



Streamlining Regulation in Israel and Easing the Bureaucratic Burden: Multi-Year Program Abstract

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To access the complete study (in Hebrew): <https://tinyurl.com/EHC17b>



Introduction

Effective regulation clearly defines the interface between the public and private sectors. Its purpose is to deal with market failures and achieve social policy goals. In many cases, however, the bureaucracy that accompanies government regulation and the costs derived from it create a real barrier to growth and prosperity. The impact of "bad" regulation on economic growth is severe: it reduces investments, makes it difficult to open businesses (especially small ones), constitutes a barrier to international trade and foreign investment, hampers productivity, and more.

Israel's Ranking on Regulatory Quality Indicators

Various international organizations, such as the World Bank, the OECD, and the World Economic Forum (WEF) work to help streamline regulations worldwide. One way they do so is by publishing indices that rank different countries according to quality of regulations and governance, across various parameters.

According to International Indices, Israel's Regulation Regime is in Need of Improvement (Figure 1):

- **According to the Doing Business Index of the World Bank**, in 2016, Israel was ranked 52nd out of 190 countries. Israel was ranked particularly low in these sub-indices: property registration (126), payment of taxes (96), and enforcement of contracts (89).
- **In the 2016-2017 Global Competitiveness Report**, published by the World Economic Forum, Israel ranked 46th out of 138 countries in the regulatory burden sub-index. Thus, this index downgraded Israel's overall ranking in the International Competitiveness Report.
- **In the OECD's Product Market Regulation (PMR) index**, Israel was ranked in 2013¹ in 39th place out of 45 countries - only 6 countries from the bottom.

¹ The 2013 report is the most recent report published by the OECD on this subject.

Figure 1 Israel's ranking in international indices that examine the burden of regulation and bureaucracy



Measures to Improve Regulation in Israel

In the middle of the previous decade, countries and international organizations began initiating measures to improve government regulation: the OECD initiated and implemented the Regulatory Impact Assessment (RIA) process; Britain formulated and implemented a program to simplify and streamline regulation in the framework of the Better Regulation Project; The Netherlands initiated an orderly process (subsequently adopted by the European Union) that led to considerable savings in administrative costs incurred by regulators as a result of inefficient regulation (SCM); Portugal implemented a plan to expedite and expand the process of opening businesses by setting up one-stop shops (units that allow all the procedures required to open a business to be conducted in one place).

The Israeli government only began to streamline regulations in recent years, following the recommendations of the Trajtenberg Committee, which was established after the social protests that took place across the country during the summer of 2011. The government made a series of decisions with regards to doing business in general, business licensing procedures in particular, bolstering the functioning of government and streamlining regulation.

Implementation of government decisions on improving regulation is the responsibility of the Better Regulation Unit of the Department for Governance and Social Affairs, in the Prime Minister's Office (PMO). Out of the many decisions implemented by this division, we will focus on the resolutions to reduce the regulatory burden by 25% by 2019 and implement RIA, before a new regulation is adopted. In addition, the Better Regulation Unit also deals with simplifying licensing procedures for businesses.

Based on the mapping of the government's work so far to improve regulation and reduce its bureaucratic burden, and after consulting with governmental agencies that specialize in this field, **we have come to believe that the key to achieving change in Israel is not to perform an analysis of the situation or draw conclusions. Neither will change come from developing a set of recommendations or government decisions. Rather, the situation in Israel will improve once existing reforms are actually implemented.**

Assisting Government Ministries to Implement Regulatory Reforms: A Multi-Year Action Plan

The Israel Democracy Institute's Plan of Action

The proposed plan of action was formulated on the basis of a series of meetings we held with the various entities² that deal with regulation and the promotion of foreign

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- 2 (1) The Better Regulation Unit of the Prime Minister's Office. The division, which operates within the framework of the Department for Governance and Society, is responsible for implementing government decisions on streamlining and enhancing regulation, including RIA, reducing the costs of bureaucratic burdens and improving the business sector's ability to function (Ehud Praver, Amichai Fisher).
- (2) Adv. Edna Harel, Head of Department, Legislation and Counseling Department (Economic and Fiscal Matters), Ministry of Justice.
- (3) Foreign Investments and Industrial Cooperation Authority, Ministry of Economy and Industry (Eyal Eliezer, Gilad Beer, Ilan Laufer). The activities of the Foreign Investments and Industrial Cooperation Authority include locating investment opportunities in Israel, identifying the countries from which foreign investors will come, searching out investors or companies of relevance to launching entrepreneurial endeavors in Israel, creating contacts between potential investors and the Israeli "target" and operating a service center for foreign investors.
- (4) Esti Goldhammer of the 'Kav Project' accompanied and advised the government team on the subject of doing business.

investments in Israel. During these meetings, we tried to map the main obstacles that government officials face when implementing government decisions in the field of regulation, in a way that will ultimately encourage investment in Israel. Then, we asked ourselves how IDI could help.

The program includes six projects grouped into three categories:

(A) Friendly regulation that helps investors and expedites the process.

Includes 3 projects:

- i. Preparation of a regulatory roadmap for investors.
- ii. Formulation of recommendations for the establishment of a One-Stop Shop unit, based on international experience and incorporating local characteristics.
- iii. Streamlining and improving of the regulatory consultation process, between regulators and the public they supervise.

(B) Smart regulation, which includes the integration of behavioral economics tools, for setting regulatory directives, formulating measures to improve trust between the government and business sectors, and bolstering the public's attitude toward businesses.

(C) Studied Regulation, which includes the use of international indices for the purpose of learning best practices, and serves as a tool for improving Israel's ranking in international indices.

The main points of the proposed plan are as follows:

A. Friendly regulation

1. Preparing a regulatory road map for investors and easing barriers to investment in Israel³.

In order to make it easier for foreign and local investors, we propose to develop a road map that will assist those who are contemplating investing in Israel.

The mapping process will include three main stages:

³ In cooperation with the Ministry of Economy and Industry.

- i. Creation of a basic flowchart.
- ii. Diagnosis of barriers.
- iii. Formulation of recommendations to remove identified barriers, thus improving regulation in the process. This stage will be based on in-depth interviews and round table discussions with regulatory units, in cooperation and consultation with the relevant government ministries and representatives of the business sector.

The final product will enable the creation of an online interface and app⁴ (application). To make the roadmap accessible to investors, the app will be used in the first stage to gather all information required for an investor to make his investment. In the next stage, the app will serve as an operational tool for investors, facilitating the submission of materials and contact with relevant parties.

2. Formulating recommendations regarding the possibility of establishing a One-Stop Shop in Israel.

One of the accepted ways to streamline the process of establishing a business is via a one-stop shop.

There are three possible ways of doing this:

- i. A central entity that guides, directs and accompanies the entrepreneur in his contacts with the administrative agencies responsible for issuing the necessary approvals.
- ii. A single body that coordinates between all the administrative agencies as well acts to ensure that entrepreneurs receive the guidance they need.
- iii. One entity in which all relevant authority is concentrated, enabling the entrepreneur to work with and receive all necessary approvals from one place.

We aim to present a number of conclusions regarding the feasibility and advantages of establishing a One Stop Shop unit in Israel. In addition, we propose to come up with a series of recommendations for the most appropriate model of such a unit in Israel. This analysis will be conducted by way of international comparative research, interviews, questioning of and consultation

⁴ This implementation stage will be conducted by the Ministry of Economy and Industry.

with relevant government representatives (Prime Minister's Office, Ministry of Economy and Industry and the Ministry of Finance), as well as representatives from the business sector.

3. Formulating recommendations for streamlining and improving the regulatory consultation process between the regulator and the public when determining new regulation.

In centralized industries (banking, insurance, communications, electricity), regulators maintain regular contact with a limited number of players, who are prominent enough to allocate the necessary resources for a professional, ongoing dialogue with the regulator. However, in sectors where the number of players is large in number but relatively small in individual size, the importance of representation (i.e.: trade unions such as the Manufacturers' Association or the Federation of Chambers of Commerce) becomes crucial.

According to the Department for Governance and Social Affairs of the Prime Minister's Office, the consultation process can be improved if ways are developed to directly examine the relative players who would be affected by a regulatory directive, in addition to the representative body.

As such, we propose to conduct an in-depth study of developments in the European Commission, UK and Denmark, with the aim of ultimately formulating and adopting an appropriate consultation model for Israel.

B. Smart regulation

1. Assisting government agencies to implement smart regulation.⁵

In recent years, behavioral economics methods have been implemented in many countries, which have led to an improvement in the work of government, streamlined regulation and a reduced regulatory burden. The method's applications can be expressed in several ways:

- i. Improving the methodology underlying the regulatory work and making it evidence-based.

⁵ In cooperation with the Better Regulation Unit of the Department for Governance and Social Affairs in the Prime Minister's Office.

- ii. Alleviating the regulatory burden on the business sector, by converting rigid regulation into light-handed regulation, through the creation of specific regulation that focuses primarily on markets and/or players prone to trouble as well as adapting regulation to public needs.
- iii. Creating a framework that encourages the regulator to reduce unnecessary regulation, while implementing tools that encourage deregulation, examining misconceptions that encourage redundant regulation and addressing those misconceptions.

In order to improve and streamline existing administrative processes and establish new regulation, we suggest examining a combination of tools from the field of behavioral economics.

2. Strengthening the trust between the government and business sectors.

Improving trust between the government and the business sector by promoting self-regulation and joint regulation was discussed by the Israel Democracy Institute at the Eli Hurvitz Economic and Society Conference (Caesarea Forum) in November 2014. At the time, the team concluded that implementing self-regulatory and regulatory processes that are part of the regulator's toolbox is an important step in improving government and industry planning capacity. In addition, such a development would enhance the performance of both government and industry, as well as establish trust between the regulator and the entities he supervises. Alongside promoting procedures for the adoption of self-regulation and joint regulation, in appropriate cases, it was proposed that mutual trust between the various parties in the consultation process be enhanced, so as to improve the way new regulation is formulated.

In order to identify suitable topics for promotion, within the framework of self-regulation or joint regulation, the Israel Democracy Institute will coordinate a series of meetings between **players in relevant industries**, and through them formulate a proposal for **self-regulation or joint regulation**. We suggest that this process be carried out in cooperation with the regulator. As described above, behavioral methods can be used to promote self-regulation and co-regulation.

C. Studied regulation

Improving Israel's position on international indices, specifically with regards to the regulatory and bureaucratic burdens.

In order to remove barriers to investment, it is important to improve existing regulations and reduce the burdens of compliance (bureaucracy). At the same time, it is important to reflect the changes that will inevitably take place in the field, so that they are then incorporated into the international indices.

Therefore, we propose that:

- A. The Israel Democracy Institute maintain regular contact with international bodies (the World Bank, the World Economic Forum and the OECD) whose task is to compile the international indices.

Two goals for maintaining these relationships:

- i. Using international benchmarks as an incentive to learn from best practices.
- ii. Improving the calibration of reforms to indices, and reporting on various actions and reforms in the field.

- B. The Israel Democracy Institute hold a **series of roundtable meetings** between relevant industry entities and officials in charge of specific fields. These gatherings will be conducted in cooperation with the relevant government ministries. Each session will focus on one parameter. Participants will discuss the evaluation methodologies used in the international indices, and ways to improve measurement techniques and accurately represent Israel's performance.

- C. **The method of deriving Israeli data used as an input in international indices**, and actions be taken to improve this method, in cooperation with survey takers in Israel and in the World Bank, World Economic Forum and the OECD.

Appendix: Highlights of the Multi-Year Action Plan (chart)

Assisting government agencies to enforce the regulatory reforms they are tasked with implementing.

| Friendly Regulation | |
|---|--|
| In cooperation with the Prime Minister's Office | 1. Improving the consultation process with the public: learning from the experiences of the European Union, Britain and Denmark |
| In cooperation with the Ministry of Economy and Industry | 2. Creating a regulatory road map for investors: <ul style="list-style-type: none"> ○ Flow chart, diagnosis of barriers, recommendations for improvement of regulation ○ Online interface and application (app.) for information and operation |
| In cooperation with the Prime Minister's Office and the Ministry of Economy and Industry | 3. Examining the possibility of a one-stop shop |

| Smart Regulation | |
|--|---|
| In cooperation with the Prime Minister's Office | <p>4. Integration of behavioral economics tools to improve government work:</p> <ul style="list-style-type: none"> ○ Training workshops ○ Comparative research: using behavioral economy to influence business ○ Creating a guide to implement behavioral economics in determining regulation ○ Starting a pilot program ○ Ongoing progress reports <p>5. Improving the trust between the government, the business sector and the public: promoting self-regulation and joint regulation</p> |

| Studied Regulation | |
|---|--|
| In cooperation with the Prime Minister's Office | <p>6a. Improving Israel's ranking in international indices:</p> <ul style="list-style-type: none"> ○ Ongoing contact with the international organizations that compile the indices ○ Improving the method of implementation of indices in Israel |
| In cooperation with the Prime Minister's Office and the Ministry of Economy and Industry | <p>6b. Improving Israel's ranking in international indices:</p> <ul style="list-style-type: none"> ○ Meetings between relevant government and business sector officials on subjects included in the indices |