

Regulatory Impact Analysis

Why RIA Matters

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Agenda

What is Regulatory Impact Analysis (RIA)?

When is it Appropriate to Regulate?

Why does RIA Matter?

Tailoring the RIA Process to the Economy

Building Efficient, Cost-Effective RIAs

What is RIA?

RIA is a flexible and adaptable tool that should always:

- Be proportional to the situation.
- Follow consistent guidance for complexity and level of analysis.

Elements of a Regulatory Impact Analysis

- Statement of need for the proposed rule that identifies the nature and significance of the problem (e.g., identification of the market failure).
- Examination of alternative approaches to addressing the problem.
- Analysis of the costs and benefits of each alternative.

OMB Circular A-4: Guidelines for the Conduct of Regulatory Analysis
(September 2003)

Regulatory Impact Analysis



Source: World Bank, available at <http://regulatoryreform.com/wp-content/uploads/2015/02/World-Bank-RIALightNov2009.pdf>.

Regulatory Impact Analysis (RIA)

Basic Goals

- Maximize net benefits to society—or at least ensure that benefits justify costs.
- Promote economic efficiency by regulating only where markets fail, and when regulating, by using cost-effective and market-based approaches.
- Increase the transparency of the regulatory system.

RIA assesses the anticipated consequences a regulation and estimates associated benefits and costs.

- Helps to organize and consolidate all the possible impacts and elements for decisions at various stages of policy development.
- Provides clear and transparent methodologies and criteria for new or existing regulations.

When and why is it Appropriate to Regulate?

- What is the need for regulation?
 - Market failure or some other compelling public interest
 - Should describe the failure both qualitatively and quantitatively, where feasible
- What is the market failure?
 - Externality, common property resource and public good
 - Market power
 - Inadequate or asymmetric information
 - Other social purposes

Why Does Regulatory Analysis Matter?

Good analysis helps provide a reasonable basis for rulemaking.

- Evidence- and science-based decision making

Good analysis is critical to inform stakeholders:

- Decision-makers
- Interested/Affected Parties (regulated entities and stakeholders)
- Congress
- The Public

Using Benefit-Cost Analysis (BCA)

- Provides a systematic way for identifying and evaluating the likely outcomes of alternative regulatory choices
- Evaluates the incremental benefits and costs
- The size of the net benefits indicates whether one policy is more efficient than another
 - Absolute difference between benefits and costs
- Should try monetize or quantify, where possible

Baseline Characterization

- Evolution of the market
- Changes in external factors affecting expected benefits and costs
- Changes in regulations promulgated by the agency or other economies
- Degree of compliance by regulated entities with other regulation
- Potential to develop more than one baseline

Monetizing Costs

- Costs generally fall into two categories
 - One-time (i.e., implementation) costs
 - Planning, training and construction
 - Recurring (i.e., Operating and Maintenance (O&M) costs)
 - Inspection, training and recordkeeping
- Sensitivities
 - Lack of homogeneity
 - Uncertainty of cost drivers

Accounting for Regulatory Benefits

- Account for all benefits - monetized, quantified, or qualified
- Analyze benefits for both the proposed option and major alternatives
- Consider when benefits will be realized - discounting
- Discuss qualitative benefits in detail

Maximize Net Benefits

Net of costs and benefits

Aim to maximize

Provide the net benefits for each alternative

Treatment of Uncertainty

- Where level of scientific uncertainty is very high
 - If probabilistic approach is not possible, evaluate discrete alternative scenarios using a range of plausible scenarios
 - If uncertainty due to lack of data, evaluate additional research prior to rulemaking as an explicit regulatory alternative
- For all rules in excess of \$1 billion
 - Formal quantitative analysis of the relevant uncertainties about benefits (e.g., simulation models, use of expert judgment elicitation)

Distributional Effects

- Those who bear the costs of a regulation and those who bear the benefits are often not the same people
 - Refers to the impact of a regulatory action across the population and economy, divided up in various ways
- Provide a separate description of distributional effects
 - How benefits and costs are distributed among sub-populations of particular concern
- Where distribute effects are important, alternatives should describe quantitatively, to the extent possible, the magnitude, likelihood and severity of impacts

Tailoring the RIA Process to the Economy

Five basic criteria in sequential order:

1. Political commitment to establish and operate an effective and self-sustaining RIA process
2. Unit or group of regulatory reformers – preferably based in a central agenda of economies
3. Clear and consistently applied criteria and rules to screen regulatory proposals
4. Transparent policy development process that includes consultation with stakeholders
5. Capacity building programs involving preparation of guidelines; training of officials preparing RIA and facilitating the required cultural changes and establishing monitoring, evaluation and reporting systems

Building Efficient, Cost-Effective RIAs

Analysis should drive decision making. Involve economists and analysts early in the regulatory process.

Evaluate the regulatory analysis against the provisions in the draft rule.

- Do the benefits and costs adequately capture the effects of each provision?
- Are the assumptions surrounding the analysis correct?

Use plain language and clear organization. The RIA should be understood by a non-expert.

Building Efficient, Cost-Effective RIAs

Present a clear “Problem Statement.”

Possible alternatives should address the identified problem(s).

- Consider at least one alternative that is more stringent and at least one alternative that is less stringent than the selected alternative.

Requests for comment should be clear and well directed.

Check for citation of sources on data and assumptions.

References

World Bank, “Making it Work: ‘RIA Light’ for Developing Countries:”
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