



Egyptian Regulatory Reform & Development Activity

**GUIDELINES FOR MEASURING COST
SAVINGS IN REGULATIONS BASED
ON ERRADA RECOMMENDATIONS**



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Acronyms

BAC	Business Advisory Council
BOT	Board of Trustees
ENCC	Egyptian National Competitiveness Council
GMU	Government Ministerial Unit
GRU	General Review Unit

Guidelines for Measuring Economic Impact of ERRADA

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Background

ERRADA's ultimate objective is to enhance the business environment in Egypt. Therefore, it is important to measure both qualitatively and quantitatively, wherever possible, whether ERRADA achieves its objectives.

This document sets out the steps undertaken by the GRU to measure cost savings due to ERRADA recommendations. Since ERRADA is mandated to issue recommendations, therefore the expected or estimated annual cost savings will be measured regardless of whether recommendations have been implemented or not.

The Standard Cost Model, which is used to calculate the cost savings, is based on measuring the full compliance cost for all entities targeted with the regulation that has financial implication. This is done by identifying and calculating the cost of actions to comply with obligations imposed by the regulation in question (in terms of financial cost, time used and hourly rate) for each entity and then calculating it for all targeted entities.

Steps for Measuring Cost Savings

To measure the cost savings due to ERRADA recommendations, Operations Officer shall follow the following steps:

1. Identify topics for which cost of regulation will be calculated based on the following three criteria:
 - a. They have an impact on business.
 - b. GMU has prepared a draft regulation (to be able to compare the current requirements with the proposed ones).
 - c. The GRU has finished review of the topic.
2. Read the study and regulations of the topic and the proposed draft regulation thoroughly to understand the topic.
3. Identify regulations in the topic that impose a cost, referring to the comparative table (comparing the current text and proposed one) if available or reviewing the enabling powers of the draft regulation, as the amendments are based on them.
4. Trace regulations to determine the current requirements according to the most up-to-date regulation.

5. Identify cost related requirements in current regulation to calculate cost of regulations. Cost of regulations include:
 - a. Direct financial cost;
 - b. Structural cost;
 - c. Compliance cost, which can be further broken down into:
 - Substantial costs;
 - Administrative costs.

In the process of identifying requirements in regulations, Operations Officer shall follow definitions in Annex 1 to identify the abovementioned costs.

In particular, Operations Officer will focus on the following information:

- What information is required?
 - What documents are required?
 - What is the medium of presentation of the information or documents?
 - How much is paid?
6. Break down the abovementioned requirements into necessary actions to fulfill the requirements.
 7. Copy the actions into the Calculation of the Cost of Regulation sheet (Annex 2).
 8. Identify target group(s) or entities (i.e. enterprises – whether large or small, citizens, etc.)
 9. Identify the frequency of required actions per year. If the action is required once every several years, divide the number of years by 1 (e.g. if a licence is renewed once every 5 years, the frequency is $1/5 = 0.2$).
 10. Identify associated cost for all parameters in each required action using costs in Annex 3 as a guide for some of these actions. For cost per hour follow guidelines in Annex 4
 11. Consult with business community regarding the assumptions and the cost of actions.
 12. Calculate the cost for each required action based on the following formula:
$$\text{Cost of action} = (\text{Direct financial cost} + \text{substantial cost} + (\text{no. of hours} \times \text{hourly rate}) + \text{indirect financial cost}) \times \text{frequency of action} \times \text{no. of targeted entities}$$
 13. Calculate the cost of the regulation (which is equal to cost of all related actions).

14. Repeat steps 5 to 12 for the proposed regulation based on ERRADA's recommendation.
15. Calculate the cost savings due to ERRADA recommendations based on the following formula:

Cost savings due to ERRADA recommendations = total cost of the proposed regulation
– total cost of the current regulation

Assumptions and General Remarks

- Cost savings are calculated for all entities targeted by the regulation whether business community, citizens or public administration if possible and if data is available.
- Cost savings are calculated for those entities actually complying with the regulation according to latest available statistics. In case of availability of data, one could compare this with figures for those targeted with the regulation (including those who did not comply at all or fully comply with the regulation).
- Data (concerning number of targeted entities, required actions, time, or cost) is collected through:
 - Asking GMU concerned with topic under investigation.
 - Asking acquaintances working in enterprises related to the topic under investigation.
 - Conducting research on the Internet.
- Use the standard costs listed in the guide for costs of actions (Annex 3), which includes costs of some actions. The list should be continuously updated with the aim of preventing complexity and variance in cost calculation from one topic to another in case of convergence of actions.
- Overhead costs are included in the cost of each action. As the percentage of overhead in countries across the world usually ranges between 25 and 30%, an average of 27.5% is used.
- At the stage of identifying requirements, no requirements should be excluded.
- Penalties imposed by the regulation should not be taken into consideration as the exercise aims to calculate the cost of fulfilling requirements and not violation.
- Even if no change in some of the requirements, accordingly the cost of regulation, they have to be calculated so that the value of the cost of regulations is clear to regulators. The concerned ministry or ERRADA might decide at a later stage to

reduce the cost of regulations, and it would need to be able to identify easily which ones to reduce.

- In case there is no change in requirements but several bodies are established to process requests of those targeted with regulations, this has to be taken into consideration as it might lead to a reduction in cost due to savings in travel time of the time spent at the concerned authority.
- Any assumptions made during calculation should be recorded and attached to the cost of calculation form.
- A hard copy of the regulations specifying the obligations should be filed together with the filled in cost of calculation form and any assumptions made in the process.

Annexes

Annex 1 – Definitions

Regulation: Any legal instrument regulating the relationship between parties in society in a certain topic. It includes laws, different types of decrees (i.e. presidential, prime ministerial, cabinet, ministerial, governor's) circulars, directives and periodicals.

Administrative costs: costs incurred by businesses or citizens in meeting legal obligations to provide information (information obligation (IO)) on their production or actions, either to public authorities or to private parties. They include preparing reports, photocopying documents, hiring auditors, preparing documents, filling in forms, training staff to comply with regulations, labeling, monitoring, etc.).

Cost of regulation: costs incurred by businesses or citizens to meet legal requirements and obligations imposed on them by the regulation in question.

Direct financial costs: financial compliance fees of the regulation (e.g. taxes, permit/license fees, etc.).

Indirect financial costs: financial fees incurred by businesses or citizens to meet the requirements of the regulation in question (e.g. photocopying fees, fees for issuing birth certificate, etc.).

Information obligation: obligation by law/regulation to provide information to government or third party.

Structural costs: costs incurred in the continuous fulfillment of the statutory duty, which basically means that they have a long-term effect (e.g. employees benefits, effects in commodity prices – compulsory pricing, ban on exports, etc.).

Substantial costs: one-off costs incurred by businesses to comply with regulations (ventilation, fire equipment, buying certain equipment, etc.).

Overhead costs: Any operational expenses for any enterprise (known as operational costs). These are costs that are incurred by the enterprise to continue to work. They cannot be directly associated with products or services offered by the enterprise. They include rent and utilities, etc.

Annex 2 – Calculation of Cost of Regulation Sheet

Requirement	Description of action related to procedure	Direct financial cost (LE)	Substantial cost	Administrative Cost		Indirect cost (LE)	Frequency	Cost of requirement per targeted entity	No. of targeted entities	Cost of requirement for all targeted entities	Notes
				No. of hours	Hourly rate (LE)						
TOTAL											

Annex 3 – Guide for Costs of Actions

The following figures should be used for calculation of cost of actions listed below:

No.	Action	Cost (LE)	Time involved (hours)
1	Criminal record	3	3
2	Photocopy per page of any document	0.25	0.25
3	Medical certificate	20	3
4	Letter of guarantee: <ul style="list-style-type: none">- Prepare letter in enterprise- Issue letter from bank- Deliver letter to concerned authority	150	0.5 2 3
5	1 personal photo	1.5	0.3
6	Any document		0.1
7	Insurance policy	3% of the value of insurance	2.5

Annex 4 – Hourly Rate

Hourly rates used in calculation of cost of actions stipulated in regulations shall be based on the following rates, depending on the sector/economic activity:

Sector	Position	Hourly Wage Rate (LE)	Overhead (27.5%) (LE)	Total Hourly Rate* (LE) (hourly rate + overhead)
Tourism	Messenger	5.7	1.6	7.3
	Junior staff	11.4	3.1	14.5
	Mid level staff	17	4.7	21.7
	Senior level staff	34.1	9.4	43.5
	Mid level manager	56.8	15.6	72.4
Industry	Messenger	4	1.1	5.1
	Junior staff	5.7	1.6	7.3
	Mid level staff	11.4	3.1	14.5
	Senior level staff	17	4.7	21.7
	Mid level manager	45.5	12.5	58