



## Assessing Impacts of Government Policies on Consumers

– Vijay Vir Singh\*

*Enhancing consumer welfare has been the prime objective of various policies and legislations, including the competition law and regulatory laws. But, there is no formal mechanism to assess the impact of such policies on consumer welfare. The traditional measures of consumer welfare do not pay sufficient attention to individual access to freedoms and facilities for generating human capabilities.*

*Consumer Impact Assessment (CIA) is a tool to measure consumer welfare which is based on protection of consumer rights. It is designed to help policy makers evaluate policies and practices through a consumer lens.*

*This briefing paper explains why CIA is essential for all policies, regulations and legislations that are likely to affect consumers. The paper also explains the methodology and various tools required for doing CIA.*

### Introduction

Consumer welfare enhancement has been a concern of paramount importance for governments all over the world. In many countries, policies have been designed and legislations enacted to protect the interests of consumers and enhance their welfare.

The measurement of consumer welfare is concerned with the evaluation of alternative economic situations, from the point of view of the consumer's well-being. To evaluate alternative economic situations we need some criterion of consumer well-being or welfare. Traditionally, the measurement of aggregate consumer welfare, through the social welfare criterion, has required some ethical standards and interpersonal comparison. For example, the traditional measure of consumer surplus assumes that one person's gain can be compensated by another person's loss. Unfortunately, such measures do not pay sufficient attention to individual access to freedoms and facilities for generating human capabilities.

The United Nations Guidelines for Consumer Protection (UNGCP) were adopted by the UN General Assembly in 1985, and amended in 1999, to fill the policy vacuum mentioned above. These guidelines represent an international regulatory framework for

governments to develop and strengthen consumer protection policy and legislation and thereby promote consumer welfare. The guidelines call upon governments to provide for enhanced protection of consumers, by enunciating steps and measures relating to eight themes: physical safety, economic interest, standards, essential goods and services, redress, education and information, specific areas concerning health and sustainable consumption. The guidelines have implicitly recognised eight consumer rights (rights to basic needs, choice, safety, health and environment, redress, information, consumer education and representation), which were made explicit in the Charter of Consumers International. For analytical purposes, these eight rights can be clubbed under three broad categories or clusters:

**Access** (Basic Needs, Choice)

**Quality** (Safety, Healthy Environment)

**Participation** (Redress, Information, Consumer Education, Representation)

Apart from being essential for the welfare of consumers, consumer rights are useful in providing the base for developing tools to assess the impact of policies and regulations on consumers. One such initiative has been taken up by the National Consumer

Council (NCC), UK, which has developed a methodology called Consumer Impact Assessment (CIA), for assessing the impact of policies on consumers. CIA is a tool designed to help policy makers look at their policies and practices through a consumer lens. CIA is very useful when policies and regulations are being developed and reviewed, i.e. for ‘policy proofing’ by governments. CIA involves examining the impact of a particular proposal or decision on different groups of consumers, in terms of variables such as price, quality, safety, redress and choice in the short, medium and long-terms.

### CIA – Why?

Most of the developing countries have adopted the path of economic reforms, by shifting to market-driven economic policies. The thrust of economic reforms has been to allow for more competition, resulting in better quality, lower prices and greater availability of products to the consumer. An effective, efficient and fair competition and consumer protection regime can ensure better promotion and protection of the rights of consumers and result in enhancement of consumer welfare under the changed circumstances and policies.

As the reforms have significant implications for consumer welfare, it is necessary to assess whether such implications are positive or negative. Such an assessment, for all policies, regulations and legislations likely to affect consumers, can be made through CIA. The assessment is also helpful in devising corrective measures to enhance consumer welfare.

Using CIA for the purpose of evaluation enhances accountability of regulators and government departments towards consumers and forces them to be more consistent and transparent in their decision-making. CIA also helps in identifying inequities that might arise for disadvantaged groups of consumers from certain policy options. The results from CIA can provide consumers with necessary information to play a positive role in changing and shaping markets and improving public services. Thus, it is desirable to precede/follow up the implementation of every policy measure with a CIA to do an *ex-ante/ex-post* accounting of the resultant costs and benefits.

### CIA: Approaches and Methodology

Several policies and legislations, including the competition law and regulatory laws, recognise the protection of consumer interest as one of their primary objectives. But, there is no formal mechanism to

assess the impact of such policies on consumer welfare. This gap can be filled by CIA, under which there are two approaches. The first is an ‘*ex-ante*’ approach, which predicts the impact of a proposed policy or regulation on consumers. Assessment is based on a comparison of available policy alternatives. The second, called the ‘*ex-post*’ approach, is used after a policy or regulation has been introduced or implemented. This approach evaluates both positive and negative impacts of that policy or regulation with regard to consumer welfare, in order to make recommendations for modification or change.

For carrying out CIA, following steps should be undertaken:

- 1. Identify the purpose/goals of a policy or regulation:** This involves summarising the policy issue and listing the proposed objectives of the policy or regulation, including any possible trade-offs, conflicts or constraints. The information can be obtained from the policy document and can be used to answer the following questions:
  - What does the policy or regulation aim to achieve?
  - How is it linked to consumer welfare?
- 2. Identify the options which could meet the objectives:** It helps in identifying the various alternatives that are available for achieving the objectives.
- 3. Identify the impacts on consumers:** The policy is assessed to identify its impact (positive and negative) on consumers. Here, all the impacts on consumers should be identified and listed, as compared with the *status quo*. The impact on marginalised consumers should receive special focus in developing countries. This helps in answering questions like:
  - Has the policy had an impact on access to goods and services?
  - How conscious is the consumer about product quality and to what extent is quality being ensured?
  - What is the status of consumer participation?

The eight consumer rights provide parameters for assessing the impact of the proposed policy legislation on consumers, through the Access-Quality-Participation cluster approach, discussed below. The rights to basic needs and choice constitute the principal elements of access. Under access, the following rights are considered relevant:

a) *Right to basic needs*: It constitutes an important right for the people of developing countries, because a large section of the population is poor. There are two 'goods' and six 'services' under the ambit of 'basic needs', namely, Food and Clothing (goods), Health Care, Drinking Water and Sanitation, Shelter, Energy, Education and Transportation (services). CIA of a policy raises questions in this regard which include:

- What is the impact of the policy on making basic needs more accessible to the poor?
- What will be the effect of the policy on the ability of consumers to get hold of desired goods and services?

b) *Right to choice*: It is defined as the right to select from a range of products and services offered at competitive prices with an assurance of satisfactory quality. The availability of choice implies the existence of a range of varieties from different producers available to consumers for each product/service. A key dimension of choice relates to marginalised consumers, as choice might be restricted due to low purchasing power. From this perspective, lower prices of goods and services imply greater choice for these consumers.

c) *Right to quality*: Quality awareness in developing countries remains quite low, as compared to price awareness. In fact, extra-sensitivity towards price on the part of consumers may have a negative impact on the quality of products sold in the market. Under quality, the following issues are important:

- *Safety*: It includes protection against products, production processes and services which are hazardous to health or life. An integral part of consumer safety is the process of setting standards for different goods and services. Standards perform several important functions in an economy. These provide information to producers and consumers to enable them to judge the quality and safety of products produced. CIA helps to identify the impact of policy on quality and safety standards for goods or services.
- *Healthy environment*: This refers to the need for an environment for living and working which does not threaten the well-being of the present and future generations.

(d) *Right to participation*: This right allows individual consumers or consumer organisations to be directly engaged in the decision-making processes. Under this right, the following issues are relevant:

- *Redress*: CIA can determine the effect of the policy on the ability of the consumers to obtain redress, if there is a problem with the quality or delivery of goods and services. There is a need to have a good, cost saving and effective redressal system in place.
- *Information*: CIA can determine whether and to what extent, the policy or regulation affects the availability of accurate and useful information on goods or services. Availability of the right to information is useful in making informed choices about consumption of goods and services and a protection against dishonest or misleading advertising and labelling.
- *Representation*: Through CIA, we can determine whether the policy affects the ability of the consumers and their groups to have a say in how goods and services are to be provided and policies formulated to ensure equitable supplies.
- *Consumer education*: CIA helps us determine how policies affect the ability to acquire the knowledge and skills needed to make informed, confident choices about goods and services, while being aware of basic consumer rights and responsibilities.

For some of these factors, it is possible to quantify the impacts. For others, a qualitative assessment is necessary. For some variables, the assessment is restricted to weighing the advantages and disadvantages of the policy option being examined. This could involve reviewing existing literature and documents. Where there is uncertainty, a range of values may be given or different scenarios explored. Responses from stakeholders could be useful.

CIA should identify the impact on different classes of consumers: urban and rural, high income and low income, as well as disabled consumers. The interests of all consumers are not always the same. It will often be necessary to separately analyse the impact that a regulation or policy has on different classes of consumers.

#### 4. Evaluate the significance of the impacts:

Consideration should be given to the size of the consumer impact, in relation to other costs and benefits of the policy/regulation. Only significant consumer impacts should be subjected to further examination. The relevant questions here are:

- Are the consumer impacts significant?
- How large are they, in relation to other impacts?

5. **Assess the net impact of policy**: A transparent assessment should be made of the net effect of the

policy, after considering tradeoffs among impacts on groups of stakeholders.

- 6. Identify consumer safeguards to be built into the policy:** The process of CIA should prompt ideas about what consumer safeguards could be built into the policy, without causing undue damage to untargeted interests or overall policy objectives. If the policy or regulation is specifically designed to benefit consumers, an attempt should be made to explore how consumer rights can be served better. Even if there is no significant consumer impact, it may still be possible to think of measures/safeguards that could be introduced which would eventually benefit consumers.

### Tools Used for CIA

In order to anticipate the likely impact of a policy or that of an existing one, various tools, like information gathering from consumers and consultations (public meetings, surveys, seminars, etc.), are used for CIA. Consultation is a form of involvement. A range of methods exist, including consultation documents, questionnaires, public meetings, surveys and solicitation of views through electronic means.

Consultations and public meetings can not only be used to gather information about the impact of a policy but also to elicit opinions about how a policy can be modified or replaced by a superior policy. Similarly, a questionnaire survey can be used to assign numerical scores to the efficacy of a policy. Comparison of numerical scores of policy alternatives can facilitate choice among various candidate policies. Solicitation of views through electronic means can be useful in gathering answers in “yes/no” form, in response to the

proposal for implementation of a policy. Even after implementation of a policy such means can be used to gauge the effect of a policy on consumer satisfaction.

Qualitative consumer research also offers a variety of methods for consultation. These include deliberative research, such as workshops and seminars. Many consultation processes involve organisations representing consumer interests, rather than individual consumers, because of the technical nature of the subject matter and/or the way in which the consultations are publicised.

Follow up of progress in policy implementation after CIA is a very important factor affecting its success. It is important to check whether the policy has had the predicted qualitative and quantitative impact. It is essential to ensure that the recommendations emerging out of the impact assessment exercise are duly incorporated and put into practice. Regular review and consumer involvement in the entire process of policy implementation and appraisal are important.

### Conclusion

Effective and appropriate consumer involvement is essential to ensure that consumer interests are taken into account to improve the quality of decision-making and help avoid recurrence of policy mistakes that have undermined consumer confidence. CIA is highly recommended as it enhances regulatory accountability towards consumers and consumer welfare.

Given the importance of CIA as a tool to ensure consumer welfare, consumer protection policy in a country should make CIAs mandatory in every area of governance in which consumer interests are affected.

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\* Fellow, CUTS Centre for Competition, Investment & Economic Regulation (CUTS C-CIER).

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