The Nuts and Bolts of Regulatory Impact Analysis

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Outline of the Presentation

• What is RIA?
• Why should RIA be conducted?
• Regulatory Costs taken into account by RIA
• Different methods for ranking regulatory alternatives
• Obtaining the data needed to conduct high quality RIA
• Communicating RIA results
• CUTS Case Study
What is RIA?

• A process of systematically identifying and assessing the expected effects of regulatory proposals, using a consistent analytical method

• It involves the following:
  – Determining the underlying regulatory objectives sought
  – Identifying the alternative policy interventions that are capable of achieving them
  – Evaluating the effectiveness of the mentioned alternatives using a consistent method
  – Choice of the most effective option
Why should RIA be conducted?

• In an economy a regulation has diverse effects on various groups; many of these effects may be ‘hidden’

• RIA enables us to understand as to who will be affected by a regulation and how; and thus whether the aggregate gains overwhelm the losses

• RIA ensures that regulations are made as effective and efficient as possible
What kind of costs should be considered?

- Buying new equipment needed to comply with regulation
- Employing additional staff, consultants to work on regulatory compliance
- Changes in production processes needed by regulations
- Cost of storing information needed to enforce regulations
- Employing additional staff needed to enforce regulations
- All overhead costs associated with mentioned labour costs
- Competition related costs
- Substitution effects
Competition Related Costs

Regulation can reduce competition in markets:

• Discourages competitors from entering markets
• Discourage firms from competing strongly by setting rules that reduce price competition or restrict advertising
Substitution Effects

• When there is a regulation that increases the price of a product people might switch to a less beneficial product
  • For example, more stringent air safety regulations will increase the costs of air travel which might induce people to travel by cars with adverse ramifications for safety
Different methods for ranking regulatory alternatives

• Cost/benefit analysis (CBA)
  – Regulation is made only when the costs of a regulation are exceeded by its benefits
  – Without RIA which systematically assesses the benefits and costs there is a danger of regulation with costs exceeding benefits being pushed through
  – While CBA is the best approach for RIA it requires quantification which often may not be possible
Different methods for ranking regulatory alternatives

• In case important costs and benefits cannot be quantified a partial CBA approach is used.

• In this apart from comparing the quantified costs and benefits the non quantifiable costs and benefits can be compared in qualitative terms
Different methods for ranking regulatory alternatives

• Cost Effectiveness Analysis (CEA): CEA takes the benefits of regulation as given and asks as to which of the regulatory alternatives helps to meet the regulatory objective at the lowest cost.

• The lowest cost option is regarded as the most cost effective or efficient option.

• However, CEA does not answer the question as to whether it is appropriate to regulate at all.
Different methods for ranking regulatory alternatives

• Multi Criteria Analysis: It involves identifying the policy objectives and then determining all of the criteria that would indicate achievement of these objectives. Each of the policy options is then scored on each criterion and a weighted average is taken. The option with the highest aggregate weighted score is chosen.
Obtaining the data needed to conduct high quality RIA

• Conducting surveys: A well designed questionnaire can be used to ask for specific information on major elements of a proposed regulation
  – Should be sent to a representative group of affected parties
  – Questionnaire should be realistic
  – Sample size must be carefully considered
Obtaining the data needed to conduct high quality RIA

• Using data from government agencies
  – Government statistical office may be the source of information such as the number of firms in various industries, number of people employed and the like
  – Similar regulations adopted in other areas and their effects
Obtaining the data needed to conduct high quality RIA

- Literature Reviews
- Consultation with stakeholder groups gives people a voice in the design of regulation and helps to increase voluntary compliance
  - Notice and comment
  - Circulation and comment
  - Public hearings
Communicating RIA Results: Dos

• Results should be presented in clear and understandable form
• Results should be presented to decision makers in timely manner
• Results should be published to inform stakeholders so that they understand the motivation behind the regulatory choice that has been made
## Presenting the results of RIA

<table>
<thead>
<tr>
<th>Section Title</th>
<th>Description</th>
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<tbody>
<tr>
<td>Objective</td>
<td>Clearly state the policy objective and goal of the regulation</td>
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| The regulatory proposal                | Explain the regulatory proposal:  
  a) Describe the regulations  
  b) Outline the legal authority to make the regulations  
  c) List the groups to be affected by the regulation  
  d) Outline the enforcement regime and proposed strategy for ensuring compliance |
| Analysis of Benefits and Costs         | Outline the following benefits and costs: administrative, economic, social, environmental, enforcement and compliance                           |
| Identify alternatives                  | Identify considered alternatives and lists the costs and benefits of each alternative                                                         |
| Compare the alternatives with the regulatory proposal | Outline how the identified regulatory proposal is superior to the alternatives that were considered                                         |
RIA on Debt Recovery
Legislations: CUTS Case Study

CUTS International
Need for RIA

• **As on March 31, 2014:** > Rs. 2 lakh crore entangled in DRT and SARFAESI mode. Situation deteriorated since.

• **Average annual recovery rate:** only around 25 percent. Opportunity cost of > Rs. 35k cr, and increasing.

• DRT Act and SARFAESI Act not achieving their objectives.

• Need to design better regulatory alternatives.
Alternatives considered

• **Improving staff performance**: Revision of eligibility criteria of POs \textbf{v.} Provision of technical members \textbf{v.} performance linked incentives \textbf{v.} public disclosure of performance

• **Process of filling vacancies**: Part time experts in selection committee \textbf{v.} Independent advisory body

• **Reduce adjournments**: Full disclosure through SMS \textbf{v.} Increasing cost of adjournments

• **Reduce fraudulent challenges**: Pre-requisite to establish locus standi \textbf{v.} Penalties for unjustified challenge

• **Time limits for disposal**: Reimbursement of application fee on non-compliance \textbf{v.} Public disclosure with reasons
Recommendations

• Establishment of 24 new DRTs; provision for technical members; independent advisory body for selection; additional cost for grant of adjournment at increasing rate; statutory penalties in case of unjustifiable challenge; reimbursement of application fee

• Related legislative amendments

• **Initial cumulative direct cost** = Rs. 100 cr. + indirect costs

• **Expected benefits** = Significant improvement in debt recovery scenario
THANK YOU