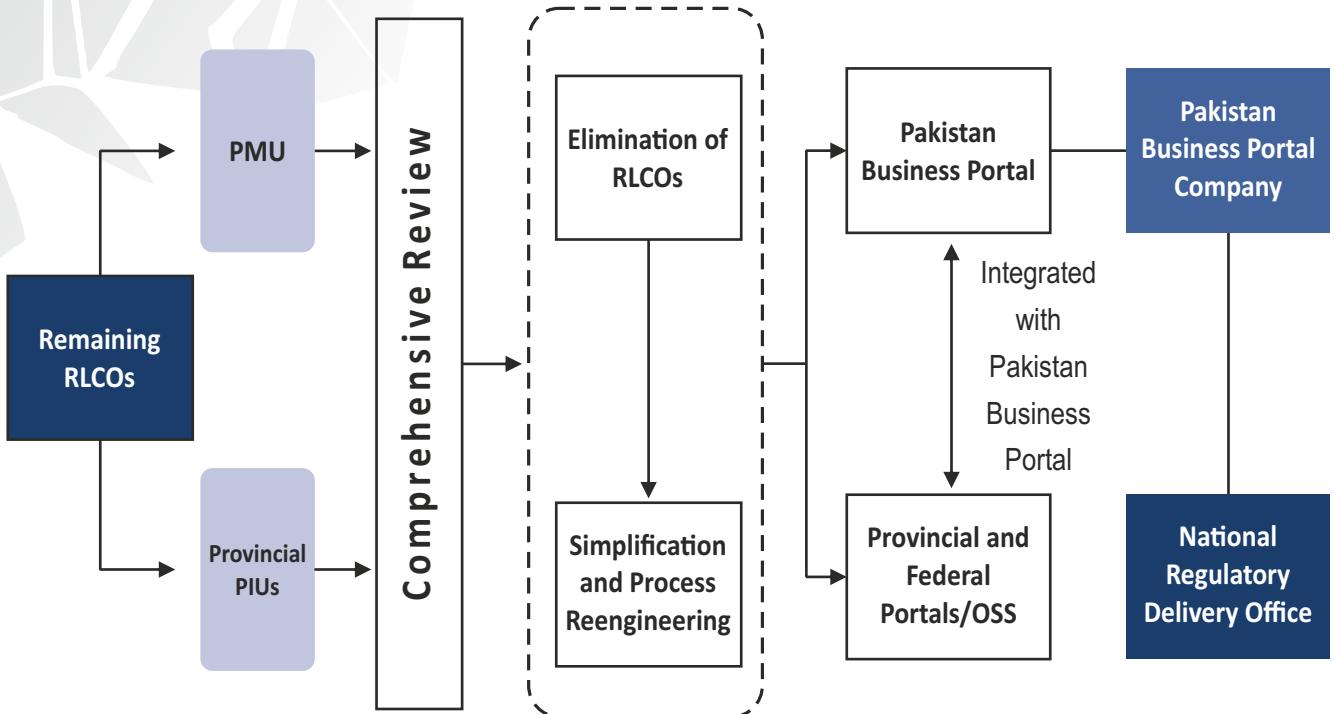


## Second Phase: Comprehensive Review, Second Round of Elimination, Streamlining, Automation and Institutionalisation

The second phase will focus on a comprehensive review of the remaining business regulations (RLCOs) at the federal, provincial, and municipal levels using stakeholder consultations and methodologies summarised in this guidebook consistent with the regulatory impact assessment (RIA) principles. These will not be complete RIA assessments, as the massive nature of the review required by the PRMI would not make it feasible. However, the main RIA principles will be followed. Module 4 of this guidebook provides methodological sections per each regulatory instrument to conduct the second phase review.

The second round will result in elimination of unnecessary RLCOs. Best practice regulations will replace redundant and duplicative ones. Compliance processes for essential reformed RLCOs that will remain will go through a reengineering process for simplification. Finally, as part of the second phase, procedures for compliance for reformed RLCOs will be prepared for automation and integration into the Pakistan Business Portal (PBP). Once reengineered, the compliance processes for the remaining RLCOs will be digitalised and added to their respective portals before being integrated with the PBP. The reformed regulatory regime will have future oversight from a National Regulatory Delivery Office (NRDO) that will follow RIA principles and methodologies for ex-ante complete RIA assessments for the flow of any new regulations that might be proposed.

# PRMI – Second Phase:



| PRMI: What constitutes success? |
|---|

Upon its completion, the PRMI activities would have achieved the following milestones:

- Federal and provincial authorities are trained in designing and delivering effective, risk-based, and low-cost regulatory delivery and inspections.

- Eliminated all unnecessary RLCOs and regulatory requirements.

- Simplified, streamlined, and consolidated stock of RLCOs that parallels the top economies in the average time, cost, and procedures it takes to acquire them (as measured by the DB methodology).

- The PBP is rolled out nationally as a virtual one-stop shop for dealing with RLCOs online. Ninety per cent of federal, provincial, and local RLCOs will be administered, processed, and applied for online via PBP by 2030.

- The PRMI is institutionalised through establishing and operationalising NRDO.

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# PRMI Regulatory Guidebook
## Module 4.1:  Reforming Business Registration

Registering a business is crucial for ensuring accountable and transparent business environments. Through registration, businesses are brought into the formal economy, enabling governments to provide more strategic and targeted policies for businesses and consumers. Over the past two decades, governments worldwide have embarked on reforms of their processes for registering businesses, looking to reap some of the positive impacts on growth, productivity and competitiveness that have been documented. Extensive research has been conducted on these positive impacts. For further reading on the effects of business registration reforms, please see OECD, 2017; DECD, 2017; and World Bank Group, 2013.

International experience in business registration reforms has generated clear lessons learned and concluded on some fundamentals of good international practice for business registration reforms, which can be adapted to specific country contexts.

The **Toolkit developed by the World Bank Group** for business registration reforms (World Bank Group, 2013) indicates the following good practices:

- Standardise incorporation documents and streamline document requirements. Standard documents and clear guidance on completing them make registration less discretionary and cumbersome, cost less and reduce application rejection rates.

- Move registration out of the courts, as business registration should be a wholly administrative process, thus requiring no court attention.

- Make notary use optional.

- Establish flat fees to cover the registration system's administrative and operative costs.

- Reduce or eliminate minimum capital requirements, as they do not contribute to preventing insolvency or reducing commercial risk. Moreover, minimum capital requirements can have negative impacts on entrepreneurship.

- Make the registration process transparent and accountable by providing open access to information and making the process traceable.

- Integrate registration systems and converge towards a unique identification denomination. Registration with the business registration authority, tax and VAT registration, social security or pension authority, municipal authority and any registrations for trade could be made under a unique identification. It will make it feasible to move towards an integrated registration system that allows using one single application form and all relevant information transfers occurring in the back office of agencies that require it.

- Create a one-stop shop (OSS) as a single interface for business regulation. Some countries have developed OSS solely for business registration, while others have added other post-registration processes.

- Leverage the use of information and communication technology to make registration systems faster, reduce costs, enhance data integrity and information security, make the system more transparent and allow for more effective verification of businesses' compliance with regulations.

**OECD has also issued a collection of good registration practices** in the form of eight pillars, which could be used as a checklist for reforms (OECD, 2017):

- Pillar 1: Minimise formal requirements for registration by reducing or eliminating capital requirements and using simple standard models.
- Pillar 2: Eliminate duplication of information obligations and multiple checks and validation in the process.

- Pillar 3: Commit to time frames and transparent service standards.

- Pillar 4: Inform businesses of their rights.

- Pillar 5: Have a credible system for reviewing applications by effectively using OSS and requiring information only once throughout the process.

- Pillar 6: Move towards a unique business identifier.

- Pillar 7: Make effective use of ICT for data protection, online applications and implementing transparent and straightforward fees and payments.

- Pillar 8: Take the opportunity to expand into business licensing reform.

An additional good reference for best practices on business registration is **UNCITRAL's Legislative Guide on Key Principles of a Business Registry** (UNCITRAL, 2019), including specific terminology, principles to follow and recommendations for reforms, drawing from toolkits and policy advice from multilateral organisations and registrars across the globe.

## Reforms of Business Registration in Pakistan

The Government of Pakistan has been working under the Ease of Doing Business (EoDB) reform programme to improve Pakistan's business climate. Last year, Pakistan advanced 28 places to 108th on the global ease of doing business ranking. On measuring absolute progress towards best practice, Pakistan has improved its score from 55.31 to 61.00. It was recognised as the top reformer in South Asia and the sixth reformer globally. The 'Starting a Business' indicator is an important area of reform. The past three Doing Business reports recognised reforms in this area, built on initial reforms captured in Doing Business 2010. In this area, Pakistan ranked 108 out of 190 countries in the World Bank Doing Business 2020 report. Reforms over the past years have substantially simplified the procedures for registration.

**Starting a Business Reforms in Doing Business Reports**

- **DB2020:** Pakistan made starting a business easier by expanding procedures available through the one-stop online shop. This reform applies to both Karachi and Lahore. Furthermore, Pakistan (Lahore) abolished the Labour Department registration fee.

- **DB2019:** Pakistan made starting a business easier by enhancing the one-stop online registration system, replacing several forms for incorporation with a single application and establishing information exchange between the registry and the tax authority. This change applies to both Karachi and Lahore.

- **DB2018:** Pakistan made starting a business easier by replacing the need to obtain a digital signature for company incorporation with a less costly personal identification number. This change applies to both Karachi and Lahore.

- **DB2010:** Pakistan made starting a business easier by expanding procedures available through the one-stop online shop: introducing an electronic registration system, allowing online registration for sales tax and eliminating the requirement to make the declaration of compliance on a stamped paper. This reform applies to both Karachi and Lahore.

Reforms on business registration have continued, and SECP has recently introduced a single combined digital certification, providing registration with SECP and some provincial departments simultaneously.

## Current procedures for Business Registration in Pakistan

The Trade and Development Authority of Pakistan has recently issued a guide on doing business, including a detailed description of the steps currently required after the reforms mentioned above to register a company with SECP, FBR and chambers of commerce and association.
The following link details the process and requirements for registration with SECP:
https://www.secp.gov.pk/company-formation/registration-of-company/

## Reforms to Business Registration Under PRMI

A relevant question at this point is where future reforms should be heading on business registration under PRMI, leveraging on progress in the EoDB programme. The 6th EoDB Reform Plan for DB2022 considers that Punjab Information Technology Board will integrate the Punjab Business Registration Portal with the Federal Board of Revenue.

The concept paper on One Business Registry proposes, as the core objective of business registration reforms, the formation and operation of a centralised business registry and central database at SECP. In parallel, the legal framework for sole proprietorships for mandatory registration requirement will be addressed.

The PRMI Strategy includes both objectives and considers that authorities at federal, provincial and local levels involved in registering businesses will collaborate with the federal and provincial working groups to develop the Pakistan Business Registry (PBR). The PBR will be an electronic platform for recording all types of businesses (limited liability companies, partnerships, and sole proprietorships). The model should allow all federal and provincial business registrations (provincial industries' departments, social security institutions, labour departments, and Employees' Old-Age Benefits Institution) to be integrated into the PBR. Once the model is developed, including institutional, legal, and operating features, the provincial and federal governments will approve it. A PBR Bill will be submitted to the parliament for enactment, including all aspects required for implementing PBR and introducing mandatory registration for sole proprietorships.

The Pakistan Business Portal (PBP), as digital OSS for all business regulation procedures, would develop a module for business registration that could provide front-office services for PBR. At the same time, the database for PBR should be one of the core databases for PBP, fully interconnected for information requirements on registered companies for any other business regulation procedure.

The core of the PBP OSS platform should consist of the PBR database. Business registration is the first founding step for any business to become legal and creates business identity and any founding information. This step establishes an original business core allowing adding other elements over time. Business registration also enables the creation of a digital platform as PBP that a newly created business can use as a single interface with government agencies.

**For further references on Business Registration Reforms:**

Donor Committee for Enterprise Development. 2017. What do we know about the effectiveness of business registration support and reforms.
https://www.enterprise-development.org/wp-content/uploads/Effectiveness_of_business_registration_support_and_reforms.pdf

UNCITRAL. 2019. Legislative Guide on Key Principles of a Business Registry.
https://uncitral.un.org/en/texts/msmes/legislativeguides/business_registry

World Bank Group. 2005. Building the Capacity for Business Registration Reform.
http://www.businessenvironment.org/dyn/be/docs/74/Session2.2MikhnevPpt.pdf

World Bank Group. 2006. Reforming Business Registration Procedures at the National Level.
http://www.businessenvironment.org/dyn/be/docs/139/NationalRegistrationReform.pdf

World Bank Group. 2013. Reforming Business Registration. A Toolkit for the Practitioners.
https://openknowledge.worldbank.org/handle/10986/17634

# PRMI Regulatory Guidebook

## Module 4.2: Reforming Business Operation Regulation

In most countries, the bulk of regulations businesses face is concentrated after registering. Governments regulate business **activities**, **facilities and equipment** and **products and services** they offer. Modules 2 and 3 of these guidelines explain that regulation is conducted through authorisations (declarations, notifications, licences, permits, certifications, and accreditations), often for good reasons. However, authorisations are often misused and need to include appropriate requirements (for obtaining the authorisation) or conditions (for maintaining the authorisation over time), generating costs for businesses and negative impacts on growth and productivity without any associated benefits.

The departure point for reforming business operation-related RLCOs must be to understand the different types of authorisations, the rationale for using each instrument, and the best practices for reform. Module 5 (Guides for Implementing PRMI Phases) includes checklists and templates for mapping, reviewing and streamlining RLCOs based on the concepts included in Module 4. The following section provides core concepts and references for more detailed publications and toolkits organised by the object of regulation.

## Regulation of Activities

### Declarations

The first, less-burdensome subset of authorisations is the information instruments. For activities involving low risk of hazards, it might suffice to submit information to the regulator as the firm starts operating (declaration) and requires regular reporting or specific reports (accidents or other incidents). A declaration does not involve prior approval of government authority for starting operations but filing the required information appropriately.

One of the most evident areas to look for opportunities to reform the regulation of operations is low-risk activities to substitute a licence for a declaration.

### Licences

Licensing, as defined by OECD, is the practice of requiring prior approval of government authority for starting a business activity. World Bank (2012) defines licences as the authorisations given to businesses before their operations, without which business operations are deemed illegal.

While the word 'licence' is used in common parlance to describe various procedures, these usually focus on *the authorisations or permissions firms must obtain for their core business activities.* As indicated in Module 1, licensing is related to but distinct from business registration, permitting, and inspections.

Licensing regulations are typically established for the control of:

- Activities with potential risks to human safety and well-being, including environmental impact.
- Activities that deal with limited resources.
- Activities that involve undesirable (although legal) practices.

Businesses might face unnecessary compliance burdens related to licences that are not justified, as they do not fulfil necessary or legitimate functions or are inefficient instruments. Unjustified use of licences is most frequently found in the pursuit of the following objectives:

- **Obtaining information** on businesses, like the number of employees, assets, capital investments, types of activities and their locations. Business registration, tax reporting, and statistical studies

based on small samples of businesses are more efficient instruments for this objective.

- **Collecting revenues through licence fees**. A typical tax collection regime best fulfils this fiscal function.

- **Establishing eligibility for business assistance programmes** or other benefits. Business registration, tax reporting, and statistical studies based on small samples of businesses are more efficient instruments for this objective.

- **Protecting markets or businesses from competition.** It is not a valid objective in a market economy. If used at all, regulation should ensure fair competition and prevent anti-competitive behaviour. Even if the goal were to ensure fair competition, licensing is not the instrument to use. A competition policy should be used instead.

- **Eliminating unjustified licences** does not increase risks and can provide immediate benefits in savings to businesses and governments. Licensing reform eliminates unjustified licences or changes to lower burden instruments (like plain information declarations). Licensing reform also focuses on removing or adjusting licence application requirements and permanent rules for business activities (business conditions), which might not be justified. A typical characteristic of an unjustified licence is the absence of licensing conditions or deficiencies in formulating licensing requirements.

One additional area of opportunity in reforming licences is the **elimination of renewals**. Many countries impose on businesses periodic renewal of licences, requiring filing documentation at the initial application and a renewal fee. If a licence is set correctly from the start, including relevant, verifiable and enforceable conditions, there is no need for renewal from a regulatory perspective. Inspections and other means of verifying conditions would mitigate risk without imposing additional burdens on businesses.

The toolkit for business licensing reform prepared by the World Bank Group (2006) includes **three principles in licensing that should drive reforms** in this area, also mentioned in (ERIA 2015):

1. **Appropriate.** Select the most appropriate method for issuing an authorisation. At one end of the spectrum is licensing/approval, by which the government agency screens the suitability of the application and then gives a licence. At the other end is notification, by which the applicant provides the authorities with information before engaging in business activity and takes responsibility for accuracy and compliance. The authorities have no discretion, as there is no reason to restrict economic activity in activities that do not pose medium or high risks.
2. **Effective.** Abolish licences no longer needed and streamline or combine those currently overlapping in function, purpose or requirements.
3. **Efficient.** Improve efficiency by simplifying rules, reducing documentary requirements, simplifying the internal flow of documents, and issuing justified and timely decisions.

The World Bank Group's Policy Framework Paper for Reforms in Business Licences (World Bank Group, 2010) argues that the best way to reform licences is to undertake comprehensive licensing reforms, as is the case of PRMI. This paper also suggests that the regulators responsible for licences **must justify the continuation of each licence** they administer according to transparent and straightforward criteria endorsed at the political level. By reversing the 'burden of proof', regulatory agencies (the 'owners' of licences) need to identify all licences they administer and consider whether these can be justified because they generate net risk mitigation benefits to society.

# Regulation of Professional Activities (Risk-Based Approach)

Authorisations regulate business activities conducted by companies and individual (professional) activities. Potential hazards related to the practice of a profession, which generates the need for regulation, are related to possible unethical or illegal activities defined as harmful and lack of knowledge or insufficient qualification required. Reducing such potential hazards is critical in regulating professional practices in most countries.

Global experience with reforms shows that many countries have overlapping (duplicated) regulations of professional service companies (legal, engineering, consulting, other) on top of regulating practising professionals as individuals.

Placing the core of regulation on regulating professionals as individuals instead, so each member of a professional service firm is personally liable for professional malpractice, can be considered best practice in this area. Professional service companies are responsible for compensating third parties for malpractice, and firm members and the company policies are in the position to determine how to treat personal liabilities from malpractice. Individually licensed professionals are direct and personally responsible for the required (regulated) conduct. This approach ensures that well-enforced and motivated compliance by individual practitioners minimises potential hazards from professional practice.

Moreover, international experience shows that enforcement of compliance of individual practitioners is much more effective than regulating professional service firms. The possibility of losing the right to practice is an effective enforcement mechanism. The threat of losing an individual licence that requires significant investment in time and resources serves as an effective deterrent against fraud and other illegal activities. This threat effectively reduces potential hazards from premeditated unethical or illegal activities or activities defined as harmful.

Activities conducted by professional service firms (partnerships) or associations of partnerships, as mentioned above, can be considered as low-risk activities, as the risk lies with the behaviour and knowledge of individual professionals. Thus, domestic and foreign licensing is unnecessary and redundant from a business regulation perspective, as it does not reduce potential hazards nor serves any public or state interest.

Reforming the framework for the authorisation of individuals to perform professional activities is a different aspect, involving deciding which professional activities require a licence and the requirements (typically specific tests, certification, accreditation, membership to professional associations, and others) and conditions for maintaining a licence. This vast area would not be part of the initial implementation of PRMI.

The **strategy for implementation of the PRMI** considers the following for reforming business licences:

- The BOI will build the capacity of federal, provincial, and local authorities issuing business licences to conduct risk assessments for different types of businesses and review the existing licensing regime, including preparing these guidelines.

- The federal and provincial working groups ensure their respective regulatory authorities convert low-risk licences to declarations.

- Eliminate licences and licence renewals being used for revenue purposes as quasi-taxes.

- The BOI will explore developing a framework for a 'one-business, one-licence application' per economic activity approach and initially increase the renewal period of licences to at least five to ten years; examine future elimination of all renewals.

- The federal and provincial working groups will explore developing a framework endorsed by the PRMI's steering committee for mutual recognition of licences extending these instruments' validity to all subnational jurisdictions.

# Regulation of Use of Objects (Facilities and Equipment)

## Construction Permits

Construction Permits regulate compliance with urban/land planning and building code requirements. International experience shows that enforcement of these aspects is problematic, and there are widespread opportunities for discretion and corruption, which lead to large numbers of substandard and informal buildings.

Global good practice in construction permit reforms focuses on three aspects:

- The introduction of private sector solutions at different stages of project development: a review of plans, issuance of permits, site inspections, and allocation of code compliance certificates.
- Focus on risk levels as the primary driver of supervision and examinations. In most cases, reforms have focused on establishing one set of simple procedures for low-risk buildings. At the same time, reforms have worked on improving risk categorisation, moving away from just the number of square meters to multi-variable models to define risk categories.
- Use information technologies to automate the processes and B2G interaction and build information modelling technologies for processing filings.

The World Bank's document on good practices for construction regulation (World Bank Group, 2013) provides an overview of best practices organised around the critical aspects of construction regulation:

## Building Codes

- Incorporate building codes into the framework of construction law.
- Develop performance-based building codes specifying the desired outcomes rather than how those outcomes should be achieved.
- Introduce risk-management instruments into building codes, including a country-relevant classification of buildings.
- Update the building code every five to ten years.
- Create public-private mechanisms for updates to building codes.

## Process and Transparency

- Publish on a dedicated website all procedural requirements, including guidelines, and provide advisory services targeted to end-users needs.
- Streamline approval and permit processes.
- Automate processes and develop electronic tools for everyday use among permitting agencies and industry practitioners.
- Lower the burden of controls on public agencies by involving private sector engineers in plan reviews and inspections.
- Impose full transparency about building inspection schedules and the results of assessments.
- Create a dispute resolution mechanism for compliance issues relating to building code requirements.

## Payment of Fees to Building Permitting Agencies

- Ensure that fees are collected once and by one entity only.
- Establish fee levels based on cost recovery for building control services.
- Ensure that fees do not fulfil a tax purpose.
- Charge a small, fixed fee for small projects presenting no public health or safety risk.
- Allow several options and instruments for fee payment.
- Publicise fee schedules.

## Other Measures

- Extend liability to permitting agencies.
- Require key building professionals to carry insurance.
- Increase accountability of permitting agencies through innovative institutional arrangements.
- Monitor reforms with a set of appropriate indicators within an established public-private group.

# Reforms of Construction Permits in Pakistan

The Government of Pakistan has been working under the Ease of Doing Business (EoDB) reform programme to improve Pakistan's business climate. Last year, Pakistan advanced 28 places to 108th on the global ease of doing business ranking. On measuring absolute progress towards best practice, Pakistan has improved its score from 55.31 to 61.00 and was recognised as the top reformer in South Asia and the sixth reformer globally. An important area of reform has been the 'Dealing with Construction Permits' indicator, and the last Doing Business Report (2020) recognised an essential reform in this area.

> **Dealing with Construction Permits Reform in Doing Business 2020 Report:**
>
> Pakistan (Karachi) made obtaining a construction permit easier and faster by streamlining the approval process and making construction safer by ensuring that building quality inspections occur regularly. Pakistan (Lahore) also made obtaining a construction permit more straightforward and faster by streamlining the approval process and improving its one-stop shop's operational efficiency for construction permits.

On planned reforms in this area, the 6th EoDB Reform Plan for DB2022 is considering three initiatives:
- Lahore Development Authority is making it mandatory to obtain an insurance policy to cover possible structural flaws or problems in the building once it is in use.
- Sindh Building Control Authority and Lahore Development Authority are introducing GIS to eliminate physical inspection of the site.
- Lahore Development Authority is also trying to introduce an online payment system through all banks.

It is important to note that the Doing Business indicator for Dealing with Construction Permits measures the time, cost and number of all procedures required for a business in the construction industry to build a specific type of warehouse along with the time and cost to complete each process.
These procedures include, but are not limited to:

- Obtaining all plans and surveys required by the architect and the engineer to start the design of the building plans (for example, topographical surveys, location maps or soil tests).
- Obtaining and submitting all relevant project-specific documents (for example, building plans, site maps and certificates of urbanism) to the authorities.
- Hiring external third-party supervisors, engineers or inspectors (if necessary).
- Obtaining all necessary clearances, licences, permits and certificates.
- Submitting all required notifications for the start and end of construction and inspections.
- Requesting and receiving all necessary inspections (unless completed by a hired private, third-party inspector).

The Doing Business case considers a two-storey, general storage warehouse (not to be used for any goods requiring special conditions, such as food, chemicals, or pharmaceuticals) with a total

constructed area of approximately 1,300.6 square metres (14,000 square feet).

As considered in the PRMI, comprehensive reforms in Construction Permits will require considering all types of buildings. They will focus on time, cost and the number of procedural aspects, develop risk classifications for buildings according to their planned use, consider land cadaster improvements, and review of building codes, among other best practice aspects listed above.

## Note of Caution: Licences and Permits, Different or the Same?

Some countries use **licence and permit interchangeably,** or permits might be taken as a subset of licences. From a business point of view, permits and licences are both administrative barriers before the commencement of an activity. From a regulation reform perspective, it also makes little sense to differentiate between licences and permits. The differences between the two could be taken as rhetorical. Indeed, **the logic for reforming licences and permits is the same**, as explained below. For these guidelines, the differentiation is maintained for taxonomy purposes, although the approach to reform is the same.

## Permits for the Use of Equipment

Using equipment and machinery for business activities may generate a potential risk of hazards. Regulating its use should follow the same logic of preventing hazards under a risk-based approach, starting by defining the equipment types and its use requiring a permit. It also involves determining appropriate requirements and conditions associated with a permit. An essential component of requirements and conditions is usually **accreditation of the equipment or machinery**, conducted through accreditation systems. An accreditation system is a framework through which an official accreditation body attests that a conformity assessment body (e.g. a testing laboratory, inspection body, or certification body) meets the requirements for such bodies as set by standards. As explained above, reforms in this area should follow the same rationale and logic as the authorisation of business activities and facilities.

## Regulation of Products and Services

In many countries, authorisations for businesses to offer a product or service pursue **regulatory and policy objectives** frequently mixed in legal and institutional frameworks. Regulatory purposes are focused on preventing risks of hazards from using or consuming the goods or services. In some cases, authorities also pursue objectives related to developing a market, generating more competition, or protecting producers' segments that are not associated with risks or hazards. **An initial consideration, thus, in reforming the regulation of products and services is unbundling these objectives**.

Regulating the offer of products or services through authorisations should follow the same logic of preventing hazards under a risk-based approach, starting by defining the products and services requiring authorisation and the most appropriate. It also involves determining relevant provisions and conditions associated with the authorisation. An essential component of requirements and conditions is usually **certification of products and services** conducted through accreditation systems. The term certification means the attestation by a third party of compliance of conformity with standards or other requirements. Certification may relate to products, processes, systems or persons. Usually, a certification system is governed by an accreditation system, in which accredited certification bodies may only issue certifications.

## Reforming RLCOs

A comprehensive review of RLCOs that go through the second phase of PRMI will require a twofold task:

- Identifying RLCOs that are not correctly addressing their objectives of hazard prevention (and should be either eliminated or changed for a more appropriate instrument).

- Identifying the associated requirements and conditions (see Module 1 for a precise definition of these terms) that do not contribute to hazard prevention (and should also be eliminated or changed for more appropriate requirements or conditions).
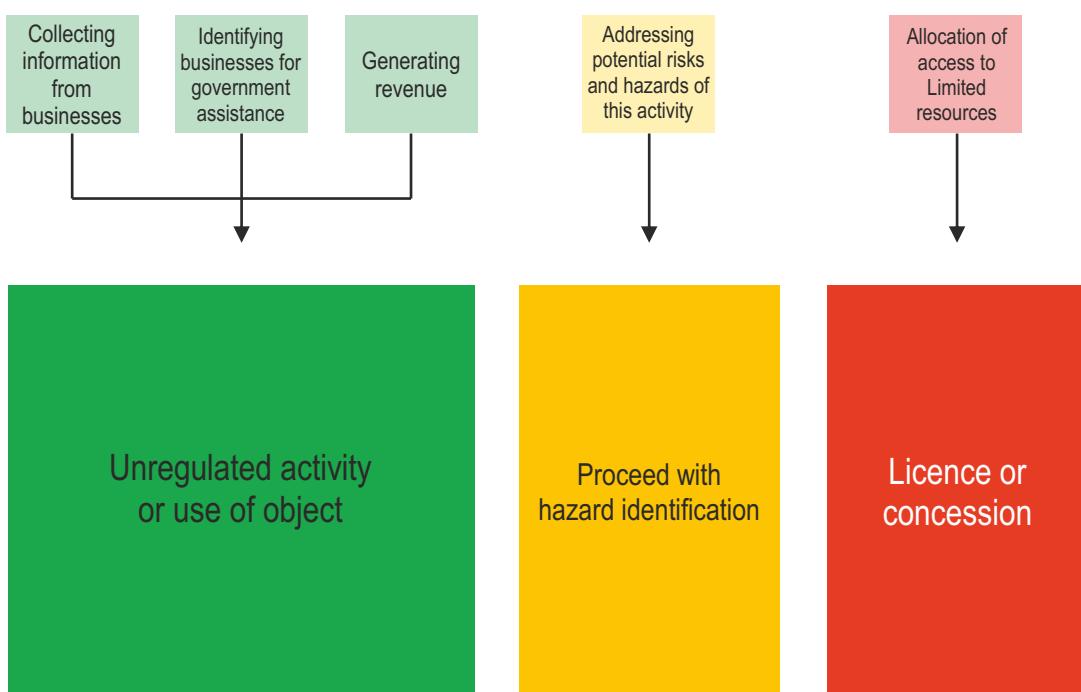
The risk-based approach presented in Module 2 should be the cornerstone for good regulatory design. It is also the cornerstone for reviewing RLCOs, requirements and conditions that regulate business operations and the mechanisms used for enforcement.

Both tasks should be tackled simultaneously through an integrated analysis that determines in a logical sequence whether an activity or the use of an object should be at all regulated and, in case it is, whether the most appropriate instruments are being used.
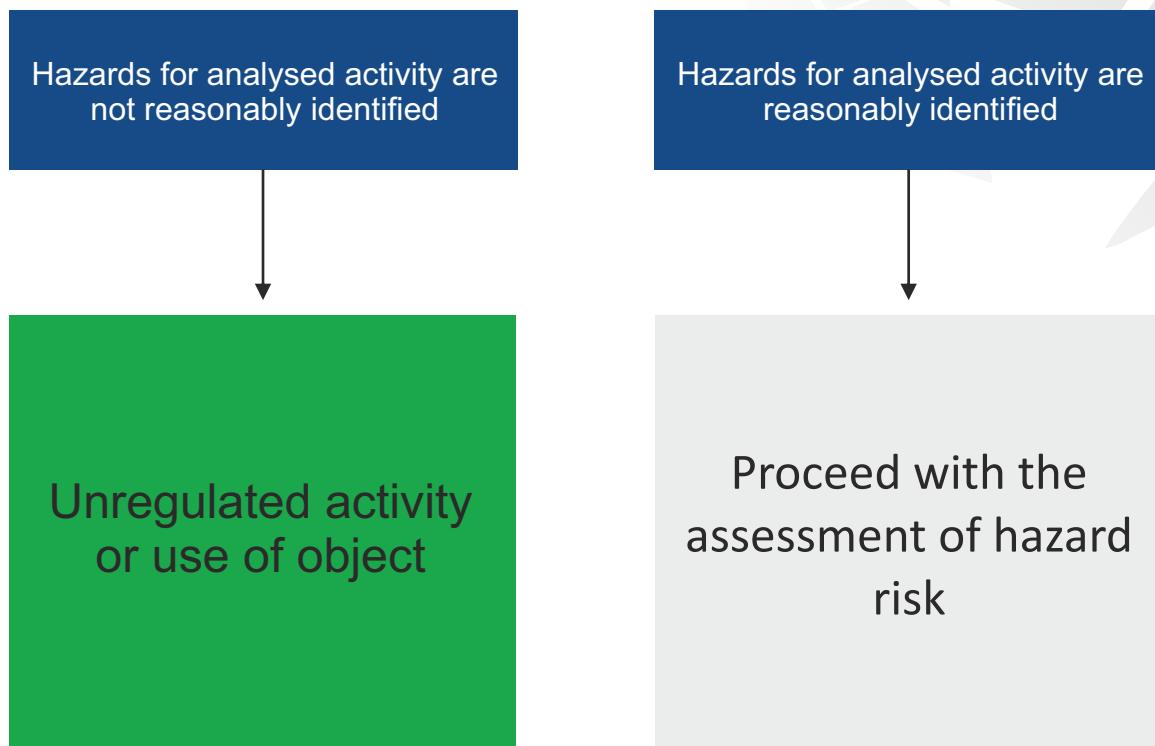
The logical sequence should be the same for reviewing RLCOs that authorise business activities, facilities and equipment, and products and services they offer.

The following four consecutive steps will lead us in that direction:

1. Conduct an initial assessment of the regulatory objective. What's the aim for regulating the activity or use of an object?

| Collecting information from businesses | Identifying businesses for government assistance | Generating revenue | Addressing potential risks and hazards of this activity | Allocation of access to Limited resources |
|---|---|---|---|---|

| Unregulated activity or use of object | Proceed with hazard identification | Licence or concession |
|---|---|---|
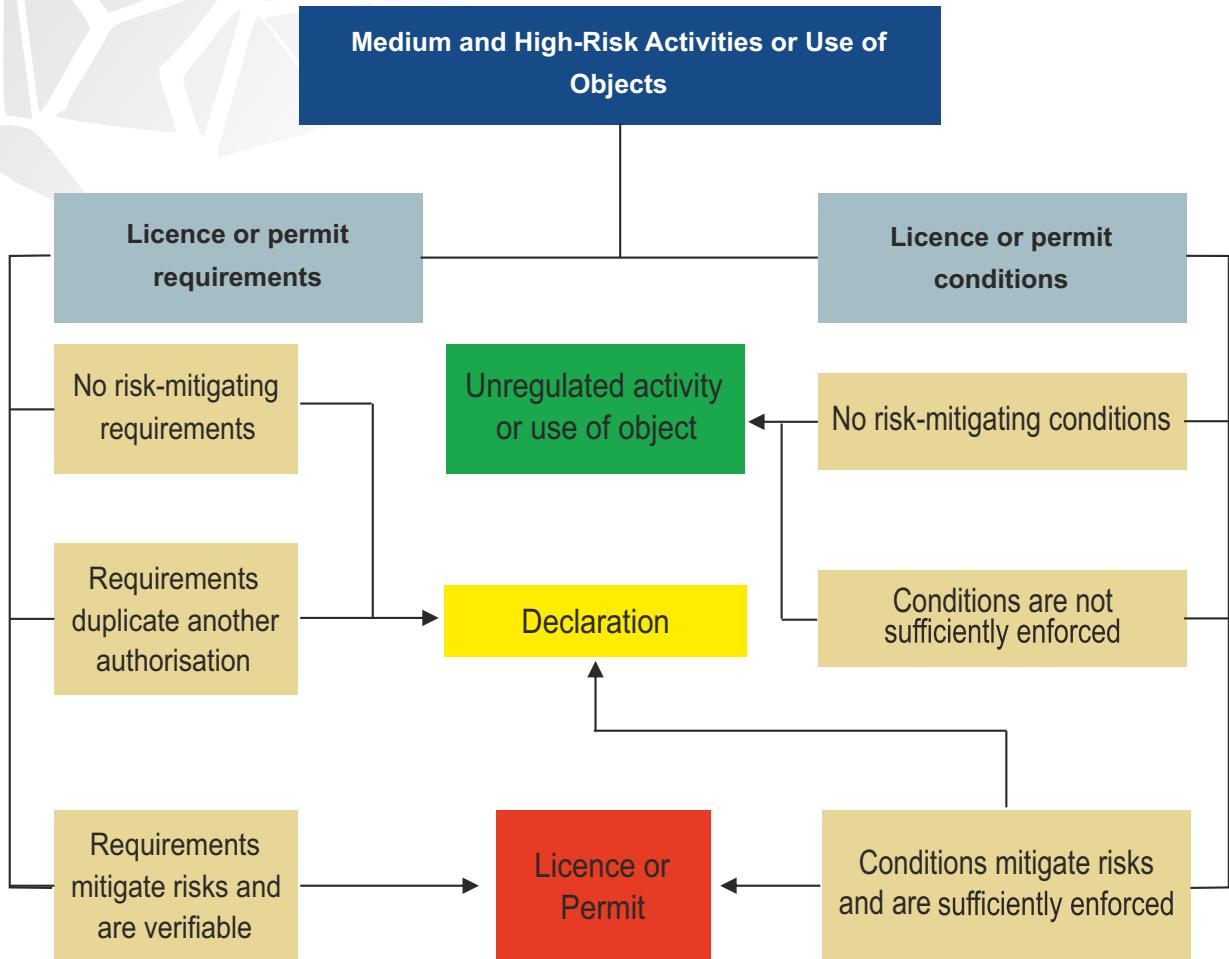
2. Identifying the hazard that is being addressed

| Hazards for analysed activity are not reasonably identified | Hazards for analysed activity are reasonably identified |
|---|---|
| Unregulated activity or use of object | Proceed with the assessment of hazard risk |

3. Assessing the risk of hazard from the activity or use of object

|  | Low probability of an adverse event | Medium likelihood of an adverse event | High probability of an adverse event |
|---|---|---|---|
| A low number of people affected; low consequences | Low Risk (unregulated) | Low Risk (unregulated) | Medium Risk (further analysis) |
| Medium number of people affected; low consequences | Low Risk (unregulated) | Medium Risk (further analysis) | Medium Risk (further analysis) |
| A high number of people affected; low consequences | Medium Risk (further analysis) | Medium Risk (further analysis) | Medium Risk (further analysis) |
| Any number of people affected; medium consequences | Medium Risk (further analysis) | Medium Risk (further analysis) | High Risk (further analysis) |
| Any number of people affected; high consequences | High Risk (further analysis) | High Risk (further analysis) | High Risk (further analysis) |

4. What is the appropriate instrument for risk mitigation in this case?



From the sequence of the analysis presented above, it will be possible to conclude for a specific business activity or use of an object:

- Whether it requires regulation or not.
- In case regulated, if it has associated verifiable and enforceable requirements, conditions, and sanctions in place.
- In case regulated, whether a change from a high burden instrument (a licence or permit) to a lower burden instrument (declaration or notification) could be warranted.
- Whether each of the requirements and conditions contributes or not to risk mitigation. Suppose they do not contribute, whether they should be eliminated or adjusted.

Module 5 of these guidelines provides checklists and templates for conducting in practice mapping, reviewing, and streamlining RLCOs under the PRMI.

**For further references**:

World Bank Group. 2006. Business Licensing Reform: A Toolkit for Development Practitioners.
http://www.businessenvironment.org/dyn/be/docs/detail2/137/2

World Bank Group. 2010. How to Reform Business Licenses.
https://documents.worldbank.org/en/publication/documents-reports/documentdetail/499071468331807952/how-to-reform-business-licenses

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https://openknowledge.worldbank.org/handle/10986/27885

World Bank Group. 2012. Global Analysis of General Trade and Operational Licensing.
https://openknowledge.worldbank.org/handle/10986/27095

World Bank Group. 2013. Good Practices for Construction Regulation and Enforcement Reform.
https://openknowledge.worldbank.org/handle/10986/16612

World Bank Group. 2019. Business Licensing Reforms. Insights from Selected Country Experiences.
https://openknowledge.worldbank.org/handle/10986/32065

# PRMI Regulatory Guidebook

## Module 4.3: Reforming Enforcement of Business Regulation

For business regulations to work, they must have requirements, conditions, mechanisms to enforce, and sanctions, as mentioned in Module 2. Regulators conduct enforcement activities to verify and promote businesses' compliance with the initial requirements and continued compliance with the conditions to maintain a valid authorisation. Two key enforcement instruments are documentary verifications and inspections.

### Documentary Verifications

Documents and reports might be included in the requirements and conditions associated with an RLCO. Verification of documents could be done based on reports submitted by businesses or conducted at the inspecting agencies' premises. Reforms, in this case, could be focused on **improving information, transparency and standardisation** of the documentation or reports required. Reforms could also include **reviewing that only information or reports conducive to preventing risks are needed** and avoiding duplication of information that might have been previously filed or submitted through other regulatory agencies.

### Inspections

Business inspections (also called audits, checks, visits or other) are conducted by inspectors representing (or third parties acting on behalf of) the regulator on the premises of businesses. Inspections could be part of the list of authorisation requirements for verification before a licence or permit is issued. Inspections are also usually part of the list of conditions to maintain a valid authorisation over time and could be either planned or unplanned inspections.

In many countries, business inspections tend to be far more burdensome to businesses than in countries with good practices, while at the same time failing to deliver the outcomes they purport to achieve in terms of compliance with regulations. Typically, this happens because both processes and rules are inadequate and need to be revised, with substantive requirements often excessive or vague and broad and ill-defined powers given to inspectors. In addition, inspection targeting might not be based on the actual risk of hazards posed but on other considerations (IFC, 2009).

As indicated by OECD, in many jurisdictions, to some extent, business inspections are characterised by:

- Many inspections create high costs for the state and a burden for businesses
- Insufficiently clear requirements, uncertainty, discretion
- Disappointing outcomes in terms of securing objectives or having low cost-effectiveness

Reforming inspections should focus primarily on improving the inspection agencies' effectiveness (obtaining better outcomes from regulation) and efficiency (minimum costs of implementing inspections for businesses and regulators). The objective of reforms should be three-fold:

- Maximising compliance with regulations
- Minimising costs to businesses
- Optimising outcomes for the government (effectively reducing the hazard from happening)

Just cancelling inspection functions is frequently not an option, and process simplification might help with efficiency but should not be the primary focus for improving inspections. Sometimes, moving towards the three-fold objective might require more regulation of the process to decrease inspectors' discretion.

OECD (2018) has issued a checklist of 12 criteria to assess the level of development of the inspection and enforcement system in a country or jurisdiction, following good practice:

- Enforcement and inspections should be evidence-based and measurement-based, and results evaluated regularly.
- There should be selectivity in promoting compliance and enforcing rules.
- Enforcement should be risk-based and proportionate to the level of risk.
- Inspection enforcement actions should be modulated depending on the profile and behaviour of specific businesses.
- The various types of inspections should be coordinated and consolidated as much as possible, avoiding duplications and overlaps.
- Governance for regulatory enforcement should be transparent and independent of political influence.
- Information and communication technologies should be used to maximise a focus on risks and promote coordination and information-sharing.
- Ensure that rules and processes for enforcement and inspections are clear.
- Compliance should be promoted through guidance, checklists and toolkits.
- Inspectors should have substantial training in technical aspects and generic inspection skills. Official guidelines should be issued to ensure consistency and fairness.
- Regular reality checks against levels of performance expected from inspection agencies (stakeholder satisfaction, efficiency and overall effectiveness).

**Reforming business regulations should be based on following essential practices** identified for effective and efficient inspections. The World Bank Group's guidelines on good practices for business inspections (World Bank Group, 2006) identify the following features of a sound inspection system:
- Maximises compliance with regulations
- Minimises uncertainty and regulatory risks for businesses
- Reduces spaces for corruption by limiting the opportunity for abuse of discretionary power
- Minimises costs to businesses and optimises costs to governments by targeting the highest risks

OECD has identified four aspects frequently found in inspection regimes, which should be the focus of reforms:
- There are many inspecting agencies, inspectors, and inspection visits, with frequent overlaps, duplications, and a need for coordination.
- Risk focus is insufficient, leading to too many businesses being inspected, even though their risk level is low or medium.
- Lack of consistency, coordination and coherence between agencies and lack of uniform guidelines and approaches between inspectors.
- Focus is frequently on finding violations rather than improving compliance and outcomes.

OECD indicates that global experience shows that successful reforms in business inspections have focused on:
- Making the legal framework clearer and more robust to ensure that inspections and enforcement are risk-based and aim more at promoting compliance and providing outcomes than detecting and punishing violations.
- Reviewing the institutional frameworks to reduce overlaps and duplications, clarifying which agency should deal with each type of risk.
- Reviewing the roles and responsibilities of national and local regulators.
- Focusing resource allocation on risk by planning and implementing inspection visits based on up-to-date information systems on risks.
- Making requirements transparent and providing clear guidance, allowing businesses to know what is expected of them and what they can expect from inspectors.
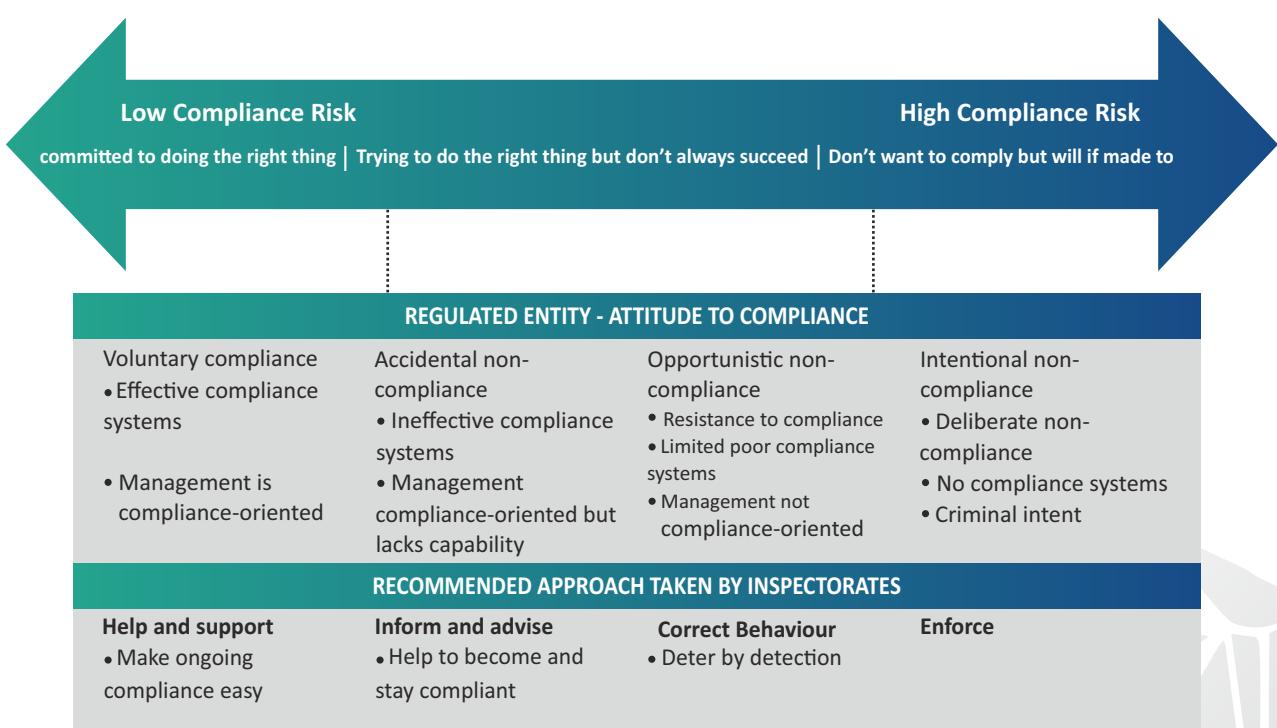
In strict terms, inspections are not a procedure that a business must go through for compliance, but an event that may or may not happen and that could vary widely from one event to the next. The difficulty of defining a 'standard' inspection makes it very important to measure and compare through various means. **The first core aspect for reforming inspections is, thus, getting detailed data on inspections** (frequency, targeting, duration and outcomes) so a reform could be well-designed and its results assessed over time. It is essential to have accurate business inspection measures to identify and prioritise problems, design interventions, advocate for reforms, confront vested interests, and measure the effectiveness of reforms (IFC, 2009).

A second key aspect of reforming inspections is **establishing a risk-based approach to deciding the need and frequency of checks**. As mentioned in Module 2, the higher the potential risk posed by specific business activity, **the stricter the control and the greater the need for licensing or permitting and more frequent inspections**. A licence or permit should generally not be required for low-risk activities, and checks should be rare.

Building risk-matrix classifying activities or use of objects according to their level of risk of hazards (see Module 2) is the first step for a regulator to adopt a risk-based approach to inspections. As inspections might be included as requirements and conditions by several regulators, each focusing on different hazards, risk matrices might vary across regulators. However, a range of factors apply. These are relevant across a large number of regulatory fields (World Bank Group, 'Introducing a Risk-Based Approach to Regulate Businesses'), like sector or activity, types of processes or activities, the number of people usually present, location, use of potentially hazardous materials, and specific aspects of buildings. **Using this typical range of factors to build risk matrices that several regulators could adopt opens the door for joint inspections and coordination**.

On top of that, historical information on compliance could be used to **adopt a classification of businesses based on the risk of non-compliance**, which, together with the risk matrices mentioned above, could make the whole system more effective and efficient. Using the historical information on outcomes of the system to generate feedback loops that drive a continuous re-focus on higher risks is at the core of the so-called **smart regulations**.



| Low Compliance Risk | | | High Compliance Risk |
|---|---|---|---|
| committed to doing the right thing | Trying to do the right thing but don't always succeed | | Don't want to comply but will if made to |

| REGULATED ENTITY - ATTITUDE TO COMPLIANCE | | | |
|---|---|---|---|
| Voluntary compliance • Effective compliance systems • Management is compliance-oriented | Accidental non-compliance • Ineffective compliance systems • Management compliance-oriented but lacks capability | Opportunistic non-compliance • Resistance to compliance • Limited poor compliance systems • Management not compliance-oriented | Intentional non-compliance • Deliberate non-compliance • No compliance systems • Criminal intent |
| RECOMMENDED APPROACH TAKEN BY INSPECTORATES | | | |
| **Help and support** • Make ongoing compliance easy | **Inform and advise** • Help to become and stay compliant | **Correct Behaviour** • Deter by detection | **Enforce** |

# Reforming Inspections under PRMI

Following best practices and global experience in inspections reforms, the PRMI has identified the following five areas for reforms to the business inspection systems:

1. Provide through the PBP information to investors and the business community regarding the inspections' nature and objectives, including checklists and information on the underlying regulations and their interpretation.

2. The use of digital tools for user-friendly and predictable scheduling of planned inspections, coordinating local and federal reviews if possible.

3. Introducing a risk-based approach for targeting unplanned inspections, integrating, as far as possible, the inspection requirements of all relevant regulatory agencies at each level of government.

4. The penalties and sanctions will be associated with the underlying regulation to make them wholly transparent and commensurate to the potential risks involved.

5. PRMI will evaluate the possibility of delegating inspections to accredited private sector companies.

Even though business inspections might create high burdens on businesses, eliminating or substituting inspections will never be possible. It is the primary tool for compliance supervision of requirements to obtain or maintain a licence or other business regulations. The PRMI Strategy considers, thus, reforms that will lead to a system of inspections focused mainly on high-risk activities and businesses. The inspection system will collect information and use feedback loops and artificial intelligence technologies to build a 'smart' regulation system. It will also create opportunities for inspections by private-sector inspectors with proper delegation and accreditation and capable of leveraging information on compliance and risks through technology use.

# Sanctions and Fines

As mentioned in Module 2, for every business regulation to be effective, it must have requirements, conditions, **and sanctions** if the conditions are not met. Sanctions need to be:

- Consistent with the underlying regulation.
- Wholly transparent.
- Commensurate to the potential risks involved.
- Effective incentives for compliance.

Each regulator needs to ensure that the severity of applied sanctions reflects the severity of detected violations. The following are the typical sanctions to businesses if breaches of the conditions of an RLCO are detected:

- **Warnings**: A written warning with recommendations to rectify violations if detected violations are minor and do not pose an immediate risk to human safety, environment or security.
- **Suspension of a licence**: This should follow a written warning if a business did not comply, if a violation is repeated or systemic, or if a violation poses an immediate risk to human safety, environment or security. A licence suspension must be in effect until the business fully complies, as verified by a follow-up inspection.
- **Revocation of a licence:** This should be used when violations are systemic and egregious or if proof exists that violations are premeditated. Revocation of authorisation cannot be lifted. This sanction could include a temporary or permanent ban on applying for an operating licence. If the regulator revokes an authorisation with a temporary ban on applying for new ones, the business can apply for fresh approval after this ban expires. Information on the revocation of

authorisations should be entered into a database for future cross-checks.

- **Fines**: A fine should be gradual and applied simultaneously with other sanctions. Regulators are responsible for developing fine schedules for each authorisation.
- **Criminal proceedings**: If the regulator detects a crime committed, it must refer the case to the appropriate authority for criminal investigation.

An additional important component for sanctions to be effective is having a transparent and effective process for appealing sanctions. Ideally, this process should be conducted through an independent body from the regulator, with appeals officials formally nominated. It should have a mandatory maximum number of days for filing the required information to apply and a maximum number of days for the appeals officials to decide. The appeals process must also indicate the information required for filing an appeal. Decisions by appeal bodies should always be subject to potential further appeals at courts.

**For further references**:

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World Bank Group. 2006. Good Practices for Business Inspections.
http://documents.worldbank.org/curated/en/286811468329950178/Good-practices-for-business-inspections-guidelines-for-reformers

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http://documents.worldbank.org/curated/en/102431468152704305/Introducing-a-risk-based-approach-to-regulate-businesses-how-to-build-a-risk-matrix-to-classify-enterprises-or-activities

# PRMI Regulatory Guidebook

## Module 4.4: Reforming Business Regulation Fees

The PRMI Strategy has included the following as one of the **principles of good regulation**:

**Set fees based on cost recovery:** Business regulation fees should be based on the recovery of costs to administer regulations and not as a revenue source. International best practices on business regulation show that it is critically important to separate regulatory and revenue collection functions. If an RLCO (e.g. licence, construction permit or fine) has collecting revenues as an additional function, its regulatory role diminishes. As seen in governmental agencies worldwide, if RLCOs have a revenue collection function either for the regulating agency or for contribution to the national budget, regulation will tend to concentrate on the revenue function at the expense of the regulatory role. Instead of effectively regulating, regulatory agencies might regulate in excess to collect more revenue through fees or fines. At the same time, they lose focus on the actual substance of regulation. Moreover, renewals might be required for authorisations regardless of whether conditions are met, and inspections might concentrate on fines collection rather than compliance enforcement.

## Split Regulatory Role from Revenue Function

Once the decision is made on splitting the revenue collection function from the regulatory role, the question arises of setting fees consistent with the regulatory procedure. The answer is an obvious accounting definition. **Fees collected during compliance with business regulation processes should only cover the direct costs related to issuing licences and administration of the licensing regime.** Implementing this accounting definition is not straightforward, given the limitations that most governments and regulatory agencies might face in keeping accounts and internal systems based on activity-based costing methodologies.

One exception to this overarching approach, in which regulation would have a legitimate revenue collection function, is the regulation to access limited resources (e.g. mining, fishing, use of electromagnetic frequencies spectrum and other similar activities). Even in these circumstances, it is recommended to use two layers of regulations, one for regulating the safety on the activity (without a revenue collection function) and an additional separated layer for the access to use limited resources (with a revenue collection function).

## Eliminate Renewals

Following international best practices for collecting business regulation fees, they should only be collected once during the application procedures and eliminate the need to renew authorisations and pay regular fees (in addition to filing documentation and requirements once again). Authorisations should be issued only once, and inspections should check compliance. If there were any violations, businesses could be sanctioned. Authorisation renewals do not serve a regulatory function and impose unnecessary administrative burdens on businesses. As a revenue source, suppose renewal fees are used to justify licence renewals. In that case, they should be folded or transformed into taxes (which would be the recommended and more transparent approach) and regularly collected without the additional burden of licence renewals.

## Establish a Reformed Fee Schedule

Once a decision is made not to use business regulation for revenue collection, the challenge arises of transitioning from the current fees and collection system to the new one. The main challenge is ensuring that no significant deficits are produced at the agency or the overall budget levels.

Two alternative approaches could be taken:

The first relates to following international best practices and requiring regulating agencies across the board to establish fee schedules that directly reflect the costs of administering their licensing requirements. This approach entails assessing first the direct costs for the government agencies of running business regulation processes (including administering the application review process, issuing authorisations, and enforcing compliance). Then it requires estimating how many authorisations in a particular sector are issued and enforced and setting the fees that reflect these costs. Even though this approach could be considered best practice, it could be very challenging to implement in cases where activity-based costing for the regulatory agency is not available.

The second approach uses benchmarks from similar economies that compete for the same investments. It would require a study of business regulation fees in comparable countries and a fee schedule established to be within benchmarked fees. For investors, it is vital that such a fee schedule is properly justified through comparison and fixed to ensure predictability.

# PRMI Regulatory Guidebook

## Module 4.5: Reforming No-Objection Certificates (NOCs)

As mentioned in Module 1 of these guidelines, an additional instrument used as a requirement in business regulation in some countries is a **no-objection certificate (NOC)**. The countries using NOCs include, among others, Pakistan and India. NOCs are legal documents issued by an organisation, entity or individual to declare that they have no objection to the mentioned details in the paper. Besides business regulation, NOCs are usually used as requirements for employment, litigation, immigration, and other purposes to nullify any objection by the parties concerned in the process.

NOCs are not authorisations but just requirements for authorisations that might involve more than one administrative or regulatory unit. They have no regulatory function but just an administrative role. Most cases are centred on information that might already have been filed with other agencies or involving other authorisations or registrations under the mandate of another regulator.

Secure information-sharing and validation among regulatory agencies would solve any need for a NOC, even in an administrative role. The development of PBP as an integrated electronic platform with functionalities for secure information-sharing and validation among regulatory agencies will render NOCs useless even in administrative functions. It will allow following best practices in regulation and progressively eliminate NOCs for regulatory purposes or administrative requirements for business regulation compliance.

## Reforms of NOCs planned under PRMI

PRMI Strategy considers that BOI would develop a framework for dealing with NOCs using the seven principles of better business regulation in collaboration with the federal and provincial working groups and business expert groups. Three options will be examined, among other possibilities:

- Explore self-certifications instead of nonessential NOCs

- Explore shifting the responsibility of getting essential NOCs to the requesting agencies

- Explore the accreditation of independent third-party companies to carry out any inspection or verification in place of essential NOCs

# PRMI Regulatory Guidebook

## Module 4.6: Alternatives to Traditional Regulation

As mentioned in Module 4.2., economic activity or the use of objects for economic activities could be regulated or not regulated. Nevertheless, in some cases, an option that could be opened is the so-called alternatives to traditional regulation. The 1995 OECD checklist for regulatory decision-making included considering alternative instruments as a critical element. Some countries have these alternatives explicitly in the instruments menu to resolve the same problems that regulations address.

For instance, the Principles of Regulation of the UK indicate explicitly that the government will regulate to achieve their policy objectives only:

    (I)      Having demonstrated that alternative, self-regulatory, or non-regulatory approaches cannot achieve satisfactory outcomes.

    (ii)     Where analysis of the costs and benefits demonstrates that the regulatory approach is superior by a clear margin to alternative, self-regulatory or non-regulatory approaches.

    (iii)    Where the regulation and the enforcement framework can be implemented in a demonstrably proportionate, accountable, consistent, transparent and targeted fashion.

There will be a general presumption that regulation should not impose costs and obligations on business, voluntary or community bodies unless a robust and compelling case has been made. Once it has been established, following the framework explained in Module 4.2., that an activity or use of an object should be regulated, it should be explored whether there is an option to use alternatives to traditional regulation.

The OECD Report on 'Alternatives to Traditional Regulation' provides a good overview and framework to assess the options. It starts by asking whether traditional regulation is the best course of action. In many situations, there may be a range of options that could be more effective (preventing risks from hazards) and efficient (involving minimum compliance costs for businesses and the public) than the traditional 'command and control' regulation. Of course, the range of options might be limited by institutional impediments or even the legal framework. However, the limits often could be expanded if uncertainties and perceived risks of taking an alternative to regulation are worked out.

The OECD Report indicates that alternatives to traditional regulation fall into three main categories:

1. Market-based instruments

Regulatory instruments act to change or modify behaviour through the economic incentives facing citizens and businesses. Taxes and subsidies are commonly used market-based instruments, as they change relative prices, usually in combination with setting some parameters for economic activities (for instance, levels of carbon emissions).

2. Self-regulation and co-regulation

An alternative to regulation could be having an outside, independent agency, such as a third-party entity or a governmental regulator, monitor and enforce standards. A group of firms in a particular industry or a professional group could monitor their adherence to legal, ethical or safety standards, rules or codes of conduct that regulate or guide the behaviour and actions of its members. Self-regulation or co-regulation might have significant advantages over traditional regulation. These advantages include flexibility and adaptability, lower compliance and administrative costs, lower reputational risks for businesses, and an ability to address industry-specific and consumer issues directly. Nevertheless, applying these alternatives requires adequate protection mechanisms to ensure that the industry or

professional association does not capture the regime and promotes the broader interests of society.

3. Information and education

Making information more available to businesses and consumers can change behaviours. Information and education campaigns, labelling requirements, or requirements to disclose information to the market could be used. This instrument might have less direct government involvement in decision-making or directing behaviour. However, at the same time, the period taken to influence people's behaviour could be difficult to determine. If circumstances require quick changes in behaviour or operate in a context that changes rapidly, these alternative instruments might have limited effectiveness.

**For further references**:

OECD. Alternatives to Traditional Regulation. 'OECD Regulatory Policy Division Report'.
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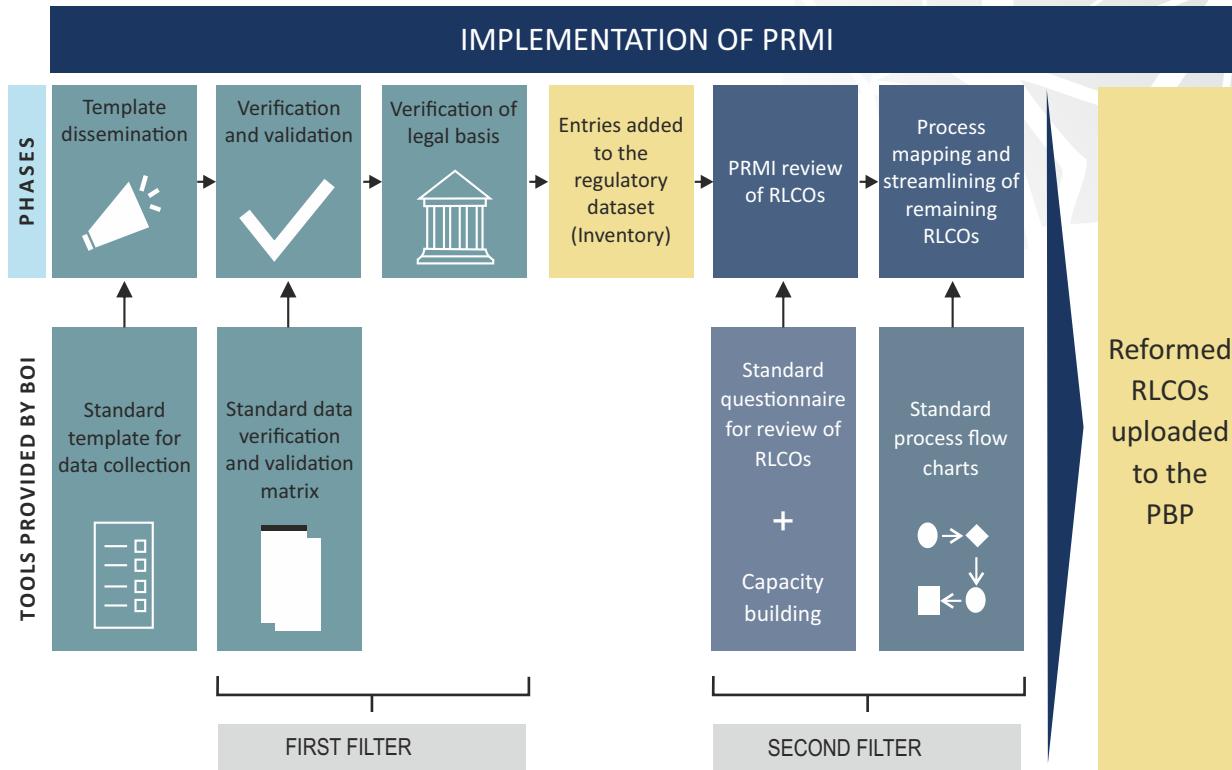
# PRMI Regulatory Guidebook
## Module 5: Guides for implementing PRMI phases
## 5.1. Mapping RLCOs to build a single inventory

**Taking stock** of all RLCOs across federal, provincial, and local jurisdictions is the cornerstone of PRMI as a **comprehensive and structured reform** of business regulations. The PRMI Strategy and Implementation document (June 2021) indicates that a comprehensive review of remaining RLCOs will follow the Regulatory Guillotine™ effort. For this review, an **inventory of regulations and associated requirements and conditions** will be built, including all rules and administrative procedures that apply to businesses across Pakistan, covering all provinces and federal territories. Global experience shows that collecting such an inventory is one of the most critical challenges in comprehensive business reform efforts. A thorough examination and process simplification for the inventoried RLCOs, based on principles of good regulation and the tools included in this guidebook, requires a systematic approach to cover the necessary data points for an adequate analysis of each RLCO.

The PRMI Strategy and Implementation document (June 2021) mentions the following steps to collect the required data on RLCOs:

1. **Template dissemination**: **A standard template for data collection**, including a standard coding for regulators, businesses and RLCOs, will be created by BOI and shared with the team driving the reform effort in each jurisdiction, the focal persons within each government department, and all relevant stakeholders – internal or external. The standard template will be shared before any roundtable, focus group discussion, or consultative session with provincial stakeholders or business expert groups. The regulatory dataset – in its present state at each point in time – will be available through the PRMI website for anyone to give feedback. The standard template will include all the essential information on the RLCO in question (following the standard coding established by PRMI), its legal or formal basis and a justification for its existence prepared by the regulatory agency.

2. **Data verification and validation**: The team driving the reform effort in each jurisdiction will also use a **standard Data Validation and Verification Matrix** to be created by BOI to assess data accuracy, completeness, and consistency to determine the overall reliability of the information.

3. **Verification of legal basis**: The legal experts in each reform team will verify the legal basis (laws, decrees, others) of each RLCO included in the inventory.

4. **Entries added to the regulatory dataset**: Once the stakeholders provide feedback, the entries will be added to the regulatory dataset. BOI will review the completeness of information on all entries before they are uploaded.

5. **PRMI review of RLCOs**: The reform team will conduct a thorough assessment based on sound regulation principles in the respective jurisdiction of each RLCO in the regulatory dataset (inventory). The following section further explains the sequence of analysis.

6. **Process mapping and streamlining of remaining RCLOs**: The reform team and the focal persons in the relevant departments will map processes from when a firm files a request for an RLCO until it is issued. All sub-processes, including additional NOCs and pre-requirements, will also be mapped. General **standard process flowcharts** to be produced by BOI will be used and shared with administrative stakeholders and Business Expert Groups during consultative sessions and roundtable discussions for feedback.

**IMPLEMENTATION OF PRMI**

PHASES

Template dissemination → Verification and validation → Verification of legal basis → Entries added to the regulatory dataset (Inventory) → PRMI review of RLCOs → Process mapping and streamlining of remaining RLCOs

TOOLS PROVIDED BY BOI

Standard template for data collection

Standard data verification and validation matrix

Standard questionnaire for review of RLCOs + Capacity building

Standard process flow charts

Reformed RLCOs uploaded to the PBP

FIRST FILTER

SECOND FILTER

## 5.2. Eliminating RLCOs non-declared or that fail the PRMI review

As indicated in the PRMI Strategy and Implementation document, the review process of RLCOs will have two filters applied. Both will lead to eliminating RLCOs that do not have a formal or legal basis or unnecessary RLCOs, from a business regulation perspective. One filter will be purely operational and legal. RLCOs not communicated to the reform team or that do not have formal or legal backing included in the standard template for data collection will not be included in the review and thus will cease to exist. The second filter will be the appraisal that the reform team in each jurisdiction will conduct based on sound regulation principles. RLCOs failing the examination will be eliminated.

Eliminating RLCOs that do not pass the mentioned filters will be based on a legal framework that would need to be in place as part of PRMI. The federal and participating provincial governments each will pass a legal act for their respective jurisdictions detailing the process, institutional arrangement, and schedule for the PRMI review and elimination of unnecessary RLCOs. Only RLCOs that pass both filters would be included in a singular database and subject to re-engineering and process streamlining before their inclusion in the digital Pakistan Business Portal. The legal framework mentioned above will indicate that only RLCOs included in the singular database will be legally valid.

## 5.3. A sequence of analysis for conducting the PRMI review of RLCOs

The reform team in each jurisdiction will conduct the second filter mentioned in the previous section (review of RLCOs based on sound regulation principles) following a **standard questionnaire to review RLCOs** that BOI will create. BOI will run a specific training and capacity-building programme for this comprehensive review of RLCOs.

Justification for the existence of an RLCO that the respective regulatory agency will need to prepare should follow a sequence of analysis based on sound regulation principles, as well as the review of this justification to be conducted by the reform team in each jurisdiction. The standard questionnaire for the assessment of RLCOs will guide the mentioned sequence.

# Recommended sequence of analysis for RLCOs

## 1. Determine the problems (risk factors) addressed by a given RLCO

The first question to address on a particular RLCO is what was, or is, the main reason for this RLCO to be established? There could be several reasons, but experience in regulatory reform shows that most will conform to either of the following three categories:

- collecting information
- generating revenues (fiscal reason)
- addressing potential risks and dangers of the activity or use of objects being regulated

Suppose the main answer does not relate to potential risks and dangers for the activity or use of objects. In that case, no further analysis is necessary. The RLCO in question could be transformed into a notification (just filing a declaration of a specific checklist of information) or removed. If potential risks and dangers were mentioned, it would be crucial to determine these risk factors and hazards and their scale (using quantitative indicators as much as possible).

## 2. Determine HOW the current RLCO mitigates risk factors

As mentioned in Module 1 of this Regulatory Guidebook, to be effective, each RLCO MUST have a list of requirements (rules to be complied with before starting to operate a business) and conditions (rules to be complied with during operations). This section of the analysis must assess each requirement and condition for the RLCO with whether and how they reduce risk factors.

The requirements and conditions that do not reduce risk factors should be removed. If designed to fulfil other functions (e.g. information collection), usually such processes are already fulfilled by other regulations or are unnecessary. If the expected utility of a requirement or condition is just data collection, it should be determined if such data are essential. If that is the case, it should be explored where else to find this information, either at the regulatory agency or elsewhere. It should also be determined whether there are methods to collect data that do not require imposing an RLCO (for example, linking databases with other public sector agencies).

Examining whether ex-ante requirements could significantly reduce risk factors is critical. If an RLCO has no ex-ante requirements, it can be safely turned into a notification.

## 3. Final determination: notification, authorisation or no regulation

1. It is important to note that the existence of risk factors for activities that can be mitigated by ex-post rules and conditions (with appropriate inspections) does not require this activity to be licensed.
2. Notification is used to schedule ex-post inspections, especially for medium-risk activities. Notifications also fulfil information functions and can perform the fiscal role.
3. Rules and requirements for activity (when it is already happening) can be and are established by legal acts. Their enforcement is done through inspections. Even the most dangerous activities do not rely exclusively on ex-ante requirements. Most activities can be safely conducted without ex-ante requirements and even without notifications.
4. The use of safe premises or machinery is already regulated by relevant regulations that are transferable through selling or renting these premises or machinery. In most cases, integration of these regulations into a licensing regime is unwarranted, does not provide any additional benefits and costs money for businesses engaged in activities.
5. Professional licences (qualification certificates) could use a similar approach. Businesses do not have to have an authorisation if the only condition is to employ qualified people. During inspections, such qualification requirements (always supported by separate documentation) can be easily checked, and appropriate punishment executed if violations are found.

6. Licences issued for using limited resources should be analysed separately, as they follow a different logic (Module 2).

## 5.4. Re-engineering RLCOs that pass PRMI review

The sequence of reform and analysis for comprehensive investment climate reforms mentioned in the previous sections leaves the reengineering of RLCOs to the very end of the line. It might seem counterintuitive, as the natural impulse is to cut requirements and conditions and streamline processes from the start. Global experience with investment climate reforms shows that focusing on re-engineering early in a reform programme risks keeping in place RLCOs, requirements and conditions that should be eliminated, not re-engineered. The initial focus of implementing a regulatory reform should be the filters of elimination and re-engineer only the regulatory processes of RLCOs that pass the filters.

> **The critical principle in the strategic planning and implementation of regulatory reforms: avoid re-engineering what should be eliminated.**

As mentioned, PRMI will follow a standardised methodology for re-engineering the remaining RLCOs. Besides strictly following the taxonomy adopted for PRMI, a standard definition will be issued by PRMI – what constitutes a **process**, **procedure**, **step**, and **activity** and how to measure the time and cost of each. These will all be included in the standard process flow charts PRMI will provide.

Mapping processes to comply with business regulations are often complex, and having visual charts is a practical approach to handling this complexity. Process maps are designed to define how processes flow and interact using visual depictions to show the steps and the participants carrying out each process activity. A box or other image (standard flowchart shapes) will illustrate each step, and arrows will display the workflow. Process mapping could use various common shapes, with references available online. A myriad of online tools and methodologies are available for process mapping. A key aspect in a comprehensive business reform programme involving multiple layers of government, as in Pakistan, is maintaining consistency across the programme on definitions and tools. Following general good practices in process mapping will ensure an efficient reform process.

> **General good practices to follow in process mapping:**
> - Use the standard definitions agreed upon beforehand.
> - Identify the start and endpoints before initiating the identification of steps in a process.
> - Make process maps straightforward to read and understand.
> - Include only the necessary details in process maps; avoid including less or more than needed details to identify areas for improvement.
> - Use the correct, standard, consistent process map symbols.
> - Consult all key stakeholders when mapping a process to avoid missing out on important information or steps.
> - Use standard process mapping software.

# PRMI Regulatory Guidebook
## Module 6: Gatekeeping the reformed system regulatory impact analysis (RIA)

The PRMI Strategy and Implementation document (June 2021) indicates that the last step in implementing PRMI focuses on gatekeeping the reformed regime. Regulatory impact analysis (RIA) will be fully adopted. RIA tools will be used to ensure the flow of new RLCOs is checked, and their positive and negative impacts are well understood and documented before making these requirements effective.

The OECD defines regulatory impact analysis (RIA) as a systematic approach to critically assess the positive and negative effects of proposed and existing regulations and non-regulatory alternatives. The role of RIA is to provide an appraisal of the potential impacts of new regulation and to assess whether the rule is likely to achieve the desired objectives. The need for RIA arises because regulation commonly has numerous consequences, and these are often difficult to foresee without detailed study and consultation with affected parties.
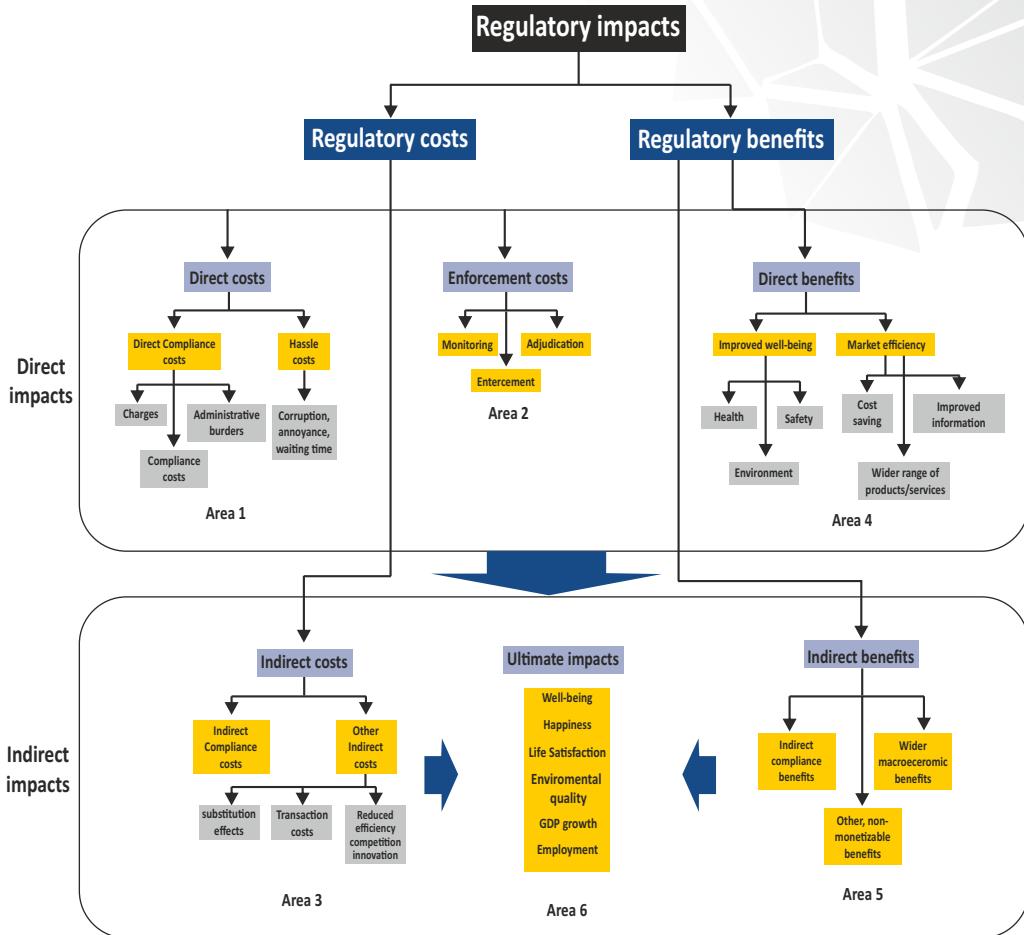
A RIA summarises the rationale for government intervention, the different policy options (including non-regulatory options) and the impacts of the intervention, as well as quantifying expected costs and benefits. A RIA should document:

- the total Net Present Social Value (NPSV), the net benefit to society and the economy as a whole (including businesses);
- the Net Present Value to business; and
- the Equivalent Annual Net Direct Cost to Business (EANDCB) of all policy options considered.

Statutory review clauses impose a legislative duty to carry out and publish a post-implementation review of the measure within five years of it coming into force and then regularly on a five-year cycle, or more frequently if appropriate to the measure.

All new statutory bodies with regulatory functions must have a statutory review provision – a legislative duty contained within its founding legislation – requiring the relevant secretary of state to conduct and publish a review of the body (at a frequency to be agreed collectively). This should address the extent to which the statutory body has been successful in achieving the objectives that led to its creation, and the case for its continued existence after a given period. Although not a "sunset" clause in the sense that the regulator would cease to exist after a particular date should no action be taken to ensure its continuance, the review does enshrine the principle of a regular and transparent review of the underlying rationale for a regulator's existence.

Economic approaches to the issue of regulation also emphasise the high risk that regulatory costs may exceed benefits. From this perspective, the central purpose of RIA is to ensure that regulation will be welfare-enhancing from the societal viewpoint – that benefits will exceed costs. Assessing costs and benefits from a proposed regulation is not a minor undertaking. A well-conducted assessment needs to consider both direct and indirect costs and benefits. The graph below shows that a comprehensive view of costs and benefits must cover several aspects:

**Regulatory impacts**

**Regulatory costs**  **Regulatory benefits**

**Direct impacts**

**Direct costs**
- Direct Compliance costs
  - Charges
  - Administrative burders
  - Compliance costs
- Hassle costs
  - Corruption, annoyance, waiting time

Area 1

**Enforcement costs**
- Monitoring
- Adjudication
- Entercement

Area 2

**Direct benefits**
- Improved well-being
  - Health
  - Safety
  - Environment
- Market efficiency
  - Cost saving
  - Improved information
  - Wider range of products/services

Area 4

**Indirect impacts**

**Indirect costs**
- Indirect Compliance costs
  - substitution effects
  - Transaction costs
- Other Indirect costs
  - Reduced efficiency competition innovation

Area 3

**Ultimate impacts**
- Well-being
- Happiness
- Life Satisfaction
- Enviromental quality
- GDP growth
- Employment

Area 6

**Indirect benefits**
- Indirect compliance benefits
- Wider macroceromic benefits
- Other, non-monetizable benefits

Area 5

Source: Assessing the Costs and Benefits of Regulation, CEPS (2013)

Conducting RIA requires pursuing a structured approach and rationale. The critical elements in an RIA process are the following:
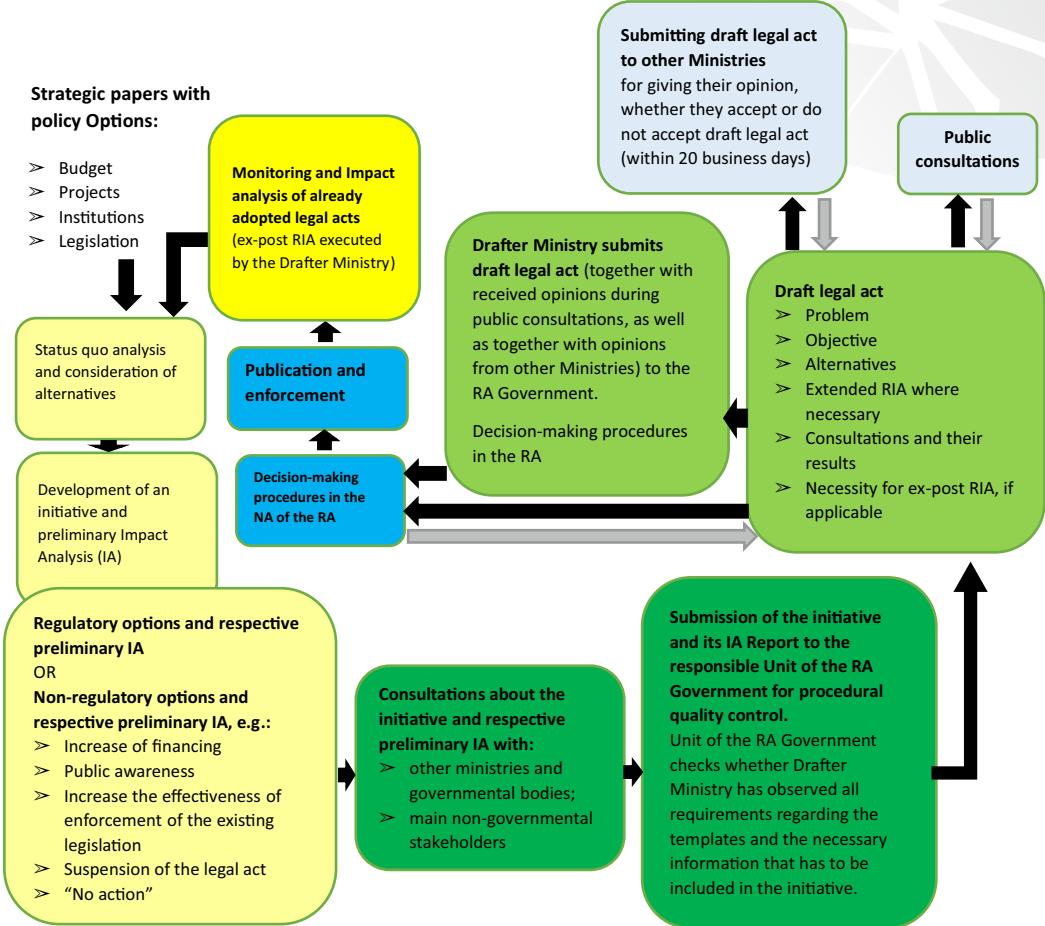
**1. Defining a regulatory or policy problem** usually falls within three categories: market failure, regulatory inefficiencies and new policy targets or objectives.

**2. Identifying different concrete regulatory or policy options.** During this step, the need for regulatory intervention identified in phase 1 has to be translated into concrete policy options.

**3. Collecting data:** This phase is crucial, and the means to achieve it are diverse and vary greatly among countries. Relevant data for the RIA are collected from public consultations, telephone and face-to-face interviews, paper questionnaires, online surveys, and focus groups.

**4. Assessing alternative options** through a cost-benefit, cost-effectiveness or risk analysis. Options assessed must include the "no policy change" scenario.

**5. Identifying the preferred regulatory option/s.** Once the different options have been identified and scrutinised (usually by comparing the costs and benefits), the comparison of the different assessments will lead to the identification of the most efficient option.

**6. Communicating results of the conducted RIA:** Best practices suggest publication of the RIA result and other exchanges with stakeholders, taking care of the general transparency of the regulatory process.
It is vital to note that using RIA for gatekeeping goes beyond business regulation and covers all economic activities and social, environmental, and any other aspects of human life that merit regulation. Module

7 of this regulatory guidebook indicates that NRDO will have the mandate of gatekeeper of the reformed regime. NRDO, thus, will be in charge of developing its capacity to conduct RIA for business regulation and manage all aspects required for its implementation. Adoption and development of capacity for RIA in other parts of regulation, beyond business activities, is a separate decision that the Government of Pakistan will address through other programmes.

There are numerous resources available online on RIA. Three OECD publications listed below give a full-fledged presentation of RIA methodology and processes. In summary, the OECD manuals and the detailed information in the graph that follows indicate the **basic steps in conducting an RIA process**:

**1. Consultations and stakeholder engagement**: Use inputs from all potentially affected stakeholders and other relevant experts in all stages of the RIA process.

**2. Define the problem**: Assess and describe the nature and extent of the problem to be addressed by the regulatory proposal, preferably in quantitative terms.

**3. State the objective**: Clearly state the regulatory proposal's policy objective(s) and goal(s).

**4. Describe the regulatory proposal**: Describe the existing regulatory framework and the proposed draft, identify administrative bodies and institutions responsible for drafting, implementing and enforcing the proposal, and outline the enforcement regime and the proposed strategy for ensuring compliance.

**5. Identify alternatives**: List the practical options, including any non-regulatory approaches considered a potential solution to the identified problem.

**6. Analysis of benefits and costs**: Clearly outline the benefits and costs expected from alternatives identified in previous steps. Multiple methodologies are available to conduct this analysis, depending on the availability of information and the nature of the problem.

**7. Identify the preferred solution**: Outline how and in what ways the identified regulatory proposal is superior to the alternatives considered.

**8. Set out the monitoring and evaluation framework**: Describe how the performance of the regulation will be evaluated and anticipate the necessary data requirements.

# RIA Work Cycle

**Strategic papers with policy Options:**

- Budget
- Projects
- Institutions
- Legislation

**Monitoring and Impact analysis of already adopted legal acts** (ex-post RIA executed by the Drafter Ministry)

Status quo analysis and consideration of alternatives

**Publication and enforcement**

Development of an initiative and preliminary Impact Analysis (IA)

**Decision-making procedures in the NA of the RA**

**Drafter Ministry submits draft legal act** (together with received opinions during public consultations, as well as together with opinions from other Ministries) to the RA Government.

Decision-making procedures in the RA

**Submitting draft legal act to other Ministries** for giving their opinion, whether they accept or do not accept draft legal act (within 20 business days)

**Public consultations**

**Draft legal act**
- Problem
- Objective
- Alternatives
- Extended RIA where necessary
- Consultations and their results
- Necessity for ex-post RIA, if applicable

**Regulatory options and respective preliminary IA**
OR
**Non-regulatory options and respective preliminary IA, e.g.:**
- Increase of financing
- Public awareness
- Increase the effectiveness of enforcement of the existing legislation
- Suspension of the legal act
- "No action"

**Consultations about the initiative and respective preliminary IA with:**
- other ministries and governmental bodies;
- main non-governmental stakeholders

**Submission of the initiative and its IA Report to the responsible Unit of the RA Government for procedural quality control.**
Unit of the RA Government checks whether Drafter Ministry has observed all requirements regarding the templates and the necessary information that has to be included in the initiative.

OECD has also developed best practice principles in conducting RIA:

**1. Generate commitment and buy-in for RIA**: Securing stakeholder support is essential. RIA should be introduced as part of a comprehensive long-term plan to boost the quality of regulation, and the political backing of RIA must be secured.

**2. Governance of RIA – having the right set-up or system design**

- RIA should be fully integrated with other regulatory management tools and implemented in the context of the regulatory governance cycle.
- RIA and its implementation should be adjusted to the country's legal and administrative system and culture.
- Governments need to decide whether to implement RIA at once or gradually.
- Responsibilities for RIA programme elements must be allocated carefully.
- Efficient regulatory oversight is a crucial precondition for a successful RIA.
- RIA should be proportional to the significance of the regulation.
- Parliaments should be encouraged to set up their procedures to guarantee the quality of legislation, including the quality of RIA.

**3. Embedding RIA through strengthening capacity and accountability of the administration**

- Adequate training must be provided to civil servants.
- Governments should publish detailed guidance material.

- There should be only limited exceptions to the general rule that RIA is required.
- Accountability and performance-oriented arrangements should be implemented.

### 4. Targeted and appropriate RIA methodology

- The RIA methodology should be as flexible and straightforward as possible while ensuring certain key features are covered.
- RIA should not always be interpreted as requiring a full-fledged, quantitative cost-benefit analysis of legislation.
- Sound data governance strategies can help produce, collect, process, access and share data in the context of RIA.
- RIA should follow all stages of the regulation-making process and start at the inception stage to inform policy development.
- No RIA can be successful without defining the policy context and objectives, particularly the systematic identification of the problem.
- All plausible alternatives, including non-regulatory solutions, must be considered.
- It is essential always to identify all relevant direct and necessary indirect costs and benefits.
- Stakeholder engagement must be incorporated systematically into the RIA process.
- Insights from behavioural science and economics should be considered as appropriate.
- The development of enforcement and compliance strategies should be part of every RIA.
- RIA should be perceived as an iterative process.
- Results of RIA should be well communicated.

### 5. Continuous monitoring, evaluation and improvement of RIA

- It is vital to validate the actual impacts of adopted regulations after implementation.
- RIA systems should also have an in-built monitoring, evaluation and refinement mechanism in place, including early plans for data collection or access to data.
- A regular, comprehensive evaluation of the impact of RIA on the (perceived) quality of regulatory decisions is essential.
- It is vital to evaluate the impacts in cases where the original RIA document does not coincide with the final text of the proposal.
- Systematic evaluation of the performance of the regulatory oversight bodies is essential.

## Anchoring simplification strategies on quantitative evidence

Despite the numerous administrative simplification initiatives launched by OECD governments over the past decades, governments have not always had a detailed understanding of the extent of the burdens imposed on businesses. Policy has often been made without a clear understanding of the actual size of the burdens and the progress that can be made to reduce these. To have a clearer idea of the extent of the burden many OECD countries have attempted to measure burdens, either through business surveys, or through quantitative evidence-based approaches. OECD countries' experiences suggest that quantitative approaches are increasingly supplementing or substituting business surveys as the primary source of information for assessing the burdens. One of the initial methodologies to measure the administrative burdens on business is the Standard Cost Model (SCM) developed by the Netherlands. The SCM measures the administrative costs imposed on business by government regulations. The costs are primarily determined through business interviews. These interviews generate data and make it possible to specify in detail the time companies spend complying with government regulation. The SCM breaks down regulation into individual components that can be measured: information obligations, data requirements and administrative activities. The SCM then estimates the costs of these component basis of three cost parameters:

1) **price**, which consists of a tariff, wage costs plus overhead for administrative activities done internally or hourly costs for external services;

2) **time**, which includes the amount of time required to complete the administrative activity; and,

3) **quantity**: which comprises the size of the population of businesses affected and the frequency that the activity must be carried out each year. The combination of these elements gives the basic SCM formula: cost per administrative activity = price x time x quantity. To measure regulatory burdens or to evaluate programmes for reducing regulatory burdens with the SCM, a number of countries have developed a baseline measurement of the administrative burdens of all existing legislation. This baseline measurement gives an overview of the regulation and a total figure of the administrative burden on businesses; it also shows where burdensome information obligations and related activities lie, and whether they have a national or international origin. Pakistan will also develop criteria for SCM through NRDO.

## Better Regulations Unit (BRU) – all Regulators should have a BRU

Each department will have a Better Regulation Unit (BRU), which oversees that department's processes for better regulation and advises on how to comply with the requirements.

Departmental BRUs will assess the existing and new regulations based on RIA and principle-based regulatory framework i.e. Regulatory Principles, Code of Practice for Regulators and this Regulatory Guidebook.

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# PRMI Regulatory Guidebook

## Module 7: Setting up a reformed regulatory regime

### 7.1. Setting up the National Regulatory Delivery Office (NRDO)

Implementation of PRMI will require building capacity at BOI and provincial working groups under the leadership of the steering committee. To ensure the reform process continues, the capacity built by PRMI will need a stable and long-term institutional setup. Establishing a regulatory oversight body has been common among OECD member states and countries that have undergone comprehensive regulatory reforms. Over a third of them have set up such institutions (often with a high degree of independence from their respective governments) to avoid the backlash of reforms and ensure that eventual new regulations after the reform follow best practices.

In parallel with the implementation of PRMI thus, a permanent and dedicated regulatory oversight agency – a National Regulatory Delivery Office (NRDO) – will be established, with a mandate of overseeing regulation at federal, provincial, and district levels. NRDO will function as the gatekeeping quality of business regulation in Pakistan. Federal, provincial and district agencies would keep the regulatory mandates. Nevertheless, for any new regulation(s), rule(s) or changes proposed, they would need to clear these changes with NRDO, applying regulatory impact assessment (RIA) principles to business regulation reviews.

The NRDO will improve the ease of investing and doing business in Pakistan for domestic and foreign investors, principally by accelerating regulatory reforms. It will be a permanent fixture within the structure of the GoP for improving business regulations and procedures for compliance. Such an institutionalised arrangement will enhance Pakistan's overall investment climate significantly.

The steering committee on PRMI will address elements of institutional design through a series of consultations with public and private sector stakeholders, including:

> **Role and responsibilities of the NRDO**
>
> The NRDO will be the coordinating point within the Government of Pakistan for all initiatives to improve business regulation. Among its responsibilities, NRDO will lead in consultation with relevant agencies in:
>
> - Analysing and studying challenges in business regulation to guide the reform process.
> - Collecting data and other actions to identify regulatory bottlenecks.
> - Identifying and coordinating the implementation of regulatory and procedural reforms for best practice business regulation in Pakistan.
> - Conducting impact assessments of the existing regulations.
> - Ensuring the flow of new regulations undergoes RIA and best practice business regulation principles.
> - Identifying improvements in business regulation frameworks to operate within special economic zones and industrial estates.
> - Leading mechanisms for consultation with stakeholders from the public and private sectors regarding issues with business regulation.
> - Leading studies to address investment climate constraints to SMEs and women entrepreneurs.
> - Monitoring the progress of the implementation of business regulation reforms.
> - Issuing an annual investment climate performance report to the federal and

> - provincial governments.
> - Leading initiatives to harmonise investment climate reforms between provinces and federal government.
> - Conducting innovative regulation workshops and capacity building of relevant federal and provincial officials in collaboration with civil service academies and academia.
> - Monitoring compliance with international regulations, standards, and norms and making it easier for businesses to operate globally.

- the mandate of the NRDO
- the extent of autonomy and regulatory oversight
- provincial and federal representation
- inclusion of private-sector experts
- location of NRDO within the state apparatus

The PRMI Strategy and Implementation document indicates clear steps to implement NRDO.

> **Steps for implementation of NRDO**
> - BOI develops an institutional and legal roadmap for establishing the NRDO.
> - The PRMI's steering committee reviews the proposed institutional and legal roadmap for establishing the NRDO.
> - BOI consults the federal and provincial working groups to finalise the institutional and legal roadmap for establishing the NRDO.
> - The federal and provincial working groups endorse the institutional and legal roadmap for establishing the NRDO.
> - The PRMI's steering committee approves the institutional and legal roadmap for establishing the NRDO.
> - The parliament passes the NRDO Bill.

## 7.2. Coordination of federal, provincial and district regulations

The diagnostic conducted for PRMI's strategic design and other assessments by the World Bank Group (WBG Country Partnership Framework, IFC Country Private Sector Diagnostic – CPSD, 2021) indicates that dealing with business regulations (registrations, licences, permits, certificates) in Pakistan is complex. Also, it is costly and highly inefficient, with poor regulatory outcomes. Moreover, complicated and expensive procedures overlap federal, provincial, and municipal barriers. Approximately 100 different agencies regulate businesses across boundaries in an uncoordinated manner. Businesses face a staggering 1,400 varied documents and regulatory procedures. For example, more than 60 government departments and agencies across all three government tiers would regulate a food manufacturer with a nationwide operation.

The absence of a systematic oversight mechanism and lack of institutional leadership adds to complying with business regulations. Processes are lengthy and fragmented, coordination among agencies is missing,

and regulatory requirements are not transparent. Local authorities need more capacity and resources. As a result, business compliance costs are high, and many end up operating in the informal economy. The Global Indicator of Regulatory Governance, in which Pakistan scores 1.75 (on a scale of 0-5, with five being the best), also reflects the low degree of regulatory governance.

Following the devolution of several regulatory powers to the provinces under the 18th Amendment to the Constitution of Pakistan in 2010, compliance got further complicated. The devolution has resulted in regulatory fragmentation at the provincial and local levels, as it has yet to be matched with strengthening inter-provincial coordination. Substantial inter-provincial divergence in the principles, standards and approaches to business regulation is observed. The quality of regulatory enforcement also varies from province to province and from city to city. These arrangements have increased regulatory compliance costs, especially for SMEs, discouraging local and foreign investments. Firms must visit multiple regulatory agencies annually to access information and obtain application forms for applying, renewing, and paying business regulation compliance requirements. These interactions increase when businesses operate across Pakistan with multiple annual renewable licences issued by district-level authorities.

With limited exceptions, regulatory agencies in Pakistan lack automation, online payments and data sharing. With no central database of regulated entities and data sharing, registration and business regulation processes are repeated with each regulatory agency. The absence of a central registry or an online platform for business regulation processes creates uncertainties for domestic and foreign investors. It also results in a lack of transparency and inconsistent enforcement. Developing online platforms for compliance certainly reduces associated costs. Nevertheless, automating a dispersed framework through a single window would not solve much of the issues of complexity and excessive burden of regulation. Leveraging the potential benefits of automation through digital platforms and even better automated OSS like PBP requires homogeneity and standardisation.

The persistence of the abovementioned constraints has impeded the developing of a harmonised, transparent, low-cost, efficient and online regulatory environment. On top of the challenges of a broad-spectrum regulatory reform, Pakistan faces the specific challenge of having a multi-tiered, fragmented regulatory framework. In this setting, having common principles, homogeneous processes for compliance with business regulation, and integrated databases to develop online platforms are preconditions for successful reform. The strategic design of PRMI considers all these aspects.

The Global Financial Innovation Network (GFIN) is a new model of international cooperation on fintech innovation and supervision that aims to increase collaboration between regulatory agencies in fintech and regtech. The network includes more than 60 financial services regulators, international organisations such as the IMF and World Bank, and other observers. Founded in 2018, it provides a venue for engagement and sharing of lessons learnt on fintech aspects and has three workstreams: (i) cooperation and sharing innovation experiences; (ii) forum for joint work and regulatory trials, including regtech; and (iii) providing an environment to test cross-border solutions. As part of the latter workstream, GFIN organized a cross-border solution pilot that attracted 44 applicants, of which eight were accepted.

Suptech and regtech solutions can be an excellent resource to overcome supervisory constraints. The technological changes that have enabled fintech to thrive can be leveraged to improve supervisory processes. This is the promise of suptech, defined as the use of innovative technology by financial authorities to support their work. Machine-readable and executable regulation, automated Artificial Intelligence solutions for data input, aggregation and analysis, and platforms linked to regulation offer a wide range of opportunities. Suptech has the potential to bring efficiencies, both for supervisors and supervised entities, in processes such as data collection, quality control, monitoring and detecting suspicious activities, reporting and disclosure, analytics, and risk management. Many financial authorities have a suptech strategy, often as part of an institution-wide digital transformation program, and others have adopted ad-hoc suptech projects. However, the use of suptech requires having staff with appropriate skills.

Implementing PRMI as a comprehensive business regulation reform will involve coordinating several layers with independent and overlapping mandates. Each person and institution participating in implementing PRMI must consider this and support the programme's leadership in this critical aspect.

## 7.3. Considerations for SMEs

PRMI is a cornerstone for the development of SMEs in Pakistan. The proportion of financial and human resources SMEs divert to administrative functions is usually more significant than for large firms (OECD, 2017). SMEs are typically less efficient than large firms in screening the regulatory environment and dealing with compliance with the regulation. Moreover, these tasks usually involve time from the entrepreneur diverted from business development. About 12 per cent of surveyed European SMEs cite regulation as their most pressing problem compared to 16 per cent in 2016 (EU SAFE Survey, 2017). Regulatory divergence across countries can impose an additional difficulty for SMEs participating in global markets and value chains (GVCs). Regarding trade barriers, 38 per cent of SMEs with a digital presence cited different regulations in other countries as the main challenge to export in 2017 (Future of Business Survey, 2017).

The development of SMEs is an important policy objective as, in most countries, the largest share of firms are SMEs. Moreover, these enterprises have a significant potential to create jobs and share prosperity at scale. However, a global consensus is that SME development and policymaking are difficult. The SME space tends to be highly complex, with heterogeneity in firm size, specialisation, spatial dispersion and performance (World Bank Group, 2013). Moreover, in many countries, SMEs primarily operate in the informal sector, compounding complexity. One of the critical elements in the complex context for SMEs is compliance with business regulations.

In recent years, meaningful progress has been made globally to reduce the administrative burdens on start-ups, lower legal barriers to entry markets, and reduce regulatory compliance costs in different areas. However, the complexity of regulatory procedures, covering a wide range of areas such as licence and permit systems, insolvency and tax, among others, remains a significant obstacle to entrepreneurial activity and SMEs (OECD, 2018).

OECD and World Bank Group concur on the need for policy responses to be context-specific while following established good practice principles for regulatory reform, as outlined in the 2012 Recommendation of the OECD Council on Regulatory Policy and Governance. There is no one-size-fits-all model to enhance regulatory conditions for SMEs. Nevertheless, some vital elements for SMEs could be mentioned, including simplification of regulations and administrative procedures, regulatory impact assessment, reforms to tax administration and

> **OECD: Key areas for SME policy consideration (OECD, 2018):**
>
> - **Improving the efficiency of bankruptcy procedures** and fostering a second chance for honest entrepreneurs. Reducing the administrative burden imposed on entrepreneurs in the course of bankruptcy procedures.
>
> - **Facilitating tax compliance**: Process simplifications, particularly through targeted use of technology, can be a powerful tool to enhance compliance and reduce costs. Particular tax preferences may help support SME creation and growth. However, such measures should be carefully targeted to ensure that they cost-effectively meet their policy objectives and do not create further distortions or complexities.
>
> - **Cutting red tape for businesses**: Consultation with the private sector and continuous dialogue with citizens can support civil servants in developing smart regulation that reduces red tape. At the same time, policy needs to consider potential trade-offs and balance regulatory exemptions or simplifications for SMEs and compliance with norms across different areas, such as labour protection.
>
> - **Strengthening public sector integrity and transparency and conducting regulatory impact analysis (RIA)** to enhance the effectiveness of regulation and assess its implications for SMEs. Regulatory frameworks can support regulators in analysing the specific impact of legislation on SMEs and in considering flexible regulatory options that reduce costs for small businesses.

bankruptcy procedures, improved availability and provision of information, and use of digital technologies to reduce administrative burdens and facilitate collaborative relationships with businesses and citizens. PRMI focuses on several of these aspects.

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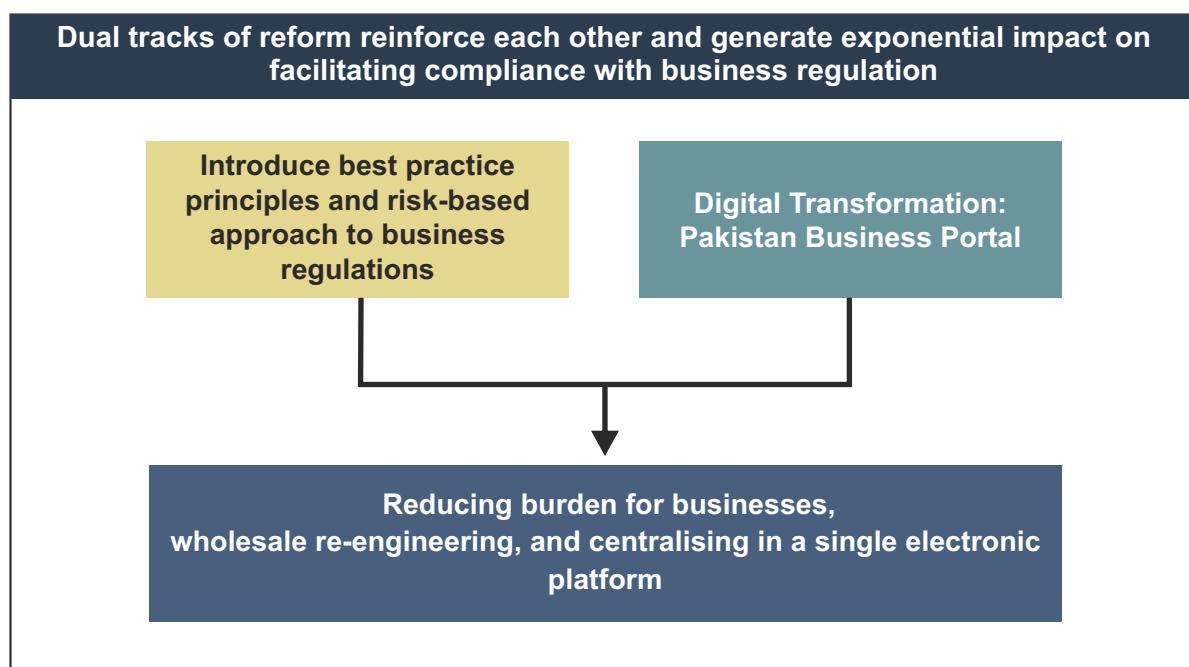
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# PRMI Regulatory Guidebook

## Module 8: Automation of regulatory processes and integration in Pakistan Business Portal

Module 5 of this Regulatory Guidebook depicts the PRMI reform process, leading to a final, reformed list of RLCOs. Automating compliance with reformed RLCOs through developing the Pakistan Business Portal (PBP) as a virtual one-stop shop (VOSS) for business regulation compliance will leverage the impact of PRMI. RLCOs that pass the review and streamlining will be uploaded to PBP in batches or modules while reviewing additional RLCOs continues until the whole reformed inventory is included in PBP. The dual tracks of regulatory reform and automation of processes for compliance will reinforce each other and generate an exponential impact in reducing time and cost for compliance and improving the quality of regulation (i.e. obtaining better results in lowering risks generated by economic activities).



PBP will provide a single window to businesses for compliance. At the same time, it also serves as the legal database of RLCOs, so all information related to business regulation and procedures is concentrated in a single platform. By the end of PRMI's review, any regulatory instrument not included in PBP would be considered eliminated. Apart from a detailed listing of all business regulations and procedures, the PBP would be an interactive, user-friendly platform serving several types of users – existing businesses, new entrepreneurs, foreign investors, regulators, and policymakers. The PBP will allow users to apply, renew, and pay for RLCOs online. All provincial and federal departments that regulate business activities will have access to solutions and tools for the online administration of RLCOs, integrating the PBP with their existing platforms where possible.

While the objective of PBP is to serve as a VOSS, the key results expected from PBP go beyond providing digital services. The PRMI Strategy and Implementation document mentions the following:

1. Remove organisational siloes and improve inter-departmental and government-to-business communications.

2. Reduce the time and effort spent by businesses on business regulation compliance.

3. Reduce the regulatory paperwork and labour-intensive, repetitive tasks, helping regulators process them quickly, efficiently, and without going over budget.

4. Allow a mechanism for addressing businesses' grievances more effectively and 'crowdsource' future reforms by utilising the platform to collect feedback from all and any business owner online.
5. The PBP's development process would actively engage representatives of the private and public sectors, the PRMI's steering committee, provincial working groups, and business expert groups.
6. The PBP will take a 'one business, one registration number' approach, significantly eliminating the duplicity of collecting information when filing separate applications. Similarly, frequently needed documents such as the computerised national identity card (CNIC), incorporation certificate from the Securities and Exchange Commission of Pakistan (SECP), national tax number (NTN)/sales tax registration number (STRN) would be confidentially maintained for each business entity for use at the time of filing for or renewing an RLCO.

The PRMI Strategy and Implementation document indicates a clear path to developing PBP. Activities related to PBP will be deployed parallel to the PRMI review, ensuring coordination of timelines. By the time a final list of reformed RLCOs is completed through the PRMI review, respective modules in the PBP platform should be up and running.

The steps for developing PBP mentioned in the PRMI Strategy are the following:
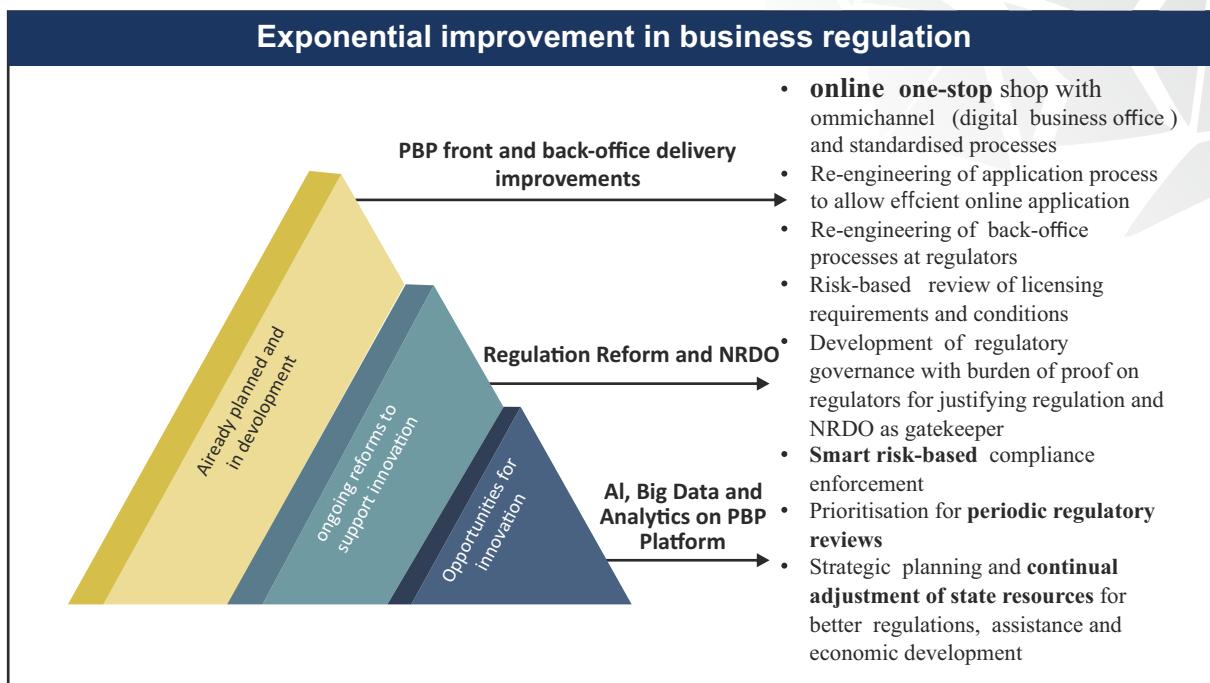
- PRMI, in coordination with each government department/organisation, will assess IT capacity and preparedness through surveys to identify the extent of automation and IT infrastructure in place. The BOI leads this initiative, and working groups facilitate the process.

- In collaboration with the federal and provincial working groups, the BOI organises consultations for the design and development of PBP as a national one-stop shop for applying, renewing, and paying for RLCOs at the federal and provincial levels.

- The agency selected through International Competitive Bidding will lead the development of PBP in line with the requirements put forth by BOI. PRMI IT Working Group will prepare a detailed software requirement specification (SRS) document and share it with the steering committee, working groups, and the business expert groups. The final SRS document will describe what the PBP will do and its function.

- In collaboration with the federal and provincial working groups, the BOI will design the institutional, legal, and operational model for establishing the PBP as a corporate body.

- A specialised agency or company will be established and operationalised to administer PBP, for which the federal government provides the seed financial resources.

- The BOI collaborates with the federal and provincial working groups to ensure the connectivity of the provincial business portals.

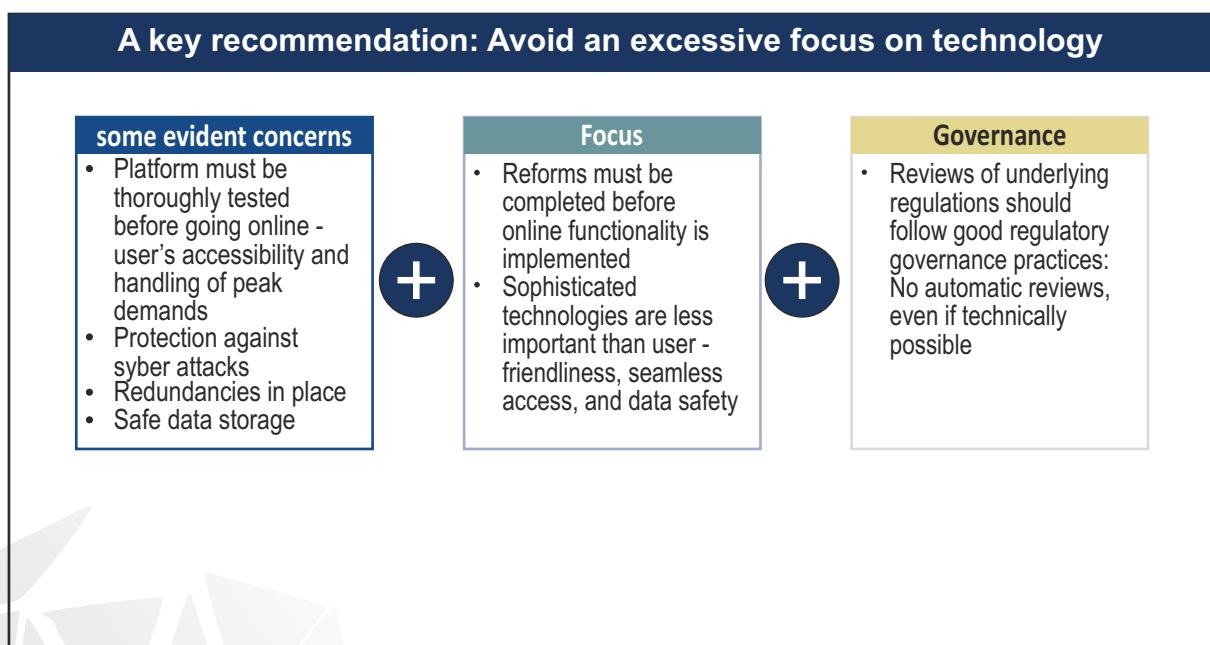- The PBP is rolled out in a phased manner for use across Pakistan.

## Opportunities for innovation and further development using technology

IT advances in recent years have made it feasible to establish single multifunctioning interfaces for potential businesses to fulfil all regulatory compliance requirements. The PBP VOSS platform could be the core unified business-government interface for business regulation. At the same time, besides providing a single front-office interface, access to the platform by a growing number of regulators and governmental agencies would also benefit more instant data verification possibilities and back-office data exchange. The opportunities for innovation that use big data and artificial intelligence technologies on centralised and interconnected databases are enormous. Using these technologies could feed a continuous analysis of risks involved in economic activities, focusing regulatory burden and compliance enforcement on actual higher risks and improving the regulatory design. It could also drive the allocation of public resources devoted to regulation, substantially increasing efficiency.

## Exponential improvement in business regulation



- **online one-stop** shop with ommichannel (digital business office ) and standardised processes
- Re-engineering of application process to allow effcient online application
- Re-engineering of back-office processes at regulators
- Risk-based review of licensing requirements and conditions
- Development of regulatory governance with burden of proof on regulators for justifying regulation and NRDO as gatekeeper
- **Smart risk-based** compliance enforcement
- Prioritisation for **periodic regulatory reviews**
- Strategic planning and **continual adjustment of state resources** for better regulations, assistance and economic development

Labels in figure: PBP front and back-office delivery improvements; Regulation Reform and NRDO; AI, Big Data and Analytics on PBP Platform; Aiready planned and in devolopment; ongoing reforms to support innovation; Opportunities for innovation

IT enables the possibility of catching up fast with countries that have taken decades to implement good practices in business regulation. Nevertheless, a key recommendation should be kept in mind at all times: regulatory reform comes first. Technology enables dramatic reductions in time and costs to comply and substantial improvements in the capacity of regulators to analyse risks. But the core regulation needs to be reformed first; otherwise, the potential benefits of reform also dramatically lessen.

## A key recommendation: Avoid an excessive focus on technology

### some evident concerns
- Platform must be thoroughly tested before going online - user's accessibility and handling of peak demands
- Protection against syber attacks
- Redundancies in place
- Safe data storage

**+**

### Focus
- Reforms must be completed before online functionality is implemented
- Sophisticated technologies are less important than user - friendliness, seamless access, and data safety

**+**

### Governance
- Reviews of underlying regulations should follow good regulatory governance practices: No automatic reviews, even if technically possible

A final recommendation is related to the fact that the opportunities for the potential use of the online platform may lead to overstating the role and possible functions of PBP. It is important to emphasise that the entity administering PBP should not have any regulatory roles. NRDO and regulatory agencies will maintain all regulatory processes, while the entity administering PBP will provide the service of running, maintaining and developing the platform. Otherwise, it would overlap the operations of ministries and regulatory agencies, creating uncertainty, lack of predictability on regulatory processes and duplications, or creating confusion on accountability for regulation decisions and potential conflicts.

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