



The Importance of Regulatory Impact Analysis in Rulemaking

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Introduction

- ▶ Who are we: The USAID Project for Lebanon Accession to the WTO
- ▶ The Project aims at helping Lebanon build linkages to the global economy and expand commercial opportunities for local businesses.
- ▶ While the Project will continue to support the accession process to the World Trade Organization and the related legislative reform, it will channel the energy and natural incentives of a diverse set of actors from different backgrounds to implement activities that **improve the legal and regulatory climate in Lebanon.**
- ▶ The regulatory regime in Lebanon lacks transparency and predictability and would benefit from the development and implementation of a comprehensive policy for rule making that includes the introduction of the concept of Regulatory Impact Analysis and its use to analyze regulations at the national level before and after they are enacted



Definition of RIAs

- ▶ RIA is a policy tool for providing detailed information about the potential effects of regulatory measures – **of both the intended and actual effects** - in terms of costs and benefits to all parties affected by the regulation
 - RIA facilitates careful consideration of the details that should be taken into account when designing and implementing a regulation
- ▶ RIAs help ensure that government regulations are effective and efficient and result in the greatest net public benefit
 - They can be performed ex ante and ex post
- ▶ RIAs help ensure that stakeholders are fully aware of the benefits and costs that are likely to result from the proposed regulation
 - This information can be helpful in advocating either for or against a regulation
- ▶ There are multiple ways of performing an RIA; the analyst should select the option that best fits the situation, e.g., use of an evidence-based tool that meets the requirements for accuracy



Why we care about assessing regulations - performing RIAs

- ▶ The reason why we perform RIAs to carefully and fully evaluate the costs and the benefits, ***both intended and actual***, of a regulation:
 - The cost causers may not be the cost bearers

- ▶ We try to assess the impacts of a regulation over time because:
 - The stream of realized benefits may differ significantly from the stream of expected (actual) costs in both timing and magnitude

- ▶ Governments are interested in performing RIAs because it improves their understanding of real-world impacts, helps integrate multiple policy objectives, improves transparency and consultation, increases government accountability

- ▶ The public attains greater awareness and more effective participation through a better understanding of “who gains” and “who loses”



Elements of an RIA

- ▶ The typical RIA is based upon a **cost-benefit-analysis framework**, but there are other ways to perform RIAs effectively
- ▶ We first define or specify the proposed action, i.e., the regulation:
 - what is the policy objective of the regulation?
 - what is being proposed as (clear statement of) the regulation?
 - what are the options, if any, to the proposed regulation that will also achieve the desired policy objective?
- ▶ Identification and evaluation of the extent and magnitude of the impacts by looking at the benefits, costs and distributional effects on which stakeholders
- ▶ Identification of stakeholders enables stakeholder participation throughout the assessment process
- ▶ RIAs also enable the development of enforcement and compliance strategies, as well as monitoring mechanisms to evaluate a regulation



Specification of the proposed regulation

- ▶ A clear statement of the policy or regulatory objective
 - What is the problem that the government is seeking to fix?
 - Is the problem likely to change over time?
 - Is the problem sufficiently large to justify government action?
 - Can the proposed regulation address the problem effectively?
 - Can the government enforce the regulation?
 - Thinking through what alternatives exist

Identification of the stakeholders

- ▶ What groups – e.g., businesses, public at large, government entities – will be affected by the regulation?
- ▶ What is the size of each group?
- ▶ How will each group be impacted?
 - How large are the expected impacts and when in time will they occur?
 - How long will the expected impacts last?



Identification and evaluation of the impacts: direct, indirect and induced effects

- ▶ In thinking through the benefits and the costs, it is essential to be as comprehensive as possible: think through the **direct, indirect and induced costs and benefits** likely to result from the proposed regulation
- ▶ **Direct effects (impacts)** are: costs or benefits that are a direct result of the regulation such as the number of jobs created in new manufacturing when a regulation requires new safety equipment on automobiles (a benefit)
- ▶ **Indirect effects (impacts)** are: costs or benefits that are ancillary to the direct costs or benefits such as the number of jobs created in support of the manufacturing of the safety equipment, such as new jobs to supply the new office equipment (a benefit)
- ▶ **Induced effects (impacts)** are: costs or benefits that result from the actions of affected economic agents such as the number of jobs created as a result of the spending of wages on groceries or housing of the new employees working on manufacturing the new equipment
- ▶ **Distributional effects:** a basic aspect of RIA is that it should be conducted with the “whole of society” in mind, not just those stakeholders who are *intended* to be impacted; assessing direct, indirect and induced impacts takes care of assessing the distributional effects

The Classical RIA

- ▶ The classical RIA is based upon a rigorous cost-benefit analysis framework comprised of the following:
 - Estimates of the benefits and costs incremental to a realistic baseline
 - Treats risk and uncertainty transparently and objectively
 - Quantifies and values all benefits
 - Quantifies and values all costs
 - Discounts all values (costs, benefits) to the present
- ▶ Quantification can present challenge and oftentimes discourages policy-makers, regulators and stakeholders from performing an RIA
- ▶ However, much information on the relative costs and benefits can be gleaned through a thorough yet simple comparison process



An effective RIA is a process

- ▶ that involves:
 - asking the right questions in a systematic and structured way to support a wider and more transparent policy debate
 - identifying and evaluating the potential impacts arising from government action or non-action
 - communicating the information to decision-makers and stakeholders



How can we apply RIA in Practice

- ▶ Policy Issue: Protection of Confidential Information based on article 47 of the Lebanese Patents Law.
- ▶ Establish Working Group: identify stakeholders/options, data collection
- ▶ Data Analysis
- ▶ Develop RIA
- ▶ Develop advocacy campaign based on RIA results