Regulatory Impact Analysis

Considerations on the mechanics of the tool

Dr. Lorenzo Allio

Director

allio|rodrigoconsulting

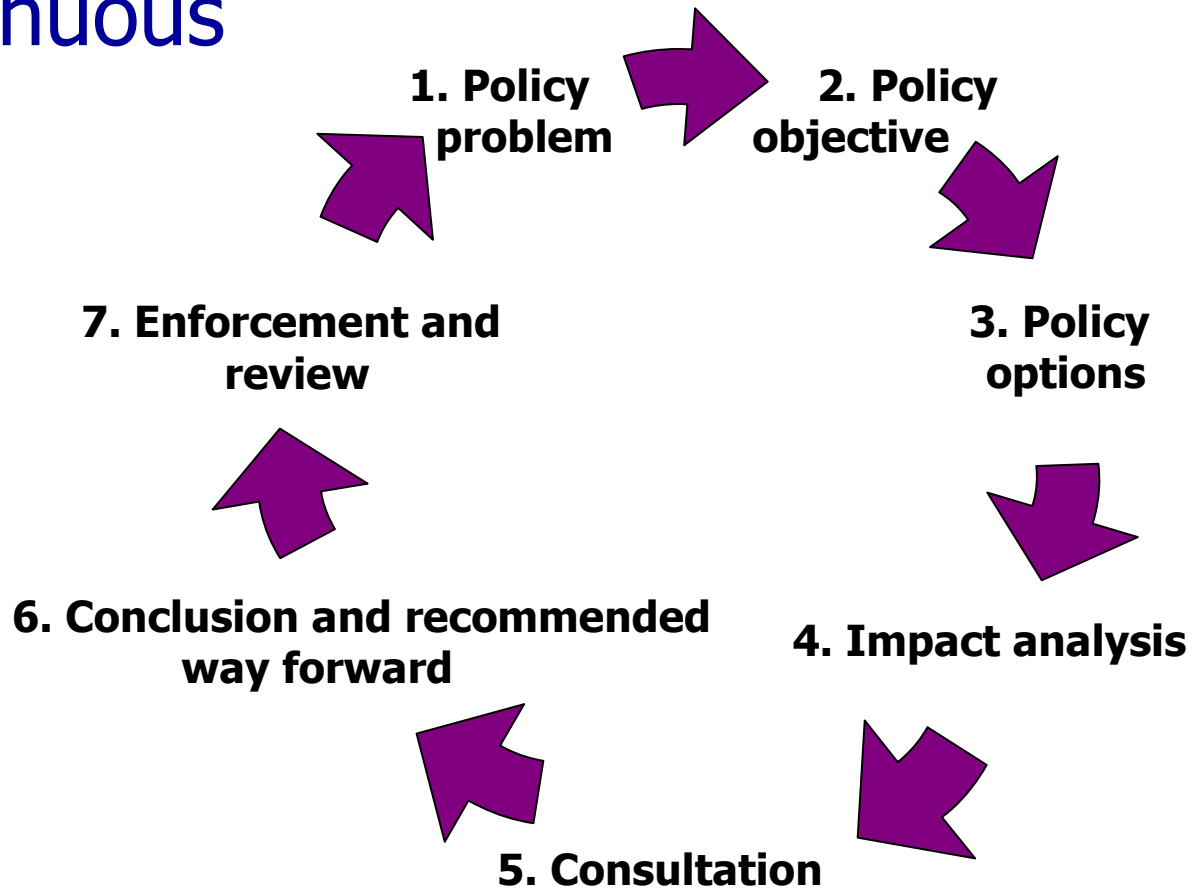September 2014

What is Regulatory Impact Analysis (RIA)?

"a structured approach to critically assessing the positive and negative effects of proposed and existing regulations and non-regulatory alternatives"

- an important element of an evidence-based approach to policy making

- a *process* of logically thinking through regulatory issues, an analytical/ conceptual framework

- a *document* reporting on the main findings

$\rightarrow$ an aid to decision-making, not a replacement !

How RIA process operates: the policy cycle

- ## RIA – a continuous process

When review leads to the identification of new policy challenges (perhaps arising from unintended consequences of the intervention itself), the process begins again

1. Policy problem

2. Policy objective

3. Policy options

4. Impact analysis

5. Consultation

6. Conclusion and recommended way forward

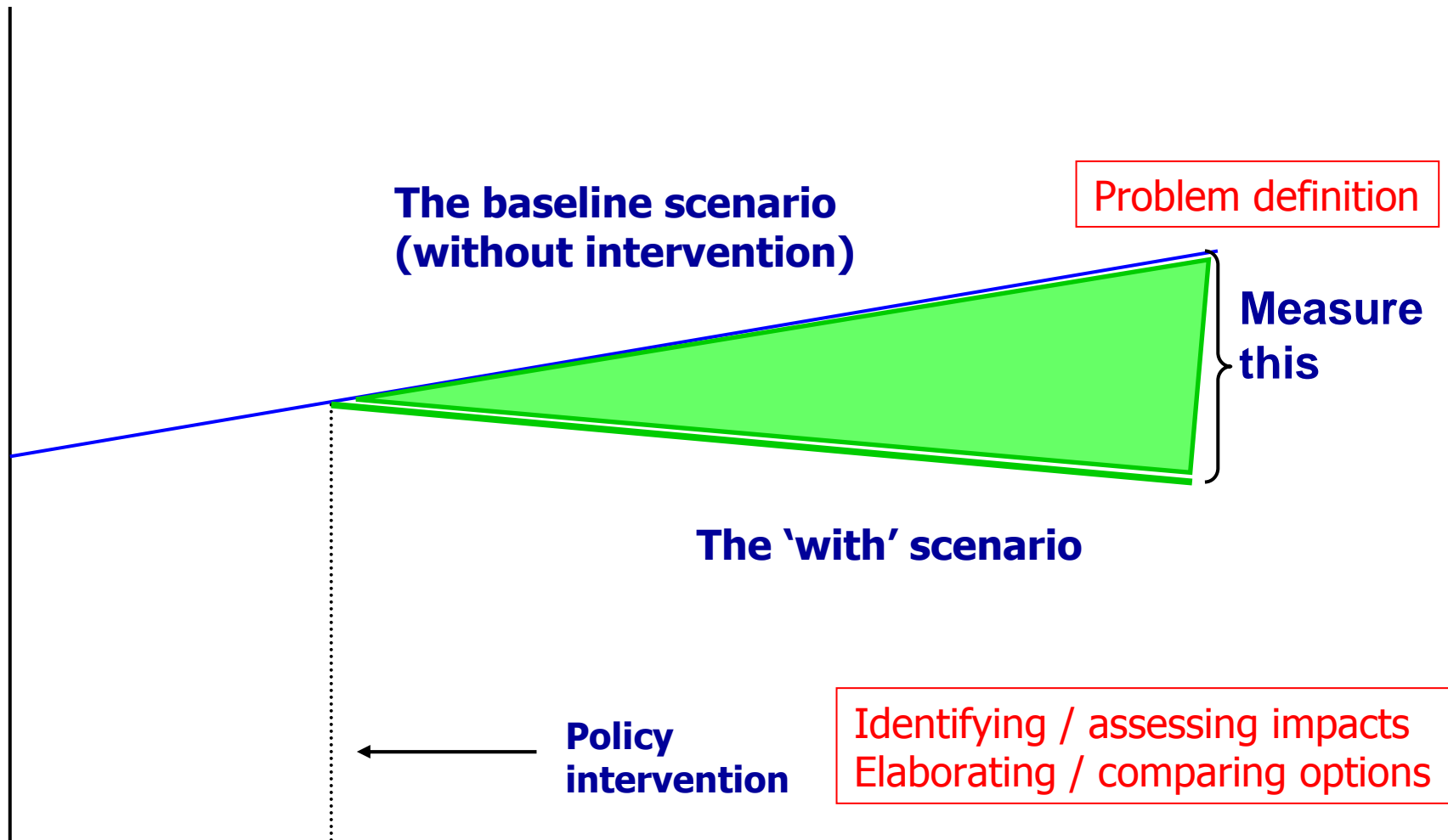**7. Enforcement and review**

Constitutive elements of RIA

- Defining the problem

- Spelling out the desired objective(s)

- Identifying impacts
(elaborating various options)

- Assessing the impacts
(comparing the options)

- Monitoring & evaluation strategy

- Data collection / validation
- Consultation
- Communication

Where RIA kicks-in

**The baseline scenario
(without intervention)**

Problem definition

**Measure
this**

The 'with' scenario

**Policy
intervention**

Identifying / assessing impacts
Elaborating / comparing options

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Problem definition: the most under-estimated stage

If we are to solve problems, we must define the problem correctly.

If the problem is not clearly defined, it is very unlikely that you will develop the right solutions.

No analysis – no matter how sophisticated – can compensate for a poor problem definition.

Problem definition: common misperceptions

"It is up to me to 'define' the problem."

"I cannot do much, since the minister has already decided / since I have to implement a legal obligation."

"I represent the State, and State regulation is the only solution."

"I have already all the information available about the problem in my department."

"I have seen this before, the problem is simple, single, and obvious."

What does "problem definition" mean?

- What is the issue or problem that may require action?

- What are the underlying drivers of the problem?

- Why is it a problem? How big is it?

- Who is affected, in what ways, and to what extent?

- How would the problem evolve, all things being equal?

- Why is State intervention required?

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Goals, Outputs, Outcomes (I)

When bridging the "Problem Definition" and "Setting the Objectives" stages, be aware of what you seek to impact

OUTPUTS: actions taken in pursuance of policy decisions; they come first and are more tangible. First, concrete results of processes.

e.g.: - the output of recruiting staff is newly appointed employees.

- the output of cooking, is a meal.

Goals, Outputs, Outcomes (II)

OUTCOMES: focus on the policy's consequences after implementation. Related to either the process or the outputs, in any case they refer to the level of performance, or the achievement.

e.g.: - *the meal might be too hot, or too cold (Temperature); or tasty, or disgusting (Customer Perception)*
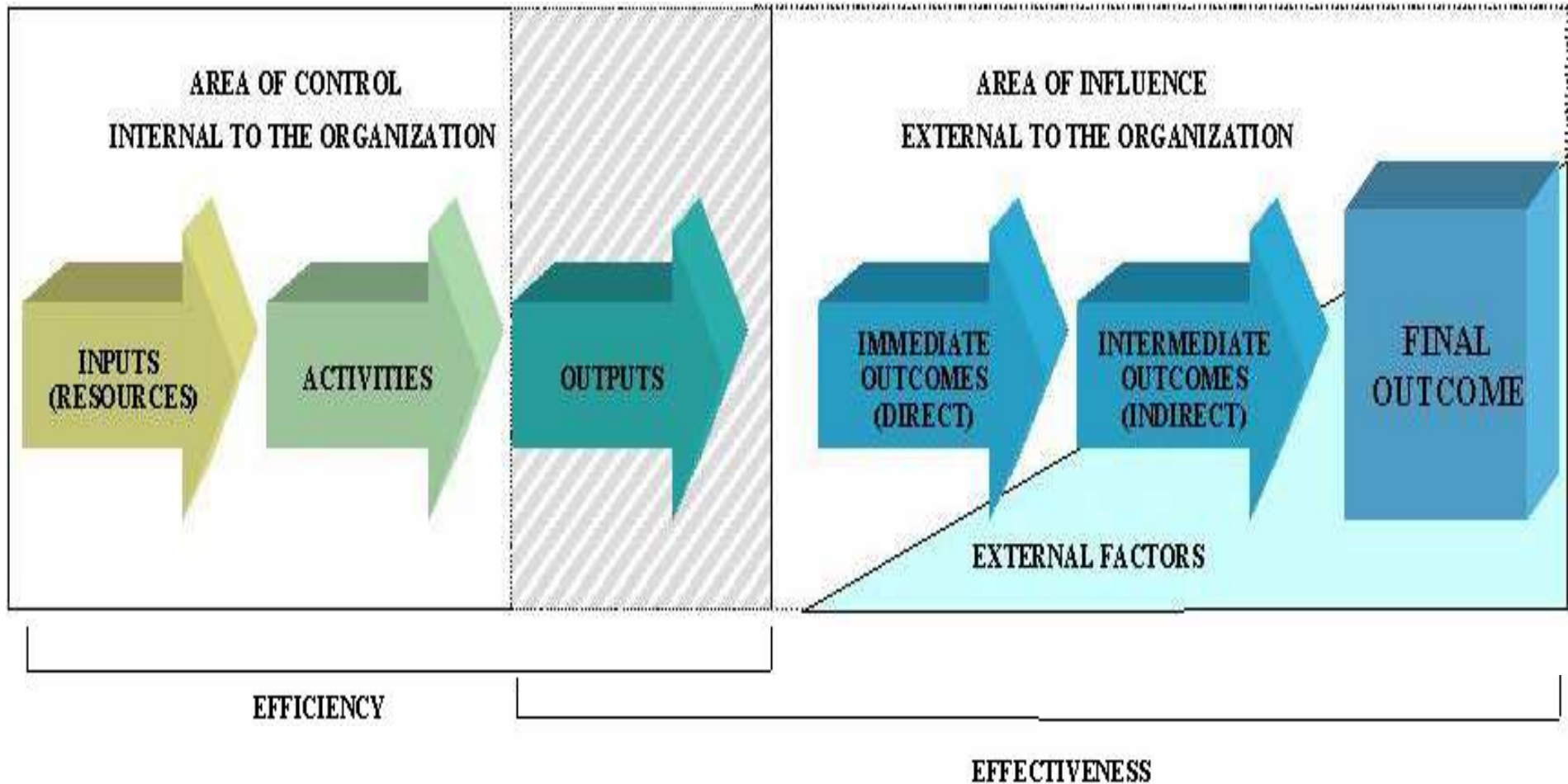

- the newly appointed employees may be too many / too few (Quantity); or be capable, or incapable of performing their role (Competence vs. Requirements)

OUTCOME: public service delivery – start ups - competitiveness
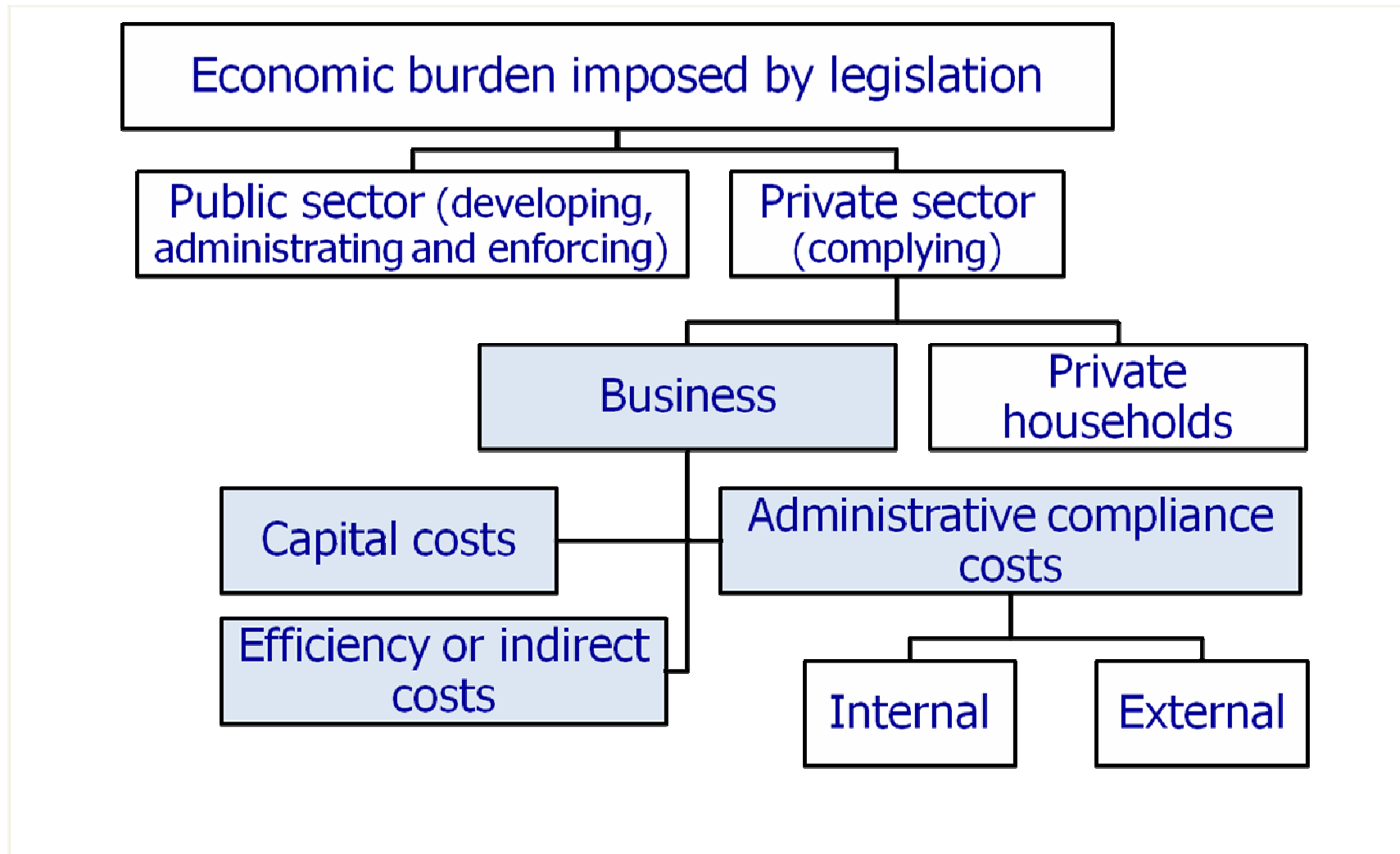
Goals, Outputs, Outcomes (III)

Causal or Logical chain: what can you "control"?

AREA OF CONTROL
INTERNAL TO THE ORGANIZATION

AREA OF INFLUENCE
EXTERNAL TO THE ORGANIZATION

INPUTS (RESOURCES) → ACTIVITIES → OUTPUTS → IMMEDIATE OUTCOMES (DIRECT) → INTERMEDIATE OUTCOMES (INDIRECT) → FINAL OUTCOME

EXTERNAL FACTORS

EFFICIENCY

EFFECTIVENESS

Source: Gvt. of Canada

Every policy choice bears impacts. E.g. costs:

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- **Assessing the impacts (comparing the options)**

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Choosing the instrument: A continuum

Choose the least intrusive and more respective of markets and individual choice (proportionality principle)

1. command & control reg.
2. performance-based reg.
3. co-regulation
4. self-regulation
5. better enforcement & implementation

6. deregulation & simplification
7. training programmes
8. information (reports, audit)
9. economic & market instruments

Do not forget the "no-action" option (baseline) !

There are various possible techniques

- Cost-Benefit Analysis (CBA)
- Cost-Effectiveness Analysis (CEA)
- Least-Cost Analysis (LCA)
- Threshold Analysis
- Multi-criteria Analysis (MCA)
- Compliance Cost Analysis (CCA)
- Risk-Risk Analysis (RRA)

- …

… they allow comparing scenarios and options

… they can be combined

… their choice depends on purpose of RIA / rationale for action / availability of data

Frequent challenges in option formulation

- Too many do nothing or do everything

- Policy options not linked to Problem Statement or Objectives (problem tree !)

- Trying to solve everything with legislation

- Limited detail and "refinement" (no iterative process)

- Focusing on one instrument only (rahter than a "mix")

How to rank options

Analysis of options' performance against

effectiveness – "Which one is the option that scores best at meeting the defined objectives?" ($\rightarrow$ benefits)

efficiency – "What are the costs associated with implementation of the policy options?" ($\rightarrow$ costs)

coherence – "Overall, how does the options perform?"

Communication is key

A RIA must be

- actionable – reasoning + evidence useful in decision-making and easy to translate in admin. action
- user-friendly – findings presented clearly, simply, objectively

Some tips

- be clear about the overall message
- identify all key points and organise them logically
- describe assumptions and methodologies
- make relevant links btw evidence uncovered and context
- summarise types of impacts and affected parties
- use standardised formats

THANK YOU !

Happy to discuss