



Introducing RIA In Jordan *Based on Jacobs and Associates Processes*

Regulatory Impact Assessment Workshop A Tool for Regulatory Reform

December 3rd ,2008

The Golden Age of Regulation

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



Common regulatory problems: A web of systemic governance issues

- Complexity and inconsistency
 - Policy fragmentation, lack of co-ordination
 - Confusion on the role of regulation in modern society
 - Poor regulatory implementation capacities
 - Inconsistent decisions and signals to the private sector
- Perverse incentives weigh against social welfare gains
 - Capture and serving of insider rather than general interests
 - Short-term over long-term views
 - Narrow missions
- Good regulation can become bad regulation over time
 - Immortality of regulations
 - Technological change
 - Social needs
- Transparency and accountability are poor, increasing regulatory risks
 - Unaccountable administrative discretion
 - Secrecy and information monopolies in public administrations
 - Poor relations between public and private sectors
 - High transactions costs in accessing regulations
 - Vested interests are strengthened by opaque decision processes and
- Poor regulatory design
 - Detailed controls rather than flexible and market-based approaches
 - Symbolic regulation
 - Badly drafted regulation



The New Style of Regulation

Traditional Regulation

- Reflexive (automatic response to problem)
- Static
- Standardised
- Deliberative
- Means-oriented
- Opaque and interest-group-based
- Single-mission
- National

- Replacement of markets
- Effective
- Authoritarian and top-down

New-style regulation

- Sceptical (is intervention really needed?)
- Dynamic
- Flexible
- Responsive
- Results-oriented
- Transparent and empirically based
- Balanced and integrative
- Co-ordinated or harmonised internationally
- Strategic use of markets
- Cost-effective and efficient
- Co-operative and bottom-up



Survival Strategy for Open Economies such as Jordan

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 ↑



A crowded regulatory field: Non-ministerial regulatory institutions in Jordan

- National Center for the Protection of Human Rights
- Jordanian Nursing Council
- Jordanian Medical Council
- Aqaba Special Economic Zone Authority
- Civil Aviation Authority
- Jordan Maritime Authority
- Jordan Valley Authority
- Water Authority
- Natural Resources Authority
- Petra Region Authority
- Jordan Cooperative Corporation
- The Ports Corporation
- Orphans Funds Development Foundation
- Economic and Social Association of Retired Servicemen and Veterans
- Free Zone Corporation
- Jordan Investment Corporation
- Housing and Urban Development Corporation
- Waqf Fund Development Corporation
- Food and Drugs Corporation
- Aqaba Railway Corporation
- Agricultural Credit Corporation
- Vocational Training Corporation
- Social Security Corporation
- Jordan Investment Board
- Jordan Institution for Standards and Metrology
- Civil Consumers' Corporation
- Jordan Corporation for the Development of the Economic Enterprises
- Jordan Radio and Television Corporation
- Investment and Development of National Resources Corporation
- Jordan Securities Commission
- Executive Privatization Commission
- Telecommunication Regulatory Commission
- Electricity Regulatory Commission
- Jordan Atomic Energy Commission
- Public Transport Regulatory Commission
- Insurance Commission
- Jordanian Commission for the Promotion of the Investment Environment and Economic Activities
- National Commission for Industrialization
- Higher Council for Youth
- Higher Council of Media
- Higher Council for Sciences and Technology
- Royal Jordan Geographic Center
- National Information Technology Center
- Royal Cultural Center
- Development and Employment Fund
- National Aid Fund
- Postal Saving Fund
- Zakat Fund
- Hashmite Fund for Development of the Jordanian Badia
- Central Bank of Jordan
- Cities and Villages Development Bank
- National Institute for Training
- Jordan Hijaz Railway



**USAID Jordan Economic
Development Program (SABEQ)**

Flow of new laws and regulations in Jordan

	Number issued from 2004-2006	New rules in 2006 compared to 2004
Laws	126	162%
Regulations	244	89%
Instructions	286	136%
Decisions by the Legislative Bureau	22	250%

Annual flow of new regulations in US: 15 per million people

Annual flow of new regulations in Jordan: 40 per million people



USAID Jordan Economic Development Program (SABEQ)

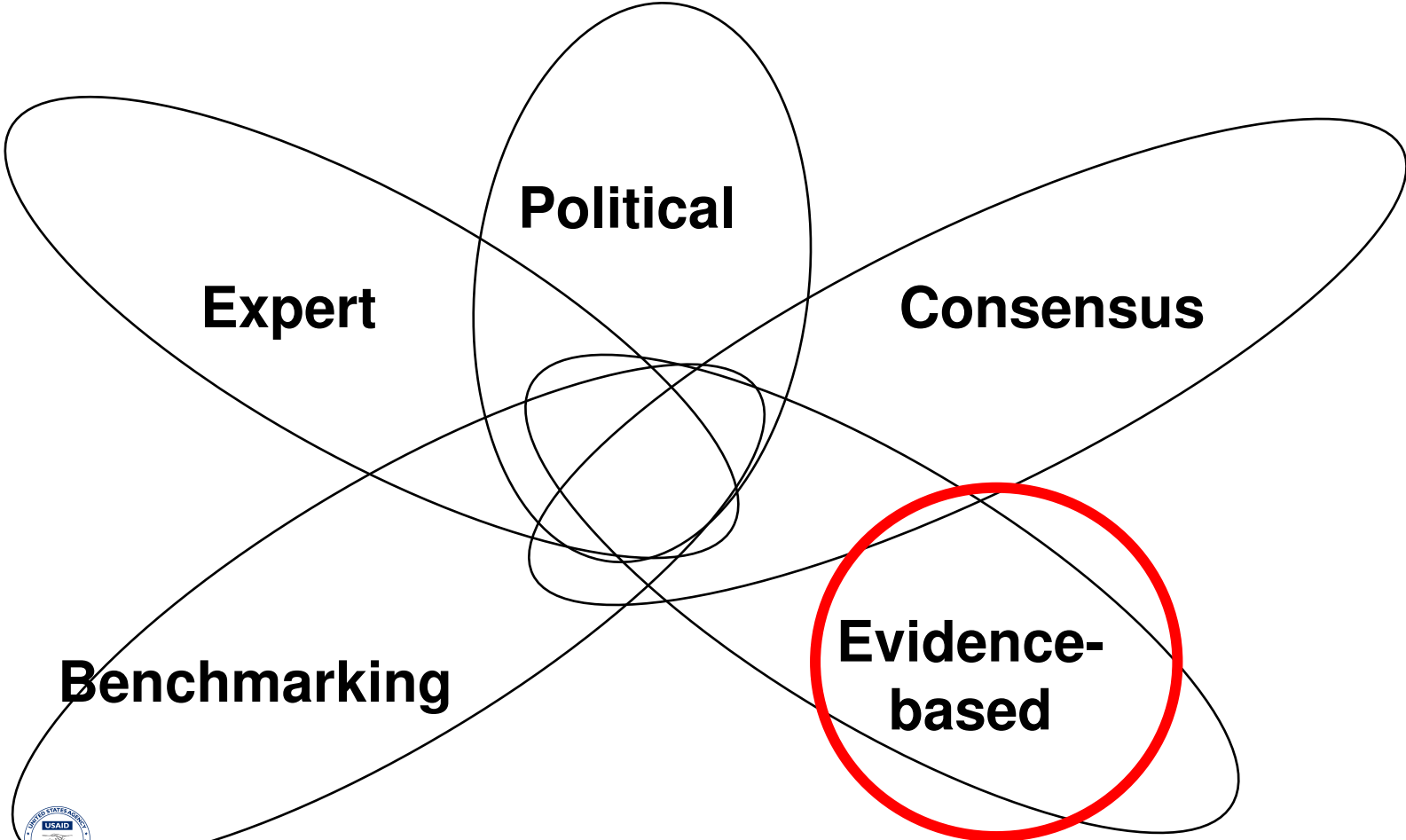
RIA is an evidence-based process for making regulatory decisions

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



Countries use several methods to make regulatory decisions

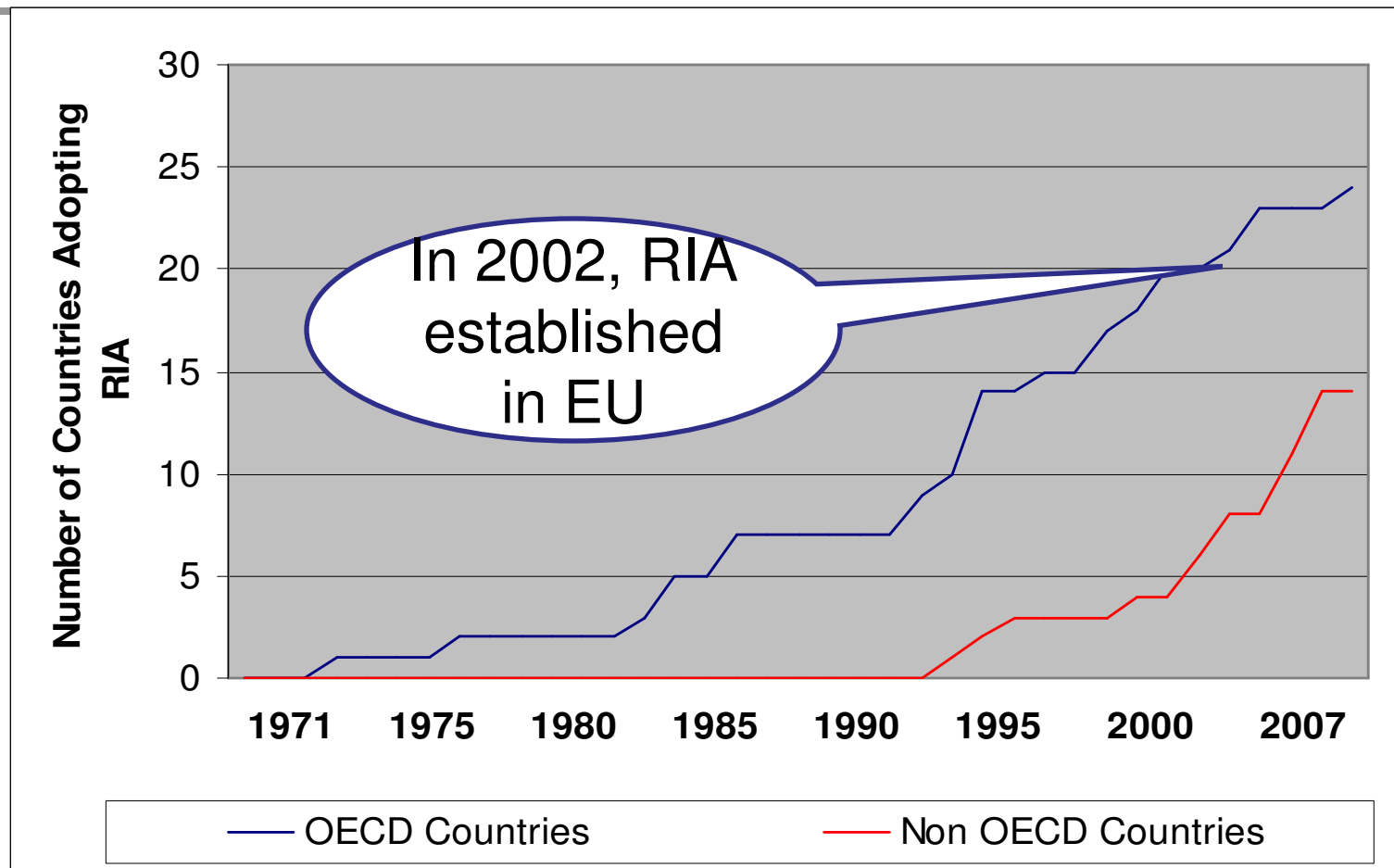


What is the purpose of regulatory impact analysis?

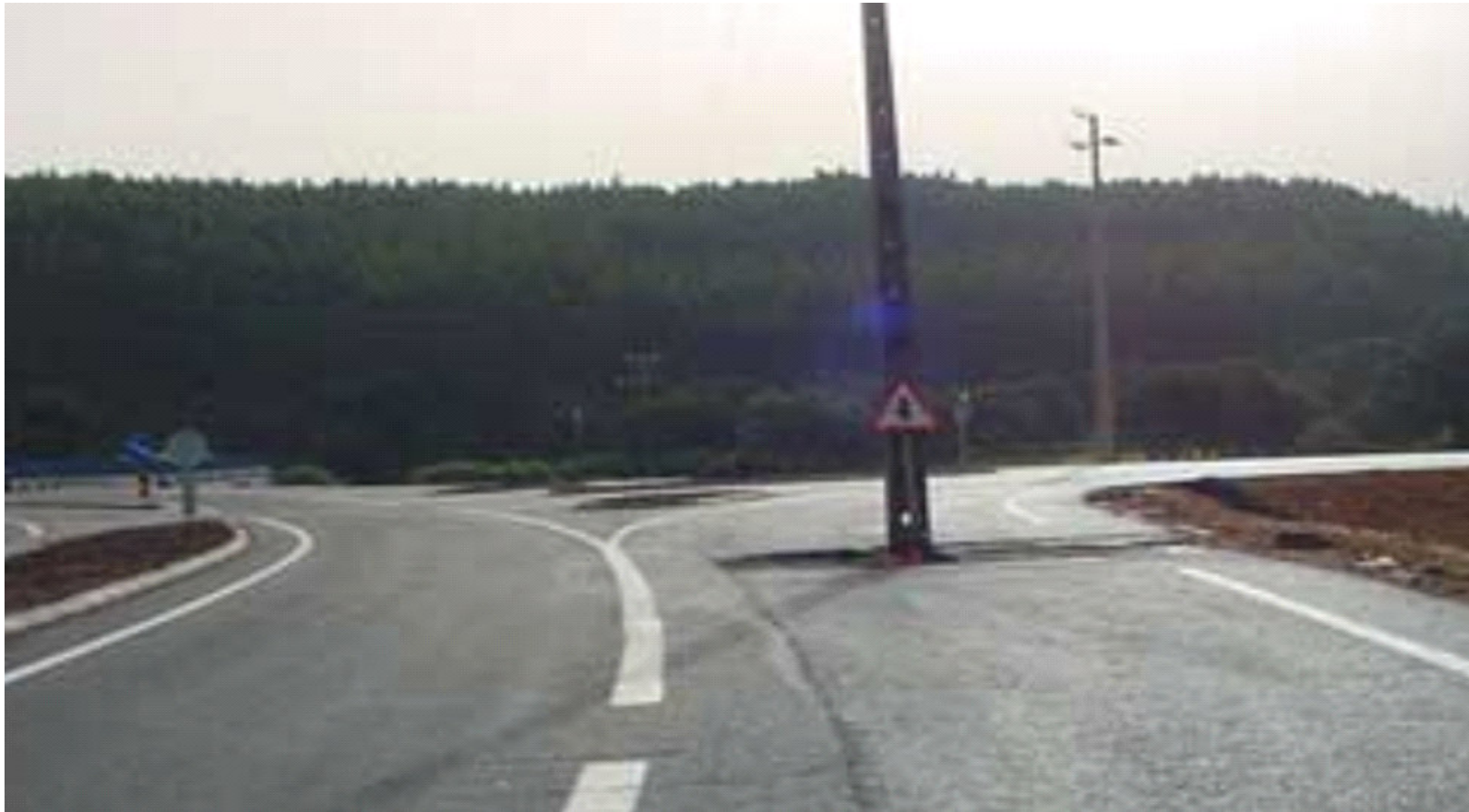
- **Analysis**: Calculating the costs and benefits of government action
- **Opening up decisions** to a wider range of interests
- **Improving regulatory qualities**
- **Changing the culture** of the regulator
- **Changing the views** about the proper role of government:
 - “Regulation cannot solve all problems.”
 - Shifting the role of government from “rowing” to “steering”



The global spread of RIA



Results of a poor learning process



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How RIA improves public sector performance

Analysis: Calculating the costs and benefits of government action

→ Faster learning, increasing benefits of government action, finding lowest cost solutions, reducing policy failures

Consultation and responsiveness to a wider range of interests

→ Transparency, building trust, and reducing regulatory risks for private sector, reduce “information monopolies”

Integrating multiple policy goals (social and economic policies)

→ Policy coherence in a complex world; break down vertical silos and promote horizontal thinking

Change of regulatory culture to reduce unneeded intervention and symbolic regulation

→ Accountability for actions and results (within ministries, to the public). Client-oriented, credible, and responsive government

Principle of proportionate analysis: avoiding paralysis by analysis

- ◆ Successful RIA programs target scarce RIA resources to where they can do the most good
- ◆ RIA has become more widespread at the same time that it has become more targeted.
- ◆ RIA depth and scope will be determined by the likely impacts of the proposed action:
 - Every regulation will undergo sufficient analysis to “allow for informed debate
 - The more significant an action is likely to be, the greater the quantification and monetization.

Targeting strategies: USA

- RIA is required for all regulations to determine that benefits justify costs and if the rule meets the thresholds.
- Full cost-benefit analysis is required when rules:
 - impose annual costs that are estimated to exceed US\$100 million or where rules are likely to impose major increases in costs for a specific sector or region, or have significant adverse effects on competition, employment, investment, productivity or innovation;
 - Create a serious inconsistency or otherwise interfere with an action taken or planned by another agency;
 - Materially alter the budgetary impact of entitlements, grants, user fees, or loan programs or the rights and obligations of recipients;
 - Raise novel legal or policy issues arising out of legal mandates, the President's priorities, or the principles set forth in this Executive order.
- Of 4,500 federal regulatory actions each year, about 500 are 'significant' and 70 are 'economically significant'.

Canada's RIA Administrative Procedure

See next slides

9 to 24 months

1. Government decides the preparation of a Regulation

2. Ministry prepare and drafts Regulation & RIA report

3. Interministerial consultation and revision by MoJ, & RIA Authority

4. RIA Authority approves Pre-Publication of Regulation & RIA report in Canada Gazette with Comment Period

5. Ministry redrafts Regulation & RIA report based on comments received

6. RIA Authority makes final review of RIA

7. Minister makes final Submission to Government Cabinet

8. Government authorizes publication in *Canada Gazette*

9. Parliament Special Committee reviews Regulation & RIA report

Outline of the EC Impact Analysis Report

Executive summary

Section 1: Procedural issues and consultation of interested parties

Section 2: Problem definition

Section 3: Objectives

Section 4: Policy options

Section 5: Analysis of impacts

Section 6: Comparing the options

Section 7: Monitoring and evaluation



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10 Tests to prepare a RIA report

- ***Problem Definition and Risk Profiling***
 - Test 1: Define and refine the problem to ensure the broadest possible range of potential solutions
 - Test 2: Profile the magnitude, risk levels, and distribution of the problem across Member states, demographic groups, economic sectors, and sizes of firms, with trends in a relevant time period
 - Test 3: Establish a baseline
 - Test 4: Set the goals for public policy
- ***Options Selection and Impact Assessment***
 - Test 5: Initially and informally consult with sectoral experts in business associations in high-impact Member states to validate problem definition, problem profiling, baseline, and goals, and to identify issues and potential options
 - Test 6: Select options to be considered
 - Test 7: Select method, scope, and depth of analysis
 - Test 8: Collect data on detailed benefits and costs of options through business surveys and other data sources
- ***Prepare analysis, consult, and refine proposal***
 - Test 9: Analyze, compare options, and present impact assessment and proposal to stakeholders
 - Test 10: Refine and finalize impact assessment and proposal after consultation

Test 1: Problem definition

- Define and refine the problem to ensure the broadest possible range of potential solutions
- No analysis can compensate for poor problem definition
- Incorrect problem definition will result in regulatory failure or even perverse results



Test 2: Profile the magnitude, risk levels, and distribution of the problem

- Assess the problems across Member states, demographic groups, economic sectors, and sizes of firms, with trends in a relevant time period
- The less information one has, the more broadly one must define the problem in order to avoid incorrect implicit assumptions.



Define the problem to indentify

- The key incentives that lead to the problem
- The desired outcome in terms of results (fewer poisonings, not safer bottles or safer seats), not TECHNOLOGICAL SOLUTIONS
- The range of choices that people can make to influence the result (put bottles on high shelves, drive rather than fly).
- The broadest possible range of potential solutions.



Test 3: Identifying the baseline

- RIA is an *incremental* analysis that compares a regulatory action with a baseline.
 - If compliance with a current regulation costs €40, and compliance with the changed regulation costs €50, the incremental cost of action is €10. If we did not know the baseline, we could not know the cost of action.
- Assessing impacts of an action requires that we first identify what would happen if we did nothing (the counterfactual).
- A RIA must be based on a clear statement of the baseline: What will happen in future if no action is taken?
- If we see several reasonable futures, we should create several baselines.



Test 4: Set the goals for public policy

Should government intervene?

- Is there a market failure?
 - insufficient or costly information
 - externalities (positive and negative)
 - lack of competition
- Can government do better?
- Are there current enforcement problems?



The objectives of government action

- What are the objectives of government action?
 - be specific; link to identified Problem
 - do not be too specific, so as to preclude an option.
- Is there any relevant existing government policy?

Test 5: Validate problematic

- Initially and informally consult with sectoral experts in business associations to validate
 - problem definition,
 - problem profiling,
 - baseline, and goals, and
 - to identify issues and potential options

Test 6: Select options to be considered

- Consider a broad range of non-regulatory and regulatory options
- Distinguish viable from non-viable options
 - preliminary assessment and constraints

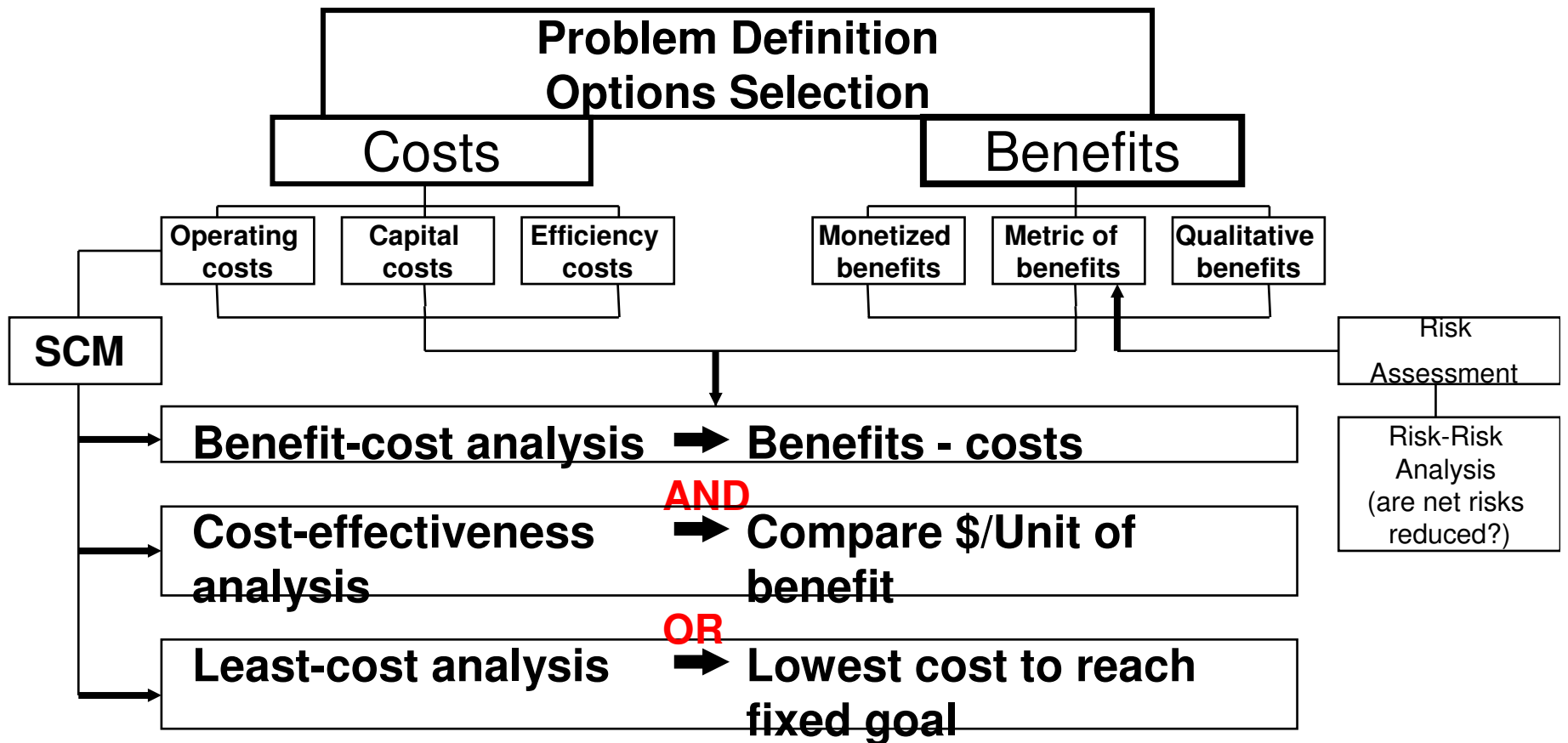
Alternative instruments

- Non-regulatory measures
 - no specific action (existing liability laws)
 - information and education
 - market instruments (tax measures, subsidies, tradeable rights)
- Self regulation
 - service charters
- Quasi-regulation
 - codes of conduct
- Explicit government regulation
 - pre-market assessment (licensing; standards)
 - post-market exclusion schemes (bans)



Test 7: Select method, scope, and depth of analysis

RIA Methods



Test 8: Collect data

- Collect detailed benefits and costs of options through business surveys and other data sources

Common data collection techniques (1)

Technique	Pros	Cons
Literature searches and existing databases	Fast and cheap. Credible because it draws on scientific expertise.	Unfocussed. Cannot usually answer questions specific to the regulation. Gaps in the literature increase uncertainties.
Meta-studies (combining several studies into one big study)	Can compensate for weaknesses in individual studies	Limited in the range of information (cost data but little benefits data), reliability is suspect, costs can be high. Difficult to explore options.
Experts from science committees, academia and industry (e.g. interviews)	Fast and cheap, can provide good quality cost and benefit data in response to specific questions. Can explore alternative approaches.	Vulnerable to bias and to existing knowledge which is not specific to the regulation. Must diversify sources.
Passive consultation (publication for comments)	Fast and cheap for collection of wide variety of data and ideas about better regulation.	Vulnerable to bias and poor data. Not conducive to dialogue. Data gaps.

Common data collection techniques (2)

Technique	Pros	Cons
Business surveys	Fast data collection, can be carried out for targeted groups, can collect information otherwise unavailable.	Limited in the range of information (cost data but little benefits data), reliability is suspect, costs can be high. Difficult to explore options.
Focus groups	Business Test Panels can be fast and provide a wider range of cost and benefits data. Can explore alternatives and options easily.	Data quality can be a problem. Requires upfront preparation and good relations with stakeholders.
Model enterprises that “represent” the affected population	Fast and cheap way to collect cost data.	Simplistic and vulnerable to errors in assumptions. Must be widely consulted.
Modeling: Econometric modeling (input-output, general equilibrium models, environmental impact assessment models, Microsimulation models).	Best approach for estimating welfare changes for particular groups, and for estimating second-order effects through the economy. IA on reform of Common Market for Sugar used modelling analysis to determine macroeconomic effects of different reform scenarios, as well as qualitative multi-criteria evaluation of broader impacts and stakeholder views.	Costly and vulnerable to assumptions. Macro models lack detail on micro interventions. Unless existing model is available, analysts have limited access to the tools and resources needed to adopt a modeling approach. Difficult to use economic models to collect benefits data.

Test 9: Option comparison

- Analyze, compare options, and present impact assessment and proposal to stakeholders



Qualitative presentation: EU Postal Services IA (2006)

Table 5 : Summary of overall impact of each specific policy option

Issue	Options	Impacts on Users	Impact on sector Employment	Potential Economic Impact
Scope of Universal Service	Option 1 - no change: existing flexibility	☺☺	☹	☹
	Option 2 - scope focussed on consumers / SMEs	☹	☹	☹
Universal service standards	Option 4 - no change: current standards remain Community minimum rules	☹ to ☺	☹	☹ to ☹
	Option 5 - no change: current standards remain Community minimum rules, but uniform tariff permitted for single items only	☺☺	☺☺	☺☺☺

Test 10: Finalize RIA and discuss preferred option

- Refine and finalize impact assessment and proposal after consultation
- What is the preferred option?
- How do the options address the stated objectives?
- Why does the preferred option best meet the objectives?
- Why are the other options rejected?



Conclusion: The purpose of RIA

- RIA is not a 'black box' that makes decisions instead of the government
 - It is an aid to decision makers in making decisions. It cannot provide answers to conflicting goals.
- RIA is broader than cost/benefit analysis
 - Sometimes it requires value judgments.
 - RIA cannot quantify everything.
- RIA is about the whole of society,
 - not narrow interests of one sector Vs another sector of the economy
- RIA cannot guarantee perfect regulation



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.



Jordan can lead the region in bold pro-business reform

- Higher inflation in 2008
- Need for higher private sector wages
- Need to increase tax revenues from business activity

Reducing regulatory costs and barriers for businesses:

- Reduces consumer prices in highly regulated sectors
- Stimulates new foreign and domestic investment
- Increases employment rates
- Is correlated with higher labor productivity and real wages

