

RIA: Benefits and Application

Scott Jacobs

Managing Director, Jacobs and Associates

WORKSHOP ON GOOD REGULATORY PRACTICE

WTO, Geneva

18-19 MARCH 2008



The Golden Age of Regulation

- Regulation is a normal activity of government
 - ◆ European Union – over 150,000 pages of regulation in the Single Market, (and 300,000 –900,000 more jobs from the Single Market)
 - ◆ United States: 115,000 new regulations adopted at federal level since 1981 (and the highest average job creation in the OECD)
- The challenge today is not deregulation but smart regulation.



Many governments have lost control of their regulatory functions

- Regulatory systems are fragmented, decentralized, captured and resistant to change
- Who regulates? How much?
 - ◆ Kenya: Est. 300 licenses in 2005...1,500 in 2006v. 178 regulatory bodies.
 - ◆ Moldova: Est. 400-500 business regulations... then found 1,300
 - ◆ Croatia: Identified 300 procedures – then found almost 1,500
- Reforms aimed at single rules will never catch up with the productive capacities of governments to create regulations .
- Regulatory reform is clearly a systemic issue.

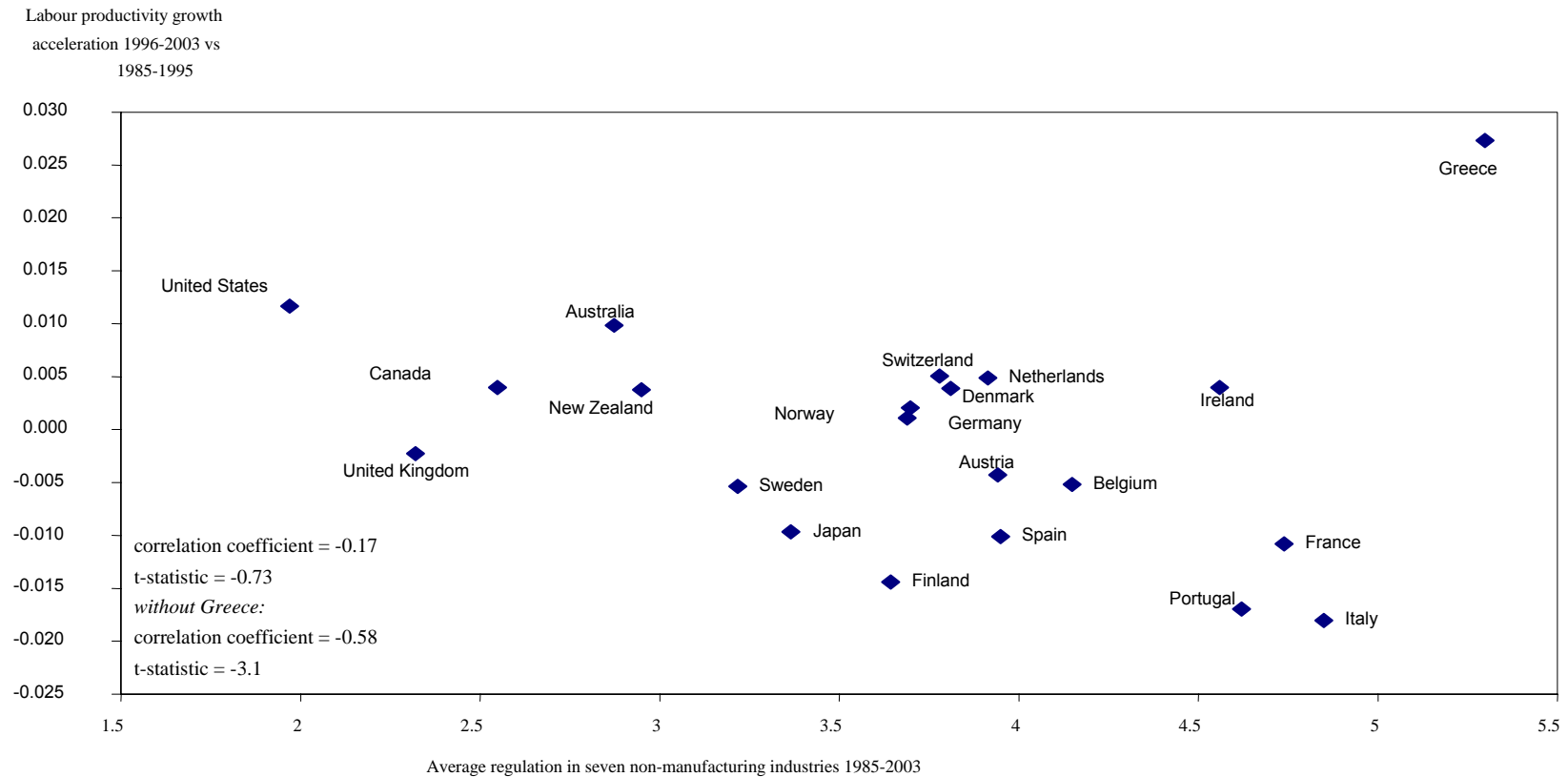


Mainstream of regulatory reform today

- Make markets work to generate wealth
 - ◆ That is....microeconomics
 - ◆ “Enabling environment” is the public policy side of microeconomics
- Make governments work to generate public services
 - ◆ That is....good governance.

Product market regulation and total economy labour productivity acceleration

The scale of the indicators is 0-6 from least to most restrictive



Source: OECD Productivity Database and OECD International regulation database

Survival Strategy for Open Economies:

No ideal regulatory model, but....

Success as an open, innovative, competitive economy requires a

low-cost, low-risk regulatory system

that also

reduces health, safety, and environmental risks and protects other public interests

Cost and risks ↓ Compliance with rules ↑



Managing risks of WTO and EU accession

Flexibility and faster adjustment

- ◆ *Regulatory reform “reduces vulnerability to external shocks by addressing a lack of flexibility and innovation in the supply-side of the economy, which will be an increasing constraint to growth. ...These effects allow economies to adapt more quickly to changes in technology and to external shocks, and improve the trade-offs between inflation, growth, and unemployment.” OECD, 1997*
- ◆ “Restrictive product market regulation slows the process of adjustment through which...new technologies are incorporated into the production process....the gap in productivity improvement in restrictive countries...can be as high as 40%...relative to the most liberal countries.” OECD, 2006

Four Main Regulatory Reform Tasks

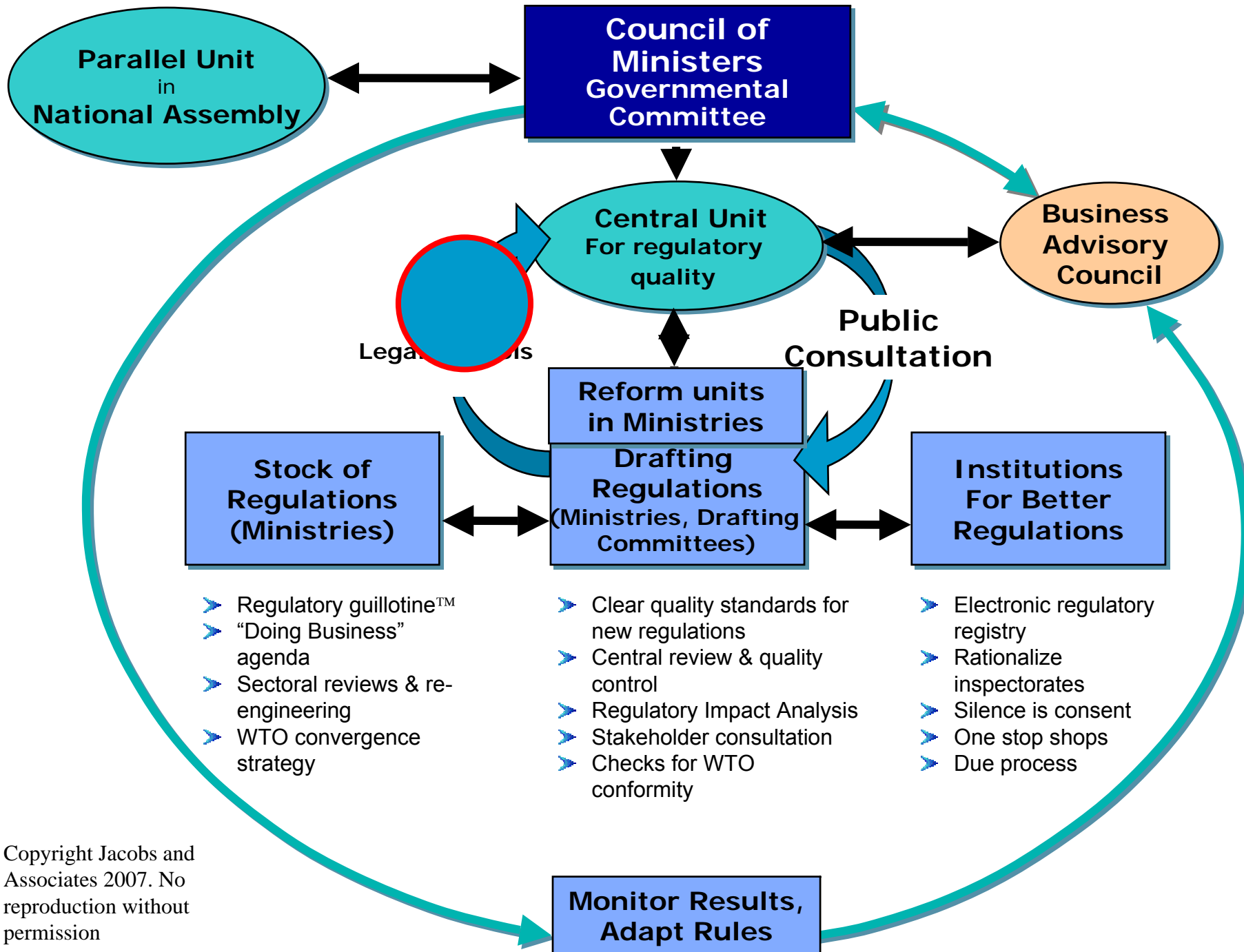
- Picture the regulatory system as a swimming pool
- To create a healthy, clean pool for businesses you must:
 - ◆ **Clean** the water in the pool (the regulatory stock)
 - ◆ **Filter** new water coming into the pool (the regulatory flow)
 - ◆ **Maintain** the pool infrastructure (institutions)
 - ◆ **Ensure that someone is responsible** for keeping the pool clean (regulatory quality control)





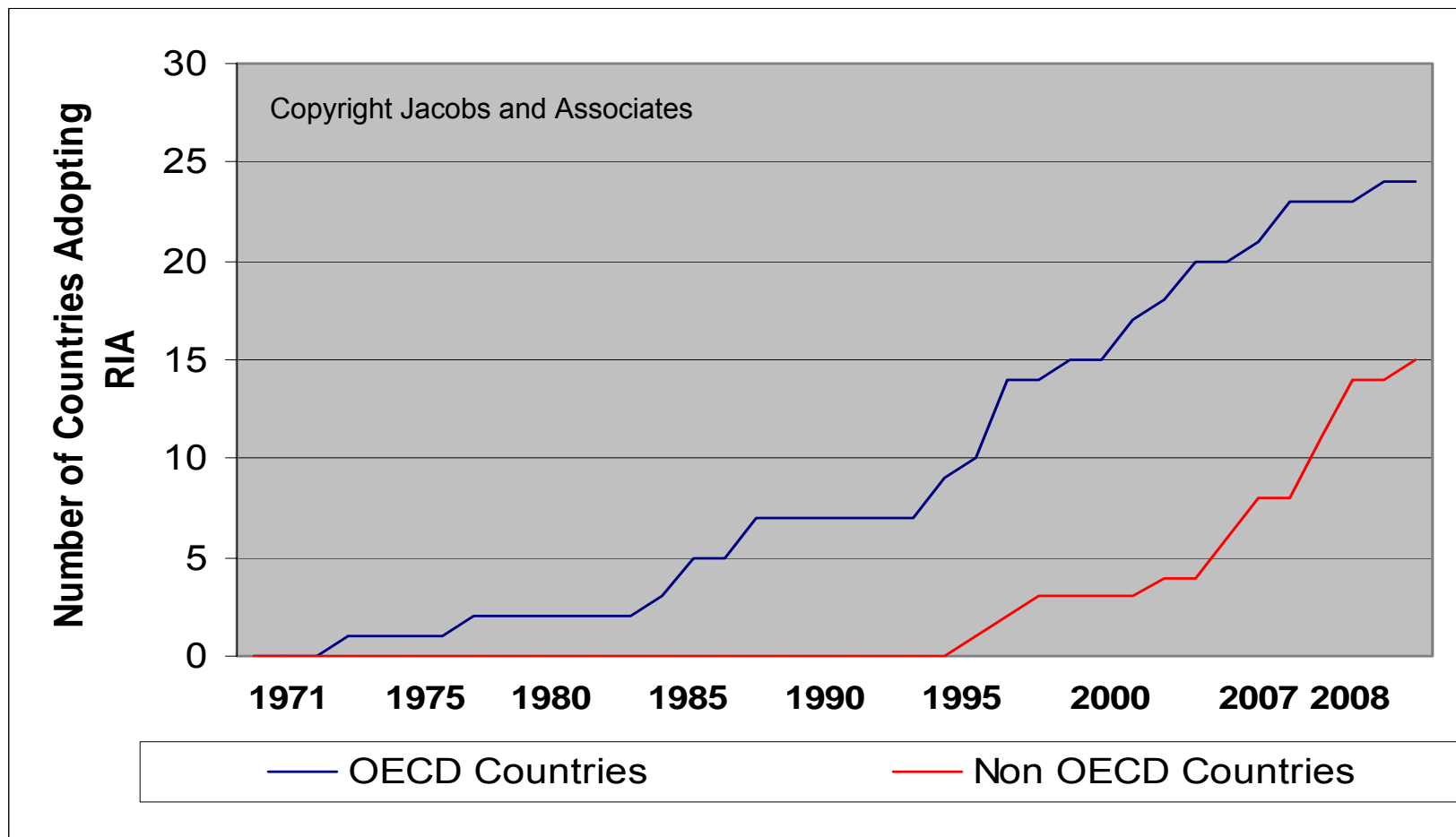
The OECD Agenda for Low-Cost, Low-Risk Regulation

- I. Build a regulatory management system
 - ◆ Strategic medium-term regulatory reform policy (5 years)
 - ◆ Engines of reform at the center of government
- II. Build the institutions to carry out good regulation
 - ◆ Inspections reforms
 - ◆ Due process
- III. Improve the quality of new regulations (flow)
 - ◆ RIA
 - ◆ Transparency and Stakeholder consultation
 - ◆ Central quality checks
- IV. Upgrade quality of existing regulations (stock)
 - ◆ Targeted deregulation, simplification, codification (Doing Business)
 - ◆ Broad-based reforms (Regulatory Guillotine™)



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The global spread of RIA



RIA increasingly influencing public policy

- **RIA affects some 70% of world GDP**
 - ◆ Over 20,000 RIAs done in U.S. since 1981
 - ◆ EU:40 RIAs in 2003, over 180 in 2008
 - ◆ Ireland: Almost 80 RIAs since 2005



RIA institutions in selected countries

- Canada: ***Special Committee of Council, The Regulatory Affairs and Orders in Council Secretariat (RAOICS)***, all part of the Council of Ministers and Prime Minister's apparatus (Council decision)
- Kenya: ***Working Committee on Regulatory Reforms for Business Activity in Kenya*** (Budget Circular)
- Korea: ***Presidential Commission on Regulatory Reform***, appointed by the President and chaired by the Prime Minister, staffed by 35 civil servants in the Office of the Prime Minister (law)
- Mexico: ***Federal Regulatory Improvement Commission (Commission Federal de Mejora Regulatoria - COFEMER)***, independent commission accountable directly to the President (law)
- Netherlands: ***ACTAL Agency, Helpdesk (Ministries of Economic Affairs, Justice and Environment), Ministry of Justice*** (Government decisions)
- United Kingdom: ***Panel for Regulatory Accountability, Regulatory Impact Unit (RIU), Departmental Regulatory Impact Units, Regulatory Reform Ministers, Small Business Service*** (Government decisions)
- Ukraine: ***State Committee on Regulatory Policy and Entrepreneurship (SCRPE)***, independent committee reporting to the Council of Ministers (law)
- United States: ***Office of Information and Regulatory Affairs, in the Office of the President***, staffed by 40 professional civil servants (Presidential order)
- Croatia: ***Office for Coordination of RIA System, Government Office***



RIA is an evidence-based process of informing regulatory decisions

Structurally, RIA is a process of:

- ◆ asking the right questions in a structured format to support a wider and more transparent policy debate.
- ◆ systematically and consistently examining selected potential impacts arising from government action or non-action,
- ◆ communicating the information to decision-makers and stakeholders



Effects of RIA: Microeconomic

- RIA, when it is done well, improves the cost-effectiveness of regulatory decisions and reduces the number of low-quality and unnecessary regulations.
 - In Korea, in the first year of RIA, more than 25% of regulatory proposals were rejected by the central Regulation Reform Committee.
 - 20% of regulatory proposals were modified or retracted as a result of RIA in the Netherlands.
 - In the United States,
- RIA improves the transparency of decisions, and enhances consultation and the participation of affected groups.
- RIA has also improved governmental coherence and intra-ministerial communication.
- In Canada, prolonged use of RIA, with guidance and training, induced a cultural change among regulators.
- RIA is associated with a universal increase in the use of a range of alternatives to traditional forms of regulation.



Examples of how RIA improves rules

- 13 out of 20 RIAs had some degree of influence on proposals. The extent of this influence varied considerably.

(Evaluation of IAs in European Commission, 2007)

- RIA increased net benefits to society from regulations that were adopted.
- RIA showed how less costly regulations would achieve results equivalent to the more expensive alternatives.
- RIA showed that less costly approaches would reduce more environmental risk.
- Cost of RIA was low – on average, 0.1% of the compliance cost of a rule over five years.

(Study of RIAs by the US Environmental Protection Agency)

- Costs of new food storage standards were reduced by £ 41 million annually after a RIA showed that higher storage temperatures would not compromise food safety.

(United Kingdom)

- RIA showed that a proposal to prevent large trucks from using a major bridge would add more than 20 million dollars to transport costs without improving the safety. The proposal was abandoned.

(Victoria State, Australia)

- REACH regulation from the European Commission – the single most costly regulation issued under the Single Market Program – would have imposed a €10 billion cost on the European chemicals industry. After RIA stimulated a public debate about various alternatives, the regulation was revised to make it easier to comply, without significantly changing benefits. The final cost was €2 billion. The RIA cost about €1 million, producing a social return on investment of 10,000 to one.

(REACH RIA, 2006)

Effects of RIA: Macroeconomic

- No empirical evidence that RIA by itself produces more growth, jobs or investment...but...
- ...over time, more efficient microeconomic interventions produce big positive effects on the macroeconomy. If it increases the cost-effectiveness of many regulations, RIA should have positive macroeconomic impacts.
- ..and empirical evidence is mounting that reducing regulatory costs and barriers to market entry has important economy-wide effects:
 - ◆ accelerating multifactor productivity growth
 - ◆ reducing the cost of capital
 - ◆ contributing to poverty reduction
 - ◆ increasing household income through competition



Conclusion: The effects of RIA

- RIA, when combined with other good regulation tools such as stakeholder consultation and quality control disciplines within a general program of regulatory reform, can contribute to a more transparent, lower-cost, more effective, and more market friendly regulatory regime that, in turn, can boost economic performance.
- Significant intermediate results are seen even when the quality of RIA is low in the first years of adoption.
- The process of RIA – by asking new questions and engendering a more vigorous public debate – is more important than the empirical precision of the analysis.